

**FINECO**

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# 2018 REPORTS AND ACCOUNTS

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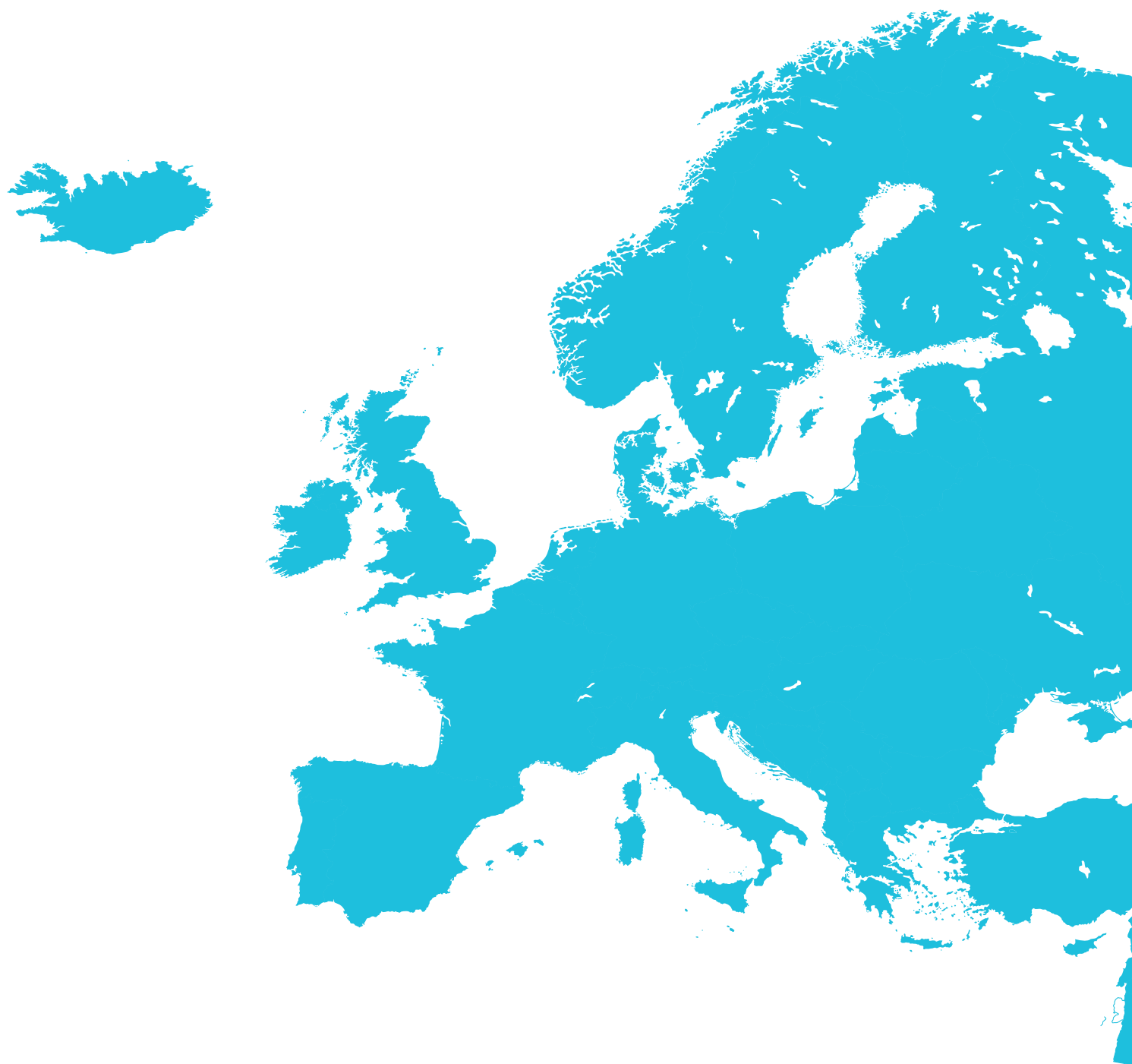
**FINECO. SIMPLIFYING BANKING.**

FinecoBank S.p.A. - Member of UniCredit





FinecoBank S.p.A. - Member of UniCredit



## 2018 REPORTS AND ACCOUNTS





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# Board of Directors, Board of Statutory Auditors and External Auditors

## Board of Directors

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

## Board of Statutory Auditors

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

## External Auditors

Deloitte & Touche S.p.A.

Lorena Pellicciari  
**Nominated Official in charge of  
drawing up Company Accounts**

## Registered office

Piazza Durante 11, 20131 Milan, Italy

"FinecoBank Banca Fineco S.p.A."

in abbreviated form "FinecoBank S.p.A.", or "Banca Fineco S.p.A." or "Fineco Banca S.p.A."

Company controlled by UniCredit S.p.A., Gruppo Bancario UniCredit, Register of Banking Groups no. 2008.1, Member of the National Guarantee Fund and National Interbank Deposit Guarantee Fund, Italian Banking Association Code 03015,

Tax Code and Milan Companies Register no. 01392970404 – R.E.A. (Economic and Administrative Index) no. 1598155, VAT No. 12962340159

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



# Introduction to the Annual Reports and Accounts

In implementation of Legislative Decree no. 38 of February 28, 2005, these Financial Reports and Accounts comprise the Consolidated Financial Report and Accounts and the Financial Report and Accounts of FinecoBank Banca Fineco S.p.A. (hereinafter FinecoBank or Fineco or the Bank), which have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretation documents, as endorsed by the European Commission until December 31, 2018, pursuant to EU Regulation 1606/2002 of July 19, 2002 and applicable to financial reports for the periods starting on January 1, 2018.

In its Circular 262 of December 22, 2005 as amended, the Bank of Italy laid down the formats for the financial statements and explanatory notes to the accounts of banks and regulated financial companies that are parents of banking groups, which have been used by the Bank to prepare the Consolidated Report and Accounts and the Separate Report and Accounts.

As it belongs to the UniCredit Banking Group, FinecoBank is required to present consolidated financial statements, as required by law, as it controls Fineco Asset Management DAC and is an issuer of financial instruments traded on a public market.

The Consolidated Report and Accounts includes:

- the **Consolidated Financial Statements** comprise the Consolidated Balance Sheet, the Consolidated Income Statement, the Statement of Consolidated Comprehensive Income, the Statement of Changes in Consolidated Shareholders' Equity, the Consolidated Cash Flow Statement, presented with a comparison to the corresponding financial statements of 2017;
- the **Notes to the Consolidated Accounts**;

and is accompanied by:

- the **Consolidated Report on Operations**, which includes the condensed accounts, the main results of the various business areas, and comments on the results for the year;
- the **Certification of the Consolidated Report and Accounts pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments**.

Any lack of correspondence between the figures shown in the Consolidated Report on Operations and the Consolidated Financial Statements is solely due to roundings.

The Financial Report and Accounts includes:

- the **Financial Statements** comprise the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement, presented with a comparison to the corresponding financial statements of 2017;
- the **Notes to the Accounts**;

it is accompanied by the **Certification of the Annual Financial Statements pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments**.

For the Report on Operations pertaining to the separate financial statements of FinecoBank S.p.A., please refer to the Consolidated Report on Operations in which, in a specific section, the reclassified financial statements are shown, the main results of the various business areas of the Bank and the comments on the results of the financial year.

The annual report also includes:

- the Report of the Board of Statutory Auditors
- the Reports of the External Auditors.

The Bank applied the provision provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which - without prejudice to the retrospective application of the new measurement rules and representation required by the standard - there is no obligation to restate the figures of previous years (comparative values) in the FTA financial statements. Without prejudice to the disclosure regarding the reconciliation between data in the last approved financial statements and in the opening balances of the first financial statements drawn up according to the new standard, based on the provisions provided for in the 5<sup>th</sup> update of Circular 262 of December 22, 2005 "Banking financial statements: schedules and rules compilation", and the related methodology set forth in section 5. "Other matters - Transition to IFRS 9 Financial Instruments" of these notes to the consolidated accounts and in section 4 "Other matters - Transition to IFRS 9 Financial Instruments" of these notes to the accounts, the above statements were therefore supplemented, where different, with the accounting items of the 2017 financial statements in order to show the corresponding values determined according to IAS 39. The tables included in the notes to the consolidated accounts and notes to the accounts have also been integrated with the tables as provided for in the 4<sup>th</sup> update of Circular 262, presenting the relative values determined according to IAS 39, where it was not possible to report comparative data with respect to the previous year due to the 5<sup>th</sup> update above mentioned.

In the Financial Statements shown in the Consolidated Report on operations, the balance-sheet data as at December 31, 2017 and the income statement data for the year 2017 have been restated, with unchanged totals, according to the reclassified financial statement format adopted by the Bank that incorporates the changes introduced by the 5<sup>th</sup> update of Circular 262. Please note that, for a better exposure, in the "Consolidated

# Introduction to the Annual reports and accounts

balance sheet - Quarterly data" scheme, the situation as at January 01, 2018 has been presented following the application of the First Time Adoption of IFRS 9.

In particular, the main reclassifications, wherein amounts are provided analytically in the tables enclosed with this report, involve:

## Balance Sheet

- the inclusion in "Loans to banks" of "Financial assets at amortised cost: a) Loans and receivables with banks" net of debt securities reclassified in "Other financial assets",
- the inclusion in "Loans to customers" of "Financial assets at amortised cost: b) Loans and receivables with customers" net of debt securities reclassified in "Other financial assets";
- the aggregation as "Other financial assets" of "Financial assets at fair value through profit and loss: c) Other financial assets mandatorily at fair value", of "Financial assets at fair value through other comprehensive income" and of "Equity investments", with inclusion of debt securities from "Loans to banks and customers - Item 40 a) and b)";
- grouping under "Hedging instruments", both assets and liabilities, of "Hedging derivatives" and "Changes in fair value of portfolio hedged items";
- the inclusion of "Provision for employee severance pay", "Provisions for risks and charges" and "Other liabilities" under "Other liabilities".

## Income Statement

- the inclusion in "Net trading, hedging and fair value income" of the "Gains (losses) on financial assets and liabilities held for trading", "Fair value adjustments in hedge accounting", "Gains (losses) on financial assets and liabilities at fair value through profit or loss", "Gains (losses) on disposal or repurchase of a) financial assets at amortised cost – debt securities (not impaired)" and "Gains (losses) on disposal or repurchase of b) financial assets at fair value through other comprehensive income";
- the inclusion in the "Net other operating expenses/income" of "Other operating income/expenses", excluding "Recovery of expenses" which is classified under its own item, and of the costs for "Write-downs on leasehold improvements" classified among "Other administrative expenses";
- the inclusion of the Deposit Guarantee Schemes (DGS) in item "Other charges and provision";
- the inclusion in "Net income from investments" of "Write-downs and write-backs on: a) financial assets at amortised cost – with regard to debt securities", "Write-downs and write-backs on: b) financial assets designated at fair value through other comprehensive income – with regard to debt securities" and "Gains (losses) on disposal of investments";
- the inclusion in "Net write-downs on loans and provisions for guarantees and commitments" of the "Write-downs and write-backs on: a) financial assets at amortised cost - net of debt securities" and "Write-downs and write-backs on: financial assets at fair value through other comprehensive income - net of debt securities" and of "Net provisions for risks and charge a) commitments and financial guarantees given".

For additional information, reference is made to "Reconciliation of condensed consolidated accounts to mandatory reporting schedule" of the Annexes.



# Consolidated Report and Accounts of FinecoBank S.p.A.

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# Consolidated Report and Accounts

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# Summary data

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

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

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

In order to further increase the Bank's competitive capacity by expanding the range of services offered, an Irish Asset Management Company, Fineco Asset Management DAC<sup>1</sup> (hereinafter, Fineco AM), fully owned by the Bank, was incorporated on October 26th, 2017, after the approval of the project by the Board of Directors of UniCredit S.p.A. on August 2nd, 2017 and after the Board of Directors' meeting of FinecoBank held on September 19th, 2017, which also approved the amount of share capital to be allocated to the new company. The aim is to offer its customers a range of UCITS with a strategy focused on the definition of strategic asset allocation and selection of the best international managers, and therefore, diversify and improve the offer of asset management products and further increase the competitiveness of the Bank through a vertically integrated business model.

On May 17th, 2018 Fineco AM obtained the authorization to perform asset management activities by the Central Bank of Ireland. On June 1st, 2018 Fineco AM has obtained the authorization by Luxembourg authority Commission de Surveillance du Secteur Financier to replace Amundi Luxembourg S.A. in the management of the pre-existing mutual funds under Luxembourg law labelled "Core Series". Starting from July 2nd, 2018, Fineco AM is fully operational.

At the end of 2018, total financial assets (direct and indirect) from customers amounted to €69,333 million, up 3.2% on €67,185 million at the end of 2017.

Net sales at the end of the year came to €6,222 million increased compared to 2017 (+4.4% y/y), despite the more complex market situation: assets under management came to €2,263 million, assets under custody came to €1,830 million and direct deposits came to €2,128 million. Sales of "Guided Products & Services" came to €2,766 million, their percentage on total AUM at the end of the year rose to 67%, compared to 63%<sup>2</sup> as at 31 December 2017.

Net sales through the network of Personal Financial Advisors totalled €5,453 million, up 0.9% compared to 2017. Total financial assets (direct and indirect) as at December 31, 2018 amounted to €59.910 million (+3.5% y/y).

The TFA related to Private Banking clients, i.e. with assets above €500,000, totalled €25,830 million, equals to 37% of total TFA of the Bank.

In 2018, €248 million in personal loans and €411 million in mortgages were granted, and €945 million in current account overdrafts was arranged, with an increase in exposures in current account of €377 million; this has resulted an overall 46.4%<sup>3</sup> aggregate increase in loans to customers compared to December 31, 2017. Credit quality remains high, with a cost of risk at 24 bp, driven by the principle of offering credit exclusively to existing customers, making use of specialist tools to analyse the bank's vast information base. The cost of risk is structurally contained and fell further thanks also to the effect of new loans, which are mainly secured and low-risk. The ratio between impaired loans and total loans to ordinary customers was 0.11% (0.16% as at December 31, 2017).

The total number of customers as at 31st December 2018 was 1,277,787, up 6% compared to the previous year. Customers continue to reward Fineco's transparent approach, high quality and comprehensive range of financial services as represented through the "one-stop solution" concept.

The net profit for the year amounted to €241.2 million, with an increase of 12.7% on the previous year. The cost/income ratio moved from 39.74% as at December 31, 2017 to 39.3% as at December 31, 2018, confirming the operating efficiency of the Bank and the spread of the company culture on controlling costs. The 2018 results reflect the Bank's sustainability and the strength of its business model, capable of generating profits in all market conditions. The net profit of the year net of the non-recurring items booked in 2018<sup>4</sup> should be equal to to €244.4 million, up 11.8% compared to the 2017 net profit<sup>5</sup> net of the non-recurring items.

<sup>1</sup> On 4 May 2018 the company changed its name from "Fineco Asset Management Limited" to "Fineco Asset Management DAC".

<sup>2</sup> Starting from the financial year 2018, data on assets under administration and direct sales included in the Advice and Plus advisory services were reclassified as part of assets under management to better represent the advisory nature of the Advice and Plus services. For comparative purposes the data for 2017 have been restated on a pro forma basis.

<sup>3</sup> Loans receivable with ordinary customers include solely to loans granted to customers (current account overdrafts, credit cards, personal loans, mortgages and unsecured loans).

<sup>4</sup> Change in fair value of the exposure in equity securities versus the Voluntary Scheme established by the Interbank Fund for the Protection of Deposits for an amount of -€3 million (-€2 million net of the tax effect), severance paid in for an amount of -€1.6 million (-€1.1 million net of the tax effect) and integration costs for an amount of €0.1 million (-€0.1 million) net of the tax effect).

<sup>5</sup> Losses from write-offs and value adjustments made to the exposure in equity securities against the Voluntary Scheme established by Interbank Fund for the Protection of Deposits, for an amount of -€12.9 million (-8.6 million net of tax effect); release of integration costs estimated in the previous year, for an amount of + €0.4 million (+€0.3 million net of the tax effect); positive change in current taxes referring to the application of the participation exemption on the capital gain realized in 2016 from the sale of the investment in VISA Europe Ltd, for an amount of +€3.9 million.

The Bank's offering is split into three integrated areas of activity: (i) banking, including current account and deposit services, payment services, and issuing debit, credit and prepaid cards, mortgages and personal loans; (ii) brokerage, providing order execution services on behalf of customers, with direct access to major global equity markets and the ability to trade CFDs (on currencies, indices, shares, bonds and commodities), futures, options, bonds, ETFs and certificates; (iii) investing, including placement and distribution services of more than 6,000 products, including mutual funds and SICAV sub-funds managed by 78 leading Italian and international investment firms, including the subsidiary Fineco AM, insurance and pension products, as well as investment advisory services through a network of 2,578 personal financial advisors.

# Summary data (CONTINUED)

## Key figures of the consolidated financial statements (CONTINUED)

### Condensed Accounts

#### Consolidated balance sheet

(Amounts in € thousand)

ASSETS	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNTS	%
Cash and cash balances	6	613	(607)	-99.0%
Financial assets held for trading	6,876	8,827	(1,951)	-22.1%
Loans and receivables with banks	3,058,882	3,039,207	19,675	0.6%
Loans and receivables with customers	2,955,074	2,129,219	825,855	38.8%
Financial investments	18,231,182	16,715,041	1,516,141	9.1%
Hedging instruments	8,187	10,048	(1,861)	-18.5%
Property, plant and equipment	16,632	15,205	1,427	9.4%
Goodwill	89,602	89,602	-	-
Other intangible assets	8,705	7,909	796	10.1%
Tax assets	6,714	9,249	(2,535)	-27.4%
Other assets	350,770	315,415	35,355	11.2%
<b>Total assets</b>	<b>24,732,630</b>	<b>22,340,335</b>	<b>2,392,295</b>	<b>10.7%</b>

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNTS	%
Deposits from banks	1,009,774	926,001	83,773	9.0%
Deposits from customers	22,273,188	20,205,036	2,068,152	10.2%
Financial liabilities held for trading	2,221	11,936	(9,715)	-81.4%
Hedging instruments	7,941	(397)	8,338	n.c.
Tax liabilities	12,390	10,234	2,156	21.1%
Other liabilities	451,435	455,699	(4,264)	-0.9%
Shareholders' equity	975,681	731,826	243,855	33.3%
- capital and reserves	744,256	526,046	218,210	41.5%
- revaluation reserves	(9,794)	(8,340)	(1,454)	17.4%
- net profit	241,219	214,120	27,099	12.7%
<b>Total liabilities and Shareholders' equity</b>	<b>24,732,630</b>	<b>22,340,335</b>	<b>2,392,295</b>	<b>10.7%</b>

## Consolidated balance sheet - Quarterly data

(Amounts in € thousand)

ASSETS	AMOUNTS AS AT					
	12.31.2018	09.30.2018	06.30.2018	03.31.2018	01.01.2018	12.31.2017
Cash and cash balances	6	532	1,733	745	613	613
Financial assets held for trading	6,876	12,253	10,871	10,368	8,827	8,827
Loans and receivables with banks	3,058,882	3,397,576	3,224,477	3,487,848	3,036,333	3,039,207
Loans and receivables with customers	2,955,074	2,735,885	2,632,749	2,318,096	2,128,528	2,129,219
Financial investments	18,231,182	17,665,380	17,188,339	17,095,494	16,724,188	16,715,041
Hedging instruments	8,187	313	2,667	356	119	10,048
Property, plant and equipment	16,632	14,545	15,036	14,839	15,205	15,205
Goodwill	89,602	89,602	89,602	89,602	89,602	89,602
Other intangible assets	8,705	7,898	7,827	7,584	7,909	7,909
Tax assets	6,714	17,758	10,914	6,428	8,639	9,249
Non-current assets and disposal groups classified as held for sale	-	-	91	-	-	-
Other assets	350,770	240,922	241,054	203,695	315,415	315,415
<b>Total assets</b>	<b>24,732,630</b>	<b>24,182,664</b>	<b>23,425,360</b>	<b>23,235,055</b>	<b>22,335,378</b>	<b>22,340,335</b>

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT					
	12.31.2018	09.30.2018	06.30.2018	03.31.2018	01.01.2018	12.31.2017
Deposits from banks	1,009,774	999,543	907,794	960,046	926,001	926,001
Deposits from customers	22,273,188	21,827,286	21,196,653	20,916,380	20,205,036	20,205,036
Financial liabilities held for trading	2,221	5,512	4,568	4,892	11,936	11,936
Hedging instruments	7,941	(285)	2,374	(460)	(397)	(397)
Tax liabilities	12,390	48,674	22,038	36,307	7,718	10,234
Other liabilities	451,435	397,621	417,933	325,843	456,150	455,699
Shareholders' equity	975,681	904,313	874,000	992,047	728,934	731,826
- capital and reserves	744,256	746,340	763,818	937,076	521,178	526,046
- revaluation reserves	(9,794)	(19,760)	(14,997)	(3,994)	(6,364)	(8,340)
- net profit	241,219	177,733	125,179	58,965	214,120	214,120
<b>Total liabilities and Shareholders' equity</b>	<b>24,732,630</b>	<b>24,182,664</b>	<b>23,425,360</b>	<b>23,235,055</b>	<b>22,335,378</b>	<b>22,340,335</b>

# Summary data (CONTINUED)

## Key figures of the consolidated financial statements (CONTINUED)

### Consolidated Income Statement

(Amounts in € thousand)

	YEAR		CHANGES	
	2018	2017	AMOUNT	%
Net interest	278,659	264,781	13,878	5.2%
Dividends and other income from equity investments	42	29	13	44.8%
Net fee and commission income	300,443	270,083	30,360	11.2%
Net trading, hedging and fair value income	44,239	48,219	(3,980)	-8.3%
Net other expenses/income	1,913	3,760	(1,847)	-49.1%
<b>OPERATING INCOME</b>	<b>625,296</b>	<b>586,872</b>	<b>38,424</b>	<b>6.5%</b>
Staff expenses	(86,606)	(79,294)	(7,312)	9.2%
Other administrative expenses	(245,501)	(236,945)	(8,556)	3.6%
Recovery of expenses	96,767	93,367	3,400	3.6%
Impairment/write-backs on intangible and tangible assets	(10,424)	(10,369)	(55)	0.5%
<b>Operating costs</b>	<b>(245,764)</b>	<b>(233,241)</b>	<b>(12,523)</b>	<b>5.4%</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>379,532</b>	<b>353,631</b>	<b>25,901</b>	<b>7.3%</b>
Net impairment losses on loans and provisions for guarantees and commitments	(4,384)	(5,351)	967	-18.1%
<b>NET OPERATING PROFIT (LOSS)</b>	<b>375,148</b>	<b>348,280</b>	<b>26,868</b>	<b>7.7%</b>
Other charges and provisions	(21,380)	(19,025)	(2,355)	12.4%
Integration costs	(121)	408	(529)	-129.7%
Net income from investments	1,105	(13,399)	14,504	n.c.
<b>PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>354,752</b>	<b>316,264</b>	<b>38,488</b>	<b>12.2%</b>
Income tax for the year	(113,533)	(102,144)	(11,389)	11.1%
<b>NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>241,219</b>	<b>214,120</b>	<b>27,099</b>	<b>12.7%</b>
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>241,219</b>	<b>214,120</b>	<b>27,099</b>	<b>12.7%</b>
<b>NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP</b>	<b>241,219</b>	<b>214,120</b>	<b>27,099</b>	<b>12.7%</b>

## Consolidated Income Statement - Quarterly data

(Amounts in € thousand)

	2018			
	4 <sup>TH</sup> QUARTER	3 <sup>RD</sup> QUARTER	2 <sup>ND</sup> QUARTER	1 <sup>ST</sup> QUARTER
Net interest	71,073	69,940	68,742	68,904
Dividends and other income from equity investments	12	10	13	7
Net fee and commission income	81,785	72,680	74,516	71,462
Net trading, hedging and fair value income	5,900	10,721	13,080	14,538
Net other expenses/income	1,680	(350)	96	487
<b>OPERATING INCOME</b>	<b>160,450</b>	<b>153,001</b>	<b>156,447</b>	<b>155,398</b>
Staff expenses	(21,905)	(23,202)	(20,966)	(20,533)
Other administrative expenses	(59,323)	(59,247)	(61,464)	(65,467)
Recovery of expenses	22,982	25,162	23,922	24,701
Impairment/write-backs on intangible and tangible assets	(3,132)	(2,456)	(2,497)	(2,339)
<b>Operating costs</b>	<b>(61,378)</b>	<b>(59,743)</b>	<b>(61,005)</b>	<b>(63,638)</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>99,072</b>	<b>93,258</b>	<b>95,442</b>	<b>91,760</b>
Net impairment losses on loans and provisions for guarantees and commitments	(2,333)	(895)	155	(1,311)
<b>NET OPERATING PROFIT (LOSS)</b>	<b>96,739</b>	<b>92,363</b>	<b>95,597</b>	<b>90,449</b>
Other charges and provisions	(1,782)	(15,899)	(1,925)	(1,774)
Integration costs	(115)	(2)	(2)	(2)
Net income from investments	(3,150)	(903)	5,157	1
<b>PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>91,692</b>	<b>75,559</b>	<b>98,827</b>	<b>88,674</b>
Income tax for the period	(28,206)	(23,005)	(32,613)	(29,709)
<b>NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>63,486</b>	<b>52,554</b>	<b>66,214</b>	<b>58,965</b>
<b>PROFIT (LOSS) FOR THE PERIOD</b>	<b>63,486</b>	<b>52,554</b>	<b>66,214</b>	<b>58,965</b>
<b>NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP</b>	<b>63,486</b>	<b>52,554</b>	<b>66,214</b>	<b>58,965</b>

(Amounts in € thousand)

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



# Summary data (CONTINUED)

## Key figures of the consolidated financial statements (CONTINUED)

### Main balance sheet figures

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNTS	%
Loans receivable with ordinary customers <sup>(1)</sup>	2,632,270	1,798,520	833,750	46.4%
Total assets	24,732,630	22,340,335	2,392,295	10.7%
Direct deposits <sup>(2)</sup>	22,068,931	19,940,715	2,128,216	10.7%
Assets under administration <sup>(3)</sup>	47,263,709	47,243,837	19,872	0.0%
Total customers sales (directa and indirect)	69,332,640	67,184,552	2,148,088	3.2%
Shareholders' equity	975,681	731,826	243,855	33.3%

(1) Loans receivables with ordinary customers refer solely to loans granted to customers (current account overdrafts, credit cards, personal loans, mortgages and unsecured loans).

(2) Direct deposits include overdrawn current accounts and the Cash Park deposit account (with regard to 2017 the item included Supersave repos as well).

(3) Assets under administration consist of products placed online or through FinecoBank personal financial advisors.

### Operating Structure

	DATA AS AT	
	12.31.2018	12.31.2017
No. Employees	1,170	1,119
No. Personal financial advisors	2,578	2,607
No. Financial shops <sup>(1)</sup>	390	375

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

### Profitability, productivity and efficiency ratios<sup>6</sup>

(Amounts in € thousand)

	DATA AS AT	
	12.31.2018	12.31.2017
Net interest/Operating income	44.56%	45.12%
Income from brokerage and other income/Operating income	55.43%	54.88%
Income from brokerage and other income/Operating costs	141.03%	138.08%
Cost/income ratio	39.30%	39.74%
Operating costs/TFA	0.36%	0.37%
Cost of risk	24 bp	45 bp
CoR (incentive system)	24 bp	40 bp
ROE	35.61%	39.47%
Return on assets	0.98%	0.96%
EVA (calculated on economic capital)	194,309	193,269
EVA (calculated on accounting capital)	167,840	165,295
RARORAC (calculated on economic capital)	33.50%	54.58%
RARORAC (calculated on accounting capital)	18.52%	24.21%
ROAC (calculated on economic capital)	41.59%	60.52%
ROAC (calculated on accounting capital)	26.62%	31.39%
Total sales to customers/Average employees	60,579	60,938
Total customer sales/(Average employees average PFAs)	18,553	18,060

<sup>6</sup> Please note that the ratios shown in the table and relating to the year 2017 have been recalculated considering the effect of the application of IFRS9.

## Key

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

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

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

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

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

ROE: ratio between the net profit and the average book shareholders' equity (excluding dividends and any donations expected to be distributed and the revaluation reserves) for the period (average between the amount of the end of period and the amount of the shareholders' equity as at December 31 of previous year).

Return on assets: ratio of net profit after tax to total assets.

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

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

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

## Balance Sheet indicators<sup>7</sup>

	DATA AS AT	
	12.31.2018	12.31.2017
Loans receivable with ordinary customers/Total assets	10.64%	8.05%
Loans and receivables with banks/Total assets	12.37%	13.60%
Financial assets/Total assets	73.71%	74.82%
Direct sales/Total liabilities and Shareholders' equity	89.23%	89.26%
Shareholders' equity (including profit)/Total liabilities and Shareholders' equity	3.94%	3.28%
Ordinary customer loans/Direct deposits	11.93%	9.02%

CREDIT QUALITY	DATA AS AT	
	12.31.2018	12.31.2017
Non-performing loans/Loans receivable with ordinary customers	0.11%	0.16%
Bad loans/Loans receivable with ordinary customers	0.06%	0.10%
Coverage <sup>(1)</sup> - Bad loans	91.65%	91.70%
Coverage <sup>(1)</sup> - Unlikely to pay	76.80%	76.53%
Coverage <sup>(1)</sup> - Impaired past-due exposures	64.60%	53.69%
Coverage <sup>(1)</sup> - Total Non-performing loans	88.23%	88.27%

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

## Own funds and capital ratios

FinecoBank is not required to prepare the disclosure relating to own funds and regulatory ratios on consolidated basis as it is part of the UniCredit banking group, so please refer to the section on the results of the parent FinecoBank and the associated information on individual own funds and regulatory ratios as set out in this Consolidated Report on Operations.

<sup>7</sup> Please note that the ratios shown in the table and relating to the year 2017 have been recalculated considering the effect of the application of IFRS9.

# Summary data (CONTINUED)

## Key figures of the consolidated financial statements (CONTINUED)

### Market share

<b>Trading on Italian Stock Market (Assosim)</b>	<b>12.31.2018</b>	<b>12.31.2017</b>
Third party volumes traded on MTA	24.75%	19.65%
Classification of third party volumes traded on MTA	1°	1°

<b>Personal financial advisors (Assoreti)</b>	<b>12.31.2018</b>	<b>12.31.2017</b>
Stock volumes	11.66%	11.16%
Stock Classification	3°	3°

<b>Personal financial advisors (Assoreti)</b>	<b>12.31.2018</b>	<b>12.31.2017</b>
Net Sales volumes	18.18%	13.79%
Net Sales Classification	2°	3°

<b>Total Deposits (Bank of Italy)</b>	<b>09.30.2018</b>	<b>12.31.2017</b>
Market share - Total Financial Assets	1.64%	1.61%
Market share - Direct Deposits	1.31%	1.32%
Market share - Assets under Administration	1.89%	1.81%

Figures related to Total Deposits (Bank of Italy) refer to September 30, 2018 as they are the latest figures available.

With regard to the Bank of Italy market share, it should be specified that in 2018 the method for collecting direct deposits was modified, based on indications from the ECB, to include bank drafts, repos (liability side) and other payables. Therefore, even the 2017 data have been recalculated

# Business performance

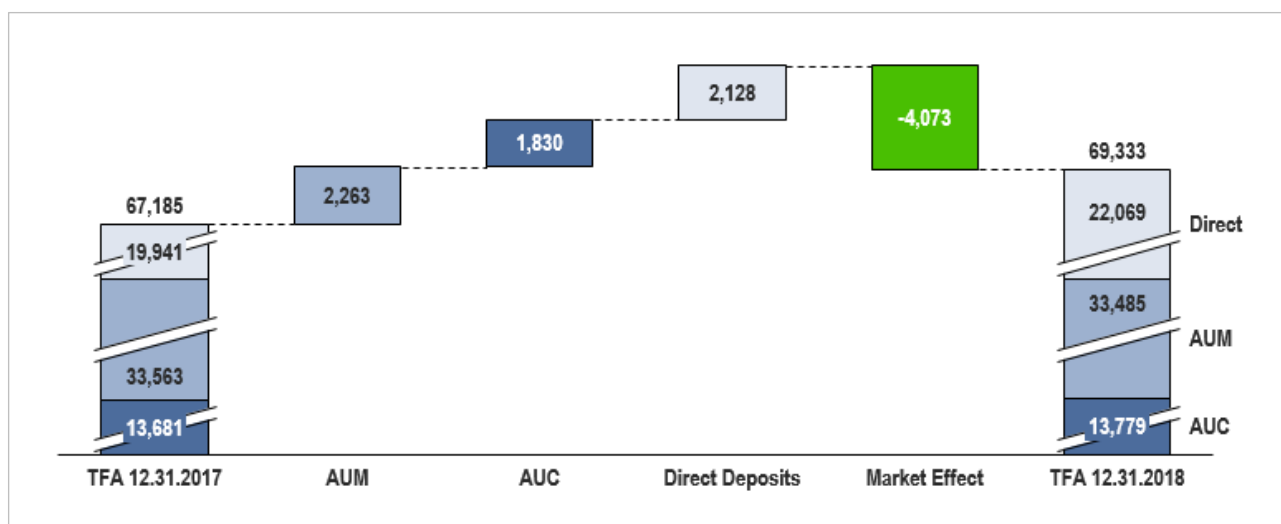
## Performance of total financial assets

Direct deposits showed growth of 10.7% compared to the end of the previous year, to reach €22,069 million and confirming the high level of appreciation of the quality of the services offered by the Bank among customers. Indeed, the majority of direct deposits were “transactional”, supporting customers’ overall operations. The increase in this component of sales confirms the high and increasing degree of customer loyalty, which in turn contributes to improving the stability of direct sales.

Assets under administration (Assets under Management-AUM plus Assets under Custody-AUC) came to €47,264 million, in line with data recorded as at December 31, 2017. The negative market effect recorded in 2018, amounting to €4,073 million (of which -€2,341 million relating to AUM and -€1,732 million relating to AUC), has substantially zeroed the positive effect of the sales generated during the year, equal to €2,263 million relating to Assets under Management-AUM and €1,830 relating to Assets under Custody-AUC.

Total financial assets (direct and indirect) thus reached €69,333 million, up 3.2% compared to the end of December 2017, thanks to a total net sales of €6,222 million recorded in 2018. The quality of sales was also confirmed, which shows a percentage impact of “Guided products & services<sup>8</sup> on TFA of 32.3%, in line with the end of 2017, and on Assets under Management of 66.8%, an improvement compared to 63.2% recorded at the end of 2017, thanks to the continuous refinement of the offer, with an intense activity on the advisory services and insurance/social security products.

It is note worthy that starting from 2018, data on direct sales and Assets under Custody-AUC included in the Advice and Plus advisory services were reclassified as part of assets under management to better represent the advisory nature of the Advice and Plus services. For comparative purposes the data for 2017 have been restated on a pro forma basis.



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

<sup>8</sup> Respectively, the Bank’s products and/or services developed by investing in UCITs selected from among those distributed for each asset class taking into account customers’ different risk profiles and offered to the Bank’s customers under the guided open architecture model. At the date of this report, the guided products category included the “Core Series” umbrella fund of funds, “Core Funds”, the Individual Savings Plans (“Piani Individuali di Risparmio” or “PIR”) and the “Core Unit”, “Advice Unit”, “Core Multiramo” and “Advice Top Valor” and “Old Mutual” unit-linked policies, while the “Fineco Advice”, “Fineco Stars” and “Fineco Plus” advanced advisory services (for investment) fall under the guided service category.

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

## Total financial assets

(Amounts in € thousand)

	AMOUNTS AS AT		AMOUNTS AS AT		CHANGES	
	12.31.2018	COMP %	12.31.2017	COMP %	ABSOLUTE	%
Current accounts and demand deposits	22,065,889	31.8%	19,931,182	29.7%	2,134,707	10.7%
Time deposits and reverse repos	3,042	0.0%	9,533	0.0%	(6,491)	-68.1%
<b>DIRECT DEPOSITS</b>	<b>22,068,931</b>	<b>31.8%</b>	<b>19,940,715</b>	<b>29.7%</b>	<b>2,128,216</b>	<b>10.7%</b>
Segregated accounts	1,095	0.0%	6,729	0.0%	(5,634)	-83.7%
UCITS and other investment funds	24,853,033	35.8%	26,998,628	40.2%	(2,145,595)	-7.9%
Insurance products	7,618,203	11.0%	6,074,833	9.0%	1,543,370	25.4%
Asset under custody and Direct deposits under advisory	1,012,355	1.5%	482,573	0.7%	529,782	109.8%
<b>ASSETS UNDER MANAGEMENT BALANCE</b>	<b>33,484,686</b>	<b>48.3%</b>	<b>33,562,763</b>	<b>50.0%</b>	<b>(78,077)</b>	<b>-0.2%</b>
Government securities, bonds and stocks	13,779,023	19.9%	13,681,074	20.4%	97,949	0.7%
<b>ASSETS UNDER CUSTODY</b>	<b>13,779,023</b>	<b>19.9%</b>	<b>13,681,074</b>	<b>20.4%</b>	<b>97,949</b>	<b>0.7%</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>69,332,640</b>	<b>100.0%</b>	<b>67,184,552</b>	<b>100.0%</b>	<b>2,148,088</b>	<b>3.2%</b>
of which Guided products & services	22,369,583	32.3%	21,227,005	31.6%	1,142,578	5.4%

The table below shows the figures for direct and indirect deposits solely for the personal financial advisors network' customers. Total financial assets, amounting to €59,910 million, increased by 3.5% compared to December 31, 2017, thanks to net sales of €5,453 million, partially absorbed from a negative market effect.

## Total financial assets - Personal Financial Advisors Network

(Amounts in € thousand)

	AMOUNTS AS AT		AMOUNTS AS AT		CHANGES	
	12.31.2018	COMP %	12.31.2017	COMP %	ABSOLUTE	%
Current accounts and demand deposits	16,564,769	27.6%	14,674,039	25.3%	1,890,730	12.9%
Time deposits and reverse repos	2,793	0.0%	8,424	0.0%	(5,631)	-66.8%
<b>DIRECT DEPOSITS</b>	<b>16,567,562</b>	<b>27.7%</b>	<b>14,682,463</b>	<b>25.4%</b>	<b>1,885,099</b>	<b>12.8%</b>
Segregated accounts	1,095	0.0%	6,729	0.0%	(5,634)	-83.7%
UCITS and other investment funds	24,476,015	40.9%	26,565,970	45.9%	(2,089,955)	-7.9%
Insurance products	7,545,142	12.6%	5,992,040	10.4%	1,553,102	25.9%
Asset under custody and Direct deposits under advisory	1,012,329	1.7%	482,571	0.8%	529,758	109.8%
<b>ASSETS UNDER MANAGEMENT BALANCE</b>	<b>33,034,581</b>	<b>55.1%</b>	<b>33,047,310</b>	<b>57.1%</b>	<b>(12,729)</b>	<b>0.0%</b>
Government securities, bonds and stocks	10,307,435	17.2%	10,157,116	17.5%	150,319	1.5%
<b>ASSETS UNDER CUSTODY</b>	<b>10,307,435</b>	<b>17.2%</b>	<b>10,157,116</b>	<b>17.5%</b>	<b>150,319</b>	<b>1.5%</b>
<b>TOTAL FINANCIAL ASSETS - PERSONAL FINANCIAL ADVISORS NETWORK</b>	<b>59,909,578</b>	<b>100.0%</b>	<b>57,886,889</b>	<b>100.0%</b>	<b>2,022,689</b>	<b>3.5%</b>
of which Guided products & services	22,342,564	37.3%	21,197,073	36.6%	1,145,491	5.4%

## Business performance (CONTINUED)

The table below shows the figures for direct and indirect deposits for 2018 compared with the same period of the previous year, for both customers linked to a personal financial advisor and online-only customers.

Net sales came to € 6,222 million, increased by 4.4% compared to the amount relating to the year ended at December 31, 2017.

## Net sales

(Amounts in € thousand)

	YEAR 2018	COMP %	YEAR 2017	COMP %	CHANGES	
					ABSOLUTE	%
Current accounts and demand deposits	2,134,707	34.3%	1,655,516	27.8%	479,191	28.9%
Time deposits and reverse repos	(6,539)	-0.1%	(193,479)	-3.2%	186,940	-96.6%
<b>DIRECT SALES</b>	<b>2,128,168</b>	<b>34.2%</b>	<b>1,462,037</b>	<b>24.5%</b>	<b>666,131</b>	<b>45.6%</b>
Segregated accounts	(5,598)	-0.1%	(3,758)	-0.1%	(1,840)	49.0%
Investment funds and other funds	(140,273)	-2.3%	2,299,626	38.6%	(2,439,899)	n.c.
Insurance products	1,828,637	29.4%	1,646,832	27.6%	181,805	11.0%
Asset under custody and Direct deposits under advisory	580,170	9.3%	82,882	1.4%	497,288	600.0%
<b>ASSETS UNDER MANAGEMENT</b>	<b>2,262,936</b>	<b>36.4%</b>	<b>4,025,582</b>	<b>67.6%</b>	<b>(1,762,646)</b>	<b>-43.8%</b>
Government securities, bonds and stocks	1,830,410	29.4%	470,508	7.9%	1,359,902	289.0%
<b>ASSETS UNDER ADMINISTRATION</b>	<b>1,830,410</b>	<b>29.4%</b>	<b>470,508</b>	<b>7.9%</b>	<b>1,359,902</b>	<b>289.0%</b>
<b>NET SALES</b>	<b>6,221,514</b>	<b>100.0%</b>	<b>5,958,127</b>	<b>100.0%</b>	<b>263,387</b>	<b>4.4%</b>
of which Guided products & services	2,765,823	44.5%	4,559,314	76.5%	(1,793,491)	-39.3%

The table below shows the figures for direct indirect deposits solely for the personal financial advisors network' customers for 2018 compared to the previous year.

## Net sales - Personal Financial Advisors Network

(Amounts in € thousand)

	YEAR 2018	COMP %	YEAR 2017	COMP %	CHANGES	
					ABSOLUTE	%
Current accounts and demand deposits	1,890,730	34.7%	1,252,370	23.2%	638,360	51.0%
Time deposits and reverse repos	(5,718)	-0.1%	(132,586)	-2.5%	126,868	-95.7%
<b>DIRECT SALES</b>	<b>1,885,012</b>	<b>34.6%</b>	<b>1,119,784</b>	<b>20.7%</b>	<b>765,228</b>	<b>68.3%</b>
Segregated accounts	(5,598)	-0.1%	(3,758)	-0.1%	(1,840)	49.0%
Investment funds and other funds	(132,127)	-2.4%	2,271,437	42.0%	(2,403,564)	n.c.
Insurance products	1,830,387	33.6%	1,651,876	30.6%	178,511	10.8%
Asset under custody and Direct deposits under advisory	580,298	10.6%	82,910	1.5%	497,388	599.9%
<b>ASSETS UNDER MANAGEMENT</b>	<b>2,272,960</b>	<b>41.7%</b>	<b>4,002,465</b>	<b>74.1%</b>	<b>(1,729,505)</b>	<b>-43.2%</b>
Government securities, bonds and stocks	1,295,366	23.8%	282,136	5.2%	1,013,230	359.1%
<b>ASSETS UNDER ADMINISTRATION</b>	<b>1,295,366</b>	<b>23.8%</b>	<b>282,136</b>	<b>5.2%</b>	<b>1,013,230</b>	<b>359.1%</b>
<b>NET SALES</b>	<b>5,453,338</b>	<b>100.0%</b>	<b>5,404,385</b>	<b>100.0%</b>	<b>48,953</b>	<b>0.9%</b>
of which Guided products & services	2,771,228	50.8%	4,560,961	84.4%	(1,789,733)	-39.2%

## Performance of main income statement aggregates

**Operating income** came to €625.3 million, up 6.5% compared to €586.9 million for the year 2017.

**Net interest** and **Net fee and commission income** contributed to the increase in the operating income as they rose, respectively, by 5.2%, 11.2%, while **Net trading, hedging and fair value income** decreased by 8.3%.

The increase in **Net interest** of €13.9 million compared to the previous year was due to the increase in transactional liquidity and the higher penetration of lending activity. In this regard it should be noted that the structure of the investments carried out by the Bank contributed to maintaining a significant level of interest income, with the average gross rate on interest-earning assets standing at 1.30% (1.35% as at December 31, 2017).

**Net fee and commission income** increased €30.4 million compared to the previous year, mainly thanks to higher net fee and commission income for securities trading and order collection (+€3 million), the placement and management of managed asset products (+€123.8 million), collection and payment services (+€2.9 million), other services (+€2.2 million), mainly relating to the annual fee on credit cards.

**Net trading, hedging and fair value income** was mainly generated by gains realised from the internalisation of securities and CFD derivatives, financial instruments used for operational hedging of CFDs and the exchange differences on assets and liabilities denominated in currency, decreased by 3.6 million compared to the previous year. Trading profit also incorporates gains and losses from the financial instruments recognised in "Other assets mandatorily at fair value", including, as described above, the class "C" preferred shares of Visa INC and the exposure in equity securities versus the Voluntary Scheme established by the Interbank Fund for the Protection of Deposits, whose fair-value measurement resulted in a gain of €1.6 million and in a loss of €3 million, respectively, in 2018. The item also includes the profits recognised in relation to the sale of government securities recorded in the "Financial assets at fair value through other comprehensive income" for an amount of €1.7 million.

**Operating costs** remain under control, highlighting an increase by €12.5 million compared to the previous year (+€7.3 million for staff expenses, of which €2.2 million from Fineco AM, and +€5.2 million for "Other administrative expenses net of Recovery of expenses", of which €1.5 million from Fineco AM). The 5.4% increase in operating costs (+3.8% net of Fineco AM), in fact, is limited compared to the expansion of assets, customers and structure, confirming the strong operational leverage of the Bank and the widespread corporate culture in cost governance theme, certified by a cost/income ratio of 39.3% (39.74% at 31 December 2017).

**Net write-downs of loans and provisions for guarantees and commitments** amounted to -€4.4 million. It should be noted that accounting standard IFRS 9, with application as of January 1st, 2018, introduced a new impairment accounting model for credit exposures and resulted in an extension of the Bank's scope of recognition (for additional information see Section 5 - Other aspects of Part A of the Notes to the Consolidated Accounts), so comparison with 2017 is not significant. As at December 31, 2018 the item included adjustments, mainly related to retail commercial loans, higher compared to 2017 as consequence of the significant increase in performing exposures (non-performing loans, on the other hand, remained essentially unchanged compared to the previous year), and on the other hand, benefitted from write backs on transaction mainly with the Parent Company, following the reduction in the exposures and in the improvement in their risk profile.

**Other charges and provisions** amounted to €21.4 million, up 12.4% compared to 2017, mainly due to greater charges for the annual, ordinary and additional contribution to Deposit Guarantee Schemes (DGS) and to the annual contribution to the Solidarity Fund, paid to the Interbank Deposit Guarantee Fund ("IDGF") for a total amount of €14.3 million compared to €10.6 million paid in 2017, partially offset by lower provisions for risks and charges for legal disputes and claims. Note that the annual contribution paid to Deposit Guarantee Schemes in 2017 moreover benefitted from the adjustments of the contributions paid for 2015 and 2016 for a total amount of €1.3 million.

The **Net income from investments** stood at €1.1 million. The accounting standard IFRS 9 introduced significant changes in the classification and measurement of financial instruments, so comparison with the previous year is not significant (for additional information see Section 5 - Other aspects of Part A of the Notes to the Consolidated Accounts). The item includes write offs on new sovereign States, Supranational and government bonds purchased during 2018 and, on the other hand, the write backs on exposures to debt securities issued by the Parent Company Unicredit S.p.A. in relation to the reduction in the exposures and in the improvement in their risk profile.

**Profit before tax from continuing operations** amounted to €354.8 million, up 12.2% compared to previous year. Excluding the non-recurring items 2018<sup>9</sup> mentioned before, the Profit before tax from continuing operations should be €359.5 million, up 9.4% compared to 2017<sup>10</sup> net of non-recurring items.

The **Net profit for the year** amounted to €241.2 million, showing an increase of 12.7% compared to €214.1 million of the previous year. Excluding the non-recurring items 2018 mentioned before, the Net profit for the year should be €244.4 million, up 11.8% compared to 2017 net of non-recurring items.

<sup>9</sup> Change in fair value of the exposure in equity securities versus the Voluntary Scheme established by the Interbank Fund for the Protection of Deposits for an amount of -€3 million (-€2 million net of the tax effect), severance paid in for an amount of -€1.6 million (-€1.1 million net of the tax effect) and integration costs for an amount of €0.1 million (-€0.1 million) net of the tax effect).

<sup>10</sup> Losses from write-offs and value adjustments made to the exposure in equity securities against the Voluntary Scheme established by Interbank Fund for the Protection of Deposits, for an amount of -€12.9 million (-8.6 million net of tax effect); release of integration costs estimated in the previous year, for an amount of + €0.4 million (+€0.3 million net of the tax effect); positive change in current taxes referring to the application of the participation exemption on the capital gain realized in 2016 from the sale of the investment in VISA Europe Ltd, for an amount of +€3.9 million.

# Business performance (CONTINUED)

## Performance of main balance sheet aggregates

**Loans and receivables with banks** came to €3,058.9 million, substantially in line with the amount as at December 31, 2017 (+0.6%). The exposures mainly consisted of the cash on deposit in reciprocal current accounts and time deposits with the Parent Company UniCredit S.p.A..

**Loans and receivables with customers** came to €2,955.1 million, up 38.8% compared to December 31, 2017, thanks to the increase in lending. During the year, €248 million in personal loans and €411 million in mortgages were granted and €945 million in current account overdrafts was arranged, with an increase in exposures in current account of €377 million; this has resulted an overall 46.4% (€2,632.3 million) aggregate increase in loans to customers compared to December 31, 2017 (€1,798.5 million). Impaired loans net of impairment losses totalled €2.8 million (€2.9 million as at December 31, 2017), with a coverage ratio of 88.23%; the ratio between impaired loans and loans to customers was 0.11% (0.16% as at December 31, 2017).

**Financial investments** came to €18,231.2 million, up 9.1% compared to December 31, 2017. The carrying amount of the debt securities issued by the Parent Company amount to €9,115.8 million, down compared to €10,838.9 million as at December 31, 2017. It is noted that during 2018 the Parent Company repaid bonds at maturity with a nominal value of €1,680 million and \$ 50 million; the Bank purchased government, Supranational and government agency bonds.

**Deposits from banks** totaled €1,009.8 million, showing a slight increase in debts recorded at 31 December 2017 (+9%). Debts mainly include the amount of repos traded with UniCredit S.p.A. and securities lending transactions guaranteed by sums of money made with other banks.

**Deposits from customers** came to €22,273.2 million, up 10.2% compared to December 31, 2017, due to the growth in direct deposits.

**Shareholders' equity** amounted to €975.7 million, up 33.3% compared to December 31, 2017. The increase is mainly due to the issue on January 31, 2018 of an Additional Tier 1 Perp bond (5.5 years) for an amount of €200 million, fully subscribed by the Parent Company, to the part of net profit 2017 allocated to reserves, as resolved by the Shareholders' Meeting held on 11 April 2018, for an amount of €40.9 million, to the increase in net profit 2018 compared to December 31, 2017 (+€27.1 million), partially offset by the purchases, made during 2018, of treasury shares in relation to the "2017 PFA incentive system" for Financial Advisors identified as "Key personnel" and in relation to the "2015-2017 PFA PLAN" in favour of selected Financial Advisors.

## Communications and external relations

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

"The bank that simplifies banking" was confirmed at the heart of the unique positioning that Fineco continues to communicate and develops also in 2018.

The first half of 2018 represented for the Bank the period of maximum media exposure thanks to the planning of an important advertising flight in February using all means of communication (TV, radio, financial press, digital media and posters), plus two additional flights, in April and May, using TV only designed to support brand awareness over time.

Four TV flights dedicated to the trading segment were also planned during the year, which also involved the digital medium with acquisition objectives.

The national press coverage to support the Private Banking segment with the campaign "You write private banking, you read Fineco" continued this year too, alongside another press initiative at the local level. This extension to the local press reflects the need to increase visibility and protect our local positioning thereby giving greater support to our managerial structures.

Numerous activities and events were organised for private and other customers across Italy, thanks also to partnerships with prestigious brands, as well as experience exclusive events.

The 2018 edition of the Fineco Golf Club, took place between May and October, is becoming an increasingly strategic activity and a tool for the retention and acquisition of new high-end customers and is an important event that has gained wide recognition in the golf arena.

Activities regarding Fineco UK have been strengthened since the beginning of the year. A multichannel communication campaign was launched and courses and education webinars were planned to introduce the Bank's offers and trading platforms to prospects and customers. In February 2018 FinecoBank took part in the London Forex Show where, among others, it was awarded the Best Forex Provider of the Year award. In November 2018 the new multi-subject communication campaign "The multicurrency Bank" was launched using TV, financial press and digital media.



## Incentive plans

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

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

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

- for the 2014 and 2015 Incentive Systems (Bonus Pool):
  - the execution of the plans;
  - the allocation of the second share tranche of the 2014 plan, awarded in 2015, corresponding to 112,440 free ordinary shares, in line with the maximum amount approved by the Board of Directors on May 15, 2014;
  - the allocation of the first share tranche of the 2015 plan, awarded in 2016, corresponding to 84.117 free ordinary shares, in line with the maximum amount approved by the Board of Directors on January 22, 2015.
  - a free capital increase, for a total amount of €64,863.81 corresponding to a total of 196,557 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), impartial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014 and of April 23 2015, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.03% of the fully diluted capital.
- for the "2014-2017 Top Management Multi-Year Plan":
  - the execution of the plan;
  - the allocation of n. 494,493 free ordinary shares to the beneficiaries of the second share tranche of the plan, awarded in 2015, in line with the maximum amount approved by the Board of Directors on February 9, 2015;
  - a free capital increase, for a total amount of €163,182.69 corresponding to a total of 494,493 FinecoBank ordinary shares with a nominal value of €0.33 each (with the same characteristics as those in circulation and with regular dividend entitlement), in partial exercise of the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of June 5, 2014, in accordance with Article 2443 of the Italian Civil Code. The dilution effect resulting from the above free capital increase has been quantified as 0.08% of the fully diluted capital;
  - changes to the rules as regards entry conditions.
- for the stock granting "2015-2017 Plan PFA":
  - the allocation to selected personal financial advisors of a number of ordinary shares to be given free, corresponding to a total amount of € 19,968,999.99;
  - the allocation of the first tranche in shares, equal to a third of the total amount;
  - the purchase of treasury shares in consideration of the authorization obtained by the Supervisory Authority, pursuant to art. 77-78 EU Reg. No. 575/2013 of 26 June 2013 (CRR), consistently with the Shareholders' resolution.
- for the "2017 PFA Incentive System" plan:
  - the proposal for determination of the 2017 Bonus Pool for the Personal Financial Advisors;
  - the proposals for the determination of the 2017 and deferrals previous years' bonus for personal financial advisors categorised as "Identified Staff";
  - the allocation of n. 27,644 FinecoBank shares, to be granted free of charge to the above-mentioned personal financial advisors in accordance with the provisions of the Rules;
  - the purchase of Treasury shares, in view of having obtained the authorisation from the Supervisory Authority, pursuant to Articles 77-78 EU 575/2013 of June 26, 2013 (CRR), in accordance with the shareholder meeting resolutions.
- for the "2017 Incentive System (Bonus Pool)" plan:
  - the FinecoBank "2017 Bonus Pool";
  - the proposals for the determination of the 2017 bonus for the Chief Executive Officer and General Manager and other Managers with Strategic Responsibilities and other Identified Staff;
  - the allocation of n. 142,290 FinecoBank ordinary shares, to be given free of charge to the above-mentioned Personnel in accordance with the provisions of the Rules.
- with reference to the "2016 Incentive System":
  - the execution of the plan;
  - the allocation of the second tranche in cash of the plan awarded in 2017.
- for the "2016 PFA Incentive System" plan:

## Business performance (CONTINUED)

- the execution of the plan;
- the allocation of the second tranche in cash of the plan, to be granted to the above-mentioned personal financial advisors "identified Staff", in accordance with the provisions of the Rules.
- with reference to the "2015 PFA Incentive System":
  - the execution of the plan;
  - the allocation of the first tranche of the plan, equal to n. 27,103 FinecoBank phantom shares, to be granted to the above-mentioned personal financial advisors "identified Staff", in accordance with the provisions of the Rules.

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

# FinecoBank shares

## Share information

In an year characterized by financial markets turmoil following the increasing geopolitical tensions and the political uncertainties in Italy, FinecoBank shares stood out from the Italian equities landscape recording a strong relative performance compared to FTSE MIB index and to Euro STOXX Banks index: since the beginning of the year FTSE MIB index and l'Euro STOXX Banks index were down respectively by 16% and 33%, while FinecoBank shares increased by 3%.

As at December 31st, 2018, the share price was €8.78, up from the closing price at year-end 2017 of €8.54, and with an average value in 2018 of €9.82. In addition, during 2018 the share price reached its all-time high at €11.89.

The company's market capitalisation amounted to €5,341 million as at December 31st, 2018.

	YEAR 2014	YEAR 2015	YEAR 2016	YEAR 2017	YEAR 2018
<b>Official price of ordinary shares (€)</b>					
- maximum	4.750	7.805	7.400	8.735	11.890
- minimum	3.808	4.438	4.622	5.345	7.956
- average	4.173	6.479	5.980	6.914	9.823
- period-end	4.668	7.625	5.330	8.535	8.778
<b>Number of shares (million)</b>					
- outstanding at period end	606.3	606.5	606.8	607.7	608.4

# Results achieved in the main areas of activity

The following pages contain the main indicators and results of the main business segments: Banking, Brokerage and Investing. Further to these it has to be added the asset management activities carried out by the subsidiary Fineco AM, fully operational starting from 2 July 2018.

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

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

## Banking

### Banking and Payment cards

With regard to Banking and Payment cards, the Bank is constantly committed to offering its customers new services or improving existing services, with a strong focus on digitization and innovation. In this context, during the 2018, the following main updates have been registered

- The SCT Instant service (SEPA Instant Credit Transfer) has been launched so to allow the cash transfer between accounts in the SEPA Area within 10 seconds. The service is running 24/7 and it is aimed at encouraging the usage of cash transfer making the service faster and more reliable;
- the Vocal Recognition Service has been activated over the whole customer base; this service allows clients to access customer care services by pronouncing a simple sentence (Vocal Password). This new identification method is based on vocal biometric technologies allowing to identify the peculiarity of a specific voice and use them to create a unique voice print that the client can use as a password when calling customer care so to have a frictionless and secure customer experience;
- the processes for management and update of MIFID questionnaires have been improved;
- the Multicurrency service contract has been modified so to allow clients to use additional currencies: JPY, CAD and TRY;
- the account opening processes has been improved by allowing to sign the "Adesione al servizio firma grafometrica" form through biometric signature;
- launch of Apple Pay, the new digital payment service that is free of charge and allows to pay in store, in-app and online, both on MasterCard and VISA schemes, without having the physical credit card in the wallet but just using an eligible Apple device. Together with the launch of Apple Pay service, Fineco also started a promotion targeted to the clients that are currently not holding a credit card; the initiative is aimed at promoting the subscription of Fineco credit cards and offers the chance to reset the first year annual fee by spending on Apple Pay;
- the Visa Infinite product has been improved with the introduction of the Standard offer, added to the existing Premium offer, so to better match the Private segment needs;
- the strengthen of the services targeted to the UK market aimed at offering to UK residents the access to Fineco banking and credit services through multichannel platforms dedicated to the UK market and the usage of web advertising and member-gets-member initiatives targeted to UK residents.

With regard to the Regulatory matters, we would like to highlight the following:

- the European Directive 2015/2366 (also known as Directive PSD2) has come into force, with purposes to create a common payment system within the European Union that will promote and push integration, competitiveness and increasing in the meantime the security level;
- the General Data Protection Regulation (GDPR) has come into force on the 25th of May 2018, with aims at guaranteeing equal standards for individual's personal data treatment within the European Union. The adoption of this new regulation confirms the Fineco's constant commitment in providing its client the maximum level of protection and transparency when threatening their personal data.

There was an increase in the number of current accounts opened with the Bank, the effect of which is mainly recorded in the balance of direct deposits, which rose from 19,941 million euros at December 31, 2017 to 22,069 million euros at December 31, 2018.

(Amounts in € thousand)

CREDIT PRODUCTS	YEAR 2018		YEAR 2017		CHANGES			
	SPENDING	CARRYING AMOUNT	SPENDING	CARRYING AMOUNT	SPENDING		CARRYING AMOUNT	
					AMOUNT	%	AMOUNT	%
Revolving credit cards	51,194	43,201	50,989	41,890	205	0.4%	1,311	3.1%
Credit cards full payment of balance	2,851,868	277,241	2,586,400	246,535	265,468	10.3%	30,706	12.5%
<b>Total</b>	<b>2,903,062</b>	<b>320,442</b>	<b>2,637,389</b>	<b>288,425</b>	<b>265,673</b>	<b>10.1%</b>	<b>32,017</b>	<b>11.1%</b>

## Mortgages, credit facilities and personal loans

For what regards Lending, FinecoBank continued to improve its personal loans and digital lending offer, with the following initiatives:

- improvement of the consolidation loan offer allowing clients to consolidate its loans and get up to €30,000 to be repaid in 72 instalments; this product can be requested online with a completely paper-less procedure and the digital signature;
- introduction of the possibility to request, also through the app, a personal loan with instant evaluation, the service that allowing to receive a feedback and disbursement in real time, operating 24/7, thanks to an internal rating system that evaluates in advance credit reliability and income capacity of the requestor.

Furthermore, the mortgage offer has been improved through the introduction:

- In March 2018, of a new product "Mutuo Rifornanziamento" allowing to obtain up to €500.000, at a fixed or variable rate, to be repaid in up to 20 years; this product allows the requestor to transfer its own mortgage in FinecoBank and obtain, at the same time, further money to be used to finance new project or investments with no purpose obligation.
- In December 2018, of the new product "Mutuo Remix" that it's a market disruption and offers clients a double advantage:
  - customize the mortgage interest rate, at the moment of the loan request, by balancing the weights to be attributed to the fixed and variable spread components (customized interest rate);
  - reduce, after the mortgage has been granted, the weight attributed when requesting the loan: the client can reduce the variable component and increase, as a consequence, the fixed one up to the 100%. With this option, the customer actually has the ability to turn his rate into fixed over time, going to stabilize his installment (Remix option).

Lastly, FinecoBank continued to improve the operational of Credit Lombard, adding new instruments given as collateral coming from non-collateral dossiers (new feature "Additional Credit Lombard") and trasfering all pledged securities versus another dossier without any impact on credit line (new feature " Migrazione Credit Lombard").

The planning and management of marketing campaigns activity also continued in 2018. This activity combines creative, promotional, logistics and monitoring activities aimed at improving the positioning of the brand and the Fineco offer, through web advertising and / or word of mouth initiatives (member gets member) addressed to the already customers.

The table below highlights an increase in "Personal loans and unsecured loans" and "current account credit facilities" compared to the same period of the previous year, partially offset by a reduction in mortgages.

(Amounts in € thousand)

CREDIT PRODUCTS	YEAR 2018		YEAR 2017		CHANGES			
	DISBURSEMENTS	CARRYING AMOUNT	DISBURSEMENTS	CARRYING AMOUNT	DISBURSEMENTS		CARRYING AMOUNT	
					AMOUNT	%	AMOUNT	%
Personal loans and unsecured loans	247,995	433,647	230,195	350,320	17,800	7.7%	83,327	23.8%
Current account credit facilities*	945,053	1,018,700	831,351	641,554	113,702	13.7%	377,146	58.8%
Mortgages	411,064	856,870	521,475	516,251	(110,411)	-21.2%	340,619	66.0%
<b>Total</b>	<b>1,604,112</b>	<b>2,309,217</b>	<b>1,583,021</b>	<b>1,508,125</b>	<b>21,091</b>	<b>1.3%</b>	<b>801,092</b>	<b>53.1%</b>

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

Furthermore note that the amount at year-end of loans with a security collateral totaled to €924 million (€899 million related to "Credit Lombard", €18 million related to credit facilities secured by pledged and €7 million related to credit facilities with mandate for sale), equals to 98% of total amount of credit lines granted.

## Results achieved in the main areas of activity (CONTINUED)

## Brokerage

2018 shows positive results in the brokerage, thanks to an integrated platform and a complete offer of services and tools to operate on markets, associated with a diversified business model and a strategy focused on the long-term sustainability of growth of the Bank. The results have been achieved in a very complex market phase that Fineco has faced with a strengthening of its operating efficiency and in productivity, focusing on quality, transparency and innovation.

The achievement of legal requirements of Mifid 2 and ESMA have featured significantly the online brokerage industry, especially in a context of low volatility. The 2018 has been a year of turning point for online trading. However, the Bank has consolidated its leadership in the Italian brokerage market, considering traded amount and number of operations, with market shares of 24.75% and 22.38% respectively, as confirmed by Assosim's year-end data.

During 2018, the offer has been further expanded with the introduction of new services and functionalities:

- new graphics design of the ETF Center, with intraday chart for the most quoted titles, list of titles most present in the ETF's portfolios replays of customers and chart of the most traded titles and more viewed by customers for a complete view and the updated ways on tools;
- expansion of the CFD offer range, in particular with:
  - Super CFD, which is characterized by a higher size and a reduced spread compared to the respective CFDs already offered;
  - CFD operations with underlying commodities, also allowing overnight negotiation;
  - CFDs on the volatility of European shares, an absolute innovation in Italy;
  - New CFD operations with underlying shares listed on German, French and Italian markets, available on the website, app and Powerdesk;
- new tools on the PowerDesk platform, to improve its usability, such as, for example, best & worst dynamic, basket order multi panel, duplication of the watch list of the instruments, possibility to select one of its current accounts on which to operate and, for the technical analysis, the introduction of the Heiken Ashi candles and the Ichimoku indicator;
- Daily Options, with underlying assets such as CFDs on indices, on "Currency Pair", or on commodity future, whose trading, in euros and without commissions, allows to exploit the daily volatility of the underlying, with "Quotes" and "Profit & Loss" provided in push mode;
- Super intraday margination, available on website, app and PowerDesk, which allows to trade, on the actions of the main Italian and foreign companies, with a leverage effect higher than that offered with intraday margination, without any additional commission;
- creation of an operation package dedicated to the Professional client. An online tool allows customers, who have the characteristics, to request in a simple and direct classification to "Professional user on request". This type of customer can access all Fineco tools with professional conditions (operation on a wide range of OTC bonds, with access to new emissions on the primary market, and trading on the KID-free instruments) and manage more broadly the leverage (up to 100x on CfD Logos, reduced margins on CFD and CFD FX compared to retail customers) and risk, all without additional costs on the operation;
- options on the Chicago Board Options Exchange (CBOE);
- new Futures Commission range: up to 1 euro/lot on IDEM and Eurex and 2 USD on CME.

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

(Amounts in € thousand)

	YEAR 2018	YEAR 2017	CHANGES	
			ABSOLUTE	%
Orders - Equity Italia (including internalised orders)	7,232,629	7,348,739	(116,110)	-1.6%
Orders - Equity USA (including internalised orders)	1,245,012	933,401	311,611	33.4%
Orders - Equity other markets (including internalised orders)	515,151	531,582	(16,431)	-3.1%
<b>Total Equity orders</b>	<b>8,992,792</b>	<b>8,813,722</b>	<b>179,070</b>	<b>2.0%</b>
Orders - Bonds	488,314	498,338	(10,024)	-2.0%
Orders - Derivatives	3,346,848	2,834,055	512,793	18.1%
Orders - Forex	712,753	875,734	(162,981)	-18.6%
Orders - CFDs	2,719,951	3,641,412	(921,461)	-25.3%
Orders - Funds	2,476,182	2,423,506	52,676	2.2%
Orders- Repo	-	2,863	(2,863)	-100.0%
<b>TOTAL ORDERS</b>	<b>18,736,840</b>	<b>19,089,630</b>	<b>(352,790)</b>	<b>-1.8%</b>

It is worth noting the increase of orders on US equities, which increased by 33.4%, and the good performance reported by the orders on derivatives, which increased by 18.1%. The orders on CFDs decreased by 25.3% and the orders on Forex decreased by 18.6%.

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

(Amounts in € thousand)

	YEAR 2018	YEAR 2017	CHANGES	
			ABSOLUTE	%
Equity (internationalization)	67,620,264	52,665,758	14,954,506	28.4%
Forex	43,345,841	52,211,278	(8,865,437)	-17.0%
CFD and Logos	74,818,404	48,093,537	26,724,867	55.6%
<b>Total "internalized" volumes</b>	<b>185,784,509</b>	<b>152,970,573</b>	<b>32,813,936</b>	<b>21.45%</b>

## Investing

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

With regard to asset management products, during 2018, the range of these products was further enhanced with the addition to the platform of over 410 new ISINs and 3 new Investment Firms available to customers.

It is worth noting the entry into the platform of Fineco Asset Management DAC' funds, company wholly owned by FinecoBank. Initially, starting from July 2018, the company obtained the necessary authorisations from Luxembourg's Commission de Surveillance du Secteur Financier to replace Amundi Luxembourg S.A. in the management of the "Core Series" investment funds. In a second moment, starting from September 2018, Fineco AM launched the new range of funds under delegation, using partnerships with the best international managers. Fineco AM's structure will take full advantage of the opportunities offered by Fineco's open architecture and will allow the Bank to more closely cater to its customers' needs, to more efficiently select products and to achieve greater profits through its vertically integrated business model.

With regard to pension products, at the end of March 2018, the range was expanded with the launch of Core Pension, an open-end pension fund of Amundi SGR for long-term investments exclusively accessible to the FinecoBank network. It is a container where clients' savings needs for retirement can be combined according to their work cycle and sustainable risk profile and which offers the opportunity to benefit from the tax advantages typical of supplementary pension instruments. The product is characterized by high flexibility in the composition of the portfolio, by offering four alternative investment segments with increasing equity and a guaranteed line in which to invest. During 2018 Core Pension inflows around €60 million, with over 5,000 acceptances.

About the insurance advisory services, in March the range of the products was extended through the new version of "Multi line" with 5 combinations of the GEFIN Separate Account and Internal Insurance Funds (AIF) denominated Core Multiramo Extra (net inflows from the beginning of the year of approximately €90 million). In April the new Core Multiramo Target was launched which uses the Aviva's GEFIN Separate Account as the main initial investment and then gradually transfers assets to an Equity Internal Insurance Fund (AIF) according to the "Target" program defined upon subscription (net inflows from the beginning of the year of approximately €740 million). Lastly, in December, with the aim to meet the increasing customization needs of Fineco Private Bankers and the network of consultants with high standing customers, but also in order to accommodate assets deriving from requests for transfers of private customers with positions on other placers, the Luxembourg Lombard Private Client Insurance Unit-linked policy was launched, with a minimum investment of €500 thousand.

As part of the "Insurance Brokerage" business, a collaboration was launched with the broker First Advisory, through which we launched, in March, the new temporary "High Protection" life insurance policy of Eurovita dedicated to Private customers.

As regards consulting services, 2018 was characterized by the launch of "Plus", the exclusive service dedicated to the FinecoBank network: a consulting contract through which the Consultant can offer its customers highly diversified and freely customizable portfolios.

The main feature offered by "Plus" is the global consulting service offered that spans asset management (funds and SICAVs) as well as asset administration products and ETPs (ETFs, ETCs, ETNs) and insurance investment products.

"Plus" offers analytical and professional reporting, including through an APP, to analyse performance, monitor the actual risk/ return ratio, the diversification level, the quality of the instruments, with periodic portfolio checks. With just one "click", you can send the contract, the diagnosis and, where applicable, transfer the products in the ordinary securities account, in line with FinecoBank's typical approach.

In 2018 the Bank also improved the reporting of the advisory service Fineco Advice, enriching it with the withholding taxes applied to Funds/Sicav sales and dividends, in order to display also for performance gross of taxation. Furthermore, the indication of the income taxes on each instrument has been added. Improvements have been made to the Advice platform available to the network, simplifying its use and use by personal financial advisors.

## Results achieved in the main areas of activity (CONTINUED)

(Amounts in € thousand)

	AMOUNTS AS AT		AMOUNTS AS AT		CHANGE	
	12.31.2018	COMP %	12.31.2017	COMP %	ABSOLUTE	%
UCITS and other investment funds	24,853,033	74.2%	26,998,628	80.4%	(2,145,595)	-7.9%
Insurance products	7,618,203	22.8%	6,074,833	18.1%	1,543,370	25.4%
Segregated accounts	1,095	0.0%	6,729	0.0%	(5,634)	-83.7%
Asset under custody and Direct deposits under advisory	1,012,355	3.0%	482,573	1.4%	529,782	109.8%
<b>Total assets under management</b>	<b>33,484,686</b>	<b>100.0%</b>	<b>33,562,763</b>	<b>100.0%</b>	<b>(78,077)</b>	<b>-0.2%</b>



# The network of personal financial advisors

With regard to the network of personal financial advisors, 2018 was characterized by the entry into force of MiFID II and by the return of volatility in financial markets.

The introduction of MiFID II legislation did not entail significant changes in FinecoBank's network business, which has always based its consultancy model on transparency towards the customer and that was able to take advantage of a technological infrastructure that has allowed to support personal financial advisors in the management activity of formalities related to the introduction of new regulations. These distinctive elements allowed personal financial advisors to dedicate themselves with a greater intensity to customer assistance activity, with the main aim of strengthening and consolidating the relationship with the client, while at the same time increasing the concepts of transparency legislation itself.

Despite the complex market phase, characterized by the return of volatility, the network of personal financial advisors has confirmed its ability to act as a privileged interlocutor in the financial planning of customers. The total net sales recorded as at December 31, 2018 amounted to €5,453 million, of which Assets under management of €2,273 million. The sales from Advisory services amounted to €2,771 million. 85,214 were the current accounts opened through the network of personal financial advisors.

With regard to the Private segment, it is noted that the total net sales amounted to approximately €2,133 million and the overall assets as at December 31, 2018 amounted to approximately €23,438 million, equal to 39% of the network's total assets; the number of private customers is 26,555 as of 31 December 2018, equal to 2% of total customers.

The growth recorded, as also noted in the past, was mainly produced by the existing network, with no special contributions made by tactical commercial and recruitment campaigns, thanks also to the continuous refinement of the offer continues, with an intense activity on advisory services and insurance / social security products characterized by a planning approach to objectives and constant monitoring and risk control. The proximity to our customers is also explained through events organized throughout the country, with the aim of providing information on the relevant financial issues. Since the beginning of the year, capillary no 1,112 events that saw the participation of over 42,000 customers and prospects.

With regard to the quality of sales, it is note worthing that existing network has seen a growth in the average per capita portfolio of 4.7% yoy which over the 12 months, with an increase in the managed assets of 3.5% yoy and of well 5.4% yoy on Guided Products, compared to the end of 2017.

Simultaneously, the input on recruitment selectivity has been strategically strengthened, with the main objective of increasing the average quality of the network as well. The Bank more closely focused on the targets of interest, all of which should share:

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

During 2018, 70 new personal financial advisors were recruited from the network, the traditional banks and private banking sectors. As part of the "youth programme" designed to introduce young graduates in the financial profession, 51 new advisors were recruited.

At December 31, 2018, the network consisted of 2,578 personal financial advisors distributed in the territory with 390 financial shops (Fineco Center), managed directly by the Bank or by the personal financial advisors themselves. There is also continued investment in the commercial structures used by personal financial advisors, which contribute to raising the image and giving more and more coverage to the presence of the Bank in the Italian territory.

## Net sales - Personal Financial Advisors Network

The table below shows the breakdown of sales attributable to the Personal Financial Advisors network as at December 31, 2018 compared to previous year.

	YEAR 2018	COMP %	YEAR 2017	COMP %	CHANGES	
					ABSOLUTE	%
Current accounts and demand deposits	1,890,730	34.7%	1,252,370	23.2%	638,360	51.0%
Time deposits and reverse repos	(5,718)	-0.1%	(132,586)	-2.5%	126,868	-95.7%
<b>DIRECT SALES</b>	<b>1,885,012</b>	<b>34.6%</b>	<b>1,119,784</b>	<b>20.7%</b>	<b>765,228</b>	<b>68.3%</b>
Segregated accounts	(5,598)	-0.1%	(3,758)	-0.1%	(1,840)	49.0%
Investment funds and other funds	(132,127)	-2.4%	2,271,437	42.0%	(2,403,564)	n.c.
Insurance products	1,830,387	33.6%	1,651,876	30.6%	178,511	10.8%
Asset under custody and Direct deposits under advisory	580,298	10.6%	82,910	1.5%	497,388	599.9%
<b>ASSETS UNDER MANAGEMENT</b>	<b>2,272,960</b>	<b>41.7%</b>	<b>4,002,465</b>	<b>74.1%</b>	<b>(1,729,505)</b>	<b>-43.2%</b>
Government securities, bonds and stocks	1,295,366	23.8%	282,136	5.2%	1,013,230	359.1%
<b>ASSETS UNDER ADMINISTRATION</b>	<b>1,295,366</b>	<b>23.8%</b>	<b>282,136</b>	<b>5.2%</b>	<b>1,013,230</b>	<b>359.1%</b>
<b>NET SALES</b>	<b>5,453,338</b>	<b>100.0%</b>	<b>5,404,385</b>	<b>100.0%</b>	<b>48,953</b>	<b>0.9%</b>
of which Guided products & services	2,771,228	50.8%	4,560,961	84.4%	(1,789,733)	-39.2%

## The network of personal financial advisors (CONTINUED)

## Total financial assets - Personal Financial Advisors Network

The table below shows the breakdown of sales attributable to the PFA network as at December 31, 2018. Total financial assets, amounting to €59,910 million, increased by 3.5% compared to December 31, 2017, thanks to the positive contribution of direct sales generated during the year, equal to €5,453 million, despite the negative market effect recorded in 2018, which substantially reduced the growth in assets under management and assets under custody.

(Amounts in € thousand)

	AMOUNTS AS AT		AMOUNTS AS AT		CHANGES	
	12.31.2018	COMP %	12.31.2017	COMP %	ABSOLUTE	%
Current accounts and demand deposits	16,564,769	27.6%	14,674,039	25.3%	1,890,730	12.9%
Time deposits and reverse repos	2,793	0.0%	8,424	0.0%	(5,631)	-66.8%
<b>DIRECT DEPOSITS</b>	<b>16,567,562</b>	<b>27.7%</b>	<b>14,682,463</b>	<b>25.4%</b>	<b>1,885,099</b>	<b>12.8%</b>
Segregated accounts	1,095	0.0%	6,729	0.0%	(5,634)	-83.7%
UCITS and other investment funds	24,476,015	40.9%	26,565,970	45.9%	(2,089,955)	-7.9%
Insurance products	7,545,142	12.6%	5,992,040	10.4%	1,553,102	25.9%
Asset under custody and Direct deposits under advisory	1,012,329	1.7%	482,571	0.8%	529,758	109.8%
<b>ASSETS UNDER MANAGEMENT</b>	<b>33,034,581</b>	<b>55.1%</b>	<b>33,047,310</b>	<b>57.1%</b>	<b>(12,729)</b>	<b>0.0%</b>
Government securities, bonds and stocks	10,307,435	17.2%	10,157,116	17.5%	150,319	1.5%
<b>ASSETS UNDER CUSTODY</b>	<b>10,307,435</b>	<b>17.2%</b>	<b>10,157,116</b>	<b>17.5%</b>	<b>150,319</b>	<b>1.5%</b>
<b>TOTAL FINANCIAL ASSETS - PERSONAL FINANCIAL ADVISORS NETWORK</b>	<b>59,909,578</b>	<b>100.0%</b>	<b>57,886,889</b>	<b>100.0%</b>	<b>2,022,689</b>	<b>3.5%</b>
of which Guided products & services	22,342,564	37.3%	21,197,073	36.6%	1,145,491	5.4%

# Human resources

## The parent: FinecoBank S.p.A.

As at December 2018, the Bank's employees are 1,154 up compared to 1,120 as at December 31, 2017. The breakdown was as follows:

HUMAN RESOURCES	31 DECEMBER 2018	31 DECEMBER .2017
FinecoBank employees	1,157	1,119
Group employees seconded to FinecoBank (+)	-	4
FinecoBank employees seconded to the Group (-)	(3)	(3)
<b>Total human resources</b>	<b>1,154</b>	<b>1,120</b>

During 2018, activities continued, with particular attention to the gender topics, to strengthen and optimise the areas dedicated to business development, organisational support and risk control and management. This led to the hiring of 127 workers, of which:

- 7 from other Group Companies;
- 120 from the market.

Out of the 120 new recruits from the market, the majority were employed in the Customer Relationship Management area, confirming the strong and ongoing focus on young graduates. Customer Relationship Management forms the starting point of a pathway of professional development that can lead to different roles in the Company.

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

2018 showed a significant use of internal job rotation that involved 29 resources enabling, on one hand, to cover the vacant positions within the Company, and on the other hand, to guarantee the continuous staff professional development.

During the year, a total of 89 employees left the bank, including:

- 32 resignations;
- 29 transfers to Group Companies;
- 28 for other reasons.

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

CATEGORY	MEN		WOMEN		TOTAL	
	12.31.2018	12.31.2017	12.31.2018	12.31.2017	12.31.2018	12.31.2017
Executives	22	23	4	4	26	27
Managers	256	239	103	98	359	337
Professional Areas	380	368	392	387	772	755
<b>Total</b>	<b>658</b>	<b>630</b>	<b>499</b>	<b>489</b>	<b>1,157</b>	<b>1,119</b>

As at December 31, 2018, part-time staff in the Bank amounted to 89, accounting for 8% of employees, with women employees representing around 43% of the workforce. The average length of service was 9 years and the average age was around 40.

## Employee training

In 2018, employees training was focused both on the acquisition and consolidation of specific skills required by the company needs, and on the updating of individual knowledge, with specific focus on mandatory, technical and linguistic training.

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

TRAINING AREA	HOURS OF TRAINING
Mandatory	8,414
Technical	14,183
Foreign Language	9,918
Conduct – Management	429
<b>Total</b>	<b>32,944</b>

### Mandatory training

FinecoBank is committed to spreading and enhancing the Risk and Compliance Culture, allowing our business to be sustainable and profitable.

In particular, during 2018, the relevance of the Compliance Culture was further underlined, considering its importance in promoting fundamental values such as transparency and respect, that represent the basis of FinecoBank business.

For this reason, FinecoBank paid significant attention to mandatory training. All employees had the opportunity to attend the courses both using the Group e-learning platform (My Learning), and through training classrooms dedicated to specific subjects (e.g Anti Money Laundering, Financial Sanctions, Volcker Rule). In addition to this, attendance percentages were periodically monitored in order to ensure mandatory subjects learning within the Company, protecting it against operational, legal and reputational risks.

### Technical training

During the last year, specific training sessions were organized (internally or involving external providers) in order to develop technical skills necessary to improve not only the productivity, but also employees' specialisation levels.

In 2018 all the employees had the chance to attend, on a voluntary basis, the "Risk Cross Functions" course, an online training concerning Bank risks, accessible through the Group My Learning platform.

A Group e-learning catalogue (MyCampus) has been extended to all the employees, increasing the e-learning offer on different topics.

In order to ensure high standards of service quality and customer care, training courses were organised within the Customer Care unit for a total of 11,566 hours. Training was especially focused on technical skills and behavioural learning.

Considering the success of the "Leadership Training Program" experienced by the CRM Team Leaders in 2017, in 2018 other Bank's functions were involved in this training path dedicated to managers, consisting of classroom lessons, coaching and on-the-job training. The aim of this initiative was to strengthen their managerial skills and manage their role in a coherent and effective manner.

The Business Continuity training plan was carried on with the support of ad hoc training tracked in specific registers.

### Foreign language training

Considering the importance of linguistic training, the Bank provided employees with a free access platform for English learning by educational tools such as video, role-playing and virtual classrooms. In 2018, around 450 employees subscribed and regularly used it.

Moreover, in the year, around 240 employees attended classroom or telephone English courses, according to their specific needs and their managers considerations.

### The subsidiary: Fineco Asset Management Designated Activity Company (Dac)

As at December 31, 2018, the Company's employees are 13 of whom 4 women and 9 men and the average age is around 35.

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

# Technology infrastructure

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

- Banking application software;
- On-line Trading system (dedicated applications for the real-time sale/purchase of securities and financial instruments on the main European and American markets);
- A management system for the operations room and for institutional investors, and access to the information/order sections of Italian/foreign markets;
- A management system for investment services such as Funds, SICAVs and Bank Insurance;
- A credit and debit card management system, with the issue of cards for VISA and MasterCard circuits;
- A personal financial advisors network management system, enabling advisors to work with all the Bank's products through a single portal.

As for Fineco AM, the company uses a third-party platform for the management of investment services.

In 2018, the ICT structure carried out its usual activities for technological renewal, consolidation and development of the Information System in order to provide new and more versatile added value services to customers.

Specifically, from an architectural perspective, work continued on optimising infrastructure and applications, as well as the continuous improvement and fine-tuning of application security architecture.

The main project activities completed include:

- offer of the new financial advice service Plus and of the new product Private Insurance;
- offer of new trading products: CFD with underlying Commodities, Daily Options, CBOE Options, Lending super Intraday and new CFD with underlying shares listed on German, French and Italian markets;
- availability of professional trading platform PowerDesk to customers on the English market;
- introduction of Instant Payment;
- enrichment of mortgages offers with new assumption "Refinancing" and the new product "Mutuo Fineco Remix";
- activation of the voice authentication system for retail customers;
- offer of the new mobile payment platform Apple Pay;
- enrichment of the mobile apps with new services: Plus, Logos Day, Extracash Instant Approval, Instant payment.

The regulatory activities include:

- implementation required to be compliant with the new GDPR UE Regulation;
- adherence to the dematerialized checks (CIT) management system;
- implementations required to be compliant with the IDD directive for insurance product placement;
- implementations of the information systems required to be compliant with the financial reporting and regulatory obligations deriving from the entry into force of new accounting standards and/or new provisions from the Supervisory Authorities.

## Internal control system

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

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

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

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

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

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

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

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

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

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

- control bodies and functions including, according to their respective responsibilities, the Board of Directors, the Risk and Related Parties Committee, the Remuneration Committee, the Appointments and Sustainability Committee the Chief Executive Officer and General Manager<sup>11</sup>, the Board of Statutory Auditors, the Supervisory Body set up pursuant to Legislative Decree 231/01 and the corporate control functions (Risk Management, Compliance<sup>12</sup>, Internal Audit) as well as other company functions with specific internal control duties<sup>13</sup>;

<sup>11</sup> Also appointed as "Director responsible for the internal control and risk management system" in accordance with principle 7.P.3 of the Corporate Governance Code of listed companies.

<sup>12</sup> This function includes the Anti Money Laundering and Anti Terrorism Service, responsible for managing the correct application of regulations on anti-money laundering and combating the financing of terrorism. The Compliance Officer is also appointed Head of the Anti-Money Laundering Function.

<sup>13</sup> The legislative framework and the codes of conduct assign control tasks to specific functions - other than corporate control functions - whose work should be seen as being a functional part of the Internal Control System. For the Bank in particular, these include the Local Control System for legislation concerning related-party transactions carried out with associated persons in a conflict of interest situation (under the responsibility of the

# Internal control system

- procedures for the coordination of entities involved in the internal control and risk management system, which provide for:
  - cooperation and coordination among control functions, through specific information flows that are formalised in internal regulations and through managerial committees dedicated to control issues;
  - application of the Group coordination model defined as part of the management and coordination activity carried out by the Parent Company;
  - definition of information flows both between corporate bodies and control functions within the Bank, and with the Parent Company, in order for the latter to be able to properly carry out its management and coordination activities.

Finally, it should be noted that, under Article 49, paragraph 1, of the Regulation (EU) No. 468/2014 of the European Central Bank (ECB/2014/17) (the SSM - Single Supervisory Mechanism - Framework Regulation), the ECB publishes, as of September 4, 2014, a periodically updated list, containing the names of supervised entities and groups that fall under the direct supervision of the ECB ("significant supervised entities" and "significant supervised groups", as defined in Article 2, points 16) and 22) of the SSM Framework Regulation), indicating the specific reason for direct supervision for each of them, and, if classified as significant based on size, the total value of the assets of the entity or group supervised. The Bank, as a "credit institution established in a participating Member State" belonging to the UniCredit group (classified as a "significant supervised group"), is included in the list of "significant supervised entities".

As regards the subsidiary Fineco Asset Management DAC, which has formally set up at the end of 2017 but not and has started its business from July 2018, the organizational structure establishes that the Compliance and Risk Management activities have performed by internal functions within the company, while Internal Audit will be outsourced to a specific UniCredit S.p.A. structure.

## Main risks and uncertainties

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

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Corporate Secretariat Unit of the Legal & Corporate Affairs Department), the Nominated Official in charge of drawing up company accounts pursuant to Article 154-bis of the Consolidated Finance Act (identified as the Bank's CFO), the Occupational Health and Safety Officer; the Human Resources function, the Head of Business Continuity & Crisis Management, and the Head of Outsourcing Management (Costs Manager Assistant). All corporate functions, other than corporate control functions, also participate in the Internal Control System by carrying out the level-one controls included in the business processes within their responsibility.

# Organisational structure

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

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

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

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

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

During the second half of 2018, the responsibilities and activities of the *Investment Services and Private Banking Department* were redistributed between the *GBS (Global Banking Services) Department* and *Network PFA Department*, which has been renamed *Network PFA Department & Private Banking*. Consequently, the *Investment Services and Private Banking Department* has been canceled. Furthermore, with regard to the *ICT Department*, a reorganization of this Department was carried out, identifying a single point of governance and supervision for the ICT and IT security processes.

## Organisational Model

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

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

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

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

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

- the sales network (Network PFA & Private Banking Department);
- Trading, Banking and Credit products and the investment services (Global Business Department);
- operational functioning (GBS Department).

In summary:

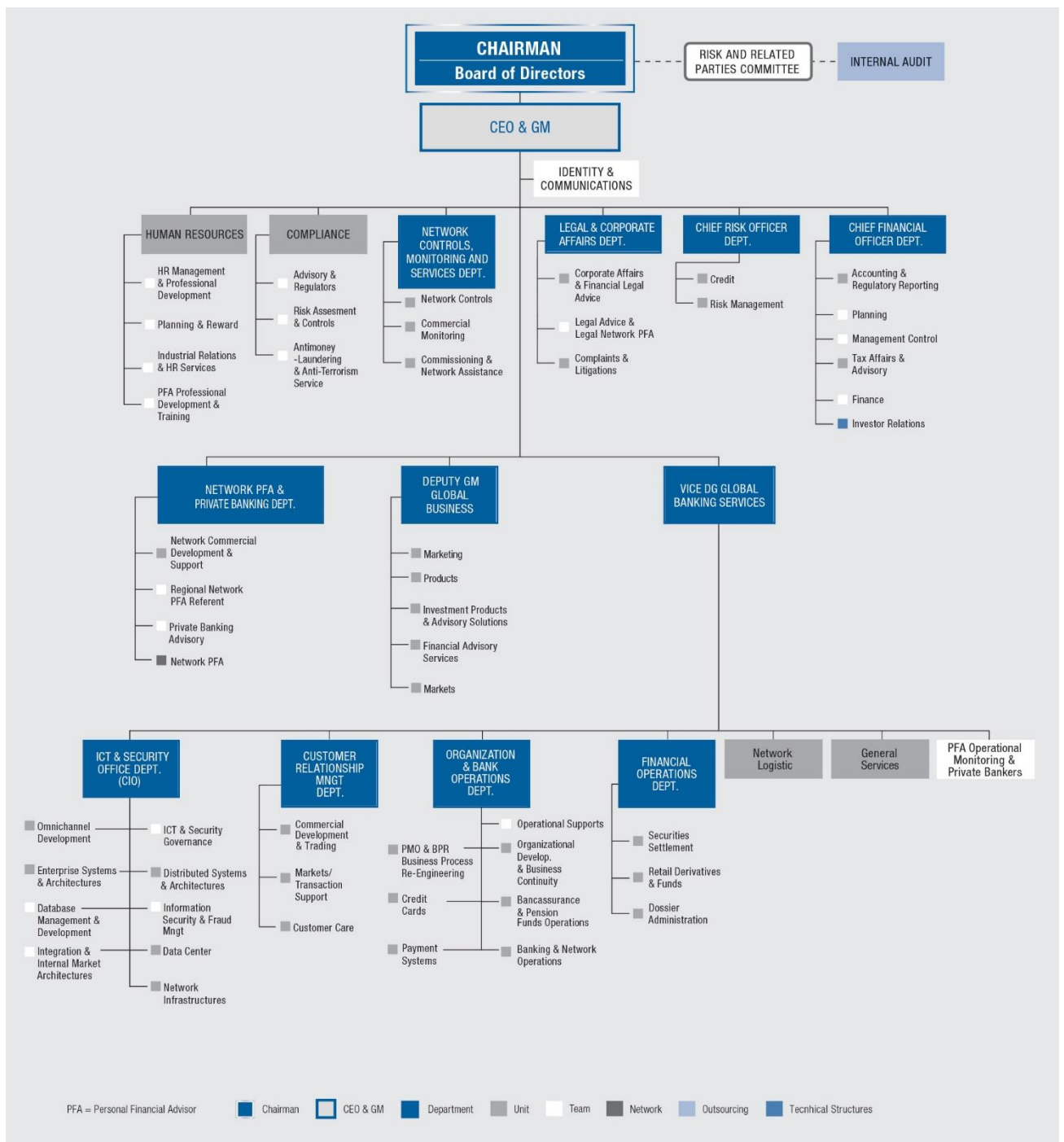
- The *PFA Network & private Banking Department* is responsible for overseeing the management and development of the personal financial advisors network;
- the Global Business Department is responsible for overseeing the development of Trading, Banking, Credit and Investing products and the financial advisory services provided to the Bank' customers;
- The GBS (Global Banking Services) Department coordinates the organisational units in charge of monitoring the organisational/operating processes and the ICT and logistics systems needed to ensure the effective and efficient operation of business support systems. The following organisational units report to the GBS Department: ICT & Security Office Department (CIO), CRM – Customer Relationship Management – Department, Organisation & Bank Operations Department, Financial Operations Department, Network Services Unit, General Services Unit, and the PFA Operational Monitoring & Private Bankers team.

The synergies between the distribution channels and the monitoring of decision-making processes that cut across the Departments are ensured by a Management Committee.

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



# Organisational structure (CONTINUED)



# Business Continuity Plan (BCP)

As required by the applicable regulations, the Bank has adopted a model that comprises organisational units dedicated to managing Business Continuity and Crises, both in normal operating conditions and in emergency situations.

The Bank's Business Continuity and Crisis Management framework includes the management plan for emergency events and the business continuity plan. These plans are an integral part of the disaster recovery plan (which establishes the measures for the restoration of applications and information technology systems affected by disasters) and of the cyber attack plan (which sets out the strategies – for systemic processes – for handling large scale computer attacks).

These Plans describe the crisis management procedures and are updated and checked regularly to ensure their effectiveness and adequacy.

# Main balance sheet aggregates

(Amounts in € thousand)

ASSETS	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Cash and cash balances	6	613	(607)	-99.0%
Financial assets held for trading	6,876	8,827	(1,951)	-22.1%
Loans and receivables with banks	3,058,882	3,039,207	19,675	0.6%
Loans and receivables with customers	2,955,074	2,129,219	825,855	38.8%
Financial investments	18,231,182	16,715,041	1,516,141	9.1%
Hedging instruments	8,187	10,048	(1,861)	-18.5%
Property, plant and equipment	16,632	15,205	1,427	9.4%
Goodwill	89,602	89,602	-	-
Other intangible assets	8,705	7,909	796	10.1%
Tax assets	6,714	9,249	(2,535)	-27.4%
Other assets	350,770	315,415	35,355	11.2%
<b>Total assets</b>	<b>24,732,630</b>	<b>22,340,335</b>	<b>2,392,295</b>	<b>10.7%</b>

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Deposits from banks	1,009,774	926,001	83,773	9.0%
Deposits from customers	22,273,188	20,205,036	2,068,152	10.2%
Financial liabilities held for trading	2,221	11,936	(9,715)	-81.4%
Hedging instruments	7,941	(397)	8,338	n.c.
Tax liabilities	12,390	10,234	2,156	21.1%
Other liabilities	451,435	455,699	(4,264)	-0.9%
Shareholders' equity	975,681	731,826	243,855	33.3%
- capital and reserves	744,256	526,046	218,210	41.5%
- revaluation reserves	(9,794)	(8,340)	(1,454)	17.4%
- net profit	241,219	214,120	27,099	12.7%
<b>Total liabilities and Shareholders' equity</b>	<b>24,732,630</b>	<b>22,340,335</b>	<b>2,392,295</b>	<b>10.7%</b>

## Main balance sheet aggregates (CONTINUED)

## Financial assets held for trading

Financial assets held for trading totaled €6.9 million and include financial instruments that meets the definition of held for trading, in particular:

- bonds, equities and UCIT units, amounting to €2.1 million, held in the Bank's portfolio as a result of trading activity or used for the operational hedging of CFD positions on shares open with customers and intended to be traded in the short term;
- the positive valuation of spot contracts for securities in the held for trading portfolio and currencies to be settled in time frames established by market practices ("regular way") for €1.3 million, which correspond to negative valuations booked under "Financial liabilities held for trading";
- the positive valuation of CFDs (indices, shares, interest rates, commodities and forex), traded in counterpart of the customers, and futures, used for the related management coverage, for €3.5 million.

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

## Loans and receivables with banks

	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Current accounts and demand deposits	1,922,041	1,993,139	(71,098)	-3.6%
Time deposits	1,127,298	1,028,152	99,146	9.6%
Other loans:	9,543	17,916	(8,373)	-46.7%
1 Reverse repos	416	54	362	n.c.
2 Others	9,127	17,862	(8,735)	-48.9%
<b>Total</b>	<b>3,058,882</b>	<b>3,039,207</b>	<b>19,675</b>	<b>0.6%</b>

Loans and receivables with banks for "Current accounts and demand deposits" mainly consist of accounts held with UniCredit S.p.A., with a book value of €1,887.3 million (€1,958.6 million as at December 31, 2017), and to a lesser extent, of current accounts held with other banks not belonging to the UniCredit group, among these the current accounts opened for securities transactions, for the management of the liquidity of the UK customers and for the management of the liquidity of Fineco AM.

"Time deposits" consist of the deposit held by the Bank with UniCredit S.p.A., include deposit for compulsory reserves, which stood at €1,119.3 million (€1,028.2 million as at December 31, 2017) and the time deposit held by Fineco AM with UniCredit Bank Ireland Plc of €8.0 million.

The item "Other loans: Others" consists of €5.3 million for the amount of the initial and variance margins and collateral deposits placed with credit institutions for derivative transactions and repos (€14.6 million as at December 31, 2017) and €3.8 million for current receivables associated with the provision of financial services (€3.2 million as at December 31, 2017).

## Loans and receivables with customers

	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Current accounts	1,018,700	641,554	377,146	58.8%
Reverse repos	148,797	202,701	(53,904)	-26.6%
Mortgages	856,870	516,251	340,619	66.0%
Credit cards and personal loans	750,141	633,048	117,093	18.5%
Other loans	180,566	135,665	44,901	33.1%
<b>Total</b>	<b>2,955,074</b>	<b>2,129,219</b>	<b>825,855</b>	<b>38.8%</b>

Loans and receivables with customers, amounting to €2,955.1 million, up 38.8% compared to the amount as at December 31, 2018 and can be broken down as follows:

- credit facilities in current accounts of €1,018.7 million, up 58.8%, of which loans with a security collateral (in particular "Credit Lombard") totaled to €970 million;
- €148.8 million in reverse repos, made by:

- “Multiday leverage” with retail customers and stock lending transactions with transactions institutional customers, securities lending transactions guaranteed by sums of money readily available to the lender and which are basically the equivalent of repos on securities;
- repos on securities executed on MTS market subject to accounting offsetting, as set out in IAS 32.
- €856.9 million in mortgages, up 66%;
- €750.1 million in credit cards and personal loans, up 18.5%
- €180.6 million in other loans, mainly made by collateral deposits and initial and variation margins with clearing houses for derivative contract transactions, for an amount of €85 million, and current receivables associated with the provision of financial services, for an amount of €88.9 million.

The portfolio of **loan receivables with ordinary customers** amounts to €2,632.3 million and mainly consists of receivables for personal loans, mortgages, current accounts and credit card revolving and use; overall, loans receivable with ordinary customers increased of 46.4% thanks to the disbursement in 2018 of a further €248 million in personal loan and €411 million in mortgages plus new credit facilities in current accounts for an amount of €945 million, with an increase in exposures in current accounts of €377.2 million.

(Amounts in € thousand)

LOANS AND RECEIVABLES WITH CUSTOMERS (MANAGEMENT RECLASSIFICATION)	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Current accounts	1,016,930	639,726	377,204	59.0%
Credit card use	320,379	288,382	31,997	11.1%
Mortgages	856,856	516,237	340,619	66.0%
Personal loans	428,979	343,867	85,112	24.8%
Other loans	6,460	7,641	(1,181)	-15.5%
<b>Performing loans</b>	<b>2,629,604</b>	<b>1,795,853</b>	<b>833,751</b>	<b>46.4%</b>
Current accounts	1,770	1,828	(58)	-3.2%
Mortgages	14	14	-	0.0%
Credit card use	63	43	20	46.5%
Personal loans	720	756	(36)	-4.8%
Other loans	99	26	73	280.8%
<b>Impaired loans</b>	<b>2,666</b>	<b>2,667</b>	<b>(1)</b>	<b>0.0%</b>
<b>Loans receivable with ordinary customers</b>	<b>2,632,270</b>	<b>1,798,520</b>	<b>833,750</b>	<b>46.4%</b>
Reverse repos	148,768	202,620	(53,852)	-26.6%
Reverse repos - impaired	29	81	(52)	n.c.
Collateral deposits and initial and variation margins	84,963	42,609	42,354	99.4%
Current receivables not related provision of financial services	88,922	85,284	3,638	4.3%
Current receivables associated with the provision of financial services - impaired	122	105	17	16.2%
<b>Current receivables and other receivables</b>	<b>322,804</b>	<b>330,699</b>	<b>(7,895)</b>	<b>-2.4%</b>
<b>Loans and receivables with customers</b>	<b>2,955,074</b>	<b>2,129,219</b>	<b>825,855</b>	<b>38.8%</b>

## Impaired assets

(Amounts in € thousand)

CATEGORY	GROSS AMOUNT		IMPAIRMENT PROVISION		NET AMOUNT		COVERAGE RATIO	
	AMOUNTS AS AT		AMOUNTS AS AT		AMOUNTS AS AT		DATA AS AT	
	12.31.2018	12.31.2017	12.31.2018	12.31.2017	12.31.2018	12.31.2017	12.31.2018	12.31.2017
Bad exposures	19,714	20,848	(18,067)	(19,118)	1,647	1,730	91.65%	91.70%
Unlikely to pay	2,659	2,109	(2,042)	(1,614)	617	495	76.80%	76.53%
Past-due loans	1,562	1,356	(1,009)	(728)	553	628	64.60%	53.69%
<b>Total</b>	<b>23,935</b>	<b>24,313</b>	<b>(21,118)</b>	<b>(21,460)</b>	<b>2,817</b>	<b>2,853</b>	<b>88.23%</b>	<b>88.27%</b>

The amount of non-performing loans net of impairment losses was €2.8 million, €1.6 million of which in bad exposure, €0.6 million in unlikely to pay exposures and €0.6 million in past-due loans. The impaired assets are the 0.11% of loan receivables with ordinary customers and mostly relate to current account overdrafts and personal loans.

## Main balance sheet aggregates (CONTINUED)

## Financial investments

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Financial assets at fair value through profit or loss c) other financial assets mandatorily at fair value	13,342	539,854	(526,512)	-97.5%
Financial assets at fair value through other comprehensive income	961,773	1,042,471	(80,698)	-7.7%
Financial assets at amortised cost	17,256,067	15,132,716	2,123,351	14.0%
- financial assets at amortised cost with banks - debt securities	9,382,112	10,406,251	(1,024,139)	-9.8%
- financial assets at amortised cost with customers - debt securities	7,873,955	4,726,465	3,147,490	66.6%
<b>Total</b>	<b>18,231,182</b>	<b>16,715,041</b>	<b>1,516,141</b>	<b>9.1%</b>

"Financial assets at fair value through profit or loss c) other financial assets mandatorily at fair value" primarily consist of the Visa INC class "C" preferred shares, for an amount of €6.1 million, which saw a positive change in *fair value* in 2018 of €1.6 million and the residual equity exposure to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund (IDGF), amounting to €7.2 million (of which €6.7 million related to the Carige transaction and €0.5 million related to Carimi, Carismi and CariCesena transaction), with a negative impact booked in the 2018 income statement of €3 million. For further details on the exposure to the Voluntary Scheme refer to Part A - Accounting Policies – Section 5 – Other matters of the Notes to the Consolidated Accounts.

The item as at December 31, 2017 included two debt instruments issued by UniCredit S.p.A. with coupon in arrears, with a total nominal amount of €532.6 million. Their contractual profiles did not pass the SPPI Test and they were thus included in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss: c) other financial assets mandatorily at fair value". Please note that the debt instrument issued by UniCredit S.p.A. amounted to €150.1 million has been repaid on 2 January 2018, while the debt instrument amounted to €382.5 million, measured at fair value at the transition to IFRS 9, has been restructured on 2 January 2018, with consequent derecognition of the old financial instrument and recognition of the new financial instrument in "financial assets at amortized cost" item (item 40. of the assets of the IFRS 9 Financial Statements). For further details refer to Part A - Accounting Policies – Section 5 – Other matters of the Notes to the Consolidated Accounts.

"Financial assets designated at fair value through other comprehensive income" consist of securities issued by sovereign states and residually of equity interests in companies in which the Bank does not exercise control or significant influence for €5 thousand for which, upon first application of IFRS 9, the "FVTOCI" option was exercised.<sup>14</sup> The following table shows the debt securities issued by sovereign states:

(Amounts in € thousand)

COUNTERPARTY	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNTS	%
Italy	816,900	725,220	91,680	12.6%
Spain	-	242,451	(242,451)	-100.0%
France	35,471	10,124	25,347	250.4%
USA	67,585	64,671	2,914	4.5%
Ireland	41,812	-	41,812	-
<b>Total</b>	<b>961,768</b>	<b>1,042,466</b>	<b>(80,698)</b>	<b>-7.7%</b>

The debt securities recorded in "Financial assets at amortized cost" issued by banks refer to bonds issued by:

- UniCredit S.p.A. for a total amount of €9,115.8 million (€10,306.3 million as at December 31, 2017);
- Istituto de Credito Oficial (ICO) for an amount of €114.5 million (€99.9 million as at December 31, 2017);
- EIB (European Investment Bank) for an amount of €101.3 million;
- Kreditanstalt für Wiederaufbau (KfW) for an amount of €50.5 million.

<sup>14</sup> With regard to non-trading equity instruments, IFRS 9 provides for the possibility of measuring them at the fair value recognised through other comprehensive income (so-called FVTOCI – fair value through Other Comprehensive Income).

The debt securities recorded in "Financial assets at amortized cost" issued by customers exclusively refer to bonds consist of securities issued by sovereign states and supranational agencies. The breakdown by counterparty of securities issued by customers is shown below:

(Amounts in € thousand)

COUNTERPARTY	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNTS	%
Italy	3,150,186	2,557,575	592,611	23.2%
Spain	3,411,725	2,120,318	1,291,407	60.9%
Germany	127,432	-	127,432	-
Poland	79,660	48,572	31,088	64.0%
France	255,743	-	255,743	-
Austria	208,562	-	208,562	-
Ireland	171,703	-	171,703	-
Belgium	181,983	-	181,983	-
EFSF (European Financial Stability Facility)	160,493	-	160,493	-
ESM (European Stability Mechanism)	126,468	-	126,468	-
<b>Total</b>	<b>7,873,955</b>	<b>4,726,465</b>	<b>3,147,490</b>	<b>66.6%</b>

## Hedging instruments

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Asset hedging derivatives - positive valuations	-	400	(400)	-100.0%
Liability hedging derivatives - positive valuations	3,314	58	3,256	n.c.
Adjustment to the value of assets under macro-hedge	4,873	9,590	(4,717)	-49.2%
<b>Total assets</b>	<b>8,187</b>	<b>10,048</b>	<b>(1,861)</b>	<b>-18.5%</b>
of which:				
Positive valuations	2,575	499	2,076	416.0%
Accrued interest	739	(41)	780	n.c.
Adjustments to the value of hedged assets	4,873	9,590	(4,717)	-49.2%
<b>Total assets</b>	<b>8,187</b>	<b>10,048</b>	<b>(1,861)</b>	<b>-18.5%</b>
Asset hedging derivatives - negative valuations	5,341	249	5,092	2045.0%
Liability hedging derivatives - negative valuations	-	3,126	(3,126)	-100.0%
Adjustment to the value of assets under macro-hedge	2,600	(3,772)	6,372	n.c.
<b>Total liabilities</b>	<b>7,941</b>	<b>(397)</b>	<b>8,338</b>	<b>-2100.3%</b>
of which:				
Negative valuations	4,703	3,959	744	18.8%
Accrued interest	638	(584)	1,222	n.c.
Adjustments to the value of hedged liabilities	2,600	(3,772)	6,372	n.c.
<b>Total liabilities</b>	<b>7,941</b>	<b>(397)</b>	<b>8,338</b>	<b>-2100.3%</b>

(Amounts in € thousand)

SUMMARY OF HEDGING DERIVATIVE VALUATIONS 31.12.2018	ASSETS	LIABILITIES	DIFFERENCE
Valuation of hedging derivatives for assets and liabilities	2,575	4,703	(2,128)
Change in fair value of hedged assets/liabilities	4,873	2,600	2,273
<b>Total</b>	<b>7,448</b>	<b>7,303</b>	<b>145</b>

As at December 31, 2018 the hedged assets consisted of mortgages with customers shown in "Financial assets at amortised cost", while the hedged liabilities consisted of direct deposits with customers shown in "Financial liabilities at amortised cost".

Positive and negative valuations of hedging derivatives related solely to derivative contracts that the Bank has entered into to hedge against interest rate risk inherent in the above-mentioned assets and liabilities, whose income statement effect, net of €0.1 million of accrued interest income included in the net interest margin, was a positive amount of €0.1 million.

## Main balance sheet aggregates (CONTINUED)

## Property, plant and equipment

Tangible assets are made by **properties, electronic equipment, office furniture and fittings, plant and machinery**. Investments in electronic equipment were made to guarantee the ongoing update of the hardware used by all the Bank's departments. Investments in office furniture and fittings and in plant and machinery are intended for use in company offices and in financial stores.

(Amounts in € thousand)

PROPERTY, PLANT AND EQUIPMENT	BALANCE 12.31.2017	INVESTMENTS YEAR 2018	OTHER CHANGES AND SALES YEAR 2018	AMORTISATION AND IMPAIRMENT YEAR 2018	BALANCE 12.31.2018
Properties	2,304	2	(109)	(109)	2,088
Electronic equipment	9,798	4,968	(145)	(3,677)	10,944
Office furniture and fittings	1,480	1,472	(1)	(1,115)	1,836
Plant and machinery	1,623	704	-	(563)	1,764
<b>Total</b>	<b>15,205</b>	<b>7,146</b>	<b>(255)</b>	<b>(5,464)</b>	<b>16,632</b>

## Goodwill

The **Goodwill** recognised in the financial statements and amounting to of €89.6 million derives from transactions carried out in the years from 2001 to 2008, involving acquisitions and mergers by absorption of business units and businesses engaged in trading operations or the distribution of financial, banking and insurance products through the personal financial advisors (Fineco On Line Sim S.p.A., Trading and Banking business unit of Banca della Rete, personal financial advisors business unit of the former FinecoGroup S.p.A., and UniCredit Xelion Banca S.p.A.).

These activities have been fully integrated with the Bank's ordinary operations. As a result, it is no longer possible to isolate the contribution of each company/business division from the Bank's overall income; this means that to establish the reasonableness of the value of goodwill recognised in the financial statements it is necessary to take account of the Bank's comprehensive income. The cash generating unit (CGU) is therefore the Bank as a whole, including the contribution from the subsidiary Fineco Asset Management DAC, through a vertically integrated business model.

In fact, in view of the specific business model adopted by the Bank, which envisages a high level of integration between personal financial advisors and the trading and banking platform, the allocation of costs/revenues to the macro areas of activity is not considered relevant or meaningful; the personal financial advisors network is an integral part of the overall offer, along with banking, brokerage and investing services.

Impairment testing on goodwill, performed on December 31, 2018, did not identify any impairment. For all other information on the impairment test, see Part B - Balance Sheet Information in the Notes to the Consolidated Accounts.

## Other intangible assets

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

(Amounts in € thousand)

INTANGIBLE ASSETS	BALANCE 12.31.2017	INVESTMENTS YEAR 2018	OTHER CHANGES AND SALES YEAR 2018	AMORTISATION AND IMPAIRMENT YEAR 2018	BALANCE 12.31.2018
Software	7,081	5,588	-	(4,650)	8,019
Other intangible assets	828	167	-	(309)	686
<b>Total</b>	<b>7,909</b>	<b>5,755</b>	<b>-</b>	<b>(4,959)</b>	<b>8,705</b>



## Tax Assets and Other Assets

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
<b>Tax assets</b>				
Current assets	467	1,765	(1,298)	-73.5%
Deferred tax assets	28,977	32,927	(3,950)	-12.0%
Deferred tax assets pursuant to Law 214/2011	4,033	3,828	205	5.4%
<i>Total before IAS 12 offsetting</i>	<i>33,477</i>	<i>38,520</i>	<i>(5,043)</i>	<i>-13.1%</i>
Offsetting with deferred tax liabilities - IAS 12	(26,763)	(29,271)	2,508	-8.6%
<b>Total Tax assets</b>	<b>6,714</b>	<b>9,249</b>	<b>(2,535)</b>	<b>-27.4%</b>
<b>Other assets</b>				
Items in processing	29	99	(70)	-70.7%
Items awaiting settlement	4,597	4,498	99	2.2%
Definitive items not recognised under other items	30,356	20,632	9,724	47.1%
Current receivables not related with the provision of financial services	2,170	4,721	(2,551)	-54.0%
Tax items other than those included in the item "Tax assets"	269,189	249,443	19,746	7.9%
Accrued income and prepaid expenses related to contracts with customers other than capitalised in related financial assets or liabilities	4,303	2,153	2,150	99.9%
Trade receivables according to IFRS15	8,489	4,985	3,504	70.3%
Accrued income and prepaid expenses other than those related to contracts with customers and other than capitalised in related financial assets or liabilities	24,588	21,972	2,616	11.9%
Improvement and incremental expenses incurred on leasehold assets	6,928	6,774	154	2.3%
Other items	121	138	(17)	-12.3%
<b>Total other assets</b>	<b>350,770</b>	<b>315,415</b>	<b>35,355</b>	<b>11.2%</b>

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

The reduction in **Tax assets**, after IAS 12 offsetting, is mainly due to the reduction in "Deferred tax assets" at the moment of First Time Application of the standard IFRS 9. For further details please refer to Section 5 - Other aspects of Part A – Accounting policies.

For the item **Other assets**, there was an increase of €19.7 million in the "Tax items other than those recorded under the Tax Assets", due to higher advance taxes paid for the substitute tax on other income and for stamp duties; there was an increase of €9.7 million in "Definitive items not recognised under other items" mainly due to the regulation on credit card transaction circuits. The "Other assets" of Fineco AM amount to €0.2 million.

## Deposits from banks

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
<b>Deposits from central banks</b>	-	-	-	-
<b>Deposits from banks</b>				
Current accounts and demand deposits	52,563	42,756	9,807	22.9%
Loans	933,352	868,651	64,701	7.4%
- Repos	933,352	868,651	64,701	7.4%
Other liabilities	23,859	14,594	9,265	63.5%
<b>Total</b>	<b>1,009,774</b>	<b>926,001</b>	<b>83,773</b>	<b>9.0%</b>

**Deposits from banks** mainly includes repos amounting to €1,009.8 million up to 9% compared to December 31, 2017.

The item "Current accounts and demand deposits" consisted of reciprocal current accounts and loans with UniCredit S.p.A., amounting to €18.3 million (€6.1 million as at December 31, 2017), of current accounts held with other banks not belonging to the UniCredit group opened for securities transactions, amounting to €1 million, as well as current accounts opened by customer banks worth €33.3 million (€36.7 million as at December 31, 2017).

"Repos" are represented by repos and securities lending transactions with credit institutions, securities lending transactions guaranteed by sums of money readily available to the lender and which are basically the equivalent of repos on securities. The item included €751.8 million in transactions effected with UniCredit S.p.A. (€764.4 million as at December 31, 2017) and €35.7 million of securities lending transactions guaranteed by cash carried out with UniCredit Bank AG Munich (€40.3 million as at December 31, 2017).

The item "Other liabilities" mainly includes margin variations received for trading in derivatives and reverse repos, of which €22.6 million received by the Parent Company (€13.3 million as at December 31, 2017).

## Main balance sheet aggregates (CONTINUED)

## Deposits from customers

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Current accounts and demand deposits	22,046,700	19,935,285	2,111,415	10.6%
Time deposits	3,106	9,631	(6,525)	-67.7%
Loans	116,299	146,410	(30,111)	-20.6%
- Repos	116,299	146,410	(30,111)	-20.6%
Other liabilities	107,083	113,710	(6,627)	-5.8%
<b>Deposits from customers</b>	<b>22,273,188</b>	<b>20,205,036</b>	<b>2,068,152</b>	<b>10.2%</b>

**Deposits from customers** totalled €22,273.2 million, up 10.2% compared to December 31, 2017 and mainly consisting of current accounts with customers, increased by €2,111.4 million (+10.6%).

"Repos" consist of:

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

The item "Other liabilities" comprises current payables related to the provision of financial services, totalling €34 million (€39 million as at December 31, 2017), initial and variance margins for derivative and financial instrument transactions, which came to €38.9 million (€44.9 million as at December 31, 2017) and other liabilities for rechargeable credit cards and bankers' drafts, amounting to €34.2 million (€29.8 million at December 31, 2017).

## Financial liabilities held for trading

**Financial liabilities held for trading** totalled €2.2 million and include financial instruments that meets the definition of held for trading, in particular:

- technical overdrafts, amounting to €0.3 million, used for the operational hedging of CFD positions on shares open with customers and intended to be traded in the short term;
- the negative valuation of spot contracts for securities in the held for trading portfolio and currencies to be settled in time frames established by market practices ("regular way") for €1.2 million, which correspond to negative valuations booked under "Financial liabilities held for trading";
- the negative valuation of CFDs (indices, shares, interest rates, commodities and forex), traded in counterpart of the customers, and futures, used for the related management coverage, for €0.7 million.

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

## Tax liabilities and Other liabilities

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
<b>Tax liabilities</b>				
Current liabilities	12,390	10,234	2,156	21.1%
Deferred tax liabilities	26,763	29,271	(2,508)	-8.6%
<i>Total before IAS 12 offsetting</i>	<i>39,153</i>	<i>39,505</i>	<i>(352)</i>	<i>-0.9%</i>
Offset against deferred tax liabilities - IAS 12	(26,763)	(29,271)	2,508	-8.6%
<b>Total Tax liabilities</b>	<b>12,390</b>	<b>10,234</b>	<b>2,156</b>	<b>21.1%</b>
<b>Other liabilities</b>				
Deferred income related to contracts with customers other than those capitalised on the related financial assets or liabilities	2,800	1,717	1,083	63.1%
Items in processing	561	481	80	16.6%
Items awaiting settlement	94,642	91,869	2,773	3.0%
Definitive items not recognised under other items	31,589	42,724	(11,135)	-26.1%
Payment authorisations	21,716	19,068	2,648	13.9%
Payables for share-based payments or shares of the Parent Company UniCredit	338	938	(600)	-64.0%
Payables to employees and other personnel	13,018	11,378	1,640	14.4%
Payables to Directors and Statutory auditors	163	148	15	10.1%
Current payables not related with the provision of financial services	24,181	23,690	491	2.1%
Tax items other than those included in the item "Tax liabilities"	116,031	116,515	(484)	-0.4%
Social security contributions payable	6,415	6,845	(430)	-6.3%
Illiquid items for portfolio transactions	22,123	18,097	4,026	22.2%
Other items	3,492	4,817	(1,325)	-27.5%
Provisions for employee severance pay	4,561	4,998	(437)	-8.7%
Provisions for risks and charges	109,805	112,414	(2,609)	-2.3%
<b>Total Other liabilities</b>	<b>451,435</b>	<b>455,699</b>	<b>(4,264)</b>	<b>-0.9%</b>

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

With regard to the **Other liabilities** there was a decrease of €11.1 million in "Definitive items not recognised under other items", mainly due to the decrease in transactions in securities and dividends to be settled.

The "Other liabilities" of Fineco AM, equal to €1.6 million, were mainly recognised in "Payables to employees and other personnel" and in "Current payables not related with the provision of financial services".

The **Provision for risks and charges** consists of:

- Provisions for credit risk relating to commitments and financial guarantees issued that fall within the scope of application of impairment rules in accordance with IFRS 9, as described in the specific section "18 – Other information - Impairment" of the Accounting policies of Notes to the Consolidated Accounts to which reference is made for additional details, for an amount of €49 thousand;
- Provisions for risks and charges - Other provisions which include allowances for a total of €109.8 million, for which, given a liability of uncertain amount and expiry date, a current obligation was identified as a result of a past event and the amount arising from fulfilment of said obligation could be estimated reliably. The disbursements, with estimated maturity exceeding 18 months, were discounted to present value using a rate equal to the time value of money. The item includes, in addition, the Supplementary customer indemnity provision, whose charge, connected to the outstanding obligations at the end of the period, was assessed in accordance with IAS 19 using the support of an independent external actuary.

## Main balance sheet aggregates (CONTINUED)

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12/31/2018	12/31/2017	AMOUNT	%
<b>Provision for risks and charges for commitments and financial guarantees given</b>	<b>49</b>	<b>-</b>	<b>49</b>	<b>-</b>
<b>Legal and fiscal disputes</b>	<b>32,290</b>	<b>34,987</b>	<b>(2,697)</b>	<b>-7.7%</b>
- Pending cases	23,830	25,525	(1,695)	-6.6%
- Complaints	4,575	5,531	(956)	-17.3%
- Tax disputes	3,885	3,931	(46)	-1.2%
<b>Staff expenses</b>	<b>4,809</b>	<b>5,690</b>	<b>(881)</b>	<b>-15.5%</b>
<b>Other</b>	<b>72,657</b>	<b>71,737</b>	<b>920</b>	<b>1.3%</b>
- Supplementary customer indemnity provision	64,139	64,983	(844)	-1.3%
- Provision for contractual payments and payments under non-competition agreements	2,266	2,311	(45)	-1.9%
- Other provision	6,252	4,443	1,809	40.7%
<b>Provision for risks and charges - Other provision</b>	<b>109,756</b>	<b>112,414</b>	<b>(2,658)</b>	<b>-2.4%</b>
<b>Total provision for risks and charges</b>	<b>109,805</b>	<b>112,414</b>	<b>(2,609)</b>	<b>-2.3%</b>

The item "Staff expenses" as at December 31, 2018, solely includes, the provisions made for the variable remuneration to be paid to employees in subsequent years, which have an uncertain due date and/or amount.

## Shareholders' equity

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Share capital	200,773	200,545	228	0.1%
Share premium reserve	1,934	1,934	-	-
Reserves	355,509	323,932	31,577	9.7%
- Legal reserve	40,155	40,109	46	0.1%
- Extraordinary reserve	272,454	251,367	21,087	8.4%
- Treasury shares reserve	13,960	365	13,595	n.c.
- Other reserves	28,940	32,091	(3,151)	-9.8%
(Treasury shares)	(13,960)	(365)	(13,595)	n.c.
Revaluation reserves	(9,794)	(8,340)	(1,454)	17.4%
Equity instruments	200,000	-	200,000	-
Net profit (Loss) for the year	241,219	214,120	27,099	12.7%
<b>Total</b>	<b>975,681</b>	<b>731,826</b>	<b>243,855</b>	<b>33.3%</b>

As at December 31, 2018, the Bank's share capital came to €200.8 million, divided into 608,404,395 ordinary shares with a par value of €0.33 each. Share premium reserve amounts to €1.9 million.

The reserves consisted of the:

- Legal reserve, amounting to €40.2 million;
- Extraordinary reserve, amounting to €272.5 million;
- Reserve for treasury shares held, amounting to €14 million;
- Reserve related to equity-settled plans, amounting to €34 million;
- Negative reserve recognized following the application of IFRS 9, of €-4.9 million.

The Shareholders' equity includes the loss carried forward, of €0.2 million, refers to the result at 31 December 2017 of Fineco AM which closed its first financial year on 31 December 2018.

Shareholders' equity also includes the Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years, Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes) issued on 31 January 2018. The issue of the financial instrument was authorized by the Board of Directors of FinecoBank on 23 January 2018. The financial instrument is a perpetual private placement<sup>15</sup>, issued for a total of €200 million and entirely subscribed by UniCredit S.p.A. The coupon for the first 5.5 years has been fixed at 4.82%. The decision to carry out an intra-group issuance has many advantages: effective cost savings relating, for example, to the underwriting syndicate, and shorter issue times so as not to miss the right

<sup>15</sup> Unrated and unlisted

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

Transaction costs directly attributable to the issue of the financial instrument as well as the coupons paid (amounting to €5.9 million) were accounted for as a reduction in reserves from profits (Extraordinary Reserve) for a total amount, net of related taxes, of €6 million.

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

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

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

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

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

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

The "Reserve related to equity-settled plans" was increased by around €8.4 million, due to the recognition during the year of the income statement and balance sheet effects of the payment plans based on FinecoBank ordinary shares during the vesting period for the instruments, and was used of about €6.5million, following the allotment to personal financial advisors of the of the first tranche of the "2015-2017 PFA PLAN" corresponding to 658,624 of FinecoBank' free ordinary shares.

As at December 31, 2018, the Bank held 1,401,288 treasury shares, corresponding to 0.23% of the share capital, for an amount of € 14 million. During 2018 n. 27,644 shares were purchased in relation to the "2017 PFA Incentive System" for personal financial advisors identified as "Key personnel" and n. 1,971,871 shares were purchased in relation to the "2015-2017 PFA PLAN" for selected personal financial advisors, in accordance with what was authorised by the FinecoBank Ordinary Shareholders' Meeting on April 11, 2017. During the year, 658,624 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors in relation to the "2015-2017 PFA PLAN".

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

The Revaluation reserves consisted of:

- €-3.4 million from the net negative reserve for debt securities issued by central governments recognized in the "Financial assets designated at fair value through other comprehensive income", which recorded a decreased by €4.9 million in 2018, of which €4.4 million relating to the negative change in fair value and -€2.4 million relating to the reclassification of gains through profit or loss and €1.9 million relating to the adjustments made to the starting balances as effect of the transition to the IFRS 9. For further details please refer to Part A – Accounting policies - Section 5 - Other aspects of the Notes to the consolidated accounts;
- -€6.4 million from the IAS19 Negative reserve, which recorded a positive change of €3.4 million in 2018 as a result of the recognition of actuarial gains mainly attributable to the Supplementary customer indemnity provision.

## Main balance sheet aggregates (CONTINUED)

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

(Amounts in € thousand)

DESCRIPTION	SHAREHOLDERS' EQUITY	OF WHICH: NET PROFIT (LOSS) AS AT 12.31.2018
<b>FinecoBank balances as at December 31, 2018</b>	<b>962,548</b>	<b>227,922</b>
Effect of consolidation of Fineco AM	21,831	21,297
Dividends from Fineco AM cashed in the period	(8,000)	(8,000)
Shareholders' equity and profit attributable to minorities	-	-
<b>Balances attributable to the Group as at December 31, 2018</b>	<b>975,681</b>	<b>241,219</b>

# Shareholders

As at December 31, 2018, the fully subscribed and paid up share capital totalled €200,773,450.35, divided into 608,404,395 ordinary shares with a nominal value of €0.33.

As at December 31, 2018, the major shareholders were:

<b>MAJOR SHAREHOLDERS</b>	<b>% OWNED</b>
UniCredit S.p.A.	35.385%
BlackRock Inc.	6.884%

## Income Statement Figures

## Condensed Income Statement

(Amounts in € thousand)

	YEAR		CHANGES	
	2018	2017	AMOUNT	%
Net interest	278,659	264,781	13,878	5.2%
Dividends and other income from equity investments	42	29	13	44.8%
Net fee and commission	300,443	270,083	30,360	11.2%
Net trading, hedging and fair value income	44,239	48,219	(3,980)	-8.3%
Net other expenses/income	1,913	3,760	(1,847)	-49.1%
<b>OPERATING INCOME</b>	<b>625,296</b>	<b>586,872</b>	<b>38,424</b>	<b>6.5%</b>
Staff expenses	(86,606)	(79,294)	(7,312)	9.2%
Other administrative expenses	(245,501)	(236,945)	(8,556)	3.6%
Recovery of expenses	96,767	93,367	3,400	3.6%
Impairment/write-backs on intangible and tangible assets	(10,424)	(10,369)	(55)	0.5%
<b>Operating costs</b>	<b>(245,764)</b>	<b>(233,241)</b>	<b>(12,523)</b>	<b>5.4%</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>379,532</b>	<b>353,631</b>	<b>25,901</b>	<b>7.3%</b>
Net impairment losses on loans and provisions for guarantees and commitments	(4,384)	(5,351)	967	-18.1%
<b>NET OPERATING PROFIT (LOSS)</b>	<b>375,148</b>	<b>348,280</b>	<b>26,868</b>	<b>7.7%</b>
Other charges and provisions	(21,380)	(19,025)	(2,355)	12.4%
Integration costs	(121)	408	(529)	-129.7%
Net income from investments	1,105	(13,399)	14,504	n.c.
<b>PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>354,752</b>	<b>316,264</b>	<b>38,488</b>	<b>12.2%</b>
Income tax for the year	(113,533)	(102,144)	(11,389)	11.1%
<b>NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>241,219</b>	<b>214,120</b>	<b>27,099</b>	<b>12.7%</b>
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>241,219</b>	<b>214,120</b>	<b>27,099</b>	<b>12.7%</b>
<b>NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP</b>	<b>241,219</b>	<b>214,120</b>	<b>27,099</b>	<b>12.7%</b>

## Net interest

**Net interest** for 2018 amounted to €278.7 million, up by 5.2% on the same period of the previous year, due to the increase in “transactional” deposits and the greater penetration of lending activity. In this regard it should be noted that the structure of the investments carried out by the Bank contributed to maintaining a significant level of interest income, with the average lending rate for the investment of all deposits at 1.30% (1.35% as at December 31, 2017).

(Amounts in € thousand)

INTEREST INCOME	YEAR		CHANGES	
	2018	2017	AMOUNT	%
Financial Assets held for trading	-	1	(1)	-100.0%
Financial assets at fair value through comprehensive income	4,534	8,505	(3,971)	-46.7%
Other financial assets mandatorily at fair value	2	1,233	(1,231)	-99.8%
Financial assets at amortised cost - Debt securities issued by banks	158,908	184,796	(25,888)	-14.0%
Financial assets at amortised cost - Debt securities issued by customers	59,980	23,066	36,914	160.0%
Financial assets at amortised cost - Loans and receivables with banks	11,669	4,236	7,433	175.5%
Financial assets at amortised cost - Loans and receivables with customers	55,772	41,541	14,231	34.3%
Hedging derivatives	(1,947)	8,215	(10,162)	-123.7%
Other assets	77	77	-	0.0%
Financial liabilities	4,133	3,997	136	3.4%
<b>Total interest income</b>	<b>293,128</b>	<b>275,667</b>	<b>17,461</b>	<b>6.3%</b>

(Amounts in € thousand)

INTEREST EXPENSES	YEAR		CHANGES	
	2018	2017	AMOUNT	%
Financial liabilities at amortised cost - Deposits from banks	(396)	(612)	216	-35.3%
Financial liabilities at amortised cost - Deposits from customers	(10,919)	(8,549)	(2,370)	27.7%
Financial assets	(3,154)	(1,725)	(1,429)	82.8%
<b>Total interest expenses</b>	<b>(14,469)</b>	<b>(10,886)</b>	<b>(3,583)</b>	<b>32.9%</b>
<b>Net interest</b>	<b>278,659</b>	<b>264,781</b>	<b>13,878</b>	<b>5.2%</b>



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

**Interest income on Financial assets measured at amortized cost - Debt securities issued by customers** exclusively refer to interest accrued on government and supranational institution securities. The increase is attributable to the growth in volumes due to purchases made in 2018.

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

(Amounts in € thousand)

BREAKDOWN OF INTEREST INCOME	YEAR		CHANGES	
	2018	2017	AMOUNT	%
<b>Interest income on loans and receivables with banks</b>	<b>11,669</b>	<b>4,236</b>	<b>7,433</b>	<b>175.5%</b>
- current accounts	11,060	4,107	6,953	169.3%
- reverse repos	12	1	11	1100.0%
- time deposits	546	103	443	n.c.
- other loans	51	25	26	104.0%
<b>Interest income on loans and receivables with customers</b>	<b>55,772</b>	<b>41,541</b>	<b>14,231</b>	<b>34.3%</b>
- current accounts	10,738	7,704	3,034	39.4%
- reverse repos	11,602	9,624	1,978	20.6%
- mortgages	11,028	3,720	7,308	n.c.
- credit cards	4,838	4,695	143	3.0%
- personal loans	17,448	15,639	1,809	11.6%
- other loans	118	159	(41)	-25.8%

**Interest income on loans and receivables with banks** amounted to €11.7 million, up €4.2 million compared to December 31, 2017. The increase was mainly attributable to higher interest on current account in dollars due to the trend in market interest rates.

**Interest income on loans and receivables with customers** amounted to €55.8 million, showing an increase of 34.3% compared to the same period of the previous year thanks to higher interest on mortgages, personal loans and usage of current account due to the continuous development of the lending activity mentioned above. Also the interest income related to reverse repos up 20.6%, thanks to "Multiday leverage" transactions, due to the increase in volumes and interest rate (change in spread, introduction of floor at 0% and increase in Libor USD rate of dollar transactions).

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

(Amounts in € thousand)

BREAKDOWN OF INTEREST EXPENSES	YEAR		CHANGES	
	2018	2017	AMOUNT	%
<b>Interest expenses on deposits from banks</b>	<b>(396)</b>	<b>(612)</b>	<b>216</b>	<b>-35.3%</b>
- current accounts	(366)	(590)	224	-38.0%
- other loans	(30)	(22)	(8)	36.4%
<b>Interest expenses on deposits from customers</b>	<b>(10,919)</b>	<b>(8,549)</b>	<b>(2,370)</b>	<b>27.7%</b>
- current accounts	(10,888)	(8,343)	(2,545)	30.5%
- time deposits	(31)	(137)	106	-77.4%
- reverse repos	-	(69)	69	-100.0%

**Interest expenses on deposits from banks** amounted to €0.4 million, down 35.3% compared to the previous year, thanks to lower interest expenses paid on current account.

**Interest expenses on deposits from customers** came to €10.9 million, up €2.4 million compared to the previous year, mainly due to higher interest on current accounts in dollars attributable to the growth of the USD Libor rate used to remunerate this current accounts, partially offset by lower interest expense paid to customers as a result of marketing campaigns.

## Income Statement Figures (CONTINUED)

## Income from brokerage and other income

(Amounts in € thousand)

	YEAR		CHANGES	
	2018	2017	AMOUNTS	%
<b>Net interest</b>	<b>278,659</b>	<b>264,781</b>	<b>13,878</b>	<b>5.2%</b>
Dividends and other income from equity investments	42	29	13	44.8%
Net fee and commission income	300,443	270,083	30,360	11.2%
Net trading, hedging and fair value income	44,239	48,219	(3,980)	-8.3%
Net other expenses/income	1,913	3,760	(1,847)	-49.1%
<b>Operating income</b>	<b>625,296</b>	<b>586,872</b>	<b>38,424</b>	<b>6.5%</b>

## Net fee and commission income

(Amounts in € thousand)

MANAGEMENT RECLASSIFICATION	YEAR		CHANGES	
	2018	2017	AMOUNT	%
Management, brokerage and consulting services:	297,627	275,237	22,390	8.1%
1. securities trading and order collection	78,759	75,737	3,022	4.0%
2. custody and administration of securities	(4,036)	(3,613)	(423)	11.7%
3. placement and management of managed asset products	168,197	155,339	12,858	8.3%
4. investment advisory services	55,443	48,190	7,253	15.1%
5. distribution of other products	(736)	(416)	(320)	76.9%
Collection and payment services	10,013	7,087	2,926	41.3%
Holding and management of current/deposit accounts	(572)	(463)	(109)	23.5%
Other fee expenses personal financial advisers	(21,652)	(25,340)	3,688	-14.6%
Securities lending	3,181	3,915	(734)	-18.7%
Other services	11,846	9,647	2,199	22.8%
<b>Total net fee and commission income</b>	<b>300,443</b>	<b>270,083</b>	<b>30,360</b>	<b>11.2%</b>

**Net fee and commission income** amounted to €300.4 million, increasing by 11.2% compared to the previous year mainly due to:

- higher commissions for securities trading and order collection, for an amount of €3 million;
- higher commissions for the placement and management of managed asset products, for a total amount of €20.1 million, thanks to constant redevelopment of the assets, with consequent increasing in Guided products & services. It is worth noting that the contribution of Fineco AM, gross of fees and commissions retroceded to FinecoBank, amounted to €66.4 million;
- higher commissions for collection and payment services for an amount of €2.9 million, mainly related to transactions with debit cards and Visa Debit and to the introduction of the fee on withdrawals of less than €100;
- higher commissions for other services for an amount of €2.2 million, relating in particular to the progressive introduction of the annual fee on credit cards;
- lower fee and commission expenses paid to personal financial advisers for an amount of €3.7 million, due, in particular, to lower commercial incentives.

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

**Net trading, hedging and fair value income** was mainly generated by gains realised from the internalisation of securities and CFDs, financial instruments used for operational hedging of CFDs and the exchange differences on assets and liabilities denominated in currency, which show a decrease by €3.6 million with that one recorded in 2017. Trading profit also incorporates gains and losses from the financial instruments recognised in "Other financial assets mandatorily at fair value", including, as described above, the class "C" preferred shares of Visa INC and the exposure in equity securities versus the Voluntary Scheme established by the Interbank Fund for the Protection of Deposits, whose fair-value measurement resulted in a gain of €1.6 million and in a loss of €3 million, respectively, in 2018. In the item the profits recognised in relation to the sale of government securities recorded in the "Financial assets at fair value through comprehensive income" for an amount of €1.7 million.

**Net other expenses/income** showed income of €1.9 million, down €1.8 million compared to the previous year. In this regard, it should be noted that during the previous year, profits of €4 million were recorded deriving from the sale of UniCredit bonds.

## Operating costs

(Amounts in € thousand)

BREAKDOWN OF OPERATING COSTS	YEAR		CHANGES	
	2018	2017	AMOUNT	%
Staff expenses	(86,606)	(79,294)	(7,312)	9.2%
Other administrative expenses	(245,501)	(236,945)	(8,556)	3.6%
Recovery of expenses	96,767	93,367	3,400	3.6%
Impairment/write-backs on intangible and tangible assets	(10,424)	(10,369)	(55)	0.5%
<b>Total operating costs</b>	<b>(245,764)</b>	<b>(233,241)</b>	<b>(12,523)</b>	<b>5.4%</b>

**Staff expenses** amounted to €86.6 million, of which €2.2 million relating to staff expenses of Fineco AM, increasing by 9.2% compared to the previous year thanks to continuous growth of the operating structure. In fact, the number of employees rose from 1,119 on December 31, 2017 to 1,170 units as of December 31, 2018. In addition, it should be noted that the increase included severance paid in 2018.

(Amounts in € thousand)

STAFF EXPENSES	YEAR		CHANGES	
	2018	2017	AMOUNT	%
<b>1) Employees</b>	<b>(85,461)</b>	<b>(77,872)</b>	<b>(7,589)</b>	<b>9.7%</b>
- wages and salaries	(56,636)	(52,734)	(3,902)	7.4%
- social security contributions	(14,569)	(13,927)	(642)	4.6%
- provision for employee severance pay	(2,182)	(912)	(1,270)	139.3%
- allocation to employee severance pay provision	(114)	(98)	(16)	16.3%
- payment to supplementary external pension funds:				
a) defined contribution	(3,450)	(3,082)	(368)	11.9%
- costs related to share-based payments*	(4,267)	(2,739)	(1,528)	55.8%
- other employee benefits	(4,243)	(4,380)	137	-3.1%
<b>2) Directors and statutory auditors</b>	<b>(1,321)</b>	<b>(1,291)</b>	<b>(30)</b>	<b>2.3%</b>
<b>3) Recovery of expenses for employees seconded to other companies</b>	<b>245</b>	<b>232</b>	<b>13</b>	<b>5.6%</b>
<b>4) Recovery of expenses for employees seconded to the company</b>	<b>(69)</b>	<b>(363)</b>	<b>294</b>	<b>-81.0%</b>
<b>Total staff expenses</b>	<b>(86,606)</b>	<b>(79,294)</b>	<b>(7,312)</b>	<b>9.2%</b>

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

(Amounts in € thousand)

OTHER ADMINISTRATIVE EXPENSES AND RECOVERY OF EXPENSES	YEAR		CHANGES	
	2018	2017	AMOUNT	%
<b>1) INDIRECT TAXES AND DUTIES</b>	<b>(101,171)</b>	<b>(98,543)</b>	<b>(2,628)</b>	<b>2.7%</b>
<b>2) MISCELLANEOUS COSTS AND EXPENSES</b>				
<b>A) Advertising expenses - Marketing and communication</b>	<b>(16,746)</b>	<b>(16,041)</b>	<b>(705)</b>	<b>4.4%</b>
Mass media communications	(11,264)	(11,420)	156	-1.4%
Marketing and promotions	(5,130)	(4,488)	(642)	14.3%
Sponsorships	(22)	(95)	73	-76.8%
Conventions and internal communications	(330)	(38)	(292)	768.4%
<b>B) Expenses related to credit risk</b>	<b>(1,399)</b>	<b>(1,586)</b>	<b>187</b>	<b>-11.8%</b>
Credit recovery expenses	(377)	(457)	80	-17.5%
Commercial information and company searches	(1,022)	(1,129)	107	-9.5%
<b>C) Expenses related to personnel</b>	<b>(28,291)</b>	<b>(26,167)</b>	<b>(2,124)</b>	<b>8.1%</b>
Personnel training	(473)	(479)	6	-1.3%
Car rental and other staff expenses	(80)	(84)	4	-4.8%
Personal financial adviser expenses	(26,885)	(25,003)	(1,882)	7.5%
Travel expenses	(744)	(534)	(210)	39.3%
Premises rentals for personnel	(109)	(67)	(42)	62.7%
<b>D) ICT expenses</b>	<b>(34,694)</b>	<b>(32,079)</b>	<b>(2,615)</b>	<b>8.2%</b>
Lease of ICT equipment and software	(2,360)	(2,467)	107	-4.3%
Software expenses: lease and maintenance	(8,848)	(8,092)	(756)	9.3%
ICT communication systems	(6,658)	(5,723)	(935)	16.3%
ICT services: external personnel/outourced services	(6,812)	(6,723)	(89)	1.3%
Financial information providers	(10,016)	(9,074)	(942)	10.4%
<b>E) Consultancies and professional services</b>	<b>(3,950)</b>	<b>(4,247)</b>	<b>297</b>	<b>-7.0%</b>
Consultancy on ordinary activities	(3,114)	(2,665)	(449)	16.8%
Consultancy for one-off regulatory compliance projects	(61)	(86)	25	-29.1%
Consultancy for strategy, business development and organisational optimisation	(238)	(385)	147	-38.2%
Legal expenses	(198)	(61)	(137)	224.6%
Legal disputes	(339)	(1,050)	711	-67.7%
<b>F) Real estate expenses</b>	<b>(19,093)</b>	<b>(19,373)</b>	<b>280</b>	<b>-1.4%</b>
Real estate services	(705)	(720)	15	-2.1%
Repair and maintenance of furniture, machinery, and equipment	(213)	(200)	(13)	6.5%
Maintenance of premises	(1,009)	(1,379)	370	-26.8%
Premises rentals	(14,594)	(14,387)	(207)	1.4%
Cleaning of premises	(522)	(509)	(13)	2.6%
Utilities	(2,050)	(2,178)	128	-5.9%
<b>G) Other functioning costs</b>	<b>(37,856)</b>	<b>(36,036)</b>	<b>(1,820)</b>	<b>5.1%</b>
Surveillance and security services	(404)	(347)	(57)	16.4%
Postage and transport of documents	(3,587)	(3,396)	(191)	5.6%
Administrative and logistic services	(19,737)	(18,772)	(965)	5.1%
Insurance	(3,940)	(3,923)	(17)	0.4%
Printing and stationery	(594)	(511)	(83)	16.2%
Association dues and fees	(9,118)	(8,695)	(423)	4.9%
Other administrative expenses	(476)	(392)	(84)	21.4%
<b>H) Adjustments of leasehold improvements</b>	<b>(2,301)</b>	<b>(2,873)</b>	<b>572</b>	<b>-19.9%</b>
<b>I) Recovery of costs</b>	<b>96,767</b>	<b>93,367</b>	<b>3,400</b>	<b>3.6%</b>
Recovery of ancillary expenses	155	334	(179)	-53.6%
Recovery of taxes	96,612	93,033	3,579	3.8%
<b>Total other administrative expenses and recovery of expenses</b>	<b>(148,734)</b>	<b>(143,578)</b>	<b>(5,156)</b>	<b>3.6%</b>

**Other administrative expenses** net of **Recovery of expenses** came to €148.7 million, of which €1.6 million relating to Fineco AM, up €5.2 million compared to the previous year, which is in any case contained compared with the growth of the Bank's activities, assets, customers and structure.

The increase recorded is mainly due to the following items:

- "Advertising expenses - Marketing and communication", for €0.7 million;
- "Expenses related to personnel", mainly referred to "Personal financial advisors expenses" for €1.9 million which were mainly attributable to higher costs for incentive plans and recruiting for personal financial advisors, partially offset by lower expenses for training events;
- "ICT expenses", in particular referred to higher "Software expenses: lease and maintenance" for an amount of €0.8 million, "ICT communication systems" for an amount of €0.9 million and "Financial information providers" for an amount of €0.9 million;
- "Consultancies and professional services", mainly referred to "Consultancy on ordinary activities" for an amount of €0.4 million, including the recruiting costs recorded by Fineco AM for an amount of €0.25 million, offset by lower expenses for "Legal disputes" for an amount of €0.7 million;

- “Other functioning costs” mainly referred to “Administrative and logistic services” for an amount of €1 million and “Association dues and fees” for an amount of €0.4 million.

With reference to “Indirect and income taxes” and the related “Tax recoveries” for an amount of €1 million, thanks to lower taxes paid by the Bank relating to the Tobin Tax for transactions carried out on behalf of third parties, and referred to “Adjustments of leasehold improvements” for an amount of €0.6 million.

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

## Profit/(loss) before tax from continuing operations

(Amounts in € thousand)

	YEAR		CHANGES	
	2018	2017	AMOUNT	%
<b>Operating profit (loss)</b>	<b>379,532</b>	<b>353,631</b>	<b>25,901</b>	<b>7.3%</b>
Net impairment losses on loans and provision for guarantees and commitments	(4,384)	(5,351)	967	-18.1%
<b>Net operating profit (loss)</b>	<b>375,148</b>	<b>348,280</b>	<b>26,868</b>	<b>7.7%</b>
Other charges and provisions	(21,380)	(19,025)	(2,355)	12.4%
Integration costs	(121)	408	(529)	-129.7%
Net income from investments	1,105	(13,399)	14,504	n.c.
<b>Profit (loss) before tax from continuing operations</b>	<b>354,752</b>	<b>316,264</b>	<b>38,488</b>	<b>12.2%</b>

**Net write-downs of loans and provisions for guarantees and commitments** amounted to -€4.4 million on. It should be noted that accounting standard IFRS 9, with application as of January 1st, 2018, introduced a new impairment accounting model for credit exposures and resulted in an extension of the Bank’s scope of recognition (for additional information see Section 5 - Other aspects of Part A of the Notes to the Consolidated Accounts), so comparison with 2017 is not significant. As at December 31, 2018 the item included additional adjustments compared to 2017, mainly related to retail commercial loans, driven by the significant increase in performing exposures (non-performing loans remained essentially unchanged compared to the previous year), and on the other hand, benefitted from write backs on credit exposures mainly with the Parent Company, in relation to the reduction in the exposures and in the improvement in their risk profile.

**Other charges and provisions** amounted to €21.4 million, up 12.4% compared to 2017, mainly due to greater charges for the annual, ordinary and additional contribution to Deposit Guarantee Schemes (DGS) and to the annual contribution to the Solidarity Fund, paid to the Interbank Deposit Guarantee Fund (“IDGF”) for an amount of €14.3 million compared to €10.6 million of 2017, offset by lower provisions for risks and charges for legal disputes. Note that the annual contribution paid to Deposit Guarantee Schemes in 2017 benefited from the adjustments of the contributions for 2015 and 2016 for a total amount of €1.3 million.

**Integration costs** mainly refer to the provisions made to the Fund departures pursuant to the trade union agreement of 1 February 2018 (so-called “Piano Giovani”) for the adhesion to the Solidarity Fund of new employees.

The **Net income from investments** stood at €1.1 million. The accounting standard IFRS 9 introduced significant changes, so comparison with the previous year is not significant (for additional information see Section 5 - Other aspects of Part A the Notes to the Consolidated Accounts). The item mainly includes write offs on new sovereign States, Supranational and government agency bonds purchased during 2018 and, on the other hand, the write backs on exposures to debt securities issued by the Parent Company Unicredit S.p.A. in relation to the reduction in the exposures and in the improvement in their risk profile.

**Profit before tax from continuing operations** amounted to €354.8 million, up 12.2% compared to previous year. This result was achieved thanks to the growth in **Net interest** (+€13.9 million), **Net fee and commission income** (+€30.4 million) and **Net income from investments** (+€14.5 million), partially offset by lower revenues from **Net trading, hedging and fair value income** (-€4 million), higher **Operating costs** (-€12.5 million) and higher **Other charges and provisions** (-€2.4 million). Excluding the non-recurring items 2018 mentioned before, the Profit before tax from continuing operations should be €359.5 million, up 9.4% compared to the profit of 2017 net of non-recurring items.

## Income tax for the year

(Amounts in € thousand)

BREAKDOWN OF INCOME TAX FOR THE YEAR	YEAR		CHANGES	
	2018	2017	AMOUNT	%
Current IRES income tax charges	(89,684)	(82,939)	(6,745)	8.1%
Current IRAP corporate tax charges	(19,637)	(18,889)	(748)	4.0%
Adjustment to current tax of prior years	-	3,924	(3,924)	-100.0%
<b>Total current tax</b>	<b>(109,321)</b>	<b>(97,904)</b>	<b>(11,417)</b>	<b>11.7%</b>
Change in deferred tax assets	(1,142)	(3,098)	1,956	-63.1%
Change in deferred tax liabilities	(2,624)	(696)	(1,928)	277.0%
<b>Total deferred tax liabilities</b>	<b>(3,766)</b>	<b>(3,794)</b>	<b>28</b>	<b>-0.7%</b>
Gain from substitute tax exemption	(446)	(446)	-	-
<b>Income tax for the year</b>	<b>(113,533)</b>	<b>(102,144)</b>	<b>(11,389)</b>	<b>11.1%</b>

**Current income taxes** were calculated according to the legal provisions introduced by Legislative Decree no. 38 of February 28, 2005, which incorporated the IAS/IFRS Accounting Standards into Italian legislation, of Decree no. 48 of April 1, 2009 which introduced provisions for the implementation and coordination of tax requirements for IAS Adopter parties and subsequent provisions. In particular, in 2018 the decrees, issued by the Italian Ministry of the Economy and Finance on 10 January 2018 and on 3 August 2018, of coordination between international accounting standards and business income, and the subsequent amendment introduced by the law were implemented 145/2018 on the deductibility of adjustments to customer loans, recognized at the time of application of IFRS9, to be carried out on a straight line basis over 10 tax periods.

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

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

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

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

The **Net profit for the year** – which is the same as the net profit attributable to the group as Fineco AM is 100% controlled by the Bank – amounted to €241.2 million, an increase of 12.7% on the previous year. Excluding the non-recurring items 2018 mentioned before, the Net profit for the year should be €244.4 million, up 11.8% compared to the net profit of 2017 net of non-recurring items.

# Results of the parent and the subsidiary

## The parent: FinecoBank S.p.A.

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

### Key figures

#### Operating Structure

	DATA AS AT	
	12.31.2018	12.31.2017
No. Employees	1,154	1,119
No. Personal financial advisors	2,578	2,607
No. Financial shops <sup>(1)</sup>	390	375

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

#### Main balance sheet figures<sup>16</sup>

(Amounts in € thousand)

	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Loans receivable with ordinary customers <sup>(1)</sup>	2,632,287	1,798,520	833,767	46.4%
Total assets	24,713,574	22,340,391	2,373,183	10.6%
Direct deposits <sup>(2)</sup>	22,068,931	19,940,715	2,128,216	10.7%
Assets under administration <sup>(3)</sup>	47,263,709	47,243,837	19,872	0.0%
Total customer sales (direct and indirect)	69,332,640	67,184,552	2,148,088	3.2%
Shareholders' equity	962,548	731,990	230,558	31.5%

(1) Loans refer solely to loans granted to customers (current account overdrafts, credit cards, personal loans, mortgages and unsecured loans);

(2) Direct deposits include overdrawn current accounts and the Cash Park deposit account;

(3) Assets under administration consist of products placed online or through the sales networks of FinecoBank.

#### Balance Sheet indicators

	DATA AS AT	
	12.31.2018	12.31.2017
Loans receivable with ordinary customers/Total assets	10.65%	8.05%
Loans and receivables with banks/Total assets	12.32%	13.60%
Financial assets/Total assets	73.78%	74.82%
Direct sales/Total liabilities and Shareholders' equity	89.30%	89.26%
Shareholders' equity (including profit)/Total liabilities and Shareholders' equity	3.89%	3.28%
Ordinary customer loans/Direct deposits	11.93%	9.02%

CREDIT QUALITY	DATA AS AT	
	31.12.2018	31.12.2017
Impaired loans/Loans receivable with ordinary customers	0.11%	0.16%
Non-performing loans/Loans receivable with ordinary customers	0.06%	0.10%
Coverage (1) - Non-performing loans	91.65%	91.70%
Coverage (1) - Unlikely to pay	76.80%	76.53%
Coverage (1) - Impaired past-due exposures	64.60%	53.69%
Coverage (1) - Total impaired loans	88.23%	88.27%

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

<sup>16</sup> Please note that the ratios shown in the table and relating to the year 2017 have been recalculated considering the effect of the application of IFRS9.

## Own funds and capital ratios

	DATA AS AT	
	31.12.2018	31.12.2017
Total own funds (€ thousand)	702,713	484,960
Total risk-weighted assets (€ thousand)	2,376,033	2,335,013
Ratio - Common Equity Tier 1 Capital	21.16%	20.77%
Ratio - Tier 1 Capital	29.58%	20.77%
Ratio - Total Own Funds	29.58%	20.77%

	DATA AS AT	
	12.31.2018	12.31.2017
Tier 1 Capital (€ thousand)	702,713	484,960
Exposure for leverage (€ thousand)	12,655,188	8,555,862
Transitional leverage ratio	5.55%	5.67%

Own funds and capital ratios were determined applying the current Supervisory Regulations, in line with Basel III standards, including transitional adjustments. The figures shown include the portion of profit for 2018 that will not be distributed and which will be allocated to increase the value of reserves, for an amount of €43.4 million, assuming the conditions set forth in art. 26, paragraph 2, of the EU Regulation 575/2013 (CRR) have been satisfied.

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

It is worth mentioning that, within the decision of the Governing Council of the European Central Bank (ECB) on Pillar 2 prudential requirement that UniCredit S.p.A. and its subsidiaries have to meet, no Pillar 2 buffer has been required to FinecoBank. The decision is based on the SREP (Supervisory Review and Evaluation Process) performed by the European Central Bank, in application of article 16(2) of SSM (Single Supervisory Mechanism) Regulation. Consequently, the "Total SREP Capital Requirement" (TSCR) applicable for FinecoBank corresponds to the minimum requirement of Pillar 1.

Please, find below a scheme of FinecoBank transitional capital requirements and buffers applicable for 2018.

REQUIREMENTS	CET1	T1	TOTAL CAPITAL
A) Pillar 1 requirements	4.50%	6.00%	8.00%
B) Pillar 2 requirements	0.00%	0.00%	0.00%
<b>C) TSCR (A+B)</b>	<b>4.50%</b>	<b>6.00%</b>	<b>8.00%</b>
D) Combined Buffer requirement, of which:	1.881%	1.881%	1.881%
1. Capital Conservation Buffer (CCB)	1.875%	1.875%	1.875%
2. Institution-specific Countercyclical Capital Buffer (CCyB)	0.006%	0.006%	0.006%
<b>E) Overall Capital Requirement (C+D)</b>	<b>6.381%</b>	<b>7.881%</b>	<b>9.881%</b>

As at 31 December 2018, FinecoBank ratios are compliant with all the above requirements.



# Results of the parent and the subsidiary (CONTINUED)

## The parent: FinecoBank S.p.A. (CONTINUED)

### Condensed Accounts

#### Balance Sheet

(Amounts in € thousand)

ASSETS	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Cash and cash balances	6	613	(607)	-99.0%
Financial assets held for trading	6,876	8,827	(1,951)	-22.1%
Loans and receivables with banks	3,044,974	3,038,741	6,233	0.2%
Loans and receivables with customers	2,947,390	2,129,219	818,171	38.4%
Financial investments	18,234,182	16,715,541	1,518,641	9.1%
Hedging instruments	8,187	10,048	(1,861)	-18.5%
Property, plant and equipment	16,330	15,205	1,125	7.4%
Goodwill	89,602	89,602	-	-
Other intangible assets	8,705	7,909	796	10.1%
Tax assets	6,714	9,226	(2,512)	-27.2%
Other assets	350,608	315,460	35,148	11.1%
<b>Total assets</b>	<b>24,713,574</b>	<b>22,340,391</b>	<b>2,373,183</b>	<b>10.6%</b>

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT		CHANGES	
	12.31.2018	12.31.2017	AMOUNT	%
Deposits from banks	1,009,774	926,001	83,773	9.0%
Deposits from customers	22,269,098	20,205,036	2,064,062	10.2%
Financial liabilities held for trading	2,221	11,936	(9,715)	-81.4%
Hedging instruments	7,941	(397)	8,338	n.c.
Tax liabilities	12,184	10,234	1,950	19.1%
Other liabilities	449,808	455,591	(5,783)	-1.3%
Shareholders' equity	962,548	731,990	230,558	31.5%
- capital and reserves	744,420	526,046	218,374	41.5%
- revaluation reserves	(9,794)	(8,340)	(1,454)	17.4%
- net profit	227,922	214,284	13,638	6.4%
<b>Total liabilities and Shareholders' equity</b>	<b>24,713,574</b>	<b>22,340,391</b>	<b>2,373,183</b>	<b>10.6%</b>

## Balance Sheet - Quarterly data

(Amounts in € thousand)

ASSETS	AMOUNTS AS AT					
	12.31.2018	09.30.2018	06.30.2018	03.31.2018	01.01.2018	12.31.2017
Cash and cash balances	6	532	1,733	745	613	613
Financial assets held for trading	6,876	12,253	10,871	10,368	8,827	8,827
Loans and receivables with banks	3,044,974	3,389,611	3,222,651	3,485,263	3,035,869	3,038,741
Loans and receivables with customers	2,947,390	2,731,630	2,634,016	2,318,096	2,128,528	2,129,219
Financial investments	18,234,182	17,668,380	17,191,339	17,098,494	16,724,688	16,715,541
Hedging instruments	8,187	313	2,667	356	119	10,048
Property, plant and equipment	16,330	14,226	14,772	14,839	15,205	15,205
Goodwill	89,602	89,602	89,602	89,602	89,602	89,602
Other intangible assets	8,705	7,898	7,827	7,584	7,909	7,909
Tax assets	6,714	17,097	9,742	6,304	8,615	9,226
Non-current assets and disposal groups classified as held for sale	-	-	91	-	-	-
Other assets	350,608	240,813	240,994	203,763	315,459	315,460
<b>Total assets</b>	<b>24,713,574</b>	<b>24,172,355</b>	<b>23,426,305</b>	<b>23,235,414</b>	<b>22,335,434</b>	<b>22,340,391</b>

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNTS AS AT					
	12.31.2018	09.30.2018	06.30.2018	03.31.2018	01.01.2018	12.31.2017
Deposits from banks	1,009,774	999,543	907,794	960,046	926,001	926,001
Deposits from customers	22,269,098	21,825,892	21,196,653	20,916,380	20,205,036	20,205,036
Financial liabilities held for trading	2,221	5,512	4,568	4,892	11,936	11,936
Hedging instruments	7,941	(285)	2,374	(460)	(397)	(397)
Tax liabilities	12,184	48,674	22,038	36,307	7,718	10,234
Other liabilities	449,808	396,870	417,630	325,554	456,042	455,591
Shareholders' equity	962,548	896,149	875,248	992,695	729,098	731,990
- capital and reserves	744,420	746,502	763,981	937,240	521,178	526,046
- revaluation reserves	(9,794)	(19,760)	(14,997)	(3,994)	(6,364)	(8,340)
- net profit	227,922	169,407	126,264	59,449	214,284	214,284
<b>Total liabilities and Shareholders' equity</b>	<b>24,713,574</b>	<b>24,172,355</b>	<b>23,426,305</b>	<b>23,235,414</b>	<b>22,335,434</b>	<b>22,340,391</b>

**Loans and receivables with banks** came to €3,045 million, substantially unchanged compared to December 31, 2017 (+ 0.2%). The exposures are mainly represented by the liquidity deposited on current accounts and time deposits with the Parent Company UniCredit S.p.A..

**Loans and receivables with customers** came to €2,947.4 million, up 38.4% compared to December 31, 2017, thanks to the increase in lending. During the 2018, €248 million in personal loans and €411 million in mortgages were granted, and €945 million in current account overdrafts were arranged, with an increase in exposures in current account of €377 million; this has resulted an overall 46.4% aggregate increase in loans to customers compared to December 31, 2017.

**Other financial assets** amounted to €18,234.2 million, up 9.1% on 31 December 2017. The carrying amounts of the debt securities issued by UniCredit S.p.A. amounted to €9,115.8 million, down compared to the €10,838.9 million as at December 31, 2017. It is noted that during 2018 the Parent Company repaid bonds at maturity with a nominal value of €1,680 million and \$ 50 million; the Bank purchased government, Supranational and government agency bonds.

**Deposits from banks** totaled €1,009.8 million, showing a slight increase in debts recorded at 31 December 2017 (+9%). Debts mainly include the amount of repos traded with UniCredit S.p.A. and securities lending transactions guaranteed by sums of money made with other banks.

**Deposits from customers** came to €22,269.1 million, up 10.2% compared to December 31, 2017, due to the growth in direct deposits.

**Shareholders' equity** amounted to €962.5 million, up 31.5% compared to December 31, 2017. The increase is mainly due to the issue on January 31, 2018 of an Additional Tier 1 Perp bond (5.5 years) for an amount of €200 million, fully subscribed by the Parent Company, to the part of net profit 2017 allocated to reserves, as resolved by the Shareholders' Meeting held on 11 April 2018, for an amount of €40.8 million, to the increase in net profit 2018 compared to December 31, 2017 (+€13.6 million), partially offset by the purchases, made during 2018, of treasury shares in relation to the "2017 PFA incentive system" for Financial Advisors identified as "Key personnel" and in relation to the "2015-2017 PFA PLAN" in favour of selected Financial Advisors.

# Results of the parent and the subsidiary (CONTINUED)

## The parent: FinecoBank S.p.A. (CONTINUED)

### Income statement

(Amounts in € thousand)

	YEAR		CHANGES	
	2018	2017	AMOUNT	%
Net interest	278,702	264,781	13,921	5.3%
Dividends and other income from equity investments	8,042	29	8,013	n.c.
Net fee and commission income	273,828	270,083	3,745	1.4%
Net trading, hedging and fair value income	44,239	48,219	(3,980)	-8.3%
Net other expenses/income	300	3,806	(3,506)	-92.1%
<b>OPERATING INCOME</b>	<b>605,111</b>	<b>586,918</b>	<b>18,193</b>	<b>3.1%</b>
Staff expenses	(84,310)	(79,260)	(5,050)	6.4%
Other administrative expenses	(244,009)	(236,839)	(7,170)	3.0%
Recovery of expenses	96,767	93,369	3,398	3.6%
Impairment/write-backs on intangible and tangible assets	(10,370)	(10,369)	(1)	0.0%
<b>Operating costs</b>	<b>(241,922)</b>	<b>(233,099)</b>	<b>(8,823)</b>	<b>3.8%</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>363,189</b>	<b>353,819</b>	<b>9,370</b>	<b>2.6%</b>
Net impairment losses on loans and provisions for guarantees and commitments	(4,392)	(5,351)	959	-17.9%
<b>NET OPERATING PROFIT (LOSS)</b>	<b>358,797</b>	<b>348,468</b>	<b>10,329</b>	<b>3.0%</b>
Other charges and provisions	(21,380)	(19,025)	(2,355)	12.4%
Integration costs	(121)	408	(529)	-129.7%
Net income from investments	1,105	(13,399)	14,504	n.c.
<b>PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>338,401</b>	<b>316,452</b>	<b>21,949</b>	<b>6.9%</b>
Income tax for the year	(110,479)	(102,168)	(8,311)	8.1%
<b>NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>227,922</b>	<b>214,284</b>	<b>13,638</b>	<b>6.4%</b>
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>227,922</b>	<b>214,284</b>	<b>13,638</b>	<b>6.4%</b>

## Income statement - Quarterly data

(Amounts in € thousand)

	2018			
	4 <sup>TH</sup> QUARTER	3 <sup>RD</sup> QUARTER	2 <sup>ND</sup> QUARTER	1 <sup>ST</sup> QUARTER
Net interest	71,095	69,950	68,753	68,904
Dividends and other income from equity investments	8,012	10	13	7
Net fee and commission income	67,059	60,790	74,517	71,462
Net trading, hedging and fair value income	5,900	10,721	13,080	14,538
Net other expenses/income	(30)	(345)	124	551
<b>OPERATING INCOME</b>	<b>152,036</b>	<b>141,126</b>	<b>156,487</b>	<b>155,462</b>
Staff expenses	(21,063)	(22,479)	(20,509)	(20,259)
Other administrative expenses	(58,618)	(58,851)	(61,273)	(65,267)
Recovery of expenses	22,982	25,162	23,922	24,701
Impairment/write-backs on intangible and tangible assets	(3,114)	(2,435)	(2,482)	(2,339)
<b>Operating costs</b>	<b>(59,813)</b>	<b>(58,603)</b>	<b>(60,342)</b>	<b>(63,164)</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>92,223</b>	<b>82,523</b>	<b>96,145</b>	<b>92,298</b>
Net impairment losses on loans and provisions for guarantees and commitments	(2,322)	(913)	154	(1,311)
<b>NET OPERATING PROFIT (LOSS)</b>	<b>89,901</b>	<b>81,610</b>	<b>96,299</b>	<b>90,987</b>
Other charges and provisions	(1,782)	(15,899)	(1,925)	(1,774)
Integration costs	(115)	(2)	(2)	(2)
Net income from investments	(3,151)	(902)	5,157	1
<b>PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>84,853</b>	<b>64,807</b>	<b>99,529</b>	<b>89,212</b>
Income tax for the period	(26,338)	(21,664)	(32,714)	(29,763)
<b>NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>58,515</b>	<b>43,143</b>	<b>66,815</b>	<b>59,449</b>
<b>PROFIT (LOSS) FOR THE PERIOD</b>	<b>58,515</b>	<b>43,143</b>	<b>66,815</b>	<b>59,449</b>

(Amounts in € thousand)

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

# Results of the parent and the subsidiary (CONTINUED)

## The parent: FinecoBank S.p.A. (CONTINUED)

**Operating income** came to €605.1 million, with an increase of 3.1% compared to €586.9 million of the previous year.

**Net interest** and **Net fee and commission income** contributed to the increase in the operating income as they rose, respectively, by 5.3% and 1.4%, as well as the **Dividends and other income from equity investments**; while **Net trading, hedging and fair value income** decreased by 8.3%.

The increase in **Net interest** of €13.9 million compared to the previous year was due, first of all, to the increase in transactional liquidity and the higher penetration of lending. In this regard it should be noted that the structure of the investments carried out by the Bank contributed to maintaining a significant level of interest income, with the average gross rate on interest-earning assets standing at 1.30% (1.35% as at December 31, 2017).

**Dividends and other income from equity investments** include the dividend received from Fineco AM during the last quarter of 2018, amounting to €8.0, as deliberated by the Board of Directors held on November 5, 2018.

**Net fee and commission income** increased €3.7 million compared to the the previous year, mainly thanks to higher net fee and commission income for management, brokerage and consulting services (+€3 million), collection and payment services (+€2.9 million), other services (+€2.2 million) mainly relating to the annual fee on credit cards and by lower fee and commission expenses (+€3.7 million) paid to personal financial advisors; on the other hand, the commissions for placement and management of asset management products and advisory fees for investments were down (€-6.5 million).

**Net trading, hedging and fair value income** was mainly generated by gains realised from the internalisation activity of securities and CFD derivatives, financial instruments used for operational hedging of CFDs and the exchange differences on assets and liabilities denominated in currency, decreased by 3.6 million compared to the previous year. Trading profit also incorporates gains and losses from the financial instruments recognised in "Other financial assets mandatorily at fair value", including, as described above, the class "C" preferred shares of Visa INC and the exposure in equity securities versus the Voluntary Scheme established by the Interbank Fund for the Protection of Deposits, whose fair-value measurement resulted in a gain of €1.6 million and in a loss of €3 million, respectively, in 2018. The item also includes the profits recognised in relation to the sale of government securities recorded in the "Financial assets at fair value through comprehensive income" for an amount of €1.7 million.

**Operating costs** remain under control, highlighting an increased by €8.8 million compared to the previous year (+€5 million for staff expenses and +€3.8 million for "Other administrative expenses net of Recovery of expenses"). The 3.8% increase in operating costs, in fact, is limited compared to the expansion of assets, customers and structure, confirming the strong operational leverage of the Bank and the widespread corporate culture in cost governance theme, certified by a cost/income ratio of 39.98% (39.72% at 31 December 2017).

**Net write-downs of loans and provisions for guarantees and commitments** amounted to -€4.4 million on. It should be noted that accounting standard IFRS 9, with application as of January 1st, 2018, introduced a new impairment accounting model for credit exposures and resulted in an extension of the Bank's scope of recognition (for additional information see Section 5 - Other aspects of Part A of the Notes to the Consolidated Accounts), so comparison with 2017 is not significant. As at December 31, 2018 the item included additional adjustments compared to 2017, mainly related to retail commercial loans, driven by the significant increase in performing exposures (non-performing loans remained essentially unchanged compared to the previous year), and on the other hand, benefitted from write backs on transaction mainly with the Parent Company Unicredit S.p.A., in relation to the reduction in the exposures and in the improvement in their risk profile.

**Other charges and provisions** amounted to €21.4 million, up 12.4% compared to 2017, mainly due to greater charges for the annual, ordinary and additional contribution to Deposit Guarantee Schemes (DGS) and to the annual contribution to the Solidarity Fund, paid to the Interbank Deposit Guarantee Fund ("IDGF") for an amount of €14.3 million compared to €10.6 million of the previous year, offset by lower provisions for risks and charges for legal disputes and claims. Note that the annual contribution paid to Deposit Guarantee Schemes in 2017 benefited from the adjustments of the contributions for 2015 and 2016 for a total amount of €1.3 million.

The **Net income from investments** stood at €1.1 million. The accounting standard IFRS 9 introduced significant changes in the classification and measurement of financial instruments, so comparison with the previous year is not significant (for additional information see Section 5 - Other aspects of Part A of the Notes to the Consolidated Accounts). The item includes write offs on new sovereign States, Supranational and government agency bonds purchased during 2018 and, on the other hand, the write backs on exposures to debt securities issued by the Parent Company Unicredit S.p.A. in relation to the reduction in the exposures and in the improvement in their risk profile.

**Profit before tax from continuing operations** amounted to €338.4 million, up 6.9% compared to previous year. Excluding the non-recurring items 2018<sup>17</sup> mentioned before, the Profit before tax from continuing operations should be €343.2 million, up 4.3% compared to 2017<sup>18</sup> net of non-recurring items.

<sup>17</sup> Change in fair value of the exposure in equity securities versus the Voluntary Scheme established by the Interbank Fund for the Protection of Deposits for an amount of -€3 million (-€2 million net of the tax effect), severance paid in for an amount of -€1.6 million (-€1.1 million net of the tax effect) and integration costs for an amount of €0.1 million (-€0.1 million) net of the tax effect).

<sup>18</sup> Losses from write-offs and value adjustments made to the exposure in equity securities against the Voluntary Scheme established by Interbank Fund for the Protection of Deposits, for an amount of -€12.9 million (-8.6 million net of tax effect); release of integration costs estimated in the previous year, for an amount of + €0.4 million (+€0.3 million net of the tax effect); positive change in current taxes referring to the application of the participation exemption on the capital gain realized in 2016 from the sale of the investment in VISA Europe Ltd, for an amount of +€3.9 million.

The **Net profit for the year** amounted to €227.9 million, showing an increase of 6.4% compared to €214.3 million of the previous year. Excluding the non-recurring items 2018 mentioned before, the Net profit for the year should be €231.1 million, up 5.7% compared to 2017 net of non-recurring items.

## The subsidiary: Fineco Asset Management (DAC)

Fineco AM<sup>19</sup>, fully owned by FinecoBank, was incorporated (set-up) on 26 October 2017 in the Republic of Ireland with the aim to offer its customers a range of UCITS with a strategy focused on the definition of strategic asset allocation and selection of the best international managers, and therefore, diversify and improve the offer of asset management products and further increase the competitiveness of the Bank through a vertically integrated business model. For this purpose, in December 2017 Fineco AM required the authorization to the Central Bank of Ireland, in order to become a UCITS Fund Manager, within the UCITS Service Providers, authorization received on 17 May 2018. In order to allow the positive conclusion of that process FinecoBank, the only shareholder of Fineco AM, fully subscribed a capital increase, bringing the share capital from €0.5 million to €3 million in March 2018.

During the first half of 2018 Fineco AM has carried on the passporting process of the UCITS Management Company from Ireland to Luxembourg with the aim to become the Manager of the "Fonds Commun de Placement (FCP) CORE SERIES Umbrella Fund", managed by Amundi S.a.. The passporting process was successfully concluded on 2 July 2018, subsequently to have obtained CSSF (Commission de Surveillance du Secteur Financier) approval of the new CORE SERIES Prospectus and have signed the transfer contract with Amundi S.a. of CORE SERIES FCP, therefore, from that date the company is fully operational and closed its first financial year on 31 December 2018.

As at December 31, 2018, Fineco AM managed volumes of €10.0 billion, of which €6.0 billion were retail classes and €4.0 billion institutional classes. Note that, €6.0 billion refer to CoRe SERIES Umbrella Fund and €4.0 billion refer to FAM Series UCITS ICAV.

As at December 31, 2018, Fineco AM has a total asset of €27.9 million, mainly consists of **Loans and receivables with banks**, represented by a restricted deposit opened at UniCredit Bank Ireland Plc, with a maturity in December 2019, for an amount of €8 million and by the sight deposits with Bank AIB for €5.9 million, and by **Loans and receivables with customers**, exclusively represented operating receivables associated with the provision of services.

**Deposits from banks** and **Deposits from customers** totaled €9.8 million, are represented exclusively by operating payables connected with the provision of services, relating to the placement and management fees of UCITS to be paid back to the placers, including FinecoBank for €5.7 million, and to investment advisors.

**Shareholders' equity** amounted to €16.1 million and consists of share capital for €3 million, net income of €21.3 million, net of the abovementioned dividends paid to FinecoBank in the last quarter of 2018 for €8 million.

At 31 December 2018 the company's resources were 13. Recruitment from the market, which took place in 2018, was aimed at establishing the company's staff, with the profiles selected covering both business and support and control functions.

<sup>19</sup> On 4 May 2018 the company was renamed as "Fineco Asset Management DAC" (formerly "Fineco Asset Management Limited").

## Related-party Transactions

The Board of Directors, in order to ensure continued compliance with applicable legal and regulatory provisions on corporate disclosure on transactions with related parties and persons in conflict of interest, during the meeting on July 31, 2018 and with the prior favorable opinion of the Risk and Related Parties Committee and the Board of Statutory Auditors, approved the last update "*Procedures for managing transactions with subjects in conflict of interest*" (the "**Procedures**").

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

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

Given that the Bank belongs to the UniCredit Group, the aforementioned Procedures are also based on the "*UniCredit Global Policy for the management of transactions with persons in conflict of interest*" and the relevant "*Global Process Regulation*" issued by UniCredit to subsidiaries as part of its management and coordination.

Considering the above, the following Significant Transactions resolved by the Board of Directors during 2018 are recorded:

- on January 23, 2018, with the favorable opinion of the Risks and Related Parties Committee, the Board of Directors authorized the issue of an Additional Tier 1 bond totaling € 200 million, fully subscribed by means of private placement by the Group Parent UniCredit S.p.A.; the duration of the loan is perpetual, linked to the statutory duration of the Bank, and the coupon for the first 5.5 years was set at 4.82%. The transaction is an "Ordinary Significant Transaction at market conditions";
- on February 6, 2018, with the favorable opinion of the Risks and Related Parties Committee, the Board of Directors approved the renewal of the "*Framework Resolution related to the entering into of hedging derivative contracts with the Parent Company or companies in the UniCredit Group*", an ordinary Significant Transaction at market conditions with validity up until February 6th, 2019, which enables the Bank to enter into hedging derivatives with the Parent Company and with UniCredit Bank AG for commercial assets or liabilities that, for ALM purposes, require interest rate hedging, with a plafond of €1,000 million with the Parent Company and €1,300 million with UniCredit Bank AG;
- on May 8, 2018, with the favorable opinion by the Risk and Related Parties Committee, the Board of Directors approved the renewal of the:
  - "*Framework Resolution - Repurchase Agreements and Term Deposits with the Parent Company*", an ordinary Significant Transaction at market conditions (expiring May 8, 2019), concerning (i) Repurchase Agreements with the Parent Company for an amount of €7.1 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and (ii) Term deposits with the Parent Company for an amount of €6.3 billion, calculated as the sum of the individual transactions in absolute value;
  - "*Framework Resolution for the transactions on current accounts held with UniCredit*", an ordinary Significant Transaction at market conditions (expiring May 8, 2019), which enables the Bank to manage transaction through specific current accounts with UniCredit S.p.A. for an maximum amount of € 1,000 million understood as a single transaction (single payment and single withdrawal);
- on June 12, 2018, with the favorable opinion of the Risks and Related Parties Committee, the Board of Directors approved the renewal of the "*Framework Resolution – Trading of financial instruments with institutional counterparties and with UniCredit, on their own account and on behalf of third parties, respectively by the Treasury and Markets functions*", an ordinary Significant Transaction at market conditions (expiring June 11, 2019), which enables the Bank to carry out trading in derivatives with related parties institutional counterparties, up to a permitted limit of: (i) €2.7 billion with UniCredit Bank AG, (ii) €250 million with Mediobanca S.p.A. and (iii) €1 billion with UniCredit S.p.A.;
- on September 18, 2018, with the favourable opinion of the Risks and Related Parties Committee, the Board of Directors approved the renewal of the "*Framework resolution Stock Lending Activities with institutional customers*", ordinary Significant Transaction at market conditions effective until September 17, 2019, related to share securities lending transactions, through which FinecoBank may implement, until the above expiry date, those transactions with a plafond of €700 million for transactions with UniCredit Bank AG and €200 million for transactions with Mediobanca S.p.A.;
- on November 6, 2018, with the favourable opinion of the Risks and Related Parties Committee, the Board of Directors approved the renewal of the "*Framework resolution - Trading of financial instruments of the Parent Company*", ordinary Significant Transaction at market conditions effective until November 6, 2019 related to the purchase or sale of financial instruments issued by UniCredit with limit of € 1,530 million.



## Related-party Transactions (CONTINUED)

Furthermore, the Risks and Related Parties Committee and the Board of Directors, respectively on 10 and 11 December 2018, issued positive opinions, in compliance with the aforementioned Procedures, on the completion of an ordinary Significant Transaction at market conditions, proposed by the subsidiary Fineco Asset Management DAC (Fineco AM or FAM DAC) and related to the "Framework Resolution - FAM DAC term deposits with UniCredit Bank Ireland Plc," concerning the term deposit transactions with a credit plafond of € 55 million which FAM DAC will be able to carry out with UniCredit Bank Ireland Plc until December 10, 2019.

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

In relation to the above transactions, the Bank provided a simplified disclosure to CONSOB pursuant to Art. 13, paragraph 3, letter c) of CONSOB Regulation on March 12, 2010, no. 17221.

During the exercise closed on 31 December 2018, no other transactions were undertaken with related parties that could significantly affect the Bank's asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions.

Minor Transactions were also carried out with the Parent Company, other Group companies and/or with related parties in general, both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

Lastly, with regard to transactions of significant financial and economic relevance, during 2012, the Bank issued 5 bank guarantees in favour of the Italian Revenue Agency upon (guaranteed) request by UniCredit S.p.A., with indefinite duration (specifically, valid until the Italian Revenue Agency issues a declaration of receipt of the payment by UniCredit S.p.A. at the end of the collection process, in the event of an unfavourable outcome for UniCredit S.p.A., or until a ruling is issued in favour of the Bank by means of final judgement), for a total amount of €256 million, plus interest accrued and accruing until request for payment from the Italian Revenue Agency. The bank guarantees were issued to secure the obligations assumed by UniCredit S.p.A. in relation to five VAT refund suspension orders issued by the Italian Revenue Agency, and entail the assumption by the Bank of an irrevocable payment commitment on demand, within 30 days and without any exceptions. In 2013, following the settlement of an overall assessment notice issued by the Regional Department of Liguria, for €4.5 million, replaced by another assessment notice issued by the same Department up to the amount settled, a guarantee already issued by the Bank was replaced, with amounts unchanged; this transaction did not change the commitments undertaken according to the forms, procedures and risks already assessed during 2012, which are still unchanged; in this regard it is specified, however, following the consolidation of the definition of pending charges linked to the aforementioned bank guarantees, in December 2018 UniCredit S.p.A. has required the almost total release (about €224.5 million) to the competent office of the Regional Department of Liguria and the Bank is waiting for the corresponding reply.

## Transactions with Group companies

The Bank and Fineco AM are subject to the direction and coordination of UniCredit S.p.A. and, consequently, pursuant to Article 2497 bis paragraph 4 of the Italian Civil Code, the key figures from the last approved financial statements of UniCredit S.p.A. are provided in Part C – Section 24 of the Notes to the Consolidated Accounts.

The following table provides a summary of outstanding assets, liabilities, guarantees and commitments as at December 31, 2018 as well as the costs (-) and revenues (+) recorded in 2018 in relation to Group companies.

(Amounts in € thousand)

	ASSETS	LIABILITIES	GUARANTEES AND COMMITMENTS	INCOME STATEMENTS
Transactions with Parent Company UniCredit S.p.A.	12,126,481	996,690	256,070	164,561
Transactions with companies controlled by UniCredit S.p.A.	8,351	35,821	-	(8,444)

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

The following table provides a summary of outstanding assets, liabilities, guarantees and commitments as at December 31, 2018 as well as the costs (-) and revenues (+) recorded in 2018 with Fineco AM, which is consolidated.

(Amounts in € thousand)

	ASSETS	LIABILITIES	GUARANTEES AND COMMITMENTS	INCOME STATEMENTS
Transactions with the subsidiary Fineco Asset Management DAC	5,812	-	-	35,753

## Number of treasury shares of the parent company

As at December 31, 2018, the Bank held 1,401,288 treasury shares, corresponding to 0.23% of the share capital, for an amount of €14 million. During the year 2018 n. 27,644 shares were purchased in relation to the "2017 PFA Incentive System" for personal financial advisors identified as "Key personnel" and n. 1,971,871 shares were purchased in relation to the "2015–2017 PFA PLAN" for selected personal financial advisors, in accordance with what was authorised by the FinecoBank Ordinary Shareholders' Meeting on April 11, 2017. During the year, 658,624 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors in relation to the "2015-2017 PFA PLAN".

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

# Sustainability

## 1. Strategy

Our Bank is characterised by a unique business model that effectively combines powerful digital *banking* and *brokerage* platforms with the physical touch of extensive network of financial advisors. The **One Stop Solution** is a distinctive feature of the Bank that allows us to gain a strong competitive advantage: high-quality products and services are accessible from a single current account, making life easier for our customers.

Our business model is constantly focused on **excellence** and assures our customers a **unique customer experience**.

Fineco was founded on **three main pillars: efficiency, innovation and transparency**, which are the keys to our strategy and provide a clear guide to our path of sustainable growth.



Having been **built from scratch**, our Bank has no legacy; this allows us to be more efficient. Efficiency is core in all Bank's activities: thanks to our proprietary back-end, internal development and automated processes, we can benefit from a lean and efficient cost structure and fast time-to-market in delivering new products and services.

Innovation is the way to achieve our mission: **simplify the lives of customers** with easy-to-use services and **anticipate their needs**, leveraging on increasing digitalization.

**Fairness and transparency** towards our clients is part of our DNA. We strongly believe that these key drivers are the basis to creating sustainable long-term value for all our stakeholders.

Our work is based on passion, innovation and efficiency and on the quality of our people and services. We strive every day to support people's wellbeing and progress in the local communities where we operate. Continuous engagement with our stakeholders at all levels of the organization is essential to our decision-making processes, which aims to create long-term value.

Our sustainable growth strategy is inspired by the generally accepted international declarations and conventions, standards, principles, guidelines and recommendations, including:

- The Universal Declaration of Human Rights
- International Covenant on Civil and Political Rights
- International Covenant on Economic, Social and Cultural Rights
- International Labor Organization's (ILO) Fundamental Human Rights Conventions (convention 29, 87, 98, 100, 105, 111, 138 and 182)
- Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework
- OECD Guidelines for Multinational Enterprises (2011 edition)
- UN Global Compact principles
- UN Principles for Responsible Investment (UN PRI)
- United Nations Environment Programme Finance Initiative (UNEP FI) Statement of Commitment by Financial Institutions on Sustainable Development
- Women's Empowerment Principles

Our daily activities are at all times inspired by five Fundamental Principles, which we share with the UniCredit Group:



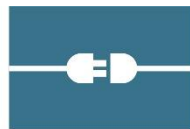
## Customers First

High quality customer experience based on efficiency, innovation and transparency. Customer centricity is key to deliver excellence in all services



## People Development

Our employees are one of our main competitive advantages. We promote professional growth through dedicated development plans and training programs designed to improve work-life-balance



## Cooperation & Synergies

We use streamlined processes thanks to a very efficient internal organization. Close internal collaboration and internalization of processes are key to achieving service excellence and robust operating leverage



## Risk Management

Thanks to a highly diversified business model, we are able to deal with all different market phases, reducing risks but without missing out on opportunities



## Execution & Discipline

Efficient and well-integrated Governance enable us to simplify decision-making processes

## a. Materiality analysis

In 2018 we started a structured, phased approach that aimed at defining the materiality matrix for the Bank with the scientific support of ALTIS, Università Cattolica del Sacro Cuore of Milan.

The materiality matrix follows the Global Reporting Initiatives Guidelines (GRI) and summarizes the relevant topics (so-called material topics) for the Bank and its stakeholders. These topics, as relevant, guide both the reporting and the path that leads to the creation of long-term value.

The materiality matrix of the Bank includes 20 aspects, aggregated in 8 macro-topics:

- Efficiency and Solidity
- Customer experience Innovation
- Fairness
- Transparency
- Sustainable and Responsible Investments
- Internal Control System and Risk Management
- People Development
- Environmental Sustainability

The identification of the material topics is the result of a direct engagement process of the Bank's management and an indirect analysis of the relevance perceived by the stakeholders, using a number of internal and external sources (listening tools such as surveys on customers satisfaction, corporate reputation and working atmosphere, press reviews, analysis of Regulatory sources and sustainability rating agencies).

The resulting materiality matrix has been approved by the Sustainability Managerial Committee and by the Appointment and Sustainability Committee of the Bank.

## Materiality Matrix for FinecoBank



## Table of material topics and their impacts (GRI Standard<sup>20</sup>)

The table of material topics describes, for each macro-topic, the material topic and for each material topic the internal and external topic.

MACRO-TOPIC	TOPIC	GRI STANDARD	IMPACT OF MATERIAL TOPICS	
			INTERNAL	EXTERNAL
TRANSPARENCY	FAIRNESS AND TRANSPARENCY IN OFFERING PRODUCTS AND SERVICES	417	FinecoBank	Shareholders, Customers, Regulators

<sup>20</sup> Global Reporting Initiative guidelines. Today they are the reference guidelines for socio-environmental reporting, widespread both at a national and international level.

PEOPLE DEVELOPMENT	HUMAN RESOURCES MANAGEMENT	401	FinecoBank	Shareholders, Employees, PFAs
	MANAGEMENT OF INDUSTRIAL RELATIONS	402	FinecoBank	Shareholders, Employees, PFAs
	HEALTH AND SAFE WORK CONDITIONS	403	FinecoBank	Shareholders, Employees, PFAs
	TRAINING AND EDUCATION	404	FinecoBank	Shareholders, Employees, PFAs
	DIVERSITY AND EQUAL OPPORTUNITY	405	FinecoBank	Shareholders, Employees, PFAs
	NON-DISCRIMINATION	406	FinecoBank	Shareholders, Employees, PFAs
EFFICIENCY AND SOLIDITY	ECONOMIC PERFORMANCE	201	FinecoBank	Shareholders, Financial community, Regulators
INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT	RISK MANAGEMENT	GRI G4 DMA; FORMER FS2	FinecoBank	Shareholders, Customers, Financial community, Regulators
ENVIRONMENTAL IMPACT	REDUCE ENVIRONMENTAL IMPACTS (RAW MATERIAL CONSUMPTION)	301	FinecoBank	Shareholders, Local communities, Suppliers
	COMPLIANCE WITH LAWS AND REGULATIONS IN ENVIRONMENTAL MATTERS	307	FinecoBank	Shareholders, Local communities, Regulators
FAIRNESS	ANTI-CORRUPTION	205	FinecoBank	Shareholders, Financial community, Regulators
	ANTI-COMPETITIVE BEHAVIOR	206	FinecoBank	Shareholders, Customers, Financial community, Regulators
	SOCIOECONOMIC COMPLIANCE	419	FinecoBank	Shareholders, Regulators
	PROTECTION OF CUSTOMER PRIVACY	419	FinecoBank	Shareholders, Customers, Regulators
RESPONSIBLE FINANCE	FINANCIAL INCLUSION AND EDUCATION	GRI G4 FS14 G4 DMA FORMER FS16	FinecoBank	Shareholders, Customers, Regulators
	RESPONSIBLE PRODUCTS AND INVESTMENTS	GRI G4 PRODUCT PORTFOLIO – FS7, FS8	FinecoBank	Shareholders, Customers, Financial community

In addition to the GRI topics, the following topics have also been considered for the materiality analysis and have been assessed as materials:

MACRO-TOPIC	MATERIAL TOPIC	IMPACT OF MATERIAL TOPICS	
		INTERNAL	EXTERNAL
CUSTOMER EXPERIENCE INNOVATION	INNOVATION	FinecoBank	Shareholders, Customers
	QUALITY AND VALUE	FinecoBank	Shareholders, Customers, Financial community, Regulators
FAIRNESS	CLEAR APPROACH TO MARKETS	FinecoBank	Shareholders, Regulators

## b. Stakeholder Engagement

Our key stakeholders have been identified by the managers of the Bank during the interviews for the materiality analysis.

The managers run an assessment concerning the interest of stakeholders towards the activities, the strategy and the financial results and their level of influence towards the Bank, identifying as relevant stakeholders those that reported a higher than average rating with reference to both dimensions: relevance for FinecoBank / interest in FinecoBank.

### Stakeholders engagement

Over the years we have developed several tools to interact with our stakeholders and better manage our relationship with them. The Bank involves stakeholders through several listening activities. Through a careful analysis of the needs and opinions of each stakeholder, we can develop more targeted strategies, improving decision-making and our offer of products and services.

The table below shows the main categories of stakeholders (internal and external) relevant to the Bank and the main dialogue tools activated with them:

Our main internal and external stakeholders and dialogue tools are:

CUSTOMERS	• Evaluation of customer satisfaction
	• Instant feedback
	• <i>Customer Care</i>
	• <i>Social Media</i>
EMPLOYEES	• "People survey" on working life at Fineco and in the Group
	• Annual Performance Management for employees / Talent Management Review for talent / Executive Development Plan for Executives
	• Intranet portal
	• Orientation session with heads of the banking business, Human Resources and trade union organisations
	• Ad-hoc research on specific topics (e.g. <i>Smart Work, Onboarding</i> )
PERSONAL FINANCIAL ADVISORS (PFAs)	• Dedicated platform
	• Specific meetings at different levels ( <i>Area Manager, General Manager, Team, one-to-one</i> )
	• Calls and web conferences
	• Workshops and dedicated working groups
	• Committees
	• Training
SHAREHOLDERS	• General Shareholders' Meeting
	• Meetings with analysts, investors and <i>proxy advisors</i>
	• Investor Relations activities
REGULATORS	• Meetings

## c. Our contribution to the Sustainable Development Goals

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs)<sup>21</sup>.

Our most significant initiatives are consistent with the achievement of these goals, to contribute to global development, to promote the well-being of individuals and to preserve natural resources.

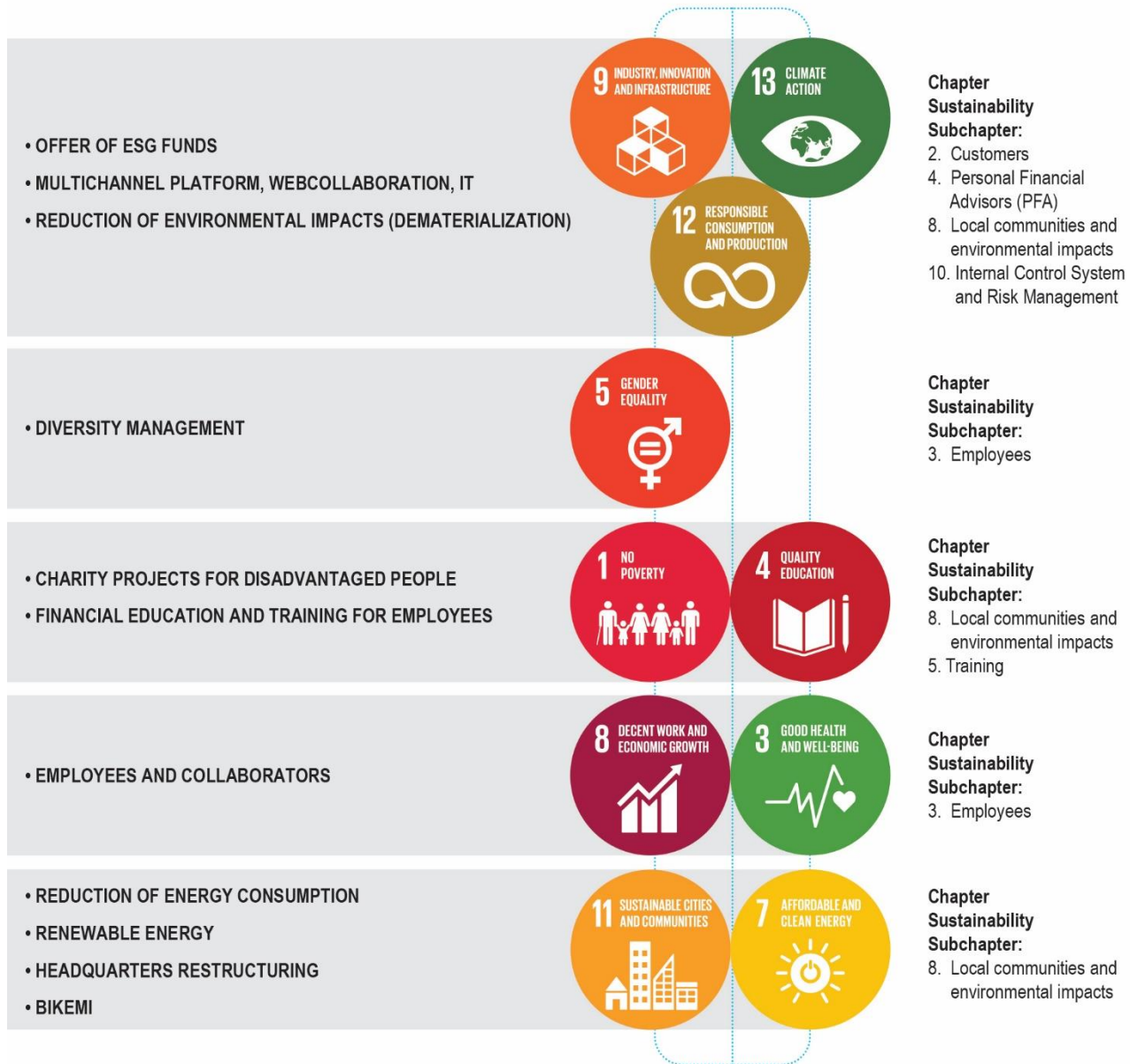
<sup>21</sup> The selection of the initiatives and of the SDGs is not exhaustive.



ONGOING INITIATIVES

SDGs

REFERENCES



2. Customers

The increasing digitalization in Italy is changing consumer behavior and expectations, customers are becoming more and more **digitally aware** in their everyday lives. This is a structural trend, where customers are changing their behaviors from the concept of proximity to the concept of quality of services. This is the reason why we are so focused on continuously improving the **customer experience**.

In order to **simplify our customers'** life, our offer is based on a complete **"one stop solution"** concept, including banking, brokerage and investment services to retail clients from one single account. But offering a "one stop solution" is not enough: we want to **deliver excellent services**. Thanks to our deep internal IT culture, we are able to fully extract the value coming from the knowledge of our customers, who use our platforms. For this reason, we are continuously committed in developing easy-to-use and best-in-class products and services to fulfill all our clients' financial needs.

Our offer in managed products is characterized by an open architecture. We offer more than 6,000 funds offered by the main 78 global asset managers, with a relevant component of SRI funds (Socially Responsible Investment): around 50% of funds offered has an ESG rating (total assets equal to €7.8 billion), while 34% of funds offered has a Morningstar rating equal to "High", "Above Average" or "Average" (total assets equal to €5.3 billion). For more details on our offer please refer to the "Investing" chapter in this Consolidated Annual Report.



**Communication with our customers** is based on constant dialogue through the internal Customer Care service and the network of financial advisors: for us, it is very important to listen to customers and ensure that they have suitable ways to submit feedback and complaints. We want to be there for our customers whenever they need help. We handle over 300 thousands contacts every month, via telephone, e-mail, chat and SMS, maintaining high service level. Around 93% of those contacts are resolved directly in conversation with the customer. Our customers' complaints are always analyzed, understood and recorded. We devote a lot of attention to them in order to improve the quality of our services. In 2018 we managed 3,446 complaints.

## Fineco Customer Care

Customer satisfaction starts here

 <p><b>TEXT MESSAGE</b> SEND US A MESSAGE <b>339.994.1888</b></p>	 <p><b>WE WILL CALL YOU BACK</b> BOOK THE CONTACT, WE WILL CALL YOU BACK</p>	 <p><b>CONTACT FORM</b> SELECT THE TOPIC SEND US AN EMAIL</p>	 <p><b>TOLL-FREE NUMBER</b> <b>7 DAYS A WEEK</b> <b>800.52.52.52</b> <b>02.2899.2899</b> <small>(from abroad and mobile)</small></p>	
<p><b>87%</b></p> <p>TEXT MESSAGE managed in just a few seconds</p>	<p><b>89%</b></p> <p>Customers called back <b>WITHIN</b></p>	<p><b>76%</b></p> <p>Emails managed <b>WITHIN</b></p>	<p><b>83%</b></p> <p>Calls managed <b>WITHIN</b></p>	
 <p>ALWAYS ACTIVE</p>	<p><b>30'</b></p>	<p><b>24h</b></p>	<p><b>20''</b></p>	
<p><b>300,000</b> Contacts per month</p>		<p><b>96%</b></p>	<p><b>SATISFIED CUSTOMERS</b></p>	

According to a research conducted by Kantar TNS Infratest in 2018, **customer satisfaction reached 96%**<sup>22</sup>. This is an extremely valuable result to evaluate the overall relationship between customers and the Bank.

We also have an even more timely indicator that measures customer satisfaction in each interaction through the contact channels. In fact, for us every contact with the customer is an opportunity to get feedback on our products and services: at the end of each interaction we ask customers if they are satisfied with the received assistance and, if not, to expose the reasons for their dissatisfaction. These comments are analyzed on a daily basis and represent the engine that drives us to review our processes, so that they can always respond to the evolution of customer needs in order to simplify services and make them even more accessible.

It is worth noting that less than 4% of the interactions we have with our customers express some kind of dissatisfaction. We learn from this information to build the future of our Bank.

In 2018 we introduced the **Voice Password**: customers can now access assistance using directly their voice, in a faster and more secure way, without having to remember and to digit codes.

In addition in 2017, the consulting firm KPMG named FinecoBank the **leading financial brand in Italy for the quality of its customer experience and sixth overall among major domestic and international players**, out of over 140 domestic and international brands, from a sample of over 2,500 customers. The study assigned each company a Customer Experience Excellence Score based on the average of the individual scores achieved in the "Six Pillars" of customer experience: Personalization, Integrity, Expectations, Resolution, Time and Effort, and Empathy.

### 3. Employees

In a rapidly changing competitive environment, we are aware that change and continuous evolution are necessary requisites to face market challenges and that these cannot ignore the development of our people and the development of their skills.

**Employees are key to the success of our Bank** and one of our main objective is to manage, develop and monitor their continuous professional growth.

Through the correct and consistent pursuit of selection, training, evaluation and development activities, **we aim to increase not only their skills but also the enhancement of talent and sense of belonging.**

Their **professional development** is fundamental for us and for this reason we assure to each of them appropriate training, on-the-job training, job rotation programs, performance evaluation, compensation systems on a meritocratic basis and respecting equal opportunities.

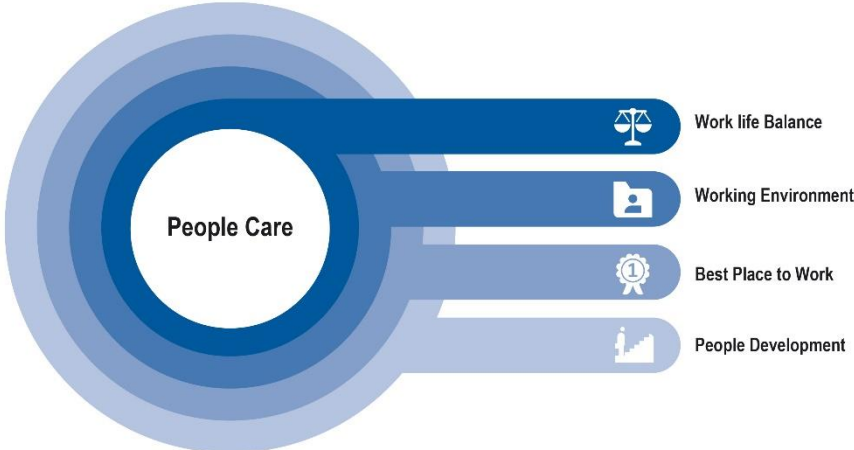
We want to support them in all phases of their professional life by listening to their needs and by **promoting diversity, inclusion and work-life balance.**

Every day the Bank invests to develop a sustainable working environment **based on trust and sense of belonging.** For this reason, we measure the motivation and level of involvement of our collaborators through a biannual Survey – **"People Survey"** - and, based on their indications, we define and implement specific action plans on which, in line with our strategy, we focus for the next couple of years.

**People Care, Working Environment, Work-life Balance, Best Place To Work and People Development** are the areas on which we are focusing after the analysis run in 2017 that set the **Engagement Index at 81%**, a very good result and typical of successful companies.

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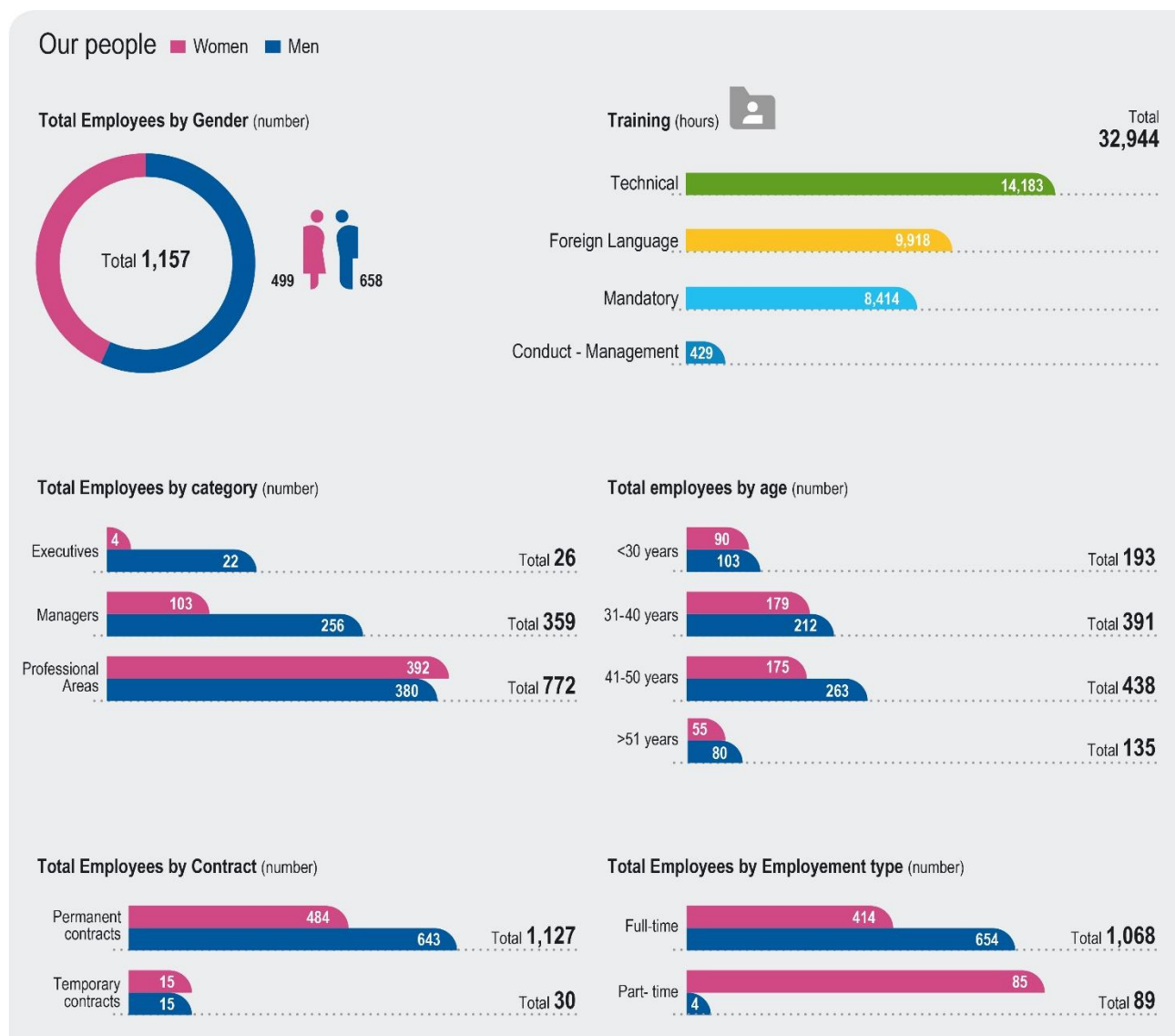
<sup>22</sup> Processing of Kantar TNS data – December 2018.



We aim to create a work environment in which our people can create value through **a constant commitment and sharing of mission, values and behaviors.**

## a. Who we are

The breakdown of our people <sup>23</sup> as of December 31, 2018:



The average age of employees at the end of 2018 is 40 years.

We invest in attracting, managing and fostering the development of “**Millennials**”, making Fineco one of the most desired companies to work at. We want to be a company where people can make full use of their own skills, abilities and potential. This is why we believe in developing our employees by investing in them, offering fast growing opportunities to become a specialist in any field.

The main entry point for new employees in FinecoBank is **Customer Care (CRM)**, which acts as a “talent incubator” where young people have the opportunity to acquire a deep knowledge of the Bank’s products, services and processes. At the end of the hands-on-training course (about 2 years), they have the opportunity to further specialize within Customer Care or to undertake a horizontal growth process at Fineco or elsewhere in the Group thanks to an intense internal job rotation program. By the end of 2018, 16.3% of the total workforce were employed in CRM.

23 The tables included in this paragraph refer to the holding population. In addition in 2017, an Irish Asset Management Company, Fineco Asset Management DAC, fully owned by the Bank, was set up. In 2018, Fineco Asset Management has obtained the authorization by Luxembourg authority “Commission de Surveillance du Secteur Financier” to replace Amundi Luxembourg S.A. in the management of the mutual funds labelled “Core Series” and since July 2, 2018 Fineco AM is fully operational. At 31.12.2018 the company's resources are 13 of which 4 women and 9 men with average age of about 35 years. The assumptions coming from the market, which took place during the year, were aimed at the establishment of the staff of the company, the selected profiles in fact cover both business functions and support and control.

Furthermore, starting a career in the Customer Care allows young people to absorb our corporate culture based on innovation, spirit of entrepreneurship and attention to the customer.

We contact talented young people through their favorite communication channels: **social media** and **job fairs**. To this end, the Bank has launched a new social branding initiative called #FinecoPeople - which offers engaging content on Linked-In for specific targets - with the launch of an emotional video on social media to recruit young people to be included in our CRM.

We also constantly collaborate with the best universities in the Country through the participation in Job Fairs. In 2018 we were present at the universities of Bologna, Pavia, Ferrara, Milan (Bicocca, Bocconi, Cattolica), Rome (Luiss) and Venice.

Through a Global Policy, adopted at Group level, **we regulated the selection process** for all roles and levels in our Bank. This guarantees a transparent and well-defined recruitment process. Moreover, thanks to digitalization we are able to offer a unique candidate experience. In fact, we started experimenting the Video-Interviews, which allow us to speed up screening times and at the same time reduce travel times and the use of means of transport.

## b. Performance management

As part of UniCredit Group, UniCredit's Competency Model<sup>24</sup> and Global Job Model<sup>25</sup>, based on the Five Fundamentals, describe the behaviors expected by all employees.

All employees receive an annual performance evaluation by their manager, which takes into account not only performance and results linked to specific and shared objectives, but also **identifies future learning and development opportunities**.

In particular, all employees are assessed within the UniCredit Performance Management (UPM), while the Executives and Talents are assessed respectively within the scope of the Executive Development Plan (EDP) and the Talent Management Review (TMR).

Decisions on professional growth and remuneration choices are based on structured processes aimed at promoting equity, meritocracy and transparency at all levels.

The **annual review** allows us to plan, manage and develop a sustainable leadership pipeline that results in career and succession plans and identifies actions to be taken in support of leadership development. Our learning and development initiatives are designed to meet colleagues' professional growth needs.

## c. Diversity and inclusion

In order to run a sustainable and successful business, we are investing in a **highly diversified** workforce and an inclusive working environment. The aim is that the talents, skills, experiences and diverse perspectives of our people can be fully expressed in this environment, in order to promote greater innovation, identify and manage risks more effectively, and improve collaboration and workforce flexibility.

We adopted a comprehensive **policy on gender equality** since 2013. The policy sets out principles and guidelines to ensure a level playing field in which all employees can realize their full potential, regardless of gender. As of December 31st, 2018, 43% of FinecoBank employees were women.

FinecoBank has always stressed the importance of gender balance at all levels and also in 2018 this KPI was included in the performance evaluation sheets of the Identified Staff. The analysis carried out in 2018 confirmed no gender pay gap in Fineco.

We are constantly working to promote gender balance to fill generational gaps and to support people with disabilities. Within the company we have appointed a **Diversity Manager** who is the reference point for activities and initiatives related to Diversity confirming the commitment to develop the culture of inclusion and considering diversity a business theme for our Bank.

Within the initiatives dedicated to the inclusion of people with disabilities, in 2018 some events and workshops were organized with the participation of employees with disabilities and HR employees and their managers. The common goal was to raise awareness and promote inclusion in the workplace at all levels.

In 2018 we participated to a **Diversity Day** organized by Bocconi University of Milan - a project that promotes diversity management and the employment of people with disabilities and in protected categories. This event was attended by more than 400 people and was organized in partnership with private companies, universities, public institutions, media and communities.

We have also started a collaboration with **Jobmetoo**, an online recruiting company that helps companies to meet candidates belonging to protected categories. In addition to the publication of job listings, Jobmeeto offers us the opportunity to participate to dedicated workshops.

<sup>24</sup> UniCredit's Competency Model describes behaviours that must be adopted by all UniCredit's people during their daily activities.

<sup>25</sup> Global Job Model is a state-of-the-art system that describes and evaluates all roles in UniCredit and supports the management of people and processes in a global, simple and coherent way.

## d. Welfare and work-life balance

In order to support the well-being of our people and their families and to maintain a high level of motivation and engagement in 2018, the **corporate welfare system** was further integrated. All employees have access to various services included in 4 thematic areas:

- **Support Health:** supplementary healthcare, insurance coverage, prevention campaigns, etc.
- **Support Family:** agreements with kindergarten, child protection, life protection, family reimbursements, youth camps, support for elderly and disabled family members, vouchers, etc.
- **Save Money:** pension funds, mortgages, loans and subsidies, clubs, transport season ticket, etc.
- **Save Time:** agile work, flexibility, expectations and sabbatical years, part-time, etc.

With regard to the last point, we further extended **flexible work** in order to support our employees' work-life balance and to offer them greater flexibility in managing their time. In 2018, around 50% of the corporate population joined with a positive impact on their level of involvement and performance. This is a profound change in the corporate culture that favors a model based on trust and performance. Furthermore, the adoption of a flexible working model has also led to the simplification of procedures and the re-engineering of processes, contributing to the digitalization and dematerialization of paper flows.

We are also investing in the renovation of work-spaces in the Milan Headquarter to create a better workplace.

In addition, starting from October 2018, we inaugurated a new initiative - **MaggiorTempo** - designed to **streamline some of the most common daily tasks of employees**, from pick-up, to laundry, shoe repair, tailoring, handling of postal and administrative procedures. One more tool to reconcile time of working life and private life.

The *MaggiorTempo* services are managed by a **Social Cooperative** whose mission is to integrate socially disadvantaged people.

## 4. Personal financial advisors (PFA)

In terms of size and managed assets, Fineco's PFA network is the **third largest in Italy**.

It is one of the Bank's key business channels, both in terms of acquiring new customers and of managing and retaining existing ones.

The focus of the network is based on two parallel tracks: growth and asset quality.

### GROWTH

**Organic growth is the main engine of our growth.** In 2018, 93% of total net sales was organically generated and 7% was gathered through new recruits in the year. We believe this growing strategy is sustainable over the long term, also from a cost perspective, perfectly positioning the Bank to deal with increasing pressure on margins. An higher network productivity represents one of our answers to this challenge, leveraging on an outstanding customer satisfaction and a distinctive selling point based on transparency and quality of products and services: the percentage of net sales from existing clients almost doubled in the last 2 years (+90%).

Always showing the satisfaction and appreciation of our business model, the growth in the Private Banking segment is significant. Around 2% of our customer base is represented by this clients' segment, which holds around 37% of total financial assets of the Bank.

For our Bank, **recruitment** is focused merely on improving the quality of the existing network. We mainly seek professionals with experience in the network sector, in traditional banking or in private banking. We aim to attract professionals for whom customer relations are a central pillar and that seek to compete against the market and extend their reach. To these professionals we guarantee an accurate professional path, aimed at allowing an adequate analysis of the managed portfolio and consequent agility and rapidity of transfer, and flexible and customized economics to respond to their needs.

In 2018, 16 private bankers with an average portfolio of 29.8 million and 28 senior financial advisors with an average portfolio of €16.5 million joined Fineco's world. Moreover, 26 financial advisors with a more recent expertise (and an average portfolio of €9.6 million) were added to our network.

Fineco also supports "millennials", the advisors of the future, including them into its network through a selection programme through social networks/ partnerships with universities/ traditional channels. To assist them in their professional path, three types of support are provided by the Bank: training assistance since the preparation phase for the qualifying exam to up to 2 years after the assignment to the network; ad hoc economics for 24 months and operational assistance, also through a trainer. 51 young advisors joined us in 2018.



## QUALITY

**Quality** needs to be analyzed from different perspectives.

Firstly, **the quality of the customer relationship**. It is extremely important that our customers trust into their advisors, which, for this reason, provide them advisory at 360 degrees; starting from the analysis of customer's needs, requirements and expectations, they focus on concrete solutions, avoiding a purely sales-oriented approach but rather aiming at responding to the customer's expectations and building a trust relationship over the long term.

Secondly but not less important, **the quality of services**. Thanks to state-of-the-art investment solutions, our financial advisors are able to provide solutions that, taking objectives as well as risk tolerance into account, meet customers' needs ensuring a constant monitoring of risk over time. We strongly focus on this and on a continuous innovation of our advisory services, improving the current ones and adding new ones.

Also the quality of the network significantly improved: the average portfolio per financial advisor increased by 4.7% in 12 months (moving from 22.2 million up to 23.2 million) with a strong AuM and advisory component increase. As of December 2018, Personal Financial Advisors with total financial assets above 20 million represent 44% of the network and 73% of the total financial assets of the Bank.

Growth and quality are also driven by **efficiency**. To support our financial advisors in their work, we adopt a **cyborg-advisory model**: thanks to an advisory platform extremely advanced from a technological point of view and extremely modern in terms of advisory solution offered, we allow our financial advisors to manage, also through remote connection, a bigger number of clients, always providing a timely assistance and a constant innovation in terms of new proposals and rebalancing accordingly with the evolution of the market scenario and customer' needs.

Moreover, starting from our **open architecture**, one of the most complete available on the market, the investment solutions (so called **Guided Products and Services**) allow personal financial advisors to work with no conflicts of interest, providing the best answers to customers.

Leveraging also on our expertise in **innovation**, our financial advisors have more time to manage relationship with customers, analysing their needs and how they evolve over time, constantly improving quality of offered services and strengthen the mutual trust. We internally developed **X-Net**, the new Cyborg Advisory Platform for our personal financial advisors, the best Fineco's technology into digital retail platforms: a cutting-edge platform easy to use which provide our PFAs an integrated solution characterized by an intuitive and customizable technology.

The personal financial advisor is at the heart of a system characterized by advanced digital services which simplify its job and strengthen the relationship with the customer.

X-Net platform represents one of the pillar of our advisory model as it leverages on a cyborg advisory concept which, differently from a pure robo-advisory approach, keeps the importance of a financial advisor up but with the essential support of technology. Moreover, our customers can easily, quickly and safely manage the investment proposals through the **Web and Mobile Collaboration** service, available from mobile and PC, even more simplifying the interactions between PFAs and clients. Thanks to this, the personal financial advisors benefit from a faster and paperless activity and customers from a more flexible service. This service is fully integrated into X-Net.

## 5. Training

### a. Employees

The enhancement of professional skills and experience is a prerequisite for our company's growth over time. The Bank is strongly committed in supporting this enhancement with a strong focus in a continuous training process to employees.

In 2018, the training offer becomes even more accessible to all employees thanks to our **training platform MyCampus**. In addition, through this platform employees are able to obtain a more tailored-made training accordingly with the specific professional needs. The training offer was enlarged with an higher number of e-learning modules, accessible also through remote connection.

In 2018, **32,944 training hours** were provided by the Bank, involving all employees.

Training is constantly evolving, adapting to the challenges our company takes on. In the last years, one of our Bank's main goals was to strengthen our risk and compliance culture, in order to enable a sustainable and profitable business over time.

For this reason, also in 2018, we paid significant attention to mandatory training for all the employees, who attended e-learning courses, in particular through our Group e-Learning Platform (MyLearning), and through classroom training.

The main themes treated were: anti-money laundering, anti-bribery, operational risks, privacy and data security, conflicts of interest. Results were monitored to ensure that all employees acquired the topics, thereby protecting the Bank against any operational, legal and reputational risk.

In addition to this, in order to improve business evolution and employees specialization level, many training sessions on technical skills were organized, in cooperation with external providers, strategic partners and universities.

In the **Customer Relationship Management department (CRM)**, where the average age is the lowest of the Bank, a total of 11,566 hours of technical training were held for newly hired employees, as well as "ongoing" training courses on technical and behavioral subjects (focused on communication skills), with the aim to maintain high quality service standards and a strong customer focus.

Moreover, in 2018 the Bank enlarged its **Leadership Training Program** (already tested in 2017): this program includes classroom training, coaching and training on the job. The aim is to strengthen managerial skills of middle management to manage their role in a coherent and effective way.

**Training on English** was carried on in the year through a course accessible by all employees through an e-learning platform which offers more than 5,000 Business English contents and virtual classrooms. Moreover, the bank offered foreign languages training by phone or classroom accordingly with professional needs.

Below a breakdown of training hours provided:

TRAINING AREA	HOURS OF TRAINING
Mandatory	8,414
Technical	14,183
Foreign Languages	9,918
Behavioral	429
<b>Total</b>	<b>32,944</b>

### b. Personal financial advisors (PFA)

The financial advisor's strategic role is reflected in the extensive training program for PFA.

Given our goal to offer to our clients a premium level of service and taking into account **the complexity and importance of the advisor's role**, the bank developed a very broad training catalogue which includes all the aspects related to the advisory activity.

For us, the **personal financial advisor is the facilitator able to help people in reaching their financial objectives in the medium/long term horizon through a rigorous and rationale planning**. The goal that our financial advisors pursue every day is to protect and enhance family's savings through sustainable, tailor-made investments always accordingly with the specific risk profile of each client.

In this perspective, a full **knowledge of financial markets and instruments** is certainly essential, but not sufficient.

**Social dynamics, technological developments, regulatory developments, micro and macro-economic trends at national and international level:** to fully perform a role characterized by an high social impact, it is essential to be fully aware of a multitude of factors, all of which are competing to define the scenario in which the financial advisors works.



In addition, there is the need to develop and consolidate **relational skills and emotional intelligence** over time: going into a relationship with clients means to fully understand their needs, fears and wills, even latent ones.

To provide support to PFAs in their training path, our training programs included **multidisciplinary courses** always held by internal or external specialists, aimed to strengthen hard and soft skills.

In 2018, we provided 160,000 training hours (around 61 hours per PFA):

- 100,000 mandatory training hours
- 47,000 hours of training on business topics
- 5,000 hours of specialist training on the private segment
- 8,000 hours of training for new financial advisors
- tens of videos, media, web-conferences, webinars and dedicated sessions
- a broad dedicated e-learning platform to deep dive with the availability of classroom materials
- highly qualified teachers and leading figures in the financial and academic panorama
- ad hoc training courses to meet specific needs, designed from time to time together with the managerial structure and differentiated area by area on the basis of the real needs of the network.

**High added value activities were put in place for the Private segment** and its specific needs. The dedicated training course has the primary objective to further expanding the acquired skills in terms of **asset protection, private insurance and real estate advisory**. In 2018 around 325 financial advisors were involved for a total of 34 training days.

Following the new Intermediaries Regulation in force since February 15th, 2018, a special focus was dedicated to the requirements of suitable knowledge and skills for financial advisors and their maintenance (articles 78-82). To comply with these obligations, a review of training needs was carried out through an assessment for all our network. Any skills gap have been filled with a specific online training. Furthermore, in order to guarantee the maintenance and updating of the appropriate knowledge and skills, a 30-hour training course was identified, valid for Consob, Ivass and EFPA purposes.

Lastly, the Bank further invested in **young financial advisors** through a two-year training project to acquire technical and behavioral skills. Specifically, 43 courses were provided for a total of over 90 training days.

## c. Customers

**The dedicated training to current and prospect customers aims to improve their financial education and awareness** by understanding how financial markets work and move and how to use financial instruments to better manage their assets.

There is a strong focus on **behavioural finance** and on initiatives to strengthen the **financial culture** of our clients, the **basic rules for a professional financial planning**: have clear goals and time horizon in mind, diversify and manage emotional reactions in complex market stages, avoiding irrational choices that can compromise the investments.

Consistently with our role as market leader in the trading arena, we feel strong this responsibility and the training dedicated to customers is also aimed at giving them more knowledge of financial markets, passing from themes such as technical and fundamental analysis, to risk-return ratio of the various trading strategies.

The trading courses are divided into basic sessions, where we explain how products and platforms work and more advanced sessions where the concepts of technical and fundamental analysis are analysed in-depth, even with the support of external professionals. In addition, we recently added in the learning catalogue a weekly update on market context to increase the awareness of the participants for their own investment choices.

In 2018 we recorded almost **18,000 attendances** to Fineco courses through different channels:

- 141 classroom lessons throughout the Country: 26 Italian cities in the year (+13% y/y)
- 129 webinars, including direct interaction with experts via chat
- 165 video clips, always available, explaining various topics in few minutes

## 6. Shareholders

Fineco constantly promotes an **effective and transparent communication** towards its shareholders and to the overall financial community in a proactive way. The dialogue is managed through regular meetings and conference calls with institutional investors and financial analysts.

The Investor Relations team is in charge to provide accurate, effective and timely communications about the Bank's financial performance, the strategy and its evolution to support a fair valuation of the Bank and build a long-term shareholders' base.

In 2018 we dialogued with the financial community through:

- 13 days joining international conferences
- 10 days of roadshows around the world
- one-to-one meetings / group meetings / conference calls

reaching almost 400 institutional investors (+1% y/y, +34% compared to 2015, the first full year after the listing in July 2014). In addition we held 4 institutional conference calls to present our quarterly financial results.

The commitment of the Bank in developing an effective and transparent communication with its institutional investors was also confirmed by awards obtained in 2018. For further detail please see section 12.

A proactive dialogue with SRI - **Socially Responsible Investors** and **Sustainability Rating Agencies** continued also in 2018. For the second time, we joined the Italian Sustainability Day held by Borsa Italiana, to support dialogue between listed companies and financial stakeholders, deep-diving themes related to ESG (environmental, social and governance) metrics. One of our goal is to improve the disclosure of non-financial information to the market, interacting on an ongoing basis with investors to discuss not only our financial performance but also our environmental and social performance, since results in all these areas are closely linked.

In 2018 **Standard Ethics**, an independent agency which assigns Solicited Sustainability Ratings, **confirmed our Standard Ethics Rating to "EE", a "full investment grade"** given to sustainable companies with low reputational risk profile and strong prospects for long-term growth. The Standard Ethics Rating is an assessment of sustainability and governance based on the principles and voluntary directions of the United Nations, the Organization for Economic Cooperation and Development (OECD) and the European Union. FinecoBank is also included in the Standard Ethics Italian Banks Index© and in the Standard Ethics Italian Index (the Index components are the 40 major Italian listed companies of the Italian Stock Exchange FTSE-MIB), among the major environmental, social and governance performance indices and benchmarks.

Finally, during the **2018 the engagement activity continued with regards to the institutional shareholders and proxy advisors**, in order to provide information and support the analyzes regarding the shareholders' proposals and more generally the FinecoBank remuneration policies.

## 7. Regulators

We consistently engage with Regulators to support a competitive, sustainable financial market.

**Relations with the Regulatory Authorities are based on the principles of integrity, transparency, fairness, professionalism and cooperation**, in compliance with the procedures laid down by the applicable legislation, using and submitting complete documents and statements.

Let us remember that, in July 2017, Fineco and UniCredit were the first banks in Italy admitted to the **Cooperative Compliance Scheme with the Revenue Agency**. This important achievement has been reached thanks to the match of both the subjective and objective requirements, that means to have an effective system for identifying, measuring, managing and controlling tax risk in line with the "essential" requirements of the Tax Control Framework envisaged by law, Revenue Agency ordinances and by the OECD documents published on the subject. This scheme establishes a closer relationship of trust and cooperation with the Revenue Agency, helping to increase the level of certainty on significant tax issues under conditions of full transparency, through ongoing and prior discussions on situations likely to generate tax risks.

## 8. Local communities and environmental impact

### a. Dematerialisation

Our greatest effort in minimizing environmental impact has been **focused on dematerialisation processes, through innovations such as "remote digital signature" and "graphometric signature"** that significantly reduce paper flows and emissions. By reducing the consumption of materials, we make the Bank more sustainable. The use of the paper can be limited thanks to the use of the technology.

In particular, we have released new digitally ways of subscribing contracts and orders. These functionalities are aimed both at customers who directly work on the Bank's website and at customers who work through the network of financial advisors. At December 31st, 2018, more than 70% of the requests for opening accounts through the financial advisors, were subscribed by customers with the graphometric signature, through a completely digital process.

In addition, requests for getting certain services with a remote digital signature (such as, but not limited to, the request for a debit card or the subscription of personal loans or requests for new openings of lombard loans) reached percentages largely above the traditional mode, freeing the customer from the need to print and send paper forms to the bank.

More generally, all new services for customers go through a shared approach among all the bank's structures involved, aimed at the creation of a highly automated processes (from a perspective of end-to-end) and flows of digital documents with no more need to print by the customer, the financial advisor and the involved back office structures, so reducing environmental emissions.

Finally, we are working on implementing some projects including digital signature for insurance contracts, the digital registered letter and internal digital documents instead of print out.

## b. Mobility management

We continue to promote innovative solutions that make remote meetings possible using technology. In fact, all our employees have video-communication tools and have access to videoconferencing systems. In addition, we adopted the Group policy on travel which encourages the use of public transport and since 2016, journeys not linked to customers' visits are prohibited for one week a month.

We also remind that Finecobank is committed to sustainable mobility, for example we took part in the set-up of **bike sharing service in Milan (BikeMi)**, through a station close to our headquarters in Milan, entirely financed by the bank. The aim of this initiative is to reduce traffic and pollution and to promote physical wellbeing.

## c. Office buildings renewals

We are convinced that making working environments more enjoyable, as well as functional, can positively improve the daily activities of our employees. So we renewed both Reggio Emilia and Milan offices: the offices in Reggio Emilia were been completely requalified in 2017 and subsequently a reduction of energy consumption of about 20% is estimated. In Milan headquarters the restructuring is underway. **New spaces for offices, meeting rooms** and training rooms have been created, with a more modern layout, which will then be extended to all the spaces of the bank. The interventions allowed **a reduction of 15% of energy consumption at the end of December 2018**.

## d. Energy supply

The use of renewable energies is a key element in the fight against global climate change. We do our part, buying most of the electricity from renewable sources.

Finecobank's procurement model follows the UniCredit group model and is inspired by sustainability concepts. In addition, suppliers must meet certain minimum sustainability requirements and are chosen according to the standards of the International Labour Organisation in the field of fundamental human rights, child labour, freedom of association, conditions of work, equal pay, health, security and business ethics. Suppliers must also comply with the rules set by the group's environmental policy.

In addition to buying products with environmental certification, we prefer to use suppliers with Environmental Management Systems (EMS) certified according to EMAS standards and ISO 14001.

## e. Local communities and charity

We have also made available to the municipality and neighbourhood area a **big advertising screen** located outside our headquarters in Milan, used not only for marketing but also for public communications and emergencies of the municipality.

Since the first years, Fineco has been committed to support concrete solidarity projects in various areas of intervention, including social and health care, training, education, promotion of culture and art, scientific research and environmental protection.

In addition to the charity made during the year, the Christmas Charity campaign (promoted every year on our corporate website) is the most important moment dedicated to solidarity. The campaign provides the possibility of donating for customers and non-customers to selected associations and projects, in addition to a donation by the bank.

The projects must be promoted by non-profit associations whose activity develops at wide range throughout the national territory. All the projects supported by Fineco are always developed in Italy.

The process involves a careful selection and evaluation of the associations through the request and the study of the following documentation:

- presentation of the association/entity
- presentation of the initiative for which the contribution is requested, highlighting social purposes, areas of intervention, needs (single or collective) to be met and beneficiary categories in relation to the activities and projects, total amount of the initiative and required contribution for the bank
- updated social status/social report

- certification attesting the validity of the signature powers of the President/legal representative (e.g.: copies of verbal books, updated certifications, self-certification, etc.)
- copy of the identity document of the President/legal representative
- any other useful document

The associations are also subjected to a questionnaire aimed at avoiding initiatives in favour of institutions/associations involved in acts of corruption.

## f. 2018 Christmas with Fineco

In 2018 Fineco focused on three main projects.

### a. ARCA PROJECT - Project: The first aid, always

The aim of the project is to bring immediate support to homeless in the main Italian cities, through the distribution of sanitary kits, meals and essentials by road units of the association assisting homeless in the evening. Every night a team composed by a specialized operator and 3 volunteers reaches the homeless distributing them meals and essentials, with the aim of alleviating their discomfort, creating a trust relationship and orienting these people towards the centres of reception present on the territory, to activate a path of reintegration <https://www.progettoarca.org/>

### b. LEGAMBIENTE – Clean beaches and seabed

“Clean beaches and seabed” is one of the most important active volunteer campaigns and citizen science organized in Italy. Every year the last weekend of May a three-day cleaning of beaches, seabed and coasts is organized, combining passion for the environment and environmental education against waste at sea. The countryside of clean beaches and seabed is also a great opportunity to draw attention to the issues of waste prevention, differentiated collection and lifestyles <https://www.legambiente.it/>

### c. CAF ONLUS - Welcome children from 3 to 12 years

The welcome service of children between 3 and 12 years is represented by 3 psychoeducational residential communities, site in Milan. In these structures children from all over Italy are welcomed away from their families by decree of the juvenile court, because of serious situations that endanger their well-being, their growth and psychophysical and affective safety. The work of welcome and care is articulated in 3 phases: welcome, aimed at creating a context of protection and support in which the child learns to trust the new figures of reference, psycho-socio-educational support, focused on the process of reparation of the suffered trauma, and finally accompanying in the project of resignation, which may consist in the return to the family, the foster or adoption, or the continuation of the course in a community for teenagers <https://www.caf-onlus.org/>

## 9. Corporate Governance

The corporate governance system adopted by Finecobank promotes a clear and responsible development of banking operations, contributing in the creation of long-term sustainable value. In particular, it is based on the principles recognized by international best practice as fundamental for a good governance: the central role of the Board of Directors, the correct management of conflict of interests, the efficiency of the internal control system and the transparency towards the market, with particular reference to the communication of corporate management choices.

More specifically, Finecobank is part of UniCredit Group and is subject to the management and coordination activities of the parent company UniCredit S.p.A., in accordance with the effects of the articles 2497 and following of the Italian Civil Code. The overall framework of the corporate governance of the Bank has been defined, therefore, in coherency with the existing provisions of laws and regulations, taking into account, also, the recommendations included in the Code of Self-regulation for listed companies<sup>26</sup>.

In this context, Finecobank adopts the so-called traditional governance system, based on the presence of two bodies appointed by the shareholders' meeting: **the Board of Directors**, with functions of strategic supervision and management company, and **the Statutory Auditors**, with control functions. The statutory auditors is entrusted to an external auditing firm, in accordance with the applicable legislation.

In order to foster an efficient system of information and advisory which allow the Board of Directors a better assessment of certain matters of its competence, in conformity with the supervisory provisions issued by Banca d'Italia and the recommendations of the self-regulatory code, there are three committees with proactive, advisory and coordination functions, and in particular:

- **Remuneration Committee**
- **Appointments and Sustainability Committee**
- **Risk and Related Parties Committee**

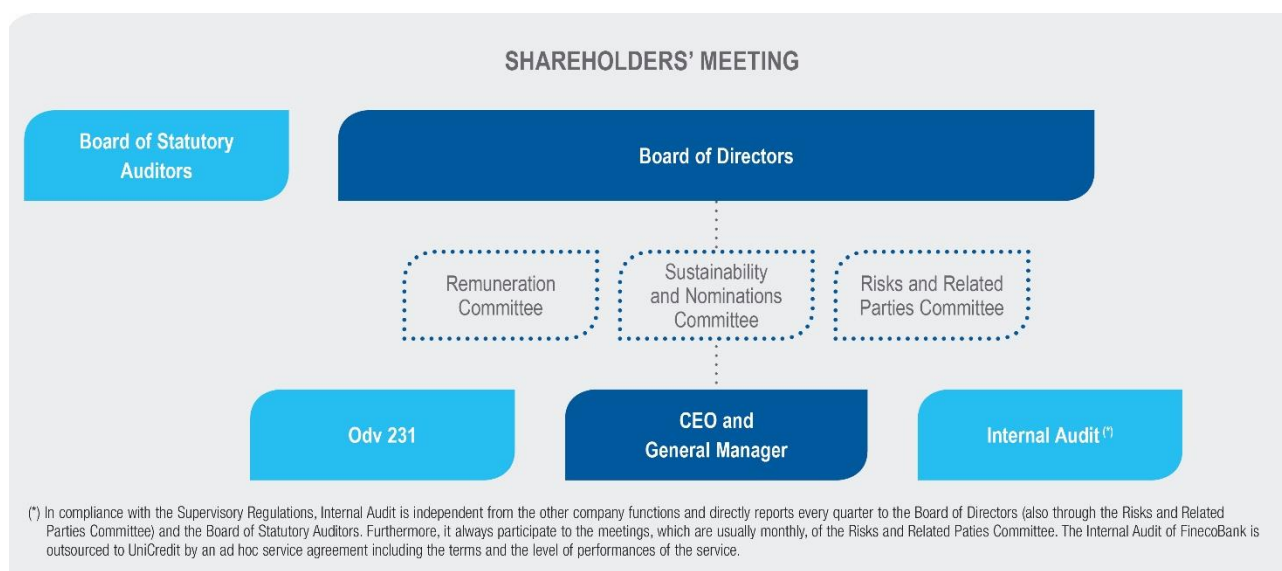
<sup>26</sup> Since the listing Finecobank has adopted the self-regulatory code of listed companies, which, in line with the experience of the main international markets, indicates the corporate governance standards and best practices recommended to listed companies by the Committee for Corporate Governance - based on transparency, accountability and a long-term perspective - to be applied in accordance with the principle of 'comply or explain' which requires to explain in the corporate governance report the reasons for non-adaptation to one or more recommendations contained in its principles or application criteria.

In particular, it is noted that during the year the Appointment Committee was assigned the supervision of Sustainability related to the exercise of the Bank's activity and to the interactions with all stakeholders, modifying its name in Appointments and Sustainability Committee. This committee, in addition to the tasks already attributed to it, also carries out the following functions in the field of sustainability:

- supervise over time the evolution of the company's sustainable growth strategy accordingly with international guidelines and principles, as well as those at group level
- contribute to assess relevant risks in the medium-long term (application criterion 1.C.1. of the self-regulatory code); in particular, to supervise the activity of identifying ESG risks
- formulate proposals in relation to social and environmental plans, objectives, rules and procedures, monitoring their implementation over time
- monitor the company's position in relation to the financial markets on sustainability issues and the latter's relations with all stakeholders
- examine this chapter, the completeness and transparency of the information provided through it, providing in this regard its observations to the Board of Directors called upon to approve this document.

A Sustainability Management Committee was also established in support of this committee.

The governance structure of the Bank at December 31st, 2018 is graphically represented below.



## a. Composition of the Board

Our Board of Directors consists of **9 members**, including the Chairman and Chief Executive Officer (CEO). It was appointed by the Shareholders' Meeting of April 11, 2017 and its term of office will end at the Shareholders' Meeting called to approve the annual financial statements as at December 31, 2019.<sup>27</sup>

The composition of the Board in office is quantitatively and qualitatively consistent with the theoretical profile approved by the Board of Directors<sup>28</sup>, including with regard to the limits on the number of offices held. In addition, the Board of Directors meets the requirements of integrity, experience and independence (including suitability) set forth in the articles of association and current regulations.

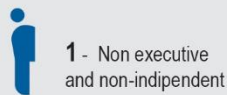
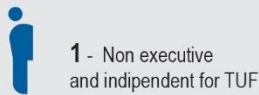
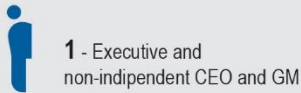
<sup>27</sup> The members of the Board of Directors (and of the Board of Statutory Auditors) are appointed by the Shareholders' Meeting according to the list voting mechanism. This voting system, which uses lists of competing candidates, ensures that representatives of minority shareholders are appointed.

<sup>28</sup> In order to reappoint the administrative body, FinecoBank's Board of Directors had to identify the theoretical profile of the candidates for appointment (including in terms of professional competence and independence, where applicable). To this end, by resolution of February 7, 2017, the Board of Directors approved the document entitled "Assessment of the qualitative and quantitative composition of the Board of Directors of FinecoBank S.p.A." (published on the company's website), which contains the results of the preliminary analysis conducted by the Board of Directors on its optimal qualitative/quantitative composition for the purposes of the proper performance of its functions, in specific compliance with the Supervisory Regulations on Corporate Governance.

**b. The Board of Directors in figures**

The Board of Directors in figures

**Executive and non-executive Directors**

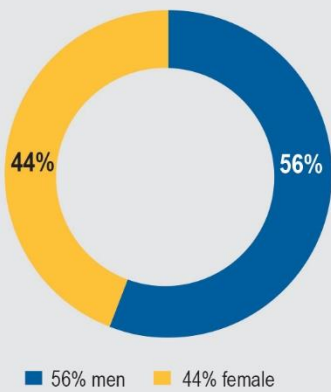


**Areas of competency of the Board of Directors**

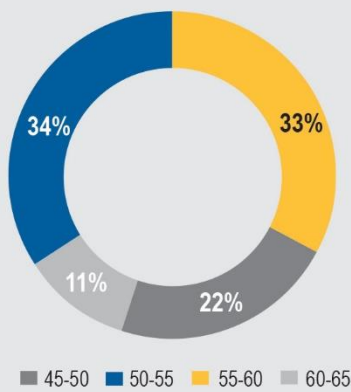
Each Director satisfies at least 2 of the required areas of competence



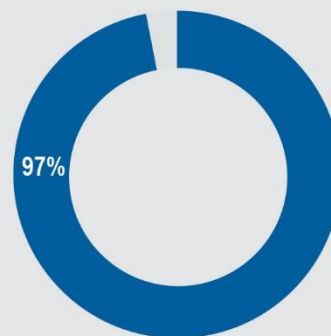
**Breakdown by gender**



**Breakdown by age**



**Average attendance rate at BoD meetings - 2018**





## 10. Internal Control System and Risk management

### a. Risk Management

Finecobank promotes a **solid risk culture**, based on shared values and coherent behaviours, key to ensure long-term sustainable profitability.

The Risk Management of Fineco is responsible for identifying, quantifying and mitigating the risks of the Bank, through rules, methodologies, policies and strategies in line with the regulatory requirements set by the supervisory authorities and by the parent company within the scope of its coordination powers. At the same time it supports the Bank's strategic planning.

To allow the maximum alignment between risks and profitability, the Risk Management function adopts the **Risk Appetite Framework (RAF)**, which establishes the acceptable level of risk for the Bank, in line with the business objectives. The RAF is aimed at achieving sustainable profitability in conjunction with a solid business growth.

The Risk Management function has therefore the task of assisting the Board of Directors in defining a risk-propensity proposal for the bank. This proposal is preliminary to the annual and multi-annual budget process and complies with the strategy of the Bank and the Group. The alignment of Top Management Incentive Systems and the network of financial advisors to the RAF encourages a prudential approach to risk taking and maintains appropriate levels of risk.

The main risks of the Bank are credit and counterparty risks followed by operational and market risks and this is also evident in the breakdown of risk-weighted assets (RWAs). In addition to the risks of the first pillar of Basel, Fineco is exposed to risks associated with exposures in sovereign states, interest rate risk, business risks and liquidity risks. The latter risks defined by the second pillar of Basel are all included in the Risk Appetite Framework, whose respect makes the Bank's business sustainable.

With regards to **credit risks**, in the expansion of its lending's business, the bank pays strong attention to build and maintain a **low-risk portfolio that retains high quality over time**.

As part of the lending business, the bank shares all the core values included in the **Integrity Card and the Code of Conduct**, with no participation in such operations as:

- to finance individuals and corporates which are convicted of criminal offences (where known), including those of economic/financial nature and against the property, or in the social structure of which they appear to be convicted of the same offences
- to finance operations not in line with the principles for banking activities defined by the Global Rules on reputational risk
- to take advantage of clients with low cultural level or special situations, to obtain gains thanks to the application of particularly costly economic conditions/interest rates.

The prevention and **management of operational and reputational risks** allows, from one side, the limitation of losses by reducing any business risk and, on the other hand, maintains a correct relationship with customers ensuring the persistence of the relationship with the bank. The presidium of these risks is ensured not only through policies and procedures for measuring and reducing risks, but also by the evaluation of each product by a specific products committee which timely ensures the analysis of any current or prospective risk.

Lastly, as far as **market risks** are concerned, the Bank strategy is aimed at assuming limited risks, physiologically compatible with the Bank's brokerage activity: the first and second level controls are focused on a close monitoring of risk thresholds defined by the Board of Directors.

Risk Management is also involved in the improvement of the risk culture through training activities at all levels. During 2018, the Internal Control & Business Committee was the subject of specific communication activities on Risk Appetite and capital adequacy. In 2018 there were deep-dive with the Risk Committee and Related Parties specific aspects concerning the methodologies of IFRS 9 provisioning.

Lastly, to reinforce the company's risk culture, the Bank participates in the group initiatives concerning the **Risk Academy**, designed and managed by the group's risk management function, in collaboration with competence centres for learning and training. This approach develops the understanding of risk and its knowledge.

### b. Compliance

We proactively monitor and manage the associated risks of non-compliance, carrying out our activities in line with current regulations, internal procedures, best practices and ethical principles. In this way, our compliance function defines, develops and regularly monitors the implementation and respect of the rules, procedures, methodologies and other compliance standards of our Bank. Senior management, who supervises this process, is promoting a solid compliance culture. If the business is at the heart of our work, compliance is the way in which these activities are performed.

Compliance is a prerequisite for the legitimacy and sustainability of our business. Compliance to all applicable laws, regulations and internal rules, both locally and at the group level, allows us to prevent unlawful conduct and to contribute to the fight against financial crimes. Given our commitment to promote compliance-based behaviour in every employee, a strong collaboration between compliance and our business units is crucial.

We aim to build and implement a common compliance culture that involves all levels in our organization. The group Global Policy - compliance culture, approved and adopted in November 2016, defines the key principles of the compliance culture at group level and in Fineco, as well as the roles and responsibilities of the internal functions in charge of this policy (e.g. Compliance, human resources and communications).

In 2018, we implemented a Tone from the TOP program to ensure that our senior managers continue to stay focused on compliance issues, and periodically remind all employees what their expectations are in relation to conduct and behaviours to be taken in Finecobank. Further deep dive was promoted through workshops and videos at group level on a number of compliance issues, such as Personal Dealing, MiFID II, Anti-Money Laundering, Conflicts of Interest, Financial Sanctions, Anti-Bribery & Corruption, General Data Protection, Financial Benchmark Regulation, PRIIPs, Whistleblowing and Antitrust.

## c. Whistleblowing

Whistleblowing helps to protect the company and its reputation as well as all our employees. In 2011, we adopted a system whereby employees and financial advisors can report any conduct that violates the Bank's law or internal rules. Any employee and financial advisor may use this mechanism if it has reasonable suspicion that illicit conduct or potentially damaging behaviour has occurred or may occur.

In the event that an employee or financial advisor has reason to suspect that unacceptable conduct has occurred or may occur, they shall report it to the Compliance Officer of Finecobank (responsible for local anti-corruption) acting as Responsible for the internal signalling systems, which guarantees the correct execution of the procedure.

In the event that the Compliance officer is hierarchically and functionally subordinate to the person to whom the complaint relates, or if he or she is held responsible for the breach or has a potential interest in the reporting liable to jeopardize its impartiality and independence of judgement, the employee or the financial advisor can contact the internal audit directly as "reserve function", sending the report to the manager of the internal audit function of Fineco.

The management of this process is designed to ensure the utmost possible confidentiality regarding the identity of the signatory and the accused subject and to prevent any possible retaliation or discriminatory behaviour as a result of the report.

The channels made available to employees and financial advisors by the bank to carry out the reporting of irregularities, even anonymously, are as follows (some of these are available 24 hours a day):

- by phone, through the line SpeakUp Fineco, which allows the employee and the financial advisor to leave a voicemail, even anonymously
- on the website, through the Fineco speakup Web service, which allows the employee and the financial advisor to leave a written message, even anonymously
- via dedicated e-mail address
- in paper format to the dedicated postal address.

Information on whistleblowing is also made available to employees and financial advisors through a specific section of the company intranet, which specifies in detail how and when to make a report.

On November, 15th 2017, the Italian draft law for the reporting of irregularities was definitively approved, which contains provisions for the protection of the authors of reports of offences or irregularities that came out in a public or private working relationship. Regarding the whistleblowing process of the bank, the analysis carried out during the 2018 confirmed the substantial conformity of the internal practices with the requirements of the new law.

## d. Anti corruption (anti-bribery)

Our approach to preventing corruption and bribery is set out in the Global Compliance Policy on Anti-Corruption and its associated Operational Instructions, adopted by the Bank. The Policy sets minimum standards for anticorruption compliance and it applies to officers and members of strategic, control and executive bodies, employees, PFAs.

The Anti-Corruption Policy aims to:

- define principles and rules for identifying and preventing potential acts of corruption to protect the integrity and reputation of the Bank
- provide general information to employees on measures taken by the Bank to identify, mitigate and manage corruption risks.

The following mechanisms have been put in place to monitor the effectiveness of the Bank's approach to anticorruption and anti-bribery: escalation procedures employed for significant and strategic issues, quarterly management information requested, analysis and testing of the results of activities related to the management of second level controls, Compliance Risk Assessment processes performed for each regulatory area within the Compliance function's jurisdiction, and internal audit reviews. The last two mechanisms (the Compliance Risk Assessment and Internal Audit inspections) result in risk mitigation actions that need to be completed on time to ensure the management of the risks identified..



Risks of non-compliance are managed through a dedicated risk assessment process and second level controls. In the event of non-compliance, corrective actions to mitigate actual significant risks are undertaken.

Our Bank has zero tolerance towards acts of corruption, prohibits facilitation payments and does not permit any transfers of value to public officials without approval; it also forbids political donations.

## e. Code of Ethics, Code of Conduct and Charter of Integrity

Our Bank has adopted a **Code of Ethics**, to mitigate operational and reputational risk, and promote a widespread culture of internal control. The Code also plays a role in the prevention of crimes covered by Legislative Decree 231/2001, as it contains a series of corporate ethics principles recommending, promoting or forbidding specific behavior, regardless of regulatory provisions. It contains the rules intended to ensure that the conduct of all is always guided by criteria of fairness, collaboration, loyalty, transparency and mutual respect.

The **Integrity Charter** states the ethical and deontological principles that we recognize as our own.

The **Code of Conduct** defines general principles of conduct, aiming to promote our culture of compliance and our commitment to sustainability. In order to deepen the themes of the Code in 2018 an educational and interactive path, provided by the 6 episodes "Jane and Kevin: Are you making the right choices?" was made available.

All these documents reflect the Bank's ethical values and principles, as well as providing a concrete response to its stakeholders: employees, suppliers, customers, partners, local communities and institutions, indicating specific commitments in their regard in terms of the principles of conduct and control. Our stakeholders, however, are also requested to respect such values, creating a reciprocal relationship.

The documents focus on the values of freedom, excellence, respect, transparency, integrity and fairness, and identify rules of conduct representing specific and mandatory commitments for every employee, helping to build a **business culture** consistent with our underlying values. The approach is designed to underscore the key values underpinning our business, as well as the rules through which our values are put into practice on a daily basis.

## f. Commitment to Human Rights

During the year, Fineco drafted its **commitment to Human Rights**, which summarizes the approach, roles and responsibilities as well as the principles, rules, procedures and systems adopted.

FinecoBank operates in accordance with the **Universal Declaration of Human Rights**, which states that "every individual and every organ of society, keeping this Declaration constantly in mind, shall strive by teaching and education to promote respect for these rights and freedoms and by progressive measures, national and international, to secure their universal and effective recognition and observance, both among the peoples of Member States themselves and among the peoples of territories under their jurisdiction".

## g. IT and Cyber Risk

Our Bank has a **strong internal IT and operations culture**, which make efficiency and innovation part of our DNA. As at December 31st, 2018, around 18% of our employees work in the IT Department and 24% in our Back Office.

From the beginning, we have chosen to manage most of our activities in these areas internally, and this also allows us better control of processes, reaching high levels of efficiency and at the same time creating extensive internal expertise that translates into a strong competitive advantage.

The **strategy of internally develop products and services** allows us to offer personalized and distinctive products, reducing both risk and problem resolution times, and using consolidated technologies able to ensure stability and reduced time-to-market.

Ongoing efforts to offer increasingly complex products and services while maintaining ease of use for customers able to access them through different channels allows us to offer flexibility in customer mobility and an **outstanding customer experience**.

Furthermore, the **Bank also internally manages all security services**. Great attention towards Cyber Security and Fraud Management is placed, in order to create full security for the customer while maintaining simplicity of use.

## h. Cyber risk

Managing Cyber Risk is key for our Bank considering our nature of multichannel Bank.

Given the increasingly complex digital world we live in, information security has never been more important for the banking sector. Cybercrime, e-fraud, identity theft and hacktivism are definitely a hot topic.

**Our objective is to protect our customers and our business by ensuring the security of data declined in its characteristics of availability, confidentiality and integrity.** The steps we are taking will mitigate our exposure to operational and reputational risks. We therefore devote considerable resources to keeping our customers' assets and data safe.

Unfortunately, as the world becomes more connected and moves at a faster pace, there are many more opportunities for criminals to misuse the global financial system. We are taking a number of steps, such as training employees. **We have invested in training employees** so they understand the role that they play in combating financial crime (e-crime). In addition, we have put **processes in place to deal with such instances quickly and effectively.**

Our security strategy involves a **multi-layered approach, based on a deep knowledge of our customers, behavioral analytics and risk scoring.** This empowers and makes our anti-fraud process more effective, maintaining a high level convenience and usability. Knowing our customers better is key to protecting them from financial crime. We need to make sure all the information we have about our customers is accurate, up to date and complete. This will help our systems that detect criminal activity work more effectively.

On **Cyber Security:** we are using a **well-established, risk-based internal security process, made up by skilled people and advanced technology infrastructure.** The objective of maintaining a high standard of safety is verified, on an ongoing basis, also through benchmarking with market fraud levels, both in banking and money market. **For several years, the level of fraudulent phenomena in FinecoBank is significantly lower than the market,** an important indicator to assess the effectiveness of the process itself.

Fineco has a **strong internal IT culture,** making it easier to cope effectively with IT security issues. Moreover, talking about IT, we have a limited use of external partners, thus allowing us a far better understanding of our applications and systems.

Last but not least, we are working together with Italian Law Enforcement, national and international security associations and well known security companies. Don't forget that a system approach against cybercrime can be much more effective than fighting it alone.

In terms of **customer protection,** we have in place clear policies, frameworks and governance which cover all our processes, from the design of products and services, to training, incentives, and client interaction. Fineco ensures the compliance with data protection rules by adopting the principles prescribed by Italian legislation, implementing Directive 95/46/EC through a new Global Policy on Privacy. On April 2016, the Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the General Data Protection Regulation "**GDPR**") was approved by the EU Parliament. The new data protection regime entered into force on May, 25th 2018 and directly applicable in all Member States of the European Union without the need of implementing national legislation. As part of our commitment to data protection, Compliance Risk Assessment and second level controls aim to identify, monitor and manage compliance risks in this regulatory area.

The Bank has also adopted a formal and comprehensive **Security Incident Response Plan,** articulated on several levels: **governance, organization, operation and reporting.**

## 11. Awards

Also in 2018 Fineco obtained several high-profile awards, which confirm the excellent market positioning of the Bank. Recognitions that are added to others obtained in the past, such as the research "What really shapes the Customer Experience" from the consulting company BCG, which in 2015 defined Fineco as the **most recommended banking brand globally through word of mouth.**

Among these stands out in particular **Institutional Investor,** the financial magazine that for the second year in a row awarded Alessandro Foti as **the best CEO in Europe in 2018 in the banking sector, for the Small & Mid-Cap category.** The 2018 edition of the "All-Europe Executive Team" survey involved about 1,500 institutional investors and 940 analysts, who voted over 1,500 companies. In particular, Fineco ranked among the best companies in the survey, being among the "**Most Honored Companies**".

In addition to the Best CEO award, the Bank ranked second in the following categories among the Small & Mid Cap institutions: "Best IR Professional", "Best Investor Relations Program" and "Best Website". The awards of Institutional Investor confirm once again the positioning of Fineco among the most important and recognized players in the banking and financial sector at international level.

In 2018 Fineco obtained further awards: the **Professional Wealth Management,** magazine of the Financial Times Group within the first edition of the "Wealth Tech Awards", named FinecoBank "highly recommended" among the European Private Banking in the category "**Best private bank for digitally empowering relationship managers**". Moreover, as part of the **Bluerating Awards, Alessandro Foti received the award for his career:** "The award goes to a manager who in his career has demonstrated the correct balance between the foresight necessary to prevent market challenges and fundamental pragmatism to deal with them. A combination at the base of the success story of Fineco, started years ago as a start-up and now one of the main players in our sector".

Finally, Fineco UK was awarded by the London Forex Show as: Best Forex Provider of the year 2018, Best Forex Trading Platform, Best Forex New Entrant 2018, Best Forex Trading Tools.

# Other information

## Report on corporate governance and proprietary structures

Pursuant to Article 123-bis, paragraph 3 of Legislative Decree no. 58 of February 24, 1998, the Report on Corporate Governance and Proprietary Structures is available at the "Governance" section of the FinecoBank website (<https://www.finecobank.com>).

## Report on remuneration

Pursuant to Art. 84-quater, paragraph 1, of the Issuers' Regulations implementing the Legislative Decree no. 58 of February 24, 1998, the "Report on remuneration" is available on FinecoBank's website (<https://www.finecobank.com>).

## Research and development

To promote technical solutions in line with the company mission, research and development is focused on developing software that enables the provision of increasingly innovative financial advice together with exclusive own-account trading.

More specifically, the main software applications that have been developed over the years are:

- Advice, a computer program through which the Bank enables its personal financial advisors to offer a professional advisory service to customers who want a personalised financial plan;
- Internaliser, a computer program through which the Bank executes customer orders in its own account relating to trading on financial markets as an alternative counterparty to the market;
- Powerdesk and Webtrading, software that allows the Bank to, respectively, offer customers sophisticated and efficient tools for online trading on the main international financial markets and simple solutions to complement the direct banking services.

The activities were split between developing new applications and strengthening/maintaining existing features to meet customer needs increasingly efficiently.

Lastly, in 2018, activities for the development of the X-Net platform (used by personal financial advisors) have been consolidated through the implementation of information and reporting services.

## Information on the time limits for convening the ordinary Shareholders' Meeting

Pursuant to Article 2364, paragraph 2, of the Italian Civil Code and Art. 6, paragraph 4, of FinecoBank's Articles of Association, the draft Annual Accounts will be submitted to the Ordinary Shareholders' Meeting for approval within 120 days from the end of the financial year.

## Non-financial declaration pursuant to article 6, paragraph 1, Legislative Decree 254 of December 30, 2016

The Bank has availed of the right to waive preparation of the Non-financial declaration pursuant to article 6, paragraph 1, Legislative Decree 254 of December 30, 2016 as both FinecoBank and Fineco Asset Management DAC are included in the Integrated Report prepared by the Parent Company UniCredit S.p.A.

## Certification by the administrative body as to satisfaction of the conditions set out in article 16 of the Markets Regulation adopted by CONSOB resolution no. 20249 of December 28, 2017

In relation to the provisions of art. 2.6.2, paragraph 9, of the Regulation on Markets Organised and Managed by Borsa Italiana S.p.A., it is hereby certified that FinecoBank – subject to management and coordination by UniCredit S.p.A. – meets all the requirements of art. 16 of the Markets Regulation adopted by CONSOB resolution no. 20249 of December 28, 2017, for the listing of shares of the subsidiaries subject to the management and coordination of other companies. In particular, the Bank has fulfilled the disclosure obligations set forth in Art. 2497-bis of the Italian Civil Code, has an independent negotiating capacity in its relations with customers and suppliers, has a Board of Directors consisting mainly of independent directors, and has a Risk and Related Parties Committee composed of independent directors (which is assigned, among other things, the functions that the Corporate Governance Code for Listed Companies assigns to the Internal Control and Risk Management Committee).

# Subsequent events and outlook

## Subsequent events

The Board of Directors' meeting of FinecoBank held on January 10, 2019 – in consideration of the favourable opinion of the Remuneration Committee which met on January 9, 2019 – approved the following incentive systems that will be submitted to the Shareholders' Meeting called for April 10, 2019:

- 2019 Incentive System for Employees categorised as Key Personnel;
- 2019 Incentive System for Personal Financial Advisors identified as "Key Personnel".

On January 31, 2018, FinecoBank completed the headquarters acquisition from Immobiliare Stampa S.C.p.A. (controlled by Banca Popolare di Vicenza), the ownership of the building, designated for offices use and related accessories, which establishes the registered office of the Bank located in Milan, Piazza Durante 11, partially rented until that date. The transaction was completed with a price of the deal of €62 million and it represents the carrying amount of the property booked in the financial statements, in addition to taxes and initial direct costs.

The difference between the above mentioned carrying amount and the asset determined on the basis of the cash flows associated with the lease of the building that would be recognized in relation to the application of the new accounting standard IFRS16, starting from 1 January 2019, that, by introducing a new definition of leasing<sup>29</sup>, provides the inclusion in the balance sheet of a leased asset based on control of the asset ("right of use"), generates a greater capital absorption of 34 bps in terms of CET1 ratio and a positive economic impact of about €2.5 million per year<sup>30</sup>, with a consequent positive effect in terms of EVA.

Finally, the Board of Directors of FinecoBank on 5 February 2019, taking into account the positive opinion of the Remuneration Committee meeting on 1 February 2019, approved the implementation of the following incentive / loyalty systems:

- 2014-2017 multi-year plan top management for employees. In particular, the assignment of n. 335,624 free ordinary shares to the beneficiaries of the second tranche of the Plan, granted in 2016, and consequently a free share capital increase for a total amount of €110,755.92 with immediate effect;
- Incentive Systems 2014, 2015, 2016, 2017 and 2018 for employees. In particular, it was approved:
  - the assignment of n. 173,581 free ordinary shares to beneficiaries of the third tranche of the 2014 Incentive Systems, of the second tranche of the 2015 Incentive Systems and of the first tranche of the 2016 Incentive Systems, and consequently a free share capital increase for a total amount of €57,281.73 effective from March 30, 2019;
  - the assignment of the first cash tranche related to the 2018 Incentive Systems and of the second cash tranche related to the 2017 Incentive Systems;
- Incentive Systems 2015, 2016, 2017 and 2018 for Financial Advisors identified as "Key Personnel". In particular, it was approved:
  - the assignment of n. 27,103 phantom shares and the third cash tranche to the beneficiaries of the 2015 Incentive System;
  - the assignment of n. 34,644 shares of the first tranche related to the 2016 Incentive Systems;
  - the assignment of cash tranches related to the 2017 and 2018 Incentive Systems.

## Outlook

The prospective scenario, despite a context of pressure on margins, sees FinecoBank benefiting from two trends that are transforming Italian society: digitization and demand for advisory services.

In response to the main trends that are redrawing customer behavioural models, FinecoBank confirms its focus on offering advanced financial advisory services and the digitalisation of its offerings, where technology emphasizes the skills of personal financial advisors thanks to the simplification of bureaucratic activities, which allows to offer more time to cultivate the relationship with the client. This includes the cyborg advisory model, aimed at improving the productivity of the Network and at the same time increasing the quality of the service provided to customers.

The Bank will continue to pursue its strategy based on organic growth, thanks to the efficiency of the processes and the quality of the services, which allow to combine at the same time the interests of all the stakeholders: shareholders who seek an adequate remuneration for the capital invested; customers who demand services in line with their expectations; the company's employees and personal financial advisors, who aim for stability.

<sup>29</sup> The definition of Leasing required by the standard, which no longer distinguishes between finance leases and operating leases, also includes leases for buildings.

<sup>30</sup> The economic impact derives for about €2 million from the difference between the depreciation amount of the purchased building and the depreciation amount of the right-of-use that would have been booked for the same building in continuity of lease and, for the remaining part, from the income deriving from the lease of a portion of the purchased building net of taxes connected to the property and of the interest expenses that would have been recognized on the financial liability booked in correspondence with the right of use. Please note that the useful life of the property is 33 years, while the right of use and the corresponding depreciation amount have been determined considering the maturity of the lease contract (before the purchase), set at 31 December 2026.

The aim is to further strengthen its competitive positioning in the integrated banking, brokerage and investing services sector through the high quality and completeness of the financial services offered, summarized in the "one stop solution" concept, thanks also to the asset management activities carried out by Fineco AM that will allow the Bank to be even closer to the needs of its customers, more efficient in product selection and more profitable thanks to the vertically integrated business model.

## Proposal for the approval of the accounts and allocation of profit for the year

The Bank closed the year 2018 with net profit for the year of €227,922,325.69.

It is proposed to allocate the net profit for the year as follows:

- €33,607.46 to the Legal Reserve, corresponding to 0.015% of the profit for the year, having reached the limit of a fifth of the share capital;
- € 43,387,897.43 to the Extraordinary Reserve;
- €184,500,820.80 to Shareholders, corresponding to a dividend of €0.303 for each of the 608,913,600 ordinary shares with a par value of €0.33 euro, constituting the share capital including the 509,205 shares relating to the capital increase approved by the Board of Directors on February 5, 2019.

The dividends not distributed in relation to treasury shares held by the Bank at the record date will be transferred to the Extraordinary reserve.

In conclusion, the Shareholders Meeting is invited to approve:

- the Separate Annual Report and Accounts for the year 2018 in their entirety;
- the allocation of the profit for the year of €227,922,325.69 as follows:
  - €33,607.46 to the Legal Reserve, corresponding to 0.015% of the profit for the year, having reached the limit of a fifth of the share capital;
  - €43,387,897.43 to the Extraordinary Reserve;
  - €184,500,820.80 to Shareholders, corresponding to a dividend of €0.303 for each of the 608,913,600 ordinary shares with a par value of €0.33 euro, constituting the share capital including the 509,205 shares relating to the capital increase approved by the Board of Directors on February 5, 2019.

Payment of the aforesaid dividend amount, in accordance with legal regulations, will take place with the value date of April 25, 2019.

The Board of Directors

Milan, February 5, 2019

FinecoBank S.p.A.  
Chief Executive Officer and General Manager  
Alessandro Foti



FinecoBank S.p.A.  
Chairman  
Enrico Cotta Ramusino





## Consolidated Financial Statements

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# Consolidated balance sheet

(Amounts in € thousand)

<b>BALANCE SHEET - ASSETS</b>	<b>12.31.2018</b>	<b>12.31.2017</b>
10. Cash and cash balances	6	613
20. Financial assets at fair value through profit and loss	20,218	
a) financial assets held for trading	6,876	
c) other financial assets mandatorily at fair value	13,342	
<i>Financial assets held for trading (ex IAS 39 Item 20)</i>		10,879
30. Financial assets at fair value through other comprehensive income	961,773	
<i>Available-for-sale financial assets (ex IAS 39 Item 40)</i>		1,047,689
40. Financial assets at amortised cost	23,270,023	
a) loans and receivables with banks	12,440,994	
b) loans and receivables with customers	10,829,029	
<i>Held-to-maturity investments (ex IAS 39 Item 50)</i>		4,826,390
<i>Loans and receivables with banks (ex IAS 39 Item 60)</i>		13,878,117
<i>Loans and receivables with customers (ex IAS 39 Item 70)</i>		2,129,219
50. Hedging derivatives	3,314	458
60. Changes in fair value of portfolio hedged financial assets (+/-)	4,873	9,590
90. Property, plant and equipment	16,632	15,205
100. Intangible assets	98,307	97,511
of which:		
- goodwill	89,602	89,602
110. Tax assets	6,714	9,249
a) current tax assets	467	1,765
b) deferred tax assets	6,247	7,484
130. Other assets	350,770	315,415
<b>Total assets</b>	<b>24,732,630</b>	<b>22,340,335</b>

(Amounts in € thousand)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>12.31.2018</b>	<b>12.31.2017</b>
10. Financial liabilities at amortised cost	23,282,962	
a) deposits from banks	1,009,774	
b) deposits from customers	22,273,188	
<i>Deposits from banks (ex IAS 39 Item 10)</i>		926,001
<i>Deposits from customers (ex IAS 39 Item 20)</i>		20,205,036
20. Financial liabilities held for trading	2,221	
<i>Financial liabilities held for trading (ex IAS 39 Item 40)</i>		2,617
40. Hedging derivatives	5,341	12,694
50. Changes in fair value of portfolio hedged financial liabilities (+/-)	2,600	(3,772)
60. Tax liabilities	12,390	10,234
a) current tax liabilities	12,390	10,234
80. Other liabilities	337,069	338,286
90. Provisions for employee severance pay	4,561	4,999
100. Provisions for risks and charges:	109,805	112,414
a) commitments and guarantees given	49	
c) other provisions for risks and charges	109,756	112,414
120. Revaluation reserves	(9,794)	(8,340)
140. Equity instruments	200,000	-
150. Reserves	355,509	323,932
160. Share premium reserve	1,934	1,934
170. Share capital	200,773	200,545
180. Treasury shares (-)	(13,960)	(365)
200. Net Profit (Loss) for the year	241,219	214,120
<b>Total liabilities and Shareholders' equity</b>	<b>24,732,630</b>	<b>22,340,335</b>

## Consolidated Income statement

(Amounts in € thousand)

INCOME STATEMENT	2018	2017
10. Interest income and similar revenues	293,128	269,746
of which: interest income misured	290,863	
20. Interest expenses and similar charges	(14,469)	(5,165)
<b>30. Net interest margin</b>	<b>278,659</b>	<b>264,581</b>
40. Fee and commission income	571,514	533,314
50. Fee and commission expense	(271,071)	(263,231)
<b>60. Net fee and commission income</b>	<b>300,443</b>	<b>270,083</b>
70. Dividend income and similar revenue	95	55
80. Gains (losses) on financial assets and liabilities held for trading	43,833	
<i>Gains (Losses) on financial assets and liabilities held for trading (ex IAS 39 Item 80)</i>		47,413
90. Fair value adjustments in hedge accounting	171	19
100. Gains and losses on disposal or repurchase of:	1,683	
a) financial assets at amortised cost	17	
b) financial assets at fair value through other comprehensive income	1,666	
<i>Gains (Losses) on disposal and repurchase of: (ex IAS 39 Item 100)</i>		4,712
a) loans		3,951
b) available-for-sale financial assets		761
110. Gains (losses) on financial assets and liabilities at fair value through profit or loss	(1,500)	-
b) other financial assets mandatorily at fair value	(1,500)	
<b>120. Operating income</b>	<b>623,384</b>	<b>586,863</b>
130. Impairment losses/writebacks on:	(3,520)	
a) financial assets at amortised cost	(3,406)	
b) financial assets at fair value through other comprehensive income	(114)	
<i>Net losses/recoveries on impairment: (ex IAS 39 Item 130)</i>		(18,043)
a) loans		(5,158)
b) available-for-sale financial assets		(12,891)
d) other financial assets		6
<b>150. Net profit from financial activities</b>	<b>619,864</b>	<b>568,820</b>
<b>180. Net profit from financial and insurance activities</b>	<b>619,864</b>	<b>568,820</b>
190. Administrative expenses	(344,234)	(323,524)
a) staff expenses	(86,727)	(78,886)
b) other administrative expenses	(257,507)	(244,638)
200. Net provisions for risks and charges	(6,672)	(8,459)
a) provision for credit risk of commitments and financial guarantees given	402	
b) other net provision	(7,074)	(8,459)
210. Impairment/write-backs on property, plant and equipment	(5,464)	(5,569)
220. Impairment/write-backs on intangible assets	(4,959)	(4,800)
230. Other net operating income	96,378	90,304
<b>240. Operating costs</b>	<b>(264,951)</b>	<b>(252,048)</b>
280. Gains (losses) on disposal of investments	(161)	(508)
<b>290. Total profit (loss) before tax from continuing operations</b>	<b>354,752</b>	<b>316,264</b>
300. Tax expense (income) related to profit or loss from continuing operations	(113,533)	(102,144)
<b>310. Total profit (loss) after tax from continuing operations</b>	<b>241,219</b>	<b>214,120</b>
<b>330. Net Profit (Loss) for the year</b>	<b>241,219</b>	<b>214,120</b>
<b>350. Profit (loss) for the year attributable to the Parent Company</b>	<b>241,219</b>	<b>214,120</b>

	2018	2017
Earnings per share (euro)	0.40	0.35
Diluted earnings per share (euro)	0.40	0.35

## Note:

For further information on "Earnings per share" and "Diluted earnings per share" please see notes to the accounts, Part C - Information on the Consolidated Income Statement, Section 25.

# Consolidated statement of comprehensive income

(Amounts in € thousand)

ITEMS	2018	2017
<b>10. Net Profit (Loss) for the year</b>	<b>241,219</b>	<b>214,120</b>
<b>Other comprehensive income after tax without reclassification through profit or loss</b>		
70. Defined benefit plans	3,429	(3,473)
<b>Other comprehensive income after tax with reclassification through profit or loss</b>		
140. Financial assets (other equity securities) designated at fair value through other comprehensive income	(6,859)	
<i>Available-for-sale financial assets:(ex IAS 39 Item N. 100)</i>		1,927
<b>170. Total other comprehensive income net tax</b>	<b>(3,430)</b>	<b>(1,546)</b>
<b>180. Comprehensive income (voce 10+170)</b>	<b>237,789</b>	<b>212,574</b>
<b>200. Consolidated comprehensive income attributable to the parent</b>	<b>237,789</b>	<b>212,574</b>

## Statement of changes in consolidated shareholders' equity

## Statement of changes in consolidated shareholders' equity at 31.12.2018

	BALANCE AS AT 12.31.2017	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2018	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		CHANGE DURING THE YEAR										SHAREHOLDERS' EQUITY GROUP AS AT 12.31.2018	SHAREHOLDERS' EQUITY MINORITIES AS AT 12.31.2018
				RESERVES	DIVIDENDS AND OTHER DISTRIBUTIONS	CHANGES IN RESERVES	SHAREHOLDERS' EQUITY TRANSACTIONS							COMPREHENSIVE INCOME AS AT 12.31.2018			
							ISSUES OF NEW SHARES	PURCHASE OF OWN SHARES	DISTRIBUTIONS OF EXTRAORDINARY DIVIDENDS	CHANGES IN EQUITY INSTRUMENTS	OWN SHARE DERIVATIVES	STOCK OPTIONS	CHANGES IN OWNERSHIP INTERESTS				
Share capital:																	
- ordinary shares	200,545		200,545				228										200,773
- other shares																	
Share premium reserve	1,934		1,934														1,934
Reserves:																	
- from profits	291,841	(4,868)	286,973	40,725	(5,933)							(228)					321,537
- others	32,091		32,091									1,881					33,972
Revaluation reserves	(8,340)	1,976	(6,364)											(3,430)			(9,794)
Equity instruments																	200,000
Treasury shares	(365)		(365)				6,548	(20,143)									(13,960)
Profit (loss) for the year	214,120		214,120	(40,725)	(173,395)												241,219
Shareholders' Equity Group	731,826	(2,892)	728,934		(173,395)	(5,933)	6,776	(20,143)					200,000		1,653		237,789
Shareholders' Equity																	975,681
Minorities																	

The amount of the dividend approved by the Fineco's Ordinary Shareholders' Meeting in 2018, totalling €173,395,252.58, corresponds to €0.285 per share.

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

The "Changes in reserves" column includes: dividends not distributed in relation to any treasury shares held by the Bank at the record date, transferred to the Extraordinary reserve; coupons paid on equity instruments net of related taxes; transaction costs directly attributable to the issue of Equity instruments net of related taxes.

## Statement of changes in consolidated shareholders' equity at 31.12.2017

	BALANCE AS AT 12.31.2016	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2017	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		CHANGE DURING THE YEAR										SHAREHOLDERS' EQUITY GROUP AS AT 12.31.2017	SHAREHOLDERS' EQUITY MINORITIES AS AT 12.31.2017
				RESERVES	DIVIDENDS AND OTHER DISTRIBUTIONS	CHANGES IN RESERVES	SHAREHOLDERS' EQUITY TRANSACTIONS							COMPREHENSIVE INCOME AS AT 12.31.2017			
							ISSUES OF NEW SHARES	PURCHASE OF OWN SHARES	DISTRIBUTIONS OF EXTRAORDINARY DIVIDENDS	CHANGES IN EQUITY INSTRUMENTS	OWN SHARE DERIVATIVES	STOCK OPTIONS	CHANGES IN OWNERSHIP INTERESTS				
Share capital:																	
J) ordinary shares	200,246		200,246				299										200,545
J) other shares																	
Share premium reserve	1,934		1,934														1,934
Reserves:																	
J) from profits	250,247		250,247	41,684	209							(299)					291,841
J) others	28,160		28,160									3,931					32,091
Revaluation reserves	(6,794)		(6,794)												(1,546)		(8,340)
Equity instruments																	
Treasury shares	(4,338)		(4,338)				4,145	(172)									(365)
Profit (loss) for the year	211,844		211,844	(41,684)	(170,160)												214,120
Shareholders' Equity Group	681,299		681,299		(170,160)	209	4,444	(172)							3,632		731,826
Shareholders' Equity																	
Minorities																	

The amount of the dividend approved by the Fineco's Ordinary Shareholders' Meeting in 2017, totalling €170,159,736.60, corresponds to €0.28 per share.

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

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

# Consolidated cash flow statement

## Indirect method

(Amounts in € thousand)

A. OPERATING ACTIVITIES	AMOUNT	
	2018	2017
<b>1. Operations</b>	<b>356,581</b>	<b>361,011</b>
- profit (loss) for the year (+/-)	241,219	214,120
- unrealised gains/losses on financial assets/liabilities held for trading and on other assets/liabilities at fair value through profit or loss (-/+)	2,839	
- capital gains/losses on financial assets/liabilities held for trading and on assets/liabilities designated at fair value through profit and loss (+/-) (ex IAS 39)		(1,795)
- gains (losses) on hedge accounting (-/+)	(171)	(19)
- net losses/recoveries on impairment (+/-)	4,401	
- net losses/recoveries on impairment (+/-) (ex IAS 39)		10,053
- net value adjustments/write-backs on property, plant and equipment and intangible assets (+/-)	10,424	10,369
- net provisions for risks and charges and other expenses/income (+/-)	22,691	
- provisions and other incomes/expenses (+/-) (ex IAS 39)		22,691
- uncollected net premiums (-)	-	-
- other uncollected insurance income/expenses (-/+)	-	-
- unpaid duties, taxes and tax credits (+/-)	6,098	2,729
- impairment/write-backs after tax on discontinued operations (+/-)	-	-
- other adjustments (+/-)	69,080	102,863
<b>2. Cash flows from/used by financial assets</b>	<b>(2,425,880)</b>	<b>669,060</b>
- financial assets held for trading	197	
- financial assets held for trading (ex IAS 39)		(3,192)
- financial assets designed at fair value	-	-
- other financial assets mandatorily at fair value	142,484	
- financial assets at fair value (ex IAS 39)		-
- financial assets at fair value through other comprehensive income	56,220	
- available-for-sale financial assets (ex IAS 39)		246,012
- financial assets at amortised cost	(2,590,419)	
- loans and receivables with banks: demand loans (ex IAS 39)		-
- loans and receivables with banks: other loans (ex IAS 39)		1,514,464
- loans and receivables with customers (ex IAS 39)		(1,108,949)
- other assets	(34,362)	20,725
<b>3. Cash flows from/used by financial liabilities</b>	<b>2,125,729</b>	<b>1,295,521</b>
- financial liabilities measured at amortised cost	2,142,185	
- deposits from banks: demand deposits (ex IAS 39)		-
- deposits from banks: other deposits (ex IAS 39)		(175,627)
- deposits from customers (ex IAS 39)		1,404,594
- debt certificates including bonds (ex IAS 39)		-
- financial liabilities held for trading	(35)	
- financial liabilities held for trading (ex IAS 39)		144
- financial liabilities designated at fair value	-	-
- financial liabilities designated at fair value (ex IAS 39)		-
- other liabilities	(16,421)	66,410
<b>Net cash flows from/used in operating activities</b>	<b>56,430</b>	<b>2,325,592</b>
<b>B. INVESTMENT ACTIVITIES</b>		
<b>1. Cash flows from</b>		
- sales of equity investments	-	-
- collected dividends on equity investments	-	-
- sales of property, plant and equipment	93	256
- sales of intangible assets	-	-
- sales of subsidiaries and divisions	-	-
- sales of financial assets held to maturity (ex IAS 39)		-
<b>2. Cash flows used in</b>		
- purchases of equity investments	-	-
- purchases of property, plant and equipment	(7,146)	(7,084)
- purchases of intangible assets	(5,755)	(4,978)
- purchases of subsidiaries and divisions	-	-
- purchases of financial assets held to maturity (ex IAS 39)		(2,430,228)
<b>Net cash flows from/used in investing activities</b>	<b>(12,808)</b>	<b>(2,442,034)</b>
<b>C. FUNDING ACTIVITIES</b>		
- issue/purchase of treasury shares	(13,367)	4,273
- issue/purchase of equity instruments	200,000	-
- dividends and other distributions	(186,104)	(174,395)
- sales/purchases of control	-	-
<b>Net cash flows from/used in financing activities</b>	<b>529</b>	<b>(170,122)</b>
<b>NET CASH FLOWS FROM/USED DURING THE YEAR</b>	<b>44,151</b>	<b>(286,564)</b>

## RECONCILIATION

(Amounts € thousand)

BALANCE SHEET ITEMS	AMOUNT	
	2018	2017
Cash and cash balances at the beginning of the year	1,950,996	2,284,275
Net cash flows generated/used during the year	44,151	(286,564)
Cash and cash balances: effect of changes in exchange rates	24,167	(46,715)
Cash and cash balances at the end of the year	2,019,314	1,950,996

### Key

- (+) generated
- (-) used

The term "Cash and cash balances" means cash recorded under item 10 of assets "Cash and cash balances" and the equivalent liquid assets recorded under item 40 of assets "Financial assets at amortised cost: a) loans and receivables with banks" (consisting of current accounts and deposits maturing within 3 months) net of the equivalent liquid liabilities recorded under item 10 of liabilities "Financial liabilities at amortised cost a): deposits from banks" (represented by current accounts and deposits maturing within 3 months), as well as in the respective items 60 of assets and 10 of liabilities ex IAS 39.

The item "Cash and cash balances" at the end of 2018 consisted of:

- Cash recognised under asset item 10 "Cash and cash balances" in the amount of €6 thousand;
- Current accounts and demand deposits recognised under asset item 40 "Financial assets at amortised cost: a) loans and receivables with banks" in the amount of €2,071,871 thousand;
- net of the Current accounts and demand deposits recognised under liability item 10 "Financial liabilities at amortised cost: a) deposits from banks" in the amount of €52,563 thousand.

The item "Cash and cash balances" at the end of the prior year consisted of:

- Cash recognised under asset item 10 "Cash and cash balances" in the amount of € 613 thousand;
- Current accounts and demand deposits recognised under asset item IAS 39 60 "Loans and receivables with banks" in the amount of € 1,993,139 thousand;
- net of the Current accounts and demand deposits recognised under liability item IAS 39 10 "Deposits from banks" in the amount of € 42,756 thousand.



# Notes to the Consolidated Accounts

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## Part A - Accounting policies

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# Part A - Accounting policies

## A.1 General

### Section 1 - Statement of Compliance with IFRS

In implementation of Legislative Decree no. 38 of February 28, 2005, these Consolidated financial statements of FinecoBank Banca Fineco S.p.A. (hereinafter, FinecoBank or Fineco or the the Bank) have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretation documents, as endorsed by the European Commission until December 31, 2018, pursuant to EU Regulation 1606/2002 of July 19, 2002 and applicable to financial reports for the periods starting on or after January 1, 2018.

They are an integral part of the Annual Financial Report as required by art. 154-ter, paragraph 1 of the Consolidated Finance Act (TUF, Italian Legislative Decree no. 58 of February 24, 1998).

In its circular 262 of December 22, 2005 as amended, the Bank of Italy laid down the formats for the consolidated financial statements and consolidated notes to the accounts of banks and regulated financial companies that are parents of banking groups, which have been used to prepare these consolidated Accounts.

### Section 2 - Preparation criteria

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

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

The Consolidated financial statements comprise the consolidated Balance Sheet, the consolidated Income Statement, the consolidated Statement of Comprehensive Income, the consolidated Statement of Changes in Shareholders' Equity, the consolidated Cash Flow Statement (compiled using the indirect method), and these Notes to the Consolidated Accounts, together with the Directors' Report on Operations ("Consolidated Report on Operations") and the Annexes.

Pursuant to Art. 123-bis par. 3 of Consolidated Finance Act, as noted in the "Other Information" section of the Consolidated Report on Operations, the Report on Corporate Governance and Ownership Structures is available in the "Governance" section of the FinecoBank website.

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

In addition, the tables in the Notes to the Consolidated Accounts that do not have any significant information to be disclosed are not shown either for the reporting period or the previous year.

The Bank has applied the provision provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which - without prejudice to the retrospective application of the new measurement rules and representation required by the standard - there is no obligation to restate the values of previous years (comparative values) in the FTA financial statements. Without prejudice to the disclosure regarding the reconciliation between data in the last approved financial statements and the opening balances of the first financial statements drawn up applying the new accounting standard, according to the new provisions provided for in the 5th update of Circular 262 issued on 22 December 2017, and the related methodology set forth in section 5. Other matters - transition to IFRS 9 Financial Instruments of these Notes to the Consolidated Accounts, the above statements were supplemented, where different, with the accounting items of the 2017 financial statements - as stated by the 4th update of Circular 262 - in order to show the corresponding values determined according to IAS 39. The tables included in the Notes to the Consolidated Accounts have also been integrated with the tables provided for in the 4th update of Circular 262, presenting the relative values determined according to IAS 39, where it was not possible to report comparative data of the previous year due to the 5th update of Circular above mentioned. Any opening balances shown in the tables of the Notes to the consolidated Accounts are those deriving from the first application of the accounting standard IFRS9.

Finally, with reference to some tables in Part E - Information on risks and hedging policies, the circumstances mentioned above determined the choice not to provide the comparison period for some tables whose content was not comparable to those of the previous period.

Any discrepancies between the figures shown in the Consolidated financial statements and the Notes to the Consolidated Accounts is solely due to roundings.

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

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

These criteria have changed in part with respect to the previous year exclusively, relating to the introduction of new standards and interpretations, for further details please see the modifications described section 5 "Other matters", and in Part "A.2 – The main items of the accounts".

## Section 3 – Consolidation Procedures and Scope

The following was used in order to prepare the consolidated Accounts at December 31, 2018:

- the draft accounts at December 31, 2018 of FinecoBank S.p.A.;
- the draft accounts at December 31, 2018 of Fineco Asset Management DAC, fully consolidated, prepared in accordance with IAS/IFRS where the items have been appropriately reclassified and adjusted for consolidation requirements.

The fully consolidation involves combining the balance sheets and income statements of the subsidiary on a "Line-by-Line" basis. The accounting value of the investment in the fully-consolidated companies is eliminated - as a result of assuming their assets and liabilities - as a contra-entry to the relevant quota of Shareholders' Equity of the Bank (100%, as the company is fully owned by the Bank). Assets and liabilities, off-balance sheet transactions, revenues and charges, as well as any profits and losses incurred between companies are fully eliminated, in line with the consolidation methods adopted. A subsidiary's costs and revenues are consolidated starting from the date on which control over it was acquired, coinciding with the date on which the company was incorporated. It should be noted that, although the company closed its first financial year at 31/12/2018, the consolidated financial statements of FinecoBank as at December 31, 2017 already included the costs incurred by the subsidiary at the start-up stage. Therefore, for the purposes of preparing the 2018 consolidated financial statements, only costs and revenues referring to the period 1<sup>st</sup> January 2018 – 31<sup>st</sup> December 2018 were accounted for.

### 1. Interests in fully-owned subsidiaries

COMPANY NAMES	HEADQUARTERS	REGISTERED OFFICE	TYPE OF RELATIONSHIP <sup>(1)</sup>	OWNERSHIP RELATIONSHIP		VOTING RIGHTS % <sup>(2)</sup>
				HELD BY	HOLDING %	
1. Fineco Asset Management DAC	Dublin	Dublin	1	FinecoBank	100%	100% effective

#### Key:

(1) Type of relationship:

- 1 = majority of voting rights and the ordinary Shareholders' Meeting
- 2 = dominant influence at the ordinary Shareholders' Meetings
- 3 = agreements with other shareholders
- 4 = other types of control
- 5 = unified management pursuant to Article 26, paragraph 1, of "Italian legislative decree 87/92"
- 6 = unified management pursuant to Article 26, paragraph 2, of "Italian legislative decree 87/92"

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

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

No data to report.

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

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

No data to report.

#### 3.2 *Significant minority interests: accounting data*

No data to report.

### 4. Significant restrictions

No data to report.

## Part A - Accounting policies (CONTINUED)

### 5. Other information

No data to report.

### Section 4 - Subsequent events

No significant events have occurred after the balance sheet date that would make it necessary to change any of the information given in the Consolidated Financial Statements as at December 31, 2018.

The Consolidated Financial Statements at December 31, 2018 were approved by the Board of Directors of February 5, 2019, which authorised their publication also pursuant to IAS10.

### Section 5 – Other matters

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

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

Where applicable, these accounting standards, amendments and interpretations had no impact on the consolidated financial position and results of the Bank as at December 31, 2018, except of the accounting standard IFRS 9 which provides for new requirements for the classification, recognition, measurement and derecognition of financial assets and liabilities, for details of which please see the comments below, and, to the extent described below, of the new IFRS 15 accounting standard and related clarifications.

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

- Amendments to IFRS 9: Prepayment Features with Negative Compensation (EU Regulation 2018/498);
- IFRIC 23 – Uncertainty over Income Tax Treatments (EU Regulation 2018/1595).

These standards and amendments have not been applied in advance by the Bank and its subsidiary.

With regard to the IFRS 16 standard – Leasing (EU Regulation 2017/1986) approved by the European Commission in 2017, please refer to the information below.

Lastly, as at December 31, 2018, the IASB issued the following accounting standards and interpretations or revisions thereof, whose application is however still subject to completion of the approval process by the European Union, which is still ongoing:

- IFRS 17 – Insurance contracts (May 2017);
- IFRS 14 - Rate-regulated activities (January 2014);
- Amendments to IFRS 10 and IAS 28: Sale or transfer of assets to a joint venture or associate (September 2014);
- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures (October 2017);
- Annual Improvements to International Financial Reporting Standards, 2015-2017 Cycle (December 2017);
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on February 2018);
- Amendments to IFRS 3: Business combinations (October 2018);
- Amendments to IAS 1 and IAS 8: definition of “material” (October 2018).

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

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

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

### **Transition to IFRS 15 - Revenue from contracts with customers**

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

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

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

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

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

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

More specifically, for the purpose of the first application of the standard, the Bank analysed the available contractual documentation to verify:

- whether the revenue recognition criteria are in line with the provisions of the new standard. The analyses did not reveal any significant non-compliances with respect to the provisions of the new standard. To this end, it should be noted that the provision of financial services over a given period of time (for example, the management of current accounts, advisory services) have been considered as satisfied over time ("over time"), regardless of when the consideration is paid by the customer, while the provision of financial services that require specific activities to be carried out (for example, purchase, sale or placement of securities, units of UCIs or insurance products, execution of credit transfers) have been considered as satisfied at a given time ("point in time"), although the contract provides for the service to be provided indefinitely;
- whether any goods or services contain performance obligations with different pattern of transfer to the customer and, consequently, with different revenue recognition ("over time" or "point in time"). In this respect, the Bank has identified a service that contains two performance obligations that follow a different pattern of transfer to the customer, but the same revenue recognition framework; however, this is a non-material revenue that continues to be entirely attributed to the main performance obligation; the revenue relating to the shipment is nonetheless a non-material revenue that continues to be attributed entirely to the main performance obligation (annual management of the credit card) and consequently recognized according to the relative revenues recognition scheme;
- whether the consideration promised in the contract includes a variable fee. In this respect, no mismatches were identified with respect to the provisions of the new standard, since any variable fees are estimated and recognized if and only to the extent that it is highly probable that when the uncertainty associated with the consideration is subsequently resolved there will be no significant downward adjustment to the amount of cumulative revenue recognized, taking into consideration all information reasonably available to the Bank. Note that the following were not considered as variable consideration:

## Part A - Accounting policies (CONTINUED)

- management, placement and advisory fees for financial products collected by the Bank, the amount of which is calculated as the ratio of the equivalent value/average balance of the product placed to the applicable rate envisaged in the contract. There are no performance fees on asset management products in favor of the Bank;
- the amount received as part of a contract that provides for the application of a different commission level (which includes, for example, the payment of decreasing commissions until they are down to zero) according to quantitative parameters established in the contract. As the data for calculating the remuneration are available at the time the revenues are recognized and have no impact on the Bank's future income statement. As regards the placement of insurance policies with return linked to the performance of the separate account on the annual expiration date of the policy, it should be noted, however, that the return is variable in relation to the performance of the separate account, which may result in a reduction in the applicable rate;
- whether the consideration promised in the contract includes a significant funding component. In this respect, no contracts were found containing a significant funding component that was not correctly recognized. There are, however, some contracts, mainly with institutional counterparties or product companies, that do not explicitly mention the payment date of the fees, which are settled on the basis of market practices or verbal agreements, or contracts that provide for the advance / deferred payment of the good or service. For these contracts the practical expedient envisaged by paragraph 63 of IFRS 15 was used; for this reason the Bank did not adjust the promised consideration amount to take into account the effects of a funding component as the time interval expected between the transfer of the promised good or service and the related payment is less than one year;
- whether there is a consideration to be paid to the customer. In this respect, a number of contracts were found providing for a consideration to be paid, the accounting treatment of which was already in line with the provisions of the new standard.

The costs recognized for the acquisition of contracts with customers, which the Bank would not have incurred had it not obtained the contract, are recognized as assets and systematically amortized in the income statement in line with the recognition of revenues related to the transfer to customers of the goods or services to which the asset refers.

The analyses carried out did not reveal any contracts providing for a non-cash consideration.

### **Transition to IFRS 9 - Financial Instruments**

From 1 January 2018, FinecoBank and its subsidiary Fineco Asset Management DAC – which however was not operating at that date – adopt the accounting standard IFRS 9 Financial Instruments.

With regard to FinecoBank, the project transition to IFRS 9 – in coordination with a similar project carried out at UniCredit Group level and developed with the involvement of the Bank's reference functions and, most recently, the Board of Directors – was organized through specific work-streams, in particular:

- "Classification and Measurement" work-stream, aimed at reviewing the classification of financial instruments in line with the new criteria of IFRS 9;
- "Impairment" work-stream, aimed at developing and implementing models and methodologies for the calculation of impairment losses.

The new accounting standard:

- introduces significant changes compared to IAS 39, regarding the rules on the classification and valuation of financial instruments. With reference to loans and debt instruments, the classification and subsequent valuation of these instruments is based on the business model and cash flow profile of the financial instruments (SPPI - Solely Payments of Principal and Interests). With reference to the equity exposures, they are classified at fair value with a recognition of differences in the income statement or under "Other comprehensive income". In this second case, contrary to the provisions of IAS 39 in relation to financial assets available for sale, IFRS 9 has eliminated the request to recognise long-term value impairments and provides that if the instrument is sold, the profits or losses from the sale must be reclassified in another net equity reserves and not on the income statement. With regard to financial liabilities at fair value, the standard IFRS 9 changes the accounting of the so-called "own credit risk", i.e. changes in the value of liabilities measured at fair value linked to fluctuations of one's own credit rating. The new standard requires these changes to be recognised in a Shareholders' equity reserve rather than through profit and loss, as provided for by IAS 39, thus eliminating a source of volatility for economic statement results<sup>31</sup>.
- introduced a new model for recognising impairments for credit exposures based on (i) an "expected losses" approach instead of the existing model, which is based on the recognition of "incurred losses" and (ii) on the concept of the expected lifetime loss;
- has intervened on the hedge accounting rules, by revising them in regard to the designation of a hedging account and the verification of efficiency, with the aim of improving the alignment between the accounting representation of the hedging operations and the underlying operational logic. The Bank, like the UniCredit Group, has taken advantage of the option to continue to apply the existing IAS 39 hedge accounting requirements for all hedging accounts until such time as the IASB has completed its macro-hedging accounting rules project.

As a result of the entry into force of the new accounting standard, the Bank has reclassified the financial liabilities existing on 1.1.2018 into the categories provided for in the new accounting standard.

<sup>31</sup> On the FTA and on 31 December 2018, FinecoBank and its subsidiary Fineco Asset Management DAC did not hold any own financial liabilities valued at fair value.

This classification is based on the business model and the contractual cash flow profile; for the classification of financial instruments in the new categories as provided for in the accounting standard, the business model was analysed by mapping the financial assets on the Bank's balance sheet and allocating a specific business model to each of them.

The financial assets in the Bank's portfolio were allocated "Held to collect" or "Held to collect and sell" business models according to the purpose for which they are held, and the expected turnover. The financial assets in the trading portfolio were allocated the business model "Other business model", to reflect the trading intentions.

For the purposes of classifying financial instruments into the new IFRS 9 categories, the business model analysis must be accompanied by a cash flow analysis (the "SPPI Test"). In this regard, in line with the Parent Company UniCredit S.p.A., the Bank has developed systems and processes to analyse the existing debt securities and loans portfolio, to assess whether the contractual cash flow profiles allow a valuation at the amortised cost (Held to collect - HTC) or at fair value with an impact on overall profits (Held to collect and sell - HTCS).

This analysis was done on a contract by contract basis, both by defining clusters based on the operations' profiles, and by using an internally-developed SPPI Tool to analyse the profiles of the contracts with regard to IFRS 9.

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

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

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

## Reclassification of financial assets

(Amounts in € thousand)

IAS 39 BALANCE SHEET ITEMS	IFRS 9 BALANCE SHEET ITEMS									
	CARRYING VALUE 12.31.2017 IAS 39	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS								
		FINANCIAL ASSETS HELD FOR TRADING			FINANCIAL ASSETS DESIGNATED AT FAIR VALUE			OTHER FINANCIAL ASSETS MANDATORILY AT FAIR VALUE		
		A	B	C	A	B	C	A	B	C
Financial assets held for trading	10,879	8,827	-	8,827	-	-	-	2,052	-	2,052
Available-for-sale financial assets	1,047,689	-	-	-	-	-	-	5,218	-	5,218
Held-to-maturity investments	4,826,390	-	-	-	-	-	-	-	-	-
Loans and receivables with banks	13,878,117	-	-	-	-	-	-	532,584	19,338	551,922
Loans and receivables with customers	2,129,219	-	-	-	-	-	-	-	-	-
<b>Total</b>		<b>8,827</b>	<b>-</b>	<b>8,827</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>539,854</b>	<b>19,338</b>	<b>559,192</b>

### Key

- A: Reclassification of IAS 39 balance sheet value  
 B: Change in measurement  
 C: New balance sheet value ex IFRS 9

(Amounts in € thousand)

IAS 39 BALANCE SHEET ITEMS	IFRS 9 BALANCE SHEET ITEMS									
	CARRYING VALUE 12.31.2017 IAS 39	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			FINANCIAL ASSETS AT AMORTISED COST					
					LOANS AND RECEIVABLES WITH BANKS			LOANS AND RECEIVABLES WITH CUSTOMERS		
		A	B	C	A	B	C	A	B	C
Financial assets held for trading	10,879	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	1,047,689	1,042,471	-	1,042,471	-	-	-	-	-	-
Held-to-maturity investments	4,826,390	-	-	-	-	-	-	4,826,390	(469)	4,825,921
Loans and receivables with banks	13,878,117	-	-	-	13,345,533	(12,595)	13,332,938	-	-	-
Loans and receivables with customers	2,129,219	-	-	-	-	-	-	2,129,219	(691)	2,128,528
<b>Total</b>		<b>1,042,471</b>	<b>-</b>	<b>1,042,471</b>	<b>13,345,533</b>	<b>(12,595)</b>	<b>13,332,938</b>	<b>6,955,609</b>	<b>(1,160)</b>	<b>6,954,449</b>



## Part A - Accounting policies (CONTINUED)

The following classifications have been made:

- financial assets shown in balance sheet item IAS 39 20. "Financial assets held for Trading" are classified in the "Other business models" and shown:
  - in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss: a) financial assets held for trading" as to €8.8 million, relating to securities held in connection with customer insourcing and trading activities;
  - in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss: c) other financial assets mandatorily at fair value"; as to €2.05 million, relating to securities withdrawn by customers (splits and/or defaulted securities) to the value of € 30,000, and units in investment funds held in portfolio for initial seeding, to the value of €2.02 million;
- financial assets shown in balance sheet item IAS 39 40. "Financial assets held for sale", totalling €1.048 million, were classified
  - in the business model "Held to collect and sell – HTCS" and shown in balance sheet item IFRS 9 30. "Financial assets at fair value through other comprehensive income", as to the part represented by sovereign state issues, as to € 1,042.5 million;
  - in the "Other business models" and balance sheet item IFRS 9 20. "Financial assets valued at fair value through profit and loss: c) other financial assets mandatorily at fair value" as to €5.2 million, consisting of the preferred shares of Visa INC class "C" as to €4.5 million and the residual exposure in equity instruments relating to the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) totalling €0.7 million;
  - finally the "FVTOCI"<sup>32</sup> option was exercised for equity instruments relating to shares in UniCredit Business Integrated Solutions S.C.p.A. and the Patti Chiari consortium (recognised, respectively at €172 and €5,000), shown in the asset item IFRS 9 30. "Financial assets at fair value through other comprehensive income";
- the financial assets shown in the balance sheet item IAS 39 50. "Financial assets held to maturity" which consist exclusively of securities issued by sovereign states totalling € 4,826 million, which were classified in the "Held to collect – HTC" business model and shown in the asset item IFRS 9 40. "Financial assets valued at amortised cost: b) loans and receivables to customers";
- the financial assets shown in the balance sheet item IAS 39 60. "Bank receivables", totalling € 13,878 million, were classified in the "Held to collect – HTC" business model and were shown in the balance sheet item IFRS 9 40. "Financial assets valued at amortised cost: a) loan and receivables with banks", with the exception of:
  - a debt instrument issued by UniCredit S.p.A. with coupon in arrears, totalling € 382.5 million subscribed by the Bank in past years, with the rate risk covered by a derivative with the same Parent Company. Its contractual profile did not pass the SPPI Test and it was thus included in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss: c) other financial assets mandatorily at fair value";
  - a debt instrument issued by UniCredit S.p.A. with coupon in arrears, totalling € 150 million subscribed by the Bank in past years. Its contractual profile did not pass the SPPI Test and it was thus included in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss: c) other financial assets mandatorily at fair value"; this exposure expired on 31 December 2017 but was settled on 2 January 2018<sup>33</sup>;
- the financial assets shown in the balance sheet item IAS 39 70. "Customer loans", totalling € 2,129 million, were classified in the "Held to collect – HTC" business model and shown in the balance sheet item IFRS 9 40. "Financial assets valued at amortised cost: b) loans and receivables with customers".

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

- -€ 10.3 million (-€ 14.3 million excluding fiscal effects) relating to the value reductions based on the Expected Credit Loss ("ECL") recorded in the FTA Reserve under the liability item IFRS 9 150. "Reserves", of which:
  - a) -€0.1 million (-€12.6 million excluding fiscal effects) relating to the value reductions in securities and loans in the HTC business model, entered in the asset item IFRS 9 40. "Financial assets valued at amortised cost: a) loans and receivables with banks", relating almost exclusively to the adjustment reductions made to exposures to the UniCredit Group, mainly represented by the liquidity deposited with UniCredit S.p.A. and from the debt securities issued by the Parent Company;
  - b) -€0.8 million (-€1.2 million excluding fiscal effects) relating to the value reductions in securities and loans in the HTC business model, entered in the asset item IFRS 9 40. "Financial assets valued at amortised cost: b) loans and receivables with customers", of which:
    - i. -€0.5 million (-€0.7 million excluding fiscal effects) relating to loans with customers;
    - ii. -€0.3 million (-€0.5 million excluding fiscal effects) relating to exposures in government bonds;
  - c) -€0.1 million (-€0.1 million exclusive of fiscal effects) relating to the value reductions in securities in the HTCS business model, entered in the asset item IFRS 9 30. "Financial assets at fair value through other comprehensive income", relating exclusively to government bonds;
  - d) -€0.3 million (-€0.45 million excluding fiscal effects) relating to the value reductions in off-balance exposures, entered with counterparty the asset item IFRS 9 100. "Provisions for risks and charges: a) commitments and guarantees given", mainly relating to the reductions in bank guarantees issued by the Bank in favour of the the Italian Revenue Agency request by and in favor of UniCredit S.p.A.;

<sup>32</sup> With regard to non-trading equity instruments, IFRS 9 provides for the possibility of measuring them at the fair value recognised in the other overall income statement items ( "FVTOCI" – Fair Value Through Other Comprehensive Income).

<sup>33</sup> As this exposure expired on 31 December 2017 and was reimbursed at par value on 2 January 2018, no fair value adjustments were made on first-time adoption.

- +€7.3 million (€9.4 million excluding fiscal effects) relating to classification and valuation of financial assets, recorded in the FTA Reserve under the liability item IFRS 9 150. "Reserves", of which:
  - a) +€14 million (€19.3 million excluding fiscal effects) relating to positive fair value valuation on the above mentioned debt instrument issued by UniCredit S.p.A. with coupon in arrears, subscribed by the Bank in past years, with the rate risk covered by a derivative with the same Parent Company. Its contractual profile did not pass the SPPI Test and it was thus reclassified in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss c) other financial assets mandatorily at fair value"<sup>34</sup>;
  - b) -€6.6 million (-€9.9 million excluding fiscal effects) relating to an adjustment made to the opening balance of the asset item IFRS 9 60. "Changes in fair value of portfolio hedged financial assets (+/-)", as a result of the closure of the positive adjustment to the value of the bond UniCredit S.p.A. mentioned above;
- +€0.1 million (€0.1 million excluding fiscal effects) relating to the value reductions in securities in the HTCS business model, as previously mentioned, that, as according to the rules of the accounting standard, leads to the recognition of a positive reserve at the time of first application, in the liability item IFRS 9 120. "Revaluation reserves" as counterparty of the FTA Reserve in the liability item IFRS 9 150. "Reserves";
- €1.9 million (€3.3 million excluding fiscal effects) entered as reduction of the FTA Reserve in the liability item IFRS 9 150. "Reserves" and, for the same amount, entered as increase in the liability item IFRS 9 120. "Revaluation reserves", of which:
  - a) +€1.1 million (€1.2 million excluding fiscal effects) in the item IFRS 9 150. "Reserves" and -€1.1 million in the item IFRS 9 120. "Revaluation reserves" relating to the closing of the positive "AFS revaluation reserve" relating to preferred shares di Visa INC class "C", following their reclassification in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss c) other financial assets mandatorily at fair value";
  - b) -€3.0 million (-€4.6 million excluding fiscal effects) in the item IFRS 9 150. "Reserves" and +€3.0 million in the item IFRS 9 120. "Revaluation reserves" relating to the closing of the negative "AFS revaluation reserve" relating to government bonds which were reclassified on 15 November 2016 from the portfolio IAS 39 "Financial assets available for sale" to the portfolio IAS 39 "Financial assets held to maturity", following their reclassification in the asset item IFRS 9 40. "Financial assets valued at amortised cost b) loans and receivables with customers".

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<sup>34</sup> The UniCredit's bond valued at fair value in the IFRS 9 transition were restructured on January 2, 2018, incorporating the contractual profile of the derivative used up to that date to hedge the interest rate risk. The Bank therefore derecognised the old financial instrument recognised at December 31, 2017 and recognised the new one, whose characteristics support compliance with the SPPI Test, with consequent classification of the instrument to assets measured at amortised cost.

## Part A - Accounting policies (CONTINUED)

### Reclassification of financial liabilities

(Amounts in € thousand)

IAS 39 BALANCE SHEET ITEMS		IFRS 9 BALANCE SHEET ITEMS									
CARRYING VALUE 12.31.2017 IAS 39		FINANCIAL LIABILITIES AT AMORTISED COST									
		DEPOSITS FROM BANKS			DEPOSITS FROM CUSTOMERS			DEBT SECURITIES IN ISSUE			
		A	B	C	A	B	C	A	B	C	
Deposits from banks	926,001	926,001	-	926,001	-	-	-	-	-	-	-
Deposits from customers	20,205,036	-	-	-	20,205,036	-	20,205,036	-	-	-	-
Financial liabilities held for trading	2,617	-	-	-	-	-	-	-	-	-	-
Hedging derivatives	12,694	-	-	-	-	-	-	-	-	-	-
<b>Total</b>		<b>926,001</b>	<b>-</b>	<b>926,001</b>	<b>20,205,036</b>	<b>-</b>	<b>20,205,036</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(Amounts in € thousand)

IAS 39 BALANCE SHEET ITEMS		IFRS 9 BALANCE SHEET ITEMS								
CARRYING VALUE 12.31.2017 IAS 39		FINANCIAL LIABILITIES HELD FROM TRADING			FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE			HEDGING DERIVATIVES		
		A	B	C	A	B	C	A	B	C
		Deposits from banks	926,001	-	-	-	-	-	-	-
Deposits from customers	20,205,036	-	-	-	-	-	-	-	-	-
Financial liabilities held for trading	2,617	2,617	-	2,617	-	-	-	-	-	-
Hedging derivatives	12,694	9,320	-	9,320	-	-	-	3,374	-	3,374
<b>Total</b>		<b>11,937</b>	<b>-</b>	<b>11,937</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,374</b>	<b>-</b>	<b>3,374</b>

#### Key

- A: Reclassification of IAS 39 balance sheet value
- B: Change in measurement
- C: New balance sheet value ex IFRS 9

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

However, there was a reclassification, in liability item IFRS 9 20. "Financial liabilities held for trading" of the fair value of the derivative used to hedge the rate risk of the UniCredit share, with coupon in arrears mentioned above, to the value of € 9.3 million.

The following tables show:

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

(Amounts in € thousand)

BALANCE SHEET ASSETS	12.31.2017	ADJUSTMENTS IFRS 9 IMPAIRMENT	ADJUSTMENTS IFRS 9 CLASSIFICATION AND MEASUREMENT	01.01.2018 POST APPLICATION IFRS 9
10. Cash and cash balances	613	-	-	613
20. Financial assets at fair value through profit or loss	548,682	-	19,338	568,020
a) financial assets held for trading	8,827	-	-	8,827
c) other financial assets mandatorily at fair value	539,855	-	19,338	559,193
30. Financial assets at fair value through other comprehensive income	1,042,471	-	-	1,042,471
40. Financial assets at amortised cost	20,301,141	(13,756)	-	20,287,385
a) loans and receivables with banks	13,345,531	(12,595)	-	13,332,936
b) loans and receivables with customers	6,955,610	(1,161)	-	6,954,449
50. Hedging derivatives	458	-	-	458
60. Changes in fair value of portfolio hedged financial assets (+/-)	9,590	-	(9,929)	(339)
70. Equity investments	-	-	-	-
90. Property, plant and equipment	15,205	-	-	15,205
100. Intangible assets	97,511	-	-	97,511
of which				
- goodwill	89,602	-	-	89,602
110. Tax assets	9,249	909	(1,519)	8,639
a) current tax assets	1,765	-	-	1,765
b) deferred tax assets	7,484	909	(1,519)	6,874
130. Other assets	315,415	-	-	315,415
<b>Total assets</b>	<b>22,340,335</b>	<b>(12,847)</b>	<b>7,890</b>	<b>22,335,378</b>

(Amounts in € thousand)

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

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

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

## Part A - Accounting policies (CONTINUED)

### Breakdown by Stages of the exposures and of the impairment provision

(Amounts in € thousand)

	GROSS AMOUNT			IMPAIRMENT PROVISION		
	STAGE 1	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3
<b>30. Financial assets at fair value through other comprehensive income</b>	<b>1,042,471</b>	-	-	<b>(93)</b>	-	-
- Debt securities	1,042,466	-	-	(93)	-	-
- Equity instruments	5	-	-	-	-	-
<b>40. Financial assets at amortised cost</b>	<b>20,297,910</b>	<b>11,454</b>	<b>23,723</b>	<b>(18,692)</b>	<b>(5,964)</b>	<b>(21,043)</b>
- Debt securities	15,132,717	-	-	(10,193)	-	-
- Loans and receivables with banks	3,039,207	-	-	(2,872)	-	-
- Loans and receivables with customers	2,125,986	11,454	23,723	(5,627)	(5,964)	(21,043)
<b>Off-balance sheet exposures</b>	<b>2,581,092</b>	<b>404</b>	-	<b>(450)</b>	-	-

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

(Amounts in € thousand)

IAS 39 BALANCE SHEET ITEMS	IFRS 9 BALANCE SHEET ITEMS								
	FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			FINANCIAL ASSETS AT AMORTISED COST					
	CUMULATED WRITEDOWNS (EX IAS 39)	CHANGE IN MEASUREMENT	CUMULATED WRITEDOWNS (EX IFRS 39)	LOANS AND RECEIVABLES WITH BANKS			LOANS AND RECEIVABLES WITH CUSTOMERS		
CUMULATED WRITEDOWNS (EX IAS 39)				CHANGE IN MEASUREMENT	CUMULATED WRITEDOWNS (EX IFRS 39)	CUMULATED WRITEDOWNS (EX IAS 39)	CHANGE IN MEASUREMENT	CUMULATED WRITEDOWNS (EX IFRS 39)	
<b>Financial assets held for trading</b>	-	-	-	-	-	-	-	-	-
- debt securities	-	-	-	-	-	-	-	-	-
- loans and receivables	-	-	-	-	-	-	-	-	-
<b>Available-for-sale financial assets</b>	-	(93)	(93)	-	-	-	-	-	-
- debt securities	-	(93)	(93)	-	-	-	-	-	-
- loans and receivables	-	-	-	-	-	-	-	-	-
<b>Held-to-maturity investments</b>	-	-	-	-	-	-	-	(470)	(470)
- debt securities	-	-	-	-	-	-	-	(470)	(470)
- loans and receivables	-	-	-	-	-	-	-	-	-
<b>Loans and receivables with banks</b>	-	-	-	-	(12,595)	(12,595)	-	-	-
- debt securities	-	-	-	-	(9,723)	(9,723)	-	-	-
- loans and receivables	-	-	-	-	(2,872)	(2,872)	-	-	-
<b>Loans and receivables with customers</b>	-	-	-	-	-	-	(32,534)	(100)	(32,634)
- debt securities	-	-	-	-	-	-	-	-	-
- loans and receivables	-	-	-	-	-	-	(32,534)	(100)	(32,634)
<b>Total</b>	-	(93)	(93)	-	(12,595)	(12,595)	(32,534)	(570)	(33,104)

(Amounts in € thousand)

	PERFORMING			NON PERFORMING		
	CUMULATED WRITEDOWNS (EX IAS 39)	CHANGE IN MEASUREMENT	CUMULATED WRITEDOWNS (EX IFRS 39)	CUMULATED WRITEDOWNS (EX IAS 39)	CHANGE IN MEASUREMENT	CUMULATED WRITEDOWNS (EX IFRS 39)
<b>30. Financial assets at fair value through other comprehensive income</b>	-	(93)	(93)	-	-	-
- Debt securities	-	(93)	(93)	-	-	-
- Equity instruments	-	-	-	-	-	-
<b>40. Financial assets at amortised cost</b>	<b>(11,074)</b>	<b>(13,582)</b>	<b>(24,656)</b>	<b>(21,460)</b>	<b>417</b>	<b>(21,043)</b>
- Debt securities	-	(10,193)	(10,193)	-	-	-
- Loans and receivables with banks	-	(2,872)	(2,872)	-	-	-
- Loans and receivables with customers	(11,074)	(517)	(11,591)	(21,460)	417	(21,043)
<b>Off-balance sheet exposures</b>	-	(450)	(450)	-	-	-

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

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

- -€ 10.3 million (-€ 14.3 million excluding fiscal effects) relating to the application of a value reduction based on the Expected Credit Loss ("ECL") recorded in the FTA Reserve under the liability item IFRS 9 150. "Reserves";
- +€7.3 million (€9.4 million excluding fiscal effects) relating to classification and valuation of financial assets, recorded in the FTA Reserve under the liability item IFRS 9 150. "Reserves";
- +€0.1 million (€0.1 million excluding fiscal effects) relating to the value reductions in securities in the HTCS business model, as previously mentioned, that, as according to the rules of the accounting standard, leads to the recognition of a positive reserve at the time of first application, in the liability item IFRS 9 120. "Revaluation reserves";
- -€1.9 million (+€3.3 million excluding fiscal effects) entered recorded in the FTA Reserve in the liability item IFRS 9 150. "Reserves" and +€1.9 million (+€3.3 million excluding fiscal effects) entered in the liability item IFRS 9 120. "Revaluation reserves" referred, as described above, to the closure of the AFS revaluation reserve following the reclassification of the related financial assets.

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

	12.31.2017	IFRS 9 CHANGES	(Amounts in € thousand ) 01.01.2018
1. Share capital	200,545	-	200,545
2. Share premium reserve	1,934	-	1,934
3. Reserves	323,932	(4,868)	319,064
- from earnings	291,841	(4,868)	286,973
a) legal reserve	40,109	-	40,109
b) treasury shares reserve	365	-	365
c) others	251,367	(4,868)	246,499
- others	32,091	-	32,091
4. Equity instruments	-	-	-
5. (Treasury shares)	(365)	-	(365)
6. Revaluation reserves	(8,340)	1,976	(6,364)
7. Net Profit (Loss) for the year	214,120	-	214,120
<b>Total</b>	<b>731,826</b>	<b>(2,892)</b>	<b>728,934</b>

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

## Impacts on regulatory capital resulting from the adoption of IFRS 9

FinecoBank is not obliged to report on own funds and consolidated regulatory ratios because it is part of the UniCredit Group. Therefore, please refer to the Explanatory Notes of the separate financial statements of FinecoBank S.p.A..

## IFRS 16 - Leasing

On November 9, 2017, the Commission Regulation (EU) 2017/1986 of 31 October 2017 was published, which modifies Regulation (EC) no. 1126/2008 which adopts certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council regarding International Financial Reporting Standards 16.

IFRS16, applicable from January 1, 2019 (with the faculty of early application in 2018 - together with the mandatory application of IFRS 15 - of which the Bank has not availed) replaces the current set of international accounting principles and interpretations on leasing and, in particular, IAS17. The standard provides a new definition of leasing and introduces a criterion based on the control ("right of use") of an asset to distinguish leasing agreements from service agreements, identifying which discriminant: the identification of the asset, the right to replace it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct (i.e. control) the use of the asset.

The standard confirms the distinction between operating leases and finance leases with reference to the accounting model to be applied by the lessor: a lease is classified as financial if it transfers, substantially, all the risks and benefits connected to the ownership of an underlying asset; a lease is classified as operating if, substantially, it does not transfer all the risks and benefits deriving from the ownership of an underlying asset.

With regard to the accounting model to be applied by the lessee, the new principle provides that, for all type of leases including operating leasing, an asset representing the right to use the leased asset shall be recognised, together with - at the same time - the financial liability for the fees set out in the agreement.

## Part A - Accounting policies (CONTINUED)

Upon initial recognition, the aforementioned asset is valued based on the cash flows associated with the leasing contract. Subsequent to initial recognition, this asset will be valued on the basis of the provisions for tangible and intangible assets from IAS 38, IAS 16 or IAS 40 and, therefore, at the cost net of amortization and any reduction in value, at "recalculated value" or at fair value as applicable.

For this reason during the 2018 the Bank and its subsidiary Fineco AM are carrying out the activities of analysis and recognition of the impacts consequent to the adoption of the standard, aspects that represent the main discontinuity with respect to the accounting model envisaged by IAS17, completing the preliminary assessment of potential impacts at the transition date (January 1, 2019).

The activities relating to the development of rules, principles and IT systems to ensure the correct calculation of new assets and liabilities, their subsequent measurement and the determination of the related effects on the income statement, are currently being finalized.

The Bank and its subsidiary, in line with the choices made by the Parent Company UniCredit S.p.A., decided not to recalculate the accounting data relating to previous years (comparative values) and to apply the standard retroactively, accounting for the cumulative effect deriving from the initial application on 1 January 2019 in net equity, as envisaged by the same principle (transition with modified retrospective method). For the First Time Adoption purposes, the amount of the financial liability will be equal to the present value of the future payments remaining at the transition date and the activity consisting of the "right of use" is recognized on the date of the initial application by evaluating it to equal to the amount of the financial liability above mentioned adjusted for the amount of any accruals/prepayments related to the lease, booked in the statement of the situation statement of financial position immediately prior to the date of initial application (i.e these financial statements as at December 31, 2018).

For the purposes of calculating the leasing debt and the associated "right of use", the Bank and its subsidiary proceed to discount future installments at an appropriate interest rate. In this context the future lease payments to be discounted are determined in light of the provisions of the lease and calculated net of the VAT component, despite being the same non-deductible for the Bank, by virtue of the fact that the obligation to pay such tax arises at the time of issuance of the invoice by the lessor and not at the effective date of the leasing contract.

### **Identification of the scope of application**

The Bank and its subsidiary have identified the leasing contracts that fall within the scope of application of the standard, represented by the lease contracts of the buildings used by the company and the financial shops used by the personal financial advisors and directly managed by the Bank, as well as leases of machinery and cars.

As envisaged by the standards, which grants exemptions in this regard, and in line with the choices made by the Parent Company UniCredit S.p.A., (i) "low-value assets" contracts (whose threshold has been identified as €5 thousand) and (ii) leases with a contractual duration equal to or less than 12 months ("Short term lease") have been excluded from the scope of application; it was decided not to apply the standard to the (iii) leases of intangible assets (mainly represented by software lease payments).

Note that the lease of the building located in Milan, Piazza Durante 11, where the Bank's registered office is located, will be classified at First Time Adoption of the standard as "Short term lease" and, therefore, excluded from the scope of application of IFRS 16, as on January 31, 2019, the Bank completed the purchase transaction of the building, with the simultaneous termination of the lease.

### **Duration of leasing**

The Bank and its subsidiary have determined the duration of leasing for each contract within the scope of application, considering the "non-cancellable" period during which the Bank or its subsidiary have the right to use the underlying asset and taking into consideration all the contractual aspects that could modify such duration, for instance:

- periods covered by a right of resolution (together with any related penalties) or an option to extend the lease in favor of the sole lessee, the sole lessor or in favor of both, even in different periods over the duration of the contract;
- periods covered by an option to purchase the underlying asset.

In particular, with reference to contracts that allow the lessee to tacitly renew the lease at the end of a first contractual period, the duration of the lease is determined, based on historical experience, considering the period not to be canceled as well as the period object of extension option (first contract renewal period), except for the existence of any business plans for the disposal of the leased asset, as well as clear and documented assessments by the competent Bank departments which lead us to believe that the failure to exercise the option to renew or exercise the resolution option, also taking into account, with particular regard to the financial shops in use to the personal financial advisors, the commercial strategies for the recruitment and territorial organization of the network.

### **Discount rate**

The standard IFRS 16 provides that at the starting date of the contract the lessee has to assess the liability of the lease to the present value of the payments due for the lease not paid on that date. Payments due for the lease must be discounted using the implied lease interest rate, if it can be easily determined. If this is not possible, the lessee has to use its marginal refinancing rate.

The nature of the contracts stipulated by the Bank and its subsidiary, which fall within the scope of application of the standard, mainly represented by rental contracts of properties, do not allow to derive the implied rate in each contract, for this reason the discounting is carried out using the marginal refinancing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contracts.



Since FinecoBank has not issued its own debt instruments, the rate applied is UniCredit S.p.A.'s senior secured funding rate, considering that the Parent Company applies this rate to finance companies in the Italian perimeter.

### **Conclusions**

Due to the new accounting rules set by the standard IFRS 16 from the point of view of the lessor, at the first time adoption a consolidated balance sheet effect is expected, deriving from the recognition, with counterparty the net equity, of assets representing the right of use of the leased assets and, at the same time, from the inclusion in the liabilities side of financial debts relating to the lease payments, specified in the outstanding contracts, to be paid; no impact has been recorded in consolidated net equity.

In particular, the application of IFRS 16 will lead an increase in consolidated balance sheet assets of approximately €64.5 million (of which approximately €0.9 million referred to Fineco AM) and an increase in the Bank' RWAs whose effect can be estimated, as a preliminary figure, equal to 55 basis points on the individual CET1 of the Bank as of 31 December 2018. It is note noting that the Bank is not required to prepare the report on the own funds and on the regulatory ratios on a consolidated basis, but exclusively individual, as consequence of belonging to the UniCredit Banking Group.

### **Interbank Deposit Guarantee Fund - Voluntary Scheme**

FinecoBank has joined to the "Voluntary Scheme" (the "Schema Volontario"), introduced by Interbank Deposit Guarantee Fund (IDGF), with appropriate modification of its statute, in November 2015. The "Schema Volontario" is an instrument for the resolution of bank crises through support measures in favour of its member banks, if specific conditions laid down by the legislation occurring. The "Schema Volontario" has an independent funding and the participating banks are committed to supply the relevant resources upon demand, when resources are needed to fund interventions.

The "Schema Volontario", as a private entity, has provided in April 2016 the restructuring of the support of the action that FITD had operated in July 2014 in favour of Bank Tercas, operation that generated no further charges for participating banks. Subsequently, the financial participating size of the "Schema Volontario" was increased up to €700 million (with a total commitment for FinecoBank of €16.8 million).

In this context, on June 2016 the "Schema Volontario" approved an action in support of *Cassa di Risparmio di Cesena (CariCesena)*, in relation to a capital increase approved by the same bank on 8 June 2016 for €280 million. On 30 September 2016 the commitment pro-quota relating to FinecoBank had been converted into a monetary payment which has led, as indicated in this regard by the Bank of Italy, to the recognition in the financial statements of capital instruments classified – according to the pre-existing accounting standard IAS 39 – as "Financial assets available for sale" for an amount of €6.7 million (consistent with the monetary payment). The evaluation of the instruments as at December 2016, according to an internal evaluation model based on multiples of a banking basket integrated with estimates on Cassa di Risparmio di Cesena's credit portfolio and related equity/capital needs, had brought to full impairment of the position.

In September 2017, to face Credit Agricole CariParma intervention in favour of CariCesena, Cassa di Risparmio di Rimini (Carim) and Cassa di Risparmio di San Miniato (Carismi) (approved by the Management Board of the Voluntary Scheme and based on a capital increase for €464 million and subscription of bonds from NPL securitisation of these banks for €170 million), the fund had increased its capital endowment till to €795 million and, as a consequence, the share of total investments attributable to FinecoBank amounted to €13.3 million net of contributions already paid above mentioned). Further in the same month, FinecoBank had paid €1.4 million, as required by the Fund, in respect of the part of the intervention related to the capital increase of Carim and Carismi. During December 2017, FinecoBank had paid further €12.2 million (€7.5 million referred to capital increase of the banks and €4.7 million referred to the subscription of securitisation's notes). Following these payments, FinecoBank's residual commitment towards Voluntary Scheme was substantially nil (€0.1 million as at December 31, 2018).

All payments done in 2017 referred to capital increase of the banks have brought, as the previous ones, to the recognition in the financial statements of capital instruments classified – according to the pre-existing accounting standard IAS 39 – as "Financial assets available for sale" for the same amount of €8.9 million, entirely cancelled in 2017 as deemed unrecoverable due to the sale of the banks to Credit Agricole CariParma at a symbolic price.

Regarding the payment relating to the portion of investment referred to Voluntary Scheme's subscription of Junior and Mezzanine quotes of the securitization (€4.7 million for FinecoBank), initial value of the corresponding equity instruments has been rectified in the financial statements to reflect fair value valuation declared by the Voluntary Scheme (€0.7 million for FinecoBank), as resulting from analysis conducted by the advisors in charge appointed by IDGF for the underlying credits evaluation of the Junior and Mezzanine securities above mentioned, conducted according to a Discounted Cash Flow model based on recovery plans elaborated by SPV's special servicer.

With regard to these capital instruments, classified under item 20. "Financial assets measured at fair value with impact on the income statement: c) other financial assets mandatorily at fair value", following the update of the assessment received from the Voluntary Scheme (resulting from the analysis of the appointed advisor), at the date of 31 December 2018 a further adjustment of € 0.2 million was recorded.

On November 30, 2018, the Shareholders' Meeting of the banks participating to the Voluntary Scheme decided to intervene in favour of Banca Carige S.p.A. by subscribing a Tier 2 subordinated loan (for a maximum amount of €320 million) to be issued by Banca Carige S.p.A. and intended for conversion into capital to the extent necessary to allow an expected capital increase of €400 million.

On the same date, within the framework of the agreement specifically stipulated with the Voluntary Scheme, Banca Carige S.p.A. has issued bonds for €320 million, of which €318.2 million have been subscribed directly by the Voluntary Scheme. The bonds were issued at par (100% of the nominal value), with a fixed rate coupon of 13% and a maturity of 10 years (maturity November 30, 2028). However, as required by the related Term



## Part A - Accounting policies (CONTINUED)

Sheet, as the Extraordinary Shareholders' Meeting of Banca Carige S.p.A. did not appoint a proxy to the Board of Directors by December 22, 2018, also pursuant to art. 2443 of the Civil Code, to increase the share capital for a maximum total amount, including possible premium, of €400 million, with retroactive effect, starting from the date of issue, the interest on the principal amount of the outstanding bonds from time to time matures at a nominal fixed rate of 16%.

With regard to the intervention above mentioned, FinecoBank's contribution request by the Voluntary Scheme has been equal to approximately €9.5 million and it has been booked in December at the moment of payment, as a financial instrument classified – according to the current accounting standard IFRS 9 and in continuity with what was done during the transition to the standard at January 1, 2018 for the instruments recognized for previous payments to the Voluntary Scheme - under the item 20. "Financial assets at fair value through profit and loss: c) other financial assets mandatorily at fair value".

Since no market valuations or prices of comparable securities are available, at December 31, 2018 the fair value of the instrument was determined by the Bank using internal models (based on Discounted Cash Flow and Market Multiples methods applied in a multi-scenario analysis) also referring to the valuation carried out by the advisor appointed by IDGF in the context of the formalities related to training from the 2018 Report of the Voluntary Scheme and sent by the IDGF to the participating banks and taking into consideration the significant current and future uncertainties regarding the issuing credit institution. A further adjustment of €2.8 million was recorded on the consolidated financial statements 2018.

### Contributions to guarantee and resolution funds

With reference to the contributory obligations under Directive 2014/49/EU (Deposit Guarantee Schemes - DGS), with the communication dated December 6, 2018, the Interbank Deposit Guarantee Fund (IDGF) announced that in application of a uniform standard of distribution of ordinary contributions in the years of accumulation, the total amount due by the consortium member banks for the financial year 2018 would be equal to €538.7 million. The European and national legislation, however, defines a final objective level, allowing deposit guarantee schemes to take into account, for the calculation of contributions, the economic cycle and the possible procyclical impact of the same (Article 96.2, paragraph 2 of the TUB). Under this provision, in order to meet the financial needs related to the Solidarity Fund's, established by the 2016 Stability Law, using IDGF resources, without request further payments to the consortium members, even in each of the years 2016 and 2017 the DGS ordinary contributions have been reduced by € 100 million, to be recovered over the years of the financial allocation (with consequent increase in future contributions). The Board of the Fund, in its meeting held on 28 November 2018, resolved to proceed on this line also for 2018, earmarking € 80 million of the total amount owed by the member banks to the Solidarity Fund, in order to face the financial needs arising from the release of provisions and compensation relating to ongoing, arbitration and lump sum procedures.

As a consequence, the total ordinary contribution referred to the Directive 2014/49/EU (Deposit Guarantee Schemes - DGS), intended for the establishment of the IDGF financial resources for the financial year 2018, has been established in the amount of €458.7 million.

To the ordinary contribution so quantified they are added, according to the art. 25, paragraph 2 of the Bylaws, the additional contributions amounting to € 1.2 million, aimed at the gradual recovery in the years 2018-2024 of the part of the financial resources used up to now for interventions.

The FITD Board, in the above mentioned meeting, also resolved to request an additional contribution of € 16.5 million from the consortium banks, to be recognized, as an arrangement fee, to the pool of arranger banks, as part of the granting a line of credit as an alternative source of funding to meet its obligations, instead of the request for extraordinary contributions, whose call would immediately affect the liquidity and profit and loss account of the consortium members, with possible procyclical effects.

In total, therefore, the contribution due by the consortium member banks for 2018, including the resources to be allocated to the Solidarity Fund and the additional contribution above mentioned, amounts to a total of €556.4 million. The portion pertaining to each consortium member is calculated based on the amount of the protected deposits as at 30 September 2018 and risk-adjusted based on each of their management indicators of the risk-based model of the Fund for calculating contributions, pursuant to art. 28, paragraph 2 of the Articles of Association.

The contribution for the year 2018 was paid and accounted for by the Bank under the item 160. Administrative Expenses, amounting to €14.3 million as follows:

- €13.8 million relating to the DGS ordinary contribution;
- €0.03 million relating to the DGS additional contribution;
- €0.4 million relating to the contribution to the Solidarity Fund.

No contribution was requested from the Bank by the Single Resolution Board, for 2018, with regard to contribution obligations pursuant to Directive 2014/59/EU (Single Resolution Fund).

### Risks and uncertainties related to the use of estimates

In the application of the accounting policies, the management is required to make judgements, estimates and assumptions about the carrying amounts of certain assets and liabilities as well as the information regarding potential assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.

Estimated figures have been used for the recognition of some of the largest value-based items in the Consolidated financial statements as at December 31, 2018, as required by the accounting standards and regulations. These estimates are largely based, as regards assets, on calculations of future recoverability of the values recognised in the accounts and, as regards liabilities, on estimates of the probability of using resources to meet its obligations and the amount of resources necessary to that end, according to the rules laid down in current legislation and standards and have been made on the assumption of a going concern, on which basis these Consolidated financial statements have been prepared, i.e. without contemplating the possibility of the forced sale of the estimated items.

The processes adopted support the carrying values at December 31, 2018. For some of the above items the valuation is particularly complex given the uncertainty of the macroeconomic and market situation, characterised by the significant volatility of financial indicators used in the valuation process and still high levels of credit quality impairment, as well as, more generally, the uncertainty and instability in the banking sector.

For other items, however, the complexity and subjectivity of estimates is influenced by the structure of the underlying assumptions and assumptions, the number and variability of available information and the uncertainties connected with possible future outcomes of proceedings, disputes and litigation.

The parameters and information used to determine the above-mentioned values are therefore significantly affected by multiple factors, which could change rapidly in ways that are currently unforeseeable, which means that consequent future effects on the book values cannot be ruled out.

At the date of preparing these Consolidated financial statements we believe that there are no uncertainties such as to give rise to significant adjustments to the carrying amounts within one year.

Estimates and underlying assumptions are regularly reviewed. Any changes resulting from these reviews are recognised in the period in which the review was carried out, provided the change only concerns that period. If the revision concerns both current and future periods it is recognised accordingly in both current and future periods.

Uncertainty affecting estimates is inherent, among other factors, in the determination of:

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

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

With specific reference to future cash flow projections used in the valuation of the recoverability of goodwill recorded in the balance sheet, it should be noted that the parameters and information used are significantly influenced by the macro-economic market situation, which may change unpredictably. For further information please refer to Part B – Consolidated Balance Sheet – Section 10 – Intangible assets.

With specific reference to valuation techniques, unobservable inputs and parameters used in the fair value measurement and sensitivities to changes in those inputs, please refer to Section A.4. Information on fair value of this Part A.

With particular regard to provisions for risks and charges for risks arising from legal disputes and claims, see "Part E – Information on risks and hedging policies - Section 5 - Operating risk" of the notes to the accounts.

For further details on the models and parameters used in the measurement of IFRS 9 adjustments, please refer to the information in the specific section "18. Other information - Impairment" of Part A "Accounting policies – A.2. The main items of the accounts".

### Other information

The Consolidated financial statements as at December 31, 2018 have been reviewed, pursuant to Italian Legislative Decree no. 39 of January 27, 2010 and Regulation (UE) 2014/537, by Deloitte & Touche S.p.A. appointed as auditor of the Bank's accounts in implementation of the Shareholders' Meeting resolution of April 16, 2013.

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

### A.2 The main items of the accounts

#### 1 – Financial assets at fair value through profit and loss

##### a) Financial assets held for trading (HFT)

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

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

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

After initial recognition these financial assets are measured at their fair value through consolidated profit or loss.

An exception is represented by derivatives settled by delivery of an unlisted equity instrument whose fair value cannot be reliably measured, and which are therefore measured at cost.

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

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

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

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

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

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

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

If the fair value of an instrument falls below zero, which may happen with derivative contracts, it is recognised in item 20. "Financial liabilities held for trading".

##### b) Financial assets designated at fair value

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

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

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

### c) Other financial assets mandatorily at fair value

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

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

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

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

## 2 - Financial assets at fair value through comprehensive income

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

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

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

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

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

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

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

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

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

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

The time value interest are recognised in the interest margin.

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

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

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

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

## Part A - Accounting policies (CONTINUED)

### 3 - Financial assets at amortised cost

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

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

More specifically, this item includes:

- loans to banks and customers in the various technical forms that meet the requirements of the previous paragraph;
- debt securities that meet the requirements of the previous paragraph.

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

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

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

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

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

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

The time value interest are recognised in the interest margin.

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

### 4 - Hedge Accounting

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

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

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

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

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

A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, it is determined prospectively to remain highly effective, and the retrospectively verified that the hedge ratio (i.e. the changes in fair value of hedged items and hedging instruments) is within a

range of 80-125 per cent. The hedge is assessed on an ongoing basis and thus must prospectively remain highly effective throughout the financial reporting periods for which the hedge has been designated.

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

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

Hedging derivatives are measured at fair value. In particular:

- **Fair Value Hedging** - an effective fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value is recognised in the consolidated income statement in item 90. "Fair value adjustments in hedge accounting". The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss in the same item. Hedging ineffectiveness is represented by the difference between the change in the fair value of hedging instruments and the change in the fair value of hedged item. If the hedging relationship is terminated for reasons other than the sale of the hedged item, this is measured according to the original criterion dictated by the accounting standard applied to the relevant portfolio. In the case of interest-bearing instruments, the difference between the carrying amount of the hedged item on termination of the hedging and the carrying amount it would have had if the hedge had never existed, is recognised through profit or loss in interest receivable or payable over the residual life of the original hedge. If the hedged item is sold or repaid, the portion of fair value which is still unamortised is recognised immediately in item 100. "Gains (losses) on disposal or repurchase" in the consolidated income statement. The difference in fair value of the hedging derivative since the latest effectiveness testing date is recognised in consolidated profit or loss under item 90. "Fair value adjustments in hedge accounting";
- **Cash Flow Hedging** – hedges are valued at fair value. Change in the fair value of a hedging instrument that is considered effective is recognised in consolidated equity item 120. "Revaluation reserves". The ineffective portion of the gain or loss is recognised through consolidated profit or loss in item 90. "Fair value adjustments in hedge accounting". If a cash flow hedge is determined to be no longer effective or the hedging relationship is terminated, the cumulative gain or loss on the hedging instrument that remains recognised in "Revaluation reserves" from the period when the hedge was effective remains separately recognised in "Revaluation reserves" until the forecast hedged transaction occurs or is determined to be no longer possible; in the latter case, the gains or losses are transferred from consolidated shareholders' equity to item 80. "Gains and losses on financial assets and liabilities held for trading" in the consolidated income statement. The overall fair value changes recorded in item 120. "Revaluation reserves" are reported in the Consolidated Statement of Comprehensive Income;
- **Hedging a Net Investment in a Foreign entity** - hedges of a net investment in a foreign entity, whose operations are presented in a currency other than euro, are accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in consolidated equity is recognised through consolidated profit or loss on disposal of the foreign entity. The fair value changes recorded in item 120. "Revaluation reserves" are also reported in the Consolidated Statement of Comprehensive Income. The ineffective portion of the gain or loss is recognised through consolidated profit or loss in item 90. "Fair value adjustments in hedge accounting";
- **Macro-hedged financial assets (liabilities)** - IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them); accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates. Macro hedging may not be used for net positions resulting from the offsetting of assets and liabilities. As for fair value micro hedging, macro hedging is considered highly effective if, at the inception of the hedge and throughout its life, changes in the fair value attributable to the hedged position are offset by changes in fair value of the hedging instrument and if the hedge ratio is retrospectively assessed falling within the range of 80-125 per cent. Net changes – gains or losses – in the value of the macro-hedged assets and liabilities attributable to the hedged risk are recognised in asset item 60. and liability item 50. respectively and offset the profit and loss item 90. "Fair value adjustments in hedge accounting" in the consolidated income statement. The gain or loss from remeasuring the hedging instrument at fair value is recognised in the same consolidated profit and loss item. The ineffectiveness of the hedging arises to the extent that the change in the fair value of the hedging item differs from the change in the fair value of the hedged monetary position. The extent of hedge ineffectiveness is in any case recognised in profit and loss item 90. "Fair value adjustments in hedge accounting" in the consolidated income statement.

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

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

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



### 5 - Equity Investments

The initial recognition and subsequent valuation criteria for interests governed by IFRS10 Consolidated Financial Statements, IAS27 Separate Financial Statements, IAS28 Investments in associates and joint ventures and IFRS11 Joint Arrangements, are detailed to the applicable extent in Section 3. Consolidation scope and methods of Section A.1 of the Notes to the Consolidated Accounts, that includes information on valuation and key assumptions made to establish the presence of control, joint control or significant influence in compliance with the provisions of IFRS12 (paragraphs 7-9).

The remaining interests other than subsidiaries, associates and joint ventures, and interests recognised in items 120. "Non-current assets and disposal groups classified as held for sale" (see Section 8 - Non-Current assets and disposal groups classified as Held for Sale) are classified as financial assets at fair value through other comprehensive income or financial assets s mandatorily at fair value and treated accordingly (see Section 1 – "Financial assets at fair value through profit and loss: c) other financial assets mandatorily at fair value" and Section 2 – "Financial assets at fair value through other comprehensive income").

### 6 – Property, Plant and Equipment (Tangible Assets)

The item includes:

- lands
- buildings
- furniture and fixtures
- electronic machinery and equipments
- plant and other machinery and equipments
- motor vehicles

and is divided between:

- assets used in the business;
- assets held as investments.

Tangible assets used in the business are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used during more than one period.

Property, plant and equipment also include leasehold improvements relating to assets which can be separately identified. They are classified according to the specific sub-items relating to the asset type (e.g. plants). Leasehold improvements are usually borne in order to make leased premises fit for the expected use. Improvements and additional expenses relating to property, plant and equipment identifiable but not separable are recognised in item 130. "Other assets".

Tangible assets held for investment purposes are properties covered by IAS 40, i.e. properties held in order to derive rentals and/or a capital gain.

Property, plant and equipment are initially recognised at cost including all costs directly attributable to bringing the asset into use (transaction costs, professional fees, direct transport costs incurred in bringing the asset to the desired location, installation costs and dismantling costs).

Subsequent costs are added to the carrying amount or recognised as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses borne at a later time (e.g. normal maintenance costs) are recognised in the year they are incurred in consolidated profit and loss items:

- 190. "Administrative expenses: b) Other administrative expenses", if they refer to assets used in the business;
- or:
- 230. "Other net operating income", if they refer to property held for investment.

After being recognised as an asset, an item of property, plant and equipment is carried at cost less any accumulated depreciation and any cumulative impairment losses.

An item with a finite useful life is subject to straight-line depreciation.

Residual useful life is usually assessed as follows:

- |  |                |
|--|----------------|
| • Buildings                              | up to 33 years |
| • Office furniture and fittings          | up to 9 years  |
| • Electronic machinery and equipments    | up to 5 years  |
| • Plants, other machinery and equipments | up to 14 years |
| • Motor vehicles                         | up to 4 years  |

Buildings, if separately quantifiable, are recognised separately, even if acquired together. Land is not depreciated since it usually has an indefinite useful life. Buildings, conversely, have a finite useful life and are therefore subject to depreciation.

The estimate of the useful life of an asset is reviewed at least at each accounting period-end on the basis inter alia of the conditions of use of the asset, of maintenance conditions and expected obsolescence, and, if expectations differ from previous estimates, the depreciation amount for the current and subsequent financial years is adjusted accordingly.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in profit and loss item 210. "Net impairment/Write-backs on property, plant and equipment" in the consolidated income statement.

If the value of a previously impaired asset is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there had been no losses recognised on the prior-year impairment.

An intangible asset is de-recognised from the consolidated balance sheet (i) on disposal or (ii) when no future economic benefits are expected from its use or sale; and any difference between sale proceeds or recoverable value and carrying value is recognised in the consolidated profit and loss item 280. "Gains (losses) on disposal of investments" or 210. "Net impairment/write-backs on property, plant and equipment".

## 7 - Intangible assets

An intangible asset is an identifiable non-monetary without physical substance, controlled by the Company, which is expected to be used during more than one period and from which future economic benefits are probable.

Intangible assets mainly consist of goodwill, software and costs incurred for the creation of the new Fineco website.

Intangible assets other than goodwill are recognised at purchase cost, i.e. including any cost incurred to bring the asset into use, less accumulated amortisation and any recognised impairment losses.

An intangible asset with a finite life is subject to straight-line amortisation over its estimated useful life.

Residual useful life is usually assessed as follows:

- Software up to 3 years;
- other intangible assets up to 5 years.

There are no intangible assets with an indefinite life, except for goodwill.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in consolidated profit and loss item 220. "Net impairment/write-backs on intangible assets" in the consolidated income statement.

If the value of a previously impaired intangible asset, other than goodwill is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there were no losses recognised on the prior-year impairment.

An intangible asset is de-recognised from the consolidated balance sheet (i) on disposal or (ii) when no additional future economic benefits are expected from its use or sale; and any difference between sale proceeds or recoverable value and carrying value is recognised in the consolidated profit and loss item 280. "Gains (losses) on disposal of investments" or 220. "Net impairment/write-backs on intangible assets".

### Goodwill

In accordance with IFRS3, goodwill is the excess of the cost of a business combination over the interest acquired in the net fair value, at the acquisition date, of the assets and liabilities acquired.

Goodwill arising from the acquisition of subsidiaries and joint ventures (consolidated proportionately) is recognised as an intangible asset; whereas goodwill arising from the acquisition of associates is included in the acquisition cost and, then, shown as an increase in the value of the investments.

Specifically, the goodwill recorded under intangible assets in these consolidated financial statements – corresponding to the goodwill recorded in the Bank's annual financial statements – derives from the acquisitions of merged or acquired companies.

At a subsequent financial reporting date, goodwill is recognised net of any cumulative impairment losses and is not amortised.

Goodwill is tested for impairment annually. Impairment losses on goodwill are recognised in consolidated profit and loss item 270. "Impairment of goodwill". In respect of goodwill, no write-backs are allowed.



## Part A - Accounting policies (CONTINUED)

Goodwill relates to buy-outs of divisions or companies engaged in trading activities or the distribution of financial, banking and insurance products through personal financial advisors. These activities have been fully integrated with the Bank's ordinary operations; as a result, it is not possible to isolate the contribution of each company/business division from the Bank's overall business. This means that to establish the reasonableness of the value of goodwill recognised in the financial statements it is necessary to take account of FinecoBank's comprehensive income. The cash generating unit (CGU) is the Bank as a whole including the contribution from the subsidiary Fineco Asset Management DAC, an asset management company incorporated under Irish law, through a vertically integrated business model.

In view of the specific business model adopted by the Bank, which involves a high level of integration between personal financial advisors and the trading and banking platform, so that the personal financial advisors network is an integral part of the overall offer, which includes banking, brokerage and investing services, an allocation of costs/revenues to the macro areas of activity is not considered relevant or meaningful.

Please see Section 10.3 "Intangible assets - Other information" in Part B of these notes to the consolidated accounts for further information on goodwill and related impairment tests.

### 8 - Non-current assets classified as held for sale

These categories include individual assets held for disposal (tangible, intangible and financial assets) or groups of assets held for sale, with the associated liabilities, as required by IFRS 5.

Individual assets (or groups of assets held for sale) and relating liabilities are recognised in item 120. "Non-current assets and disposal groups held for sale" and 70. "Liabilities included in disposal groups classified as held for sale", respectively, at the lower of their carrying amounts and fair values less costs to sell.

The revaluation reserves relating to Non-current assets held for sale, which are recorded as a contra item to changes in value relevant for this purpose), are reported separately in the statement of consolidated comprehensive income (see Part D – Consolidated Comprehensive Income).

The net balance of profits (dividends, interest income, etc.) and losses (interest expense, etc.) attributable to groups of assets or liabilities held for sale are recognised in the income statement under item 320. "Profit (Loss) after tax from discontinued operations" in the consolidated income statement. Profits and losses attributable to individual assets held for disposal are recognised in the consolidated income statement under the most appropriate item.

At the balance sheet date, the Bank held no "non-current assets classified as held for sale".

### 9 - Current and Deferred Tax

Tax assets and liabilities are recognised in the consolidated balance sheet respectively in item 110. "Tax assets" and in liability item 60. "Tax liabilities".

In compliance with the "Balance sheet liability method", current and deferred tax items are:

- current tax assets, i.e. amount of tax paid in excess of income tax due under the current national tax regulations;
- current tax liabilities, i.e. tax payables due under the current Italian tax regulations;
- deferred tax assets, i.e. amounts of income tax recoverable in future fiscal years and relating to:
  - deductible temporary differences;
  - the carry-forward of unused tax losses;
  - the carry-forward of unused tax credits;
- deferred tax liabilities, i.e. the payables for income tax due in future fiscal years in respect of taxable temporary differences.

Current and deferred tax assets and tax liabilities are calculated in accordance with local tax regulations (with reference to each company consolidated on line-by-line basis) and are recognised in profit or loss on an accrual basis.

More specifically, with regard to FinecoBank, for current IRES income tax, a rate of 27.50% has been calculated; for IRAP corporate tax, the rate applied was 5.57%. In this regard, it should be noted that the effects of the reduction in the IRES income tax rate from 27.50% to 24% introduced, with effect from January 1, 2017 effective for tax periods after the period to December 31, 2016, introduced by the Stability Law for 2016 were "neutralised" for the Bank as a result of the introduction, by the same Law, of an additional 3.5 percentage points for credit institutions effective for the same tax periods.

With regard to the Irish subsidiary Fineco AM, taxes were calculated using a rate of 12.5% (as per tax legislation).

In general, deferred tax assets and liabilities arise when there is a difference between the accounting treatment and the tax treatment of the carrying amount of an asset or liability.

Deferred tax assets and liabilities are recognised applying tax rates that at the balance sheet date are expected to apply in the period when the carrying amount of the asset will be recovered or the liability will be settled on the basis of tax regulations in force, and are periodically reviewed in order to reflect any changes in regulations.

Furthermore, deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profit will be generated. In accordance with the provisions of IAS12, the probability that sufficient future taxable profit will be available, against which the deferred tax assets can be utilised, is reviewed periodically. The carrying amount of deferred tax assets should be reduced to the extent that it is not probable that sufficient taxable profit will be available.

Deferred tax liabilities are always recognised.

Current and deferred taxes are recognised in consolidated profit and loss item 300. "Tax expense (income) related to profit or loss from continuing operations", except for tax referred to items that in the same or in another fiscal year are credited or charged directly to equity, such as those relating to valuation gains or losses on financial assets at fair value through other comprehensive income, whose changes in value are recognised, after tax, under the revaluation reserves directly in the consolidated statement of comprehensive income.

Current tax assets are shown in the consolidated balance sheet net of related current tax liabilities, where the following requirements are met:

- there is a right to offset the recognised amounts; and
- there is an intention to settle the asset and liability positions with a single payment on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets are shown in the consolidated balance sheet net of related deferred tax liabilities, where the following requirements are met:

- there is a right to offset the underlying current tax assets with the current tax liabilities; and
- deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities which intend to settle current tax assets and liabilities on a net basis (usually under a tax consolidation agreement).

## 10 - Provisions for risks and charges

### Provisions for risks and charges for commitments and guarantees given

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

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

### Provisions for retirement payments and similar obligations

Retirement provisions – i.e. provisions for employee benefits paid after leaving employment – are defined as defined contribution plans or defined benefit plans according to the economic nature of the plan.

In particular:

- Defined-benefit plans provide a series of benefits depending on factors such as age, years of service and compensation policies. Under this type of plan actuarial and investment risks are borne by the company.
- Defined-contribution plans are plans under which the company makes fixed contributions. Benefits are the result of the amount of contributions paid and return on contributions invested. The employer bears no actuarial and/or investment risks connected with this type of plan as it has no legal or implicit obligation to make further contributions, should the plan not be sufficient to provide benefit to all employees.

Defined-benefit plans are present-valued by an external actuary using the unit credit projection method.

This method distributes the cost of the benefit evenly over the employee's working life. The liability is determined as the present value of average future payments adjusted according to the ratio of years of service to theoretical total years of service at the time of payment of the benefit.

More specifically, the amount recognised according to IAS 19 Revised, as a net liability/asset in item 100. "Provisions for risks and charges: b) Post-retirement benefit obligations" is the present value of the obligation at the balance sheet date, less any pension charges relating to benefits already provided but not yet recognised, less the fair value at the balance sheet date of plan assets other than those due to directly settle the obligations adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. Actuarial gains or losses from the defined-benefit liabilities are recognised as a contra-entry to consolidated equity under item 120. "Revaluation reserves" are reported in the Consolidated statement of comprehensive income.

## Part A - Accounting policies (CONTINUED)

The discount rate used to discount obligations (whether financed or not) relating to benefits to be provided after retirement varies according to the currency of denomination and country where the liabilities are allocated and is determined on the basis of market yield at the balance sheet date of prime issuers' bonds with an average life in keeping with that of the relevant liability.

At the balance sheet date, there were no provisions for retirement payments and similar obligations.

### Other provisions

Provisions for risks and charges consist of liabilities recognised when:

- the entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amounts recognised as provisions are the best estimate of the expenditure required to settle the present obligation. The risks and uncertainties that inevitably surround the relevant events and circumstances are taken into account in reaching the best estimate of a provision.

As regards provisions for legal disputes, the estimate includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.

This estimate was determined by the Bank, in relation to the current dispute, mainly based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment.

In addition, where the effect of the time value of money is significant (usually when the expense is expected to materialise more than 18 months after its recognition), the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments.

Provisions are reviewed periodically and adjusted to reflect the current best estimate. If it becomes clear that it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are used only for expenses for which they were originally recognised. Provisions for the year are recognised in the consolidated income statement in item 200. "Net provisions for risks and charges: b) other net provisions" include increases due to the passage of time; they are also net of any re-attributions.

"Other provisions" also include obligations relating to benefits due to personal financial advisors, specifically supplementary customer portfolio payments and contractual payments, which can be considered defined benefit plans; accordingly, these obligations are calculated by an actuary using the unit credit projection method (see paragraph "Retirement Payments and Similar Obligations"), and payments under non-competition agreements.

In certain cases, provisions for risks and charges (for example related to staff expenses and administrative costs) have been recognised under their own item in the consolidated income statement to better reflect their nature.

## 11 - Financial liabilities at amortised cost

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

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

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

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

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

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

The Bank's consolidated debts do not include covenants (see glossary in the attachments) that would cause default or restructuring events. There are no debt instruments involving convertibility to equity instruments (under IASB IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments).

At the consolidated balance sheet date, there were no debt securities in issue, hybrid debt instruments or instruments convertible into treasury shares.

## 12 - Financial liabilities held for trading

Financial liabilities held for trading include:

- derivatives that are not designated as hedging instruments;
- obligations to deliver financial assets borrowed by a short seller (i.e., an entity that sells financial assets it does not yet own);
- financial liabilities issued with an intention to repurchase them in the near term;
- financial liabilities that are part of a portfolio of financial instruments considered as a unit and for which there is evidence of a recent pattern of trading.

Financial liabilities held for trading, including derivatives, are measured at fair value initially and for the life of the transaction.

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

## 13 - Financial liabilities designated at fair value

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

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

or

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

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

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

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

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

## 14 - Foreign currency transactions

A foreign currency transaction is recognised at the spot exchange rate of the transaction date.

Foreign currency monetary assets and liabilities are translated at the closing rate of the period.

## Part A - Accounting policies (CONTINUED)

Exchange differences arising from settlement of monetary items at rates different from those of the transaction date and unrealised exchange rate differences on foreign currency assets and liabilities not yet settled, other than assets and liabilities designated as measured at fair value and hedging instruments, are recognised in profit and loss item 80. "Gains and losses on financial assets and liabilities held for trading" in the consolidated income statement.

Non-monetary assets and liabilities recognised at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated at the closing rate. When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised through profit or loss, any exchange component of that gain or loss is recognised through profit or loss.

All exchange differences recognised on revaluation reserves in consolidated shareholders' equity are also reported in the Consolidated Statement of Comprehensive Income.

### 15 – Insurance assets and liabilities

IFRS4 defines insurance contracts as those agreements based on which a party (the insurer) accepts a significant insurance risk from a third party (the insured), agreeing to pay the latter in the event of damages arising from a specific future uncertain event.

These policies are recognised briefly as follows:

- item 170. "Other income (net) from insurance activities" from the consolidated income statement, of gross premiums, inclusive of any amounts accrued during the financial year as a result of the underwriting of insurance contracts, net of any cancellations. Premium transferred to reinsurers during the year is also recognised in this item;
- item 110. "Technical provisions" of Liabilities, any commitments to insured parties, calculated for each contract with the projection method based on standard market demographic/financial assumptions;
- item 80. "Technical provisions for re-insurers" of Assets, commitments for re-insurers.

At the Accounts date, no insurance assets and liabilities were held.

### 18- Other information

#### Business Combinations

A business combination is a transaction through which an entity obtains control of a company or of a business segment, thus bringing together different businesses into one reporting entity.

A business combination may result in a Parent-subsidiary relationship in which the acquirer is the Parent and the acquiree a subsidiary of the acquirer. A business combination may involve the purchase of the net assets of another entity, in which case goodwill can arise, or the purchase of the equity of the other entity (mergers).

IFRS 3 requires that all business combinations shall be accounted for by applying the purchase method, that involves the following steps:

- identifying an acquirer;
- measuring the cost of the business combination;

and

- allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

The cost of a business combination is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquiree.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

A business combination may involve more than one exchange transaction; nevertheless, the cost of the business combination remains equal to the fair value of the total shareholding acquired. This involves the revaluation at fair value - and the recognition of the effects in the Income Statement - of the equity investments previously held in the acquired entity.

The cost of a business combination is allocated by recognising the assets, the liabilities and the identifiable contingent liabilities of the acquired company at their acquisition-date fair value. Exceptions to this principle are deferred income tax assets and liabilities, employee benefits, indemnification assets, reacquired rights, non-current assets held for sale, and share-based payment transactions that are subject to review in accordance with the principle applicable to them.

The positive difference between the cost of the business combination and the acquirer's interest at fair value, net of the identifiable assets, liabilities and contingent liabilities, must be accounted for as goodwill.

After initial recognition, goodwill is tested for impairment at least annually.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall reassess the fair values and immediately recognise any excess remaining after that reassessment in profit or loss. If the acquisition concerns a percentage less than 100% of the assets of the acquired company, minorities are recognised.

At the acquisition date, minorities are valued:

- at fair value, or
- as a share of minority interests in the assets, liabilities and potential liabilities that can be identified for the company acquired.

### **Purchased or originated Credit Impaired - POCI**

When on initial recognition an exposure, presented in item 30. "Financial assets at fair value through comprehensive income" or 40. "Financial assets at amortised cost", is non-performing, it is qualified as "Purchased Originated Credit Impaired - POCI".

The amortised cost and the interest income generated by these assets are calculated by considering, in the estimate of future cash flows, the expected credit losses over the entire residual duration of the asset. This expected credit loss is subject to periodic review thus determining the recognition of impairment or write - backs.

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

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

### **Other Long-term Employee Benefits**

Long-term Employee Benefits are recognised in item 80. "Other liabilities" on the basis of the measurement of the liability at the balance sheet date.

### **Treasury Shares**

Changes in treasury shares are reported as a direct contra item to consolidated shareholders' equity, i.e. as a reduction to the latter in the amount of any purchases, and as an increase in the amount of any sales proceeds. This entails that, if treasury shares are subsequently sold, the difference between the sale price and the related post-tax repurchase cost is recognised entirely as a contra item to consolidated shareholders' equity.

### **Offsetting financial assets and financial liabilities**

The accounting offsetting of assets and liabilities items has been performed according to IAS 32, assessing the fulfilment of the following requirements:

- current legal enforceable right to set off the recognised amounts;
- intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accordance with IFRS 7, further information has been included in the table of the Notes to the consolidated accounts, in Part B - Other information.

Those tables show the following in particular:

- the carrying amounts, before and after the accounting offsetting effects, related to the financial assets and liabilities that meet the criteria for applying those effects;
- the amount of the exposures that do not meet the above mentioned criteria, but are included in master netting agreements, or similar agreements, that create the right to set-off only under specific circumstances (e.g., default events);
- the amount of the related collateral.

## Part A - Accounting policies (CONTINUED)

### Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment.

The effective interest method is a method of allocating the interest income or interest expense over the life of a financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Commissions forming an integral part of the effective interest rate include loan drawdown fees or underwriting fees relating to a financial asset not designated at fair value, e.g., fees received as compensation for the assessment of the issuer's or borrower's financial situation, for valuation and registration of security, and generally for the completion of the transaction (management fees).

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

### Classification of financial assets

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

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

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

It is also possible upon initial recognition to:

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

### Business model

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

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

The Bank's Business Model is determined by Key management personnel at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The entity's business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation with the corporate objective of pursuing, time in time, specific performance of maximizing net interest income and accessory commissions, in order to limit credit risk, always



compatible with the RAF (risk appetite framework) established annually by the Bank. However, a single entity may have more than one business model for managing its financial instruments.

For the Held to Collect business model, the Bank has defined the eligibility thresholds for sales that do not affect the classification (frequent but not significant, individually and in aggregate, or infrequent even if of a significant amount) and, at the same time, the parameters were established to identify sales consistent with this business model as they are attributable to an increase in credit risk.

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

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

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

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

In particular, it involves are the following activities identified by the Bank:

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

### SPPI Test

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

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

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

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

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

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

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

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

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



## Part A - Accounting policies (CONTINUED)

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

### **Derecognition of financial assets**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Impairment**

#### **General matters**

Loans and debt instruments classified in the items: financial assets at amortised cost, financial assets at fair value through comprehensive income and the relevant off-balance sheet exposures (commitments and guarantees given), are subjected to an impairment calculation in accordance with IFRS 9, taking into account the integrated reference regulations of the internal regulations and policies of the UniCredit Group which regulate the credit classification rules and their transfer to the various categories.

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

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

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

In order to meet the accounting standard, the Bank refers specific models (developed by the UniCredit Group) to calculate the expected loss. These models draw on the PD, LGD and EAD criteria used for regulatory purposes, to which specific directions are made to ensure full cohesion with the accounting requirements<sup>35</sup>. In this regard, forward-looking information has also been included<sup>36</sup> with the elaboration of specific scenarios.

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

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

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

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

- the comparison at transaction level between the PD value at the time of disbursement and the value on the reporting date, both qualified according to internal models at fixed thresholds to take into account all the key variables of each transaction that may influence the Bank's expectations about ongoing changes in PD (e.g. age, maturity, level of PD at the time of disbursement);
- absolute elements such as the backstops provided for by the regulation (e.g. 30 day Expired);
- other internal findings (forborne classification).

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

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

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

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

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

### *Parameters and definitions of risk level used in the calculation of value adjustments*

As mentioned above the Group UniCredit has developed specific models to calculate the expected loss, which draw on the PD, LGD and EAD criteria, as well as the effective interest rate.

<sup>35</sup> See paragraph "Parameters and definitions of risk level used in the calculation of value adjustments" for a more detailed explanation of the risk measures used within the Group to calculate the expected credit loss in accordance with IFRS 9.

<sup>36</sup> See paragraph "Forward-looking information used in calculating value adjustments" for a more detailed explanation of the forward-looking information and scenarios used to calculate the expected credit loss in accordance with IFRS 9.

## Part A - Accounting policies (CONTINUED)

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

Specifically:

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

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

The main adjustments are made in order to:

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

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

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

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

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

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

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

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

## *Forward-looking information used in calculating value adjustments*

The credit loss expected from the parameters described in the forgoing paragraph considers macroeconomic forecasts by applying multiple scenarios to the forward looking components.

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

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

## *Governance*

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

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

## **Repos and securities lending**

Securities received in a transaction that entails a contractual obligation to sell them at a later date or delivered under a contractual obligation to repurchase are neither recognised nor derecognised. In respect of securities purchased under an agreement to resell, the consideration is recognised as financial assets at amortised cost, or as an asset held for trading; in respect of securities held in a repurchase agreement, the liability is recognised as financial liabilities at amortised cost, or as financial liabilities held for trading. Revenue from these loans, being the coupons accrued on the securities and the difference between the sale/purchase and resale/repurchase prices, is recognised in consolidated profit or loss through interest income and expenses on an accruals basis.

These transactions can only be offset if, and only if, they are carried out with the same counterparty and provided that such offset is provided for in the underlying contracts.

The same rules apply to securities lending transactions collateralised by cash fully available to the lender.

The profit or loss items connected with these transactions are booked respectively:

- in the item Interest, for the positive component (borrower) and the negative component (lender) related to the return on cash paid to the lender;
- in the item Fees and commissions, for the negative component (borrower) and the positive component (lender) related to the service received (provided) through the provision of the security by the lender.

With reference to securities lending transactions collateralised by other securities, or not collateralised, the security lent or the security put up as collateral are still recognised as assets in the balance sheet, depending on the role - lender or borrower, respectively - played in the transaction.

## **Share-Based Payment**

Equity-settled payments made to employees or other staff (in particular, personal financial advisors) in consideration of work services rendered or other goods received or services rendered, using shares of FinecoBank or the Group parent, which consist of:

- stock options;
- rights to receive shares upon attainment of certain objectives ("performance shares"), which are settled with equity instruments;
- Performance shares (i.e. awarded on attainment of certain objectives) settled in cash.

Considering the difficulty of reliably measuring the fair value of the services acquired against equity-settled payments, reference is made to the fair value of the instruments, measured at the date of their allocation.

The fair value of equity-settled payments or the purchase on the market of shares in FinecoBank in exchange of work or services is recognised as cost in consolidated income statement in item 190. "Administrative expenses" or 50. "Fee and commission expense" as a contra-entry to item 150. "Reserves" in consolidated shareholders' equity, on an accruals basis over the period in which the services are acquired.

## Part A - Accounting policies (CONTINUED)

As for share-based payments settled in cash in favour of personal financial advisors, the services acquired and the liabilities assumed are measured at the latter's fair value, recognised in consolidated profit or loss in Item 50. "Fee and commission expense" as counterparty of the Item 80. "Other Liabilities". Until the liability is settled, the fair value is recalculated at each balance sheet date until the settlement date, and all changes in fair value are recognised in item 50. "Fee and commission expense".

Share based payments consisting in the payment of shares of the Parent Company UniCredit S.p.A. directly allocated to employees of the Group Companies that involve settlement with shares of the Parent Company, under arrangements between the Company and the Parent Company for their cash settlement, are measured at fair value, calculated when the related rights are assigned, recognised as a cost in consolidated income statement in item 190 "Administrative expenses", as a contra entry to item 80. "Other Liabilities", on an accruals basis over the period in which the services are acquired.

### Renegotiations

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

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

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

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

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

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

### Equity instruments

Equity instruments represent a residual interest in assets of the Company, net of liabilities. An instrument is classified as equity instrument if there are no contractual obligations to make payments in the form of principal, interest or other types of returns.

Specifically, instruments that meet the following requirements are classified as equity instruments:

- unlimited term or at least equal to the term of the company;
- full discretion of the issuer in coupon payments and redemptions, also advanced, of the principal outstanding.

Equity instruments include Additional Tier 1 instruments under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms, which in addition to the above characteristics:

- maintain the issuer's full discretion as to the reinstatement of the nominal value (write-up) following a capital event that resulted in a write-down;
- do not include provisions that require the issuer to make payments (must pay clauses) as a result of actual events under the control of the parties.

Equity instruments other than ordinary or savings shares, are classified in item 140. "Equity instruments" for the amount received. Any coupons and transaction costs attributable to the transaction paid are deducted from Item 150. "Reserves" net of related taxes.

### Provisions for employee severance pay

The "TFR" provision for Italy-based employee benefits is to be construed as a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using the unit credit projection method (see Section 10 - under "Provisions for Risks and Charges - Retirement Payments and Similar Obligations"). This method distributes the cost of the benefit evenly over the employee's working life. The liability is determined as the present value of average future payments adjusted according to the ratio of years of service to total years of service at the time of payment of the benefit.

Following pension reform by Law 252 of December 5, 2005, TFR instalments accrued to December 31, 2006 (or to the date between January 1, 2007 and June 30, 2007 on which the employee opted to devolve their TFR to a supplementary pension fund) stay in the employer and are considered a post-employment defined benefit plan therefore incurring actuarial valuation, though with simplified actuarial assumptions, i.e., forecast future pay rises are not considered.

TFR instalments accrued since January 1, 2007 (date of Law 252 coming into effect) (or since the date between January 1, 2007 and June 30, 2007) are, at the employee's discretion, either paid into a pension fund or left in the company and (where the company has in excess of 50 employees) paid into an INPS Treasury fund by the employer, and are assimilated to a defined-contribution plan.

Costs relating to TFR are recognised in the Consolidated Income Statement in item 190. "Administrative expenses: a) staff expenses" and include, for the part of the defined benefit plan: (i) interest cost accrued in the year, for the part of plan considered defined contribution plan (ii) the accrued instalments for the year paid into the complementary pension scheme or to the Treasury fund of INPS.

Actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of obligations at period end, are recognised in consolidated Shareholders' equity under the Revaluation reserves in accordance with IAS 19 Revised and are also shown in the Consolidated Statement of Comprehensive Income.

### Write – offs

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

The Bank will recognise a write-off in the following cases:

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



### RECOGNITION OF INCOME AND EXPENSES

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

- interest is recognized pro rata temporis based on the contractual interest rate or the effective interest rate if the amortized cost method is applied. Interest income (or interest expense) also includes the spreads or margins, positive (or negative), accrued up to the reporting date, relating to
  - derivative financial contracts hedging interest-bearing assets and liabilities;
  - financial derivative contracts classified in the balance sheet as held for trading, but operationally linked to financial assets and / or liabilities designated at fair value (*fair value option*);
  - financial derivative contracts operationally linked to assets and liabilities classified in the balance sheet as held for trading or operationally linked to "other financial assets required to be measured at fair value" and which provide for the settlement of spreads or margins with several maturities ("multi-flow contracts");
- default interest is taken to the income statement on actual collection;
- dividends are recognised in profit or loss in the financial year in which their distribution has been approved;
- fees and commissions from services are recognized, based on the underlying contractual agreements, in relation to the provision of the services from which they originated. The fees included in amortised cost to calculate the effective interest rate are recognized as interest;
- gains and losses on financial instrument disposal, determined as the difference between the amount paid or collected in the transaction and the fair value of the instrument, are recognized in the income statement upon recognition of the transaction if the fair value can be determined with reference to official prices available on active markets, or for assets and liabilities measured on the basis of valuation techniques using observable market parameters other than the quoted prices of the financial instrument (level 1 and level 2 of the fair value hierarchy). If the reference parameters used for valuation are not observable on the market (level 3) or the instruments are illiquid, the financial instrument is recorded for an amount equal to the transaction price; the difference with respect to fair value is recognized in the income statement over the term of the transaction;
- gains and losses from securities trading are recognized in the income statement at the time the sale is finalized, based on the difference between the amount paid or collected and the carrying amount of the instruments;
- gains and losses from the sale of non-financial assets are recognized at the time the sale is finalized, or when the performance obligation to the customer is fulfilled;
- the costs are recognized in the income statement according to the accrual principle; the costs recognized for the acquisition of contracts with customers, which the Bank would not have incurred had it not obtained the contract, are recognized as assets and systematically amortized in the income statement in line with the recognition of revenues related to the transfer to customers of the goods or services to which the asset refers.

Fees and commissions income and other operating income are accounted for in P&L as the entity satisfies the performance obligation embedded in the contract, according to "IFRS15 Revenue from Contracts with Customers" rules. In particular, revenues from commissions from services and other income are recognized in the income statement:

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

The promised good or service, i.e. the asset, is transferred when the customer has control.

If the timing of cash-in of the contractual amount is not aligned to the way the performance obligation is satisfied, the Bank accounts for a contract asset or a contract liability for the portion of revenue accrued in the period or to defer in the following periods.

The amount of revenues linked to fees and commissions income and other operating income is measured based on contractual provisions.

If the amount contractually foreseen is subject, totally or partially, to variability, a revenue has to be booked based on the most probable amount that the Bank expects to receive. Such amount is determined on the basis of all facts and circumstances considered relevant for the evaluation, that depend on the type of service provided and, in particular, on the presumption that it is not highly probable that the revenue recognized will not be significantly reversed.

If a contract regards different goods/services whose performance obligations are not satisfied at the same time, the revenue is allocated among the different obligation proportionally to the stand-alone price of the single item delivered. These amounts will therefore be accounted for in P&L through different methods ("over time" or "point in time") on the basis of the timing of satisfaction of each obligation. If the allocation is particularly burdensome and where revenues are not material, revenue is entirely allocated to the main performance obligation.

Where envisaged, the fees to be paid to customers are recorded as a reduction in revenues from the supply of goods or services and consistently with the recognition of said goods or services.

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

account the effects of a funding component when the time interval expected between the transfer of the promised good or service and the related payment is less than one year.

To this end, it is worth noting that the performance of financial services provided over a given period of time (for example, the keeping and management of current accounts, advisory services, etc.) have been considered satisfied over time, regardless of the moment the consideration is paid by the customer, while performances of financial services that require the execution of specific activities (for example, purchase, sale or placement of securities, UCITS or insurance products, execution of money transfers) have been considered fulfilled at a given time ("point in time"), even if the contract requires the service is provided for an indefinite period.

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

- the commissions for trading, order collection and placement of financial instruments are accounted for "point in time", as the service is intended provided when the service is rendered. The consideration is quantified as a fixed or percentage amount, based on the contractual conditions, on the value of the instrument traded/placed;
- advisory, portfolio management and insurance product management commissions are recorded "over time", as the service is intended provided during the term of the contract (input method). For this kind of fees, in fact, it is deemed that the input which are necessary to provide the service incorporated in the performance obligation are evenly distributed during the term of the contract. There are no performance fees on asset management instruments. With regard to placement of insurance policies, whose return is determined on the basis of the performance of the separate management on the annual recurrence of the policy, it should be noted that there is a variability determined by the performance of the separate management, which may result in a reduction in applicable rate;
- commissions related to payment systems are mainly recognized "point in time", except for some services that are recorded "over time" during the term of the contract (SEPA Electronic Database Alignment). The considerations are quantified as a fixed amount, mainly with reference to transactions carried out on behalf of customers (for example ATM withdrawals of less than €100, Visa debit extra Group withdrawals, foreign money transfers or in other currencies other than euro, postal bills, etc...), or as percentage of the value of the transaction, mainly with reference to revenues received from the circuits and generated by transactions carried out on behalf of customers (credit cards / Visa debit, Pos, etc.);
- recoveries of the stamp duty on financial assets are recorded "over time", according to the provisions in force, as the service is considered provided during the term of the contract.

### A.3 Disclosure on transfers between portfolios of financial assets

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

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

Specifically, the following may be reclassified:

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

The following changes in circumstances are not considered reclassifications:

- a) an item that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- b) an item becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge;
- c) changes in measurement.

The following are not changes in business model:

- a) a change in intention related to particular financial assets (even in circumstances of significant changes in market conditions);
- b) the temporary disappearance of a particular market for financial assets;
- c) a transfer of financial assets between parts of the entity with different business models.



## Part A - Accounting policies (CONTINUED)

During the exercise closed at 31 December 2018 the Bank has not made changes to its business models and, consequently, did not make any changes.

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

No data to report.

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

No data to report.

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

No data to report.

## A.4 Information on fair value

### Qualitative information

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

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

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

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

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

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

- a market approach (e.g. using quoted prices for similar liabilities or equity instruments held by other parties as assets);
- cost approach (e.g. it reflects the amount that would be required currently to replace the service capacity of an asset, that is the current replacement cost);
- An income approach (e.g. a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset).

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

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

Indeed, these prices/quotations are relevant for determining significant parameters in terms of the credit risk, liquidity risk and price risk of the instrument being valued. Reference to these "market" parameters makes it possible to limit the discretionary nature of the valuation, and ensures that the resulting fair value can be verified.

If, for one or more risk factors it is not possible to refer to market data, the valuation models employed use estimates based on historical data as inputs.

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

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

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

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

To determine the fair value of Level 2 and Level 3 financial instruments that are not listed and actively traded on the market, the Bank, with the coordination of the competent Parent Company structures responsible for these activities for the benefit of all UniCredit Group entities, utilises the valuation techniques widely-used in the market that are described below.

#### Description of evaluation techniques

##### **Discounted cash flow**

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

##### **Market Approach**

Valuation technique that uses prices generated by market transactions involving identical or comparable assets, liabilities or groups of assets and liabilities.

##### **Fair Value Adjustments (FVAs)**

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

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

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

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

## Part A - Accounting policies (CONTINUED)

### A.4.3 Fair value hierarchy

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

The fair value hierarchy level associated with assets and liabilities is defined as the minimum level among all significant inputs used. Generally, an input of valuation is not considered significant for the fair value of an instrument if the remaining inputs explain the majority of the variance of the fair value over a period of three months. In some specific cases, the significance of the limit is verified in relation to the fair value of the instrument at the measurement date.

In particular, three levels are considered:

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

### A.4.4 Other information

Hereby we provide IFRS 13 disclosure requirements.

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

##### ***Fixed Income Securities***

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

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

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

##### ***Structured Financial Products***

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

##### ***OTC derivatives***

The fair value of derivatives not traded in an active market derives from the application of mark-to-model valuation techniques. When there is an active market for the input parameters to the valuation model of the different components of the derivative, the fair value is determined on the basis of the market prices of these components. Valuation techniques based on observable inputs are classified as Level 2, while those based on significant unobservable inputs are classified as Level 3.

##### ***Equity Instruments***

Equity Instruments are assigned to Level 1 when a quoted price is available on an active market and to Level 3 when no quotations are available or quotations have been suspended indefinitely. These instruments are classified as Level 2 only when trading volume on the market where the instrument is quoted has decreased significantly.

For the measurement of the Visa INC class "C" preferred shares, the Bank has adopted the model developed by the Parent Company to determine the fair value that converts the market price in dollars of the Visa INC class "A" shares into euro and applies a discount factor of 6.25%, determined by estimating the litigation risk (0.25%) and the illiquidity risk (6%). The litigation risk component was extracted from historical series of data provided by Visa INC, whereas the illiquidity risk component was derived from the illiquidity of the shares, which have limitations on their transferability for a particular period. The Visa INC class "C" preferred shares were assigned a fair value hierarchy of 3.

The fair value of the equity instruments recognized with regard to the intervention in favour of CariCesena, Cassa di Risparmio di Rimini (Carim) and Cassa di Risparmio di San Miniato (Carismi) and in relation to the result of the contribution made to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund, was determined equal to the estimate of fair value of Berenice securitisation's notes (mezzanine and junior notes issued

for the securitization of the NPLs of the three banks purchased by the Voluntary Scheme) performed by the appointed advisor from the Interbank Deposit Guarantee Fund for the Voluntary Scheme Report as at December 31, 2018. The model used by the advisor is based on the Discounted Cash Flow model according to the recovery forecasts made by the special servicers.

On the other hand, the fair value of the equity instruments recognized with regard to the intervention in favour of Banca Carige S.p.A. was determined using internal models (Discounted Cash Flow and Market Multiples applied in a multi-scenario analysis) also referring to the valuation of the financial assets of the Voluntary Scheme (supported by the appointed advisor) included in the 2018 Report of the Voluntary Scheme.

Both the equities were classed as fair value 3.

### ***Investment Funds***

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

Funds are generally classified as Level 1 when a quote on an active market is available.

The funds are classified as Level 2 and Level 3 depending on the availability of the NAV, the transparency of the portfolio and possible constraints/limitations.

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

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

### ***Financial assets at amortised cost***

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

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

### ***Financial liabilities at amortised cost***

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

### ***Cash and cash balances***

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

## Part A - Accounting policies (CONTINUED)

### Quantitative information

#### A.4.5 Fair value hierarchy

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

(Amounts in € thousand)

ASSETS/LIABILITIES AT FAIR VALUE	12.31.2018			12.31.2017		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	3,390	3,557	13,271			
a) financial assets held for trading	3,354	3,523	-			
b) financial assets designated at fair value	-	-	-			
c) other financial assets mandatorily at fair value	36	34	13,271			
2. Financial assets at fair value through other comprehensive income	961,767	-	5			
<i>Financial assets held for trading (ex IAS 39)</i>				6,030	4,834	15
<i>Financial assets designated at fair value through profit or loss (ex IAS 39)</i>				-	-	-
<i>Available-for-sale financial assets (ex IAS 39)</i>				1,042,465	-	5,224
3. Hedging derivatives	-	3,314	-	-	458	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>965,157</b>	<b>6,871</b>	<b>13,276</b>	<b>1,048,495</b>	<b>5,292</b>	<b>5,239</b>
1. Financial liabilities held for trading	1,552	669	-			
2. Financial liabilities designated at fair value	-	-	-			
<i>Financial liabilities held for trading (ex IAS 39)</i>				2,032	579	6
<i>Financial liabilities designated at fair value (ex IAS 39)</i>				-	-	-
3. Hedging derivatives	-	5,341	-	-	12,694	-
<b>Total</b>	<b>1,552</b>	<b>6,010</b>	<b>-</b>	<b>2,032</b>	<b>13,273</b>	<b>6</b>

**Key:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

In 2018 there were no transfers between levels of fair value hierarchy (level 1 and level 2). Credit Value Adjustment (CVA) and/or Debit Value Adjustment (DVA) have not been applied in determining the fair value of derivative financial instruments.

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

(Amounts in € thousand)

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS					FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS
	TOTAL	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily at fair value		HEDGING DERIVATIVES				
<b>1. Opening balance</b>	<b>5,234</b>	<b>6</b>	<b>-</b>	<b>5,228</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>2. Increases</b>	<b>16,205</b>	<b>5,128</b>	<b>-</b>	<b>11,077</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
2.1 Purchases	14,613	5,128	-	9,485	-	-	-	-	-	
2.2 Profits recognised in:	1,592	-	-	1,592	-	-	-	-	-	
2.2.1 Income Statement	1,592	-	-	1,592	-	-	-	-	-	
- of which Unrealised gains	1,585	-	-	1,585	-	-	-	-	-	
2.2.2 Shareholders' Equity	-	X	X	X	-	-	-	-	-	
2.3 Transfers from other levels	-	-	-	-	-	-	-	-	-	
2.4 Other increases	-	-	-	-	-	-	-	-	-	
<b>3. Decreases</b>	<b>(8,168)</b>	<b>(5,134)</b>	<b>-</b>	<b>(3,034)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
3.1 Sales	(5,135)	(5,128)	-	(7)	-	-	-	-	-	
3.2 Redemptions	-	-	-	-	-	-	-	-	-	
3.3 Losses recognised in:	(3,033)	(6)	-	(3,027)	-	-	-	-	-	
3.3.1 Income Statement	(3,033)	(6)	-	(3,027)	-	-	-	-	-	
- of which Unrealised losses	(3,033)	(6)	-	(3,027)	-	-	-	-	-	
3.3.2 Shareholders' Equity	-	X	X	X	-	-	-	-	-	
3.4 Transfers to other levels	-	-	-	-	-	-	-	-	-	
3.5 Other decreases	-	-	-	-	-	-	-	-	-	
<b>4. Closing balances</b>	<b>13,271</b>	<b>-</b>	<b>-</b>	<b>13,271</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

The opening balance shown in the table refers to the financial assets recorded at January 1, 2018 after the reclassifications made following the first application of IFRS 9 (for further details, see Section 5 - Other matters of the Notes of the consolidated accounts).

The sub-items 2.2.1 "Profits recognized in Income Statement" and 3.3.1 "Losses recognized in Income Statement" are included, where present, in Consolidated Profit and Loss in the following items:

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

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

## Part A - Accounting policies (CONTINUED)

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

(Amounts in € thousand)

	FINANCIAL LIABILITIES HELD FOR TRADING	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	HEDGING DERIVATIVES
<b>1. Opening balance</b>	6	-	-
<b>2. Increases</b>	-	-	-
2.1 Issues	-	-	-
2.2 Losses allocated to:	-	-	-
2.2.1 Income Statement	-	-	-
- of which capital losses	-	-	-
2.2.2 Shareholders' Equity	X	X	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
<b>3. Decreases</b>	(6)	-	-
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Profits recognised in:	(6)	-	-
3.3.1 Income Statement	(6)	-	-
- of which capital gains	(6)	-	-
3.3.2 In equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
<b>4. Closing balances</b>	-	-	-

The opening balance shown in the table refers to the financial assets recorded at January 1, 2018 after the reclassifications made following the first application of IFRS 9 (for further details, see Section 5 - Other matters of the Notes of the consolidated accounts).

The sub-items "2.2.1 Losses allocated to Income Statement" and "3.3.1 Profits recognized in Income Statement from financial liabilities" are included, where present, in Consolidated Profit and Loss in the following items:

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

### A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by level of fair value

(Amounts in € thousand)

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	12.31.2018				12.31.2017			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets at amortised cost	23,270,024	8,115,915	9,182,023	6,117,326	-	-	-	-
<i>Held to maturity investments (ex IAS 39)</i>	-	-	-	-	4,826,390	4,855,200	-	-
<i>Loans and receivables with banks (ex IAS 39)</i>	-	-	-	-	13,878,117	-	11,311,889	3,039,207
<i>Loans and receivables with customers (ex IAS 39)</i>	-	-	-	-	2,129,219	-	-	2,204,926
2. Tangible assets held for investment	2,088	-	-	2,950	2,304	-	-	3,491
3. Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>23,272,112</b>	<b>8,115,915</b>	<b>9,182,023</b>	<b>6,120,276</b>	<b>20,836,030</b>	<b>4,855,200</b>	<b>11,311,889</b>	<b>5,247,624</b>
1. Financial liabilities at amortised cost	23,282,962	-	3,111	23,279,856	-	-	-	-
<i>Deposits from banks (ex IAS 39)</i>	-	-	-	-	926,001	-	-	926,001
<i>Deposits from customers (ex IAS 39)</i>	-	-	-	-	20,205,036	-	9,622	20,195,477
<i>Debt securities in issue (ex IAS 39)</i>	-	-	-	-	-	-	-	-
classified as held for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>23,282,962</b>	<b>-</b>	<b>3,111</b>	<b>23,279,856</b>	<b>21,131,037</b>	<b>-</b>	<b>9,622</b>	<b>21,121,478</b>

Key:

L1 = Level 1 - L2 = Level 2 - L3 = Level 3 - BV = Book Value

Tangible assets held for investment consist of one property held by the Bank, the fair value of which corresponds to the market value as determined by an appraisal carried out by an external and independent valuation firm.

### A.5 Day-one profit/loss

Financial instruments are initially recognised at fair value on the recognition date.

The fair value of financial instruments, other than those measured at fair value through profit or loss, at the recognition date is usually assumed to be equal to the amount collected or paid.

For financial instruments held for trading and financial instruments measured at fair value, any difference from the amount collected or paid is recognised in the appropriate line items of the income statement upon initial measurement of the financial instrument.

The use of prudent valuation models, the review processes of these models and their parameters and value adjustments to reflect model risk ensure that the amount recognised in the income statement is not derived from the use of unobservable valuation parameters. In particular, the quantification of the value adjustments relating to the risk model ensures that the part of the fair value of these instruments that refers to the use of subjective parameters is not recognised through profit or loss, but rather as an adjustment to the equity value of those instruments. Accordingly, this item is only subsequently recognised through profit or loss when there is a predominance of objective parameters and, consequently, when the mentioned adjustments are no longer required.

There are no day-one profits/losses to disclose in accordance with paragraph 28 of IFRS 7.





## Part B - Consolidated Balance Sheet

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# Part B - Consolidated Balance Sheet

## Assets

### Section 1 - Cash and cash balances - Item 10

#### 1.1 Cash and cash balances: breakdown

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
(a) Cash	6	613
(b) Demand deposits with central banks	-	-
<b>Total</b>	<b>6</b>	<b>613</b>

### Section 2 - Financial assets at fair value through profit or loss - Item 20

#### 2.1 Financial assets held for trading: product breakdown

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2018		
	L1	L2	L3
<b>A. On-balance sheet assets</b>			
1. Debt securities	5	-	-
1.1 Structured securities	5	-	-
1.2 Other debt securities	-	-	-
2. Equity instruments	2,110	-	-
3. Units in investment funds	2	-	-
4. Loans	-	-	-
4.1 Reverse repos	-	-	-
4.2 Others	-	-	-
<b>Total A</b>	<b>2,117</b>	<b>-</b>	<b>-</b>
<b>B. Derivatives</b>			
1. Financial derivatives	1,236	3,523	-
1.1 trading derivatives	1,236	3,523	-
1.2 related to the fair value option	-	-	-
1.3 other	-	-	-
2. Credit derivatives	-	-	-
2.1 trading derivatives	-	-	-
2.2 related to the fair value option	-	-	-
2.3 other	-	-	-
<b>Total B</b>	<b>1,236</b>	<b>3,523</b>	<b>-</b>
<b>Total (A+B)</b>	<b>3,353</b>	<b>3,523</b>	<b>-</b>

**Key:**

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

Financial derivatives refer to the positive valuation of CFD contracts on forex, indices, shares, interest rates, commodities and futures used for the operational hedging of CFDs on indices, interest rates and commodities. They amounted to €3,509 thousand (€4,756 thousand as at December 31, 2017).

Sub-item B.1.1 "Derivative instruments - Trading financial derivatives" also includes the positive valuations of spot contracts for securities that meets the definition of held for trading and currencies to be settled in times established by market practices ("regular way"). They amounted to €1,250 thousand (€1,758 thousand as at December 31, 2017).

## 2.2 Financial assets held for trading: breakdown by issuer/borrower

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2018
<b>A. ON-BALANCE SHEET ASSETS</b>	
<b>1. Debt securities</b>	<b>5</b>
a) Central banks	-
b) Public entities	-
c) Banks	-
d) Other financial companies	5
of which: insurance companies	-
e) Non-financial companies	-
<b>2. Equity Instruments</b>	<b>2,110</b>
a) Banks	-
b) Other financial companies	175
of which: insurance	-
c) Non-financial companies	1,935
e) Other issuers	-
<b>3. Units in investment funds</b>	<b>2</b>
<b>4. Loans</b>	<b>-</b>
a) Central banks	-
b) Public entities	-
c) Banks	-
d) Other financial entities	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
<b>Total (A)</b>	<b>2,117</b>
<b>B. DERIVATIVE INSTRUMENTS</b>	
a) Central Counterparties	73
b) Others	4,686
<b>Total (B)</b>	<b>4,759</b>
<b>Total (A+B)</b>	<b>6,876</b>

Item B. "Derivative instruments" also includes the positive valuations of spot contracts for securities classified in the HFT portfolio and currencies to be settled within times established by market practices ("regular way").

## 2.3 Financial assets designated at fair value: product breakdown

No data to report.

## 2.4 Financial assets designated at fair value: breakdown by issuer/borrower

No data to report.

## 2.5 Other financial assets mandatorily at fair value: product breakdown

(Amounts in € thousand)

ITEMS/ACCOUNTS	TOTAL 12.31.2018		
	L1	L2	L3
<b>1. Debt securities</b>	<b>31</b>	<b>34</b>	<b>-</b>
1.1 Structured securities	-	-	-
1.2 Other debt securities	31	34	-
<b>2. Equity instruments</b>	<b>6</b>	<b>-</b>	<b>13,271</b>
<b>3. Units in investment funds</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>
4.1 Reverse repos	-	-	-
4.2 Others	-	-	-
<b>Total</b>	<b>37</b>	<b>34</b>	<b>13,271</b>

**Key:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

## Part B - Consolidated Balance Sheet – Assets (CONTINUED)

The "Other financial assets mandatorily at fair value" primarily consist of the Visa INC class "C" preferred shares, for an amount of €6,086 thousand, which saw a positive change in *fair value* in 2018 of €1,585 thousand and the residual equity exposure following the contribution paid to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund (IDGF), amounting to €7,177 thousand (of which €6,652 relating to the Banca Carige transaction and €525 thousand relating to Carim, Carismi and CariCesena transaction), with a negative effect recorded in the 2018 income statement amounting to €3,025 thousand due to the fair value measurement. For more details on the fair value measurement of financial instruments, please refer to Part A - Accounting Policies - A.4 Information on the fair value of these consolidated notes to the accounts.

Equity securities of issuers in default were classified by the Bank as non-performing in the financial statements for a total amount of €6 thousand.

### 2.6 Other financial assets mandatorily at fair value: breakdown by issuer/borrower

	(Amounts in € thousand)
	<b>TOTAL 12.31.2018</b>
<b>1. Equity instruments</b>	<b>13,277</b>
of which: banks	1
of which: other financial companies	6,087
of which: non-financial companies	12
<b>2. Debt securities</b>	<b>65</b>
a) Central Banks	-
b) Public entities	29
c) Banks	2
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	34
<b>3. Units in investment funds</b>	<b>-</b>
<b>4. Loans</b>	<b>-</b>
a) Central Banks	-
b) Public entities	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
<b>Total</b>	<b>13,342</b>

It should be noted that item 1. "Equity instruments" includes the securities recognized as a result of the contributions paid to the Voluntary Scheme set-up by the Interbank Deposit Guarantee Fund, whose total amount (equal to €7,177 thousand) has not showed in the expected details from the table above.

Hereinafter the tables drawn up according to IAS39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

## Financial assets held for trading (ex IAS 39 Item 20)

### 2.1 Financial assets held for trading: product breakdown

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2017		
	LEVEL 1	LEVEL 2	LEVEL 3
<b>A. On-balance sheet assets</b>			
1. Debt securities	18	30	-
1.1 Structured securities	3	-	-
1.2 Other debt securities	15	30	-
2. Equity instruments	2,288	-	9
3. Units in investment funds	2,019	-	-
4. Loans	-	-	-
4.1 Reverse repos	-	-	-
4.2 Others	-	-	-
<b>Total A</b>	<b>4,325</b>	<b>30</b>	<b>9</b>
<b>B. Derivatives</b>			
1. Financial derivatives	1,705	4,804	6
1.1 trading derivatives	1,705	4,804	6
1.2 related to the fair value option	-	-	-
1.3 other	-	-	-
2. Credit derivatives	-	-	-
2.1 trading derivatives	-	-	-
2.2 related to the fair value option	-	-	-
2.3 other	-	-	-
<b>Total B</b>	<b>1,705</b>	<b>4,804</b>	<b>6</b>
<b>Total (A+B)</b>	<b>6,030</b>	<b>4,834</b>	<b>15</b>

### 2.2 Financial assets held for trading: breakdown by issuer/borrower (ex IAS 39 Item 20)

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2017
<b>A. On-balance sheet assets</b>	
<b>1. Debt securities</b>	<b>48</b>
a) Governments and Central Banks	11
b) Other public entities	-
c) Banks	37
d) Other issuers	-
<b>2. Equity Instruments</b>	<b>2,297</b>
a) Banks	1
b) Other issuers:	2,296
- insurance companies	-
- financial companies	95
- non-financial companies	2,201
- other	-
<b>3. Units in investment funds</b>	<b>2,019</b>
<b>4. Loans</b>	<b>-</b>
a) Governments and Central Banks	-
b) Other public entities	-
c) Banks	-
d) Other issuers	-
<b>Total (A)</b>	<b>4,364</b>
<b>B. Derivative instruments</b>	
a) Banks	346
- fair value	346
b) Customers	6,169
- fair value	6,169
<b>Total (B)</b>	<b>6,515</b>
<b>Total (A+B)</b>	<b>10,879</b>

## Part B - Consolidated Balance Sheet – Assets (CONTINUED)

### Section 3 - Financial assets at fair value through comprehensive income - Item 30

#### 3.1 Financial assets at fair value through comprehensive income: product breakdown

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2018		
	L1	L2	L3
<b>1. Debt securities</b>	<b>961,767</b>	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	961,767	-	-
<b>2. Equity instruments</b>	-	-	<b>5</b>
<b>3. Loans</b>	-	-	-
<b>Total</b>	<b>961,767</b>	-	<b>5</b>

**Key:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

"Financial assets at fair value through other comprehensive income" consist of securities issued by sovereign states and residually of equity interests in companies in which the Bank does not exercise control or significant influence for €5 thousand for which, upon first application of IFRS 9, the "FVTOCI" option was exercised<sup>37</sup>. For more details, see the information on Sovereign exposures set out in Part E of the consolidated notes to the accounts.

#### 3.2 Financial assets at fair value through comprehensive income: breakdown by issuer/borrower

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2018	
<b>1. Debt securities</b>		<b>961,767</b>
a) Central banks		-
b) Public entities		961,767
c) Banks		-
d) Other financial companies		-
of which: insurance companies		-
e) Non-financial companies		-
<b>2. Equity Instruments</b>		<b>5</b>
a) Banks		-
b) Other issuers:		5
- other financial companies		-
of which: insurance companies		-
- non-financial companies		5
- other		-
<b>3. Loans</b>		-
a) Central banks		-
b) Public entities		-
c) Banks		-
d) Other financial companies		-
of which: insurance companies		-
e) Non-financial companies		-
f) Households		-
<b>Total</b>		<b>961,772</b>

<sup>37</sup> With regard to non-trading equity instruments, IFRS 9 provides for the possibility of measuring them at the fair value recognised through other comprehensive income (so-called FVTOCI – fair value through Other Comprehensive Income).

### 3.3 Financial assets at fair value through comprehensive income: gross exposure and total impairment

(Amounts in € thousand)

	GROSS AMOUNT				IMPAIRMENT PROVISION			
	FIRST STAGE	OF WHICH: INSTRUMENTS WITH LOW CREDIT RISK	SECOND STAGE	THIRD STAGE	FIRST STAGE	SECOND STAGE	THIRD STAGE	TOTAL PARTIAL WRITE-OFF
Debt securities	961,938	961,938	-	-	(171)	-	-	-
Loans	-	-	-	-	-	-	-	-
<b>Total 31 December 2018</b>	<b>961,938</b>	<b>961,938</b>	<b>-</b>	<b>-</b>	<b>(171)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total 31 December 2017</b>								
of which: financial assets purchased or originated credit impaired	X	X	-	-	X	-	-	-

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

### Available-for-sale financial assets (ex IAS 39 Item 40)

#### 4.1 Available-for-sale financial assets: product breakdown

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2017		
	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	1,042,465	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	1,042,465	-	-
2. Equity Instruments	-	-	5,224
2.1 Carried at fair value	-	-	5,219
2.2 Carried at cost	-	-	5
3. Units in investment funds	-	-	-
4. Loans	-	-	-
<b>Total</b>	<b>1,042,465</b>	<b>-</b>	<b>5,224</b>

#### 4.2 Available-for-sale financial assets: breakdown by issuer/borrower

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2017
	<b>1. Debt securities</b>
a) Governments and Central banks	1,042,465
b) Public entities	-
c) Banks	-
d) Other issuers	-
<b>2. Equity instruments</b>	<b>5,224</b>
a) Banks	-
b) Other issuers:	5,224
- insurance companies	-
- financial companies	4,501
- non-financial companies	5
- other	718
<b>3. Units in investment funds</b>	<b>-</b>
<b>4. Loans</b>	<b>-</b>
a) Governments and Central banks	-
b) Public entities	-
c) Banks	-
d) Others entities	-
<b>Total</b>	<b>1,047,689</b>



## Part B - Consolidated Balance Sheet – Assets (CONTINUED)

### Section 4 - Financial assets at amortised cost – Item 40

#### 4.1 Financial assets at amortised cost: product breakdown of loans and receivables with banks

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2018					
	CARRYING AMOUNT			FAIR VALUE		
	FIRST AND SECOND STAGE	THIRD STAGE	OF WHICH: PURCHASED OR ORIGINATED CREDIT IMPAIRED	L1	L2	L3
<b>A. Loans and receivables with Central Banks</b>	-	-	-	-	-	-
1. Time deposits	-	-	-	X	X	X
2. Compulsory reserves	-	-	-	X	X	X
3. Reverse repos	-	-	-	X	X	X
4. Other	-	-	-	X	X	X
<b>B. Loans and receivables with banks</b>	<b>12,440,994</b>	-	-	<b>267,493</b>	<b>9,182,023</b>	<b>3,058,882</b>
1. Loans	3,058,882	-	-	-	-	3,058,882
1.1 Current accounts and demand deposits	1,922,041	-	-	X	X	X
1.2 Time deposits	1,127,298	-	-	X	X	X
1.3 Other loans:	9,543	-	-	X	X	X
- Reverse repos	416	-	-	X	X	X
- Finance leases	-	-	-	X	X	X
- Other	9,127	-	-	X	X	X
2. Debt securities	9,382,112	-	-	267,493	9,182,023	-
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	9,382,112	-	-	267,493	9,182,023	-
<b>Total</b>	<b>12,440,994</b>	-	-	<b>267,493</b>	<b>9,182,023</b>	<b>3,058,882</b>

**Key:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans and receivables with banks for “Current accounts and demand deposits” mainly consist of accounts held with UniCredit S.p.A., with a book value of €1,887,303 thousand (€1,958,602 thousand as at December 31, 2017) and to a lesser extent, of current accounts held with other banks not belonging to the UniCredit Group for securities transactions and to manage the liquidity customers and the current accounts opened by Fineco AM to manage its liquidity, for €13,908 thousand.

“Time deposits” consist of deposits held with UniCredit S.p.A. for a total of €1,119,303 thousand (€1,028,153 thousand as at December 31, 2017), including the compulsory reserve deposit, and the time deposit opened by Fineco AM with UniCredit Bank Ireland Plc for an amount of €7,986 thousand.

The item “Other loans: Other” refers for €5,280 thousand to the amount of the initial and variance margins and collateral deposits placed with credit institutions for derivative transactions and repos (€14,647 thousand as at December 31, 2017), and €3,847 thousand to current receivables associated with the provision of financial services (€3,215 thousand as at December 31, 2017).

The item “Debt securities” includes €9,115,783 thousand relating to debt securities issued by UniCredit S.p.A. (€10,838,910 thousand as at December 31, 2017).

## 4.2 Financial assets at amortised cost: product breakdown of loans and receivables with customers

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2018					
	CARRYING AMOUNT			FAIR VALUE		
	FIRST AND SECOND STAGE	THIRD STAGE	OF WHICH: PURCHASED OR ORIGINATED CREDIT IMPAIRED	L1	L2	L3
<b>1. Loans</b>	<b>2,952,257</b>	<b>2,817</b>	-	-	-	<b>3,058,444</b>
1.1 Current accounts	1,016,930	1,770	-	X	X	X
1.2 Reverse repos	148,768	29	-	X	X	X
1.3 Mortgages	856,856	14	-	X	X	X
1.4 Credit cards, personal loans and wage assignment loans	749,358	783	-	X	X	X
1.5 Finance leases	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X
1.7 Other loans	180,345	221	-	X	X	X
<b>2. Debt securities</b>	<b>7,873,955</b>	-	-	<b>7,848,422</b>	-	-
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	7,873,955	-	-	7,848,422	-	-
<b>Total</b>	<b>10,826,212</b>	<b>2,817</b>	-	<b>7,848,422</b>	-	<b>3,058,444</b>

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Debt securities recorded in "Financial assets at amortised cost" consist of government securities and securities issued by Supranational entities. For more details, see the information on Sovereign exposures set out in Part E of the consolidated notes to the accounts.

## 4.3 Finance leases

No data to report

## 4.4 Financial assets at amortised cost: breakdown by issuer/borrower of loans and receivables with customers

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2018			
	FIRST AND SECOND STAGE		THIRD STAGE	OF WHICH: PURCHASED OR ORIGINATED CREDIT IMPAIRED
	FIRST AND SECOND STAGE	THIRD STAGE		
<b>1. Debt securities</b>	<b>7,873,955</b>	-	-	-
a) Public entities	7,873,955	-	-	-
b) Other financial companies	-	-	-	-
of which: insurance companies	-	-	-	-
c) Non-financial companies	-	-	-	-
<b>2. Loans with:</b>	<b>2,952,257</b>	<b>2,817</b>	-	-
a) Public entities	8	-	-	-
b) Other financial companies	179,436	2	-	-
of which: insurance companies	19,028	-	-	-
c) Non-financial companies	908	9	-	-
d) Households	2,771,905	2,806	-	-
<b>Total</b>	<b>10,826,212</b>	<b>2,817</b>	-	-

## Part B - Consolidated Balance Sheet – Assets (CONTINUED)

### 4.5 Financial assets at amortised cost: gross exposure and total impairment

(Amounts in € thousand)

	GROSS AMOUNT				IMPAIRMENT PROVISION			TOTAL PARTIAL WRITE-OFF
	FIRST STAGE	OF WHICH: INSTRUMENTS WITH LOW CREDIT RISK	SECOND STAGE	THIRD STAGE	FIRST STAGE	SECOND STAGE	THIRD STAGE	
Debt securities	17,264,880	17,264,880	-	-	(8,812)	-	-	-
Loans	6,012,795	-	14,650	23,936	(10,312)	(5,994)	(21,118)	-
<b>Total 31 December 2018</b>	<b>23,277,675</b>	<b>17,264,880</b>	<b>14,650</b>	<b>23,936</b>	<b>(19,124)</b>	<b>(5,994)</b>	<b>(21,118)</b>	<b>-</b>
<b>Total 31 December 2017</b>								
of which: financial assets purchased or originated credit impaired	X	X	-	-	X	-	-	-

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

## Held-to-maturity investments (ex IAS 39 Item 50)

### 5.1 Held-to-maturity investments: product breakdown

(Amounts in € thousand)

	TOTAL 12.31.2017			
	BV	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	4,826,390	4,855,200	-	-
- Structured	-	-	-	-
- Other	4,826,390	4,855,200	-	-
2. Loans	-	-	-	-
<b>Total</b>	<b>4,826,390</b>	<b>4,855,200</b>	<b>-</b>	<b>-</b>

#### Key

FV = fair value

BV = book value

### 5.2 Held-to-maturity investments: breakdown by issuer/borrower

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2017
<b>1. Debt securities</b>	<b>4,826,390</b>
a) Governments and Central Banks	4,726,466
b) Other public entities	99,924
c) Banks	-
d) Other issuers	-
<b>2. Loans</b>	<b>-</b>
a) Governments and Central Banks	-
b) Other public entities	-
c) Banks	-
d) Other issuers	-
<b>Total</b>	<b>4,826,390</b>
<b>Total fair value</b>	<b>4,855,200</b>

## Loans and receivables with banks (ex IAS 39 Item 60)

## 6.1 Loans and receivables with banks: product breakdown

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2017			
	BV	FV		
		LEVEL 1	LEVEL 2	LEVEL 3
<b>A. Loans and receivables with Central Banks</b>	-	-	-	-
1. Time deposits	-	X	X	X
2. Compulsory reserves	-	X	X	X
3. Reverse repos	-	X	X	X
4. Other	-	X	X	X
<b>B. Loans and receivables with banks</b>	<b>13,878,117</b>	-	<b>11,311,889</b>	<b>3,039,207</b>
<b>1. Loans</b>	<b>3,039,207</b>	-	-	<b>3,039,207</b>
1.1 Current accounts and demand deposits	1,993,139	X	X	X
1.2 Time deposits	1,028,152	X	X	X
1.3 Other loans:		X	X	X
- Reverse repos	54	X	X	X
- Finance leases	-	X	X	X
- Other	17,862	X	X	X
<b>2. Debt securities</b>	<b>10,838,910</b>	-	<b>11,311,889</b>	-
2.1 Structured securities	-	X	X	X
2.2 Other debt securities	10,838,910	X	X	X
<b>Total</b>	<b>13,878,117</b>	-	<b>11,311,889</b>	<b>3,039,207</b>

## Key

FV = fair value

BV = book value

## Loans and receivables with customers (ex IAS 39 Item 70)

## 7.1 Loans and receivables with customers: product breakdown

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2017					
	BOOK VALUE			FAIR VALUE		
	UNIMPAIRED	IMPAIRED PURCHASED	OTHER	L1	L2	L3
<b>Loans</b>	<b>2,126,366</b>	-	<b>2,853</b>	-	-	<b>2,204,926</b>
1. Current accounts	639,726	-	1,828	X	X	X
2. Reverse repos	202,620	-	81	X	X	X
3. Mortgages	516,237	-	14	X	X	X
4. Credit cards, personal loans and wage assignment loans	632,249	-	799	X	X	X
5. Finance leases	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X
7. Other loans	135,534	-	131	X	X	X
<b>Debt securities</b>	-	-	-	-	-	-
8. Structured securities	-	-	-	X	X	X
9. Other debt securities	-	-	-	X	X	X
<b>Total</b>	<b>2,126,366</b>	-	<b>2,853</b>	-	-	<b>2,204,926</b>

## Part B - Consolidated Balance Sheet – Assets (CONTINUED)

### 7.2 Loans and receivables with customers: breakdown by issuer/borrower

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2017		
	UNIMPAIRED	IMPAIRED	
		PURCHASED	OTHER
<b>1. Debt securities</b>	-	-	-
a) Governments	-	-	-
b) Other public entities	-	-	-
c) Other issuers:	-	-	-
- non-financial companies	-	-	-
- financial companies	-	-	-
- insurance companies	-	-	-
- other	-	-	-
<b>2. Loans</b>	<b>2,126,366</b>	-	<b>2,853</b>
a) Governments	-	-	-
b) Other public entities	-	-	-
c) Other issuers:	2,126,366	-	2,853
- non-financial companies	20,492	-	99
- financial companies	107,681	-	5
- insurance companies	16,651	-	-
- other	1,981,542	-	2,749
<b>Total</b>	<b>2,126,366</b>	-	<b>2,853</b>

## Section 5 – Hedging derivatives – Item 50

### 5.1 Hedging derivatives: breakdown by type of hedge and by level

(Amounts in € thousand)

	FAIR VALUE 12.31.2018			NA 12.31.2018	FAIR VALUE 12.31.2017			NA 12.31.2017
	L1	L2	L3		L1	L2	L3	
<b>A. Financial derivatives</b>	-	<b>3,314</b>	-	<b>570,000</b>	-	<b>458</b>	-	<b>151,109</b>
1) Fair value	-	3,314	-	570,000	-	458	-	151,109
2) Cash flows	-	-	-	-	-	-	-	-
3) Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>3,314</b>	-	<b>570,000</b>	-	<b>458</b>	-	<b>151,109</b>

**Key:**

NA = notional amount  
L1 = Level 1  
L2 = Level 2  
L3 = Level 3

5.2 Hedging derivatives: breakdown by hedged assets and risk (balance sheet value)

(Amounts in € thousand)

TRANSACTIONS/TYPE OF HEDGE	FAIR VALUE						CASH FLOWS			NET INVESTMENT IN FOREIGN SUBSIDIARIES
	MICRO						MACRO	MICRO	MACRO	
	DEBT SECURITIES AND INTEREST RATE	EQUITIES INSTRUMENTS AND INDEX	CURRENCY AND GOLD	CREDIT	COMMODITY	OTHERS				
1. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	X	-	X	X
2. Financial assets at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	-	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	3,314	X	-	X
<b>Total liabilities</b>	-	-	-	-	-	-	<b>3,314</b>	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities Portfolio	X	X	X	X	X	X	-	X	-	-

Section 6 – Changes in fair value of portfolio hedged financial assets – Item 60

6.1 Adjustments to the value of hedged assets: breakdown by hedged portfolio

(Amounts in € thousand)

ADJUSTMENTS TO THE VALUE OF HEDGED ASSETS/AMOUNT	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Positive changes</b>	<b>4,873</b>	<b>10,130</b>
1.1 of specific portfolios	4,873	10,130
a) financial assets at amortised cost	4,873	10,130
b) financial assets at fair value through other comprehensive income	-	-
1.2 overall	-	-
<b>2. Negative changes</b>	<b>-</b>	<b>(540)</b>
2.1 of specific portfolios	-	(540)
a) financial assets at amortised cost	-	(540)
b) financial assets at fair value through other comprehensive income	-	-
2.2 overall	-	-
<b>Total</b>	<b>4,873</b>	<b>9,590</b>

Section 7 - Equity investments - Item 70

No data to report.

Section 8 – Technical provisions for re-insurers – Item 80

No data to report.

## Part B - Consolidated Balance Sheet – Assets (CONTINUED)

### Section 9 - Property, plant and equipment - Item 90

#### 9.1 Property, plant and equipment used in the business: breakdown of assets carried at cost

(Amounts in € thousand)

ASSETS/AMOUNTS	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Owned assets</b>	<b>14,544</b>	<b>12,901</b>
a) land	-	-
b) buildings	-	-
c) office furniture and fittings	1,835	1,480
d) electronic systems	10,944	9,798
e) other	1,765	1,623
<b>2. Assets under financial lease</b>	<b>-</b>	<b>-</b>
a) land	-	-
b) buildings	-	-
c) office furniture and fittings	-	-
d) electronic systems	-	-
e) other	-	-
<b>Total</b>	<b>14,544</b>	<b>12,901</b>
of which: obtained through enforcement of the guarantees received	-	-

A description of the methods used to calculate depreciation is provided in Part A - Accounting Policies of the Notes to the consolidated Accounts.

#### 9.2 Property, plant and equipment held for investment: breakdown of assets carried at cost

(Amounts in € thousand)

ASSETS/AMOUNTS	TOTAL 12.31.2018				TOTAL 12.31.2017			
	CARRYING VALUE	FAIR VALUE			CARRYING VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
<b>1. Owned assets</b>	<b>2,088</b>	-	-	<b>2,950</b>	<b>2,304</b>	-	-	<b>3,491</b>
a) land	-	-	-	-	-	-	-	-
b) buildings	2,088	-	-	2,950	2,304	-	-	3,491
<b>2. Assets under finance lease</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,088</b>	<b>-</b>	<b>-</b>	<b>2,950</b>	<b>2,304</b>	<b>-</b>	<b>-</b>	<b>3,491</b>
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

**Key:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

#### 9.3 Property, plant and equipment used in the business: breakdown of revalued assets

No data to report.

#### 9.4 Property, plant and equipment held for investment: breakdown of assets measured at fair value

No data to report.

#### 9.5 Inventories of property, plant and equipment regulated by IAS 2: breakdown

No data to report.

9.6 Property, plant and equipment used in the business: annual changes

(Amounts in € thousand)

	LAND	BUILDINGS	OFFICE FURNITURE AND FITTINGS	ELECTRONIC SYSTEM	OTHER	TOTAL
<b>A. Gross opening balance</b>	-	-	13,873	30,710	10,360	54,943
A.1 Total net reduction in value	-	-	(12,393)	(20,912)	(8,737)	(42,042)
<b>A.2 Net opening balance</b>	-	-	1,480	9,798	1,623	12,901
<b>B. Increases:</b>	-	-	1,474	4,968	704	7,146
B.1 Purchases	-	-	1,472	4,968	704	7,144
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increase in fair value recognised	-	-	-	-	-	-
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	X	X	X	-
B.7 Other changes	-	-	2	-	-	2
<b>C. Decreases:</b>	-	-	(1,118)	(3,822)	(563)	(5,503)
C.1 Sales	-	-	-	(1)	-	(1)
C.2 Depreciation	-	-	(1,095)	(3,677)	(486)	(5,258)
C.3 Impairment losses recognised	-	-	-	-	-	-
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	(20)	-	(77)	(97)
C.4 Decreases in fair value recognised	-	-	-	-	-	-
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment	-	-	X	X	X	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	(3)	(144)	-	(147)
<b>D. Net closing balance</b>	-	-	1,836	10,944	1,764	14,544
D.1 Total net reduction in value	-	-	(13,061)	(24,134)	(9,025)	(46,220)
<b>D.2 Gross closing balance</b>	-	-	14,897	35,078	10,789	60,764
E. Carried at cost	-	-	1,836	10,944	1,764	14,544

The asset classes specified in the table above are carried at cost.



## Part B - Consolidated Balance Sheet – Assets (CONTINUED)

### 9.7 Property, plant and equipment held for investment: annual changes

(Amounts in € thousand)

	TOTAL	
	LAND	BUILDINGS
<b>A. Gross opening balance</b>	-	<b>3,765</b>
A.1 Total net reduction in value	-	(1,461)
<b>A.2 Net opening balance</b>	-	<b>2,304</b>
<b>B. Increases</b>	-	<b>2</b>
B.1 Purchases	-	2
B.2 Capitalised expenditure on improvements	-	-
B.3 Net increases in fair value	-	-
B.4 Write-backs	-	-
B.5 Positive exchange differences	-	-
B.6 Transfer from properties used in the business	-	-
B.7 Other changes	-	-
<b>C. Decreases</b>	-	<b>(218)</b>
C.1 Sales	-	(91)
C.2 Depreciation	-	(109)
C.3 Decreases in fair value	-	-
C.4 Impairment losses	-	-
C.5 Negative exchange differences	-	-
C.6 Transfers to other asset portfolios	-	-
a) properties used in the business	-	-
b) non-current assets classified as held for sale	-	-
C.7 Other changes	-	(18)
<b>D. Net closing balance</b>	-	<b>2,088</b>
D.1 Total net reduction in value	-	(1,512)
<b>D.2 Gross closing balance</b>	-	<b>3,600</b>
E. Fair value measurement	-	2,950

The buildings specified in the table above are carried at cost.

### 9.8 Inventories of property, plant and equipment regulated by IAS 2: annual changes

No data to report.

### 9.9 Commitments to purchase property, plant and equipment

As at December 31, 2018 the Bank had contractual commitments to purchase property, plant and equipment amounting to € 540 thousand.

We also report that there are no restrictions on the ownership of tangible assets and there are no tangible assets pledged as security for liabilities.

## Section 10 - Intangible assets - Item 100

## 10.1 Intangible assets: breakdown by type assets

(Amounts in € thousand)

ASSETS/AMOUNTS	TOTAL 12.31.2018		TOTAL 12.31.2017	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
<b>A.1 Goodwill</b>	<b>X</b>	<b>89,602</b>	<b>X</b>	<b>89,602</b>
A.1.1 attributable to the group	X	89,602	X	89,602
A.1.2 attributable to minorities	X	-	X	-
<b>A.2 Other intangible assets</b>	<b>8,705</b>		<b>7,909</b>	
A.2.1 Assets carried at cost:	8,705	-	7,909	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	8,705	-	7,909	-
A.2.2 Assets carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
<b>Total</b>	<b>8,705</b>	<b>89,602</b>	<b>7,909</b>	<b>89,602</b>

The useful life of software, considered for the calculation of amortisation, is 3 years, while the useful life of other intangible assets with definite life is 5 years. A description of the methods used to calculate depreciation is provided in Part A – Accounting Policies of the Notes to the consolidated accounts.

## 10.2 Intangible assets: annual changes

(Amounts in € thousand)

	GOODWILL	OTHER INTANGIBLE ASSETS: GENERATED INTERNALLY		OTHER INTANGIBLE ASSETS: OTHER		TOTAL
		FIN	INDEF	FIN	INDEF	
<b>A. Gross opening balance</b>	<b>124,729</b>	-	-	<b>79,811</b>	-	<b>204,540</b>
A.1 Total net reduction in value	(35,127)	-	-	(71,902)	-	(107,029)
<b>A.2 Net opening balance</b>	<b>89,602</b>	-	-	<b>7,909</b>	-	<b>97,511</b>
<b>B. Increases</b>	-	-	-	<b>5,755</b>	-	<b>5,755</b>
B.1 Purchases	-	-	-	5,755	-	5,755
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value recognised:						
- in equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	-	<b>(4,959)</b>	-	<b>(4,959)</b>
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses						
- Amortisation	X	-	-	(4,959)	-	(4,959)
- Write-downs						
+ in equity	X	-	-	-	-	-
+ through profit or loss	-	-	-	-	-	-
C.3 Decreases in fair value						
- in equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
C.4 Transfers to non-current assets and discontinued operations	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
<b>D. Net closing balance</b>	<b>89,602</b>	-	-	<b>8,705</b>	-	<b>98,307</b>
D.1 Total net impairments	(35,127)	-	-	(76,861)	-	(111,988)
<b>E. Gross closing balance</b>	<b>124,729</b>	-	-	<b>85,566</b>	-	<b>210,295</b>
<b>F. Carried at cost</b>	<b>89,602</b>	-	-	<b>8,705</b>	-	<b>98,307</b>

## Key

FIN: finite life

INDEF: indefinite life

The asset classes specified in the table above are carried at cost.

## Part B - Consolidated Balance Sheet – Assets (CONTINUED)

### 10.3 Other information

As at December 31, 2018 the Bank had contractual commitments to purchase intangible assets amounting to €721 thousand.

We also report that there were no intangible assets acquired through government concession; no intangible assets were used as collateral for own debts; no intangible assets were held under a finance lease; and there were no revalued intangible assets.

#### **Other information - Impairment test**

Under IAS 36, impairment testing of intangible assets with indefinite useful lives must be performed at least annually and, in any case, whenever there is objective evidence of the occurrence of events that may have reduced their value.

Recoverable value is the greater of the value in use (present value of future cash flows generated by the asset being valued) and the associated fair value, net of sales costs.

The recoverable value of the assets subject to impairment testing must be determined for the individual assets, unless both of the following conditions exist:

- the value in use of the asset is not estimated to be close to the fair value net of selling costs;
- the asset does not generate incoming cash flows largely independent of those coming from other assets (or group of assets).

If these conditions exist, the impairment test is conducted at the level of the Cash Generating Unit (CGU) of the asset, as required by the accounting principle.

According to IAS 36, when determining the value in use of assets subject to impairment testing, reference must be made to the cash flows of assets in their current conditions at the testing date and representing the best estimate by the management of the overall economic conditions in place during the residual useful life of the asset.

For the purposes of impairment testing, the value in use of the cash generating unit (CGU) to which the intangible assets have been assigned must be calculated considering the cash flows for all the assets and liabilities included in the CGU and not just those for which goodwill and/or the intangible asset has been recognised upon application of IFRS 3.

#### **Definition of CGU**

Estimating the value in use for the purposes of any impairment testing of intangible assets, including goodwill, which do not independently generate cash flows, but only in conjunction with other business assets, requires that these assets first be attributed to operating units that are relatively autonomous in the business context (from the points of view of independent cash flows generated and of internal planning and reporting). These operating units are defined as Cash Generating Units (CGU).

Goodwill recorded in these consolidated financial statements, deriving from the separate financial statements of the Bank, relates to buy-outs of divisions or companies engaged in trading activities or the distribution of financial, banking and insurance products through personal financial advisors. These activities have been fully integrated with FinecoBank's ordinary operations, as a result it is not possible to isolate the contribution of each company/business division from the Bank's overall income; this means that to establish the recoverability of the value of goodwill recognised in the financial statements it is necessary to take account of the Bank's comprehensive income.

The cash generating unit (CGU) to be considered for the impairment test is therefore the Bank as a whole (including the contribution from the subsidiary Fineco Asset Management DAC, an asset management company incorporated under Irish law, through a vertically integrated business model). In view of the specific business model adopted by FinecoBank, which envisages a high level of integration between personal financial advisors and the trading and banking platform, so that the personal financial advisors network is an integral part of the overall offering of the Bank, which includes banking, brokerage and investing services, an allocation of costs/revenues per business units is not considered relevant or meaningful.

#### **Estimating cash flows to determine the value in use of the CGU**

The applicable accounting principles require that the impairment test be carried out by comparing the book value of the CGU to its recoverable value. When the latter proves to be less than the book value, a write-down must be recorded in the financial statements. The recoverable value is the greater of its fair value (net of sales costs) and the related value in use.

The recoverable amount of the CGU in this case is the greater of its fair value (net of costs to sell) and the related value in use.

#### **Impairment test model**

The calculation of the value in use for the purposes of impairment testing is made using the Discounted Cash Flow (DCF) model. The cash flows are determined by subtracting the annual capital requirement generated by the change in the risk-weighted assets from net profit. This capital requirement is determined by considering the long-term capitalisation to be achieved, also in light of the minimum regulatory capital requirements.

## **Cash flows**

The discounted cash flow model used is based on future cash flows estimated by management in four steps:

- year 2019, in which the budget figures were considered (subject to approval by the Board of Directors on December 11, 2018);
- year 2020, which considers the financial projections of the Strategic Plan (submitted for approval by the Board of Directors of December 5, 2017);
- intermediate period of five years from 2021 to 2025, for which the projections of the financial flows are extrapolated by applying beginning in the last explicit estimate period (2020) rates of growth decreasing (from 4% to 2%) to the terminal value;
- terminal value calculated using a nominal growth rate of 2%. The average Eurozone actual GDP rate from 1996 to 2017 was 1.5%. The choice of nominal 2% as "terminal value" growth rate, i.e. corresponding to ~ 0% real growth, was made for prudential reasons.

## **Discount rates of cash flows**

Future financial flows were discounted using a conservative estimate of the discount rate, incorporating the various risk factors linked to the business sector into the cost of equity (Ke). The discount rate is a nominal rate, net of taxes.

In particular, the cost of capital for the Bank is the sum of the following:

- Risk-free rate: the average of the last 6 years of the 5-year Bund. The six-year horizon was adopted in line with the average economic cycle in the eurozone;
- Debt risk premium: the average over the last six years of the Credit Default Swap paid by UniCredit S.p.A.;
- Risk premium on own equity: calculated using the option-based model, based on the average volatility of over the last six years of the shares of banks operating predominantly in the same sector.

Moreover, for prudential reasons, the cost of capital for the Bank was raised to the level of the Germany Commercial Banking of Unicredit Group, which was considered to be the floor value at Group level and equal to 8.11%.

The cost of capital used for the impairment testing has 4 target points (2019 budget, 2020 Multi Year Plan and Terminal Value) within which a linear convergence is calculated.

## **Impairment test results**

The methodology for calculating the value in use described above (model, assumptions and parameters used) was approved by the Board of Directors on January 10, 2019. For the impairment testing the carrying amount of the goodwill and Shareholders' equity was compared with its value in use calculated using that methodology. The outcome of the tests (approved by the Board of Directors of February 5, 2019) confirmed the sustainability of the goodwill recognised in the financial statements as at December 31, 2018, with the value in use significantly higher than the carrying amount.

## **Sensitivity analysis**

Given the complexity of the measurement process and the uncertainty involved in making forecasts on future profitability, especially in the long term, some sensitivity analyses were carried out assuming changes to the main parameters used in the impairment test.

The table below shows the change in the value in use, net of book value and of shareholders' equity, in relation to changes in the main parameters used in the DCF model underlying the impairment test.

	1% INCREASE OF THE DISCOUNT RATE AFTER TAXES (KE)	1% INCREASE OF CORE TIER 1 RATIO TARGET	1% DECREASE OF THE NOMINAL GROWTH RATE FOR THE CALCULATION OF TERMINAL VALUE	5% DECREASE OF ANNUAL EARNINGS	USE OF CORE TIER 1 RATIO AS AT 12.31.2018 (21.16%)
Change of value in use	-19.1%	-0.7%	-14.1%	-6.6%	-5.9%

The results confirm the sustainability of the goodwill recognised in the financial statements, as none of the scenarios hypothesised revealed the need for a write-down, as the value in use, calculated applying those variations, was much higher than the book value.

It should also be noted, that the impairment test reaches the break-even assuming changes in the above parameters that are currently unreasonable. The impairment test reached a break-even with an absolute positive change in the discount rate after tax (Ke) of over 17 percentage points, i.e. with a reduction of over 75% of annual earnings (while maintaining all the other parameters and information used unchanged, in both scenarios).

## Part B - Consolidated Balance Sheet – Assets (CONTINUED)

It should be noted that the value of "FinecoBank" shares resulted in a market capitalisation of €5,341 million at December 31, 2018, markedly higher than the Bank's assets and the results provided by the internal model, which confirms the implementation of prudent criteria for calculation of the value in use.

### Section 11 - Tax Assets and Tax Liabilities - Asset item 110 and liability item 60

The item "Tax assets" amounting to €6,714 thousand comprises:

- "Current tax assets" of €467 thousand;
- "Deferred tax assets" of €6,247 thousand.

Deferred tax assets are shown in the consolidated balance sheet net of the related deferred tax liabilities; the detail is as follows:

- "Deferred tax assets" of €30,270 thousand recognised as a balancing entry in the income statement;
- "Deferred tax assets" of €2,740 thousand recognised as a balancing entry of shareholders' equity;
- "Deferred tax liabilities" of €26,560 thousand recognised as a balancing entry in the income statement;
- "Deferred tax liabilities" of €203 thousand recognised as a balancing entry of shareholders' equity.

The item "Tax liabilities" amounting to €12,390 thousand, consists exclusively of "Current tax liabilities".

#### **Current Tax Assets and Liabilities**

	(Amounts in € thousand)	
ASSETS/AMOUNTS	TOTAL 12.31.2018	TOTAL 12.31.2017
Current tax assets	467	1,765
Current tax liabilities	12,390	10,234

#### **Prepaid/deferred tax assets/liabilities**

In accordance with the law and regulations currently in force:

- the recognition of deferred tax assets for IRES income tax purposes takes into account the expected income figures of the Bank for future years, according to the decisions made by the competent company bodies;
- the recognition of deferred tax assets for IRAP corporate tax purposes takes place on the basis of the Bank's expected income figures for future years, and takes into account changes in the legal context;
- deferred tax liabilities are recognised whenever the relevant requirements are satisfied.

When calculating prepaid/deferred tax assets/liabilities, a 27.5% IRES rate was used (24% standard rate and 3.5% additional rate for banks), as well as IRAP rate of 5.57% for Italy.

With regard to Fineco AM, taxes were calculated using a 12.5% rate and no deferred tax assets or liabilities have been recognized.

## 11.1 Deferred tax assets: breakdown

(Amounts in € thousand)

ASSETS/AMOUNTS	TOTAL 12.31.2018	TOTAL 12.31.17
Allocations through profit or loss	26,237	26,702
Allocations through equity	2,740	6,225
Impairment losses on receivables (of which pursuant to Law 214/2011)	4,033	3,828
<b>Total before IAS 12 offset</b>	<b>33,010</b>	<b>36,755</b>
Offset against deferred tax liabilities - IAS 12	(26,763)	(29,271)
<b>Total</b>	<b>6,247</b>	<b>7,484</b>

## 11.2 Deferred tax liabilities: breakdown

(Amounts in € thousand)

LIABILITIES/AMOUNTS	TOTAL 12.31.2018	TOTAL 12.31.2017
Allocations through profit or loss	26,560	23,982
Allocations through equity	203	5,289
<b>Total before IAS 12 offset</b>	<b>26,763</b>	<b>29,271</b>
Offset against deferred tax liabilities - IAS 12	(26,763)	(29,271)
<b>Total</b>	<b>-</b>	<b>-</b>

## 11.3 Changes in deferred tax assets (through profit or loss)

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Opening balance</b>	<b>31,469</b>	<b>33,223</b>
<b>2. Increases</b>	<b>3,727</b>	<b>3,936</b>
2.1 Deferred tax assets recognised in the year	3,727	3,532
a) relating to prior years	-	-
b) due to changes in accounting policies	206	-
c) write-backs	-	-
d) other	3,521	3,532
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	404
<b>3. Decreases</b>	<b>(4,926)</b>	<b>(6,629)</b>
3.1 Deferred tax assets cancelled in the year	(4,926)	(6,629)
a) reversals of temporary differences	(4,687)	(6,629)
b) write-downs of non-recoverable items	-	-
c) change in accounting policies	-	-
d) other	(239)	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
a) conversion of tax credits as per Law 214/2011	-	-
b) other	-	-
<b>4. Closing balance</b>	<b>30,270</b>	<b>30,530</b>

The opening balance shown in the table is deriving from the first application of the accounting standard IFRS9.

Increases/decreases in deferred tax assets recognised in the year through profit or loss mainly refer to the following items:

- allocations to and use of provisions for risks and charges.
- allocations to and use of provisions for future personnel costs.

## Part B - Consolidated Balance Sheet – Assets (CONTINUED)

### 11.4 Changes in deferred tax assets under Law 214/2011 (through profit or loss)

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Opening balance</b>	<b>3,828</b>	<b>4,180</b>
<b>2. Increases</b>	<b>205</b>	<b>-</b>
<b>3. Decreases</b>	<b>-</b>	<b>(352)</b>
3.1 Reversals	-	(352)
3.2 Conversion into tax credits	-	-
a) resulting from operating losses	-	-
b) resulting from tax losses	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>4,033</b>	<b>3,828</b>

### 11.5 Changes in deferred tax liabilities (through profit or loss)

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Opening balance</b>	<b>24,069</b>	<b>23,278</b>
<b>2. Increases</b>	<b>2,688</b>	<b>712</b>
2.1 Deferred tax liabilities arising during the year	2,688	704
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	2,688	704
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	8
<b>3. Decreases</b>	<b>(197)</b>	<b>(8)</b>
3.1 Deferred tax liabilities de-recognised during the year	(197)	(8)
a) reversals of temporary differences	(64)	(8)
b) due to changes in accounting policies	-	-
c) other	(133)	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>26,560</b>	<b>23,982</b>

The opening balance shown in the table is deriving from the first application of the accounting standard IFRS9.

Increases in deferred tax liabilities recorded in the financial year as a balancing item of the income statement refer to the recognition of deferred tax liabilities resulting from the accounting and tax treatment of goodwill.

## 11.6 Changes in deferred tax assets (through equity)

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Opening balance</b>	<b>1,937</b>	<b>7,617</b>
<b>2. Increases</b>	<b>1,128</b>	<b>270</b>
2.1 Deferred tax assets recognised in the year	1,128	270
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	1,128	270
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>(325)</b>	<b>(1,662)</b>
3.1 Deferred tax assets cancelled in the year	(325)	(1,662)
a) reversals of temporary differences	(325)	(1,619)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	-	(43)
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>2,740</b>	<b>6,225</b>

The opening balance shown in the table is deriving from the first application of the accounting standard IFRS9.

The increase in deferred tax assets recognised during the year through equity mainly refer to the fair value valuation of debt securities booked in "Financial assets at fair value through other comprehensive income" item.

The decrease in deferred tax assets recognised during the year through equity refers to the recognition of deferred tax assets on actuarial gains recognised in equity revaluation reserves as per IAS 19 Revised.

## 11.7 Changes in deferred tax liabilities (through equity)

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Opening balance</b>	<b>2,463</b>	<b>5,968</b>
<b>2. Increases</b>	<b>192</b>	<b>1,104</b>
2.1 Deferred tax assets recognised in the year	192	1,104
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	192	1,104
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>(2,452)</b>	<b>(1,783)</b>
3.1 Deferred tax assets cancelled in the year	(2,452)	(1,783)
a) reversals of temporary differences	(2,452)	(1,783)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	203	5,289

The opening balance shown in the table is deriving from the first application of the accounting standard IFRS9.

The increase and decreases in deferred tax liabilities recognised during the year in equity related to the recognition and reversal of deferred tax liabilities as a result of the fair value measurement of debt securities booked in "Financial assets at fair value through other comprehensive income" item.

## 11.8 Other information

No information to report.



## Part B - Consolidated Balance Sheet – Assets (CONTINUED)

### Section 12 - Non-current assets and disposal groups classified as held for sale and associated liabilities - Assets item 120 and liabilities item 70

No information to report.

### Section 13 - Other assets - Item 130

#### 13.1 Other assets: breakdown

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
Accrued income and prepaid expenses related to contracts with customers other than capitalised on the related financial assets or liabilities	4,303	2,993
Trade receivables according to IFRS15	8,489	4,985
Items in transit not allocated to relevant accounts	2	18
Items awaiting settlement:		
- notes, cheques and other documents	4,597	4,498
Items in processing:		
- other items in processing	29	99
Current receivables not associated with the provision of financial services	2,170	4,721
Definitive items not recognised under other items:		
- securities and coupons to be settled	5,131	4,617
- other transactions	25,225	16,016
Tax items other than those included in item 110:		
- tax advances	262,261	242,539
- tax credit	6,893	6,875
- tax advances on employee severance indemnities	35	28
Receivables due to disputed items not deriving from lending	119	119
Accrued income and prepaid expenses other than those related to contracts with customers and other than capitalised on the related financial assets or liabilities	24,588	21,132
Improvement and incremental expenses incurred on leasehold assets	6,928	6,774
<b>Total</b>	<b>350,770</b>	<b>315,414</b>

Please note that as a consequence of the first time adoption of the standard IFRS15, the new sub-items "Trade receivables according to IFRS 15" and "Accrued income and prepaid expenses related to contracts with customers other than capitalised on the related financial assets or liabilities" have been added to above table, in order to provide a specific detail for trade receivables, as required by the par. 116 a) of the IFRS15. Furthermore, also the new sub-item "Accrued income and prepaid expenses other than those related to contracts with customers and other than capitalised on the related financial assets or liabilities". So, the balances as at 31 December 2017 have been reclassified into the new sub-items.

The following table "Periodic Change of Accrued Income/Expenses and Prepaid Expenses/Income" discloses the changes incurred in the sub-items "Accrued income and prepaid expenses related to contracts with customers other than capitalised on related financial assets or liabilities" and "Accrued expenses and prepaid income related to contracts with customers other than capitalised on related financial assets or liabilities" reported in the tables "Other assets: breakdown" and "Other liabilities: breakdown", respectively, as required by the par. 118 of the IFRS15.

## Periodic Change of Accrued Income/Expenses and Prepaid Expenses/Income

(Amounts in € thousand)

	ACCRUED INCOME AND PREPAID EXPENSES	ACCRUED EXPENSES AND PREPAID INCOME
<b>Opening balance</b>	<b>2,993</b>	<b>1,737</b>
<b>INCREASES</b>	<b>3,454</b>	<b>1,895</b>
a) changes due to business combinations	-	-
b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification (IFRS 15 Par 118.b)	-	-
c) reversal of impairment of a contract asset (IFRS 15 Par 118.c)	-	-
d) change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable) (IFRS 15 Par 118.d)	-	-
e) change in the time frame for a performance obligation to be satisfied (ie for the recognition of revenue arising from a contract liability) (IFRS 15 Par 118.e)	-	-
f) other	3,454	1,895
<b>DECREASES</b>	<b>(2,144)</b>	<b>(832)</b>
a) changes due to business combinations	-	-
c) impairment of a contract asset (IFRS 15 Par 118.c)	-	-
d) change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable) (IFRS 15 Par 118.d)	-	-
e) change in the time frame for a performance obligation to be satisfied (ie for the recognition of revenue arising from a contract liability) (IFRS 15 Par 118.e)	-	-
f) other	(2,144)	(832)
<b>Closing Balance</b>	<b>4,303</b>	<b>2,800</b>

## Transaction price allocated to the remaining performance obligations

With regard to the information required by parag. 120 of IFRS15 ("Transaction price allocated to the remaining performance obligations"), below a quantitative disclosure will be provided with the expected duration ("within 1 year" and "over 1 year") of "Accrued income related to contracts with customers other than capitalised on the related financial assets or liabilities" and "Deferred income related to contracts with customers other than capitalised on the related financial assets or liabilities".

(Amounts in € thousand)

	EXPECTED DURATION OF PERFORMANCE OBLIGATIONS	
	<= 1 YEAR	> 1 YEAR
Unsatisfied (or Partially Unsatisfied) Performance Obligations - Duration - Other Assets (IFRS 15 Par 120a)	4,368	-
Unsatisfied (or Partially Unsatisfied) Performance Obligations - Duration - Other Liabilities (IFRS 15 Par 120a)	935	1,865
<b>Total</b>	<b>5,303</b>	<b>1,865</b>

Lastly, please note that the aggregate amount of revenues from services to customers related to the portion of performance obligations not yet satisfied, showed in the table above "Transaction price allocated to the remaining performance obligations" is equal to €7,168 thousand. 74% of this amount regards performance obligations expected to be satisfied by the next year-end reporting date.

## Part B - Consolidated Balance Sheet – Liabilities

### Liabilities

#### Section 1 - Financial liabilities at amortised cost - Item 10

##### 1.1 Financial liabilities at amortised cost: product breakdown deposits from banks

(Amounts in € thousand)

TRANSACTIONS TYPE/AMOUNTS	TOTAL 12.31.2018			
	VB	FAIR VALUE		
		L1	L2	L3
1. Deposits from central banks	-	X	X	X
2. Deposits from banks	1,009,774	X	X	X
2.1 Current accounts and demand deposits	52,563	X	X	X
2.2 Time deposits	-	X	X	X
2.3 Loans	933,352	X	X	X
2.3.1 Repos	933,352	X	X	X
2.3.2 Other	-	X	X	X
2.4 Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X
2.5 Other liabilities	23,859	X	X	X
<b>Total</b>	<b>1,009,774</b>	-	-	<b>1,009,774</b>

**Key:**

VB = Book value  
L1 = Level 1  
L2 = Level 2  
L3 = Level 3

The item 2.1 “Current accounts and demand deposits” consisted of reciprocal current accounts and loans with UniCredit S.p.A., amounting to €18,318 thousand (€6,093 thousand as at December 31, 2017).

The item “Repos” are represented by repos transactions with UniCredit S.p.A. amounting to €751,841 thousand (€764,353 thousand as at December 31, 2017) and securities lending transactions guaranteed by sums of money with UniCredit Bank AG Munich amounting to €35,668 thousand (€40,348 thousand as at December 31, 2017)

The item “Other liabilities” included margin variations received for repos transactions with UniCredit S.p.A. amounting to €22,547 thousand (€13,340 thousand as at December 31, 2017).

##### 1.2 Financial liabilities at amortised cost: product breakdown deposits from customers

(Amounts in € thousand)

TRANSACTIONS TYPE/AMOUNTS	TOTAL 12.31.2018			
	VB	FAIR VALUE		
		L1	L2	L3
1. Current accounts and demand deposits	22,046,700	X	X	X
2. Time deposits	3,106	X	X	X
3. Loans	116,299	X	X	X
3.1 Repos	116,299	X	X	X
3.2 Other	-	X	X	X
4. Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X
5. Other liabilities	107,083	X	X	X
<b>Total</b>	<b>22,273,188</b>	-	<b>3,111</b>	<b>22,270,081</b>

**Key:**

VB = Book value  
L1 = Level 1  
L2 = Level 2  
L3 = Level 3

##### 1.3 Financial liabilities at amortised cost: product breakdown of debt securities in issue

No data to report.

## 1.4 Breakdown of subordinated deposits/securities

No data to report.

## 1.5 Breakdown of structured deposits/securities

No data to report.

## 1.6 Amounts payable under finance leases

No data to report.

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

## Deposits from banks (ex IAS 39 Item 10)

### 1.1 Deposits from banks: product breakdown

(Amounts in € thousand)

TRANSACTIONS TYPE/COMPONENTS OF THE GROUP	TOTAL 12.31.2017
1. Deposits from central banks	-
<b>2. Deposits from banks</b>	<b>926,001</b>
2.1 Current accounts and demand deposits	42,756
2.2 Time deposits	-
2.3 Loans	868,651
2.3.1 Repos	868,651
2.3.2 Other	-
2.4 Liabilities in respect of commitments to repurchase treasury shares	-
2.5 Other liabilities	14,594
<b>Total</b>	<b>926,001</b>
<i>Fair value - level 1</i>	-
<i>Fair value - level 2</i>	-
<i>Fair value - level 3</i>	<b>926,001</b>
<b>Total fair value</b>	<b>926,001</b>

## Deposits from customers (ex IAS 39 Item 20)

### 2.1 Deposits from customers: product breakdown

(Amounts in € thousand)

TRANSACTIONS TYPE/COMPONENTS OF THE GROUP	TOTAL 12.31.2017
1. Current accounts and demand deposits	19,935,285
2. Time deposits	9,631
3. Loans	146,410
3.1 Repos	146,410
3.2 Other	-
4. Liabilities in respect of commitments to repurchase treasury shares	-
5. Other liabilities	113,710
<b>Total</b>	<b>20,205,036</b>
<i>Fair value - level 1</i>	-
<i>Fair value - level 2</i>	<b>9,622</b>
<i>Fair value - level 3</i>	<b>20,195,477</b>
<b>Total fair value</b>	<b>20,205,099</b>

## Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

### Section 2 - Financial liabilities held for trading - Item 20

#### 2.1 Financial liabilities held for trading: product breakdown

(Amounts in € thousand)

TRANSACTIONS TYPE/AMOUNTS	TOTAL 12.31.2018				FAIR VALUE*
	NA	FAIR VALUE			
		L1	L2	L3	
<b>A. On-balance sheet liabilities</b>					
1. Deposits from banks	-	-	-	-	-
2. Deposits from customers	589	346	-	-	346
3. Debt securities	-	-	-	-	X
3.1 Bonds	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X
3.2 Other securities	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X
3.2.2 Others	-	-	-	-	X
<b>Total A</b>	<b>589</b>	<b>346</b>	<b>-</b>	<b>-</b>	<b>346</b>
<b>B. Derivatives</b>					
1. Financial derivatives	X	1,206	669	-	X
1.1 Trading derivatives	X	1,206	669	-	X
1.2 Related to the fair value option	X	-	-	-	X
1.3 Other	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X
2.1 Trading derivatives	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X
2.3 Other	X	-	-	-	X
<b>Total B</b>	<b>X</b>	<b>1,206</b>	<b>669</b>	<b>-</b>	<b>X</b>
<b>Total (A+B)</b>	<b>X</b>	<b>1,552</b>	<b>669</b>	<b>-</b>	<b>X</b>

**Key:**

NA = notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

FV\* = Fair value calculated excluding the changes in value due to the change in the issuer's credit rating since the issue date

Financial derivatives refer to the negative valuation of CFD contracts on forex, indices, shares, interest rates, commodities and futures used for the operational hedging of CFDs on indices, interest rates and commodities. They amounted to €699 thousand (€565 thousand as at December 31, 2017).

Sub-item B.1.1 Derivative instruments - Trading financial derivatives includes the negative valuations of spot contracts for securities that meets the definition of held for trading and currencies to be settled in times established by market practices ("regular way"). They amounted to €1,177 thousand (€1,670 thousand as at December 31, 2017).

#### 2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

No data to report.

#### 2.3 Breakdown of "Financial liabilities held for trading": structured debts

No data to report.

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

## Financial liabilities held for trading (ex IAS 39 Item 40)

### 4.1 Financial liabilities held for trading: product breakdown

(Amounts in € thousand)

TRANSACTIONS TYPE/COMPONENTS OF THE GROUP	TOTAL 12.31.2017				
	NA	FV			FV*
		L1	L2	L3	
<b>A. On-balance sheet liabilities</b>					
1. Deposits from banks	-	-	-	-	-
2. Deposits from customers	578	382	-	-	382
3. Debt securities	-	-	-	-	X
3.1 Bonds	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X
3.2 Other securities	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X
3.2.2 Others	-	-	-	-	X
<b>Total A</b>	<b>578</b>	<b>382</b>	<b>-</b>	<b>-</b>	<b>382</b>
<b>B. Derivatives</b>					
1. Financial derivatives	X	1,650	579	6	X
1.1 Trading derivatives	X	1,650	579	6	X
1.2 Related to the fair value option	X	-	-	-	X
1.3 Other	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X
2.1 Trading derivatives	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X
2.3 Other	X	-	-	-	X
<b>Total B</b>	<b>X</b>	<b>1,650</b>	<b>579</b>	<b>6</b>	<b>X</b>
<b>Total (A+B)</b>	<b>X</b>	<b>2,032</b>	<b>579</b>	<b>6</b>	<b>X</b>

#### Key

FV = fair value

FV\* = Fair value calculated excluding the changes in value due to the change in the issuer's credit rating since the issue date

NA = Nominal or Notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

## Section 3 - Financial liabilities designated at fair value - Item 30

No data to report.

## Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

### Section 4 - Hedging derivatives - Item 40

#### 4.1 Hedging derivatives: breakdown by type of hedge and by level

(Amounts in € thousand)

	FAIR VALUE 12.31.2018				FAIR VALUE 12.31.2017			
	NA 12.31.2018	L1	L2	L3	NA 12.31.2017	L1	L2	L3
<b>A. Financial derivatives</b>	<b>576,477</b>	-	<b>5,341</b>	-	<b>1,085,339</b>	-	<b>12,694</b>	-
1) Fair value	576,477	-	5,341	-	1,085,339	-	12,694	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	<b>576,477</b>	-	<b>5,341</b>	-	<b>1,085,339</b>	-	<b>12,694</b>	-

**Key:**

NA = notional amount  
L1 = Level 1  
L2 = Level 2  
L3 = Level 3

The hedging derivatives as at December 31, 2017 included the negative fair value of derivatives entered into with UniCredit S.p.A. for €9,320 thousand.

#### 4.2 Hedging derivatives: breakdown by hedged assets and risk

(Amounts in € thousand)

TRANSACTIONS/TYPE OF HEDGE	FAIR VALUE							CASH FLOWS		NET INVESTMENT IN FOREIGN SUBSIDIARIES
	MICRO							MICRO	MACRO	
	DEBT SECURITIES AND INTEREST RATE	EQUITIES INSTRUMENTS AND INDEX	CURRENCY AND GOLD	CREDIT	COMMODITY	OTHERS	MACRO			
1. Financial assets at fair value through other comprehensive income	-	-	-	- X	X		X	-	X	X
2. Financial assets at ammortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	5,341	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	-	-	-	-	-	-	<b>5,341</b>	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	X	-	X	X
<b>Total liabilities</b>	-	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities Portfolio	X	X	X	X	X	X	X	-	X	-

### Section 5 – Changes in fair value of portfolio hedged financial liabilities - Item 50

#### 5.1 - Adjustments to the value of hedged financial liabilities: breakdown by hedged portfolio

(Amounts in € thousand)

ADJUSTMENTS TO THE VALUE OF HEDGED LIABILITIES/COMPONENTS OF THE GROUP	TOTAL 12.31.2018	TOTAL 12.31.2017
1. Positive changes to financial liabilities	2,600	-
2. Negative changes to financial liabilities	-	(3,772)
<b>Total</b>	<b>2,600</b>	<b>(3,772)</b>

## Section 6 – Tax liabilities – Item 60

See section 11 of assets.

## Section 7 – Liabilities included in disposal groups classified as held for sale – Item 70

See section 12 of assets.

## Section 8 – Other liabilities – Item 80

### 8.1 Other liabilities: breakdown

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
Accrued expenses and deferred income related to contracts with customers other than capitalised on the related financial assets or liabilities	2,800	1,737
Other liabilities relative to employees	13,018	11,378
Other liabilities due to directors and statutory auditors	163	148
Sums available to be paid to customers	3,333	4,650
Items in processing:		
- incoming bank transfers	543	423
- other items in processing	18	57
Items awaiting settlement:		
- outgoing bank transfers	94,545	75,288
- POS and ATM cards	97	16,581
Current payables not related to the provision of financial services	24,181	23,690
Definitive items not recognised under other items:		
- securities and coupons to be settled	12,921	30,351
- payment authorisations	21,716	19,068
- other items	18,670	12,373
Payables for share-based payments or shares of the Parent Company UniCredit	338	938
Illiquid items for portfolio transactions	22,123	18,097
Tax items other than those included in item 60:		
- sums withheld from third parties as withholding agent	17,805	22,173
- other	98,226	94,342
Accrued expenses and deferred income other than those related to contracts with customers and other than capitalised on the related financial assets or liabilities	157	148
Social security contributions payable	6,415	6,845
<b>Total</b>	<b>337,069</b>	<b>338,287</b>

On December 22, 2017 the 5th update of Circular no. 262 was enacted: "The bank balance sheet: format and drafting rules" which provided that provisions for off-balance sheet exposures must be shown in liability item 100. "Provisions for risks and charges" instead of the previous liability item 100. "Other liabilities" provided for in the 4th update of Circular 262. It should be noted that as of December 31, 2017, any provisions for off-balance sheet exposures had been recorded.

Please note that as a consequence of the first time adoption of the standard IFRS15, the new sub-item "Accrued expenses and deferred income related to contracts with customers other than capitalised on the related financial assets or liabilities" has been added to above table, in order to provide a specific detail for liabilities from contracts with customers, as required by the par. 116 a) of the IFRS15. Furthermore, also the new sub-item "Accrued expenses and deferred income other than those related to contracts with customers and other than capitalised on the related financial assets or liabilities" has been added to above table. Balances as at 31 December 2017 have been reclassified into the new sub-items.



## Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

### Section 9 - Provisions for employee severance pay - Item 90

#### 9.1 Provisions for employee severance pay: annual changes

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>A. Opening balance</b>	4,999	5,253
<b>B. Increases</b>	136	125
B.1 Provisions for the year	70	65
B.2 Other increases	66	60
<b>C. Decreases</b>	(574)	(379)
C.1 Payments made	(305)	(155)
C.2 Other decreases	(269)	(224)
<i>of which adjustments for actuarial gains on Employee Severance Fund (IAS19R)</i>	(234)	(211)
<b>D. Closing balances</b>	4,561	4,999
<b>Total</b>	4,561	4,999

#### 9.2 Other information

The "TFR" provision for Italy-based employee benefits is considered to be a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using the unit credit projection method (see Part A.2 - The Main Items of the Accounts).

The Provision for employee severance pay covers the amount of the rights accrued in that respect up to December 31, 2018 by employees, under current legal regulations, as well as national collective bargaining agreements and supplementary company agreements.

The financial year under review was characterised by:

- normal events relating to the employee severance pay provision in accordance with legal provisions and company agreements in force;
- changes associated with employment contracts pursuant to Article 1406 and following of the Civil Code dealing with individual mobility within the Group.

In 2007, the new supplementary pension reform pursuant to Legislative Decree no. 252/2005 became effective and, as a result the amounts accrued up to December 31, 2006 were kept with the Company, whilst the amounts of employee severance pay provision accruing as of 1 January 2007 were transferred to the supplementary pension funds or the INPS Treasury fund according to the option adopted by the employees (within June 30, 2007). The result is that:

- the employee severance fund accrued up to December 31, 2006 (or until the date of the option - falling between January 1, 2007 and June 30, 2007 - adopted by the employees if they decided to transfer their employee severance pay provision to a supplementary pension fund) continues to be a "defined-benefit" plan and therefore subject to actuarial valuation, although based on simplified actuarial assumptions which no longer take account of estimated future pay rises;
- the amounts accrued from January 1, 2007 (or from the date of the option - falling between 1 January 2007 and June 30, 2007 - by the employees if they decided to transfer their employee severance pay provision to a supplementary pension fund), were considered as a "defined-contribution" plan (as the Company's liability ceases at the time it pays the employee severance pay provision accrued to the pension fund chosen by the employee) and therefore the related cost for the period is equal to the amounts paid to the Supplementary Pension fund or the INPS Treasury fund.

The following table shows the main actuarial assumptions used to remeasure the liability.

DESCRIPTION OF THE MAIN ACTUARIAL ASSUMPTIONS	12.31.2018	12.31.2017
Discount rate	1.60%	1.45%
Expected inflation rate	1.20%	1.40%

(Amounts in € thousand)

EMPLOYEE SEVERANCE PAY PROVISION: OTHER INFORMATION	12.31.2018	12.31.2017
<b>Provisions for the year</b>	<b>70</b>	<b>65</b>
- Current service cost	-	-
- Interest expense on defined benefit obligations	70	65
- Gains and losses on curtailments and settlements	-	-
- Past service cost	-	-
<b>Actuarial gains (losses) recognised in revaluation reserves (OCI)</b>	<b>(234)</b>	<b>(211)</b>
- Actuarial gains (losses) for the year	(85)	(202)
- Actuarial gains/losses on demographic assumptions	1	-
- Actuarial gains/losses on financial assumptions	(150)	(9)

As required by IAS 19 Revised, a sensitivity analysis was conducted aimed at identifying how the present value of the liability changes when the actuarial assumptions considered most significant are changed, while keeping the other actuarial assumptions constant. A change of -25 basis points in the discount rate would result in an increase in the liability of €135 thousand (+2.96%), whereas an equivalent increase in the rate would result in a reduction of the liability of €131 thousand (-2.86%). A change of -25 basis points in the inflation rate would result in a decrease in the liability of €82 thousand (-1.79%), whereas an equivalent increase in the rate would result in an increase in the liability of €83 thousand (+1.82%).

## Section 10 - Provisions for risks and charges - Item 100

### 10.1 - Provisions for risks and charges: breakdown

(Amounts in € thousand)

ITEMS/COMPONENTS	TOTAL 12.31.2018	TOTAL 12.31.2017
1. Provisions for credit risk of commitments and financial guarantees given	49	-
2. Provisions for other commitments and other guarantees given	-	-
3. Provisions for retirement payments and similar obligations	-	-
4. Other provisions for risks and charges	109,756	112,414
4.1 legal and tax disputes	32,290	34,987
4.2 staff expenses	4,809	5,690
4.3 other	72,657	71,737
<b>Total</b>	<b>109,805</b>	<b>112,414</b>

On December 22, 2017 the 5th update of Circular no. 262 was enacted: "The bank balance sheet: format and drafting rules" which provided that provisions for off-balance sheet exposures must be shown in liability item 100. "Provisions for risks and charges" instead of the previous liability item 100. "Other liabilities" provided for in the 4th update of Circular 262. It should be noted that as of December 31, 2017, any provisions for off-balance sheet exposures had been recorded.

Item 4.1 "legal and tax disputes" mainly includes provisions made to cover complaints and disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers, in relation to normal banking activities, and other parties for €28,045 thousand (€31,056 thousand as at December 31, 2017) and provisions for tax disputes (penalties and interest) for €3,885 thousand (€3,931 thousand as at December 31, 2017). This provision includes the court costs borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.

Item 4.2 "staff expenses" includes, mainly, the provisions made for the variable remuneration to be paid to employees in subsequent years, which have an uncertain due date and/or amount.

Item 4.3 "Other" includes the Supplementary customer indemnity provision, of €64,139 thousand (€64,983 thousand as at December 31, 2017), the Provision for contractual payments, of €2,266 thousand (€2,311 thousand as at December 31, 2017) and other provisions made for risks related to the Bank's business and operations, of €6,252 thousand (€4,443 thousand as at December 31, 2017).

## Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

### 10.2 Provisions for risks and charges: annual changes

(Amounts in € thousand)

	PROVISIONS FOR OTHER COMMITMENTS AND OTHER GUARANTEES GIVEN	PROVISIONS FOR RETIREMENT PAYMENTS AND SIMILAR OBLIGATIONS	OTHER PROVISIONS FOR RISKS AND CHARGES	TOTAL
<b>A. Opening balance</b>	-	-	112,414	112,414
<b>B Increases</b>	-	-	9,913	9,913
B.1 Provisions for the year	-	-	9,024	9,024
B.2 Changes due to the passage of time	-	-	884	884
B.3 Changes due to variations in the discount rate	-	-	5	5
B.4 Other increases	-	-	-	-
<b>C Decreases</b>	-	-	(12,571)	(12,571)
C.1 Amounts used in the year	-	-	(12,125)	(12,125)
C.2 Changes due to variations in the discount rate	-	-	(9)	(9)
C.3 Other decreases	-	-	(437)	(437)
<b>D. Closing balance</b>	-	-	109,756	109,756

“Other decreases” include the integration costs allocated to “Other liabilities”.

### 10.3 Provisions for risks and charges for commitments and financial guarantees given

(Amounts in € thousand)

	PROVISIONS FOR RISKS AND CHARGES FOR COMMITMENTS AND GUARANTEES GIVEN			TOTAL
	FIRST STAGE	SECOND STAGE	THIRD STAGE	
Commitments	10	-	-	10
Financial guarantees given	39	-	-	39
<b>Total</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>49</b>

### 10.4 Provisions for other commitments and other guarantees given

No data to report.

### 10.5 Pensions and other post-retirement defined-benefit obligations

No data to report.

### 10.6 Provisions for risks and charges - other provisions

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>Legal and fiscal disputes</b>	<b>32,290</b>	<b>34,987</b>
- Pending cases	23,830	25,525
- Complaints	4,575	5,531
- Tax disputes	3,885	3,931
<b>Staff expenses</b>	<b>4,809</b>	<b>5,690</b>
<b>Other</b>	<b>72,657</b>	<b>71,737</b>
- Supplementary customer indemnity provision	64,139	64,983
- Provision for contractual payments and payments under non-competition agreements	2,266	2,311
- Other provisions	6,252	4,443
<b>Total provisions for risks and charges</b>	<b>109,756</b>	<b>112,414</b>

(Amounts in € thousand)

PROVISION FOR RISKS AND CHARGES	TOTAL 12.31.2017	USES	TRANSFERS AND OTHER CHANGES	ACTUARIAL GAINS (LOSSES) IAS 19R *	NET PROVISIONS**	TOTAL 12.31.2018
<b>Legal and fiscal disputes</b>	<b>34,987</b>	<b>(3,362)</b>	-	-	<b>665</b>	<b>32,290</b>
- Pending cases	25,525	(2,418)	248	-	475	23,830
- Complaints	5,531	(898)	(248)	-	190	4,575
- Tax disputes	3,931	(46)	-	-	-	3,885
<b>Staff expenses</b>	<b>5,690</b>	<b>(4,471)</b>	<b>(437)</b>	-	<b>4,027</b>	<b>4,809</b>
<b>Other</b>	<b>71,737</b>	<b>(4,292)</b>	-	<b>(4,830)</b>	<b>10,042</b>	<b>72,657</b>
- Supplementary customer indemnity provision	64,983	(1,646)	-	(4,823)	5,625	64,139
- Contractual payments and payments under non-competition agreements	2,311	(90)	-	(7)	52	2,266
- Other provisions	4,443	(2,556)	-	-	4,365	6,252
<b>Total provisions for risks and charges</b>	<b>112,414</b>	<b>(12,125)</b>	<b>(437)</b>	<b>(4,830)</b>	<b>14,734</b>	<b>109,756</b>

\* The item "IAS 19R actuarial gains (losses)" includes the actuarial gains (losses) recognised in the item "Revaluation reserves" in application of IAS 19R.

\*\* The item "Net provisions" includes the costs recognised in their own income statement item to better reflect their nature (e.g. "Staff expenses", "Administrative costs" and "Interest expenses and similar charges").

The following table shows the main actuarial assumptions used to measure the liability for the supplementary customer indemnity provision and the provision for contractual payments.

DESCRIPTION OF THE MAIN ACTUARIAL ASSUMPTIONS	12.31.2018	12.31.2017
Discount rate	1.60%	1.45%
Salary increase rate	1.00%	2.60%

As required by IAS 19 Revised, a sensitivity analysis was conducted aimed at identifying how the present value of the liability changes when the actuarial assumptions considered most significant are changed, while keeping the other actuarial assumptions constant.

With reference to the supplementary customer indemnity provision, a change of -25 basis points in the discount rate would result in an increase in liabilities of €1,707 thousand (+2.66%); an equivalent increase in the rate, on the other hand, would reduce the liability by €1,638 thousand (-2.55%). A change of -25 basis points in the salary base would result in a reduction in the liability of €495 thousand (-0.77%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €508 thousand (+0.79%).

With reference to the provision for contractual payments, a change of -25 basis points in the discount rate would result in an increase in liabilities of €36 thousand (+1.73%); an equivalent increase in the rate, on the other hand, would reduce the liability by €35 thousand (-1.67%). A change of -25 basis points in the salary base would result in a reduction in the liability of €2 thousand (-0.09%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €2 thousand (+0.09%).

In addition, for the other provisions recognised in the financial statements on the basis of IAS 37, where the effect of the time value of money is significant (generally when payment is to be made more than 18 months from recognition), the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments. As at December 31, 2018 an analysis was conducted to assess the impact on the provision is made of a variation of +/- 25 basis points in the discount rate and no significant impacts were found.

The **Provision for legal disputes** includes provisions made to cover complaints and disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers, in relation to normal banking activities, and other parties. This provision includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.

The **Supplementary customer indemnity provision** is accrued to cover the amount of severance indemnity to be paid to the PFA network pursuant to art. 1751 of the Italian Civil Code, in the event of termination of the contract for reasons not attributable to the advisor, such as, for example, when reaching retirement age.

The amount of the obligation at the end of the period was assessed with the aid of an independent actuary.

The **Provision for staff expenses** includes provisions made in relation to the variable remuneration to be paid to employees in subsequent years which have an uncertain due date and amount.

The **Provision for contractual payments and payments under non-competition agreements** is related to a limited number of personal financial advisors; these payments are contractually provided. More specifically, the non-competition agreement is an extension of the loyalty obligation at the end of the employment contract which protects the Bank from competition from former personal financial advisors; contractual payments are a special indemnity that the Bank agrees to pay to personal financial advisors, who opted to transfer the rights and obligations arising from their contract with the Bank to third parties, where these advisors continue to keep an ethical and professional conduct with the Bank after termination of employment, with specific regard to the customer portfolio. The amount of the obligation at the end of the period relating to contractual payments was assessed with the aid of an independent actuary.

## Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

The **Provision for tax disputes** is allocated to cover tax demands received from the Italian Revenue Agency following tax audits carried out on the Bank over the years, in relation to which the Bank considers it has calculated the tax correctly and legitimately and has therefore submitted an appeal at various levels of proceedings.

The above provisions for risks and charges include the allocations for fines and interest for the additional tax being contested and requested by the Tax Authorities through tax bills or payment notices paid and for the estimated amount of legal expenses to be incurred in the various proceedings.

For more details, see Part E – Information on risks and hedging policies – Section 1.5 – Operational risk – paragraph "Risks arising from tax disputes and audits" of these Notes to the consolidated Accounts.

The **Other Provisions** are mainly allocated to cover the risks related to the business and operations of the Bank. The provision specifically includes provisions for marketing and customer loyalty campaigns, incentive plans for the personal financial advisors and the provision for training events for the personal financial advisors.

### Section 11 – Technical provisions – Item 110

No data to report.

### Section 12 - Redeemable shares - Item 130

No data to report.

### Section 13 - Group Shareholders' equity - Items 120, 130, 140, 150, 160, 170 and 180

#### 13.1 "Share capital" and "Treasury shares": breakdown

As at December 31, 2018, share capital came to €200,773 thousand, comprising 608,404,395 ordinary shares with a par value of €0.33 each.

As at December 31, 2018, the Bank held 1,401,288 treasury shares, corresponding to 0.23% of the share capital, for an amount of €13,960 thousand. During 2018 n. 27,644 shares were purchased in relation to the "2017 PFA Incentive System" for personal financial advisors identified as "Key personnel" and n. 1,971,871 shares were purchased in relation to the "2015--2017 PFA PLAN" for selected personal financial advisors, in accordance with what was authorised by the FinecoBank Ordinary Shareholders' Meeting on April 11, 2017. During the same period, 658,624 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors in relation to the "2015-2017 PFA PLAN".

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

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

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

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

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
Share capital	200,773	200,545
Share premium reserve	1,934	1,934
Reserves	355,509	323,932
- Legal reserve	40,155	40,109
- Extraordinary reserve	272,454	251,367
- Treasury shares reserve	13,960	365
- Other reserves	28,940	32,091
(Treasury shares)	(13,960)	(365)
Revaluation reserves	(9,794)	(8,340)
Equity instruments	200,000	-
Net Profit (Loss) for the year	241,219	214,120
<b>Total</b>	<b>975,681</b>	<b>731,826</b>

## 13.2 Share capital - Number of shares of the Parent Company: annual changes

ITEMS/TYPE	ORDINARY	OTHER
<b>A. Shares outstanding at the beginning of the year</b>		
- fully paid	607,713,345	-
- not fully paid	-	-
A.1 Treasury shares (-)	(60,397)	-
<b>A.2 Shares outstanding: opening balance</b>	<b>607,652,948</b>	-
<b>B. Increases</b>		
B.1 New issues		
- against payment:		
- business combinations	-	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- free		
- to employees	691,050	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	658,624	-
<b>C. Decreases</b>		
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(1,999,515)	-
C.3 Business transfers	-	-
C.4 Other changes	-	-
<b>D. Shares outstanding: closing balance</b>	<b>607,003,107</b>	-
D.1 Treasury shares (+)	1,401,288	-
D.2 Shares outstanding at the end of the year		
- fully paid	608,404,395	-
- not fully paid	-	-

The item B.3 "Other changes" reports the shares allocated to the personal financial advisors under the stock granting plan ("2015-2017 PFA Plan") for FinecoBank's Personal Financial Advisors and Network Managers.

## 13.3 Share capital: other information

The shares are not subject to any right, privilege or constraint; there are no shares reserved for issue under option and sales contracts.

## 13.4 Reserves from allocation of profit from previous years: other information

The reserves from profits consist of the:

- Legal reserve, amounting to €40,155 thousand;
- Extraordinary reserve, amounting to €272,454 thousand;
- Reserve for treasury shares held, amounting to €13,960 thousand.

## Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

Shareholders' equity also includes the negative reserve recognized following the introduction of IFRS 9, amounting to €-4,868 thousand, and the loss carried forward, amounting to €-163 thousand, relating to the result as at December 31, 2017 of Fineco AM which will close its first financial year on December 31, 2018.

As previously mentioned in parag. 13.1 "Share capital and Treasury shares: breakdown", the Board of Directors of FinecoBank held on February 6, 2018, approved execution of the incentive/loyalty systems "2014-2017 Top Management Multi-Year Plan" and "2014 and 2015 Incentive systems with a consequent increase in share capital, against with the reserves from profits have been reduced for an amount of €228 thousand.

The FinecoBank Shareholders' Meeting of April 11, 2018 approved the allocation of profit for the year 2017, amounting to €214,284 thousand, as follows:

- €46 thousand to the Legal reserve, corresponding to 0.02% of the profit for the year, having reached the limit of a fifth of the share capital;
- €40,843 thousand to the extraordinary reserve;
- to the 608,404,395 ordinary shares with a par value of €0.33, a unit dividend of €0.285 for a total amount of €173,395 thousand.

The share of dividends not distributed to treasury shares held by the bank on the record date, equal to €25 thousand, was allocated to the Extraordinary Reserve.

As previously mentioned in parag. 13.1 "Share capital and Treasury shares: breakdown", during 2018 a total of n. 1,999,515 shares were purchased in relation to the "2017 PFA Incentive System" and in relation to the "2015--2017 PFA PLAN", for a total amount of €20,143 thousand. During the same period, 658,624 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors in relation to the "2015-2017 PFA PLAN". Consequently the Treasury shares item has been increased by €13,960 thousand with a simultaneous reduction in the Extraordinary reserve.

In addition, the Extraordinary Reserve was used for an amount of €5,958 thousand, net of taxes, to pay the coupon and the transaction costs directly attributable to the issue of the Additional Tier 1 Perp Non Call June 2023 bond described below.

### 13.5 Equity instruments: breakdown and annual changes

On January 31, 2018, FinecoBank issued an Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years, Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes). The issue of the financial instrument was authorized by the Board of Directors of FinecoBank on 23 January 2018. The financial instrument is a perpetual private placement<sup>38</sup>, issued for a total of €200,000 thousand and entirely subscribed by UniCredit S.p.A.. The coupon for the first 5.5 years has been fixed at 4.82%. The decision to carry out an intra-group issuance had many advantages: effective cost savings relating, for example, to the underwriting syndicate, and shorter issue times so as not to miss the right moment, maximising the benefits of the transaction.

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

### 13.6 Other information

No data to report.

## Section 14 – Minority interests – Item 190

### 14.1 Breakdown of Item 190 "Minority interests"

No data to report.

### 14.2 Equity instruments: breakdown and annual changes

No data to report.

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<sup>38</sup> Unrated and unlisted

## OTHER INFORMATION

## 1. Commitments and financial guarantees given

(Amounts in € thousand)

	NOMINAL VALUE OF COMMITMENTS AND FINANCIAL GUARANTEES GIVEN			TOTAL 12.31.2018	TOTAL 12.31.2017
	FIRST STAGE	SECOND STAGE	THIRD STAGE		
<b>1. Commitments</b>	<b>1,037,687</b>	<b>279</b>	<b>154</b>	<b>1,038,120</b>	<b>2,904,788</b>
a) Central Banks	-	-	-	-	-
b) Governments	-	-	-	-	-
c) Banks	-	-	-	-	2,125,000
d) Other financial companies	164	-	-	164	884
e) Non-financial companies	147	-	-	147	311
f) Households	1,037,376	279	154	1,037,809	778,593
<b>2. Financial guarantees given</b>	<b>256,827</b>	<b>-</b>	<b>-</b>	<b>256,827</b>	<b>256,732</b>
a) Central Banks	-	-	-	-	-
b) Governments	-	-	-	-	-
c) Banks	256,070	-	-	256,070	256,065
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	-	-	-	-	-
f) Households	757	-	-	757	667

The commitments to disburse funds mainly include the margins available on credit lines granted to customers and, to a lesser extent, commitments to disburse reverse repos.

Financial guarantees given to banks include 5 guarantees issued in 2012 on request of UniCredit S.p.A., with indefinite duration, for a total amount of €256,065 thousand.

The "Liquidity Framework Agreement", amounted to €2,125,000 thousand as at December 31, 2017, entered into with the Parent Company in previous years, expired in the first half of 2018 and was not renewed.

## 2. Other commitments and other guarantees given

(Amounts in € thousand)

	NOMINAL AMOUNT	
	TOTAL 31.12.2018	TOTAL 12.31.2017
<b>1. Other guarantees given</b>	<b>-</b>	<b>-</b>
of which: impaired credit exposure	-	-
a) Central Banks	-	-
b) Governments	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
<b>2. Other commitments</b>	<b>152,376</b>	<b>165,987</b>
of which: impaired credit exposure	-	-
a) Central Banks	-	-
b) Governments	-	-
c) Banks	97	790
d) Other financial companies	19,369	26,774
e) Non-financial companies	37	804
f) Households	132,873	137,619

The Other commitments exclusively refer to spot contracts for the purchase and sale of securities to be settled in times established by market practices ("regular way").



## Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

### 3. Assets given as collateral for own liabilities and commitments

(Amounts in € thousand)

Portfolios	AMOUNT 12.31.2018	AMOUNT 12.31.2017
1. Financial assets at fair value through profit and loss	-	-
2. Financial assets at fair value through other comprehensive income	529,725	-
3. Financial assets at amortised cost	2,487,813	-
4. Property, plant and equipment	-	-
of which: Property, plant and equipment material assets that constitute inventories	-	-

Assets given as collateral for own liabilities and commitments shown in the above table refer to:

- government securities used to enter into repos with the obligation for the buyer to resell the assets covered by the transaction upon expiration of said transaction. The securities are given as collateral for the entire duration of the transaction;
- government securities given as collateral for bankers' drafts, as guarantee for transactions in foreign markets and/or as guarantee for transactions in derivatives. Securities are used as collateral until the Bank decides to stop the transactions for which the collateral or guarantees are granted;
- debt securities issued by UniCredit S.p.A. given as collateral in securities lending transactions carried out with customers. The securities are given as collateral for the entire duration of the transaction.

As at December 31, 2017, securities were used as collateral for banker's drafts, as guarantee for transactions on foreign markets and as guarantee for derivative contract transactions; more specifically, the Bank used government bonds classified as "Available-for-sale financial assets", for a book value of €131,101 thousand. With regard to securities lending transactions with customers, UniCredit S.p.A. securities were committed, belonging to the "Loans and receivables" category, for a carrying amount of €890,325 thousand.

### 4. Information on operating leases

With regard to outstanding non-cancellable leases, the future payments amount to:

- €1,976 thousand up to twelve months;
- €3,077 thousand from one to five years.

There are no sub-leases in place.

### 5. Breakdown of investments for unit-linked and index-linked policies

No data to report.

## 6. Asset management and trading on behalf of others

(Amounts in € thousand)

TYPE OF SERVICE	AMOUNT 12.31.2018
<b>1. Execution of orders for customers</b>	<b>363,432,347</b>
<b>Securities</b>	<b>84,513,882</b>
a) purchases	43,125,743
1. Settled	42,888,260
2. Unsettled	237,483
b) sales	41,388,139
1. Settled	41,128,733
2. Unsettled	259,406
<b>Derivative contracts</b>	<b>278,918,465</b>
a) purchases	139,439,219
1. Settled	139,139,453
2. Unsettled	299,766
b) sales	139,479,246
1. Settled	139,166,898
2. Unsettled	312,348
<b>2. Segregated accounts</b>	<b>9,957,818</b>
a) individual	-
b) collective	9,957,818
<b>3. Custody and administration of securities</b>	
a) third party securities on deposits: relating to custodian bank activities (excluding segregated accounts)	-
1. securities issued by entities included in the scope of consolidation	-
2. other securities	-
b) third party securities held in deposits (excluding segregated accounts): other	17,978,915
1. securities issued by entities included in the scope of consolidation	3,085
2. other securities	17,975,830
c) third-party securities deposited with third parties	17,978,908
d) own securities deposited with third parties	17,572,121
<b>4. Other transactions</b>	<b>27,734,358</b>
Order receipt and transmission	27,734,358
a) purchases	13,795,575
b) sales	13,938,783

## 7. Financial assets subject to accounting offsetting or master netting agreements or similar agreements

(Amounts in € thousand)

TYPE	GROSS AMOUNT OF FINANCIAL ASSETS (A)	AMOUNT OF FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS (B)	NET AMOUNT OF FINANCIAL ASSETS SHOWN IN THE FINANCIAL STATEMENTS (C=A-B)	RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING		NET AMOUNT 12.31.2018 (F=C-D-E)	NET AMOUNT 12.31.2017
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS RECEIVED AS GUARANTEE (E)		
1. Derivatives	998	-	998	-	640	358	-
2. Reverse repos	1,812,375	1,800,522	11,853	11,853	-	-	-
3. Securities lending	444	-	444	444	-	-	179
4. Other	-	-	-	-	-	-	-
<b>Total December 31, 2018</b>	<b>1,813,817</b>	<b>1,800,522</b>	<b>13,295</b>	<b>12,297</b>	<b>640</b>	<b>358</b>	<b>X</b>
<b>Total December 31, 2017</b>	<b>179</b>	<b>-</b>	<b>179</b>	<b>-</b>	<b>-</b>	<b>X</b>	<b>179</b>

## Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

### 8. Financial liabilities subject to accounting offsetting or under master netting agreements or similar agreements

(Amounts in € thousand)

TYPE	GROSS AMOUNT OF FINANCIAL LIABILITIES (A)	AMOUNT OF FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS (B)	NET AMOUNT OF FINANCIAL LIABILITIES SHOWN IN THE FINANCIAL STATEMENTS (C=A-B)	RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING		NET AMOUNT 12.31.2018 (F=C-D-E)	NET AMOUNT 12.31.2017
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS RECEIVED AS GUARANTEE (E)		
1. Derivatives	-	-	-	-	-	-	1,173
2. Reverse repos	2,573,577	1,800,522	773,055	763,694	-	9,361	764,353
3. Securities lending	244,373	-	244,373	234,981	-	9,392	177,878
4. Other	-	-	-	-	-	-	-
<b>Total December 31, 2018</b>	<b>2,817,950</b>	<b>1,800,522</b>	<b>1,017,428</b>	<b>998,675</b>	<b>-</b>	<b>18,753</b>	<b>X</b>
<b>Total December 31, 2017</b>	<b>952,754</b>	<b>-</b>	<b>952,754</b>	<b>-</b>	<b>9,350</b>	<b>X</b>	<b>943,404</b>

The amount of assets and liabilities offset in the financial statements refers to the repurchase agreements executed on the MTS market. It should also be noted that, at December 31, 2018 there were swap derivative contracts with a positive fair value of €2,316 thousand and a negative fair value of €5,341 thousand, for which a positive variance margin of €2,936 thousand was paid, not shown in the table above as it is cleared at a Central Counterparty since it refers to client-trade exposures. Such exposures were subject to the prudential treatment set out in Article 305 of (EU) Regulation no. 575/2013.

### 9. Securities lending transactions

The Bank conducts securities lending transactions on a continuous and systematic basis, with the objective of optimising the returns of customer portfolios, satisfying the requests of institutional counterparties and obtaining a profit for the Bank. The Bank operates as the borrower, borrowing the securities of its customers and using them in repos and securities lending transactions guaranteed by cash amounts with retail and institutional customers interested in the temporary ownership of the securities.

Against securities lending transactions guaranteed by other securities, the Bank issued as collateral UniCredit S.p.A. bonds, recorded in "Financial asset at amortised cost", held in a dedicated dossier at the custodian bank for an amount higher than that of the securities borrowed by the customers, with the aim of providing a collective guarantee.

The face value of the underlying securities not recognised as assets in the accounts totalled €1,153,071 thousand, while their fair value was €1,037,085 thousand, broken down as follows:

(Amounts in € thousand)

SECURITIES RECEIVED ON LOAN FROM:	TYPE OF SECURITIES (NOMINAL VALUE 31 DECEMBER 2018)		
	SOLD	SOLD IN REPOS	OTHER PURPOSES
Banks	-	-	-
Financial companies	-	395	-
Insurance companies	-	-	-
Non-financial companies	-	4,999	280
Other entities	589	1,144,410	2,398
<b>Total nominal value</b>	<b>589</b>	<b>1,149,804</b>	<b>2,678</b>

(Amounts in € thousand)

SECURITIES RECEIVED ON LOAN FROM:	TYPE OF SECURITIES (FAIR VALUE 31 DECEMBER 2018)		
	SOLD	SOLD IN REPOS	OTHER PURPOSES
Banks	-	-	-
Financial companies	-	502	35
Insurance companies	-	-	-
Non-financial companies	-	5,518	294
Other entities	347	1,023,573	6,816
<b>Total fair value</b>	<b>347</b>	<b>1,029,593</b>	<b>7,145</b>

### 10. Disclosure on joint control activities

No data to report.



## Part C - Consolidated Income Statement

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## Part C - Consolidated Income Statement

## Section 1 - Interest - Items 10 and 20

## 1.1 Interest income and similar revenues: breakdown

(Amounts in € thousand)

ITEMS/TYPE	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL 2018	TOTAL 2017
<b>1. Financial assets at fair value through profit and loss</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>	
1.1 Financial assets held for trading	-	-	-	-	
1.2 Financial assets designated at fair value	-	-	-	-	
1.3 Other financial assets mandatorily at fair value	2	-	-	2	
<i>Financial assets held for trading (ex IAS 39)</i>					1
<i>Financial assets at fair value (ex IAS 39)</i>					-
<b>2. Financial assets at fair value through other comprehensive income</b>	<b>4,534</b>	<b>-</b>	<b>X</b>	<b>4,534</b>	
<i>Financial assets available for sale (ex IAS 39)</i>					8,505
<b>3. Financial assets at amortised cost</b>	<b>218,888</b>	<b>67,441</b>	<b>-</b>	<b>286,329</b>	
3.1 loans and receivables with banks	158,908	11,669	X	170,577	
3.2 loans and receivables with customers	59,980	55,772	X	115,752	
<i>Financial assets held to maturity (ex IAS 39)</i>					23,066
<i>Loans and receivables with banks( ex IAS 39)</i>					188,853
<i>Loans and receivables with customers (ex IAS 39)</i>					41,029
<b>4. Hedging derivatives</b>	<b>X</b>	<b>X</b>	<b>(1,947)</b>	<b>(1,947)</b>	8,215
<b>5. Other assets</b>	<b>X</b>	<b>X</b>	<b>77</b>	<b>77</b>	77
<b>6. Financial liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>4,133</b>	
<b>Total</b>	<b>223,424</b>	<b>67,441</b>	<b>(1,870)</b>	<b>293,128</b>	<b>269,746</b>
of which: interest income on impaired financial assets	-	197	-	197	

## 1.2 Interest income and similar revenues: other information

## 1.2.1 Interest income from financial assets denominated in currency

(Amounts in € thousand)

ITEMS/TYPE	TOTAL 2018	TOTAL 2017
Interest income on foreign currency financial assets	19,448	15,100

## 1.2.2 Interest income on finance lease transactions

No data to report.

## 1.3 Interest expenses and similar charges: breakdown

(Amounts in € thousand)

ITEMS/TYPE	PAYABLES	DEBT SECURITIES IN ISSUE	OTHER TRANSACTIONS	TOTAL 2018	TOTAL 2017
<b>1. Financial liabilities at amortised cost</b>	<b>(11,315)</b>	<b>-</b>	<b>-</b>	<b>(11,315)</b>	
1.1 Deposits from central banks	-	X	X	-	
1.2 Deposits from banks	(396)	X	X	(396)	
1.3 Deposits from customers	(10,919)	X	X	(10,919)	
1.4 Debt securities in issue	X	-	X	-	
<i>Deposits from central banks (ex IAS 39)</i>					-
<i>Deposits from banks (ex IAS 39)</i>					3,070
<i>Deposits from customers (ex IAS 39)</i>					(8,235)
<i>Debt securities in issue IAS 39)</i>					-
<b>2. Financial liabilities held for trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<i>Financial liabilities held for trading (ex IAS 39)</i>					-
<b>3. Financial liabilities designated at fair value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<i>Financial liabilities at fair value (ex IAS39)</i>					-
<b>4. Other liabilities and provisions</b>	<b>X</b>	<b>X</b>	<b>-</b>	<b>-</b>	
<b>5. Hedging derivatives</b>	<b>X</b>	<b>X</b>	<b>-</b>	<b>-</b>	
<b>6. Financial assets</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>(3,154)</b>	
<b>Total</b>	<b>(11,315)</b>	<b>-</b>	<b>-</b>	<b>(14,469)</b>	<b>(5,165)</b>

## 1.4 Interest expenses and similar charges: other information

### 1.4.1 Interest expense on liabilities denominated in currency

(Amounts in € thousand)

ITEMS/TYPE	TOTAL 2018	TOTAL 2017
Interest expense on liabilities denominated in currency	(9,216)	(4,882)

### 1.4.2 Interest expense on finance leases

No data to report.

## 1.5 Interest expenses and similar charges: hedging differential

(Amounts in € thousand)

ITEMS	TOTAL 12.31.2018	TOTAL 12.31.2017
A. Positive hedging differentials	3,410	20,102
B. Negative hedging differentials	(5,357)	(11,887)
C. Balance (A-B)	(1,947)	8,215

## Section 2 – Fee and commission income and expense - Items 40 and 50

### 2.1 Fee and commission income: breakdown

(Amounts in € thousand)

TYPE OF SERVICES/AMOUNTS	TOTAL 2018	TOTAL 2017
(a) guarantees given	82	67
(b) credit derivatives	-	-
(c) management, brokerage and consulting services:	517,928	484,259
1. securities trading	73,349	71,072
2. currency trading	-	-
3. segregated accounts	65,195	-
3.1. individual	-	-
3.2. collective	65,195	-
4. custody and administration of securities	895	1,079
5. custodian bank	-	-
6. placement of securities	10,511	14,307
7. reception and transmission of orders	13,114	11,862
8. advisory services	52,321	43,233
8.1. related to investments	52,321	43,233
8.2. related to financial structure	-	-
9. distribution of third-party services:	302,543	342,706
9.1. segregated accounts	235,008	280,210
9.1.1 individual	10	28
9.1.2 collective	234,998	280,182
<i>of which maintenance commissions for UCIT units</i>	231,673	277,309
9.2. insurance products	67,535	62,495
9.3. other products	-	1
(d) collection and payment services	31,664	28,761
(e) securitisation servicing	-	-
(f) factoring	-	-
(g) tax collection services	-	-
(h) management of multilateral trading systems	-	-
(i) management of current accounts	4,641	4,716
(j) other services	12,043	9,798
(k) securities lending transactions	5,156	5,713
<b>Total</b>	<b>571,514</b>	<b>533,314</b>

The amount of fees and commissions recognized in 2018 that was included in the contract liability balance at the beginning of the period is equal to € 832 thousand.

## Part C - Consolidated Income Statement (CONTINUED)

## 2.2 Fee and commission expense: breakdown

(Amounts in € thousand)

SERVICES/AMOUNTS	TOTAL 2018	TOTAL 2017
(a) guarantees received	-	-
(b) credit derivatives	-	-
(c) management and brokerage services:	(246,984)	(239,360)
1. securities trading	(7,547)	(7,018)
2. currency trading	-	-
3. segregated accounts:	(4,196)	-
3.1 own	-	-
3.2 delegated to third parties	(4,196)	-
4. custody and administration of securities	(4,931)	(4,692)
5. placement of financial instruments	-	-
6. cold-calling to offer securities, products and services	(230,310)	(227,650)
(d) collection and payment services	(21,651)	(21,674)
(e) other services	(461)	(399)
(f) securities lending transactions	(1,975)	(1,798)
<b>Total</b>	<b>(271,071)</b>	<b>(263,231)</b>

Item "c) management and brokerage services: 6. cold-calling to offer securities, products and services", includes costs incurred by the Bank in relation to Equity Settled and Cash Settled plans assigned to personal financial advisors, that are respectively recorded against the item 150. "Reserves" of the net equity for an amount of €310 thousand (€260 thousand as at December 31, 2017) and the item 80. "Other liabilities" for an amount of €56 thousand (€166 thousand as at December 31, 2017).

## Section 3 – Dividend income and similar revenue – Item 70

## 3.1 Dividend income and similar revenue: breakdown

(Amounts in € thousand)

ITEMS/INCOME	TOTAL 2018		TOTAL 2017	
	DIVIDENDS	INCOME FROM UCITS UNITS	DIVIDENDS	INCOME FROM UCITS UNITS
A. Financial assets held for trading	52	-	-	-
<i>A. Financial assets held for trading (ex IAS 39)</i>	-	-	26	-
B. Other financial assets mandatorily at fair value	43	-	-	-
<i>B. Financial assets at fair value (ex IAS 39)</i>	-	-	-	-
C. Financial assets at fair value through other comprehensive income	-	-	-	-
<i>Financial assets available for sale (ex IAS 39)</i>	-	-	29	-
D. Equity investments	-	X	-	X
<b>Total</b>	<b>95</b>	<b>-</b>	<b>55</b>	<b>-</b>



## Section 4 – Gains (losses) on financial assets and liabilities held for trading – Item 80

### 4.1 Gains (losses) on financial assets and liabilities held for trading: breakdown

As at December 31, 2018

(Amounts in € thousand)					
TRANSACTIONS/INCOME ITEMS	UNREALISED GAINS (A)	REALIZED GAINS (B)	UNREALISED LOSSES (C)	REALIZED LOSSES (D)	NET PROFIT (LOSS) [(A+B)-(C+D)]
<b>1. Financial assets held for trading</b>	<b>43</b>	<b>119,843</b>	<b>(32)</b>	<b>(111,209)</b>	<b>8,645</b>
1.1 Debt securities	-	3,366	-	(3,068)	298
1.2 Equity instruments	43	114,656	(32)	(106,475)	8,192
1.3 UCITS units	-	1,821	-	(1,666)	155
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
<b>2. Financial liabilities held for trading</b>	<b>-</b>	<b>951</b>	<b>(14)</b>	<b>(932)</b>	<b>5</b>
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	951	(14)	(932)	5
<b>Financial assets and liabilities: exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>7,128</b>
<b>3. Derivatives</b>	<b>4,625</b>	<b>65,592</b>	<b>(5,168)</b>	<b>(46,808)</b>	<b>28,055</b>
3.1 Financial derivatives:	4,625	65,592	(5,168)	(46,808)	28,055
- On debt securities and interest rates	137	1,301	(124)	(1,043)	271
- On equity securities and share indices	4,438	60,397	(5,020)	(43,405)	16,410
- On currencies and gold	X	X	X	X	9,814
- Other	50	3,894	(24)	(2,360)	1,560
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedge related to the fair value option	X	X	X	X	-
<b>Total</b>	<b>4,668</b>	<b>186,386</b>	<b>(5,214)</b>	<b>(158,949)</b>	<b>43,833</b>

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

As at December 31, 2017 (ex IAS 39)

(Amounts in € thousand)					
TRANSACTIONS/INCOME ITEMS	UNREALISED GAINS (A)	REALISED GAINS (B)	UNREALISED LOSSES (C)	REALISED LOSSES (D)	NET PROFIT (LOSS) [(A+B)-(C+D)]
<b>1. Financial assets held for trading</b>	<b>28</b>	<b>84,293</b>	<b>(36)</b>	<b>(76,448)</b>	<b>7,837</b>
1.1 Debt securities	1	3,080	(1)	(2,604)	476
1.2 Equity instruments	9	80,165	(26)	(72,960)	7,188
1.3 UCITS units	18	1,048	(9)	(884)	173
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
<b>2. Financial liabilities held for trading</b>	<b>1</b>	<b>12</b>	<b>(1)</b>	<b>(8)</b>	<b>4</b>
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	1	12	(1)	(8)	4
<b>3. Other financial assets and liabilities: exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>6,210</b>
<b>4. Derivatives</b>	<b>5,541</b>	<b>53,513</b>	<b>(5,280)</b>	<b>(35,134)</b>	<b>33,362</b>
4.1 Financial derivatives:	5,541	53,513	(5,280)	(35,134)	33,362
- On debt securities and interest rates	176	1,465	(187)	(1,049)	405
- On equity securities and share indices	5,365	47,244	(5,093)	(31,822)	15,694
- On currencies and gold	X	X	X	X	14,722
- Other	-	4,804	-	(2,263)	2,541
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>5,570</b>	<b>137,818</b>	<b>(5,317)</b>	<b>(111,590)</b>	<b>47,413</b>

## Part C - Consolidated Income Statement (CONTINUED)

## Section 5 – Fair value adjustments in hedge accounting – Item 90

## 5.1 Fair value adjustments in hedge accounting: breakdown

(Amounts in € thousand)

INCOME ITEMS/AMOUNTS	TOTAL 2018	TOTAL 2017
<b>A. Gains on:</b>		
A.1 Fair value hedging instruments	6,391	10,865
A.2 Hedged asset items (in fair value hedge relationship)	5,212	10,036
A.3 Hedged liability items (in fair value hedge relationship)	-	4,230
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in currency	-	-
<b>Total gains on hedging activities (A)</b>	<b>11,603</b>	<b>25,131</b>
<b>B. Losses on:</b>		
B.1 Fair value hedging instruments	(5,060)	(20,727)
B.2 Hedged asset items (in fair value hedge relationship)	-	(4,385)
B.3 Hedged liability items (in fair value hedge relationship)	(6,372)	-
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in currency	-	-
<b>Total losses on hedging activities (B)</b>	<b>(11,432)</b>	<b>(25,112)</b>
<b>C. Fair value adjustments in hedge accounting (A-B)</b>	<b>171</b>	<b>19</b>
of which: net profit (loss) on net position	-	-

## Section 6 – Gains (Losses) on disposals/repurchases – Item 100

## 6.1 Gains (Losses) on disposals/repurchases: breakdown

(Amounts in € thousand)

ITEMS/INCOME ITEMS	TOTAL 2018			TOTAL 2017		
	GAINS	LOSSES	NET PROFIT (LOSS)	GAINS	LOSSES	NET PROFIT (LOSS)
<b>Financial assets</b>						
1. Financial assets at amortised cost	17	-	17			
1.1 Loans and receivables with banks	-	-	-			
1.2 Loans and receivables with customers	17	-	17			
2. Financial assets at fair value through other comprehensive income	1,666	-	1,666			
2.1 Debt securities	1,666	-	1,666			
2.2 Loans	-	-	-			
1. Loans and receivables with banks				3,951	-	3,951
2. Loans and receivables with customers				-	-	-
3. Financial assets available for sale				761	-	761
3.1 Debt securities				761	-	761
3.2 Titoli di capitale				-	-	-
3.3 UCITS Funds				-	-	-
3.4 Loans				-	-	-
4. Financial assets held to maturity				-	-	-
<b>Total assets (A)</b>	<b>1,683</b>	<b>-</b>	<b>1,683</b>	<b>4,712</b>	<b>-</b>	<b>4,712</b>
<b>Financial liabilities at amortised cost</b>						
1. Deposits from banks	-	-	-			
2. Deposits from customers	-	-	-			
3. Debt securities in issue	-	-	-			
1. Deposits from banks				-	-	-
2. Deposits from customers				-	-	-
3. Debt securities in issue				-	-	-
<b>Total liabilities (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Section 7 – Gains (losses) on financial assets and liabilities measured at fair value through profit and loss – Item 110

### 7.1 Gain (losses) on financial assets and liabilities measured at fair value through profit and loss: breakdown of financial assets and liabilities designated at fair value

No data to report.

### 7.2 Gain (losses) on financial assets and liabilities measured at fair value through profit and loss: breakdown of other financial assets mandatorily at fair value

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	UNREALISED GAINS (A)	REALISED GAINS (B)	UNREALISED LOSSES (C)	REALISED LOSSES (D)	NET PROFIT (LOSS) [(A+B)-(C+D)]
<b>1. Financial assets</b>	1,371	10	(3,031)	(65)	(1,715)
1.1 Debt securities	-	2	(2)	-	-
1.2 Equity instruments	1,371	8	(3,029)	-	(1,650)
1.3 UCITS units	-	-	-	(65)	(65)
1.4 Loans	-	-	-	-	-
<b>2. Financial assets in currency: exchange differences</b>	X	X	X	X	215
<b>Total</b>	<b>1,371</b>	<b>10</b>	<b>(3,031)</b>	<b>(65)</b>	<b>(1,500)</b>

## Section 8 – Impairment losses - Item 130

### 8.1 Impairment losses on financial assets at amortised cost: breakdown

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	IMPAIRMENT			WRITE-BACKS (2)		TOTAL 2018	TOTAL 2017
	FIRST AND SECOND STAGE	THIRD STAGE WRITE-OFF	OTHER	FIRST AND SECOND STAGE	THIRD STAGE		
<b>A. Loans and receivables with banks</b>	(1,180)	-	-	4,306	-	3,126	
- Loans	(867)	-	-	1,427	-	560	
- Debt securities	(313)	-	-	2,879	-	2,566	
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	
<b>B. Loans and receivables with customers</b>	(6,586)	(134)	(4,306)	2,996	1,498	(6,532)	
- Loans	(5,371)	(134)	(4,306)	2,967	1,498	(5,346)	
- Debt securities	(1,215)	-	-	29	-	(1,186)	
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	
<b>Total</b>	<b>(7,766)</b>	<b>(134)</b>	<b>(4,306)</b>	<b>7,302</b>	<b>1,498</b>	<b>(3,406)</b>	

## Part C - Consolidated Income Statement (CONTINUED)

## 8.2 Impairment losses on financial assets at fair value through comprehensive income: breakdown

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	IMPAIRMENT (1)			WRITE-BACKS (2)			TOTAL 2018	TOTAL 2017
	FIRST AND SECOND		THIRD STAGE	FIRST AND SECOND		THIRD STAGE		
	STAGE	WRITE-OFF	OTHER	STAGE	THIRD STAGE			
A. Debt securities	(115)	-	-	1	-	-	(114)	-
B. Loans and receivables	-	-	-	-	-	-	-	-
- With customers	-	-	-	-	-	-	-	-
- With banks	-	-	-	-	-	-	-	-
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	-	-
<b>Total</b>	<b>(115)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>(114)</b>	<b>-</b>

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

## Impairment losses (ex IAS 39 Item 130)

## 8.1 Impairment losses on loans and receivables: breakdown

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	IMPAIRMENT (1)			WRITE-BACKS (2)				TOTAL 2017
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO		
	WRITE-OFFS	OTHER		A	B	A	B	
A. Loans and receivables with banks	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-
B. Loans and receivables with customers	(200)	(4,857)	(2,053)	200	1,275	-	477	(5,158)
Impaired related to purchase agreements	-	-	-	-	-	-	-	-
- Loans	-	-	X	-	-	-	X	-
- Debt securities	-	-	X	-	-	-	X	-
Other loans	(200)	(4,857)	(2,053)	200	1,275	-	477	(5,158)
- Loans	(200)	(4,857)	(2,053)	200	1,275	-	477	(5,158)
- Debt securities	-	-	-	-	-	-	-	-
<b>C. Total</b>	<b>(200)</b>	<b>(4,857)</b>	<b>(2,053)</b>	<b>200</b>	<b>1,275</b>	<b>-</b>	<b>477</b>	<b>(5,158)</b>

## Key

A = From interest

B = Other write-backs

## 8.2 Impairment losses on available-for-sale financial assets: breakdown

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	IMPAIRMENT (1)		WRITE-BACKS (2)		TOTAL 2017
	SPECIFIC		SPECIFIC		
	WRITE-OFFS	OTHER	A	B	
A. Debt securities	-	-	-	-	-
B. Equity instruments	(8,896)	(3,995)	-	-	(12,891)
C. UCITS units	-	-	-	-	-
D. Loans to banks	-	-	-	-	-
E. Loans to customers	-	-	-	-	-
<b>F. Total</b>	<b>(8,896)</b>	<b>(3,995)</b>	<b>-</b>	<b>-</b>	<b>(12,891)</b>

## Key

A = From interest

B = Other write-backs

## 8.3 Impairment losses on held-to-maturity investments: breakdown

No data to report.

## 8.4 Net value adjustments for the impairment of other financial assets: breakdown

(Amounts in € thousand)

TRANSACTION/INCOME ITEMS	IMPAIRMENT (1)			WRITE-BACKS (2)				TOTAL 2017
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO		
	WRITE-OFFS	OTHER		A	B	A	B	
A. Guarantees given	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	6	-	-	6
<b>E. Total</b>	-	-	-	-	<b>6</b>	-	-	<b>6</b>

### Key

A = From interest

B = Other write-backs

## Section 9 – Profit/loss from contract changes without cancellation – Item 140

No data to report.

## Section 10 – Net premiums – Item 160

No data to report.

## Section 11 – Balance of other net operating income and charges from insurance management – Item 170

No data to report.

## Section 12 – Administrative expenses – Item 190

### 12.1 Staff expenses: breakdown

(Amounts in € thousand)

TYPE OF EXPENSES/SECTORS	TOTAL 2018	TOTAL 2017
1) Employees	(85,337)	(77,232)
a) wages and salaries	(56,636)	(52,734)
b) social security contributions	(14,569)	(13,927)
c) pension costs	(2,182)	(912)
d) severance pay	-	-
e) allocation to employee severance pay provision	(114)	(98)
f) provision for retirements and similar provisions:		
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:		
- defined contribution	(3,450)	(3,082)
- defined benefit	-	-
h) costs related to share-based payments	(4,267)	(2,739)
i) other employee benefits	(4,364)	(3,972)
l) recovery of expenses for employees seconded	245	232
2) Other staff	(69)	(363)
3) Directors and statutory auditors	(1,321)	(1,291)
4) Early retirement costs	-	-
<b>Total</b>	<b>(86,727)</b>	<b>(78,886)</b>

Item 1 "h) Employees: costs related to share-based payments" includes costs incurred by the Bank in relation to payment agreements based on financial instruments issued by the Bank, that are recorded against the item 150. "Reserves" of the net equity for an amount of €4,243 thousand (€2,693 thousand as at December 31, 2017), and on financial instruments issued by UniCredit S.p.A., that are recorded against the item 80. "Other liabilities" for an amount of €24 thousand (€46 thousand as at December 31, 2017).

## Part C - Consolidated Income Statement (CONTINUED)

## 12.2 Average number of employees by category

	TOTAL 2018	TOTAL 2017
<b>Employees</b>	<b>1,138</b>	<b>1,100</b>
(a) executives	32	27
(b) managers	353	330
(c) remaining employees	753	743
<b>Other personnel</b>	<b>15</b>	<b>15</b>

## 12.3 Pensions and other post-retirement defined-benefit obligations costs and revenues

No data to report.

## 12.4 Other employee benefits

(Amounts in € thousand)

TYPE OF EXPENSES/AMOUNTS	TOTAL 2018	TOTAL 2017
Leaving incentives	(120)	385
Medical plan	(1,034)	(1,477)
Luncheon vouchers	(953)	(936)
Other	(2,257)	(1,944)
<b>Total</b>	<b>(4,364)</b>	<b>(3,972)</b>

## 12.5 Other administrative expenses: breakdown

(Amounts in € thousand)

	TOTAL 2018	TOTAL 2017
<b>1) INDIRECT TAXES AND DUTIES</b>	<b>(101,171)</b>	<b>(98,543)</b>
<b>2) MISCELLANEOUS COSTS AND EXPENSES</b>		
<b>A) Advertising expenses - Marketing and communication</b>	<b>(16,746)</b>	<b>(16,041)</b>
Mass media communications	(11,264)	(11,420)
Marketing and promotions	(5,130)	(4,488)
Sponsorships	(22)	(95)
Conventions and internal communications	(320)	(38)
<b>B) Expenses related to credit risk</b>	<b>(1,399)</b>	<b>(1,586)</b>
Credit recovery expenses	(377)	(457)
Commercial information and company searches	(1,022)	(1,129)
<b>C) Expenses related to personnel</b>	<b>(28,291)</b>	<b>(26,167)</b>
Personnel training	(473)	(479)
Car rental and other staff expenses	(80)	(84)
Personal financial advisor expenses	(26,885)	(25,003)
Travel expenses	(744)	(534)
Premises rentals for personnel	(109)	(67)
<b>D) ICT expenses</b>	<b>(34,694)</b>	<b>(32,079)</b>
Lease of ICT equipment and software	(2,360)	(2,467)
Software expenses: lease and maintenance	(8,848)	(8,092)
ICT communication systems	(6,658)	(5,723)
ICT services: external personnel/outsourced services	(6,812)	(6,723)
Financial information providers	(10,016)	(9,074)
<b>E) Consultancies and professional services</b>	<b>(3,950)</b>	<b>(4,247)</b>
Consultancy on ordinary activities	(3,114)	(2,665)
Consultancy for one-off regulatory compliance projects	(61)	(86)
Consultancy for strategy, business development and organisational optimisation	(238)	(385)
Legal expenses	(198)	(61)
Legal disputes	(339)	(1,050)
<b>F) Real estate expenses</b>	<b>(19,093)</b>	<b>(19,373)</b>
Real estate services	(705)	(720)
Repair and maintenance of furniture, machinery, and equipment	(213)	(200)
Maintenance of premises	(1,009)	(1,379)
Premises rentals	(14,594)	(14,387)
Cleaning of premises	(522)	(509)
Utilities	(2,050)	(2,178)
<b>G) Other functioning costs</b>	<b>(37,858)</b>	<b>(36,036)</b>
Surveillance and security services	(404)	(347)
Money counting services and transport	-	-
Postage and transport of documents	(3,587)	(3,396)
Administrative and logistic services	(19,737)	(18,772)
Insurance	(3,940)	(3,923)
Printing and stationery	(594)	(511)
Association dues and fees	(9,118)	(8,695)
Other administrative expenses	(478)	(392)
<b>H) Ex-ante contribution to the Single Resolution Fund and Interbank Deposit Guarantee Fund</b>	<b>(14,306)</b>	<b>(10,566)</b>
<b>Total</b>	<b>(257,508)</b>	<b>(244,638)</b>

Item "C) Expenses related to personnel - Personal financial advisor expenses", includes costs, incurred by the Bank in relation to the plan "PFA 2015-2017" assigned to personal financial advisors, that are recorded against the item 150. "Reserves" of the net equity for an amount of €3,778 thousand. As at December 31, 2017 this item amounted to €5,110 thousand and included the costs incurred by the Bank in relation to the plan "PFA 2014", whose vesting period ended on June 30, 2017.

The costs posted in 2018 for contributions paid to Deposit Guarantee Schemes (DGS) during the year, shown in item "Other administrative expenses" (point H) of table above, amounted to €14,306 in total and pertain to the ordinary and additional contribution and to the contribution to the Solidarity Fund for 2018. For further details, see Section A – Account policies, of the Notes to the Consolidated Accounts.

No cost was recorded for the Single Resolution Fund (no contribution due).

## Part C - Consolidated Income Statement (CONTINUED)

## Section 13 – Net provisions for risks and charges – Item 200

## 13.1 Net provisions for credit risk of commitments and financial guarantees given: breakdown

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	IMPAIRMENT			WRITE-BACKS			TOTAL 2018	TOTAL 2017
	FIRST AND SECOND STAGE	THIRD STAGE		FIRST AND SECOND STAGE	THIRD STAGE			
1. Commitments	(9)	-		401	-		392	
2. Financial guarantees given	(1)	-		11	-		10	
<b>Total</b>	<b>(10)</b>	<b>-</b>		<b>412</b>	<b>-</b>		<b>402</b>	

## 13.2 Net provisions for risks and charges relating to other commitments and other guarantees given: breakdown

No data to report.

## 13.3 Net provisions for risks and charges: breakdown

(Amounts in € thousand)

	TOTAL 2018			TOTAL 2017		
	PROVISIONS	REALLOCATIONS	TOTAL	PROVISIONS	REALLOCATIONS	TOTAL
Legal and fiscal disputes	(3,713)	3,048	(665)	(8,836)	5,012	(3,824)
Supplementary customer indemnity provision	(5,625)	-	(5,625)	(5,008)	-	(5,008)
Other provisions for risks and charges	(1,302)	518	(784)	(330)	703	373
<b>Total</b>	<b>(10,640)</b>	<b>3,566</b>	<b>(7,074)</b>	<b>(14,174)</b>	<b>5,715</b>	<b>(8,459)</b>

## Section 14 – Net impairment/write-backs on property, plant and equipment – Item 210

## 14.1 Impairment/write-backs on property, plant and equipment: breakdown

(Amounts in € thousand)

ASSETS/INCOME ITEMS	DEPRECIATION	WRITE-DOWNS	WRITE-BACKS	NET PROFIT (LOSS)	NET PROFIT (LOSS)
	(A)	(B)	(C)	2018 (A+B-C)	2017
A. Property, plant and equipment					
A.1 Owned	(5,367)	(97)	-	(5,464)	(5,569)
- Used in the business	(5,258)	(97)	-	(5,355)	(5,456)
- Held for investment	(109)	-	-	(109)	(113)
- Closing balances	X	-	-	-	-
A.2 Held under finance lease	-	-	-	-	-
- Used in the business	-	-	-	-	-
- Held for investment	-	-	-	-	-
<b>Total</b>	<b>(5,367)</b>	<b>(97)</b>	<b>-</b>	<b>(5,464)</b>	<b>(5,569)</b>

Impairment losses were recognised in the year for insignificant amounts and mainly in relation to office furniture and fittings for which a zero value in use was determined.

A description of the methods used to calculate depreciation is provided in Part A – Accounting Policies of the Notes to the Consolidated Accounts.



## Section 15 – Net impairment/write-backs on intangible assets – Item 220

### 15.1 Impairment on intangible assets: breakdown

(Amounts in € thousand)

ASSETS/INCOME ITEMS	DEPRECIATION (A)	WRITE-DOWNS (B)	WRITE-BACKS (C)	NET PROFIT (LOSS) 2018 (A+B-C)	NET PROFIT (LOSS) 2017
<b>A. Intangible assets</b>					
A.1 Owned	(4,959)	-	-	(4,959)	(4,800)
- Generated internally by the company	-	-	-	-	-
- Other	(4,959)	-	-	(4,959)	(4,800)
A.2 Held under finance lease	-	-	-	-	-
<b>Total</b>	<b>(4,959)</b>	<b>-</b>	<b>-</b>	<b>(4,959)</b>	<b>(4,800)</b>

Impairments on intangible assets relate to software, amortised over three years and the costs incurred to create the Fineco website, amortised over 5 years.

For the disclosures required by IAS 36 paragraph 134, d), e), f) and 135, c), d), e), see Part B paragraph 13.3 Other information.

## Section 16 – Other net operating income – Item 230

### 16.1 Other operating expenses: breakdown

(Amounts in € thousand)

	TOTAL 2018	TOTAL 2017
Refunds and allowances	(147)	(141)
Penalties, fines and unfavourable rulings	(1,170)	(2,427)
Improvements and incremental expenses incurred on leasehold properties	(2,293)	(2,844)
Improvements and incremental expenses incurred on group properties	(7)	(29)
Exceptional write-downs of assets	(295)	(317)
Other operating expense	(229)	(244)
<b>Total</b>	<b>(4,141)</b>	<b>(6,002)</b>

“Exceptional write-downs of assets” include costs incurred for credit card fraud of €98 thousand (€261 thousand as at December 31, 2017).

### 16.2 Other operating income: breakdown

(Amounts in € thousand)

	TOTAL 2018	TOTAL 2017
Recovery of expenses:	96,767	93,368
- recovery of ancillary expenses - other	155	334
- recovery of taxes	96,612	93,034
Rental income from real estate investments	-	155
Other income from current year	3,752	2,783
<b>Total</b>	<b>100,519</b>	<b>96,306</b>

## Section 17 – Profit (loss) of associates – Item 250

No data to report.

## Section 18 – Gains (losses) on tangible and intangible assets measured at fair value – Item 260

No data to report.

## Part C - Consolidated Income Statement (CONTINUED)

## Section 19 – Impairment of goodwill – Item 270

No data to report.

## Section 20 – Gains (losses) on disposal of investments – Item 280

## 20.1 Gains (losses) on disposal of investments: breakdown

(Amounts in € thousand)

INCOME ITEMS/SECTORS	TOTAL 2018	TOTAL 2017
A. Properties		
- Gains on disposal	-	-
- Losses on disposal	(18)	-
B. Other assets		
- Gains on disposal	-	9
- Losses on disposal	(143)	(517)
<b>Net profit (loss)</b>	<b>(161)</b>	<b>(508)</b>

## Section 21 – Tax expense (income) related to profit or loss from continuing operations – Item 300

## 21.1 Tax expense (income) related to profit or loss from continuing operations: breakdown

(Amounts in € thousand)

INCOME ITEMS/SECTORS	TOTAL 2018	TOTAL 2017
1. Current tax (-)	(109,767)	(102,274)
2. Adjustment to current tax of prior years (+/-)	-	3,924
3. Reduction of current tax for the year (+)	-	-
3.bis Reduction of current tax for the year due to tax receivables pursuant to Law 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	(1,142)	(3,098)
5. Changes in deferred tax liabilities (+/-)	(2,624)	(696)
6. Tax expense for the year (-) (-1+/-2+3+ 3 bis +/-4+/-5)	(113,533)	(102,144)

## 21.2 Reconciliation of theoretical tax charge to actual tax charge

(Amounts in € thousand)

	TOTAL 2018		TOTAL 2017		
Profit before tax		354,752		316,264	
	<b>TAXES</b>				
	IRES	IRAP	TAXES OVERSEAS	TOTAL 2018	TOTAL 2017
<b>Amount corresponding to theoretical tax rate</b>	<b>(90,867)</b>	<b>(18,405)</b>	<b>(2,044)</b>	<b>(111,316)</b>	<b>(104,627)</b>
+ Tax effects of charges not relevant to the calculation of taxable income	4,237	(1,232)	(1,010)	1,995	2,799
- Tax effects of income not relevant to the calculation of taxable income	-	-	-	-	-
- Tax effects deriving from the use of tax losses from previous years	-	-	-	-	-
- Tax effects deriving from the application of substitute taxes	(446)	-	-	(446)	(446)
<b>Amount corresponding to actual tax rate</b>	<b>(87,076)</b>	<b>(19,637)</b>	<b>(3,054)</b>	<b>(109,767)</b>	<b>(102,274)</b>

## Section 22 – Profit (Loss) after tax from discontinued operations – Item 320

No data to report.

## Section 23 – Minority interests – Item 340

No data to report.

## Section 24 – Other information

FinecoBank and Fineco Asset Management DAC belong to the UniCredit Banking Group and are subject to management and co-ordination by UniCredit S.p.A.

### 1.1 Designation of Parent Company

UniCredit S.p.A.

Registration in the Companies' Register of Milan-Monza-Brianza-Lodi

Registered in the Register of Banking Groups and Parent Company of the UniCredit Banking Group with code 2008.1

### 1.2 Registered Office of Parent Company

Registered Office and Head Office: Piazza Gae Aulenti 3 - Tower A - 20154 Milan

### 1.3 Key figures for the Parent Company (income statement, balance sheet, structure)

FinecoBank and Fineco Asset Management DAC are subject to management and coordination of UniCredit S.p.A.; therefore, in accordance with Article 2497 bis, paragraph 4 of the Italian Civil Code the key figures of the last approved financial statements of the parent company are provided below:

## Part C - Consolidated Income Statement (CONTINUED)

## UniCredit S.p.A. – Reclassified balance sheet as at December 31, 2017

(Amounts in € million)

<b>ASSETS</b>	<b>12.31.2017</b>
Cash and cash balances	25,817
Financial assets held for trading	13,864
Loans and receivables with banks	27,567
Loans and receivables with customers	208,965
Financial investments	105,278
Hedging instruments	6,114
Property, plant and equipment	2,209
Goodwill	-
Other intangible assets	4
Tax assets	10,311
Non-current assets and disposal groups classified as held for sale	150
Other assets	4,701
<b>Total assets</b>	<b>404,980</b>

(Amounts in € million)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>12.31.2017</b>
Deposits from banks	56,807
Deposits from customers and debt securities in issue	262,084
Financial liabilities held for trading	13,068
Financial liabilities at fair value through profit or loss	2,738
Hedging instruments	6,279
Provisions for risks and charges	1,843
Tax liabilities	1
Liabilities included in disposal groups classified as held for sale	-
Other liabilities	8,652
Shareholders' equity	53,508
- capital and reserves	46,964
- revaluation reserves (available-for-sale financial assets - cash flow hedges - on defined benefit plans)	308
- net profit (loss)	6,236
<b>Total liabilities and shareholders' equity</b>	<b>404,980</b>

## UniCredit S.p.A. – Condensed Income Statement 2017

(Amounts in € million)

	<b>12.31.2017</b>
Net interest	3,711
Dividends and other income from equity investments	3,808
Net fee and commission income	3,798
Net trading, hedging and fair value income	302
Net other expenses/income	(95)
<b>OPERATING INCOME</b>	<b>11,524</b>
Staff expenses	(3,139)
Other administrative expenses	(2,694)
Recovery of expenses	546
Impairment/write-backs on intangible and tangible assets	(137)
<b>Operating costs</b>	<b>(5,424)</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>6,100</b>
Goodwill	-
Net write-downs of loans and provisions for guarantees and commitments	(1,854)
<b>NET OPERATING PROFIT (LOSS)</b>	<b>4,246</b>
Other charges and provisions	(565)
Integration costs	14
Net income from investments	2,427
<b>GROSS PROFIT (LOSS) FROM CONTINUING OPERATIONS</b>	<b>6,122</b>
Income tax for the year	30
<b>NET PROFIT (LOSS) FROM CONTINUING OPERATIONS</b>	<b>6,152</b>
Profit (Loss) after tax from discontinued operations	84
Goodwill impairment	-
<b>NET PROFIT (LOSS)</b>	<b>6,236</b>

## 1.4 Fees for annual audits and related services as prescribed by Art.149-duodecies of the Consob Issuers Regulation

The following table gives fees paid (net of VAT and expenses) in 2018 for services rendered by Deloitte & Touche S.p.A. and firms in its network.

		(Amounts in €)
TYPE OF SERVICE	SERVICE PROVIDER	FEES
Accounting Audit	Deloitte & Touche S.p.A.	211.495
Accounting Audit	Deloitte Ireland LLP	15.000
Certification services	Deloitte & Touche S.p.A.	90.000
Certification services	Deloitte Ireland LLP	7.500
Other Services	Deloitte & Touche S.p.A.	10.000
<b>TOTAL</b>		<b>333.995</b>

## 1.5 Disclosure regarding the transparency of public funding required by article 1, paragraph 125 of the Italian law 124/2017

Pursuant to article 1, paragraph 125 of Italian law 124/2017, in 2018 FinecoBank received the following public contributions from Italian entities:

### Reduction of the extraordinary contribution pursuant to art. 1, paragraph 235 of Law 232 of 11 December 2016 charged to the management of welfare interventions and support for pension management

		(Amount in € thousand)
ENTITY GRANTING	BENEFICIARY	AMOUNT OF PUBLIC FUNDING
Italian National Social Security Institution ("INPS")	FinecoBank S.p.A.	131
<b>TOTAL</b>		<b>131</b>

### Contributions for the recruitment / stabilization of personnel deriving from the application of the National Labour Contract ("CCNL") for credit institutions in force from time to time

		(Amount in € thousand)
ENTITY GRANTING	BENEFICIARY	AMOUNT OF PUBLIC FUNDING
National Fund for supporting employment in the credit sector ("F.O.C.")	FinecoBank S.p.A.	225
<b>TOTAL</b>		<b>225</b>

### Contributions for new recruits / stabilizations, introduced by the stability law 2018 (law No. 205/2017) and similar previous regulations

		(Amount in € thousand)
ENTITY GRANTING	BENEFICIARY	AMOUNT OF PUBLIC FUNDING
Italian National Social Security Institution ("INPS")	FinecoBank S.p.A.	292
<b>TOTAL</b>		<b>292</b>

### Contributions for the Ordinary section of the Solidarity Fund - benefits: Interministerial Decree 83486 of 28/07/2014 - article 10, paragraph 2

		(Amount in € thousand)
ENTITY GRANTING	BENEFICIARY	AMOUNT OF PUBLIC FUNDING
Italian National Social Security Institution ("INPS")	FinecoBank S.p.A.	3
<b>TOTAL</b>		<b>3</b>

### Article 8 of Legislative Decree 30/9/2005, n. 203 converted, with modifications, from the law 2 December 2005, n. 248. Compensatory measures for companies that assign the Provisions for employee severance pay ("TFR") to supplementary pension schemes and / or to the Fund for the payment of the TFR

		(Amount in € thousand)
ENTITY GRANTING	BENEFICIARY	AMOUNT OF PUBLIC FUNDING
Italian National Social Security Institution ("INPS")	FinecoBank S.p.A.	260
<b>TOTAL</b>		<b>260</b>

For more information, please refer to the National State Aid Register "Transparency" section.

## Part C - Consolidated Income Statement (CONTINUED)

## Section 25 - Earnings per share

**25.1 Average number of diluted ordinary shares**

Basic earnings per share are calculated by dividing the net profit of the 2018 by the average number of ordinary shares outstanding during the 2018.

	12.31.2018	12.31.2017
Net profit for the year (€ thousands)	241,219	214,120
Average number of outstanding shares	607,575,060	607,158,443
Average number of outstanding shares (including potential ordinary shares with dilution effect)	609,101,538	608,829,187
Basic earnings per share	0.397	0.353
Diluted Earnings Per Share	0.396	0.352

**25.2 Other information**

No data to report.



## Part D - Consolidated comprehensive income

## Analytical Statement of consolidated comprehensive income

(Amounts in € thousand)

ITEMS	TOTAL 2018	TOTAL 2017
<b>10. Net Profit (Loss) for the year</b>	<b>241,219</b>	<b>214,120</b>
<b>Other comprehensive income without reclassification through profit or loss</b>		
20. Equity instruments designated at fair value through other comprehensive income:	-	-
a) fair value changes	-	-
b) transfer to other items of shareholders' equity	-	-
30. Financial liabilities designated at fair value through profit or loss (own creditworthiness changes):	-	-
a) fair value changes	-	-
b) transfer to other items of shareholders' equity	-	-
Hedge accounting of equity instruments designated at fair value through other comprehensive		
40. income:	-	-
a) fair value changes (hedge item)	-	-
b) fair value changes (hedge instrument)	-	-
50. Property, plant and equipment	-	-
60. Intangible assets	-	-
70. Defined benefit plans	5,063	(5,162)
80. Non-current assets classified as held for sale	-	-
90. Revaluation reserve from investments accounted for using the equity method	-	-
100. Tax for the year related to other comprehensive income without reclassification through profit or loss	(1,635)	-
<b>Other comprehensive income with reclassification through profit or loss</b>		
110. Hedges of foreign investments:	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
c) other changes	-	-
120. Exchange differences:	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
c) other changes	-	-
130. Cash flow hedges:	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
c) other changes	-	-
of which: result of net positions	-	-
140. Hedging instruments (non-designated items):	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
c) other changes	-	-
Financial assets (different from equity instruments) at fair value through other comprehensive		
150. income:	(10,247)	-
a) fair value changes	(6,565)	-
b) reclassification through profit or loss	(3,682)	-
- adjustments for credit risk	(1)	-
- gains/losses on disposals	(3,681)	-
c) other changes	-	-
160. Non-current assets classified as held for sale:	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
c) other changes	-	-
170. Revaluation reserve from investments accounted for using the equity method:	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
- due to impairment	-	-
- gains/losses on disposals	-	-
c) other changes	-	-
Available-for-sale financial assets:		2,499
a) fair value changes		3,956
b) reclassification through profit or loss		(2,352)
- due to impairment		
- gains/losses on disposals		(2,352)
c) other changes		895
180. Tax for the year related to other comprehensive income with reclassification through profit or loss	3,389	1,117
<b>190. Total other comprehensive income</b>	<b>(3,430)</b>	<b>(1,546)</b>
<b>200. Comprehensive income (item 10+190)</b>	<b>237,789</b>	<b>212,574</b>
210. Consolidated comprehensive income attributable to minorities	-	-
<b>220. Consolidated comprehensive income attributable to Parent Company</b>	<b>237,789</b>	<b>212,574</b>





## Part E - Information on Risks and relating hedging policies

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<b>Section 2 - Prudential consolidated risks</b>	<b>232</b>
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# Part E - Information on Risks and relating hedging policies

## Introduction

In order to ensure lean and efficient management of risks, the risk management process is structured in accordance with the organisational choices made by the Group and the provisions of the Supervisory Instructions for Banks pertaining to the internal control system.

Risk management and control is performed by the Risk Management function of the Bank in collaboration with the same function of the Parent Company, which performs its role of guidance, coordination and control of risks at Group level. The organisational model provides for a specific contact person, the Chief Risk Officer (hereinafter, "CRO") of the Parent Company, who is responsible for credit risk, market risk, operating risk and reputational risk.

The Bank is responsible for first and second-level monitoring, especially for verifying that the risk level of individual companies is compatible with the guidelines set by the Parent Company, individual company equity, and prudential supervisory rules.

### Organisational structure

The Board of Directors of FinecoBank is tasked with setting the strategic policies and the guidelines for the organisational and operational structures, overseeing and monitoring their timely execution within the risk profiles of assigned. The Board of Directors is responsible for establishing and approving the methods through which risks are detected and assessed and for approving the risk management strategic direction and policies. The Board of Directors also verifies that the internal control structure is consistent with the risk tolerance established and approves policies for the management of risks.

The Chief Executive Officer and General Manager has been assigned specific powers by the Board of Directors in all the Bank's areas of activity. These powers are to be exercised in accordance with the applicable regulations and within the limits of the Parent Company directives and the policies, instructions, limits, risk assumption procedures and using the operational methods governed by the applicable information notices. The Chief Executive Officer and General Manager puts in place the necessary measures to ensure the establishment and maintenance of an efficient and effective internal control system.

The CRO Department, in line with the instructions and the guidelines of the Parent Company, is responsible for credit operations and risk management. The disclosure, at various levels, is provided by the various Bodies (Chief Executive Officer and General Manager, Board of Directors, Risk and Related Parties Committee). In relation to the Basel II Pillar 2 instructions, reputational and business risk and, in collaboration with the CFO, liquidity risk are also monitored and reported.

The CRO and the CFO are responsible for proposing and adapting the Group Risk Appetite Framework to FinecoBank and setting risk management strategies and policies, in line with the Bank's strategies and objectives, coordinating and monitoring their implementation by the units responsible, also in the various company areas.

The CRO Department ensures the control of the Bank's overall risk profile by monitoring the various types of risk exposure, in accordance with the methods established by the Parent Company.

The Risk Management Unit prevents and monitors different components of Bank risks. The function specifically controls credit, market and operational risks to which the Bank is exposed. The Risk Management function also monitors business, reputational and liquidity risk. The Risk Management Unit supports the CRO, in the area of responsibility of the Department, in monitoring and reporting to the Strategic Supervision and Management Bodies.

Given the complexity of the Bank's activities and the significant risks involved, the Board of Directors of the Bank decided to establish an Risk and Related Parties Committee to carry out internal control tasks; the committee is made up of non-executive members of the same Board and its task is to carry out adequate investigations to support the Board of Directors in its assessments and decisions on the internal control system and risk management.

Lastly, the participation by the Chief Risk Officer and Head of Risk Management in the Products Committee ensures oversight of the operational risk associated with the Bank's new business activities, as well as creating and disseminating a risk culture in the various functional areas.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

## Section 1 – Consolidated financial statements risks

This section provides information referring to FinecoBank and Fineco AM, companies included in the consolidated financial statements risks.

As regards Fineco AM, risk management and control are ensured by the Risk Management function of the company, entrusted to the Chief Risk Officer, hierarchically dependent on the CEO and functionally dependent on the CRO of FinecoBank S.p.A.. FinecoBank's internal control system is structured according to the regulatory indications provided by the current legislation and according to the guidelines given by the Parent Company UniCredit S.p.A.. The methods of control, monitoring and reporting already in place in FinecoBank have been extended to Fineco AM modifying, where necessary, the methods of analysis and controls adapting them to the size, nature and complexity of the business.

Specifically, there are two main risk management activities carried out: the traditional activity of controlling the adherence of the risk/return profile of each fund (Fund Risk Management) and the activity of overseeing operational risks (Operational Risk Management); however provided for in Irish legislation.

## Quantitative information

## A. Credit quality

## A.1 Impaired and unimpaired exposure: amounts, impairment, changes, distribution by business activity

## A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying value)

(Amounts in € thousand)

PORTFOLIO/QUALITY	BAD		PAST DUE	PAST DUE	OTHER UNIMPAIRED	TOTAL
	EXPOSURES	UNLIKELY TO PAY	EXPOSURES	EXPOSURES	EXPOSURES	
1. Financial asset at amortised cost	1,647	617	553	11,605	23,255,603	23,270,025
2. Financial assets at fair value through other comprehensive income	-	-	-	-	961,767	961,767
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	65	65
5. Financial instruments classified as held for sale	-	-	-	-	-	-
<b>Total 31 December 2018</b>	<b>1,647</b>	<b>617</b>	<b>553</b>	<b>11,605</b>	<b>24,217,435</b>	<b>24,231,857</b>
<b>Total 31 December 2017</b>	<b>1,730</b>	<b>495</b>	<b>627</b>	<b>7,511</b>	<b>21,865,828</b>	<b>21,876,191</b>

As at December 31, 2018 there were no impaired purchased loans.

## A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net values)

(Amounts in € thousand)

PORTFOLIO/QUALITY	IMPAIRED				UNIMPAIRED				TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	IMPAIRMENT PROVISION	NET EXPOSURE	TOTAL PARTIAL WRITE-OFFS	GROSS EXPOSURE	IMPAIRMENT PROVISION	NET EXPOSURE	TOTAL	
1. Financial asset at amortised cost	23,936	(21,118)	2,818	-	23,292,325	(25,119)	23,267,207	23,270,025	
2. Financial assets at fair value through other comprehensive income	-	-	-	-	961,938	(171)	961,767	961,767	
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-	
4. Other financial assets mandatorily at fair value	-	-	-	-	X	X	65	65	
5. Financial instruments classified as held for sale	-	-	-	-	-	-	-	-	
<b>Total 31 December 2018</b>	<b>23,936</b>	<b>(21,118)</b>	<b>2,818</b>	<b>-</b>	<b>24,254,263</b>	<b>(25,290)</b>	<b>24,229,039</b>	<b>24,231,857</b>	
<b>Total 31 December 2017</b>	<b>24,313</b>	<b>(21,460)</b>	<b>2,853</b>	<b>-</b>	<b>21,884,411</b>	<b>(11,073)</b>	<b>21,873,338</b>	<b>21,876,191</b>	

(Amounts in € thousand)

PORTFOLIO/QUALITY	ASSETS WITH OF CLEARLY POOR CREDIT QUALITY		OTHER ASSETS
	ACCUMULATED UNREALISED LOSSES	NET EXPOSURE	NET EXPOSURE
1. Financial assets held for trading	-	-	4,764
2. Hedging derivatives	-	-	3,314
<b>Total 31 December 2018</b>	<b>-</b>	<b>-</b>	<b>8,078</b>
<b>Total 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>7,021</b>

## B. Disclosure on structured entities (other than securitisation companies)

### B.1 Consolidated structured entities

No data to report.

### B.2 Non-consolidated structured entities

No data to report.

#### B.2.1 Consolidated structured entities for supervisory purposes

No data to report

#### B.2.2 Other structured entities

### Qualitative information

The Bank has exposures towards unconsolidated structured entities as a result of investments in units issued by investment funds (UCITS) that qualify as structured entities according to IFRS 12.

### Quantitative information

The table below shows the assets, liabilities and off-balance sheet exposure to structured entities represented by unconsolidated UCITS units.

(Amounts in € thousand)

BALANCE SHEET ITEMS/TYPE OF STRUCTURED ENTITY	ACCOUNTING PORTFOLIOS OF ASSETS	TOTAL ASSETS (A)	ACCOUNTING PORTFOLIOS OF LIABILITIES	TOTAL LIABILITIES (B)	NET CARRYING AMOUNT (C=A-B)	MAXIMUM EXPOSURE TO LOSS (D)	DIFFERENCE BETWEEN EXPOSURE TO THE RISK OF LOSS AND THE CARRYING AMOUNT (E=D-C)
1.U.C.I.TS.	HFT	2	-	-	2	2	-

#### Key

HFT = Financial assets held for trading

# Part E - Information on Risks and relating hedging policies (CONTINUED)

### Section 2 – Prudential consolidated risks

FinecoBank, although assuming the role of parent company, is a subsidiary of an authorized entity (i.e. UniCredit S.p.A.) in the same member State and therefore does not qualify as a "parent company in an EU member State". Not being a parent company, FinecoBank is not required to make harmonized prudential supervisory reports on a consolidated basis and, for this reason, does not provide information relating to this section.

Therefore, for full qualitative and quantitative information of risk profiles of the Bank reference should be made to Part E "Information on risks and relating hedging policies" in the notes to the accounts.

### Section 3 – Insurance companies risk

No information to report.

### Section 4 – Other companies' risk

No information to report.



## Part F - Consolidated shareholders' equity

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# Part F - Consolidated shareholders' equity

## Section 1 - Consolidated Shareholders' equity

### A. Qualitative information

The Bank has made a priority of capital management and allocation on the basis of the risk assumed in order to expand its operations and create value. These activities involve the various planning and control stages and, specifically, the planning, budgeting and monitoring processes (analysis of expected and actual performance, analysis and monitoring of limits, performance analysis and monitoring of capital ratios). These activities are also planned in relation to the subsidiary Fineco AM, once it has commenced operations.

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

Capital is managed dynamically: the Bank prepares the financial plan, monitors capital requirements for regulatory purposes and anticipates the appropriate steps required to achieve goals.

Monitoring refers, on one hand, to both shareholders' equity and the composition of own funds and, on the other hand, to the planning and performance of risk-weighted assets (RWA).

On January 31, 2018, FinecoBank issued an Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years, Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resetable Notes). The issue of the financial instrument was authorized by the Board of Directors of FinecoBank on 23 January 2018. The financial instrument is a perpetual private placement<sup>39</sup>, issued for a total of €200,000 thousand and entirely subscribed by UniCredit S.p.A. The coupon for the first 5.5 years has been fixed at 4.82%. The decision to carry out an intra-group issuance had many advantages: effective cost savings relating, for example, to the underwriting syndicate, and shorter issue times so as not to miss the right moment, maximising the benefits of the transaction.

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

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<sup>39</sup> Unrated and unlisted

## B. Quantitative information

## B.1 Consolidated Shareholders' equity: breakdown by company type

(Amounts in € thousand)

SHAREHOLDERS' ITEMS	PRUDENTIAL CONSOLIDATED	INSURANCE COMPANIES	OTHER COMPANIES	ELIMINATIONS AND ADJUSTMENTS FROM CONSOLIDATION	TOTAL
1. Share capital	200,773	-	-	-	200,773
2. Share premium reserve	1,934	-	-	-	1,934
3. Reserves	355,673	-	-	(164)	355,509
4. Equity instruments	200,000	-	-	-	200,000
5. (Treasury shares)	(13,960)	-	-	-	(13,960)
6. Revaluation reserves	(9,794)	-	-	-	(9,794)
- Equity securities designated at fair value through other comprehensive income	-	-	-	-	-
- Hedging of equity securities designated at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other equity securities) designated at fair value through other comprehensive income	(3,410)	-	-	-	(3,410)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedging instruments of foreign investments	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Hedge instruments (non-designated elements)	-	-	-	-	-
- Exchange differences	-	-	-	-	-
- Non-current assets classified as held for sale	-	-	-	-	-
- Financial liabilities designated at fair value through profit and loss (changes in own creditworthiness)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(6,384)	-	-	-	(6,384)
- Revaluation reserves for associates carried at equity	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
7. Net profit (loss) for the year (+/-) of group and minorities	227,922	-	-	13,297	241,219
<b>Total</b>	<b>962,548</b>	<b>-</b>	<b>-</b>	<b>13,133</b>	<b>975,681</b>

The "Eliminations and adjustments for consolidation" column includes the data referring to the subsidiary Fineco AM.

## B.2 Revaluation reserves for financial assets at fair value through comprehensive income: breakdown

(Amounts in € thousand)

ASSETS/AMOUNTS	PRUDENTIAL CONSOLIDATED		INSURANCE COMPANIES		OTHER COMPANIES		ELIMINATIONS AND ADJUSTMENTS FROM CONSOLIDATION		TOTAL	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	410	(3,820)	-	-	-	-	-	-	410	(3,820)
2. Equity instruments	-	-	-	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-	-	-	-
<b>Total 12.31.2018</b>	<b>410</b>	<b>(3,820)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>410</b>	<b>(3,820)</b>
<b>Total 12.31.2017</b>										

## Part F - Consolidated shareholders' equity (CONTINUED)

### B.3 Revaluation reserves for financial assets at fair value through comprehensive income: annual changes

(Amounts in € thousand)

	DEBT SECURITIES	EQUITY SECURITIES	LOANS
<b>1. Opening balance</b>	<b>3,449</b>	-	-
<b>2. Increases</b>	<b>449</b>	-	-
2.1 Fair value increases	372	-	-
2.2 Adjustments for credit risk	77	-	-
2.3 Reclassification through profit or loss of realised negative reserves	-	-	-
2.4 Transfer from other shareholder's equity item (equity securities)	-	-	-
2.5 Other changes	-	-	-
<b>3. Decreases</b>	<b>(7,308)</b>	-	-
3.1 Fair value reductions	(4,843)	-	-
3.2 Recoveries for credit risk	(1)	-	-
3.3 Reclassification through profit or loss of realised positive reserves	(2,464)	-	-
3.4 Transfer to other shareholder's equity item (equity securities)	-	-	-
3.5 Other changes	-	-	-
<b>4. Closing balances</b>	<b>(3,410)</b>	-	-

The initial balance shown in the table refers to the valuation reserves recorded at January 1, 2018 after restating the opening balances following the entry into force of IFRS 9 (for further details, see Section 5 - Other matters of these the Notes of the consolidated accounts).

### B.4 Revaluation reserves on defined benefit obligations: annual changes

(Amounts in € thousand)

	ACTUARIAL GAINS (LOSSES) ON DEFINED BENEFITS PLANS
<b>1. Opening balance</b>	<b>(9,812)</b>
<b>2. Increases</b>	<b>3,428</b>
2.1 Fair value increases	3,428
2.2 Other Changes	-
<b>3. Decreases</b>	-
3.1 Fair value reductions	-
3.2 Other Changes	-
<b>4. Closing balances</b>	<b>(6,384)</b>

Hereinafter the table drawn up according to IAS 39 and represented according to the 4th update of Circular 262 of Bank of Italy dated 15 December 2015.

### B.2 Revaluation reserves for financial assets available for sale: breakdown (ex IAS 39)

(Amounts in € thousand)

ASSETS/AMOUNTS	BANKING GROUP		INSURANCE COMPENIES		OTHER COMPANIES		ELIMINATIONS AND ADJUSTMENTS FROM CONSOLIDATION		TOTAL	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	10,529	(10,216)	-	-	-	-	-	-	10,529	(10,216)
2. Equity instruments	1,159	-	-	-	-	-	-	-	1,159	-
3. Units in investment funds.	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-
<b>Total 12.31.2017</b>	<b>11,688</b>	<b>(10,216)</b>	-	-	-	-	-	-	<b>11,688</b>	<b>(10,216)</b>

## Section 2 - Own funds and banking regulatory ratios

FinecoBank is not obliged to report on own funds and consolidated regulatory ratios because it is part of the UniCredit Group. Therefore, please see Part F of the Notes to the corporate Accounts.



## Part G - Business combination

### Section 1 – Business combinations completed during the year

No information to report.

### Section 2 – Business combinations completed after year-end

No information to report.

### Section 3 – Retrospective adjustments

No information to report.



## Part H - Related-party transactions

1. Details of compensation for key management personnel	242
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## Part H – Related-party Transactions

Information on the fees paid to key management personnel and on related-party transactions, pursuant to IAS 24 is shown below.

### 1. Details of compensation for key management personnel

Key management personnel are persons having authority and responsibility for planning, directing, and controlling the Companies' activities, directly or indirectly. This category includes Board members and members of the Board of Statutory Auditors, pursuant to requirements of the Bank of Italy Circular no. 262 of December 22, 2005 as amended and updated, as well as the Chief Executive Officer and General Manager, the Deputy General Manager/GBS Manager, the Chief Financial Officer, the PFA Network Commercial and Private Banking Manager, the Deputy General Manager/Global business Manager.

ITEMS/SECTORS	(Amounts in € thousand)	
	TOTAL 2018	TOTAL 2017
Fees paid to "Key Management Personnel", Directors and the Board of Statutory Auditors		
a) short-term benefits	5,750	5,470
b) post-employment benefits	214	213
of which under defined benefit plans	-	-
of which under defined contribution plans	214	213
c) other long-term employee benefits	-	-
d) termination benefits	1,227	-
e) share-based payments	3,236	2,479
<b>Total</b>	<b>10,427</b>	<b>8,162</b>

### 2. Related-party transactions

The Board of Directors, in order to ensure continued compliance with applicable legal and regulatory provisions on corporate disclosure on transactions with related parties and persons in conflict of interest, during the meeting on July 31, 2018 and with the prior favorable opinion of the Risk and Related Parties Committee and the Board of Statutory Auditors approved last update of "Procedures for managing transactions with subjects in conflict of interest" (the "Procedures").

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

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

Given that the Bank belongs to the UniCredit Group, the aforementioned Procedures are also based on the "UniCredit Global Policy for the management of transactions with persons in conflict of interest" and the relevant "Global Process Regulation" issued by UniCredit to subsidiaries as part of its management and coordination.

Considering the above, the following Significant Transactions resolved by the Board of Directors during 2018 are recorded:

- on January 23, 2018, with the favorable opinion of the Risks and Related Parties Committee, the Board of Directors authorized the issue of an Additional Tier 1 bond totaling € 200 million, fully subscribed by means of private placement by the Group Parent UniCredit S.p.A.; the duration of the loan is perpetual, linked to the statutory duration of the Bank, and the coupon for the first 5.5 years was set at 4.82%. The transaction is an "Ordinary Significant Transaction at market conditions";
- on February 6, 2018 with the favorable opinion of the Risk and Related Parties Committee, the Board of Directors approved the renewal of the "Framework Resolution related to the entering into of hedging derivative contracts with the Parent Company or companies in the UniCredit Group", an ordinary Significant Transaction at market conditions with validity up until February 6th, 2019, which enables the Bank to enter into hedging derivatives with the Parent Company and with UniCredit Bank AG for commercial assets or liabilities that, for ALM purposes, require interest rate hedging, with a plafond of €1,000 million with the Parent Company and €1,300 million with UniCredit Bank AG;
- on May 8, 2018, with the favorable opinion by the Risks and Related Parties Committee, the Board of Directors approved the renewal of the:
  - "Framework Resolution - Repurchase Agreements and Term Deposits with the Parent Company", an ordinary Significant Transaction at market conditions (expiring May 8, 2019), concerning (i) Repurchase Agreements with the Parent Company for a maximum amount of € 7.1 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse



- repos) and (ii) Term deposits with the Parent Company for an amount of € 6.3 billion, calculated as the sum of the individual transactions in absolute value;
- "Framework Resolution for the transactions on current accounts held with UniCredit", an ordinary Significant Transaction at market conditions (expiring May 8, 2019), which enables the Bank to manage transaction through specific current accounts with UniCredit S.p.A. for an maximum amount of € 1,000 million understood as a single transaction (single payment and single withdrawal);
- on June 12, 2018, with the favorable opinion of the Risks and Related Parties Committee, the Board of Directors approved the renewal of the "Framework Resolution – Trading of financial instruments with institutional counterparties and with UniCredit, on their own account and on behalf of third parties, respectively by the Treasury and Markets functions ", an ordinary Significant Transaction at market conditions (expiring June 11, 2019), which enables the Bank to carry out trading in derivatives with related parties institutional counterparties, up to a permitted limit of: (i) €2.7 billion with UniCredit Bank AG, (ii) €250 million with Mediobanca SpA and (iii) €1 billion with UniCredit S.p.A.;
- on September 18, 2018, with the favourable opinion of the Risks and Related Parties Committee, the Board of Directors approved the renewal of the "Framework resolution Stock Lending Activities with institutional customers", ordinary Significant Transaction at market conditions effective until September 17, 2019, related to share securities lending transactions, through which FinecoBank may implement, until the above expiry date, those transactions with a plafond of €700 million for transactions with UniCredit Bank AG and €200 million for transactions with Mediobanca S.p.A.;
- on November 6, 2018, with the favourable opinion of the Risks and Related Parties Committee, the Board of Directors approved the renewal of the "Framework resolution - Trading of financial instruments of the Parent Company", ordinary Significant Transaction at market conditions effective until November 6, 2019 related to the purchase or sale of financial instruments issued by UniCredit with limit of € 1,530 million.

Furthermore, the Risks and Related Parties Committee and the Board of Directors, respectively on 10 and 11 December 2018, issued positive opinions, in compliance with the aforementioned Procedures, on the completion of an ordinary Significant Transaction at market conditions, proposed by the subsidiary Fineco Asset Management DAC (Fineco AM or FAM DAC) and related to the "Framework Resolution - FAM DAC term deposits with UniCredit Bank Ireland Plc" concerning the term deposit transactions with a credit plafond of € 55 million which FAM DAC will be able to carry out with UniCredit Bank Ireland Plc until December 10, 2019.

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

In relation to the above transactions, the Bank provided a simplified disclosure to CONSOB pursuant to Art. 13, paragraph 3, letter c) of CONSOB Regulation on March 12, 2010, no. 17221.

As of December 31, 2018, no other transactions were undertaken with related parties that could significantly affect the Bank's asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions.

Minor Transactions were also carried out with the Parent Company, other Group companies and/or with related parties in general, both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

Lastly, with regard to transactions of significant financial and economic relevance, during 2012, the Bank issued 5 bank guarantees in favour of the Italian Revenue Agency upon (guaranteed) request by UniCredit S.p.A., with indefinite duration (specifically, valid until the Italian Revenue Agency issues a declaration of receipt of the payment by UniCredit S.p.A. at the end of the collection process, in the event of an unfavourable outcome for UniCredit S.p.A., or until a ruling is issued in favour of the Bank by means of final judgement), for a total amount of €256 million, plus interest accrued and accruing until request for payment from the Italian Revenue Agency. The bank guarantees were issued to secure the obligations assumed by UniCredit S.p.A. in relation to five VAT refund suspension orders issued by the Italian Revenue Agency, and entail the assumption by the Bank of an irrevocable payment commitment on demand, within 30 days and without any exceptions. In 2013, following the settlement of an overall assessment notice issued by the Regional Department of Liguria, for €4.5 million, replaced by another assessment notice issued by the same Department up to the amount settled, a guarantee already issued by the Bank was replaced, with amounts unchanged; this transaction did not change the commitments undertaken according to the forms, procedures and risks already assessed during 2012, which remained unchanged; in this regard it is specified, however, following the consolidation of the definition of pending charges linked to the aforementioned bank guarantees, in December 2018 UniCredit S.p.A. has required the almost total release (about €224.5 million) to the competent office of the Regional Department of Liguria and the Bank is waiting for the corresponding reply.

## Part H – Related-party transactions (CONTINUED)

The following statement shows the outstanding assets, liabilities, guarantees and commitments as at December 31, 2018, for each group of related parties pursuant to IAS 24:

(Amounts in € thousand)

	AMOUNTS AS AT DECEMBER 31, 2018					
	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	TOTAL	% OF CARRYING AMOUNT	SHAREHOLDERS	% OF CARRYING AMOUNT
Financial assets at amortised cost						
a) loans and receivable with banks	-	4	4	0.00%	-	0.00%
Financial assets at amortised cost						
b) loans and receivable with customers	1,002	13,113	14,115	0.13%	1,762	0.02%
<b>Total assets</b>	<b>1,002</b>	<b>13,117</b>	<b>14,119</b>	<b>0.06%</b>	<b>1,762</b>	<b>0.01%</b>
Financial liabilities at amortised cost						
a) deposits from banks	-	1,641	1,641	0.01%	-	0.00%
Financial liabilities at amortised cost						
b) deposits from customers	2,281	6,480	8,761	0.04%	-	0.00%
Other liabilities	130	61	191	0.06%	-	0.00%
<b>Total liabilities</b>	<b>2,411</b>	<b>8,182</b>	<b>10,593</b>	<b>0.04%</b>	<b>-</b>	<b>0.00%</b>
<b>Guarantees given and commitments</b>	<b>92</b>	<b>8</b>	<b>100</b>	<b>0.01%</b>	<b>-</b>	<b>0.00%</b>

The following table sets out the impact of transactions with related parties on the main Consolidated Income Statement items, for each group of related parties.

(Amounts in € thousand)

	INCOME STATEMENT AT DECEMBER 31, 2018					
	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	TOTAL	% OF CARRYING AMOUNT	SHAREHOLDERS	% OF CARRYING AMOUNT
Interest income and similar revenues	11	16	27	0.01%	-	0.00%
Interest expenses and similar charges	(1)	-	(1)	0.01%	-	0.00%
Fee and commission income	11	40,321	40,332	7.06%	7,548	1.32%
Fee and commission expenses	-	(254)	(254)	0.09%	-	0.00%
Gains (losses) on financial assets and liabilities held for trading	-	(20)	(20)	-0.05%	-	0.00%
Impairment losses/writebacks	(2)	(9)	(11)	0.31%	(2)	0.06%
Other administrative expenses	-	(172)	(172)	0.07%	-	0.00%
Other net operating income	36	10	46	0.05%	-	0.00%
<b>Total income statement</b>	<b>55</b>	<b>39,892</b>	<b>39,947</b>		<b>7,546</b>	

With regard to the category "Directors, Board of Statutory Auditors and Key Management Personnel", in application of the special regulations laid down in Article 136 of Legislative Decree 385/93 (Consolidated Law on Banking), the obligations established for persons that perform administrative, management and control functions pursuant to those regulations were unanimously approved by a resolution of the Board of Directors with the favourable vote of all members of the Board of Statutory Auditors, in accordance with Article 136 of said Consolidated Law on Banking.

The category "Directors, Board of Statutory Auditors and Key Management Personnel" includes their dealings with the Bank (excluding their fees, which are discussed in point 1. *Details of compensation for key management personnel*) and the Parent Company UniCredit S.p.A., mainly concerning assets for credit card use and mortgages, liabilities for funds held by them with the Bank and costs and revenues generated from the aforesaid assets and liabilities.

The "Other related parties" category, where present, includes:

- close family members of key management personnel (i.e., relatives who could be expected to influence, or be influenced by the party involved);
- companies controlled (or jointly controlled) by, or associated with, "key management personnel" or their close family members;
- associates, and their subsidiaries, of the Parent Company UniCredit S.p.A..

Transactions with "Other related parties", mainly refer to:

- assets for credit card use and liabilities for funds held with the Bank or securities lending transactions guaranteed by sums of money;
- assets for current receivables associated with the provision of financial services, mainly referring to fees for the placement of asset management and insurance products;
- costs and revenues generated from the above assets and liabilities, mainly referring to subscription and management fee and commission income related to the placement of asset management and insurance products and insurance premiums.

The "Shareholders" category includes shareholders and their subsidiaries holding an investment higher than 2% of voting shares of FinecoBank and of the Parent Company UniCredit S.p.A.. Transactions mainly refer to operating receivables connected with the provision of financial services referring to the commissions to be cashed for the placement of asset management products and the revenues generated by the same placement activity.

Amounts as at December 31, 2018 and the income components accrued in 2018 relating to the Parent Company UniCredit S.p.A. and the UniCredit group companies are not included, as they are presented further below.

## Transactions with the Parent Company and other Unicredit Group companies

(Amounts in € thousand)

Total transactions with UniCredit Group companies	TOTAL 12.31.2018	% OF CARRYING AMOUNT
<b>Assets</b>	<b>12,134,832</b>	<b>49.06%</b>
Financial assets at amortised cost a) loans and receivables with banks	12,130,425	97.50%
Financial assets at amortised cost b) loans and receivables with customers	46	0.00%
Other assets	4,361	1.24%
<b>Liabilities</b>	<b>1,032,511</b>	<b>4.17%</b>
Financial liabilities at amortised cost a) deposits from banks	828,401	82.04%
Other liabilities	4,072	1.21%
Provisions for risks and charges: a) commitments and guarantees given	38	77.55%
Equity instruments	200,000	100.00%
<b>Guarantees and commitments</b>	<b>256,070</b>	<b>17.17%</b>
Guarantees given and commitments	256,070	17.17%
<b>Income statement</b>	<b>156,117</b>	
Interest income and similar revenues	173,469	59.18%
Interest expenses and similar charges	(2,931)	20.26%
Fee and commission income	1,329	0.23%
Fee and commission expenses	(6,582)	2.43%
Impairment losses/writebacks	3,151	89.52%
Administrative expenses	(12,744)	3.70%
Net provisions for risks and charges a) provision for credit risk of commitments and financial guarantees given	412	102.49%
Other net operating income	13	0.01%

The following table summarises transactions with UniCredit group companies as at December 31, 2018.

(Amounts in € thousand)

COMPANY	ASSETS	LIABILITIES	GUARANTEES AND COMMITMENTS	INCOME STATEMENT
Unicredit S.p.A.	12,126,481	996,690	256,070	164,561
Unicredit Bank AG	85	35,668	-	764
Unicredit Bank AG Milano	-	-	-	136
UniCredit International Bank (Luxembourg) S.A.	-	-	-	27
Unicredit Factoring S.p.A.	-	-	-	81
Unicredit Leasing S.p.A.	-	-	-	6
Unicredit Business Integrated Solutions S.C.p.A.	234	137	-	(9,468)
Cordusio Società Fiduciaria per Azioni	46	16	-	24
Unicredit Bank Ireland p.l.c.	7,986	-	-	(14)
<b>Total</b>	<b>12,134,832</b>	<b>1,032,511</b>	<b>256,070</b>	<b>156,117</b>

## Part H – Related-party transactions (CONTINUED)

The following tables contain a breakdown of the items relating to Assets, Liabilities, Guarantees and Commitments, Costs and Revenues for each individual Group company.

## Transactions with parent company

(Amounts in € thousand)	
<b>Unicredit S.p.A.</b>	<b>TOTAL 12.31.2018</b>
<b>Assets</b>	<b>12,126,481</b>
Financial assets at amortised cost a) loans and receivables with banks	12,122,389
Other assets	4,092
<b>Liabilities</b>	<b>996,690</b>
Financial liabilities at amortised cost a) deposits from banks	792,733
Other liabilities	3,919
Provisions for risks and charges: a) commitments and guarantees given	38
Equity instruments	200,000
<b>Guarantees and commitments</b>	<b>256,070</b>
Guarantees given and commitments	256,070
<b>Income statement</b>	<b>164,561</b>
Interest income and similar revenues	173,318
Interest expenses and similar charges	(2,931)
Fee and commission income	507
Fee and commission expenses	(6,553)
Impairment losses/writebacks	3,167
Administrative expenses	(3,372)
Net provisions for risks and charges a) provision for credit risk of commitments and financial guarantees given	412
Other net operating income	13

## Transactions with companies controlled by UniCredit S.p.A.

(Amounts in € thousand)	
<b>Unicredit Bank AG</b>	<b>TOTAL 12.31.2018</b>
<b>Assets</b>	<b>85</b>
Financial assets at amortised cost a) loans and receivables with banks	50
Other assets	35
<b>Liabilities</b>	<b>35,668</b>
Financial liabilities at amortised cost a) deposits from banks	35,668
<b>Income statement</b>	<b>764</b>
Interest income and similar revenues	149
Fee and commission income	616
Fee and commission expenses	(1)

(Amounts in € thousand)	
<b>Unicredit Bank AG Milano</b>	<b>TOTAL 12.31.2018</b>
<b>Income statement</b>	<b>136</b>
Fee and commission income	136

(Amounts in € thousand)	
<b>UniCredit International Bank (Luxembourg) S.A.</b>	<b>TOTAL 12.31.2018</b>
<b>Income statement</b>	<b>27</b>
Fee and commission income	27

(Amounts in € thousand)	
<b>Unicredit Factoring S.p.A.</b>	<b>TOTAL 12.31.2018</b>
<b>Income statement</b>	<b>81</b>
Administrative expenses	81

(Amounts in € thousand)	
<b>Unicredit Business Integrated Solutions S.C.p.A.</b>	<b>TOTAL 12.31.2018</b>
<b>Assets</b>	<b>234</b>
Other assets	234
<b>Liabilities</b>	<b>137</b>
Other liabilities	137
<b>Income statement</b>	<b>(9,468)</b>
Administrative expenses	(9,468)

(Amounts in € thousand)	
<b>Cordusio Società Fiduciaria per Azioni</b>	<b>TOTAL 12.31.2018</b>
<b>Assets</b>	<b>46</b>
Financial assets at amortised cost b) loans and receivables with customers	46
<b>Liabilities</b>	<b>16</b>
Other liabilities	16
<b>Income statement</b>	<b>24</b>
Fee and commission income	44
Fee and commission expenses	(28)
Administrative expenses	8

(Amounts in € thousand)	
<b>Unicredit Bank Ireland p.l.c.</b>	<b>TOTAL 12.31.2018</b>
<b>Assets</b>	<b>7,986</b>
Financial assets at amortised cost a) loans and receivables with banks	7,986
<b>Income statement</b>	<b>(14)</b>
Interest income and similar revenues	2
Impairment losses/writebacks	(16)

## Part I - Share-based payments

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# Part I - Share-based payments

## A. Qualitative information

### 1. Description of share-based payments

#### 1.1 Outstanding instruments

The Medium & Long Term Incentive Plans for employees and personal financial advisors of the Bank include the following types of instruments:

- Equity-Settled Share Based Payments that involve payments settled with shares of the parent UniCredit S.p.A. and of the Bank;
- Cash Settled Share Based Payments that involve payments made in cash<sup>40</sup>.

The above categories refer to the allocation of the following plans:

- **Group Executive Incentive Systems** that offers eligible Group Executives a variable remuneration for which payment will be made within a maximum of five years. The beneficiaries receive a payment in cash and/or UniCredit shares, in relation to the achievement of performance conditions (other than marked conditions) stated in the Plan Rules;
- **Incentive Systems (Bonus Pool)**, offering selected Executives and personnel identified on the basis of regulatory requirements, a bonus structure consisting of immediate payments (following performance evaluation) and deferred payments in cash and ordinary UniCredit or FinecoBank shares, over a maximum period of 6 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or at Country/Division level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both represent vesting conditions other than market conditions);
- **Employee Share Ownership Plan (ESOP - Let's Share)**, which offers eligible Bank employees the possibility to buy UniCredit ordinary shares with the advantage of involving the granting of free ordinary shares ("Free Shares" or rights to receive them) measured on the basis of the shares purchased by each Participant ("Investment Share") during the "Enrolment Period". The granting of free ordinary shares is subordinated to vesting conditions stated in the Plan Rules;
- **Stock granting for employees** that grants the free allocation of FinecoBank shares to beneficiaries belonging to the category of Managers with Strategic Responsibilities ("*2014-2017 Multi-year Plan Top Management*"). Shares will be allocated to the beneficiaries in 4 yearly tranches starting from 2017. The plan is subject to access conditions (profitability and capital thresholds) and clawback clauses (as legally applicable) in accordance with its rules;
- **2018-2020 Long Term Incentive Plan for Employees** entirely based on free FinecoBank shares, to be granted to selected Bank's Employees. The Plan provides goals linked to 2020 FinecoBank targets in terms of value creation, sustainability and risk, with entry condition at Bank and Group level and clawback and malus conditions. The Plan provides a payout structure in a multi year period defined on the basis of the beneficiaries categories, in line with the regulatory provisions;
- **Stock granting for personal financial advisors** offering the allocation of free shares of FinecoBank to the network's personal financial advisors, subject to the achievement by the Bank's entire PFA network of a set net sales target for the three-year period 2015-2017 ("*2015-2017 PFA Plan*"). The shares will be allocated to the respective beneficiaries in 3 annual instalments from 2018. The plan is subject to access conditions (profitability and capital thresholds) and clawback clauses (as legally applicable) in accordance with the plan rules;
- **2015 Incentive System personal financial advisors**, offering selected financial advisors, identified Staff in accordance with regulatory requirements, an incentive system consisting of immediate cash payments (following performance evaluation) and deferred payments and the allocation of Phantom Shares, over a period of 5 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or at Country/Division level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both vesting conditions other than market conditions);
- **PFA Incentive Systems**, offering selected financial advisors, identified Staff in accordance with regulatory requirements, incentive systems consisting of immediate cash payments (following performance evaluation) and deferred payments, in cash and FinecoBank ordinary shares, over a period of 5 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or FinecoBank level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both vesting conditions other than market conditions);
- **2018-2020 Long Term Incentive Plan for Financial Advisors Identified Staff** that provides a bonus in cash and FinecoBank ordinary shares for the financial advisors that will be identified Staff in 2020 towards the achievement of commercial performance goal in 2018-2020. The plan provides entry conditions at Bank and Group level and malus and clawback conditions. The plan provides also a multi-year payout structure.

Shares for employee incentive plans envisaging the allocation of FinecoBank shares will be issued through free capital increases in accordance with Article 2349 of the Italian Civil Code.

<sup>40</sup> Commensurate to the economic value of FinecoBank S.p.A.'s equity instruments.

The financial instruments for incentive plans for the Bank's financial advisors involving the allocation of FinecoBank shares will be obtained through market purchases in implementation of the authorisation of the Bank Shareholders' Meeting pursuant to Article 2357 of the Italian Civil Code and of the Supervisory Authority.

## 1.2 Measurement model

### 1.2.1 Group Executive Incentive System

The amount of the incentive is determined on the basis of the achievement of quantitative and qualitative goals stated by the plan. In particular, the overall evaluation is expressed as a percentage, from a minimum of 0% to a maximum of 150% (non market vesting conditions). This percentage, adjusted by the application of a risk/opportunity factor – Group Gate – at first payment and multiplied by the incentive, determines the actual amount that will be paid to the beneficiary.

The balance-sheet and income statement effects are spread according to the term of the Plans.

No new Plans were granted in 2018.

### 1.2.2 Incentive System (Bonus Pool)

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

The plans are divided into clusters, each of which may include two to three deferred share-based payment instalments according to the period defined by the plan rules. The Plans have been allocated starting from 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

#### 1.2.2.1 2017 Incentive System (Bonus Pool)

The plan was allocated in 2017 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FINECOBANK SHARES GRANTED				
	2017 INCENTIVE SYSTEM (BONUS POOL)				
	2020 INSTALMENT	2021 INSTALMENT	2022 INSTALMENT	2023 INSTALMENT	
Bonus Opportunity Economic Value Grant Date	09-Jan-17	09-Jan-17	09-Jan-17	09-Jan-17	09-Jan-17
Number of Shares - Date of Board resolution	06-Feb-18	06-Feb-18	06-Feb-18	06-Feb-18	06-Feb-18
Vesting Period Start Date	01-Jan-17	01-Jan-17	01-Jan-17	01-Jan-17	01-Jan-17
Vesting Period End Date	31-Dec-17	31-Dec-19	31-Dec-20	31-Dec-21	
FinecoBank Share Market Price [€]	9.690	9.690	9.690	9.690	9.690
Average Economic Value of Vesting conditions [€]	-0.575	-0.894	-1.267	-1.921	
Performance Shares value per share at Grant Date [€]	9.115	8.796	8.423	7.769	

#### 1.2.2.2 2018 Incentive System (Bonus Pool)

The 2018 Incentive System is based on a *bonus pool* approach, in line with regulatory requirements and market practices; this approach sets out:

- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;
- the allocation of bonuses to beneficiaries identified as Executives and other key personnel on the basis of criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;
- a structure of payments spread over a period of up to 6 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the current year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### 1.2.3 Employee Share Ownership Plan (ESOP – Let's Share)

During 2018 no new plans were assigned, but the economic and equity effects referring to the Let's 2017 Plan were recorded, in line with the provisions of the regulation.



## Part I - Share-based payments (CONTINUED)

### 1.2.4 Stock granting for employees

#### 1.2.4.1 2014 - 2017 Multi-year – Top management Plan

The plan offers the allocation of free shares of FinecoBank to beneficiaries belonging to the Top Management with strategic responsibilities. The shares will be allocated to the respective beneficiaries, once the vesting period has elapsed and satisfaction of the conditions has been verified, in 4 annual tranches, starting in 2017.

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### 1.2.5 2018-2020 Long Term Incentive Plan for Employees

The Plan establishes FinecoBank targets set at 2020 in terms of value creation, sustainability and risk.

The Plan Beneficiaries are selected among the “key” Bank resources, including the Managers with Strategic Responsibilities.

The Plan, which is in line with regulatory requirements and market practices, includes:

- Bank goal sas EVA, Cost/Income and Cost of Risk on commercial loans;
- Bank and Group entry and malus conditions based on profitability, capital and liquidity parameters
- Individual compliance and clawback conditions;
- a risk adjustment based on the yearly results of the CRO Dashboard.

The plan was allocated in the current exercise and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FINECOBANK SHARES GRANTED			
	2018-2020 LONG TERM INCETIVE PLAN- IDENTIFIED STAFF AND CEO			
	2023 INSTALMENT	2023 INSTALMENT	2024 INSTALMENT	2025 INSTALMENT
Bonus Opportunity Economic Value Grant Date	10-Jan-18	10-Jan-18	10-Jan-18	10-Jan-18
Number of Shares - Date of Board resolution	08-May-18	08-May-18	08-May-18	08-May-18
Vesting Period Start Date	01-Jan-18	01-Jan-18	01-Jan-18	01-Jan-18
Vesting Period End Date	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
FinecoBank Share Market Price [€]	9.880	9.880	9.880	9.880
Average Economic Value of Vesting conditions [€]	-1.354	-1.354	-1.721	-2.084
Performance Shares value per share at Grant Date [€]	8.526	8.526	8.159	7.796

	FINECOBANK SHARES GRANTED			
	2018-2020 LONG TERM INCETIVE PLAN- OTHER PERSONNEL			
	2023 INSTALMENT	2023 INSTALMENT	2024 INSTALMENT	2025 INSTALMENT
Bonus Opportunity Economic Value Grant Date	10-Jan-18	10-Jan-18	10-Jan-18	10-Jan-18
Number of Shares - Date of Board resolution	08-May-18	08-May-18	08-May-18	08-May-18
Vesting Period Start Date	01-Jan-18	01-Jan-18	01-Jan-18	01-Jan-18
Vesting Period End Date	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
FinecoBank Share Market Price [€]	9.880	9.880	9.880	9.880
Average Economic Value of Vesting conditions [€]	-0.609	-0.983	-1.354	-1.721
Performance Shares value per share at Grant Date [€]	9.271	8.897	8.526	8.159

## 1.2.6 Stock granting for Personal Financial Advisors

### 1.2.6.1 2015 - 2017 PFA Plan

The amount of the incentive will be determined on the basis of the achievement of the goals stated by the plan, subject to the Bank's entire financial advisors network meeting their cumulative net sales targets for the three-year period 2015-2017.

The plan helps align the interests of beneficiaries, shareholders and other stakeholders and implement effective remuneration practices, in accordance with the applicable legislative and regulatory framework. The plan is subject to verification that the conditions established by the plan rules are satisfied.

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FINECOBANK SHARES GRANTED		
	2015-2017 PFA PLAN		
	2020 INSTALMENT	2021 INSTALMENT	2022 INSTALMENT
Bonus Opportunity Economic Value Grant Date	02-Jul-14	02-Jul-14	02-Jul-14
Number of Shares - Date of Board resolution	08-Feb-18	08-Feb-18	08-Feb-18
Vesting Period Start Date	01-Jan-15	01-Jan-15	01-Jan-15
Vesting Period End Date	30-Jun-18	30-Jun-19	30-Jun-20
FinecoBank Share Market Price [€]	10.087	10.087	10.087
Average Economic Value of Vesting conditions [€]	0.000	-0.290	-0.609
Performance Shares value per share at Grant Date [€]	10.087	9.797	9.478

### 1.2.7 2015 Incentive System for Personal Financial Advisors

The amount of the incentive is determined on the basis of the achievement of the goals stated by the plan.

The balance-sheet and income statement effects are spread across the term of the Plan. The economic value of the phantom shares allocated corresponds to the market price of the FinecoBank shares.

The plan was allocated in 2015 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FINECOBANK SHARES GRANTED		
	2015 INCENTIVE SYSTEM PFA		
	2018 INSTALMENT	2019 INSTALMENT	2020 INSTALMENT
Bonus Opportunity Economic Value Grant Date	10-Mar-15	10-Mar-15	10-Mar-15
Number of Shares - Date of Board resolution	08-Feb-16	08-Feb-16	08-Feb-16
Vesting Period Start Date	01-Jan-15	01-Jan-15	01-Jan-15
Vesting Period End Date	31-Dec-15	31-Dec-17	31-Dec-18
FinecoBank Share Market Price [€]	9.690	To be defined	To be defined
Average Economic Value of Vesting conditions [€]	0.000	To be defined	To be defined
Performance Shares value per share at Grant Date [€]	9.690	To be defined	To be defined

### 1.2.8 Incentive System for Personal Financial Advisors

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

The plans are divided into clusters, each of which may include two to three deferred share-based payment instalments according to the period defined by the plan rules. The Plans have been allocated starting from 2016 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

## Part I - Share-based payments (CONTINUED)

### 1.2.8.1 2017 PFA Incentive System

The plan was allocated in 2017 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FINECOBANK SHARES GRANTED		
	2017 PFA INCENTIVE SYSTEM		
	2020 INSTALMENT	2021 INSTALMENT	2022 INSTALMENT
Bonus Opportunity Economic Value Grant Date	09-Jan-17	09-Jan-17	09-Jan-17
Number of Shares - Date of Board resolution	06-Feb-18	06-Feb-18	06-Feb-18
Vesting Period Start Date	01-Jan-17	01-Jan-17	01-Jan-17
Vesting Period End Date	31-Dec-17	31-Dec-19	31-Dec-20
FinecoBank Share Market Price [€]	9.690	9.690	9.690
Average Economic Value of Vesting conditions [€]	-0.575	-0.894	-1.267
Performance Shares value per share at Grant Date [€]	9.115	8.796	8.423

### 1.2.8.2 2018 PFA Incentive System

The 2018 PFA Incentive System is based on a *bonus pool* approach, in line with regulatory requirements and market practices; this approach sets out:

- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;
- the allocation of bonuses to beneficiaries identified as key personnel based on criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;
- a structure of payments spread over a period of up to 5 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the current year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### 1.2.9 2018-2020 Long Term Incentive Plan for Personal Financial Advisors Identified Staff

The Plan is dedicated to the Financial Advisors that will be Bank's Identified Staff in 2020 and provides three-years (2018-2020) commercial performance goals. Moreover the Plan includes:

- entry conditions based on individual FinecoBank, and Group performance;
- FinecoBank capital, liquidity and profitability and Group capital and liquidity malus conditions
- Specific individual compliance and *clawback* conditions;
- a risk adjustment based on the yearly results of the CRO Dashboard;
- a balanced payment structure with upfront and deferred payments in cash and/or FinecoBank shares.

The plan was allocated in the current exercise and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

## B. Quantitative information

### 1. Annual changes

ITEMS/NUMBER OF OPTIONS AND EXERCISE PRICE	PRUDENTIAL CONSOLIDATED			INSURANCE COMPANIES			OTHER COMPANIES			TOTAL 12.31.2018			TOTAL 12.31.2017		
	NUMBER OF OPTIONS	AVERAGE PRICES	AVERAGE MATURITY	NUMBER OF OPTIONS	AVERAGE PRICES	AVERAGE MATURITY	NUMBER OF OPTIONS	AVERAGE PRICES	AVERAGE MATURITY	NUMBER OF OPTIONS	AVERAGE PRICES	AVERAGE MATURITY	NUMBER OF OPTIONS	AVERAGE PRICES	AVERAGE MATURITY
<b>A. Opening balance</b>	1,971,985	-	gen-19	-	-	-	-	-	-	1,971,985	-	gen-19	2,937,685	-	nov-17
<b>B. Increases</b>	3,046,264	-	X	-	-	X	-	-	X	3,046,264	-	X	632,553	-	X
B.1 New issues	3,046,264	-	ott-20	-	-	-	-	-	-	3,046,264	-	ott-20	632,553	-	gen-20
B.2 Other increases	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
<b>C. Decreases</b>	(1,438,004)	-	X	-	-	X	-	-	X	(1,438,004)	-	X	(1,598,253)	-	X
C.1 Cancelled	(61,227)	-	X	-	-	X	-	-	X	(61,227)	-	X	(4,897)	-	X
C.2 Exercised	(1,376,777)	-	X	-	-	X	-	-	X	(1,376,777)	-	X	(1,593,356)	-	X
C.3 Expired	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
<b>D. Closing balance</b>	3,580,245	-	set-20	-	-	-	-	-	-	3,580,245	-	set-20	1,971,985	-	gen-19
<b>E. Vesting options at the end of the period</b>	552,883	-	X	-	-	X	-	-	X	552,883	-	X	718,153	-	X

The number of shares specified in the above table only refers to plans for which the number of shares allotted to individual beneficiaries has already been defined. The average prices for the year have not been stated because only freely allocated shares were involved.

### 2. Other information

#### Effects on Profit and Loss

The income statement and balance-sheet effects of the incentive systems based on FinecoBank and UniCredit shares are shown below, except for the balance of the reserve related to equity-settled plans.

The consolidated income statement impact is determined each year based on the vesting period of the instruments.

#### Financial statement presentation related to payments based on shares of FinecoBank and of the Parent Company UniCredit

	TOTAL 12.31.2018		TOTAL 12.31.2017	
	TOTAL	VESTED PLANS	TOTAL	VESTED PLANS
Costs	8,410		8,275	
- connected to Equity Settled Plans	8,354		8,109	
- connected to Cash Settled Plans	56		166	
Sums paid to UniCredit S.p.A. for vested plans		417		231
Sums collected by UniCredit S.p.A. for vested plans		64		
Payable due to UniCredit S.p.A.	179		573	
Credit accrued towards UniCredit S.p.A.	76		-	
Payable due to personal financial advisors for Cash Settled plans	159		365	

Please note that the charges relating to Equity Settled Plans were recognised as Administrative costs – Staff expenses with respect to the plans granted to employees and as Administrative costs or Fee and commission expense with regard to plans granted to personal financial advisors. Charges relating to Cash Settled Plans granted to financial advisors have been recognised as Fee and commission expense.



### Part L - Segment reporting

Segment reporting information is not provided as the Fineco's particular business model provides for a high level of integration among its different activities including the activity carried-out by the Irish subsidiary Fineco Asset Management DAC thanks to the vertically integrated business model; thus it is not significant to identify distinct operating sectors.

The banking and investment services are offered by FinecoBank through a network of personal financial advisors and online and mobile channels, that operate in a coordinated and integrated manner. The fully-comprehensive nature of the services offered allows to act as a one-stop solution for customers' banking and investment requirements. This strategy, which is strongly anchored to the customer, means that revenues and margins relative to various products/services (investing, banking and brokerage) are highly interdependent on each other. This integration approach has also inspired top management in setting company targets and identifying the means to achieve them.

As regards information on revenues from customers by product/service, in view of the above, reference should be made to information in Part C - Information on the consolidated income statement of these Notes to the Consolidated Accounts.

It is note worthing that FinecoBank mainly targets retail customers in Italy, given the non-significant contribution from operations to UK customers. The subsidiary Fineco Asset Management DAC carries out asset management activities in Ireland, towards the Italian retail customers and towards institutional customers, mainly resident in Luxembourg.

Information concerning the degree of dependency on main customers is therefore considered by top management as not being of material importance for information purposes, and is not therefore disclosed.







# Reconciliation of condensed consolidated accounts to mandatory reporting

(Amounts in € thousand)

ASSETS	AMOUNT AS AT	
	12.31.2018	12.31.2017
Cash and cash balances = item 10	6	613
Financial assets held for trading	6,876	8,827
20. Financial assets at fair value through profit or loss a) financial assets held for trading	6,876	8,827
Loans and receivables with banks	3,058,882	3,039,206
40. Financial assets at amortised cost a) loans and receivables with banks	12,440,994	13,345,532
less: Financial assets at amortised cost a) loans and receivables with banks - Debt securities	(9,382,112)	(10,306,326)
Loans and receivables with customers	2,955,074	2,129,219
40. Financial assets at amortised cost b) loans and receivables with customers	10,829,029	6,955,609
less: Financial assets at amortised cost b) loans and receivables with customers - Debt securities	(7,873,955)	(4,826,390)
Financial investments	18,231,182	16,715,042
20. Financial assets at fair value through profit or loss c) other financial assets mandatorily at fair value	13,342	539,855
30. Financial asset at fair value through on other comprehensive income	961,773	1,042,471
Financial assets at amortised cost a) loans and receivables with banks - Debt securities	9,382,112	10,306,326
Financial assets at Amortised cost b) loans and receivables with customers - Debt securities	7,873,955	4,826,390
Hedging instruments	8,187	10,048
50. Hedging derivatives	3,314	458
60. Changes in fair value of portfolio hedged financial assets (+/-)	4,873	9,590
Property, plant and equipment = item 90	16,632	15,205
Goodwill = item 100. Intangible assets of which: goodwill	89,602	89,602
Other intangible assets = item 100 net of goodwill	8,705	7,909
Tax assets = item 110	6,714	9,249
Other assets = item 130	350,770	315,415
<b>Total assets</b>	<b>24,732,630</b>	<b>22,340,335</b>

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNT AS AT	
	12.31.2018	12.31.2017
Deposits from banks	1,009,774	926,001
10. Financial liabilities at amortised cost a) deposits from banks	1,009,774	926,001
Deposits from customers	22,273,188	20,205,036
10. Financial liabilities at amortised cost b) deposits from customers	22,273,188	20,205,036
Financial liabilities held for trading = item 20	2,221	11,936
Hedging instruments	7,941	(397)
40. Hedging derivatives	5,341	3,375
50. Changes in fair value of portfolio hedged financial liabilities (+/-)	2,600	(3,772)
Tax liabilities = item 60	12,390	10,234
Other liabilities	451,435	455,699
80. Other liabilities	337,069	338,286
90. Provisions for employee severance pay	4,561	4,999
100. Provisions for risks and charges	109,805	112,414
Shareholders' Equity	975,681	731,826
- capital and reserves	744,256	526,046
140. Equity instruments	200,000	-
150. Reserves	355,509	323,932
160. Share premium reserve	1,934	1,934
170. Share capital	200,773	200,545
180. Treasury shares (-)	(13,960)	(365)
- revaluation reserves	(9,794)	(8,340)
120. Revaluation reserves of which: financial assets at fair value through other comprehensive income	(3,410)	1,472
120. Revaluation reserves for actuarial net gains (losses) for defined benefit plans	(6,384)	(9,812)
- net profit = item 200	241,219	214,120
<b>Total liabilities and shareholders' equity</b>	<b>24,732,630</b>	<b>22,340,335</b>

As stated in the "Introduction to the annual reports and accounts", the balance-sheet data as at December 31, 2017 have been restated, with unchanged totals, according to the reclassified financial statement format that incorporates the changes introduced by the mentioned 5th update of Circular 262.

(Amounts in € thousand)

INCOME STATEMENT	YEAR	
	2018	2017
Net interest	278,659	264,781
30. Net interest margin	278,659	264,781
Dividends and other income from equity investments	42	29
70. Dividend income and similar revenue	94	55
less: dividends from held-for-trading equity instruments included in item 70	(52)	(26)
Net fee and commission income = item 60	300,443	270,083
60. Net fee and commission income	300,443	270,083
Net trading, hedging and fair value income	44,239	48,219
80. Gains (losses) on financial assets and liabilities held for trading	43,833	
90. Fair value adjustments in hedge accounting	171	19
110. Gains (losses) on financial assets and liabilities at fair value through profit or loss	(1,500)	-
100. Gains (losses) on disposal or repurchase of: b) financial asset at fair value through other comprehensive income	1,666	-
+ dividends from held-for-trading equity instruments included in item 70	52	26
+ gains (losses) on disposal or repurchase of: a) financial assets at amortised cost - debt securities (unimpaired)	17	
Gains (losses) on financial assets and liabilities held for trading (ex IAS 39 item 80)		47,413
Gains (losses) on disposal or repurchase of: b) available-for-sale financial assets (ex IAS 39 item 100)		761
Net other expenses/income	1,913	3,760
230. Other net operating income	96,379	90,303
less: other net operating income - of which: recovery of expenses	(96,767)	(93,367)
less: adjustments of leasehold improvements	2,301	2,873
100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost (unimpaired)	17	-
less: gains (losses) on disposal or repurchase of: a) financial assets at amortised cost - debt securities (unimpaired)	(17)	-
Gains (losses) on disposal or repurchase of: a) loans and receivables (ex IAS 39 item 100)		3,951
<b>OPERATING INCOME</b>	<b>625,296</b>	<b>586,872</b>
Staff expenses	(86,606)	(79,294)
190. Administrative expenses - a) staff expenses	(86,727)	(78,886)
less: integration cost	121	(408)
Other administrative expenses	(245,502)	(236,945)
190. Administrative expenses - b) other administrative expenses	(257,507)	(244,638)
less: ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)	14,306	10,566
+ adjustments of leasehold improvements	(2,301)	(2,873)
Recovery of expenses	96,767	93,367
230. Other net operating income- of which: recovery of expenses	96,767	93,367
Impairment/write-backs on intangible and tangible assets	(10,423)	(10,369)
210. Impairment/write-backs on property, plant and equipment	(5,464)	(5,569)
220. Impairment/write-backs on intangible assets	(4,959)	(4,800)
<b>Operating costs</b>	<b>(245,764)</b>	<b>(233,241)</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>379,532</b>	<b>353,631</b>
Net impairment losses on loans and provisions for guaranteed and commitments	(4,384)	(5,351)
130. Impairment losses/writebacks on: a) financial assets at amortised cost	(3,406)	
less: impairment losses/writebacks on: a) financial assets at amortised cost - debt securities	(1,380)	
130. Impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income	(114)	
less: impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income - debt securities	114	
200. Net provisions for risks and charges a) provision for credit risk of commitments and financial guarantees given	402	-
Impairment losses/writebacks on: a) loans and receivables (ex IAS 39 item 130)		(5,357)
Impairment losses/writebacks on: d) other financial assets (ex IAS 39 item 130)		6
<b>NET OPERATING PROFIT (LOSS)</b>	<b>375,148</b>	<b>348,280</b>
Other charges and provisions	(21,380)	(19,025)
200. Net provisions for risks and charges b) other net provision	(7,074)	(8,459)
+ ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)	(14,306)	(10,566)
Integration costs	(121)	408
Net income from investments	1,105	(13,399)
+ impairment losses/writebacks on: a) financial assets at amortised cost - debt securities	1,380	
+ impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income - debt securities	(114)	
280. Gains (losses) on disposal of investments	(161)	(508)
Impairment losses/writebacks on: b) available-for-sale financial assets (ex IAS 39 item 130)		(12,891)
<b>PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>354,752</b>	<b>316,264</b>
Income tax for the year = voce 300	(113,533)	(102,144)
<b>NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>241,219</b>	<b>214,120</b>
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>241,219</b>	<b>214,120</b>
<b>NET PROFIT (LOSS) BEFORE TAX ATTRIBUTABLE TO THE GROUP</b>	<b>241,219</b>	<b>214,120</b>

As stated in the "Introduction to the annual reports and accounts", the income statement for the year 2017 have been restated, with unchanged totals, according to the reclassified financial statement format that incorporates the changes introduced by the mentioned 5th update of Circular 262.



# Certification of consolidated annual Financial Statements pursuant to article 81-ter of Consob regulation no. 11971 of May 14, 1999 and subsequent amendments

1. The undersigned, Alessandro Foti, as Managing Director and General Manager of FinecoBank S.p.A., and Lorena Pelliciani, as Nominated Official in charge of drawing up company accounts of FinecoBank S.p.A, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of February 24, 1998, do hereby certify:

- the adequacy in relation to the Company's features and
- the actual application

of the administrative and accounting procedures used in the preparation of the consolidated financial statements for the year ended December 31, 2018.

2. The adequacy of the administrative and accounting procedures employed to draw up the consolidated financial statements for the year has been evaluated by applying a model defined by the UniCredit Group, in accordance with the "Internal Control - Integrated Framework (CoSO)" and the "Control Objective for IT and Related Technologies (Cobit)", which are international commonly accepted standards for the internal control system and for financial reporting.

3. The undersigned also certify that:

3.1 The consolidated financial statements:

- a) were prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of July 19, 2002;
- b) correspond to the results of the books and accounting records;
- c) are suitable to provide a fair and correct representation of the financial position and performance of the issuer and the group of companies included in the scope of consolidation;

3.2. The Report on Operations includes a reliable analysis of the operating trend and results, as well as of the situation of the issuer and of the legal entities included in the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

Milan, February 5, 2019

FinecoBank S.p.A.  
The Chief Executive Officer and  
General Manager  
Alessandro Foti



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







# Report of the External Auditors

**INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14  
OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010  
AND ARTICLE 10 OF THE EU REGULATION 537/2014**

**To the Shareholders of  
FinecoBank Banca Fineco S.p.A.**

**REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

**Opinion**

We have audited the consolidated financial statements of FinecoBank Banca Fineco S.p.A. and its subsidiary (the "Group"), which comprise the consolidated balance sheet as at December 31, 2018, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity and the consolidated statement of cash flows for the year then ended and the related notes to the consolidated accounts.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and art. 43 of Italian Legislative Decree no. 136/15.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the FinecoBank Banca Fineco S.p.A. (the "Bank") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Palermo Parma Roma Torino Treviso Verona

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Codice Fiscale/Registro delle Imprese Milano n. 03049560166 – REA Milano n. 1720239 | Partita IVA IT 03049560166

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### **Estimate of provisions for risks and charges related to legal disputes**

#### **Description of the key audit matter**

Item 100 "Provisions for risks and charges: c) other provisions for risks and charges" of the consolidated balance sheet - liabilities as at December 31, 2018 includes provisions for legal disputes amounting to Euro 28.4 million related to complaints and disputes for damage to customers arising from the unlawful behavior of the Bank's personal financial advisors, pending disputes with personal financial advisors and other ongoing court and out-of-court litigations with customers in relation to the normal banking activity. In addition to the court costs to be borne by the Bank in the event of an adverse conclusion of the dispute, these provisions include an estimate of the expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank in the disputes, to the extent that it is believed that they will not be reimbursed by the counterparties.

In Part E – *Information on Risks and Hedging Policies* - Section 5 – *Operational Risks* of the notes to the accounts of the Bank's Financial Statements, to which is referenced in the notes to the consolidated accounts, in paragraph "Risks arising from significant legal disputes", the Directors point out that, in relation to the pending legal proceedings against the Bank, which are individually irrelevant, there is considerable uncertainty about the possible outcome and the extent of the possible charge that the Bank could incur; where it is possible to reliably estimate the amount of charges and the charges themselves are considered probable, provisions have been made to the extent deemed appropriate given the specific circumstances and in accordance with the international accounting standards, making the best possible estimate of the amount that reasonably the Bank will have to pay to settle its obligations. With reference to the legal expenses, the estimate was determined by the Bank, in relation to the current disputes, based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment.

Paragraph "*Risks and uncertainties related to the use of estimates*" of Part A – *Accounting Policies*, A. 1 – *General*, Section 4 – *Other matters* of the notes to the consolidated accounts, contains information on the subjectivity and complexity of the estimation process adopted to support the carrying amount of some items subject to evaluation. For some of them, including provisions for risks and charges, the complexity and the subjectivity of the estimates are affected by the articulation of the assumptions, the number and variability of the information available and the uncertainties regarding the final future outcomes of proceedings and disputes.

Given the number of complaints and disputes, albeit physiological with respect to the Bank's typical operations, the uncertainties related to their outcome and the complexity and articulation of the estimation process, we have considered the estimate of provisions for risks and charges for legal disputes as a key audit matter of the consolidated financial statements as at December 31, 2018.

#### **Audit procedures performed**

Our audit procedures included, among others, the following:

- analysis and understanding of the relevant controls implemented by the Bank, at the various levels of its organization, in order to identify, manage and monitor complaints from customers and legal disputes with them arising from the banking operations and the activity of the Bank's personal financial advisors;

- analysis and understanding of the process adopted by the Management in estimating provisions, including provisions for the expected costs related to the activity of lawyers, technical advisors and/or experts appointed by the Bank, and evaluation of the reasonableness of criteria, methods and assumptions used;
- periodic meetings with the heads of the Bank's appointed departments for analysis and discussion of the status of litigations and complaints;
- analysis of the relevant documentation, including the register of complaints and reports prepared by control functions of the Bank;
- obtaining and examining responses to requests for information to the lawyers appointed by the Bank;
- verification, for a selection of disputes and complaints and on the basis of the data and information available gathered as a result of the above procedures, of the appropriateness of the related provision, inclusive, for the disputes, of the legal expenses as illustrated above, and of the accuracy and completeness of the data used for the estimates.

Lastly, we verified the completeness and compliance of the disclosures provided in the notes to the consolidated accounts with respect to the requirements of the relevant accounting standards.

#### ***Disbursement, classification and evaluation of financial assets at amortised cost - loans to customers***

##### **Description of the key audit matter**

As represented in the notes to the consolidated accounts, Part B – *Consolidated Balance Sheet* and in the report on operations, as at December 31, 2018 financial assets at amortised cost – loans to customers amount to Euro 2,955 million (net book value, including Euro 23.9 million of non-performing loans net of impairment losses of Euro 21.1 million).

As part of this item, the loans portfolio with ordinary customers, consisting mainly of personal loans, mortgages, current accounts and credit cards, shows an overall increase of over 46% compared to the previous year, in relation to the disbursements of 2018.

Part A – *Accounting Policies* of the notes to the consolidated accounts includes the description of the processes for the classification and evaluation of credit exposures for which the Bank refers to the sector regulations, supplemented by the internal provisions governing, in accordance with the applicable accounting standards, the classification and transfer rules within the various risk categories and related evaluation methods. Part E - *Information on Risks and Hedging Policies* – Section 1 – *Credit risk* of the notes to the accounts of the Bank's Financial Statements, to which is referenced in the notes to the consolidated accounts, also illustrates the credit risk management policies.

Considering the significance of the amount of loans to customers recorded in the consolidated financial statements and the complexity of systems of measurement, management and control of credit risk adopted by the Bank, which include an articulated classification activity of credit exposures and an evaluation process characterized by a relevant discretionary component, we have considered the disbursement, classification and evaluation of the loans to customers as a key audit matter of the consolidated financial statements as at December 31, 2018.

**Audit procedures performed**

We have preliminarily acquired a knowledge of the credit process which included, in particular, the understanding of the organizational and procedural safeguards established by the Bank's internal regulations and implemented by the Bank itself with reference to:

- assessment of creditworthiness in order to grant the credit;
- measurement and monitoring of credit quality;
- classification and evaluation of credit exposures in compliance with the sector regulations and in accordance with applicable accounting standards.

This activity included the verification of the implementation of the corresponding Bank processes and related procedures, as well as the operational effectiveness of the relevant controls regarding the credit grant and disbursement process.

The audit procedures performed included, among others, the following:

- analysis and understanding of the IT systems and applications used, also with the support of IT experts belonging to our network;
- obtaining and examining responses to requests of confirmations to the customers sent on a sample basis;
- obtaining and analysis of the monitoring reports prepared by competent Bank departments and organizational units involved;
- as regard performing loans (in stage 1 and stage 2, based on the IFRS 9 classification), verification, on a sample basis, of the classification in accordance with the sector regulations and examination of the reasonableness of the evaluation criteria and of the assumptions adopted by the Bank in determining the impairment losses;
- as regard non-performing loans (in stage 3, based on the IFRS 9 classification), verification on a sample basis of the classification and of the related evaluation in compliance with the sector regulations and the applicable accounting standards.

Lastly, we verified the completeness and compliance of the disclosures provided in the notes to the consolidated accounts with respect to the requirements of the applicable accounting standards and the relevant legislation.

***First time adoption of IFRS 9***

**Description of the key audit matter**

The first time adoption, as of January 1 2018, of the International Financial Reporting Standard IFRS 9 "Financial instruments", has led to the classification and measurement of the Group's financial assets and liabilities according to the new accounting categories envisaged by the standard and the definition of a methodology for determining the impairment of the financial assets based on the expected credit losses model.

The Bank decided, as permitted by the standard, to continue applying the existing IAS 39 hedge accounting requirements for all its hedging relationships until the macro-hedging accounting project is finalised by the IASB. In addition, the Bank elected the option provided by the standard not to restate its comparative figures.

As reported in Part A – *Accounting Policies* - Section 4 – *Other matters* of the notes to the consolidated accounts, which disclose the information required by the applicable international accounting standards, including the main methodological choices made, the first application of the standard determined, at January 1, 2018, a total negative effect on the consolidated net equity equal to Euro 2.9 million net of tax (Euro 4.9 million gross of tax). This effect was determined as a result of the implementation process of the requirements of the new standard which affected the various aspects of the Bank's internal control system.

In this context, the determination of impairment provisioning of the financial assets according to the expected credit losses model constitutes the result of a complex estimation process that includes numerous subjective variables regarding the criteria used to identify the significant increase in credit risk, that has been used for the purpose of allocating the financial assets in the standard's different stages, and the definition of the models used for measuring the expected credit losses, using different possible scenarios, assumptions and parameters which have to take into account current and forward-looking macroeconomic information.

In relation to the pervasive operational complexities connected to the transition to the new standard, the relative above mentioned effect and the inherent subjectivity of the estimation processes adopted by the Bank in the evaluation of financial assets according to the new impairment methodology, we have considered the first time adoption of the IFRS 9 as a key audit matter of the consolidated financial statements as at December 31, 2018.

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**Audit procedures performed**

We have preliminarily examined, also with the support of IT and credit risk experts belonging to our network, the Bank's implementation project with particular reference to the application choices adopted, in order to verify their appropriateness and compliance with the requirements of the IFRS 9, and to the related impacts.

As part of our procedures, we have performed, among others, also supported by the experts above mentioned, the following:

- obtaining and examining the minutes of meetings of the Bank's Board of Directors and any other documentation developed, approved and made available, as well as the accounting procedures consequently defined, with particular reference to the areas of interpretation, also through information gathering and interviews with the relevant departments of the Bank;
- analysis of the technical-methodological documentation underlying the identification of the Bank's business models with particular reference to the classification criteria of financial assets in such business models;
- analysis and understanding of the design, of certain relevant controls - including IT controls - regarding the classification and evaluation of the Bank's financial assets, and verification of the implementation and the related operational effectiveness;
- carrying out checks aimed to ascertain - for certain loans and debt securities - the correctness of the results of the Solely Payments of Principal and Interests test (SPPI) carried out by the Bank for the first application of the standard;

- understanding of the impairment models developed by the Bank and analysis of the reasonableness of the assumptions and parameters used for transfer logic or staging allocation models and estimation of the expected credit losses, as well as verification of the correctness of the related calculations;
- verification of the coherence between the information used for the estimation of the expected credit losses and those used in the other main decision-making and evaluation processes of the Bank, with particular reference to qualitative and macroeconomic indicators and forward-looking information;

Lastly, we have acquired the details of the quantification of the impact deriving from the first application of the standard and verified its mathematical accuracy. We have also verified the completeness and compliance of the information provided in the notes to the consolidated accounts with respect to the requirements of the applicable international accounting standards.

### **Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements**

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the FinecoBank Banca Fineco S.p.A. or the termination of the business or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report.

#### **Other information communicated pursuant to art. 10 of the EU Regulation 537/2014**

The Shareholders' Meeting of FinecoBank Banca Fineco S.p.A. has appointed us on April 16, 2013 as auditors of the Bank for the years from December 31, 2013 to December 31, 2021.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS****Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Directors of FinecoBank Banca Fineco S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of the Group as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, paragraph 4 of Legislative Decree 58/98 with the consolidated financial statements of the Group as at December 31, 2018 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of the Group as at December 31, 2018 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

**Exemption from the preparation of the non-financial statement**

As described in the report on operations, the Directors of FinecoBank Banca Fineco S.p.A. made use of the exemption from the preparation of the non-financial statement pursuant to art. 6, paragraph 1, of Legislative Decree 30 December 2016, no. 254.

DELOITTE & TOUCHE S.p.A.

*Signed by*  
**Paolo Gibello Ribatto**  
Partner

Milan, Italy  
March 8, 2019

*This report has been translated into the English language solely for the convenience of international readers.*







# Financial Statements of FinecoBank S.p.A.

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# Financial Statements

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# Balance Sheet

		(Amounts in €)	
<b>BALANCE SHEET - ASSETS</b>		<b>12.31.2018</b>	<b>12.31.2017</b>
10. Cash and cash balances		6,301	613,033
20. Financial assets at fair value through profit and loss		20,218,404	
a) financial assets held for trading		6,876,395	
c) other financial assets mandatorily at fair value		13,342,009	
<i>Financial assets held for trading (ex IAS 39 Item 20)</i>			10,878,797
30. Financial assets at fair value through other comprehensive income		961,772,500	
<i>Available-for-sale financial assets (ex IAS 39 Item 40)</i>			1,047,689,459
40. Financial assets at amortised cost		23,248,430,877	
a) loans and receivables with banks		12,427,086,350	
b) loans and receivables with customers		10,821,344,527	
<i>Held-to-maturity investments (ex IAS 39 Item 50)</i>			4,826,390,118
<i>Loans and receivables with banks (ex IAS 39 Item 60)</i>			13,877,651,228
<i>Loans and receivables with customers (ex IAS 39 Item 70)</i>			2,129,219,267
50. Hedging derivatives		3,314,298	458,102
60. Changes in fair value of portfolio hedged financial assets (+/-)		4,872,990	9,590,000
70. Equity investments		3,000,000	500,000
80. Property, plant and equipment		16,329,860	15,205,122
90. Intangible assets		98,306,988	97,511,341
of which:			
- goodwill		89,601,768	89,601,768
100. Tax assets		6,713,818	9,225,684
a) current tax assets		467,153	1,765,333
b) deferred tax assets		6,246,665	7,460,351
120. Other assets		350,608,473	315,459,327
<b>Total assets</b>		<b>24,713,574,509</b>	<b>22,340,391,478</b>

		(Amounts in €)	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>12.31.2018</b>	<b>12.31.2017</b>
10. Financial liabilities at amortised cost		23,278,872,115	
a) deposits from banks		1,009,774,261	
b) deposits from customers		22,269,097,854	
<i>Deposits from banks (ex IAS 39 Item 10)</i>			926,001,336
<i>Deposits from customers (ex IAS 39 Item 20)</i>			20,205,035,993
20. Financial liabilities held for trading		2,221,144	
<i>Financial liabilities held for trading (ex IAS 39 Item 40)</i>			2,616,556
40. Hedging derivatives		5,341,114	12,693,848
50. Changes in fair value of portfolio hedged financial liabilities (+/-)		2,599,548	(3,772,231)
60. Tax liabilities		12,183,994	10,233,645
a) current tax liabilities		12,183,994	10,233,645
80. Other liabilities		335,441,396	338,180,110
90. Provisions for employee severance pay		4,560,830	4,998,596
100. Provisions for risks and charges:		109,805,202	112,413,921
a) commitments and guarantees given		48,741	
c) other provisions for risks and charges		109,756,461	112,413,921
110. Revaluation reserves		(9,793,542)	(8,340,274)
130. Equity instruments		200,000,000	-
140. Reserves		355,672,568	323,932,039
150. Share premium reserve		1,934,113	1,934,113
160. Share capital		200,773,450	200,545,404
170. Treasury shares (-)		(13,959,749)	(365,178)
180. Net Profit (Loss) for the year		227,922,326	214,283,600
<b>Total liabilities and Shareholders' equity</b>		<b>24,713,574,509</b>	<b>22,340,391,478</b>

## Income statement

(Amounts in €)

ITEMS	2018	2017
10. Interest income and similar revenues	293,143,864	269,746,119
<i>of which: interest income misured</i>	290,878,968	
20. Interest expenses and similar charges	(14,441,626)	(5,165,001)
<b>30. Net interest margin</b>	<b>278,702,238</b>	<b>264,581,118</b>
40. Fee and commission income	540,701,773	533,314,118
50. Fee and commission expense	(266,873,807)	(263,230,692)
<b>60. Net fee and commission income</b>	<b>273,827,966</b>	<b>270,083,426</b>
70. Dividend income and similar revenue	8,094,622	54,580
80. Gains (losses) on financial assets and liabilities held for trading	43,833,406	
<i>Gains (Losses) on financial assets and liabilities held for trading (ex IAS 39 Item 80)</i>		47,413,142
90. Fair value adjustments in hedge accounting	170,678	19,195
100. Gains and losses on disposal or repurchase of:	1,683,296	
a) financial assets at amortised cost	17,451	
b) financial assets at fair value through other comprehensive income	1,665,845	
<i>Gains (Losses) on disposal and repurchase of: (ex IAS 39 Item 100)</i>		4,711,990
a) loans		3,951,003
b) available-for-sale financial assets		760,987
110. Gains (losses) on financial assets and liabilities at fair value through profit or loss	(1,500,396)	
b) other financial assets mandatorily at fair value	(1,500,396)	
<b>120. Operating income</b>	<b>604,811,810</b>	<b>586,863,451</b>
130. Impairment losses/writebacks on:	(3,527,646)	
a) financial assets at amortised cost	(3,413,638)	
b) financial assets at fair value through other comprehensive income	(114,008)	
<i>Net losses/recoveries on impairment: (ex IAS 39 Item 130)</i>		(18,042,404)
a) loans		(5,157,695)
b) available-for-sale financial assets		(12,891,185)
d) other financial assets		6,476
<b>150. Net profit from financial activities</b>	<b>601,284,164</b>	<b>568,821,047</b>
160. Administrative expenses	(340,446,086)	(323,383,787)
a) staff expenses	(84,431,588)	(78,852,608)
b) other administrative expenses	(256,014,498)	(244,531,179)
170. Net provisions for risks and charges	(6,671,938)	(8,458,948)
a) provision for credit risk of commitments and financial guarantees given	401,654	
b) other net provision	(7,073,592)	(8,458,948)
180. Impairment/write-backs on property, plant and equipment	(5,410,873)	(5,569,276)
190. Impairment/write-backs on intangible assets	(4,959,091)	(4,799,956)
200. Other net operating income	94,766,784	90,349,875
<b>210. Operating costs</b>	<b>(262,721,204)</b>	<b>(251,862,092)</b>
250. Gains (losses) on disposal of investments	(161,161)	(507,788)
<b>260. Total profit (loss) before tax from continuing operations</b>	<b>338,401,799</b>	<b>316,451,167</b>
270. Tax expense (income) related to profit or loss from continuing operations	(110,479,473)	(102,167,567)
<b>280. Total profit (loss) after tax from continuing operations</b>	<b>227,922,326</b>	<b>214,283,600</b>
<b>300. Net Profit (Loss) for the year</b>	<b>227,922,326</b>	<b>214,283,600</b>

	2018	2017
Earnings per share (euro)	0.38	0.35
Diluted earnings per share (euro)	0.37	0.35

**Note:**

For further information on "Earnings per share" and "Diluted earnings per share" please see notes to the accounts, Part C - Information on the Income Statement, Section 22.

# Statement of comprehensive income

ITEMS	(Amounts in €)	
	2018	2017
<b>10. Net Profit (Loss) for the year</b>	<b>227,922,326</b>	<b>214,283,600</b>
<b>Other comprehensive income after tax without reclassification through profit or loss</b>		
70. Defined benefit plans	3,428,875	(3,473,350)
<b>Other comprehensive income after tax with reclassification through profit or loss</b>		
140. Financial assets (other equity securities) designated at fair value through other comprehensive income	(6,858,725)	
<i>Available-for-sale financial assets:(ex IAS 39 Item N. 100)</i>		<i>1,927,465</i>
<b>170. Total other comprehensive income net tax</b>	<b>(3,429,850)</b>	<b>(1,545,885)</b>
<b>180. Comprehensive income (voce 10+170)</b>	<b>224,492,476</b>	<b>212,737,715</b>

## Statement of changes in shareholders' equity

## Statement of changes in shareholders' equity at 12.31.2018

(Amounts in €)

	BALANCE AS AT 12.31.2017	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2018	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		CHANGE DURING THE YEAR							SHAREHOLDERS' EQUITY AS AT 12.31.2018	
				RESERVES	DIVIDENDS AND OTHER DISTRIBUTIONS	CHANGES IN RESERVES	SHAREHOLDERS' EQUITY TRANSACTIONS					COMPREHENSIVE INCOME AS AT 12.31.2018		
							ISSUES OF NEW SHARES	PURCHASE OF OWN SHARES	DISTRIBUTIONS OF EXTRAORDINARY DIVIDENDS	CHANGES IN EQUITY INSTRUMENTS	OWN SHARE DERIVATIVES			STOCK OPTIONS
Share capital:														
a) ordinary shares	200,545,404		200,545,404				228,046							200,773,450
b) other shares														
Share premium reserve	1,934,113		1,934,113											1,934,113
Reserves:														
a) from profits	29,184,855	(4,868,257)	286,972,598	40,888,348		(5,932,752)					(228,046)			32,170,048
b) others	32,091,184		32,091,184								1,881,236			33,972,420
Revaluation reserves	(8,340,274)	1,976,582	(6,363,692)									(3,429,850)		(9,793,542)
Equity instruments											200,000,000			200,000,000
Treasury shares	(365,178)		(365,178)				6,548,384	(20,142,955)						(13,959,749)
Profit (loss) for the year	214,283,600		214,283,600	(40,888,348)	(173,395,252)								227,922,326	227,922,326
Shareholders' Equity	731,989,704	(2,891,675)	729,098,029	-	(173,395,252)	(5,932,752)	6,776,430	(20,142,955)	-	200,000,000	-	1,653,190	224,492,476	962,549,166

The amount of the dividend approved by the Fineco's Ordinary Shareholders' Meeting in 2018, totalling €173,395,252.58 euro, corresponds to €0.285 per share.

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

The "Changes in reserves" column includes dividends not distributed in relation to any treasury shares held by the Bank at the record date, transferred to the Extraordinary reserve; coupons paid on equity instruments net of related taxes; transaction costs directly attributable to the issue of Equity instruments net of related taxes.

## Statement of changes in shareholders' equity at 12.31.2017

(Amounts in €)

	BALANCE AS AT 12.31.2017	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2018	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		CHANGE DURING THE YEAR							SHAREHOLDERS' EQUITY AS AT 12.31.2018	
				RESERVES	DIVIDENDS AND OTHER DISTRIBUTIONS	CHANGES IN RESERVES	SHAREHOLDERS' EQUITY TRANSACTIONS					COMPREHENSIVE INCOME AS AT 12.31.2018		
							ISSUES OF NEW SHARES	PURCHASE OF OWN SHARES	DISTRIBUTIONS OF EXTRAORDINARY DIVIDENDS	CHANGES IN EQUITY INSTRUMENTS	OWN SHARE DERIVATIVES			STOCK OPTIONS
Share capital:														
a) ordinary shares	200,245,794		200,245,794				299,610							200,545,404
b) other shares														
Share premium reserve	1,934,113		1,934,113											1,934,113
Reserves:														
a) from profits	250,247,571		250,247,571	41,684,057		208,837					(299,610)			29,184,855
b) others	28,160,350		28,160,350								3,930,834			32,091,184
Revaluation reserves	(6,794,389)		(6,794,389)									(15,45,885)		(8,340,274)
Equity instruments														
Treasury shares	(4,337,809)		(4,337,809)				4,144,410	(17,1779)						(365,178)
Profit (loss) for the year	211,843,794		211,843,794	(41,684,057)	(170,159,737)								214,283,600	214,283,600
Shareholders' Equity	681,299,424	-	681,299,424	-	(170,159,737)	208,837	4,444,020	(17,1779)	-	-	-	3,631,224	2,12,737,715	731,989,704

The amount of the dividend approved by the Fineco's Ordinary Shareholders' Meeting in 2017, totalling €170,159,736.60, corresponds to €0.28 per share.

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

The "Changes in reserves" column corresponds to dividends not distributed in relation to any treasury shares held by the Bank at the record date, transferred to the Extraordinary reserve.



# Cash flow statement

## Indirect method

(Amounts in €)

A. OPERATING ACTIVITIES	AMOUNT	
	2018	2017
<b>1. Operations</b>	<b>334,930,310</b>	<b>361,197,723</b>
- profit (loss) for the year (+/-)	227,922,326	214,283,600
- unrealised gains/losses on financial assets/liabilities held for trading and on other assets/liabilities at fair value through profit or loss (-/+)	2,838,506	
- capital gains/losses on financial assets/liabilities held for trading and on assets/liabilities designated at fair value through profit and loss (+/-) (ex IAS 39)		(1,795,053)
- gains (losses) on hedge accounting (-/+)	(170,678)	(19,195)
- net losses/recoveries on impairment (+/-)	4,409,064	
- net losses/recoveries on impairment (+/-) (ex IAS 39)		10,052,616
- net value adjustments/write-backs on property, plant and equipment and intangible assets (+/-)	10,369,964	10,369,232
- net provisions for risks and charges and other expenses/income (+/-)	22,616,637	
- provisions and other incomes/expenses (+/-) (ex IAS 39)		22,691,175
- unpaid duties, taxes and tax credits (+/-)	5,868,613	2,728,516
- impairment/write-backs after tax on discontinued operations (+/-)	-	-
- other adjustments (+/-)	61,075,878	102,886,832
<b>2. Cash flows from/used by financial assets</b>	<b>(2,409,937,472)</b>	<b>669,013,589</b>
- financial assets held for trading	196,874	
- financial assets held for trading (ex IAS 39)		(3,192,436)
- financial assets designated at fair value	-	-
- other financial assets mandatorily at fair value	142,484,215	
- financial assets at fair value (ex IAS 39)		-
- financial assets at fair value through other comprehensive income	56,220,463	
- available-for-sale financial assets (ex IAS 39)		246,011,519
- financial assets at amortised cost	(2,574,757,573)	
- loans and receivables with banks: demand loans (ex IAS 39)		-
- loans and receivables with banks: other loans (ex IAS 39)		1,514,464,035
- loans and receivables with customers (ex IAS 39)		(1,108,949,383)
- other assets	(34,081,451)	20,679,854
<b>3. Cash flows from/used by financial liabilities</b>	<b>2,120,120,081</b>	<b>1,295,414,604</b>
- financial liabilities measured at amortised cost	2,138,095,178	
- deposits from banks: demand deposits (ex IAS 39)		-
- deposits from banks: other deposits (ex IAS 39)		(175,626,539)
- deposits from customers (ex IAS 39)		1,404,593,717
- debt certificates including bonds (ex IAS 39)		-
- financial liabilities held for trading	(35,102)	
- financial liabilities held for trading (ex IAS 39)		143,908
- financial liabilities designated at fair value	-	-
- financial liabilities designated at fair value (ex IAS 39)		-
- other liabilities	(17,939,995)	66,303,518
<b>Net cash flows from/used in operating activities</b>	<b>45,112,919</b>	<b>2,325,625,916</b>
<b>B. INVESTMENT ACTIVITIES</b>		
<b>1. Cash flows from</b>		
- sales of equity investments	-	-
- collected dividends on equity investments	8,000,000	-
- sales of property, plant and equipment	92,518	256,331
- sales of intangible assets	-	-
- sales of subsidiaries and divisions	-	-
- sales of financial assets held to maturity (ex IAS 39)		-
<b>2. Cash flows used in</b>		
- purchases of equity investments	(2,500,000)	(500,000)
- purchases of property, plant and equipment	(6,789,899)	(7,083,818)
- purchases of intangible assets	(5,754,738)	(4,978,013)
- purchases of subsidiaries and divisions	-	-
- purchases of financial assets held to maturity (ex IAS 39)		(2,430,228,291)
<b>Net cash flows from/used in investing activities</b>	<b>(6,952,119)</b>	<b>(2,442,533,791)</b>
<b>C. FUNDING ACTIVITIES</b>		
- issue/purchase of treasury shares	(13,366,525)	4,272,241
- issue/purchase of equity instruments	200,000,000	-
- dividends and other distributions	(186,104,434)	(174,394,920)
<b>Net cash flows from/used in financing activities</b>	<b>529,041</b>	<b>(170,122,679)</b>
<b>NET CASH FLOWS FROM/USED DURING THE YEAR</b>	<b>38,689,841</b>	<b>(287,030,554)</b>

# Cash flow statement

## RECONCILIATION

(Amounts €)

BALANCE SHEET ITEMS	AMOUNT	
	2018	2017
Cash and cash balances at the beginning of the year	1,950,529,450	2,284,274,859
Net cash flows generated/used during the year	38,689,841	(287,030,554)
Cash and cash balances: effect of changes in exchange rates	24,166,974	(46,714,855)
Cash and cash balances at the end of the year	2,013,386,265	1,950,529,450

### Key

(+) generated  
(-) used

The term "Cash and cash balances" means cash recorded under item 10 of assets "Cash and cash balances" and the equivalent liquid assets recorded under item 40 of assets "Financial assets at amortised cost a) loans and receivables with banks" (consisting of current accounts and deposits maturing within 3 months) net of the equivalent liquid liabilities recorded under item 10 of liabilities "Financial liabilities at amortised cost a) deposits from banks" (represented by current accounts and deposits maturing within 3 months), as well as in the respective items 60 of assets and 10 of liabilities ex IAS 39.

The item "Cash and cash balances" at the end of the year 2018 consisted of:

- Cash recognised under asset item 10 "Cash and cash balances" in the amount of €6 thousand;
- Current accounts and demand deposits recognised under asset item 40 "Financial assets at amortised cost. a) loans and receivables with banks" in the amount of €2,065,943 thousand;
- net of the Current accounts and demand deposits recognised under liability item 10 "Financial liabilities at amortised cost: a) deposits from banks" in the amount of €52,563 thousand.

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

- Cash recognised under asset item 10 "Cash and cash balances" in the amount of €613 thousand;
- Current accounts and demand deposits recognised under asset item IAS 39 60 "Loans and receivables with banks" in the amount of €1,992,673 thousand;
- net of the Current accounts and demand deposits recognised under liability item IAS 39 10 "Deposits from banks" in the amount of €42,756 thousand.



# Notes to the Accounts

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## Part A - Accounting policies

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# Part A - Accounting policies

## A.1 General

### Section 1 - Statement of Compliance with IFRS

In implementation of Legislative Decree no. 38 of February 28, 2005, these Financial Reports and Accounts of FinecoBank Banca Fineco S.p.A. (hereinafter, FinecoBank or Fineco or the Bank) have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretation documents, as endorsed by the European Commission until December 31, 2018, pursuant to EU Regulation 1606/2002 of July 19, 2002 and applicable to financial reports for the periods starting on or after January 1, 2018.

They are an integral part of the Annual Financial Report as required by art. 154-ter, paragraph 1 of the Consolidated Finance Act (TUF, Italian Legislative Decree no. 58 of February 24, 1998).

In its circular 262 of December 22, 2005 as amended, the Bank of Italy laid down the formats for the financial statements and explanatory notes to the accounts of banks and regulated financial companies that are parents of banking groups, which have been used to prepare these consolidated Accounts.

### Section 2 - Preparation criteria

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

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

The financial statements comprise the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement (compiled using the indirect method), and these notes to the accounts, together with Directors' Report on Operations (please refer to the Report on consolidated operations) and the Annexes.

Pursuant to Art. 123-bis par. 3 of Consolidated Finance Act, as noted in the "Other Information" section of the Report on Operations, the Report on Corporate Governance and Ownership Structures is available in the "Governance" section of the FinecoBank website.

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

The Bank has applied the provision provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which - without prejudice to the retrospective application of the new measurement rules and representation required by the standard - there is no obligation to restate values of previous years (comparative values) in the FTA financial statements. Without prejudice to the disclosure regarding the reconciliation between data in the last approved financial statements and the opening balances of the first financial statements drawn up applying the new accounting standard, according to the new provisions provided for in the 5th update of Circular 262 issued on 22 December 2017, and the related methodology set forth in section 4. Other matters - transition to IFRS 9 Financial Instruments of the notes to the accounts, the above statements were supplemented, where different, with the accounting items of the 2017 financial statements in order to show the corresponding values determined according to IAS 39. The tables included in the notes to the accounts have also been integrated with the tables provided for in the 4th update of Circular 262, presenting the relative values determined according to IAS 39, where it was not possible to report comparative data of the previous year due to the 5th update above mentioned. Any opening balances shown in the tables of the Notes to the Accounts are those deriving from the first application of the accounting standard IFRS9.

Finally, with reference to some tables in Part E - Information on risks and related hedging policies, the circumstances mentioned above determined the choice not to provide the comparison period for some tables whose content was not comparable to those of the previous period.

Any lack of discrepancies between the figures shown in the financial statements and the Notes to the Accounts is solely due to roundings.

With reference to IAS 1, these Financial Statements have been prepared on a going concern basis, as there are no doubts or uncertainties as to the Bank's ability to continue its business operations and to continue operating for the foreseeable future (at least for the next 12 months).

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

These criteria have partially changed with respect to the previous year, exclusively relating to the introduction of new standards and interpretations; for the modifications please refer to the next Section 4 – “Other matters”, and to the Part A.2 “The main items of the accounts”.

### Section 3 - Subsequent events

No significant events have occurred after the balance sheet date that would make it necessary to change any of the information given in the Accounts as at December 31, 2018.

The Separate Financial Statements at December 31, 2018 were approved by the Board of Directors of February 5, 2019, which authorised their publication also pursuant to IAS10.

### Section 4 - Other Matters

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

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

Where applicable, these accounting standards, amendments and interpretations had no impact on the financial position and results of the Bank as at December 31, 2018, except of the accounting standard IFRS 9 which provides for new requirements for the classification, recognition, measurement and derecognition of financial assets and liabilities, for details of which please see the comments below, and, to the extent described below, of the new IFRS 15 accounting standard and related clarifications.

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

- Amendments to IFRS 9: Prepayment Features with Negative Compensation (EU Regulation 2018/498);
- IFRIC 23 – Uncertainty over Income Tax Treatments (EU Regulation 2018/1595).

These standards and amendments have not been applied in advance by the Bank.

With regard to the IFRS 16 standard – Leasing (EU Regulation 2017/1986) approved by the European Commission in 2017, please refer to the information below.

Lastly, as at December 31, 2018, the IASB issued the following accounting standards and interpretations or revisions thereof, whose application is however still subject to completion of the approval process by the European Union, which is still ongoing:

- IFRS 17 – Insurance contracts (May 2017);
- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures (October 2017);
- Annual Improvements to International Financial Reporting Standards, 2015-2017 Cycle (December 2017);
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018);
- Amendments to IFRS 3: Business combinations (October 2018);
- Amendments to IAS 1 and IAS 8: definition of “material” (October 2018).

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

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

As mentioned before, on December 22, 2017 the 5th update of Circular no. 262 was enacted: “The bank balance sheet: format and drafting rules” which implemented IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” and the resulting changes introduced in other international accounting standards, including IFRS 7 “Financial Instruments: Disclosures”. In addition, the same update provided that provisions for off-balance sheet exposures must be shown in liability item 100. “Provisions for risks and charges” instead of the previous liability item 100. “Other liabilities” of the IAS 39 financial statements, and that property, plant and equipment accounted for according to the provisions of IAS 2 must be recorded in balance sheet item 80. “Property, plant and equipment”.



## Part A - Accounting policies (CONTINUED)

### **Transition to IFRS 15 Revenue from contracts with customers**

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

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

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

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

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

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

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

- whether the revenue recognition criteria are in line with the provisions of the new standard. The analyses did not reveal any significant non-compliances with respect to the provisions of the new standard. To this end, it should be noted that the provision of financial services over a given period of time (for example, the management of current accounts, advisory services) have been considered as satisfied over time ("over time"), regardless of when the consideration is paid by the customer, while the provision of financial services that require specific activities to be carried out (for example, purchase, sale or placement of securities, units of UCIs or insurance products, execution of credit transfers) have been considered as satisfied at a given time ("point in time"), although the contract provides for the service to be provided indefinitely;
- whether any goods or services contain performance obligations with different pattern of transfer to the customer and, consequently, with different revenue recognition ("over time" or "point in time"). In this respect, the Bank has identified a service that contains two performance obligations that follow a different pattern of transfer to the customer, but the same revenue recognition framework; however, this is a non-material revenue that continues to be entirely attributed to the main performance obligation; the revenue relating to the shipment is nonetheless a non-material revenue that continues to be attributed entirely to the main performance obligation (annual management of the credit card) and consequently recognized according to the relative revenues recognition scheme;
- whether the consideration promised in the contract includes a variable fee. In this respect, no mismatches were identified with respect to the provisions of the new standard, since any variable fees are estimated and recognized if and only to the extent that it is highly probable that when the uncertainty associated with the consideration is subsequently resolved there will be no significant downward adjustment to the amount of cumulative revenue recognized, taking into consideration all information reasonably available to the Bank. Note that the following were not considered as variable consideration:
  - management, placement and advisory fees for financial products collected by the Bank, the amount of which is calculated as the ratio of the equivalent value/average balance of the product placed to the applicable rate envisaged in the contract. There are no performance fees on asset management instruments in favour of the Bank;
  - the amount received as part of a contract that provides for the application of a different commission level (which includes, for example, the payment of decreasing commissions until they are down to zero) according to quantitative parameters established in the contract, as the data for calculating the remuneration are available at the time the revenues are recognized and have no impact on the Bank's future income statement. As regards the placement of insurance policies with return linked to the performance of the separate account on the annual expiration date of the policy, it should be noted, however, that the return is variable in relation to the performance of the separate account, which may result in a reduction in the applicable rate;
- whether the consideration promised in the contract includes a significant funding component. In this respect, no contracts were found containing a significant funding component that was not correctly recognized. There are, however, some contracts, mainly with institutional counterparties or product companies, that do not explicitly mention the payment date of the fees, which are settled on the

basis of market practices or verbal agreements, or contracts that provide for the advance / deferred payment of the good or service. For these contracts the practical expedient envisaged by paragraph 63 of IFRS 15 was used; for this reason the Bank did not adjust the promised consideration amount to take into account the effects of a funding component as the time interval expected between the transfer of the promised good or service and the related payment is less than one year;

- whether there is a consideration to be paid to the customer. In this respect, a number of contracts were found providing for a consideration to be paid, the accounting treatment of which was already in line with the provisions of the new standard.

The costs recognized for the acquisition of contracts with customers, which the Bank would not have incurred had it not obtained the contract, are recognized as assets and systematically amortized in the income statement in line with the recognition of revenues related to the transfer to customers of the goods or services to which the asset refers.

The analyses carried out did not reveal any contracts providing for a non-cash consideration.

### **Transition to IFRS 9 - Financial Instruments**

From 1 January 2018, FinecoBank adopted the accounting standard IFRS 9 Financial Instruments.

The project transition to IFRS 9 – in coordination with a similar project carried out at UniCredit Group level and developed with the involvement of the Bank's reference functions and, most recently, the Board of Directors – was organised through specific work-streams, in particular:

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

The new accounting standard:

- introduces significant changes compared to IAS 39, regarding the rules on the classification and valuation of financial instruments. With reference to loans and debt instruments, the classification and subsequent valuation of these instruments is based on the business model and cash flow profile of the financial instruments (SPPI - Solely Payments of Principal and Interests). With reference to the equity exposures, they are classified at fair value with a recognition of differences in the income statement or under "Other comprehensive income". In this second case, contrary to the provisions of IAS 39 in relation to financial assets available for sale, IFRS 9 has eliminated the request to recognise long-term value impairments and provides that if the instrument is sold, the profits or losses from the sale must be reclassified in another net equity reserves and not on the income statement. With regard to financial liabilities at fair value, the standard IFRS 9 changes the accounting of the so-called "own credit risk", i.e. changes in the value of liabilities measured at fair value linked to fluctuations of one's own credit rating. The new standard requires these changes to be recognised in a Shareholders' equity reserve rather than through profit and loss, as provided for by IAS 39, thus eliminating a source of volatility for economic statement results<sup>41</sup>.
- introduced a new model for recognising impairments for credit exposures based on (i) an "expected losses" approach instead of the existing model, which is based on the recognition of "incurred losses" and (ii) on the concept of the expected lifetime loss;
- has intervened on the hedge accounting rules, by revising them in regard to the designation of a hedging account and the verification of efficiency, with the aim of improving the alignment between the accounting representation of the hedging operations and the underlying operational logic. The Bank, like the UniCredit Group, has taken advantage of the option to continue to apply the existing IAS 39 hedge accounting requirements for all hedging accounts until such time as the IASB has completed its macro-hedging accounting rules project.

As a result of the entry into force of the new accounting standard, the Bank has reclassified the financial liabilities existing on 1.1.2018 into the categories provided for in the new accounting standard.

This classification is based on the business model and the contractual cash flow profile; for the classification of financial instruments in the new categories as provided for in the accounting standard, the business model was analysed by mapping the financial assets on the Bank's balance sheet and allocating a specific business model to each of them.

The financial assets in the Bank's portfolio were allocated "Held to collect" or "Held to collect and sell" business models according to the purpose for which they are held, and the expected turnover. The financial assets in the trading portfolio were allocated the business model "Other business model", to reflect the trading intentions.

For the purposes of classifying financial instruments into the new IFRS 9 categories, the business model analysis must be accompanied by a cash flow analysis (the "SPPI Test"). In this regard, in line with the Parent Company UniCredit S.p.A., the Bank has developed systems and processes to analyse the existing debt securities and loans portfolio, to assess whether the contractual cash flow profiles allow a valuation at the amortised cost (Held to collect - HTC) or at fair value with an impact on overall profits (Held to collect and sell - HTCS).

<sup>41</sup> On the FTA and on 31 March 2018, FinecoBank did not hold any own financial liabilities valued at fair value.

## Part A - Accounting policies (CONTINUED)

This analysis was done on a contract by contract basis, both by defining clusters based on the operations' profiles, and by using an internally-developed SPPI Tool to analyse the profiles of the contracts with regard to IFRS 9.

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

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

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

### Reclassification of financial assets

(Amounts in € thousand)

IAS 39 BALANCE SHEET ITEMS	IFRS 9 BALANCE SHEET ITEMS									
	CARRYING VALUE 12.31.2017 IAS 39	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS								
		FINANCIAL ASSETS HELD FOR TRADING			FINANCIAL ASSETS DESIGNATED AT FAIR VALUE			OTHER FINANCIAL ASSETS MANDATORILY AT FAIR VALUE		
		A	B	C	A	B	C	A	B	C
Financial assets held for trading	10,879	8,827	-	8,827	-	-	-	2,052	-	2,052
Available-for-sale financial assets	1,047,689	-	-	-	-	-	-	5,218	-	5,218
Held-to-maturity investments	4,826,390	-	-	-	-	-	-	-	-	-
Loans and receivables with banks	13,877,651	-	-	-	-	-	-	532,584	19,338	551,922
Loans and receivables with customers	2,129,219	-	-	-	-	-	-	-	-	-
<b>Total</b>		<b>8,827</b>	<b>-</b>	<b>8,827</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>539,854</b>	<b>19,338</b>	<b>559,192</b>

#### Key

- A: Reclassification of IAS 39 balance sheet value  
 B: Change in measurement  
 C: New balance sheet value ex IFRS 9

(Amounts in € thousand)

IAS 39 BALANCE SHEET ITEMS	IFRS 9 BALANCE SHEET ITEMS									
	CARRYING VALUE 12.31.2017 IAS 39	FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			FINANCIAL ASSETS AT AMORTISED COST					
					LOANS AND RECEIVABLES WITH BANKS			LOANS AND RECEIVABLES WITH CUSTOMERS		
		A	B	C	A	B	C	A	B	C
Financial assets held for trading	10,879	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	1,047,689	1,042,471	-	1,042,471	-	-	-	-	-	-
Held-to-maturity investments	4,826,390	-	-	-	-	-	-	4,826,390	(469)	4,825,921
Loans and receivables with banks	13,877,651	-	-	-	13,345,067	(12,595)	13,332,472	-	-	-
Loans and receivables with customers	2,129,219	-	-	-	-	-	-	2,129,219	(691)	2,128,528
<b>Total</b>		<b>1,042,471</b>	<b>-</b>	<b>1,042,471</b>	<b>13,345,067</b>	<b>(12,595)</b>	<b>13,332,472</b>	<b>6,955,609</b>	<b>(1,160)</b>	<b>6,954,449</b>

The following classifications have been made:

- financial assets shown in balance sheet item IAS 39 20. "Financial assets held for Trading" are classified in the "Other business models" and shown:
  - in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss: a) financial assets held for trading" as to € 8.8 million, relating to securities held in connection with customer insourcing and trading activities;
  - in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss: c) other financial assets mandatorily at fair value"; as to €2.05 million, relating to securities withdrawn by customers (splits and/or defaulted securities) to the value of €30,000, and units in investment funds held in portfolio for initial seeding, to the value of €2.02 million;
- financial assets shown in balance sheet item IAS 39 40. "Financial assets held for sale", totalling €1.048 million, were classified
  - in the business model "Held to collect and sell – HTCS" and shown in balance sheet item IFRS 9 30. "Financial asset at fair value through other comprehensive income", as to the part represented by sovereign state issues, as to €1,042.5 million;
  - in the "Other business models" and balance sheet item IFRS 9 20. "Financial assets valued at fair value through profit and loss c) other financial assets mandatorily at fair value" as to €5.2 million, consisting of the preferred shares of Visa INC class "C" as to €4.5 million and the residual exposure in equity instruments relating to the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) totalling € 0.7 million;
  - finally the "FVTOCI"<sup>42</sup> option was exercised for equity instruments relating to shares in UniCredit Business Integrated Solutions S.C.p.A. and the Patti Chiari consortium (recognised, respectively at €172 and €5,000), shown in the asset item IFRS 9 30. "Financial asset at fair value through other comprehensive income";
- the financial assets shown in the balance sheet item IAS 39 50. "Financial assets held to maturity" which consist exclusively of securities issued by sovereign states totalling €4,826 million, which were classified in the "Held to collect – HTC" business model and shown in the asset item IFRS 9 40. "Financial assets valued at amortised cost: b) loans and receivables with customers";
- the financial assets shown in the balance sheet item IAS 39 60. "Bank receivables", totalling €13,878 million, were classified in the "Held to collect – HTC" business model and were shown in the balance sheet item IFRS 9 40. "Financial assets valued at amortised cost: a) loans and receivables with banks", with the exception of:
  - a debt instrument issued by UniCredit S.p.A. with coupon in arrears, totalling €382.5 million subscribed by the Bank in past years, with the rate risk covered by a derivative with the same Parent Company. Its contractual profile did not pass the SPPI Test and it was thus included in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss: c) other financial assets mandatorily at fair value";
  - a debt instrument issued by UniCredit S.p.A. with coupon in arrears, totalling €150 million subscribed by the Bank in past years. Its contractual profile did not pass the SPPI Test and it was thus included in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss: c) other financial assets mandatorily at fair value"; this exposure expired on 31 December 2017 but was settled on 2 January 2018<sup>43</sup>;
- the financial assets shown in the balance sheet item IAS 39 70. "Customer loans", totalling € 2,129 million, were classified in the "Held to collect – HTC" business model and shown in the balance sheet item IFRS 9 40. "Financial assets valued at amortised cost: b) loans and receivables with customers".

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

- -€ 10.3 million (-€ 14.3 million excluding fiscal effects) relating to the value reductions based on the Expected Credit Loss ("ECL") recorded in the FTA Reserve under the liability item IFRS 9 140. "Reserves", of which:
  - a) -€9.1 million (-€12.6 million excluding fiscal effects) relating to the value reductions in securities and loans in the HTC business model, entered in the asset item IFRS 9 40. "Financial assets valued at amortised cost a) loans and receivables with banks", relating almost exclusively to the adjustment reductions made to exposures to the UniCredit Group, mainly represented by the liquidity deposited with UniCredit S.p.A. and from the debt securities issued by the Parent Company;
  - b) -€0.8 million (-€1.2 million excluding fiscal effects) relating to the value reductions in securities and loans in the HTC business model, entered in the asset item IFRS 9 40. "Financial assets valued at amortised cost b) loans and receivables with customers", of which:
    - i. -€0.5 million (-€0.7 million excluding fiscal effects) relating to loans with customers;
    - ii. -€0.3 million (-€0.5 million excluding fiscal effects) relating to exposures in government bonds;
  - c) -€0.1 million (-€0.1 million exclusive of fiscal effects) relating to the value reductions in securities in the HTCS business model, entered in the asset item IFRS 9 30. "Financial asset at fair value through other comprehensive income", relating exclusively to government bonds;
  - d) -€0.3 million (-€0.45 million excluding fiscal effects) relating to the value reductions in off-balance exposures, entered with counterparty the asset item IFRS 9 100. "Provisions for risks and charges: a) commitments and guarantees given", mainly relating to the reductions in bank guarantees issued by the Bank in favour of the the Italian Revenue Agency request by and in favor of UniCredit S.p.A.;

<sup>42</sup> With regard to non-trading equity instruments, IFRS 9 provides for the possibility of measuring them at the fair value recognised in the other overall income statement items ("FVTOCI" – Fair Value Through Other Comprehensive Income).

<sup>43</sup> As this exposure expired on 31 December 2017 and was reimbursed at par value on 2 January 2018, no fair value adjustments were made on first-time adoption.

## Part A - Accounting policies (CONTINUED)

- +€7.3 million (€9.4 million excluding fiscal effects) relating to classification and valuation of financial assets, recorded in the FTA Reserve under the liability item IFRS 9 140. "Reserves", of which;
  - a) +€14 million (€19.3 million excluding fiscal effects) relating to positive fair value valuation on the above mentioned debt instrument issued by UniCredit S.p.A. with coupon in arrears, subscribed by the Bank in past years, with the rate risk covered by a derivative with the same Parent Company. Its contractual profile did not pass the SPPI Test and it was thus reclassified in the asset item IFRS 9 20. "Financial assets at fair value through profit and loss c) other financial assets mandatorily at fair value"<sup>44</sup>;
  - b) -€6.6 million (-€9.9 million excluding fiscal effects) relating to an adjustment made to the opening balance of the asset item IFRS 9 60. "Changes in fair value of portfolio hedged financial assets (+/-)", as a result of the closure of the positive adjustment to the value of the bond UniCredit S.p.A. mentioned above;
- +€0.1 million (€0.1 million excluding fiscal effects) relating to the value reductions in securities in the HTCS business model, as previously mentioned, that, as according to the rules of the accounting standard, leads to the recognition of a positive reserve at the time of first application, in the liability item IFRS 9 110. "Revaluation reserves" as counterparty of the FTA Reserve in the liability item IFRS 9 150. "Reserves";
- €1.9 million (€3.3 million excluding fiscal effects) entered as reduction of the FTA Reserve in the liability item IFRS 9 140. "Reserves" and, for the same amount, entered as increase in the liability item IFRS 9 110. "Revaluation reserves".

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<sup>44</sup> The UniCredit's bond valued at fair value in the IFRS 9 transition were restructured on January 2, 2018, incorporating the contractual profile of the derivative used up to that date to hedge the interest rate risk. The Bank therefore derecognised the old financial instrument recognised at December 31, 2017 and recognised the new one, whose characteristics support compliance with the SPPI Test, with consequent classification of the instrument to assets measured at amortised cost.

Reclassification of financial liabilities

(Amounts in € thousand)

IAS 39 BALANCE SHEET ITEMS	CARRYING VALUE 12.31.2017 IAS 39	IFRS 9 BALANCE SHEET ITEMS								
		FINANCIAL LIABILITIES AT AMORTISED COST								
		DEPOSITS FROM BANKS			DEPOSITS FROM CUSTOMERS			DEBT SECURITIES IN ISSUE		
		A	B	C	A	B	C	A	B	C
Deposits from banks	926,001	926,001	-	926,001	-	-	-	-	-	-
Deposits from customers	20,205,036	-	-	-	20,205,036	-	20,205,036	-	-	-
Financial liabilities held for trading	2,617	-	-	-	-	-	-	-	-	-
Hedging derivatives	12,694	-	-	-	-	-	-	-	-	-
<b>Total</b>		<b>926,001</b>	<b>-</b>	<b>926,001</b>	<b>20,205,036</b>	<b>-</b>	<b>20,205,036</b>	<b>-</b>	<b>-</b>	<b>-</b>

Key

A: Reclassification of IAS 39 balance sheet value

B: Change in measurement

C: New balance sheet value ex IFRS 9

(Amounts in € thousand)

IAS 39 BALANCE SHEET ITEMS	CARRYING VALUE 12.31.2017 IAS 39	IFRS 9 BALANCE SHEET ITEMS								
		FINANCIAL LIABILITIES HELD FROM TRADING			FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE			HEDGING DERIVATIVES		
		A	B	C	A	B	C	A	B	C
Deposits from banks	926,001	-	-	-	-	-	-	-	-	-
Deposits from customers	20,205,036	-	-	-	-	-	-	-	-	-
Financial liabilities held for trading	2,617	2,617	-	2,617	-	-	-	-	-	-
Hedging derivatives	12,694	9,320	-	9,320	-	-	-	3,374	-	3,374
<b>Total</b>		<b>11,937</b>	<b>-</b>	<b>11,937</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,374</b>	<b>-</b>	<b>3,374</b>

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

However, there was a reclassification, in liability item IFRS 9 20. "Financial liabilities held for trading" of the fair value of the derivative used to hedge the rate risk of the UniCredit share, with coupon in arrears mentioned above, to the value of € 9.3 million.

In the following tables are shown:

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

## Part A - Accounting policies (CONTINUED)

(Amounts in € thousand)

	12.31.2017	ADJUSTMENTS IFRS 9 IMPAIRMENT	ADJUSTMENTS IFRS 9 CLASSIFICATION AND MEASUREMENT	01.01.2018 POST APPLICATION IFRS 9
<b>BALANCE SHEET ASSETS</b>				
10. Cash and cash balances	613	-	-	613
20. Financial assets at fair value through profit or loss	548,682	-	19,338	568,020
a) financial assets held for trading	8,827	-	-	8,827
c) other financial assets mandatorily at fair value	539,854	-	19,338	559,192
30. Financial asset at fair value through other comprehensive income	1,042,471	-	-	1,042,471
40. Financial assets at Amortised cost	20,300,677	(13,756)	-	20,286,921
a) loans and receivables with banks	13,345,067	(12,595)	-	13,332,472
b) loans and receivables with customers	6,955,610	(1,161)	-	6,954,449
50. Hedging derivatives	458	-	-	458
60. Changes in fair value of portfolio hedged financial assets (+/-)	9,590	-	(9,929)	(339)
70. Partecipazioni	500	-	-	500
80. Property, plant and equipment	15,205	-	-	15,205
90. Intangible assets	97,511	-	-	97,511
of which				
- goodwill	89,602	-	-	89,602
100. Tax assets	9,226	909	(1,519)	8,616
a) current tax assets	1,765	-	-	1,765
b) deferred tax assets	7,460	909	(1,519)	6,850
120. Other assets	315,459	-	-	315,459
<b>Total assets</b>	<b>22,340,391</b>	<b>(12,847)</b>	<b>7,890</b>	<b>22,335,434</b>

(Amounts in € thousand)

	12.31.2017	ADJUSTMENTS IFRS 9 IMPAIRMENT	ADJUSTMENTS IFRS 9 CLASSIFICATION AND MEASUREMENT	01.01.2018 POST APPLICATION IFRS 9
<b>BALANCE SHEET LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
10. Financial liabilities at amortised Cost	21,131,037	-	-	21,131,037
a) deposits from banks	926,001	-	-	926,001
b) deposits from customers	20,205,036	-	-	20,205,036
20. Financial liabilities held for trading	11,936	-	-	11,936
40. Hedging derivatives	3,375	-	-	3,375
50. Changes in fair value of portfolio hedged financial liabilities (+/-)	(3,772)	-	-	(3,772)
60. Tax liabilities	10,234	(3,032)	516	7,718
a) current tax liabilities	10,234	(3,032)	516	7,718
80. Other liabilities	338,178	-	-	338,178
90. Provisions for employee severance pay	4,999	-	-	4,999
100. Provisions for risks and charges:	112,414	451	-	112,865
a) commitments and guarantees given	-	451	-	451
c) other provisions for risks and charges	112,414	-	-	112,414
110. Revaluation reserves	(8,340)	62	1,914	(6,364)
140. Reserves	323,932	(10,328)	5,460	319,064
150. Share premium reserve	1,934	-	-	1,934
160. Share capital	200,545	-	-	200,545
170. Treasury shares (-)	(365)	-	-	(365)
180. Net Profit (Loss) for the year	214,284	-	-	214,284
<b>Total liabilities and Shareholders' equity</b>	<b>22,340,391</b>	<b>(12,847)</b>	<b>7,890</b>	<b>22,335,434</b>

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

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



Breakdown by Stages of the exposures and of the impairment provision

(Amounts in € thousand)

	GROSS AMOUNT			IMPAIRMENT PROVISION		
	STAGE 1	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3
<b>30. Financial asset at fair value through other comprehensive income</b>	<b>1,042,471</b>	<b>-</b>	<b>-</b>	<b>(93)</b>	<b>-</b>	<b>-</b>
- Debt securities	1,042,466	-	-	(93)	-	-
- Equity instruments	5	-	-	-	-	-
<b>40. Financial assets at amortised cost</b>	<b>20,297,444</b>	<b>11,454</b>	<b>23,723</b>	<b>(18,692)</b>	<b>(5,964)</b>	<b>(21,043)</b>
- Debt securities	15,132,717	-	-	(10,193)	-	-
- Loans and receivables with banks	3,038,741	-	-	(2,872)	-	-
- Loans and receivables with customers	2,125,986	11,454	23,723	(5,627)	(5,964)	(21,043)
<b>Off-balance sheet exposures</b>	<b>2,581,092</b>	<b>404</b>	<b>-</b>	<b>(450)</b>	<b>-</b>	<b>-</b>

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

(Amounts in € thousand)

IAS 39 BALANCE SHEET ITEMS	IFRS 9 BALANCE SHEET ITEMS								
	FINANCIAL ASSET AT FAIR THROUGH OTHER COMPREHENSIVE INCOME			FINANCIAL ASSETS AT AMORTISED COST					
	CUMULATED WRITEDOWNS (EX IAS 39)	CHANGE IN MEASUREMENT	CUMULATED WRITEDOWNS (EX IFRS 39)	LOANS AND RECEIVABLES WITH BANKS			LOANS AND RECEIVABLES WITH CUSTOMERS		
CUMULATED WRITEDOWNS (EX IAS 39)				CHANGE IN MEASUREMENT	CUMULATED WRITEDOWNS (EX IFRS 39)	CUMULATED WRITEDOWNS (EX IAS 39)	CHANGE IN MEASUREMENT	CUMULATED WRITEDOWNS (EX IFRS 39)	
<b>Financial assets held for trading</b>	-	-	-	-	-	-	-	-	-
- debt securities	-	-	-	-	-	-	-	-	-
- loans and receivables	-	-	-	-	-	-	-	-	-
<b>Available-for-sale financial assets</b>	-	(93)	(93)	-	-	-	-	-	-
- debt securities	-	(93)	(93)	-	-	-	-	-	-
- loans and receivables	-	-	-	-	-	-	-	-	-
<b>Held-to-maturity investments</b>	-	-	-	-	-	-	-	(470)	(470)
- debt securities	-	-	-	-	-	-	-	(470)	(470)
- loans and receivables	-	-	-	-	-	-	-	-	-
<b>Loans and receivables with banks</b>	-	-	-	-	(12,595)	(12,595)	-	-	-
- debt securities	-	-	-	-	(9,723)	(9,723)	-	-	-
- loans and receivables	-	-	-	-	(2,872)	(2,872)	-	-	-
<b>Loans and receivables with customers</b>	-	-	-	-	-	-	(32,534)	(100)	(32,634)
- debt securities	-	-	-	-	-	-	-	-	-
- loans and receivables	-	-	-	-	-	-	(32,534)	(100)	(32,634)
<b>Total</b>	-	(93)	(93)	-	(12,595)	(12,595)	(32,534)	(570)	(33,104)

(Amounts in € thousand)

	PERFORMING			NON PERFORMING		
	CUMULATED WRITEDOWNS (EX IAS 39)	CHANGE IN MEASUREMENT	CUMULATED WRITEDOWNS (EX IFRS 39)	CUMULATED WRITEDOWNS (EX IAS 39)	CHANGE IN MEASUREMENT	CUMULATED WRITEDOWNS (EX IFRS 39)
<b>30. Financial asset at fair value through other comprehensive income</b>	<b>-</b>	<b>(93)</b>	<b>(93)</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Debt securities	-	(93)	(93)	-	-	-
- Equity instruments	-	-	-	-	-	-
<b>40. Financial assets at amortised cost</b>	<b>(11,074)</b>	<b>(13,582)</b>	<b>(24,656)</b>	<b>(21,460)</b>	<b>417</b>	<b>(21,043)</b>
- Debt securities	-	(10,193)	(10,193)	-	-	-
- Loans and receivables with banks	-	(2,872)	(2,872)	-	-	-
- Loans and receivables with customers	(11,074)	(517)	(11,591)	(21,460)	417	(21,043)
<b>Off-balance sheet exposures</b>	<b>-</b>	<b>(450)</b>	<b>(450)</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

The adoption of IFRS 9 has, overall, had a negative impact on consolidated net equity, in the amount of -€2.9 million (-€4.8 million inclusive of fiscal effects), of which -€4.9 million was recorded in the balance sheet item IFRS 9 140. "Reserves" as a liability, and +€2 million was recorded as a liability in balance sheet item IFRS 9 110. "Revaluation reserves", in particular:



## Part A - Accounting policies (CONTINUED)

- -€10.3 million (-€ 14.3 million excluding fiscal effects) relating to the value reductions based on the Expected Credit Loss ("ECL") recorded in the FTA Reserve under the liability item IFRS 9 140. "Reserves";
- +€7.3 million (€9.4 million excluding fiscal effects) relating to classification and valuation of financial assets, recorded in the FTA Reserve under the liability item IFRS 9 140. "Reserves";
- +€0.1 million (€0.1 million excluding fiscal effects) relating to the value reductions in securities in the HTCS business model, as previously mentioned, that, as according to the rules of the accounting standard, leads to the recognition of a positive reserve at the time of first application, in the liability item IFRS 9 110. "Revaluation reserves";
- €1.9 million (€3.3 million excluding fiscal effects) entered as reduction of the FTA Reserve in the liability item IFRS 9 140. "Reserves" and, for the same amount, entered as increase in the liability item IFRS 9 110. "Valuation reserves" referred, as described above, to the closure of the AFS valuation reserve following the reclassification of the related financial assets.

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

	12.31.2017	IFRS 9 CHANGES	01.01.2018
(Amounts in € thousand)			
1. Share capital	200,545	-	200,545
2. Share premium reserve	1,934	-	1,934
3. Reserves	323,932	(4,868)	319,064
- from earnings	291,841	(4,868)	286,973
a) legal reserve	40,109	-	40,109
b) treasury shares reserve	365	-	365
c) others	251,367	(4,868)	246,499
- others	32,091	-	32,091
4. Equity instruments	-	-	-
5. (Treasury shares)	(365)	-	(365)
6. Revaluation reserves	(8,340)	1,976	(6,364)
7. Net Profit (Loss) for the year	214,284	-	214,284
<b>Total</b>	<b>731,990</b>	<b>(2,892)</b>	<b>729,098</b>

### **Impacts on regulatory capital resulting from the adoption of IFRS 9**

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

On 27 December 2017 the EU Regulation 2017/2395 was published, which modifies the EU regulation no. 575/2013 regarding the transitional provisions aimed at mitigating the impact of the introduction of IFRS 9 on own funds and for the treatment of large exposures of certain public sector exposures denominated in the national currency of a member State. In particular, the Regulation introduced article 473 bis, which provides, as an option, the possibility for financial institutions to adopt a transitional regime that allows the reinstatement to CET1 of the adjustments resulting from the adoption of the impairment model according to the new accounting standard, with a phasing mechanism (so-called "phase-in") over a period of 5 years starting from 2018.

In line with the choice made by the UniCredit Group, the Bank has not adopted the transition regime.

### **IFRS 16 - Leasing**

On November 9, 2017, the Commission Regulation (EU) 2017/1986 of 31 October 2017 was published, which modifies Regulation (EC) no. 1126/2008 which adopts certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council regarding International Financial Reporting Standards 16.

IFRS16, applicable from January 1, 2019 (with the faculty of early application in 2018 - together with the mandatory application of IFRS 15 - of which the Bank has not availed) replaces the current set of international accounting principles and interpretations on leasing and, in particular, IAS17. The standard provides a new definition of leasing and introduces a criterion based on the control ("right of use") of an asset to distinguish leasing agreements from service agreements, identifying which discriminant: the identification of the asset, the right to replace it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct (i.e. control) the use of the asset.

The standard confirms the distinction between operating leases and finance leases with reference to the accounting model to be applied by the lessor: a lease is classified as financial if it transfers, substantially, all the risks and benefits connected to the ownership of an underlying asset; a lease is classified as operating if, substantially, it does not transfer all the risks and benefits deriving from the ownership of an underlying asset.

With regard to the accounting model to be applied by the lessee, the new principle provides that, for all type of leases including operating leasing, an asset representing the right to use the leased asset shall be recognised, together with - at the same time - the financial liability for the fees set out in the agreement.

Upon initial recognition, the aforementioned asset is valued based on the cash flows associated with the leasing contract. Subsequent to initial recognition, this asset will be valued on the basis of the provisions for tangible and intangible assets from IAS 38, IAS 16 or IAS 40 and, therefore, at the cost net of amortization and any reduction in value, at "recalculated value" or at fair value as applicable.

For this reason during the 2018 the Bank and its subsidiary Fineco AM are carrying out the activities of analysis and recognition of the impacts consequent to the adoption of the standard, aspects that represent the main discontinuity with respect to the accounting model envisaged by IAS17, completing the preliminary assessment of potential impacts at the transition date (January 1, 2019).

The activities relating to the development of rules, principles and IT systems to ensure the correct calculation of new assets and liabilities, their subsequent measurement and the determination of the related effects on the income statement, are currently being finalized.

The Bank and its subsidiary, in line with the choices made by the Parent Company UniCredit S.p.A., decided not to recalculate the accounting data relating to previous years (comparative values) and to apply the standard retroactively, accounting for the cumulative effect deriving from the initial application on 1 January 2019 in net equity, as envisaged by the same principle (transition with modified retrospective method). For the First Time Adoption purposes, the amount of the financial liability will be equal to the present value of the future payments remaining at the transition date and the activity consisting of the "right of use" is recognized on the date of the initial application by evaluating it to equal to the amount of the financial liability above mentioned adjusted for the amount of any accruals/prepayments related to the lease, booked in the statement of the situation statement of financial position immediately prior to the date of initial application (i.e. these financial statements as at December 31, 2018).

For the purposes of calculating the leasing debt and the associated "right of use", the Bank and its subsidiary proceed to discount future installments at an appropriate interest rate. In this context the future lease payments to be discounted are determined in light of the provisions of the lease and calculated net of the VAT component, despite being the same non-deductible for the Bank, by virtue of the fact that the obligation to pay such tax arises at the time of issuance of the invoice by the lessor and not at the effective date of the leasing contract.

### **Identification of the scope of application**

The Bank has identified the leasing contracts that fall within the scope of application of the standard, represented by the lease contracts of the buildings used by the company and the financial shops used by the personal financial advisors and directly managed by the Bank, as well as leases of machinery and cars.

As envisaged by the standards, which grants exemptions in this regard, and in line with the choices made by the Parent Company UniCredit S.p.A., (i) "low-value assets" contracts (whose threshold has been identified as €5 thousand) and (ii) leases with a contractual duration equal to or less than 12 months ("Short term lease") have been excluded from the scope of application; it was decided not to apply the standard to the (iii) leases of intangible assets (mainly represented by software lease payments).

Note that the lease of the building located in Milan, Piazza Durante 11, where the Bank's registered office is located, will be classified at First Time Adoption of the standard as "Short term lease" and, therefore, excluded from the scope of application of IFRS 16, as on January 31, 2019, the Bank completed the purchase transaction of the building, with the simultaneous termination of the lease.

### **Duration of leasing**

The Bank has determined the duration of leasing for each contract within the scope of application, considering the "non-cancellable" period during which the Bank has the right to use the underlying asset and taking into consideration all the contractual aspects that could modify such duration, for instance:

- periods covered by a right of resolution (together with any related penalties) or an option to extend the lease in favor of the sole lessee, the sole lessor or in favor of both, even in different periods over the duration of the contract;
- periods covered by an option to purchase the underlying asset.

In particular, with reference to contracts that allow the lessee to tacitly renew the lease at the end of a first contractual period, the duration of the lease is determined, based on historical experience, considering the period not to be canceled as well as the period object of extension option (first contract renewal period), except for the existence of any business plans for the disposal of the leased asset, as well as clear and documented assessments by the competent Bank departments which lead us to believe that the failure to exercise the option to renew or exercise the resolution option, also taking into account, with particular regard to the financial shops in use to the personal financial advisors, the commercial strategies for the recruitment and territorial organization of the network.

### **Discount rate**

The standard IFRS 16 provides that at the starting date of the contract the lessee has to assess the liability of the lease to the present value of the payments due for the lease not paid on that date. Payments due for the lease must be discounted using the implied lease interest rate, if it can be easily determined. If this is not possible, the lessee has to use its marginal refinancing rate.

The nature of the contracts stipulated by the Bank, which fall within the scope of application of the standard, mainly represented by rental contracts of properties, do not allow to derive the implied rate in each contract, for this reason the discounting is carried out using the marginal refinancing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contracts.

## Part A - Accounting policies (CONTINUED)

Since FinecoBank has not issued its own debt instruments, the rate applied is UniCredit S.p.A.'s senior secured funding rate, considering that the Parent Company applies this rate to finance companies in the Italian perimeter.

### **Conclusions**

Due to the new accounting rules set by the standard IFRS 16 from the point of view of the lessor, at the first time adoption a consolidated balance sheet effect is expected, deriving from the recognition of assets representing the right of use of the leased assets and, at the same time, from the inclusion in the liabilities side of financial debts relating to the lease payments, specified in the outstanding contracts, to be paid; no impact has been recorded in consolidated net equity.

In particular, the application of IFRS 16 will lead an increase in the balance sheet assets of approximately €63.5 million and an increased in the Bank' RWAs whose effect can be estimated, as a preliminary figure, equal to 55 basis points on the individual CET1 of the Bank as of 31 December 2018.

### **Interbank Deposit Guarantee Fund - Voluntary Scheme**

FinecoBank has joined to the "Voluntary Scheme" (the "Schema Volontario"), introduced by Interbank Deposit Guarantee Fund (IDGF), with appropriate modification of its statute, in November 2015. The "Schema Volontario" is an instrument for the resolution of bank crises through support measures in favour of its member banks, if specific conditions laid down by the legislation occurring. The "Schema Volontario" has an independent funding and the participating banks are committed to supply the relevant resources upon demand, when resources are needed to fund interventions.

The "Schema Volontario", as a private entity, has provided in April 2016 the restructuring of the support of the action that FITD had operated in July 2014 in favour of Bank Tercas, operation that generated no further charges for participating banks. Subsequently, the financial participating size of the "Schema Volontario" was increased up to €700 million (with a total commitment for FinecoBank of €16.8 million).

In this context, on June 2016 the "Schema Volontario" approved an action in support of *Cassa di Risparmio di Cesena* (CariCesena), in relation to a capital increase approved by the same bank on 8 June 2016 for €280 million. On 30 September 2016 the commitment pro-quota relating to FinecoBank had been converted into a monetary payment which has led, as indicated in this regard by the Bank of Italy, to the recognition in the financial statements of capital instruments classified – according to the pre-existing accounting standard IAS 39 – as "Financial assets available for sale" for an amount of €6.7 million (consistent with the monetary payment). The evaluation of the instruments as at December 2016, according to an internal evaluation model based on multiples of a banking basket integrated with estimates on Cassa di Risparmio di Cesena's credit portfolio and related equity/capital needs, had brought to full impairment of the position.

In September 2017, to face Credit Agricole CariParma intervention in favour of CariCesena, *Cassa di Risparmio di Rimini* (Carim) and *Cassa di Risparmio di San Miniato* (Carismi) (approved by the Management Board of the Voluntary Scheme and based on a capital increase for €464 million and subscription of bonds from NPL securitisation of these banks for €170 million), the fund had increased its capital endowment till to €795 million and, as a consequence, the share of total investments attributable to FinecoBank amounted to €13.3 million net of contributions already paid above mentioned). Further in the same month, FinecoBank had paid €1.4 million, as required by the Fund, in respect of the part of the intervention related to the capital increase of Carim and Carismi. During December 2017, FinecoBank had paid further €12.2 million (€7.5 million referred to capital increase of the banks and €4.7 million referred to the subscription of securitisation's notes). Following these payments, FinecoBank's residual commitment towards Voluntary Scheme was substantially nil (€0.1 million as at December 31, 2018).

All payments done in 2017 referred to capital increase of the banks have brought, as the previous ones, to the recognition in the financial statements of capital instruments classified – according to the pre-existing accounting standard IAS 39 – as "Financial assets available for sale" for the same amount of €8.9 million, entirely cancelled in 2017 as deemed unrecoverable due to the sale of the banks to Credit Agricole CariParma at a symbolic price.

Regarding the payment relating to the portion of investment referred to Voluntary Scheme's subscription of Junior and Mezzanine quotes of the securitization (€4.7 million for FinecoBank), initial value of the corresponding equity instruments has been rectified in the financial statements to reflect fair value valuation declared by the Voluntary Scheme (€0.7 million for FinecoBank), as resulting from analysis conducted by the advisors in charge appointed by IDGF for the underlying credits evaluation of the Junior and Mezzanine securities above mentioned, conducted according to a Discounted Cash Flow model based on recovery plans elaborated by SPV's special servicer.

With regard to these capital instruments, classified under item 20. "Financial assets measured at fair value with impact on the income statement: c) other financial assets mandatorily at fair value", following the update of the assessment received from the Voluntary Scheme (resulting from the analysis of the appointed advisor), at the date of 31 December 2018 a further adjustment of € 0.2 million was recorded.

On November 30, 2018, the Shareholders' Meeting of the banks participating to the Voluntary Scheme decided to intervene in favour of Banca Carige S.p.A. by subscribing a Tier 2 subordinated loan (for a maximum amount of €320 million) to be issued by Banca Carige S.p.A. and intended for conversion into capital to the extent necessary to allow an expected capital increase of €400 million.

On the same date, within the framework of the agreement specifically stipulated with the Voluntary Scheme, Banca Carige S.p.A. has issued bonds for €320 million, of which €318.2 million have been subscribed directly by the Voluntary Scheme. The bonds were issued at par (100% of the nominal value), with a fixed rate coupon of 13% and a maturity of 10 years (maturity November 30, 2028). However, as required by the related Term Sheet, as the Extraordinary Shareholders' Meeting of Banca Carige S.p.A. did not appointed a proxy to the Board of Directors by December 22,

2018, also pursuant to art. 2443 of the Civil Code, to increase the share capital for a maximum total amount, including possible premium, of €400 million, with retroactive effect, starting from the date of issue, the interest on The principal amount of the outstanding bonds from time to time matures at a nominal fixed rate of 16%.

With regard to the intervention above mentioned, FinecoBank's contribution request by the Voluntary Scheme has been equal to approximately €9.5 million and it has been booked in December at the moment of payment, as a financial instrument classified – according to the current accounting standard IFRS 9 and in continuity with what was done during the transition to the standard at January 1, 2018 for the instruments recognized for previous payments to the Voluntary Scheme - under the item "20. Financial assets at fair value through profit and loss: c) other financial assets mandatorily at fair value".

Since no market valuations or prices of comparable securities are available, at December 31, 2018 the fair value of the instrument was determined by the Bank using internal models (based on Discounted Cash Flow and Market Multiples methods applied in a multi-scenario analysis) also referring to the valuation carried out by the advisor appointed by IDGF in the context of the formalities related to training from the 2018 Report of the Voluntary Scheme and sent by the IDGF to the participating banks and taking into consideration the significant current and future uncertainties regarding the issuing credit institution. A further adjustment of €2.8 million was recorded on the financial statements 2018.

### **Contributions to guarantee and resolution funds.**

With reference to the contributory obligations under Directive 2014/49/EU (Deposit Guarantee Schemes - DGS), with the communication dated December 6, 2018, the Interbank Deposit Guarantee Fund (IDGF) announced that in application of a uniform standard of distribution of ordinary contributions in the years of accumulation, the total amount due by the consortium member banks for the financial year 2018 would be equal to €538.7 million. The European and national legislation, however, defines a final objective level, allowing deposit guarantee schemes to take into account, for the calculation of contributions, the economic cycle and the possible procyclical impact of the same (Article 96.2, paragraph 2 of the TUB). Under this provision, in order to meet the financial needs related to the Solidarity Fund's, established by the 2016 Stability Law, using IDGF resources, without request further payments to the consortium members, even in each of the years 2016 and 2017 the DGS ordinary contributions have been reduced by € 100 million, to be recovered over the years of the financial allocation (with consequent increase in future contributions). The Board of the Fund, in its meeting held on 28 November 2018, resolved to proceed on this line also for 2018, earmarking € 80 million of the total amount owed by the member banks to the Solidarity Fund, in order to face the financial needs arising from the release of provisions and compensation relating to ongoing, arbitration and lump sum procedures.

As a consequence, the total ordinary contribution referred to the Directive 2014/49/EU (Deposit Guarantee Schemes - DGS), intended for the establishment of the IDGF financial resources for the financial year 2018, has been established in the amount of €458.7 million.

To the ordinary contribution so quantified they are added, according to the art. 25, paragraph 2 of the Bylaws, the additional contributions amounting to € 1.2 million, aimed at the gradual recovery in the years 2018-2024 of the part of the financial resources used up to now for interventions.

The FITD Board, in the above mentioned meeting, also resolved to request an additional contribution of € 16.5 million from the consortium banks, to be recognized, as an arrangement fee, to the pool of arranger banks, as part of the granting a line of credit as an alternative source of funding to meet its obligations, instead of the request for extraordinary contributions, whose call would immediately affect the liquidity and profit and loss account of the consortium members, with possible procyclical effects.

In total, therefore, the contribution due by the consortium member banks for 2018, including the resources to be allocated to the Solidarity Fund and the additional contribution above mentioned, amounts to a total of € 556.4 million. The portion pertaining to each consortium member is calculated based on the amount of the protected deposits as at 30 September 2018 and risk-adjusted based on each of their management indicators of the risk-based model of the Fund for calculating contributions, pursuant to art. 28, paragraph 2 of the Articles of Association.

The contribution for the year 2018 was paid and accounted for by the Bank under the item 160. Administrative Expenses, amounting to € 14.3 million as follows:

- € 13.8 million relating to the DGS ordinary contribution;
- € 0.03 million relating to the DGS additional contribution;
- € 0.4 million relating to the contribution to the Solidarity Fund.

No contribution was requested from the Bank by the Single Resolution Board, for 2018, with regard to contribution obligations pursuant to Directive 2014/59/EU (Single Resolution Fund).

## Part A - Accounting policies (CONTINUED)

### **Risks and uncertainties related to the use of estimates**

In the application of the IFRS, the management is required to make judgements, estimates and assumptions about the carrying amounts of certain assets and liabilities as well as the information regarding potential assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.

Estimated figures have been used for the recognition of some of the largest value-based items in the financial statements as at December 31, 2018, as required by the accounting standards and regulations. These estimates are largely based, as regards assets, on calculations of future recoverability of the values recognised in the accounts and, as regards liabilities, on estimates of the probability of using resources to meet its obligations and the amount of resources necessary to that end, according to the rules laid down in current legislation and standards and have been made on the assumption of a going concern, on which basis these financial statements have been prepared, i.e. without contemplating the possibility of the forced sale of the estimated items.

The processes adopted support the carrying values at December 31, 2018. For some of the above items the valuation is particularly complex given the uncertainty of the macroeconomic and market situation, characterised by the significant volatility of financial indicators used in the valuation process and still high levels of credit quality impairment, as well as, more generally, the uncertainty and instability in the banking sector.

For other items, however, the complexity and subjectivity of estimates is influenced by the structure of the underlying assumptions and assumptions, the number and variability of available information and the uncertainties connected with possible future outcomes of proceedings, disputes and litigation.

The parameters and information used to determine the above-mentioned values are therefore significantly affected by multiple factors, which could change rapidly in ways that are currently unforeseeable, which means that consequent future effects on the book values cannot be ruled out.

At the date of preparing these financial statements we believe that there are no uncertainties such as to give rise to significant adjustments to the carrying amounts within one year.

Estimates and underlying assumptions are regularly reviewed. Any changes resulting from these reviews are recognised in the period in which the review was carried out, provided the change only concerns that period. If the revision concerns both current and future periods it is recognised accordingly in both current and future periods.

Uncertainty affecting estimates is inherent, among other factors, in the determination of:

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

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

With specific reference to future cash flow projections used in the valuation of the recoverability of goodwill recorded in the balance sheet, it should be noted that the parameters and information used are significantly influenced by the macro-economic market situation, which may change unpredictably. For further information please refer to Part B – Balance Sheet – Section 9 – Intangible assets.

With specific reference to valuation techniques, unobservable inputs and parameters used in the fair value measurement and sensitivities to changes in those inputs, please refer to Section A.4. Information on fair value of this Part A.

With particular regard to provisions for risks and charges for risks arising from legal disputes and claims, see Part E – Information on risks and hedging policies - Section 5 - Operating risk.

For further details on the models and parameters used in the measurement of IFRS 9 adjustments, please refer to the information in the specific section "15. Other information - Impairment" of Part A "Accounting policies – A.2. The main items of the accounts".

### ***Other information***

The Financial statements as at December 31, 2018 have been reviewed, pursuant to Italian Legislative Decree no. 39 of January 27, 2010 and Regulation (UE) 2014/537, by Deloitte & Touche S.p.A. appointed as auditor of the Bank's accounts in implementation of the Shareholders' Meeting resolution of April 16, 2013.

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

### A.2 THE MAIN ITEMS OF THE ACCOUNTS

#### 1 - Financial assets at fair value through profit and loss

##### a) Financial assets held for trading (HFT)

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

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

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

Trading book derivatives are recognised at trade date.

After initial recognition these financial assets are measured at their fair value through consolidated profit or loss.

An exception is represented by derivatives settled by delivery of an unlisted equity instrument whose fair value cannot be reliably measured, and which are therefore measured at cost.

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

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

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

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

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

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

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

If the fair value of an instrument falls below zero, which may happen with derivative contracts, it is recognised in item 20. "Financial liabilities held for trading".

##### b) Financial assets designated at fair value

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

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

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



### c) Other financial assets mandatorily at fair value

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

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

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

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

## 2 - Financial assets at fair value through comprehensive income

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

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

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

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

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

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

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

After initial recognition, for debt instruments, gains or losses arising from changes in fair value are recognized in the Statement of comprehensive income and shown in item 110. "Revaluation reserves" in shareholders' equity.

These instruments are the subject to reductions / write backs in accordance with the illustration given in the next relevant section "Impairment". Gain/losses are recorded in the consolidated income statement item 130. "Impairment losses/write backs on: b) financial assets at fair value through comprehensive income" with contra-entry in the Statement of Comprehensive Income and are also shown in item 110. "Revaluation reserves" in shareholders' equity.

The time value interest are recognised in the interest margin.

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

With regard to equity instrument, the profits and losses from changes in fair value are recognised in the Statement of Comprehensive Income and shown in item 110. "Revaluation reserve" in shareholders' equity.

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



## Part A - Accounting policies (CONTINUED)

In the event of disposal, the accumulated profits and losses are recorded in item 130. "Reserves".

### 3 - Financial assets at amortised cost

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

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

More specifically, this item includes:

- a) loans to banks and customers in the various technical forms that meet the requirements of the previous paragraph;
- b) debt securities that meet the requirements of the previous paragraph.

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

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

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

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

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

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

The time value interest are recognised in the interest margin.

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

### 4 - Hedge Accounting

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

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

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

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

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

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

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

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

Hedging derivatives are measured at fair value. In particular:

- **Fair Value Hedging** - an effective fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value is recognised in the income statement in item 90. "Fair value adjustments in hedge accounting". The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss in the same item. Hedging ineffectiveness is represented by the difference between the change in the fair value of hedging instruments and the change in the fair value of hedged item. If the hedging relationship is terminated for reasons other than the sale of the hedged item, this is measured according to the original criterion dictated by the accounting standard applied to the relevant portfolio. In the case of interest-bearing instruments, the difference between the carrying amount of the hedged item on termination of the hedging and the carrying amount it would have had if the hedge had never existed, is recognised through profit or loss in interest receivable or payable over the residual life of the original hedge. If the hedged item is sold or repaid, the portion of fair value which is still unamortised is recognised immediately in item 100. "Gains (losses) on disposal or repurchase" in the income statement. The difference in fair value of the hedging derivative since the latest effectiveness testing date is recognised in profit or loss under item 90. "Fair value adjustments in hedge accounting";
- **Cash Flow Hedging** – hedges are valued at fair value. Change in the fair value of a hedging instrument that is considered effective is recognised in equity item 110. "Revaluation reserves". The ineffective portion of the gain or loss is recognised through profit or loss in item 90. "Fair value adjustments in hedge accounting". If a cash flow hedge is determined to be no longer effective or the hedging relationship is terminated, the cumulative gain or loss on the hedging instrument that remains recognised in 110. "Revaluation reserves" from the period when the hedge was effective remains separately recognised in 110. "Revaluation reserves" until the forecast hedged transaction occurs or is determined to be no longer possible; in the latter case, the gains or losses are transferred from consolidated shareholders' equity to item 80. "Gains and losses on financial assets and liabilities held for trading" in the income statement. The overall fair value changes recorded in item 110. "Revaluation reserves" are reported in the Statement of Comprehensive Income;
- **Hedging a Net Investment in a Foreign entity** - hedges of a net investment in a foreign entity, whose operations are presented in a currency other than euro, are accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity is recognised through profit or loss on disposal of the foreign entity. The fair value changes recorded in item 110. "Revaluation reserves" are also reported in the Statement of Comprehensive Income. The ineffective portion of the gain or loss is recognised through consolidated profit or loss in item 90. "Fair value adjustments in hedge accounting";
- **Macro-hedged financial assets (liabilities)** - IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them); accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates. Macro hedging may not be used for net positions resulting from the offsetting of assets and liabilities. As for fair value micro hedging, macro hedging is considered highly effective if, at the inception of the hedge and throughout its life, changes in the fair value attributable to the hedged position are offset by changes in fair value of the hedging instrument and if the hedge ratio is retrospectively assessed falling within the range of 80-125 per cent. Net changes – gains or losses – in the value of the macro-hedged assets and liabilities attributable to the hedged risk are recognised in asset item 60. "Changes in fair value of portfolio hedged items (+/-)" and liability item 50. "Changes in fair value of portfolio hedged items (+/-)" respectively and offset the profit and loss item 90. "Fair value adjustments in hedge accounting" in the income statement. The gain or loss from remeasuring the hedging instrument at fair value is recognised in the same profit and loss item. The ineffectiveness of the hedging arises to the extent that the change in the fair value of the hedging item differs from the change in the fair value of the hedged monetary position. The extent of hedge ineffectiveness is in any case recognised in profit and loss item 90. "Fair value adjustments in hedge accounting" in the income statement.  
If the hedging relationship is terminated, for reasons other than the sale of the hedged items, cumulative gain or loss in items 60 (Assets) and 50 (Liabilities) is recognised through profit or loss in interest income or expenses, along the residual life of the hedged financial assets or liabilities.

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

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

## Part A - Accounting policies (CONTINUED)

### 5 - Equity Investments

Equity investments are equity instruments and consequently defined as financial instruments under IAS32.

Investments in equity instruments made with the intention of establishing or maintaining a long-term operational relationship with the investee are strategic investments.

The following are the types of equity investment:

#### Subsidiaries

Entities, including structured entities, over which the Bank has direct or indirect control, are considered subsidiaries. Control over an entity entails the Bank's ability to exercise power in order to influence the variable returns to which the Group is exposed through its relationship with them.

In order to verify the existence of control, the Bank considers the following factors:

- the purpose and establishment of the investee in order to identify which are the entity's objectives, the activities that determine its returns and how these activities are governed;
- the power in order to understand whether the Bank has contractual rights that attribute the ability to govern the relevant activities; to this end only substantial rights that provide practical ability to govern are considered;
- the exposure held in relation to the investee in order to assess whether the Bank has relations with the investee, the returns of which are subject to changes depending on the investee's performance;
- the existence of potential "principal - agent" relationships.

If the relevant activities are governed through voting rights, the existence of control is verified considering the voting rights held, including the potential ones, and the existence of any shareholders' or other agreements which attribute the right to control the majority of the voting rights, to appoint the majority of the governing body or in any case the power to determine the entity's financial and operating policies.

Subsidiaries may also include any "structured entity" in which the voting rights are not significant for establishing control, including special purpose entities and investment funds.

In the case of structured entities, the existence of control is ascertained considering both the contractual rights that enable governance of the relevant activities of the entity (or those that contribute most to the results) and the Bank's exposure to the variability of returns deriving from these activities.

#### Joint venture

A joint venture is an entity over which a company has:

- a joint-control agreement;
- rights to the entity's net assets.

Joint control exists only when the decisions relating to significant activities require the unanimous consent of the parties sharing control.

At the reporting date, the Bank held no investments in joint ventures.

#### Associates

An associate is a company over which the investor has significant influence and which are not wholly-owned subsidiaries or joint ventures.

It is presumed that the investor has significant influence if the investor:

- holds, directly or indirectly, at least 20 per cent of the voting power of an investee, or
- is able, also through shareholders' agreements, to exercise significant influence through:
  - representation on the board of directors or equivalent governing body of the investee;
  - participation in policy-making process, including participation in decisions about dividends or other distributions;
  - material transactions between the investor and the investee;
  - interchange of managerial personnel;
  - provision of essential technical information.
  -

It is to be pointed out that only companies which are governed through voting rights can be classified as subject to significant influence.

At the reporting date, the Bank held no investments in associates.

Investments in subsidiaries, associates and joint ventures are measured at cost.

The purchase price of an equity investment is the sum of:

- the fair value, at the date of acquisition, of the assets sold, liabilities assumed and equity instruments issued by the purchaser in exchange for control of the investee;

and

- any cost directly attributable to the acquisition.

If there is evidence that an equity investment may have become impaired, its carrying value is compared with its recoverable value, which is determined on the basis of its value in use, in turn calculated by means of valuation models in general use in financial business, which discount expected future cash flow from the equity investment (Discounted Cash Flow method).

If it is not possible to obtain sufficient information the value in use is considered to be the net worth of the company. If the recovery value is less than the carrying value, the difference is recognised through profit or loss in item "220. Profit (loss) of associates". If the reasons for impairment are removed following a subsequent event occurring after the recognition of impairment, write-backs are made through same profit or loss item.

## 6 – Property, Plant and Equipment (Tangible Assets)

The item includes:

- land
- buildings
- furniture and fixtures
- electrical machinery and equipments
- plant and other machinery and equipments
- motor vehiclest

and is divided between:

- assets used in the business;
- assets held as investments.

Tangible assets used in the business are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used during more than one period.

Property, plant and equipment also include leasehold improvements relating to assets which can be separately identified. They are classified according to the specific sub-items relating to the asset type (e.g. plants). Leasehold improvements are usually borne in order to make leased premises fit for the expected use. Improvements and additional expenses relating to property, plant and equipment identifiable but not separable are recognised in item 130. "Other assets".

Tangible assets held for investment purposes are properties covered by IAS 40, i.e. properties held in order to derive rentals and/or a capital gain.

Property, plant and equipment are initially recognised at cost including all costs directly attributable to bringing the asset into use (transaction costs, professional fees, direct transport costs incurred in bringing the asset to the desired location, installation costs and dismantling costs).

Subsequent costs are added to the carrying amount or recognised as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses borne at a later time (e.g. normal maintenance costs) are recognised in the year they are incurred in profit and loss items:

- 160. "Administrative expenses: b) Other administrative expenses", if they refer to assets used in the business;

or:

- 200. "Other net operating income", if they refer to property held for investment.

After being recognised as an asset, an item of property, plant and equipment is carried at cost less any accumulated depreciation and any cumulative impairment losses.

An item with a finite useful life is subject to straight-line depreciation.

Residual useful life is usually assessed as follows:

- Buildings up to 33 years

## Part A - Accounting policies (CONTINUED)

- Office furniture and fittings up to 9 years
- Electronic machinery and equipments up to 5 years
- Plants, other machinery and equipments up to 14 years
- Motor vehicles up to 4 years

Buildings, if separately quantifiable, are recognised separately, even if acquired together. Land is not depreciated since it usually has an indefinite useful life. Buildings, conversely, have a finite useful life and are therefore subject to depreciation.

The estimate of the useful life of an asset is reviewed at least at each accounting period-end on the basis inter alia of the conditions of use of the asset, of maintenance conditions and expected obsolescence, and, if expectations differ from previous estimates, the depreciation amount for the current and subsequent financial years is adjusted accordingly.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in profit and loss item 180. "Net impairment/Write-backs on property, plant and equipment" in the income statement.

If the value of a previously impaired asset is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there had been no losses recognised on the prior-year impairment.

An intangible asset is de-recognised from the consolidated balance sheet (i) on disposal or (ii) when no future economic benefits are expected from its use or sale; and any difference between sale proceeds or recoverable value and carrying value is recognised in the profit and loss item 250. "Gains (losses) on disposal of investments" or 180. "Net impairment/write-backs on property, plant and equipment".

### 7 - Intangible assets

An intangible asset is an identifiable non-monetary without physical substance, controlled by the Company, which is expected to be used during more than one period and from which future economic benefits are probable.

Intangible assets mainly consist of goodwill, software and costs incurred for the creation of the new Fineco website.

Intangible assets other than goodwill are recognised at purchase cost, i.e. including any cost incurred to bring the asset into use, less accumulated amortisation and any recognised impairment losses.

An intangible asset with a finite life is subject to straight-line amortisation over its estimated useful life.

Residual useful life is usually assessed as follows:

- software maximum 3 years;
- other intangible assets maximum 5 years.

There are no intangible assets with an indefinite life, except for goodwill.

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in profit and loss item 190. "Net impairment/write-backs on intangible assets" in the income statement.

If the value of a previously impaired intangible asset, other than goodwill is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there were no losses recognised on the prior-year impairment.

An intangible asset is de-recognised from the balance sheet (i) on disposal or (ii) when no additional future economic benefits are expected from its use or sale; and any difference between sale proceeds or recoverable value and carrying value is recognised in the profit and loss item 250. "Gains (losses) on disposal of investments" or 190. "Net impairment/write-backs on intangible assets".

#### Goodwill

In accordance with IFRS3, goodwill is the excess of the cost of a business combination over the interest acquired in the net fair value, at the acquisition date, of the assets and liabilities acquired.

Goodwill arising from the acquisition of subsidiaries and joint ventures (consolidated proportionately) is recognised as an intangible asset; whereas goodwill arising from the acquisition of associates is included in the acquisition cost and, then, shown as an increase in the value of the investments.

Specifically, the goodwill recorded under intangible assets in these consolidated financial statements – corresponding to the goodwill recorded in the Bank's annual financial statements – derives from the acquisitions of merged or acquired companies.

At a subsequent financial reporting date, goodwill is recognised net of any cumulative impairment losses and is not amortised.

Goodwill is tested for impairment annually. Impairment losses on goodwill are recognised in consolidated profit and loss item 270. "Impairment of goodwill". In respect of goodwill, no write-backs are allowed.

Goodwill relates to buy-outs of divisions or companies engaged in trading activities or the distribution of financial, banking and insurance products through personal financial advisors. These activities have been fully integrated with the Bank's ordinary operations; as a result, it is not possible to isolate the contribution of each company/business division from the Bank's overall business. This means that to establish the reasonableness of the value of goodwill recognised in the financial statements it is necessary to take account of FinecoBank's comprehensive income. The cash generating unit (CGU) is the Bank as a whole including the contribution from the subsidiary Fineco Asset Management DAC, an asset management company incorporated under Irish law, thanks a vertically integrated business model.

In view of the specific business model adopted by the Bank, which involves a high level of integration between personal financial advisors and the trading and banking platform, so that the personal financial advisors network is an integral part of the overall offer, which includes banking, brokerage and investing services, an allocation of costs/revenues to the macro areas of activity is not considered relevant or meaningful.

Please see Section 9.3 Intangible assets - Other information in Part B of these notes to the accounts for further information on goodwill and related impairment tests.

## 8 - Non-current assets classified as held for sale

These categories include individual assets held for disposal (tangible, intangible and financial assets) or groups of assets held for sale, with the associated liabilities, as required by IFRS 5.

Individual assets (or groups of assets held for sale) and relating liabilities are recognised in item 120. "Non-current assets and disposal groups held for sale" and 70. "Liabilities included in disposal groups classified as held for sale", respectively, at the lower of their carrying amounts and fair values less costs to sell.

The revaluation reserves relating to Non-current assets held for sale, which are recorded as a contra item to changes in value relevant for this purpose), are reported separately in the Statement of comprehensive income (see Part D – Comprehensive Income).

The net balance of profits (dividends, interest income, etc.) and losses (interest expense, etc.) attributable to groups of assets or liabilities held for sale are recognised in the income statement under item 290. "Profit (Loss) after tax from discontinued operations" in the income statement. Profits and losses attributable to individual assets held for disposal are recognised in the income statement under the most appropriate item.

At the balance sheet date, the Bank held no "non-current assets classified as held for sale".

## 9 - Current and Deferred Tax

Tax assets and liabilities are recognised in the balance sheet respectively in asset item 100. "Tax assets" and in liability item 60. "Tax liabilities".

In compliance with the "Balance sheet liability method", current and deferred tax items are:

- current tax assets, i.e. amount of tax paid in excess of income tax due under the current national tax regulations;
- current tax liabilities, i.e. tax payables due under the current Italian tax regulations;
- deferred tax assets, i.e. amounts of income tax recoverable in future fiscal years and relating to:
  - deductible temporary differences;
  - the carry-forward of unused tax losses;
  - the carry-forward of unused tax credits;
- deferred tax liabilities, i.e. the payables for income tax due in future fiscal years in respect of taxable temporary differences.

Current and deferred tax assets and tax liabilities are calculated in accordance with local tax regulations (with reference to each company consolidated on line-by-line basis) and are recognised in profit or loss on an accrual basis. More specifically, for current IRES income tax, a rate of 27.50% has been calculated; for IRAP corporate tax, the rate applied was 5.57%.

In this regard, it should be noted that the effects of the reduction in the IRES income tax rate from 27.50% to 24% introduced, with effect from January 1, 2017 effective for tax periods after the period to December 31, 2016, introduced by the Stability Law for 2016 were "neutralised" for the Bank as a result of the introduction, by the same Law, of an additional 3.5 percentage points for credit institutions effective for the same tax periods.

## Part A - Accounting policies (CONTINUED)

In general, deferred tax assets and liabilities arise when there is a difference between the accounting treatment and the tax treatment of the carrying amount of an asset or liability.

Deferred tax assets and liabilities are recognised applying tax rates that at the balance sheet date are expected to apply in the period when the carrying amount of the asset will be recovered or the liability will be settled on the basis of tax regulations in force, and are periodically reviewed in order to reflect any changes in regulations.

Furthermore, deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profit will be generated. In accordance with the provisions of IAS12, the probability that sufficient future taxable profit will be available, against which the deferred tax assets can be utilised, is reviewed periodically. The carrying amount of deferred tax assets should be reduced to the extent that it is not probable that sufficient taxable profit will be available.

Deferred tax liabilities are always recognised.

Current and deferred taxes are recognised in profit and loss item 270. "Tax expense (income) related to profit or loss from continuing operations", except for tax referred to items that in the same or in another fiscal year are credited or charged directly to equity, such as those relating to valuation gains or losses on financial assets at fair value through other comprehensive income, whose changes in value are recognised, after tax, under the revaluation reserves directly in the statement of comprehensive income.

Current tax assets are shown in the balance sheet net of related current tax liabilities, where the following requirements are met:

- there is a right to offset the recognised amounts; and
- there is an intention to settle the asset and liability positions with a single payment on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets are shown in the balance sheet net of related deferred tax liabilities, where the following requirements are met:

- there is a right to offset the underlying current tax assets with the current tax liabilities; and
- deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities which intend to settle current tax assets and liabilities on a net basis (usually under a tax consolidation agreement).

## 10 - Provisions for risks and charges

### Provisions for risks and charges for commitments and guarantees given

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

The effects of valuation are recognised in item 170. "Net provisions for risks and charges: a) commitments and guarantees given" in the income statement.

### Provisions for retirement payments and similar obligations

Retirement provisions – i.e. provisions for employee benefits paid after leaving employment – are defined as defined contribution plans or defined benefit plans according to the economic nature of the plan.

In particular:

- Defined-benefit plans provide a series of benefits depending on factors such as age, years of service and compensation policies. Under this type of plan actuarial and investment risks are borne by the company.
- Defined-contribution plans are plans under which the company makes fixed contributions. Benefits are the result of the amount of contributions paid and return on contributions invested. The employer bears no actuarial and/or investment risks connected with this type of plan as it has no legal or implicit obligation to make further contributions, should the plan not be sufficient to provide benefit to all employees.

Defined-benefit plans are present-valued by an external actuary using the unit credit projection method.

This method distributes the cost of the benefit evenly over the employee's working life. The liability is determined as the present value of average future payments adjusted according to the ratio of years of service to theoretical total years of service at the time of payment of the benefit.



More specifically, the amount recognised according to IAS 19 Revised, as a net liability/asset in item 100. "Provisions for risks and charges: b) Post-retirement benefit obligations" is the present value of the obligation at the balance sheet date, less any pension charges relating to benefits already provided but not yet recognised, less the fair value at the balance sheet date of plan assets other than those due to directly settle the obligations adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. Actuarial gains or losses from the defined-benefit liabilities are recognised as a contra-entry to equity under item 110. "Revaluation reserves" are reported in the Statement of comprehensive income.

The discount rate used to discount obligations (whether financed or not) relating to benefits to be provided after retirement varies according to the currency of denomination and country where the liabilities are allocated and is determined on the basis of market yield at the balance sheet date of prime issuers' bonds with an average life in keeping with that of the relevant liability.

At the balance sheet date, there were no provisions for retirement payments and similar obligations.

### Other provisions

Provisions for risks and charges consist of liabilities recognised when:

- the entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amounts recognised as provisions are the best estimate of the expenditure required to settle the present obligation. The risks and uncertainties that inevitably surround the relevant events and circumstances are taken into account in reaching the best estimate of a provision.

As regards provisions for legal disputes, the estimate includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.

This estimate was determined by the Bank, in relation to the current dispute, mainly based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment.

In addition, where the effect of the time value of money is significant (usually when the expense is expected to materialise more than 18 months after its recognition), the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments.

Provisions are reviewed periodically and adjusted to reflect the current best estimate. If it becomes clear that it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are used only for expenses for which they were originally recognised. Provisions for the year are recognised in the income statement in item 170. "Net provisions for risks and charges b) other net provisions" include increases due to the passage of time; they are also net of any re-attributions.

"Other provisions" also include obligations relating to benefits due to personal financial advisors, specifically supplementary customer portfolio payments and contractual payments, which can be considered defined benefit plans; accordingly, these obligations are calculated by an actuary using the unit credit projection method (see paragraph "Retirement Payments and Similar Obligations"), and payments under non-competition agreements.

In certain cases, provisions for risks and charges (for example those related to staff expenses and administrative costs) have been recognised under their own item in the income statement to better reflect their nature.

## 11 - Financial liabilities at amortised cost

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

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

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

Hybrid debt instruments relating to equity instruments, foreign exchange, credit instruments or indexes, are treated as structured instruments. The embedded derivative is separated from the host contract and recognised as a derivative, provided that separation requirements are met, and recognised at fair value. The embedded derivative is entered at fair value, classified under financial assets or liabilities held for trading, and is then



## Part A - Accounting policies (CONTINUED)

valued at fair value, with the relative profits or losses recognised in the consolidated income statement in item 80 "Gains (losses) on financial assets and liabilities held for trading". The difference between the total amount received and the initial fair value of the embedded derivative is attributed to the host contract.

Instruments convertible into treasury shares imply recognition, at the issuing date, of a financial liability and of the equity part, recognized in item "130. "Equity instruments", whenever the contractual terms provide for physical delivery. The equity component is initially measured at residual value, i.e., the overall value of the instrument less the separately determined value of a financial liability with no conversion clause and the same cash flow. The financial liability is recognised at amortised cost using the effective interest method.

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

The Bank's consolidated debts do not include covenants (see glossary in the attachments) that would cause default or restructuring events. There are no debt instruments involving convertibility to equity instruments (under IASB IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments).

At the balance sheet date, there were no debt securities in issue, hybrid debt instruments or instruments convertible into treasury shares.

### 12 - Financial liabilities held for trading

Financial liabilities held for trading include:

- derivatives that are not designated as hedging instruments;
- obligations to deliver financial assets borrowed by a short seller (i.e., an entity that sells financial assets it does not yet own);
- financial liabilities issued with an intention to repurchase them in the near term;
- financial liabilities that are part of a portfolio of financial instruments considered as a unit and for which there is evidence of a recent pattern of trading.

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

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

### 13 - Financial liabilities designated at fair value

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

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

or

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

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

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

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

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

### 14 - Foreign currency transactions

A foreign currency transaction is recognised at the spot exchange rate of the transaction date.

Foreign currency monetary assets and liabilities are translated at the closing rate of the period.

Exchange differences arising from settlement of monetary items at rates different from those of the transaction date and unrealised exchange rate differences on foreign currency assets and liabilities not yet settled, other than assets and liabilities designated as measured at fair value and hedging instruments, are recognised in profit and loss item 80. "Gains and losses on financial assets and liabilities held for trading" in the income statement.

Non-monetary assets and liabilities recognised at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated at the closing rate. When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised through profit or loss, any exchange component of that gain or loss is recognised through profit or loss.

All exchange differences recognised on revaluation reserves in shareholders' equity are also reported in the Statement of Comprehensive Income.

### 15 - Other information

#### Business Combinations

A business combination is a transaction through which an entity obtains control of a company or of a business segment, thus bringing together different businesses into one reporting entity.

A business combination may result in a Parent-subsidiary relationship in which the acquirer is the Parent and the acquiree a subsidiary of the acquirer. A business combination may involve the purchase of the net assets of another entity, in which case goodwill can arise, or the purchase of the equity of the other entity (mergers).

IFRS 3 requires that all business combinations shall be accounted for by applying the purchase method, that involves the following steps:

- identifying an acquirer;
  - measuring the cost of the business combination;
- and
- allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

The cost of a business combination is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for control of the acquiree.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

A business combination may involve more than one exchange transaction; nevertheless, the cost of the business combination remains equal to the fair value of the total shareholding acquired. This involves the revaluation at fair value - and the recognition of the effects in the Income Statement - of the equity investments previously held in the acquired entity.

The cost of a business combination is allocated by recognising the assets, the liabilities and the identifiable contingent liabilities of the acquired company at their acquisition-date fair value. Exceptions to this principle are deferred income tax assets and liabilities, employee benefits, indemnification assets, reacquired rights, non-current assets held for sale, and share-based payment transactions that are subject to review in accordance with the principle applicable to them.

The positive difference between the cost of the business combination and the acquirer's interest at fair value, net of the identifiable assets, liabilities and contingent liabilities, must be accounted for as goodwill.

After initial recognition, goodwill is tested for impairment at least annually.

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall reassess the fair values and immediately recognise any excess remaining after that reassessment in profit or loss. If the acquisition concerns a percentage less than 100% of the assets of the acquired company, minorities are recognised.

At the acquisition date, minorities are valued:

## Part A - Accounting policies (CONTINUED)

- at fair value, or
- as a share of minority interests in the assets, liabilities and potential liabilities that can be identified for the company acquired.

### **Purchased or originated Credit Impaired - POCI**

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

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

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

### **Other Long-term Employee Benefits**

Long-term Employee Benefits are recognised in item 80. "Other liabilities" on the basis of the measurement of the liability at the balance sheet date.

### **Treasury Shares**

Changes in treasury shares are reported as a direct contra item to shareholders' equity, i.e. as a reduction to the latter in the amount of any purchases, and as an increase in the amount of any sales proceeds. This entails that, if treasury shares are subsequently sold, the difference between the sale price and the related post-tax repurchase cost is recognised entirely as a contra item to shareholders' equity.

### **Offsetting financial assets and financial liabilities**

The accounting offsetting of assets and liabilities items has been performed according to IAS 32, assessing the fulfilment of the following requirements:

- current legal enforceable right to set off the recognised amounts;
- intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accordance with IFRS 7, further information has been included in the table of the notes to the accounts, in Part B - Other information.

Those tables show the following in particular:

- the carrying amounts, before and after the accounting offsetting effects, related to the financial assets and liabilities that meet the criteria for applying those effects;
- the amount of the exposures that do not meet the above mentioned criteria, but are included in master netting agreements, or similar agreements, that create the right to set-off only under specific circumstances (e.g., default events);
- the amount of the related collateral.

### **Amortised cost**

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment.

The effective interest method is a method of allocating the interest income or interest expense over the life of a financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Commissions forming an integral part of the effective interest rate include loan drawdown fees or underwriting fees relating to a financial asset not designated at fair value, e.g., fees received as compensation for the assessment of the issuer's or borrower's financial situation, for valuation and registration of security, and generally for the completion of the transaction (management fees).

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

### Classification of financial assets

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

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

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

It is also possible upon initial recognition to:

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

### Business model

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

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

The Bank’s Business Model is determined by Key management personnel at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The entity’s business model does not depend on management’s intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation with the corporate objective of pursuing, time in time, specific performance of maximizing net interest income and accessory commissions, in order to limit credit risk, always compatible with the RAF (risk appetite framework) established annually by the Bank. However, a single entity may have more than one business model for managing its financial instruments.

For the “Held to Collect” business model, the Bank has defined the eligibility thresholds for sales that do not affect the classification (frequent but not significant, individually and in aggregate, or infrequent even if of a significant amount) and, at the same time, the parameters were established to identify sales consistent with this business model as they are attributable to an increase in credit risk.

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

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

The “HTCS” business model includes own securities for which the Bank pursues - as part of its investment policy - the management of the its current liquidity, the maintenance of a set interest margin or the alignment of the terms of financial assets and liabilities. Sales are an integral part of this business model and, therefore, there is no turnover threshold for portfolio sales, both in terms of frequency and amount. Nevertheless, trading

## Part A - Accounting policies (CONTINUED)

activity is not allowed in order to pursue the business model and any purchases must be effected taking into account a medium to long-term time horizon.

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

In particular, it involves are the following activities identified by the Bank:

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

### *SPPI Test*

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

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

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

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

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

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

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

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

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

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

### **Derecognition of financial assets**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Impairment

### General matters

Loans and debt instruments classified in the items: financial assets at amortised cost, financial assets at fair value through comprehensive income and the relevant off-balance sheet exposures (commitments and guarantees given), are subjected to an impairment calculation in accordance with IFRS 9, taking into account the integrated reference regulations of the internal regulations and policies of the UniCredit Group which regulate the credit classification rules and their transfer to the various categories.

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

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

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

In order to meet the standard, the Bank refers specific models (developed by the UniCredit Group) to calculate the expected loss. These models draw on the PD, LGD and EAD criteria used for regulatory purposes, to which specific directions are made to ensure full cohesion with the accounting standard<sup>45</sup>. In this regard, forward-looking information has also been included<sup>46</sup> with the elaboration of specific scenarios.

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

<sup>45</sup> See paragraph "Parameters and definitions of risk level used in the calculation of value adjustments" for a more detailed explanation of the risk measures used within the Group to calculate the expected credit loss in accordance with IFRS 9.

<sup>46</sup> See paragraph "Forward-looking information used in calculating value adjustments" for a more detailed explanation of the forward-looking information and scenarios used to calculate the expected credit loss in accordance with IFRS 9.

## Part A - Accounting policies (CONTINUED)

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

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

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

- the comparison at transaction level between the PD value at the time of disbursement and the value on the reporting date, both qualified according to internal models at fixed thresholds to take into account all the key variables of each transaction that may influence the Bank's expectations about ongoing changes in PD (e.g. age, maturity, level of PD at the time of disbursement);
- absolute elements such as the backstops provided for by the regulation (e.g. 30 day Expired);
- other internal findings (forborne classification).

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

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

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

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

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

### *Parameters and definitions of risk level used in the calculation of value adjustments*

As mentioned above the Group UniCredit has developed specific models to calculate the expected loss, which draw on the PD, LGD and EAD criteria, as well as the effective interest rate.

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

Specifically:

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

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

The main adjustments are made in order to:

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



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

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

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

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

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

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

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

### *Forward-looking information used in calculating value adjustments*

The credit loss expected from the parameters described in the forgoing paragraph considers macroeconomic forecasts by applying multiple scenarios to the forward looking components.

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

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



## Part A - Accounting policies (CONTINUED)

### *Governance*

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

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

### **Repos and securities lending**

Securities received in a transaction that entails a contractual obligation to sell them at a later date or delivered under a contractual obligation to repurchase are neither recognised nor derecognised. In respect of securities purchased under an agreement to resell, the consideration is recognised as financial assets at amortised cost, or as an asset held for trading; in respect of securities held in a repurchase agreement, the liability is recognised as financial liabilities at amortised cost, or as financial liabilities held for trading. Revenue from these loans, being the coupons accrued on the securities and the difference between the sale/purchase and resale/repurchase prices, is recognised in profit or loss through interest income and expenses on an accruals basis.

These transactions can only be offset if, and only if, they are carried out with the same counterparty and provided that such offset is provided for in the underlying contracts.

The same rules apply to securities lending transactions collateralised by cash fully available to the lender.

The profit or loss items connected with these transactions are booked respectively:

- in the item Interest, for the positive component (borrower) and the negative component (lender) related to the return on cash paid to the lender;
- in the item Fees and commissions, for the negative component (borrower) and the positive component (lender) related to the service received (provided) through the provision of the security by the lender.

With reference to securities lending transactions collateralised by other securities, or not collateralised, the security lent or the security put up as collateral are still recognised as assets in the balance sheet, depending on the role - lender or borrower, respectively - played in the transaction.

Counterparty risk related to the latter types of securities lending or borrowing transactions is shown under the off-balance sheet exposures in the tables of Part E - Information on Risks and relating hedging policies - Section 1 - Credit risk - A. Credit quality.

### **Share-Based Payment**

Equity-settled payments made to employees or other staff (in particular, personal financial advisors) in consideration of work services rendered or other goods received or services rendered, using shares of FinecoBank or the Group parent, which consist of:

- stock options;
- rights to receive shares upon attainment of certain objectives ("performance shares"), which are settled with equity instruments;
- Performance shares (i.e. awarded on attainment of certain objectives) settled in cash.

Considering the difficulty of reliably measuring the fair value of the services acquired against equity-settled payments, reference is made to the fair value of the instruments, measured at the date of their allocation.

The fair value of equity-settled payments or the purchase on the market of shares in FinecoBank in exchange of work or services is recognised as cost in income statement in item 160. "Administrative costs" or 50. "Fee and commission expense" as a contra-entry to item 140. "Reserves" in shareholders' equity, on an accruals basis over the period in which the services are acquired.

As for share-based payments settled in cash in favour of personal financial advisors, the services acquired and the liabilities assumed are measured at the latter's fair value, recognised in Item 50. "Fee and commission expense" as counterparty of the Item 80. "Other Liabilities". Until the liability is settled, the fair value is recalculated at each balance sheet date until the settlement date, and all changes in fair value are recognised in item 50. "Fee and commission expense".

Share based payments consisting in the payment of shares of the Parent Company Unicredit S.p.A. directly allocated to employees of the Group Companies that involve settlement with shares of the Parent Company, under arrangements between the Company and the Parent Company for their cash settlement, are measured at fair value, calculated when the related rights are assigned, recognised as a cost in income statement in item 160 "Administrative costs", as a contra entry to item 80. "Other Liabilities", on an accruals basis over the period in which the services are acquired.

### Renegotiations

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

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

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

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

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

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

### Equity instruments

Equity instruments represent a residual interest in assets of the Company, net of liabilities. An instrument is classified as equity instrument if there are no contractual obligations to make payments in the form of principal, interest or other types of returns.

Specifically, instruments that meet the following requirements are classified as equity instruments:

- unlimited term or at least equal to the term of the company;
- full discretion of the issuer in coupon payments and redemptions, also advanced, of the principal outstanding.

Equity instruments include Additional Tier 1 instruments under Regulation (EU) No. 575/2013 (CRR) on prudential requirements for credit institutions and investment firms, which in addition to the above characteristics:

- maintain the issuer's full discretion as to the reinstatement of the nominal value (write-up) following a capital event that resulted in a write-down;
- do not include provisions that require the issuer to make payments (must pay clauses) as a result of actual events under the control of the parties.

Equity instruments other than ordinary or savings shares, are classified in item 130. "Equity instruments" for the amount received. Any coupons and transaction costs attributable to the transaction paid are deducted from Item 140. "Reserves" net of related taxes.

### Provisions for employee severance pay

The "TFR" provision for Italy-based employee benefits is to be construed as a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using the unit credit projection method (see Section 12 - under Provisions for Risks and Charges - Retirement Payments and Similar Obligations). This method distributes the cost of the benefit evenly over the employee's working life. The liability is determined as the present value of average future payments adjusted according to the ratio of years of service to total years of service at the time of payment of the benefit.

Following pension reform by Law 252 of December 5, 2005, TFR instalments accrued to December 31, 2006 (or to the date between January 1, 2007 and June 30, 2007 on which the employee opted to devolve their TFR to a supplementary pension fund) stay in the employer and are considered a post-employment defined benefit plan therefore incurring actuarial valuation, though with simplified actuarial assumptions, i.e., forecast future pay rises are not considered.

## Part A - Accounting policies (CONTINUED)

TFR instalments accrued since January 1, 2007 (date of Law 252 coming into effect) (or since the date between January 1, 2007 and June 30, 2007) are, at the employee's discretion, either paid into a pension fund or left in the company and (where the company has in excess of 50 employees) paid into an INPS Treasury fund by the employer, and are assimilated to a defined-contribution plan.

Costs relating to TFR are recognised in the Income Statement in item 160. "Administrative costs: a) staff expenses" and include, for the part of the defined benefit plan: (i) interest cost accrued in the year, for the part of plan considered defined contribution plan (ii) the accrued instalments for the year paid into the complementary pension scheme or to the Treasury fund of INPS.

Actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of obligations at period end, are recognised in Shareholders' equity under the Revaluation reserves in accordance with IAS 19 Revised and are also shown in the Statement of Comprehensive Income.

### **Write – offs**

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

The Bank will recognise a write-off in the following cases:

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

## RECOGNITION OF INCOME AND EXPENSES

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

- interest is recognized pro rata temporis based on the contractual interest rate or the effective interest rate if the amortized cost method is applied. Interest income (or interest expense) also includes the spreads or margins, positive (or negative), accrued up to the reporting date, relating to
  - derivative financial contracts hedging interest-bearing assets and liabilities;
  - financial derivative contracts classified in the balance sheet as held for trading, but operationally linked to financial assets and / or liabilities designated at fair value (*fair value option*);
  - financial derivative contracts operationally linked to assets and liabilities classified in the balance sheet as held for trading or operationally linked to "other financial assets mandatorily at fair value" and which provide for the settlement of spreads or margins with several maturities ("multi-flow contracts" );
- default interest is taken to the income statement on actual collection;
- dividends are recognised in profit or loss in the financial year in which their distribution has been approved;
- fees and commissions from services are recognized, based on the underlying contractual agreements, in relation to the provision of the services from which they originated. The fees included in amortised cost to calculate the effective interest rate are recognized as interest;
- gains and losses on financial instrument disposal, determined as the difference between the amount paid or collected in the transaction and the fair value of the instrument, are recognized in the income statement upon recognition of the transaction if the fair value can be determined with reference to official prices available on active markets, or for assets and liabilities measured on the basis of valuation techniques using observable market parameters other than the quoted prices of the financial instrument (level 1 and level 2 of the fair value hierarchy). If the reference parameters used for valuation are not observable on the market (level 3) or the instruments are illiquid, the financial instrument is recorded for an amount equal to the transaction price; the difference with respect to fair value is recognized in the income statement over the term of the transaction;
- gains and losses from securities trading are recognized in the income statement at the time the sale is finalized, based on the difference between the amount paid or collected and the carrying amount of the instruments;
- gains and losses from the sale of non-financial assets are recognized at the time the sale is finalized, or when the performance obligation to the customer is fulfilled;
- the costs are recognized in the income statement according to the accrual principle; the costs recognized for the acquisition of contracts with customers, which the Bank would not have incurred had it not obtained the contract, are recognized as assets and systematically amortized in the income statement in line with the recognition of revenues related to the transfer to customers of the goods or services to which the asset refers.

Fees and commissions income and other operating income are accounted for in P&L as the entity satisfies the performance obligation embedded in the contract, according to "IFRS15 Revenue from Contracts with Customers" rules. In particular, revenues from commissions from services and other income are recognized in the income statement:

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

The promised good or service, i.e. the asset, is transferred when the customer has control.

If the timing of cash-in is not aligned to the way the performance obligation is satisfied, the Bank accounts for a contract asset or a contract liability for the portion of revenue accrued in the period or to defer in the following periods.

The amount of revenues linked to fees and commissions income and other operating income is measured based on contractual provisions.

If the amount contractually foreseen is subject, totally or partially, to variability, a revenue has to be booked based on the most probable amount that the Bank expects to receive. Such amount is determined on the basis of all facts and circumstances considered relevant for the evaluation, that depend on the type of service provided and, in particular, on the presumption that it is not highly probable that the revenue recognized will not be significantly reversed.

If a contract regards different goods/services whose performance obligations are not satisfied at the same time, the revenue is allocated among the different obligation proportionally to the stand-alone price of the single item delivered. These amounts will therefore accounted for in P&L through different methods ("over time" or "point in time") on the basis of the timing of satisfaction of each obligation. If the allocation is particularly burdensome and where revenues are not material, revenue is entirely allocated to the main performance obligation.

Where envisaged, the fees to be paid to customers are recorded as a reduction in revenues from the supply of goods or services and consistently with the recognition of said goods or services.

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

## Part A - Accounting policies (CONTINUED)

account the effects of a funding component when the time interval expected between the transfer of the promised good or service and the related payment is less than one year.

To this end, it is worth noting that the performance of financial services provided over a given period of time (for example, the keeping and management of current accounts, advisory services, etc.) have been considered satisfied over time, regardless of the moment the consideration is paid by the customer, while performances of financial services that require the execution of specific activities (for example, purchase, sale or placement of securities, UCITS or insurance products, execution of money transfers) have been considered fulfilled at a given time ("point in time"), even if the contract requires the service is provided for an indefinite period.

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

- the commissions for trading, order collection and placement of financial instruments are accounted for "point in time", as the service is intended provided when the service is rendered. The consideration is quantified as a fixed or percentage amount, based on the contractual conditions, on the value of the instrument traded/placed;
- advisory, portfolio management and insurance product management commissions are recorded "over time", as the service is intended provided during the term of the contract (input method). For this type of fees, in fact, it is deemed that the input which are necessary to provide the service incorporated in the performance obligation are evenly distributed during the term of the contract. There are no performance fees on asset management instruments. With regard to placement of insurance policies, whose return is determined on the basis of the performance of the separate management on the annual recurrence of the policy, it should be noted that there is a variability determined by the performance of the separate management, which may result in a reduction in applicable rate;
- commissions related to payment systems are mainly recognized "point in time", except for some services that are recorded "over time" during the term of the contract (SEPA Electronic Database Alignment). The considerations are quantified as a fixed amount, mainly with reference to transactions carried out on behalf of customers (for example ATM withdrawals of less than €100, Visa debit extra Group withdrawals, foreign money transfers or in other currencies other than euro, postal bills, etc...), or as percentage of the value of the transaction, mainly with reference to revenues received from the circuits and generated by transactions carried out on behalf of customers (credit cards / Visa debit, Pos, etc.);
- recoveries of the stamp duty on financial assets are recorded "over time", according to the provisions in force, as the service is considered provided during the term of the contract.

### A.3 Disclosure on transfers between portfolios of financial assets

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

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

Specifically, the following may be reclassified:

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

The following changes in circumstances are not considered reclassifications:

- (a) an item that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- (b) an item becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge;
- (c) changes in measurement.

The following are not changes in business model:

- a) a change in intention related to particular financial assets (even in circumstances of significant changes in market conditions);
- b) the temporary disappearance of a particular market for financial assets;
- c) a transfer of financial assets between parts of the entity with different business models.

In exercise closed at 31 December 2018 the Bank has not made changes to its business models and, consequently, did not make any changes.

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

No data to report.

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

No data to report.

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

No data to report.

## A.4 Information on fair value

### Qualitative information

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

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

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

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

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

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

- a market approach (e.g. using quoted prices for similar liabilities or equity instruments held by other parties as assets);
- cost approach (e.g. it reflects the amount that would be required currently to replace the service capacity of an asset, that is the current replacement cost);
- an income approach (e.g. a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset).

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

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

## Part A - Accounting policies (CONTINUED)

Indeed, these prices/quotations are relevant for determining significant parameters in terms of the credit risk, liquidity risk and price risk of the instrument being valued. Reference to these "market" parameters makes it possible to limit the discretionary nature of the valuation, and ensures that the resulting fair value can be verified.

If, for one or more risk factors it is not possible to refer to market data, the valuation models employed use estimates based on historical data as inputs.

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

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

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

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

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

#### **Description of valuation techniques**

##### ***Discounted cash flow***

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

##### ***Market Approach***

Valuation technique that uses prices generated by market transactions involving identical or comparable assets, liabilities or groups of assets and liabilities.

##### ***Fair Value Adjustments (FVAs)***

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

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

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

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



### A.4.3 Fair value hierarchy

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

The fair value hierarchy level associated with assets and liabilities is defined as the minimum level among all significant inputs used. Generally, an input of valuation is not considered significant for the fair value of an instrument if the remaining inputs explain the majority of the variance of the fair value over a period of three months. In some specific cases, the significance of the limit is verified in relation to the fair value of the instrument at the measurement date.

In particular, three levels are considered:

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

### A.4.4 Other information

Hereby we provide IFRS 13 disclosure requirements.

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

##### ***Fixed Income Securities***

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

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

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

##### ***Structured Financial Products***

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

##### ***OTC derivatives***

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

##### ***Equity Instruments***

Equity Instruments are assigned to Level 1 when a quoted price is available on an active market and to Level 3 when no quotations are available or quotations have been suspended indefinitely. These instruments are classified as Level 2 only when trading volume on the market where the instrument is quoted has decreased significantly.

For the measurement of the Visa INC class "C" preferred shares, the Bank has adopted the model developed by the Parent Company to determine the fair value that converts the market price in dollars of the Visa INC class "A" shares into euro and applies a discount factor of 6.25%, determined by estimating the litigation risk (0.25%) and the illiquidity risk (6%). The litigation risk component was extracted from historical series of data provided by Visa INC, whereas the illiquidity risk component was derived from the illiquidity of the shares, which have limitations on their transferability for a particular period. The Visa INC class "C" preferred shares were assigned a fair value hierarchy of 3.

The fair value of the equity instruments recognized with regard to intervention in favour of CariCesena, Cassa di Risparmio di Rimini (Carim) and Cassa di Risparmio di San Miniato (Carismi) and in relation to the result of the contribution made to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund, was determined considering the estimate of fair value of Berenice securitisation's notes (mezzanine and junior notes issued for the securitization of the NPLs of the three banks purchased by the Voluntary Scheme) performed by the appointed advisor from the Interbank Deposit Guarantee Fund for the Voluntary Scheme Report as at December 31, 2018. The model used by the advisor is based on the Discounted Cash Flow model according to the recovery forecasts made by the special servicers.



## Part A - Accounting policies (CONTINUED)

On the other hand, the fair value of the equity instruments recognized with regard to the intervention in favour of Banca Carige S.p.A. was determined using internal models (Discounted Cash Flow and Market Multiples applied in a multi-scenario analysis) also referring to the valuation of the financial assets of the Voluntary Scheme (supported by the appointed advisor) included in the 2018 Report of the Voluntary Scheme.

Both the equities were classed as fair value 3.

### **Investment Funds**

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

Funds are generally classified as Level 1 when a quote on an active market is available.

The funds are classified as Level 2 and Level 3 depending on the availability of the NAV, the transparency of the portfolio and possible constraints/limitations.

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

Financial instruments not measured fair value, credits and debits recorded at amortised cost included, are not managed based on fair value. For these financial instruments fair value is calculated for disclosure purposes only and does not impact the balance sheet or the profit or loss. Additionally, since these assets and liabilities are not generally traded, there is significant management judgment required to determine their fair values as defined by IFRS 13.

#### **Financial assets recorded at amortised cost**

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

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

#### **Financial liabilities recorded at amortised cost**

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

#### **Cash and cash balances**

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

Quantitative information

A.4.5 Fair value hierarchy

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

(Amounts in € thousand)

ASSETS/LIABILITIES AT FAIR VALUE	12.31.2018			12.31.2017		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	3,390	3,557	13,271			
a) financial assets held for trading	3,354	3,523	-			
b) financial assets designed at fair value	-	-	-			
c) other financial assets mandatorily at fair value	36	34	13,271			
2. Financial assets at fair value through other comprehensive income	961,767	-	5			
<i>Financial assets held for trading (ex IAS 39)</i>				6,030	4,834	15
<i>Financial assets designated at fair value through profit or loss (ex IAS 39)</i>				-	-	-
<i>Available-for-sale financial assets (ex IAS 39)</i>				1,042,465	-	5,224
3. Hedging derivatives	-	3,314	-	-	458	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>965,157</b>	<b>6,871</b>	<b>13,276</b>	<b>1,048,495</b>	<b>5,292</b>	<b>5,239</b>
1. Financial liabilities held for trading	1,552	669	-			
2. Financial liabilities designated at fair value	-	-	-			
<i>Financial liabilities held for trading (ex IAS 39)</i>				2,032	579	6
<i>Financial liabilities designated at fair value (ex IAS 39)</i>				-	-	-
3. Hedging derivatives	-	5,341	-	-	12,694	-
<b>Total</b>	<b>1,552</b>	<b>6,010</b>	<b>-</b>	<b>2,032</b>	<b>13,273</b>	<b>6</b>

Key:

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

In 2018 there were no transfers between levels of fair value hierarchy (level 1 and level 2). Credit Value Adjustment (CVA) and/or Debit Value Adjustment (DVA) have not been applied in determining the fair value of derivative financial instruments.

## Part A - Accounting policies (CONTINUED)

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

(Amounts in € thousand)

	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS			FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS
	TOTAL	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily at fair value	HEDGING DERIVATIVES				
<b>1. Opening balance</b>	<b>5,234</b>	<b>6</b>	<b>-</b>	<b>5,228</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>2. Increases</b>	<b>16,205</b>	<b>5,128</b>	<b>-</b>	<b>11,077</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
2.1 Purchases	14,613	5,128	-	9,485	-	-	-	-	
2.2 Profits recognised in:	1,592	-	-	1,592	-	-	-	-	
2.2.1 Income Statement	1,592	-	-	1,592	-	-	-	-	
- of which Unrealised gains	1,585	-	-	1,585	-	-	-	-	
2.2.2 Shareholders' Equity	-	X	X	X	-	-	-	-	
2.3 Transfers from other levels	-	-	-	-	-	-	-	-	
2.4 Other increases	-	-	-	-	-	-	-	-	
<b>3. Decreases</b>	<b>(8,168)</b>	<b>(5,134)</b>	<b>-</b>	<b>(3,034)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
3.1 Sales	(5,135)	(5,128)	-	(7)	-	-	-	-	
3.2 Redemptions	-	-	-	-	-	-	-	-	
3.3 Losses recognised in:	(3,033)	(6)	-	(3,027)	-	-	-	-	
3.3.1 Income Statement	(3,033)	(6)	-	(3,027)	-	-	-	-	
- of which Unrealised losses	(3,033)	(6)	-	(3,027)	-	-	-	-	
3.3.2 Shareholders' Equity	-	X	X	X	-	-	-	-	
3.4 Transfers to other levels	-	-	-	-	-	-	-	-	
3.5 Other decreases	-	-	-	-	-	-	-	-	
<b>4. Closing balances</b>	<b>13,271</b>	<b>-</b>	<b>-</b>	<b>13,271</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	

The opening balance shown in the table refers to the financial assets recorded at January 1, 2018 after the reclassifications made following the first application of IFRS 9 (for further details, see Section 4 - Other matters of the Notes of the Accounts).

The sub-items 2.2.1 "Profits recognised in income statement" and 3.3.1 "Losses recognised in income statement" are included, where present, in Profit and Loss in the following items:

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

The sub-items 2.2.2 "Profits recognised in equity" and 3.3.2 "Losses recognised in shareholders' equity" arising from changes in fair value of "Financial assets at fair value through other comprehensive income" are recognised, if any, in equity item 110. "Revaluation reserves" of shareholder's equity - except losses due to impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under item 130. "Impairment losses/write backs on: b) financial assets at fair value through other comprehensive income" and item 80. "Gains (losses) on financial assets and liabilities held for trading" of the income statement, respectively - until the financial asset is sold, at which time cumulative gains and losses are recognised in profit or loss in item 100.b) "Gains (losses) on disposal or repurchase of: financial assets at fair value through other comprehensive income".

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

(Amounts in € thousand)

	FINANCIAL LIABILITIES HELD FOR TRADING	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	HEDGING DERIVATIVES
<b>1. Opening balance</b>	6	-	-
<b>2. Increases</b>	-	-	-
2.1 Issues	-	-	-
2.2 Losses allocated to:	-	-	-
2.2.1 Income Statement	-	-	-
- of which capital losses	-	-	-
2.2.2 Shareholders' Equity	X	-	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
<b>3. Decreases</b>	(6)	-	-
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Profits recognised in:	(6)	-	-
3.3.1 Income Statement	(6)	-	-
- of which capital gains	(6)	-	-
3.3.2 In equity	X	-	-
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
<b>4. Closing balances</b>	-	-	-

The initial balance shown in the table refers to the financial assets recorded at January 1, 2018 after the reclassifications made following the first application of IFRS 9 (for further details, see Section 4 - Other matters of the notes to the accounts).

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

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

### A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by level of fair value

(Amounts in € thousand)

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	12.31.2018				12.31.2017			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets at amortised cost	23,248,432	8,115,915	9,182,023	6,095,734	-	-	-	-
<i>Held to maturity investments (ex IAS 39)</i>	-	-	-	-	4,826,390	4,855,200	-	-
<i>Loans and receivables with banks (ex IAS 39)</i>	-	-	-	-	13,877,651	-	11,311,889	3,038,741
<i>Loans and receivables with customers (ex IAS 39)</i>	-	-	-	-	2,129,219	-	-	2,204,926
2. Tangible assets held for investment	2,088	-	-	2,950	2,304	-	-	3,491
3. Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>23,250,520</b>	<b>8,115,915</b>	<b>9,182,023</b>	<b>6,098,684</b>	<b>20,835,564</b>	<b>4,855,200</b>	<b>11,311,889</b>	<b>5,247,158</b>
1. Financial liabilities at amortised cost	23,278,873	-	3,111	23,275,766	-	-	-	-
<i>Deposits from banks (ex IAS 39)</i>	-	-	-	-	926,001	-	-	926,001
<i>Deposits from customers (ex IAS 39)</i>	-	-	-	-	20,205,036	-	9,622	20,195,477
<i>Debt securities in issue (ex IAS 39)</i>	-	-	-	-	-	-	-	-
for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>23,278,873</b>	<b>-</b>	<b>3,111</b>	<b>23,275,766</b>	<b>21,131,037</b>	<b>-</b>	<b>9,622</b>	<b>21,121,478</b>

Key:

L1 = Level 1 - L2 = Level 2 - L3 = Level 3 - BV = Book Value

## Part A - Accounting policies (CONTINUED)

Property, plant and equipment held for investment consist of one property held by the Bank, the fair value of which corresponds to the market value as determined by an appraisal carried out by an external and independent valuation firm. Discontinued operations refer to a property intended for sale.

### A.5 Day-one profit/loss

Financial instruments are initially recognised at fair value on the recognition date.

The fair value of financial instruments, other than those measured at fair value through profit or loss, at the recognition date is usually assumed to be equal to the amount collected or paid.

For financial instruments held for trading and financial instruments measured at fair value, any difference from the amount collected or paid is recognised in the appropriate line items of the income statement upon initial measurement of the financial instrument.

The use of prudent valuation models, the review processes of these models and their parameters and value adjustments to reflect model risk ensure that the amount recognised in the income statement is not derived from the use of unobservable valuation parameters. In particular, the quantification of the value adjustments relating to the risk model ensures that the part of the fair value of these instruments that refers to the use of subjective parameters is not recognised through profit or loss, but rather as an adjustment to the equity value of those instruments. Accordingly, this item is only subsequently recognised through profit or loss when there is a predominance of objective parameters and, consequently, when the mentioned adjustments are no longer required.

There are no day-one profits/losses to disclose in accordance with paragraph 28 of IFRS 7.





## Part B - Balance sheet - Assets (CONTINUED)

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## Assets

### Section 1 - Cash and cash balances - Item 10

#### 1.1 Cash and cash balances: breakdown

	(Amounts in € thousand)	
	TOTAL 12.31.2018	TOTAL 12.31.2017
(a) Cash	6	613
(b) Demand deposits with central banks	-	-
<b>Total</b>	<b>6</b>	<b>613</b>

### Section 2 - Financial assets at fair value through profit or loss - Item 20

#### 2.1 Financial assets held for trading: product breakdown

ITEM/AMOUNTS	(Amounts in € thousand)		
	TOTAL 12.31.2018		
	L1	L2	L3
<b>A. On-balance sheet assets</b>			
1. Debt securities	5	-	-
1.1 Structured securities	5	-	-
1.2 Other debt securities	-	-	-
2. Equity instruments	2,110	-	-
3. Units in investment funds	2	-	-
4. Loans	-	-	-
4.1 Reverse repos	-	-	-
4.2 Others	-	-	-
<b>Total A</b>	<b>2,117</b>	<b>-</b>	<b>-</b>
<b>B. Derivatives</b>			
1. Financial derivatives	1,236	3,523	-
1.1 trading derivatives	1,236	3,523	-
1.2 related to the fair value option	-	-	-
1.3 other	-	-	-
2. Credit derivatives	-	-	-
2.1 trading derivatives	-	-	-
2.2 related to the fair value option	-	-	-
2.3 other	-	-	-
<b>Total B</b>	<b>1,236</b>	<b>3,523</b>	<b>-</b>
<b>Total (A+B)</b>	<b>3,353</b>	<b>3,523</b>	<b>-</b>

**Key:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial derivatives refer to the positive valuation of CFD contracts on forex, indices, shares, interest rates, commodities and futures used for the operational hedging of CFDs on indices, interest rates and commodities. They amounted to €3,509 thousand (€4,756 thousand as at December 31, 2017).

Sub-item B.1.1 "Derivative instruments - Trading financial derivatives" includes the positive valuations of spot contracts for securities that meets the definition of held for trading and currencies to be settled in times established by market practices ("regular way"). They amounted to €1,250 thousand (€1,758 thousand as at December 31, 2017).

## Part B - Balance sheet - Assets (CONTINUED)

## 2.2 Financial assets held for trading: breakdown by issuer/borrower

ITEM/AMOUNTS	(Amounts in € thousand)
<b>A. ON-BALANCE SHEET ASSETS</b>	<b>TOTAL 12.31.2018</b>
<b>1. Debt securities</b>	<b>5</b>
a) Central banks	-
b) Public entities	-
c) Banks	-
d) Other financial companies	5
of which: insurance companies	-
e) Non-financial companies	-
<b>2. Equity Instruments</b>	<b>2,110</b>
a) Banks	-
b) Other financial companies	175
of which: insurance	-
c) Non-financial companies	1,935
e) Other issuers	-
<b>3. Units in investment funds</b>	<b>2</b>
<b>4. Loans</b>	<b>-</b>
a) Central banks	-
b) Public entities	-
c) Banks	-
d) Other financial entities	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
<b>Total (A)</b>	<b>2,117</b>
<b>B. DERIVATIVE INSTRUMENTS</b>	
a) Central Counterparties	73
b) Others	4,686
<b>Total (B)</b>	<b>4,759</b>
<b>Total (A+B)</b>	<b>6,876</b>

Item B. "Derivative instruments" also includes the positive valuations of spot contracts for securities classified in the HFT portfolio and currencies to be settled within times established by market practices ("regular way").

## 2.3 Financial assets designated at fair value: product breakdown

No data to report.

## 2.4 Financial assets designated at fair value: breakdown by issuer/borrower

No data to report.

## 2.5 Other financial assets mandatorily at fair value: product breakdown

ITEMS/AMOUNTS	(Amounts in € thousand)		
	TOTAL 12.31.2018		
	L1	L2	L3
<b>1. Debt securities</b>	<b>31</b>	<b>34</b>	<b>-</b>
1.1 Structured securities	-	-	-
1.2 Other debt securities	31	34	-
<b>2. Equity instruments</b>	<b>6</b>	<b>-</b>	<b>13,271</b>
<b>3. Units in investment funds</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>
4.1 Reverse repos	-	-	-
4.2 Others	-	-	-
<b>Total</b>	<b>37</b>	<b>34</b>	<b>13,271</b>

### Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The "Other financial assets mandatorily at fair value" primarily consist of the Visa INC class "C" preferred shares, for an amount of €6,086 thousand, which saw a positive change in *fair value* in 2018 of €1,585 thousand and the residual equity exposure following the contribution paid to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund (IDGF), amounting to €7,177 thousand (of which €6,652 relating to the Banca Carige transaction and €525 thousand relating to Carim, Carismi and CariCesena transaction), with a negative effect recorded in the 2018 income statement amounting to €3,025 thousand due to the fair value measurement. For more details on the fair value measurement of financial instruments, please refer to Part A - Accounting Policies - A.4 Information on the fair value of these notes to the accounts.

Equity securities of issuers in default were classified by the Bank as non-performing in the financial statements for a total amount of €6 thousand.

## 2.6 Other financial assets mandatorily at fair value: breakdown by issuer/borrower

	(Amounts in € thousand)
	TOTAL 12.31.2018
<b>1. Equity instruments</b>	<b>13,277</b>
of which: banks	1
of which: other financial companies	6,087
of which: non-financial companies	12
<b>2. Debt securities</b>	<b>65</b>
a) Central Banks	-
b) Public entities	29
c) Banks	2
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	34
<b>3. Quote di O.I.C.R.</b>	<b>-</b>
<b>4. Finanziamenti</b>	<b>-</b>
a) Central Banks	-
b) Public entities	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
<b>Total</b>	<b>13,342</b>

It should be noted that item 1. "Equity instruments" includes the securities recognized as a result of the contributions paid to the Voluntary Scheme set-up by the Interbank Deposit Guarantee Fund, whose total amount (equal to €7,177 thousand) has not showed in the expected details from the table above.

## Part B - Balance sheet - Assets (CONTINUED)

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

## Financial assets held for trading (ex IAS 39 Item 20)

## 2.1 Financial assets held for trading: product breakdown

ITEMS/AMOUNTS	(Amounts in € thousand)		
	TOTAL 12.31.2017		
	LEVEL 1	LEVEL 2	LEVEL 3
<b>A. On-balance sheet assets</b>			
1. Debt securities	18	30	-
1.1 Structured securities	3	-	-
1.2 Other debt securities	15	30	-
2. Equity instruments	2,288	-	9
3. Units in investment funds.	2,019	-	-
4. Loans	-	-	-
4.1 Reverse repos	-	-	-
4.2 Others	-	-	-
<b>Total A</b>	<b>4,325</b>	<b>30</b>	<b>9</b>
<b>B. Derivatives</b>			
1. Financial derivatives	1,705	4,804	6
1.1 trading derivatives	1,705	4,804	6
1.2 related to the fair value option	-	-	-
1.3 other	-	-	-
2. Credit derivatives	-	-	-
2.1 trading derivatives	-	-	-
2.2 related to the fair value option	-	-	-
2.3 other	-	-	-
<b>Total B</b>	<b>1,705</b>	<b>4,804</b>	<b>6</b>
<b>Total (A+B)</b>	<b>6,030</b>	<b>4,834</b>	<b>15</b>

## 2.2 Financial assets held for trading: breakdown by issuer/borrower

ITEMS/AMOUNTS	(Amounts in € thousand)	
	TOTAL 12.31.2017	
<b>A. On-balance sheet assets</b>		
<b>1. Debt securities</b>		<b>48</b>
a) Governments and Central Banks		11
b) Other public entities		-
c) Banks		37
d) Other issuers		-
<b>2. Equity Instruments</b>		<b>2,297</b>
a) Banks		1
b) Other issuers:		2,296
- insurance companies		-
- financial companies		95
- non-financial companies		2,201
- other		-
<b>3. Units in investment funds</b>		<b>2,019</b>
<b>4. Loans</b>		<b>-</b>
a) Governments and Central Banks		-
b) Other public entities		-
c) Banks		-
d) Other issuers		-
<b>Total (A)</b>		<b>4,364</b>
<b>B. Derivative instruments</b>		
a) Banks		346
- fair value		346
b) Customers		6,169
- fair value		6,169
<b>Total (B)</b>		<b>6,515</b>
<b>Total (A+B)</b>		<b>10,879</b>

## Section 3 - Financial assets at fair value through comprehensive income - Item 30

### 3.1 Financial assets at fair value through comprehensive income: product breakdown

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2018		
	L1	L2	L3
<b>1. Debt securities</b>	<b>961,767</b>	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	961,767	-	-
<b>2. Equity instruments</b>	-	-	<b>5</b>
<b>3. Loans</b>	-	-	-
<b>Total</b>	<b>961,767</b>	-	<b>5</b>

**Key:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

"Financial assets at fair value through other comprehensive income" consist of securities issued by sovereign states and residually of equity interests in companies in which the Bank does not exercise control or significant influence for €5 thousand for which, upon first application of IFRS 9, the "FVTOCI" option was exercised.<sup>47</sup> For more details, see the information on Sovereign exposures set out in Part E of the notes to the accounts.

### 3.2 Financial assets at fair value through comprehensive income: breakdown by issuer/borrower

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2018
<b>1. Debt securities</b>	<b>961,767</b>
a) Central banks	-
b) Public entities	961,767
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
<b>2. Equity Instruments</b>	<b>5</b>
a) Banks	-
b) Other issuers:	5
- other financial companies	-
of which: insurance companies	-
- non-financial companies	5
- other	-
<b>3. Loans</b>	-
a) Central banks	-
b) Public entities	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
<b>Total</b>	<b>961,772</b>

<sup>47</sup> With regard to non-trading equity instruments, IFRS 9 provides for the possibility of measuring them at the fair value recognised through other comprehensive income (so-called FVTOCI – fair value through Other Comprehensive Income).

## Part B - Balance sheet - Assets (CONTINUED)

## 3.3 Financial assets at fair value through comprehensive income: gross exposure and total impairment

(Amounts in € thousand)

	GROSS AMOUNT				IMPAIRMENT PROVISION			
	FIRST STAGE	OF WHICH: INSTRUMENTS WITH LOW CREDIT RISK	SECOND STAGE	THIRD STAGE	FIRST STAGE	SECOND STAGE	THIRD STAGE	TOTAL PARTIAL WRITE-OFF
Debt securities	961,938	961,938	-	-	(171)	-	-	-
Loans	-	-	-	-	-	-	-	-
<b>Total 31 December 2018</b>	<b>961,938</b>	<b>961,938</b>	<b>-</b>	<b>-</b>	<b>(171)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total 31 December 2017</b>								
of which: financial assets purchased or originated credit impaired	X	X	-	-	X	-	-	-

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

## Available-for-sale financial assets (ex IAS 39 Item 40)

## 4.1 Available-for-sale financial assets: product breakdown

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2017		
	LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	1,042,465	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	1,042,465	-	-
2. Equity Instruments	-	-	5,224
2.1 Carried at fair value	-	-	5,219
2.2 Carried at cost	-	-	5
3. Units in investment funds	-	-	-
4. Loans	-	-	-
<b>Total</b>	<b>1,042,465</b>	<b>-</b>	<b>5,224</b>

## 4.2 Available-for-sale financial assets: breakdown by issuer/borrower

(Amounts in € thousand)

ITEMS/AMOUNTS	TOTAL 12.31.2017
	<b>1. Debt securities</b>
a) Governments and Central banks	1,042,465
b) Public entities	-
c) Banks	-
d) Other issuers	-
<b>2. Equity instruments</b>	<b>5,224</b>
a) Banks	-
b) Other issuers:	5,224
- insurance companies	-
- financial companies	4,501
- non-financial companies	5
- other	718
<b>3. Units in investment funds</b>	<b>-</b>
<b>4. Loans</b>	<b>-</b>
a) Governments and Central banks	-
b) Public entities	-
c) Banks	-
d) Others entities	-
<b>Total</b>	<b>1,047,689</b>

## Section 4 - Financial assets at amortised cost – Item 40

### 4.1 Financial assets at amortised cost: product breakdown of loans and receivables with banks

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2018						
	CARRYING AMOUNT			FAIR VALUE			
	FIRST AND SECOND STAGE	THIRD STAGE	PURCHASED OR ORIGINATED CREDIT IMPAIRED	L1	L2	L3	
<b>A. Loans and receivables with Central Banks</b>	-	-	-	-	-	-	-
1. Time deposits	-	-	-	X	X	X	X
2. Compulsory reserves	-	-	-	X	X	X	X
3. Reverse repos	-	-	-	X	X	X	X
4. Other	-	-	-	X	X	X	X
<b>B. Loans and receivables with banks</b>	<b>12,427,086</b>	-	-	<b>267,493</b>	<b>9,182,023</b>	<b>3,044,974</b>	<b>3,044,974</b>
1. Loans	3,044,974	-	-	-	-	-	3,044,974
1.1 Current accounts and demand deposits	1,916,128	-	-	X	X	X	X
1.2 Time deposits	1,119,303	-	-	X	X	X	X
1.3 Other loans:	9,543	-	-	X	X	X	X
- Reverse repos	416	-	-	X	X	X	X
- Finance leases	-	-	-	X	X	X	X
- Other	9,127	-	-	X	X	X	X
2. Debt securities	9,382,112	-	-	267,493	9,182,023	-	-
2.1 Structured securities	-	-	-	-	-	-	-
2.2 Other debt securities	9,382,112	-	-	267,493	9,182,023	-	-
<b>Total</b>	<b>12,427,086</b>	-	-	<b>267,493</b>	<b>9,182,023</b>	<b>3,044,974</b>	<b>3,044,974</b>

**Key:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans and receivables with banks for “Current accounts and demand deposits” mainly consist of accounts held with UniCredit S.p.A., with a book value of €1,887,303 thousand (€1,958,602 thousand as at December 31, 2017) and to a lesser extent, of current accounts held with other banks not belonging to the UniCredit Group for securities transactions and to manage the liquidity customers.

“Time deposits” consist of deposits held with UniCredit S.p.A. for a total of €1,119,303 thousand (€1,028,153 thousand as at December 31, 2017), including the compulsory reserve deposit.

The item “Other loans: Other” refers for €5,280 thousand to the amount of the initial and variance margins and collateral deposits placed with credit institutions for derivative transactions and repos (€14,647 thousand as at December 31, 2017), and €3,847 thousand to current receivables associated with the provision of financial services (€3,215 thousand as at December 31, 2017).

The item “Debt securities” includes €9,115,783 thousand relating to debt securities issued by UniCredit S.p.A. (€10,838,910 thousand as at December 31, 2017).

## Part B - Balance sheet - Assets (CONTINUED)

## 4.2 Financial assets at amortised cost: product breakdown of loans and receivables with customers

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2018					
	CARRYING AMOUNT			FAIR VALUE		
	FIRST AND SECOND STAGE	THIRD STAGE	OF WHICH: PURCHASED OR ORIGINATED CREDIT IMPAIRED	L1	L2	L3
<b>1. Loans</b>	<b>2,944,573</b>	<b>2,817</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,050,760</b>
1.1 Current accounts	1,016,947	1,770	-	X	X	X
1.2 Reverse repos	148,768	29	-	X	X	X
1.3 Mortgages	856,856	14	-	X	X	X
1.4 Credit cards, personal loans and wage assignment loans	749,358	783	-	X	X	X
1.5 Finance leases	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X
1.7 Other loans	172,644	221	-	X	X	X
<b>2. Debt securities</b>	<b>7,873,955</b>	<b>-</b>	<b>-</b>	<b>7,848,422</b>	<b>-</b>	<b>-</b>
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	7,873,955	-	-	7,848,422	-	-
<b>Total</b>	<b>10,818,528</b>	<b>2,817</b>	<b>-</b>	<b>7,848,422</b>	<b>-</b>	<b>3,050,760</b>

## Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Debt securities recorded in "Financial assets at amortised cost" consist of government securities and securities issued by Supranational entities. For more details, see the information on Sovereign exposures set out in Part E of the notes to the accounts.

## 4.3 Finance leases

No data to report

## 4.4 Financial assets at amortised cost: breakdown by issuer/borrower of loans and receivables with customers

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2018		
	FIRST AND SECOND STAGE	THIRD STAGE	OF WHICH: PURCHASED OR ORIGINATED CREDIT IMPAIRED
	<b>1. Debt securities</b>	<b>7,873,955</b>	<b>-</b>
a) Public entities	7,873,955	-	-
b) Other financial companies	-	-	-
of which: insurance companies	-	-	-
c) Non-financial companies	-	-	-
<b>2. Loans with:</b>	<b>2,944,573</b>	<b>2,817</b>	<b>-</b>
a) Public entities	8	-	-
b) Other financial companies	171,751	2	-
of which: insurance companies	19,028	-	-
c) Non-financial companies	908	9	-
d) Households	2,771,906	2,806	-
<b>Total</b>	<b>10,818,528</b>	<b>2,817</b>	<b>-</b>



## 4.5 Financial assets at amortised cost: gross exposure and total impairment

(Amounts in € thousand)

	GROSS AMOUNT				IMPAIRMENT PROVISION			TOTAL PARTIAL WRITE-OFF
	FIRST STAGE	OF WHICH: INSTRUMENTS WITH LOW CREDIT RISK	SECOND STAGE	THIRD STAGE	FIRST STAGE	SECOND STAGE	THIRD STAGE	
Debt securities	17,264,880	17,264,880	-	-	(8,812)	-	-	-
Loans	5,991,210	-	14,650	23,936	(10,319)	(5,994)	(21,118)	-
<b>Total 31 December 2018</b>	<b>23,256,090</b>	<b>17,264,880</b>	<b>14,650</b>	<b>23,936</b>	<b>(19,131)</b>	<b>(5,994)</b>	<b>(21,118)</b>	<b>-</b>
<b>Total 31 December 2017</b>								
of which: financial assets purchased or originated credit impaired	X	X	-	-	X	-	-	-

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

## Held-to-maturity investments (ex IAS 39 Item 50)

### 5.1 Held-to-maturity investments: product breakdown

(Amounts in € thousand)

	TOTAL 12.31.2017			
	BV	FV		
		LEVEL 1	LEVEL 2	LEVEL 3
1. Debt securities	4,826,390	4,855,200	-	-
- Structured	-	-	-	-
- Other	4,826,390	4,855,200	-	-
2. Loans	-	-	-	-
<b>Total</b>	<b>4,826,390</b>	<b>4,855,200</b>	<b>-</b>	<b>-</b>

#### Key

FV = fair value  
BV = book value

### 5.2 Held-to-maturity investments: breakdown by issuer/borrower

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2017
<b>1. Debt securities</b>	<b>4,826,390</b>
a) Governments and Central Banks	4,726,466
b) Other public entities	99,924
c) Banks	-
d) Other issuers	-
<b>2. Loans</b>	<b>-</b>
a) Governments and Central Banks	-
b) Other public entities	-
c) Banks	-
d) Other issuers	-
<b>Total</b>	<b>4,826,390</b>
<b>Total fair value</b>	<b>4,855,200</b>

## Part B - Balance sheet - Assets (CONTINUED)

## Loans and receivables with banks (ex IAS 39 Item 60)

## 6.1 Loans and receivables with banks: product breakdown

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2017			
	BV	FV		
		LEVEL 1	LEVEL 2	LEVEL 3
<b>A. Loans and receivables with Central Banks</b>	-	-	-	-
1. Time deposits	-	X	X	X
2. Compulsory reserves	-	X	X	X
3. Reverse repos	-	X	X	X
4. Other	-	X	X	X
<b>B. Loans and receivables with banks</b>	<b>13,877,651</b>	-	<b>11,311,889</b>	<b>3,038,741</b>
<b>1. Loans</b>	<b>3,038,741</b>	-	-	<b>3,038,741</b>
1.1 Current accounts and demand deposits	1,992,673	X	X	X
1.2 Time deposits	1,028,152	X	X	X
1.3 Other loans:		X	X	X
- Reverse repos	54	X	X	X
- Finance leases	-	X	X	X
- Other	17,862	X	X	X
<b>2. Debt securities</b>	<b>10,838,910</b>	-	<b>11,311,889</b>	-
2.1 Structured securities	-	X	X	X
2.2 Other debt securities	10,838,910	X	X	X
<b>Total</b>	<b>13,877,651</b>	-	<b>11,311,889</b>	<b>3,038,741</b>

## Key

FV = fair value

BV = book value

## Loans and receivables with customers (ex IAS 39 Item 70)

## 7.1 Loans and receivables with customers: product breakdown

(Amounts in € thousand)

TYPE OF TRANSACTIONS/AMOUNTS	TOTAL 12.31.2017					
	BOOK VALUE			FAIR VALUE		
	UNIMPAIRED	IMPAIRED		L1	L2	L3
		PURCHASED	OTHER			
<b>Loans</b>	<b>2,126,366</b>	-	<b>2,853</b>	-	-	<b>2,204,926</b>
1. Current accounts	639,726	-	1,828	X	X	X
2. Reverse repos	202,620	-	81	X	X	X
3. Mortgages	516,237	-	14	X	X	X
4. Credit cards, personal loans and wage assignment loans	632,249	-	799	X	X	X
5. Finance leases	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X
7. Other loans	135,534	-	131	X	X	X
<b>Debt securities</b>	-	-	-	-	-	-
8. Structured securities	-	-	-	X	X	X
9. Other debt securities	-	-	-	X	X	X
<b>Total</b>	<b>2,126,366</b>	-	<b>2,853</b>	-	-	<b>2,204,926</b>

## 7.2 Loans and receivables with customers: breakdown by issuer/borrower

(Amounts in € thousand)

TYPE OF TRANSACTION/AMOUNTS	TOTAL 12.31.2017		
	UNIMPAIRED	IMPAIRED	
		PURCHASED	OTHER
<b>1. Debt securities</b>	-	-	-
a) Governments	-	-	-
b) Other public entities	-	-	-
c) Other issuers:	-	-	-
- non-financial companies	-	-	-
- financial companies	-	-	-
- insurance companies	-	-	-
- other	-	-	-
<b>2. Loans</b>	<b>2,126,366</b>	-	<b>2,853</b>
a) Governments	-	-	-
b) Other public entities	-	-	-
c) Other issuers:	2,126,366	-	2,853
- non-financial companies	20,492	-	99
- financial companies	107,681	-	5
- insurance companies	16,651	-	-
- other	1,981,542	-	2,749
<b>Total</b>	<b>2,126,366</b>	-	<b>2,853</b>

## Section 5 – Hedging derivatives – Item 50

### 5.1 Hedging derivatives: breakdown by type of hedge and by level

(Amounts in € thousand)

	FAIR VALUE 12.31.2018				NA 12.31.2018	FAIR VALUE 12.31.2017				NA 12.31.2017
	L1	L2	L3			L1	L2	L3		
<b>A. Financial derivatives</b>	-	<b>3,314</b>	-	<b>570,000</b>	-	<b>458</b>	-	<b>151,109</b>	-	
1) Fair value	-	3,314	-	570,000	-	458	-	151,109	-	
2) Cash flows	-	-	-	-	-	-	-	-	-	
3) Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-	-	
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-	-	
1) Fair value	-	-	-	-	-	-	-	-	-	
2) Cash flows	-	-	-	-	-	-	-	-	-	
<b>Total</b>	-	<b>3,314</b>	-	<b>570,000</b>	-	<b>458</b>	-	<b>151,109</b>	-	

**Key:**

NA = notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

## Part B - Balance sheet - Assets (CONTINUED)

## 5.2 Hedging derivatives: breakdown by hedged assets and risk (balance sheet value)

(Amounts in € thousand)

TRANSACTIONS/TYPE OF HEDGE	FAIR VALUE						CASH FLOWS		NET INVESTMENT IN FOREIGN SUBSIDIARIES	
	MICRO						MICRO	MACRO		
	DEBT SECURITIES AND INTEREST RATE	EQUITIES INSTRUMENTS AND INDEX	CURRENCY AND GOLD	CREDIT	COMMODITY	OTHERS				
1. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	X	-	X	X
2. Financial assets at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
<b>Total assets</b>	-	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	3,314	X	-	X
<b>Total liabilities</b>	-	-	-	-	-	-	<b>3,314</b>	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities Portfolio	X	X	X	X	X	X	-	X	-	-

## Section 6 – Changes in fair value of portfolio hedged financial assets – Item 60

## 6.1 Adjustments to the value of hedged assets: breakdown by hedged portfolio

(Amounts in € thousand)

ADJUSTMENTS TO THE VALUE OF HEDGED ASSETS/AMOUNTS	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Positive changes</b>	<b>4,873</b>	<b>10,130</b>
1.1 of specific portfolios	4,873	10,130
a) financial assets at amortised costs	4,873	10,130
b) financial assets at fair value through other comprehensive income	-	-
1.2 overall	-	-
<b>2. Negative changes</b>	<b>-</b>	<b>(540)</b>
2.1 of specific portfolios	-	(540)
a) financial assets at amortised costs	-	(540)
b) financial assets at fair value through other comprehensive income	-	-
2.2 overall	-	-
<b>Total</b>	<b>4,873</b>	<b>9,590</b>

## Section 7 - Equity investments - Item 70

### 7.1 Equity Investments information on shareholders' equity

NAME	REGISTERED OFFICE	HEADQUARTERS	EQUITY %	VOTING RIGHTS %
A. Subsidiaries				
1. Fineco Asset Management DAC	Dublin	Dublin	100%	100%
B. Joint ventures				
C. Companies under significant influence				

### 7.2 Significant equity investments book value, fair value and dividends received

As required by Circular no. 262 dated December 22, 2005 and following updates: "The bank balance sheet: format and drafting rules" the information referred to in this paragraph is not provided in the individual financial statements as FinecoBank draws up the consolidated financial statements pursuant to the same Circular.

### 7.3 Significant equity investments: accounting data

As required by Circular no. 262 dated December 22, 2005 and following updates: "The bank balance sheet: format and drafting rules" the information referred to in this paragraph is not provided in the individual financial statements as FinecoBank draws up the consolidated financial statements pursuant to the same Circular.

### 7.4 Non-significant investments accounting data

No data to report.

### 7.5 Equity Investments annual changes

	(Amounts in € thousand)	
	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>A. Opening balance</b>	500	-
<b>B. Increases</b>	2,500	500
B.1 Purchases	2,500	500
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
<b>C. Decreases</b>	-	-
C.1 Sales	-	-
C.2 Impairment losses	-	-
C.3 Writedowns	-	-
C.4 Other decreases	-	-
<b>D. Closing balance</b>	3,000	500
<b>E. Total revaluations</b>	-	-
<b>F. Total adjustments</b>	-	-

### 7.6 Commitments to equity interests in joint ventures

No data to report.

### 7.7 Commitments to equity interests in companies under significant influence

No data to report.

## Part B - Balance sheet - Assets (CONTINUED)

## 7.8 Significant restrictions

No data to report.

## 7.9 Other information

No data to report.

## Section 8 - Property, plant and equipment - Item 80

## 8.1 Property, plant and equipment used in the business: breakdown of assets carried at cost

ASSETS/AMOUNTS	(Amounts in € thousand)	
	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Owned assets</b>	<b>14,242</b>	<b>12,901</b>
a) land	-	-
b) buildings	-	-
c) office furniture and fittings	1,608	1,480
d) electronic systems	10,869	9,798
e) other	1,765	1,623
<b>2. Assets under financial lease</b>	<b>-</b>	<b>-</b>
a) land	-	-
b) buildings	-	-
c) office furniture and fittings	-	-
d) electronic systems	-	-
e) other	-	-
<b>Total</b>	<b>14,242</b>	<b>12,901</b>
of which: obtained through enforcement of the guarantees received	-	-

A description of the methods used to calculate depreciation is provided in Part A – Accounting Policies of the notes to the accounts.

## 8.2 Property, plant and equipment held for investment: breakdown of assets carried at cost

ASSETS/AMOUNTS	TOTAL 12.31.2018				TOTAL 12.31.2017			
	CARRYING VALUE	FAIR VALUE			CARRYING VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
<b>1. Owned assets</b>	<b>2,088</b>	-	-	<b>2,950</b>	<b>2,304</b>	-	-	<b>3,491</b>
a) land	-	-	-	-	-	-	-	-
b) buildings	2,088	-	-	2,950	2,304	-	-	3,491
<b>2. Assets under finance lease</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,088</b>	<b>-</b>	<b>-</b>	<b>2,950</b>	<b>2,304</b>	<b>-</b>	<b>-</b>	<b>3,491</b>
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

## 8.3 Property, plant and equipment used in the business: breakdown of revalued assets

No data to report.

## 8.4 Property, plant and equipment held for investment: breakdown of assets measured at fair value

No data to report.

## 8.5 Inventories of property, plant and equipment regulated by IAS 2: breakdown

No data to report.

## 8.6 Property, plant and equipment used in the business: annual changes

(Amounts in € thousand)

	LAND	BUILDINGS	OFFICE FURNITURE AND FITTINGS	ELECTRONIC SYSTEM	OTHER	TOTAL
<b>A. Gross opening balance</b>	-	-	13,873	30,710	10,360	54,943
A.1 Total net reduction in value	-	-	(12,393)	(20,912)	(8,737)	(42,042)
<b>A.2 Net opening balance</b>	-	-	1,480	9,798	1,623	12,901
<b>B. Increases:</b>	-	-	1,206	4,880	704	6,791
B.1 Purchases	-	-	1,204	4,880	704	6,788
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increase in fair value recognised	-	-	-	-	-	-
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	X	X	X	-
B.7 Other changes	-	-	2	-	-	3
<b>C. Decreases:</b>	-	-	(1,078)	(3,809)	(562)	(5,450)
C.1 Sales	-	-	-	(1)	-	(1)
C.2 Depreciation	-	-	(1,055)	(3,664)	(485)	(5,204)
C.3 Impairment losses recognised	-	-	-	-	-	-
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	(20)	-	(77)	(98)
C.4 Decreases in fair value recognised	-	-	-	-	-	-
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment	-	-	X	X	X	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	(3)	(144)	-	(147)
<b>D. Net closing balance</b>	-	-	1,608	10,869	1,765	14,242
D.1 Total net reduction in value	-	-	(13,061)	(24,134)	(9,025)	(46,220)
<b>D.2 Gross closing balance</b>	-	-	14,669	35,003	10,790	60,462
E. Carried at cost	-	-	1,608	10,869	1,765	14,242

The asset classes specified in the table above are carried at cost.

## Part B - Balance sheet - Assets (CONTINUED)

## 8.7 Property, plant and equipment held for investment: annual changes

(Amounts in € thousand)

	TOTAL	
	LAND	BUILDINGS
<b>A. Gross opening balance</b>	-	<b>3,765</b>
A.1 Total net reduction in value	-	(1,461)
<b>A.2 Net opening balance</b>	-	<b>2,304</b>
<b>B. Increases</b>	-	<b>2</b>
B.1 Purchases	-	-
B.2 Capitalised expenditure on improvements	-	2
B.3 Net increases in fair value	-	-
B.4 Write-backs	-	-
B.5 Positive exchange differences	-	-
B.6 Transfer from properties used in the business	-	-
B.7 Other changes	-	-
<b>C. Decreases</b>	-	<b>(218)</b>
C.1 Sales	-	(91)
C.2 Depreciation	-	(109)
C.3 Decreases in fair value	-	-
C.4 Impairment losses	-	-
C.5 Negative exchange differences	-	-
C.6 Transfers to other asset portfolios	-	-
a) properties used in the business	-	-
b) non-current assets classified as held for sale	-	-
C.7 Other changes	-	(18)
<b>D. Net closing balance</b>	-	<b>2,088</b>
D.1 Total net reduction in value	-	(1,512)
<b>D.2 Gross closing balance</b>	-	<b>3,600</b>
E. Fair value measurement	-	2,950

The buildings specified in the table above are carried at cost.

## 8.8 Inventories of property, plant and equipment regulated by IAS 2: annual changes

No data to report.

## 8.9 Commitments to purchase property, plant and equipment

As at December 31, 2018 the Bank had contractual commitments to purchase property, plant and equipment amounting to €540 thousand.

We also report that there are no restrictions on the ownership of tangible assets and there are no tangible assets pledged as security for liabilities.



## Section 9 - Intangible assets - Item 9

### 9.1 Intangible assets: breakdown by type assets

(Amounts in € thousand)

ASSETS/AMOUNTS	TOTAL 12.31.2018		TOTAL 12.31.2017	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
<b>A.1 Goodwill</b>	X	89,602	X	89,602
<b>A.2 Other intangible assets</b>	8,705	-	7,909	-
A.2.1 Assets carried at cost:	8,705	-	7,909	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	8,705	-	7,909	-
A.2.2 Assets carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
<b>Total</b>	<b>8,705</b>	<b>89,602</b>	<b>7,909</b>	<b>89,602</b>

The useful life of software, considered for the calculation of amortisation, is 3 years, while the useful life of other intangible assets with definite life is 5 years. A description of the methods used to calculate depreciation is provided in Part A – Accounting Policies of the notes to the accounts.

### 9.2 Intangible assets: annual changes

(Amounts in € thousand)

	GOODWILL	OTHER INTANGIBLE ASSETS: GENERATED INTERNALLY		OTHER INTANGIBLE ASSETS: OTHER		TOTAL
		FIN	INDEF	FIN	INDEF	
<b>A. Gross opening balance</b>	<b>124,729</b>	-	-	<b>79,811</b>	-	<b>204,540</b>
A.1 Total net reduction in value	(35,127)	-	-	(71,902)	-	(107,029)
<b>A.2 Net opening balance</b>	<b>89,602</b>	-	-	<b>7,909</b>	-	<b>97,511</b>
<b>B. Increases</b>	-	-	-	<b>5,755</b>	-	<b>5,755</b>
B.1 Purchases	-	-	-	5,755	-	5,755
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value recognised:						
- in equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	-	<b>(4,959)</b>	-	<b>(4,959)</b>
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses						
- Amortisation	X	-	-	(4,959)	-	(4,959)
- Write-downs						
+ in equity	X	-	-	-	-	-
+ through profit or loss	-	-	-	-	-	-
C.3 Decreases in fair value						
- in equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
C.4 Transfers to non-current assets and discontinued operations	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
<b>D. Net closing balance</b>	<b>89,602</b>	-	-	<b>8,705</b>	-	<b>98,307</b>
D.1 Total net impairments	(35,127)	-	-	(76,861)	-	(111,988)
<b>E. Gross closing balance</b>	<b>124,729</b>	-	-	<b>85,566</b>	-	<b>210,295</b>
F. Carried at cost	89,602	-	-	8,705	-	98,307

Key

FIN: finite life

INDEF: indefinite life

The asset classes specified in the table above are carried at cost.

## Part B - Balance sheet - Assets (CONTINUED)

### 9.3 Other information

As at December 31, 2018 the Bank had contractual commitments to purchase intangible assets amounting to €721 thousand.

We also report that there were no intangible assets acquired through government concession; no intangible assets were used as collateral for own debts; no intangible assets were held under a finance lease; and there were no revalued intangible assets.

#### **Other information - Impairment test**

Under IAS 36, impairment testing of intangible assets with indefinite useful lives must be performed at least annually and, in any case, whenever there is objective evidence of the occurrence of events that may have reduced their value.

Recoverable value is the greater of the value in use (present value of future cash flows generated by the asset being valued) and the associated fair value, net of sales costs.

The recoverable value of the assets subject to impairment testing must be determined for the individual assets, unless both of the following conditions exist:

- the value in use of the asset is not estimated to be close to the fair value net of selling costs;
- the asset does not generate incoming cash flows largely independent of those coming from other assets (or group of assets).

If these conditions exist, the impairment test is conducted at the level of the Cash Generating Unit (CGU) of the asset, as required by the accounting principle.

According to IAS 36, when determining the value in use of assets subject to impairment testing, reference must be made to the cash flows of assets in their current conditions at the testing date and representing the best estimate by the management of the overall economic conditions in place during the residual useful life of the asset.

For the purposes of impairment testing, the value in use of the cash generating unit (CGU) to which the intangible assets have been assigned must be calculated considering the cash flows for all the assets and liabilities included in the CGU and not just those for which goodwill and/or the intangible asset has been recognised upon application of IFRS 3.

#### **Definition of CGU**

Estimating the value in use for the purposes of any impairment testing of intangible assets, including goodwill, which do not independently generate cash flows, but only in conjunction with other business assets, requires that these assets first be attributed to operating units that are relatively autonomous in the business context (from the points of view of independent cash flows generated and of internal planning and reporting). These operating units are defined as Cash Generating Units (CGU).

Goodwill recorded in these financial statements, deriving from the separate financial statements of the Bank, relates to buy-outs of divisions or companies engaged in trading activities or the distribution of financial, banking and insurance products through personal financial advisors. These activities have been fully integrated with FinecoBank's ordinary operations, as a result it is not possible to isolate the contribution of each company/business division from the Bank's overall income; this means that to establish the recoverability of the value of goodwill recognised in the financial statements it is necessary to take account of the Bank's comprehensive income.

The cash generating unit (CGU) to be considered for the impairment test is therefore the Bank as a whole (including the contribution from the subsidiary Fineco Asset Management DAC, an asset management company incorporated under Irish law, thanks a vertically integrated business model). In view of the specific business model adopted by FinecoBank, which envisages a high level of integration between personal financial advisors and the trading and banking platform, so that the personal financial advisors network is an integral part of the overall offering of the Bank, which includes banking, brokerage and investing services, an allocation of costs/revenues per business units is not considered relevant or meaningful.

#### **Estimating cash flows to determine the value in use of the CGU**

The applicable accounting principles require that the impairment test be carried out by comparing the book value of the CGU to its recoverable value. When the latter proves to be less than the book value, a write-down must be recorded in the financial statements. The recoverable value is the greater of its fair value (net of sales costs) and the related value in use.

The recoverable amount of the CGU in this case is the greater of its fair value (net of costs to sell) and the related value in use.

#### **Impairment test model**

The calculation of the value in use for the purposes of impairment testing is made using the Discounted Cash Flow (DCF) model. The cash flows are determined by subtracting the annual capital requirement generated by the change in the risk-weighted assets from net profit. This capital requirement is determined by considering the long-term capitalisation to be achieved, also in light of the minimum regulatory capital requirements.

## **Cash flows**

The discounted cash flow model used is based on future cash flows estimated by management in four steps:

- year 2019, in which the budget figures were considered (subject to approval by the Board of Directors on December 11, 2018);
- year 2020, which considers the financial projections of the Strategic Plan (submitted for approval by the Board of Directors of December 5, 2017);
- intermediate period of five years from 2021 to 2025, for which the projections of the financial flows are extrapolated by applying beginning in the last explicit estimate period (2020) rates of growth decreasing (from 4% to 2%) to the terminal value;
- terminal value calculated using a nominal growth rate of 2%. The average Eurozone actual GDP rate from 1996 to 2017 was 1.5%. The choice of nominal 2% as "terminal value" growth rate, i.e. corresponding to ~ 0% real growth, was made for prudential reasons.

## **Discount rates of cash flows**

Future financial flows were discounted using a conservative estimate of the discount rate, incorporating the various risk factors linked to the business sector into the cost of equity (Ke). The discount rate is a nominal rate, net of taxes.

In particular, the cost of capital for the Bank is the sum of the following:

- Risk-free rate: the average of the last 6 years of the 5-year Bund. The six-year horizon was adopted in line with the average economic cycle in the eurozone;
- Debt risk premium: the average over the last six years of the Credit Default Swap paid by UniCredit S.p.A.;
- Risk premium on own equity: calculated using the option-based model, based on the average volatility of over the last six years of the shares of banks operating predominantly in the same sector.

Moreover, for prudential reasons, the cost of capital for the Bank was raised to the level of the Germany Commercial Banking of Unicredit Group, which was considered to be the floor value at Group level and equal to 8.11%.

The cost of capital used for the impairment testing has 4 target points (2019 budget, 2020 Multi Year Plan and Terminal Value) within which a linear convergence is calculated.

## **Impairment test results**

The methodology for calculating the value in use described above (model, assumptions and parameters used) was approved by the Board of Directors on January 10, 2019. For the impairment testing the carrying amount of the goodwill and Shareholders' equity was compared with its value in use calculated using that methodology. The outcome of the tests (approved by the Board of Directors of February 5, 2019) confirmed the sustainability of the goodwill recognised in the financial statements as at December 31, 2018, with the value in use significantly higher than the carrying amount.

## **Sensitivity analysis**

Given the complexity of the measurement process and the uncertainty involved in making forecasts on future profitability, especially in the long term, some sensitivity analyses were carried out assuming changes to the main parameters used in the impairment test.

The table below shows the change in the value in use, net of book value and of shareholders' equity, in relation to changes in the main parameters used in the DCF model underlying the impairment test.

	1% INCREASE OF THE DISCOUNT RATE AFTER TAXES (KE)	1% INCREASE OF CORE TIER 1 RATIO TARGET	1% DECREASE OF THE NOMINAL GROWTH RATE FOR THE CALCULATION OF TERMINAL VALUE	5% DECREASE OF ANNUAL EARNINGS	USE OF CORE TIER 1 RATIO AS AT 12.31.2018 (21.16%)
Change of value in use	-19.1%	-0.7%	-14.1%	-6.6%	-5.9%

The results confirm the sustainability of the goodwill recognised in the financial statements, as none of the scenarios hypothesised revealed the need for a write-down, as the value in use, calculated applying those variations, was much higher than the book value.

It should also be noted, that the impairment test reaches the break-even assuming changes in the above parameters that are currently unreasonable. The impairment test reached a break-even with an absolute positive change in the discount rate after tax (Ke) of over 17 percentage points, i.e. with a reduction of over 75% of annual earnings (while maintaining all the other parameters and information used unchanged, in both scenarios).

It should be noted that the value of "FinecoBank" shares resulted in a market capitalisation of €5,341 million at December 31, 2018, markedly higher than the Bank's assets and the results provided by the internal model, which confirms the implementation of prudent criteria for calculation of the value in use.

## Part B - Balance sheet - Assets (CONTINUED)

## Section 10 - Tax Assets and Tax Liabilities - Asset item 100 and liability item 60

The item "Tax assets" amounting to €6,714 thousand comprises:

- "Current tax assets" of €467 thousand;
- "Deferred tax assets" of €6,247 thousand. Deferred tax assets are shown in the balance sheet net of the related deferred tax liabilities; the detail is as follows:
  - "Deferred tax assets" of €30,270 thousand recognised as a balancing entry in the income statement;
  - "Deferred tax assets" of €2,740 thousand recognised as a balancing entry of shareholders' equity;
  - "Deferred tax liabilities" of €26,560 thousand recognised as a balancing entry in the income statement;
  - "Deferred tax liabilities" of €203 thousand recognised as a balancing entry of shareholders' equity.

The item "Tax liabilities" amounting to €12,184 thousand, consists exclusively of "Current tax liabilities".

**Current Tax Assets and Liabilities**

ASSETS/AMOUNTS	(Amounts in € thousand)	
	TOTAL 12.31.2018	TOTAL 12.31.2017
Current tax assets	467	1,765
Current tax liabilities	12,184	10,234

**Prepaid/deferred tax assets/liabilities**

In accordance with the law and regulations currently in force:

- the recognition of deferred tax assets for IRES income tax purposes takes into account the expected income figures of the Bank for future years, according to the decisions made by the competent company bodies;
- the recognition of deferred tax assets for IRAP corporate tax purposes takes place on the basis of the Bank's expected income figures for future years, and takes into account changes in the legal context;
- deferred tax liabilities are recognised whenever the relevant requirements are satisfied.

When calculating prepaid/deferred tax assets/liabilities, a 27.5% IRES rate was used (24% standard rate and 3.5% additional rate for banks), as well as IRAP rate of 5.57%.

There were no tax-loss carry-forwards.

**10.1 Deferred tax assets: breakdown**

ASSETS/AMOUNTS	(Amounts in € thousand)	
	TOTAL 12.31.2018	TOTAL 12.31.17
Allocations through profit or loss	26,237	26,679
Allocations through equity	2,740	6,225
Impairment losses on receivables (of which pursuant to Law 214/2011)	4,033	3,828
<b>Total before IAS 12 offset</b>	<b>33,010</b>	<b>36,732</b>
Offset against deferred tax liabilities - IAS 12	(26,763)	(29,271)
<b>Total</b>	<b>6,247</b>	<b>7,461</b>

**10.2 Deferred tax liabilities: breakdown**

LIABILITIES/AMOUNTS	(Amounts in € thousand)	
	TOTAL 12.31.2018	TOTAL 12.31.2017
Allocations through profit or loss	26,560	23,982
Allocations through equity	203	5,289
<b>Total before IAS 12 offset</b>	<b>26,763</b>	<b>29,271</b>
Offset against deferred tax liabilities - IAS 12	(26,763)	(29,271)
<b>Total</b>	<b>-</b>	<b>-</b>

### 10.3 Changes in deferred tax assets (through profit or loss)

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Opening balance</b>	<b>31,446</b>	<b>33,223</b>
<b>2. Increases</b>	<b>3,727</b>	<b>3,912</b>
2.1 Deferred tax assets recognised in the year	3,727	3,508
a) relating to prior years	-	-
b) due to changes in accounting policies	206	-
c) write-backs	-	-
d) other	3,521	3,508
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	404
<b>3. Decreases</b>	<b>(4,903)</b>	<b>(6,629)</b>
3.1 Deferred tax assets cancelled in the year	(4,903)	(6,629)
a) reversals of temporary differences	(4,664)	(6,629)
b) write-downs of non-recoverable items	-	-
c) change in accounting policies	-	-
d) other	(239)	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
a) conversion of tax credits as per Law 214/2011	-	-
b) other	-	-
<b>4. Closing balance</b>	<b>30,270</b>	<b>30,506</b>

The opening balance shown in the table is deriving from the first application of the accounting standard IFRS9.

Increases/decreases in deferred tax assets recognised in the year through profit or loss mainly refer to the following items:

- allocations to and use of provisions for risks and charges.
- allocations to and use of provisions for future personnel costs.

### 10.3bis Changes in deferred tax assets under Law 214/2011 (through profit or loss)

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Opening balance</b>	<b>3,828</b>	<b>4,180</b>
<b>2. Increases</b>	<b>205</b>	<b>-</b>
<b>3. Decreases</b>	<b>-</b>	<b>(352)</b>
3.1 Reversals	-	(352)
3.2 Conversion into tax credits	-	-
a) resulting from operating losses	-	-
b) resulting from tax losses	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>4,033</b>	<b>3,828</b>

## Part B - Balance sheet - Assets (CONTINUED)

## 10.4 Changes in deferred tax liabilities (through profit or loss)

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Opening balance</b>	<b>24,069</b>	<b>23,278</b>
<b>2. Increases</b>	<b>2,688</b>	<b>712</b>
2.1 Deferred tax liabilities arising during the year	2,688	704
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	2,688	704
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	8
<b>3. Decreases</b>	<b>(197)</b>	<b>(8)</b>
3.1 Deferred tax liabilities de-recognised during the year	(197)	(8)
a) reversals of temporary differences	(64)	(8)
b) due to changes in accounting policies	-	-
c) other	(133)	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>26,560</b>	<b>23,982</b>

The opening balance shown in the table is deriving from the first application of the accounting standard IFRS9.

Increases in deferred tax liabilities recorded in the financial year as a balancing item of the income statement refer to the recognition of deferred tax liabilities resulting from the accounting and tax treatment of goodwill.

## 10.5 Changes in deferred tax assets (through equity)

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Opening balance</b>	<b>1,937</b>	<b>7,617</b>
<b>2. Increases</b>	<b>1,128</b>	<b>270</b>
2.1 Deferred tax assets recognised in the year	1,128	270
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	1,128	270
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>(325)</b>	<b>(1,662)</b>
3.1 Deferred tax assets cancelled in the year	(325)	(1,662)
a) reversals of temporary differences	(325)	(1,619)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	-	(43)
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>2,740</b>	<b>6,225</b>

The opening balance shown in the table is deriving from the first application of the accounting standard IFRS9.

The increase in deferred tax assets recognised during the year through equity mainly refer to the fair value valuation of debt securities booked in "Financial asset at fair value through other comprehensive income" item.

The decrease in deferred tax assets recognised during the year through equity refers to the recognition of deferred tax assets on actuarial gains recognised in equity revaluation reserves as per IAS 19 Revised.

## 10.6 Changes in deferred tax liabilities (through equity)

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>1. Opening balance</b>	<b>2,463</b>	<b>5,968</b>
<b>2. Increases</b>	<b>192</b>	<b>1,104</b>
2.1 Deferred tax assets recognised in the year	192	1,104
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	192	1,104
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>(2,452)</b>	<b>(1,783)</b>
3.1 Deferred tax assets cancelled in the year	(2,452)	(1,783)
a) reversals of temporary differences	(2,452)	(1,783)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>203</b>	<b>5,289</b>

The opening balance shown in the table is deriving from the first application of the accounting standard IFRS9.

The increase and decreases in deferred tax liabilities recognised during the year in equity related to the recognition and reversal of deferred tax liabilities as a result of the fair value measurement of debt securities booked in "Financial asset at fair value through other comprehensive income" item.

## 10.7 Other information

No information to report.

## Section 11 - Non-current assets and disposal groups classified as held for sale and associated liabilities - Assets item 110 and liabilities item 70

### 11.1 Non-current assets and disposal groups classified as held for sale: breakdown by type assets

No information to report.

### 11.2 Other information

No information to report.

## Part B - Balance sheet - Assets (CONTINUED)

## Section 12 - Other assets - Item 120

## 12.1 Other assets: breakdown

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
Accrued income and prepaid expenses related to contracts with customers other than capitalised on the related financial assets or liabilities	4,303	2,993
Trade receivables according to IFRS15	8,489	4,985
Items in transit not allocated to relevant accounts	2	18
Items awaiting settlement:		
- notes, cheques and other documents	4,597	4,498
Items in processing:		
- other items in processing	29	99
Current receivables not associated with the provision of financial services	2,188	4,767
Definitive items not recognised under other items:		
- securities and coupons to be settled	5,131	4,617
- other transactions	25,120	16,015
Tax items other than those included in item 100:		
- tax advances	262,261	242,539
- tax credit	6,893	6,875
- tax advances on employee severance indemnities	35	28
Receivables due to disputed items not deriving from lending	119	119
Accrued income and prepaid expenses other than those related to contracts with customers and other than capitalised on the related financial assets or liabilities	24,513	21,132
Improvement and incremental expenses incurred on leasehold assets	6,928	6,774
<b>Total</b>	<b>350,608</b>	<b>315,459</b>

Please note that as a consequence of the first time adoption of the standard IFRS15, the new sub-items "Trade receivables according to IFRS 15" and "Accrued income and prepaid expenses related to contracts with customers other than capitalised on the related financial assets or liabilities" have been added to above table, in order to provide a specific detail for trade receivables, as required by the par. 116 a) of the IFRS15. Furthermore, also the new sub-item "Accrued income and prepaid expenses other than those related to contracts with customers and other than capitalised on the related financial assets or liabilities". So, the balances as at 31 December 2017 have been reclassified into the new sub-items.

The following table "Periodic Change of Accrued Income/Expenses and Prepaid Expenses/Income" discloses the changes incurred in the sub-items "Accrued income and prepaid expenses related to contracts with customers other than capitalised on the related financial assets or liabilities" and "Accrued expenses and prepaid income related to contracts with customers other than capitalised on the related financial assets or liabilities" reported in the tables "Other assets: breakdown" and "Other liabilities: breakdown", respectively, as required by the par. 118 of the IFRS15.



## Periodic Change of Accrued Income/Expenses and Prepaid Expenses/Income

(Amounts in € thousand)

	ACCRUED INCOME AND PREPAID EXPENSES	ACCRUED EXPENSES AND PREPAID INCOME
<b>Opening balance</b>	2,993	1,737
<b>INCREASES</b>	3,454	1,895
a) changes due to business combinations	-	-
b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification (IFRS 15 Par 118.b)	-	-
c) reversal of impairment of a contract asset (IFRS 15 Par 118.c)	-	-
d) change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable) (IFRS 15 Par 118.d)	-	-
e) change in the time frame for a performance obligation to be satisfied (ie for the recognition of revenue arising from a contract liability) (IFRS 15 Par 118.e)	-	-
f) other	3,454	1,895
<b>DECREASES</b>	(2,144)	(832)
a) changes due to business combinations	-	-
c) impairment of a contract asset (IFRS 15 Par 118.c)	-	-
d) change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable) (IFRS 15 Par 118.d)	-	-
e) change in the time frame for a performance obligation to be satisfied (ie for the recognition of revenue arising from a contract liability) (IFRS 15 Par 118.e)	-	-
f) other	(2,144)	(832)
<b>Closing Balance</b>	4,303	2,800

## Transaction price allocated to the remaining performance obligations

With regard to the information required by parag. 120 of IFRS15 ("Transaction price allocated to the remaining performance obligations"), below a quantitative disclosure will be provided with the expected duration ("within 1 year" and "over 1 year") of "Accrued income related to contracts with customers other than capitalised on the related financial assets or liabilities" and "Deferred income related to contracts with customers other than capitalised on the related financial assets or liabilities".

(Amounts in € thousand)

	EXPECTED DURATION OF PERFORMANCE OBLIGATIONS	
	<= 1 YEAR	> 1 YEAR
Unsatisfied (or Partially Unsatisfied) Performance Obligations - Duration - Other Assets (IFRS 15 Par 120a)	4,368	-
Unsatisfied (or Partially Unsatisfied) Performance Obligations - Duration - Other Liabilities (IFRS 15 Par 120a)	935	1,865
<b>Total</b>	5,303	1,865

Lastly, please note that the aggregate amount of revenues from services to customers related to the portion of performance obligations not yet satisfied, showed in the table above "Transaction price allocated to the remaining performance obligations" is equal to €7,168 thousand. 74% of this amount regards performance obligations expected to be satisfied by the next year-end reporting date.

## Part B – Balance sheet - Liabilities

## Liabilities

## Section 1 - Financial liabilities at amortised cost - Item 10

## 1.1 Financial liabilities at amortised cost: product breakdown deposits from banks

(Amounts in € thousand)

TRANSACTIONS TYPE/AMOUNTS	TOTAL 12.31.2018			
	VB	FAIR VALUE		
		L1	L2	L3
<b>1. Deposits from central banks</b>	-	X	X	X
<b>2. Deposits from banks</b>	<b>1,009,774</b>	X	X	X
2.1 Current accounts and demand deposits	52,563	X	X	X
2.2 Time deposits	-	X	X	X
2.3 Loans	933,352	X	X	X
2.3.1 Repos	933,352	X	X	X
2.3.2 Other	-	X	X	X
2.4 Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X
2.5 Other liabilities	23,859	X	X	X
<b>Total</b>	<b>1,009,774</b>	-	-	<b>1,009,774</b>

## Key:

BV = Book value  
L1 = Level 1  
L2 = Level 2  
L3 = Level 3

The item 2.1 "Current accounts and demand deposits" consisted of reciprocal current accounts and loans with UniCredit S.p.A., amounting to €18,318 thousand (€6,093 thousand as at December 31, 2017).

The item "Repos" are represented by repos transactions with UniCredit S.p.A. amounting to €751,841 thousand (€764,353 thousand as at December 31, 2017) and securities lending transactions guaranteed by sums of money with UniCredit Bank AG Munich amounting to €35,668 thousand (€40,348 thousand as at December 31, 2017)

The item "Other liabilities" included margin variations received for repos transactions with UniCredit S.p.A. amounting to €22,547 thousand (€13,340 thousand as at December 31, 2017).

## 1.2 Financial liabilities at amortised cost: product breakdown deposits from customers

(Amounts in € thousand)

TRANSACTIONS TYPE/AMOUNTS	TOTAL 12.31.2018			
	VB	FAIR VALUE		
		L1	L2	L3
1. Current accounts and demand deposits	22,046,700	X	X	X
2. Time deposits	3,106	X	X	X
3. Loans	116,299	X	X	X
3.1 Repos	116,299	X	X	X
3.2 Other	-	X	X	X
4. Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X
5. Other liabilities	102,993	X	X	X
<b>Total</b>	<b>22,269,098</b>	-	3,111	<b>22,265,991</b>

## Key:

BV = Book value  
L1 = Level 1  
L2 = Level 2  
L3 = Level 3

### 1.3 Financial liabilities at amortised cost: product breakdown of debt securities in issue

No data to report.

### 1.4 Breakdown of subordinated deposits/securities

No data to report.

### 1.5 Breakdown of structured deposits/securities

No data to report.

### 1.6 Amounts payable under finance leases

No data to report.

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

## Deposits from banks (ex IAS 39 Item 10)

### 1.1 Deposits from banks: product breakdown

(Amounts in € thousand)

TRANSACTIONS TYPE/COMPONENTS OF THE GROUP	TOTAL 12.31.2017
<b>1. Deposits from central banks</b>	-
<b>2. Deposits from banks</b>	<b>926,001</b>
2.1 Current accounts and demand deposits	42,756
2.2 Time deposits	-
2.3 Loans	868,651
2.3.1 Repos	868,651
2.3.2 Other	-
2.4 Liabilities in respect of commitments to repurchase treasury shares	-
2.5 Other liabilities	14,594
<b>Total</b>	<b>926,001</b>
<b>Fair value - level 1</b>	-
<b>Fair value - level 2</b>	-
<b>Fair value - level 3</b>	<b>926,001</b>
<b>Total fair value</b>	<b>926,001</b>

## Part B - Balance sheet - Liabilities (CONTINUED)

## Deposits from customers (ex IAS 39 Item 20)

## 2.1 Deposits from customers: product breakdown

(Amounts in € thousand)

TRANSACTIONS TYPE/COMPONENTS OF THE GROUP	TOTAL 12.31.2017
1. Current accounts and demand deposits	19,935,285
2. Time deposits	9,631
3. Loans	146,410
3.1 Repos	146,410
3.2 Other	-
4. Liabilities in respect of commitments to repurchase treasury shares	-
5. Other liabilities	113,710
<b>Total</b>	<b>20,205,036</b>
<i>Fair value - level 1</i>	-
<i>Fair value - level 2</i>	9,622
<i>Fair value - level 3</i>	20,195,477
<b>Total fair value</b>	<b>20,205,099</b>

## Section 2 - Financial liabilities held for trading - Item 20

## 2.1 Financial liabilities held for trading: product breakdown

(Amounts in € thousand)

TRANSACTIONS TYPE/AMOUNTS	TOTAL 12.31.2018				FAIR VALUE *
	NA	FAIR VALUE			
		L1	L2	L3	
<b>A. On-balance sheet liabilities</b>					
1. Deposits from banks	-	-	-	-	-
2. Deposits from customers	589	346	-	-	346
3. Debt securities	-	-	-	-	X
3.1 Bonds	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X
3.2 Other securities	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X
3.2.2 Others	-	-	-	-	X
<b>Total A</b>	<b>589</b>	<b>346</b>	<b>-</b>	<b>-</b>	<b>346</b>
<b>B. Derivatives</b>					
1. Financial derivatives	X	1,206	669	-	X
1.1 Trading derivatives	X	1,206	669	-	X
1.2 Related to the fair value option	X	-	-	-	X
1.3 Other	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X
2.1 Trading derivatives	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X
2.3 Other	X	-	-	-	X
<b>Total B</b>	<b>X</b>	<b>1,206</b>	<b>669</b>	<b>-</b>	<b>X</b>
<b>Total (A+B)</b>	<b>X</b>	<b>1,552</b>	<b>669</b>	<b>-</b>	<b>X</b>

## Key

NA = Nominal or Notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

FV\* = Fair value calculated excluding the changes in value due to the change in the issuer's credit rating since the issue date

Financial derivatives refer to the negative valuation of CFD contracts on forex, indices, shares, interest rates, commodities and futures used for the operational hedging of CFDs on indices, interest rates and commodities. They amounted to €699 thousand (€565 thousand as at December 31, 2017).

Sub-item B.1.1 Derivative instruments - Trading financial derivatives includes the negative valuations of spot contracts for securities that meets the definition of held for trading and currencies to be settled in times established by market practices ("regular way"). They amounted to €1,177 thousand (€1,670 thousand as at December 31, 2017).

## 2.2 Breakdown of “Financial liabilities held for trading”: subordinated liabilities

No data to report.

## 2.3 Breakdown of “Financial liabilities held for trading”: structured debts

No data to report.

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

## Financial liabilities held for trading (ex IAS 39 Item 40)

### 4.1 Financial liabilities held for trading: product breakdown

(Amounts in € thousand)

TRANSACTIONS TYPE/AMOUNTS	TOTAL 12.31.2017				FV*
	NA	FV			
		L1	L2	L3	
<b>A. On-balance sheet liabilities</b>					
1. Deposits from banks	-	-	-	-	-
2. Deposits from customers	578	382	-	-	382
3. Debt securities	-	-	-	-	X
3.1 Bonds	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X
3.2 Other securities	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X
3.2.2 Others	-	-	-	-	X
<b>Total A</b>	<b>578</b>	<b>382</b>	<b>-</b>	<b>-</b>	<b>382</b>
<b>B. Derivatives</b>					
1. Financial derivatives	X	1,650	579	6	X
1.1 Trading derivatives	X	1,650	579	6	X
1.2 Related to the fair value option	X	-	-	-	X
1.3 Other	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X
2.1 Trading derivatives	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X
2.3 Other	X	-	-	-	X
<b>Total B</b>	<b>X</b>	<b>1,650</b>	<b>579</b>	<b>6</b>	<b>X</b>
<b>Total (A+B)</b>	<b>X</b>	<b>2,032</b>	<b>579</b>	<b>6</b>	<b>X</b>

#### Key

FV = fair value

FV\* = Fair value calculated excluding the changes in value due to the change in the issuer's credit rating since the issue date

NA = Nominal or Notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

## Part B - Balance sheet - Liabilities (CONTINUED)

## Section 3 - Financial liabilities designated at fair value - Item 30

No data to report.

## Section 4 - Hedging derivatives - Item 40

## 4.1 Hedging derivatives: breakdown by type of hedge and by level

(Amounts in € thousand)

	NA	FAIR VALUE 12.31.2018			NA	FAIR VALUE 12.31.2017		
	12.31.2018	L1	L2	L3	12.31.2017	L1	L2	L3
<b>A. Financial derivatives</b>	<b>576,477</b>	-	5,341	-	<b>1,085,339</b>	-	12,694	-
1) Fair value	576,477	-	5,341	-	1,085,339	-	12,694	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
<b>Total</b>	<b>576,477</b>	-	5,341	-	<b>1,085,339</b>	-	12,694	-

## Key:

NA = notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

The hedging derivatives as at December 31, 2017 included the negative fair value of derivatives entered into with UniCredit S.p.A. for €9,320 thousand.

## 4.2 Hedging derivatives: breakdown by hedged assets and risk

(Amounts in € thousand)

TRANSACTIONS/TYPE OF HEDGE	FAIR VALUE							CASH FLOWS			NET INVESTMENT IN FOREIGN SUBSIDIARIES
	MICRO							MACRO	MICRO	MACRO	
	DEBT SECURITIES AND INTEREST RATE	EQUITIES INSTRUMENTS AND INDEX	CURRENCY AND GOLD	CREDIT	COMMODITY	OTHERS					
1. Financial assets at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X	
2. Financial assets at amortised cost	-	X	-	-	X	X	X	-	X	X	
3. Portfolio	X	X	X	X	X	X	5,341	X	-	X	
4. Other transactions	-	-	-	-	-	-	X	-	X	-	
<b>Total assets</b>	-	-	-	-	-	-	<b>5,341</b>	-	-	-	
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X	
2. Portfolio	X	X	X	X	X	X	-	X	-	X	
<b>Total liabilities</b>	-	-	-	-	-	-	-	-	-	-	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X	
2. Financial assets and liabilities Portfolio	X	X	X	X	X	X	-	X	-	-	

## Section 5 – Changes in fair value of portfolio hedged financial liabilities - Item 50

### 5.1 - Adjustments to the value of hedged financial liabilities: breakdown by hedged portfolio

(Amounts in € thousand)		
ADJUSTMENTS TO THE VALUE OF HEDGED LIABILITIES/AMOUNTS	TOTAL 12.31.2018	TOTAL 12.31.2017
1. Positive changes to financial liabilities	2,600	-
2. Negative changes to financial liabilities	-	(3,772)
<b>Total</b>	<b>2,600</b>	<b>(3,772)</b>

## Section 6 – Tax liabilities – Item 60

See section 10 of assets.

## Section 7 – Liabilities included in disposal groups classified as held for sale – Item 70

See section 11 of assets.

## Section 8 – Other liabilities – Item 80

### 8.1 Other liabilities: breakdown

(Amounts in € thousand)		
	TOTAL 12.31.2018	TOTAL 12.31.2017
Accrued expenses and deferred income related to contracts with customers other than capitalised on the related financial assets or liabilities	2,800	1,737
Other liabilities relative to employees	12,349	11,378
Other liabilities due to directors and statutory auditors	163	148
Sums available to be paid to customers	3,333	4,650
Items in processing:		
- incoming bank transfers	543	423
- other items in processing	18	57
Items awaiting settlement:		
- outgoing bank transfers	94,545	75,288
- POS and ATM cards	97	16,581
Current payables not related to the provision of financial services	23,751	23,583
Definitive items not recognised under other items:		
- securities and coupons to be settled	12,921	30,351
- payment authorisations	21,716	19,068
- other items	18,200	12,373
Payables for share-based payments or shares of the Parent Company UniCredit	338	938
Illiquid items for portfolio transactions	22,123	18,097
Tax items other than those included in item 60:		
- sums withheld from third parties as withholding agent	17,805	22,173
- other	98,167	94,342
Accrued expenses and deferred income other than those related to contracts with customers and other than capitalised on the related financial assets or liabilities	157	148
Social security contributions payable	6,415	6,845
<b>Total</b>	<b>335,441</b>	<b>338,180</b>

On December 22, 2017 the 5th update of Circular no. 262 was enacted: "The bank balance sheet: format and drafting rules" which provided that provisions for off-balance sheet exposures must be shown in liability item 100. "Provisions for risks and charges" instead of the previous liability item 100. "Other liabilities" provided for in the 4th update of Circular 262. It should be noted that as of December 31, 2017, any provisions for off-balance sheet exposures had been recorded.

Please note that as a consequence of the first time adoption of the standard IFRS15, the new sub-item "Accrued expenses and deferred income related to contracts with customers other than capitalised on the related financial assets or liabilities" has been added to above table, in order to

## Part B - Balance sheet - Liabilities (CONTINUED)

provide a specific detail for liabilities from contracts with customers, as required by the par. 116 a) of the IFRS15. Furthermore, also the new sub-item "Accrued expenses and deferred income other than those related to contracts with customers and other than capitalised on the related financial assets or liabilities" has been added to above table. Balances as at 31 December 2017 have been reclassified into the new sub-items.

## Section 9 - Provisions for employee severance pay - Item 90

## 9.1 Provisions for employee severance pay: annual changes

	(Amounts in € thousand)	
	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>A. Opening balance</b>	<b>4,999</b>	<b>5,253</b>
<b>B. Increases</b>	<b>136</b>	<b>125</b>
B.1 Provisions for the year	70	65
B.2 Other increases	66	60
<b>C. Decreases</b>	<b>(574)</b>	<b>(379)</b>
C.1 Payments made	(305)	(155)
C.2 Other decreases	(269)	(224)
<i>of which adjustments for actuarial gains on Employee Severance Fund (IAS19R)</i>	<i>(234)</i>	<i>(211)</i>
<b>D. Closing balances</b>	<b>4,561</b>	<b>4,999</b>
<b>Total</b>	<b>4,561</b>	<b>4,999</b>

## 9.2 Other information

The "TFR" provision for Italy-based employee benefits is considered to be a "post-retirement defined benefit". It is therefore recognised on the basis of an actuarial estimate of the amount of benefit accrued by employees discounted to present value. This benefit is calculated by an external actuary using the unit credit projection method (see Part A.2 - The Main Items of the Accounts).

The Provision for employee severance pay covers the amount of the rights accrued in that respect up to December 31, 2018 by employees, under current legal regulations, as well as national collective bargaining agreements and supplementary company agreements.

The financial year under review was characterised by:

- normal events relating to the employee severance pay provision in accordance with legal provisions and company agreements in force;
- changes associated with employment contracts pursuant to Article 1406 and following of the Civil Code dealing with individual mobility within the Group.

In 2007, the new supplementary pension reform pursuant to Legislative Decree no. 252/2005 became effective and, as a result the amounts accrued up to December 31, 2006 were kept with the Company, whilst the amounts of employee severance pay provision accruing as of 1 January 2007 were transferred to the supplementary pension funds or the INPS Treasury fund according to the option adopted by the employees (within June 30, 2007). The result is that:

- the employee severance fund accrued up to December 31, 2006 (or until the date of the option - falling between January 1, 2007 and June 30, 2007 - adopted by the employees if they decided to transfer their employee severance pay provision to a supplementary pension fund) continues to be a "defined-benefit" plan and therefore subject to actuarial valuation, although based on simplified actuarial assumptions which no longer take account of estimated future pay rises;
- the amounts accrued from January 1, 2007 (or from the date of the option - falling between 1 January 2007 and June 30, 2007 - by the employees if they decided to transfer their employee severance pay provision to a supplementary pension fund), were considered as a "defined-contribution" plan (as the Company's liability ceases at the time it pays the employee severance pay provision accrued to the pension fund chosen by the employee) and therefore the related cost for the period is equal to the amounts paid to the Supplementary Pension fund or the INPS Treasury fund.

The following table shows the main actuarial assumptions used to remeasure the liability.

DESCRIPTION OF THE MAIN ACTUARIAL ASSUMPTIONS	12.31.2018	12.31.2017
Discount rate	1.60%	1.45%
Expected inflation rate	1.20%	1.40%



(Amounts in € thousand)

EMPLOYEE SEVERANCE PAY PROVISION: OTHER INFORMATION	12.31.2018	12.31.2017
<b>Provisions for the year</b>	<b>70</b>	<b>65</b>
- Current service cost	-	-
- Interest expense on defined benefit obligations	70	65
- Gains and losses on curtailments and settlements	-	-
- Past service cost	-	-
<b>Actuarial gains (losses) recognised in revaluation reserves (OCI)</b>	<b>(234)</b>	<b>(211)</b>
- Actuarial gains (losses) for the year	(85)	(202)
- Actuarial gains/losses on demographic assumptions	1	-
- Actuarial gains/losses on financial assumptions	(150)	(9)

As required by IAS 19 Revised, a sensitivity analysis was conducted aimed at identifying how the present value of the liability changes when the actuarial assumptions considered most significant are changed, while keeping the other actuarial assumptions constant. A change of -25 basis points in the discount rate would result in an increase in the liability of €135 thousand (+2.96%), whereas an equivalent increase in the rate would result in a reduction of the liability of €131 thousand (-2.86%). A change of -25 basis points in the inflation rate would result in a decrease in the liability of €82 thousand (-1.79%), whereas an equivalent increase in the rate would result in an increase in the liability of €83 thousand (+1.82%).

## Section 10 - Provisions for risks and charges - Item 100

### 10.1 - Provisions for risks and charges: breakdown

(Amounts in € thousand)

ITEMS/COMPONENTS	TOTAL 12.31.2018	TOTAL 12.31.2017
1. Provisions for credit risk of commitments and financial guarantees given	49	-
2. Provisions for other commitments and other guarantees given	-	-
3. Provisions for retirement payments and similar obligations	-	-
4. Other provisions for risks and charges	109,756	112,414
4.1 legal and tax disputes	32,290	34,987
4.2 staff expenses	4,809	5,690
4.3 other	72,657	71,737
<b>Total</b>	<b>109,805</b>	<b>112,414</b>

On December 22, 2017 the 5th update of Circular no. 262 was enacted: "The bank balance sheet: format and drafting rules" which provided that provisions for off-balance sheet exposures must be shown in liability item 100. "Provisions for risks and charges" instead of the previous liability item 100. "Other liabilities" provided for in the 4th update of Circular 262. It should be noted that as of December 31, 2017, any provisions for off-balance sheet exposures had been recorded.

Item 4.1 "legal and tax disputes" mainly includes provisions made to cover complaints and disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers, in relation to normal banking activities, and other parties for €28,045 thousand (€31,056 thousand as at December 31, 2017) and provisions for tax disputes (penalties and interest) for €3,885 thousand (€3,931 thousand as at December 31, 2017). This provision includes the court costs borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.

Item 4.2 "staff expenses" includes, mainly, the provisions made for the variable remuneration to be paid to employees in subsequent years, which have an uncertain due date and/or amount.

Item 4.3 "Other" includes the Supplementary customer indemnity provision, of €64,139 thousand (€64,983 thousand as at December 31, 2017), the Provision for contractual payments, of €2,266 thousand (€2,311 thousand as at December 31, 2017) and other provisions made for risks related to the Bank's business and operations, of €6,252 thousand (€4,443 thousand as at December 31, 2017).

## Part B - Balance sheet - Liabilities (CONTINUED)

## 10.2 Provisions for risks and charges: annual changes

(Amounts in € thousand)

	PROVISIONS FOR OTHER COMMITMENTS AND OTHER GUARANTEES GIVEN	PROVISIONS FOR RETIREMENT PAYMENTS AND SIMILAR OBLIGATIONS	OTHER PROVISIONS FOR RISKS AND CHARGES	TOTAL
<b>A. Opening balance</b>	-	-	112,414	112,414
<b>B Increases</b>	-	-	9,913	9,913
B.1 Provisions for the year	-	-	9,024	9,024
B.2 Changes due to the passage of time	-	-	884	884
B.3 Changes due to variations in the discount rate	-	-	5	5
B.4 Other increases	-	-	-	-
<b>C Decreases</b>	-	-	(12,571)	(12,571)
C.1 Amounts used in the year	-	-	(12,125)	(12,125)
C.2 Changes due to variations in the discount rate	-	-	(9)	(9)
C.3 Other decreases	-	-	(437)	(437)
<b>D. Closing balance</b>	-	-	109,756	109,756

“Other decreases” include the integration costs allocated to “Other liabilities”.

## 10.3 Provisions for risks and charges for commitments and financial guarantees given

(Amounts in € thousand)

	PROVISIONS FOR RISKS AND CHARGES FOR COMMITMENTS AND GUARANTEES GIVEN			TOTAL
	FIRST STAGE	SECOND STAGE	THIRD STAGE	
Commitments	10	-	-	10
Financial guarantees given	39	-	-	39
<b>Total</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>49</b>

## 10.4 Provisions for other commitments and other guarantees given

No data to report.

## 10.5 Pensions and other post-retirement defined-benefit obligations

No data to report.

## 10.6 Provisions for risks and charges - other provisions

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
<b>Legal and fiscal disputes</b>	<b>32,290</b>	<b>34,987</b>
- Pending cases	23,830	25,525
- Complaints	4,575	5,531
- Tax disputes	3,885	3,931
<b>Staff expenses</b>	<b>4,809</b>	<b>5,690</b>
<b>Other</b>	<b>72,657</b>	<b>71,737</b>
- Supplementary customer indemnity provision	64,139	64,983
- Provision for contractual payments and payments under non-competition agreements	2,266	2,311
- Other provisions	6,252	4,443
<b>Total provisions for risks and charges</b>	<b>109,756</b>	<b>112,414</b>

(Amounts in € thousand)

PROVISION FOR RISKS AND CHARGES	TOTAL 12.31.2017	USES	TRANSFERS AND OTHER CHANGES	ACTUARIAL GAINS (LOSSES) IAS 19R *	NET PROVISIONS**	TOTAL 12.31.2018
<b>Legal and fiscal disputes</b>	<b>34,987</b>	<b>(3,362)</b>	-	-	<b>665</b>	<b>32,290</b>
- Pending cases	25,525	(2,418)	248	-	475	23,830
- Complaints	5,531	(898)	(248)	-	190	4,575
- Tax disputes	3,931	(46)	-	-	-	3,885
<b>Staff expenses</b>	<b>5,690</b>	<b>(4,471)</b>	<b>(437)</b>	-	<b>4,027</b>	<b>4,809</b>
<b>Other</b>	<b>71,737</b>	<b>(4,292)</b>	-	<b>(4,830)</b>	<b>10,042</b>	<b>72,657</b>
- Supplementary customer indemnity provision	64,983	(1,646)	-	(4,823)	5,625	64,139
- Contractual payments and payments under non-competition agreements	2,311	(90)	-	(7)	52	2,266
- Other provisions	4,443	(2,556)	-	-	4,365	6,252
<b>Total provisions for risks and charges</b>	<b>112,414</b>	<b>(12,125)</b>	<b>(437)</b>	<b>(4,830)</b>	<b>14,734</b>	<b>109,756</b>

\* The item "IAS 19R actuarial gains (losses)" includes the actuarial gains (losses) recognised in the item "Revaluation reserves" in application of IAS 19R.

\*\* The item "Net provisions" includes the costs recognised in their own income statement item to better reflect their nature (e.g. "Staff expenses", "Administrative costs" and "Interest expenses and similar charges").

The following table shows the main actuarial assumptions used to measure the liability for the supplementary customer indemnity provision and the provision for contractual payments.

DESCRIPTION OF THE MAIN ACTUARIAL ASSUMPTIONS	12.31.2018	12.31.2017
Discount rate	1.60%	1.45%
Salary increase rate	1.00%	2.60%

As required by IAS 19 Revised, a sensitivity analysis was conducted aimed at identifying how the present value of the liability changes when the actuarial assumptions considered most significant are changed, while keeping the other actuarial assumptions constant.

With reference to the supplementary customer indemnity provision, a change of -25 basis points in the discount rate would result in an increase in liabilities of €1,707 thousand (+2.66%); an equivalent increase in the rate, on the other hand, would reduce the liability by €1,638 thousand (-2.55%). A change of -25 basis points in the salary base would result in a reduction in the liability of €495 thousand (-0.77%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €508 thousand (+0.79%).

With reference to the provision for contractual payments, a change of -25 basis points in the discount rate would result in an increase in liabilities of €36 thousand (+1.73%); an equivalent increase in the rate, on the other hand, would reduce the liability by €35 thousand (-1.67%). A change of -25 basis points in the salary base would result in a reduction in the liability of €2 thousand (-0.09%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €2 thousand (+0.09%).

In addition, for the other provisions recognised in the financial statements on the basis of IAS 37, where the effect of the time value of money is significant (generally when payment is to be made more than 18 months from recognition), the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments. As at December 31, 2018 an analysis was conducted to assess the impact on the provision is made of a variation of +/- 25 basis points in the discount rate and no significant impacts were found.

The **Provision for legal disputes** includes provisions made to cover complaints and disputes for damage to customers arising from the unlawful behaviour of the Bank's personal financial advisors, provisions relating to pending disputes with personal financial advisors (generally employment-related) and other ongoing court and out-of-court litigation with customers, in relation to normal banking activities, and other parties. This provision includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties.

The **Supplementary customer indemnity provision** is accrued to cover the amount of severance indemnity to be paid to the PFA network pursuant to art. 1751 of the Italian Civil Code, in the event of termination of the contract for reasons not attributable to the advisor, such as, for example, when reaching retirement age.

The amount of the obligation at the end of the period was assessed with the aid of an independent actuary.

The **Provision for staff expenses** includes provisions made in relation to the variable remuneration to be paid to employees in subsequent years which have an uncertain due date and amount.

The **Provision for contractual payments and payments under non-competition agreements** is related to a limited number of personal financial advisors; these payments are contractually provided. More specifically, the non-competition agreement is an extension of the loyalty obligation at the end of the employment contract which protects the Bank from competition from former personal financial advisors; contractual payments are a special indemnity that the Bank agrees to pay to personal financial advisors, who opted to transfer the rights and obligations arising from their contract with the Bank to third parties, where these advisors continue to keep an ethical and professional conduct with the Bank after termination of

### Part B - Balance sheet - Liabilities (CONTINUED)

employment, with specific regard to the customer portfolio. The amount of the obligation at the end of the period relating to contractual payments was assessed with the aid of an independent actuary.

The **Provision for tax disputes** is allocated to cover tax demands received from the Italian Revenue Agency following tax audits carried out on the Bank over the years, in relation to which the Bank considers it has calculated the tax correctly and legitimately and has therefore submitted an appeal at various levels of proceedings.

The above provisions for risks and charges include the allocations for fines and interest for the additional tax being contested and requested by the Tax Authorities through tax bills or payment notices paid and for the estimated amount of legal expenses to be incurred in the various proceedings.

For more details, see Part E – Information on risks and hedging policies – Section 5 – Operational risk – paragraph "Risks arising from tax disputes and audits" of these Notes to the accounts.

The **Other Provisions** are mainly allocated to cover the risks related to the business and operations of the Bank. The provision specifically includes provisions for marketing and customer loyalty campaigns, incentive plans for the personal financial advisors and the provision for training events for the personal financial advisors.

#### Section 11 - Redeemable shares - Item 120

##### 11.1 Redeemable shares: breakdown No data to report.

No data to report.

#### Section 12 - Group Shareholders' equity - Items 110, 130, 140, 150, 160, 170 and 180

##### 12.1 "Share capital" and "Treasury shares": breakdown

As at December 31, 2018, share capital came to €200,773 thousand, comprising 608,404,395 ordinary shares with a par value of €0.33 each.

As at December 31, 2018, the Bank held 1,401,288 treasury shares, corresponding to 0.23% of the share capital, for an amount of € 13,960 thousand. During 2018 n. 27,644 shares were purchased in relation to the "2017 PFA Incentive System" for personal financial advisors identified as "Key personnel" and n. 1,971,871 shares were purchased in relation to the "2015--2017 PFA PLAN" for selected personal financial advisors, in accordance with what was authorised by the FinecoBank Ordinary Shareholders' Meeting on April 11, 2017. During the same period, 658,624 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors in relation to the "2015-2017 PFA PLAN".

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

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

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

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

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
Share capital	200,773	200,545
Share premium reserve	1,934	1,934
Reserves	355,673	323,932
- Legal reserve	40,155	40,109
- Extraordinary reserve	272,454	251,367
- Treasury shares reserve	13,960	365
- Other reserves	29,104	32,091
(Treasury shares)	(13,960)	(365)
Revaluation reserves	(9,794)	(8,340)
Equity instruments	200,000	-
Net Profit (Loss) for the year	227,922	214,284
<b>Total</b>	<b>962,548</b>	<b>731,990</b>

## 12.2 Share capital - Number of shares of the Parent Company: annual changes

ITEMS/TYPE	ORDINARY	OTHER
<b>A. Shares outstanding at the beginning of the year</b>		
- fully paid	607,713,345	-
- not fully paid	-	-
A.1 Treasury shares (-)	(60,397)	-
<b>A.2 Shares outstanding: opening balance</b>	<b>607,652,948</b>	-
<b>B. Increases</b>		
B.1 New issues		
- against payment:		
- business combinations	-	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- free		
- to employees	691,050	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	658,624	-
<b>C. Decreases</b>		
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(1,999,515)	-
C.3 Business transfers	-	-
C.4 Other changes	-	-
<b>D. Shares outstanding: closing balance</b>	<b>607,003,107</b>	-
D.1 Treasury shares (+)	1,401,288	-
D.2 Shares outstanding at the end of the year		
- fully paid	608,404,395	-
- not fully paid	-	-

The item B.3 Other changes reports the shares allocated to the personal financial advisors under the stock granting plan ("2015-2017 PFA Plan") for FinecoBank's Personal Financial Advisors and Network Managers.

## 12.3 Share capital: other information

The shares are not subject to any right, privilege or constraint; there are no shares reserved for issue under option and sales contracts.

## 12.4 Reserves from allocation of profit from previous years: other information

The reserves from profits consist of the:

- Legal reserve, amounting to €40,155 thousand;
- Extraordinary reserve, amounting to €272,454 thousand;
- Reserve for treasury shares held, amounting to €13,960 thousand.

Shareholders' equity also includes the negative reserve recognized following the introduction of IFRS 9, amounting to €-4,868 thousand.

## Part B - Balance sheet - Liabilities (CONTINUED)

As previously mentioned in parag. 12.1 "Share capital and Treasury shares: breakdown", the Board of Directors of FinecoBank held on February 6, 2018, approved execution of the incentive/loyalty systems "2014-2017 Top Management Multi-Year Plan" and 2014 and 2015 Incentive systems with a consequent increase in share capital, against with the reserves from profits have been reduced for an amount of €228 thousand.

The FinecoBank Shareholders' Meeting of April 11, 2018 approved the allocation of profit for the year 2017, amounting to €214,284 thousand, as follows:

- €46 thousand to the Legal reserve, corresponding to 0.02% of the profit for the year, having reached the limit of a fifth of the share capital;
- €40,843 thousand to the extraordinary reserve;
- to the 608,404,395 ordinary shares with a par value of €0.33, a unit dividend of €0.285 for a total amount of €173,395 thousand.

The share of dividends not distributed to treasury shares held by the bank on the record date, equal to €25 thousand, was allocated to the Extraordinary Reserve.

As previously mentioned in parag. 12.1 "Share capital and Treasury shares: breakdown", during 2018 a total of n. 1,999,515 shares were purchased in relation to the "2017 PFA Incentive System" and in relation to the "2015--2017 PFA PLAN", for a total amount of €20,143 thousand. During the same period, 658,624 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors in relation to the "2015-2017 PFA PLAN". Consequently the Treasury shares item has been increased by €13,960 thousand with a simultaneous reduction in the Extraordinary reserve.

In addition, the Extraordinary Reserve was used for an amount of €5,958 thousand, net of taxes, to pay the coupon and the transaction costs directly attributable to the issue of the Additional Tier 1 Perp Non Call June 2023 bond described below.

**Information on the availability and distribution of shareholders' equity**

In accordance with art. 2427, paragraph 7-bis of the Italian Civil Code, and according to document no. 1 issued by the Italian Accounting Body on October 25, 2004, a detailed description of equity items is provided below, with a breakdown in terms of availability, eligibility for distribution and use in the last three years.

(Amounts in € thousand)

TYPE/DESCRIPTION	AMOUNT	POSSIBLE USE	AMOUNT AVAILABLE	SUMMARY OF THE AMOUNTS USED IN THE PAST THREE YEARS	
				TO COVER LOSSES	FOR OTHER REASONS
Share capital	200,773	-	-	-	-
Share premium reserve	1,934	A, B, C	1,934 <sup>(1)</sup>	-	-
<b>Reserves:</b>					
Legal reserve	40,155	B	40,155	-	-
Extraordinary reserve	272,454	A, B, C	272,454	-	5,256
Reserve related to equity-settled plans	33,972	-	-	-	8,362
Reserve for treasury shares	13,960	-	-	-	-
Other reserves	(4,868)	-	-	-	-
<b>Revaluation reserves:</b>					
Revaluation reserves for financial assets at fair value through comprehensive income	(3,410)	-	-	-	-
Revaluation reserves for actuarial gains (losses) from defined benefit plans	(6,384)	-	-	-	-
<b>TOTAL</b>	<b>548,586</b>		<b>314,543</b>		
Undistributable amount			40,155		
Distributable amount			274,388		

**Key:**

A: for capital increase.

B: to cover losses.

C: for distribution to shareholders.

**Note:**

(1) Pursuant to Article 2431 of the Civil Code, the sum total of this reserve may be distributed only on condition that the legal reserve has reached the limit set in Article 2430 of the Civil Code.

(2) The reserve, when positive, is not available pursuant to article 6 of Legislative Decree 38/2005.

The uses of the reserves made in the previous three years are shown in detail below.

2015 financial year:

- use of the "Extraordinary reserve" for €80 thousand for the capital increase of the first tranche of the "2014 Plan Key People" plan;
- use of the "Reserve for treasury shares" to be purchased for €4,781 thousand for the cash payment of the first tranche of the 2014 stock granting plan ("2014 Plan PFA") to the Bank's personal financial advisors and Network Managers.

2016 financial year:

- use of the "Extraordinary reserve" for €96 thousand for the capital increase of the second tranche of the "2014 Plan Key People" plan;
- use of the "Reserve connected to the Equity settled plans" for €4,218 thousand following the allocation to the personal financial advisors and Network Manager of the Bank of FinecoBank ordinary shares held in the portfolio, as part of the second tranche of the stock granting plan " 2014 Plan PFA ".

Exercise 2017:

- use of the "Extraordinary reserve" for €300 thousand for the capital increase of the third tranche of the "2014 Plan Key People" plan, of the first tranche of the "2014-2017 Multi-year Plan Top Management" plan and of the first tranche of the "Group Executive Incentive System 2014" (Bonus Pool) plan;
- use of the "Reserve related to the equity-settled plans" for €4,144 thousand following the allocation to the personal financial advisors and Network Manager of the Bank of FinecoBank ordinary shares held in the portfolio, as part of the third tranche of the stock granting plan " 2014 Plan PFA ".

## 12.5 Equity instruments: breakdown and annual changes

On January 31, 2018, FinecoBank issued an Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years, Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resetttable Notes). The issue of the financial instrument was authorized by the Board of Directors of FinecoBank on 23 January 2018. The financial instrument is a perpetual private placement<sup>48</sup>, issued for a total of €200,000 thousand and entirely subscribed by UniCredit S.p.A.. The coupon for the first 5.5 years has been fixed at 4.82%. The decision to carry out an intra-group issuance had many advantages: effective cost savings relating, for example, to the underwriting syndicate, and shorter issue times so as not to miss the right moment, maximising the benefits of the transaction.

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

## 12.6 Other information

No data to report.

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<sup>48</sup> Unrated and unlisted

## Part B - Balance sheet - Liabilities (CONTINUED)

## Other information

## 1 Commitments and financial guarantees given

(Amounts in € thousand)

	NOMINAL VALUE OF COMMITMENTS AND FINANCIAL GUARANTEES GIVEN			TOTAL 12.31.2018	TOTAL 12.31.2017
	FIRST STAGE	SECOND STAGE	THIRD STAGE		
	<b>1. Commitments</b>	<b>1,037,687</b>	<b>279</b>	<b>154</b>	<b>1,038,120</b>
a) Central Banks	-	-	-	-	-
b) Governments	-	-	-	-	-
c) Banks	-	-	-	-	2,125,000
d) Other financial companies	164	-	-	164	884
e) Non-financial companies	147	-	-	147	311
f) Households	1,037,376	279	154	1,037,809	778,593
<b>2. Financial guarantees given</b>	<b>256,827</b>	<b>-</b>	<b>-</b>	<b>256,827</b>	<b>256,732</b>
a) Central Banks	-	-	-	-	-
b) Governments	-	-	-	-	-
c) Banks	256,070	-	-	256,070	256,065
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	-	-	-	-	-
f) Households	757	-	-	757	667

The commitments to disburse funds mainly include the margins available on credit lines granted to customers and, to a lesser extent, commitments to disburse reverse repos.

Financial guarantees given to banks include 5 guarantees issued in 2012 on request of UniCredit S.p.A., with indefinite duration, for a total amount of €256,065 thousand.

The "Liquidity Framework Agreement", amounted to €2,125,000 thousand as at December 31, 2017, entered into with the Parent Company in previous years, expired in the first half of 2018 and was not renewed.

## 2 Other commitments and other guarantees given

(Amounts in € thousand)

	NOMINAL AMOUNT	
	TOTAL 31.12.2018	TOTAL 12.31.2017
<b>1. Other guarantees given</b>	<b>-</b>	<b>-</b>
of which: impaired credit exposure	-	-
a) Central Banks	-	-
b) Governments	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
<b>2. Other commitments</b>	<b>152,376</b>	<b>165,987</b>
of which: impaired credit exposure	-	-
a) Central Banks	-	-
b) Governments	-	-
c) Banks	97	790
d) Other financial companies	19,369	26,774
e) Non-financial companies	37	804
f) Households	132,873	137,619

The Other commitments exclusively refer to spot contracts for the purchase and sale of securities to be settled in times established by market practices ("regular way").



### 3. Assets given as collateral for own liabilities and commitments

(Amounts in € thousand)

Portfolios	AMOUNT 12.31.2018	AMOUNT 12.31.2017
1. Financial assets at fair value through profit and loss	-	-
2. Financial assets at fair value through other comprehensive income	529,725	-
3. Financial assets at amortised cost	2,487,813	-
4. Property, plant and equipment	-	-
of which: Property, plant and equipment material assets that constitute inventories	-	-

Assets given as collateral for own liabilities and commitments shown in the above table refer to:

- government securities used to enter into repos with the obligation for the buyer to resell the assets covered by the transaction upon expiration of said transaction. The securities are given as collateral for the entire duration of the transaction;
- government securities given as collateral for bankers' drafts, as guarantee for transactions in foreign markets and/or as guarantee for transactions in derivatives. Securities are used as collateral until the Bank decides to stop the transactions for which the collateral or guarantees are granted;
- debt securities issued by UniCredit S.p.A. given as collateral in securities lending transactions carried out with customers. The securities are given as collateral for the entire duration of the transaction.

As at December 31, 2017, securities were used as collateral for banker's drafts, as guarantee for transactions on foreign markets and as guarantee for derivative contract transactions; more specifically, the Bank used government bonds classified as "Available-for-sale financial assets", for a book value of €131,101 thousand. With regard to securities lending transactions with customers, UniCredit S.p.A. securities were committed, belonging to the "Loans and receivables" category", for a carrying amount of €890,325 thousand.

### 4. Information on operating leases

With regard to outstanding non-cancellable leases, the future payments amount to:

- €1,976 thousand up to twelve months;
- €3,077 thousand from one to five years.

There are no sub-leases in place.

## Part B - Balance sheet - Liabilities (CONTINUED)

## 5. Asset management and trading on behalf of others

(Amounts in € thousand)

TYPE OF SERVICE	AMOUNT 12.31.2018
<b>1. Execution of orders for customers</b>	<b>363,432,347</b>
<b>Securities</b>	<b>84,513,882</b>
a) purchases	43,125,743
1. Settled	42,888,260
2. Unsettled	237,483
b) sales	41,388,139
1. Settled	41,128,733
2. Unsettled	259,406
<b>Derivative contracts</b>	<b>278,918,465</b>
a) purchases	139,439,219
1. Settled	139,139,453
2. Unsettled	299,766
b) sales	139,479,246
1. Settled	139,166,898
2. Unsettled	312,348
<b>2. Segregated accounts</b>	<b>-</b>
<b>3. Custody and administration of securities</b>	<b>-</b>
a) third party securities on deposits: relating to custodian bank activities (excluding segregated accounts)	-
1. securities issued by the bank preparing the accounts	-
2. other securities	-
b) third party securities held in deposits (excluding segregated accounts): other	17,978,915
1. securities issued by the bank preparing the accounts	3,085
2. other securities	17,975,830
c) third-party securities deposited with third parties	17,978,908
d) own securities deposited with third parties	17,572,121
<b>4. Other transactions</b>	<b>27,734,358</b>
Order receipt and transmission	27,734,358
a) purchases	13,795,575
b) sales	13,938,783

## 6. Financial assets subject to accounting offsetting or master netting agreements or similar agreements

(Amounts in € thousand)

TYPE	GROSS AMOUNT OF FINANCIAL ASSETS (A)	AMOUNT OF FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS (B)	NET AMOUNT OF FINANCIAL ASSETS SHOWN IN THE FINANCIAL STATEMENTS (C=A-B)	RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING		NET AMOUNT 12.31.2018 (F=C-D-E)	NET AMOUNT 12.31.2017
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS RECEIVED AS GUARANTEE (E)		
1. Derivatives	998	-	998	-	640	358	-
2. Reverse repos	1,812,375	1,800,522	11,853	11,853	-	-	-
3. Securities lending	444	-	444	444	-	-	179
4. Other	-	-	-	-	-	-	-
<b>Total December 31, 2018</b>	<b>1,813,817</b>	<b>1,800,522</b>	<b>13,295</b>	<b>12,297</b>	<b>640</b>	<b>358</b>	<b>X</b>
<b>Total December 31, 2017</b>	<b>179</b>	<b>-</b>	<b>179</b>	<b>-</b>	<b>-</b>	<b>X</b>	<b>179</b>

## 7. Financial liabilities subject to accounting offsetting or under master netting agreements or similar agreements

(Amounts in € thousand)

TYPE	GROSS AMOUNT OF FINANCIAL LIABILITIES (A)	AMOUNT OF FINANCIAL ASSETS OFFSET IN THE FINANCIAL STATEMENTS (B)	NET AMOUNT OF FINANCIAL LIABILITIES SHOWN IN THE FINANCIAL STATEMENTS (C=A-B)	RELATED AMOUNTS NOT SUBJECT TO ACCOUNTING OFFSETTING		NET AMOUNT 12.31.2018 (F=C-D-E)	NET AMOUNT 12.31.2017
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS RECEIVED AS GUARANTEE (E)		
1. Derivatives	-	-	-	-	-	-	1,173
2. Reverse repos	2,573,577	1,800,522	773,055	763,694	-	9,361	764,353
3. Securities lending	244,373	-	244,373	234,981	-	9,392	177,878
4. Other	-	-	-	-	-	-	-
<b>Total December 31, 2018</b>	<b>2,817,950</b>	<b>1,800,522</b>	<b>1,017,428</b>	<b>998,675</b>	<b>-</b>	<b>18,753</b>	<b>X</b>
<b>Total December 31, 2017</b>	<b>952,754</b>	<b>-</b>	<b>952,754</b>	<b>-</b>	<b>9,350</b>	<b>X</b>	<b>943,404</b>

The amount of assets and liabilities offset in the financial statements refers to the repurchase agreements executed on the MTS market. It should also be noted that, at December 31, 2018 there were swap derivative contracts with a positive fair value of €2,316 thousand and a negative fair value of €5,341 thousand, for which a positive variance margin of €2,936 thousand was paid, not shown in the table above as it is cleared at a Central Counterparty since it refers to client-trade exposures. Such exposures were subject to the prudential treatment set out in Article 305 of (EU) Regulation no. 575/2013.

## 8. Securities lending transactions

The Bank conducts securities lending transactions on a continuous and systematic basis, with the objective of optimising the returns of customer portfolios, satisfying the requests of institutional counterparties and obtaining a profit for the Bank. The Bank operates as the borrower, borrowing the securities of its customers and using them in repos and securities lending transactions guaranteed by cash amounts with retail and institutional customers interested in the temporary ownership of the securities.

Against securities lending transactions guaranteed by other securities, the Bank issued as collateral UniCredit S.p.A. bonds, recorded in "Financial asset at amortised cost", held in a dedicated dossier at the custodian bank for an amount higher than that of the securities borrowed by the customers, with the aim of providing a collective guarantee.

The face value of the underlying securities not recognised as assets in the accounts totalled €1,153,071 thousand, while their fair value was €1,037,085 thousand, broken down as follows:

(Amounts in € thousand)

SECURITIES RECEIVED ON LOAN FROM:	TYPE OF SECURITIES (NOMINAL VALUE 31 DECEMBER 2018)		
	SOLD	SOLD N REPOS	OTHER PURPOSES
Banks	-	-	-
Financial companies	-	395	-
Insurance companies	-	-	-
Non-financial companies	-	4,999	280
Other entities	589	1,144,410	2,398
<b>Total nominal value</b>	<b>589</b>	<b>1,149,804</b>	<b>2,678</b>

(Amounts in € thousand)

SECURITIES RECEIVED ON LOAN FROM:	TYPE OF SECURITIES (FAIR VALUE 31 DECEMBER 2018)		
	SOLD	SOLD IN REPOS	OTHER PURPOSES
Banks	-	-	-
Financial companies	-	502	35
Insurance companies	-	-	-
Non-financial companies	-	5,518	294
Other entities	347	1,023,573	6,816
<b>Total fair value</b>	<b>347</b>	<b>1,029,593</b>	<b>7,145</b>

## 9. Disclosure on joint control activities

No data to report.





## Part C - Income statement

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# Part C - Income statement

## Section 1 - Interest - Items 10 and 20

### 1.1 Interest income and similar revenues: breakdown

(Amounts in € thousand)

ITEMS/TYPE	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL 2018	TOTAL 2017
<b>1. Financial assets at fair value through profit and loss</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>	
1.1 Financial assets held for trading	-	-	-	-	
1.2 Financial assets designated at fair value	-	-	-	-	
1.3 Other financial assets mandatorily at fair value	2	-	-	2	
<i>Financial assets held for trading (ex IAS 39)</i>					1
<i>Financial assets at fair value (ex IAS 39)</i>					-
<b>2. Financial assets at fair value through other comprehensive income</b>	<b>4,534</b>	<b>-</b>	<b>X</b>	<b>4,534</b>	
<i>Financial assets available for sale (ex IAS 39)</i>					8,505
<b>3. Financial assets at amortised cost</b>	<b>218,888</b>	<b>67,457</b>	<b>-</b>	<b>286,345</b>	
3.1 loans and receivables with banks	158,908	11,667	X	170,575	
3.2 loans and receivables with customers	59,980	55,790	X	115,770	
<i>Financial assets held to maturity (ex IAS 39)</i>					23,066
<i>Loans and receivables with banks (ex IAS 39)</i>					188,853
<i>Loans and receivables with customers (ex IAS 39)</i>					41,029
<b>4. Hedging derivatives</b>	<b>X</b>	<b>X</b>	<b>(1,947)</b>	<b>(1,947)</b>	<b>8,215</b>
<b>5. Other assets</b>	<b>X</b>	<b>X</b>	<b>77</b>	<b>77</b>	<b>77</b>
<b>6. Financial liabilities</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>4,133</b>	
<b>Total</b>	<b>223,424</b>	<b>67,457</b>	<b>(1,870)</b>	<b>293,144</b>	<b>269,746</b>
of which: interest income on impaired financial assets	-	197	-	197	

### 1.2 Interest income and similar revenues: other information

#### 1.2.1 Interest income from financial assets denominated in currency

(Amounts in € thousand)

ITEMS/TYPE	TOTAL 2018	TOTAL 2017
Interest income on foreign currency financial assets	19,448	15,100

#### 1.2.2 Interest income on finance lease transactions

No data to report.

### 1.3 Interest expenses and similar charges: breakdown

(Amounts in € thousand)

ITEMS/TYPE	PAYABLES	DEBT SECURITIES IN ISSUE	OTHER TRANSACTIONS	TOTAL 2018	TOTAL 2017
<b>1. Financial liabilities at amortised cost</b>	<b>(11,315)</b>	<b>-</b>	<b>-</b>	<b>(11,315)</b>	
1.1 Deposits from central banks	-	X	X	-	
1.2 Deposits from banks	(396)	X	X	(396)	
1.3 Deposits from customers	(10,919)	X	X	(10,919)	
1.4 Debt securities in issue	X	-	X	-	
<i>Deposits from central banks (ex IAS 39)</i>					-
<i>Deposits from banks (ex IAS 39)</i>					3,070
<i>Deposits from customers (ex IAS 39)</i>					(8,235)
<i>Debt securities in issue (IAS 39)</i>					-
<b>2. Financial liabilities held for trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<i>Financial liabilities held for trading (ex IAS 39)</i>					-
<b>3. Financial liabilities designated at fair value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<i>Financial liabilities at fair value (ex IAS 39)</i>					-
<b>4. Other liabilities and provisions</b>	<b>X</b>	<b>X</b>	<b>-</b>	<b>-</b>	
<b>5. Hedging derivatives</b>	<b>X</b>	<b>X</b>	<b>-</b>	<b>-</b>	
<b>6. Financial assets</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>(3,126)</b>	
<b>Total</b>	<b>(11,315)</b>	<b>-</b>	<b>-</b>	<b>(14,441)</b>	<b>(5,165)</b>

## 1.4 Interest expenses and similar charges: other information

### 1.4.1 Interest expense on liabilities denominated in currency

(Amounts in € thousand)		
ITEMS/TYPE	TOTAL 2018	TOTAL 2017
Interest expense on liabilities denominated in currency	(9,216)	(4,882)

### 1.4.2 Interest expense on finance leases

No data to report.

## 1.5 Hedging differentials

(Amounts in € thousand)		
ITEMS	TOTAL 12.31.2018	TOTAL 12.31.2017
A. Positive hedging differentials	3,410	20,102
B. Negative hedging differentials	(5,357)	(11,887)
<b>C. Balance (A-B)</b>	<b>(1,947)</b>	<b>8,215</b>

## Section 2 – Fees and commissions - Items 40 and 50

### 2.1 Fee and commission income: breakdown

(Amounts in € thousand)		
Type of service/Amount	TOTAL 2018	TOTAL 2017
(a) guarantees given	82	67
(b) credit derivatives	-	-
(c) management, brokerage and consulting services:	487,115	484,259
1. securities trading	73,349	71,072
2. currency trading	-	-
3. segregated accounts	-	-
4. custody and administration of securities	895	1,079
5. custodian bank	-	-
6. placement of securities	10,511	14,307
7. reception and transmission of orders	13,114	11,862
8. advisory services	52,321	43,233
8.1. related to investments	52,321	43,233
8.2. related to financial structure	-	-
9. distribution of third-party services:	336,925	342,706
9.1. segregated accounts	269,390	280,210
9.1.1 individual	10	28
9.1.2 collective	269,380	280,182
<i>of which maintenance commissions for UCIT units</i>	266,055	277,309
9.2. insurance products	67,535	62,495
9.3. other products	-	1
(d) collection and payment services	31,664	28,761
(e) securitisation servicing	-	-
(f) factoring	-	-
(g) tax collection services	-	-
(h) management of multilateral trading systems	-	-
(i) management of current accounts	4,641	4,716
(j) other services	12,044	9,798
(k) securities lending transactions	5,156	5,713
<b>Total</b>	<b>540,702</b>	<b>533,314</b>

The amount of fees and commissions recognized in 2018 that was included in the contract liability balance at the beginning of the period is equal to €832 thousand



## Part C - Income statement (CONTINUED)

### 2.2 Fee and commission income: distribution channels for products and services

CHANNEL/AMOUNTS	(Amounts in € thousand)	
	TOTAL 2018	TOTAL 2017
<b>(a) at own branches:</b>	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
<b>(b) cold-calling:</b>	<b>326,959</b>	<b>331,552</b>
1. portfolio management	-	-
2. placement of securities	8,895	11,680
3. third-party services and products	318,064	319,872
<b>(c) other distribution channels:</b>	<b>20,476</b>	<b>25,462</b>
1. portfolio management	-	-
2. placement of securities	1,615	2,627
3. third-party services and products	18,861	22,835

The fee and commission income described in point (c) "other distribution channels" refer to commissions earned through the online channel and also include fees and commissions collected by product companies and placement and maintenance commissions from the online subscription of units of UCITS and insurance products.

### 2.3 Fee and commission expense: breakdown

SERVICE/AMOUNT	(Amounts in € thousand)	
	TOTAL 2018	TOTAL 2017
(a) guarantees received	-	-
(b) credit derivatives	-	-
<b>(c) management and brokerage services:</b>	<b>(242,788)</b>	<b>(239,360)</b>
1. securities trading	(7,547)	(7,018)
2. currency trading	-	-
3. segregated accounts:	-	-
3.1 own	-	-
3.2 delegated to third parties	-	-
4. custody and administration of securities	(4,931)	(4,692)
5. placement of financial instruments	-	-
6. cold-calling to offer securities, products and services	(230,310)	(227,650)
(d) collection and payment services	(21,650)	(21,674)
(e) other services	(461)	(399)
(f) securities lending transactions	(1,975)	(1,798)
<b>Total</b>	<b>(266,874)</b>	<b>(263,231)</b>

Item "c) management and brokerage services: 6. cold-calling to offer securities, products and services", includes costs incurred by the Bank in relation to Equity Settled and Cash Settled plans assigned to personal financial advisors, that are respectively recorded against the item 140. "Reserves" of the net equity for an amount of €310 thousand (€260 thousand as at December 31, 2017) and the item 80. "Other liabilities" for an amount of €56 thousand (€166 thousand as at December 31, 2017).

## Section 3 – Dividend income and similar revenues – Item 70

## 3.1 Dividend income and similar revenue: breakdown

(Amounts in € thousand)

ITEMS/INCOME	TOTAL 2018		TOTAL 2017	
	DIVIDENDS	INCOME FROM UCITS UNITS	DIVIDENDS	INCOME FROM UCITS UNITS
A. Financial assets held for trading	52	-		
<i>A. Financial assets held for trading (ex IAS 39)</i>			26	-
B. Other financial assets mandatorily at fair value	43	-		
<i>B. Financial assets at fair value (ex IAS 39)</i>			-	-
C. Financial assets at fair value through other comprehensive income	-	-		
<i>Financial assets available for sale (ex IAS 39)</i>			29	-
D. Equity investments	8,000	X	-	X
<b>Total</b>	<b>8,095</b>	<b>-</b>	<b>55</b>	<b>-</b>

## Section 4 – Gains (losses) on financial assets and liabilities held for trading – Item 80

## 4.1 Gains (losses) on financial assets and liabilities held for trading: breakdown

As at December 31, 2018

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	UNREALISED GAINS (A)	REALIZED GAINS (B)	UNREALISED LOSSES (C)	REALIZED LOSSES (D)	NET PROFIT (LOSS) [(A+B)-(C+D)]
<b>1. Financial assets held for trading</b>	<b>43</b>	<b>119,843</b>	<b>(32)</b>	<b>(111,209)</b>	<b>8,645</b>
1.1 Debt securities	-	3,366	-	(3,068)	298
1.2 Equity instruments	43	114,656	(32)	(106,475)	8,192
1.3 UCITS units	-	1,821	-	(1,666)	155
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
<b>2. Financial liabilities held for trading</b>	<b>-</b>	<b>951</b>	<b>(14)</b>	<b>(932)</b>	<b>5</b>
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	951	(14)	(932)	5
<b>Financial assets and liabilities: exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>7,128</b>
<b>3. Derivatives</b>	<b>4,625</b>	<b>65,592</b>	<b>(5,168)</b>	<b>(46,808)</b>	<b>28,055</b>
3.1 Financial derivatives:	4,625	65,592	(5,168)	(46,808)	28,055
- On debt securities and interest rates	137	1,301	(124)	(1,043)	271
- On equity securities and share indices	4,438	60,397	(5,020)	(43,405)	16,410
- On currencies and gold	X	X	X	X	9,814
- Other	50	3,894	(24)	(2,360)	1,560
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedge related to the fair value option	X	X	X	X	-
<b>Total</b>	<b>4,668</b>	<b>186,386</b>	<b>(5,214)</b>	<b>(158,949)</b>	<b>43,833</b>

## Part C - Income statement (CONTINUED)

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

As at December 31, 2017 (ex IAS 39)

(Amounts in € thousand)					
TRANSACTIONS/INCOME ITEMS	UNREALISED GAINS (A)	REALIZED GAINS (B)	UNREALISED LOSSES (C)	REALIZED LOSSES (D)	NET PROFIT (LOSS) [(A+B)-(C+D)]
<b>1. Financial assets held for trading</b>	<b>28</b>	<b>84,293</b>	<b>(36)</b>	<b>(76,448)</b>	<b>7,837</b>
1.1 Debt securities	1	3,080	(1)	(2,604)	476
1.2 Equity instruments	9	80,165	(26)	(72,960)	7,188
1.3 UCITS units	18	1,048	(9)	(884)	173
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
<b>2. Financial liabilities held for trading</b>	<b>1</b>	<b>12</b>	<b>(1)</b>	<b>(8)</b>	<b>4</b>
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	1	12	(1)	(8)	4
<b>3. Other financial assets and liabilities: exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>6,210</b>
<b>4. Derivatives</b>	<b>5,541</b>	<b>53,513</b>	<b>(5,280)</b>	<b>(35,134)</b>	<b>33,362</b>
4.1 Financial derivatives:	5,541	53,513	(5,280)	(35,134)	33,362
- On debt securities and interest rates	176	1,465	(187)	(1,049)	405
- On equity securities and share indices	5,365	47,244	(5,093)	(31,822)	15,694
- On currencies and gold	X	X	X	X	14,722
- Other	-	4,804	-	(2,263)	2,541
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>5,570</b>	<b>137,818</b>	<b>(5,317)</b>	<b>(111,590)</b>	<b>47,413</b>

## Section 5 – Fair value adjustments in hedge accounting – Item 90

### 5.1 Fair value adjustments in hedge accounting: breakdown

(Amounts in € thousand)		
INCOME ITEMS/AMOUNTS	TOTAL 2018	TOTAL 2017
<b>A. Gains on:</b>		
A.1 Fair value hedging instruments	6,391	10,865
A.2 Hedged asset items (in fair value hedge relationship)	5,212	10,036
A.3 Hedged liability items (in fair value hedge relationship)	-	4,230
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in currency	-	-
<b>Total gains on hedging activities (A)</b>	<b>11,603</b>	<b>25,131</b>
<b>B. Losses on:</b>		
B.1 Fair value hedging instruments	(5,060)	(20,727)
B.2 Hedged asset items (in fair value hedge relationship)	-	(4,385)
B.3 Hedged liability items (in fair value hedge relationship)	(6,372)	-
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in currency	-	-
<b>Total losses on hedging activities (B)</b>	<b>(11,432)</b>	<b>(25,112)</b>
<b>C. Fair value adjustments in hedge accounting (A-B)</b>	<b>171</b>	<b>19</b>
of which: net profit (loss) on net position	-	-

## Section 6 – Gains (Losses) on disposals/repurchases – Item 100

## 6.1 Gains (Losses) on disposals/repurchases: breakdown

(Amounts in € thousand)

ITEMS/INCOME ITEMS	TOTAL 2018			TOTAL 2017		
	GAINS	LOSSES	NET PROFIT (LOSS)	GAINS	LOSSES	NET PROFIT (LOSS)
<b>Financial assets</b>						
1. Financial assets at amortised cost	17	-	17			
1.1 Loans and receivables with banks	-	-	-			
1.2 Loans and receivables with customers	17	-	17			
2. Financial assets at fair value through other comprehensive income	1,666	-	1,666			
2.1 Debt securities	1,666	-	1,666			
2.2 Loans	-	-	-			
1. Loans and receivables with banks				3,951	-	3,951
2. Loans and receivables with customers				-	-	-
3. Financial assets available for sale				761	-	761
3.1 Debt securities				761	-	761
3.2 Equity Instruments				-	-	-
3.3 UCITS Funds				-	-	-
3.4 Loans				-	-	-
4. Financial assets held to maturity				-	-	-
<b>Total assets (A)</b>	<b>1,683</b>	<b>-</b>	<b>1,683</b>	<b>4,712</b>	<b>-</b>	<b>4,712</b>
<b>Financial liabilities at amortised cost</b>						
1. Deposits from banks	-	-	-			
2. Deposits from customers	-	-	-			
3. Debt securities in issue	-	-	-			
1. Deposits from banks				-	-	-
2. Deposits from customers				-	-	-
3. Debt securities in issue				-	-	-
<b>Total liabilities (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Section 7 – Gains (losses) on financial assets and liabilities measured at fair value through profit and loss – Item 110

## 7.1 Net change in value of other financial assets and liabilities measured at fair value through profit and loss: breakdown of financial assets and liabilities designated at fair value

No data to report.

## Part C - Income statement (CONTINUED)

### 7.2 Net change in value of other financial assets and liabilities measured at fair value through profit and loss: breakdown of other financial assets mandatorily at fair value

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	UNREALISED GAINS (A)	REALISED GAINS (B)	UNREALISED LOSSES (C)	REALISED LOSSES (D)	NET PROFIT (LOSS) [(A+B)-(C+D)]
<b>1. Financial assets</b>	<b>1,371</b>	<b>10</b>	<b>(3,031)</b>	<b>(65)</b>	<b>(1,715)</b>
1.1 Debt securities	-	2	(2)	-	-
1.2 Equity instruments	1,371	8	(3,029)	-	(1,650)
1.3 UCITS units	-	-	-	(65)	(65)
1.4 Loans	-	-	-	-	-
<b>2. Financial assets in currency: exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>215</b>
<b>Total</b>	<b>1,371</b>	<b>10</b>	<b>(3,031)</b>	<b>(65)</b>	<b>(1,500)</b>

## Section 8 – Impairment losses - Item 130

### 8.1 Impairment losses on financial assets at amortised cost: breakdown

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	IMPAIRMENT (1)			WRITE-BACKS (2)		TOTAL 2018	TOTAL 2017
	FIRST AND SECOND STAGE	THIRD STAGE		FIRST AND SECOND STAGE	THIRD STAGE		
		WRITE-OFF	OTHER				
<b>A. Loans and receivables with banks</b>	<b>(1,164)</b>	<b>-</b>	<b>-</b>	<b>4,306</b>	<b>-</b>	<b>3,142</b>	
- Loans	(851)	-	-	1,427	-	576	
- Debt securities	(313)	-	-	2,879	-	2,566	
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	
<b>B. Loans and receivables with customers</b>	<b>(6,610)</b>	<b>(134)</b>	<b>(4,306)</b>	<b>2,996</b>	<b>1,498</b>	<b>(6,556)</b>	
- Loans	(5,395)	(134)	(4,306)	2,967	1,498	(5,370)	
- Debt securities	(1,215)	-	-	29	-	(1,186)	
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	
<b>Total</b>	<b>(7,774)</b>	<b>(134)</b>	<b>(4,306)</b>	<b>7,302</b>	<b>1,498</b>	<b>(3,414)</b>	

### 8.2 Impairment losses on financial assets at fair value through other comprehensive income: breakdown

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	IMPAIRMENT (1)			WRITE-BACKS (2)		TOTAL 2018	TOTAL 2017
	FIRST AND SECOND STAGE	THIRD STAGE		FIRST AND SECOND STAGE	THIRD STAGE		
		WRITE-OFF	OTHER				
A. Debt securities	(115)	-	-	1	-	(114)	
B. Loans and receivables	-	-	-	-	-	-	
- With customers	-	-	-	-	-	-	
- With banks	-	-	-	-	-	-	
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	
<b>Total</b>	<b>(115)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>(114)</b>	

Hereinafter the tables drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

## Impairment losses (ex IAS 39 Item 130)

### 8.1 Impairment losses on loans and receivables: breakdown

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	IMPAIRMENT (1)			WRITE-BACKS (2)				TOTAL 2017
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO		
	WRITE-OFFS	OTHER		A	B	A	B	
A. Loans and receivables with banks	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-
B. Loans and receivables with customers	(200)	(4,857)	(2,053)	200	1,275	-	477	(5,158)
Impaired related to purchase agreements	-	-	-	-	-	-	-	-
- Loans	-	-	X	-	-	-	X	-
- Debt securities	-	-	X	-	-	-	X	-
Other loans	(200)	(4,857)	(2,053)	200	1,275	-	477	(5,158)
- Loans	(200)	(4,857)	(2,053)	200	1,275	-	477	(5,158)
- Debt securities	-	-	-	-	-	-	-	-
<b>C. Total</b>	<b>(200)</b>	<b>(4,857)</b>	<b>(2,053)</b>	<b>200</b>	<b>1,275</b>	<b>-</b>	<b>477</b>	<b>(5,158)</b>

**Key**

A = From interest  
B = Other write-backs

### 8.2 Impairment losses on available-for-sale financial assets: breakdown

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	IMPAIRMENT (1)		WRITE-BACKS (2)		TOTAL 2017
	SPECIFIC		SPECIFIC		
	WRITE-OFFS	OTHER	A	B	
A. Debt securities	-	-	-	-	-
B. Equity instruments	(8,896)	(3,995)	-	-	(12,891)
C. UCITS units	-	-	-	-	-
D. Loans to banks	-	-	-	-	-
E. Loans to customers	-	-	-	-	-
<b>F. Total</b>	<b>(8,896)</b>	<b>(3,995)</b>	<b>-</b>	<b>-</b>	<b>(12,891)</b>

**Key**

A = From interest  
B = Other write-backs

### 8.3 Impairment losses on held-to-maturity investments: breakdown

No data to report.

### 8.4 Net value adjustments for the impairment of other financial assets: breakdown

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	IMPAIRMENT (1)			WRITE-BACKS (2)				TOTAL 2017
	SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO		
	WRITE-OFFS	OTHER		A	B	A	B	
A. Guarantees given	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	6	-	-	6
<b>E. Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>

**Key**

A = From interest  
B = Other write-backs

## Part C - Income statement (CONTINUED)

### Section 9 – Profit/loss from contract changes without cancellation – Item 140

#### 9.1 Profit/loss from contract changes without cancellation: breakdown

No data to report.

### Section 10 – Administrative costs – Item 160

#### 10.1 Payroll costs: breakdown

(Amounts in € thousand)

TYPE OF EXPENSES/SECTORS	TOTAL 2018	TOTAL 2017
1) Employees	(83,351)	(77,430)
a) wages and salaries	(54,884)	(52,700)
b) social security contributions	(14,401)	(13,927)
c) pension costs	(2,182)	(912)
d) severance pay	-	-
e) allocation to employee severance pay provision	(114)	(98)
f) provision for retirements and similar provisions:		
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:		
- defined contribution	(3,247)	(3,082)
- defined benefit	-	-
h) costs related to share-based payments	(4,192)	(2,739)
i) other employee benefits	(4,331)	(3,972)
2) Other staff	-	-
3) Directors and statutory auditors	(1,278)	(1,291)
4) Early retirement costs	-	-
5) Recovery of expenses for employees seconded to other companies	266	232
6) Recovery of expenses for employees seconded to the company	(69)	(363)
<b>Total</b>	<b>(84,432)</b>	<b>(78,852)</b>

Item 1 "h) Employees: costs related to share-based payments" includes costs incurred by the Bank in relation to payment agreements based on financial instruments issued by the Bank, that are recorded against the item 140. "Reserves" of the net equity for an amount of €4,168 thousand (€2,693 thousand as at December 31, 2017), and on financial instruments issued by UniCredit S.p.A., that are recorded against the item 80. "Other liabilities" for an amount of €24 thousand (€46 thousand as at December 31, 2017).

#### 10.2 Average number of employees by category

	TOTAL 2018	TOTAL 2017
<b>Employees</b>	<b>1,128</b>	<b>1,100</b>
(a) executives	27	27
(b) managers	349	330
(c) remaining employees	752	743
<b>Other personnel</b>	<b>12</b>	<b>15</b>

#### 10.3 Pensions and other post-retirement defined-benefit obligations costs and revenues

No data to report.

#### 10.4 Other employee benefits

(Amounts in € thousand)

TYPE OF EXPENSES/AMOUNTS	TOTAL 2018	TOTAL 2017
Leaving incentives	(120)	385
Medical plan	(1,011)	(1,477)
Luncheon vouchers	(953)	(936)
Other	(2,246)	(1,944)
<b>Total</b>	<b>(4,330)</b>	<b>(3,972)</b>

## 10.5 Other administrative expenses: breakdown

(Amounts in € thousand)

	TOTAL 2018	TOTAL 2017
<b>1) INDIRECT TAXES AND DUTIES</b>	<b>(101,053)</b>	<b>(98,543)</b>
<b>2) MISCELLANEOUS COSTS AND EXPENSES</b>		
<b>A) Advertising expenses - Marketing and communication</b>	<b>(16,740)</b>	<b>(16,041)</b>
Mass media communications	(11,264)	(11,420)
Marketing and promotions	(5,124)	(4,488)
Sponsorships	(22)	(95)
Conventions and internal communications	(330)	(38)
<b>B) Expenses related to credit risk</b>	<b>(1,399)</b>	<b>(1,586)</b>
Credit recovery expenses	(377)	(457)
Commercial information and company searches	(1,022)	(1,129)
<b>C) Expenses related to personnel</b>	<b>(28,183)</b>	<b>(26,167)</b>
Personnel training	(473)	(479)
Car rental and other staff expenses	(80)	(84)
Personal financial advisor expenses	(26,885)	(25,003)
Travel expenses	(693)	(534)
Premises rentals for personnel	(52)	(67)
<b>D) ICT expenses</b>	<b>(34,498)</b>	<b>(32,079)</b>
Lease of ICT equipment and software	(2,359)	(2,467)
Software expenses: lease and maintenance	(8,833)	(8,092)
ICT communication systems	(6,614)	(5,723)
ICT services: external personnel/outsourced services	(6,745)	(6,723)
Financial information providers	(9,947)	(9,074)
<b>E) Consultancies and professional services</b>	<b>(3,353)</b>	<b>(4,150)</b>
Consultancy on ordinary activities	(2,753)	(2,629)
Consultancy for one-off regulatory compliance projects	(23)	(86)
organisational optimisation	(238)	(385)
Legal disputes	(339)	(1,050)
<b>F) Real estate expenses</b>	<b>(18,996)</b>	<b>(19,373)</b>
Real estate services	(705)	(720)
Repair and maintenance of furniture, machinery, and equipment	(213)	(200)
Maintenance of premises	(1,009)	(1,379)
Premises rentals	(14,529)	(14,387)
Cleaning of premises	(519)	(509)
Utilities	(2,021)	(2,178)
<b>G) Other functioning costs</b>	<b>(37,486)</b>	<b>(36,026)</b>
Surveillance and security services	(404)	(347)
Postage and transport of documents	(3,585)	(3,396)
Administrative and logistic services	(19,417)	(18,761)
Insurance	(3,906)	(3,923)
Printing and stationery	(587)	(511)
Association dues and fees	(9,110)	(8,695)
Other administrative expenses	(477)	(393)
<b>H) Ex-ante contribution to the Single Resolution Fund and Interbank Deposit Guarantee Fund</b>	<b>(14,306)</b>	<b>(10,566)</b>
<b>Total</b>	<b>(256,014)</b>	<b>(244,531)</b>

Item "C) Expenses related to personnel - Personal financial advisor expenses", includes costs, incurred by the Bank in relation to the plan "PFA 2015-2017" assigned to personal financial advisors, that are recorded against the item 140. "Reserves" of the net equity for an amount of €3,778 thousand. As at December 31, 2017 this item amounted to €5,110 thousand and included the costs incurred by the Bank in relation to the plan "PFA 2014", whose vesting period ended on June 30, 2017.

The costs posted in 2018 for contributions paid to Deposit Guarantee Schemes (DGS) during the year, shown in item "Other administrative expenses" (point H) of table above, amounted to €14,306 in total and pertain to the ordinary and additional contribution and to the contribution to the Solidarity Fund for 2018. For further details, see Section A – Account policies, of the notes to the accounts.

No cost was recorded for the Single Resolution Fund (no contribution due).



## Part C - Income statement (CONTINUED)

### Section 11 – Net provisions for risks and charges – Item 170

#### 11.1 Net provisions for risks and charges relating to commitments and financial guarantees given: breakdown

(Amounts in € thousand)

TRANSACTIONS/INCOME ITEMS	IMPAIRMENT			WRITE-BACKS			TOTAL 2018	TOTAL 2017
	FIRST AND SECOND		THIRD STAGE	FIRST AND SECOND		THIRD STAGE		
	STAGE	STAGE		STAGE	STAGE			
1. Commitments	(9)	-	-	401	-	-	392	-
2. Financial guarantees given	(1)	-	-	11	-	-	10	-
<b>Total</b>	<b>(10)</b>	<b>-</b>	<b>-</b>	<b>412</b>	<b>-</b>	<b>-</b>	<b>402</b>	<b>-</b>

#### 11.2 Net provisions for risks and charges relating to other commitments and other guarantees given: breakdown

No data to report.

#### 11.3 Net provisions for risks and charges: breakdown

(Amounts in € thousand)

	TOTAL 2018			TOTAL 2017		
	PROVISIONS	REALLOCATIONS	TOTAL	PROVISIONS	REALLOCATIONS	TOTAL
Legal and fiscal disputes	(3,713)	3,048	(665)	(8,836)	5,012	(3,824)
Supplementary customer indemnity provision	(5,625)	-	(5,625)	(5,008)	-	(5,008)
Other provisions for risks and charges	(1,302)	518	(784)	(330)	703	373
<b>Total</b>	<b>(10,640)</b>	<b>3,566</b>	<b>(7,074)</b>	<b>(14,174)</b>	<b>5,715</b>	<b>(8,459)</b>

### Section 12 – Net impairment/write-backs on property, plant and equipment – Item 180

#### 12.1 Impairment/write-backs on property, plant and equipment: breakdown

(Amounts in € thousand)

ASSETS/INCOME ITEMS	DEPRECIATION	WRITE-DOWNS	WRITE-BACKS	NET PROFIT (LOSS)	NET PROFIT (LOSS)
	(A)	(B)	(C)	2018 (A+B-C)	2017
A. Property, plant and equipment					
A.1 Owned	(5,313)	(98)	-	(5,411)	(5,569)
- Used in the business	(5,204)	(98)	-	(5,302)	(5,456)
- Held for investment	(109)	-	-	(109)	(113)
- Closing balances	X	-	-	-	-
A.2 Held under finance lease	-	-	-	-	-
- Used in the business	-	-	-	-	-
- Held for investment	-	-	-	-	-
<b>Total</b>	<b>(5,313)</b>	<b>(98)</b>	<b>-</b>	<b>(5,411)</b>	<b>(5,569)</b>

Impairment losses were recognised in the year for insignificant amounts and mainly in relation to office furniture and fittings for which a zero value in use was determined.

A description of the methods used to calculate depreciation is provided in Part A – Accounting Policies of the notes to the accounts.

## Section 13 – Net impairment/write-backs on intangible assets – Item 190

## 13.1 Impairment on intangible assets: breakdown

(Amounts in € thousand)

ASSETS/INCOME ITEMS	DEPRECIATION (A)	WRITE-DOWNS (B)	WRITE-BACKS (C)	NET PROFIT (LOSS) 2018 (A+B-C)	NET PROFIT (LOSS) 2017
<b>A. Intangible assets</b>					
A.1 Owned	(4,959)	-	-	(4,959)	(4,800)
- Generated internally by the company	-	-	-	-	-
- Other	(4,959)	-	-	(4,959)	(4,800)
A.2 Held under finance lease	-	-	-	-	-
<b>Total</b>	<b>(4,959)</b>	<b>-</b>	<b>-</b>	<b>(4,959)</b>	<b>(4,800)</b>

Impairments on intangible assets relate to software, amortised over three years and the costs incurred to create the Fineco website, amortised over 5 years.

For the disclosures required by IAS 36 paragraph 134, d), e), f) and 135, c), d), e), see Part B paragraph 12.3 Other information.

## Section 14 – Other net operating income – Item 200

## 14.1 Other operating expenses: breakdown

(Amounts in € thousand)

	TOTAL 2018	TOTAL 2017
Refunds and allowances	(147)	(141)
Penalties, fines and unfavourable rulings	(1,170)	(2,427)
Improvements and incremental expenses incurred on leasehold properties	(2,293)	(2,844)
Improvements and incremental expenses incurred on group properties	(7)	(29)
Exceptional write-downs of assets	(295)	(317)
Other operating expense	(229)	(244)
<b>Total</b>	<b>(4,141)</b>	<b>(6,002)</b>

Exceptional write-downs of assets include costs incurred for credit card fraud of €98 thousand (€261 thousand as at December 31, 2017).

## 14.2 Other operating income: breakdown

(Amounts in € thousand)

	TOTAL 2018	TOTAL 2017
Recovery of expenses:	96,767	93,369
- recovery of ancillary expenses - other	155	335
- recovery of taxes	96,612	93,034
Rental income from real estate investments	-	155
Other income from current year	2,141	2,828
<b>Total</b>	<b>98,908</b>	<b>96,352</b>

## Section 15 – Profit (loss) of associates – Item 220

No data to report.

## Part C - Income statement (CONTINUED)

### Section 16 – Gains (losses) on tangible and intangible assets measured at fair value – Item 230

No data to report.

### Section 17 – Impairment of goodwill – Item 240

No data to report.

### Section 18 – Gains (losses) on disposal of investments – Item 250

#### 18.1 Gains (losses) on disposal of investments: breakdown

(Amounts in € thousand)

ITEMS INCOME/AMOUNTS	TOTAL 2018	TOTAL 2017
A. Properties		
- Gains on disposal	-	-
- Losses on disposal	(18)	-
B. Other assets		
- Gains on disposal	-	9
- Losses on disposal	(143)	(517)
<b>Net profit (loss)</b>	<b>(161)</b>	<b>(508)</b>

### Section 19 – Tax expense (income) related to profit or loss from continuing operations – Item 270

#### 19.1 Tax expense (income) related to profit or loss from continuing operations: breakdown

(Amounts in € thousand)

ITEMS INCOME/AMOUNTS	TOTAL 2018	TOTAL 2017
1. Current tax (-)	(106,713)	(102,274)
2. Adjustment to current tax of prior years (+/-)	-	3,924
3. Reduction of current tax for the year (+)	-	-
3.bis Reduction of current tax for the year due to tax receivables pursuant to Law 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	(1,142)	(3,122)
5. Changes in deferred tax liabilities (+/-)	(2,624)	(696)
6. Tax expense for the year (-) (-1+/-2+3+ 3 bis +/-4+/-5)	(110,479)	(102,168)

#### 19.2 Reconciliation of theoretical tax charge to actual tax charge

(Amounts in € thousand)

	TOTAL 2018		TOTAL 2017	
Profit before tax	338,402		316,451	
	TAXES			
	IRES	IRAP	TOTAL 2018	TOTAL 2017
<b>Amount corresponding to theoretical tax rate</b>	<b>(93,060)</b>	<b>(18,849)</b>	<b>(111,909)</b>	<b>(104,650)</b>
+ Tax effects of charges not relevant to the calculation of taxable income	8,531	(788)	7,743	2,822
- Tax effects of income not relevant to the calculation of taxable income	(2,101)	-	(2,101)	-
- Tax effects deriving from the use of tax losses from previous years	-	-	-	-
- Tax effects deriving from the application of substitute taxes	(446)	-	(446)	(446)
<b>Amount corresponding to actual tax rate</b>	<b>(87,076)</b>	<b>(19,637)</b>	<b>(106,713)</b>	<b>(102,274)</b>

### Section 20 – Profit (Loss) after tax from discontinued operations – Item 290

No data to report.

### Section 21 – Other information

FinecoBank belongs to the UniCredit Banking Group and are subject to management and co-ordination by UniCredit S.p.A.

#### 1.1 Designation of Parent Company

UniCredit S.p.A.

Registration in the Companies' Register of Milan-Monza-Brianza-Lodi

Registered in the Register of Banking Groups and Parent Company of the UniCredit Banking Group with code 2008.1

#### 1.2 Registered Office of Parent Company

Registered Office and Head Office: Piazza Gae Aulenti 3 - Tower A - 20154 Milan

#### 1.3 Key figures for the Parent Company (income statement, balance sheet, structure)

FinecoBank is subject to management and coordination of UniCredit S.p.A.; therefore, in accordance with Article 2497 bis, paragraph 4 of the Italian Civil Code the key figures of the last approved financial statements of the parent company are provided below:

## Part C - Income statement (CONTINUED)

### UniCredit S.p.A. – Reclassified balance sheet as at December 31, 2017

	(Amounts in € million)
<b>ASSETS</b>	<b>12.31.2017</b>
Cash and cash balances	25,817
Financial assets held for trading	13,864
Loans and receivables with banks	27,567
Loans and receivables with customers	208,965
Financial investments	105,278
Hedging instruments	6,114
Property, plant and equipment	2,209
Goodwill	-
Other intangible assets	4
Tax assets	10,311
Non-current assets and disposal groups classified as held for sale	150
Other assets	4,701
<b>Total assets</b>	<b>404,980</b>

	(Amounts in € million)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>12.31.2017</b>
Deposits from banks	56,807
Deposits from customers and debt securities in issue	262,084
Financial liabilities held for trading	13,068
Financial liabilities at fair value through profit or loss	2,738
Hedging instruments	6,279
Provisions for risks and charges	1,843
Tax liabilities	1
Liabilities included in disposal groups classified as held for sale	-
Other liabilities	8,652
Shareholders' equity	53,508
- capital and reserves	46,964
- revaluation reserves (available-for-sale financial assets - cash flow hedges - on defined benefit plans)	308
- net profit (loss)	6,236
<b>Total liabilities and shareholders' equity</b>	<b>404,980</b>

### UniCredit S.p.A. – Condensed Income Statement 2017

	(Amounts in € million)
	<b>12.31.2017</b>
Net interest	3,711
Dividends and other income from equity investments	3,808
Net fee and commission income	3,798
Net trading, hedging and fair value income	302
Net other expenses/income	(95)
<b>OPERATING INCOME</b>	<b>11,524</b>
Staff expenses	(3,139)
Other administrative expenses	(2,694)
Recovery of expenses	546
Impairment/write-backs on intangible and tangible assets	(137)
<b>Operating costs</b>	<b>(5,424)</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>6,100</b>
Goodwill	-
Net write-downs of loans and provisions for guarantees and commitments	(1,854)
<b>NET OPERATING PROFIT (LOSS)</b>	<b>4,246</b>
Other charges and provisions	(565)
Integration costs	14
Net income from investments	2,427
<b>GROSS PROFIT (LOSS) FROM CONTINUING OPERATIONS</b>	<b>6,122</b>
Income tax for the year	30
<b>NET PROFIT (LOSS) FROM CONTINUING OPERATIONS</b>	<b>6,152</b>
Profit (Loss) after tax from discontinued operations	84
Goodwill impairment	-
<b>NET PROFIT (LOSS)</b>	<b>6,236</b>

#### 1.4 Disclosure of auditing fees pursuant to art. 149 paragraph bis of Issuers' Regulation

The table below provides details of the fees (net of VAT and expenses) paid to the independent auditing firm Deloitte & Touche S.p.A. and entities within the network that the external auditors belongs to.

(Amounts in €)		
TYPE OF SERVICE	SERVICE PROVIDER	FEES
Accounting Audit	Deloitte & Touche S.p.A.	211,495
Certification services	Deloitte & Touche S.p.A.	90,000
Other Services	Deloitte & Touche S.p.A.	10,000
<b>TOTAL</b>		<b>311,495</b>

#### 1.5 Disclosure regarding the transparency of public funding required by article 1, paragraph 125 of the Italian law 124/2017

Pursuant to article 1, paragraph 125 of Italian law 124/2017, in 2018 FinecoBank received the following public contributions from Italian entities:

##### Reduction of the extraordinary contribution pursuant to art. 1, paragraph 235 of Law 232 of 11 December 2016 charged to the management of welfare interventions and support for pension management

(Amount in € thousand)		
ENTITY GRANTING	BENEFICIARY	AMOUNT OF PUBLIC FUNDING
Italian National Social Security Institution ("INPS")	FinecoBank S.p.A.	131
<b>TOTAL</b>		<b>131</b>

##### Contributions for the recruitment / stabilization of personnel deriving from the application of the National Labour Contract ("CCNL") for credit institutions in force from time to time

(Amount in € thousand)		
ENTITY GRANTING	BENEFICIARY	AMOUNT OF PUBLIC FUNDING
National Fund for supporting employment in the credit sector ("F.O.C.")	FinecoBank S.p.A.	225
<b>TOTAL</b>		<b>225</b>

##### Contributions for new recruits / stabilizations, introduced by the stability law 2018 (law No. 205/2017) and similar previous regulations

(Amount in € thousand)		
ENTITY GRANTING	BENEFICIARY	AMOUNT OF PUBLIC FUNDING
Italian National Social Security Institution ("INPS")	FinecoBank S.p.A.	292
<b>TOTAL</b>		<b>292</b>

##### Contributions for the Ordinary section of the Solidarity Fund - benefits: Interministerial Decree 83486 of 28/07/2014 - article 10, paragraph 2

(Amount in € thousand)		
ENTITY GRANTING	BENEFICIARY	AMOUNT OF PUBLIC FUNDING
Italian National Social Security Institution ("INPS")	FinecoBank S.p.A.	3
<b>TOTAL</b>		<b>3</b>

##### Article 8 of Legislative Decree 30/9/2005, n. 203 converted, with modifications, from the law 2 December 2005, n. 248. Compensatory measures for companies that assign the Provisions for employee severance pay ("TFR") to supplementary pension schemes and / or to the Fund for the payment of the TFR

(Amount in € thousand)		
ENTITY GRANTING	BENEFICIARY	AMOUNT OF PUBLIC FUNDING
Italian National Social Security Institution ("INPS")	FinecoBank S.p.A.	260
<b>TOTAL</b>		<b>260</b>

For more information, please refer to the National State Aid Register "Transparency" section.

## Part C - Income statement (CONTINUED)

### Section 22 - Earnings per share

#### 22.1 Average number of diluted ordinary shares

Basic earnings per share are calculated by dividing the net profit by the average number of ordinary shares outstanding during the year.

	12.31.2018	12.31.2017
Net profit for the year (€ thousands)	227,922	214,284
Average number of outstanding shares	607,575,060	607,158,443
Average number of outstanding shares (including potential ordinary shares with dilution effect)	609,101,538	608,829,187
Basic earnings per share	0.375	0.353
Diluted Earnings Per Share	0.374	0.352

#### 22.2 Other information

No data to report.







## Part D – Comprehensive income

## Analytic Statement of comprehensive income

(Amounts in € thousand)

ITEMS	TOTAL 2018	TOTAL 2017
<b>10. Net Profit (Loss) for the year</b>	<b>227,922</b>	<b>214,284</b>
<b>Other comprehensive income without reclassification through profit or loss</b>		
20. Equity instruments designated at fair value through other comprehensive income:	-	-
a) fair value changes	-	-
b) transfer to other items of shareholders' equity	-	-
30. Financial liabilities designated at fair value through profit or loss (own creditworthiness changes):	-	-
a) fair value changes	-	-
b) transfer to other items of shareholders' equity	-	-
Hedge accounting of equity instruments at fair value through other comprehensive		
40. income:	-	-
a) fair value changes (hedge item)	-	-
b) fair value changes (hedge instrument)	-	-
50. Property, plant and equipment	-	-
60. Intangible assets	-	-
70. Defined benefit plans	5,063	(5,162)
80. Non-current assets classified as held for sale	-	-
90. Revaluation reserve from investments accounted for using the equity method	-	-
100. Tax for the year related to other comprehensive income without reclassification through profit or loss	(1,635)	-
<b>Other comprehensive income with reclassification through profit or loss</b>		
110. Hedges of foreign investments:	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
c) other changes	-	-
120. Exchange differences:	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
c) other changes	-	-
130. Cash flow hedges:	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
c) other changes	-	-
di cui: risultato delle posizioni nette	-	-
140. Hedging instruments (non-designated items):	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
c) other changes	-	-
150. Financial assets (different from equity instruments) at fair value through other comprehensive income:	(10,247)	-
a) fair value changes	(6,565)	-
b) reclassification through profit or loss	(3,682)	-
- adjustments for credit risk	(1)	-
- gains/losses on disposals	(3,681)	-
c) other changes	-	-
160. Non-current assets classified as held for sale:	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
c) other changes	-	-
170. Revaluation reserve from investments accounted for using the equity method:	-	-
a) fair value changes	-	-
b) reclassification through profit or loss	-	-
- due to impairment	-	-
- gains/losses on disposals	-	-
c) other changes	-	-
Available-for-sale financial assets:		2,499
a) fair value changes		3,956
b) reclassification through profit or loss		(2,352)
- due to impairment		-
- gains/losses on disposals		(2,352)
c) other changes		895
180. Tax for the year related to other comprehensive income with reclassification through profit or loss	3,389	1,117
<b>190. Total other comprehensive income</b>	<b>(3,430)</b>	<b>(1,546)</b>
<b>200. Comprehensive income (item 10+190)</b>	<b>224,492</b>	<b>212,738</b>



## Part E - Information on Risks and relating hedging policies

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# Part E - Information on Risks and relating hedging policies

## Introduction

In order to ensure lean and efficient management of risks, the risk management process is structured in accordance with the organisational choices made by the Group and the provisions of the Supervisory Instructions for Banks pertaining to the internal control system.

Risk management and control is performed by the Risk Management function of the Bank in collaboration with the same function of the Parent Company, which performs its role of guidance, coordination and control of risks at Group level. The organisational model provides for a specific contact person, the Chief Risk Officer (hereinafter, "CRO") of the Parent Company, who is responsible for credit risk, market risk, operating risk and reputational risk.

The Bank is responsible for first and second-level monitoring, especially for verifying that the risk level of individual companies is compatible with the guidelines set by the Parent Company, individual company equity, and prudential supervisory rules.

### Organisational structure

The Board of Directors of FinecoBank is tasked with setting the strategic policies and the guidelines for the organisational and operational structures, overseeing and monitoring their timely execution within the risk profiles of assigned. The Board of Directors is responsible for establishing and approving the methods through which risks are detected and assessed and for approving the risk management strategic direction and policies. The Board of Directors also verifies that the internal control structure is consistent with the risk tolerance established and approves policies for the management of risks.

The Chief Executive Officer and General Manager has been assigned specific powers by the Board of Directors in all the Bank's areas of activity. These powers are to be exercised in accordance with the applicable regulations and within the limits of the Parent Company directives and the policies, instructions, limits, risk assumption procedures and using the operational methods governed by the applicable information notices. The Chief Executive Officer and General Manager puts in place the necessary measures to ensure the establishment and maintenance of an efficient and effective internal control system.

The CRO Department, in line with the instructions and the guidelines of the Parent Company, is responsible for credit operations and risk management. The disclosure, at various levels, is provided by the various Bodies (Chief Executive Officer and General Manager, Board of Directors, Risk and Related Parties Committee). In relation to the Basel II Pillar 2 instructions, reputational and business risk and, in collaboration with the CFO, liquidity risk are also monitored and reported.

The CRO and the CFO are responsible for proposing and adapting the Group Risk Appetite Framework to FinecoBank and setting risk management strategies and policies, in line with the Bank's strategies and objectives, coordinating and monitoring their implementation by the units responsible, also in the various company areas.

The CRO Department ensures the control of the Bank's overall risk profile by monitoring the various types of risk exposure, in accordance with the methods established by the Parent Company.

The Risk Management Unit prevents and monitors different components of Bank risks. The function specifically controls credit, market and operational risks to which the Bank is exposed. The Risk Management function also monitors business, reputational and liquidity risk. The Risk Management Unit supports the CRO, in the area of responsibility of the Department, in monitoring and reporting to the Strategic Supervision and Management Bodies.

Given the complexity of the Bank's activities and the significant risks involved, the Board of Directors of the Bank decided to establish an Risk and Related Parties Committee to carry out internal control tasks; the committee is made up of non-executive members of the same Board and its task is to carry out adequate investigations to support the Board of Directors in its assessments and decisions on the internal control system and risk management.

Lastly, the participation by the Chief Risk Officer and Head of Risk Management in the Products Committee ensures oversight of the operational risk associated with the Bank's new business activities, as well as creating and disseminating a risk culture in the various functional areas.

## Section 1 – Credit Risk

### Qualitative information

#### 1. General Matters

The Bank's objective is to provide an adequate range of products able to satisfy and encourage loyalty among customers, through a competitive and complete offer. The development of the products and of the product line must also seek to maintain portfolio quality and, in any event, adequate processes to monitor profitability.

The factors that generate credit risk are determined by acceptance and creditworthiness policies, which are always adequately correlated to the risk/return ratio and in line with the Risk Appetite defined by the Board of Directors.

The quality of the loan portfolio, which is constantly monitored and supported by risk mitigation instruments, is protected by scoring models that contribute to evaluation during the approval process, ensuring that it is consistent and controlled. In addition to adequate coverage of the risk levels, monitoring of the portfolio and its segmentation by product and seniority allow a better understanding of the best loan issue strategies. The identification of any high-risk areas permits intervention on the automated measurement systems as well as on disbursement standards, with the possibility to take measures to limit credit risk in advance.

The credit product offer has evolved over the years, especially through the offer of mortgages loans, launched in 2016, and the granting of current account credit facilities guaranteed by a pledge on securities and investment funds with the rotational clause (Credit Lombard). Credit Lombard is the solution of FinecoBank suitable for net worth clients who wish to obtain additional liquidity from their investments.

The mortgage offering mainly involves mortgages for the purchase of first and second homes (including subrogation), in addition to home-secured loans and, to a limited extent, non-residential mortgages. As at December 31, 2018, the carrying amount of mortgage loans amounted to €857 million.

The Bank, moreover, continued to develop products already included in its catalogue by issuing convenience credit cards to current account holders and granting personal loans. The latter can also be assessed using the "Instant approval", a service that allows the request to be assessed in a few moments and to provide the loan in real time to selected customers.

Choices concerning the investment of the Bank's liquidity are governed by a prudential approach aimed at containing credit risk and mainly involve deposits with UniCredit S.p.A. and the subscription of Eurozone government bonds. In order to optimise its portfolio by diversifying counterparty risk, in 2018 the Bank also increased its exposure (in terms of nominal value) to Italian government securities by €860 million, Spanish government securities by €1,179.5 million (of which ICO amounting to €14.5 million), Irish government securities by €188 million, French government securities by €285 million, German government securities by €125 million, Belgian government securities by €180 million, Austrian government securities by €205 million, Polish government securities by €29 million and Supranational securities by €436 million.

The Bank in 2017 issued and approved the policy "Issuer risk in bonds - Contingency Plan" aimed at defining principles and rules to efficiently and comprehensively evaluate, control and limit the issuer's risk associated with bonds in the banking book. In accordance with the policy, the Risk Management function monitors a series of indicators to analyse the exposure of the Bank's portfolio to issuer risk; through this analysis it is possible to identify the emergence of abnormal situations and assess the need for corrective actions to avoid deterioration of the portfolio position.

#### 2. Credit Risk Management Policy

##### 2.1 Organisational aspects

The credit process can be broken down into the following stages:

- assessment of creditworthiness;
- granting/disbursement of credit;
- credit monitoring;
- management of impaired loans;
- risk measurement and control.

The assessment of creditworthiness entails ascertaining the ability of the borrower to repay. It is performed by specific centralised and specialist operating units in the various product lines disbursed to customers (personal loans, credit cards, credit lines, and mortgages). On receipt of the request, the offices in question assess the reliability of documentation, evaluate the equity and income situation, and gather information, also by consulting public records, private banks and system data such as the information contained in the Bank of Italy's risk centre and in the Group archives.

In addition to an assessment of creditworthiness by the dedicated functions, credit approval also requires that they assess the compatibility of the request with the customer's overall situation, considering the amount requested and agreeing on a different amount with the Customer, where necessary, evaluate and finalise guarantees, if any, linking them to credit facilities and filing them according to specific processes. Lastly, the decision-making parties approve or reject the application on the basis of their powers or send the application to a higher decision-making body.

Credit monitoring is carried out on credit lines to check that the economic situation of the customer and the guarantor that resulted in the approval has not changed. This check may entail collecting updated system data and information, as well as information from private banks. Checks are carried out according to established processes at set intervals, and may vary according to the amount of the credit line granted.

With regard to products with payment plans and in particular for mortgages, specific measurements of outstanding amounts are made for movement between statuses. This method is also accompanied by the collection of information on the debtor customer already used when granting credit lines.

In line with the general principles laid down by the Regulatory Authority, receivables are classified on the basis of the level of impairment, which may be established on the basis of qualitative or quantitative criteria.

The management of impaired loans entails taking all action necessary to restore them to normality or to recover the credits in situations where the relationship cannot be continued. All of these measures are established by specific processes based on the type and amount of the past-due loan and the past-due period as well as taking into account any financial assets of the customer, which may be offered as collateral. Credit collection is performed through payment reminders directly carried out by the Bank as well as through reminders and debt recovery carried out by specialised, authorised external companies.

Lastly, management also entails forecasting losses on an individual basis, which is continuously updated based on the progress of recovery actions for the amounts due or based on information collected during the recovery actions.

The measurement and control of credit risk takes place at the assessment stage with the support of scoring tools that analyse the customers' socio-demographic profiles, making an assessment of individual counterparties on a statistical basis and supplementing the assessment, on one hand, with the support of credit bureaus for better knowledge of public and private data and on the other hand, with information contained in the Bank of Italy's risk centre.

Credit risk control is also performed through the systematic assessment of the performance of loan portfolios in order to estimate expected losses and intervene on disbursement policies where necessary.

### 2.1.1 Factors that generate Credit Risk

In the course of its credit business activities the Bank is exposed to the risk that its loans may, due to the deterioration of the debtor's financial condition, not be repaid at maturity, and thus result in a partial or full write-down. This risk is always inherent in traditional lending operations regardless of the form of the credit facility. The main reasons for default lie in the borrower's lack of autonomous ability to ensure the repayment of the debt.

In addition to the risk associated with the granting and disbursement of credit, the Bank is also exposed to counterparty risk for all clearing and pre-clearing operations with the institutional and banking counterparties necessary to conduct the Bank's business. Counterparty risk is defined as the risk that a counterparty to one of the transactions is in default prior to the final settlement of the cash flows involved in the transaction. The counterparties in these transactions could default as a result of insolvency, political and economic events, lack of liquidity, operating problems or other reasons.

Other transactions involving counterparty risk are:

- entering into derivative contracts;
- purchasing and selling securities, futures, or currencies;
- holding third-party securities.

In addition, "Non-Traditional Credit Risk" is generated by leverage/short transactions conducted through securities lending. Leverage/short transactions conducted through securities lending, also when there are automatic stop losses performed within the margins, can generate credit risk if the security lacks liquidity (for example, in the case of dramatic events that affect the normal functioning of markets) and/or the margin is insufficient. To anticipate such events, scenario analyses are conducted periodically to assess the impacts and implement appropriate mitigation policies.

The Bank monitors and manages the specific risk of each counterparty and the overall risk of loan portfolios through procedures, structures and rules that steer, govern and standardise the assessment and management of credit risk, in line with the Group principles and best practice, and which are capable of extending their effectiveness to all phases of the economic cycle.

The Bank reports all information to the Parent Company that can help it in its assessment of each FIBS counterparty ("Financial Institutions, Banks and Sovereigns") that the Bank intends to have dealings with and with respect to whom a risk limit (ceiling) is to be set within which the Group intends to operate.

The assessment is conducted within the risk limits assigned to the counterparty's Economic Group, i.e. considering the Group's exposure towards all the parties legally and economically linked to the counterparty. At the end of the assessment, the Parent Company assigns the Bank a risk limit that has to be monitored.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

**2.2 Management, measurement and control system**

The measurement of credit risk during the issue process is supported by automated assessment systems (so-called credit scoring systems). These systems also incorporate all available information and facts: public and private data provided by Credit rating bureaus, Risk Center data flows or information requests submitted to the Bank of Italy, Group archives with data relating to positions shared with other Group banks and other performance information on customers, stored by the Bank. During the loan application process, attention is always focused on the possibility of optimising all information concerning customers that has been provided by the Bank, the Group and the System.

The collection of any guarantees, their assessment and the margins between the *fair value* of the guarantee and the amount of the loan granted are a simple kind of support to credit risk mitigation, but there is no relevant positive correlation between the value of the financial guarantee and the applicant's creditworthiness.

Starting from January 1, 2018 FinecoBank has adopted the accounting standard IFRS 9: Financial Instruments.

The project, in coordination with a similar project carried out at the UniCredit Group level and developed with the involvement of the Bank's reference functions and, lastly, the Board of Directors, introduced a new accounting model of impairment for credit exposures based on (i) an "expected losses" approach instead of the previous one based on the recognition of "incurred losses" and (ii) on the concept of "lifetime" expected loss. For each detail, refer to paragraph 2.3. Measurement methods for expected losses.

The global assessment of portfolio risks, in order to identify the sustainability of the asset and the remuneration margins, is made both with the assistance of a tool shared with the Parent Company (Credit Tableau de Board), which contains all the main risk indicators and the largest receivables of those listed, and with the support of specific product reports which identify the trend of default rates, broken down by disbursement period and default level.

The monitoring of credit risk as part of the management of the trading book is conducted by breaking it down into rating class and issuer sector, which determine the implicit risk of contracts.

**2.3 Measurement methods for expected losses**

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

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

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

For Stage 1 exposures, the impairment is equal to the expected loss calculated on a time frame of up to one year.

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

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

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

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

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



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

- the comparison at transaction level between the PD value at the time of disbursement and the value on the reporting date, both qualified according to internal models at fixed thresholds to take into account all the key variables of each transaction that may influence the Bank's expectations about ongoing changes in PD (e.g. age, maturity, level of PD at the time of disbursement);
- absolute elements such as the backstops provided for by the regulation (e.g. 30 day Expired);
- other internal findings (forborne classification).

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

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

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

For all fixed-rate positions, the interest rate determined in this manner is also held constant in future years, while for floating rate positions the interest rate is updated according to contractual terms.

If the original interest rate is not directly available, or if finding it would be excessively onerous, the interest rate that best approximates the original one is applied, including through practical expedients that do not affect the substance and ensure consistency with international accounting standards.

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

## Parameters and definitions of risk level used in the calculation of value adjustments

As mentioned above the Group has developed specific models to calculate the expected loss, which draw on the PD, LGD and EAD criteria, as well as the effective interest rate. These models are used for calculating value adjustments of all the institutional counterparties common to the Group, for the most part made up of FIBS (Financial Institutions, Banks and Sovereigns) counterparties.

Specifically:

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

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

The main adjustments are made in order to:

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

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

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

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

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

- material exposures which are more than 90 days past due;

## Part E - Information on Risks and relating hedging policies (CONTINUED)

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

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

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

#### Forward-looking information used in calculating value adjustments

The credit loss expected from the parameters described in the foregoing paragraph considers macroeconomic forecasts by applying multiple scenarios to the forward looking components.

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

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

#### 2.4 Credit risk mitigation techniques

In order to mitigate risk when granting the different types of credit facilities, various types of collateral are obtained. Mortgages on property loans, pledge on shares, bonds or investment funds, insurance contracts and government bonds are used to guarantee current account overdraft facilities.

The presence of collateral does not, however, relieve the Bank from the requirement to carry out an overall assessment of the credit risk, primarily centred on the customer's income capacity regardless of the additional guarantee provided. The valuation of the lien collateral is based on its actual value, i.e. the market value for the financial instruments listed in a regulated market. The resulting value is subject to percentage haircuts, differentiated based on the financial instruments used as security and the concentration of the instrument in the customer's portfolio provided as security.

For real estate collateral, the principles and rules are described in the policy on the granting of residential mortgages with property collateral to current account holders of FinecoBank S.p.A.. The valuation of the assets is performed by external technical experts included in the Register of Engineers, Architects and Surveyors or industrial experts who are not therefore susceptible to conflict of interest.

Valuations, moreover, are subject to periodic reviews.

### **3. Impaired credit exposures**

#### **3.1 Management strategies and policies**

Loans are classified as past due, unlikely to pay or bad exposure in accordance with the criteria set forth by the Bank of Italy and the thresholds established by the Parent Company. The classification as bad exposure, linked to the customer's insolvency, is always individual and defined on the basis of the progress of debt recovery actions. The loss estimate for positions classified as past due and unlikely to pay is also individual.

The classification criterion used for overdrawn accounts is related to the performance of debt recovery activity or the forced sale of securities to cover debts.

The reclassification of loans to a category of lower risk exposure is only authorised if the amount past due has been paid in full in observance of the original payment schedule, or if considerable payments have been made leading the Bank to believe the debt exposure is very likely to be repaid.

The procedure for the management of irregularly performing loans involves actions that may be taken to recover debts by ranking them by seniority of expiration.

#### **3.2 Write-off**

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

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

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

#### **3.3 Purchased or originated financial assets impaired**

The current business model of the Bank and company policies approved by the Board of Directors do not provide for purchased or originated impaired loans or the provision of "new finance" in any form (personal loans, mortgages, current account credit facilities, etc.) to already non-performing customers.

### **4. Renegotiations**

Renegotiations of financial instruments that lead to a change in the contractual terms are recognized on the basis of the substantiality of those contractual changes.

For renegotiations considered not to be substantial, the gross value is redetermined by calculating the present value of cash flows resulting from the renegotiation, at the original rate of the exposure. The difference between the gross value of the financial instrument prior to and after the renegotiation of the contractual terms, adjusted to consider the associated changes to the cumulative value adjustments, is recognized as a profit or loss from contractual amendments without cancellations, on the income statement.

In this regard, renegotiations achieved both by amending the original contract or by closing a new one, are considered substantial when they determine the expiry of the right to receive cash flows accordingly to the original contract. In particular, rights to receive cash flows are considered as expired in case of renegotiations that introduce contractual clauses which determine a change in the financial instrument classification, which determine a change in the currency or which are carried out at market conditions therefore without causing credit concession.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

## Quantitative information

## A. Credit quality

## A.1 Impaired and unimpaired credit exposures: amounts, impairment, changes, distribution by business activity

## A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying value)

(Amounts in € thousand)

PORTFOLIO/QUALITY	BAD		PAST DUE IMPAIRED EXPOSURES	PAST DUE UNIMPAIRED EXPOSURES	OTHER UNIMPAIRED EXPOSURES	TOTAL
	EXPOSURES	UNLIKELY TO PAY				
1. Financial asset at amortised cost	1.647	617	553	11.605	23.234.010	23.248.432
2. Financial assets at fair value through other comprehensive income	-	-	-	-	961.767	961.767
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	65	65
5. Financial instruments classified as held for sale	-	-	-	-	-	-
<b>Total 31 December 2018</b>	<b>1.647</b>	<b>617</b>	<b>553</b>	<b>11.605</b>	<b>24.195.842</b>	<b>24.210.264</b>
<b>Total 31 December 2017</b>	<b>1.730</b>	<b>495</b>	<b>627</b>	<b>7.511</b>	<b>21.865.362</b>	<b>21.875.725</b>

As at December 31, 2018 there were no impaired purchased loans.

## A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net values)

(Amounts in € thousand)

PORTFOLIO/QUALITY	IMPAIRED				UNIMPAIRED			TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	TOTAL		TOTAL PARTIAL WRITE-OFFS	GROSS EXPOSURE	TOTAL		
		IMPAIRMENT PROVISION	NET EXPOSURE			IMPAIRMENT PROVISION	NET EXPOSURE	
1. Financial asset at amortised cost	23.936	(21.118)	2.818	-	23.270.740	(25.126)	23.245.614	23.248.432
2. Financial assets at fair value through other comprehensive income	-	-	-	-	961.938	(171)	961.767	961.767
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	X	X	65	65
5. Financial instruments classified as held for sale	-	-	-	-	-	-	-	-
<b>Total 31 December 2018</b>	<b>23.936</b>	<b>(21.118)</b>	<b>2.818</b>	<b>-</b>	<b>24.232.678</b>	<b>(25.297)</b>	<b>24.207.446</b>	<b>24.210.264</b>
<b>Total 31 December 2017</b>	<b>24.313</b>	<b>(21.460)</b>	<b>2.853</b>	<b>-</b>	<b>21.883.945</b>	<b>(11.073)</b>	<b>21.872.872</b>	<b>21.875.725</b>

(Amounts in € thousand)

PORTFOLIO/QUALITY	ASSETS WITH OF CLEARLY POOR CREDIT QUALITY		OTHER ASSETS
	ACCUMULATED UNREALISED		NET EXPOSURE
	LOSSES	NET EXPOSURE	
1. Financial assets held for trading	-	-	4,764
2. Hedging derivatives	-	-	3,314
<b>Total 31 December 2018</b>	-	-	<b>8,078</b>
<b>Total 31 December 2017</b>	-	-	<b>7,021</b>

### A.1.3 Breakdown of financial assets by past due bands (carrying value)

(Amounts in € thousand)

PORTFOLIOS/STAGES	FIRST STAGE			SECOND STAGE			THIRD STAGE		
	FROM 1 TO 30 DAYS	BETWEEN 30 DAYS AND 90 DAYS	OVER 90 DAYS	FROM 1 TO 30 DAYS	BETWEEN 30 DAYS AND 90 DAYS	OVER 90 DAYS	FROM 1 TO 30 DAYS	BETWEEN 30 DAYS AND 90 DAYS	OVER 90 DAYS
1. Financial assets at amortised cost	9,573	28	1	65	1,634	304	12	12	2,557
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
<b>Total 31 December 2018</b>	<b>9,573</b>	<b>28</b>	<b>1</b>	<b>65</b>	<b>1,634</b>	<b>304</b>	<b>12</b>	<b>12</b>	<b>2,557</b>
<b>Total 31 December 2017</b>									

### A.1.4 Financial assets, commitments and financial guarantees: changes in overall impairment and overall provisions

(Amounts in € thousand)

SOURCE/STAGES	TOTAL IMPAIRMENT PROVISION											TOTAL					
	ASSETS INCLUDED IN THE FIRST STAGE				ASSETS INCLUDED IN THE SECOND STAGE				ASSETS INCLUDED IN THE THIRD STAGE				TOTAL PROVISIONS ON COMMITMENTS AND FINANCIAL GUARANTEES GIVEN				
	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	OF WHICH: INDIVIDUALLY MEASURED ALLOWANCES	OF WHICH: COLLECTIVELY MEASURED ALLOWANCES	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	OF WHICH: INDIVIDUALLY MEASURED ALLOWANCES	OF WHICH: COLLECTIVELY MEASURED ALLOWANCES	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	OF WHICH: INDIVIDUALLY MEASURED ALLOWANCES		OF WHICH: COLLECTIVELY MEASURED ALLOWANCES	OF WHICH: FINANCIAL ASSETS PURCHASED OR ORIGINATED CREDIT IMPAIRED	FIRST STAGE	SECOND STAGE	THIRD STAGE
Opening balance	(18,692)	(93)	-	(18,784)	(5,964)	-	-	(5,964)	(21,043)	-	(18,446)	(2,597)	-	(450)	-	-	(46,242)
Increases due to origination and acquisition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decreases due to derecognition other than write-off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes due to change in credit risk (net) (+/-)	(441)	(78)	-	(519)	(31)	-	(31)	(2,857)	-	(1,226)	(1,632)	-	402	-	-	-	(3,005)
Changes due to modifications without derecognition (net)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes due to update in the institution's methodology for estimation (net)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-off	1	-	-	1	-	-	-	2,782	-	2,755	28	-	-	-	-	-	2,783
Other adjustments	-	-	-	-	-	-	-	-	-	(1,071)	1,071	-	-	-	-	-	-
<b>Closing balance</b>	<b>(19,132)</b>	<b>(171)</b>	<b>-</b>	<b>(19,302)</b>	<b>(5,995)</b>	<b>-</b>	<b>(5,995)</b>	<b>(21,118)</b>	<b>-</b>	<b>(17,988)</b>	<b>(3,130)</b>	<b>-</b>	<b>-</b>	<b>(48)</b>	<b>-</b>	<b>-</b>	<b>(46,464)</b>
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	-	-	-	-	-	-	-	(23)	-	(23)	-	-	-	-	-	-	(23)
Amounts written-off directly to the statement of profit or loss	-	-	-	-	-	-	-	134	-	94	40	-	-	-	-	-	134

## Part E - Information on Risks and relating hedging policies (CONTINUED)

## A.1.5 Financial assets, commitments and financial guarantees: transfers between the different stages (gross amount and nominal)

(Amounts in € thousand)

PORTFOLIOS/STAGES	GROSS CARRYING AMOUNT/NOMINALE AMOUNT					
	TRANSFER BETWEEN STAGE 1 AND STAGE 2		TRANSFER BETWEEN STAGE 2 AND STAGE 3		TRANSFER BETWEEN STAGE 1 AND STAGE 3	
	TO STAGE 2 FROM STAGE 1	TO STAGE 1 FROM STAGE 2	TO STAGE 3 FROM STAGE 2	TO STAGE 2 FROM STAGE 3	TO STAGE 3 FROM STAGE 1	TO STAGE 1 FROM STAGE 3
1. Financial assets at amortised cost	2,387	905	837	58	3,821	243
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments and financial guarantees given	18	-	4	-	148	-
<b>Total 31 December 2018</b>	<b>2,405</b>	<b>905</b>	<b>841</b>	<b>58</b>	<b>3,969</b>	<b>243</b>
<b>Total 31 December 2017</b>						

## A.1.6 On-balance sheet and off-balance-sheet credit exposures to banks: gross and net values

(Amounts in € thousand)

TYPE OF EXPOSURES/AMOUNTS	GROSS EXPOSURE		TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL PARTIAL WRITE-OFF
	IMPAIRED	UNIMPAIRED			
<b>A. On-balance sheet credit exposures</b>					
a) Bad exposure	-	X	-	-	-
- of which: forbore exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forbore exposures	-	X	-	-	-
c) Past-due impaired loans	-	X	-	-	-
- of which: forbore exposures	-	X	-	-	-
d) Past due non-impaired exposures	X	-	-	-	-
- of which: forbore exposures	X	-	-	-	-
e) Other unimpaired exposures	X	12,436,542	(9,454)	12,427,088	-
- of which: forbore exposures	X	-	-	-	-
<b>Total (A)</b>	-	<b>12,436,542</b>	<b>(9,454)</b>	<b>12,427,088</b>	-
<b>B. Off-balance sheet exposures</b>					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	331,170	(38)	331,132	-
<b>Total (B)</b>	-	<b>331,170</b>	<b>(38)</b>	<b>331,132</b>	-
<b>Total (A+B)</b>	-	<b>12,767,712</b>	<b>(9,492)</b>	<b>12,758,220</b>	-

In the above table, item B. "Off-balance sheet exposures" includes the counterparty risk related to repos that can be classified as "Securities Financing Transactions" (SFT) defined in prudential regulations, amounting to €71,369 thousand.

There were no securities lending transactions collateralised by other securities or without a cash guarantee with banks.

## A.1.7 On-balance sheet and off-balance-sheet credit exposures to customers: gross and net values

(Amounts in € thousand)

TYPE OF EXPOSURES/AMOUNTS	GROSS EXPOSURE		TOTAL IMPAIRMENT	NET EXPOSURE	TOTAL PARTIAL WRITE-OFF
	IMPAIRED	UNIMPAIRED			
<b>A. On-balance sheet credit exposures</b>					
a) Bad exposure	19,714	X	(18,067)	1,647	-
- of which: forbore exposures	186	X	(161)	25	-
b) Unlikely to pay	2,659	X	(2,042)	617	-
- of which: forbore exposures	105	X	(74)	31	-
c) Past-due impaired loans	1,562	X	(1,009)	553	-
- of which: forbore exposures	34	X	(23)	11	-
d) Past due non-impaired exposures	X	12,123	(518)	11,605	-
- of which: forbore exposures	X	73	(2)	71	-
e) Other unimpaired exposures	X	11,784,084	(15,326)	11,768,758	-
- of which: forbore exposures	X	151	(1)	150	-
<b>Total (A)</b>	<b>23,935</b>	<b>11,796,207</b>	<b>(36,962)</b>	<b>11,783,180</b>	<b>-</b>
<b>B. Off-balance sheet exposures</b>					
a) Impaired	155	X	-	155	-
b) Unimpaired	X	1,302,513	(11)	1,302,502	-
<b>Total (B)</b>	<b>155</b>	<b>1,302,513</b>	<b>(11)</b>	<b>1,302,657</b>	<b>-</b>
<b>Total (A+B)</b>	<b>24,090</b>	<b>13,098,720</b>	<b>(36,973)</b>	<b>13,085,837</b>	<b>-</b>

In the above table, item B. "Off-balance sheet exposures" includes the counterparty risk related to securities lending transactions collateralised by other securities and to repos that can be classified as "Securities Financing Transactions" (SFT) defined in prudential regulations, amounting to €257,363 thousand.

There were no securities lending transactions without a cash guarantee or not collateralised by other securities with customers.

## A.1.8 On-balance sheet credit exposures to banks: gross changes in non-performing exposures

No data to report.

### A.1.8bis On-balance sheet credit exposures to banks: gross changes in forbore non-performing exposures breakdown by credit quality

No data to report.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

## A.1.9 On-balance sheet credit exposures to customers: gross changes in non-performing exposures

(Amounts in € thousand)

SOURCES/CATEGORIES	PAST-DUE IMPAIRED		
	BAD EXPOSURE	UNLIKELY TO PAY	LOANS
<b>A. Opening balance - gross exposure</b>	<b>20,260</b>	<b>2,107</b>	<b>1,355</b>
- of which: assets sold but not derecognised	-	-	-
<b>B. Increases</b>	<b>3,260</b>	<b>4,849</b>	<b>6,562</b>
B.1 transfers from performing exposures	18	505	5,942
B.2 transfers from financial assets purchased or originated credit impaired	-	-	-
B.3 transfers from other categories of impaired exposures	3,136	3,909	-
B.4 contractual changes without write-off	-	-	-
B.5 other increases	106	435	620
<b>C. Decreases</b>	<b>(3,806)</b>	<b>(4,297)</b>	<b>(6,355)</b>
C.1 transfers to performing exposures	-	(298)	(578)
C.2 write-off	(2,849)	(66)	(1)
C.3 collections	(891)	(786)	(1,682)
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposures	-	(3,135)	(3,910)
C.7 contractual changes without write-off	-	-	-
C.8 other decreases	(66)	(12)	(184)
<b>D. Gross exposure closing balance</b>	<b>19,714</b>	<b>2,659</b>	<b>1,562</b>
- of which: assets sold but not derecognised	-	-	-

The opening balances shown in the table refers to the financial assets recorded at January 1, 2018 after the reclassifications made following the entry into force of IFRS 9 (for further details, see Section 4 - Other matters of these notes to the accounts). In particular, the gross exposure was reduced by the amount of default interest (bad loans for €588 thousand, unlikely to pay for €2 thousand and impaired past due exposures for €1 thousand). Starting from January 1, 2018, default interest is recognized in gross value only if no value adjustments have been recorded on the original exposures and if deemed recoverable by the Bank.

## A.1.9bis On-balance sheet credit exposures to customers: gross changes in forbore non-performing exposures breakdown by credit quality

(Amounts in € thousand)

SOURCES/QUALITY	FORBORNE EXPOSURE: NON		FORBORNE EXPOSURE: PERFORMING
	PERFORMING		
<b>A. Opening balance - gross exposure</b>	<b>297</b>		<b>183</b>
- of which: assets sold but not derecognised	-		-
<b>B. Increases</b>	<b>520</b>		<b>295</b>
B.1 transfers from performing exposures not forbore	72		184
B.2 transfers from performing forbore exposures	144	X	
B.3 transfers from impaired forbore exposures	X		90
B.4 other increases	304		21
<b>C. Decreases</b>	<b>(491)</b>		<b>(254)</b>
C.1 transfers to performing exposures not forbore	X		-
C.2 transfers to performing forbore exposures	(90)	X	
C.3 transfers to impaired forbore exposures	X		(144)
C.4 write-off	(24)		-
C.5 collections	(97)		(110)
C.6 proceeds from disposals	-		-
C.7 losses on disposal	-		-
C.8 other decreases	(280)		-
<b>D. Gross exposure closing balance</b>	<b>326</b>		<b>224</b>
- of which: assets sold but not derecognised	-		-

The opening balances shown in the table refers to the financial assets recorded at January 1, 2018 after the reclassifications made following the entry into force of IFRS 9 (for further details, see Section 4 - Other matters of these notes to the accounts). In particular, the gross exposure was reduced by the amount of default interest. Starting from January 1, 2018, default interest is recognized in gross value only if no value adjustments have been recorded on the original exposures and if deemed recoverable by the Bank.

## A.1.10 On-balance sheet credit exposures to banks: changes in overall impairment

No data to report.



## A.1.11 On-balance sheet credit exposures to customers: changes in overall impairment

(Amounts in € thousand)

SOURCES/CATEGORIES	BAD LOANS		UNLIKELY TO PAY		PAST DUE IMPAIRED LOANS	
	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES
<b>A. Total opening impairment</b>	<b>(18,530)</b>	<b>(97)</b>	<b>(1,660)</b>	<b>(110)</b>	<b>(853)</b>	<b>(18)</b>
of which: assets sold but not derecognised	-	-	-	-	-	-
<b>B. Increases</b>	<b>(3,293)</b>	<b>(106)</b>	<b>(1,903)</b>	<b>(66)</b>	<b>(968)</b>	<b>(22)</b>
B.1 value adjustments from financial assets purchased or originated credit impaired	-	X	-	X	-	X
B.2 other value adjustments	(2,198)	(45)	(1,432)	(52)	(962)	(16)
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories impaired exposures	(1,071)	(61)	(463)	(6)	-	-
B.5 contractual changes without write-off	-	X	-	X	-	X
B.6 Other increases	(24)	-	(8)	(8)	(6)	(6)
<b>C. Decreases</b>	<b>3,756</b>	<b>42</b>	<b>1,521</b>	<b>102</b>	<b>812</b>	<b>17</b>
C.1 write-backs from assessments	267	4	94	34	252	8
C.2 write-backs from recoveries	640	13	292	7	79	3
C.3 Gains on disposal	-	-	-	-	-	-
C.4 write-off	2,849	25	66	-	1	-
C.5 Transfers to other categories of impaired exposures	-	-	1,061	61	474	6
C.6 contractual changes without write-off	-	X	-	X	-	X
C.7 Other decreases	-	-	8	-	6	-
<b>D. Final overall impairment</b>	<b>(18,067)</b>	<b>(161)</b>	<b>(2,042)</b>	<b>(74)</b>	<b>(1,009)</b>	<b>(23)</b>
of which: assets sold but not derecognised	-	-	-	-	-	-

The initial balance shown in the table refers to the financial assets recorded at January 1, 2018 after restating the opening balances following the entry into force of IFRS 9 (for further details, see Section 4 – Other matters of these notes to the accounts).

## Part E - Information on Risks and relating hedging policies (CONTINUED)

## A.2 Breakdown of financial assets, commitments and financial guarantees given by internal and external ratings

## A.2.1 Breakdown of financial assets, commitments and financial guarantees given: breakdown by external rating class (gross amount)

(Amounts in € thousand)

EXPOSURES	EXTERNAL RATING CLASSES						NO RATING	TOTAL
	CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6		
<b>A. Financial assets at amortised cost</b>	<b>1,220,146</b>	<b>3,791,444</b>	<b>15,283,153</b>	<b>4,158</b>	-	-	<b>2,995,775</b>	<b>23,294,676</b>
- First stage	1,220,146	3,791,444	15,283,153	4,158	-	-	2,957,189	23,256,090
- Second stage	-	-	-	-	-	-	14,650	14,650
- Third stage	-	-	-	-	-	-	23,936	23,936
<b>B. Financial assets at fair value through other comprehensive income</b>	<b>103,055</b>	<b>41,812</b>	<b>816,900</b>	-	-	-	-	<b>961,767</b>
- First stage	103,055	41,812	816,900	-	-	-	-	961,767
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
<b>Total (A + B)</b>	<b>1,323,201</b>	<b>3,833,256</b>	<b>16,100,053</b>	<b>4,158</b>	-	-	<b>2,995,775</b>	<b>24,256,443</b>
of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	-	-
<b>C. Commitments and financial guarantees given</b>	-	-	<b>256,070</b>	-	-	-	<b>1,038,876</b>	<b>1,294,946</b>
- First stage	-	-	256,070	-	-	-	1,038,443	1,294,513
- Second stage	-	-	-	-	-	-	279	279
- Third stage	-	-	-	-	-	-	154	154
<b>Total (C)</b>	-	-	<b>256,070</b>	-	-	-	<b>1,038,876</b>	<b>1,294,946</b>
<b>Total (A + B + C)</b>	<b>1,323,201</b>	<b>3,833,256</b>	<b>16,356,123</b>	<b>4,158</b>	-	-	<b>4,034,651</b>	<b>25,551,389</b>

The table below shows the breakdown of on-balance sheet and off-balance-sheet exposures to counterparties with an external rating. Rating agencies provide a summary assessment on the creditworthiness of different type of counterparties: Countries, Banks, Public Bodies, Insurance Companies and Businesses, usually large-scale.

The table refers to the classification set forth in the Bank of Italy Circular no. 262/2005 regarding external ratings, which envisages 6 classes of creditworthiness.

The above presentation refers to the Standard and Poor's ratings, which are also associated to the ratings of the other two main Agencies, Moody's and Fitch. When there were two credit ratings for an individual exposure provided by two rating agencies the worst rating was recognised; if there were three different ratings the two best ratings were identified and, if they were different, the worst rating from these was recognised.

As part of the calculation of statutory requirements, by using the standard risk calculation method, FinecoBank relies on the rankings of rating agencies in order to determine the weighting coefficients for exposures to Sovereign states ("Central governments and central banks", "Entities" and "Public Sector Entities" portfolio). In general, a weighting factor of 100 percent is applied to the remaining credit exposures, subject to the main exceptions established by CRR 575/2013.

Credit exposures to retail customers (consisting in personal loans, mortgages credit cards spending - both full payment of balance or revolving -, unsecured and secured loans and securities lending at December 31, 2018) were not externally ranked. Exposures with ratings to non-retail customers mainly derive from amounts due to the Parent Company for treasury activities and for hedging banking book positions through interest-rate derivatives. The remaining exposures with ratings regard receivables relating to customer trading, whose counterparties are leading banks with a high credit rating.

## A.2.2 Breakdown of on-balance sheet and off-balance-sheet financial assets, commitments and financial guarantees given: breakdown by internal rating class (gross amount)

This table has not been included because internal ratings are not used to managed credit risk.

## A.3 Breakdown of secured exposures by type of collateral

### A.3.1 Secured on-balance sheet and off-balance-sheet exposures to banks

(Amounts in € thousand)

GROSS EXPOSURE	NET EXPOSURE	REAL GUARANTEES (1)				PERSONAL GUARANTEES (2)							TOTAL (1)+(2)		
		PROPERTIES - MORTGAGES	MORTGAGES - FINANCE LEASES	SECURITIES	OTHER REAL GUARANTEES	CREDIT DERIVATIVES				SIGNATURE CREDITS					
						CLN	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL ENTITIES	OTHER ENTITIES	PUBLIC ENTITIES	BANKS		OTHER FINANCIAL ENTITIES	OTHER ENTITIES
<b>1. Secured on-balance sheet exposures:</b>															
1.1 totally secured	416	416	-	-	379	-	-	-	-	-	-	-	-	-	379
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>2. Secured off-balance sheet credit exposures:</b>															
2.1 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

### A.3.2 Secured on-balance sheet and off-balance-sheet exposures to customers

(Amounts in € thousand)

GROSS EXPOSURE	NET EXPOSURE	REAL GUARANTEES (1)				PERSONAL GUARANTEES (2)							TOTAL (1)+(2)			
		PROPERTIES - MORTGAGES	MORTGAGES - FINANCE LEASES	SECURITIES	OTHER REAL GUARANTEES	CREDIT DERIVATIVES				SIGNATURE CREDITS						
						CLN	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL ENTITIES	OTHER ENTITIES	PUBLIC ENTITIES	BANKS		OTHER FINANCIAL ENTITIES	OTHER ENTITIES	
																OTHER DERIVATIVES
<b>1. Secured on-balance sheet exposures:</b>																
1.1 totally secured	1,887,667	1,884,760	856,856	-	1,026,680	1,221	-	-	-	-	-	-	-	-	-	1,884,757
- of which impaired	52	42	-	-	42	-	-	-	-	-	-	-	-	-	-	42
1.2 partially secured	2,380	2,369	-	-	1,856	-	-	-	-	-	-	-	-	-	-	1,856
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>2. Secured off-balance sheet credit exposures:</b>																
2.1 totally secured	13,476	13,466	-	-	10,185	3,281	-	-	-	-	-	-	-	-	-	13,466
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	231	231	-	-	133	38	-	-	-	-	-	-	-	-	-	171
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

## A.4 Financial and non-financial assets obtained through the enforcement of guarantees received

No data to report.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

**B. Distribution and concentration of credit exposures****B.1 Breakdown of on-balance sheet and off-balance-sheet credit exposures to customers by sector**

Exposures connected to the counterparty risk related to securities lending or borrowing transactions are not included.

(Amounts in € thousand)

EXPOSURE/COUNTERPARTY	PUBLIC ENTITIES		FINANCIAL ENTITIES		FINANCIAL ENTITIES (OF WHICH: INSURANCE COMPANIES)		NON FINANCIAL ENTITIES		HOUSEHOLDS	
	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS
<b>A. On-balance sheet credit exposures</b>										
A.1 Bad loans	-	-	1	(19)	-	-	1	(5)	1,645	(18,043)
- of which: forborne exposures	-	-	-	-	-	-	-	-	25	(161)
A.2 Unlikely to pay	-	-	-	-	-	-	5	(11)	613	(2,031)
- of which: forborne exposures	-	-	-	-	-	-	-	-	31	(74)
A.3 Past-due impaired loans	-	-	1	(1)	-	-	3	(7)	549	(1,001)
- of which: forborne exposures	-	-	-	-	-	-	-	-	11	(23)
A.4 Performing exposures	8,835,759	(1,826)	171,756	(460)	19,028	(46)	943	(3)	2,771,906	(13,553)
- of which: forborne exposures	-	-	-	-	-	-	-	-	222	(2)
<b>TOTAL (A)</b>	<b>8,835,759</b>	<b>(1,826)</b>	<b>171,758</b>	<b>(480)</b>	<b>19,028</b>	<b>(46)</b>	<b>952</b>	<b>(26)</b>	<b>2,774,713</b>	<b>(34,628)</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Impaired	-	-	-	-	-	-	-	-	155	-
B.2 Unimpaired	38	-	2,040	-	-	-	253	-	1,042,810	(11)
<b>TOTAL (B)</b>	<b>38</b>	<b>-</b>	<b>2,040</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>253</b>	<b>-</b>	<b>1,042,965</b>	<b>(11)</b>
<b>TOTAL (A + B) 31 December 2018</b>	<b>8,835,797</b>	<b>(1,826)</b>	<b>173,798</b>	<b>(480)</b>	<b>19,028</b>	<b>(46)</b>	<b>1,205</b>	<b>(26)</b>	<b>3,817,678</b>	<b>(34,639)</b>
<b>TOTAL (A + B) 31 December 2017</b>	<b>5,869,238</b>	<b>-</b>	<b>110,976</b>	<b>(181)</b>	<b>16,651</b>	<b>-</b>	<b>21,014</b>	<b>(3,713)</b>	<b>2,024,184</b>	<b>(28,639)</b>

**B.2 Breakdown of on-balance sheet and off-balance-sheet credit exposures to customers by geography**

Exposures connected to the counterparty risk related to securities lending or borrowing transactions are not included.

(Amounts in € thousand)

EXPOSURE/GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS
<b>A. On-balance sheet exposures</b>										
A.1 Bad loans	1,643	(18,041)	4	(26)	-	-	-	-	-	-
A.2 Unlikely to pay	617	(2,039)	1	(2)	-	-	-	-	-	-
A.3 Impaired past-due exposures	547	(996)	7	(12)	-	-	-	-	-	-
A.4 Unimpaired exposures	6,858,181	(14,925)	4,725,517	(910)	69,451	(7)	633	(1)	126,582	-
<b>TOTAL (A)</b>	<b>6,860,988</b>	<b>(36,001)</b>	<b>4,725,529</b>	<b>(950)</b>	<b>69,451</b>	<b>(7)</b>	<b>633</b>	<b>(1)</b>	<b>126,582</b>	<b>-</b>
<b>B. "Off-balance" sheet exposures</b>										
B.1 Impaired exposure	155	-	-	-	-	-	-	-	-	-
B.2 Unimpaired exposure	1,041,777	(11)	2,984	-	74	-	278	-	28	-
<b>TOTAL (B)</b>	<b>1,041,932</b>	<b>(11)</b>	<b>2,984</b>	<b>-</b>	<b>74</b>	<b>-</b>	<b>278</b>	<b>-</b>	<b>28</b>	<b>-</b>
<b>TOTAL (A + B) 31 december 2018</b>	<b>7,902,920</b>	<b>(36,012)</b>	<b>4,728,513</b>	<b>(950)</b>	<b>69,525</b>	<b>(7)</b>	<b>911</b>	<b>(1)</b>	<b>126,610</b>	<b>-</b>
<b>TOTAL (A + B) 31 december 2017</b>	<b>5,388,548</b>	<b>(32,508)</b>	<b>2,586,022</b>	<b>(24)</b>	<b>66,219</b>	<b>(1)</b>	<b>745</b>	<b>(1)</b>	<b>529</b>	<b>-</b>

(Amounts in € thousand)

EXPOSURE/GEOGRAPHICAL AREA	NORTHWEST ITALY		NORTH-EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS	
	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS
<b>A. On-balance sheet exposures</b>								
A.1 Bad loans	422	(4.686)	194	(2.512)	373	(3.633)	655	(7.209)
A.2 Unlikely to pay	220	(914)	67	(193)	152	(421)	177	(511)
A.3 Impaired past-due exposures	114	(231)	60	(122)	136	(267)	237	(375)
A.4 Unimpaired exposures	923.332	(4.493)	389.454	(1.446)	4.838.592	(5.286)	706.803	(3.699)
<b>TOTAL (A)</b>	<b>924.088</b>	<b>(10.324)</b>	<b>389.775</b>	<b>(4.273)</b>	<b>4.839.253</b>	<b>(9.607)</b>	<b>707.872</b>	<b>(11.794)</b>
<b>B. "Off-balance" sheet exposures</b>								
B.1 Impaired exposure	23	-	7	-	47	-	78	-
B.2 Unimpaired exposure	359.789	(4)	164.693	(2)	286.333	(2)	230.962	(2)
<b>TOTAL (B)</b>	<b>359.812</b>	<b>(4)</b>	<b>164.700</b>	<b>(2)</b>	<b>286.380</b>	<b>(2)</b>	<b>231.040</b>	<b>(2)</b>
<b>TOTAL (A + B) 31 December 2018</b>	<b>1.283.900</b>	<b>(10.328)</b>	<b>554.475</b>	<b>(4.275)</b>	<b>5.125.633</b>	<b>(9.609)</b>	<b>938.912</b>	<b>(11.796)</b>
<b>TOTAL (A + B) 31 December 2017</b>	<b>692.387</b>	<b>(9.654)</b>	<b>286.683</b>	<b>(4.224)</b>	<b>3.898.429</b>	<b>(7.726)</b>	<b>511.048</b>	<b>(10.903)</b>

### B.3 Breakdown of on-balance sheet and off-balance-sheet credit exposures to banks by geography

Exposures connected to the counterparty risk related to securities lending or borrowing transactions are not included.

(Amounts in € thousand)

EXPOSURE/GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS
<b>A. On-balance sheet exposures</b>										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	12,150,092	(9,420)	175,726	(33)	-	-	-	-	101,271	-
<b>TOTAL (A)</b>	<b>12,150,092</b>	<b>(9,420)</b>	<b>175,726</b>	<b>(33)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>101,271</b>	<b>-</b>
<b>B. "Off-balance" sheet exposures</b>										
B.1 Impaired exposure	-	-	-	-	-	-	-	-	-	-
B.2 Unimpaired exposure	256,032	(38)	3,462	-	-	-	-	-	-	-
<b>TOTAL (B)</b>	<b>256,032</b>	<b>(38)</b>	<b>3,462</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL (A + B) 31 December 2018</b>	<b>12,406,124</b>	<b>(9,458)</b>	<b>179,188</b>	<b>(33)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>101,271</b>	<b>-</b>
<b>TOTAL (A + B) 31 December 2017</b>	<b>16,250,074</b>	<b>-</b>	<b>9,648</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>

(Amounts in € thousand)

EXPOSURE/GEOGRAPHICAL AREA	NORTHWEST ITALY		NORTH-EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS	
	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS	NET EXPOSURE	TOTAL IMPAIRMENTS
<b>A. On-balance sheet exposures</b>								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	12,150,091	(9,420)	-	-	1	-	-	-
<b>TOTAL (A)</b>	<b>12,150,091</b>	<b>(9,420)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>B. "Off-balance" sheet exposures</b>								
B.1 Impaired exposure	-	-	-	-	-	-	-	-
B.3 Unimpaired exposure	256,032	(38)	-	-	-	-	-	-
<b>TOTAL (B)</b>	<b>256,032</b>	<b>(38)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL (A + B) 31 December 2018</b>	<b>12,406,123</b>	<b>(9,458)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL (A + B) 31 December 2017</b>	<b>16,250,072</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Part E - Information on Risks and relating hedging policies (CONTINUED)

**B.4 Large exposures**

At December 31, 2018 the following "risk positions" constituted "large exposures" pursuant to Circular 286 of December 17, 2013, "Instructions for the prudential reporting of banks and securities firms" issued by the Bank of Italy:

- a) book value: €22,778,758 thousand, excluding the reverse repo transactions, of which € 12,387,236 thousand with the UniCredit Group;
- b) non-weighted value: €22,797,893 thousand, of which €13,239,369 thousand with the UniCredit Group;
- c) weighted value: €223,964 thousand, none with the UniCredit Group;
- d) number of "risk positions": 15, including the UniCredit Group.

Please note that deferred tax assets within the exposure towards the Italian Central Government have been exempted and, therefore, their weighted value is null.

**C. Securitisation transactions****Qualitative information**

No data to report.

**Quantitative information**

No data to report.

**D. Disclosure on structured entities (other than securitisation companies)****Qualitative information**

The Bank has exposures towards unconsolidated structured entities as a result of investments in units issued by investment funds (UCITS) that qualify as structured entities according to IFRS 12.

**Quantitative information**

The table below shows the assets, liabilities and off-balance sheet exposure to structured entities represented by unconsolidated UCITS units.

(Amounts in € thousand)

BALANCE SHEET ITEMS/TYPE OF STRUCTURED ENTITY	ACCOUNTING PORTFOLIOS OF ASSETS		ACCOUNTING PORTFOLIOS OF TOTAL LIABILITIES		NET CARRYING AMOUNT (C=A-B)	MAXIMUM EXPOSURE TO LOSS (D)	DIFFERENCE BETWEEN EXPOSURE TO THE RISK OF LOSS AND THE CARRYING AMOUNT (E=D-C)
	ASSETS	TOTAL ASSETS (A)	LIABILITIES	(B)			
1. UCITS	HFT	2			-	2	-

**Key**

HFT = Financial assets held for trading

**E. Sales Transactions****A. Financial assets sold and partially derecognised****Qualitative information**

The Bank carries out repos using securities of its proprietary portfolio and securities not recognised in assets, received through reverse repos and securities lending.

Securities from its proprietary portfolio used in repos were not derecognized as the Bank carries out repos with the obligation for the buyer to resell the assets covered by the transaction upon expiration of the transaction and maintains all the risks associated with ownership of the securities.

## Quantitative information

### E.1 Financial assets sold but not derecognised and associated financial liabilities: carrying value

(Amounts in € thousand)

	FINANCIAL ASSETS SOLD BUT NOT DERECOGNISED				ASSOCIATED FINANCIAL LIABILITIES			
	CARRYING AMOUNT	OF WHICH: SECURITISATION	OF WHICH: REPURCHASE AGREEMENT	OF WHICH IMPAIRED	CARRYING AMOUNT	OF WHICH: SECURITISATION	OF WHICH: REPURCHASE AGREEMENT	
<b>A. Financial assets held for trading</b>	-	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-	-
4. Derivative instruments	-	-	-	-	-	-	-	-
<b>B. Other financial assets mandatorily at fair value</b>	-	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-	-
<b>C. Financial assets designated at fair value</b>	-	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-	-
<b>D. Financial assets at fair value through other comprehensive income</b>	<b>402.933</b>	-	<b>402.933</b>	-	<b>401.255</b>	-	<b>401.255</b>	-
1. Debt securities	402.933	-	402.933	-	401.255	-	401.255	-
2. Equity instruments	-	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-	-
<b>E. Financial assets at amortised cost</b>	<b>1.471.944</b>	-	<b>1.471.944</b>	-	<b>1.420.480</b>	-	<b>1.420.480</b>	-
1. Debt securities	1.471.944	-	1.471.944	-	1.420.480	-	1.420.480	-
2. Loans	-	-	-	-	-	-	-	-
<b>Total at 31 december 2018</b>	<b>1.874.877</b>	-	<b>1.874.877</b>	-	<b>1.821.735</b>	-	<b>1.821.735</b>	-
<b>Total at 31 december 2017</b>	-	-	-	-	-	-	-	-

Please note that the amount of financial liabilities in the table above has been shown gross of the accounting off-setting made according to IAS 32.

### E.2 Financial assets sold partially recognized and associated financial liabilities: carrying value

No data to report.

### E.3 Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value

No data to report.

## B. Assets sold and fully derecognised with recognition of continuing involvement

### Qualitative information

No data to report.

### Qualitative information

No data to report.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

**E.4 Covered bond transactions**

No data to report.

**F. Credit Risk Measurement Models***Credit Risk Measurement – Trading Book*

The monitoring of credit risk as part of the management of the trading book is conducted through the rating of all financial instruments held.

*Credit Risk Measurement – Banking Book*

The banking book of the Bank consists of securities, current accounts and deposits with the Parent Company. Retail customer activities are limited to the granting of personal loans, mortgages, credit cards and credit lines.

**Information on Sovereign Exposures**

The Bank is exposed to the sovereign debt of some countries, having invested a portion of its assets in debt securities issued by governments and recognised in "Financial assets designated at fair value through other comprehensive income" and in "Financial assets measured at amortised cost". The following table shows the face value, the book value and the fair value of these exposures as at December 31, 2018. The Bank is exposed to debt securities issued by sovereign entities which are classified under "Other financial assets mandatorily at fair value" for €29 thousand.

In addition, the Bank invested in debt securities issued by Supranational institutions and Agencies accounted for in "Financial assets at amortized cost" (for further details, see the Consolidated Report on Operations).

(Amounts in € thousand)

	NOMINAL VALUE AS AT 12.31.2018	CARRYING AMOUNT AS AT 12.31.2018	FAIR VALUE AS AT 12.31.2018	% FINANCIAL STATEMENTS ITEM
<b>Italy</b>	<b>3,738,000</b>	<b>3,967,086</b>	<b>3,898,412</b>	<b>16.05%</b>
Financial assets at fair value through other comprehensive income	797,000	816,900	816,900	84.94%
Financial assets at amortised cost	2,941,000	3,150,186	3,081,512	13.55%
<b>Spain</b>	<b>3,040,000</b>	<b>3,411,725</b>	<b>3,446,946</b>	<b>13.81%</b>
Financial assets at amortised cost	3,040,000	3,411,725	3,446,946	14.68%
<b>Germany</b>	<b>125,000</b>	<b>127,432</b>	<b>129,320</b>	<b>0.52%</b>
Financial assets at amortised cost	125,000	127,432	129,320	0.55%
<b>Poland</b>	<b>73,000</b>	<b>79,660</b>	<b>80,540</b>	<b>0.32%</b>
Financial assets at amortised cost	73,000	79,660	80,540	0.34%
<b>France</b>	<b>285,000</b>	<b>291,215</b>	<b>292,530</b>	<b>1.18%</b>
Financial assets at fair value through other comprehensive income	35,000	35,471	35,471	3.69%
Financial assets at amortised cost	250,000	255,744	257,059	1.10%
<b>USA</b>	<b>69,869</b>	<b>67,585</b>	<b>67,585</b>	<b>0.27%</b>
Financial assets at fair value through other comprehensive income	69,869	67,585	67,585	7.03%
<b>Austria</b>	<b>205,000</b>	<b>208,562</b>	<b>210,032</b>	<b>0.84%</b>
Financial assets at amortised cost	205,000	208,562	210,032	0.90%
<b>Ireland</b>	<b>188,000</b>	<b>213,515</b>	<b>214,331</b>	<b>0.86%</b>
Financial assets at fair value through other comprehensive income	35,000	41,812	41,812	4.35%
Financial assets at amortised cost	153,000	171,703	172,519	0.74%
<b>Belgium</b>	<b>180,000</b>	<b>181,983</b>	<b>182,394</b>	<b>0.74%</b>
Financial assets at amortised cost	180,000	181,983	182,394	0.78%
<b>Total Sovereign exposures</b>	<b>7,903,869</b>	<b>8,548,763</b>	<b>8,522,090</b>	<b>34.59%</b>

The% reported in line of the individual Sovereign states and in the item "Total Sovereign exposures" were determined on the total assets of the Bank, while the% reported in lien with the balance sheet items were determined on the total of the individual items of the financial statements.

Please note that securities in currencies other than the euro have been converted into euro at the spot exchange rate at the balance sheet date.

As at December 31, 2018, investments in debt securities issued by Sovereign states accounted for 34.59% of the Bank's total assets. There were no structured debt securities among the sovereign debt securities held by the Bank. The Bank is therefore exposed to fluctuations in the price of the public debt securities of the countries listed above. Tensions or volatility in the government bond market could negatively impact on the Bank's financial position and performance.



The following table shows the sovereign ratings as at December 31, 2018 for countries to which the Bank is exposed, provided by Fitch Ratings, Moody's and Standard & Poor's.

	MOODY'S	FITCH RATINGS	STANDARD & POOR'S
Italy	Baa3	BBB	BBB
Spain	Baa1	A-	A-
Germany	Aaa	AAA	AAA
Poland	A2	A-	A-
France	Aa2	AA	AA
USA	Aaa	AAA	AA+
Austria	Aa1	AA+	AA+
Ireland	A2	A+	A+
Belgium	Aa3	AA-	AA

## Section 2 - Market risk

Market risk derives from the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can cause to the economic value of the Bank's portfolio, if it includes the assets held in the trading book (assets held for trading) as well as those in the banking book, i.e. the transactions connected to strategic investment choices.

### Risk Management Strategies and Processes

The Board of Directors of the Parent Company, as part of its powers of management and coordination powers, sets the strategic guidelines for the assumption of market risks by defining maximum risk appetite levels.

The Board of Directors of Bank, in line with the Group's approach, approves a general framework of reference for market risk and any significant changes, relating to the organisational structure, strategies, and methods.

The Bank's strategy is to keep the minimum level of market risk in line with business needs and the limits set by the Risk Appetite Framework approved by the Board of Directors.

Market risk in FinecoBank is defined through two sets of limits:

- Overall measures of market risk (e.g. VaR): which are meant to establish a boundary to the economic capital absorption and to the economic loss accepted in trading activities; these limits must be consistent with assigned revenue targets and the defined risk taking capacity;
- Granular measures of market risk (Sensitivity limits, Stress scenario limits, Nominal limits): which exist independently of, but act in concert with the overall limits; in order to control more effectively and more specifically different risk types, desks and products, these limits are generally granular sensitivity or stress-related limits. The levels set for granular limits aim at limiting the concentration in individual risk factors and the excessive exposure in risk factors which are not sufficiently covered under VaR.

### Structure and Organisation

In order to ensure the effective implementation of operations and the consistency of policies, methods and practices related to market risk in the Group legal entities, the Group model for activities related to market risk is based on the definition of specific responsibilities.

In its relations with FinecoBank, the Parent Company is mainly responsible for:

- establishing, implementing and refining appropriate measures at global level for measuring exposure to market risk;
- setting risk limits, based on measurements identified, in line with the risk appetite approved by the Group.

The Market Risk function of the Bank, within the Risk Management Unit, in full compliance with local legal and regulatory obligations, works together with the Financial Risk Management Italy Function of the Parent Company and is tasked primarily – but not exclusively – with:

- calculating the risk measurements for the global and granular measures for the Bank's portfolios;
- checking that the measurements are compatible with the approved limits;
- initiating the escalation process when limits are exceeded, engaging the Financial Risk Italy function of the Parent Company;
- discussing and approving new products with innovative and complex market risk profiles, providing the Financial Risk Italy function of the Parent Company with adequate information in order for the said function to issue a non-binding opinion on the matter.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

**Risk measurement and reporting systems****Trading Book**

The main tool used by the Bank to measure the market risk of trading positions is Value at Risk (VaR), calculated using the historic simulation approach.

The historic simulation method involves the daily revaluation of positions on the basis of market price trends over an appropriate observation period. The resulting distribution of gains and losses is analysed to determine the effect of extreme market fluctuations on portfolios. The percentile value of the distribution corresponding to the set confidence level represents the VaR. The following parameters are used to calculate VaR: confidence level 99%; time horizon of 1 day; daily update of the time series; observation period of 500 days.

**Banking Book**

The primary responsibility for monitoring and controlling Market Risk management in the Banking Book lies with the Bank's competent Bodies. The Parent Company is responsible for monitoring market risk in the banking book at consolidated level, while sharing this responsibility with the relevant functions of the Legal Entities at local level.

The Parent Company, defines structure, data and frequency of the necessary Group and local level reporting.

Market risk in the banking book mainly consists of credit spread risk, interest rate risk and exchange rate risk.

Credit spread risk mainly arises from investments in debt securities held for liquidity purposes. Market risk associated with the bond portfolio is monitored and subject to limits on the notional amount, the sensitivity to Economic Value and the Value at Risk.

The management of interest rate risk focuses on stabilising this second type of risk. The banking book interest rate risk measure covers the dual aspect of the value and the net interest income/expense of the Bank. More precisely, the different, and complementary, perspectives involve:

- Economic value perspective: variation in interest rates can affect the economic value of assets and liabilities. The economic value of the Bank can be viewed as the present value of the expected net cash flows, defined as the expected cash flows on assets minus the expected cash flows on liabilities. A relevant risk measure from this perspective is the economic value sensitivity per time bucket for a 1 basis point rate shock. This measure is reported to the relevant committees to assess the economic value impact of various changes in the yield curve. The economic value sensitivity is also calculated for a 200bp parallel shock. A monitoring variable from this perspective is the value at risk resulting from interest rate risk exposure;
- Income perspective: the focus of analysis is the impact of changes of interest rates on accrual or reported Net Interest Income that is the difference between revenues generated by interest sensitive assets and the cost related to interest sensitive liabilities. An example of a measure of risks used is Net Interest Income sensitivity for a 100bp parallel shock in rates. This measure provides an indication of the impact that such a shock would have on the net interest margin over the next 12 months.

The third type of risk is exchange rate risk. This exposure mainly derives from a mismatching of assets and liabilities in USD. Exchange rate risk is hedged through the matching of assets and liabilities denominated in currency or through spot transactions in foreign currencies.

**Procedures and methodologies for valuation of Trading Book positions**

The Bank ensures that the value applied to each trading book position appropriately reflects the current fair (market) value, i.e. the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of each financial instrument is based on, or derived from, observable market prices or inputs. The availability of observable prices or inputs differs by product and market, and might change over time.

If observable prices or parameters are readily and regularly available (i.e. satisfying adequate liquidity requirements), they are directly employed in the determination of fair value (mark-to-market).

In non-active markets or for certain instruments, for which observable prices or inputs are not available, fair value is calculated using valuation techniques that are appropriate for the specific instrument (mark-to-model). This approach involves estimation and judgement and, therefore, might require valuation adjustments which take into account bid-ask spreads, liquidity and counterparty risk, besides the employed pricing model. In addition, each pricing model used for *fair value* calculation is validated by a dedicated function independent from business units.

According to the Group Market Risk Governance Guidelines, which define principles and rules for managing and controlling activities potentially involving a market risk, in order to ensure the adequate separation between functions in charge of development activities and functions in charge of validation, all valuation models developed need to be centrally tested and validated by independent functions with respect to the functions that have proceeded to development. Model validation is also carried out centrally for any novel system or analysis framework whose utilisation has a potential impact on the Bank's economic results.

In addition to daily marking to market or marking to model, Independent Price Verification (IPV) shall be performed by the Risk Management function. This is the process by which market prices or model inputs are regularly verified for accuracy and independence. While daily marking to market or marking to model may be performed by front-office dealers, verification of market prices and model inputs is performed at least monthly.

## Risk measures

### VaR

The VaR calculated within the measurement of the market risk of the banking and trading book uses a historical simulation approach. The choice of model adopted by the Parent Company has a series of advantages:

- easy to understand and communicate;
- does not require any explicit assumptions about the particular functional form of the distribution of yields of the risk factors;
- does not require estimation of the variance-covariance matrix of the market factors that may affect the value of the portfolio.
- captures the correlation structure reflected in the simultaneous changes in market factors, implicitly assuming that it will remain constant in the future.

On the other hand VaR models based on historical simulations do not provide any information on the amount of the loss exceeding the VaR. This why the framework established by the Parent Company uses additional instruments such as stress tests.

### *2.1 Interest rate risk and price risk – regulatory trading book*

#### Qualitative information

##### **A. General Matters**

The trading book is used to hold debt securities (ordinary and subordinated, structured and plain vanilla), equity instruments, and certificates – listed and non-listed – related to brokerage activities with retail customers.

The Bank does not perform proprietary trading and does not assume speculative positions in its books. Entries in the Bank's trading book are recorded against brokerage activities with retail customers particularly during the trading of OTC instruments. Other entries in the trading book are made for the internalisation of various financial instruments when the Bank is a counterparty to the Customer. This activity is performed as a result of the options introduced by the MiFID which allow the execution of orders for financial instruments in a number of execution venues including internal execution.

##### **B. Processes for managing and methods for measuring interest rate risk and price risk**

For both a description of internal processes for monitoring and managing risk and an illustration of the approaches used to analyse exposure, please refer to the introduction.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

## Quantitative information

## 1. Regulatory trading book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives – Currency: Euro

(Amounts in € thousand)

TYPE/MATURITY	ON DEMAND	UP TO 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	BETWEEN 5 AND 10 YEARS	OVER 10 YEARS	INDEFINITE MATURITY
<b>1. On-balance sheet assets</b>	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption opti	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. On-balance sheet liabilities</b>	-	-	-	-	-	142	-	-
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	142	-	-
<b>3. Financial derivatives</b>								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	72	-	-
- Other derivatives								
+ Long positions	551	63,559	-	-	-	463	803	-
+ Short positions	551	63,544	-	-	-	449	804	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	42,731	260	33,910	-	-	-	-
+ Short positions	-	51,433	4,300	29,200	-	-	-	-

Item 3.1 "Financial Derivatives with underlying securities - Other Derivatives" includes spot contracts for the purchase and sale of securities, other than shares and UCITS units, to be settled in times established by market practices ("regular way").

Item 3.2 "Financial Derivatives without underlying securities - Other Derivatives" includes spot contracts for the purchase and sale of foreign currencies, to be settled in times established by market practices ("regular way").

## Currency: Other currencies

(Amounts in € thousand)

TYPE/MATURITY	ON DEMAND	UP TO 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	BETWEEN 5 AND 10 YEARS	OVER 10 YEARS INDEFINITE MATURITY
<b>1. On-balance sheet assets</b>	-	-	-	-	-	-	5
1.1 Debt securities	-	-	-	-	-	-	5
- with early redemption opti	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	5
1.2 Other assets	-	-	-	-	-	-	-
<b>2. On-balance sheet liabilities</b>	-	-	-	-	-	-	2
2.1 Repos	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	2
<b>3. Financial derivatives</b>							
3.1 With underlying security							
- Options							
+ Long positions	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-
- Other derivatives							
+ Long positions	-	87,140	-	-	-	-	-
+ Short positions	-	88,638	70	-	-	-	-
3.2 Without underlying security							
- Options							
+ Long positions	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-
- Other derivatives							
+ Long positions	-	89,926	5,445	57,170	-	-	-
+ Short positions	-	81,149	1,210	61,132	-	-	-

The effects of changes in the yield curve on net interest margin arising from instruments in the trading book are negligible. For similar considerations regarding the banking book, see paragraph 2. *Banking book: internal models and other methods of sensitivity analysis* of section "2.2 Interest rate risk and price risk – banking book" below.

## 2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

(Amounts in € thousand)

TYPE OF TRANSACTIONS/LISTING INDEX	LISTED						UNLISTED
	USA	SWITZERLAND	ITALY	GERMANY	FRANCE	OTHER COUNTRY	
<b>A. Equity instruments</b>							
- Long positions	1,838	-	186	52	10	21	-
- Short positions	127	-	49	14	10	-	-
<b>B. Unsettled transactions on equity instruments</b>							
- Long positions	86,246	-	56,636	6,646	7	-	-
- Short positions	86,015	-	56,672	6,646	6	-	-
<b>C. Other derivatives on equity instruments</b>							
- Long positions	436	-	146	25	9	1,442	-
- Short positions	2,721	-	263	63	11	22	-
<b>D. Derivatives on share indices</b>							
- Long positions	7,467	1,339	3,670	5,328	1,420	976	-
- Short positions	7,550	350	4,896	5,764	1,491	1,073	-

## 3. Regulatory trading book: internal models and other methods of sensitivity analysis

The Bank monitors the VaR of the Trading Book on a weekly basis.

As at December 31, 2018, the daily VaR of the trading book amounted to € 117.8 thousand.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

### 2.2 Interest rate risk and price risk – banking book

#### Qualitative information

##### **B. General aspects, management processes and measurement methods for interest rate risk and price risk**

Interest rate risk consists of changes in interest rates that are reflected in:

- net interest margin sources, and thus, the Bank's earnings (cash flow risk);
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows (fair value risk).

In line with the Group approach, the Bank measures and monitors interest rate risk daily, within the methodological framework and the corresponding limits or thresholds set by the Parent Company. These relate to the sensitivity of the net interest margin and the economic value.

Interest rate risk has an impact on all owned positions resulting from strategic investment decisions (banking book).

The main sources of interest rate risk can be classified as follows:

- repricing risk: the risk resulting from timing mismatches in terms of the repricing of the bank's assets and liabilities. These mismatches result in a risk associated with the rate curve. This risk relates to the Bank's exposure to changes in the slope and shape of the interest rate curve. An associated risk is the basis risk. This risk derives from the imperfect correlation in lending and borrowing interest rate changes for different instruments that may also show similar repricing characteristics;
- optionality risk – risk resulting from implicit or explicit options in the Group's banking book positions.

Within the organisational framework described above, the Board of Directors approves the limits on interest rate risk previously agreed with the Parent Company UniCredit S.p.A.. These limits are set in terms of VaR (calculated using the methodology described above in relation to the trading book). The Bank is responsible for managing the exposure to interest rate risk within the limits assigned.

To assess effects of the change in the interest rate curve on the banking book, scenario analyses are conducted that involve the parallel shifts in the rate curve of +/- 100 bps and +/- 200 bps at weekly intervals. For more details see section 2. *Banking book: internal models and other methods of sensitivity analysis*

## Quantitative information

### Banking book: distribution by maturity (by repricing date) of financial assets and liabilities – Currency: Euro

(Amounts in € thousand)

TYPE/MATURITY	ON DEMAND	UP TO 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	BETWEEN 5 AND 10 YEARS	OVER 10 YEARS	INDEFINITE MATURITY
<b>1. On-balance sheet assets</b>	<b>2,535,077</b>	<b>10,055,870</b>	<b>775,582</b>	<b>616,640</b>	<b>3,850,669</b>	<b>5,302,924</b>	<b>253,985</b>	-
1.1 Debt securities	-	8,643,608	384,723	521,473	3,415,307	5,097,715	2	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	8,643,608	384,723	521,473	3,415,307	5,097,715	2	-
1.2 Loans to banks	1,424,000	634,611	339,740	59	-	-	-	-
1.3 Loans to customers	1,111,077	777,651	51,119	95,108	435,362	205,209	253,983	-
- current accounts	1,017,535	121	108	156	660	-	-	-
- other loans	93,542	777,530	51,011	94,952	434,702	205,209	253,983	-
- with early redemption option	4,702	295,714	50,480	91,630	431,523	205,172	253,940	-
- other	88,840	481,816	531	3,322	3,179	37	43	-
<b>2. On-balance sheet liabilities</b>	<b>21,390,361</b>	<b>457,241</b>	<b>339,283</b>	<b>245,128</b>	<b>1,364</b>	-	-	-
2.1 Deposits from customers	21,316,631	44,262	421	63,618	1,364	-	-	-
- current accounts	21,231,012	-	-	-	-	-	-	-
- other payables	85,619	44,262	421	63,618	1,364	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	85,619	44,262	421	63,618	1,364	-	-	-
2.2 Deposits from banks	73,730	412,979	338,862	181,510	-	-	-	-
- current accounts	49,871	-	-	-	-	-	-	-
- other payables	23,859	412,979	338,862	181,510	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	576,477	-	-	290,000	280,000	-	-
+ Short positions	-	580,755	10,712	21,265	172,843	188,502	172,401	-
<b>4. Other off-balance sheet transactions</b>								
+ Long positions	259	7,035	6,169	-	-	-	-	-
+ Short positions	-	6,428	7,035	-	-	-	-	-

## Part E - Information on Risks and relating hedging policies (CONTINUED)

## Currency: Other currencies

(Amounts in € thousand)

TYPE/MATURITY	ON DEMAND	UP TO 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	BETWEEN 5 AND 10 YEARS	OVER 10 YEARS	INDEFINITE MATURITY
<b>1. On-balance sheet assets</b>	<b>499,874</b>	<b>251,647</b>	-	<b>373</b>	<b>67,588</b>	<b>1</b>	<b>34</b>	-
1.1 Debt securities	-	87,451	-	-	67,585	1	34	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	87,451	-	-	67,585	1	34	-
1.2 Loans to banks	497,874	148,334	-	357	-	-	-	-
1.3 Loans to customers	2,000	15,862	-	16	3	-	-	-
- current accounts	199	-	-	-	3	-	-	-
- other loans	1,801	15,862	-	16	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,801	15,862	-	16	-	-	-	-
<b>2. On-balance sheet liabilities</b>	<b>822,384</b>	<b>12,323</b>	-	<b>9</b>	-	-	-	-
2.1 Deposits from customers	819,692	12,323	-	9	-	-	-	-
- current accounts	815,688	-	-	-	-	-	-	-
- other payables	4,004	12,323	-	9	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	4,004	12,323	-	9	-	-	-	-
2.2 Deposits from banks	2,692	-	-	-	-	-	-	-
- current accounts	2,692	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
<b>4. Other off-balance sheet transactions</b>								
+ Long positions	-	3,927	3,584	-	-	-	-	-
+ Short positions	-	3,584	3,927	-	-	-	-	-

For a description of the effects of a change in interest rates on net interest margin, profit (loss) for the year, shareholders' equity and the results of scenario analysis, see paragraph 2. *Banking book: internal models and other methods of sensitivity analysis*



## 2. Banking book: internal models and other methods of sensitivity analysis

The following table provides the results of the analyses conducted.

To measure the interest rate risk contained in the Bank's financial statements it is necessary to measure the sensibility of the loans and deposits to changes in the interest rate curve. The UniCredit Group has developed specific behavioural models aimed at estimating the maturity profile of asset and liability items that do not have a contractual maturity; indeed, what is perceived to be sight maturing in reality shows some stickiness.

The following table provides the results of the analyses conducted in all currencies.

(Amounts in € thousand)

	VALUE ANALYSIS (SHIFT + 200 BP)	VALUE ANALYSIS (SHIFT - 200 BP)	VALUE ANALYSIS (SHIFT +1 BP)	IRVAR*	INTEREST RATE ANALYSIS (+100bp)	INTEREST RATE ANALYSIS (-30bp)
12.31.2018	9,519	149,404	-147.13	1,214	109,478	-30,209

\*1 day holding period, 99% confidence level%.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 200 basis points on the euro interest rate curve, showed a positive impact of €9,519 thousand. A shift of -200 basis points showed a positive impact of €149,404 thousand.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 1 basis point, showed a negative impact of €-147.13 thousand.

The interest rate VaR figure for the Bank came to approximately €1,214 thousand.

Total VaR, including the Credit Spread Risk component arising mainly from Italian and Spanish government securities held as investment of liquidity, amounted to € 52,594 thousand.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of +100 basis points on the euro interest rate curve, showed a positive impact of €109,478 thousand. A shift of -30 basis points would have a negative impact of €-30,209 thousand on the interest rate over the next 12 months.

### 2.3 Exchange Rate Risk

#### Qualitative information

##### A. General aspects, management processes and measurement methods for exchange rate risk

As part of its treasury activities, the Bank collects funds in foreign currencies, mainly US dollars, through customer current accounts, subsequently investing these funds in bonds, current accounts and time deposits, in the same currency, with the Parent Company UniCredit S.p.A. The impact on the value of balance sheet items is estimated using the Forex VaR indicator.

The VaR of the Bank's positions is not used for the calculation of the Pillar 1 capital requirement because the traditional standardised approach is used. The VaR is only used for management and risk monitoring purposes.

##### B. Exchange rate risk hedging

Exchange rate risk is hedged through the matching of assets and liabilities denominated in currency or through spot transactions in foreign currencies.

The component of exchange rate risk that contributes to the formation of the overall VaR is usually tied to the temporal mismatch between assets and liabilities in US dollars.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

## Quantitative information

## 1. Breakdown by currency of assets, liabilities and derivatives

(Amounts in € thousand)

ITEMS	VALUTE						OTHER CURRENCIES
	US DOLLAR	POUND STERLING	SWISS FRANC	YEN	CANADIAN DOLLAR		
<b>A. Financial assets</b>	<b>654,199</b>	<b>85,856</b>	<b>85,244</b>	<b>76</b>	<b>71</b>	<b>2,180</b>	
A.1 Debt securities	155,077	-	-	-	-	-	
A.2 Equity instruments	8,090	7	-	5	-	1	
A.3 Loans to banks	473,600	85,493	85,197	71	71	2,133	
A.4 Loans to customers	17,432	356	47	-	-	46	
A.5 Other financial assets	-	-	-	-	-	-	
<b>B. Other assets</b>	<b>79</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,138</b>	
<b>C. Financial liabilities</b>	<b>660,791</b>	<b>85,751</b>	<b>85,652</b>	<b>76</b>	<b>146</b>	<b>2,429</b>	
C.1 Deposits from banks	-	-	300	76	146	2,170	
C.2 Deposits from customers	660,791	85,751	85,352	-	-	259	
C.3 Debt securities	-	-	-	-	-	-	
C.4 Other financial liabilities	-	-	-	-	-	-	
<b>D. Other liabilities</b>	<b>413</b>	<b>299</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>257</b>	
<b>E. Financial derivatives</b>							
- Options							
+ Long positions	-	-	-	-	-	-	
+ Short positions	-	-	-	-	-	-	
- Other derivatives							
+ Long positions	86,659	14,524	6,674	7,391	14,182	24,671	
+ Short positions	82,860	14,695	5,642	1,789	14,056	26,030	
<b>Total assets</b>	<b>740,937</b>	<b>100,386</b>	<b>91,918</b>	<b>7,467</b>	<b>14,253</b>	<b>27,989</b>	
<b>Total liabilities</b>	<b>744,064</b>	<b>100,745</b>	<b>91,294</b>	<b>1,865</b>	<b>14,202</b>	<b>28,716</b>	
<b>Balance (+/-)</b>	<b>(3,127)</b>	<b>(359)</b>	<b>624</b>	<b>5,602</b>	<b>51</b>	<b>(727)</b>	

The impact of changes in exchange rates are quantified by the daily Forex VaR of the overall portfolio, as described in the following paragraph.

## 2. Internal models and other methods of sensitivity analysis

As at December 31, 2018, the daily Forex VaR of the overall portfolio (banking and trading books) was approximately €96.2 thousand.

## Section 3 - Derivative instruments and hedging policies

### 3.1 Trading book financial derivatives

#### A. Financial derivatives

##### A.1 Trading book financial derivatives: end of period notional amounts

(Amounts in € thousand)

UNDERLYING ASSETS/TYPE OF DERIVATIVES	TOTAL 12.31.2018				TOTAL 12.31.2017			
	OVER THE COUNTER				OVER THE COUNTER			
	WITHOUT CENTRAL COUNTERPARTIES				WITHOUT CENTRAL COUNTERPARTIES			
	CENTRAL COUNTERPARTIES	WITH NETTING AGREEMENT	WITHOUT NETTING AGREEMENT	ORGANIZED MARKETS	CENTRAL COUNTERPARTIES	WITH NETTING AGREEMENT	WITHOUT NETTING AGREEMENT	ORGANIZED MARKETS
<b>1. Debt securities and interest rate indexes</b>	-	-	358	128	-	-	1,135	162
a) Options	-	-	4	-	-	-	71	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	128	-	-	-	162
e) Others	-	-	354	-	-	-	1,064	-
<b>2. Equity instruments and share indices</b>	-	-	33,506	11,588	-	-	49,482	14,681
a) Options	-	-	72	-	-	-	72	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	11,588	-	-	-	14,681
e) Others	-	-	33,434	-	-	-	49,410	-
<b>3. Currencies and gold</b>	-	-	195,226	561	-	-	262,317	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	34	-	-	-	-	-
d) Futures	-	-	-	561	-	-	-	-
e) Others	-	-	195,192	-	-	-	262,317	-
<b>4. Commodities</b>	-	-	1,561	1,580	-	-	-	-
<b>5. Others</b>	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	230,651	13,857	-	-	312,934	14,843

Letter e) Other in the "Over the counter – Without central counter-parties – not included in netting agreement" column consists of CFD derivatives.

##### A.2 Trading book financial derivatives: gross positive and negative fair value – breakdown by product

(Amounts in € thousand)

UNDERLYING ASSETS/TYPE OF DERIVATIVES	TOTAL 12.31.2018				TOTAL 12.31.2017			
	OVER THE COUNTER				OVER THE COUNTER			
	WITHOUT CENTRAL COUNTERPARTIES				WITHOUT CENTRAL COUNTERPARTIES			
	CENTRAL COUNTERPARTIES	WITH NETTING AGREEMENT	WITHOUT NETTING AGREEMENT	ORGANIZED MARKETS	CENTRAL COUNTERPARTIES	WITH NETTING AGREEMENT	WITHOUT NETTING AGREEMENT	ORGANIZED MARKETS
<b>1. Positive Fair value</b>	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	43	-	-	-	23
g) Others	-	-	3,466	-	-	-	4,733	-
<b>Total</b>	-	-	3,466	43	-	-	4,733	23
<b>2. Negative Fair value</b>	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	41	-	-	-	27
g) Others	-	-	658	-	-	-	538	-
<b>Total</b>	-	-	658	41	-	-	538	27

## Part E - Information on Risks and relating hedging policies (CONTINUED)

## A.3 OTC trading book financial derivatives: notional amounts, gross positive and negative fair value by counterparty

(Amounts in € thousand)

UNDERLYING ASSEST	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL ENTITIES	OTHER ENTITIES
Contracts not included in netting agreement				
<b>1) Debt securities and interest rate indexes</b>				
- notional amount	X	-	-	358
- positive fair value	X	-	-	5
- negative fair value	X	-	-	1
<b>2) Equity instruments and share indices</b>				
- notional amount	X	-	72	33,434
- positive fair value	X	-	-	1,437
- negative fair value	X	-	-	362
<b>3) Currencies and gold</b>				
- notional amount	X	97,267	101	97,858
- positive fair value	X	144	5	1,832
- negative fair value	X	132	-	159
<b>4) Commodities</b>				
- notional amount	X	-	-	1,561
- positive fair value	X	-	-	43
- negative fair value	X	-	-	4
<b>5) Others</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreement				
<b>1) Debt securities and interest rate indexes</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
<b>2) Equity instruments and share indices</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
<b>3) Currencies and gold</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
<b>4) Commodities</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
<b>5) Others</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

## A.4 OTC financial derivatives - residual maturity: notional values

(Amounts in € thousand)

UNDERLYING/MATURITY	UP TO 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
A.1 Financial derivatives on debt securities and interest rates	354	-	4	358
A.2 Financial derivatives on equity instruments and share indices	3.698	-	29.808	33.506
A.3 Financial derivatives on exchange rates and gold	195.226	-	-	195.226
A.4 Financial derivatives on commodities	1.561	-	-	1.561
A.5 Financial derivatives on other instruments	-	-	-	-
<b>Total 31 December 2018</b>	<b>200.839</b>	<b>-</b>	<b>29.812</b>	<b>230.651</b>
<b>Total 31 December 2017</b>	<b>267.964</b>	<b>-</b>	<b>44.970</b>	<b>312.934</b>

## **B. Credit derivatives**

No data to report.

### *3.2 Hedge account*

## **Qualitative information**

### **A. Fair value hedging**

Fair value hedging strategies, with the aim of complying with the interest rate risk limits for the banking book, are implemented using non-listed derivative contracts. The latter, typically interest rate swaps, represent the family of instruments used prevalently.

The hedges adopted are generally qualified as generic, ie connected to the amounts of money contained in portfolios of assets or liabilities.

### **B. Cash flow hedging**

Currently there are no cash flow hedging operations generated as part of the Bank's operations.

### **C. Hedging a net investment in a foreign entity**

Currently there are no "hedging a net investment in a foreign entity" operations generated as part of the Bank's operations.

### **D. Hedge instrument**

A generic hedging relationship of an asset / liability portfolio pursues the objective of offsetting the deviations in value of the hedged item contained in a generic portfolio of fixed-rate assets / liabilities.

The ineffectiveness of the hedge is represented by the difference between the change in the fair value of the hedging instruments and the change in the fair value of the hedged amount. The Bank uses a test method based on sensitivity analysis. To this end, the exposures of the total sensitivity of the hedged item and that relating to the hedging derivative are correlated. The sensitivity expresses the elasticity with respect to each of the rates that make up the risk-free curve and is calculated as a change in the fair value in relation to an increase in the rate equal to a basis point. The test verifies the effectiveness by analyzing the "reduction" of the sensitivity of the overall position after hedging and comparing it with respect to the same measure referred to the item being hedged.

The effectiveness test is carried out separately for interest rate swaps to hedge assets (mortgages) and for interest rate swaps to hedge liabilities (on demand items).

### **E. Hedge item**

The hedged assets are represented by mortgages granted to fixed-rate customers accounted for in "Financial assets measured at amortized cost", while hedged liabilities are represented by direct customer current deposits (core liquidity), recorded under "Financial liabilities valued at amortized cost", modeled according to the model of sight items adopted by the Bank.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

## Quantitative information

## A. Hedging financial derivatives

## A.1 Hedging financial derivatives: end of period notional amounts

(Amounts in € thousand)

UNDERLYING ASSETS/TYPE OF DERIVATIVES	TOTAL 12.31.2018				TOTAL 12.31.2017			
	OVER THE COUNTER				OVER THE COUNTER			
	WITHOUT CENTRAL COUNTERPARTIES				WITHOUT CENTRAL COUNTERPARTIES			
	CENTRAL COUNTERPARTIES	WITH NETTING AGREEMENT	WITHOUT NETTING AGREEMENT	ORGANIZED MARKETS	CENTRAL COUNTERPARTIES	WITH NETTING AGREEMENT	WITHOUT NETTING AGREEMENT	ORGANIZED MARKETS
1. Debt securities and interest rate indexes	896,477	250,000	-	-	603,947	632,500	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	896,477	250,000	-	-	603,947	632,500	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equity instruments and share indexes	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Others	-	-	-	-	-	-	-	-
Total	896,477	250,000	-	-	603,947	632,500	-	-

## A.2 Hedging financial derivatives: gross positive and negative fair value – breakdown by product

(Amounts in € thousand)

UNDERLYING ASSETS/TYPE OF DERIVATIVES	TOTAL 12.31.2018				TOTAL 12.31.2017			
	OVER THE COUNTER				OVER THE COUNTER			
	WITHOUT CENTRAL COUNTERPARTIES				WITHOUT CENTRAL COUNTERPARTIES			
	CENTRAL COUNTERPARTIES	WITH NETTING AGREEMENT	WITHOUT NETTING AGREEMENT	ORGANIZED MARKETS	CENTRAL COUNTERPARTIES	WITH NETTING AGREEMENT	WITHOUT NETTING AGREEMENT	ORGANIZED MARKETS
1. Positive Fair value	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	2,316	998	-	-	458	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	2,316	998	-	-	458	-	-	-
2. Negative Fair value	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	5,341	-	-	-	2,171	10,523	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	5,341	-	-	-	2,171	10,523	-	-

### A.3 OTC hedging financial derivative: notional amounts, gross positive and negative fair value by counterparty

(Amounts in € thousand)

UNDERLYING ASSETS	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL ENTITIES	OTHER ENTITIES
Contracts not included in netting agreement				
<b>1) Debt securities and interest rate indexes</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>2) Equity instruments and share indices</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>3) Currencies and gold</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>4) Commodities</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<b>5) Others</b>				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreement				
<b>1) Debt securities and interest rate indexes</b>				
- notional amount	896,477	250,000	-	-
- positive fair value	2,316	998	-	-
- negative fair value	5,341	-	-	-
<b>2) Equity instruments and share indices</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
<b>3) Currencies and gold</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
<b>4) Commodities</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
<b>5) Others</b>				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

### A.4 OTC hedging financial derivative - residual maturity: notional values

(Amounts in € thousand)

UNDERLYING/MATURITY	UP TO 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
A.1 Financial derivatives on debt securities and interest rates	42,731	462,843	640,903	1,146,477
A.2 Financial derivatives on equity instruments and share indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Financial derivatives on other instruments	-	-	-	-
<b>Total 31 december 2018</b>	<b>42,731</b>	<b>462,843</b>	<b>640,903</b>	<b>1,146,477</b>
<b>Total 31 december 2017</b>	<b>19,798</b>	<b>711,899</b>	<b>504,751</b>	<b>1,236,448</b>

## Part E - Information on Risks and relating hedging policies (CONTINUED)

### B. Hedging credit derivatives

No data to report.

### C. Hedging non derivative instruments

No data to report.

### D. Hedge item

#### D.1 Fair value hedging

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

The Bank, therefore, does not present the disclosure required by this section as it does not apply the accounting rules of coverage in accordance with IFRS 9. For completeness of information, it should be noted that the monetary amount of "Financial assets at amortized cost" hedged amounted to € 576.5 million, referring exclusively to mortgages, while the amount of "Financial liabilities at amortized cost" covered amounted to € 570 million, referring exclusively to the hedged core deposits.

#### D.2 Cash flow hedging and hedging a net investment in a foreign entity

No data to report.

### E. Effects of hedging transactions at shareholders' equity

No data to report.

#### 3.3 Other information on trading book and hedging derivative instruments

##### A. Financial and credit derivatives

###### A.1 OTC financial and credit derivatives: net fair values by counterparty

No data to report.

## Section 4 - Liquidity Risk

### Qualitative information

#### A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk can be succinctly defined as the risk that the Bank, also due to unexpected future events, is unable to meet its payment obligations or to efficiently match expected cash inflows and outflows.

The different types of liquidity risk managed by the Bank are as follows:

- the short-term liquidity risk refers to the risk of non-compliance between the amounts and / or deadlines of incoming and outgoing cash flows in the short term (less than one year);
- the risk of market liquidity is the risk that the bank can face a significant and adverse price change, generated by exogenous and endogenous factors that result in losses, in the sale of assets considered liquid. In the worst case, the bank may not be able to liquidate these positions;
- the structural liquidity risk is defined as the bank's inability to procure, in a stable and sustainable manner, the necessary funds to maintain an adequate ratio between medium / long-term assets and liabilities (over one year) to a reasonable price without impacting the daily operations or the financial situation of the bank;
- the risk of stress or contingency is linked to future and unexpected obligations (for example withdrawals from deposits) and may require the bank to have a greater amount of liquidity than is considered necessary to manage the ordinary business.



To address its exposure to liquidity risk, the Bank invests the portion of liquidity that according to its internal analyses is less stable ("non-core liquidity") in liquid assets or assets readily convertible into cash, such as, for example, demand deposits, short-term loans or government bonds that can be used as a source of short-term financing with the central bank.

At the reporting date, there were no "Contingent liquidity and funding needs", such as, for example, accelerated repayment clauses or the issue of additional guarantees relating to a downgrade of the bank.

### ***The key principles***

"Fineco Liquidity Policy" approved by the Board of Directors of the Bank establishes the managerial autonomy of the Bank's Treasury department and sets forth the principles and rules that the Bank applies to both normal and emergency liquidity management in line with the UniCredit Group liquidity risk management.

### ***Roles and responsibilities***

The "Fineco Liquidity Policy" establishes the principles adopted in terms of internal governance, which envisage the involvement of the Finance, Treasury and Risk Management departments, in line with the Group's approach.

The operational management of liquidity is carried out by the Treasury department, which ensures effective and efficient management of liquidity in the short and medium/long term, monitoring of liquidity exposure and first-level controls on the management process.

The Risk Control function is responsible for monitoring compliance with limits and implementing the rules on liquidity risk, the implementation of selected risk metrics and the assessment of selected methods.

To this end, "Fineco Liquidity Policy" explicitly refers to Group rules regarding the implementation of first and second level monitoring, both from a regulatory and management standpoint:

- Short-term liquidity risk management (operational liquidity), which considers the events that may impact upon the Bank's liquidity position from one day up to one year. The primary objective is to maintain the Bank's capacity to fulfil its ordinary and extraordinary payment obligations while minimising the relevant costs.
- Structural liquidity risk management (structural risk), which considers the events that may impact upon the Bank's liquidity position over one year. The primary objective is to maintain an adequate ratio between medium/long term liabilities and medium to long-term assets, with a view to avoiding pressures on short-term funding sources (both current and future).
- Stress tests: Liquidity risk is a low probability, high impact event. Therefore stress testing is a tool to reveal potential vulnerabilities. The Bank uses several scenarios ranging from general market crisis to idiosyncratic crisis, and combinations hereof.

In this context, the Bank takes into account all of the assets, liabilities, off-balance sheet positions and present and future events that generate certain or potential cash flows, thereby protecting the Bank from risks related to the transformation of maturity.

### ***Short term liquidity management***

Short-term liquidity management aims at ensuring that the Bank remains in a position to fulfil its cash payment obligations always, whether expected or unexpected, focused on the exposure for the first twelve months.

On a daily basis, the Bank calculates the Operative Maturity Ladder, which measures the cash inflows and outflows affecting the monetary base, with details of the main temporal buckets.

The Bank's objective is to provide sufficient short-term liquidity to deal with the particularly adverse liquidity crises for at least three months.

### ***Structural liquidity management***

The objective of the Bank's structural liquidity management is to maintain an adequate ratio between medium/long term assets and liabilities (generally over one year), with a view to avoiding pressures on short-term funding sources, both current and future. To this end, the Bank adopts a prudent approach to its investments of liquidity, taking into account funding maturities. The indicators used and monitored as part of the wider Risk Appetite Framework (NSFR- and NSFR-adjusted) ensure that assets and liabilities have a sustainable maturity structure.

### ***Liquidity Stress Test***

Stress testing is a risk management technique used to evaluate the potential effects of a specific event on an entity's financial position. As a forward looking tool, liquidity stress testing diagnostics the institution's liquidity risk.

Periodically, the Bank uses scenario analysis to evaluate the impact of simultaneous changes in various risk factors, defining a hypothetical and consistent stress event whose assumptions and size are shared and agreed with the Parent Company's functions.

### ***Behavioural modelling of Liabilities***

# Part E - Information on Risks and relating hedging policies (CONTINUED)

FinecoBank has developed specific behavioural models aimed at estimating the maturity profile of liability items that do not have a contractual maturity; indeed, what is perceived to be sight maturing in reality shows some stickiness.

More specifically, modelling of liabilities aims to construct a replication profile that best reflects the behavioural characteristics of the items. An example is on demand items: estimates of the maturity profile reflect the perceived stickiness. These behavioural models are developed by FinecoBank's Risk Management function and are validated by Bank's Internal Validation Unit.

### ***FinecoBank Contingency Liquidity Policy***

A liquidity crisis is a high impact, low probability event. Therefore, a crisis-mode operating model, that can be activated effectively in case of crisis according to an approved procedure, has been defined in FinecoBank "Contingency Plan for liquidity risk".

The ability to act in time is essential to minimise the potentially disruptive consequences of a liquidity crisis. The analytics of the Stress tests form a valuable tool to identify the expected consequences and to define up front the most suitable actions in a certain crisis scenario. In combination with Early Warning Indicators (EWI) the Bank may be able to reduce the liquidity effects in the initial stages of a crisis.

FinecoBank "Contingency Plan on liquidity risk" has the objective of ensuring effective interventions also during the initial stage of a liquidity crisis, through the clear identification of individuals, powers, responsibilities, communication, and reporting criteria, with a view of increasing significantly the probability of successfully overcoming the state of emergency. This is achieved through:

- activation of extraordinary liquidity governance and operating model;
- consistent communication both internally and to the Group;
- a set of available mitigating liquidity actions;
- a set of early warning indicators that may point towards a developing crisis.

## Quantitative information

### 1. Time breakdown by contractual residual maturity of financial assets and liabilities – Currency: Euro

(Amounts in € thousand)

ITEMS/TIME BUCKETS	ON DEMAND	BETWEEN 1 AND 7 DAYS	BETWEEN 7 AND 15 DAYS	BETWEEN 1 DAYS AND 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	INDEFINITE MATURITY
<b>A. On-balance sheet assets</b>	<b>2,531,247</b>	<b>33,072</b>	<b>469,120</b>	<b>622,238</b>	<b>313,104</b>	<b>879,054</b>	<b>1,564,722</b>	<b>10,490,823</b>	<b>5,985,920</b>	<b>217,067</b>
A.1 Government securities	-	-	-	20,358	27,812	58,832	617,197	3,016,554	4,583,010	-
A.2 Debt securities	625	2,942	5,073	385,070	25,128	417,161	828,236	6,984,500	772,502	-
A.3 Units in investment funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	2,530,622	30,130	464,047	216,810	260,164	403,061	119,289	489,769	630,408	217,067
- Banks	1,425,060	820	177,773	119,432	119,939	339,984	59	-	-	217,067
- Customers	1,105,562	29,310	286,274	97,378	140,225	63,077	119,230	489,769	630,408	-
<b>B. On-balance sheet liabilities</b>	<b>42,632,199</b>	<b>4,721</b>	<b>177,689</b>	<b>128,426</b>	<b>146,785</b>	<b>339,337</b>	<b>245,901</b>	<b>2,668</b>	<b>176</b>	<b>-</b>
B.1 Deposits and current accounts	21,280,895	33	48	147	319	422	768	1,334	-	-
- Banks	49,871	-	-	-	-	-	-	-	-	-
- Customers	21,231,024	33	48	147	319	422	768	1,334	-	-
B.2 Debt securities	21,231,024	33	48	147	319	422	768	1,334	-	-
B.3 Other liabilities	120,280	4,655	177,593	128,132	146,147	338,493	244,365	-	176	-
<b>C. Off-balance sheet transactions</b>										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	76,398	141	-	128	-	-	-	1,033	309
- Short positions	-	83,280	223	-	-	-	-	-	1,220	310
C.2 Financial derivatives without exchange of capital										
- Long positions	784	-	-	195	277	1,316	1,462	-	-	-
- Short positions	138	-	375	-	1,259	1,654	3,140	-	-	-
C.3 Deposits and loans to be collected										
- Long positions	-	7,035	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	7,035	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	-	-	-	-	6,169	-	259	-	-
- Short positions	-	6,169	-	259	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

## Part E - Information on Risks and relating hedging policies (CONTINUED)

## Currency: Other currencies

(Amounts in € thousand)

ITEMS/TIME BUCKETS	ON DEMAND	BETWEEN 1 AND 7 DAYS	BETWEEN 7 AND 15 DAYS	BETWEEN 1 DAYS AND 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	INDEFINITE MATURITY
<b>A. On-balance sheet assets</b>	<b>500,355</b>	<b>3,312</b>	<b>537</b>	<b>96,575</b>	<b>65,331</b>	<b>1,059</b>	<b>2,883</b>	<b>157,212</b>	<b>36</b>	-
A.1 Government securities	-	-	-	-	393	-	393	69,869	1	-
A.2 Debt securities	-	184	-	161	701	1,059	2,117	87,336	35	-
A.3 Units in investment funds	2	-	-	-	-	-	-	-	-	-
A.4 Loans	500,353	3,128	537	96,414	64,237	-	373	7	-	-
- Banks	498,274	-	-	94,706	53,814	-	357	-	-	-
- Customers	2,079	3,128	537	1,708	10,423	-	16	7	-	-
<b>B. On-balance sheet liabilities</b>	<b>1,638,191</b>	<b>4,907</b>	<b>143</b>	<b>655</b>	<b>6,641</b>	-	<b>9</b>	-	<b>2</b>	-
B.1 Deposits and current accounts	818,380	-	-	-	-	-	-	-	-	-
- Banks	2,692	-	-	-	-	-	-	-	-	-
- Customers	815,688	-	-	-	-	-	-	-	-	-
B.2 Debt securities	815,688	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	4,123	4,907	143	655	6,641	-	9	-	2	-
<b>C. Off-balance sheet transactions</b>										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	106,928	222	-	666	-	-	-	-	-
- Short positions	-	100,311	140	1,406	561	70	-	-	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	2,724	-	-	-	-	-	-	-	-	-
- Short positions	540	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected										
- Long positions	-	3,927	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	3,927	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	-	-	-	-	3,584	-	-	-	-
- Short positions	-	3,584	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

## Assets received as collateral or loaned as part of repos and securities lending

(Amounts in € thousand)

	TOTAL 12.31.2018	TOTAL 12.31.2017
Fair value of securities received as guarantee in reverse repos and securities lending with cash collateral	2,025,197	258,844
Fair value of securities received in securities lending without cash collateral	1,037,084	949,550
Fair value of securities received and delivered through repos and securities lending with cash collateral	(1,029,844)	(996,775)

## Section 5 - Operating risk

### Qualitative information

#### **A. General aspects, operational processes and methods for measuring operational risk**

##### **Operational risk definition**

Operational risk is defined as the risk of losses due to errors, violations, interruptions, or damage caused by internal processes, personnel, financial advisors, systems or by external events. This definition includes legal and compliance risks, but excludes strategic and reputational risk.

For example, losses arising from the following can be defined as operational: internal or external fraud, employment practices and workplace safety, customer claims, product distribution, fines and penalties for regulatory breaches, damage to the Company's physical assets, business disruption and system failures, and management of processes.

##### **Group operational risk framework**

The UniCredit Group has defined the policies and procedures for measuring and mitigating operational risk within the Group and its Subsidiaries. Operational risk policies, applicable to all Group entities, are common principles that define the roles of company bodies and of the risk management function as well as the interactions with other functions involved in the process. These principles and provisions have been set out in the Group Framework for the management of operational risk and adopted in FinecoBank's Operational Risk Manual.

The methods for classifying data and verifying its completeness, scenario analysis, risk indicators and risk capital reporting and measurement are set by the Group Operational & Reputational Risks department of the Parent Company and applied by FinecoBank in its capacity as a Group Legal Entity. A pivot element of the risk control framework is the operational risk management application, allowing the collection of the data required for operational risk control and capital measurement.

The compliance of the operational risk control and measurement system with external regulations and Group standards is assessed through an internal validation process, under the responsibility of the Group Internal Validation department of the Parent Company, which is independent from the Group Operational & Reputational Risks department.

The Bank has obtained the approval of the Bank of Italy for the use of advanced approaches (AMA) to calculate its capital requirement for operational risk with effect from June 30, 2010.

##### **Organisational structure**

The Board of Directors is responsible for approving all aspects relating to the operational risk framework and verifying the adequacy of the measurement and control system and is regularly updated on changes to the risk profile and operational risk exposure.

The reports produced by Risk Management for the Board of Directors ensure that management and the control bodies are constantly updated on the trend in operational risk within the Bank and can actively intervene in the management and mitigation of the risks. The Chief Risk Officer's participation in the Products Committee also ensures oversight of the operational risk associated with the Bank's new business activities.

The Operational Risk Management (ORM) team is part of the broader Risk Management office which reports to the Chief Risk Officer of FinecoBank who in turn reports directly to the Chief Executive Officer and General Manager.

The main activities carried out by the Risk Management office in terms of operational risk are:

- recognition, classification, validation and reporting of operating losses with consequent identification of problem areas;
- assessment of potential risks through scenario analyses and risk indicators (Key Risk Indicator-KRI);
- monitoring and optimisation of the internal control system;
- policies to mitigate and transfer risk through insurance cover;
- development of an operational risk culture within the Bank;
- generating reports for the Board of Directors and Senior Management on risk trends.

##### **Internal validation process**

In compliance with external regulations, the operational risk control and measurement system is subject to an internal validation process established by the Parent Company, in order to verify its compliance with minimum requirements and Group standards. This process is owned by the Operational and Pillar II Risk Validation Unit, within the Group Internal Validation department.

The use of the Advanced Measurement Approach (AMA) to calculate regulatory capital requires the preparation of an annual report on the management and control system for operational risk by the Operational Risk team. This Annual Report contains a self-assessment of the system and a detailed examination of the governance structure, the process for collecting data on losses, the scenario analyses and internal control system, as well as the operational use of the measurement system.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

The Report is submitted to the approval of the Board of Directors and is validated by the Internal Audit department and Group Internal Validation (GIV). For 2018, the most recent validation, the Internal Audit department and Group GIV confirmed that adequate protection measures are in place for operating risk as well as the adequacy of the existing management and control system.

### **Operational risk management**

Operational risk management consists of the review of processes to reduce the risks found and the management of the related insurance policies, with the identification of the suitable deductibles and limits.

From September 2011, a Permanent Work Group (PWG) has been established, which includes the CRO, the Risk Manager as well as Information Security & Fraud Manager and Organisation, to allow them to share their respective expertise in relation to the projects planned or in under way, new processes and products, or changes to them, and anything else that may affect the Bank's risk profile; the PWG's ultimate objective is to identify and then develop new mitigation measures.

As part of the prevention of operational risk and to control sales channels remotely, the Risk Management office has focused on fraud prevention measures.

The development of remote monitoring to prevent fraud has led to the creation of a system called System of Fraud Identification and Analysis (SoFIA). This system enables a larger amount of data and information on individual indicators to be analysed at the same time and enables possible irregularities to be detected on a daily basis through an alert system.

In this way, all of the names put forward to be checked are assessed at the same time with regard to all remote indicators (20 indicators).

On the basis of qualitative and quantitative assessments of these indicators, the assigned staff select any cases that need to be reported to the Network Controls Department, Monitoring and Network Services Department – reporting directly to the Chief Executive Officer – for subsequent examination.

Moreover, the Operational Risk team is updated annually on the results of the tests conducted in accordance with the Business Continuity and Disaster Recovery plans.

### **Risk capital measurement and allocation mechanism**

UniCredit S.p.A. developed an internal model for measuring the capital requirement. The capital requirement is calculated on the basis of internal loss data, external loss data, scenario loss data and risk indicators.

The collection and classification of operating losses is managed by a Group system called Application for Risk Gauging On line (ARGO). In addition to being used for internal prevention and improvement purposes, the information gathered is also used to calculate Pillar 1 and 2 capital requirements.

In terms of risk indicators, there are currently 53 key risk indicators split into eight control areas (Legal, Claims, Credit Cards, Back Office, PFA, IT systems, Payment Systems, Compliance) that contribute to the calculation of the regulatory capital, which the Bank uses to measure its exposure to operational risk. If an indicator shows an irregular value, this may be related to changes in the exposure to operational risk.

Scenario analyses enable the Bank's exposure to operational risk, characterised by low frequency but high potential impact, to be estimated. The scenarios are identified by analysing internal losses, external events, risk indicator trends, critical processes, products and risk classes.

The inclusion of the data generated through the analyses of the scenario and of the trend of risk indicators are a forward-looking element of the risk capital calculation model.

Data collection and control is managed by the Bank, while the management and maintenance of the model to calculate regulatory capital is centralised for all Legal Entities of the Group at the Parent Company.

Risk capital for operational risk used for regulatory purposes as at December 31, 2018, amounted to € 48,292 thousand.

### **Risks arising from significant legal disputes**

The Bank is involved in individually insignificant legal proceedings over which there is considerable uncertainty regarding the outcome and the amount of possible charges, which the Bank could be forced to incur. Where it is possible to reliably estimate the amount of possible charges and the charges are considered likely, provisions have been made in an appropriate amount based on the circumstances and consistent with international accounting standards, by making the best possible estimate of the amount that the Bank will reasonably be expected to incur in discharging its obligations. Specifically, as a precaution against these obligations and customer claims that have not yet resulted in legal proceedings, as at December 31, 2018, the Bank had a provision in place for risks and charges of €28,405 thousand. This provision includes the costs of proceedings borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to lawyers, any technical advisors and/or experts who assist the Bank, to the extent that it is believed that they will not be reimbursed by the counterparties. This estimate was determined by the Bank, in relation to the current dispute, mainly based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment, consistent with the methodology defined by the Parent Company in this regard.

### **Risks arising from tax disputes and audits**

Risks arising from tax disputes and audits as at December 31, 2018 mainly relate to a notice of assessment for the year 2003 containing an objection to the use of tax credits for €2.3 million, in relation to which the bank has appealed to the Supreme Court as it considers its position to be well-founded. The bank has already paid the additional taxes and interest due.

With regard to disputes, the higher taxes, interests and penalties have already been recognised in the income statement with a contra entry, respectively, in tax liabilities and the provision for risks and charges.

Moreover, tax receivables for the amounts paid have been recognised.

In light of the foregoing, as at December 31, 2018 the Bank had in place provisions that adequately reflect the specific circumstances and are in line with international accounting standards; specifically, to tax liabilities of for a total of €5.6 million, for higher tax, and to provisions for risks and charges of €3.9 million, for penalties and interest.

### **The assessment of ICT operational risk**

The prudential regulations require Banks to conduct an analysis, at least annually, of the Bank's ICT risk and to submit the results of the assessment made to the Board of Directors.

In particular, the regulations have introduced standards and specific requirements for managing and assessing ICT risk that require Banks to assess the exposure to these risks, not only by gathering and analysing economic losses, but also by considering additional information, such as ICT incidents occurring and information related to the riskiness of the Bank's assets (hardware and software).

The Parent Company, in performing its role of direction, coordination and control, has established a common framework for the entire Group for the assessment of ICT risk and FinecoBank Risk Management function has adopted that framework.

The results of the analysis, conducted in collaboration with the Bank's Business, ICT and Organisation departments, were reported to the Bank's Board of Directors during 2018.

## **Quantitative information**

Internal operating loss data is the main component used to calculate capital requirements against operational risk. Loss analyses enable the ORM team to make assessments on the Bank's exposure to operational risk and to identify any critical areas. As at December 31, 2018, operating losses recorded in the accounts amounted to approximately € 1.8 million.

The main sources of operating losses are shown below by "event type", i.e. by type of event that generated them according to the Basel II Accord:

- Internal fraud: losses due to unauthorised activities, fraud, embezzlement or infringement of laws, regulations or company directives that involve at least one internal staff member of the bank or a resource hired under an agency contract (PFA);
- External fraud: losses owing to fraud, embezzlement or violation of laws by subjects external to the Bank;
- Employment practices and workplace safety: losses due to actions not compliant with the law or to agreements regarding employment, health and safety, to the payment of compensation for bodily harm, or to cases of discrimination or non-application of equality conditions;
- Customers, products and professional practices: losses arising from non-fulfilment of professional obligations towards customers or from the nature or characteristics of the products or services provided;
- Damage from external events: losses arising from external events, including natural disasters, acts of terrorism and vandalism;
- Business disruption and system failures: losses owing to business disruption and system failures or interruptions;
- Process management, execution and delivery: losses due to deficiencies in the completion of transactions or management of processes, as well as losses due to relations with commercial counterparties, vendors and suppliers.

## **Section 6 - Other risks**

Although the types of risk described above represent the main categories, there are other types that the Bank considers important. In accordance with the provisions of Basel II Pillar 2, the Bank – with the support of the Parent Company – has identified other types of risk in addition to the credit, market, operational and liquidity risks described above:

- **Business risk** is defined as the distance between the Bank's expected net result and any unforeseen and adverse variances. First of all, it may be caused by a significant deterioration of market conditions, changes to competition or the Bank's cost structure;
- **Strategic risk** is the risk of suffering potential losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of responsiveness to changes in the business environment, which result in negative impacts to the risk profile, capital and earnings as well as the overall direction and scope of a bank over the long run;
- **Reputational risk**, which represents the current or future risk of a fall in profits resulting from a negative perception of the Bank's image by Customers, counterparties, shareholders, investors or Supervisory Authorities.

## Part E - Information on Risks and relating hedging policies (CONTINUED)

The Bank has not included Real Estate Risk within the Bank's scope of risk, because it does not hold significant positions in real estate, nor insurance risk, as the insurance companies are not included in its scope of consolidation.

Following the identification of the significant risks, the Parent Company establishes the best way to analyse them in qualitative and quantitative terms. The quantitative measurement is carried out by the Parent Company using data sent by the Bank and is used to calculate the Internal Capital.

Credit, market, operational and business risks are measured quantitatively by the Parent Company, using:

- economic capital, calculation of the benefit of diversification and aggregation as a component of internal capital (including prudential cushion for model risk and variability of the economic cycle);
- stress tests.

Internal Capital is the capital set aside as a buffer against the potential losses inherent in the Group's business activities and it takes into consideration all risk types that the Group has identified as measurable in terms of Economic Capital in line with Pillar II requirements.

For control purposes, Internal Capital is calculated quarterly by the Parent Company based on the periodic figures sent by the Bank.

The multi-dimensional nature of risk makes it necessary to supplement the measurement of economic capital with stress testing, not only in order to estimate losses in certain scenarios, but also to ascertain the impact of their determinants.

The stress test is one of the instruments used control significant risks in order to assess the Bank's vulnerability to "exceptional but plausible" events, providing additional information to the monitoring activities.

Stress testing, in accordance with regulatory requirements, is conducted on the basis of a set of internally defined stress scenarios and is periodically performed by specific Parent Company functions.

### ICAAP - Internal Capital Adequacy Assessment Process

Measuring the risk profile is a fundamental element of the Internal Capital Adequacy Assessment Process under Pillar 2 (ICAAP).

The UniCredit Group's approach to ICAAP relies on the definition of the "Risk Governance", as a preliminary requirement, while the process consists of following phases:

- defining the scope and identifying the risks;
- assessing the risk profile;
- risk appetite setting and capital allocation;
- monitoring and reporting.

Capital adequacy is assessed by considering the balance between assumed risks, both Pillar I and Pillar II, and the available capital. With respect to Pillar II, the relevant metric is the Risk Taking Capacity, which is the ratio of available capital (Available Financial Resources - AFR) to Internal Capital.

### Risk Appetite

The main elements of the internal process for determining capital adequacy include the setting and monitoring of the risk appetite. The risk appetite is defined as the level of risk that the Bank is willing to accept for the pursuit of its strategic objectives and business plan, taking into account the interests of its customers and shareholders, capital requirements and other requirements.

The main objectives of the risk appetite are:

- explicitly assessing the risks, and their interconnections at local and Group level, that the Bank decides to assume (or avoid) in a long-term perspective;
- specifying the types of risk that the Bank intends to assume, setting targets, triggers and limits under both normal operating and stress conditions;
- ensuring a risk-return profile "ex-ante" consistent with sustainable long-term growth, as defined by the return forecasts of the strategic plan/budget;
- ensuring that the business developed within the limits of risk tolerance established by the Board of Directors, in accordance with the applicable national and international regulations;
- supporting discussions on future policy options with regard to the risk profile;
- guiding the vision of internal and external stakeholders towards a risk profile consistent with the strategic plan;
- providing qualitative descriptions for risks that are difficult to quantify (e.g. strategic, reputational, compliance) to strategically guide the review of processes and the internal control system.



The Risk appetite is defined consistently with the Bank's business model and local and Group ICAAP. For this reason, the Risk Appetite is incorporated in the budget process.

The risk appetite includes a statement and a set of KPIs. The Statement sets out the Bank's positioning in terms of strategic objectives and associated risk profiles, while the KPIs are designed to quantitatively measure the Bank's in the following categories:

- Pillar 1 KPI: regulatory requirements, to include the KPIs required by the Supervisory Authority (e.g., capital and liquidity requirements such as LCR and NSFR);
- Managerial KPI: to ensure alignment with the budget in terms of return on capital and credit quality;
- Specific Risk KPI: to ensure control of all major risks (such as Pillar 2 capital adequacy, market risk, interest rate risk and operating risk).

For each of the above mentioned factors, one or more KPIs are identified, in order to quantitatively measure the Bank's positioning under several respects: absolute values, ratio between comparable measures, sensitivity analysis on defined parameters.

The Targets represent the amount of risk that the Bank is willing to take in normal operating conditions in line with its Ambitions. The Targets should be considered as reference thresholds for business development. Triggers are the maximum acceptable deviation from the targets; they are defined to ensure operations under stress within the maximum acceptable level of risk.

Limits are the maximum level of risk that the Bank accepts to assume.

The setting of the thresholds is evaluated on a case by case basis, also through managerial decisions by the Board of Directors, in compliance with the regulatory requirements and of the supervisory bodies and considering the consistency with the Group risk appetite.

The metrics are the subject of regular monitoring and reporting, at least quarterly. The monitoring is respectively carried out by the CRO Department and the CFO Department.





## Part F – Shareholders' equity

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# Part F – Shareholders' equity

## Section 1 - Bank's shareholders' equity

### Qualitative information

The Bank has made a priority of capital management and allocation on the basis of the risk assumed in order to expand its operations and create value. These activities involve the various planning and control stages and, specifically, the planning, budgeting and monitoring processes (analysis of expected and actual performance, analysis and monitoring of limits, performance analysis and monitoring of capital ratios). These activities are also planned in relation to the subsidiary Fineco AM, once it has commenced operations.

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

Capital is managed dynamically: the Bank prepares the financial plan, monitors capital requirements for regulatory purposes and anticipates the appropriate steps required to achieve goals.

Monitoring refers, on one hand, to both shareholders' equity and the composition of own funds and, on the other hand, to the planning and performance of risk-weighted assets (RWA).

On January 31, 2018, FinecoBank issued an Additional Tier 1 Perp Non Call June 2023 notes issue (5.5 years, Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resetable Notes). The issue of the financial instrument was authorized by the Board of Directors of FinecoBank on 23 January 2018. The financial instrument is a perpetual private placement<sup>49</sup>, issued for a total of €200,000 thousand and entirely subscribed by UniCredit S.p.A. The coupon for the first 5.5 years has been fixed at 4.82%. The decision to carry out an intra-group issuance had many advantages: effective cost savings relating, for example, to the underwriting syndicate, and shorter issue times so as not to miss the right moment, maximising the benefits of the transaction.

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

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<sup>49</sup> Unrated and unlisted

## Quantitative information

## B.1 Bank's shareholders' equity: breakdown

ITEMS/AMOUNTS	(Amounts in € thousand)	
	AMOUNT 12.31.2018	AMOUNT 12.31.2017
1. Share capital	200,773	200,545
2. Share premium reserve	1,934	1,934
3. Reserves	355,673	323,932
- from earnings	321,701	291,841
a) legal	40,155	40,109
b) statutory	-	-
c) treasury shares	13,960	365
d) others	267,586	251,367
- others	33,972	32,091
4. Equity instruments	200,000	-
5. (Treasury shares)	(13,960)	(365)
6. Revaluation reserves	(9,794)	(8,340)
- Equity securities at fair value through other comprehensive income	-	-
- Hedging of equity securities designated at fair value through other comprehensive income	-	-
- Financial assets (other equity securities) designated at fair value through other comprehensive income	(3,410)	1,472
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedging instruments of foreign investments	-	-
- Cash flow hedges	-	-
- Hedge instruments (non-designated elements)	-	-
- Exchange differences	-	-
- Non-current assets classified as held for sale	-	-
- Financial liabilities designated at fair value through profit and loss (changes in own creditworthiness)	-	-
- Actuarial gains (losses) on defined benefit plans	(6,384)	(9,812)
- Revaluation reserves for associates carried at equity	-	-
- Special revaluation laws	-	-
7. Net profit (loss) for the year	227,922	214,284
<b>Total</b>	<b>962,548</b>	<b>731,990</b>

## B.2 Revaluation reserves for financial assets at fair value through comprehensive income: breakdown

ITEMS/AMOUNTS	(Amounts in € thousand)	
	TOTAL 12.31.2018	
	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	410	(3,820)
2. Equity instruments	-	-
3. Loans	-	-
<b>Total 12.31.2018</b>	<b>410</b>	<b>(3,820)</b>

## Part F – Shareholders' equity (CONTINUED)

### B.3 Revaluation reserves for financial assets at fair value through comprehensive income: annual changes

(Amounts in € thousand)

	DEBT SECURITIES	EQUITY SECURITIES	LOANS
<b>1. Opening balance</b>	<b>3,449</b>	-	-
<b>2. Increases</b>	<b>449</b>	-	-
2.1 Fair value increases	372	-	-
2.2 Adjustments for credit risk	77	-	-
2.3 Reclassification through profit or loss of realised negative reserves	-	-	-
2.4 Transfer from other shareholder's equity item (equity securities)	-	-	-
2.5 Other changes	-	-	-
<b>3. Decreases</b>	<b>(7,308)</b>	-	-
3.1 Fair value reductions	(4,843)	-	-
3.2 Recoveries for credit risk	(1)	-	-
3.3 Reclassification through profit or loss of realised positive reserves	(2,464)	-	-
3.4 Transfer to other shareholder's equity item (equity securities)	-	-	-
3.5 Other changes	-	-	-
<b>4. Closing balances</b>	<b>(3,410)</b>	-	-

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

### B.4 Revaluation reserves on defined benefit obligations: annual changes

(Amounts in € thousand)

	ACTUARIAL GAINS (LOSSES) ON DEFINED BENEFITS PLANS
<b>1. Opening balance</b>	<b>(9,812)</b>
<b>2. Increases</b>	<b>3,428</b>
2.1 Fair value increases	3,428
2.2 Other Changes	-
<b>3. Decreases</b>	-
3.1 Fair value reductions	-
3.2 Other Changes	-
<b>4. Closing balances</b>	<b>(6,384)</b>

Hereinafter the table drawn up according to IAS 39 and represented according to the 4<sup>th</sup> update of Circular 262 of Bank of Italy dated 15 December 2015.

### B.2 Revaluation reserves for available-for-sale financial assets: breakdown (ex IAS 39)

(Amounts in € thousand)

ASSETS/AMOUNTS	TOTAL 12.31.2017	
	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	10,529	(10,216)
2. Equity instruments	1,159	-
3. Units in investment funds.	-	-
4. Loans	-	-
<b>Total 12.31.2017</b>	<b>11,688</b>	<b>(10,216)</b>

## Section 2 - Own funds and regulatory ratios

Please refer to the information on own funds and the capital adequacy contained in the document " Disclosure by Institutions according to Regulation (EU) No. 575/2013 as at December 31, 2018", as required by Regulation (EU) 575/2013, is published on the Company's website [www.finecobank.com](http://www.finecobank.com).





## Part G – Business combinations

### Section 1 - Business combinations completed during the year

No information to report.

### Section 2 – Business combinations completed after year-end

No information to report.

### Section 3 – Retrospective adjustments

No information to report.



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## Part H – Related-party transactions

Information on the fees paid to key management personnel and on related-party transactions, pursuant to IAS 24 is shown below.

### 1. Details of compensation for key management personnel

Key management personnel are persons having authority and responsibility for planning, directing, and controlling the Companies' activities, directly or indirectly. This category includes Board members and members of the Board of Statutory Auditors, pursuant to requirements of the Bank of Italy Circular no. 262 of December 22, 2005 as amended and updated, as well as the Chief Executive Officer and General Manager, the Deputy General Manager/GBS Manager, the Chief Financial Officer, the PFA Network Commercial and Private Banking Manager, the Deputy General Manager/Global Business Manager.

	(Amounts in € thousand)	
	TOTAL 2018	TOTAL 2017
Fees paid to "Key Management Personnel", Directors and the Board of Statutory Auditors		
a) short-term benefits	5,750	5,470
b) post-employment benefits	214	213
of which under defined benefit plans	-	-
of which under defined contribution plans	214	213
c) other long-term employee benefits	-	-
d) termination benefits	1,227	-
e) share-based payments	3,236	2,479
<b>Total</b>	<b>10,427</b>	<b>8,162</b>

### 2. Related-party transactions

The Board of Directors, in order to ensure continued compliance with applicable legal and regulatory provisions on corporate disclosure on transactions with related parties and persons in conflict of interest, during the meeting on July 31, 2018 and with the prior favorable opinion of the Risk and Related Parties Committee and the Board of Statutory Auditors approved last update of "Procedures for managing transactions with subjects in conflict of interest" (the "Procedures").

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

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

Given that the Bank belongs to the UniCredit Group, the aforementioned Procedures are also based on the "UniCredit Global Policy for the management of transactions with persons in conflict of interest" and the relevant "Global Process Regulation" issued by UniCredit to subsidiaries as part of its management and coordination.

Considering the above, the following Significant Transactions resolved by the Board of Directors during 2018 are recorded:

- on January 23, 2018, with the favorable opinion of the Risks and Related Parties Committee, the Board of Directors authorized the issue of an Additional Tier 1 bond totaling € 200 million, fully subscribed by means of private placement by the Group Parent UniCredit S.p.A.; the duration of the loan is perpetual, linked to the statutory duration of the Bank, and the coupon for the first 5.5 years was set at 4.82%. The transaction is an "Ordinary Significant Transaction at market conditions";
- on February 6, 2018 with the favorable opinion of the Risk and Related Parties Committee, the Board of Directors approved the renewal of the "Framework Resolution related to the entering into of hedging derivative contracts with the Parent Company or companies in the UniCredit Group", an ordinary Significant Transaction at market conditions with validity up until February 6th, 2019, which enables the Bank to enter into hedging derivatives with the Parent Company and with UniCredit Bank AG for commercial assets or liabilities that, for ALM purposes, require interest rate hedging, with a plafond of €1,000 million with the Parent Company and €1,300 million with UniCredit Bank AG;
- on May 8, 2018, with the favorable opinion by the Risks and Related Parties Committee, the Board of Directors approved the renewal of the:
  - "Framework Resolution - Repurchase Agreements and Term Deposits with the Parent Company", an ordinary Significant Transaction at market conditions (expiring May 8, 2019), concerning (i) Repurchase Agreements with the Parent Company for a maximum amount of € 7.1 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and (ii) Term deposits with the Parent Company for an amount of € 6.3 billion, calculated as the sum of the individual transactions in absolute value;
  - "Framework Resolution for the transactions on current accounts held with UniCredit", an ordinary Significant Transaction at market conditions (expiring May 8, 2019), which enables the Bank to manage transaction through specific current accounts with UniCredit S.p.A. for a maximum amount of € 1,000 million understood as a single transaction (single payment and single withdrawal);

- on June 12, 2018, with the favorable opinion of the Risks and Related Parties Committee, the Board of Directors approved the renewal of the *"Framework Resolution – Trading of financial instruments with institutional counterparties and with UniCredit, on their own account and on behalf of third parties, respectively by the Treasury and Markets functions"*, an ordinary Significant Transaction at market conditions (expiring June 11, 2019), which enables the Bank to carry out trading in derivatives with related parties institutional counterparties, up to a permitted limit of: (i) €2.7 billion with UniCredit Bank AG, (ii) €250 million with Mediobanca SpA and (iii) €1 billion with UniCredit S.p.A.;
- on September 18, 2018, with the favourable opinion of the Risks and Related Parties Committee, the Board of Directors approved the renewal of the *"Framework resolution Stock Lending Activities with institutional customers"*, ordinary Significant Transaction at market conditions effective until September 17, 2019, related to share securities lending transactions, through which FinecoBank may implement, until the above expiry date, those transactions with a plafond of €700 million for transactions with UniCredit Bank AG and €200 million for transactions with Mediobanca S.p.A.;
- on November 6, 2018, with the favourable opinion of the Risks and Related Parties Committee, the Board of Directors approved the renewal of the *"Framework resolution - Trading of financial instruments of the Parent Company"*, ordinary Significant Transaction at market conditions effective until November 6, 2019 related to the purchase or sale of financial instruments issued by UniCredit with limit of € 1,530 million.

Furthermore, the Risks and Related Parties Committee and the Board of Directors, respectively on 10 and 11 December 2018, issued positive opinions, in compliance with the aforementioned Procedures, on the completion of an ordinary Significant Transaction at market conditions, proposed by the subsidiary Fineco Asset Management DAC (FAM DAC) and related to the *"Framework Resolution - FAM DAC term deposits with UniCredit Bank Ireland Plc"* concerning the term deposit transactions with a credit plafond of € 55 million which FAM DAC will be able to carry out with UniCredit Bank Ireland Plc until December 10, 2019.

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

In relation to the above transactions, the Bank provided a simplified disclosure to CONSOB pursuant to Art. 13, paragraph 3, letter c) of CONSOB Regulation on March 12, 2010, no. 17221.

As of December 31, 2018, no other transactions were undertaken with related parties that could significantly affect the Bank's asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions.

Minor Transactions were also carried out with the Parent Company, other Group companies and/or with related parties in general, both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

Lastly, with regard to transactions of significant financial and economic relevance, during 2012, the Bank issued 5 bank guarantees in favour of the Italian Revenue Agency upon (guaranteed) request by UniCredit S.p.A., with indefinite duration (specifically, valid until the Italian Revenue Agency issues a declaration of receipt of the payment by UniCredit S.p.A. at the end of the collection process, in the event of an unfavourable outcome for UniCredit S.p.A., or until a ruling is issued in favour of the Bank by means of final judgement), for a total amount of €256 million, plus interest accrued and accruing until request for payment from the Italian Revenue Agency. The bank guarantees were issued to secure the obligations assumed by UniCredit S.p.A. in relation to five VAT refund suspension orders issued by the Italian Revenue Agency, and entail the assumption by the Bank of an irrevocable payment commitment on demand, within 30 days and without any exceptions. In 2013, following the settlement of an overall assessment notice issued by the Regional Department of Liguria, for €4.5 million, replaced by another assessment notice issued by the same Department up to the amount settled, a guarantee already issued by the Bank was replaced, with amounts unchanged; this transaction did not change the commitments undertaken according to the forms, procedures and risks already assessed during 2012, which remained unchanged; in this regard it is specified, however, following the consolidation of the definition of pending charges linked to the aforementioned bank guarantees, in December 2018 UniCredit S.p.A. has required the almost total release (about €224.5 million) to the competent office of the Regional Department of Liguria and the Bank is waiting for the corresponding reply.

## Part H – Related-party transactions (CONTINUED)

The following statement shows the outstanding assets, liabilities, guarantees and commitments as at December 31, 2018, for each group of related parties pursuant to IAS 24:

(Amounts in € thousand)

	AMOUNTS AS AT DECEMBER 31, 2018					
	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	TOTAL	% OF CARRYING AMOUNT	SHAREHOLDERS	% OF CARRYING AMOUNT
Financial assets at amortised cost a) loans and receivable with banks	-	4	4	0.00%	-	0.00%
Financial assets at amortised cost b) loans and receivable with customers	1,002	13,113	14,115	0.13%	1,762	0.02%
Other assets	-	-	-	0.00%	-	0.00%
<b>Total assets</b>	<b>1,002</b>	<b>13,117</b>	<b>14,119</b>	<b>0.06%</b>	<b>1,762</b>	<b>0.01%</b>
Financial liabilities at amortised cost a) deposits from banks	-	1,641	1,641	0.16%	-	0.00%
Financial liabilities at amortised cost b) deposits from customers	2,281	6,480	8,761	0.04%	-	0.00%
Other liabilities	130	61	191	0.06%	-	0.00%
<b>Total liabilities</b>	<b>2,411</b>	<b>8,182</b>	<b>10,593</b>	<b>0.04%</b>	<b>-</b>	<b>0.00%</b>
<b>Guarantees given and commitments</b>	<b>92</b>	<b>8</b>	<b>100</b>	<b>0.01%</b>	<b>-</b>	<b>0.00%</b>

The following table sets out the impact of transactions with related parties on the main Income Statement items, for each group of related parties.

(Amounts in € thousand)

	INCOME STATEMENT AT DECEMBER 31, 2018					
	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	TOTAL	% OF CARRYING AMOUNT	SHAREHOLDERS	% OF CARRYING AMOUNT
Interest income and similar revenues	11	16	27	0.01%	-	0.00%
Interest expenses and similar charges	(1)	-	(1)	0.01%	-	0.00%
Fee and commission income	11	40,321	40,332	7.46%	7,548	1.40%
Fee and commission expenses	-	(254)	(254)	0.10%	-	0.00%
Gains (losses) on financial assets and liabilities at fair value through profit or loss	-	(20)	(20)	-0.05%	-	0.00%
Impairment losses/writebacks	(2)	(9)	(11)	0.31%	(2)	0.06%
Other administrative expenses	-	(172)	(172)	0.07%	-	0.00%
Other net operating income	36	10	46	0.05%	-	0.00%
<b>Total income statement</b>	<b>55</b>	<b>39,892</b>	<b>39,947</b>		<b>7,546</b>	

With regard to the category "Directors, Board of Statutory Auditors and Key Management Personnel", in application of the special regulations laid down in Article 136 of Legislative Decree 385/93 (Consolidated Law on Banking), the obligations established for persons that perform administrative, management and control functions pursuant to those regulations were unanimously approved by a resolution of the Board of Directors with the favourable vote of all members of the Board of Statutory Auditors, in accordance with Article 136 of said Consolidated Law on Banking.

The category "Directors, Board of Statutory Auditors and Key Management Personnel" includes their dealings with the Bank (excluding their fees, which are discussed in point 1. *Details of compensation for key management personnel*) and the Parent Company UniCredit S.p.A., mainly concerning assets for credit card use and mortgages, liabilities for funds held by them with the Bank and costs and revenues generated from the aforesaid assets and liabilities.

The "Other related parties" category, where present, includes:

- close family members of key management personnel (i.e., relatives who could be expected to influence, or be influenced by the party involved);
- companies controlled (or jointly controlled) by, or associated with, "key management personnel" or their close family members;
- associates, and their subsidiaries, of the Parent Company UniCredit S.p.A..

Transactions with "Other related parties", mainly refer to:

- assets for credit card use and liabilities for funds held with the Bank or securities lending transactions guaranteed by sums of money;
- assets for current receivables associated with the provision of financial services, mainly referring to fees for the placement of asset management and insurance products;
- costs and revenues generated from the above assets and liabilities, mainly referring to subscription and management fee and commission income related to the placement of asset management and insurance products and insurance premiums.

The "Shareholders" category includes shareholders and their subsidiaries holding an investment higher than 2% of voting shares of FinecoBank and of the Parent Company UniCredit S.p.A.. Transactions mainly refer to operating receivables connected with the provision of financial services

referring to the commissions to be cashed for the placement of asset management products and the revenues generated by the same placement activity.

Amounts as at December 31, 2018 and the income components accrued in 2018 relating to the Parent Company UniCredit S.p.A. and the UniCredit group companies are not included, as they are presented further below.

Amounts as at December 31, 2018 and the income components accrued in 2018 relating to the Parent Company UniCredit S.p.A. and the UniCredit group companies are not included, as they are presented further below.

## Transactions with the parent company and other unicredit group companies

TOTAL TRANSACTIONS WITH UNICREDIT GROUP COMPANIES	TOTAL 12.31.2018	% OF CARRYING AMOUNT
<b>Assets</b>	<b>12,132,658</b>	<b>49.09%</b>
Financial assets at amortised cost a) loans and receivables with banks	12,122,439	97.55%
Financial assets at amortised cost b) loans and receivables with customers	5,766	0.05%
Other assets	4,453	1.27%
<b>Liabilities</b>	<b>1,032,511</b>	<b>4.18%</b>
Financial liabilities at amortised cost a) deposits from banks	828,401	82.04%
Other liabilities	4,072	1.21%
Provisions for risks and charges: a) commitments and guarantees given	38	77.55%
Equity instruments	200,000	100.00%
<b>Guarantees and commitments</b>	<b>256,070</b>	<b>24.93%</b>
Guarantees given and commitments	256,070	24.93%
<b>Income statement</b>	<b>191,962</b>	
Interest income and similar revenues	173,484	59.18%
Interest expenses and similar charges	(2,931)	20.29%
Fee and commission income	36,953	6.83%
Fee and commission expenses	(6,582)	2.47%
Dividend income and similar revenue	-	0.00%
Gains (losses) on financial assets and liabilities held for trading	-	0.00%
Fair value adjustments in hedge accounting	-	0.00%
Gains and losses on disposal or repurchase of	-	0.00%
Impairment losses/writebacks	3,144	89.12%
Administrative expenses	(12,645)	3.71%
Net provisions for risks and charges a) provision for credit risk of commitments and financial guarantees given	412	102.49%
Other net operating income	127	0.13%

The following table summarises transactions with UniCredit group companies as at December 31, 2018.

COMPANY	(Amounts in € thousand)			
	ASSETS	LIABILITIES	GUARANTEES AND COMMITMENTS	INCOME STATEMENT
Unicredit S.p.A.	12,126,481	996,690	256,070	164,639
Unicredit Bank AG	85	35,668	-	764
Unicredit Bank AG Milano	-	-	-	136
UniCredit International Bank (Luxembourg) S.A.	-	-	-	27
Unicredit Factoring S.p.A.	-	-	-	81
Unicredit Leasing S.p.A.	-	-	-	6
Unicredit Business Integrated Solutions S.C.p.A.	234	137	-	(9,468)
Cordusio Società Fiduciaria per Azioni	46	16	-	24
Fineco Asset Management DAC	5,812	-	-	35,753
<b>Total</b>	<b>12,132,658</b>	<b>1,032,511</b>	<b>256,070</b>	<b>191,962</b>

## Part H – Related-party transactions (CONTINUED)

The following tables contain a breakdown of the items relating to Assets, Liabilities, Guarantees and Commitments, Costs and Revenues for each individual Group company.

## Transactions with parent company

(Amounts in € thousand)	
<b>Unicredit S.p.A.</b>	<b>TOTAL 12.31.2018</b>
<b>Assets</b>	<b>12,126,481</b>
Financial assets at amortised cost a) loans and receivables with banks	12,122,389
Other assets	4,092
<b>Liabilities</b>	<b>996,690</b>
Financial liabilities at amortised cost a) deposits from banks	792,733
Other liabilities	3,919
Provisions for risks and charges: a) commitments and guarantees given	38
Equity instruments	200,000
<b>Guarantees and commitments</b>	<b>256,070</b>
Guarantees given and commitments	256,070
<b>Income statement</b>	<b>164,639</b>
Interest income and similar revenues	173,318
Interest expenses and similar charges	(2,931)
Fee and commission income	506
Fee and commission expenses	(6,553)
Impairment losses/writebacks	3,167
Administrative expenses	(3,293)
Net provisions for risks and charges a) provision for credit risk of commitments and financial guarantees given	412
Other net operating income	13

## Transactions with companies controlled by UniCredit S.p.A.

(Amounts in € thousand)	
<b>Unicredit Bank AG</b>	<b>TOTAL 12.31.2018</b>
<b>Assets</b>	<b>85</b>
Financial assets at amortised cost a) loans and receivables with banks	50
Other assets	35
<b>Liabilities</b>	<b>35,668</b>
Financial liabilities at amortised cost a) deposits from banks	35,668
<b>Income statement</b>	<b>764</b>
Interest income and similar revenues	149
Fee and commission income	616
Fee and commission expenses	(1)

(Amounts in € thousand)	
<b>Unicredit Bank AG Milano</b>	<b>TOTAL 12.31.2018</b>
<b>Income statement</b>	<b>136</b>
Fee and commission income	136

(Amounts in € thousand)	
<b>UniCredit International Bank (Luxembourg) S.A.</b>	<b>TOTAL 12.31.2018</b>
<b>Income statement</b>	<b>27</b>
Fee and commission income	27

(Amounts in € thousand)	
<b>Unicredit Factoring S.p.A.</b>	<b>TOTAL 12.31.2018</b>
<b>Income statement</b>	<b>81</b>
Administrative expenses	81



		(Amounts in € thousand)
<b>Unicredit Business Integrated Solutions S.C.p.A.</b>		<b>TOTAL 12.31.2018</b>
<b>Assets</b>		<b>234</b>
Other assets		234
<b>Liabilities</b>		<b>137</b>
Other liabilities		137
<b>Income statement</b>		<b>(9,468)</b>
Administrative expenses		(9,468)

		(Amounts in € thousand)
<b>Cordusio Società Fiduciaria per Azioni</b>		<b>TOTAL 12.31.2018</b>
<b>Assets</b>		<b>46</b>
Financial assets at amortised cost b) loans and receivables with customers		46
<b>Liabilities</b>		<b>16</b>
Other liabilities		16
<b>Income statement</b>		<b>24</b>
Fee and commission income		44
Fee and commission expenses		(28)
Administrative expenses		8

		(Amounts in € thousand)
<b>Fineco Asset Management DAC</b>		<b>TOTAL 12.31.2018</b>
<b>Assets</b>		<b>5,812</b>
Financial assets at amortised cost b) loans and receivables with customers		5,720
Other assets		92
<b>Income statement</b>		<b>35,753</b>
Interest income and similar revenues		18
Fee and commission income		35,624
Impairment losses/writebacks		(24)
Administrative expenses		21
Other net operating income		114



## Part I – Share-based payments

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# Part I – Share-based payments

## A. Qualitative information

### 1. Description of share-based payments

#### 1.1 Outstanding instruments

The Medium & Long Term Incentive Plans for employees and financial advisors of the Bank include the following types of instruments:

- Equity-Settled Share Based Payments that involve payments settled with shares of the parent UniCredit S.p.A. and of the Bank;
- Cash Settled Share Based Payments that involve payments made in cash<sup>50</sup>.

The above categories refer to the allocation of the following plans:

- **Group Executive Incentive Systems** that offers eligible Group Executives a variable remuneration for which payment will be made within a maximum of five years. The beneficiaries receive a payment in cash and/or UniCredit shares, in relation to the achievement of performance conditions (other than marked conditions) stated in the Plan Rules;
- **Incentive Systems (Bonus Pool)**, offering selected Executives and personnel identified on the basis of regulatory requirements, a bonus structure consisting of immediate payments (following performance evaluation) and deferred payments in cash and ordinary UniCredit or FinecoBank shares, over a maximum period of 6 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or at Country/Division level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both represent vesting conditions other than market conditions);
- **Employee Share Ownership Plan (ESOP - Let's Share)**, which offers eligible Bank employees the possibility to buy UniCredit ordinary shares with the advantage of involving the granting of free ordinary shares ("Free Shares" or rights to receive them) measured on the basis of the shares purchased by each Participant ("Investment Share") during the "Enrolment Period". The granting of free ordinary shares is subordinated to vesting conditions stated in the Plan Rules;
- **Stock granting for employees** that grants the free allocation of FinecoBank shares to beneficiaries belonging to the category of Managers with Strategic Responsibilities ("*2014-2017 Multi-year Plan Top Management*"). Shares will be allocated to the beneficiaries in 4 yearly tranches starting from 2017. The plan is subject to access conditions (profitability and capital thresholds) and clawback clauses (as legally applicable) in accordance with its rules;
- **2018-2020 Long Term Incentive Plan for Employees** entirely based on free FinecoBank shares, to be granted to selected Bank's Employees. The Plan provides goals linked to 2020 FinecoBank targets in terms of value creation, sustainability and risk, with entry condition at Bank and Group level and clawback and malus conditions. The Plan provides a payout structure in a multi year period defined on the basis of the beneficiaries categories, in line with the regulatory provisions;
- **Stock granting for personal financial advisors** offering the allocation of free shares of FinecoBank to the network's personal financial advisors, subject to the achievement by the Bank's entire PFA network of a set net sales target for the three-year period 2015-2017 ("*2015-2017 PFA Plan*"). The shares will be allocated to the respective beneficiaries in 3 annual instalments from 2018. The plan is subject to access conditions (profitability and capital thresholds) and clawback clauses (as legally applicable) in accordance with the plan rules;
- **2015 Incentive System for personal financial advisors**, offering selected financial advisors, identified Staff in accordance with regulatory requirements, an incentive system consisting of immediate cash payments (following performance evaluation) and deferred payments and the allocation of Phantom Shares, over a period of 5 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or at Country/Division level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both vesting conditions other than market conditions);
- **Incentive Systems for personal financial advisors**, offering selected financial advisors, identified Staff in accordance with regulatory requirements, incentive systems consisting of immediate cash payments (following performance evaluation) and deferred payments, in cash and FinecoBank ordinary shares, over a period of 5 years. This payment structure ensures that bonuses are aligned to shareholders' interests and is subject to malus clauses (which apply in the event that specific profitability, liquidity and capital thresholds are not met at Group and/or FinecoBank level) and clawback clauses (to the extent they are legally applicable) in accordance with the plan rules (both vesting conditions other than market conditions);
- **2018-2020 Long Term Incentive Plan for Financial Advisors Identified Staff** that provides a bonus in cash and FinecoBank ordinary shares for the financial advisors that will be identified Staff in 2020 towards the achievement of commercial performance goal in 2018-2020. The plan provides entry conditions at Bank and Group level and malus and clawback conditions. The plan provides also a multi-year payout structure.

<sup>50</sup> Commensurate to the economic value of FinecoBank S.p.A.'s equity instruments.

Shares for employee incentive plans envisaging the allocation of FinecoBank shares will be issued through free capital increases in accordance with Article 2349 of the Italian Civil Code.

The financial instruments for incentive plans for the Bank's financial advisors involving the allocation of FinecoBank shares will be obtained through market purchases in implementation of the authorisation of the Bank Shareholders' Meeting pursuant to Article 2357 of the Italian Civil Code and of the Supervisory Authority.

## 1.2 Measurement model

### 1.2.1 Group Executive Incentive System

The amount of the incentive is determined on the basis of the achievement of quantitative and qualitative goals stated by the plan. In particular, the overall evaluation is expressed as a percentage, from a minimum of 0% to a maximum of 150% (non market vesting conditions). This percentage, adjusted by the application of a risk/opportunity factor – Group Gate – at first payment and multiplied by the incentive, determines the actual amount that will be paid to the beneficiary.

The balance-sheet and income statement effects are spread according to the term of the Plans.

No new Plans were granted in 2018.

### 1.2.2 Incentive Systems (Bonus Pool)

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

The plans are divided into clusters, each of which may include two to three deferred share-based payment instalments according to the period defined by the plan rules. The Plans have been allocated starting from 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

#### 1.2.2.1 2017 Incentive System (Bonus Pool)

The plan was allocated in 2017 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FINECOBANK SHARES GRANTED			
	2017 INCENTIVE SYSTEM (BONUS POOL)			
	2020 INSTALMENT	2021 INSTALMENT	2022 INSTALMENT	2023 INSTALMENT
Bonus Opportunity Economic Value Grant Date	09-gen-17	09-gen-17	09-gen-17	09-gen-17
Number of Shares - Date of Board resolution	06-feb-18	06-feb-18	06-feb-18	06-feb-18
Vesting Period Start Date	01-gen-17	01-gen-17	01-gen-17	01-gen-17
Vesting Period End Date	31-dic-17	31-dic-19	31-dic-20	31-dic-21
FinecoBank Share Market Price [€]	9.690	9.690	9.690	9.690
Average Economic Value of Vesting conditions [€]	-0.575	-0.894	-1.267	-1.921
Performance Shares value per share at Grant Date [€]	9.115	8.796	8.423	7.769

#### 1.2.2.2 2018 Incentive System (Bonus Pool)

The 2018 Incentive System is based on a *bonus pool* approach, in line with regulatory requirements and market practices; this approach sets out:

- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;
- the allocation of bonuses to beneficiaries identified as Executives and other key personnel on the basis of criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;
- a structure of payments spread over a period of up to 6 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the current year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

### 1.2.3 Employee Share Ownership Plan

During 2018 no new plans were assigned, but the economic and equity effects referring to the Let's 2017 Plan were recorded, in line with the provisions of the regulation.

## Part I – Share-based payments (CONTINUED)

**1.2.4 Stock granting for employees****1.2.4.1 2014 - 2017 Multi-year – Top management Plan**

The plan offers the allocation of free shares of FinecoBank to beneficiaries belonging to the Top Management with strategic responsibilities. The shares will be allocated to the respective beneficiaries, once the vesting period has elapsed and satisfaction of the conditions has been verified, in 4 annual tranches, starting in 2017.

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

**1.2.5 2018-2020 Long Term Incentive Plan for Employees**

The Plan establishes FinecoBank targets set at 2020 in terms of value creation, sustainability and risk.

The Plan Beneficiaries are selected among the “key” Bank resources, including the Managers with Strategic Responsibilities.

The Plan, which is in line with regulatory requirements and market practices, includes:

- Bank goal sas EVA, Cost/Income and Cost of Risk on commercial loans;
- Bank and Group entry and malus conditions based on profitability, capital and liquidity parameters;
- Individual compliance and clawback conditions;
- a risk adjustment based on the yearly results of the CRO Dashboard.

The plan was allocated in the current exercise and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FINECOBANK SHARES GRANTED			
	2018-2020 LONG TERM INCETIVE PLAN- IDENTIFIED STAFF AND CEO			
	2023 INSTALMENT	2023 INSTALMENT	2024 INSTALMENT	2025 INSTALMENT
Bonus Opportunity Economic Value Grant Date	10-Jan-18	10-Jan-18	10-Jan-18	10-Jan-18
Number of Shares - Date of Board resolution	08-May-18	08-May-18	08-May-18	08-May-18
Vesting Period Start Date	01-Jan-18	01-Jan-18	01-Jan-18	01-Jan-18
Vesting Period End Date	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
FinecoBank Share Market Price [€]	9.880	9.880	9.880	9.880
Average Economic Value of Vesting conditions [€]	-1.354	-1.354	-1.721	-2.084
Performance Shares v value per share at Grant Date [€]	8.526	8.526	8.159	7.796

	FINECOBANK SHARES GRANTED			
	2018-2020 LONG TERM INCETIVE PLAN- OTHER PERSONNEL			
	2023 INSTALMENT	2023 INSTALMENT	2024 INSTALMENT	2025 INSTALMENT
Bonus Opportunity Economic Value Grant Date	10-Jan-18	10-Jan-18	10-Jan-18	10-Jan-18
Number of Shares - Date of Board resolution	08-May-18	08-May-18	08-May-18	08-May-18
Vesting Period Start Date	01-Jan-18	01-Jan-18	01-Jan-18	01-Jan-18
Vesting Period End Date	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
FinecoBank Share Market Price [€]	9.880	9.880	9.880	9.880
Average Economic Value of Vesting conditions [€]	-0.609	-0.983	-1.354	-1.721
Performance Shares v value per share at Grant Date [€]	9.271	8.897	8.526	8.159

**1.2.6 Stock granting for for personal financial advisors****1.2.6.1 2015 - 2017 PFA Plan**

The amount of the incentive will be determined on the basis of the achievement of the goals stated by the plan, subject to the Bank's entire financial advisors network meeting their cumulative net sales targets for the three-year period 2015-2017.

The plan helps align the interests of beneficiaries, shareholders and other stakeholders and implement effective remuneration practices, in accordance with the applicable legislative and regulatory framework. The plan is subject to verification that the conditions established by the plan rules are satisfied.

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

The plan was allocated in 2014 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FINECOBANK SHARES GRANTED			
	2015-2017 PFA PLAN			
	2020 INSTALMENT	2021 INSTALMENT	2022 INSTALMENT	
Bonus Opportunity Economic Value Grant Date	02-Jul-14	02-Jul-14	02-Jul-14	
Number of Shares - Date of Board resolution	08-Feb-18	08-Feb-18	08-Feb-18	
Vesting Period Start Date	01-Jan-15	01-Jan-15	01-Jan-15	
Vesting Period End Date	30-Jun-18	30-Jun-19	30-Jun-20	
FinecoBank Share Market Price [€]	10.087	10.087	10.087	
Average Economic Value of Vesting conditions [€]	0.000	-0.290	-0.609	
Performance Shares value per share at Grant Date [€]	10.087	9.797	9.478	

### 1.2.7 2015 Incentive System for personal financial advisors

The amount of the incentive is determined on the basis of the achievement of the goals stated by the plan.

The balance-sheet and income statement effects are spread across the term of the Plan. The economic value of the phantom shares allocated corresponds to the market price of the FinecoBank shares.

The plan was allocated in 2015 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FINECOBANK SHARES GRANTED			
	2015 INCENTIVE SYSTEM PFA			
	2018 INSTALMENT	2019 INSTALMENT	2020 INSTALMENT	
Bonus Opportunity Economic Value Grant Date	10-Mar-15	10-Mar-15	10-Mar-15	
Number of Shares - Date of Board resolution	08-Feb-16	08-Feb-16	08-Feb-16	
Vesting Period Start Date	01-Jan-15	01-Jan-15	01-Jan-15	
Vesting Period End Date	31-Dec-15	31-Dec-17	31-Dec-18	
FinecoBank Share Market Price [€]	9.690	To be defined	To be defined	
Average Economic Value of Vesting conditions [€]	0.000	To be defined	To be defined	
Performance Shares value per share at Grant Date [€]	9.690	To be defined	To be defined	

### 1.2.8 Incentive Systems for personal financial advisors

The economic value of the shares granted is measured considering the share market price at the grant date less the present value of future dividends during the vesting period.

The plans are divided into clusters, each of which may include two to three deferred share-based payment instalments according to the period defined by the plan rules. The Plans have been allocated starting from 2016 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

#### 1.2.8.1 2017 PFA Incentive System

The plan was allocated in 2017 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FINECOBANK SHARES GRANTED			
	2017 PFA INCENTIVE SYSTEM			
	2020 INSTALMENT	2021 INSTALMENT	2022 INSTALMENT	
Bonus Opportunity Economic Value Grant Date	09-Jan-17	09-Jan-17	09-Jan-17	
Number of Shares - Date of Board resolution	06-Feb-18	06-Feb-18	06-Feb-18	
Vesting Period Start Date	01-Jan-17	01-Jan-17	01-Jan-17	
Vesting Period End Date	31-Dec-17	31-Dec-19	31-Dec-20	
FinecoBank Share Market Price [€]	9.690	9.690	9.690	
Average Economic Value of Vesting conditions [€]	-0.575	-0.894	-1.267	
Performance Shares value per share at Grant Date [€]	9.115	8.796	8.423	

#### 1.2.8.2 2018 PFA Incentive System

The 2018 PFA Incentive System is based on a *bonus pool* approach, in line with regulatory requirements and market practices; this approach sets out:

- the system's sustainability, by linking it directly to business results and aligning it to relevant risk categories through specific indicators that reflect the risk appetite framework;
- the link between the bonus and the organisational structure, the bonus pool being defined at Bank level and further reviewed at Group level;

## Part I – Share-based payments (CONTINUED)

- the allocation of bonuses to beneficiaries identified as key personnel based on criteria laid down in the Regulation of the European Banking Authority (EBA), and to other specific roles, based on local regulatory requirements;
- a structure of payments spread over a period of up to 5 years and consisting of a mix of cash and shares, aligned with the latest regulatory requirements as set out in Directive 2013/36/EU (CRD IV).

The plan was assigned during the current year and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

**1.2.9 2018-2020 Long Term Incentive Plan for Financial Advisors Identified Staff**

The Plan is dedicated to the Financial Advisors that will be Bank's Identified Staff in 2020 and provides three-years (2018-2020) commercial performance goals. Moreover the Plan includes:

- entry conditions based on individual FinecoBank, and Group performance;
- FinecoBank capital, liquidity and profitability and Group capital and liquidity malus conditions
- Specific individual compliance and *clawback* conditions;
- a risk adjustment based on the yearly results of the CRO Dashboard;
- a balanced payment structure with upfront and deferred payments in cash and/or FinecoBank shares.

The plan was allocated in the current exercise and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

**Quantitative information****1. Annual changes**

(Amounts in € thousand)

ITEMS/NUMBER OF OPTIONS AND EXERCISE PRICE	TOTAL 12.31.2018			TOTAL 12.31.2017		
	NUMBER OF OPTIONS	AVERAGE PRICES	AVERAGE MATURITY	NUMBER OF OPTIONS	AVERAGE PRICES	AVERAGE MATURITY
<b>A. Opening balance</b>	1,971,985	-	Jan 2019	2,937,685	-	Nov 2017
<b>B. Increases</b>	3,046,264	-	X	632,553	-	X
B.1 New issues	3,046,264	-	Oct 2020	632,553	-	Jan 2020
B.2 Other increases	-	-	X	-	-	X
<b>C. Decreases</b>	(1,438,004)	-	X	(1,598,253)	-	X
C.1 Cancelled	(61,227)	-	X	(4,897)	-	X
C.2 Exercised	(1,376,777)	-	X	(1,593,356)	-	X
C.3 Expired	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X
<b>D. Closing balance</b>	<b>3,580,245</b>	-	<b>Sept 2020</b>	<b>1,971,985</b>	-	<b>Jan 2019</b>
<b>E. Vesting options at the end of the period</b>	<b>552,883</b>	-	<b>X</b>	<b>718,153</b>	-	<b>X</b>

The number of shares specified in the above table only refers to plans for which the number of shares allotted to individual beneficiaries has already been defined. The average prices for the year have not been stated because only freely allocated shares were involved.

**2. Other information****Effects on Profit and Loss**

The income statement and balance-sheet effects of the incentive systems based on FinecoBank and UniCredit shares are shown below, except for the balance of the reserve related to equity-settled plans.

The income statement impact is determined each year based on the vesting period of the instruments.



## Financial statement presentation related to payments based on shares of FinecoBank and of the Parent Company UniCredit

(Amounts in € thousand)

	TOTAL 12.31.2018		TOTAL 12.31.2017	
	TOTAL	VESTED PLANS	TOTAL	VESTED PLANS
Costs	8,336		8,275	
- connected to Equity Settled Plans	8,280		8,109	
- connected to Cash Settled Plans	56		166	
Sums paid to UniCredit S.p.A. for vested plans		417		231
Sums collected by UniCredit S.p.A. for vested plans		64		
Payable due to UniCredit S.p.A.	179		573	
Credit accrued towards Unicredit S.p.A.	151		-	
Payable due to personal financial advisors for Cash Settled plans	159		365	

Please note that the charges relating to Equity Settled Plans were recognised as Administrative costs – Staff expenses with respect to the plans granted to employees and as Administrative costs or Fee and commission expense with regard to plans granted to personal financial advisors. Charges relating to Cash Settled Plans granted to financial advisors have been recognised as Fee and commission expense.



## Part L - Segment reporting

Segment reporting information, as required by IFRS 8 is presented exclusively in consolidated form. Therefore, reference should be made to the segment reporting disclosure provided in Part L of the Notes to the consolidated accounts.





# Attachment 1 - Reconciliation of condensed accounts to mandatory reporting schedule

(Amounts in € thousand)

ASSETS	AMOUNT AS AT	
	12.31.2018	12.31.2017
Cash and cash balances = item 10	6	613
Financial assets held for trading	6,876	8,827
20. Financial assets at fair value through profit or loss a) financial assets held for trading	6,876	8,827
Loans and receivables with banks	3,044,974	3,038,741
40. Financial assets at amortised cost a) loans and receivables with banks	12,427,086	13,345,067
less: Financial assets at amortised cost a) loans and receivables with banks - Debt securities	(9,382,112)	(10,306,326)
Loans and receivables with customers	2,947,390	2,129,219
40. Financial assets at amortised cost b) loans and receivables with customers	10,821,345	6,955,609
less: Financial assets at amortised cost b) loans and receivables with customers - Debt securities	(7,873,955)	(4,826,390)
Financial investments	18,234,182	16,715,541
20. Financial assets at fair value through profit or loss c) other financial assets mandatorily at fair value	13,342	539,854
30. Financial asset at fair value through other comprehensive income	961,773	1,042,471
70. Equity investments	3,000	500
Financial assets at amortised cost a) loans and receivables with banks - Debt securities	9,382,112	10,306,326
Financial assets at amortised cost b) loans and receivables with customers - Debt securities	7,873,955	4,826,390
Hedging instruments	8,187	10,048
50. Hedging derivatives	3,314	458
60. Changes in fair value of portfolio hedged financial assets (+/-)	4,873	9,590
Property, plant and equipment = item 80	16,330	15,205
Goodwill = item 90. Intangible assets of which: goodwill	89,602	89,602
Other intangible assets = item 90 net of goodwill	8,705	7,909
Tax assets = item 100	6,714	9,226
Other assets = item 120	350,608	315,460
<b>Total assets</b>	<b>24,713,574</b>	<b>22,340,391</b>

(Amounts in € thousand)

LIABILITIES AND SHAREHOLDERS' EQUITY	AMOUNT AS AT	
	12.31.2018	12.31.2017
Deposits from banks	1,009,774	926,001
10. Financial liabilities at amortised cost a) deposits from banks	1,009,774	926,001
Deposits from customers	22,269,098	20,205,036
10. Financial liabilities at amortised cost b) deposits from customers	22,269,098	20,205,036
Financial liabilities held for trading = item 20	2,221	11,936
Hedging instruments	7,941	(397)
40. Hedging derivatives	5,341	3,375
50. Changes in fair value of portfolio hedged financial liabilities (+/-)	2,600	(3,772)
Tax liabilities = item 60	12,184	10,234
Other liabilities	449,808	455,591
80. Other liabilities	335,442	338,178
90. Provisions for employee severance pay	4,561	4,999
100. Provisions for risks and charges	109,805	112,414
Shareholders' Equity	962,548	731,990
- capital and reserves	744,420	526,046
130. Equity instruments	200,000	-
140. Reserves	355,673	323,932
150. Share premium reserve	1,934	1,934
160. Share capital	200,773	200,545
170. Treasury shares (-)	(13,960)	(365)
- revaluation reserves	(9,794)	(8,340)
110. Revaluation reserves of which: financial assets at fair value through other comprehensive income	(3,410)	1,472
110. Revaluation reserves for actuarial net gains (losses) for defined benefit plans	(6,384)	(9,812)
- net profit = item 180	227,922	214,284
<b>Total liabilities and shareholders' equity</b>	<b>24,713,574</b>	<b>22,340,391</b>

As stated in the "Introduction to the annual reports and accounts", the balance-sheet data as at December 31, 2017 have been restated, with unchanged totals, according to the reclassified financial statement format that incorporates the changes introduced by the mentioned 5th update of Circular 262.

(Amounts in € thousand)

INCOME STATEMENT	YEAR	
	2018	2017
Net interest	278.702	264.781
30. Net interest margin	278.702	264.781
Dividends and other income from equity investments	8.042	29
70. Dividend income and similar revenue	8.094	55
less: dividends from held-for-trading equity instruments included in item 70	(52)	(26)
Net fee and commission income = item 60	273.828	270.083
60. Net fee and commission income	273.828	270.083
Net trading, hedging and fair value income	44.239	48.219
80. Gains (losses) on financial assets and liabilities held for trading	43.833	
90. Fair value adjustments in hedge accounting	171	19
100. Gains (losses) on disposal or repurchase of: b) financial asset at fair value through other comprehensive income	1.666	
110. Gains (losses) on financial assets and liabilities at fair value through profit or loss	(1.500)	-
+ dividends from held-for-trading equity instruments included in item 70	52	26
+ gains (losses) on disposal or repurchase of: a) financial assets at amortised cost - debt securities (unimpaired)	17	
Gains (losses) on financial assets and liabilities held for trading (ex IAS 39 item 80)		47.413
Gains (losses) on disposal or repurchase of: b) available-for-sale financial assets (ex IAS 39 item 100)		761
Net other expenses/income	300	3.806
200. Other net operating income	94.766	90.350
less: other net operating income - of which: recovery of expenses	(96.767)	(93.368)
less: adjustments of leasehold improvements	2.301	2.873
100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost (unimpaired)	17	
less: gains (losses) on disposal or repurchase of: a) financial assets at amortised cost - debt securities (unimpaired)	(17)	
Gains (losses) on disposal or repurchase of: a) loans and receivables (ex IAS 39 item 100)		3.951
<b>OPERATING INCOME</b>	<b>605.111</b>	<b>586.918</b>
Staff expenses	(84.310)	(79.260)
160. Administrative expenses - a) staff expenses	(84.431)	(78.852)
less: integration cost	121	(408)
Other administrative expenses	(244.009)	(236.839)
160. Administrative expenses - b) other administrative expenses	(266.014)	(244.532)
less: ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)	14.306	10.566
+ adjustments of leasehold improvements	(2.301)	(2.873)
Recovery of expenses	96.767	93.369
200. Other net operating income - of which: recovery of expenses	96.767	93.369
Impairment/write-backs on intangible and tangible assets	(10.370)	(10.369)
180. Impairment/write-backs on property, plant and equipment	(5.411)	(5.569)
190. Impairment/write-backs on intangible assets	(4.959)	(4.800)
<b>Operating costs</b>	<b>(241.922)</b>	<b>(233.099)</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>363.189</b>	<b>353.819</b>
Net impairment losses on loans and provisions for guaranteed and commitments	(4.392)	(5.351)
130. Impairment losses/writebacks on: a) financial assets at amortised cost	(3.414)	
less: impairment losses/writebacks on: a) financial assets at amortised cost - debt securities	(1.380)	
130. Impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income	(114)	
less: impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income - debt securities	114	
170. Net provisions for risks and charges a) provision for credit risk of commitments and financial guarantees given	402	
Impairment losses/writebacks on: a) loans and receivables (ex IAS 39 item 130)		(5.357)
Impairment losses/writebacks on: d) other financial assets (ex IAS 39 item 130)		6
<b>NET OPERATING PROFIT (LOSS)</b>	<b>358.797</b>	<b>348.468</b>
Other charges and provisions	(21.380)	(19.025)
170. Net provisions for risks and charges b) other net provision	(7.074)	(8.459)
+ ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)	(14.306)	(10.566)
Integration costs	(121)	408
Net income from investments	1.105	(13.399)
+ impairment losses/writebacks on: a) financial assets at amortised cost - debt securities	1.380	-
+ impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income - debt securities	(114)	-
250. Gains (losses) on disposal of investments	(161)	(508)
Impairment losses/writebacks on: b) available-for-sale financial assets (ex IAS 39 item 130)		(12.891)
<b>PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>338.401</b>	<b>316.452</b>
Income tax for the year = item 270	(110.479)	(102.168)
<b>NET PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>227.922</b>	<b>214.284</b>
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>227.922</b>	<b>214.284</b>

As stated in the "Introduction to the annual reports and accounts", the income statement data of the year 2017 have been restated, with unchanged totals, according to the reclassified financial statement format that incorporates the changes introduced by the mentioned 5th update of Circular 262.





# Certification of annual financial statements pursuant to article 81-ter of consob regulation no. 11971 of may 14, 1999 and subsequent amendments

1. The undersigned, Alessandro Foti, as Managing Director and General Manager of FinecoBank S.p.A., and Lorena Pelliciarì, as Nominated Official in charge of drawing up company accounts of FinecoBank S.p.A, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of February 24, 1998, do hereby certify:

- the adequacy in relation to the Company's features and
- the actual application

of the administrative and accounting procedures used in the preparation of the financial statements for the year ended December 31, 2018.

2. The adequacy of the administrative and accounting procedures employed to draw up the financial statements for the year has been evaluated by applying a model defined by the UniCredit Group, in accordance with the "Internal Control - Integrated Framework (CoSO)" and the "Control Objective for IT and Related Technologies (Cobit)", which are international commonly accepted standards for the internal control system and for financial reporting.

3. The undersigned also certify that:

3.1 the Annual Report and Accounts:

- a) were prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of July 19, 2002;
- b) correspond to the results of the books and accounting records;
- c) are suitable to provide an accurate representation of the financial position and performance of the issuer;

3.2. the Report on operations contains a reliable operating and financial review of the issuer, as well as the description of its exposure to the main risks and uncertainties.

Milan, February 5, 2019

FinecoBank S.p.A.  
The Chief Executive Officer and  
General Manager  
Alessandro Foti



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







# Report of the External Auditors

**INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14  
OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010  
AND ARTICLE 10 OF THE EU REGULATION 537/2014**

**To the Shareholders of  
FinecoBank Banca Fineco S.p.A.**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**Opinion**

We have audited the financial statements of FinecoBank Banca Fineco S.p.A. (the "Bank"), which comprise the balance sheet as at December 31, 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and the related notes to the accounts.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and art. 43 of Italian Legislative Decree no. 136/15.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### ***Estimate of provisions for risks and charges related to legal disputes***

#### **Description of the key audit matter**

Item 100 "Provisions for risks and charges: c) other provisions for risks and charges" of the balance sheet - liabilities of the financial statements as at December 31, 2018 includes provisions for legal disputes amounting to Euro 28.4 million related to complaints and disputes for damage to customers arising from the unlawful behavior of the Bank's personal financial advisors, pending disputes with personal financial advisors and other ongoing court and out-of-court litigations with customers in relation to the normal banking activity. In addition to the court costs to be borne by the Bank in the event of an adverse conclusion of the dispute, these provisions include an estimate of the expenses to be paid to lawyers, technical advisors and/or experts who assist the Bank in the disputes, to the extent that it is believed that they will not be reimbursed by the counterparties.

In Part E – *Information on Risks and Hedging Policies* - Section 5 – *Operational Risks*, paragraph "Risks arising from significant legal disputes" of the notes to the accounts, the Directors point out that, in relation to the pending legal proceedings against the Bank, which are individually irrelevant, there is considerable uncertainty about the possible outcome and the extent of the possible charge that the Bank could incur; where it is possible to reliably estimate the amount of charges and the charges themselves are considered probable, provisions have been made to the extent deemed appropriate given the specific circumstances and in accordance with the international accounting standards, making the best possible estimate of the amount that reasonably the Bank will have to pay to settle its obligations. With reference to the legal expenses, the estimate was determined by the Bank, in relation to the current disputes, based on the analysis of the historical trend of legal expenses incurred, by type of litigation and degree of judgment.

Paragraph "*Risks and uncertainties related to the use of estimates*" of Part A – *Accounting Policies*, A. 1 – *General*, Section 4 – *Other matters* of the notes to the accounts, contains information on the subjectivity and complexity of the estimation process adopted to support the carrying amount of some items subject to evaluation. For some of them, including provisions for risks and charges, the complexity and the subjectivity of the estimates are affected by the articulation of the assumptions, the number and variability of the information available and the uncertainties regarding the final future outcomes of proceedings and disputes.

Given the number of complaints and disputes, albeit physiological with respect to the Bank's typical operations, the uncertainties related to their outcome and the complexity and articulation of the estimation process, we have considered the estimate of provisions for risks and charges for legal disputes as a key audit matter of the financial statements as at December 31, 2018.

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#### **Audit procedures performed**

Our audit procedures included, among others, the following:

- analysis and understanding of the relevant controls implemented by the Bank, at the various levels of its organization, in order to identify, manage and monitor complaints from customers and legal disputes with them arising from the banking operations and the activity of the Bank's personal financial advisors;

- analysis and understanding of the process adopted by the Management in estimating provisions, including provisions for the expected costs related to the activity of lawyers, technical advisors and/or experts appointed by the Bank, and evaluation of the reasonableness of criteria, methods and assumptions used;
- periodic meetings with the heads of the Bank's appointed departments for analysis and discussion of the status of litigations and complaints;
- analysis of the relevant documentation, including the register of complaints and reports prepared by control functions of the Bank;
- obtaining and examining responses to requests for information to the lawyers appointed by the Bank;
- verification, for a selection of disputes and complaints and on the basis of the data and information available gathered as a result of the above procedures, of the appropriateness of the related provision, inclusive, for the disputes, of the legal expenses as illustrated above, and of the accuracy and completeness of the data used for the estimates.

Lastly, we verified the completeness and compliance of the disclosures provided in the notes to the accounts with respect to the requirements of the relevant accounting standards.

#### ***Disbursement, classification and evaluation of financial assets at amortised cost - loans to customers***

##### **Description of the key audit matter**

As represented in the notes to the accounts, Part B – *Balance Sheet* and in the report on operations, as at December 31, 2018 financial assets at amortised cost – loans to customers amount to Euro 2,947 million (net book value, including Euro 23.9 million of non-performing loans net of impairment losses of Euro 21.1 million).

As part of this item, the loans portfolio with ordinary customers, consisting mainly of personal loans, mortgages, current accounts and credit cards, shows an overall increase of 46.4% compared to the previous year, in relation to the disbursements of 2018.

Part A – *Accounting Policies* of the notes to the accounts includes the description of the processes for the classification and evaluation of credit exposures for which the Bank refers to the sector regulations, supplemented by the internal provisions governing, in accordance with the applicable accounting standards, the classification and transfer rules within the various risk categories and related evaluation methods. Part E - *Information on Risks and Hedging Policies* – Section 1 – *Credit risk* also illustrates the credit risk management policies.

Considering the significance of the amount of loans to customers recorded in the financial statements and the complexity of systems of measurement, management and control of credit risk adopted by the Bank, which include an articulated classification activity of credit exposures and an evaluation process characterized by a relevant discretionary component, we have considered the disbursement, classification and evaluation of the loans to customers as a key audit matter of the financial statements of the Bank as at December 31, 2018.

**Audit procedures performed**

We have preliminarily acquired a knowledge of the credit process which included, in particular, the understanding of the organizational and procedural safeguards established by the Bank's internal regulations and implemented by the Bank itself with reference to:

- assessment of creditworthiness in order to grant the credit;
- measurement and monitoring of credit quality;
- classification and evaluation of credit exposures in compliance with the sector regulations and in accordance with applicable accounting standards.

This activity included the verification of the implementation of the corresponding Bank processes and related procedures, as well as the operational effectiveness of the relevant controls regarding the credit grant and disbursement process.

The audit procedures performed included, among others, the following:

- analysis and understanding of the IT systems and applications used, also with the support of IT experts belonging to our network;
- obtaining and examining responses to requests of confirmations to the customers sent on a sample basis;
- obtaining and analysis of the monitoring reports prepared by competent Bank departments and organizational units involved;
- as regard performing loans (in stage 1 and stage 2, based on the IFRS 9 classification), verification, on a sample basis, of the classification in accordance with the sector regulations and examination of the reasonableness of the evaluation criteria and of the assumptions adopted by the Bank in determining the impairment losses;
- as regard non-performing loans (in stage 3, based on the IFRS 9 classification), verification on a sample basis of the classification and of the related evaluation in compliance with the sector regulations and the applicable accounting standards.

Lastly, we verified the completeness and compliance of the disclosures provided in the notes to the accounts with respect to the requirements of the applicable accounting standards and the relevant legislation.

**First time adoption of IFRS 9****Description of the key audit matter**

The first time adoption, as of January 1 2018, of the International Financial Reporting Standard IFRS 9 "Financial instruments", has led to the classification and measurement of the Bank's financial assets and liabilities according to the new accounting categories envisaged by the standard and the definition of a methodology for determining the impairment of the financial assets based on the expected credit losses model.

The Bank decided, as permitted by the standard, to continue to apply the existing IAS 39 hedge accounting requirements for all its hedging relationships until the macro-hedging accounting project is finalised by the IASB. In addition, the Bank elected the option provided by the standard not to restate its comparative figures.



As reported in Part A – *Accounting Policies - Section 4 – Other matters* of the notes to the accounts, which disclose the information required by the applicable international accounting standards, including the main methodological choices made by the Bank, the first application of the standard determined, at January 1, 2018, a total negative effect on the Bank's net equity equal to Euro 2.9 million net of tax (Euro 4.9 million gross of tax). This effect was determined as a result of the implementation process of the requirements of the new standard which affected the various aspects of the Bank's internal control system.

In this context, the determination of impairment provisioning of the financial assets according to the expected credit losses model constitutes the result of a complex estimation process that includes numerous subjective variables regarding the criteria used to identify the significant increase in credit risk, that has been used for the purpose of allocating the financial assets in the standard's different stages, and the definition of the models used for measuring the expected credit losses, using different possible scenarios, assumptions and parameters which have to take into account current and forward-looking macroeconomic information.

In relation to the pervasive operational complexities connected to the transition to the new standard, the relative above mentioned effect and the inherent subjectivity of the estimation processes adopted by the Bank in the evaluation of financial assets according to the new impairment methodology, we have considered the first time adoption of the IFRS 9 as a key audit matter of the financial statements of the Bank as at December 31, 2018.

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**Audit procedures performed**

We have preliminarily examined, also with the support of IT and credit risk experts belonging to our network, the Bank's implementation project with particular reference to the application choices adopted, in order to verify their appropriateness and compliance with the requirements of the IFRS 9, and to the related impacts.

As part of our procedures, we have performed, among others, also supported by the experts above mentioned, the following:

- obtaining and examining the minutes of meetings of the Bank's Board of Directors and any other documentation developed, approved and made available, as well as the accounting procedures consequently defined, with particular reference to the areas of interpretation, also through information gathering and interviews with the relevant departments of the Bank;
- analysis of the technical-methodological documentation underlying the identification of the Bank's business models with particular reference to the classification criteria of financial assets in such business models;
- analysis and understanding of the design, of certain relevant controls - including IT controls - regarding the classification and evaluation of the Bank's financial assets, and verification of the implementation and the related operational effectiveness;
- carrying out checks aimed to ascertain - for certain loans and debt securities - the correctness of the results of the Solely Payments of Principal and Interests test (SPPI) carried out by the Bank for the first application of the standard;

- understanding of the impairment models developed by the Bank and analysis of the reasonableness of the assumptions and parameters used for transfer logic or staging allocation models and estimation of the expected credit losses, as well as verification of the correctness of the related calculations;
- verification of the coherence between the information used for the estimation of the expected credit losses and those used in the other main decision-making and evaluation processes of the Bank, with particular reference to qualitative and macroeconomic indicators and forward-looking information;

Lastly, we have acquired the details of the quantification of the impact deriving from the first application of the standard and verified its mathematical accuracy. We have also verified the completeness and compliance of the information provided in the notes to the accounts with respect to the requirements of the applicable international accounting standards.

### **Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements**

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report.

#### **Other information communicated pursuant to art. 10 of the EU Regulation 537/2014**

The Shareholders' Meeting of FinecoBank Banca Fineco S.p.A. has appointed us on April 16, 2013 as auditors of the Bank for the years from December 31, 2013 to December 31, 2021.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

##### **Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Directors of FinecoBank Banca Fineco S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of the Bank as at December 31, 2018, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, paragraph 4 of Legislative Decree 58/98 with the financial statements of FinecoBank Banca Fineco S.p.A. as at December 31, 2018 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of FinecoBank Banca Fineco S.p.A. as at December 31, 2018 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

*Signed by*  
**Paolo Gibello Ribatto**  
Partner

Milan, Italy  
March 8, 2019

*This report has been translated into the English language solely for the convenience of international readers.*



# Report of the Board of Statutory Auditors

# Report of the Board of Statutory Auditors

Dear Shareholders,

pursuant to Art. 2429, paragraph 2, of the Italian Civil Code and Art. 153 of Italian Legislative Decree no. 58 of February 24, 1998 (TUF), the Board of Statutory Auditors (the "Board") of FinecoBank S.p.A. ("Finecobank" or the "Bank") reports on the supervisory activity carried out during the year ended December 31, 2018.

During 2018, the Board of Statutory Auditors performed its institutional duties in compliance with the Italian Civil Code, Italian Legislative Decree no.385/1993 (TUB), no. 58/1998 (TUF) and no. 39/2010 (Consolidated Law on Auditing), with the company Bylaws and the rules issued by the Bodies that exercise supervisory and control activities, also taking into consideration the Rules of Conduct of the Board of Statutory Auditors issued by the National Board of Accountants and Accounting Experts.

Also in compliance with the indications expressed by CONSOB, provided with communication no. DEM/ 1025564 of April 6, 2001, as amended, we specify the following.

## ***Administrative Body – Appointment, term of office and operation.***

The Board of Directors in office at the date of this Report was appointed by the Ordinary Shareholders' Meeting of FinecoBank on April 11, 2017 and shall remain in office until the next Shareholders' Meeting held to approve the Financial Statements at December 31, 2019.

It should be noted that, pursuant to the applicable regulations and the Corporate Governance Code of listed companies, on February 5, 2019 the Board of Directors, with the favorable opinion of the Appointments and Sustainability Committee, carried out the annual assessment on the independence requirements applicable to the majority of Directors, with the findings listed in the Report on Corporate Governance and Ownership Structures, as well as on ongoing compliance with the requirements of integrity, professionalism and the ban on interlocking. The Board of Statutory Auditors verified the correct implementation of the criteria and procedures used by the Board of Directors to assess the independence of its members.

## ***Board of Statutory Auditors – Appointment, term of office and operation.***

The Board of Statutory Auditors in office at the date of this Report was appointed by the FinecoBank Shareholders' Meeting of April 11, 2017 and will remain in office until the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2019.

On September 4, 2017, Mr Stefano Fiorini resigned from the position of Chairman of the Board of Statutory Auditors and, pursuant to the law and the company Bylaws, the Alternate Auditor Mrs Elena Spagnol took office on the same date as Statutory Auditor and Chairman of the Board of Statutory Auditors.

The ordinary shareholders' meeting held on April 11, 2018 filled up the vacant positions within the Board of Statutory Auditors, confirming Ms Elena Spagnol as Statutory Auditor and Chairman, in replacement of Mr. Stefano Fiorini, and appointing Gianfranco Consorti as Alternate Auditor.

Lastly, at the meeting held on January 25, 2019, the Board of Statutory Auditors assessed the independence of its members, in addition to meeting legal and statutory requirements and the absence of impediments pursuant to article 36 of Italian Legislative Decree no. 201/2011.

In compliance with the requirements of the Supervisory Bodies, in particular of Circular 285/2013 of the Bank of Italy and the Regulation of the Corporate Bodies of the Bank, on February 4, 2019 the Board of Statutory Auditors carried out a self-assessment on its composition and operation.

During the year, the Board met twenty-one times and took part in one Shareholder's Meeting, fourteen meetings of the Board of Directors and fourteen meetings of the Risk and Related Party Committee. Furthermore, at least one Statutory Auditor participated in the eleven meetings of the Remuneration Committee and eight meetings of the Appointments and Sustainability Committee.

## ***The Company's compliance with the Corporate Governance Code and its actual implementation***

FinecoBank complies with the Corporate Governance Code for listed companies ("Code") and, as required by the Code, within the Board of Directors, the Appointments and Sustainability Committee, the Remuneration Committee and the Risk and Related Party Committee perform advisory, consultative and coordination functions. The Committees consist of independent non-executive Directors. The Appointments Committee was also assigned the supervisory functions on sustainability issues with the Board of Directors' resolution of March 1, 2018.

The Board of Statutory Auditors ascertained the correct implementation of corporate governance regulations laid down in the aforementioned Corporate Governance Code.

## ***Parent Company's direction and coordination activity.***

As part of the UniCredit Group, FinecoBank S.p.A. is subject to the discipline for banking groups enshrined in the TUB and in the supervisory provisions for Banks aimed at ensuring the stability and unitarity of companies belonging to the same banking Group. In this context, UniCredit S.p.A. performs a direction and coordination activity on FinecoBank S.p.A. pursuant to Articles 2497 et seq. of the Italian Civil Code.

The Bank has exercised the option for exemption from drafting the Non-Financial Statement pursuant to art. 6, paragraph 1, of Italian Legislative Decree 254/2016 as both FinecoBank and Fineco Asset Management DAC (FAM) are included in the Integrated Report prepared by the Parent Company UniCredit S.p.A..

## **Compliance with the Law and company Bylaws - Sound governance principles**

The Board of Statutory Auditors monitored compliance with the Law, the company Bylaws and sound governance principles both when performing its activity, including participating in meetings of the Board of Directors, the Statutory Audit Committee, and during meetings with the Management and the Heads of the Bank's various Departments and Functions.

Participation in the meetings of the Board of Directors allowed the Statutory auditors to obtain periodically information on the performed activities and the most significant economic, equity and financial transactions resolved during the year. On the basis of the information available, the Board can reasonably state that the transactions themselves are compliant with the law and the company Bylaws and are not manifestly imprudent, risky or such as to compromise the integrity of the corporate assets.

Among the significant events of the financial year, the Board of Statutory Auditors recalls that on January 23, 2018, in order to strengthen the Bank's capital structure in response to the diversification of its investment portfolio (in particular, increased purchases of government securities and development of financing products and loans to customers), the Board of Directors approved the issuance of an Additional Tier 1 bond loan, perpetual and non-callable until June 2023, for an amount of € 200 million, fully subscribed, through private placement, by UniCredit S.p.A. The coupon for the first 5.5 years was set at 4.82%.

On May 17, 2018, FAM was authorized by the Central Bank of Ireland to carry out asset management activities. On June 1, 2018 the company obtained the necessary authorizations from the Luxembourg Authority Commission de Surveillance du Secteur Financier to replace Amundi Luxembourg S.A. in the management of pre-existing Luxembourg-based mutual investment funds known as "CoreSeries" and starting from July 2, 2018 FAM has been fully operational.

Furthermore, on January 31, 2019 Finecobank acquired a property for office use and appurtenances from Stampa S.C.p.A. (owned by Banca Popolare di Vicenza Group); the building, located in Milan, Piazza Durante 11, is now the registered office of the Bank and was partially leased until such date. The transaction was completed for a price of € 62 million.

Participating in the Board of Directors' Meetings enabled the Board to ascertain, inter alia, that the delegated parties reported on transactions executed based on the powers granted to them, pursuant to Article 150, paragraph 1, of the TUF.

In our opinion, the frequency of the meetings of the Board of Directors, the information provided during them and the information flows in general comply with legal and statutory obligations and with the applicable regulations.

The Board of Statutory Auditors verified compliance with information obligations for regulated and privileged information, or information requested by the Supervisory Body.

During meetings of the Risk and Related Party Committee and of the Board of Directors, the Statutory Auditors examined the quarterly reports of the Bank's Control Functions and those drafted by the Financial Reporting Manager, ascertaining compliance with the reports and information set forth by supervisory regulations.

On March 5, 2019, the Board of Directors of FinecoBank approved the 2018 Report on Corporate Governance and Ownership Structures pursuant to Article 123-bis of the TUF.

## **Atypical and/or unusual transactions**

The Management Report, the information received during Board of Directors' Meetings and those provided by the Chairman and the Chief Executive Officer, the Management and the External Auditor did not reveal the existence of atypical and/or unusual transactions, including intragroup or related party transactions.

## **Intragroup or related party transactions – Transactions approved pursuant to Article 136 of the TUB**

The intragroup or related party transactions of greatest economic, equity and financial significance are highlighted in the Management Report and in the appropriate section of the Explanatory Notes with the indication of the assets, liabilities, guarantees and commitments outstanding as of December 31, 2018, divided by the various types of related parties pursuant to IAS 24.

During the year, the Board always participated in the meetings of the Risk and Related Party Committee, which met to provide preliminary and reasoned opinions on the Bank's interest in carrying out transactions with related parties and with connected persons in compliance with the "Procedures for managing transactions with persons in conflict of interest". The current version of these procedures was approved by the Board of Directors at the meeting held on June 31, 2018, with the prior favorable opinions of the Risk and Related Party Committee and of the Board of Statutory Auditors. The aforementioned Procedures include the provisions to be complied with when managing: (i) transactions with related parties pursuant to the CONSOB Regulation adopted by resolution no. 17221 of March 12, 2010; (ii) transactions with related parties pursuant to the



# Report of the Board of Statutory Auditors (CONTINUED)

regulations on "Activities at risk and with conflicts of interest with connected persons", as dictated by the new regulations for the prudential supervision of banks; (iii) the obligations of bank representatives pursuant to Art. 136 of the TUB.

The Board of Statutory Auditors supervised the compliance with the procedural rules adopted by the Bank and compliance with the provisions on transparency and information to the public and verified that the Board of Directors provided adequate information on transactions with related parties on the basis of current regulations in the Management Report and in the Notes to the Financial Statements.

With respect to detailed information about individual intragroup and related party transactions - most significant, ordinary and market price transactions - see the relevant sections of the Management Report and the Notes to the Financial Statements.

## **Comments on the adequacy of the organizational structure**

The Board of Statutory Auditors monitored the adequacy of the organizational structure and its correct operation over the course of various meetings with the Management and the Heads of different Departments and functions; this activity did not reveal any significant organizational deficiencies.

Specifically, during 2018 the Board monitored corporate organization improvement measures and noted the changes - duly approved by the Board of Directors subject to prior opinion, where required, by the Appointments and Sustainability Committee and submitted, where required, to the assessment of the relevant Parent Company's function - made to the structures of the Headquarters and Network structures, to the Organizational Chart, with a clear identification of functions, duties and responsibilities, and to the Bank's Internal Regulations.

In particular, some activities were redistributed within the Global Business Department, the Legal & Corporate Affairs Department and the Chief Risk Officer Department (CRO), and the structures involved were restructured to improve efficiency and, where possible, reduce the number of hierarchical reports to those departments.

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

In the second half of 2018, the responsibilities and activities of the Investment Services and Private Banking Department were redistributed between the Global Business Department and the PFA Network Sales Department, renamed the PFA & Private Banking Network Sales Department.

As a result, the Investment Services and Private Banking Department was eliminated. Furthermore, within the ICT Department, the department itself was reorganized, and a single governance and supervisory unit was identified for ICT and IT security processes.

The Bank's Internal Regulations, whose most up-to-date version was approved by the Board of Directors on October 18, 2018, describe the organizational model and the structure it consists of (bodies, departments, teams). In addition to the Board committees, the following managerial committees are set up as corporate bodies aimed at ensuring unitary and participatory guidelines and guaranteeing management continuity:

- Strategic Committee
- Management Committee
- Advisory Committee
- Internal Control Business Committee
- Business Continuity & Crisis Management Committee
- Project Committee
- Risk Committee (being canceled)
- Network Committee
- Product Committee
- Disciplinary Committee
- Private Banking Committee
- Treasury Committee
- ICT & Security Committee
- Compliance Breaches Committee
- Managerial Committee for Sustainability.

The Board noted the ongoing transposition and the degree of implementation of the Guidelines issued by the Parent Company - to whose direction and coordination activity the Bank is subject - and the subsequent organizational changes implemented by the Bank.

The Board acknowledges the continuous updating and implementation, in line with the current provisions of the Bank of Italy Circular no. 285 and with the Global Rules issued by the Parent Company, of the Bank's Business Continuity Plan and of the actual execution, with an overall positive result, of the Business Continuity and Disaster Recovery testing scheduled annually.

In compliance with applicable law and the Policies on "Outsourcing/Internalizations", the Statutory Auditors note that the Internal Audit function has prepared the report required by the supervisory provisions concerning the controls carried out on the outsourced important operating functions or control functions and any deficiencies detected. Said document "Outsourcing of corporate functions - Annual report of the Internal Audit function", assisted by the considerations of the Board of Statutory Auditors, was approved by the Board of Directors on March 5, 2019.

Lastly, it should be noted that the Bank was admitted to the cooperative compliance regime established by Legislative Decree no. 128/2015, which can be joined by taxpayers with a tax risk measurement and control system in place.

Based on the analyzed documentation and the information gathered when performing its monitoring activities, given the presence of an Organizational Chart and related Company Regulations that detail roles and responsibilities of the organizational structures, having verified the correct implementation of the system of delegated powers issued by the Board of Directors as well as the definition, implementation and monitoring of specific company regulations aimed at performing the activities typical of each function of FinecoBank S.p.A., the Board of Statutory Auditors deems the Bank's organizational structure as overall adequate.

## **Comments on the adequacy of the Internal Control system**

In implementing the provisions of Circular no. 285, the Bank has adopted the "Document of the Bodies and Functions with Control duties", which defines the Bank's Internal Control System with the analytical identification of the duties and responsibilities of the corporate Bodies and of the control functions.

FinecoBank's Internal Control System is based on the principles of the Corporate Governance Code for Listed Companies, applicable sector regulations and best practices.

The Bank has established permanent and independent corporate control functions: i) Compliance; ii) Risk Management; iii) Internal Audit.

The Chief Executive Officer and General Manager was appointed as the Director in charge of the Internal Control and Risk Management System in compliance with the provisions of the Corporate Governance Code of Borsa Italiana. On February 05, 2019, the "2018 Statement on ICS Managerial Assessment" was submitted to the Board of Directors, in which the Bank's CEO stated that in light of the completed analyses, FinecoBank's Internal Control System were "Mostly Satisfactory", identifying some areas for improvement at the same time, for which suitable corrective actions have been defined and initiated.

With respect to the Personal Financial Advisers Network, the "Risk Management" organizational structure also coordinates the activity of the "Operational and reputational risks" team, which carries out systematic remote checks on the entire network of Personal Financial Advisers using Risk Indicators, submitting specific reports. Moreover, in order to manage and prevent its own Personal Financial Advisers (PFAs) from adopting conducts that are not compliant with the regulations, FinecoBank has adopted a number of first- and second-tier checks by several internal functions and an information flow that, for the purpose of the immediate implementation of any actions deemed necessary for PFAs, gathers all information on a centralized basis and forwards it to the Network Control, Monitoring and Network Service Department on behalf of Risk Management, Compliance, the Anti-Money Laundering and Anti-Terrorism Service, the Information Security and Fraud Management team, other Bank functions and Internal Audit. Every six months, in compliance with the requirements of the New Regulations for the Prudential Supervision of Banks, the Network Controls Unit – operating within the Network Control, Monitoring and Network Service Department – submits to the Audit and Related Party Committee and the Board of Directors a specific Report on the activity of Financial Advisers that details, on the basis of specific anomaly indicators, the audits performed, their findings, any critical issues and the actions aimed at eliminating them.

The Internal Audit activity for FinecoBank is outsourced to resources of the Internal Audit Department of UniCredit S.p.A. on the basis of a specific service agreement and in compliance with the terms and conditions of the relevant "Group Audit Mandate" adopted by FinecoBank's Board of Directors. The Bank's Internal Audit Manager, Mrs Patrizia Verdesca, was appointed by the Board of Directors on March 7, 2017, effective from March 13, 2017 (following the opinion of the then Remuneration and Appointments Committee and the then Audit and Related Party Committee and having heard the Board of Statutory Auditors).

We have found that the quarterly Internal Audit Activity and Results Reports prepared by Internal Audit to assess the Internal Control System - containing sections dedicated to the findings of the Audit activity on the Personal Financial Advisers Network and the Audit Findings, including their composition over time - were duly submitted to the Risk and Related Party Committee and the Board of Directors and discussed within those bodies.

In December 2018, the Board of Directors approved, with the favorable opinion of the Risk and Related Party Committee, after consulting with the Board of Statutory Auditors, the 2019 Annual Audit Plan and the 2019-2023 Strategic Audit Plan.

During its activity, the Board monitored compliance with the previously defined Audit plan concerning central structures and processes as well as the Network structures, checking the actual timelines of implementation and the causes of any variances.

In 2018, twelve planned audit reports were issued on the Bank's processes, of which six with "good" assessment, four "satisfactory", one "unsatisfactory" and one not assessed, including two carried over from 2017. As regard the "unsatisfactory" audit, the Bank planned and started the necessary corrective actions to remove the detected deficiencies.

In addition to these actions, there were two annual unplanned mandatory audits, one of which was not assessed and one rated as satisfactory. Two audit reports envisaged in the 2018 Audit Plan and concerning the implementation of MIFID II regulation in the customer order management process for financial instruments and in the placement and consulting processes, were issued on February 28, 2019 with a "Satisfactory" assessment.

The audit plan for the network of financial advisers, which provided for 400 audits to be carried out, was also completed, with the issuance of 426 audit reports in 2018.

Overall, the internal control system was rated "mostly satisfactory" by the internal audit function.

The Board also took note of the "Report on FinecoBank internal audit activity" provided for by Consob Manual on disclosure obligations of supervised parties", which was drafted by the Internal Audit on the basis of its activities carried out in the year 2018 and submitted to the Risk and Related Party Committee and subsequently to the Board of Directors at the meeting of March 5, 2019.

## Report of the Board of Statutory Auditors (CONTINUED)

The analyses carried out have shown that overall the process of algorithmic trading system self-assessment and validation complies with MIFID regulations and the related report prepared by the Bank's Risk Management Function correctly describes the safeguard measures adopted by the Bank in order to comply with the requirements laid down by Regulation (EU) 589/2017.

Furthermore, it was found that the incentive systems for employees and the sales network are adequately managed, in compliance with relevant external regulations and the Group Remuneration Policy. The Board of Statutory Auditors will formulate its Considerations on the above report which it will send to Consob within the prescribed deadlines.

The Board of Statutory Auditors examined the Audit Report issued by Internal Audit in 2018, using the information contained therein to carry out its activities and to monitor, with particular attention to the Managers of the organizational areas involved, the implementation of the recommendations and corrective actions contained therein, with particular attention to meeting deadlines for carrying out the planned remedial actions.

With regard to the subsidiary FAM, no critical issues were identified from the analysis of the information obtained from the CEO pursuant to art. 151, paragraph 2, of the Consolidated Finance Act (TUF) and of the audit results,

During the year, the Board of Statutory Auditors held periodic meetings with the Bank's Head of Compliance, to assess the planning of controls based on the highlighted risks and the findings of the second-level controls performed, verifying and recommending compliance with the timing set in the quarterly monitoring for the closure of the corrective actions identified from time to time and paying particular attention to the residual risks highlighted in said monitoring actions.

The Board also took note of the "Report on the 2018 activities of FinecoBank Compliance function" in which the Compliance Function issued a "mostly satisfactory" summary assessment, as no significant critical issues were detected in the activities performed by Compliance in 2018. In particular, the assessment of major non-compliance risks under the direct supervision of the Compliance function, which was carried out taking also into account the results of second level controls, the findings formulated by Audit and by the Supervisory Authorities, did not identify any regulatory area with a "Critical" risk and for the AML area, the only one with a residual "Significant" risk, the risk level is expected to be reduced by the end of the third quarter of 2019 as a result of completion of most of the planned corrective actions.

The areas subject to indirect supervision present risk levels no higher than "medium". The Board of Directors shall prepare its "Observations" that will supplement the "Compliance Report" to be forwarded to CONSOB within thirty days from the approval of the Financial Statements.

In 2018, the results of the monitoring carried out were submitted to the Risk and Related Party Committee and to the Board of Statutory Auditors through specific quarterly reports. The summary report of the monitoring carried out in the last quarter shows a "medium" risk level on most regulatory areas considered and a "significant" risk level in the AML area.

In 2018, the Compliance function provided consulting services to FinecoBank business and operating units with regard to the application of current regulations, following the entry into force of the legislation introduced by Directive 2014/65 / EU (MiFID II ), EU Regulation 600/2014 (MiFIR), EU Regulation 1286/2014 (PRIIPs); it also monitored the fine-tuning of actions already carried out and the completion of those connected to the implementation of obligations becoming effective in 2018.

With specific reference to the implementation of the GDPR legislation (General Data Protection Regulation, EU Regulation No. 2016/679), Compliance constantly monitored the regulatory updates and supported the various functions involved (mainly Organization, ICT, Security) in the process of adjusting to the new Regulation through the gradual implementation of identified software solutions. The Data Protection Officer (DPO) of FinecoBank prepared the "Data Protection Officer report of FinecoBank S.p.A. - Year 2018 ", which was submitted to the Board of Directors on March 5, 2019, after having been examined by the Risk and Related Party Committee, and to the Board of Statutory Auditors; the purpose of the report is to summarize the results of the activities carried out and the initiatives undertaken within the Company to protect the personal data processed by the Company and manage any potential risk of breach, the ascertained malfunctions and the relative corrective actions taken, as well as the training of staff, in compliance with the requirements of the General Data Protection Regulation (GDPR).

With reference to the activity carried out by the Anti-Money Laundering function, the Board of Statutory Auditors notes that the Bank has activated - pursuant to the Bank of Italy provision entered into force in September 2011 - adequate and timely information flows to the corporate bodies and top management on the situation of the company controls in FinecoBank to prevent the risk of money laundering and terrorist financing, including the results of second-level controls.

With reference to survey activities concerning the procedures in place for the identification and due diligence of Politically Exposed Persons (so-called PEPs), carried out in the first half of 2017 by the Bank of Italy, in 2018 the Bank completed the action plan that was drawn up to cope with the deficiencies and areas for improvement detected by the Regulator.

The self-assessment carried out by the Anti-Money Laundering function, in compliance with the Bank of Italy's communication of October 21, 2015, identified the Bank's residual risk as "Significant".

The Board of Statutory Auditors also took note of the "Report on the overall situation of complaints received by FinecoBank S.p.A. in 2018", prepared by the Compliance function, concerning both the complaints related to the provision of investment services and other claims.

The "Report on complaints notes a percentage reduction in complaints received in 2018 compared to 2017; this was mainly due to the significant decrease in complaints related to "Loans and Mortgages", which remains the main complaint area, for complaints on assignment of the fifth of the salary, a type of accounts that were disposed of in 2008 and no longer marketed by FinecoBank.

Lastly, it should be noted that the Bank has an internal system for employees to report any irregularities or violations of the applicable legislation and internal procedures, guaranteeing their anonymity (so-called whistleblowing).

Compliance prepared the "Report on the internal Whistleblowing system", which was submitted to the Board of Directors on March 5, 2019, after examination by the Risk and Related Party Committee, and to the Board of Statutory Auditors; the Report summarizes the information concerning three reports received in 2018, of which two were closed during the year and one is pending as additional information was requested from the whistleblower.

FinecoBank relies on a Body set up specifically to perform the functions of Supervisory Body pursuant to Italian Legislative Decree 231/2001. The Supervisory Body was appointed by resolution of the Board of Directors on April 11, 2017, for a period of three years. Its composition was subsequently changed, by Board of Directors resolution of October 16, 2017, providing for the reduction from three to two "internal members" with the exit of the Internal Audit Manager, who continues to participate in the meetings as a permanent guest, and the appointment of a new external member, in place of the Chairman of the Board of Statutory Auditors.

In 2018 the Board of Statutory Auditors met with the Supervisory Body and examined the "Information report on the activity performed by the Supervisory Body (SB) pursuant to Italian Legislative Decree no. 231 of June 08, 2001, at December 31, 2018". The activities carried out by the SB did not reveal any violations of the relevant legislation, and the same Body proposed amendments to the Organization and Management Model of Fineco (approved by the Bank's Board of Directors on November 6), examined and approved the new versions of seven decision protocols, analyzed the flows received in relation to the periodic and occasional reports regarding conduct contrary to the principles of the Decree, and examined the results of the audits carried out by Internal Audit in 2018 on four Decision Protocols.

Based on the documentation reviewed, information received and inspections performed during its supervisory activities, the Board of Statutory Auditors, despite referring to the existence of some corrective measures currently under way, deems the Internal Control System to be adequate as a whole.

### **Comments on the adequacy of risk management systems.**

FinecoBank S.p.A. has a Risk Management function aimed at assessing and monitoring the adequacy of the measurement, control and management systems for typical risks linked to the performance of financial and banking activities, in particular, liquidity, credit, market, operational, business, as well as reputational and IT risks.

The CRO function, in compliance with the provisions of prudential supervision, presented the "Report of the activity carried out by Risk Management in the financial year 2018 and planning for the year 2019" which, among other things, notes the monitoring of the Risk Appetite Framework and the operational limits for the assumption of the various types of risk, monitoring of the risks of the activities performed by the Bank and the proposal of risk mitigation policies where deemed necessary, the quarterly monitoring of the adequacy of the Bank's internal capital (ICAAP), and the information flows to the corporate bodies and the parent company.

In this Report, the Risk Management function highlights that during the past financial year, no particular critical issues emerged.

In 2018, Risk Management was involved in fine-tuning the implementation of the new accounting standard IFRS 9 and in the detailed implementation of operating processes. Lastly, in 2018, Risk Management imported the Bank's demand deposits model, which was previously managed at Group level, thus independently carrying out execution, maintenance and management; the model was validated by the Local Validation function reporting to the CRO.

The Board of Statutory Auditors verified the effectiveness and adequacy of the information flows, including the reports that provide evidence of structural liquidity and the Bank's ability to fulfill short-term obligations, and those aimed at verifying compliance of individual limits for the management of liquidity.

In December 2017, in compliance with the Bank of Italy instructions, FinecoBank S.p.A. approved the "2018 FinecoBank Risk Appetite" document, whose metrics, which include the exchange rate risk with respect to hedging policies, were subject to an assessment by the Audit and Related Party Committee, and which also aims at monitoring consistency between the business model, the aforementioned RAF and the budgeting process.

With reference to operational risks, the Internal Audit function of the Bank in the document "Basel 2 - Operational Risk - AMA - Local Internal Audit Report on the Operational Risk Management System", issued on November 30, 2018, ascertaining the existence of the requirements established by the Bank of Italy in Circular 285/2013, expresses an overall "good" rating, as the audits showed an adequacy of the corporate processes aimed at identifying, managing and measuring operational risks. The Board expressed its positive opinion to the Board of Directors.

In February 2019, the Internal Audit of the Bank issued and presented to the Risk and Related Party Committee (and subsequently to the Board of Directors) the Report on the Internal Capital Adequacy Assessment Process (ICAAP) and the Risk Appetite Framework (RAF) of Fineco Bank, in compliance with Bank of Italy Circular no. 285/2013. The Report confirms the adequacy of the controls adopted by the Bank in the procedures for defining the Risk Appetite Framework and the assessment of capital adequacy (ICAAP).

In particular, the Report highlights that the final figures relating to the RAF 2018 metrics comply with the set limits, are consistent with the 2019-2021 budget and Multi-Year Plan, and are reconciled with accounting records and supervisory reports. The RAF 2019 was approved by the Board of Directors on December 11, 2018, after assessment by the Risk and Related Party Committee.

During its activity, the Board periodically met with the Chief Risk Officer in order to assess, among other things, his work and analyze in more detail the information reports submitted by him to the Corporate Bodies.

# Report of the Board of Statutory Auditors (CONTINUED)

The Board deems the risk management system overall adequate for the company's size and characteristics.

## **Supervisory activities pursuant to Art. 19 of Italian Legislative Decree 39/2010 - Relations with the Auditing Company**

The Board of Statutory Auditors, identified by Art. 19 of Italian Legislative Decree 39/2010 in the version reformulated following the reform of external audits implemented through Italian Legislative Decree 135/2016 "Internal control and external audit committee", monitored the financial reporting process, the external audit and the independence of the external auditor, in particular as regards the provision of non-auditing services.

The Board of Statutory Auditors examined the auditing reports issued on March 8, 2019 by the auditing company Deloitte and Touche S.p.A. pursuant to Art. 14 of Italian Legislative Decree no. 39/2010 and Art. 10 of Regulation (EU) 537/2014 on the individual and consolidated financial statements of the Bank (the latter referred to the Bank and the Irish subsidiary) at December 31, 2018. In particular, the audit reports on the individual and consolidated financial statements:

- express an opinion without findings on the individual and consolidated financial statements of FinecoBank at December 31, 2018, asserting that the financial statements provide a truthful and correct representation of the equity and financial situation, the economic result and the cash flows in accordance with the IFRSs adopted by the European Union, as well as the provisions issued in implementation of Art. 9 of Italian Legislative Decree 38/2005 and of Art. 43 of Italian Legislative Decree 136/2015;
- express an opinion of consistency and compliance which shows that the Management Report accompanying the individual and consolidated financial statements at December 31, 2018, as well as the specific information contained in the Report on Corporate Governance and Ownership Structures indicated in Art. 123-bis, paragraph 4, of the TUF, are consistent with the aforementioned financial statements and are prepared in compliance with the law;
- with reference to any significant errors in the Management Report, they declare, on the basis of the knowledge and understanding of the company and the related context acquired during the audit, that they have nothing to report.

On March 8, 2019, the Auditing Company sent the supplemental report to the Board pursuant to Art. 11 of Regulation (EU) no. 537/2014, which does not reveal significant deficiencies in the internal control system in relation to the financial reporting process deserving to be brought to the attention of those in charge of governance. Together with the Supplemental Report, the Auditing Company provided the Board with the declaration on independence (Article 6 of the aforementioned EU Regulation) which does not reveal any situations that could compromise their independence.

The Board held several periodic meetings with the Auditing Company, in compliance with Art. 150, paragraph 3, of the TUF and of the provisions introduced by Italian Legislative Decree no. 39/2010, examining the 2018 audit plan, verifying its adequacy, following its execution and promptly exchanging data and information relevant to the performance of their respective tasks, without any particular findings that required notification or facts deemed to be censurable that required formulating specific reports pursuant to Art. 155, paragraph 2, of the TUF. The Explanatory Notes include the disclosure of the external audit fees, as well as the fees for permitted services other than the audit provided in the year ended December 31, 2018, to FinecoBank by the Auditing Company and by the entities of the network that the Auditing Company belongs to.

These fees (net of VAT and expenses) are shown below:

(amounts in €)

TYPE OF SERVICE	SERVICE PROVIDER	FEES
Accounting Audit	Deloitte & Touche S.p.A.	211,495
Accounting Audit	Deloitte Ireland LLP	15,000
Certification services	Deloitte & Touche S.p.A.	90,000
Certification services	Deloitte Ireland LLP	7,500
Other services	Deloitte & Touche S.p.A.	10,000

The Certification Services refer to the development of procedures aimed at issuing the comfort letter for the ECB for the purpose of including the profit for the year in the Bank's own funds, the limited audit of the quarterly reporting package prepared by the Bank for the parent company, the activities related to the IFRS 9 adoption and the audit related to the certification of the advertising investments in order to obtain the tax credit; the other services refer to the activities related to the adreed audit procedures on analysis of the contribution to the Resolution Fund calculation.

In 2018 the Board of Statutory Auditors authorized the following:

- On January 12, 2018, the appointment of the entity in charge of "Certification of data necessary for calculating the contributions to the SRF" for each of the years of the 2018-2021 period.
- on May 24, 2018 the appointment of the entity in charge of the services related to the verification of activities implemented by the Bank with reference to IT Systems and infrastructures and accounting process, including changes to existing systems and process, as influenced by the IFRS 9 adoption;



- on October 10, 2018 the appointment of the entity in charge of performing the audit of the statement of incremental advertising expenditures in daily and periodical press including online, incurred by the Bank from June 24, 2017 to December 31, 2017, which is required for accessing the tax credit under Italian Decree of the President of the Council of Ministers no. 90 of May 16, 2018.

In October 2018 a specific Circular was issued for the management of contractual relations with the Audit Company.

## **Supervision of the financial reporting process - Comments on the adequacy of the administrative and accounting system**

The Board of Statutory Auditors verified the compliance with the internal regulations pertaining to the process that allows the Financial Reporting Officer and the Chief Executive Officer to issue the certifications provided for by Article 154-bis of the TUF. The administrative and accounting procedures for the preparation of the financial statements, the consolidated financial statements and any other financial communication were prepared under the responsibility of the Financial Reporting Officer who, together with the CEO, in the periodic reporting on the same and, lastly, in the "Report on the system of internal controls on the financial reporting in compliance with Italian Law no.262/2005", approved by the Board of Directors on February 5, 2019, certifies - on the basis of the test of actual implementation of the controls - the adequacy and actual application for the preparation of the financial statements at December 31, 2018 and of the reporting package towards UCI Holding.

The Financial Reporting Manager, during his meetings with the Board of Statutory Auditors, did not report any deficiencies in the operating and control processes that may impact the assessment of adequacy and actual implementation of administrative and accounting procedures for the correct economic, equity and financial reporting of the accounting events in compliance with the adopted accounting principles. The Financial Reporting Manager periodically updates the Board of Directors on the completed activities and reports on the progress of the measures for improving the Internal Control System regarding the Financial Reporting.

During the periodic meetings aimed at the exchange of information, the External Auditor did not report significant critical aspects of the internal control system regarding the financial reporting process.

The Board notes that the Financial Statements at December 31, 2018, have been drawn up in compliance with the accounting standards issued by the International Accounting Standards Board, including the related SIC and IFRIC interpretative documents, approved by the European Commission until December 31, 2018, as required by European Union Regulation no. 1606/2002 of July 19, 2002, and applicable to the financial statements starting from January 1, 2017.

The separate and consolidated financial statements at December 31, 2018, consist of the Balance Sheet, the Income Statement, the Comprehensive Income Statement, the Statement of Changes in Net Assets, the Cash Flow Statement and the Explanatory Notes, and are accompanied by the "Management Report" and the Certificate required by Art. 81-ter of CONSOB Regulation no. 11971 of May 14, 1999 and subsequent amendments and additions, issued on February 5, 2019. The financial statements use the statement structure and the explanatory notes required by the instructions established by the Bank of Italy with Circular no. 262 of December 22, 2005, subsequently updated and amended.

Pursuant to the Bank of Italy/CONSOB/ISVAP document no. 4 of March 3, 2010 and to the internal regulations that implemented Italian Law no. 262/2005, it is noted that the Board of Directors has approved, preliminarily and autonomously, at the time of approval of the financial statements, the impairment test procedure for the goodwill. The results confirmed the sustainability of the goodwill value recognized in the financial statements.

In 2018, the Administration Department periodically forwarded information to the Parent Company for the purposes of calculating the Regulatory Capital and the Second Pillar Capital. At December 31, 2018 the CET1 Capital ratio (Tier 1 capital / Risk-weighted assets) was 21.16% as detailed in the "Disclosure from Entities at December 31, 2018 pursuant to Regulation (EU) 575/2013" document published on the Bank website.

The Board of Statutory Auditors, in light of the information received and the documentation examined and the activity performed, assesses the process of preparation of the financial reporting as substantially adequate.

## **Comments on the remuneration policy**

During 2018, in line with the provisions of the Supervisory Body with respect to "Remuneration and bonus policies and practices", the Board of Statutory Auditors verified the adequacy and compliance with the external legal framework of the remuneration policies and practices adopted by FinecoBank and the related corporate processes.

The Bank has implemented the 2018 Remuneration Policy and, on March 5, 2019, taking into account the favorable opinion of the Remuneration Committee, it approved the "FinecoBank Remuneration Policy for the year 2019", formulated by the Human Resources function, with the involvement of the Risk Management and Compliance functions and including the identification of the "most significant persons", so-called identified staff, which will be submitted to the approval of the Shareholder's Meeting. This document also considers the Remuneration Policy applied to the members of FinecoBank's Independent Financial Advisers network, in line with their specific remuneration policies. The definition of the 2019 Policy was also supported and validated by the independent external consultant and the Remuneration Committee.

# Report of the Board of Statutory Auditors (CONTINUED)

The Internal Audit function carried out the annual verification of the Bank's variable remuneration system, in line with the provisions of the Supervisory Regulations issued by the Bank of Italy, and verified the design, implementation and effects of the remuneration process, as well as its compliance with the regulatory requirements and the Bank's remuneration policy. The payment and deferral phase relating to the incentive system of the previous year, the process of defining and distributing the bonus pool and the compliance with the limits to the ratio between variable and fixed remuneration set forth by the Bank's remuneration policy were assessed. The process of identifying the resources belonging to the most significant staff category was also examined in order to ascertain its compliance with the requirements established by the Delegated Regulation (EU) no. 604/2014. The aforementioned annual verification - the results of which were presented to the Remuneration Committee on March, 1, 2019 – issued a "good" summary assessment.

The 2019 Remuneration Policy, including the "Annual Remuneration Report" which includes the "2019 remuneration plans based on financial instruments", has now been made available to the public pursuant to CONSOB Regulation no. 11971/1999. The report fulfills the disclosure requirements pursuant to Articles 114-bis and 123-ter of the TUF and the banking regulations' requirements at the same time.

## ***Processing of Privileged Information***

The Board of Directors, in the meeting held on April 15, 2014, approved the Procedure regarding the processing of Privileged Information aimed at preventing that such processing may take place in an untimely, incomplete or inadequate manner.

In compliance with the regulations in force, the Board of Directors, most recently on January 10, 2018, approved the current version of the Code of Conduct on internal dealing to regulate the management, processing and communication of information relating to transactions on FinecoBank listed shares and financial instruments, as well as on derivatives and related financial instruments carried out by significant persons and persons closely connected to them.

## ***Complaints under Art. 2408 Italian Civil Code - Reports - Opinions issued pursuant to the law***

During 2018, the Board did not receive any complaints under Art. 2408 of the Italian Civil Code. A report was received from a bank customer, via certified email.

The Board of Statutory Auditors sent two communications -respectively in August and October 2018 - pursuant to art. 46, paragraph 1(B), of Italian Legislative Decree 231/2017 (as amended by Italian Legislative Decree 90/2017).

The Board was asked to express its opinion in the following circumstances:

- opinion on changes to the "Procedures for managing transactions with parties in conflict of interest";
- opinion issued to the Board of Directors on the Bank's Operational Risk Management System in implementation of the AMA model.

Moreover, the Board expressed its comments about the Reports pursuant to Articles 13, 14 and 16 of the Bank of Italy and CONSOB Regulation (adopted with a provision dated October 29, 2007, in line with Article 6, paragraph 2-bis, of the TUF) and its "Remarks on the 'Outsourcing of corporate functions'".

Finally, in view of the resolutions to be adopted by the Board of Directors, the Board of Statutory Auditors issued the opinion required by the Corporate Governance Code - art. 7, criterion 7.C.1, in respect of the 2019 Internal Audit activity plan.

On the basis of the activity carried out and the information obtained, no omissions, reprehensible facts or significant irregularities were reported such as to require notification to the Supervisory Bodies or mention in this Report.

## **Conclusions**

Based on its supervisory activity, the Board of Statutory Auditors did not find significant irregularities or omissions and/or censurable facts, nor did it become aware of transactions not based on compliance with the principles of proper administration, resolved and implemented not in compliance with the Law and the company Bylaws, not in the interest of FinecoBank, in contrast with the resolutions taken by the Shareholders' Meeting, or manifestly imprudent or risky, such as to compromise the integrity of the company's assets.

The Board of Statutory Auditors does not deem it necessary to exercise the right to submit proposals to the Shareholders' Meeting pursuant to Article 153, second paragraph, of the TUF.

Noting the results of the financial statements and the content of the "Management Report", of the content of the attestation of the individual and consolidated financial statements, signed by the Chief Executive Officer and General Manager and by the Financial Reporting Manager, and considering the contents of the Reports drawn up by the Auditing Company, the Board of Statutory Auditors does not find, as regards its duties, any reasons impeding the approval of the proposed financial statements at December 31, 2018 and the proposed allocation of profits for the year formulated by the Board of Directors.

Milan, March 11, 2019

The Statutory Auditors

Elena Spagnol - Chairman

Barbara Aloisi

Marziano Viozzi





# Glossary

## Accelerated book building offering

Procedure through which particularly large shareholdings are sold to institutional investors. This type of transaction is used by majority shareholders to sell share packages or by the company to rapidly obtain capital (for acquisitions or to refinance debt).

## Adjusted ROE

Ratio between net profit excluding non-recurring items and the average book shareholders' equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves).

## AMA (Advanced Measurement Approach)

Applying this methodology, operational risk requirement is obtained using calculation models based on operational loss data and other evaluation elements collected and processed by the Bank. Admittance threshold and specific suitability requirements have been established for the use of the standard and advanced approaches. For the AMA approach the requirements regard the measurement system, as well as the management system.

## Assets under management

Investment funds, segregated accounts and insurance products.

## Assets Under Custody

Government securities, bonds and shares.

## Audit

Audit Process of controlling a company's activities and accounting, carried out either by an internal body (internal audit) or by an external firm of auditors (external audit).

## Available financial resources (AFR)

AFR are the resources that can be used to safeguard the bank from insolvency. The AFR are an economic measure that consider the potential reserves, hybrid debt instruments, IFRS reserves, goodwill and other intangible assets, treasury shares held and the expected profits.

## Bad exposure

Exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the bank (i.e. irrespective of whether there are any – secured or personal – guarantees covering the exposures).

## Banking book

Used in relation to financial instruments, particularly securities, this term identifies the portion of those portfolios intended for "proprietary" activities.

## Bail-in

Resolution measures adopted by the competent authorities that can involve the conversion of debt instruments into shares or the reduction in the value of liabilities, imposing losses on certain categories of creditors in accordance with the BRRD.

## Basel 2

International agreement on the capital requirements of banks in relation to the risks assumed by them. This agreement has been adopted, at national level, by the respective competent supervisory authorities, including the Bank of Italy. The new prudential regulations, which came into force in Italy in 2008, are based on three pillars.

- Pillar 1: while the objective of a level of capitalisation equivalent to 8% of the risk-weighted exposures remains unchanged, a new set of rules has been defined for measuring the typical risks associated with banking and financial activities (credit risk, counterparty risk, market risk and operational risk) which provides for alternative calculation methods characterised by different levels of complexity, with the ability to use internally developed models subject to prior authorisation by the Regulatory Authority;
- Pillar 2: requires banks to have processes and tools for determining the adequate level of total internal capital (Internal Capital Adequacy Assessment Process - ICAAP) for covering all types of risk, including risks other than those covered by the overall capital requirement (Pillar I), within the framework of an evaluation of current and future exposure that takes account of strategies and of changes in the reference context. It is the Supervisory Authority's task to examine the ICAAP process, formulate an overall judgement and, where necessary, apply the appropriate corrective measures;
- Pillar III: introduces obligations to publish information concerning capital adequacy, exposure to risks, and the general characteristics of the systems used for identifying, measuring and managing those risks.

### **Basel 3**

International agreement amending Basel 2 adopted in December 2010, containing amendments to the prudential rules on the capital and liquidity of banks, with the gradual entry into force of the new capital requirements from January 1, 2014 until December 31, 2019. These rules have been implemented at European level through the CRD IV "Package".

### **Bank Recovery and Resolution Directive or BRRD**

Refers to the Directive approved by the European Parliament and the Council, respectively. On April 15 and May 6, 2014, regarding the establishment of a recovery and resolution framework for the crisis affecting credit institutions and investment firms.

### **Basis point**

The bp or basis point represents 0.01% of a particular amount, or one hundredth of a percentage point. 100 basis points are equivalent to 1%.

### **Best practice**

Behaviour commensurate with the most significant experience and/or the best level of knowledge achieved in relation to a given technical or professional field.

### **Budget**

Statement forecasting the future costs and revenues of a business.

### **Capital conservation buffer**

According to the definition contained in Article 128 of the CRD IV, this is a capital reserve whose establishment is required by the regulations – as also specified in the Supervisory Provisions – aimed at providing banks of a high quality capital buffer to be used in periods of market strain to prevent malfunctions of the banking system and avoid disruptions in the credit granting process, amounting, when fully loaded, to 2.5% of risk-weighted assets, calculated in accordance with Article 92, sub-section 3, of the CRR on an individual and consolidated basis.

### **CDS – Credit Default Swap**

A derivative in which a seller of protection engages, for a fee, to pay the buyer of protection a fixed amount if a certain event indicating a deterioration of the creditworthiness of a reference entity occurs.

### **CFO**

Chief Financial Officer.

### **CGU – Cash Generating Unit**

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

### **Common Equity Tier 1 or CET 1**

The Common Equity Tier 1 under Basel 3, mainly consisting of ordinary paid-up capital, the related share premium, operating profit, reserves and other regulatory adjustments, as provided for by the CRR regulation and the Supervisory Regulations (both during the transitional period and fully loaded).

### **Clawback clause**

Action of repayment of the bonus received when, after its disbursement, intentional or negligent conduct of the employee emerges that, if it had been known at the time of disbursement, would have been sufficient not to satisfy the assessment of compliance, or that disbursement has been made in breach of legal or regulatory provisions.

### **Corporate**

Customer segment consisting of medium to large businesses.

### **Cost/income ratio**

The ratio of operating expenses to operating income. It is one of the main key performance indicators of the bank's efficiency: the lower the ratio, the more efficient the bank.

## Glossary (CONTINUED)

### **Cost of Risk**

Cost of risk is the ratio of Net write-downs of loans and provisions for guarantees and commitments with customers to loans to customers (average of single quarters' averages). The scope only includes loans to ordinary customers. It is one of the risk indicators of bank assets: the lower the ratio, the less risky the bank assets.

### **CoR (incentive system)**

The ratio of Net write-downs of loans with customers and Loans and receivables with customers (average of the balance at period end and the balance at December 31 of the previous year). The scope of the exposures excludes positions deriving from bonds and advances to personal financial advisors.

### **Countercyclical capital buffer**

The countercyclical capital buffer consisting of Common Equity Tier 1 pursuant to Supervisory Regulations, according to the concept contained in Articles 128 and 130 of the CRD IV, equal to the risk weighted assets, calculated in accordance with Article 92, paragraph 3, of the CRR by the Company's countercyclical capital buffer, determined according to the criteria established by the Supervisory Regulations at an amount ranging from 0% to 2.5%.

### **Covenant**

A loan agreement clause whereby the lender is entitled to restructure or call in the loan upon occurrence of the events specified in the clause, which ties changes in the borrower's earnings and financial performance to default events/events modifying the contractual terms and conditions (maturity, interest rates, etc.).

### **Covered bond**

A bond which, in addition to being guaranteed by the issuing bank, may also be covered by a portfolio of mortgages or other high-quality loans transferred, for that purpose, to a specific SPV – Special Purpose Vehicle (q.v.).

### **Credit Quality – EL**

$EL\% = EL/EAD$

Represents the expected loss as a percentage of the exposure in the event of default (EAD) of the performing portfolio.

The perimeter is the customers of the performing portfolio.

### **Credit quality step**

A Step, based on external ratings, which is used to assign risk weights under the standardised approach for credit risk.

### **CRD (Capital Requirements Directives)**

EU Directives 2006/48 and 2006/49, adopted by Bank of Italy circular 263/2006 of December 27, 2006 as amended. The CRD IV "Package" has replaced the two aforementioned Directives and consists of the EU Directive 2013/36 on the taking up of the business of credit institutions and prudential supervision and the EU Regulation 575/2013 on prudential requirements, adopted by the Bank of Italy circular 285 of December 17, 2013 as amended.

### **Credit risk**

The risk that an unexpected change in the credit rating of a counterparty, the value of the collateral they have provided, or of the amount used in the event of insolvency generates an unexpected change in the lending position of the Bank.

### **Credit counterparty risk**

The risk that the counterparty in a transaction in financial instruments may enter default before settling all the agreed cash flows.

### **CRM - Credit Risk Mitigation**

Credit Risk Mitigation is a set of techniques, ancillary contracts to the loan or other instruments (e.g. securities, guarantees), which reduces credit risk capital requirements.

### **CRO**

Chief Risk Officer.

## **Default**

A party's declared inability to honour its debts and/or the payment of the associated interest.

## **Direct deposits**

Current accounts, repos and time deposits.

## **EAD – Exposure At Default**

Relating to the on-balance and off-balance sheet positions, EAD is defined as the estimation of the future value of an exposure at the time of the debtor's default. Only banks that meet the requirements for adopting the "IRB – Internal Rating Based" advanced approach are allowed to estimate EAD (q.v.). Other banks are required to refer to regulatory estimations.

## **EBA European Banking Authority**

The European Banking Authority is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.

## **ECA**

Export Credit Agency.

## **ECAI**

External Credit Assessment Institution.

## **ECB**

European Central Bank. The ECB is the central bank for Europe's single currency, the euro.

## **Economic capital**

Capital level that is required by a bank to cover the losses that may occur with at a time horizon of one year and a certain probability or confidence level. Economic Capital is a measure of the variability of the Expected Loss of the portfolio and depends on the degree of diversification of the portfolio itself.

## **EPS – Earnings Per Shares**

An indicator of a company's profitability calculated by dividing the net profit by the average total outstanding shares (excluding treasury shares).

## **EPS – Diluted Earnings Per Shares**

An indicator of a company's profitability calculated by dividing the net profit by the average total diluted outstanding shares (excluding treasury shares).

## **EVA (Economic Value Added)**

EVA is an indicator of the value created by a company. It shows the firm's ability to create value; calculated as the difference between net operating profit and the figurative cost of the allocated capital. The latter was calculated using either the greater of the regulatory capital absorbed and the economic capital (in FinecoBank's case, the economic capital) or the book value of shareholders' equity.

## **Expected Losses**

The losses recorded on average over a one year period on each exposure (or pool of exposures).

## **Fair value**

The price at which an asset can be traded or a liability settled in a free-market transaction between independent parties at arm's length.

## **Forbearance/Forborne exposures**

According to the EBA Implementing Technical Standard, forborne exposures are exposures in respect of which forbearance measures have been extended, consisting of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

## **Funding**

Provision, in various forms, of the funds necessary to finance business activities or particular financial transactions.

## Glossary (CONTINUED)

### **Futures**

Standardised contracts through which parties undertake to exchange money, transferable securities or goods at a set price at a future date. These contracts are traded on regulated markets, where their execution is guaranteed.

### **Goodwill**

The additional sum paid for the acquisition of an equity interest, equal to the difference between the cost and the corresponding share of net assets, for the portion not attributable to the identifiable assets of the acquired company.

### **Guided products & services**

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

### **Guided Products & Services/AUM**

The ratio of Guided Products & Services (q.v.) to Assets under Management (q.v.).

### **Guided Products & Services/TFA**

The ratio of Guided Products & Services to Total Financial Assets.

### **HNWI**

High Net Worth Individual, i.e. Private customers with TFA of over one million euros.

### **IAS/IFRS**

International accounting standards issued by the International Accounting Standard Board (IASB), a private international body established in April 2001, involving representatives of the accounting professions of the principal countries and, as observers, the European Union, IOSCO (International Organization of Securities Commissions) and the Basel Committee. This body is the successor of the International Accounting Standards Committee (IASC), set up in 1973 to promote harmonisation of the rules for the preparation of company accounts. When the IASC became the IASB, it was decided, among other things, to name the new accounting principles "International Financial Reporting Standards" (IFRS). At international level, work is currently underway to harmonise the IAS/IFRS with the US GAAP – United States Generally Accepted Accounting Principles (q.v.).

### **ICAAP – Internal Capital Adequacy Assessment Process**

See "Basel 2 – Pillar 2".

### **Impairment**

Within the framework of the IAS/IFRS (q.v.), this refers to the loss of value of a balance sheet asset, recorded when the book value is greater than the recoverable value, i.e. the sum that can be obtained by selling or using the asset.

### **Impaired loans**

Loans and receivables are reviewed periodically in order to identify those that, following events occurring after initial recognition (at market value, which is, usually, equal to the amount paid including transaction costs and income directly attributable to the disbursement of the credit) show objective evidence of possible impairment. These include a loans to which the status of non-performing, unlikely to pay and past due has been assigned, according to the Bank of Italy rules in line with the IAS/IFRS (q.v.).

### **Internal Capital**

Represents the amount of capital required to cover potential losses and is required to support the business activities and positions held. Internal Capital is the sum of the aggregated Economic Capital and a cushion that considers the effects of the cycle and model risk.

### **(Internal) validation**

Expert unit, internal but sufficiently independent, that verifies the adequacy of internal models for internal and regulatory purposes and issues a formal opinion about their usefulness and effectiveness. Usually a prerequisite for the validation process carried out by the authorities.

## **Index linked**

Policies whose performance at maturity depends on a benchmark parameter that may be a share index, a basket of securities or another indicator.

## **IRB – Internal Rating Based**

Method for determining the capital needed to cover credit risk within the framework of Pillar 1 of Basel 2 (q.v.). The rules are applied to the exposures of the banking book. Furthermore, in the IRB methods the risk weightings of the assets are determined on the basis of the bank's own internal evaluations of the debtors (or, in some cases, of the transactions). Using systems based on internal ratings, the banks determine the weighted risk exposure. The IRB methods consist of a basic method and an advanced method, which differ in terms of the risk parameters that the bank must estimate: in the basic method, the banks use their own estimates for "PD – Probability of Default" and the regulatory values for the other risk parameters; in the advanced method, the banks use their own estimates for "PD – Probability of Default", "LGD – Loss Given Default", "CCF – Credit Conversion Factors" and, where provided for, "M - Maturity" (q.v.). The use of IRB methods for the calculation of capital requirements is subject to authorisation from the Bank of Italy.

## **IRS – Interest Rate Swap**

See "Swap".

## **Joint venture**

Agreement between two or more companies for the conduct of a given economic activity, usually through the constitution of a joint stock company.

## **Ke**

The cost of equity is the minimum return on investment required by the shareholder. It is the sum of a risk-free rate and an additional spread remunerating the shareholder for the credit risk and the volatility of the share price. The cost of capital is based on medium-long term averages of market parameters.

## **KPI - "Key Performance Indicators"**

Set of indicators used to evaluate the success of a particular activity or process.

## **Key Risk Indicators**

The risk indicators are quantitative metrics that reflect exposure to Operational Risks of specific processes or products: the value expressed by an indicator should be related to changes in risk levels.

## **Large exposures**

The sum of all the exposures towards a counterparty that are equal to or more than 10% of the eligible capital of the Issuer, when: (i) the exposures are the sum of the on-balance-sheet risk assets and the off-balance-sheet operations with a counterparty, as defined by the regulations on credit risk, without applying the weighting factors established therein (these exposures do not include the risk assets deducted in the determination of the Own Funds); (ii) a counterparty is a customer or a group of connected customers; (iii) the eligible capital is equal to the Own Funds of the Issuer.

## **LCP**

Loss Confirmation Period.

## **Leasing**

Contract whereby one party (the lessor) grants to another party (the lessee) for a given period of time the enjoyment of an asset purchased or built by the lessor at the discretion and according to the instructions of the lessee, with the latter having the option of acquiring ownership of the asset under predetermined conditions at the end of the leasing contract.

## **LGD – Loss Given Default**

Expected value (which may be conditional upon adverse scenarios) of the ratio, expressed as a percentage, between the loss giving rise to the default and the amount of exposure at the time of the default ("EAD - Exposure At Default", q.v.).

## **Liquidity risk**

The risk of the company being unable to meet its payment commitments due to the inability to liquidate assets or obtain sufficient funding from the market (funding liquidity risk) or due to the difficulty/inability to easily liquidate positions in financial assets without significantly and unfavourably affecting the price because of insufficient depth or temporary malfunction of the financial market (market liquidity risk).

## Glossary (CONTINUED)

### Long and Short Margining

Margining is a trading method that allows investors to buy (long leverage) or sell (short selling) by investing only a part of the liquidity required.

### Market risk

Consists of the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can cause to the economic value of the portfolio, when it includes assets held in the trading book, as well as those posted in the banking book, both on the operations characteristically involved in commercial banking and in the choice of strategic investments.

### Master servicing agreement

Type of contract under which two or more parties regulate the key terms of subsequent transactions and/or further agreements to be implemented between them in the future.

### Maturity Ladder

Instrument for managing and monitoring short-term liquidity (operational liquidity), which, by offsetting assets and liabilities whose maturity falls within each individual time band, enables the identification of mismatches (periodic and cumulative) between incoming and outgoing cash flows and, therefore, to calculate the net financial requirement (or surplus) over the period of the year.

### Model Risk Category

The MRCs have been introduced at the group level in order to characterise the types of operational loss in more detail. They are obtained from the combination of the seven event types established by Basel II with one or more of products offered to customers.

### Non-performing exposures

According to the EBA Implementing Technical Standards, non-performing exposures are all on-balance-sheet and off-balance-sheet exposures that satisfy either or both of the following criteria:

- material exposures which are more than 90 days past due/overdrawn;
- exposures for which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

### NSFR - Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is structured to ensure that long-term assets are financed with at least a minimum amount of stable liabilities in relation to their respective liquidity risk profiles. The NSFR is aimed at limiting the excessive use of short-term wholesale deposits in periods of abundant market liquidity and encouraging a better assessment of liquidity risk based on all balance sheet and off-balance sheet items. The NSFR is defined as the ratio between the total available stable funding and the total required stable funding.

### NSFR Adjusted

The NSFR Adjusted ratio is based on the regulatory ratio NSFR (Net Stable Funding Ratio) but is adjusted by maturity (i.e. by bucket) considering maturities of more than 3 and 5 years respectively. The NSFR Adjusted is therefore used to monitor and control the structural liquidity situation on maturities over the year. The NSFR is defined as the ratio between the cumulative liabilities over the year and the cumulative assets over the year.

### Operational risk

The risk of losses due to errors, violations, interruptions, or damage caused by internal processes, personnel, systems or by external events. This definition includes legal and compliance risks, but excludes strategic and reputational risk. For example, losses arising from the following can be defined as operational: internal or external fraud, employment practices and workplace safety, customer claims, product distribution, fines and penalties for regulatory breaches, damage to the Company's physical assets, business disruption and system failures, and management of processes.

### Option

The right, but not the commitment, acquired by the payment of a premium, to buy (call option) or sell (put option) a financial instrument at a given price (strike price) by or at a determined future date (American option/European option).



## **OTC – Over The Counter**

Over-the-counter (OTC) trading consists of the exchange of financial instruments such as shares, bonds, derivatives or goods directly between two counterparties. The OTC markets do not have standardised contracts or buying/selling procedures and are not associated with a set of rules (admissions, controls, obligations of information, etc.) like those that govern the official markets.

## **Own funds or Total Capital**

The own funds of a bank consist of a series of regulatory defined items (excluding the negative items to be deducted), classified based on capital quality and loss absorbing capacity. From January 1, 2014, after the CRR came into force, Own Funds consists of the sum of Tier 1 capital and Tier 2 capital.

## **Past-due and/or overdrawn impaired exposures**

i.e. on-balance sheet exposures, other than those classified as non-performing or unlikely to pay that are past due or overdrawn at the reporting date. The past due and/or overdrawn impaired exposures may be determined, alternatively, with respect to the individual debtor or the individual transaction. Specifically, they represent the total exposure to any borrower not included in the unlikely to pay and non-performing loans categories, who at the reporting date has expired facilities or unauthorised overdrafts that are more than 90 days past due and meet the requirements set out by local supervisory regulations for their classification under the "past due exposures" category (TSA banks) or "defaulted exposures" (IRB banks).

## **Payout ratio**

The percentage of net income that is distributed to shareholders. The percentage paid out is determined mainly on the basis of the company's self-financing needs and the return expected by shareholders.

## **PD – Probability of Default**

Default Probability of a counterparty entering into a situation of "default" (q.v.) within a period of one year.

## **Private banking**

Financial services aimed at "high-end" private customers for the global management of financial needs.

## **RARORAC - Risk adjusted Return on Risk adjusted Capital**

An indicator calculated as the ratio between EVA (using either the greater of the regulatory capital absorbed and the economic capital or using the book value of shareholders' equity) and Allocated/Absorbed Capital and expresses, in percentage, the capacity to create value for unit of risk taken.

## **Rating**

Evaluation of the quality of a company or its issues of debt securities on the basis of the company's financial soundness and prospects. This evaluation is made either by specialist agencies or by the bank on the basis of internal models.

## **Retail**

Customer segment consisting principally of private individuals, self-employed professionals, traders and artisans.

## **Risk Taking Capacity**

Ratio between Available Financial Resources and Internal Capital.

## **Risk-weighted assets**

See the item "RWA - Risk-Weighted Assets".

## **ROAC – Return on Allocated Capital**

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

## **ROE**

Ratio between net profit and the average book shareholders' equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves).

## Glossary (CONTINUED)

### **RWA - Risk-Weighted Assets**

It is the value of on-balance sheet and off-balance sheet risk-weighted assets on the basis of different weighting factors according to the class in which the exposure is classified and its credit quality, in accordance with the banking regulations issued by the regulatory authorities for the calculation of the solvency ratios.

### **Sensitivity**

The greater or lesser degree of sensitivity with which certain assets or liabilities react to changes in rates or other reference parameters.

### **Sensitivity Analysis**

Sensitivity analysis quantifies the change in value of a financial portfolio resulting from an unfavourable change in major risk factors (interest rate, exchange rate, equity).

### **SME**

Small and medium enterprises.

### **SPV –Special Purpose Vehicle**

An entity – partnership, limited company or trust – set up to pursue specific objectives, such as isolating financial risk or obtaining special regulatory or tax treatment for specific portfolios of financial assets. SPV's operations are accordingly limited by a set of rules designed for this purpose. In general the SPVs' sponsors (q.v.) do not hold equity in them. The equity is held by other entities in order to ensure that there is no shareholder relationship with the Sponsor (q.v.). SPVs are usually bankruptcy-remote, in that their assets cannot be claimed by the creditors of the sponsor, even if the latter becomes insolvent.

### **Swap**

A transaction that generally consists of the exchange of financial streams between operators according to different contractual arrangements. In the case of an interest rate swap (IRS), the counterparties exchange payment streams that may or may not be linked to interest rates, calculated on a notional principal amount (for example, counterparty pays a stream on the basis of a fixed rate, while the other does so on the basis of a variable rate). In the case of a currency swap, the counterparties exchange specific amounts in two different currencies, with these amounts being exchanged back in due course according to predefined arrangements that may concern both the capital (notional) and the streams of interest payments.

### **Tier 1 Capital**

The most reliable and liquid part of a bank's capital, as defined by the regulatory rules.

### **Tier 1 Capital Ratio**

The percentage of a bank's Tier 1 Capital to its risk weighted assets "RWA – Risk Weighted Assets" (q.v.).

### **Total Financial Assets - TFA**

Assets Under Management (q.v.), Assets Under Custody (q.v.) and Direct Deposits (q.v.).

### **Trading Book**

Positions held for trading are those held intentionally for a subsequent sale in the near term and/or assumed with the intention of benefiting, in the short term, from the differences between buying and selling prices, or other price or interest rate interest variations.

### **UCI – Undertakings for Collective Investment**

This term includes "UCITS – Undertakings for Collective Investment in Transferable Securities" (q.v.) and collective investment funds (real estate collective investment funds, closed-end investment funds).

### **UCITS – Undertakings for Collective Investment in Transferable Securities**

This term covers open-end real estate investment funds, both Italian and foreign, and investment companies with variable capital. The latter are joint stock companies that have the sole purpose of collective investment of the assets gathered through a public offer of their own shares.

### **Unlikely to pay**

On-balance and off-balance sheet exposures that meet the definition of unlikely to pay, which do not meet the conditions to be classified as bad loans. The classification as "unlikely to pay" derives from the assessment of the debtor's unlikelihood (without actions such as realisation of collateral) to repay fully his credit obligation (principal and/or interest). This assessment is made independently of any past due and unpaid amount

(or instalment). The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked to indicators of a potential default of the borrower.

**VaR – Value at Risk**

A method used for quantifying risk. It measures potential future losses which will not be exceeded within a specified period and with a specified probability.



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