Reports and Accounts /2019

FINECO. SIMPLIFYING BANKING.

FINECO BANK

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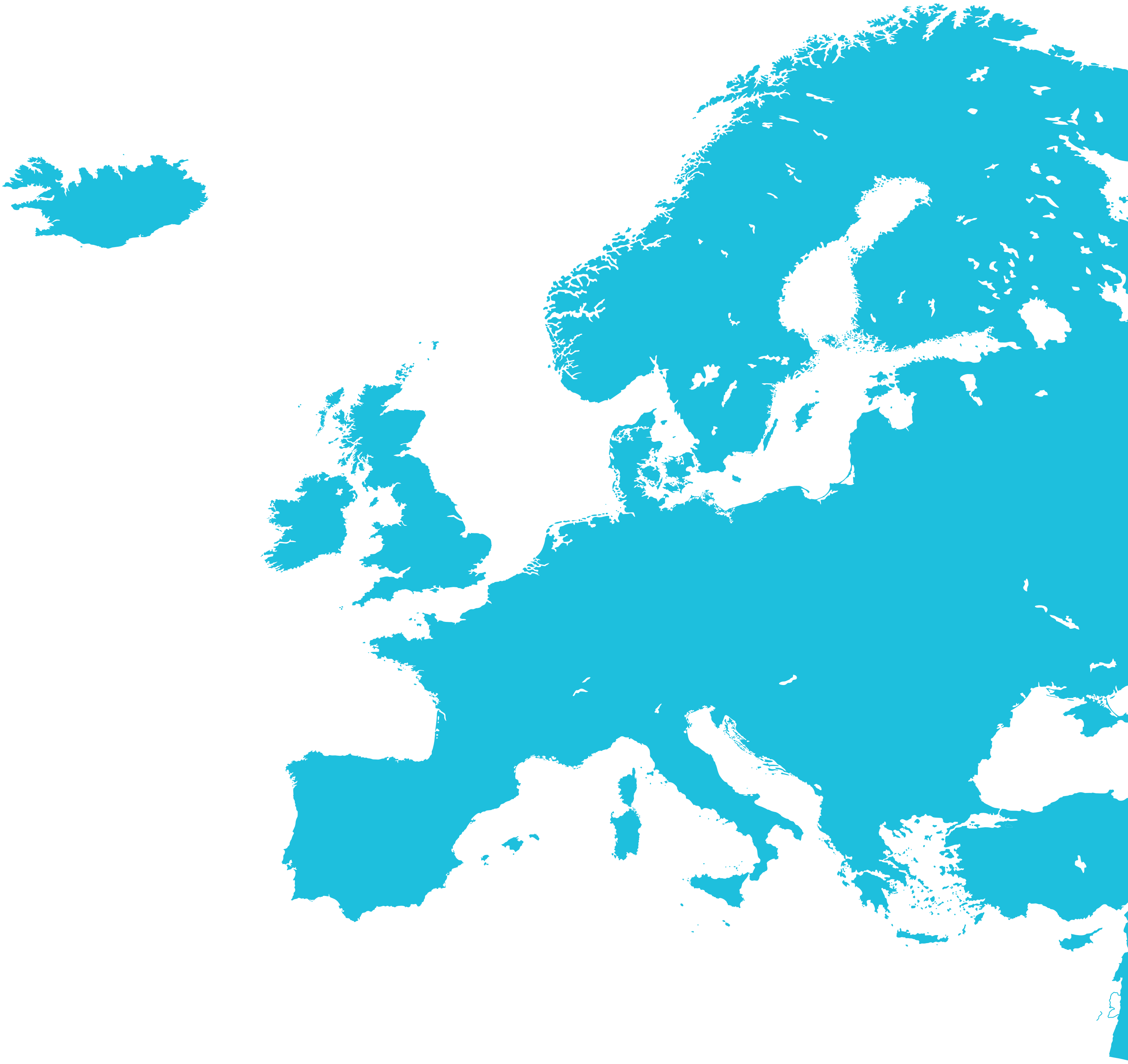


2019 REPORTS AND ACCOUNTS

Contents

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
Andrea Zappia Elena Biffi Gianmarco Montanari 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
Deloitte & Touche S.p.A.	**External Auditors**
Lorena Pelliciari	**Nominated Official in charge of drawing up Company Accounts**

Ms Manuela D'Onofrio, non executive Director of the Company, resigned with effect as of May 10th, 2019, following the exit of FinecoBank from UniCredit Banking Group.

On January 15, 2020, the Board of Directors co-opted Mr. Andrea Zappia as non-executive Director, replacing Ms. Manuela D'Onofrio who resigned on 10 May 2019.

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

Introduction to the Annual Reports and Accounts

In implementation of Legislative Decree no. 38 of February 28, 2005, these Annual Reports and Accounts comprise the Consolidated Financial Report and Accounts of the FinecoBank Group (hereinafter Group) 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, pursuant to EU Regulation 1606/2002 of July 19, 2002 and applicable to financial reports for the periods starting on January 1, 2019.

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.

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 2018;
- 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, as well as the additional information required by Consob;
- 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 2018;
- the **Notes to the Accounts**;

and 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 Financial Report and Accounts 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 and the comments on the Bank 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 Group has applied the provision provided for in paragraph C5 b) of IFRS 16 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. The related methodology and operational choices made during the transition to the new standard and 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, have set forth in section 5. "Other matters – Transition to IFRS 16 Leasing" of the notes to the consolidated accounts and in section 4 "Other matters - Transition to IFRS 16 Leasing" of the notes to the accounts the Financial Report and Accounts. The tables in the notes to the consolidated accounts and notes to the accounts have also been modified in accordance with the provisions of the 6th update of Circular 262 of November 30, 2018. Please note that in the condensed financial statements presented in the Consolidated Report on Operations, for which reference should be made to the " Reconciliation of condensed consolidated accounts to mandatory reporting" reported in the Annexes, in the "Consolidated balance sheet - Quarterly data" scheme, and to the " Reconciliation of condensed accounts to mandatory reporting" reported in the Annexes, in the "Balance sheet - Quarterly data" scheme, the situation as at January 01, 2019 has been presented following the first application (First Time Adoption) of IFRS 16.

It should be noted that as of December 31, 2019 a change was made in the condensed accounts shown in the Consolidated Report on Operations. In particular dividends and other income on equity investments and equity securities mandatorily at fair value shown in the balance sheet item "Dividend income and similar revenue", previously included in the condensed accounts item "Dividends and other income from equity investments", were included in the item "Net trading, hedging and fair value income" in the condensed accounts. For homogeneity, the comparative data relating to the 2018 condensed accounts have also been reclassified. For additional information, reference is made to “Reconciliation of condensed consolidated accounts to mandatory reporting schedule” and to “Reconciliation of condensed consolidated accounts to mandatory reporting schedule” of the Annexes.

It should be noted that on 7 May 2019 UniCredit S.p.A. and FinecoBank S.p.A. announce that their respective Boards of Directors approved certain actions and procedures to be implemented by UniCredit S.p.A. and FinecoBank, in order to allow FinecoBank to operate as a fully independent entity from a regulatory, liquidity and operational standpoint, also potentially outside the UniCredit Group in the future, considering that at the same date FinecoBank enjoys limited synergies with the rest of the UniCredit Group.

On 8 May 2019 UniCredit S.p.A. announced that it has successfully completed the accelerated bookbuilding procedure for the sale to institutional investors of ca. 103.5 million ordinary shares held in FinecoBank, corresponding to ca. 17 percent of the Bank's existing share capital, whose settlement took place on May 10, 2019. UniCredit S.p.A. it also undertook a commitment not to dispose of the remaining shares of FinecoBank for a period of 120 days from the settlement date of the transaction, consequently may not, during this lock-up period and with certain exceptions in line with market practice, implement any deed of disposal of FinecoBank shares without the prior consent of J.P. Morgan and UBS Investment Bank on behalf of the Joint Bookrunners.

Simultaneously to the aforementioned regulation, holding a minority stake in the Bank (equal to about 18.3 per cent of the share capital) and having renounced the exercise of the administrative rights provided for in Article 2364 of the Italian Civil Code, UniCredit S.p.A. announced that FinecoBank, and consequently its subsidiary Fineco Asset Management DAC (hereinafter, Fineco AM), was no longer part of the scope of the UniCredit Group starting on May 10, 2019. Starting from 11 May 2019 the Bank was registered in the register of banking groups as Parent Company of the FinecoBank Banking Group.

On 8 July 2019 UniCredit S.p.A. has announced the launch of a placement of the remaining ordinary shares holding in FinecoBank, representing ca. 18.3 per cent of the Bank's share capital at that date, through an accelerated bookbuilding addressed to certain categories of institutional investors. In relation to the transaction, J.P. Morgan and UBS Investment Bank, after consulting UniCredit Corporate & Investment Banking, as Joint Bookrunners of the offer dated May 8, 2019, waived the lock-up commitment undertaken by UniCredit S.p.A..

On 9 July 2019 UniCredit S.p.A. has announced the successful completion of the accelerated bookbuild offering to institutional investors of approximately 111.6 million existing ordinary shares in FinecoBank S.p.A., at a price of €9.85 per share, with the settlement scheduled, and concluded, on July 11, 2019.

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

Consolidated Report and Accounts

Summary data

FinecoBank is a multi-channel direct bank and one of the most important FinTech banks in Europe. It has one of the largest networks of personal financial advisors in Italy and is the leader in Italy for equity trades. FinecoBank 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 1, 2016. On March 20, 2017, the stock became part of the STOXX Europe 600 Index. On 4 July 2019 S&P Global Ratings has assigned a long-term rating 'BBB' and a short-term rating 'A-2' to the Bank, both with negative outlook. The negative outlook mirrors the one on the Republic of Italy.

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 2019, 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.

At the end of 2019, total financial assets (direct and indirect) from customers amounted to €81,419 million, up 17.4% on €69,333 million at the end of 2018. The "Guided products & services" shows an incidence with respect to the assets under management equal to 71.07%, an increase compared to 66.81% at December 31, 2018.

Net sales came to €5,840 million during the 2019 (-6.1% y/y), despite the complex market situation; the net sales of assets under management came to €3,273 million, assets under custody came to -€953 million and direct deposits came to €3,521 million. Net sales of "Guided Products & Services" came to €3,749 million (+35.5% y/y).

During the 2019, net sales through the network of Personal Financial Advisors totalled €5,121 million (-6.1% y/y). Total financial assets (direct and indirect) as at 31 December 2019 amounted to €70,687 million (+18% y/y).

The Total Financial Assets. (TFA) related to Private clients, i.e. with assets above €500,000, totalled €33,437 million, equals to 41% of total TFA of the Group.

During the 2019, €216 million in personal loans and €412 million in mortgages were granted, and €797 million in current account overdrafts was arranged, with an increase in exposures in current account of €273 million; this has resulted an overall 24%[1] aggregate increase in loans to customers compared to 31 December 2018. Credit quality remains high, with a cost of risk at 12 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% (0.11% as at December 31, 2018).

The total number of customers as at 31 December 2019 was 1,357,833, up 6% compared to 31 December 2018. 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 period amounted to €288.4 million, with an increase of 19.5% on the previous year. The cost/income ratio amounted to 38.12%, an improvement compared to December 31, 2018 (39.3%), confirming the operating efficiency of the Group and the spread of the company culture on controlling costs. The 2019 results reflect the Bank's sustainability and the strength of its business model, capable of generating profits in all market conditions.

It should be noted that in 2019 the tax benefit known as the Patent Box (introduced by Law 190/2014, as amended by article 5 of Decree Law 3/2015) for the five-year period 2015-2019 was recognised in 2019 for an estimated €21.6 million and write-backs of approximately €9.3 million were recognized relating to exposures to the Unicredit S.p.A., mainly represented by debt securities, current accounts and time deposits accounted in "Financial assets at amortized cost". These write-backs, recorded in Net income from investments for €7.1 million and Net impairment losses on loans and provisions for guarantees and commitments for €2.2 million, are due both to the decrease in exposures and to the improvement in the profile of counterparty risk, in particular thanks to the financial guarantee issued by the former Parent Company Unicredit S.p.A. in favor of the Bank at the same time as the exit from the scope of consolidation of UniCredit Group (for more details, see "Relevant events during the period"). It should be noted that already in the 2018 FinecoBank had already recognised write-backs on exposures to Unicredit S.p.A. for a total of €3.6 million, of which €2.6 million in Net income from investments and €1 million in Loan loss provisions, in relation to the decrease in exposures and the improvement of their risk profile.

[1] Loans receivable with ordinary customers include solely to loans granted to customers (current account overdrafts, credit cards, personal loans, mortgages and unsecured loans).

The net profit of the year net of the non-recurring items booked in the 2019[4] should be equal to €268.8 million, up 10% compared to the 2018 net profit net of the non-recurring items[5].

The Group'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 the asset management activity carried out by the subsidiary Fineco AM, thanks to the vertically integrated business model, placement and distribution services of more than 5,900 products, including mutual funds and SICAV sub-funds managed by 70 leading Italian and international investment firms, insurance and pension products, as well as investment advisory services through a network, as at December 31, 2019, of 2,541 personal financial advisors.

Relevant events of the period

On 31 January 2019, 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, in addition to taxes and initial direct costs, the carrying amount of the property booked in the financial statements.

On 10 May 2019, UniCredit S.p.A. has announced that it has completed the regulation of the Offer connected with the accelerated bookbuilding procedure for the sale of ca. 103.5 million ordinary shares held in FinecoBank. As a result of the aforementioned regulation, holding UniCredit S.p.A. a minority stake in the Bank (equal to about 18.3 per cent of the share capital) and having renounced the exercise of the administrative rights provided for in Article 2364 of the Italian Civil Code, UniCredit S.p.A. announced that FinecoBank, and consequently its subsidiary Fineco Asset Management DAC**, were no longer part of the scope of the UniCredit Group** starting on the same day.

The exit from the UniCredit Group and, therefore, the complete independence of the Bank allows it to fully concentrate on its strategic development and on its own prospects for autonomous growth. This has no implications for its business model or its customers and, moreover, it does not entail any significant impact on its profitability. With regard to impacts on its capital profile, please refer to the paragraph “Own funds and capital ratios”.

On 8 July 2019 UniCredit S.p.A. has announced the launch of a placement of the remaining ordinary shares holding in FinecoBank, representing ca. 18.3 per cent of the Bank's share capital at that date, through an accelerated bookbuilding addressed to certain categories of institutional investors. On 9 July 2019 UniCredit S.p.A. has announced the successful completion of the accelerated bookbuild offering to institutional investors of approximately 111.6 million existing ordinary shares in FinecoBank S.p.A., at a price of €9.85 per share, with the settlement on July 11, 2019.

At the same time as the deconsolidation of FinecoBank from the UniCredit Group took place on 10 May 2019, FinecoBank and UniCredit S.p.A. have entered into a contract (“**Pledge Agreement”**) which provides for the granting by UniCredit S.p.A. of financial guarantees in favor of FinecoBank aimed at guaranteeing credit risk exposures represented by UniCredit bonds, until their natural expiry, from current accounts, until November 2019, and from the financial guarantees issued by FinecoBank in favor of the Agency of Enter at the request of UniCredit S.p.A., until they are completely extinguished. These guarantees, which at December 31, 2019 are represented by securities issued by sovereign States, mainly Italian government securities, meet the requirements of the applicable legislation to be eligible in the context of credit risk mitigation techniques (CRM), with consequent reduction of risk-weighted assets and exposure for Large exposures of the Group. In January 2020, UniCredit S.p.A. replaced some of the bonds issued by sovereign states, pledged as collateral under the Pledge Agreement, with the "Impresa2 FRN 20/12/2061 Asset Backed" bonds issued by Impresa Two S.r.l. as part of a securitisation transaction under Law 130/99 relating to trade receivables sold and repurchased by UniCredit S.p.A.. Also these bonds meet the requirements of the applicable legislation to be eligible for credit risk mitigation (CRM) techniques, with a consequent reduction in risk weighted assets and exposure for the purposes of the Group's Large Exposures.

Respecting the full business, regulatory and operational independence, as part of the agreements entered into in relation to the Bank's exit from the group, UniCredit S.p.A. and FinecoBank have also agreed that FinecoBank would, under the existing trademark license agreement, be allowed to carry on the use of certain words and figurative marks containing the term “Fineco” which are owned by UniCredit S.p.A.. The new agreement continued at the previous conditions – to allow FinecoBank to continue the use of its recognized brand – and included the option for FinecoBank to buy the brand (at a number of given call option time windows up to 2032). On 28 November 2019, FinecoBank exercised its option to **purchase the trademarks Fineco** and Other distinctive signs, including the Fineco domain names, for a total of €22.5 million plus VAT.

UniCredit S.p.A. will also continue to provide, certain services to FinecoBank for a certain amount of time in line with the previous operations and terms, for example ATMs and physical branches (extended for 20 years) and administrative services.

[4] 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 -€ 4.5 million (-€3.0million net of the tax effect), profit recognized by the Voluntary Scheme to FinecoBank for an amount of €1.6 million (€1.1 million net of the tax effect), relating to the four tranches of interest, net of the costs incurred during the year 2019, paid by Banca Carige S.p.A. on the subordinated loan underwritten by the Voluntary Scheme and tax benefit recognized thanks to the so-called Patent Box regime, for a total of +€21.6 million.

[5] 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).

On 4 July 2019 the Board of Directors has authorised the issuance, by the end of 2019, of an **Additional Tier 1** instrument ("AT1"), denominated in euros and intended for qualified investors, for a maximum nominal amount of €200 million, to be listed on the unregulated market of the Irish Stock Exchange plc trading as Euronext Dublin. On 8 July 2019, in light of favourable market conditions and the expected interest, the Board of Directors has authorised a possible increase in the amount of the AT1 up to a maximum nominal amount of €300 million, compared to what was already announced on 4 July 2019. At the same date S&P Global Ratings has assigned the rating 'BB-' to the AT1.

On 11 July 2019 FinecoBank successfully completed the placement of the AT1, its first market issue of Additional Tier 1 instruments targeted at qualified investors, for a total amount of €300 million and a fixed coupon of 5.875% for the first 5 years compared to initial price guidance of 6.5%. This tightening compared to the initial price guidance is one of the most significant seen for this type of instrument, as a result of an overall demand equal to 9 times the offer. The issue recorded an order volume of €2.7 billion, demonstrating recognition of FinecoBank also in the fixed-income segment and allowing the Group to take advantage of favourable market conditions. The transaction allowed immediately FinecoBank to be instantly compliant with the Leverage ratio requirement that will be mandatory from 28 June 2021, following the entry into force of Regulation (EU) 876/2019 ("CRR II"). Furthermore, this issuance guarantees the maintenance of a buffer with respect to the minimum requirement prescribed by CRR II.

Law 190/2014, as amended by art. 5 of Decree-Law 3/2015, introduced the Patent Box regime into Italian law, with effect from the tax period following the one in progress as at 31 December 2014. The Patent Box is an optional regime for reduced taxation of income derived from the use (direct or indirect) of legally protectable intellectual property, industrial patents, trademarks, designs and models, processes, formulas and information relating to experience acquired in the industrial, commercial or scientific field.

The tax break consists of the exclusion of 50% of the income deriving from these intangible assets from the IRES and IRAP tax base. The exclusion percentage was 30% for the tax period after the one in progress as at 31 December 2014 and 40% for the tax period after the one in progress as at 31 December 2015. The option is irrevocable, has a duration of five financial years and is renewable.

In 2015, FinecoBank applied for its software and trademark to be admitted to the Patent Box for the five-year period 2015-2019.

In early 2020, an arrangement was reached with the Prior Agreements and International Disputes Office of the Italian Revenue Agency on the methodology to be used for the calculation of the income deriving from the intangible assets that were the subject of the application. Although the agreement was reached at the beginning of 2020, the Group recognised the tax benefit, estimated in approximately €21.6 million, in the 2019 Financial Statements as it refers to the 2015-2019 five-year period.

In terms of renewal of the Patent Box for the next five years 2020-2024, the software aspect is expected to be renewed, but the trademark has been excluded by express provision of law.

Condensed Accounts

Consolidated balance sheet

(Amounts in € thousand)

Assets	Amounts as at 12/31/2019	Amounts as at 12/31/2018	Changes Amounts	Changes %
Cash and cash balances	754,386	6	754,380	n.c.
Financial assets held for trading	7,933	6,876	1,057	15.4%
Loans and receivables with banks	566,033	3,058,882	(2,492,849)	-81.5%
Loans and receivables with customers	3,679,829	2,955,074	724,755	24.5%
Financial investments	22,304,892	18,231,182	4,073,710	22.3%
Hedging instruments	64,939	8,187	56,752	693.2%
Property, plant and equipment	152,048	16,632	135,416	814.2%
Goodwill	89,602	89,602	-	-
Other intangible assets	37,492	8,705	28,787	330.7%
Tax assets	23,444	6,714	16,730	249.2%
Other assets	342,309	350,770	(8,461)	-2.4%
Total assets	**28,022,907**	**24,732,630**	**3,290,277**	**13.3%**

(Amounts in € thousand)

Liabilities and shareholders' equity	Amounts as at 12/31/2019	Amounts as at 12/31/2018	Changes Amounts	Changes %
Deposits from banks	154,653	1,009,774	(855,121)	-84.7%
Deposits from customers	25,919,858	22,273,188	3,646,670	16.4%
Financial liabilities held for trading	3,777	2,221	1,556	70.1%
Hedging instruments	94,950	7,941	87,009	1095.7%
Tax liabilities	11,437	12,390	(953)	-7.7%
Other liabilities	455,748	451,435	4,313	1.0%
Shareholders' equity	1,382,484	975,681	406,803	41.7%
- capital and reserves	*1,093,117*	*744,256*	*348,861*	*46.9%*
- revaluation reserves	*1,002*	*(9,794)*	*10,796*	*110.2%*
- net profit	*288,365*	*241,219*	*47,146*	*19.5%*
Total liabilities and Shareholders' equity	**28,022,907**	**24,732,630**	**3,290,277**	**13.3%**

Consolidated balance sheet - Quarterly data

(Amounts in € thousand)

Assets	12/31/2019	09/30/2019	06/30/2019	03/31/2019	01/01/2019	12/31/2018
	Amounts as at					
Cash and cash balances	754,386	1,208,686	1,230,599	755	6	6
Financial assets held for trading	7,933	10,592	7,475	9,286	6,876	6,876
Loans and receivables with banks	566,033	824,635	710,347	3,807,150	3,058,882	3,058,882
Loans and receivables with customers	3,679,829	3,567,804	3,408,661	3,029,073	2,955,074	2,955,074
Financial investments	22,304,892	21,521,272	19,912,177	19,003,089	18,231,182	18,231,182
Hedging instruments	64,939	71,941	49,365	29,166	8,187	8,187
Property, plant and equipment	152,048	148,644	143,801	144,851	81,208	16,632
Goodwill	89,602	89,602	89,602	89,602	89,602	89,602
Other intangible assets	37,492	8,760	8,760	8,799	8,705	8,705
Tax assets	23,444	7,688	3,498	5,209	6,714	6,714
Other assets	342,309	300,341	270,368	253,270	350,346	350,770
Total assets	**28,022,907**	**27,759,965**	**25,834,653**	**26,380,250**	**24,796,782**	**24,732,630**

(Amounts in € thousand)

Liabilities and shareholders' equity	12/31/2019	09/30/2019	06/30/2019	03/31/2019	01/01/2019	12/31/2018
	Amounts as at					
Deposits from banks	154,653	188,171	206,643	1,605,018	1,013,791	1,009,774
Deposits from customers	25,919,858	25,428,742	24,139,699	23,310,871	22,333,323	22,273,188
Financial liabilities held for trading	3,777	4,734	2,413	2,831	2,221	2,221
Hedging instruments	94,950	156,435	84,086	31,741	7,941	7,941
Tax liabilities	11,437	50,929	64,779	38,308	12,390	12,390
Other liabilities	455,748	642,227	409,355	351,542	451,435	451,435
Shareholders' equity	1,382,484	1,288,727	927,678	1,039,939	975,681	975,681
- capital and reserves	*1,093,117*	*1,100,134*	*800,766*	*986,928*	*744,256*	*744,256*
- revaluation reserves	*1,002*	*(6,566)*	*(7,202)*	*(9,261)*	*(9,794)*	*(9,794)*
- net profit	*288,365*	*195,159*	*134,114*	*62,272*	*241,219*	*241,219*
Total liabilities and Shareholders' equity	**28,022,907**	**27,759,965**	**25,834,653**	**26,380,250**	**24,796,782**	**24,732,630**

Consolidated Income Statement

(Amounts in € thousand)

	Year		Changes	
	2019	2018	Amount	%
Net interest	281,277	278,659	2,618	0.9%
Net fee and commission income	325,171	300,443	24,728	8.2%
Net trading, hedging and fair value income	44,761	44,281	480	1.1%
Net other expenses/income	3,608	1,913	1,695	88.6%
OPERATING INCOME	**654,817**	**625,296**	**29,521**	**4.7%**
Staff expenses	(90,152)	(86,606)	(3,546)	4.1%
Other administrative expenses	(240,638)	(245,501)	4,863	-2.0%
Recovery of expenses	104,068	96,767	7,301	7.5%
Impairment/write-backs on intangible and tangible assets	(22,864)	(10,424)	(12,440)	119.3%
Operating costs	**(249,586)**	**(245,764)**	**(3,822)**	**1.6%**
OPERATING PROFIT (LOSS)	**405,231**	**379,532**	**25,699**	**6.8%**
Net impairment losses on loans and provisions for guarantees and commitments	(1,970)	(4,384)	2,414	-55.1%
NET OPERATING PROFIT (LOSS)	**403,261**	**375,148**	**28,113**	**7.5%**
Other charges and provisions	(27,152)	(21,380)	(5,772)	27.0%
Integration costs	-	(121)	121	-100.0%
Net income from investments	7,377	1,105	6,272	567.6%
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**383,486**	**354,752**	**28,734**	**8.1%**
Income tax for the year	(95,121)	(113,533)	18,412	-16.2%
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**288,365**	**241,219**	**47,146**	**19.5%**
PROFIT (LOSS) FOR THE YEAR	**288,365**	**241,219**	**47,146**	**19.5%**
NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP	**288,365**	**241,219**	**47,146**	**19.5%**

Consolidated Income Statement - Quarterly data

(Amounts in € thousand)

	2019			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net interest	69,704	69,806	71,401	70,366
Net fee and commission income	82,275	84,253	81,282	77,361
Net trading, hedging and fair value income	15,323	11,601	8,026	9,811
Net other expenses/income	2,924	147	341	196
OPERATING INCOME	**170,226**	**165,807**	**161,050**	**157,734**
Staff expenses	(23,558)	(22,497)	(22,444)	(21,653)
Other administrative expenses	(60,877)	(56,019)	(58,669)	(65,073)
Recovery of expenses	26,582	26,669	24,227	26,590
Impairment/write-backs on intangible and tangible assets	(6,571)	(5,783)	(5,366)	(5,144)
Operating costs	**(64,424)**	**(57,630)**	**(62,252)**	**(65,280)**
OPERATING PROFIT (LOSS)	**105,802**	**108,177**	**98,798**	**92,454**
Net impairment losses on loans and provisions for guarantees and commitments	(597)	(1,227)	1,124	(1,270)
NET OPERATING PROFIT (LOSS)	**105,205**	**106,950**	**99,922**	**91,184**
Other charges and provisions	(3,536)	(19,780)	(2,856)	(980)
Integration costs	-	-	2	(2)
Net income from investments	1,122	450	6,463	(658)
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**102,791**	**87,620**	**103,531**	**89,544**
Income tax for the year	(9,585)	(26,575)	(31,689)	(27,272)
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**93,206**	**61,045**	**71,842**	**62,272**
PROFIT (LOSS) FOR THE YEAR	**93,206**	**61,045**	**71,842**	**62,272**
NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP	**93,206**	**61,045**	**71,842**	**62,272**

(Amounts in € thousand)

	2018			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net interest	71,073	69,940	68,742	68,904
Net fee and commission income	81,785	72,680	74,516	71,462
Net trading, hedging and fair value income	5,912	10,731	13,093	14,545
Net other expenses/income	1,680	(350)	96	487
OPERATING INCOME	**160,450**	**153,001**	**156,447**	**155,398**
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)
Operating costs	**(61,378)**	**(59,743)**	**(61,005)**	**(63,638)**
OPERATING PROFIT (LOSS)	**99,072**	**93,258**	**95,442**	**91,760**
Net impairment losses on loans and provisions for guarantees and commitments	(2,333)	(895)	155	(1,311)
NET OPERATING PROFIT (LOSS)	**96,739**	**92,363**	**95,597**	**90,449**
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
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**91,692**	**75,559**	**98,827**	**88,674**
Income tax for the year	(28,206)	(23,005)	(32,613)	(29,709)
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**63,486**	**52,554**	**66,214**	**58,965**
PROFIT (LOSS) FOR THE YEAR	**63,486**	**52,554**	**66,214**	**58,965**
NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP	**63,486**	**52,554**	**66,214**	**58,965**

Key figures of the consolidated financial statements

Main balance sheet figures

(Amounts in € thousand)

	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amounts	%
Loans receivable with ordinary customers (1)	3,263,940	2,632,270	631,670	24.0%
Total assets	28,022,907	24,732,630	3,290,277	13.3%
Direct deposits (2)	25,589,652	22,068,931	3,520,721	16.0%
Assets under administration (3)	55,829,163	47,263,709	8,565,454	18.1%
Total customers sales (direct and indirect)	81,418,815	69,332,640	12,086,175	17.4%
Shareholders' equity	1,382,484	975,681	406,803	41.7%

(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	
	12/31/2019	12/31/2018
No Employees	1,225	1,170
No Personal financial advisors	2,541	2,578
No Financial shops (1)	396	390

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

Profitability, productivity and efficiency ratios

(Amounts in € thousand)

	Data as at	
	12/31/2019	12/31/2018
Net interest/Operating income	42.96%	44.56%
Income from brokerage and other income/Operating income	57.04%	55.13%
Income from brokerage and other income/Operating costs	149.66%	141.03%
Cost/income ratio	38.12%	39.30%
Operating costs/TFA	0.33%	0.36%
Cost of risk	12 bp	24 bp
CoR (incentive system)	12 bp	24 bp
ROE	29.02%	35.61%
Return on assets	1.03%	0.98%
EVA (calculated on economic capital)	229,915	194,382
EVA (calculated on accounting capital)	198,436	167,840
RARORAC (calculated on economic capital)	31.90%	33.56%
RARORAC (calculated on accounting capital)	17.90%	18.52%
ROAC (calculated on economic capital)	40.01%	41.65%
ROAC (calculated on accounting capital)	26.01%	26.62%
Total sales to customers/Average employees	67,990	60,579
Total customer sales/(Average employees average PFAs)	21,671	18,553

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 balance as at December 31, 2019 and the balance as at the previous December 31.

Cost of risk: is the ratio of Net impairment losses of loans with customers in the last 12 months to loans and receivables with customers (average of the averages of the last four quarters, calculated as the average balance at the end of the quarter and the balance at the end of the previous quarter). The scope only includes loans to ordinary customers. The method of calculation for this indicator have been changed starting from the 2019 financial year and the indicators for the year 2018 have been restated for comparative purposes.

CoR (incentive system): is the ratio of Net impairment losses of loans with customers in the last 12 months to loans and receivables with customers (average of the balance as at December 31, 2019 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 profit, excluding extraordinary charges/income and related tax effects (integration costs and net profits from extraordinary investments), 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 (as described above) and the average of the quarters of the year of the allocated capital (calculated with the same methods envisaged for the calculation of the EVA) and expresses in percentage terms the capacity to create value per unit of risk taken.

ROAC (Return on Allocated Capital): the ratio of net operating profit to the average of the quarters of the year of the allocated capital (calculated with the same methods envisaged for the calculation of the EVA).

It should be noted that with regard to the "Income from brokerage and other income/Operating income" indicator, the figure as at 31 December 2018 was recalculated, for homogeneity, following the reclassification made in the condensed accounts as described into the "Introduction to the Annual Reports and Accounts".

With regard to EVA, RARORAC and ROAC (calculated on the economic capital), the 2018 data have been restated recalculating them with the economic capital updated to 31/12/2018 instead of 30/09/2018, as published in the 2018 Consolidated Financial Statements.

Balance Sheet indicators

(Amounts in € thousand)

	Data as at	
	12/31/2019	12/31/2018
Loans receivable with ordinary customers/Total assets	11.65%	10.64%
Loans and receivables with banks/Total assets	2.02%	12.37%
Financial assets/Total assets	79.60%	73.71%
Direct sales/Total liabilities and Shareholders' equity	91.32%	89.23%
Shareholders' equity (including profit)/Total liabilities and Shareholders' equity	4.93%	3.94%
Ordinary customer loans/Direct deposits	12.75%	11.93%

(Amounts in € thousand)

CREDIT QUALITY	Data as at	
	12/31/.2019	12/31/2018
Non-performing loans/Loans receivable with ordinary customers	0.11%	0.11%
Bad loans/Loans receivable with ordinary customers	0.05%	0.06%
Coverage [1] - Bad loans	91.39%	91.65%
Coverage [1] - Unlikely to pay	68.01%	76.80%
Coverage [1] - Impaired past-due exposures	65.45%	64.60%
Coverage [1] - Total Non-performing loans	85.92%	88.23%

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

Key figures of the consolidated financial statements (CONTINUED)

Consolidated Own funds and capital ratios

	Data as at	
	12/31/2019	12/31/2018 (2)
Common Equity Tier 1 Capital (€ thousand)	583,031	502,713
Total Own Funds (€ thousand)	1,083,031	702,713
Totale risk-weighted assets (€ thousand)	3,216,788	2,376,033
Ratio - Common Equity Tier 1 Capital	18.12%	21.16%
Ratio - Tier 1 Capital	33.67%	29.58%
Ratio - Total Own Funds	33.67%	29.58%

	Data as at	
	12/31/2019	12/31/2018 (2)
Tier 1 Capital (€ thousand)	1,083,031	702,713
Esposizione ai fini del leverage ratio - a regime	28,152,030	12,655,188
Exposure for leverage (€ thousand)	3.85%	5.55%

(2) The figures as at 31 December 2018 were determined on an individual basis, as on that date FinecoBank was not required to prepare the report relating to own funds and supervisory coefficients on a consolidated basis by virtue of belonging to the UniCredit banking group.

It is worth noting that following the exit from UniCredit group FinecoBank is required to prepare the report relating to own funds and supervisory coefficients on a consolidated basis as Parent Company of FinecoBank banking group.

The prudential requirements of the Group at 31 December 2019 were determined on the basis of the harmonized regulation for banks and investment firms contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of June 26, 2013 and subsequent Directives/Regulations that modify the content, which transpose the standards defined by the Basel Committee for banking supervision (so-called Basel 3 regulatory framework), collected and implemented by the Bank of Italy through the Circular no. 285 of 17 December 2013 "Supervisory provisions for banks" and subsequent updates.

Own funds as at December, 31 2019 include part of the profit of the 2019 that will not be distributed and which will be allocated to increase the value of reserves, for an amount equal to €93.3 million, assuming that the conditions set by art. 26, paragraph 2, of EU Regulation 575/2013 (CRR).

With regard to Risk Weighted Assets, it should also be noted that, at the same time as the deconsolidation of FinecoBank from the UniCredit Group on 10 May 2019, FinecoBank and UniCredit S.p.A. have entered into a contract (Pledge Agreement) which provides for the granting by UniCredit S.p.A. of financial guarantees in favor of FinecoBank aimed at guaranteeing credit risk exposures deriving from UniCredit bonds and from the financial guarantees issued by FinecoBank in favor of the Italian Revenue Agency at the request of UniCredit S.p.A., until they are completely extinguished (the agreement also provided that exposures represented by current accounts were guaranteed until November 2019). These financial guarantees, which at December 31, 2019 are represented by securities issued by sovereign governments, mainly Italian government securities, meet the requirements of the applicable legislation to be eligible in the context of credit risk mitigation techniques (CRM), with consequent reduction of Risk-Weighted Assets and Large exposures, without therefore determining significant changes compared to 31 December 2018 (amount on an individual basis) when, by virtue of belonging to the UniCredit Group, Risk Weighted Assets towards UniCredit Group companies based in Italy were weighted at 0%. In January 2020, UniCredit S.p.A. replaced some of the bonds issued by sovereign states, pledged as collateral under the Pledge Agreement, with the "Impresa2 FRN 20/12/2061 Asset Backed" bonds issued by Impresa Two S.r.l. as part of a securitisation transaction under Law 130/99 relating to trade receivables sold and repurchased by UniCredit S.p.A.. Also These bonds meet the requirements of the applicable legislation to be eligible for credit risk mitigation (CRM) techniques, with a consequent reduction in risk weighted assets and exposure for the purposes of the Group's Large Exposures. It should be noted, in fact, that the increase in Risk Weighted Assets as of December 2019 is mainly related to the business growth and the increase in regulatory capital requirements related to operational risks. With reference to the increase in regulatory capital requirements related to operational risks, it should be noted that at 31 December 2019 FinecoBank applied the Standardized Method, in place of the Advanced Measurement Method ("AMA") previously adopted. Moreover, the governance, the safeguards and the reporting framework required by the internal method for measuring the capital requirement (AMA), previously adopted, were maintained.

With reference to the Leverage ratio, it should be noted that the overall exposure as at 31 December 2018 (amount on an individual basis) was calculated excluding exposures to UniCredit group companies based in Italy and weighted to 0% pursuant to art. 113, par. 6 of the CRR, by virtue of FinecoBank's membership of the UniCredit banking group on that date. The Leverage ratio, in fact, is calculated in accordance with the Delegated Regulation EU 2015/62 of 10 October 2014 and by exercising the discretions provided for by the Circular no. 285 of the Bank of Italy, Part Two, Chapter 12, Section III Exercise of national discretions, by virtue of which, exposures to belonging group companies based in Italy and weighted to 0% pursuant to art. 113, par. 6 of the CRR have been excluded in the calculation of the overall exposure, pursuant to Article 429 (7) of the CRR amended by the Delegated Regulation (EU) 2015/62.

In the context of the decision of the Governing Council of the European Central Bank (ECB), received by the former parent company on 8 February 2019, regarding the prudential requirements of the Pillar II that UniCredit S.p.A. and its subsidiaries must comply, no additional Pillar II requirements have been requested from FinecoBank, that at that date was part of UniCredit Group. The decision is based on the SREP process (Supervisory Review and Evaluation Process), conducted under the guidance of the ECB within the UniCredit Group. As at 31 December 2019, no SREP was conducted on the Bank after the deconsolidation from UniCredit Group. Consequently, for FinecoBank the "Total SREP Capital Requirement" (TSCR) corresponds to the minimum Pillar 1 requirement.

The following is a summary of the transitional capital requirements and reserves for the Group required as of December 2019.

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%
C) TSCR (A+B)	**4.50%**	**6.00%**	**8.00%**
D) Combined Buffer requirement, of which:	2.522%	2.522%	2.522%
1. Capital Conservation Buffer (CCB)	2.500%	2.500%	2.500%
2. FinecoBank-specific Countercyclical Capital Buffer (CCyB)	0.022%	0.022%	0.022%
E) Overall Capital Requirement (C+D)	**7.022%**	**8.522%**	**10.522%**

As at 31 December 2019, Group ratios are compliant with all the above requirements.

Key figures of the consolidated financial statements (CONTINUED)

Market share

Trading on Italian Stock Market (Assosim)	12/31/2019	12/31/2018
Third party volumes traded on MTA	27.04%	24.75%
Classification of third party volumes traded on MTA	1°	1°

Personal financial advisors (Assoreti)	12/31/2019	12/31/2018
Stock volumes	11.40%	11.66%
Stock Classification	3°	3°

Personal financial advisors (Assoreti)	12/31/2019	12/31/2018
Net Sales volumes	14.66%	18.18%
Net Sales Classification	3°	2°

Total Deposits (Bank of Italy)	09.30.2019	12/31/2018
Market share - Total Financial Assets	1.81%	1.69%
Market share - Direct Deposits	1.59%	1.42%
Market share - Assets under Administration	1.99%	1.90%

Figures related to Total Deposits (Bank of Italy) refer to September 30, 2019 as they are the latest figures available.

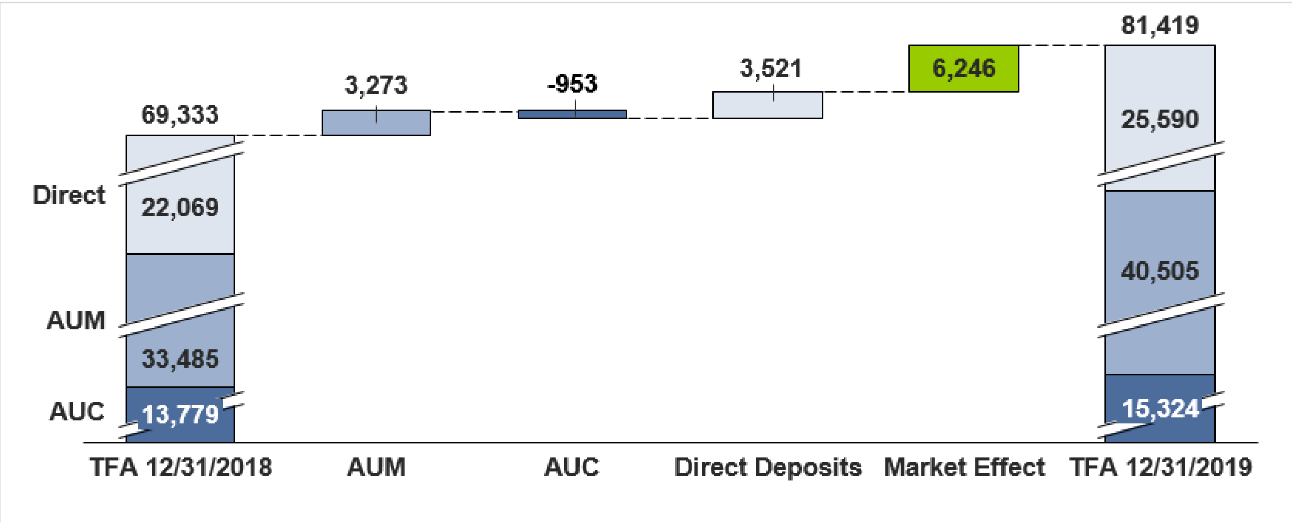
Business performance

Performance of total financial assets

Direct deposits showed growth of 16% compared to the end of the previous year, to reach €25,590 million and confirming the high level of appreciation of the quality of the services offered by the Group 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 €55,829 million increased by 18.1% compared to December 31, 2018, thanks to net sales of €5,840 million recorded in the 2019 and a positive market effect of €6,246 million (of which €3,748 million relating to AUM and €2,498 million relating to AUC).

Total financial assets (direct and indirect) thus reached €81.419 million, up 17.4% compared to the end of 2018, thanks to a total net sales of €5,840 million recorded in the 2019. The quality of sales was also confirmed, which shows a percentage impact of "Guided products & services[6] on TFA of 35.4%, up from the 32.3% recorded at 31 December 2018, and on Assets under Management of 71.07%, an improvement compared to 66.8% recorded at the end of 2018, thanks to the continuous refinement of the offer.



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

[6] 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", "Advice Top Valor", "Old Mutual", "Best in class", "FAM Evolution", "FAM Target", "Core Pension", "Private Client Insurance" e "GP Private value" 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	
	12/31/2019	Comp %	12/31/2018	Comp %	Amounts	%
Current accounts and demand deposits	25,588,332	31.4%	22,065,889	31.8%	3,522,443	16.0%
Time deposits and reverse repos	1,320	0.0%	3,042	0.0%	(1,722)	-56.6%
DIRECT DEPOSITS	**25,589,652**	**31.4%**	**22,068,931**	**31.8%**	**3,520,721**	**16.0%**
Segregated accounts	92,529	0.1%	1,095	0.0%	91,434	n.c.
UCITS and other investment funds	28,785,791	35.4%	24,853,033	35.8%	3,932,758	15.8%
Insurance products	10,115,054	12.4%	7,618,203	11.0%	2,496,851	32.8%
Asset under custody and Direct deposits under advisory	1,512,000	1.9%	1,012,355	1.5%	499,645	49.4%
ASSETS UNDER MANAGEMENT BALANCE	**40,505,374**	**49.7%**	**33,484,686**	**48.3%**	**7,020,688**	**21.0%**
Government securities, bonds and stocks	15,323,789	18.8%	13,779,023	19.9%	1,544,766	11.2%
ASSETS UNDER CUSTODY	**15,323,789**	**18.8%**	**13,779,023**	**19.9%**	**1,544,766**	**11.2%**
TOTAL FINANCIAL ASSETS	**81,418,815**	**100.0%**	**69,332,640**	**100.0%**	**12,086,175**	**17.4%**
of which Guided products & services	28,787,803	35.4%	22,369,583	32.3%	6,418,220	28.7%

The table below shows the figures for direct and indirect deposits solely for the personal financial advisors network' customers. Total financial assets, amounting to €70,687 million, increased by 18% compared to December 31, 2018, thanks to net sales of €5,121 million and a positive market effect.

Total financial assets - Personal Financial Advisors Network

(Amounts in € thousand)

	Amounts as at		Amounts as at		Changes	
	12/31/2019	Comp %	12/31/2018	Comp %	Amounts	%
Current accounts and demand deposits	19,206,453	27.2%	16,564,769	27.6%	2,641,684	15.9%
Time deposits and reverse repos	1,219	0.0%	2,793	0.0%	(1,574)	-56.4%
DIRECT DEPOSITS	**19,207,672**	**27.2%**	**16,567,562**	**27.7%**	**2,640,110**	**15.9%**
Segregated accounts	92,529	0.1%	1,095	0.0%	91,434	n.c.
UCITS and other investment funds	28,374,546	40.1%	24,476,015	40.9%	3,898,531	15.9%
Insurance products	10,033,227	14.2%	7,545,142	12.6%	2,488,085	33.0%
Asset under custody and Direct deposits under advisory	1,511,983	2.1%	1,012,329	1.7%	499,654	49.4%
ASSETS UNDER MANAGEMENT BALANCE	**40,012,285**	**56.6%**	**33,034,581**	**55.1%**	**6,977,704**	**21.1%**
Government securities, bonds and stocks	11,467,385	16.2%	10,307,435	17.2%	1,159,950	11.3%
ASSETS UNDER CUSTODY	**11,467,385**	**16.2%**	**10,307,435**	**17.2%**	**1,159,950**	**11.3%**
TOTAL FINANCIAL ASSETS - PERSONAL FINANCIAL ADVISORS NETWORK	**70,687,342**	**100.0%**	**59,909,578**	**100.0%**	**10,777,764**	**18.0%**
of which Guided products & services	28,754,383	40.7%	22,342,564	37.3%	6,411,819	28.7%

The table below shows the figures for net direct sales ,assets under management and assets under administration during the 2019 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 €5,840 million, decreased by 6.1% compared with the 2018.

Net sales

(Amounts in € thousand)

	Year 2019	Comp %	Year 2018	Comp %	Changes	
					Amounts	%
Current accounts and demand deposits	3,522,444	60.3%	2,134,707	34.3%	1,387,737	65.0%
Time deposits and reverse repos	(1,752)	0.0%	(6,539)	-0.1%	4,787	-73.2%
DIRECT SALES	**3,520,692**	**60.3%**	**2,128,168**	**34.2%**	**1,392,524**	**65.4%**
Segregated accounts	90,675	1.6%	(5,598)	-0.1%	96,273	n.c.
Investment funds and other funds	836,286	14.3%	(140,273)	-2.3%	976,559	n.c.
Insurance products	1,997,072	34.2%	1,828,637	29.4%	168,435	9.2%
Asset under custody and Direct deposits under advisory	348,837	6.0%	580,170	9.3%	(231,333)	-39.9%
ASSETS UNDER MANAGEMENT	**3,272,870**	**56.0%**	**2,262,936**	**36.4%**	**1,009,934**	**44.6%**
Government securities, bonds and stocks	(953,203)	-16.3%	1,830,410	29.4%	(2,783,613)	-152.1%.
ASSETS UNDER ADMINISTRATION	**(953,203)**	**-16.3%**	**1,830,410**	**29.4%**	**(2,783,613)**	**-152.1%**
NET SALES	**5,840,359**	**100.0%**	**6,221,514**	**100.0%**	**(381,155)**	**-6.1%**
of which Guided products & services	3,748,800	64.2%	2,765,823	44.5%	982,977	35.5%

The table below shows the figures for net direct sales ,assets under management and assets under administration solely for the personal financial advisors network' customers during the 2019 compared to the previous year.

Net sales - Personal Financial Advisors Network

(Amounts in € thousand)

	Year 2019	Comp %	Year 2018	Comp %	Changes	
					Amounts	%
Current accounts and demand deposits	2,641,684	51.6%	1,890,730	34.7%	750,954	39.7%
Time deposits and reverse repos	(1,608)	0.0%	(5,718)	-0.1%	4,110	-71.9%
DIRECT SALES	**2,640,076**	**51.6%**	**1,885,012**	**34.6%**	**755,064**	**40.1%**
Segregated accounts	90,675	1.8%	(5,598)	-0.1%	96,273	n.c.
Investment funds and other funds	843,762	16.5%	(132,127)	-2.4%	975,889	n.c.
Insurance products	1,995,164	39.0%	1,830,387	33.6%	164,777	9.0%
Asset under custody and Direct deposits under advisory	348,900	6.8%	580,298	10.6%	(231,398)	-39.9%
ASSETS UNDER MANAGEMENT	**3,278,501**	**64.0%**	**2,272,960**	**41.7%**	**1,005,541**	**44.2%**
Government securities, bonds and stocks	(797,611)	-15.6%	1,295,366	23.8%	(2,092,977)	-161.6%
ASSETS UNDER ADMINISTRATION	**(797,611)**	**-15.6%**	**1,295,366**	**23.8%**	**(2,092,977)**	**-161.6%**
NET SALES - PERSONAL FINANCIAL ADVISORS NETWORK	**5,120,966**	**100.0%**	**5,453,338**	**100.0%**	**(332,372)**	**-6.1%**
of which Guided products & services	3,749,061	73.2%	2,771,228	50.8%	977,833	35.3%

Performance of main income statement aggregates

Operating income came to €654.8 million, up 4.7% compared to €625.3 million accounted for the year 2018.

Net interest, Net fee and commission income and **Net trading, hedging and fair value income** contributed to the increase in the operating income as they rose, respectively, by 0.9%, 8.2% and 1.1%.

The increase in **Net interest** of €2.6 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 Group contributed to maintaining a significant level of interest income, with the average gross rate on interest-earning assets standing at 1.20% (1.30% as at December 31, 2018).

Net fee and commission income increased of €24.7 million compared to the previous year, mainly thanks to higher net fee and commission income for the placement and management of managed asset products and investment advisory services (+€23.5 million). It should be noted that in 2019 the subsidiary Fineco AM generated net commissions for €62.5 million.

Net trading, hedging and fair value income was mainly generated by gains realised from the internalisation of securities, futures, Logos, Daily Option, CFD, financial instruments used for operational hedging of CFDs and the exchange differences on assets and liabilities denominated in currency, decreased by €2.4 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 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 in 2019 resulted in a gain of €2.6 million (€1.6 million in 2018) and in a loss of €4.5 million (€3 million in 2018). The item also includes the profits recognised in relation to the sale of government securities and UniCredit securities in dollar recorded in "Financial assets at amortised cost" for an amount of €2.9 million and the profit recognized in relation to the amount paid by the Voluntary Scheme to FinecoBank for an amount of €1.6 million, relating to the four tranches of interest, net of the costs incurred during the year 2019, paid by Banca Carige S.p.A. on the subordinated loan underwritten by the Voluntary Scheme as part of the support intervention carried out.

Operating costs remain under control, highlighting an increased by €3.8 million compared to the previous year (+€3.5 million for "Staff expenses", -€12.2 million for "Other administrative expenses net of Recovery of expenses" and +€12.4 million for "Impairment/write-backs on intangible and tangible assets"[7]). The 1.6% increase in operating costs, in fact, is limited compared to the expansion of assets, customers and structure, confirming the strong operational leverage of the Group and the widespread corporate culture in cost governance theme, certified by a cost/income ratio of 38.12% (39.3% at 31 December 2018).

Net write-downs of loans and provisions for guarantees and commitments in 2019 amounted to -€2 million (-€4.4 million in 2018). The lower adjustments recorded in 2019 compared to the previous year are attributable both to an improvement in the risk profile of the "loans receivable with ordinary customers" with retail customers, and to an increase in value recoveries relating to exposures to Unicredit S.p.A. counterparty, amounting to €2.2 million compared to €1 million accounted for in 2018, due to the reduction in exposures due to the transfer of liquidity in the HAM account at the Bank of Italy, as well as the closing of time deposits with UniCredit S.p.A. occurred during the first half of 2019.

Other charges and provisions amounted to €27.2 million increased by 27% million compared to the previous year, mainly due to greater charges for the contributions 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 €18.1 million compared to €14.3 million paid in 2018.

The **Net income from investments** stood at €7.4 million showing an increase of €6.3 million compared to 2018. The write-backs recorded in 2019 are due both to the decrease in the exposures in the debt securities issued by UniCredit S.p.A. and to the improvement in the related risk profile thanks to the financial guarantee issued by UniCredit S.p.A., at the same time as the Bank leaves the related group, for a total amount of €7.1 million, as previously described in the "Relevant events of the period". It should be noted that in 2018 the Group had already recorded writebacks on debt securities issued by UniCredit S.p.A. and accounted in "Financial assets at amortized cost" for approximately €2.6 million.

Profit before tax from continuing operations amounted to €383.5 million, up 8.1% compared to the previous year, mainly thanks to higher net fee and commission income. Excluding the non-recurring items 2019 mentioned before[8], the Profit before tax from continuing operations should be €386.4 million, up 7.5% compared to 2018 net of non-recurring items[9].

[7] It should be noted that due to the entry into force of the standard IFRS 16 and its application starting from 1 January 2019 and the purchase, in the same month of January, of the property in Milan, Piazza Durante 11, the "Other expenses administrative expenses net of Recovery of expenses" and "Impairment/write-backs on intangible and tangible asset" items are not fully comparable with 2018. In particular, as at 31 December 2019 there was a reduction in real estate premises rentals, equal to €12.3 million, the recognition of amortization on the rights of use deriving from leasing contracts for €9.5 million and the recognition of the depreciation of the property owned for -€1.3 million.

[8] 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 -€ 4.5 million (gross of the tax effect), profit recognized by the Voluntary Scheme to FinecoBank for an amount of €1.6 million (gross of the tax effect), relating to the four tranches of interest, net of the costs incurred during the year 2019, paid by Banca Carige S.p.A. on the subordinated loan underwritten by the Voluntary Scheme.

[9] 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 (gross of the tax effect), severance paid in for an amount of -€1.6 million (gross of the tax effect) and integration costs for an amount of €0.1 million (gross of the tax effect).

The **Net profit for the year** amounted to €288.4 million, showing an increase of 19.5% compared to €241.2 million of the previous year, and includes the tax benefit known as the Patent Box (introduced by Law 190/2014, as amended by article 5 of Decree Law 3/2015) for the five-year period 2015-2019 was recognised in 2019 for an estimated €21.6 million. Excluding the non-recurring items 2019 mentioned before[10], the Net profit for the year should be €268.8 million, up 10% compared to 2018 net of non-recurring items[11].

Performance of main balance sheet aggregates

Cash and cash balances, amounting to €754.4 million, mainly consists of the liquidity deposited in the HAM (Home Accounting Model) account at Bank of Italy, which FinecoBank opened in 2019 to transfer the liquidity previously deposited with UniCredit S.p.A..

Loans and receivables with banks, which as at 31 December 2018 included the liquidity deposited with UniCredit S.p.A., in part transferred to the HAM account at Bank of Italy, as well as time deposits with the same UniCredit S.p.A. extinguished during the first half of 2019, consequently they amount to €566 million, showing a reduction of 81.5% compared to 31 December 2018.

Loans and receivables with customers came to €3,679.8 million, up 24.5% compared to December 31, 2018, thanks to the increase in lending. During 2019, €216 million in personal loans and €412 million in mortgages were granted and €797 million in current account overdrafts were arranged, with an increase in exposures in current account of €273.5 million; this has resulted an overall 24% aggregate increase in loans to customers compared to December 31, 2018. Impaired loans net of impairment losses totalled €3.6 million (€2.8 million as at December 31, 2018), with a coverage ratio of 85.92%; the ratio between impaired loans and loans to customers was confirmed equal to 0.11% (0.11% as at December 31, 2018).

Financial investments came to €22,304.9 million, up 22.3% compared to December 31, 2018. The carrying amount of the debt securities issued by the UniCredit S.p.A. amount to €7,501.4 million, down compared to €9,115.8 million as at December 31, 2018 due to the repayment of securities maturing during 2019. The purchases made by the Group during 2019 mainly concerned securities issued by sovereign States, supranational entities and covered bonds.

Deposits from banks totalled €154.7 million, showing a decrease of 84.7% compared to December 31, 2018, mainly attributable to the non-renewal of repurchase agreements with UniCredit S.p.A.. The item also includes the "Lease liabilities" from banks, amounting to €7.2 million, representing the financial debt corresponding to the present value of the payments due in the lease agreements stipulated with credit institutions not paid at the reporting date, as required by IFRS 16.

Deposits from customers came to €25,919.9 million, up 16.4% compared to December 31, 2018, due to the growth in direct deposits from customers. The item also includes the "Lease liabilities" from customers, amounting to €60.1 million, of which €0.8 million relating to the subsidiary Fineco AM, representing the financial debt corresponding to the present value of the payments due in the lease agreements stipulated with credit institutions not paid at the reporting date, as required by IFRS 16.

Shareholders' equity amounted to €1,382.5 million, showing an increase of €406.8 million compared to December 31, 2018. The increase is mainly due to the placement of the Additional Tier 1, on 11 July 2019, mentioned before, for a total amount of €300 million, to the profit 2019, equal to €288.4 million, partially offset by the payment of dividends on the profit for the year 2018, for an amount of €184.5 million.

[10] 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 -€3.0million (net of the tax effect), profit recognized by the Voluntary Scheme to FinecoBank for an amount of €1.1 million (net of the tax effect), relating to the four tranches of interest, net of the costs incurred during the year 2019, paid by Banca Carige S.p.A. on the subordinated loan underwritten by the Voluntary Scheme and tax benefit recognized thanks to the so-called Patent Box regime, for a total of +€21.6 million.

[11] 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 -€2 million (net of the tax effect), severance paid in for an amount of -€1.1 million (net of the tax effect) and integration costs for an amount of €0.1 million (net of the tax effect).

Communications and external relations

The year 2019 opened with the launch of the new Human Factor communication campaign. A campaign that conveyed a message of great value, in continuity with the previous campaign, on the relationship between Man and Technology.

“The bank that simplifies banking” has been confirmed as the unique positioning of FinecoBank also in 2019.

Communication activities were all concentrated in the first half of the year: to support the launch of the new campaign, three major communication flights were planned which involved the use of all means of communication (TV, radio, financial press, digital media and posters) up to June 2019.

The reputational data certified by the Reputation Institute[12] are particularly significant, placing FinecoBank among the banks with the highest reputation.

Numerous events and training opportunities have involved the Network of personal financial advisors during the year. In March the usual convention dedicated to Private Banking was organized and, in June, the Investment Seminar which has brought about 300 financial advisors to investigate market trends and macroeconomic. Numerous events were also organized on the territory in favor of the Private clients.

Significant awards received by FinecoBank in the year:

- in June 2019 the Moige awarded Fineco with the "Moige TV Family Friendly Award" as the best spot;
- Euromoney places Fineco in first place in Italy in the "Technology" and "International Clients" categories of the 2019 edition;
- Fineco is "Top Employer Italy" for its attention to the valorisation of resources and the development of skills, promoting a positive and stimulating work environment;
- the Bank has been recognized during the ESG Awards, the event organized by Milano Finanza which recognizes Italian companies with the best sustainability index according to Standard Ethics;
- in September 20019 Kantar analyzed the retail banking sector in Italy in terms of brand promise and customer experience, and it indicated Fineco as Best Performer, with a performance 36% above the market average.

Fineco's marketing and communication activities in the UK intensified during 2019 thanks to a model and a unique positioning for that reference market. "The Multi-currency Bank": a multi-channel direct bank that offers banking, trading and investment services in a single multi-currency account.

The offer of investment products is growing and the Group is working towards acquiring new customers by activating digital campaigns and organizing events and workshops that increase opportunities for contact. In this context, Fineco has decided to undertake a path of knowledge of its customer taking advantage of big data and campaign optimization technologies to offer an increasingly coherent and important service for its users.

Incentive plans

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 subsequently approved by the Shareholders’ Meeting of April 10, 2019:

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

The Board of Directors of Fineco Asset Management, which met on February 4, 2019, approved the 2019 Incentive System for personnel belonging to the "Key Personnel".

On February 5, 2019, in view of the positive outcome of the verification of the minimum entry conditions (at Bank level and UniCredit Group level, where applicable, by virtue of FinecoBank belonging to the UniCredit Group up to 8 May 2019) and the individual conditions (compliance of conduct and continued employment) and the favourable opinion provided by the Remuneration Committee in its meeting of February 1, 2019, the Board of Directors of FinecoBank approved:

- with reference to the 2014, 2015 and 2016 “Incentive Systems (Bonus Pool)”:
    - the execution of the plans;
    - the allocation of the third share tranche of the 2014 plan, awarded in 2015, corresponding to 70,708 free ordinary shares, in line with the maximum amount approved by the Board of Directors on May 15, 2014;

[12] The Reputation Institute (“RI”) is the world’s leading research-based consulting and advisory firm for reputation. RI enables many of the world’s leading companies to make more confident business decisions that build and protect reputation capital, analyze risk and sustainability topics, and drive competitive advantage. RI’s most prominent management tool is the RepTrak® model for analysing the reputations of companies and institutions — best known via the Global RepTrak® 100, the world’s largest and most comprehensive study of corporate reputations.

  - the allocation of the second share tranche of the 2015 plan, awarded in 2016, corresponding to 42,057 free ordinary shares, in line with the maximum amount approved by the Board of Directors on January 22, 2015
  - the allocation of the first share tranche of the 2016 plan, awarded in 2017, corresponding to 60,816 free ordinary shares, in line with the maximum amount approved by the Board of Directors on January 12, 2016;
  - a free capital increase, for a total amount of €57,281.73 corresponding to a total of 173,581 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, of April 23, 2015 and April 12 2016, 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.
- with reference to the “2014-2017 Top Management Multi-Year Plan”:
  - the execution of the plan;
  - the allocation of n. 335,624 free ordinary shares to the beneficiaries of the third share tranche of the plan, awarded in 2016, in line with the maximum amount approved by the Board of Directors on February 8, 2016;
  - a free capital increase, for a total amount of €110,755.92 corresponding to a total of 335,624 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 0.06% of the fully diluted capital;
  - changes to the Rules as regards entry conditions.
- with reference to the “2018 Plan PFA”:
  - the proposal for determination of the 2018 Bonus Pool for the personal financial advisors;
  - the proposals for the determination of the 2018 and deferments previous years’ bonus for personal financial advisors categorised as “Identified Staff”;
  - the allocation of FinecoBank shares amounting to €178,220.62 (n. 297,620 ordinary 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 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.
- with reference to the “2018 Incentive System (Bonus Pool)”:
  - the FinecoBank “2018 Bonus Pool”;
  - the proposals for the determination of the 2018 bonus for the Chief Executive Officer and General Manager and other Managers with Strategic Responsibilities and other Identified Staff;
  - the allocation of n. 168,897 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 “2017 Incentive System (Bonus Pool)”:
  - the execution of the plan;
  - the allocation of the second tranche in cash of the plan awarded in 2018.
- with reference to the “2017 PFA Incentive System”:
  - the execution of the plan;
  - 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 “2016 PFA Incentive System” :
  - the execution of the plan;
  - the allocation of the first tranche of the plan, equal to n. 34,644 FinecoBank ordinary shares.
- with reference to the “2015 PFA Incentive System”:
  - the execution of the plan;
  - the allocation of the second tranche of the plan, equal to n. 9,034 phantom shares and 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 “2015-2017 plan PFA”:
  - the execution of the plan;
  - the allocation of the second tranche of the plan, equal to n. 646,496 FinecoBank ordinary shares.

FinecoBank shares

Share information

FinecoBank share registered a strong increase of its value over the first four months of the year, reaching in April their all-time high at €12.39, while in the following months it suffered the effects of the sale by UniCredit S.p.A. of its shareholding: in two separate operations in May and July, previously illustrated, a total of 215.1 million shares were placed on the market, equal to 35.3% of the Bank's capital. The following and unexpected increase of the share's volumes, although causing an inevitable price correction, has not however interrupted the its overall growth trend in the year, which has recorded an increase of +22% as at December 31, 2019 if compared to the last trading day in 2018, outperforming the Euro Stoxx Banks index that grew by 11% since the beginning of the year.

As at December 31, 2019 the price of the share was equal to €10.69, increasing compared to the last closing price recorded at the end of 2018 at €8.78, and it has recorded an average value in the year 2019 equal to €10.23. The share recorded its all-time high at €12.39, as mentioned before.

The company's market capitalisation amounted to €6,509 million as at December 31, 2019.

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019
Official price of ordinary shares (€)						
- maximum	4.750	7.805	7.400	8.735	11.890	12.385
- minimum	3.808	4.438	4.622	5.345	7.956	8.514
- average	4.173	6.479	5.980	6.914	9.823	10.234
- period-end	4.668	7.625	5.330	8.535	8.778	10.690
Number of shares (million)						
- outstanding at period end	606.3	606.5	606.8	607.7	608.4	608.9

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, also including the asset management activity carried out by the subsidiary Fineco AM.

Given the Bank's specific business model that provides for a high level of vertical integration among its different activities, these main business segments are interdependent. Indeed, the Group offers its services (banking and investment services) through a network of personal financial advisors and online and mobile channels that operate in a coordinated and integrated manner. The completeness of the services offered makes it possible to offer as the customer's only point of reference (one stop solution) for banking operations and investment needs. This highly integrated and customer-based strategy has the consequence that the revenues and margins related to the different products/services (investing, banking and brokerage) are, therefore, deeply interdependent.

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

In 2019, activities to expand the Banking and Payment cards products and services offered and optimizing processes in terms of digitization continued, in order to make them more responsive to customer needs.

In this regard, it is worth noting:

- the expansion of the Multicurrency offer, the free service integrated within the Fineco account allowing to diversify liquidity and investments and to operate directly in the main world currencies, without exchange fees, only spreads, and directly in the reference currency. In addition to trading in Euro, Dollar, Pound Sterling and Swiss Franc, it is also available to all Fineco customers with active Multicurrency service, the possibility to trade in the following new currencies: Australian Dollar (AUD), Mexican Peso (MXN), Russian Ruble (RUB), South African Rand (ZAR), Swedish Krona (SEK), Canadian Dollar (CAD), Yen (JPY) and Turkish Lira (TRY);
- the enrichment of the digital payment services offered by adding further wallets with the introduction of Google Pay, Fitbit Pay and Garmin Pay services in addition to the existing Apple Pay service. These services allow you to make payments, either on the Visa or MasterCard circuit, using only your Android device or Fitbit or Garmin enabled smartwatch. These services have been enabled on all Fineco cards in Italy and the UK;
- the enablement of Fineco cards to use the PagoBancomat contactless service, which allows clients to pay in a contactless mode on the PagoBancomat Circuit as well;
- the evolution of the Gold Card into a "World" product, enriched with travel related services such as the possibility to access the Lounge Key Lounges and the Priceless City and Mastercard Reserved services offered by Mastercard.

With regard to the UK offer, in addition to the adjustment of the Multicurrency service with the new currencies mentioned above, it should also be noted:

- the activation of the SEPA Instant Bank Transfer service aimed at offering customers the possibility of receiving instant transfers in euro;
- the visualization within the website private area of the utilities debited on the account though a SEPA mandate;
- a new procedure for the account opening through the mobile channel. This new way of opening a Fineco account has been added to the current desktop version and includes, in addition to the clients' documents OCR reading, also clients' recognition through the webcam.

With regards to the optimization of existing processes, the following should be noted:

- the request to enable derivative operations with digital signature, during the account opening process;
- the integration of the digital signature in the requests to subscribe to the Multicurrency Service in USD, GBP, CHF once the account is opened from the reserved area of the Fineco website;
- the new method to update customer identification documents by uploading a photo from the APP;
- the revision of the processes to request a link and/ or a third-party rechargeable credit cards (registered to parties other than the current account holder) to allow an effective compilation/updating of the Personal Profile and the certification of the cardholder's contacts;
- the enrichment of the Fineco APP with C-bill and car tax payment services, the consultation of SEPA users domiciled on the current account and the acquisition of the IBAN through a camera shot when doing a bank transfer.

Finally, in November 2019, it was communicated to the customers of FinecoBank the modification of the monthly cost applied to the EUR current account and the monthly cost applied to the CHF Multicurrency items subscribed before 26 November 2016, through a unilateral amendment proposal pursuant to Art. 18 of the Consolidated Banking Act with effect from 1 February 2020.

With regard to EUR current accounts, the modification implies the introduction of a monthly account fee of a maximum of 3,95 euro and needed to be introduced because of the changed marketing condition during the last years which compromised the balance between the service costs incurred by the Bank and the economic conditions applied to current accounts The two main drivers of the measure have been the market interest rate reduction in a context of continuing economic weakness (moreover at the European level) and the incremental charges related to depositor protection legislation.

With regard to the CHF Multicurrency items subscribed before 26 November 2016, this change consists in the introduction of a variable monthly cost depending on the average stock and was necessary because of the expansionary monetary policy adopted by the Swiss National Bank, having a negative impact on the economic and financial balance between the cost of the Multicurrency service in CHF and the economic conditions applied to it, making the current profitable structure no longer sustainable. The management of the sub-heading Multicurrency CHF.

The table below shows an increase by 7.5% in credit card spending compared to 2018.

(Amounts in € thousand)

Credit products	Year 2019		Year 2018		Changes			
					Spending		Carrying amount	
	Spending	Carrying amount	Spending	Carrying amount	Amount	%	Amount	%
Revolving credit cards	49,849	43,486	51,194	43,201	(1,345)	-2.6%	285	0.7%
Credit cards full payment of balance	3,071,269	311,672	2,851,868	277,241	219,401	7.7%	34,431	12.4%
Total	**3,121,118**	**355,158**	**2,903,062**	**320,442**	**218,056**	**7.5%**	**34,716**	**10.8%**

In the regulatory area, in line with the provisions of Delegated Regulation 2018/389 of the European Commission of 27 November 2017, which supplements Directive (EU) 2015/2366 (PSD2), the Group's activities have been focused on:

- the development of a dedicated interface (Access to account Interface - XS2A Interface) to allow customers to access their accounts through third parties (TTPs). The functions made available through the new interface are as follows
  - Account Information Service, through which the customer can view the information related to their account (identification data, balance, transactions) through third-party interfaces;
  - Payment Information Service, through which the customer has the possibility to initiate payment instructions via a third-party interface;
  - Funds Confirmation, through which the third party has the possibility to check the actual availability on the account of the amount to be debited for the transaction before starting a payment request by card.

  In this regard, from March 2019, a dedicated portal (developer portal) was made available within the public area of the finecobank.com website, through which all technical information was made available to third parties to proceed with the integration of their services with the Bank;
- the launch of the Mobile Code service, a new feature of Fineco's APP that flanks SMS PIN and allows customers to confirm transactions arranged online or through mobile channel in accordance with the PSDII standards required in terms of Strong Customer Authentication. In this regard, we point out that Mobile Code is the code required in exchange of SMS PIN to access sensitive information and data in the account in accordance with the provisions of PSDII Directive 2015/2366/(EU), which came into force for Italy on 14 September 2019.

Mortgages, credit facilities and personal loans

As regards the granting of loans, the mortgage loan product portfolio continued to evolve during 2019, with the introduction of the “Mutuo Green” ("Green mortgage") offer, following the "environmental" initiatives identified by the Management Committee for Sustainability responsible for overseeing the Bank's sustainable growth strategy and ESG plans.

This new line of mortgages allowed to finance the purchase of real estate properties with energy class A or B at advantageous conditions, confirming Fineco's desire to introduce products aimed at promoting the principles of environmental sustainability.

The sales channels of the Credit Lombard product have also been expanded, adding to the subscription though personal financial advisor, the possibility of requesting the product online from the Private Area of the website with digital signature and upload of income documentation.

This new request channel allowed, first of all, to broaden the product sales target, including direct customers, as well as to support the operations of the personal financial advisor network since they now have the chance to direct customers towards a self-made request process and be able to focus more on consulting activities with greater added value.

The design and management of marketing campaigns to improve the brand's positioning and Fineco's offering and consolidate volumes for loan and mortgage products and increase the granting of guaranteed loans continued.

The following table shows the disbursements and the balance sheet of personal and unsecured loans, mortgages and the disbursement of current account credit lines, compared to the previous year.

(Amounts in € thousand)

Credit products	Year 2019		Year 2018		Changes			
					Disbursements		Carrying amount	
	Disbursements	Carrying amount	Disbursements	Carrying amount	Amount	%	Amount	%
Personal loans and unsecured loans	216,164	457,577	247,995	433,647	(31,831)	-12.8%	23,930	5.5%
Current account credit facilities*	797,440	1,292,172	945,053	1,018,700	(147,613)	-15.6%	273,472	26.8%
Mortgages	412,281	1,156,353	411,064	856,870	1,217	0.3%	299,483	35.0%
Total	**1,425,885**	**2,906,102**	**1,604,112**	**2,309,217**	**(178,227)**	**-11.1%**	**596,885**	**25.8%**

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

Furthermore note that the credit lines guaranteed by securities granted in 2019 totalled €780 million (€764 million related to "Credit Lombard", €13 million related to credit facilities secured by pledged and €3 million related to credit facilities with mandate for sale), equals to 98% of total amount of credit lines granted.

Brokerage

The 2019 has been filled with a result of Brokerage activity equal to €132.6 million, in line with €132.5 million recorded in the previous year, despite the lower volatility in the markets corded in the first nine months of 2019 and the fulfillment of the regulatory obligations of Mifid 2 and ESMA that significantly characterized the operation since the previous year. On this matter, however, stand out the good performance of the last quarter of the year, helped by the revisiting of the brokerage's offer and the introduction of the following new services and features:

- expansion of the Multicurrency offer range by making available to customers, in addition to the already present USD, GPB and CHF currencies, other currencies: TRY, CAD, AUD, MXN, RUB, ZAR, SEK, JPY and CNY;
- introducing the new Canadian market for stocks, ETFs, ETC and ETN trading on the Toronto Stock Exchange;
- expansion of the US Futures offer with the introduction of mini and micro futures on major indices and commodities;
- new Knock Out options product with underlying CFDs on indices, commodities and currency cross, whose trading, in euros, without fees, leverages up to 100 times and 1:1 linear price with the underlying CFD, allows you to make the most of the underlying trend with a guaranteed stop loss that limits operational risk;
- expansion of the futures trading service with the introduction, on the site, app and Powerdesk, of the new Super Leva operating mode, which allows you to trade, on the main futures of the CME (on mini and micro Dow Jones, Nasdaq and S&P, crude oil and mini crude oil), Eurex (Dax, Eurostoxx, Mini Dax, Bund and BTP Italy) and IDEM (FIB and mini FIB) with a leverage effect higher than currently offered with intraday margin, without any additional fees;
- introducing H24 operativity on Forex with reduced spreads starting at 1 pip. 24 hours a day, Monday through Friday, with the opportunity to open new multiday positions, manage protections and place closing orders even overnight;
- expansion the supply of CFDs on commodities, with the introduction of CFDs with lower notional and margin (5% of the notional for the Future on Gold, Oil, Natural Gas and Platinum; 2.5% for Palladio) compared to the same instruments already present within the Fineco offer. This allowed trading with lower margins, both intraday and overnight.

The following table shows the number of orders on financial instruments recorded during the 2019 compared to the previous year.

(Amounts in € thousand)

	Year		Changes	
	2019	2018	Absolute	%
Orders - Equity Italy (including internalised orders)	7,179,426	7,232,629	(53,203)	-0.7%
Orders - Equity USA (including internalised orders)	1,368,852	1,245,012	123,840	9.9%
Orders - Equity other markets (including internalised orders)	579,744	515,151	64,593	12.5%
Total Equity orders	*9,128,022*	*8,992,792*	*135,230*	*1.5%*
Orders - Bonds	572,226	488,314	83,912	17.2%
Orders - Derivatives	3,707,601	3,346,848	360,753	10.8%
Orders - Forex	473,186	712,753	(239,567)	-33.6%
Orders - CFDs	1,125,355	2,719,951	(1,594,596)	-58.6%
Orders - Funds	2,778,097	2,476,182	301,915	12.2%
Total orders	**17,784,487**	**18,736,840**	**(952,353)**	**-5.1%**

The table below shows the volume of trades carried out as direct counterparty in orders placed by customers, resulting from the internalization of orders received on shares, derivatives, CFDs and Logos, recorded in 2019 compared to the previous year.

(Amounts in € thousand)

	Year		Changes	
	2019	2018	Absolute	%
Equity (internationalization)	74,718,626	67,620,264	7,098,362	10.5%
Derivatives (internationalization)	70,282,219	-	70,282,219	-
Forex	24,294,595	43,345,841	(19,051,246)	-44.0%
CFD and Logos	37,915,332	74,818,404	(36,903,072)	-49.3%
Total "internalized" volumes	**207,210,772**	**185,784,509**	**21,426,263**	**11.5%**

It should be noted that the item "Derivatives (internationalization)" includes the internalization activity of orders received on options and futures which began, respectively, in July 2019 and in March 2019.

Investing

The Group 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.

During 2019, the range of collective asset management products was further enhanced with the addition to the platform of over 550 new ISINs and 1 new investment house available to customers including Fineco Asset Management funds. It worth noting that the FAM offer has further expanded with FAM Evolution funds: FAM Target, with a double advantage of gradually entering the market and preserving the purchasing power of liquidity (from the need to provide an Asset Allocation service simple and customised); Fam Advisory, based on the efficient frontier concept, and FAM Conviction, designed to provide a particular allocation vision. New Fam Advisory have also been introduced, as well as new FAM Series (among which "Jupiter") strategy and the new Private class for the Core Series, characterized by lower entry fees, with a higher minimum subscription amount, intended for Private customers.

In March 2019, with particular reference to and a special focus on the Private clients, FinecoBank's offering was supplemented with segregated accounts. For this service, the Group selected Banor Sim as its partner, a specialist company with a long track record, active in Italy since 1989. The product, exclusively for FinecoBank, offers 4 management lines with an increasing risk profile, called Private Value (*Prudente, Bilanciata, Sviluppo ed Azionaria* - Prudent, Balanced, Development and Share-based) whose portfolios mainly invest in debt and equity securities (minimum 80%). From July 2019, customers can opt for the administered tax regime in addition to the managed and declarative schemes, already planned initially. Starting from December 2019, the minimum contribution threshold was reduced, going from €500,000 to €250,000 and three new Private Ethics risk profile lines were launched with different risk profiles (from balanced to equity), again with 80% of the invested portfolio in debt and equity securities and selectable by customers under a single mandate including both the Private Value and Private Ethics Lines. From the launch date to 31 December 2019, funding related to such segregated accounts is approximately €91 million.

As regards pension products, customers are focussing increasingly on the open pension fund Core Pension, proposed exclusively for the FinecoBank network, which raised € 117 million during 2019.

In the insurance advisory sector, the marketing of the Aviva Top Valor range (“One”, “Private” and "Advice”) was completed in March and April, as the maximum limit was reached. At the same time, the placement of the new Eurovita life insurance policies, “Focus Gestione” and “Focus Gestione Private”, which use the Segregated Funds “Nuovo Secolo” and “Euroriv” respectively. Also in March, Multiramo Target, which uses Aviva's GEFIN Segregated Funds, was modified, changing the initial investment in GEFIN from 90% to 80%, in order to improve the mix between Life and investment-linked products. In the Private insurance segment, during the first half of the year subscriptions to the Luxembourg-established unit-linked policy Lombard Private Client Insurance began, which at the end of December 2019 reached approximately €26 million. In July, the placement of the new Eurovita Multiramo 90/10 began, with the Segregated Funds “Nuovo Secolo”, and at the same time, the Private Management Focus was replaced by the new Private II Management Focus (Segregated Funds “Nuovo Secolo”) with new pricing and an initial size of €500 thousand. In September, the "Advice" version of Eurovita Focus Management was launched and in the last quarter of 2019, following the achievement of a maximum *plafond* limit, the Eurovita Focus on Private Management II and Focus on Advice Management were closed. Finally, within the Health Policies, the Aviva Health Premium Policy was launched, capable of responding to various protection needs, from the reimbursement of certain medical expenses in the event of injury and illness to financial support in the event of non-self-sufficiency, following an accident at work or illness.

Placement on the primary market (IPO) was carried out through the Cassa Depositi e Prestiti mixed-rate 2019-2026 OPS, in which the Group participated as distributors on request of UniCredit Bank AG. In addition, although not formally distributors, the Group assisted primary customers in acquiring NEXI shares placed and listed on the MTA market.

As part of the placement of Investment Certificates on the primary market, from October 2019 three products issued by UniCredit S.p.A. were placed through the structuring of UniCredit Bank AG, generating a total financial assets of around €26 million.

As regards advisory services, during 2019, the Group continued activities to improve services for customers, expanding the range of instruments available to the network of financial advisors. As regards the Fineco Plus service:

- the tool for prospect customer diagnostics was launched: the service gives personal financial advisors the chance to give potential customers a complete analysis of their portfolio and a preview of the specific aspects of the Plus service;
- the "Plus investment proposal report" was created, which is automatically attached to recommendations sent by personal financial advisors to customers, advising on operations and presenting the final effect on the portfolio in terms of asset allocation, diversification and return risk.

At the same time, the offering of administered funds that can be recommended in the Advice and Plus advisory services was expanded, and now comes to over 3,000 instruments.

The following table shows in detail the composition of the products of assets under management as at 31 December 2019, whose balance shows an increase of 21% compared to 31 December 2018.

(Amounts in € thousand)

	Amounts as at		Amounts as at		Change	
	12/31/2019	Comp %	12/31/2018	Comp %	Absolute	%
UCITS and other investment funds	28,785,791	71.1%	24,853,033	74.2%	3,932,758	15.8%
Insurance products	10,115,054	25.0%	7,618,203	22.8%	2,496,851	32.8%
Segregated accounts	92,529	0.2%	1,095	0.0%	91,434	n.c.
Asset under custody and Direct deposits under advisory	1,512,000	3.7%	1,012,355	3.0%	499,645	49.4%
Total assets under management	**40,505,374**	**100.0%**	**33,484,686**	**100.0%**	**7,020,688**	**21.0%**

The network of personal financial advisors

In 2019, the first half was characterised by a cautious attitude among savers, with a preference for "unsecured" forms of investment, despite the recovery of the markets and lower volatility compared to 2018. In the second half, there was more "enthusiasm" among savers, due also to markets that continued to perform, generating a generally more confident climate. This provided an excellent opportunity for Fineco's financial advisors, who, by putting their long-term customer relationships at the heart of their work, confirmed their key role in assisting with their customers' financial planning. In addition, thanks to the highly transparent approach adopted, the dreaded effects of cost reporting required by MiFID II have been virtually irrelevant and have in no way undermined or called into question previous investment objectives and decisions.

Fineco's business model remains successful, as it continues to allow the Network to support existing customers, building stronger relationships and trust with the help of planning tools to meet their needs and control risk, and – just as effectively – to pursue new customers and build towards growth.

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The business model, sustainability and overall satisfaction levels contributed to the achievement of total net sales in 2019 of €5,121 million, with a clear improvement in quality compared to the previous year: €3,279 million in assets under management (+44%), with €3,749 million inflows into advisory services (Guided Products +35%) and some 83,616 new current accounts. The growth was main generated by the existing network, with no particular contributions from tactical commercial campaigns or recruitment.

With regard to the quality of sales, it is note worthing that existing network has seen a growth in the average per capital portfolio of 19.7% yoy which over the 12 months, with an increase in the incidence of so-called Guided Products on managed assets that went from 37% at the end of 2018 to 41% at the end of 2019.

As regards the Private segment managed by the network, the overall assets were equal to €30,391 million (representing 43% of total assets managed by the network), with net sales of 2019 amounted to approximately €2,269 million and referred to around 32,955 customers, equal to 2.4% of total customers, mainly distributed over the €1-5 million segment.

During 2019 the Bank continued to finalize and innovate its product range, to meet any type of need, even the most complex. The instruments that offer progressive accumulation programs with the dual objective of draining liquidity on the one hand and allowing a gradual approach to equity exposure on the other, particularly avoiding typical errors related to market timing and management of emotions; in this sense, the contribution of Fineco AM is very important in the development of tools which, through careful selection and monitoring, guarantee adequate diversification and timely rebalancing. The risk control tools to be combined/integrated with the consultancy services are appreciated, so as to respond effectively to the needs of customers who are positioned in the lower part of the risk curve.

In this direction, many events have been organized in Italy and dedicated to customers (acquired and prospect) with the aim of promoting financial education. In 2019, 1,319 events were held throughout the country, with almost 56,000 customers and prospects attending.

Recruitment is confirmed as a complement and completion to the growth and increase in the quality of the Network; interest is directed towards high potential profiles, which share the Group's vision and the "customer-centric" strategy, characterized by dynamism and transparency, without forcing and shortcuts. In this context, 58 new senior financial advisors were selected in 2019, selected from networks, traditional banks and Private Banking sector.

The investment continued on "millennials", aware of the need to face generational turnover. As part of the so-called "Youth project", which aims to recruit recent university graduates, 58 new new advisors were taken on.

As at December 31, 2019, the network was made up of 2,541 personal financial advisors, operating countrywide through 396 financial shops (so called Fineco Centers), managed directly by the Bank or by the personal financial advisors themselves. Investments also continued in sales facilities used by the personal financial advisors, which contribute to enhancing the Bank's image and spreading its presence throughout the country.

Net sales - Personal Financial Advisors Network

The table below shows the breakdown of net direct sales, assets under management and assets under administration attributable to the personal financial advisors network in 2019 compared to the same period of the previous year.

(Amounts in € thousand)

	Year 2019	Comp %	Year 2018	Comp %	Changes	
					Amounts	%
Current accounts and demand deposits	2,641,684	51.6%	1,890,730	34.7%	750,954	39.7%
Time deposits and reverse repos	(1,608)	0.0%	(5,718)	-0.1%	4,110	-71.9%
DIRECT SALES	**2,640,076**	**51.6%**	**1,885,012**	**34.6%**	**755,064**	**40.1%**
Segregated accounts	90,675	1.8%	(5,598)	-0.1%	96,273	n.c.
Investment funds and other funds	843,762	16.5%	(132,127)	-2.4%	975,889	n.c.
Insurance products	1,995,164	39.0%	1,830,387	33.6%	164,777	9.0%
Asset under custody and Direct deposits under advisory	348,900	6.8%	580,298	10.6%	(231,398)	-39.9%
ASSETS UNDER MANAGEMENT	**3,278,501**	**64.0%**	**2,272,960**	**41.7%**	**1,005,541**	**44.2%**
Government securities, bonds and stocks	(797,611)	-15.6%	1,295,366	23.8%	(2,092,977)	-161.6%
ASSETS UNDER ADMINISTRATION	**(797,611)**	**-15.6%**	**1,295,366**	**23.8%**	**(2,092,977)**	**-161.6%**
NET SALES - PERSONAL FINANCIAL ADVISORS NETWORK	**5,120,966**	**100.0%**	**5,453,338**	**100.0%**	**(332,372)**	**-6.1%**
of which Guided products & services	3,749,061	73.2%	2,771,228	50.8%	977,833	35.3%

Total financial assets - Personal Financial Advisors Network

The table below shows the breakdown of direct sales, assets under management and assets under administration attributable to the PFA network as at December 31, 2019. Total financial assets, amounting to €70,687 million, increased by 18% compared to December 31, 2018, thanks to the positive contribution of direct sales generated during the year, equal to €5,121 million.

(Amounts in € thousand)

	Amounts as at		Amounts as at		Changes	
	12/31/2019	Comp %	12/31/2018	Comp %	Amounts	%
Current accounts and demand deposits	19,206,453	27.2%	16,564,769	27.6%	2,641,684	15.9%
Time deposits and reverse repos	1,219	0.0%	2,793	0.0%	(1,574)	-56.4%
DIRECT DEPOSITS	**19,207,672**	**27.2%**	**16,567,562**	**27.7%**	**2,640,110**	**15.9%**
Segregated accounts	92,529	0.1%	1,095	0.0%	91,434	n.c.
UCITS and other investment funds	28,374,546	40.1%	24,476,015	40.9%	3,898,531	15.9%
Insurance products	10,033,227	14.2%	7,545,142	12.6%	2,488,085	33.0%
Asset under custody and Direct deposits under advisory	1,511,983	2.1%	1,012,329	1.7%	499,654	49.4%
ASSETS UNDER MANAGEMENT BALANCE	**40,012,285**	**56.6%**	**33,034,581**	**55.1%**	**6,977,704**	**21.1%**
Government securities, bonds and stocks	11,467,385	16.2%	10,307,435	17.2%	1,159,950	11.3%
ASSETS UNDER CUSTODY	**11,467,385**	**16.2%**	**10,307,435**	**17.2%**	**1,159,950**	**11.3%**
TOTAL FINANCIAL ASSETS - PERSONAL FINANCIAL ADVISORS NETWORK	**70,687,342**	**100.0%**	**59,909,578**	**100.0%**	**10,777,764**	**18.0%**
of which Guided products & services	28,754,383	40.7%	22,342,564	37.3%	6,411,819	28.7%

Human resources

The parent: FinecoBank S.p.A.

As at December 2019, the Bank's employees are 1,201 up compared to 1,154 as at December 31, 2018. The breakdown was as follows:

Human Resources	31 December 2019	31 December 2018
FinecoBank employees	1,201	1,157
UniCredit Group employees seconded to FinecoBank (+)	-	-
FinecoBank employees seconded to the UniCredit Group (-)	-	(3)
Total human resources	**1,201**	**1,154**

During 2019, activities continued to strengthen and optimise the areas dedicated to business development, organisational support and risk control and management. This led to the hiring of 125 workers.

Out of the 125 new recruits, many 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.

Following FinecoBank's exit from UniCredit Group, the Bank put effort to insource Audit function, to strengthen controls functions (Compliace and CRO) and to set up the new organisational unit Regulatory affairs. This let to the inclusioning of 16 workers among the total resources hired.

In continuity with the past years, we put our effort in attracting new talents, with particular focus on Millennials, also thanks to employer branding initiatives aimed at meet and recruit new graduates or undergraduates and better understand the of the new generation behavioural matters.

Also 2019 showed a significant use of internal job rotation that involved 73 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 2019, a total of 81 employees left the Bank, including:

- 38 resignations;
- 43 for other reasons.

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

Category	Men		Women		Total	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Executives	24	22	5	4	29	26
Managers	278	256	108	103	386	359
Professional Areas	388	380	398	392	786	772
Total	**690**	**658**	**511**	**499**	**1,201**	**1,157**

As at 31 December, 2019, part-time staff in the Bank amounted to 93, accounting for 8% of employees, with women employees representing around 43% of the workforce. The average length of service was 10 years and the average age was around 40.

Employee training

At 31 December 2019, 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, linguistic behavioural-managerial training.

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

Training area	Hours of training
Mandatory	8,310
Technical	11,674
Foreign Language	8,678
Conduct – Management	1,937
Total	**30,599**

Mandatory training

The Bank is committed to constantly establishing and strengthening a risk and compliance culture, across the organisation, which enables its business to be profitable but also sustainable over time.

For this reason, considerable attention was paid to mandatory training, extended to all FinecoBank employees, who can take part in courses, through the MyLearning Platform, and also attend classroom sessions on specific issues (e.g. Anti-money laundering, Financial Sanctions, etc.). In addition, mandatory training was periodically monitored, to guarantee that all employees receive this training and to protect the Bank from operating, legal and reputational risk related to the non-completion of courses.

To guarantee conformity to new regulatory provisions, in particular concerning consumer mortgages and MIFID, the Bank has ensured that all staff affected receive adequate training, and that their minimum skillsets and knowledge are aligned.

Moreover, during 2019, FinecoBank undertook to raise an awareness of the importance of a Compliance Culture among employees, which is fundamental for promoting transparency and compliance with rules as the basis for FinecoBank's business.

Technical training

During the year, training sessions were organised with the assistance of external suppliers and internal resources, for the acquisition of technical skills needed to improve not only company productivity but also the level of employee specialisation.

The MyCampus training catalogue was made available to the Bank's human resources, further extending e-learning dedicated to various topics.

With a view to maintaining a high quality service and customer focus, training courses were held for the Customer Care department, for incoming and existing staff, with a total of 9,618 hours delivered, targeting the acquisition of main technical and specific skills, and the consolidation of relational and communication skills.

To support employees' development, FinecoBank offers tailor made training paths for managers. Leadership Training Program is especially dedicated to Team Leaders and coordinators. The aim of this initiative is to create a common culture, a larger role awareness, a common language and foster collaboration between different teams. This project, started as pilot in 2017, involved at December 31st 2019, 60 resources.

All the participants have been involved in individual interviews, classroom and coaching sessions to support the achievement of their professional development goals .

Thanks to the partnership with "Valore D", in 2019 Fineco participated to training paths dedicated to the enhancement of women talent inside the company.

- Young Talent Path: To encourage the attitude to a continuous education and entrepreneurial spirit in young women
- Middle Management: To foster women careers towards role with larger responsibilities
- Senior Manager (dedicated to women and men): to support senior managers in cultural changes towards a more inclusive environment. The participants can deepen a new leadership model based on talent development in their teams

Foreign language training

Foreign language training in 2019 involved some 290 employees in English courses (classroom-based or via telephone). In some cases (e.g. for Executives), "one-to-one" training courses in Business English were provided. Employees are assigned to participate in foreign language training courses based on requests made by the individual unit managers, based on the specific professional needs of colleagues.

Moreover, in view of the importance of foreign language training, a platform has been made available to all human resources, with learning tools such as videos, role playing and virtual classrooms.

Human resources (CONTINUED)

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

As at 31 December 2019, the Company's employees are 24 of whom 8 women and 16 men and the average age is around 34.

The hirings from the market in 2019 are due to the completion of the organizational set up of the company, started in the previous year: staff constitution and the selected resources are dedicated to business, staff and control functions.

During 2019, 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.

Technology infrastructure

The current architecture of the information system adopted by FinecoBank means that the distribution structure, internal operating structure and applications used by customers to access dedicated services can be very closely integrated.

The technology infrastructure hosted by Datacenters basically consists of the following:

- Enterprise department systems dedicated to the provision of core services, such as storage, relational databases, core banking and core trading services, and digital archiving;
- Distributed systems dedicated to the provision of Omnichannel services (website, mobile apps, extranet, telephone banking, etc.) and non-relational databases (NoSQL);
- Middleware systems dedicated to internal technical integration and integration with counterparties (EAI/BPM).

As regards Fineco AM, the company uses a third-party platform to manage investment services.

During 2019, the ICT & Security Office Department (CIO) carried out its usual activities for the technological upgrading, consolidation and development of the information system, in order to provide innovative, reliable, added value services to customers.

In terms of the architecture, infrastructure and application optimisation continued, constant improvements were made to the architecture application security and tuning carried out, to align with regulations, with the Bank's customary focus on digitalisation issues.

The main project activities completed include, by sector:

- Consolidation of advisory activities based on the cyborg-advisory model:
    - Introduction of the digital signature for Eurovita and Aviva projects
    - Availability of information reports on costs and ex-post charges set by the MIFID2 regulation
    - Enhancement of the Plus advisory service, with:
        - the introduction of Commercial Reports, Prospect Diagnostics and Administered simulator
        - possibility of including equity securities among those in consulting
    - Enhancement of the Plus advisory service, with:
        - Introduction of Eurovita insurance
        - Certificates subscription
- Expansion of products and services offered
    - Activation of the platform to internalise trading orders for the Futures market and for knockout options
    - Introduction of the new Super Leva Futures operating method for Italian and UK customers
    - Extension of the MultiCurrency service to 12 new foreign currencies for Italian and UK customers with activation by Digital Signature
    - Extension of the H24 opening hours of the Forex CFD service
    - Extension of the availability of the Daily Options on the PowerDesk professional trading system and on the mobile APPs
    - Subscription to Credit Lombard and Insurance Policies through online web site
    - Introduction for UK customers of the Fondi platform, the Sepa Direct Debit service (SDD) and Instant Payments (IP)
    - Extension of the offer with Mutuo Fineco Green
    - Extension of the services offered through the mobile platform: Cbill Bulletins, Consumer Information, IBAN recognition with camera, Currency Exchange in HomePage
    - Activation of the “Apriconto Mobile” service for UK customers
    - Release of the API Multiplatform available to make purchases with GooglePay, FitBit and Garmin Pay devices, as well as Apple devices
- Obligations relative to the payment services directive – PSD2
    - Distribution of the Secure Customer Authentication system based on the “Mobile Code”, prior to alignment with PSD2
    - Availability of a dedicated portal that gives certified third parties an API catalogue and associated documentation to enable the integration of PSD2-regulated services
    - Release of the new Fineco XS2A interface (Access to account interface) to guarantee a secure channel for authentication and communication between ASPSP (Account Servicing Payment Service Providers) and TPP (Third Party Providers)
- Other obligations
    - Start of e-invoicing management
    - Implementation necessary to align information systems to financial reporting and regulatory obligations arising from the entry into force of new accounting standards and/or new provisions issued by the Supervisory authorities
    - Start of the internalisation of services previously provided by the former Parent Company UniCredit S.p.A..

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 the Bank and the FinecoBank Group.

FinecoBank, as the Parent Company, has equipped the Group with a single internal control system that allows effective control both of the strategic choices of the Group as a whole and of the management balance of the individual Group entities.

In terms of the methods applied, the Internal Control System of the Bank and of Fineco AM, the only subsidiary company, is based on three 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 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 specialised structures, monitoring of compliance risk is assigned to these structures based on the "Indirect Coverage" operating model;
- 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. This type of control is aimed at identifying violations of procedures and regulations as well as periodically assessing the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and information system (ICT audit), on a pre-established basis in relation to the nature and intensity of the risks. These controls are assigned to the Internal Audit function which, with effect from 10 May 2019, has been internalized; to verify the compliance of the behaviour of the companies belonging to the Group with the guidelines of the Parent Company as well as the effectiveness of the internal control system, the internal audit function of FinecoBank, on a consolidated level, periodically carries out on-site controls on the components of the Group, taking into account the importance of the different types of risk assumed by the entities.

With regard to the subsidiary Fineco AM, formally established at the end of 2017 and operational in July 2018, the organizational structure involves the performance of Compliance, Risk Management activities by functions within the company and Internal Audit[14] activity outsourced to PWC company.

[14] The internal audit activity in the second half of 2018 was outsourced to UniCredit S.p.A.

The Parent Company's 2nd and 3rd level corporate functions submit an annual report to the corporate bodies illustrating the controls carried out, the results emerged, the weaknesses detected with reference, in addition to the Parent Company itself, also to the banking Group as a whole and propose the interventions to be adopted for the removal of the detected deficiencies.

Institutional supervisory controls were also set up at the Parent Company: these refer to controls by the Bank's supervisory 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 Bank's 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 Corporate Governance Appointments and Sustainability Committee, the Chief Executive Officer and General Manager[15], the Board of Statutory Auditors, the Supervisory Body set up pursuant to Legislative Decree 231/01 and the corporate control functions (Risk Management, Compliance[16], Internal Audit) as well as other company functions with specific internal control duties[17];
- 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;
    - definition of information flows both between corporate bodies and control functions of the Bank.

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" and belonging to the UniCredit Group (classified as a "significant supervised group"), was one of the "significant supervised entities"; starting from September 2019, following the classification process carried out by the Supervisory Authorities after the exit from the Unicredit group, the Group is reported among the "Less Significant High Priority Institution".

Main risks and uncertainties

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

15 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.

16 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.

17 The legislative framework and the codes of conduct assign control tasks to specific functions - other than corporate control functions - whose work should be seen as being a functional part of the Internal Control System. For the Bank in particular, these include the Local Control System for legislation concerning related-party transactions carried out with associated persons in a conflict of interest situation (under the responsibility of the Corporate Secretariat Unit of the Legal & Corporate Affairs Department), the Nominated Official in charge of drawing up company accounts pursuant to Article 154-bis of the Consolidated Finance Act (identified as the Bank's CFO), the Occupational Health and Safety Officer; the Human Resources function, the Head of Business Continuity & Crisis Management, and the Head of Outsourcing Management (Costs Manager Assistant). All corporate functions, other than corporate control functions, also participate in the Internal Control System by carrying out the level-one controls included in the business processes within their responsibility.

Organisational structure

In April 2019 some changes were made to the organizational structure of the Global Business Department and the Organization and Bank Operations Department with the creation of new structures, the renaming of existing structures and the redistribution of some activities for a better representation.

Following the exit of FinecoBank from the UniCredit Banking Group and the registration of the FinecoBank Banking Group with Register of Banking Groups, during May 2019, the Internal audit function was internalized, previously outsourced to UniCredit S.p.A. and during during the second half of 2019, specific structures have been identified within the Chief Financial Officer Department for the management of the consolidated financial statements and consolidated supervisory reports; in addition, the Regulatory Affairs, Procurement Office and the structure dedicated to the management of reports of suspicious transactions in the anti-money laundering field and the transmission to the FIU (Financial Information Unit) of those deemed to have been established.

Lastly, some further organizational changes were made within the Global Business Department, the Chief Risk Officer Department, the Securities Operations Department and Human Resources, in terms of redistribution of some tasks, to aggregate similar activities and limit the fragmentation of responsibilities , and to rename existing structures, for a better representation of them.

The Parent Company's Organisational Model

The Parent Company's organisational model is based on a functional model, which favours economies of scale and facilitates the development of vertical skills and knowledge within the area to which it belongs and guarantees the necessary decision-making mechanisms. 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 managerial Committees that monitor the progress of the most important projects among other activities. The synergies between the distribution channels and the oversight of the decision-making processes across the departments are guaranteed by the functioning of the Management Committee

The model sets out the identification of the corporate control functions: i) compliance with the standards (Compliance); ii) risk control (Risk management); iii) internal audit (Internal audit); and further direction and support and / or control functions, including the CFO - Chief Financial Officer, the Legal, Human Resources, Corporate Identity and the control function on the network of personal financial advisor.

Furthermore the model identifies three further functional lines, which govern:

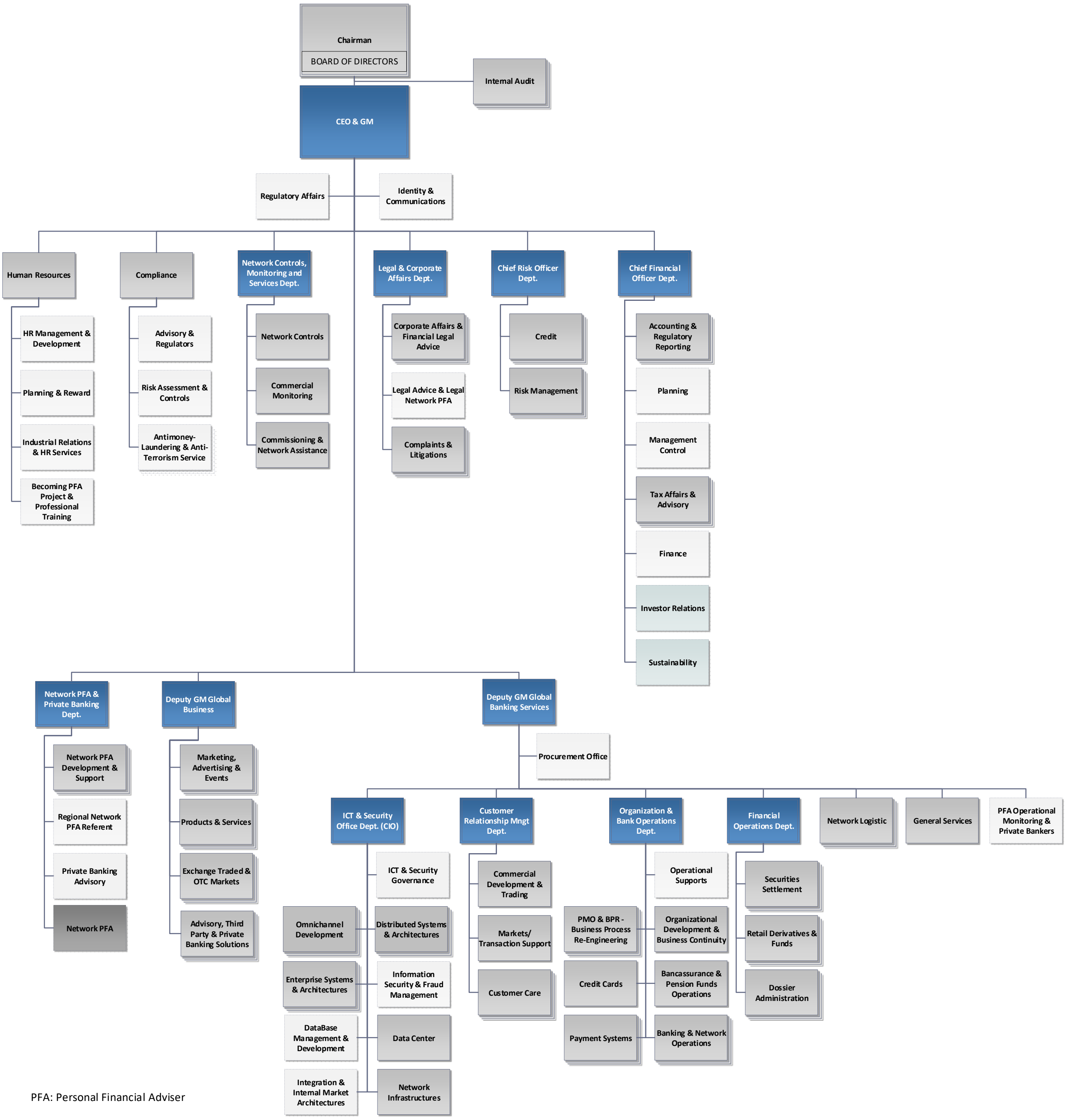
- the sales network (Network PFA & Private Banking Department);
- the business (Global Business Department);
- operational functioning (GBS Department).

In summary:

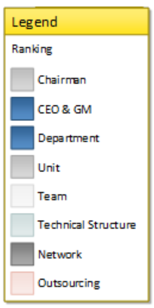
- The *PFA Network & private Banking Department* is responsible for overseeing the management and development of the personal financial advisors network enabled for the off-site offering and of guaranteeing the necessary support to the sales network in the management of customers attributable to the Private Banking segment;
- 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 Logistic Unit, General Services Unit.

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

The Internal Audit reports directly to the Board of Directors, Body with Strategic Supervision Function.



PFA: Personal Financial Adviser



Organisational structure (CONTINUED)

Group management system

The Parent Company FinecoBank is responsible for maximizing the long-term value of the Group as a whole, guaranteeing the unitary governance, direction and control of the Group entities (i.e. of Fineco AM, currently the only subsidiary).

For this purpose, FinecoBank has defined rules for the governance of the FinecoBank Banking Group in order to fully exercise its role in managing and coordinating the Group[18], as well as outlining the Group's managerial/functional management system and disciplined the key processes between the Parent Company and the entities of the Group.

The Parent Company ensures the coordination of the entities' activities with a managerial management system based on the concept of the "competence lines", through the strong functional link between the Parent Company structure and the organizational structure of the entities (the entity's homologous function).

The Competence Lines are represented by the structures/functions which, operating transversally between the Parent Company and the Group' entities, have the objective of directing, coordinating and controlling the activities and risks of the Group as a whole and through the structures/functions present locally of the entities,. The Competence Lines operate in the following areas: Investor Relations, Finance and Treasury, Planning and Control, Accounting & Regulatory reporting, Planning and Tax Affairs and Advisory (Chief Financial Officer area); Risk Management and Credit (within the Chief Risk Officer area); Legal/Corporate; Compliance; Internal Audit as well as Human Resources, Identity & Communication, Organization/Business Continuity & Crisis Management/ICT/Security/Purchasing (Global Banking Services).

With the aim of achieving a strong functional and managerial connection at Group level, within the constraints set by applicable local laws and regulations, the Competence Line Managers have a direct role and, in compliance with the responsibilities of the Corporate Bodies of the Entities, specific powers of direction, support and control with reference to the corresponding functions of the entities, always in coordination with the Top Management of the respective entity.

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 handling large scale computer attacks).

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

18 In accordance with Article 61 of Legislative Decree n. 385 of 1 September 1993 (the "Italian Banking Law") and the Supervisory Instructions issued by the Bank of Italy.

Main balance sheet aggregates

(Amounts in € thousand)

Assets	Amounts as at 12/31/2019	Amounts as at 12/31/2018	Changes Absolute	Changes %
Cash and cash balances	754,386	6	754,380	n.c.
Financial assets held for trading	7,933	6,876	1,057	15.4%
Loans and receivables with banks	566,033	3,058,882	(2,492,849)	-81.5%
Loans and receivables with customers	3,679,829	2,955,074	724,755	24.5%
Financial investments	22,304,892	18,231,182	4,073,710	22.3%
Hedging instruments	64,939	8,187	56,752	693.2%
Property, plant and equipment	152,048	16,632	135,416	814.2%
Goodwill	89,602	89,602	-	-
Other intangible assets	37,492	8,705	28,787	330.7%
Tax assets	23,444	6,714	16,730	249.2%
Other assets	342,309	350,770	(8,461)	-2.4%
Total assets	**28,022,907**	**24,732,630**	**3,290,277**	**13.3%**

(Amounts in € thousand)

Liabilities and shareholders' equity	Amounts as at 12/31/2019	Amounts as at 12/31/2018	Changes Amounts	Changes %
Deposits from banks	154,653	1,009,774	(855,121)	-84.7%
Deposits from customers	25,919,858	22,273,188	3,646,670	16.4%
Financial liabilities held for trading	3,777	2,221	1,556	70.1%
Hedging instruments	94,950	7,941	87,009	1095.7%
Tax liabilities	11,437	12,390	(953)	-7.7%
Other liabilities	455,748	451,435	4,313	1.0%
Shareholders' equity	1,382,484	975,681	406,803	41.7%
- capital and reserves	*1,093,117*	*744,256*	*348,861*	*46.9%*
- revaluation reserves	*1,002*	*(9,794)*	*10,796*	*110.2%*
- net profit	*288,365*	*241,219*	*47,146*	*19.5%*
Total liabilities and Shareholders' equity	**28,022,907**	**24,732,630**	**3,290,277**	**13.3%**

Cash and cash balances

Cash and cash balances, amounting to €754.4 million, mainly includes the liquidity deposited in the HAM (Home Accounting Model) account at Bank of Italy, which FinecoBank opened in 2019 to transfer the liquidity previously deposited with UniCredit S.p.A..

Financial assets held for trading

Financial assets held for trading totalled €7.9 million and include financial instruments that meets the definition of held for trading, in particular:

- bonds, equities and UCIT units, amounting to €3.3 million (€2.1 million as at December 31, 2018), 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 €1.4 million (€1.3 million as at December 31, 2018), 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 and forex, used for the related operational hedging, for €3.2 million (€3.5 million as at December 31, 2018).

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 in € thousand)

	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Loans and receivables with central banks	**251,574**	**-**	**251,574**	**-**
Loans and receivables with banks	**314,459**	**3,058,882**	**(2,744,423)**	**-89.7%**
Current accounts and demand deposits	250,501	1,922,041	(1,671,540)	-87.0%
Time deposits	9,994	1,127,298	(1,117,304)	-99.1%
Other loans:	53,964	9,543	44,421	465.4%
1. Reverse repos	4,316	416	3,900	937.5%
2. Others	49,648	9,127	40,521	443.9%
Total	**566,033**	**3,058,882**	**(2,492,849)**	**-81.5%**

Loans and receivables with banks, amounting to €566 million, show a decrease of 81.5% compare to December 31, 2018 mainly due to the transfer of the liquidity deposited in the HAM (Home Accounting Model) account at Bank of Italy, previously deposited with UniCredit S.p.A., and to the closing of time deposits with UniCredit S.p.A..

“Loans and receivables with central banks” consist exclusively of the compulsory reserve deposit previously deposited with Bank of Italy.

“Current accounts and demand deposits” mainly consist of accounts held with credit institutions, among which UniCredit S.p.A., for the settlement of transactions on payment circuits, for the settlement of transactions in securities, for the management of the liquidity of UK customers and for the management of the liquidity of Fineco AM. At December 31, 2018 the item included, in addition, the liquidity deposited with UniCredit S.p.A. in part transferred in the HAM (Home Accounting Model) account at Bank of Italy during the first half 2019, previously mentioned.

“Time deposits” consist exclusively of the deposit opened by Fineco AM with Intesa Sanpaolo Plc for an amount of €10 million. At December 31, 2018 the item included deposits held by the Bank with UniCredit S.p.A. extinguished during 2019 for a total amount of €1,119.3 million.

The item "Other loans: Others" consists of €43.8 million for the amount of the initial and variations margins and collateral deposits placed with credit institutions for derivative transactions (€5.3 million as at December 31, 2018) and €5.8 million for current receivables associated with the provision of financial services (€3.8 million as at December 31, 2018).

Loans and receivables with customers

(Amounts in € thousand)

	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Current accounts	1,292,172	1,018,700	273,472	26.8%
Reverse repos	160,112	148,797	11,315	7.6%
Mortgages	1,156,353	856,870	299,483	35.0%
Credit cards and personal loans	810,061	750,141	59,920	8.0%
Other loans	261,131	180,566	80,565	44.6%
Total	**3,679,829**	**2,955,074**	**724,755**	**24.5%**

Loans and receivables with customers, amounting to € 3,679.8 million, up 24.5% compared to the amount as at December 31, 2018 and can be broken down as follows:

- credit facilities in current accounts of €1,292.2 million, up 26.8%, of which loans with a security collateral (in particular "Credit Lombard") totalled to € 1,242.7 million;
- €160.1 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, for an amount of €159.9 million;
  - repos on securities executed on MTS market subject to accounting offsetting, as set out in IAS 32, for an amount of €0.2 million;
- €1,156.4 million in mortgages, up 35%;
- €810.1 million in credit cards and personal loans, up 8%
- €261.1 million in other loans, mainly made by collateral deposits and initial and variation margins for derivative and financial instrument transactions, for an amount of €151.6 million (€85 million as at December 31, 2018), and current receivables associated with the provision of financial services, for an amount of €104 million (€88.9 million as at December 31, 2018).

The portfolio of **loan receivables with ordinary customers** amounts to €3,263.9 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 24% thanks to the disbursement during 2019 of a further €216 million in personal loan and €413 million in mortgages plus new credit facilities in current accounts for a granted amount of €797 million.

(Amounts in € thousand)

Loans and receivables with customers (management reclassification)	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Current accounts	1,290,208	1,016,930	273,278	26.9%
Credit cards use	355,133	320,379	34,754	10.8%
Mortgages	1,155,943	856,856	299,087	34.9%
Personal loans	454,043	428,979	25,064	5.8%
Other loans	5,312	6,460	(1,148)	-17.8%
Performing loans	*3,260,639*	*2,629,604*	*631,035*	*24.0%*
Current accounts	1,964	1,770	194	11.0%
Mortgages	410	14	396	2828.6%
Credit cards use	25	63	(38)	-60.3%
Personal loans	860	720	140	19.4%
Other loans	42	99	(57)	-57.6%
Impaired loans	*3,301*	*2,666*	*635*	*23.8%*
Loans receivable with ordinary customers	**3,263,940**	**2,632,270**	**631,670**	**24.0%**
Reverse repos	160,112	148,768	11,344	7.6%
Reverse repos - impaired	-	29	(29)	-100.0%
Collateral deposits and initial and variation margins	151,555	84,963	66,592	78.4%
Current receivables associated with the provision of financialservices	103,956	88,922	15,034	16.9%
Current receivables associated with the provision of financialservices - impaired	266	122	144	118.0%
Current receivables and other receivables	***415,889***	***322,804***	***93,085***	***28.8%***
Loans and receivables with customers	**3,679,829**	**2,955,074**	**724,755**	**24.5%**

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	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Bad exposures	19,562	19,714	(17,877)	(18,067)	1,685	1,647	91.39%	91.65%
Unlikely to pay	4,348	2,659	(2,957)	(2,042)	1,391	617	68.01%	76.80%
Past-due loans	1,424	1,562	(932)	(1,009)	492	553	65.45%	64.60%
Total	**25,334**	**23,935**	**21,766**	**21,118**	**3,568**	**2,817**	**85.92%**	**88.23%**

The amount of non-performing loans net of impairment losses was €3.6 million, of which €1.7 million in bad exposure, €1.4 million in unlikely to pay exposures and €0.5 million in past-due loans. The impaired assets are the 0.11% of loan receivables with ordinary customers (the 0.11% as at December 31, 2018) and mostly relate to current account overdrafts and personal loans.

Financial investments

(Amounts in € thousand)

	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Financial assets at fair value through profit or loss c) other financial assets mandatorily at fair value	12,226	13,342	(1,116)	-8.4%
Financial assets at fair value through other comprehensive income	321,699	961,773	(640,074)	-66.6%
Financial assets at amortised cost	21,970,967	17,256,067	4,714,900	27.3%
- financial assets at amortised cost with banks - debt securities	8,874,329	9,382,112	(507,783)	-5.4%
- financial assets at amortised cost with customers - debt securities	13,096,638	7,873,955	5,222,683	66.3%
Total	**22,304,892**	**18,231,182**	**4,073,710**	**22.3%**

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 €8.7 million, which saw a positive change in *fair value* in 2019 of €2.6 million and the residual equity exposure to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund (IDGF), amounting to €2.6 million (of which €2.3 million related to the Carige transaction and €0.3 million related to Carim, Carismi and CariCesena transaction), with a negative impact booked in 2019 income statement of €4.5 million (gross of taxes). 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.

"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 Group does not exercise control or significant influence for €5 thousand for which, upon first application of IFRS 9, the "FVTOCI" option was exercised.[19]. The following table shows the debt securities issued by sovereign States:

(Amounts in € thousand)

Counterparty	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Italy	172,704	816,900	(644,196)	-78.9%
France	36,668	35,471	1,197	3.4%
USA	70,891	67,585	3,306	4.9%
Ireland	41,431	41,812	(381)	-0.9%
Total	**321,694**	**961,768**	**(640,074)**	**-66.6%**

[19] 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 banks include bonds issued by UniCredit S.p.A. for a total amount of €7,501.4 million (€9,115.8 million as at December 31, 2018), covered bonds issued by credit institutions for €627.2 million and bonds issued by Supranational organisations and Supranational agencies that fall within the definition of credit institutions for €745.7 million (€266.3 million at December 31, 2018).

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:

Counterparty	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Italy	5,139,066	3,150,186	1,988,880	63.1%
Spain	4,081,857	3,411,725	670,132	19.6%
Germany	127,178	127,432	(254)	-0.2%
Poland	118,924	79,660	39,264	49.3%
France	696,810	255,743	441,067	172.5%
USA	338,246	-	338,246	n.c.
Austria	398,087	208,562	189,525	90.9%
Ireland	730,905	171,703	559,202	325.7%
United Kingdom	58,658	-	58,658	n.c.
Belgium	417,485	181,983	235,502	129.4%
Portugal	333,319	-	333,319	n.c.
EFSF (European Financial Stability Facility)	352,945	160,493	192,452	119.9%
ESM (European Stability Mechanism)	303,158	126,468	176,690	139.7%
Total	**13,096,638**	**7,873,955**	**5,222,682**	**66.3%**

Hedging instruments

(Amounts in € thousand)

	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Asset hedging derivatives - positive valuations	21,115	-	21,115	n.c.
Liability hedging derivatives - positive valuations	14,944	3,314	11,630	350.9%
Adjustment to the value of assets under macro-hedge	28,880	4,873	24,007	492.7%
Total assets	**64,939**	**8,187**	**56,752**	**693.2%**
of which:				
Positive valuations	37,199	2,575	34,624	n.c.
Accrued interest	(1,140)	739	(1,879)	-254.0%
Adjustments to the value of hedged assets	28,880	4,873	24,007	492.7%
Total assets	**64,939**	**8,187**	**56,752**	**693.2%**
Asset hedging derivatives - negative valuations	80,852	5,341	75,511	n.c.
Adjustment to the value of assets under macro-hedge	14,098	2,600	11,498	442.2%
Total liabilities	**94,950**	**7,941**	**87,009**	**n.c.**
of which:				
Negative valuations	58,128	4,703	53,425	n.c.
Accrued interest	22,724	638	22,086	n.c.
Adjustments to the value of hedged liabilities	14,098	2,600	11,498	442.2%
Total liabilities	**94,950**	**7,941**	**87,009**	**n.c.**

(Amounts in € thousand)

Summary of hedging derivative valuations 12/31/2019	Assets	Liabilities	Difference
Valuation of hedging derivatives for assets and liabilities	37,199	58,128	(20,929)
Change in macro fair value hedged of financial assets/liabilities	28,880	14,098	14,782
Change in micro fair value hedged of financial assets/liabilities	6,132	-	6,132
Total	**72,211**	**72,226**	**(15)**

As at December 31, 2019 the financial assets under macro-hedge consisted of mortgages with customers shown in “Financial assets at amortised cost”, while the financial liabilities under macro-hedge consisted of direct deposits with customers shown in “Financial liabilities at amortised cost”.

The financial assets under micro-hedge are represented by securities issued by sovereign states recorded in "Financial assets at amortized 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 €23.9 million of negative accrued interest included in the net interest margin, was a negative amount of €0,01 million.

Property, plant and equipment

Property, plant and equipment are made by properties, electronic equipment, office furniture and fittings, plant and machinery.

On January 1, 2019 as, for the first time adoption of IFRS 16 purposes, the assets representing the right of use of the leased assets have been accounted for in the balance sheet assets, for a total amount of €64,575 thousand, represented by the lease contracts for the properties used by the Group companies and by the financial shops in use to financial advisors and managed directly by the Bank, in addition to leasing contracts for machinery and cars.

On January 31, 2019, 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, in addition to taxes and initial direct costs, the carrying amount of the property booked in the financial statements. It should be noted that the land and the building were separately accounted for, even if purchased together as required by IAS 16.

Investments in electronic equipment were made to guarantee the ongoing update of the hardware used by all the Group’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 12/31/2018	Adjustments IFRS 16 01/01/2019	Investments Year 2019	Other changes and sales Year 2019	Amortisation and impairment Year 2019	Balance 12/31/2019
Land	-	-	23,932	-	-	23,932
Properties	2,088	63,950	61,247	(7,056)	(10,627)	109,602
Electronic equipment	10,944	-	6,255	-	(4,464)	12,735
Office furniture and fittings	1,836	-	2,148	3	(1,404)	2,584
Plant and machinery	1,764	625	1,775	(50)	(919)	3,195
Total	**16,632**	**64,575**	**95,358**	**(7,103)**	**(17,414)**	**152,048**

It should be noted that the Property, plant and equipment as at December 31, 2019 include the "right of use" relating to buildings for an amount of €66.2 million and the "right of use" relating to plants and machinery for an amount of €0.5 million.

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 Group, 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, 2019, 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 Group 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. It should also be noted that on 28 November 2019 the Bank purchased from UniCredit S.p.A. the Fineco brands and domains for an amount of €22.5 million plus VAT, amount accounted for in the financial statements.

(Amounts in € thousand)

Intangible assets	Balance 12/31/2018	Investments year 2019	Other changes and sales year 2019	Amortisation and impairment year 2019	Balance 12/31/2019
Software	8,019	6,729	-	(5,170)	9,578
Brand	-	27,452	-	-	27,452
Other intangible assets	686	55	-	(279)	462
Total	**8,705**	**34,236**	**-**	**(5,449)**	**37,492**

Tax Assets and Other Assets

(Amounts in € thousand)

	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Tax assets				
Current assets	-	467	(467)	-100.0%
Deferred tax assets	47,884	28,977	18,907	65.2%
Deferred tax assets pursuant to Law 214/2011	3,828	4,033	(205)	-5.1%
Total before IAS 12 offsetting	*51,712*	*33,477*	*18,235*	*54.5%*
Offsetting with deferred tax liabilities - IAS 12	(28,268)	(26,763)	(1,505)	5.6%
Total Tax assets	**23,444**	**6,714**	**16,730**	**249.2%**
Other assets				
Trade receivables according to IFRS15	4,579	8,489	(3,910)	-46.1%
Current receivables not related with the provision of financial services	2,733	2,170	563	25.9%
Receivables due to disputed items not deriving from lending	-	119	(119)	-100.0%
Improvement and incremental expenses incurred on leasehold assets	6,067	6,928	(861)	-12.4%
Definitive items not recognised under other items:	28,062	30,356	(2,294)	-7.6%
- securities and coupons to be settled	1,537	5,131	(3,594)	-70.0%
- other transactions	26,525	25,225	1,300	5.2%
Tax items other than those included in the item "Tax assets":	259,098	269,189	(10,091)	-3.7%
- tax advances	252,251	262,261	(10,010)	-3.8%
- tax credit	6,809	6,893	(84)	-1.2%
- tax advances on employee severance indemnities	38	35	3	8.6%
Items awaiting settlement:	2,495	4,597	(2,102)	-45.7%
- notes, cheques and other documents	2,495	4,597	(2,102)	-45.7%
Items in processing	13	29	(16)	-55.2%
Items in transit not allocated to relevant accounts	50	2	48	2400.0%
Accrued income and prepaid expenses other than those related to contracts with customers and other than capitalised in related financial assets or liabilities	27,178	24,588	2,590	10.5%
Accrued income and prepaid expenses related to contracts with customers other than capitalised in related financial assets or liabilities	12,034	4,303	7,731	179.7%
Total other assets	**342,309**	**350,770**	**(8,461)**	**-2.4%**

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 increase in **Tax assets**, after IAS 12 offsetting, is mainly due to:

- the recognising of deferred tax assets relating to the tax benefit known as the Patent Box, following the achievement at the beginning of 2020 of the agreement with the Office of preventive agreements and international disputes of the Italian Revenue Agency regarding the methodology to be used for the calculation of the economic contribution of the intangibles object of application, which expresses its effects with the reduction of the taxable amount in the tax return for 2020;
- the positive change in the negative valuation reserve of the securities recognized in “Financial assets measured at fair value with impact on comprehensive income”.

For the item **Other assets**, there was a decrease in the "Tax items other than those recorded under the Tax Assets” for an amount of €10.1 million, due to lower advance taxes paid for the substitute tax on other income, partially offset by higher advance taxes paid for stamp duties and by the increase in “Accrued income and prepaid expenses related to contracts with customers other than capitalised in related financial assets or liabilities” for an amount of €7.7 million, mainly relating to the increase in accrued income for maintenance fee and commission for insurance products placed by the Group.

Deposits from banks

(Amounts in € thousand)

	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Deposits from central banks	**-**	**-**	**-**	**-**
Deposits from banks	**154,653**	**1,009,774**	**(855,121)**	**-84.7%**
Current accounts and demand deposits	70,396	52,563	17,833	33.9%
Loans	74,067	933,352	(859,285)	-92.1%
-Repos	74,067	933,352	(859,285)	-92.1%
Lease liabilities	7,207	-	7,207	-
Other liabilities	2,983	23,859	(20,876)	-87.5%
Total	**154,653**	**1,009,774**	**(855,121)**	**-84.7%**

Deposits from banks amount to €154.7 million and show a reduction of 84.7% compared to December 31, 2018, mainly due to the non-renewal of repurchase agreements with UniCredit S.p.A..

The item "Current accounts and demand deposits" mainly consisted of current accounts opened by customer banks worth € 69.6 million (€33.3 million as at December 31, 2018).

"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 as at December 31, 2018 included €751.8 million in transactions carried-out with UniCredit S.p.A.

The item "Lease liabilities " represents the financial debt corresponding to the present value of the payments due in the lease agreements stipulated with credit institutions not paid at the reporting date, as required by IFRS 16.

The item "Other liabilities" mainly includes margin variations received for derivative transactions for an amount of €3 million (€23.8 million as at December 31, 2018, including margin variations received for repos, of which €22.6 million received by UniCredit S.p.A.).

Deposits from customers

(Amounts in € thousand)

	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Current accounts and demand deposits	25,573,169	22,046,700	3,526,469	16.0%
Time deposits	1,359	3,106	(1,747)	-56.2%
Loans	163,450	116,299	47,151	40.5%
- Repos	163,450	116,299	47,151	40.5%
Lease liabilities	60,118	-	60,118	-
Other liabilities	121,762	107,083	14,679	13.7%
Deposits from customers	**25,919,858**	**22,273,188**	**3,646,670**	**16.4%**

Deposits from customers totalled €25,919.9 million, up 16.4% compared to December 31, 2018 and mainly consisting of current accounts with customers, increased by €3,526.5 million (+16%).

"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, for an amount of €163 million;
- repos on securities executed on MTS market subject to accounting offsetting as set out in IAS 32, for an amount of €0.4 million.

The item "Lease liabilities " represents the financial debt corresponding to the present value of the payments due in the lease agreements stipulated with parties other than credit institutions not paid at the reporting date, as required by IFRS 16.

The item “Other liabilities” comprises current payables related to the provision of financial services, totalling €41.4 million (€34 million as at December 31, 2018), initial and variations margins for derivative and financial instrument transactions, which came to €41.2 million (€38.9 million as at December 31, 2018) and other liabilities for rechargeable credit cards and bankers’ drafts, amounting to €39.2 million (€34.2 million at December 31, 2018).

Financial liabilities held for trading

Financial liabilities held for trading totalled €3.8 million and include financial instruments that meets the definition of held for trading, in particular:

- technical overdrafts, amounting to €1.9 million (€0.3 million as at December 31, 2018), 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 €1.3 million (€1.2 million as at December 31, 2018), 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 €0.6 million (€0.7 million as at December 31, 2018).

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	
	12/31/2019	12/31/2018	Amount	%
Tax liabilities				
Current liabilities	11,437	12,390	(953)	-7.7%
Deferred tax liabilities	28,268	26,763	1,505	5.6%
Total before IAS 12 offsetting	39,705	39,153	552	1.4%
Offset against deferred tax liabilities - IAS 12	(28,268)	(26,763)	(1,505)	5.6%
Total Tax liabilities	**11,437**	**12,390**	**(953)**	**-7.7%**
Other liabilities				
Payables to Directors and Statutory auditors	202	163	39	23.9%
Payables to employees	13,342	13,018	324	2.5%
Social security contributions payable	6,577	6,415	162	2.5%
Current payables not related to the provision of financial services	25,866	24,181	1,685	7.0%
Payables for share-based payments or shares of the UniCredit shares	142	338	(196)	-58.0%
Definitive items not recognised under other items:	57,512	53,307	4,205	7.9%
- securities and coupons to be settled	20,310	12,921	7,389	57.2%
- payment authorisations	22,494	21,716	778	3.6%
- other items	14,710	18,670	(3,960)	-21.2%
Tax items other than those included in the item "Tax liabilities":	133,690	116,031	17,659	15.2%
- sums withheld from third parties as withholding agent	27,616	17,805	9,811	55.1%
- other	106,074	98,226	7,848	8.0%
Illiquid items for portfolio transactions	20,796	22,123	(1,327)	-6.0%
Items awaiting settlement:	74,298	94,642	(20,344)	-21.5%
- outgoing bank transfers	74,251	94,545	(20,294)	-21.5%
- POS and ATM cards	47	97	(50)	-51.5%
Items in processing:	463	561	(98)	-17.5%
- incoming bank transfers	419	543	(124)	-22.8%
- other items in processing	44	18	26	144.4%
Sums available to be paid to customers	3,935	3,333	602	18.1%
Deferred income not related to contracts with customers other than those capitalised on the related financial assets or liabilities	183	157	26	16.6%
Deferred income related to contracts with customers other than those capitalised on the related financial assets or liabilities	6,851	2,800	4,051	144.7%
Provisions for employee severance pay	4,810	4,561	249	5.5%
Provisions for risks and charges	107,079	109,805	(2,726)	-2.5%
Total Other liabilities	**455,748**	**451,435**	**4,313**	**1.0%**

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.

The **Tax liabilities**, after IAS 12 offsetting, show a decrease of €1 million exclusively attributable to the recognition of current taxes.

With regard to the **Other liabilities** there was an increase in “Tax items other than those included in the item "Tax liabilities": other” for an amount of €17.7 million, mainly due to the increase in the debt accounted for the stamp duty and for the substitute tax on the administered funds to be paid, in “Definitive items not recognised under other items” for an amount of €4.2 million, due to the increase in the securities and coupons to be settled transactions for an amount of €7.4 million, partially offset by lower “Other items”, and by the “Deferred income related to contracts with customers other than those capitalised on the related financial assets or liabilities” for an amount of €4.1 million, mainly relating to the increase in accrued income for maintenance fee and commission for insurance products to be paid to personal financial advisors. It is also noted that, there was a reduction in “Items awaiting settlement”, due to outgoing bank transfers for an amount of €20.3 million.

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, for an amount of €21 thousand;
- Provisions for risks and charges - Other provisions which include allowances for a total of €107.1 million, for which, given a liability of uncertain amount and expiry date, a current obligation was identified as a result of a past event and the amount arising from fulfilment of

said obligation could be estimated reliably. The disbursements, with estimated maturity exceeding 18 months, were discounted to present value using a rate equal to the time value of money.

(Amounts in € thousand)

	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Provision for risks and charges for commitments and financial guarantees given	**21**	**49**	**(28)**	**-57.1%**
Legal and fiscal disputes	**30,909**	**32,290**	**(1,380)**	**-4.3%**
- Pending cases	22,370	23,830	(1,460)	-6.1%
- Complaints	4,794	4,575	219	4.8%
- Tax disputes	3,746	3,885	(139)	-3.6%
Staff expenses	**4,949**	**4,809**	**140**	**2.9%**
Other	**71,199**	**72,657**	**(1,458)**	**-2.0%**
- Supplementary customer indemnity provision	63,618	64,139	(521)	-0.8%
- Provision for contractual payments and payments under non-competition agreements	395	2,266	(1,871)	-82.6%
- Other provision	7,186	6,252	934	14.9%
Provision for risks and charges - Other provision	**107,058**	**109,756**	**(2,698)**	**-2.5%**
Total provision for risks and charges	**107,079**	**109,805**	**(2,726)**	**-2.5%**

The item "Staff expenses", 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	
	12/31/2019	12/31/2018	Amount	%
Share capital	200,941	200,773	168	0.1%
Share premium reserve	1,934	1,934	-	-
Reserves	397,592	355,509	42,083	11.8%
- Legal reserve	40,188	40,155	33	0.1%
- Extraordinary reserve	309,131	272,454	36,677	13.5%
- Treasury shares reserve	7,351	13,960	(6,609)	n.c.
- Other reserves	40,923	28,940	11,982	41.4%
(Treasury shares)	(7,351)	(13,960)	6,609	n.c.
Revaluation reserves	1,002	(9,794)	10,796	n.c.
Equity instruments	500,000	200,000	300,000	150.0%
Net profit (Loss) for the year	288,365	241,219	47,146	19.5%
Total	**1,382,484**	**975,681**	**406,803**	**41.7%**

As at December 31, 2019, the Bank's share capital came to €200.9 million, divided into 608,913,600 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 €309.1 million;
- Reserve for treasury shares held, amounting to €7.4 million;
- Other reserves:
  - Reserve related to equity-settled plans, amounting to €32.7 million;
  - Negative reserve recognized following the first application of IFRS 9, of €-4.9 million;
  - Reserves from profits of the subsidiary Fineco AM, amounting to €13.1 million.

Consolidated Shareholders' equity includes the following financial instrument:

- Additional Tier 1 issued on 31 January 2018. The financial instrument is a perpetual private placement[20], 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%. During 2019 the payment of the related coupon had been accounted for in decrease of the Extraordinary reserve for €7 million, net of the related taxation;

- Additional Tier 1 issued on 11 July 2019. The financial instrument is a perpetual public placement, traded on Euronext Dublin's non-regulated market, Global Exchange Market, notes rating of BB- (S&P Global Ratings), issued for a total of €300 million. The coupon for the first 5 years has been fixed at 5.875%. Transaction costs directly attributable to the issue of the financial instrument as well as the coupons paid were accounted for as a reduction in Extraordinary Reserve for an amount of €1.8 million and €4.8 million, respectively, net of related taxes.

On February 5, 2019, in view of the favourable opinion provided by the Remuneration Committee in its meeting of February 1, 2019, 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 335,624 free ordinary shares to the beneficiaries of the third tranche of the Plan, assigned in 2016, and consequently a bonus issue for a total amount of €110,755.92 with immediate effect (following registration in the register of companies);
- 2014, 2015 and 2016 incentive systems for employees. In particular, we approved the allotment of a total of 173,581 free ordinary shares to the beneficiaries of the third equity tranche of the 2014 Incentive System, of the second tranche of the 2015 Incentive System and of the first tranche of the 2016 Incentive System, and consequently a free share capital increase for a total amount of €57,281.73 with effect from 29 March 2019.

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 10, 2019 approved the allocation of profit for the year 2018 of FinecoBank S.p.A., amounting to €227.9 million, as follows:

- €0.03 million 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;
- €43.4 million to the Extraordinary Reserve;
- €184.5 million 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.

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 €0.4 million.

The "Reserve related to equity-settled plans" was increased by around €5.5 million, due to the recognition during the period 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 €0.3 million and €6.4 million, following the allotment to personal financial advisors respectively of the first equity tranche of the "2016 PFA Incentive System", corresponding to 34,644 of FinecoBank' ordinary shares, and of the second tranche of the "2015-2017 PFA PLAN", corresponding to 646,496 of FinecoBank' ordinary shares.

As at 31 December 2019, the Group, specifically the Bank, held in the portfolio 737,448 FinecoBank ordinary shares, relating to PFA incentive plans, corresponding to 0.12% of the share capital, for an amount of €7.4 million. During 2019 n. 17,300 shares were purchased in relation to the "2018 PFA Incentive System" for personal financial advisors identified as "Key personnel" and n. 34,644 and n. 646,496 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors respectively in relation to the "2016 PFA Incentive System" and "2015-2017 PFA PLAN". Consequently the Reserve for treasury shares held has been decreased by €6.6 million with a simultaneous increase in the Extraordinary reserve.

The Revaluation reserves consisted of:

- €3.2 million from the net positive reserve from valuation of debt securities issued by central governments recognized in the "Financial assets designated at fair value through other comprehensive income", which recorded an increased by €6.6 million during 2019, of which €5.9 million relating to the positive change in fair value and €0.7 million relating to the reversal to the income statement for gains on the sale and repayment of the securities;
- -€2.2 million from the IAS19 negative reserve, which recorded a positive change of €4.2 million during 2019 as a result of the recognition of actuarial losses mainly attributable to the for the Supplementary customer indemnity provision and the provision for contractual payments.

[20] Unrated and unlisted

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

Description	Shareholders' equity as at 12/31/2019	of which: net profit (loss) as at 12/31/2019
FinecoBank balances as at December 31, 2019	**1,366,876**	**285,891**
Effect of consolidation of Fineco AM	63,909	50,775
Dividends from Fineco AM cashed in the year	(48,301)	(48,301)
Shareholders' equity and profit attributable to minorities	-	-
Balances attributable to the Group as at December 31, 2019	**1,382.484**	**288,365**

Shareholders

As at December 31, 2019, the fully subscribed and paid up share capital totalled €200,941,488.00, divided into 608,913,600 ordinary shares with a nominal value of €0.33.

As at December 31, 2019, the major shareholders were:

Major Shareholders	% owned
BlackRock Inc. (*)	8.833%
Capital Research and Management Company	5.050%
Invesco	3.365%
FMR LLC	3.015%

Income Statement Figures

Condensed Income Statement

(Amounts in € thousand)

	Year		Changes	
	2019	2018	Amount	%
Net interest	281,277	278,659	2,618	0.9%
Net fee and commission	325,171	300,443	24,728	8.2%
Net trading, hedging and fair value income	44,761	44,281	480	1.1%
Net other expenses/income	3,608	1,913	1,695	88.6%
Operating income	**654,817**	**625,296**	**29,521**	**4.7%**
Staff expenses	(90,152)	(86,606)	(3,546)	4.1%
Other administrative expenses	(240,638)	(245,501)	4,863	-2.0%
Recovery of expenses	104,068	96,767	7,301	7.5%
Impairment/write-backs on intangible and tangible assets	(22,864)	(10,424)	(12,440)	119.3%
Operating costs	**(249,586)**	**(245,764)**	**(3,822)**	**1.6%**
Operating profit (loss)	**405,231**	**379,532**	**25,699**	**6.8%**
Net impairment losses on loans and provisions for guarantees and commitments	(1,970)	(4,384)	2,414	-55.1%
Net operating profit (loss)	**403,261**	**375,148**	**28,113**	**7.5%**
Other charges and provisions	(27,152)	(21,380)	(5,772)	27.0%
Integration costs	-	(121)	121	-100.0%
Net income from investments	7,377	1,105	6,272	567.6%
Profit (loss) before tax from continuing operations	**383,486**	**354,752**	**28,734**	**8.1%**
Income tax for the year	(95,121)	(113,533)	18,412	-16.2%
Net profit (loss) after tax from continuing operations	**288,365**	**241,219**	**47,146**	**19.5%**
Profit (loss) for the year	**288,365**	**241,219**	**47,146**	**19.5%**
Net profit (loss) attributable to the Group	**288,365**	**241,219**	**47,146**	**19.5%**

Net interest

Net interest in 2019 amounted to €281.3 million, up by 0.9% on the previous year, thanks 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 Group contributed to maintaining a significant level of interest income, with the average gross rate of interest-bearing assets at 1.20% (1.30% as at December 31, 2018).

(Amounts in € thousand)

Interest income	Year		Changes	
	2019	2018	Amount	%
Financial Assets held for trading	1	-	1	n.c.
Financial assets at fair value through comprehensive income	2,943	4,534	(1,591)	-35.1%
Other financial assets mandatorily at fair value	3	2	1	50.0%
Financial assets at amortised cost - Debt securities issued by banks	133,749	158,908	(25,159)	-15.8%
Financial assets at amortised cost - Debt securities issued by customers	98,280	59,980	38,300	63.9%
Financial assets at amortised cost - Loans and receivables with banks	7,569	11,669	(4,100)	-35.1%
Financial assets at amortised cost - Loans and receivables with customers	63,439	55,772	7,667	13.7%
Hedging derivatives	(10,643)	(1,947)	(8,696)	446.6%
Other assets	73	77	(4)	-5.2%
Financial liabilities	2,494	4,133	(1,639)	-39.7%
Total interest income	**297,908**	**293,128**	**4,780**	**1.6%**

(Amounts in € thousand)

Interest expenses	Year		Changes	
	2019	2018	Amount	%
Financial liabilities at amortised cost - Deposits from banks	(128)	(396)	268	-67.7%
Financial liabilities at amortised cost - Deposits from customers	(11,810)	(10,919)	(891)	8.2%
Financial assets	(4,693)	(3,154)	(1,539)	48.8%
Total interest expenses	**(16,631)**	**(14,469)**	**(2,162)**	**14.9%**
Net interest	**281,277**	**278,659**	**2,618**	**0.9%**

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 due to the reduction in volumes due to the repayment of securities maturing or repurchased by UniCredit S.p.A..

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

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	
	2019	2018	Amount	%
Interest income on loans and receivables with banks	**7,569**	**11,669**	**(4,100)**	**-35.1%**
- current accounts	6,787	11,060	(4,273)	-38.6%
- reverse repos	38	12	26	216.7%
- time deposits	548	546	2	0.4%
- other loans	196	51	145	284.3%
Interest income on loans and receivables with customers	**63,439**	**55,772**	**7,667**	**13.7%**
- current accounts	12,686	10,738	1,948	17.9%
- reverse repos	12,820	11,602	1,218	10.5%
- mortgages	14,766	11,028	3,738	33.9%
- credit cards	4,893	4,838	55	1.1%
- personal loans	18,180	17,448	732	4.2%
- other loans	94	118	(24)	-20.3%

Interest income on loans and receivables with banks amounted to €7.6 million, down 35.1% compared to 2018. The decrease was mainly attributable to lower interest on USD current accounts.

Interest income on loans and receivables with customers amounted to €63.4 million, showing an increase of 13.7% compared to 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 10.5%, thanks to "Multiday leverage" transactions, due to the increase in the interest rate (change in spread, introduction of floor at 0% in fourth quarter 2018 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	
	2019	2018	Amount	%
Interest expenses on deposits from banks	**(128)**	**(396)**	**268**	**-67.7%**
- current accounts	(31)	(366)	335	-91.5%
- other loans	(51)	(30)	(21)	70.0%
- lease liabilities	(46)	-	(46)	n.c.
Interest expenses on deposits from customers	**(11,810)**	**(10,919)**	**(891)**	**8.2%**
- current accounts	(10,885)	(10,888)	3	0.0%
- time deposits	(15)	(31)	16	-51.6%
- lease liabilities	(910)	-	(910)	n.c.

Interest expenses on deposits from banks amounted to €0.1 million, down 67.7% compared to the previous year, thanks to lower interest expenses paid on current account.

Interest expenses on deposits from customers came to €11.8 million, up 8.2% compared to the previous year, due to interest expenses on lease liabilities accounted for as a consequence of the first application of IFRS 16.

Income from brokerage and other income

(Amounts in € thousand)

	Year		Changes	
	2019	2018	Amount	%
Net interest	281,277	278,659	2,618	0.9%
Net fee and commission income	325,171	300,443	24,728	8.2%
Net trading, hedging and fair value income	44,761	44,281	480	1.1%
Net other expenses/income	3,608	1,913	1,695	88.6%
Operating income	**654,817**	**625,296**	**29,521**	**4.7%**

Net fee and commission income

(Amounts in € thousand)

	Year		Changes	
Management reclassification	2019	2018	Amount	%
Management, brokerage and consulting services:	321,160	297,627	23,533	7.9%
1. securities trading and order collection	80,344	78,759	1,585	2.0%
2. custody and administration of securities	(5,361)	(4,036)	(1,325)	32.8%
3. placement and management of managed asset products	187,027	168,197	18,830	11.2%
4. investment advisory services	60,104	55,443	4,661	8.4%
5. distribution of other products	(954)	(736)	(218)	29.6%
Collection and payment services	10,456	10,013	443	4.4%
Holding and management of current/deposit accounts	(312)	(572)	260	-45.5%
Other fee expenses personal financial advisers	(25,567)	(21,652)	(3,915)	18.1%
Securities lending	4,726	3,181	1,545	48.6%
Other services	14,708	11,846	2,862	24.1%
Total net fee and commission income	**325,171**	**300,443**	**24,728**	**8.2%**

Net fee and commission income amounted to €325.2 million, increasing by 8.2% compared to the previous year, mainly due to higher commissions for the placement and management of managed asset products, for a total amount of €23.5 million, thanks to constant redevelopment of the assets, with consequent increasing in Guided products & services. It should be noted that in 2019 the subsidiary Fineco AM generated net commissions for €62.5 million.

There is also an increase in net commission income relating to:

- Securities trading and other collection, for an amount of €1.6 million
- securities lending, for an amount of €1.5 million
- other services, for an amount of €2.9 million, relating in particular to the introduction of the annual fee on credit cards.

and in net commission expense relating to:

- custody and administration of securities, for an amount of €1.3 million
- fee and commission expenses paid to personal financial advisors for an amount of €3.9 million, due, in particular, to higher 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, futures, Logos, Daily Options, 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 € 2.4 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 €2.6 million (€ 1.6 million in 2018) and in a loss of € 4.5 million (€3 million in 2018), respectively. 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 €0.7 million (+€1.7 million in 2018), and of government securities and UniCredit securities in dollars accounted for in "Financial assets at amortized cost", for an amount of €2.9 million (no amount in 2018) and the profit recognized in relation to the amount paid by the Voluntary Scheme to FinecoBank for an amount of €1.6 million, relating to the four tranches of interest, net of the costs incurred during the year 2019, paid by Banca Carige S.p.A. on the subordinated loan underwritten by the Voluntary Scheme itself.

Net other expenses/income is positive for € 3.6 million, show an increase of 88.6% compared to the previous year, thanks to higher income, other than management fees, collected by the subsidiary Fineco AM connected with the asset manager activity.

Operating costs

Operating costs show a modest increase compared to the previous year (+1.6%) confirming the operating leverage that distinguishes the Group. Excluding the severances paid in 2018 and recognized in staff expenses, equal to €1.6 million, operating costs would still show moderate growth compared to the Group's growth (+2.2%).

(Amounts in € thousand)

	Year		Changes	
	2019	2018	Amount	%
Staff expenses	(90,152)	(86,606)	(3,546)	4.1%
Other administrative expenses	(240,638)	(245,501)	4,856	-2.0%
Recovery of expenses	104,068	96,767	7,301	7.5%
Impairment/write-backs on intangible and tangible assets	(22,864)	(10,424)	(12,440)	119.3%
Total operating costs	**(249,586)**	**(245,764)**	**(3,822)**	**1.6%**

Staff expenses amounted to €90.2 million, of which €4.1 million relating to staff expenses of Fineco AM, increasing by 4.1% compared to the previous year (+6.1% excluding the severances paid in 2018 mentioned above), thanks to continuous growth of the operating structure. In fact, the number of employees rose from 1,170 units as at December 31, 2018 to 1,225 resources as at December 31, 2019.

(Amounts in € thousand)

Staff expenses	Year		Changes	
	2019	2018	Amount	%
1) Employees	**(88,558)**	**(85,461)**	**(3,097)**	**3.6%**
- wages and salaries	(61,036)	(56,636)	(4,400)	7.8%
- social security contributions	(15,319)	(14,569)	(750)	5.1%
- provision for employee severance pay	(870)	(2,182)	1,312	-60.1%
- allocation to employee severance pay provision	(114)	(114)	-	0.0%
- payment to supplementary external pension funds:	(3,641)	(3,450)	(191)	5.5%
a) defined contribution	(3,641)	(3,450)	(191)	5.5%
- costs related to share-based payments*	(3,412)	(4,267)	855	-20.0%
- other employee benefits	(4,166)	(4,243)	77	-1.8%
2) Directors and statutory auditors	**(1,356)**	**(1,321)**	**(35)**	**2.6%**
3) Recovery of expenses for employees seconded to other companies	**147**	**245**	**(98)**	**-40.0%**
4) Recovery of expenses for employees seconded to the company	**(385)**	**(69)**	**(316)**	**458.0%**
Total staff expenses	**(90,152)**	**(86,606)**	**(3,546)**	**4.1%**

(Amounts in € thousand)

Other administrative expenses and recovery of expenses	Year		Changes	
	2019	2018	Amount	%
1) INDIRECT TAXES AND DUTIES	**(108,709)**	**(101,171)**	**(7,538)**	**7.5%**
2) MISCELLANEOUS COSTS AND EXPENSES				
A) Advertising expenses - Marketing and communication	**(18,542)**	**(16,746)**	**(1,796)**	**10.7%**
Mass media communications	(12,211)	(11,264)	(947)	8.4%
Marketing and promotions	(4,997)	(5,130)	133	-2.6%
Sponsorships	(107)	(22)	(85)	386.4%
Conventions and internal communications	(1,227)	(330)	(897)	271.8%
B) Expenses related to credit risk	**(1,496)**	**(1,399)**	**(97)**	**6.9%**
Credit recovery expenses	(332)	(377)	45	-11.9%
Commercial information and company searches	(1,164)	(1,022)	(142)	13.9%
C) Expenses related to personnel	**(22,574)**	**(28,291)**	**5,717**	**-20.2%**
Personnel training	(515)	(473)	(42)	8.9%
Car rental and other staff expenses	(68)	(80)	12	-15.0%
Personal financial adviser expenses	(20,964)	(26,885)	5,921	-22.0%
Travel expenses	(971)	(744)	(227)	30.5%
Premises rentals for personnel	(56)	(109)	53	-48.6%
D) ICT expenses	**(38,593)**	**(34,694)**	**(3,899)**	**11.2%**
Lease of ICT equipment and software	(2,658)	(2,360)	(298)	12.6%
Software expenses: lease and maintenance	(9,818)	(8,848)	(970)	11.0%
ICT communication systems	(7,695)	(6,658)	(1,037)	15.6%
ICT services: external personnel/outsourced services	(7,398)	(6,812)	(586)	8.6%
Financial information providers	(11,024)	(10,016)	(1,008)	10.1%
E) Consultancies and professional services	**(4,687)**	**(3,950)**	**(737)**	**18.7%**
Consultancy on ordinary activities	(3,116)	(3,114)	(2)	0.1%
Consultancy for one-off regulatory compliance projects	(13)	(61)	48	-78.7%
Consultancy for strategy, business development and organisational optimisation	(819)	(238)	(581)	244.1%
Legal expenses	(392)	(198)	(194)	98.0%
Legal disputes	(347)	(339)	(8)	2.4%
F) Real estate expenses	**(8,615)**	**(19,093)**	**10,478**	**-54.9%**
Real estate services	(757)	(705)	(52)	7.4%
Repair and maintenance of furniture, machinery, and equipment	(437)	(213)	(224)	105.2%
Maintenance of premises	(1,981)	(1,009)	(972)	96.3%
Premises rentals	(2,331)	(14,594)	12,263	-84.0%
Cleaning of premises	(581)	(522)	(59)	11.3%
Utilities	(2,528)	(2,050)	(478)	23.3%
G) Other functioning costs	**(35,293)**	**(37,858)**	**2,565**	**-6.8%**
Surveillance and security services	(404)	(404)	-	0.0%
Postage and transport of documents	(3,698)	(3,587)	(111)	3.1%
Administrative and logistic services	(17,211)	(19,737)	2,526	-12.8%
Insurance	(3,355)	(3,940)	585	-14.8%
Printing and stationery	(529)	(594)	65	-10.9%
Association dues and fees	(9,581)	(9,118)	(463)	5.1%
Other administrative expenses	(515)	(476)	(39)	8.2%
H) Adjustments of leasehold improvements	**(2,129)**	**(2,301)**	**172**	**-7.5%**
I) Recovery of costs	**104,068**	**96,767**	**7,301**	**7.5%**
Recovery of ancillary expenses	162	155	7	4.5%
Recovery of taxes	103,906	96,612	7,294	7.5%
Total other administrative expenses and recovery of expenses	**(136,570)**	**(148,734)**	**12,164**	**-8.2%**

Other administrative expenses net of **Recovery of expenses** came to €136.6 million, of which €2.8 million relating to Fineco AM, with a reduction of €12.2 million compared to the previous year. It should be noted that as a result of the IFRS 16 application starting from 1 January 2019 and the purchase of the property in Milan, Piazza Durante 11, on 31 January 2019, the amount is not fully comparable with the corresponding amount of

2018, with particular reference to real estate premises rentals, which recorded a reduction of €12.3 million (in 2019 the item includes VAT on lease payments for the period and lease contracts with a contractual duration equal to or less than 12 months, defined as "short term lease"). Net of this effect, the item shows a modest increase compared with the growth of the Group's activities, assets, customers and structure.

In particular, the following main items are highlighted:

- "Advertising expenses - Marketing and communication" for €1.8 million;
- "ICT expenses" for €3.9 million, referred to higher "Software expenses: lease and maintenance" for €1 million, "ICT communication systems" for € 1 million, "ICT services: external personnel/outsourced services" for € 0.6 million and "Financial information providers" for €1 million;
- "Real estate expenses" net of "Premises rentals" amounting to €1.8 million, reffering to higher "Maintenance of premises" for an amount of €1 million and to "Utilities" for an amount of €0.5 million.

While there was a reduction in "Expenses related to personnel", referred to lower "Personal financial adviser expenses" for € 5.7 million, mainly due to lower expenses for loyalty plans, and "Other functioning costs" for €2.5 million, referring, in particular, to expenses for "Administrative and logistic services", also due to the internalization of the internal audit function starting from May 2019.

Impairment/write-backs on intangible and tangible assets show an increase of €12.4 million mainly referred to the depreciation recognized on the rights of use of the lease contracts entered among tangible assets due to the first application of IFRS 16, for an amount of €9.5 million, and the depreciation recorded on the building located in Milan, Piazza Durante 11, purchased on 31 January 2019, for an amount of €1.3 million.

Profit/(loss) before tax from continuing operations

(Amounts in € thousand)

	Year		Changes	
	2019	2018	Amount	%
Operating profit (loss)	**405,231**	**379,532**	**25,699**	**6.8%**
Net impairment losses on loans and provisions for guarantees and commitments	(1,970)	(4,384)	2,414	-55.1%
Net operating profit (loss)	**403,261**	**375,148**	**28,113**	**7.5%**
Other charges and provisions	(27,152)	(21,380)	(5,772)	27.0%
Integration costs	-	(121)	121	-100.0%
Net income from investments	7,377	1,105	6,272	567.6%
Profit (loss) before tax from continuing operations	**383,486**	**354,752**	**28,735**	**8.1%**

Net write-downs of loans and provisions for guarantees and commitments in 2019 amounted to -€ 2.0 million (-€4.4 million in 2018). The lower adjustments recorded in 2019 compared to the previous year are attributable both to an improvement in the risk profile of the "loans receivable with ordinary customers" with retail customers, and to an increase in value recoveries relating to exposures to the Unicredit S.p.A. counterparty, amounting to €2.2 million compared to €1 million accounted for in 2018, due to the reduction in exposures due to the transfer of liquidity in the HAM account at the Bank of Italy, as well as the the closing of time deposits with UniCredit S.p.A.. occurred during the first half of 2019.

Other charges and provisions amounted to €27.2 million and showing an increase of 27% compared to 2018, mainly due to higher charges for the contributions 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 €18.1 million compared to €14.3 million paid in 2018.

The **Net income from investments** stood at €7.4 million showing an increase of €6.3 million compared to 2018. The write-backs recorded in 2019 are due both to the decrease in the exposures in the debt securities issued by UniCredit S.p.A. and to the improvement in the related risk profile thanks to the financial guarantee issued by Unicredit S.p.A., at the same time as the Bank leaves the related group, for a total amount of €7.1 million, as previously described in the "Relevant events of the period". It should be noted that in 2018 the Bank had already recorded writebacks on debt securities issued by UniCredit S.p.A. and accounted in "Financial assets at amortized cost" for approximately €2.6 million.

Profit before tax from continuing operations amounted to €383.5 million, up 8.1% compared to the previous year. The result was achieved mainly thanks to the growth in **Net fee and commission income** (+€24.7 million). The result was achieved also thanks to the growth in **Net interest** (+€2.6 million), lower **Net write-downs of loans and provisions for guarantees and commitments** (+€2.4 million) and higher **Net income from investments** (+€6.3 million), partially offset by higher **Operating costs** (-€3.8 million) and higher **Other charges and provisions** (-€5.8 million).

Excluding the non-recurring items of 2019 mentioned before[21], the Profit before tax from continuing operations should be €386.4 million, up 7.5% compared to 2018 net of non-recurring items[22].

Income tax for the year

(Amounts in € thousand)

Income tax for the year	Year		Changes	
	2019	2018	Amount	%
Current IRES income tax charges	(88,250)	(86,630)	(1,620)	1.9%
Current IRAP corporate tax charges	(20,624)	(19,637)	(987)	5.0%
Current foreign corporate tax charges	(7,269)	(3,054)	(4,215)	138.0%
Adjustment to current tax of prior years	96	-	96	n.c.
Total current tax	**(116,047)**	**(109,321)**	**(6,726)**	**6.2%**
Change in deferred tax assets	20,760	(1,142)	21,902	n.c.
Change in deferred tax liabilities	562	(2,624)	3,186	n.c.
Total deferred tax liabilities	**21,322**	**(3,766)**	**25,088**	**n.c.**
Goodwill redemption substitute tax	(396)	(446)	50	-11.2%
Income tax for the year	**(95,121)**	**(113,533)**	**18,412**	**-16.2%**

Income tax for the year 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 2019 the decree issued by the Italian Ministry of the Economy and Finance on 5 August 2019, of coordination between international accounting standards and business income, and the subsequent amendment introduced by the law were implemented 160/2019 on the deductibility of adjustments to customer loans, to be carried out in future tax periods, were implemented. Lastly, the Bank took into account of the recently issued provisions pursuant to Law Decree 30 April 2019, n. 34 converted with amendments by the law of 28 June 2019, n. 58 (so-called Growth Decree).

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 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.

Law 190/2014, as amended by art. 5 of Decree-Law 3/2015, introduced the Patent Box regime into Italian law, with effect from the tax period following the one in progress as at 31 December 2014. The Patent Box is an optional regime for reduced taxation of income derived from the use (direct or indirect) of legally protectable intellectual property, industrial patents, trademarks, designs and models, processes, formulas and information relating to experience acquired in the industrial, commercial or scientific field.

The tax break consists of the exclusion of 50% of the income deriving from these intangible assets from the IRES and IRAP tax base. The exclusion percentage was 30% for the tax period after the one in progress as at 31 December 2014 and 40% for the tax period after the one in progress as at 31 December 2015. The option is irrevocable, has a duration of five financial years and is renewable.

In 2015, FinecoBank applied for its software and trademark to be admitted to the Patent Box for the five-year period 2015-2019.

In early 2020, an arrangement was reached with the Prior Agreements and International Disputes Office of the Italian Revenue Agency on the methodology to be used for the calculation of the income deriving from the intangible assets that were the subject of the application. Although the agreement was reached at the beginning of 2020, the Group has therefore recognised the tax benefit– estimated at €21.6 million – in the 2019 Financial Statements as referred to the five-year period 2015-2019.

[21] 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 -€ 4.5 million (-€3.0million net of the tax effect), profit recognized by the Voluntary Scheme to FinecoBank for an amount of €1.6 million (€1.1 million net of the tax effect), relating to the four tranches of interest, net of the costs incurred during the year 2019, paid by Banca Carige S.p.A. on the subordinated loan underwritten by the Voluntary Scheme.

[22] 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).

In terms of renewal of the Patent Box for the next five years 2020-2024, the software aspect is expected to be renewed, but the trademark has been excluded by express provision of law.

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 €288,4 million, with an increase of 19.5% on the previous year. Excluding the non-recurring items accounted for in 2019 mentioned before, including the positive contribution made by the tax benefit provided by the so-called Patent Box regime mentioned before the, the Net profit for the year should be €268.8 million, up 10% compared to the net profit of 2018 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 those of the 2018 financial year and a report on the results achieved by FinecoBank S.p.A. at individual level is shown as well.

Key figures

Operating Structure

	Data as at	
	12/31/2019	12/31/2018
No. Employees	1,201	1,154
No. Personal financial advisors	2,541	2,578
No. Financial shops[1]	396	390

(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

(Amounts in € thousand)

	Amounts as at		Changes	
	12/31/2019	12/31/2018	Amount	%
Loans receivable with ordinary customers [1]	3,263,940	2,632,287	631,653	24.0%
Total assets	27,996,389	24,713,574	3,282,815	13.3%
Direct deposits [2]	25,589,652	22,068,931	3,520,721	16.0%
Assets under administration [3]	55,829,163	47,263,709	8,565,454	18.1%
Total customer sales (direct and indirect)	81,418,815	69,332,640	12,086,175	17.4%
Shareholders' equity	1,366,876	962,548	404,328	42.0%

(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	
	12/31/2019	12/31/2018
Loans receivable with ordinary customers/Total assets	11.66%	10.65%
Loans and receivables with banks/Total assets	1.96%	12.32%
Financial assets/Total assets	79.68%	73.78%
Direct sales/Total liabilities and Shareholders' equity	91.40%	89.30%
Shareholders' equity (including profit)/Total liabilities and Shareholders' equity	4.88%	3.89%
Ordinary customer loans/Direct deposits	12.75%	11.93%

Credit quality	Data as at 12/31/2019	12/31/2018
Impaired loans/Loans receivable with ordinary customers	0.11%	0.11%
Non-performing loans/Loans receivable with ordinary customers	0.05%	0.06%
Coverage (1) - Non-performing loans	91.39%	91.65%
Coverage (1) - Unlikely to pay	68.01%	76.80%
Coverage (1) - Impaired past-due exposures	65.45%	64.60%
Coverage (1) - Total impaired loans	85.92%	88.23%

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

Own funds and capital ratios

	Data as at 12/31/2019	12/31/2018
Common Equity Tier 1 Capital (€ thousand)	567,638	502,713
Total own funds (€ thousand)	1,067,638	702,713
Total risk-weighted assets (€ thousand)	3,187,485	2,376,033
Ratio - Common Equity Tier 1 Capital	17.81%	21.16%
Ratio - Tier 1 Capital	33.49%	29.58%
Ratio - Total Own Funds	33.49%	29.58%

	Data as at 12/31/2019	12/31/2018
Tier 1 Capital (€ thousand)	1,067,638	702,713
Exposure for leverage (€ thousand)	28,125,725	12,655,188
Transitional leverage ratio	3.80%	5.55%

The prudential supervisory requirements of the Bank at 31 December 2019 were determined on the basis of the harmonized regulation for banks and investment firms contained in Directive 2013/36/ EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of June 26, 2013 and subsequent Directives / Regulations that modify the content, which transpose the standards defined by the Basel Committee for banking supervision (so-called Basel 3 framework), collected and implemented by the Bank of Italy through the Circular no. 285 of 17 December 2013 "Supervisory provisions for banks" and subsequent updates.

Own funds as at December, 31 2019 include part of the profit of the 2019 that will not be distributed and which will be allocated to increase the value of reserves, for an amount equal to €90.8 million, assuming that the conditions set by art. 26, paragraph 2, of EU Regulation 575/2013 (CRR).

With regard to Risk Weighted Assets, it should also be noted that, at the same time as the deconsolidation of FinecoBank from the UniCredit Group on 10 May 2019, FinecoBank and UniCredit S.p.A. have entered into a contract (Pledge Agreement) which provides for the granting by UniCredit S.p.A. of financial guarantees in favor of FinecoBank aimed at guaranteeing credit risk exposures deriving from UniCredit bonds and from the financial guarantees issued by FinecoBank in favor of the Italian Revenue Agency at the request of UniCredit S.p.A., until they are completely extinguished (the agreement also provided that exposures represented by current accounts were guaranteed until November 2019). These financial guarantees, which at December 31, 2019 are represented by securities issued by sovereign governments, mainly Italian government securities, meet the requirements of the applicable legislation to be eligible in the context of credit risk mitigation techniques (CRM), with consequent reduction of Risk-Weighted Assets and Large exposures, without determining significant changes compared to 31 December 2018 when, by virtue of belonging to the UniCredit Group, Risk Weighted Assets towards UniCredit Group companies based in Italy were weighted at 0%. In January 2020, UniCredit S.p.A. replaced some of the bonds issued by sovereign states, pledged as collateral under the Pledge Agreement, with the "Impresa2 FRN 20/12/2061 Asset Backed" bonds issued by Impresa Two S.r.l. as part of a securitisation transaction under Law 130/99 relating to trade receivables sold and repurchased by UniCredit S.p.A.. Also these bonds meet the requirements of the applicable legislation to be eligible for credit risk mitigation (CRM) techniques, with a consequent reduction in risk weighted assets and exposure for the purposes of the Group's Large Exposures. It should be noted, in fact, that the increase in risk-weighted assets as of December 2019 is mainly related to the business growth and the increase in regulatory capital requirements related to operational risks. With reference to the increase in regulatory capital requirements related to operational risks, it should be noted that following the deconsolidation from the UniCredit Group, FinecoBank started a process to ask the Supervisory Authority to use a less sophisticated method for determining the regulatory requirement related to operational risk and prudentially, as of December 31, 2019, the requirement was calculated by adopting a Margin of Conservativism (MoC). Moreover, the governance, the safeguards and the reporting framework required by the internal method for measuring the capital requirement (AMA), previously adopted, were maintained.

The parent: FinecoBank S.p.A. (Continued)

With reference to the Leverage ratio, it should be noted that the overall exposure as at 31 December 2018 was calculated excluding exposures to UniCredit group companies based in Italy and weighted to 0% pursuant to art. 113, par. 6 of the CRR, by virtue of belonging to the UniCredit banking group on that date. The Leverage ratio, in fact, is calculated in accordance with the Delegated Regulation EU 2015/62 of 10 October 2014 and by exercising the discretions provided for by the Circular no. 285 of the Bank of Italy, Part Two, Chapter 12, Section III Exercise of national discretions, by virtue of which, exposures to group companies based in Italy and weighted to 0% pursuant to art. 113, par. 6 of the CRR have been excluded in the calculation of the overall exposure, pursuant to Article 429 (7) of the CRR amended by the Delegated Regulation (EU) 2015/62.

In the context of the decision of the Governing Council of the European Central Bank (ECB), received by the former parent company on 8 February 2019, regarding the prudential requirements of the Pillar II that UniCredit S.p.A. and its subsidiaries must comply, no additional Pillar II requirements have been requested from FinecoBank, that at that date was part of UniCredit Group. The decision is based on the SREP process (Supervisory Review and Evaluation Process), conducted under the guidance of the ECB within the UniCredit Group. As at 31 December 2019, no SREP was conducted on the Bank after the deconsolidation from UniCredit Group. Consequently, for FinecoBank the "Total SREP Capital Requirement" (TSCR) corresponds to the minimum Pillar 1 requirement.

Please, find below a scheme of FinecoBank capital requirements and buffers applicable for 2019.

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%
C) TSCR (A+B)	**4.50%**	**6.00%**	**8.00%**
D) Combined Buffer requirement, of which:	2.517%	2.517%	2.517%
1. Capital Conservation Buffer (CCB)	2.500%	2.500%	2.500%
2. Institution-specific Countercyclical Capital Buffer (CCyB)	0.017%	0.017%	0.017%
E) Overall Capital Requirement (C+D)	**7.017%**	**8.517%**	**10.517%**

As at 31 December 2019, FinecoBank ratios are compliant with all the above requirements.

Condensed Accounts

Balance Sheet

(Amounts in € thousand)

	Amounts as at		Changes	
Assets	**12/31/2019**	**12/31/2018**	**Amounts**	**%**
Cash and cash balances	754,386	6	754,380	n.c.
Financial assets held for trading	7,933	6,876	1,057	15.4%
Loans and receivables with banks	549,632	3,044,974	(2,495,342)	-81.9%
Loans and receivables with customers	3,668,933	2,947,390	721,543	24.5%
Financial investments	22,307,025	18,234,182	4,072,843	22.3%
Hedging instruments	64,939	8,187	56,752	693.2%
Property, plant and equipment	150,925	16,330	134,595	824.2%
Goodwill	89,602	89,602	-	-
Other intangible assets	37,280	8,705	28,575	328.3%
Tax assets	23,450	6,714	16,736	249.3%
Other assets	342,284	350,608	(8,324)	-2.4%
Total assets	**27,996,389**	**24,713,574**	**3,282,815**	**13.3%**

(Amounts in € thousand)

	Amounts as at		Changes	
Liabilities and shareholders' equity	**12/31/.2019**	**12/31/2018**	**Amounts**	**%**
Deposits from banks	154,653	1,009,774	(855,121)	-84.7%
Deposits from customers	25,912,444	22,269,098	3,643,346	16.4%
Financial liabilities held for trading	3,777	2,221	1,556	70.1%
Hedging instruments	94,950	7,941	87,009	1095.7%
Tax liabilities	11,344	12,184	(840)	-6.9%
Other liabilities	452,345	449,808	2,537	0.6%
Shareholders' equity	1,366,876	962,548	404,328	42.0%
- capital and reserves	*1,079,983*	*744,420*	*335,563*	45.1%
- revaluation reserves	*1,002*	*(9,794)*	*10,796*	110.2%
- net profit	*285,891*	*227,922*	*57,969*	25.4%
Total liabilities and Shareholders' equity	**27,996,389**	**24,713,574**	**3,282,815**	**13.3%**

Balance Sheet - Quarterly data

(Amounts in € thousand)

Assets	Amounts as at 12/31/2019	09/30/2019	06/30/2019	03/31/2019	01/01/2019	12/31/2018
Cash and cash balances	754,386	1,208,686	1,230,599	755	6	6
Financial assets held for trading	7,933	10,592	7,475	9,286	6,876	6,876
Loans and receivables with banks	549,632	784,595	686,998	3,779,348	3,044,974	3,044,974
Loans and receivables with customers	3,668,933	3,559,459	3,397,711	3,022,180	2,947,390	2,947,390
Financial investments	22,307,025	21,522,414	19,914,762	19,004,048	18,234,182	18,234,182
Hedging instruments	64,939	71,941	49,365	29,166	8,187	8,187
Property, plant and equipment	150,925	147,476	142,607	143,653	79,986	16,330
Goodwill	89,602	89,602	89,602	89,602	89,602	89,602
Other intangible assets	37,280	8,535	8,521	8,547	8,705	8,705
Tax assets	23,450	7,698	3,498	5,209	6,714	6,714
Other assets	342,284	299,610	269,816	252,901	350,185	350,608
Total assets	**27,996,389**	**27,710,608**	**25,800,954**	**26,344,695**	**24,776,807**	**24,713,574**

(Amounts in € thousand)

Liabilities and shareholders' equity	Amounts as at 12/31/2019	09/30/2019	06/30/2019	03/31/2019	01/01/2019	12/31/2018
Deposits from banks	154,653	188,171	206,643	1,605,018	1,013,791	1,009,774
Deposits from customers	25,912,444	25,420,269	24,132,042	23,303,535	22,328,313	22,269,098
Financial liabilities held for trading	3,777	4,734	2,413	2,831	2,221	2,221
Hedging instruments	94,950	156,435	84,086	31,741	7,941	7,941
Tax liabilities	11,344	49,008	64,665	36,673	12,184	12,184
Other liabilities	452,345	638,728	406,256	349,211	449,809	449,808
Shareholders' equity	1,366,876	1,253,263	904,849	1,015,686	962,548	962,548
- capital and reserves	*1,079,983*	*1,087,000*	*787,633*	*973,795*	*744,420*	*744,420*
- revaluation reserves	*1,002*	*(6,567)*	*(7,202)*	*(9,261)*	*(9,794)*	*(9,794)*
- net profit	*285,891*	*172,830*	*124,418*	*51,152*	*227,922*	*227,922*
Total liabilities and Shareholders' equity	**27,996,389**	**27,710,608**	**25,800,954**	**26,344,695**	**24,776,807**	**24,713,574**

Cash and cash balances, amounting to €754.4 million, mainly consists of the liquidity deposited in the HAM (Home Accounting Model) account at Bank of Italy, which FinecoBank opened in 2019 to transfer the liquidity previously deposited with UniCredit S.p.A..

Loans and receivables with banks, which as at 31 December 2018 included the liquidity deposited with UniCredit S.p.A., in part transferred to the HAM account at Bank of Italy, as well as time deposits with the same UniCredit S.p.A. extinguished during the first half of 2019, consequently they amount to €549.6 million, showing a reduction of 81.9% compared to 31 December 2018.

Loans and receivables with customers came to €3,668.9 million, up 24.5% compared to December 31, 2018, thanks to the increase in lending. During 2019, €216 million in personal loans and €412 million in mortgages were granted and €797 million in current account overdrafts was arranged, with an increase in exposures in current account of €273.5 million; this has resulted an overall 24% aggregate increase in loans to customers compared to December 31, 2018. Impaired loans net of impairment losses totalled €3.6 million (€2.8 million as at December 31, 2018), with a coverage ratio of 85.92%; the ratio between impaired loans and loans to customers was confirmed equal to 0.11% (0.11% as at December 31, 2018).

Financial investments came to €22,307 million, up 22.3% compared to December 31, 2018. The carrying amount of the debt securities issued by the UniCredit S.p.A. amount to €7,501.4 million, down compared to €9,115.8 million as at December 31, 2018 due to the repayment of securities maturing during 2019. The purchases made by the Bank during 2019 mainly concerned securities issued by sovereign States, supranational entities and covered bonds.

Deposits from banks totalled €154.7 million, showing a reduction of 84.7% compared to December 31, 2018, mainly attributable to the non-renewal of repurchase agreements with UniCredit S.p.A.. The item also includes the "Lease liabilities" from banks, amounting to €7.2 million, representing the financial debt corresponding to the present value of the payments due in the lease agreements stipulated with credit institutions not paid at the reporting date, as required by IFRS 16.

Deposits from customers came to €25,912.4 million, up 16.4% compared to December 31, 2018, due to the growth in direct deposits from customers. The item also includes the "Lease liabilities" from customers, amounting to €59.3 million representing the financial debt corresponding to the present value of the payments due in the lease agreements stipulated with credit institutions not paid at the reporting date, as required by IFRS 16.

Shareholders' equity amounted to €1,366.9 million, showing an increase of €404.3 million compared to December 31, 2018. The increase is mainly due to the placement of the Additional Tier 1, on 11 July 2019, mentioned before, for a total amount of €300 million, to the profit 2019, equal to €285.9 million, partially offset by the payment of dividends on the profit for the year 2018, for an amount of €184.5 million.

Income statement[23]

(Amounts in € thousand)

	Year		Changes	
	2019	**2018**	**Amount**	**%**
Net interest	281,391	278,702	2,689	1.0%
Dividends and other income from equity investments	48,301	8,000	40,301	n.c.
Net fee and commission income	262,710	273,828	(11,118)	-4.1%
Net trading, hedging and fair value income	44,607	44,281	326	0.7%
Net other expenses/income	956	300	656	218.7%
Operating income	**637,965**	**605,111**	**32,854**	**5.4%**
Staff expenses	(86,067)	(84,310)	(1,757)	2.1%
Other administrative expenses	(237,860)	(244,009)	6,149	-2.5%
Recovery of expenses	104,068	96,767	7,301	7.5%
Impairment/write-backs on intangible and tangible assets	(22,628)	(10,370)	(12,258)	118.2%
Operating costs	**(242,487)**	**(241,922)**	**(565)**	**0.2%**
Operating profit (loss)	**395,478**	**363,189**	**32,289**	**8.9%**
Net impairment losses on loans and provisions for guarantees and commitments	(1,966)	(4,392)	2,426	-55.2%
Net operating profit (loss)	**393,512**	**358,797**	**34,715**	**9.7%**
Other charges and provisions	(27,152)	(21,380)	(5,772)	27.0%
Integration costs	-	(121)	121	-100.0%
Net income from investments	7,377	1,105	6,272	567.6%
Profit (loss) before tax from continuing operations	**373,737**	**338,401**	**35,336**	**10.4%**
Income tax for the year	(87,846)	(110,479)	22,633	-20.5%
Net profit (loss) after tax from continuing operations	**285,891**	**227,922**	**57,969**	**25.4%**
Profit (loss) for the year	**285,891**	**227,922**	**57,969**	**25.4%**

[23] As described in the "Introduction to the Annual Reports and Accounts", it should be noted that as of December 31, 2019 a change was made in the condensed accounts shown in the Consolidated Report on Operations. In particular dividends and other income on equity investments and equity securities mandatorily at fair value shown in the balance sheet item "Dividend income and similar revenue", previously included in the condensed accounts item "Dividends and other income from equity investments", were included in the item "Net trading, hedging and fair value income" in the condensed accounts. For homogeneity, the comparative data relating to the 2018 condensed accounts have also been reclassified. For additional information, reference is made to "Reconciliation of condensed consolidated accounts to mandatory reporting schedule" and to "Reconciliation of condensed accounts to mandatory reporting schedule" of the Annexes.

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

Income statement - Quarterly data[24]

(Amounts in € thousand)

	2019			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net interest	69,729	69,859	71,422	70,381
Dividends and other income from equity investments	35,191	-	13,110	-
Net fee and commission income	65,890	68,025	65,757	63,038
Net trading, hedging and fair value income	15,318	11,492	8,066	9,731
Net other expenses/income	235	159	368	194
OPERATING INCOME	**186,363**	**149,535**	**158,723**	**143,344**
Staff expenses	(22,604)	(21,523)	(21,161)	(20,779)
Other administrative expenses	(60,372)	(55,230)	(57,938)	(64,320)
Recovery of expenses	26,582	26,669	24,227	26,590
Impairment/write-backs on intangible and tangible assets	(6,511)	(5,723)	(5,308)	(5,086)
Operating costs	**(62,905)**	**(55,807)**	**(60,180)**	**(63,595)**
OPERATING PROFIT (LOSS)	**123,458**	**93,728**	**98,543**	**79,749**
Net impairment losses on loans and provisions for guarantees and commitments	(589)	(1,227)	1,123	(1,273)
NET OPERATING PROFIT (LOSS)	**122,869**	**92,501**	**99,666**	**78,476**
Other charges and provisions	(3,536)	(19,780)	(2,856)	(980)
Integration costs	-	-	2	(2)
Net income from investments	1,123	449	6,463	(658)
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**120,456**	**73,170**	**103,275**	**76,836**
Income tax for the year	(7,395)	(24,758)	(30,009)	(25,684)
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**113,061**	**48,412**	**73,266**	**51,152**
PROFIT (LOSS) FOR THE YEAR	**113,061**	**48,412**	**73,266**	**51,152**

(Amounts in € thousand)

	2018			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net interest	71,095	69,950	68,753	68,904
Dividends and other income from equity investments	8,000	-	-	-
Net fee and commission income	67,059	60,790	74,517	71,462
Net trading, hedging and fair value income	5,912	10,731	13,093	14,545
Net other expenses/income	(30)	(345)	124	551
OPERATING INCOME	**152,036**	**141,126**	**156,487**	**155,462**
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)
Operating costs	**(59,813)**	**(58,603)**	**(60,342)**	**(63,164)**
OPERATING PROFIT (LOSS)	**92,223**	**82,523**	**96,145**	**92,298**
Net impairment losses on loans and provisions for guarantees and commitments	(2,322)	(913)	154	(1,311)
NET OPERATING PROFIT (LOSS)	**89,901**	**81,610**	**96,299**	**90,987**
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
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**84,853**	**64,807**	**99,529**	**89,212**
Income tax for the year	(26,338)	(21,664)	(32,714)	(29,763)
NET PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**58,515**	**43,143**	**66,815**	**59,449**
PROFIT (LOSS) FOR THE YEAR	**58,515**	**43,143**	**66,815**	**59,449**

[24] As described in the "Introduction to the Annual reports and Accounts", it should be noted that as of December 31, 2019 a change was made in the condensed accounts shown in the Consolidated Report on Operations. In particular dividends and other income on equity investments and equity securities mandatorily at fair value shown in the balance sheet item "Dividend income and similar revenue", previously included in the condensed accounts item "Dividends and other income from equity investments", were included in the item "Net trading, hedging and fair value income" in the condensed accounts. For homogeneity, the comparative data relating to the 2018 condensed accounts have also been reclassified. For additional information, reference is made to "Reconciliation of condensed consolidated accounts to mandatory reporting schedule" and to "Reconciliation of condensed accounts to mandatory reporting schedule" of the Annexes.

Operating income came to €638 million, showing an increase of 5.4% compared to € 605.1 million of year 2018.

Net Interest contributed to the increase in the operating income with a 1% growth, **Dividends and other income from equity investments** increased by €40.3 million and **Net trading, hedging and fair value income** show an increase of 0.7%.

The increase in **Net interest** of €2.7 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 1.20% (1.30% as at December 31, 2018).

Dividends and other income from equity investments only include the dividend received from Fineco AM, amounting to €48.3 million.

Net fee and commission income decreased of €11.1 million compared to the previous year, due to lower net commissions for the placement and management of managed asset products and investment advisory services (-€12.3 million) and higher fee expenses to personal financial advisors (-€3.9 million) due to higher commercial incentives, partially offset by higher net commissions for securities trading and order collection (+€1.6 million), higher commissions for securities lending (+ €1.5 million) and higher commissions for other services (+ €2.9 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, futures, Logos, Daily Option, CFD, financial instruments used for operational hedging of CFDs and the exchange differences on assets and liabilities denominated in currency, decreased by € 2.5 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 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 in 2019 resulted in a gain of € 2.6 million (€1.6 million in 2018) and in a loss of € 4.5 million (-€3 million in 2018). The item also includes the profits recognised in relation to the sale of (i) government securities recorded in the “Financial assets at fair value through other comprehensive income” for an amount of € 0.7 million (€1.7 million in 2018), (ii) government securities and UniCredit securities in dollar currency recorded in “Financial assets at amortised cost” for an amount of €2.9 million (no amount in 2018) and (ii) the profit recognized by the Voluntary Scheme to FinecoBank for an amount of €1.6 million, relating to the four tranches of interest, net of the costs incurred during the year 2019, paid by Banca Carige S.p.A. on the subordinated loan underwritten by the Voluntary Scheme as part of the support intervention carried out.

Operating costs remain under control, in line with the previous year (-€1.8 million for “Staff expenses”, +€ 13.5 million for “Other administrative expenses net of Recovery of expenses” and -€12.3 million for “Impairment/write-backs on intangible and tangible assets”[25]).

Net write-downs of loans and provisions for guarantees and commitments in 2019 amounted to -€2 million (-€4.4 million in 2018). The lower adjustments recorded in 2019 compared to the previous year are attributable both to an improvement in the risk profile of the “loans receivable with ordinary customers” with retail customers, and to an increase in value recoveries relating to exposures to the Unicredit S.p.A. counterparty, amounting to €2.2 million compared to €1 million accounted for in 2018, due to the reduction in exposures due to the transfer of liquidity in the HAM account at the Bank of Italy, as well as the the closing of time deposits with UniCredit S.p.A.. occurred during the first half of 2019.

Other charges and provisions amounted to €27.2 million increased by 27% million compared to the previous year, mainly due to greater charges for the contributions 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 €18.1 million compared to €14.3 million paid in 2018.

The **Net income from investments** stood at €7.4 million showing an increase of €6.3 million compared to 2018. The write-backs recorded in 2019 are due both to the decrease in the exposures in the debt securities issued by UniCredit and to the improvement in the related risk profile thanks to the financial guarantee issued by Unicredit S.p.A., at the same time as the Bank leaves the related group, for a total amount of €7.1 million, as previously described in the “Relevant events of the period”. It should be noted that in 2018 the Bank had already recorded writebacks on debt securities issued by UniCredit S.p.A. and accounted in "Financial assets at amortized cost” for approximately €2.6 million.

[25] It should be noted that due to the entry into force of the standard IFRS 16 and its application starting from 1 January 2019 and the purchase, in the same month of January, of the property in Milan, Piazza Durante 11, the “Other expenses administrative expenses net of Recovery of expenses" and "Impairment/write-backs on intangible and tangible asset" items are not fully comparable with 2018. In particular, as at 31 December 2019 there was a reduction in real estate premises rentals, equal to €12.2 million, the recognition of amortization on the rights of use deriving from leasing contracts for €9.4 million and the recognition of the depreciation of the property owned for €1.3 million.

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

Profit before tax from continuing operations amounted to €373,7 million, up 10.4% compared to the previous year. Excluding the non-recurring items of 2019[26], the Profit before tax from continuing operations should be €376.7 million, up 9.8% compared to 2018 net of the non-recurring items[27].

The **Net profit for the year** amounted to €285.9 million, showing an increase of 25.4% compared to €227.9 million of the previous year, and includes the tax benefit known as the Patent Box for the five-year period 2015-2019, recognised in 2019 for an estimated amount of €21.6 million. Excluding the non-recurring items 2019 mentioned before[28] and the tax benefit recognized thanks to the Patent Box, the Net profit for the year should be €266.3 million, up 15.2% compared to the Net profit of the year 2018, net of non-recurring items[29].

[26] 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 -€ 4.5 million (gorss of the tax effect), profit recognized by the Voluntary Scheme to FinecoBank for an amount of €1.6 million (gross of the tax effect), relating to the four tranches of interest, net of the costs incurred during the year 2019, paid by Banca Carige S.p.A. on the subordinated loan underwritten by the Voluntary Scheme.

[27] 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 (grossof the tax effect), severance paid in for an amount of -€1.6 million (gross of the tax effect) and integration costs for an amount of €0.1 million (gross of the tax effect)

[28] 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 -€3.0million (net of the tax effect), profit recognized by the Voluntary Scheme to FinecoBank for an amount of €1.1 million (net of the tax effect), relating to the four tranches of interest, net of the costs incurred during the year 2019, paid by Banca Carige S.p.A. on the subordinated loan underwritten by the Voluntary Scheme and tax benefit recognized thanks to the so-called Patent Box regime, for a total of +€21.6 million.

[29] 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 -€2 million (net of the tax effect), severance paid in for an amount of -€1.1 million (net of the tax effect) and integration costs for an amount of €0.1 million (net of the tax effect).

The subsidiary: Fineco Asset Management (DAC)

Fineco AM, a wholly owned subsidiary of FinecoBank, is a UCITS Management Company and was established on 26 October 2017 in the Republic of Ireland. The principal activity of Fineco AM to offer its customers a range of UCITS product 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 Group within its vertically integrated business model. Fineco AM received its authorization to become a UCITS Fund Manager by the Central Bank of Ireland on 17 May 2018 and on June 1, 2018 the company obtained the necessary authorizations from the Luxembourg Authority Commission de Surveillance du Secteur Financier to replace Amundi Luxemburg S.A. in the management of pre-existing Luxembourg-based mutual investment funds known as "CoreSeries".

The volumes of net assets under management managed by Fineco AM at 31 December 2019 amounted to €13.8 billion (€10 billion as at December 31, 2018). This is broken down as per below:

- € 5.9 billion referred to Core Series Umbrella Fund (€ 6 billion as at December 31, 2018 and passporting from Amundi Sa in July 2018);
- € 6.3 billion referred to FAM Series UCITS ICAV (€ 4 billion as at December 31, 2018);
- € 1.6 billion referred to FAM Evolution ICAV (launched in January 2019).

It should also be noted that € 8.4 billion relate to retail classes and €5.4 billion relating to institutional classes.

As at December 31, 2019, Fineco AM has a total asset of €73 million. This consists of **Loans and receivables with banks**, represented by a time deposit for an amount of €10 million and by the sight deposits with credit institutions for €6.4 million, and **by Loans and receivables with customers**, exclusively represented operating receivables associated with the provision of services, for an amount of €18.2 million. It should be noted that, following the exit from the UniCredit Group, Fineco AM closed its time deposit account with UniCredit Plc and moved its liquidity to Intesa Sanpaolo Plc.

Fineco AM also holds shares in its UCITS Funds, in relation to the seeding activity for an amount of €0.9 million, which are recorded under "**Financial assets at fair value through profit or loss c) other financial assets mandatorily at fair value**". Fineco AM also holds **Other assets** for an amount of € 0.2 million, relating to prepaid expenses and definitive items not attributable to other items.

Deposits from banks and **Deposits from customers** totalled €14.7 million, are represented exclusively by operating payables connected with the provision of financial services, relating to the placement and management fees of UCITS to be paid back to the placers, including FinecoBank itself for €7.3 million, and to investment advisors. It should be noted that the item **Deposits from customers** also includes the "Lease liabilities" from customers, amounting to €0.8 million representing the financial debt corresponding to the present value of the payments due in the lease agreements stipulated with credit institutions not paid at the reporting date, as required by IFRS 16.

The **Other liabilities**, equal to €3.6 million, are recognised in payables to employees and other personnel and in current payables not related with the **provision of financial services.**

Shareholders' equity amounted to €18.6 million and consists of share capital for €3 million and net income for the period of €50.8 million, net of dividends paid to FinecoBank in the last quarter of 2019 for €35.2 million.

In 2019 Fineco AM generated **Net commissions** for €62.5 million (€162.1 million in fee and commission income and €99.6 million in fee and commission expense) and the **Net Profit for the period** amounted to €50.8 million.

The number of persons employed by Fineco AM as at 31 December 2019 is 24.

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 November 5, 2019 and with the prior favourable opinion of the Risk and Related Parties Committee and the Board of Statutory Auditors, approved the new "*Global Policy for the management of transactions with persons in potential conflict of interest of the FinecoBank Group*" (the **"**Global Policy").

The aforementioned Global Policy includes 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*".

Considering the above, the following Significant Transactions resolved by the Board of Directors during 2019 are recorded:

- on February 5, 2019, with the favourable 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 5th, 2020, 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 UniCredit S.p.A. and €1,300 million with UniCredit Bank AG;
- on May 6, 2019, with the favourable 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 UniCredit*", an ordinary Significant Transaction at market conditions (expiring May 6, 2020), concerning (i) Repurchase Agreements with UniCredit S.p.A. for an amount of €7.0 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and (ii) Term deposits with UniCredit S.p.A. for an amount of €7.4 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 6, 2020), 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 4, 2019, 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 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 4, 2020), 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) €1 billion with UniCredit S.p.A.;

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.

Moreover, always on May 6, 2019, the Board of Directors, with the favourable opinion of the Risks and Related Parties Committee, approved the conclusion of all the contractual agreements (the "Operation") made between FinecoBank and UniCredit S.p.A. in order to:

- allow the smooth transition of FinecoBank outside of the UniCredit Group ("Smooth Transition") with a view to continuity and in the interests of the shareholders of both banks, with particular reference to the coverage of Fineco's exposures, the use of its brands and other distinctive marks, to the provision by UniCredit to Fineco of other services not formally contractualized, and the continued provision of services already covered by existing contracts; and, ultimately
- allow FinecoBank to operate as an entity that is fully independent from a regulatory, liquidity and operational viewpoint following its exit from the UniCredit Group.

These contractual arrangements, despite being heterogeneous in nature, have been accepted as part of a unitary plan to enable the realisation of the objectives mentioned above. The Operation, considered as a whole and therefore taking into account all of the contractual arrangements as made, is classified as a greater relevance related-party.

For the purpose of fulfilling the disclosure obligations, FinecoBank prepared, in accordance with Article 5 and with the model contained in Annex 4 to the regulation passed by Consob in its decision no. 17221 of 12 March 2010, the Information Document available to the public on May 14, 2019, at the Bank's registered office of FinecoBank S.p.A. (Milan, Piazza Durante n. 11), on FinecoBank website (www.finecobank.com), and on the website of the accredited storage system "eMarketSTORAGE" (www.emarketstorage.com) on May 14, 2019.

During 2019, no other transactions were undertaken with related parties that could significantly affect the Bank's and the FinecoBank Group's asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions.

Minor Transactions were also carried out with related parties (including as such until July 11, 2019, UniCredit S.p.A. and other UniCredit Group companies), both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

Transactions with Group companies

FinecoBank is Parent Company of Banking Group FinecoBank.

The following table provides a summary of outstanding assets, liabilities, guarantees and commitments as at December 31, 2019 as well as the costs (-) and revenues (+) recorded in 2019 with Fineco AM, which is the sole wholly-owned and consolidated company.

(Amounts in € thousand)

	Assets	Liabilities	Guarantees and commitments	Revenues (+)	Costs (-)
Transactions with the subsidiary Fineco Asset Management DAC	7,450	-	-	125,614	-

It should be noted that the assets shown in the table mainly refer to current receivables associated with the provision of financial services to be collected by the subsidiary Fineco AM and recorded in “Financial assets at amortized cost". At the same time, the revenues column includes placement and management fee income paid back by the subsidiary and accounted for by the Bank during 2019, in addition to the dividends recognized by Fineco AM for a total of €48.3 million.

Number of treasury shares of the parent company

As at 31 December 2019, the Group held in the portfolio 737,448 FinecoBank ordinary shares (all held by the Bank itself), relating to PFA incentive plans, corresponding to 0.12% of the share capital, for an amount of €7.4 million. During 2019 n. 17,300 shares were purchased in relation to the “2018 PFA Incentive System” for personal financial advisors identified as “Key personnel” and n. 34,644 and n. 646,496 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors respectively in relation to the "2016 PFA Incentive System" and "2015-2017 PFA PLAN".

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.123-ter of the Legislative Decree no. 58 of February 24, 1998 and as amended in implementation of Directive (EU) 2017/828 to Art. 84-quater, paragraph 1, of the Issuers' Regulations, 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.

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.

Consolidated Non-Financial declaration pursuant to article 3 and article 4, Legislative Decree 254 of December 30, 2016

The Consolidated Non-Financial declaration of the FinecoBank Group, prepared pursuant to Legislative Decree 254/2016, constitutes a separate report with respect to the Consolidated Financial Statements, as required by the option of Art. 5, paragraph 3, letter b) of Legislative Decree 254/2016, and has published on the FinecoBank website (https://www.finecobank.com).

Country-by-Country Reporting

Country-by-Country Reporting pursuant to art. 89 of Directive 2013/36 / EU of the European Parliament and of the Council (CRD IV), amended by Directive (EU) 2019/878 (so-called CRD V) applicable from December 2020, has published on the FinecoBank website (https://www.finecobank.com).

Information on the derogation from the obligation to publish the information document in the cases provided for in articles 70, paragraph 6, and 71, paragraph 1, of the Issuers Regulation

Pursuant to article 70, paragraph 8, and article 71, paragraph 1-bis, of the Issuers Regulation, FinecoBank S.p.A. has availed itself of the right to derogate from the obligation to publish the information document in the cases provided for in articles 70, paragraph 6, and 71, paragraph 1, of the Issuers Regulation.

Subsequent events and outlook

Subsequent events

The Board of Directors' meeting of FinecoBank held on January 15, 2020 – in consideration of the favourable opinion of the Remuneration Committee which met on January 13, 2020 – approved the following incentive systems that will be submitted to the Shareholders' Meeting called for April 20, 2020:

- 2020 Incentive System for Employees categorised as Key Personnel;
- 2020 Incentive System for Personal Financial Advisors identified as "Key Personnel".

Inoltre, the Board of Directors' meeting of FinecoBank held on February 11, 2020 – in consideration of the favourable opinion of the Remuneration Committee which met on on February 7, 2020 – approved the implementation of the following incentive / loyalty systems:

- 2014-2017 multi-year plan top management for employees. In particular, the assignment of n. 422,779 free ordinary shares to the beneficiaries of the fourth tranche of the Plan, granted in 2017, and consequently a free share capital increase for a total amount of €139,517.07 with immediate effect;
- Incentive Systems 2014, 2015, 2016, 2017, 2018 and 2019 for employees. In particular, it was approved:
  - the assignment of n. 201,121 free ordinary shares to beneficiaries of the fourth tranche of the 2014 Incentive Systems, of the third tranche of the 2015 Incentive Systems, of the second tranche of the 2016 Incentive Systems and of the first tranche of the 2017 Incentive Systems, and consequently a free share capital increase for a total amount of €66,369.93 effective from March 31, 2020;
  - the assignment of the first cash tranche related to the 2019 Incentive Systems and of the second cash tranche related to the 2018 Incentive Systems;
- Incentive Systems 2015, 2016, 2017, 2018 and 2019 for Financial Advisors identified as "Key Personnel". In particular, it was approved:
  - the assignment of n. 7,737 phantom shares of the 2015 Incentive System;
  - the assignment of n. 11,548 shares of the second tranche and of the third cash tranche to the beneficiaries of the 2016 Incentive System;
  - the assignment of n. 16,590 shares of the first tranche related to the 2017 Incentive Systems;
  - the assignment of cash tranches related to the 2018 and 2019 Incentive Systems.

More generally, among the subsequent events that occurred after the end of the year, the emergency generated by the spread of Covid-19 (Coronavirus) should be noted. As known, starting from the first weeks of January 2020, the international scenario has been characterized by the spread of Coronavirus (first in China and then in other countries), culminating in the declaration of the existence of an international public health emergency phenomenon by part of the World Health Organization on 30 January 2020, and the consequent restrictive measures for its containment put in place by the competent authorities. These circumstances, extraordinary in nature and extent, with their direct and indirect implications for public health, economic and production activities and trade, which are likely to have a negative impact on global growth and financial markets, have created a context of general uncertainty, the evolution of which and the related impacts, even in the Eurozone, are however not foreseeable at the moment. The effects of this phenomenon on the Group's economic, equity and financial performance, potentially mainly attributable to the brokerage margin and the cost of risk, are not currently determinable and will be subject to constant monitoring throughout the year.

Outlook

The prospective scenario, despite a context of pressure on margins and general uncertainty about the effects of the Coronavirus epidemic, sees the Group benefiting from two structural trends that are transforming Italian society: digitization and demand for advisory services.

The habits of banking customers have changed radically over the last ten years. The need for them to access services far from their branch or at unconventional times has increased and they are increasingly able to use the internet at any time of the day and anywhere. FinecoBank intends to continue the digitisation and computerisation of its business, not only in how it interfaces with its customers but also in its internal operational processes. The objective is to increase digitisation and generate greater savings and efficiencies for the Group. The increased use of mobile devices and the internet offers competitive advantages to a bank such as FinecoBank, which has always focused on technology and, more specifically, on the dual track of a digital platform matched with a network of specialised financial advisors.

Another structural trend that favours FinecoBank's positioning relates to the growing demand from customers for advanced and specialised advisory services, supported by Italians' propensity to save. The Italian market is characterised by a high level of household wealth and a high rate of wealth employed in real estate investments. However, a greater risk perception and a lower interest in financial investments means that households continue to prefer liquid products (bank drafts and deposits), insurance products and pension funds. There was, however, a clear uptick in investments in mutual funds, albeit remaining lower than in other Eurozone countries. FinecoBank had a market share by TFA (source: Bank of Italy statistical data, return flows) of 1.75% in June 2019 (+0.13% y/y), with significant potential growth margins.

Operations is a key point of Fineco's competitive advantage, thanks to its internally developed and managed core system. The Bank's established and far-reaching internal IT culture allows for major business scalability, also thanks to internally developed Big Data Analytics.

The Group will continue to pursue its organic growth-driven strategy, relying on efficient processes and quality services. The objective is to further strengthen its competitive positioning in the sector of integrated banking, brokerage and investing services, through the high quality and completeness of the financial services it offers, summed up in “one-stop solution” concept, This will be partially driven by the asset management activities of Fineco AM, which will enable the Bank to meet its customers' needs even better, be more efficient in product selection and be more profitable thanks to its vertically integrated business model.

Fineco intends to pursue its long-term sustainable growth objectives, including in terms of ESG[30], in order to create value for stakeholders while maintaining a low risk appetite, through customer deposits made without relying on aggressive commercial offers, in combination with highly liquid and low risk uses of capital.

30 Details available in the FinecoBank Group's Consolidated Non-Financial Statement published on the FinecoBank website (https://www.finecobank.com).

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

The Bank closed the year 2019 with net profit for the year of € 285,891,402.60.

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

- €41,177.47 to the Legal Reserve, corresponding to 0.014% of the profit for the year, having reached the limit of a fifth of the share capital;
- €90,798,225.13 to the Extraordinary Reserve;
- €195,052,000.00 to Shareholders, corresponding to a dividend of €0.32 for each of the 609,537,500 ordinary shares with a par value of €0.33 euro, constituting the share capital including the 623,900 shares relating to the capital increase approved by the Board of Directors on February 11, 2020.

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 Financial Statements for the year 2019 in their entirety;
- the allocation of the profit for the year of €285,891,402.60 as follows:
  - €41,177.47 to the Legal Reserve, corresponding to 0.014% of the profit for the year, having reached the limit of a fifth of the share capital;
  - €90,798,225.13 to the Extraordinary Reserve;
  - €195,052,000.00 to Shareholders, corresponding to a dividend of €0.32 for each of the 609,537,500 ordinary shares with a par value of €0.33 euro, constituting the share capital including the 623,900 shares relating to the capital increase approved by the Board of Directors on February 11, 2020.

Payment of the aforesaid dividend amount, in accordance with legal regulations, will take place with the value date of May 20, 2020.

The Board of Directors

Milan, February 11, 2020

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

FinecoBank S.p.A.
Chairman
Enrico Cotta Ramusino

Consolidated financial statements

Consolidated balance sheet

(Amounts in € thousand)

Assets		12/31/2019	12/31/2018
10.	Cash and cash balances	754,386	6
20.	Financial assets at fair value through profit and loss:	20,159	20,218
	a) financial assets held for trading	7,933	6,876
	c) other financial assets mandatorily at fair value	12,226	13,342
30.	Financial assets at fair value through other comprehensive income	321,699	961,773
40.	Financial assets at amortised cost:	26,216,829	23,270,023
	a) loans and receivables with banks	9,440,362	12,440,994
	b) loans and receivables with customers	16,776,467	10,829,029
50.	Hedging derivatives	36,059	3,314
60.	Changes in fair value of portfolio hedged financial assets (+/-)	28,880	4,873
90.	Property, plant and equipment	152,048	16,632
100.	Intangible assets	127,094	98,307
	of which:		
	- goodwill	89,602	89,602
110.	Tax assets:	23,444	6,714
	a) current tax assets	-	467
	b) deferred tax assets	23,444	6,247
130.	Other assets	342,309	350,770
	Total assets	**28,022,907**	**24,732,630**

(Amounts in € thousand)

Liabilities and shareholders' equity		12/31/2019	12/31/2018
10.	Financial liabilities at amortised cost:	26,074,511	23,282,962
	a) deposits from banks	154,653	1,009,774
	b) deposits from customers	25,919,858	22,273,188
20.	Financial liabilities held for trading	3,777	2,221
40.	Hedging derivatives	80,852	5,341
50.	Changes in fair value of portfolio hedged financial liabilities (+/-)	14,098	2,600
60.	Tax liabilities:	11,437	12,390
	a) current tax liabilities	11,437	12,390
80.	Other liabilities	343,859	337,069
90.	Provision for employee severance pay	4,810	4,561
100.	Provisions for risks and charges	107,079	109,805
	a) commitments and guarantees given	21	49
	c) other provisions for risk and charges	107,058	109,756
120.	Revaluation reserves	1,002	(9,794)
140.	Equity instruments	500,000	200,000
150.	Reserves	397,593	355,509
160.	Share premium reserve	1,934	1,934
170.	Share capital	200,941	200,773
180.	Treasury shares (-)	(7,351)	(13,960)
200.	Net Profit (Loss) for the year (+/-)	288,365	241,219
	Total liabilities and Shareholders' equity	**28,022,907**	**24,732,630**

Consolidated Income statement

(Amounts in € thousand)

Income Statement		2019	2018
10.	Interest income and similar revenues	297,908	293,128
	of which: interest income calculated with the effective interest method	305,980	290,863
20.	Interest expenses and similar charges	(16,631)	(14,469)
30.	**Net interest margin**	**281,277**	**278,659**
40.	Fee and commission income	627,773	571,514
50.	Fee and commission expenses	(302,602)	(271,071)
60.	**Net fee and commission income**	**325,171**	**300,443**
70.	Dividend income and similar revenue	1,695	95
80.	Gains (losses) on financial assets and liabilities held for trading	41,429	43,833
90.	Fair value adjustments in hedge accounting	(160)	171
100.	Gains and losses on disposal or repurchase of:	3,636	1,683
	a) financial assets at amortised cost	2,909	17
	b) financial assets at fair value through other comprehensive income	727	1,666
110.	Gains (losses) on financial assets and liabilities at fair value through profit or loss:	(1,839)	(1,500)
	b) other financial assets mandatorily at fair value	(1,839)	(1,500)
120.	**Operating income**	**651,209**	**623,384**
130.	Impairment losses/writebacks on:	5,380	(3,520)
	a) financial assets at amortised cost	5,378	(3,406)
	b) financial assets at fair value through other comprehensive income	2	(114)
150.	**Net profit from financial activities**	**656,589**	**619,864**
180.	**Net profit from financial and insurance activities**	**656,589**	**619,864**
190.	Administrative expenses:	(346,790)	(344,234)
	a) staff expenses	(90,152)	(86,727)
	b) other administrative expenses	(256,638)	(257,507)
200.	Net provisions for risks and charges:	(8,996)	(6,672)
	a) provision for credit risk of commitments and financial guarantees given	27	402
	b) other net provisions	(9,023)	(7,074)
210.	Impairment/write-backs on property, plant and equipment	(17,415)	(5,464)
220.	Impairment/write-backs on intangible assets	(5,449)	(4,959)
230.	Other net operating income	105,547	96,378
240.	**Operating costs**	**(273,103)**	**(264,951)**
280.	Gains (losses) on disposal of investments	-	(161)
290.	**Total profit (loss) before tax from continuing operations**	**383,486**	**354,752**
300.	Tax expenses (income) related to profit or loss from continuing operations	(95,121)	(113,533)
310.	**Total profit (loss) after tax from continuing operations**	**288,365**	**241,219**
330.	**Net Profit (Loss) for the year**	**288,365**	**241,219**
350.	**Profit (loss) for the year attributable to the Parent Company**	**288,365**	**241,219**

	2019	2018
Earnings per share (euro)	0.47	0.40
Diluted earnings per share (euro)	0.47	0.40

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		2019	2018
10.	**Net Profit (Loss) for the year**	**288,365**	**241,219**
	Other comprehensive income after tax without reclassification through profit or loss		
70.	Defined benefit plans	4,227	3,429
	Other comprehensive income after tax with reclassification through profit or loss		
140.	Financial assets (other equity securities) designated at fair value through other comprehensive income	6,569	(6,859)
170.	**Total other comprehensive income net tax**	**10,796**	**(3,430)**
180.	Comprehensive income (voce 10+170)	299,161	237,789
200.	**Consolidated comprehensive income attributable to Parent Company**	**299,161**	**237,789**

Statement of changes in consolidated shareholders' equity

Statement of changes in consolidated shareholders' equity at 12/31/2019

(Amounts in € thousand)

	Balance as at 12/31/2018	Change in opening balance	Balance as at 01/01/2019	Allocation of profit from previous year: Reserves	Allocation of profit from previous year: Dividends and other distributions	Change during the year: Changes in reserves	Shareholders' equity transactions: Issues of new shares	Shareholders' equity transactions: Purchase of own shares	Shareholders' equity transactions: Distributions of extraordinary dividends	Shareholders' equity transactions: Changes in equity instruments	Shareholders' equity transactions: Own share derivatives	Shareholders' equity transactions: Stock options	Shareholders' equity transactions: Changes in ownership interests	Comprehensive income exercise 2019	Shareholders' equity group exercise 2019	Shareholders' equity minorities as at 12/31/2019
Share capital:																
- ordinary shares	200,773		200,773				168								200,941	-
- other shares																
Share premium reserve	1,934		1,934												1,934	-
Reserves:																
- from profits	321,537		321,537	56,718		(13,150)						(168)			364,937	-
- others	33,972		33,972									(1,316)			32,656	-
Revaluation reserves	(9,794)		(9,794)											10,796	1,002	-
Equity instruments	200,000		200,000							300,000					500,000	-
Treasury shares	(13,960)		(13,960)				6,790	(181)							(7,351)	-
Profit (loss) for the year	241,219		241,219	(56,718)	(184,501)									288,365	288,365	-
Shareholders' Equity Group	975,681	-	975,681	-	(184,501)	(13,151)	6,958	(181)	-	300,000	-	(1,484)	-	299,161	1,382,484	-
Shareholders' Equity Minorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The amount of the dividend approved by the Fineco's Ordinary Shareholders' Meeting in 2019, totalling €184,500,820.80, corresponds to €0.303 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 12/31/2018

(Amounts in € thousand)

	Balance as at 12/31/2017	Change in opening balance	Balance as at 01/01/2018	Allocation of profit from previous year: Reserves	Allocation of profit from previous year: Dividends and other distributions	Change during the year: Changes in reserves	Shareholders' equity transactions: Issues of new shares	Shareholders' equity transactions: Purchase of own shares	Shareholders' equity transactions: Distributions of extraordinary dividends	Shareholders' equity transactions: Changes in equity instruments	Shareholders' equity transactions: Own share derivatives	Shareholders' equity transactions: Stock options	Shareholders' equity transactions: Changes in ownership interests	Comprehensive income exercise 2018	Shareholders' equity group exercise 2018	Shareholders' equity minorities as at 12/31/2018
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					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	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	975,681	-
Shareholders' Equity 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.

Consolidated cash flow statement

Indirect method

(Amounts in € thousand)

A. OPERATING ACTIVITIES	Amount 2019	Amount 2018
1. Operations	**424,184**	**356,581**
- profit (loss) for the year (+/-)	288,365	241,219
- unrealised gains/losses on financial assets/liabilities held for trading and on other assets/liabilities at fair value through profit or loss (-/+)	2,006	2,839
- gains (losses) on hedge accounting (-/+)	160	(171)
- net losses/recoveries on impairment (+/-)	(4,693)	4,401
- net value adjustments/write-backs on property, plant and equipment and intangible assets (+/-)	22,864	10,424
- net provisions for risks and charges and other expenses/income (+/-)	21,777	22,691
- uncollected net premium (-)	-	-
- other uncollected insurance income/expenses (-/+)	-	-
- unpaid duties, taxes and tax credits (+/-)	1,015	6,098
- impairment/write-backs after tax on discontinued operations (+/-)	-	-
- other adjustments (+/-)	92,690	69,080
2. Cash flows from/used by financial assets	**(4,262,110)**	**(2,425,880)**
- financial assets held for trading	(1,201)	197
- financial assets designed at fair value	-	-
- other financial assets mandatorily at fair value	(783)	142,484
- financial assets at fair value through other comprehensive income	641,189	56,220
- financial assets at amortised cost	(4,852,377)	(2,590,419)
- other assets	(48,938)	(34,362)
3. Cash flows from/used by financial liabilities	**2,766,261**	**2,125,729**
- financial liabilities measured at amortised cost	2,773,130	2,142,185
- financial liabilities held for trading	1,592	(35)
- financial liabilities designated at fair value	-	-
- other liabilities	(8,461)	(16,421)
Net cash flows from/used in operating activities	**(1,071,665)**	**56,430**
B. INVESTMENT ACTIVITIES		
1. Cash flows from	-	-
- sales of equity investments	-	-
- collected dividends on equity investments	-	-
- sales of property, plant and equipment	-	93
- sales of intangible assets	-	-
- sales of subsidiaries and divisions	-	-
2. Cash flows used in	-	-
- purchases of equity investments	-	-
- purchases of property, plant and equipment	(95,358)	(7,146)
- purchases of intangible assets	(34,235)	(5,755)
- purchases of subsidiaries and divisions	-	-
Net cash flows from/used in investing activities	**(129,593)**	**(12,808)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	6,777	(13,367)
- issue/purchase of equity instruments	300,000	200,000
- dividends and other distributions	(204,610)	(186,104)
- sales/purchases of control	-	-
Net cash flows from/used in financing activities	**102,167**	**529**
NET CASH FLOWS FROM/USED DURING THE YEAR	**(1,099,091)**	**44,151**

Consolidated cash flow statement

RECONCILIATION

(Amounts € thousand)

Balance sheet items	Amount 2019	Amount 2018
Cash and cash balances at the beginning of the period	2,019,314	1,950,996
Net cash flows generated/used during the period	(1,099,091)	44,151
Cash and cash balances: effect of changes in exchange rates	14,443	24,167
Cash and cash balances at the end of the period	(934,666)	2,019,314

Key
(+) generated
(-) used

Cash flows from/used by financial liabilities of the Bank, although in accordance with IAS 7 par. 44A is representative of flows deriving from the financing/funding activity, is classified, in line with the banking activity carried out and as required by Bank of Italy Circular 262/2005, as liquidity deriving from the operating activity.

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).

The item “Cash and cash balances” at the end of 2019 consisted of:

- Cash recognised under asset item 10 “Cash and cash balances” in the amount of €754,386 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 €250,676 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 €70,396 thousand.

The item “Cash and cash balances” at the end of the previous year 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.

Notes to the consolidated accounts

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 the FinecoBank Banking Group (represented by the Bank and the subsidiary Fineco Asset Management DAC, hereinafter FinecoBank Group or Group) 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, pursuant to EU Regulation 1606/2002 of July 19, 2002 and applicable to financial reports for the periods starting on or after January 1, 2019.

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 notes to the consolidated accounts of banks and regulated financial companies that are parents of banking groups, which have been used to prepare these Consolidated financial statements.

Section 2 - Preparation criteria

As mentioned above, these Consolidated financial statements have been prepared in accordance with the IAS/IFRS endorsed by the European Commission. 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 Group has applied the provision provided for in paragraph C5 b) of IFRS 16 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. 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 accounting standard and the operational choices made and the related methodology set forth in the transition to the new principle as well, in section 5. "Other matters - Transition to IFRS 16 Leasing of these notes to the consolidated accounts. The tables presented in the notes to the consolidated accounts with reference to the items impacted by the application of IFRS 16 have been modified in accordance with the provisions in this regard set by the 6th update of Circular 262 issued on November 30, 2018.

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 Group 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, 2019:

- the draft accounts at December 31, 2019 of FinecoBank S.p.A.;
- the draft accounts at December 31, 2019 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.

1. Interests in fully-owned subsidiaries

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

Key:
(1) Type of relationship:
1 = majority of voting rights and the ordinary Shareholders' Meeting
(2) Availability of votes in the ordinary Shareholders' Meeting, with a distinction between actual and potential votes.

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

No data to report.

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

3.1 Minority interests, availability of minority votes and dividends distributed to minority shareholders
No data to report.

3.2 Significant minority interests: accounting data
No data to report.

4. Significant restrictions

No data to report.

5. Other information

No data to report.

Section 4 - Subsequent events

No significant events 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, 2019.

The Consolidated Financial Statements at December 31, 2019 were approved by the Board of Directors of February 11, 2020, which authorised their publication also pursuant to IAS10.

With regard to the international emergency declared by WHO (World Health Organization) on 30 January 2020, in relation to the spread of Covid-19, it is specified that, pursuant to IAS 10, the Group considers the same as an event that occurred after the financial statements date which does not entail adjustments to the same; the potential effects on future economic and financial results cannot currently be determined in consideration of the uncertainties connected with possible developments.

Section 5 – Other matters

In 2019, the following accounting standards, amendments and interpretations, approved by the European Commission, become effective for reporting periods beginning on or after January 1, 2019:

- IFRS 16 – Leasing (EU Regulation 2017/1986)
- Amendments to IFRS 9 - Prepayment Features with Negative Compensation (EU Regulation 2018/498)
- IFRIC 23 – Uncertainty over Income Tax Treatments (EU Regulation 2018/1595)
- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures (EU Regulation 2019/237)
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (EU Regulation 2019/402)
- Annual Improvements to International Financial Reporting Standards, 2015-2017 Cycle (EU Regulation 2019/412)

Where applicable, these accounting standards, amendments and interpretations had no relevant impact on the consolidated financial position and results as at December 31, 2019, except of the accounting standard IFRS 16 which provides for a new accounting method for leasing contracts by the lessee, details of which are described below.

On 16 January 2020 the Commission Regulation (EU) 2020/34 of 15 January 2020 was published, which implements the "Amendments to IFRS 9, IAS 39 and IFRS 7: reform of the interest rate benchmarks" issued by the IASB in September 2019, applicable from the financial statements of the financial years that begin on January 1, 2020 or later, with early application allowed. It should be noted that the Group has decided not to apply in advance the "Amendments to IFRS 9, IAS 39 and IFRS 7: reform of the interest rate Benchmarks" issued by the IASB in September 2019 and pursuant to the Regulation (EU) 2020/34 of the Commission of 15 January 2020. At 31 December 2019 the Group has only fair value hedges in place which provide for the exchange of the fixed rate against Euribor whose assessment, as collateralised, is carried out by discounting future flows with the OIS curve.

Following the entry into force, in 2018, of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 (EU Benchmark Regulation - BMR), the Euribor was subject to a reform process conducted by the 'European Money Markets Institute (EMMI), manager of the same Institute, to make it compliant with BMR according to a new hybrid calculation methodology (based on three levels) to be implemented by the end of 2019. The authorization has been granted, pursuant to the art. 34 of the BMR, on 2 July 2019 by the Belgian authority FSMA, supervisor of EMMI. The full transition to the new calculation method was completed in November 2019 and the Euribor is therefore BMR-compliant and can continue to be used after January 1, 2020.

With reference to the OIS curve, the same will be replaced by the €STR curve. In particular, the clearing houses (Eurex\LCH) used by the Group have communicated that the OIS curve will be replaced with the €STR curve starting from 22 June 2020, anticipating the disposal of the Eonia rate which, due to the effect of the reform in question, will take place at the end of 2021.

The Group, which has chosen to continue to apply the hedge accounting requirements of IAS 39, has taken into account the above with respect to assessing the effectiveness of the hedging relationship, not detecting significant impacts on the existing hedging relationships.

In 2019, the following accounting standards, amendments and interpretations, approved by the European Commission, become effective for reporting periods beginning on or after January 1, 2020:

- Amendments to IAS 1 and IAS 8: definition of “Material” (EU Regulation 2019/2104)
- Amendments to references to the Conceptual Framework in IFRS (EU Regulation 2019/2075)

These accounting standards and amendments have not been applied in advance by the Group and that significant effects are not expected from their application.

As at December 31, 2019, moreover, the IASB issued the following accounting principles and interpretations or revisions thereof, whose the application is however still subject to completion of the approval process by the competent bodies of 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 IFRS 3: Business combinations: Definition of a Business (October 2018)

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

As mentioned before, on November 30, 2018 the 6th update of Circular no. 262 was enacted: "The bank balance sheet: format and drafting rules" which implemented IFRS 16 “Leasing” and the consequent changes introduced in other international accounting standards, including IAS 40 on real estate investments, introduced to guarantee the overall consistency of the reference accounting framework.

Transition to 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 (IFRS 16) with mandatory applicability to the financial statements relating to the periods starting on or after 1 January 2019 (with the faculty of early application in 2018, - together with the mandatory application of IFRS 15).

Starting from January 1, 2019 FinecoBank and its subsidiary Fineco Asset Management DAC apply the aforementioned standard.

IFRS 16 replaced the previous set of international accounting principles and interpretations on leasing and, in particular, IAS17, provides a new definition of leasing and introduced a criterion based on the notion of control ("right of use") of an asset to distinguish leasing agreements from service agreements, identifying which discriminant of leases: 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 object of the contract.

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, and therefore to the accounting model relevant to the FinecoBank Group, 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 lease payments set out in the agreement (“Lease liabilities”).

At initial recognition, this asset is valued on the basis of the related lease contract cash flows on the date effective, corresponding to the current value of the payments due for leasing not paid on that date ("lease liability"), including payments made on or before the effective date and the initial direct costs incurred (if any) by the lessee. Payments due for leasing are discounted using the implicit interest rate of the lease, or if the latter cannot be easily determined, the marginal lending rate of the Company, determined on the basis of the cost of funding for liabilities of similar duration and guarantees to those implicit in leasing contracts. After initial recognition, this asset will be valued on the basis of the provisions for tangible and intangible assets under IAS 38, IAS 16 or IAS 40 and, therefore, at cost net of amortization and any reductions in value, at the "redetermined value" or at fair value as applicable. The lease liability has to be restated, after the effective date, if changes are made to the payments due for the lease; the amount of the restatement of the lease liability has to be recognized as an adjustment to the asset consisting of the right of use.

The Bank and its subsidiary Fineco AM are carrying out the activities aimed at ensuring full compliance with the new accounting standard on the transition date, in particular with reference to the calculation and accounting of the right of use and the associated lease liabilities, aspects that represent the main discontinuity with respect to the accounting model envisaged by IAS17. The activities relating to the development and implementation of rules, principles and IT systems to ensure the correct calculation of above mentioned assets and liabilities, their subsequent measurement and the determination of the related effects on the income statement, have been finalized.

The transition to IFRS 16 led to the definition of some accounting policies and the use of assumptions and estimates as illustrated below.

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 companies and the financial shops used by the personal financial advisors and directly managed by the Bank, as well as leases of machinery and cars.

For the purposes of calculating the leasing debt and the associated “right of use”, the Bank and its subsidiary proceed to discount future installments determined in the light of the provisions of the aforementioned lease contracts 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 the issuance of the invoice by the lessor and not as of the effective date of the leasing contract.

As envisaged by the standards, which grants exemptions in this regard, “low-value assets” contracts (whose threshold has been identified as €5 thousand), mainly relating to mobile phone rental contracts and all 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 leases of intangible assets (mainly represented by software lease payments). For these contracts, the related lease payments are recognized in the income statement on a linear basis for the corresponding duration. It should also be noted that the non-leasing components are separated from the leasing components and recognized in the income statement on an accrual basis in accordance with the applicable accounting standard and that the costs for variable payments due for the lease not included in the evaluation of the lease liabilities.

The lease of the building located in Milan, Piazza Durante 11, where the Bank's registered office is located, leased until 31 January 2019 when the Bank completed the purchase transaction, determining the simultaneous termination of the rental contract has been classified at First Time Adoption of the standard as "Short term lease" and, therefore, excluded from the scope of application of IFRS 16.

Duration of leasing

The Bank and its subsidiary have determinated the duration of leasing for each contract within the scope of application as described above, 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 general, with reference to contracts that allow the Bank or the subsidiary to tacitly renew the lease at the end of a first contractual period, the duration of the lease has been determined, based on historical experience (in particular for the Bank) and information available at the transition date, 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

As regards the discount rate to be used for determining the lease liability the nature of the contracts stipulated by the Bank and its subsidiary, which fall within the scope of application of the standard and mainly represented by rental contracts of properties, does not allow to derive the implied rate in each contract, thus 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 existing lease contracts.

As FinecoBank did not issue own debt instruments at the date of the first application of the standard, the rate applied (the average weighted rate is around 1.48%) for the purposes and for the effects of the First Time Adoption was the senior secured funding rate of UniCredit S.p.A., at that date the parent company of the Bank , applied to finance the companies in the Italy of the UniCredit Group[31].

Accounting effects of the transition

As previously mentioned, the Bank and its subsidiary decided not to recalculate the accounting data relating to previous years (comparative values) while applying the standard retrospectively, as envisaged by the same standard (transition with modified retrospective method).

It should be noted that no effect was recorded in the consolidated shareholders' equity as of January 1, 2019 as, 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).

[31] It should be noted that, following the exit from the UniCredit Group, the Bank, solely for the purpose of accounting for leasing contracts after that date, determined its marginal financing rate using the Bloomberg curve relating to bonds as a reference parameter issued by Italian Banks with a BBB rating.

Below are the tables in the Consolidated Balance Sheet (Assets and Liabilities) showing: (i) the balance sheet balances of the consolidated financial statements as at 31 December 2018, (ii) the adjustments of IFRS 16 application to the balance sheet balances and (iii) the opening balance sheet balances at 1 January 2019.

(Amounts in € thousand)

Balance sheet - assets		12/31/2018	IFRS16 adjustments	1st January 2019 post application IFRS16
10.	Cash and cash balances	6		6
20.	Financial assets at fair value through profit and loss	20,218		20,218
	a) financial assets held for trading	6,876		6,876
	c) other financial assets mandatorily at fair value	13,342		13,342
30.	Financial assets at fair value through other comprehensive income	961,773		961,773
40.	Financial assets at amortised cost	23,270,023		23,270,023
	a) loans and receivables with banks	12,440,994		12,440,994
	b) loans and receivables with customers	10,829,029		10,829,029
50.	Hedging derivatives	3,314		3,314
60.	Changes in fair value of portfolio hedged financial assets (+/-)	4,873		4,873
90.	Property, plant and equipment	16,632	64,576	81,208
100.	Intangible assets	98,307		98,307
	of which:			
	- goodwill	89,602		89,602
110.	Tax assets	6,714		6,714
	a) current tax assets	467		467
	b) deferred tax assets	6,247		6,247
130.	Other assets	350,770	(424)	350,346
Total assets		**24,732,630**	**64,152**	**24,796,782**

(Amounts in € thousand)

Liabilities and shareholders' equity		12/31/2018	IFRS16 adjustments	1st January 2019 post application IFRS16
10.	Financial liabilities at amortised cost	23,282,962	64,152	23,347,114
	a) deposits from banks	1,009,774	4,017	1,013,791
	b) deposits from customers	22,273,188	60,135	22,333,323
20.	Financial liabilities held for trading	2,221		2,221
40.	Hedging derivatives	5,341		5,341
50.	Changes in fair value of portfolio hedged financial liabilities (+/-)	2,600		2,600
60.	Tax liabilities	12,390		12,390
	a) current tax liabilities	12,390		12,390
80.	Other liabilities	337,069		337,069
90.	Provisions for employee severance pay	4,561		4,561
100.	Provisions for risks and charges:	109,805		109,805
	a) commitments and guarantees given	49		49
	c) other provisions for risks and charges	109,756		109,756
120.	Revaluation reserves	(9,794)		(9,794)
140.	Equity instruments	200,000		200,000
150.	Reserves	355,509		355,509
160.	Share premium reserve	1,934		1,934
170.	Share capital	200,773		200,773
180.	Treasury shares (-)	(13,960)		(13,960)
200.	Net Profit (Loss) for the year	241,219		241,219
Total liabilities and Shareholders' equity		**24,732,630**	**64,152**	**24,796,782**

It should be noted that the adjustments IFRS16 accounted for into the item 130. Other assets correspond to the amounts of prepayments related to the lease contracts, 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).

The following tables show the effects of the First Time Adoption of IFRS 16 in detail.

Property, plant and equipment

(Amounts in € thousand)

Assets/amounts	12/31/2018	IFRS16 adjustments	1st January 2019 post application IFRS16
1. Owned assets	**14,544**	**-**	**14,544**
a) land	-	-	-
b) buildings	-	-	-
c) office furniture and fittings	1,835	-	1,835
d) electronic systems	10,944	-	10,944
e) other	1,765	-	1,765
2. Assets under financial lease	**-**	**64,576**	**64,576**
a) land	-	-	-
b) buildings	-	63,951	63,951
c) office furniture and fittings	-	-	-
d) electronic systems	-	-	-
e) other	-	625	625
Total	**14,544**	**64,576**	**79,120**
of which: obtained through enforcement of the guarantees received	-	-	-

The amount equal to €625 thousand, accounted for as an increase in item "e) other" refers to the rights of use relating to plant, equipment and motor vehicles.

Financial liabilities at amortised cost: dues from banks

(Amounts in € thousand)

Transactions type/amounts	12/31/2018	IFRS16 adjustments	1st January 2019 post application IFRS16
1. Deposits from central banks	-	-	-
2. Deposits from banks	**1,009,774**	**4,017**	**1,013,791**
2.1 Current accounts and demand deposits	52,563	-	52,563
2.2 Time deposits	-	-	-
2.3 Loans	933,352	-	933,352
2.3.1 Repos	933,352	-	933,352
2.3.2 Other	-	-	-
2.4 Liabilities in respect of commitments to repurchase treasury shares	-	-	-
2.5 Lease liabilities	-	4,017	4,017
2.6 Other liabilities	23,859	-	23,859
Total	**1,009,774**	**4,017**	**1,013,791**

Financial liabilities at amortised cost: dues from customers

(Amounts in € thousand)

Transactions type/amounts	12/31/2018	IFRS16 adjustments	1st January 2019 post application IFRS16
1. Current accounts and demand deposits	22,046,700	-	22,046,700
2. Time deposits	3,106	-	3,106
3. Loans	116,299	-	116,299
3.1 Repos	116,299	-	116,299
3.2 Other	-	-	-
4. Liabilities in respect of commitments to repurchase treasury shares	-	-	-
5. Lease liabilities	-	60,135	60,135
6. Other liabilities	107,083	-	107,083
Total	**22,273,188**	**60,135**	**22,333,323**

Reconciliation of financial liabilities at 1 January 2019 with the commitments for operating leases recognized at 31 December 2018

(Amounts in € thousand)

Description	Amounts
Commitments for operating leasing as at December 31, 2018	**5,052**
Future leasing payments	70,208
Exceptions to recognition pursuant to IFRS 16	(1,637)
- short term lease	*(1,598)*
- low value lease	*(39)*
Future leasing payments intagible assets	(4,999)
Financial lease liability not discounted as at January 1, 2019	**68,624**
Discount effect	(4,472)
Financial lease liability as at January 1, 2019	**64,152**
Present value of financial lease liability as at December 31, 2018	-
Additional financial lease liability due to the transition to IFRS 16 as at January 1, 2019	**64,152**

As at December 31, 2018, no financial leases were in place and the commitments included exclusively operating lease/rental payments that could not be canceled, including lease/rental payments for intangible assets.

The item "Future leasing payments" includes the lease/rental payments that can be canceled, not included in the commitments as at December 31, 2018, net of the contracts that included low-value assets and contracts with a contractual duration equal to or less than 12 months, i.e. "short term lease".

Impacts on regulatory capital deriving from the adoption of IFRS 16

The application of IFRS 16, which had no impact on consolidated shareholders' equity on the date of first application, resulted in an increase in tangible assets recorded in the consolidated balance sheet assets as at 1 January 2019 of ca. €64.6 million (of which ca. €0.9 million referred to Fineco AM) and a following increase in the Bank' RWAs whose effect has been estimated equal to 55 basis points on the individual CET1 of the Bank as of 31 December 2018. It is note noting that the Bank at that date was required to prepare the report on the own funds and on the regulatory ratios not on a consolidated basis but exclusively on a individual basis, as consequence of belonging to the UniCredit Banking Group.

Interbank Deposit Guarantee Fund - Voluntary Scheme

FinecoBank has subscribed to the "Voluntary Scheme", introduced by the Interbank Deposit Guarantee Fund ("IDGF") in November 2015, through an amendment to its bylaws. The Voluntary Scheme is an instrument for resolving bank crises through support measures in favour of banks subscribing to it, when specific conditions established by the regulations apply. The Voluntary Scheme has its own independent financial resources and the banks subscribing to it have committed to provide funds on request for implementation of the measures.

From 2016 to 2018, the Voluntary Scheme, in a capacity as a private entity, approved initiatives to support some banks, and in particular Cassa di Risparmio di Cesena (CariCesena), Cassa di Risparmio di Rimini (Carim), Cassa di Risparmio di San Miniato (Carismi) and Banca Carige.

For the above initiatives, FinecoBank made cash payments with simultaneous recognition in the financial statements, as indicated in this regard by the Bank of Italy, recognised in the financial statements as equity instruments and previously classified as "Financial assets available for sale" under the accounting standard IAS 39 in effect until December 31st, 2017, and subsequently from January 1st, 2018, as "Financial assets measured at fair value" through profit or loss, based on the current accounting standard IFRS 9: c) other financial assets measured at fair value".

As at December 31, 2019, total exposure of equity instruments, arising from grants deriving from the aforementioned contributions paid by the Bank, net of write-downs and cancellations made in previous years and of the effects of the fair value valuation on that date amounted to €2,630 thousand (of which €2.307 thousand relating to the contributions paid for the intervention in favour of Carige and €323 thousand relating to the contributions paid for the intervention in favour of Carim, Carismi and CariCesena).

In particular, the fair value measurement as at December 31, 2019 of equity instruments booked by the Bank as part of the operation approved by the Voluntary Scheme for the initiative taken by Credit Agricole CariParma in support of CariCesena, Cassa di Risparmio di Rimini (Carim) and Cassa di Risparmio di San Miniato (Carismi) resulted in a further negative fair value measurement of €202 thousand being recognised in the income statement in 2019 in order to align the value to the estimate of the fair value of Berenice securitisation instruments (mezzanine and junior instruments issued for the securitisation of NPLs of the three banks acquired under the Voluntary Scheme) performed by the appointed advisor from the IDGF for the Voluntary Scheme Report as at December 31, 2019. The measurement model adopted by the advisor appointed by the IDGF is based on the Discounted Cash Flow model depending on recovery assumptions.

The fair value measurement as at December 31, 2019 of equity instruments booked by the Bank as part of the initiative supporting Banca Carige S.p.A. showed an impairment which resulted in a further negative fair value measurement of €4,344 thousand being recognised in the income statement in 2019. As market or price valuations of comparable instruments were not available nor, in addition, an updated assessment by the IDGF, the fair value of the instrument was determined by the Bank using internal models based on Market Multiples methodology applied to multi-scenario analysis and using the most recent information on the bank's recovery plan as the reference through the capital increase subscribed by the Voluntary Scheme with the conversion at par of the bond subscribed in December 2018.

It should also be noted on December 24, 2019 the Interbank Deposit Guarantee Fund communicated that the Voluntary Scheme has collected a total amount of €53.5 million relating to the for four tranches of interest, net of the costs incurred during the year 2019 on the aforementioned bond, recognizing FinecoBank's an amount of €1,594 thousand. These proceeds were recognized under item “70. Dividends and similar income ”in the consolidated income statement.

Contributions to guarantee and resolution funds

The Directive 2014/49/EU of 16 April 2014, in relation to the DGS, aims to enhance the protection of depositors through the harmonisation of the related national legislation. The Directive provides for the launch of a mandatory national contribution mechanism that will allow a target level of 0.8% of the amount of its members' covered deposits to be collected by 3 July 2024. The contribution resumes when the financing capacity is below the target level, at least until the target level is reached. If, after the target level has been reached for the first time, the available financial resources have been reduced to below two thirds of the target level, the regular contribution shall be set at a level to achieve the target level within six years. The contribution mechanism provides for ordinary annual contribution instalments, with the aim of distributing the costs evenly over time for the contributing banks, and also extraordinary contributions, if the available financial resources of a DGS are insufficient to repay depositors; the extraordinary contributions cannot exceed 0.5% of covered deposits per calendar year, but in exceptional cases and with the consent of the competent authority, the DGS may demand even higher contributions.

With reference to the contributory obligations under the aforementioned Directive, with the communication dated December 3, 2019, 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 2019 would be equal to €566.5 million.

Moreover, among the variables that affect the determination of the effective contributions for the year 2019, the following are important:

- the supply of the Solidarity Fund, for an amount equal to €5 million, as approved by the IDGF Board at the meeting of 13 November 2019, with a corresponding reduction in the ordinary contributions of 2019;
- the outlay related to the intervention of the IDGF in favor of Banca Carige as part of its recovery plan. Pursuant to art. 25, paragraph 2 of the Articles of Association of the IDGF, the payment of additional contributions is required for the restoration by 2024 of the amount used, in order to achieve the target level by the scheduled date. In particular, the accumulation plan for 2019 provides representation of the intervention in favor of Banca Carige for a total amount of €323.8 million and, therefore, the additional contribution for 2019 and for the following years up to 2024 is quantified in €55.2 million;
- the loan agreement entered into on 2 August 2019 by the IDGF with a pool of member banks, with reference to which in the aforementioned meeting the IDGF Board resolved to request an additional €11.3 million contribution from the member banks, distinct from the ordinary and additional contributions intended for the financial endowment of the IDGF, to be paid to the financing banks by way of a commission for the availability of funds, a commission from the agent bank and legal fees.

In total, therefore, the contribution due by the consortium member banks for 2019, including the resources to be allocated to the Solidarity Fund and the additional contribution above mentioned, has been determinated equal to a total of €633 million, of which €616.7 million for the establishment of the financial envelope. The portion pertaining to each consortium member has been calculated based on the relating amount of the protected deposits as at 30 September 2019 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 2019 was paid and accounted for by the Group, for which only the Holding FinecoBank participates, under the item 190. Administrative Expenses, amounting to €18.1 million as follows:

- €16.1 million relating to the annual ordinary contribution;
- €1.6 million relating to the additional contribution;
- €0.1 million relating to the contribution to the Solidarity Fund;
- €0.3 million relating to the supplementary contribution.

With the introduction of the European Directive 2014/59/EU, the Regulation on the Single Resolution Mechanism ("BRRD Directive" Regulation (EU) No.806/2014 of the European Parliament and of the Council dated 15 July 2014) established a framework for the recovery and resolution of crises in credit institutions, by setting up a single resolution committee and a single resolution fund for banks (Single Resolution Fund, "SRF"). The Directive provides for the launch of a compulsory contribution mechanism that entails the collection of the target level of resources by 31 December 2023, equal to 1% of the covered deposits of all the authorised institutions acting in the European territory. The accumulation period may be extended for a further four years if the funding mechanisms have made cumulative disbursements for a percentage higher than 0.5% of the covered deposits. If, after the accumulation period, the available financial resources fall below the target level, the collection of contributions shall resume until that level has been recovered. Additionally, having reached the target level for the first time and, in the event that the available financial resources fall to less than two thirds of the target level, these contributions are set at the level which allows the target level to be reached within a period of six years. The contribution mechanism provides for ordinary annual contributions, with the aim of distributing the costs evenly over time for the contributing banks, and extraordinary additional contributions, of up to three times the expected annual contributions, when the available financial resources are not sufficient to cover the losses and costs of the interventions.
No contribution was requested from the Group by the Single Resolution Board, for 2019, with regard to contribution obligations pursuant to aforementioned Directive.

Both Directives No.49 and No.59 specify the possibility of introducing irrevocable payment commitments as an alternative to collection of fund contributions lost through cash, up to a maximum of 30% of the total resources target, faculty of which the Group did not avail himself.

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 take into account all the information available at the date of preparation of the financial statements and 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, 2019, 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, 2019. 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 estimated book values cannot be ruled out.

At the date of preparing these Consolidated financial statements we believe, based on the available elements and taking into account the sensitivity analyses carried out, that there are no uncertainties such as to give rise to significant adjustments to the carrying amounts within one year. However, it cannot be excluded that, by their nature, the reasonably assumed assumptions may not be confirmed in the actual future scenarios in which the Group will operate. These scenarios could be influenced, among others, by elements of uncertainty about the effects of the Coronavirus epidemic and the containment measures that cannot be determined to date.

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 of these notes to the accounts.

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 Part A - Section A.4. Information on fair value of these notes to the consolidated accounts.

With particular regard to provisions for risks and charges for risks arising from legal disputes and claims, please refer to Part E – Information on risks and hedging policies - Section 5 - Operating risk of these notes to the consolidated accounts.

For the details on the models and parameters used in the measurement of IFRS 9 adjustments, please refer to Part A - Section 18. Other information - Impairment of these notes to the consolidated accounts

Other information

The Consolidated financial statements as at December 31, 2019 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” of the liabilities in the consolidated balance sheet.

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 the 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".

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 Group 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 Group 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” in consolidated shareholders' equity.

3 - Financial assets at amortised cost

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

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

More specifically, this item includes:

- loans to banks and customers in the various technical forms that meet the requirements of the previous paragraph;
- debt securities that meet the requirements of the previous paragraph.

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

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

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

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

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

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

After initial recognition at fair value, these assets are measured at amortized cost using the effective interest method, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process in accordance with the illustration given in the 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 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 income statement 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 Group 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 and under micro-hedges against the interest rate risk of securities issued by sovereign States.

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 the consolidated balance sheet 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 include rights of use of tangible assets, as defined by IFRS16, and 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 the consolidated balance sheet 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).

With regard to the property, plant and equipment for the right of use acquired with lease, at the time of the initial registration this asset is evaluated on the basis of the financial flows associated with the leasing contract, corresponding to the present value of future installments due for unpaid leasing amounts on that date: "lease liability", including installments made on or before the effective date and the initial direct costs incurred by the lessee. Installments due for leasing are determined in light of the provisions of the lease agreement and calculated net of the VAT component, where applicable, by virtue of the fact that the obligation to pay this tax arises at the time the invoice is issued by of the lessor and not as of the effective date of the leasing contract, and are discounted using the marginal loan rate of the Group, determined on the basis of the cost of funding for liabilities of a duration and guarantees similar to those implicit in the leasing contracts.

After initial recognition, this asset is measured based on the provisions for property, plant and equipment under IAS 16 or IAS 40 and, therefore, at cost net of amortization and any impairment, at the "redetermined value" or at fair value according to as applicable.

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.

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.

Residual useful life is usually assessed as follows:

• Buildings	up to 33,3 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

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 relative useful life is recalculated and the depreciation amount for the current and subsequent periods is adjusted accordingly.

In particular, it should be noted that the expenses for improvements capitalized on the main asset, in particular on properties, may result in a significant increase in the useful life of the asset, which may not in any case exceed the useful live below starting from the capitalization date of the improvement.

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 the consolidated income statement in item 210. “Net impairment/Write-backs on property, plant and equipment”.

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.

A tangible asset is de-recognised from the 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 income statement in 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 Group, 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, brands and domains, 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, Fineco’ brand and domains.

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 the consolidated income statement in item 220. “Net impairment/write-backs on intangible assets”.

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 income statement in 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 income statement in 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 Group, 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 the consolidated balance sheet 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 consolidated income statement in item 320. "Profit (Loss) after tax from discontinued operations”. 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 tax regulations;
- current tax liabilities, i.e. tax payables due under the current 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 the consolidated income statement in 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 the consolidated balance sheet 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.

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 Group 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 Group, to the extent that it is believed that they will not be reimbursed by the counterparties.

This estimate was determined by the Group, 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 (including deposits, current accounts, loans, lease liability, current payables related to the provision of financial services as defined by the T.U.B. and T.U.F.).

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.

Financial liabilities at amortized cost include the lease liabilities initially recognized equal to the present value of future installments due for unpaid leasing amounts on that date. Payments due for leasing are discounted using the Group's marginal financing rate, determined on the basis of the cost of funding for liabilities of a duration and guarantees similar to those implicit in the leasing contracts. The lease liability must be restated, after the effective date, if changes are made to the payments due for the lease; the amount of the restatement of the liability for the lease must be recognized as an adjustment to the corresponding asset by right of use.

Hybrid debt instruments (combined) 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 generate gains or losses.

The Group's consolidated debts do not include covenants 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 reference date of these Consolidated financial statements, 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 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 year.

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 in the Consolidated financial statement, 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 in the Consolidated financial statement, commitments for re-insurers.

At the reference date of these Consolidated financial statements, 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 the Consolidated financial statement 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 the Consolidated financial statement 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 purchase 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.

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 Group'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. However, a single entity may have more than one business model for managing its financial instruments.

For the Held to Collect business model, the Group 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 Gruppo 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 Group 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 Group 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 Group:

- 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).

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 Group 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 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 standard, the Group refers 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[32]. In this regard, forward-looking information has also been included[33] with the elaboration of specific scenarios.

The expected loss is calculated for institutional counterparties, using the credit parameters provided by UniCredit S.p.A., in accordance with a specific Master Service Agreement contract entered into between FinecoBank and UniCredit S.p.A..

With reference to the expected loss for 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.

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 Group 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.

[32] 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.
[33] 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.

Parameters and definitions of risk level used in the calculation of value adjustments

As mentioned above the models to calculate the expected loss, which draw on the PD, LGD and EAD criteria, as well as the effective interest rate.

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

Specifically:

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

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

The main adjustments are made in order to:

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

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

The rate of recovery incorporated in the through-the-cycle LGD was adapted in order to 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" (standardized method). Past-due and/or overdrawn impaired exposures are valued at a flat rate on a historical/stochastic.

Lastly, it is worth noting that the regulation relating to the "New definition of default" (Regulation UE 2018/171 and the EBA 2016/07 guidelines), which will come into force from 31 December 2020, establishes more restrictive criteria and methods for classifying default compared to those adopted so far by Italian intermediaries, with the aim of harmonizing the approaches to applying the definition of default and identifying the conditions of unlikely fulfillment between financial institutions and the various jurisdictions of the EU countries.

The main changes introduced will concern:

- the change to the materiality threshold which contributes, together with the expired days (90 days), to determine the classification as default. This threshold is composed of:
  - an absolute component of €100 for retail customers and €500 for all other types of exposure;
  - a relative component, represented by the percentage that expresses the relationship between the amount of the outstanding credit obligation and the total amount of all exposures to the same debtor; the percentage adopted by the Bank of Italy is 1%.
- the introduction of a three-month trial period (cure period) for the reclassification to performing of debtors previously classified as non-performing;
- Introduction of the prohibition to compensate the overdue amounts with any credit lines not used by the debtor.

The activities relating to the definition of rules-principles and the adaptation of IT systems, aimed at ensuring the correct application of the new regulatory requirements, are being implemented.

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.

Specifically, the forward looking component is determined by three macroeconomic scenarios, a basic scenario ("Baseline"), a positive scenario and an adverse scenario. The basic scenario is the central scenario of reference and is therefore considered the most probable realization; the positive and adverse scenarios represent alternative realizations, respectively better and worse.

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, which may consist in the assignment 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.

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".

As regards the share based payments consisting in the payment of shares of the former Parent Company UniCredit S.p.A., directly allocated to employees of the Group UniCredit that involve settlement with shares of UniCredit S.p.A., under arrangements between the company of the Unicredit Group and UniCredit S.p.A. (and still in place for FinecoBank under specific agreements) 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 the consolidated balance sheet in 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 elements and, in the case of financial liabilities, 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 asset/liability through a qualitative analysis. With regard to the financial liabilities, moreover, 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 liability and the recognition of a new financial instrument (10% threshold test).

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 the consolidated balance sheet 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" in consolidated shareholders' equity, 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 Group 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 Group 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 expenses (or interest income, in case of negative interest) also includes the interest on lease liabilities determinated based on the marginal loan rate. 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, as defined by provisions of IFRS 15 (as detailed below). 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 Group 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.

Among costs, administrative expenses also include short-term lease payments, low value lease payments (i.e. contracts whose assets underlying the contract do not exceed, when new, the threshold of €5 thousand), costs for variable payments due for leasing not included in the evaluation of the lease liability, the VAT component of the lease payments to be paid/paid on the leasing contracts recognized in accordance with IFRS 16 and the fees for the leasing of intangible assets.

Fees and commissions income and other operating income are accounted for in the income statement 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 of the contractual amount is not aligned to the way the performance obligation is satisfied, the Group 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 Group 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 Group uses the practical expedient envisaged by paragraph 63 of IFRS 15; as a result of which the Group 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 Group 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 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 Group's operations and demonstrable to external parties. Accordingly, a change in a Group'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.

During 2019 the Group 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 Group 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 Group 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);
- a 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 Group 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 Group 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 Group 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 Group 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. 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 are independently and centrally tested and validated. 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 Group'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 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 Group 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, if listed, are classifies 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 Group has adopted a model 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; for the valuation as at 31 December 2019 this factor was determined equal to 7.85%, estimating as at December 31, 2019 the litigation risk at 1.85% and the illiquidity risk at 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 contributions paid for 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, 2019. The model adopted by the aforementioned advisor is based on the Discounted Cash Flow model according to the recovery forecasts.

The fair value of the equity instruments recognized for the contributions paid in relation to the intervention in favor of Banca Carige S.p.A., on the other hand, was determined using an internal model adopted by the Group based on the Market Multiples methodology applied in multi-scenario analysis, having as reference the most recent information regarding the bank's recovery plan as the reference through the capital increase subscribed by the Voluntary Scheme with the conversion at par of the bond subscribed in December 2018.

Both the equities were classed as fair value 3.

Investment Funds

The Group 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”, fair value level 2 has been calculated using the 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 issuer credit risk. 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

Due to their short term nature and generally negligible credit risk, the book value of the cash and cash balances approximates fair value,

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	12/31/2019 L1	12/31/2019 L2	12/31/2019 L3	12/31/2018 L1	12/31/2018 L2	12/31/2018 L3
1. Financial assets at fair value through profit or loss	5,537	3,302	11,320	3,390	3,557	13,271
a) financial assets held for trading	4,631	3,302	-	3,353	3,523	-
- Financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily at fair value	906	-	11,320	37	34	13,271
2. Financial assets at fair value through other comprehensive income	321,694	-	5	961,767	-	5
3. Hedging derivatives	-	36,059	-	-	3,314	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**327,231**	**39,361**	**11,325**	**965,157**	**6,871**	**13,276**
1. Financial liabilities held for trading	3,217	560	-	1,552	669	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	80,852	-	-	5,341	-
Total	**3,217**	**81,412**	**-**	**1,552**	**6,010**	**-**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

In 2019 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 measured at fair value with impact on the income statement: 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	Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	**13,271**	**-**	**-**	**13,271**	**5**	**-**	**-**	**-**
2. Increases	**2,623**	**22**	**-**	**2,601**	**-**	**-**	**-**	**-**
2.1 Purchases	22	22	-	-	-	-	-	-
2.2 Profits recognised in:	2,601	-	-	2,601	-	-	-	-
2.2.1 Income Statement	2,601	-	-	2,601	-	-	-	-
- of which unrealised gains	2,596	-	-	2,596	-	-	-	-
2.2.2 Shareholders' Equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-	-	-
3. Decreases	**(4,574)**	**(22)**	**-**	**(4,552)**	**-**	**-**	**-**	**-**
3.1 Sales	(27)	(22)	-	(5)	-	-	-	-
3.2 Redemptions	-	-	-	-	-	-	-	-
3.3 Losses recognised in:	(4,547)	-	-	(4,547)	-	-	-	-
3.3.1 Income Statement	(4,547)	-	-	(4,547)	-	-	-	-
- of which unrealised losses	(4,547)	-	-	(4,547)	-	-	-	-
3.3.2.Shareholders' Equity	-	X	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balances	**11,320**	**-**	**-**	**11,320**	**5**	**-**	**-**	**-**

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 income statement 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".

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

No data to report.

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	12/31/2019				12/312018			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets at amortised cost	26,216,829	14,781,018	7,779,770	4,374,125	23,270,024	8,115,915	9,182,023	6,117,326
2. Tangible assets held for investment	1,980	-	-	2,950	2,088	-	-	2,950
3. Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-
Total	**26,218,809**	**14,781,018**	**7,779,770**	**4,377,075**	**23,272,112**	**8,115,915**	**9,182,023**	**6,120,276**
1. Financial liabilities at amortised cost	26,074,511	-	1,366	26,073,151	23,282,962	-	3,111	23,279,856
2. Liabilities included in disposal group classified as held for sale	-	-	-	-	-	-	-	-
Total	**26,074,511**	**-**	**1,366**	**26,073,151**	**23,282,962**	**-**	**3,111**	**23,279,856**

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

Assets

Section 1 - Cash and cash balances - Item 10

1.1 Cash and cash balances: breakdown

(Amounts in € thousand)

	Total 12/312019	Total 12/312018
a) Cash	53	6
b) Demand deposits with Central banks	754,333	-
Total	**754,386**	**6**

The item “(b) Demand deposits with central banks” refers to the liquidity deposited in the HAM (Home Accounting Model) account held with Bank of Italy, that FinecoBank opened in 2019.

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 12/31/2019			Total 1231//2018		
	L1	L2	L3	L1	L2	L3
A. Balance-sheet assets						
1. Debt securities	-	-	-	5	-	-
1.1 Structured securities	-	-	-	5	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity instruments	3,289	-	-	2,110	-	-
3. Units in investment funds	5	-	-	2	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repos	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**3,294**	**-**	**-**	**2,117**	**-**	**-**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	1,337	3,302	-	1,236	3,523	-
1.1 trading Financial derivatives	1,337	3,302	-	1,236	3,523	-
1.2 fair value hedges	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading derivatives	-	-	-	-	-	-
2.2 fair value hedges	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**1,337**	**3,302**	**-**	**1,236**	**3,523**	**-**
Total (A+B)	**4,631**	**3,302**	**-**	**3,353**	**3,523**	**-**

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 €3,227 thousand (€3,509 thousand as at December 31, 2018).

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 €1,412 thousand (€1,250 thousand as at December 31, 2018).

2.2 Financial assets held for trading: breakdown by issuer/borrower

(Amounts in € thousand)

Items/Amounts	Total 12/31/2019	Total 12/31/2018
A. ON-BALANCE SHEET ASSETS		
1. Debt securities	-	5
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	-	5
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	3,289	2,110
a) Banks	-	-
b) Other financial companies	217	175
of which: Insurance companies	4	-
c) Non-financial companies	3,072	1,935
d) Other issuers	-	-
3. Units in investment funds	5	2
4. Loans	-	-
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**3,294**	**2,117**
B. DERIVATIVE INSTRUMENTS		
a) Central Counterparties	55	73
b) Others	4,584	4,686
Total (B)	**4,639**	**4,759**
Total (A+B)	**7,933**	**6,876**

Item B. “Derivative instruments” also includes the positive valuations of spot contracts for securities classified in the “Financial Assets held for trading” 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/Amounts	Total 12/31/2019			Total 12/31/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**32**	**-**	**-**	**31**	**34**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	32	-	-	31	34	-
2. Equity instruments	**7**	**-**	**11,320**	**6**	**-**	**13,271**
3. Units in investment funds	**867**	**-**	**-**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Reverse repos	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total	**906**	**-**	**11,320**	**37**	**34**	**13,271**

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 €8,682 thousand, which saw a positive change in *fair value* during 2019 of €2,596 thousand and the residual equity instruments exposure following the contribution paid to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund (IDGF) amounting to €2,630 thousand (of which €2,307 relating to the Banca Carige transaction and €323 thousand relating to Carim, Carismi and CariCesena transaction), with a negative effect recorded in 2019 income statement amounting to €4,547 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 consolidated accounts.

It should be noted that item 3. "Units in investment funds" includes UCITS held by FAM for seeding purposes.

Equity securities of issuers in default were classified by the Group 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 12/31/2019	Total 12/31/2018
1. Equity instruments	**11,327**	**13,277**
of which: banks	1	1
of which: other financial companies	11,313	13,264
of which: other non-financial companies	13	12
2. Debts securities	**32**	**65**
a) Central Banks	-	-
b) Public Entities	29	29
c) Banks	3	2
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	34
3. Units investment funds	**867**	**-**
4. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**12,226**	**13,342**

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)

Item/Amounts	Total 12/312019			Total 12/312018		
	L1	L2	L3	L1	L2	L3
1. Debts securities	**321,694**	**-**	**-**	**961,767**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	321,694	-	-	961,767	-	-
2. Equity instruments	**-**	**-**	**5**	**-**	**-**	**5**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**321,694**	**-**	**5**	**961,767**	**-**	**5**

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 Group does not exercise control or significant influence for €5 thousand for which, upon first application of IFRS 9, the "FVTOCI" option was exercised[34]. For more details, see the information on Sovereign exposures set out in Part E of the notes to the consolidated accounts.

[34] 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).

3.2 Financial assets at fair value through comprehensive income: breakdown by issuer/borrower

(Amounts in € thousand)

Items/Amounts	Total 12/31/2019	Total 12/31/2018
1. Debt securities	**321,694**	**961,767**
a) Central Banks	-	-
b) Public Entities	321,694	961,767
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity Instruments	**5**	**5**
a) Banks	-	-
b) Other issuers:	5	5
- other financial companies	-	-
of which: insurance companies	-	-
- non-financial companies	5	5
- others	-	-
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**321,699**	**961,772**

3.3 Financial assets at fair value through comprehensive income: gross exposure and total impairment

(Amounts in € thousand)

	Gross value				Writedown			Write off partial
	First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	321,720	321,720	-	-	(26)	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 12/31/2019	**321,720**	**321,720**	**-**	**-**	**(26)**	**-**	**-**	**-**
Total 12/31/2018	**961,938**	**961,938**	**-**	**-**	**(171)**	**-**	**-**	**-**
of which: financial assets purchased or originated credit impaired	X	X	-	-	X	-	-	-

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 transaction/Values	Total 12/31/2019						Total 12/31/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. Loans and receivables with Central Banks	**251,574**	**-**	**-**	**-**	**-**	**251,574**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserves	251,574	-	-	X	X	X	-	-	-	X	X	X
3. Reverse repos	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans and receivables with banks	**9,188,788**	**-**	**-**	**1,347,332**	**7,721,114**	**314,459**	**12,440,994**	**-**	**-**	**267,493**	**9,182,023**	**3,058,882**
1. Loans	314,459	-	-	-	-	314,459	3,058,882	-	-	-	-	3,058,882
1.1 Current accounts and demand deposits	250,501	-	-	X	X	X	1,922,041	-	-	X	X	X
1.2. Time deposits	9,994	-	-	X	X	X	1,127,298	-	-	X	X	X
1.3 Other loans:	53,964	-	-	X	X	X	9,543	-	-	X	X	X
- Repos	4,316	-	-	X	X	X	416	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Others	49,648	-	-	X	X	X	9,127	-	-	X	X	X
2. Debts securities	8,874,329	-	-	1,347,332	7,721,114	-	9,382,112	-	-	267,493	9,182,023	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	8,874,329	-	-	1,347,332	7,721,114	-	9,382,112	-	-	267,493	9,182,023	-
Total	**9,440,362**	**-**	**-**	**1,347,332**	**7,721,114**	**566,033**	**12,440,994**	**-**	**-**	**267,493**	**9,182,023**	**3,058,882**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

Loans and receivables with banks for "Current accounts and demand deposits" consist of current accounts held with credit institutions, including UniCredit S.p.A., for the settlement of transactions on payment circuits, for the settlement of securities transactions, for the management of the liquidity of UK customers and for the management of Fineco AM liquidity. As at 31 December 2018 the item included the liquidity deposited with UniCredit S.p.A., in part transferred during 2019 to the HAM (Home Accounting Model) account at Bank of Italy.

As at December 31, 2018 the "Time deposits" included the current accounts held with UniCredit S.p.A. for a total amount of €1,119,303 thousand and closed during 2019, including the deposit for mandatory reserve now held at the Bank of Italy.

The item "Other loans: Other" refers for €43,854 thousand to the amount of the initial and variation margins and collateral deposits placed with credit institutions for derivative transactions (€5,280 thousand as at December 31, 2018), and €5,793 thousand to current receivables associated with the provision of financial services (€3,847 thousand as at December 31, 2018).

The item "Debt securities" includes €7,501,377 thousand relating to debt securities issued by UniCredit S.p.A. (€9,115,783 thousand as at December 31, 2018).

4.2 Financial assets at amortised cost: product breakdown of loans and receivables with customers

(Amounts in € thousand)

Type of transaction/Values	Total 12/31/2019						Total 12/31/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit impaired	L1	L2	L3
1. Loans	**3,676,261**	**3,568**	**-**	**-**	**-**	**3,808,092**	**2,952,257**	**2,817**	**-**	**-**	**-**	**3,058,444**
1.1 Current accounts	1,290,208	1,964	-	X	X	X	1,016,930	1,770	-	X	X	X
1.2 Reverse repos	160,112	-	-	X	X	X	148,768	29	-	X	X	X
1.3 Mortgages	1,155,943	410	-	X	X	X	856,856	14	-	X	X	X
1.4 Credit cards, personal loans and wage assignment loans	809,176	885	-	X	X	X	749,358	783	-	X	X	X
1.5 Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7 Other loans	260,822	309	-	X	X	X	180,345	221	-	X	X	X
2. Debt securities	**13,096,638**	**-**	**-**	**13,433,686**	**58,656**	**-**	**7,873,955**	**-**	**-**	**7,848,422**	**-**	**-**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	13,096,638	-	-	13,433,686	58,656	-	7,873,955	-	-	7,848,422	-	-
Total	**16,772,899**	**3,568**	**-**	**13,433,686**	**58,656**	**3,808,092**	**10,826,212**	**2,817**	**-**	**7,848,422**	**-**	**3,058,444**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

Debt securities 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 consolidated accounts.

4.3 Financial assets at amortised cost: breakdown by issuer/borrower of loans and receivables with customers

(Amounts in € thousand)

Type of transaction / Values	Total 12/31/2019			Total 12/31/2018		
	First and second stage	Third stage	of which: purchased or originated credit impaired	First and second stage	Third stage	of which: purchased or originated credit impaired
1. Debt securities	**13,096,638**	**-**	**-**	**7,873,955**	**-**	**-**
a) Public Entities	13,096,638	-	-	7,873,955	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Loans with:	**3,676,261**	**3,568**	**-**	**2,952,257**	**2,817**	**-**
a) Public Entities	-	-	-	8	-	-
b) Other financial companies	246,995	1	-	179,435	2	-
of which: insurance companies	18,474	-	-	19,028	-	-
c) Non-financial companies	341	11	-	908	9	-
d) Households	3,428,925	3,556	-	2,771,906	2,806	-
Total	**16,772,899**	**3,568**	**-**	**10,826,212**	**2,817**	**-**

4.4 Financial assets at amortised cost: gross exposure and total impairment

(Amounts in € thousand)

		Gross value				Writedown			Write off partial
		First stage	of which: low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities		21,972,304	21,972,304	-	-	(1,337)	-	-	-
Loans		4,245,493	-	11,237	25,335	(8,240)	(6,196)	(21,766)	-
Total	**12/31/2019**	**26,217,797**	**21,972,304**	**11,237**	**25,335**	**(9,577)**	**(6,196)**	**(21,766)**	**-**
Total	**12/31/2018**	**23,277,675**	**17,264,880**	**14,650**	**23,936**	**(19,124)**	**(5,994)**	**(21,118)**	**-**
of which: purchased or originated credit impaired financial assets		X	X	-	-	X	-	-	-

Section 5 – Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by type of hedge and by level

(Amounts in € thousand)

	Fair Value 12/31/2019			NA	Fair Value 12/31/2018			NA
	L1	L2	L3	12/31/2019	L1	L2	L3	12/31/2018
A. Financial derivatives								
1. Fair value	-	36,059	-	1,917,423	-	3,314	-	570,000
2. Cash flows	-	-	-	-	-	-	-	-
3. Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**36,059**	**-**	**1,917,423**	**-**	**3,314**	**-**	**570,000**

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)

Transaction / Type of hedging	Fair Value							Cash-flow hedges		Net Investments on foreign subsidiaries
	Micro									
	Debt securities and interest rates	Equity securities and stock index	Currencies and gold	Credit	Commodities	Others	Macro	Micro	Macro	
1. Financial assets at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	20,578	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	537	X	-	X
4. Others	-	-	-	-	-	-	X	-	X	-
Total assets	**20,578**	**-**	**-**	**-**	**-**	**-**	**537**	**-**	**-**	**-**
1. Financial Liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	14,944	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**14,944**	**-**	**-**	
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)

Fair value of hedged assets / Values	Total 12/31/2019	Total 12/31/2018
1. Positive changes	**29,405**	**4,873**
1.1 of specific portfolios:	29,405	4,873
a) financial assets at amortized cost	29,405	4,873
b) financial assets at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative changes	**(525)**	**-**
2.1 of specific portfolios	(525)	-
a) financial assets at amortized cost	(525)	-
b) financial assets at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	**28,880**	**4,873**

Section 7 - Equity investments - Item 70

No data to report.

Section 8 – Technical provisions for re-insurers – Item 80

No data to report.

Section 9 - Property, plant and equipment - Item 90

9.1 Property, plant and equipment used in the business: breakdown of assets carried at cost

(Amounts in € thousand)

Activities/Values	Total 12/31/2019	Total 12/31/2018
1. Owened assets	**83,301**	**14,544**
a) lands	23,932	-
b) buildings	41,404	-
c) office furniture and fittings	2,583	1,835
d) electronic system	12,736	10,944
e) other	2,646	1,765
2. Assets under financial lease	**66,766**	**-**
a) lands	-	-
b) buildings	66,218	-
c) office furniture and fittings	-	-
d) electronic system	-	-
e) other	548	-
Total	**150,067**	**14,544**
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.

With reference to the building where the registered office of the Bank is located (Milan, Piazza Durante 11), purchased on 31 January 2019 with a price of the deal of €62 million, in addition to taxes and initial direct costs, it should be noted that the land was separately accounted for by the building, even if purchased together as required by IAS 16.

The Group has operational leasing trasactions in place consisting of leases for approximately 21% of the surface of the property owned aforementioned property.

The item "Right of use acquired with lease", which replaced the previous item "Assets under financial lease" as required by the 6th update of Circular 262 of 22 December 2005, refers to the rights of use in relation to the Group's existing leasing contracts, following the application of IFRS 16 standard starting from the year 2019.

9.2 Property, plant and equipment held for investment: breakdown of assets carried at cost

(Amounts in € thousand)

Assets/Amounts	Total 12/31/2019				Total 12/31/2018			
	Carrying value	Fair value			Carrying value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owened assets	**1,980**	**-**	**-**	**2,950**	**2,088**	**-**	**-**	**2,950**
a) lands	-	-	-	-	-	-	-	-
b) buildings	1,980	-	-	2,950	2,088	-	-	2,950
2. Assets under financial lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) lands	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**1,980**	**-**	**-**	**2,950**	**2,088**	**-**	**-**	**2,950**
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)

	Lands	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**-**	**-**	**14,938**	**35,091**	**10,790**	**60,818**
A.1 Total net reduction in value	-	-	(13,102)	(24,147)	(9,025)	(46,274)
A.2 Net opening balance	**-**	**-**	**1,836**	**10,944**	**1,765**	**14,544**
B. Increases:	**23,932**	**126,867**	**2,304**	**6,256**	**2,435**	**161,794**
B.1 Purchases	23,932	59,692	2,149	6,255	1,773	93,801
B.2 Capitalised expenditure on improvements	-	1,555	-	-	-	1,555
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	-	65,620	155	1	662	66,438
C. Decreases:	**-**	**(19,245)**	**(1,556)**	**(4,464)**	**(1,006)**	**(26,271)**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	(10,520)	(1,395)	(4,463)	(882)	(17,260)
C.3 Impairment losses recognised	-	-	(9)	(1)	(37)	(47)
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	(9)	(1)	(37)	(47)
C.4 Decreases in fair value recognised	-	-	-	-	-	-
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfer to:	-	-	-	-	-	-
a) property, plant and equipment held for investment	-	-	X	X	X	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	(8,725)	(152)	-	(87)	(8,964)
D. Net closing balance	**23,932**	**107,622**	**2,583**	**12,736**	**3,194**	**150,067**
D.1 Total net reduction in value	-	(10,140)	(13,640)	(27,077)	(9,288)	(60,145)
D.2 Gross closing balance	**23,932**	**117,762**	**16,223**	**39,813**	**12,482**	**210,212**
E. Carried at cost	23,932	107,622	2,583	12,736	3,194	150,067

The asset classes specified in the table above are carried at cost.

Items B.7 and C.7 "Other changes" include, in addition to the changes deriving from the application of IFRS16, the changes in the activities consisting of the right of use due to the changes made to the payments due for the leasing after the initial recognition. Below is the amount of changes by type of activity.

(Amounts in € thousand)

	Land	Buildings	Furniture and fittings	Electronic system	Other	Total
Other increases due to changes in rights of use	-	1,067	-	-	2	1,069
Other decreases due to changes in rights of use	-	(3,544)	-	-	-	(3,544)

9.7 Property, plant and equipment held for investment: annual changes

(Amounts in € thousand)

	Total	
	Lands	Buildings
A. Net opening balance	**-**	**2,088**
B. Increase	-	-
B.1 Purchases	-	-
- of which: business combinations	-	-
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	-	-
C. Decreases	**-**	**(108)**
C.1 Sales	-	-
- of which: business combinations	-	-
C.2 Depreciation	-	(108)
C.3 Decreases in fair value	-	-
C.4 Impairment losses	-	-
C5 Negative exchange difference	-	-
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	-	-
D. Net closing balance	**-**	**1,980**
D.1 Total net reduction in value	-	(1,620)
D.2 Gross closing balance	-	3,600
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, 2019 the Bank had contractual commitments to purchase property, plant and equipment amounting to € 353 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 12/31/2019		Total 12/31/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	**89,602**	X	**89,602**
A.1.1 attributable to the group	X	89,602	X	89,602
A.1.2 attributable to minorities	X	-	X	-
A.2 Other intangible assets	**10,040**	**27,452**	**8,705**	**-**
A.2.1 Assets carried at cost	10,040	27,452	8,705	-
a) intangible assets generated internally	-	-	-	-
b) other assets	10,040	27,452	8,705	-
A.2.2 Assets carried at fair value	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**10,040**	**117,054**	**8,705**	**89,602**

Other intangible assets with an indefinite life relate to the Fineco brands and domains purchased on November 28, 2019 from UniCredit S.p.A. for an amount of €22.5 million plus VAT.

The useful life of softwares, 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: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Gross opening balance	**124,729**	**-**	**-**	**85,566**	**-**	**210,295**
A.1 Total net reduction in value	(35,127)	-	-	(76,861)	-	(111,988)
A.2 Net opening balance	**89,602**	**-**	**-**	**8,705**	**-**	**98,307**
B. Increases	**-**	**-**	**-**	**6,784**	**27,452**	**34,236**
B.1 Purchases	-	-	-	6,784	27,452	34,236
- of which business combinations	-	-	-	-	-	-
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	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**(5,449)**	**-**	**(5,449)**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	(5,449)	-	(5,449)
- Amortisations	X	-	-	(5,449)	-	(5,449)
- 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	-	-	-	-	-	-
D. Net closing balance	**89,602**	**-**	**-**	**10,040**	**27,452**	**127,094**
D.1 Total net impairments	(35,127)	-	-	(82,310)	-	(117,437)
E. Gross closing balance	**124,729**	**-**	**-**	**92,350**	**27,452**	**244,531**
F. Carried at cost	89,602	-	-	10,040	27,452	127,094

Key
FIN: finite life
INDEF: indefinite life

The asset classes specified in the table above are carried at cost.

10.3 Other information

As at December 31, 2019 the contractual commitments to purchase intangible assets amount to €975 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, thanks a vertically integrated business model). In view of the specific business model adopted by the Group, 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. The Fineco brand and domains purchased during the year from UniCredit S.p.A. are attributed to the same CGU following the exit from the related group.

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 2020, in which the budget figures were considered (submitted for approval by the Board of Directors on January 15, 2020);
- years 2021-2023, which considers the financial forecasts of the Strategic Plan (submitted for approval by the same Board of Directors on January 15, 2020);
- intermediate period of five years from 2024 to 2028, for which the forecasts of the financial flows are projected by applying beginning in the last explicit estimate period (2023) 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 2018 was 1.8%. 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 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 daily average of the last 6 months of the 10-year Btp;
- Equity Risk Premium (Beta * Market Risk Premium): calculated using the value of 5.50% as MRP (consistent with the values used by financial analysts covering FinecoBank) and as Beta, the 3-year average of FinecoBank's share (in order to reduce the volatility generated in 2019 by the sale of the equity investment by Unicredit) compared to the FTSEMIB and SXXP indices.

The cost of capital used for the impairment testing has 2 target points (2020 budget and 2021-2023 Multi Year Plan) within which a linear convergence is calculated and kept constant up to the "terminal value".

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 15, 2020. For the impairment testing the carrying amount of the goodwill, the brand (including domains) 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 on February 11, 2020, confirmed the sustainability of the goodwill and the brand recognised in the financial statements as at December 31, 2019, 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, of brand 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 12/31/2019 (18.12%)
Change of value in use	-14.4	-1.9%	-12.8%	-7.6%	-0.3%

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 11 percentage points, i.e. with a reduction of over 65% 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 €6,509 million at December 31, 2019, markedly higher than the Bank's assets and the results provided by the model used for the impairment test, 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 €23,444 thousand at December 31, 2019, it is made exclusively of "Deferred tax assets".

The item "Tax liabilities" amounting to €11,437 thousand at the same date, it is made exclusively of "Current tax liabilities".

Current Tax Assets and Liabilities

(Amounts in € thousand)

Assets/amounts	Total 12/31/2019	Total 12/31/2018
Current tax assets	-	467
Current tax liabilities	11,437	12,390

Deferred tax assets/liabilities

Deferred tax assets/liabilities are shown in the consolidated balance sheet net of the related deferred tax liabilities/assets; the detail is as follows:

- "Deferred tax assets" of €50,914 thousand recognised as a balancing entry in the income statement;
- "Deferred tax assets" of €798 thousand recognised as a balancing entry of shareholders' equity;
- "Deferred tax liabilities" of €25,998 thousand recognised as a balancing entry in the income statement;
- "Deferred tax liabilities" of €2,270 thousand recognised as a balancing entry of shareholders' equity.

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 Group 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 Group'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 current and 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, current taxes were calculated using a 12.5% rate.

There are no deferred tax assets/liabilities not recognized in the financial statements in relation to temporary differences. Furthermore, there are no unused tax losses or tax credits.

11.1 Deferred tax assets: breakdown

(Amounts in € thousand)

Assets/amounts	Total 12/31/2019	Total 12/31/2018
Allocations through profit or loss	**47,086**	**26,237**
- of which Patent Box ex D.L. n.3/2015	21,577	-
- of which Provisions for Risks and Charges	19,137	19,454
- of which Other	6,372	6,783
Allocations through equity	**798**	**2,740**
- of which Revaluation reserve application IAS 19	602	840
- of which Financial assets at fair value through comprehensive income	196	1,888
- of which Other	-	12
Impairment losses on receivables (of which pursuant to Law 214/2011)	**3,828**	**4,033**
Total before IAS 12 offset	**51,712**	**33,010**
Offset against deferred tax liabilities - IAS 12	(28,268)	(26,763)
Total	**23,444**	**6,247**

11.2 Deferred tax liabilities: breakdown

(Amounts in € thousand)

Liabilities/amounts	Total 12/31/2019	Total 12/31/2018
Allocations through profit or loss	**25,998**	**26,560**
- of which Goodwill and Brand	24,978	24,078
- of which Exposures in equity instruments with Voluntary Scheme	870	2,373
- of which Other	150	109
Allocations through equity	**2,270**	**203**
- of which Financial assets at fair value through comprehensive income	1,757	203
- of which Revaluation reserve IAS 19application	513	
Total before IAS 12 offset	**28,268**	**26,763**
Offset against deferred tax liabilities - IAS 12	(28,268)	(26,763)
Total	**-**	**-**

11.3 Changes in deferred tax assets (through profit or loss)

(Amounts in € thousand)

	Total 12/31/2019	Total 1231//2018
1. Opening balance	**30,270**	**31,469**
2. Increase	**25,614**	**3,727**
2.1 Deferred tax assets recognised in the year	25,614	3,727
a) relating to prior years	-	-
b) due to changes in accounting policies	-	206
c) write-backs	-	-
d) others	25,614	3,521
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**(4,970)**	**(4,926)**
3.1 Deferred tax assets cancelled in the year	(4,970)	(4,926)
a) reversals of temporary differences	(4,854)	(4,687)
b) write-downs of non-recoverable items	-	-
c) changes in accountable policies	-	-
d) others	(116)	(239)
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	-	-
a) conversion of tax credits as per Law 214/2011	-	-
b) others	-	-
4. Closing balance	**50,914**	**30,270**

The increase in deferred tax assets recognized in the year as a balancing entry in the income statement mainly refers to the tax benefit connected to the Patent Box regime pursuant to Legislative Decree No. 3 of 2015 and to provisions for risks and charges. The decreases mainly refer to the use of the provision for risks and charges.

11.4 Changes in deferred tax assets under Law 214/2011

(Amounts in € thousand)

	Total 12/312019	Total 12/312018
1. Opening balance	**4,033**	**3,828**
2. Increases	**-**	**205**
3. Decreases	**(205)**	**-**
3.1 Reversals	-	-
3.2 Conversion into tax credits	-	-
a) resulting from operating losses	-	-
b) resulting from tax losses	-	-
3.3 Other decreases	(205)	-
4. Closing balance	**3,828**	**4,033**

The decreases refer to a reclassification of € 205 thousand in deferred tax assets as a balancing entry in the income statement other than those referred to in Law 214/2011.

11.5 Changes in deferred tax liabilities (through profit or loss)

(Amounts in € thousand)

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**26,560**	**24,069**
2. Increases	**941**	**2,688**
2.1 Deferred tax liabilities arising during the year	941	2,688
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) others	941	2,688
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**(1,503)**	**(197)**
3.1 Deferred tax liabilities de-recognised during the year	(1,503)	(197)
a) reversals of temporary differences	(1,503)	(64)
b) due to changes in accounting policies	-	-
c) others	-	(133)
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**25,998**	**26,560**

Increases in deferred taxes liabilities recorded in the financial year as a balancing item of the income statement refer to the recognition of deferred taxes liabilities resulting from the different accounting and tax treatment of goodwill and the brand. Decreases refer to the negative fair value measurement of financial assets represented by equity exposures to the Voluntary Scheme.

11.6 Changes in deferred tax assets (through equity)

(Amounts in € thousand)

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**2,740**	**1,937**
2. Increases	**105**	**1,128**
2.1 Deferred tax assets recognised in the year	63	1,128
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) others	63	1,128
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	42	-
3. Decreases	**(2,047)**	**(325)**
3.1 Deferred tax assets cancelled in the year	(2,047)	(325)
a) reversals of temporary differences	(2,047)	(325)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) others	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**798**	**2,740**

The decrease in deferred tax assets recognised during the year through equity refer to the reduction in negative fair value valuation of debt securities booked in ”Financial assets at fair value through other comprehensive income” item and to the recognition of deferred tax assets on reduction in negative actuarial valuations recognised in equity revaluation reserves as per IAS 19 Revised.

11.7 Changes in deferred tax liabilities (through equity)

(Amounts in € thousand)

	Total 12/312019	Total 12/312018
1. Opening balance	**203**	**2,463**
2. Increases	**2,163**	**192**
2.1 Deferred tax assets recognised in the year	2,163	192
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) others	2,163	192
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**(96)**	**(2,452)**
3.1 Deferred tax assets cancelled in the year	(96)	(2,452)
a) reversals of temporary differences	(96)	(2,452)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	-	-
4. Other decreases	**2,270**	**203**

The decrease in deferred tax liabilities recognised during the year through equity refer to the positive fair value valuation of debt securities booked in ”Financial assets at fair value through other comprehensive income” item and to the recognition of deferred tax liabilities on actuarial valuations recognised in equity revaluation reserves as per IAS 19 Revised.

11.8 Other information

No information to report.

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 12/312019	Total 12/312018
Trade receivables according to IFRS15	4,579	8,489
Current receivables not related with the provision of financial services	2,733	2,170
Receivables due to disputed items not deriving from lending	-	119
Improvement and incremental expenses incurred on leasehold assets	6,067	6,928
Definitive items not recognised under other items:	28,062	30,356
- securities and coupons to be settled	1,537	5,131
- other transactions	26,525	25,225
Tax items other than those included in the item "Tax assets":	259,098	269,189
- tax advances	252,251	262,261
- tax credit	6,809	6,893
- tax advances on employee severance indemnities	38	35
Items awaiting settlement:	2,495	4,597
- notes, cheques and other documents	2,495	4,597
Items in processing	13	29
Items in transit not allocated to relevant accounts	50	2
Accrued income and prepaid expenses other than those related to contracts with customers and other than capitalised in related financial assets or liabilities	27,178	24,588
Accrued income and prepaid expenses related to contracts with customers other than capitalised in related financial assets or liabilities	12,034	4,303
Total	**342,309**	**350,770**

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” (Section 8 - Liabilities of this Part B of these Notes to the consolidated accounts), 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 12/31/2019	Accrued expenses and prepaid income 12/31/2019
Opening balance	**4,303**	**2,800**
INCREASES	**11,186**	**5,046**
a) external acquisition	-	-
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	11,186	5,046
DECREASES	**(3,455)**	**(995)**
a) external acquisition	-	-
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) impairment of a contract asset (IFRS 15 Par 118.c)	(17)	-
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	(3,438)	(995)
Closing balances	**12,034**	**6,851**

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 durantion of performance <=1 12/31/2019	Expected durantion of performance >1 12/31/2019
Unsatisfied (or Partially Unsatisfied) Performance Obligations - Duration - Other Assets (IFRS 15 Par 120a)	10,678	-
Unsatisfied (or Partially Unsatisfied) Performance Obligations - Duration - Other Liabilities (IFRS 15 Par 120a)	1,100	2,690
Total	**11,778**	**2,690**

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 €14,468 thousand. 81.4% 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 12/31/2019				Total 12/31/2018			
	VB	Fair Value			VB	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Deposits from central banks	**-**	X	X	X	**-**	X	X	X
2. Deposits from banks	**154,653**	X	X	X	**1,009,774**	X	X	X
2.1 Other current accounts and demand deposits	70,396	X	X	X	52,563	X	X	X
2.2 Time deposits	-	X	X	X	-	X	X	X
2.3 Loans	74,067	X	X	X	933,352	X	X	X
2.3.1 Repos	74,067	X	X	X	933,352	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X	-	X	X	X
2.5 Lease liabilities	7,207	X	X	X	-	X	X	X
2.6 Other liabilities	2,983	X	X	X	23,859	X	X	X
Total	**154,653**	**-**	**-**	**154,653**	**1,009,774**	**-**	**-**	**1,009,774**

Key:
VB = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item "2.5 Lease liabilities" was added to the table above, as required by the 6th update of Circular 262 of 22 December 2005 " Banking financial statements: schedules and rules compilation" and refers to the financial liabilities recorded in relation to the leasing contracts in existence at December 31, 2019 with bank counterparties in application of the IFRS16 "Leasing".

1.2 Financial liabilities at amortised cost: product breakdown deposits from customers

(Amounts in € thousand)

Transactions type/Amounts	Total 12/31/2019				Total 12/31/2018			
	VB	Fair Value			VB	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	25,573,169	X	X	X	22,046,700	X	X	X
2. Time deposits	1,359	X	X	X	3,106	X	X	X
3. Loans	163,450	X	X	X	116,299	X	X	X
3.1 Reverse repos	163,450	X	X	X	116,299	X	X	X
3.2 Other	-	X	X	X	-	X	X	X
4. Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X	-	X	X	X
5. Lease payables	60,118	X	X	X	-	X	X	X
6. Other liabilities	121,762	X	X	X	107,083	X	X	X
Total	**25,919,858**	**-**	**1,366**	**25,918,498**	**22,273,188**	**-**	**3,111**	**22,270,081**

Key:
VB = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item "5 Lease liabilities" was added to the table above, as required by the 6th update of Circular 262 of 22 December 2005 " Banking financial statements: schedules and rules compilation" and refers to the financial liabilities recorded in relation to the leasing contracts in existence at December 31, 2019 with counterparties different from banks in application of the IFRS16 "Leasing".

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

(Amounts in € thousand)

Items/time buckets	Up to 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Over 5 years
Lease liabilities	**10,031**	**8,777**	**8,160**	**7,154**	**6,824**	**26,379**
Lease liabilities - Banks	671	528	540	552	565	4,351
Lease liabilities - Customers	9,360	8,249	7,620	6,602	6,259	22,028

The amount of cash flows for leasing paid during 2019 is equal to €9,506 thousand.

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 1231//2019					Total 12/31/2018				
	NA	Fair Value			Fair Value *	NA	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-
2. Deposits from customers	595	1,908	-	-	1,908	589	346	-	-	346
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**595**	**1,908**	**-**	**-**	**1,908**	**589**	**346**	**-**	**-**	**346**
B. Derivatives										
1. Financial derivatives	X	1,309	560	-	X	X	1,206	669	-	X
1.1 Trading derivatives	X	1,309	560	-	X	X	1,206	669	-	X
1.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credits derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading derivatives	X	-	-	-	X	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**1,309**	**560**	**-**	**X**	**X**	**1,206**	**669**	**-**	**X**
Total (A+B)	**X**	**3,217**	**560**	**-**	**X**	**X**	**1,552**	**669**	**-**	**X**

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 € 580 thousand (€699 thousand as at December 31, 2018).

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 €1,289 thousand (€1,177 thousand as at December 31, 2018).

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.

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)

	Fair value 12/31/2019			NA	Fair value 12/31/2018			NA
	L1	L2	L3	12/31/2019	L1	L2	L3	12/31/2018
A. Financial derivatives	**-**	**80,852**	**-**	**2,687,284**	**-**	**5,341**	**-**	**576,477**
1) Fair value	-	80,852	-	2,687,284	-	5,341	-	576,477
2) Cash flows	-	-	-	-	-	-	-	-
3) Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**80,852**	**-**	**2,687,284**	**-**	**5,341**	**-**	**576,477**

Key:
NA = notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged assets and risk

(Amounts in € thousand)

Transactions/Type of hedge	Fair Value							Cash flow		Net investment in foreign subsidiaries
	Micro									
	Debt securities and interest rates	Equities and equity index	Currencies and gold	Credit	Commodity	Others	Macro	Micro	Macro	
1. Financial assets at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets at ammortised cost	50,567	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	30,285	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**50,567**	**-**	**-**	**-**	**-**	**-**	**30,285**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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	-	-

Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

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)

Changes to macro-hedged financial liabilities	Total 12/31/2019	Total 12/31/2018
1. Positive changes to financial liabilities	14,098	2,600
2. Negative changes to financial liabilities	-	-
Total	**14,098**	**2,600**

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)

Items/Amounts	Total 12/31/2019	Total 12/31/2018
Payables to Directors and Statutory auditors	202	163
Payables to employees	13,342	13,018
Social security contributions payable	6,577	6,415
Current payables not related to the provision of financial services	25,866	24,181
Payables for share-based payments	142	338
Definitive items not recognised under other items:	57,512	53,307
- securities and coupons to be settled	20,310	12,921
- payment authorisations	22,494	21,716
- other items	14,708	18,670
Tax items other than those included in the item "Tax liabilities":	133,690	116,031
- sums withheld from third parties as withholding agent	27,616	17,805
- other	106,074	98,226
Illiquid items for portfolio transactions	20,796	22,123
Items awaiting settlement:	74,298	94,642
- outgoing bank transfers	74,251	94,545
- POS and ATM cards	47	97
Items in processing:	463	561
- incoming bank transfers	419	543
- other items in processing	44	18
Sums available to be paid to customers	3,935	3,333
Accrued expenses and deferred income other than those related to contracts with customers and other than capitalised on the related financial assets or liabilities	183	157
Deferred income related to contracts with customers other than those capitalised on the related financial assets or liabilities	6,851	2,800
Total	**343,857**	**337,069**

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 12/31/2019	Total 12/31/2018
A. Opening balance	**4,561**	**4,999**
B. Increases	**488**	**136**
B.1 Provision of the year	71	70
B.2 Other increases	417	66
C. Decreases	**(239)**	**(574)**
C.1 Payments made	(196)	(305)
C.2 Other decreases	(43)	(269)
D. Closing balances	**4,810**	**4,561**
Total	**4,810**	**4,561**

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, 2019 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 UniCredit.

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 the 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	12/31/2019	12/31/2018
Discount rate	0.85%	1.60%
Expected inflation rate	0.95%	1.20%

(Amounts in € thousand)

Employee severance pay provision: other information	12/31/2019	12/31/2018
Provisions for the year	**71**	**70**
- Current service cost	-	-
- Interest expense on defined benefit obligations	71	70
- Gains and losses on curtailments and settlements	-	-
- Past service cost	-	-
Actuarial gains (losses) recognised in revaluation reserves (OCI)	**229**	**(234)**
- Actuarial gains (losses) for the year	(80)	(85)
- Actuarial gains/losses on demographic assumptions	-	1
- Actuarial gains/losses on financial assumptions	309	(150)

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 €136 thousand (+2.84%), whereas an equivalent increase in the rate would result in a reduction of the liability of €132 thousand (-2.75%). A change of -25 basis points in the inflation rate would result in a decrease in the liability of €82 thousand (-1.71%), whereas an equivalent increase in the rate would result in an increase in the liability of €83 thousand (+1.74%).

Section 10 - Provisions for risks and charges - Item 100

10.1 - Provisions for risks and charges: breakdown

(Amounts in € thousand)

Items/Components	Total 12/31/2019	Total 12/31/2018
1. Provisions for credit risk of commitments and financial guarantees given	21	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	107,058	109,756
4.1 legal and tax disputes	30,910	32,290
4.2 staff expenses	4,949	4,809
4.3 other	71,199	72,657
Total	**107,079**	**109,805**

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 €27,164 thousand (€28,045 thousand as at December 31, 2018) and provisions for tax disputes (penalties and interest) for €3,746 thousand (€3,885 thousand as at December 31, 2018). In addition to the costs incurred by the Group in the event of an unfavourable conclusion of the dispute, this provision includes the estimate of the costs to be paid to legal advisors and any technical consultants and/or experts who assist the Group in ongoing disputes. This estimate was determined by the Group in relation to the ongoing litigation to the extent that it is believed that they will not be reimbursed by the counterparties, mainly on the basis of the Forensic Tariffs envisaged by current legislation.

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 €63,618 thousand (€64,139 thousand as at December 31, 2018), the Provision for contractual payments, of €395 thousand (€2,266 thousand as at December 31, 2018) and other provisions made for risks related to the Group's business and operations, of €7,186 thousand (€6,252 thousand as at December 31, 2018), including, in particular, provisions made for marketing and customer loyalty campaigns, incentive plans for personal financial advisors and training events for personal financial advisors.

On 20 December 2019, the Bank received a communication from the Guarantor for Competition and the Market Authority (A.G.C.M.) to initiate a procedure aimed at assessing the compliance with the Consumer Code (Legislative Decree 206/2005) of a commercial practice followed in the past by the Bank to promote the opening of the current account.

Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

Fineco, assisted by its own lawyers, provided the Authority with all the information requested for the purposes of the assessment within the prescribed deadlines, illustrating the reasons why it believes it has operated correctly. However, pending the dispute formulated, it cannot exclude the possibility that the aforementioned procedure may be concluded in an unfavourable sense. In this regard, the same lawyers point out that, where following the conclusion of the procedure (expected within a maximum period of 150 days, unless extended in the event of request for further information and/or documentation), the Authority considers the violation of the Consumer Code, in consideration of the type of the same, the sanction applicable pursuant to article 27, paragraph 9, of the aforementioned Code would be in a range from a minimum of €5,000 to a maximum of €5,000,000. As there are currently no elements available to predict the outcome of the procedure just started, nor the amount of any sanction, the Bank has considered it as a potential liability and, in accordance with accounting principle IAS 37, provides this information without making provisions in the financial statements for the year 2019.

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
A. Opening balance	**-**	**-**	**109,756**	**109,756**
B. Increases	**-**	**-**	**16,298**	**16,298**
B.1 Provisions for the year	-	-	15,299	15,299
B.2 Changes due to the passage of time	-	-	966	966
B.3 Changes due to variations in the discount rate	-	-	33	33
B.4 Other increases	-	-	-	-
C. Decreases	**-**	**-**	**(18,996)**	**(18,996)**
C.1 Amounts used in the year	-	-	(12,454)	(12,454)
C.2 Changes due to variations in the discount rate	-	-	(34)	(34)
C.3 Other decreases	-	-	(6,508)	(6,508)
D. Closing balance	**-**	**-**	**107,058**	**107,058**

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			
	First stage	Second stage	Third stage	Total
Commitments	15	-	-	15
Financial guarantees given	6	-	-	6
Total	**21**	**-**	**-**	**21**

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 12/31/2019	Total 12/31/2018
Legal and fiscal disputes	**30,910**	**32,290**
- Pending cases	22,370	23,830
- Complaints	4,794	4,575
- Tax disputes	3,746	3,885
Staff expenses	**4,949**	**4,809**
Other	**71,199**	**72,657**
- Supplementary customer indemnity provision	63,618	64,139
- Provision for contractual payments and payments under non-competition agreements	395	2,266
- Other provisions	7,186	6,252
Total provisions for risks and charges	**107,058**	**109,756**

(Amounts in € thousand)

Provision for risks and charges	Total 12/31/2018	Uses	Transfers and other changes	Actuarial gains (losses) IAS 19R *	Net provisions**	Total 12/31/2019
Legal and fiscal disputes	**32,290**	**(3,625)**	**-**	**-**	**2,245**	**30,910**
- Pending cases	23,830	(3,267)	229	-	1,578	22,370
- Complaints	4,575	(332)	(229)	-	780	4,794
- Tax disputes	3,885	(26)	-	-	(113)	3,746
Staff expenses	**4,809**	**(4,563)**	**-**	**-**	**4,703**	**4,949**
Other	**72,657**	**(4,266)**	**-**	**(6,507)**	**9,315**	**71,199**
- Supplementary customer indemnity provision	64,139	(1,492)	-	(4,582)	5,553	63,618
- Contractual payments and	-	-	-	-	-	-
payments under non-competition agreements	2,266	-	-	(1,925)	54	395
- Other provisions	6,252	(2,774)	-	-	3,708	7,186
Total provisions for risks and charges	**109,756**	**(12,454)**	**-**	**(6,507)**	**16,263**	**107,058**

* 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. "Fee and Commision expenses", "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	12/31/2019	12/31/2018
Discount rate	0.85%	1.60%
Expected inflation rate	0.00%	1.00%

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 €1,785 thousand (+2.81%); an equivalent increase in the rate, on the other hand, would reduce the liability by €1,711 thousand (-2.69%). A change of -25 basis points in the salary base would result in a reduction in the liability of €463 thousand (-0.73%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €475 thousand (+0.75%).

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 €4 thousand (+2.2%); an equivalent increase in the rate, on the other hand, would reduce the liability by €4 thousand (-2.12%). A change of -25 basis points in the salary base would not entail any significant change in the liability.

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, 2019 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.

Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

It should be noted that due to the exit of FinecoBank from the UniCredit Group, the rate curve used for discounting the provision for risks and charges in the financial statements based on IAS 37 was changed, but this did not have a significant impact on the provision and on the economic situation and consolidated balance sheet.

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. In addition to the costs incurred by the Group in the event of an unfavourable conclusion of the dispute, this provision includes the estimate of the costs to be paid to legal advisors and any technical consultants and/or experts who assist the Group in ongoing disputes. This estimate was determined by the Group in relation to the ongoing litigation, mainly on the basis of the Forensic Tariffs envisaged by current legislation.

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, in accordance with the provisions of IAS 19.

The **Provision for staff expenses** includes provisions made in relation to the variable remuneration to be paid to employees in subsequent years which have an uncertain due date and amount.

The **Provision for contractual payments and payments under non-competition agreements** is related to a limited number of personal financial advisors; these payments are contractually provided. More specifically, the non-competition agreement is an extension of the loyalty obligation at the end of the employment contract which protects the Bank from competition from former personal financial advisors; contractual payments are a special indemnity that the Bank agrees to pay to personal financial advisors, who opted to transfer the rights and obligations arising from their contract with the Bank to third parties, where these advisors continue to keep an ethical and professional conduct with the Bank after termination of employment, with specific regard to the customer portfolio. The amount of the obligation at the end of the period relating to contractual payments was assessed with the aid of an independent actuary.

The **Provision for tax disputes** is allocated to cover tax demands received from the Italian Revenue Agency following tax audits carried out on the Bank over the years, in relation to which the Bank considers it has calculated the tax correctly and legitimately and has therefore submitted an appeal at various levels of proceedings.

The above provisions for risks and charges include the allocations for fines and interest for the additional tax being contested and requested by the Tax Authorities through tax bills or payment notices paid and for the estimated amount of legal expenses to be incurred in the various proceedings.

For more details, see Part E – Information on risks and hedging policies – Section 1.5 – Operational risk – paragraph "Risks arising from tax disputes and audits" of these notes to the consolidated accounts.

The **Other Provisions** are mainly allocated to cover the risks related to the business and operations of the Group. 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, 2019, share capital came to €200,941 thousand, comprising 608,913,600 ordinary shares with a par value of €0.33 each.

As at 31 December 2019, the Group held in the portfolio 737,448 FinecoBank ordinary shares, in order to execute the PFA incentive plans of the Bank, corresponding to 0.12% of the share capital, for an amount of €7.4 million. During 2019 n. 17,300 shares were purchased in relation to the "2018 PFA Incentive System" for personal financial advisors identified as "Key personnel" and n. 34,644 and n. 646,496 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors respectively in execution to the "2016 PFA Incentive System" and "2015-2017 PFA PLAN".

On February 5, 2019, in view of the favourable opinion provided by the Remuneration Committee in its meeting of February 1, 2019, 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 335,624 free ordinary shares to the beneficiaries of the third tranche of the Plan, assigned in 2016, and consequently an increase in Share capital for a total amount of €110,755.92 with immediate effect (following registration of the related resolution in the Companies Register);
- 2014, 2015 and 2016 Incentive systems for employees. In particular, we approved the allotment of 173,581 free ordinary shares to the beneficiaries of the third equity tranche of the 2014 Incentive System, of the second tranche of the 2015 Incentive System and of the first tranche of the 2016 Incentive System, and consequently an increase in Share capital for a total amount of €57,281.73 with effect from 29 March 2019.

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

(Amounts in € thousand)

	Total 12/31/2019	Total 12/31/2018
Share capital	200,941	200,773
Share premium reserve	1,934	1,934
Reserves	397,593	355,509
- Legal reserve	40,188	40,155
- Extraordinary reserve	309,131	272,454
- Treasury shares reserve	7,351	13,960
- Other reserves	40,923	28,940
(Treasury shares)	(7,351)	(13,960)
Revaluation reserves	1,002	(9,794)
Equity instruments	500,000	200,000
Net Profit (Loss) for the year	288,365	241,219
Total	**1,382,484**	**975,681**

13.2 Share capital - Number of shares of the Parent Company: annual changes

Items/Type	Ordinary	Others
A. Shares outstanding at the beginning of the year	**608,404,395**	**-**
- fully paid	608,404,395	-
- not fully paid	-	-
A.1 treasury shares (-)	(1,401,288)	-
A.2 Shares outstanding: Opening balance	**607,003,107**	**-**
B. Increases	**1,190,345**	**-**
B.1 New issues	509,205	-
- against payment:	-	-
- business combinations	-	-
- bonds converted	-	-
- others	-	-
- free:	509,205	-
- to employees	509,205	-
- to directors	-	-
- others	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	681,140	-
C. Decreases	**(17,300)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(17,300)	-
C.3 Purchase of treasury shares	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**608,176,152**	**-**
D.1 Treasury shares (+)	737,448	-
D.2 Shares outstanding at the end of the year	608,913,600	-
- fully paid	608,913,600	-
- not fully paid	-	-

Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

The item B.3 “Other changes” reports the shares allocated to the personal financial advisors under the stock granting plan ("2016 PFA Plan" and “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 €40,188 thousand;
- Extraordinary reserve, amounting to €309,131 thousand;
- Reserve for treasury shares held, amounting to €7,351thousand;
- Negative reserve recognized following the introduction of IFRS 9, amounting to €-4,868 thousand;
- Consolidation reserve, amounting to € 13,133 thousand.

As previously mentioned in para. 13.1 "Share capital and Treasury shares: breakdown”, the Board of Directors of FinecoBank held on February 5, 2019, approved execution of the incentive/loyalty systems “2014-2017 Top Management Multi-Year Plan” and “2014, 2015 and 2016 Incentive systems with a consequent increase in share capital, against with the reserves from profits have been reduced for an amount of €168 thousand.

The FinecoBank Shareholders' Meeting of April 10, 2019 approved the allocation of profit for the year 2018 of FinecoBank S.p.A., amounting to €227,922 thousand, as follows:

- €34 thousand 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;
- €43,388 thousand to the extraordinary reserve;
- to the 608,913,600 ordinary shares with a par value of €0.33, a unit dividend of €0.303 for a total amount of €184,501 thousand.

The share of dividends not distributed to treasury shares held by the Bank on the record date, equal to €419 thousand, was allocated to the Extraordinary Reserve.

As previously mentioned in para. 13.1 "Share capital and Treasury shares: breakdown”, during 2019 n. 17,300 shares were purchased in relation to the “2018 PFA Incentive System” for personal financial advisors identified as “Key personnel” and n. 34,644 and n. 646,496 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors respectively in relation to the "2016 PFA Incentive System" and "2015-2017 PFA PLAN". Consequently the Reserve for treasury shares held has been decreased by €6,609 thousand with a simultaneous increase in the Extraordinary reserve.

In addition, during 2019 the Extraordinary Reserve was used for the payment of the coupon of the Additional Tier 1 issued by the Bank on 31 January 2018, for €6,989 thousand net of the related taxation, and for the payment of the transaction costs directly attributable to the issue and of the coupon of the Additional Tier 1 issued on 11 July 2019, for respectively €1,764 thousand and €4,818 thousand net of the related taxation.

13.5 Equity instruments: breakdown and annual changes

Equity instruments includes the following financial instrument:

- Additional Tier 1 issued on 31 January 2018. The financial instrument is a perpetual private placement[35], 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%;
- Additional Tier 1 issued on 11 July 2019. The financial instrument is a perpetual public placement, traded on Euronext Dublin’s non-regulated market, Global Exchange Market, notes rating of BB- (S&P Global Ratings), issued for a total of €300 million. The coupon for the first 5 years has been fixed at 5.875%.

13.6 Other information

No data to report.

[35] Unrated and unlisted

Section 14 – Minority interests – Item 190

14.1 Breakdown of Item 190 "Minority interests"

No data to report.

14.2 Equity instruments: breakdown and annual changes

No data to report.

OTHER INFORMATION

1. Commitments and financial guarantees given

(Amounts in € thousand)

	Nominal value of commitments and financial guarantees given			Total 12/31/2019	Total 12/31/2018
	First stage	Second stage	Third stage		
1. Commitments	**18,908**	**186**	**11**	**19,105**	**10,021**
a) Central Banks	-	-	-	-	-
b) Governments	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	14	-	-	14	-
e) Non-financial companies	-	-	-	-	-
f) Households	18,894	186	11	19,091	10,021
2. Financial guarantees given	**18,812**	**-**	**-**	**18,812**	**256,827**
a) Central Banks	-	-	-	-	-
b) Governments	-	-	-	-	-
c) Banks	17,170	-	-	17,170	256,070
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	-	-	-	-	-
f) Households	1,642	-	-	1,642	757

The commitments to disburse funds mainly include the commitments to disburse reverse repos.

Financial guarantees given to banks include banks include the guarantees issued in 2012 to the Italian Revenue Agency on request of UniCredit S.p.A., with indefinite duration, for a total amount of €17,166 thousand (€256,065 thousand as at December 31, 2018). It worth noting that in 2019, the Revenue Agency has released bank guarantees for a total amount of about €238,899 thousand. With regard to the residual amount, UniCredit S.p.A. has also renewed the request for release for the consolidation of pending charges to the competent office of the Regional Directorate of Liguria and the Bank is awaiting the related response.

Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

2. Other commitments and other guarantees given

(Amounts in € thousand)

	Nominal amount Total 12/31/2019	Nominal amount Total 12/31/2018
1. Other guarantees given		
of which: impaired credit exposures	-	-
a) Central Banks	-	-
b) Governments	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments	**1,453,932**	**1,180,475**
of which: impaired credit exposures	154	154
a) Central Banks	-	-
b) Governments	-	-
c) Banks	516	97
d) Other financial companies	20,971	19,533
e) Non-financial companies	90	184
f) Households	1,432,355	1,160,661

Other commitments refer to the margins available on revocable credit lines granted to customers and spot sales 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	Amounts 12/31/2019	Amounts 12/31/2018
1. Financial assets at fair value through profit and loss	133	-
2. Financial assets at fair value through other comprehensive income	18,300	529,725
3. Financial assets at amortized cost	1,763,853	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:

- debt 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 bonds are given as collateral for the entire duration of the transaction;
- government bonds 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 Group 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.

4. Breakdown of investments for unit-linked and index-linked policies

No data to report.

5. Asset management and trading on behalf of others

(Amounts in € thousand)

Type of service	Amount 12/31/2019
1. Execution of orders for customers	**303,546,260**
Securities	**93,072,251**
a) purchases	46,062,523
1. settled	45,735,250
2. unsettled	327,273
b) sales	47,009,728
1. settled	46,704,812
2. unsettled	304,916
Derivative contracts	**210,474,009**
a) purchases	105,273,967
1. settled	105,246,673
2. unsettled	27,294
b) sales	105,200,042
1. settled	105,183,450
2. unsettled	16,592
2. Segregated accounts	**13,828,902**
a) individuals	-
b) collectives	13,828,902
3. Custody and administration of securities	**-**
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	24,073,509
1. securities issued by the bank preparing the accounts	3,628
2. other securities	24,069,881
c) third-party securities deposited with third parties	24,073,509
d) own securities deposited with third parties	21,393,741
4. Other transactions	**32,694,071**
Order receipt and transmission	32,694,071
a) purchases	16,258,541
b) sales	16,435,530

Part B - Consolidated Balance Sheet – Liabilities (CONTINUED)

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 amounts (f=c-d-e)	Net amount
					Financial instruments (d)	Cash deposit received as guarantee (e)	12/31/2019	12/31/2018
1. Derivatives		2,137	-	2,137	-	2,137	-	358
2. Reverse repos		1,390,225	1,390,024	201	201	-	-	-
3. Securities lending		4,345	-	4,345	4,345	-	-	-
4. Others		-	-	-	-	-	-	-
Total	**12/31/2019**	**1,396,707**	**1,390,024**	**6,683**	**4,546**	**2,137**	**-**	**X**
Total	**12/31/2018**	**1,813,817**	**1,800,522**	**13,295**	**12,297**	**640**	**X**	**358**

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 (f=c-d-e) 12/31/2019	Net amount 12/31/2018
					Financial instruments (d)	Cash deposit received as guarantee (e)		
1. Derivatives		-	-	-	-	-	-	-
2. Reverse repos		1,390,473	1,390,024	449	201	-	248	9,361
3. Securities lending		102,787	-	102,787	95,545	-	7,242	9,392
4. Others		-	-	-	-	-	-	-
Total	**12/31/2019**	**1,493,260**	**1,390,024**	**103,236**	**95,746**	**-**	**7,490**	**X**
Total	**12/31/2018**	**2,817,950**	**1,800,522**	**1,017,428**	**998,675**	**-**	**X**	**18,753**

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, 2019 there were swap derivative contracts with a positive fair value of €33,921 thousand and a negative fair value of €80,851 thousand, for which a positive variance margin of €39,920 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 Group conducts securities lending transactions on a continuous and systematic basis, with the objective of satisfying the requests of its customers, of institutional counterparties and obtaining a profit. The Group operates as the borrower, borrowing the securities of its customers and using them in securities lending transactions guaranteed by cash amounts with retail and institutional customers interested in the temporary ownership of the securities. During 2019 the Group also carried out repos with institutional customers using securities borrowed from its customers.

Against securities lending transactions guaranteed by other securities, the Group 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 €318,870 thousand, for a fair value of €216.078 thousand, broken down as follows:

(Amounts in € thousand)

	Type of securities (nominal value 31 December 2019)		
Securities received on loan from:	**Sold**	**Sold in repos**	**Other purposes**
Banks	-	-	-
Financial companies	-	35	2
Insurance companies	-	-	-
Non-financial companies	-	398	42
Other entities	595	311,597	6,201
Total nominal value	**595**	**312,030**	**6,245**

(Amounts in € thousand)

	Type of securities (fair value 31 December 2019)		
Securities received on loan from:	**Sold**	**Sold in repos**	**Other purposes**
Banks	-	-	-
Financial companies	-	681	33
Insurance companies	-	-	-
Non-financial companies	-	917	95
Other entities	1,762	202,762	9,828
Total nominal value	**1,762**	**204,360**	**9,956**

9. Disclosure on joint control activities

No data to report.

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 operations	Total 2019	Total 2018
1. Financial assets at fair value through profit and loss	**4**	**-**	**-**	**4**	**2**
1.1 Financial assets held for trading	1	-	-	1	-
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatory at fair value	3	-	-	3	2
2. Financial assets at fair value through other comprehensive income	**2,943**	**-**	**X**	**2,943**	**4,534**
3. Financial assets at amortised cost	**232,029**	**71,008**	**X**	**303,037**	**286,329**
3.1 loans and receivables with banks	133,749	7,569	X	141,318	170,577
3.2 loans and receivables with customers	98,280	63,439	X	161,719	115,752
4. Hedging derivatives	**X**	**X**	**(10,643)**	**(10,643)**	**(1,947)**
5. Other assets	**X**	**X**	**73**	**73**	**77**
6. Financial liabilities	**X**	**X**	**X**	**2,494**	**4,133**
Total	**234,976**	**71,008**	**(10,570)**	**297,908**	**293,128**
of which: income interests impaired financial assets	-	183	-	183	197
of which: interest income on financial lease	-	-	-	-	-

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 2019	Total 2018
Interest income on foreign currency financial assets	17,151	19,448

1.3 Interest expenses and similar charges: breakdown

(Amounts in € thousand)

Items/Type	Payables	Debt securities in issue	Other transactions	Total 2019	Total /2018
1. Financial liabilities at amortized cost	(11,939)	-	X	(11,939)	(11,315)
1.1 Deposits from central banks	-	X	X	-	-
1.2 Deposits from banks	(128)	X	X	(128)	(396)
1.3 Deposits from customers	(11,811)	X	X	(11,811)	(10,919)
1.4 Debt securities in issue	X	-	X	-	-
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(4,692)	(3,154)
Total	**(11,939)**	**-**	**-**	**(16,631)**	**(14,469)**
of which: interest expense on lease liabilities	(956)	-	-	(956)	-

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 2019	Total 2018
Interest expense on liabilities denominated in currency	(9,671)	(9,216)

1.5 Interest expenses and similar charges: hedging differential

(Amounts in € thousand)

Items	Total 2019	Total 2018
A. Positive hedging differentials	43,803	3,410
B. Negative hedging differentials	(54,446)	(5,357)
C. Balance (A-B)	**(10,643)**	**(1,947)**

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 2019	Total 2018
a) guarantees given	40	82
b) credit derivatives	-	-
c) management, brokerage and consulting services:	566,306	517,928
1. securities trading	73,749	73,349
2. currency trading	-	-
3. segregated accounts	157,286	65,195
3.1. individual	-	-
3.2. collective	157,286	65,195
4. custody and administration of securities	849	895
5. custodian bank	-	-
6. placement of securities	13,287	10,511
7. reception and transmission of orders	14,156	13,114
8. advisory services	62,122	52,321
8.1. related to investments	62,122	52,321
8.2. related to financial structure	-	-
9. distribution of third-party services:	244,857	302,543
9.1. segregated accounts	174,200	235,008
9.1.1 individual	408	10
9.1.2 collective	173,792	234,998
9.2 insurance products	70,657	67,535
9.3 other products	-	-
d) collection and payment services	35,042	31,664
e) securitisation servicing	-	-
f) factoring	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) management of current accounts	4,564	4,641
j) other services	15,051	12,043
k) securities lending transactions	6,770	5,156
Total	**627,773**	**571,514**

The amount of fees and commissions recognized in 2019 that was included in the contract liability balance at the beginning of the period is equal to €995 thousand.

Lastly, it should be noted that item 9.1.2 " segregated accounts collective " also includes the maintenance commissions for UCIT units equal to €169,770 thousand (€231,673 thousand at 31 December 2018).

2.2 Fee and commission expense: breakdown

(Amounts in € thousand)

Services/Amounts	Total 2019	Total 2018
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services	(275,589)	(246,984)
1.trading in financial instruments	(7,401)	(7,547)
2. currency trading	-	-
3. portfolios management:	(22,432)	(4,196)
3.1 own portfolio	-	-
3.2 third party portfolio	(22,432)	(4,196)
4. custody and administration securities	(6,210)	(4,931)
5. financial instruments placement	-	-
6. out of office offer of financial instruments, products and services	(239,546)	(230,310)
d) collection and payment services	(24,586)	(21,651)
e) other services	(383)	(461)
f) securities lending transactions	(2,044)	(1,975)
Total	**(302,602)**	**(271,071)**

Item “c) management and brokerage services: 6. out of office offer of financial instruments, products and services”, includes costs incurred 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 €323 thousand (€310 thousand as at December 31, 2018) and the item 80. “Other liabilities” for an amount of €18 thousand (€56 thousand as at December 31, 2018).

Section 3 – Dividend income and similar revenue – Item 70

3.1 Dividend income and similar revenue: breakdown

(Amounts in € thousand)

Items/Income	Total 2019		Total 2018	
	Dividends	Income from UCITS Units	Dividends	Income from UCITS Units
A. Financial assets held for trading	48	-	52	-
B. Other financial assets mandatorily at fair value	53	1,594	43	-
C. Financial assets at fair value through other comprehensive income	-	-	-	-
D. Equity investments	-	-	-	-
Total	**101**	**1,594**	**95**	**-**

“Income from UCITS units” recognised in “Other financial assets mandatorily at fair value”, include the profit recognized by the Voluntary Scheme to FinecoBank relating to the four tranches of interest, net of the costs incurred during the year 2019, paid by Banca Carige S.p.A. on the subordinated loan underwritten by the Voluntary Scheme. For further details, see Section A – Account policies, of the notes to the consolidated accounts.

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, 2019

(Amounts in € thousand)

Transactions / Income	Unrealised gain (A)	Realized gains (B)	Unrealized losses (C)	Realized losses (D)	Net profit (loss) [(A+B) = (C+D)]
1. Financial assets held for trading	**20**	**112,540**	**(31)**	**(102,702)**	**9,827**
1.1 Debt securities	-	4,305	-	(3,716)	589
1.2 Equity instruments	20	107,439	(31)	(98,279)	9,149
1.3 UCITS units	-	796	-	(707)	89
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**35**	**783**	**(5)**	**(839)**	**(26)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	35	783	(5)	(839)	(26)
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**13,228**
4. Derivatives	**5,293**	**72,214**	**(4,335)**	**(60,161)**	**18,400**
4.1 Financial derivatives:	5,293	72,214	(4,335)	(60,161)	18,400
- On debt securities and interest rates	45	1,297	(45)	(1,220)	77
- On equity securities and share indices	5,197	65,699	(4,233)	(55,159)	11,504
- On currency and gold	**X**	**X**	**X**	**X**	5,389
- Others	51	5,218	(57)	(3,782)	1,430
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges related to the fair value option	**X**	**X**	**X**	**X**	-
Total	**5,348**	**185,537**	**(4,371)**	**(163,702)**	**41,429**

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)]
1. Financial assets held for trading	**43**	**119,843**	**(32)**	**(111,209)**	**8,645**
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	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**951**	**(14)**	**(932)**	**5**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	951	(14)	(932)	5
Financial assets and liabilities: exchange differences	X	X	X	X	**7,128**
3. Derivatives	**4,625**	**65,592**	**(5,168)**	**(46,808)**	**28,055**
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	-
Total	**4,668**	**186,386**	**(5,214)**	**(158,949)**	**43,833**

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 2019	Total 2018
A. Gains on:		
A.1 Fair value hedging instruments	34,826	6,391
A.2 Hedged asset items (in fair value hedge relationship)	53,087	5,212
A.3 Hedged liability items (in fair value hedge relationship)	-	-
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in currency	-	-
Total gains on hedging activities (A)	**87,913**	**11,603**
B. Losses on		
B.1 Fair value hedging instruments	(53,626)	(5,060)
B.2 Financial assets items (in fair value hedge relationship)	(22,948)	-
B.3 Hedged liability items (in fair value hedge relationship)	(11,499)	(6,372)
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in currency	-	-
Total losses on hedging activities (B)	**(88,073)**	**(11,432)**
C. Fair value adjustments in hedge accounting (A-B)	**(160)**	**171**
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 2019			Total 2018		
	Gain	Losses	Net profit (loss)	Gain	Losses	Net profit (loss)
Financial assets						
1. Financial assets at amortized cost	2,909	-	2,909	17	-	17
1.1 Loans and receivables with banks	1,831	-	1,831	-	-	-
1.2 Loans and receivables with customers	1,078	-	1,078	17	-	17
2. Financial assets at fair value through other comprehensive income	984	(257)	727	1,666	-	1,666
2.1 Debt securities	984	(257)	727	1,666	-	1,666
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**3,893**	**(257)**	**3,636**	**1,683**	**-**	**1,683**
Financial liabilities valued at amortized cost	-	-	-	-	-	-
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities (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

As at December 31, 2019

(Amounts in € thousand)

Transactions/Income items	Unrealized gain (A)	Realized gain (B)	Unrealized losses (C)	Realized losses (D)	Net Profit (loss) (A+B)-(C+D)
1. Financial assets	**2,531**	**77**	**(4,547)**	**(18)**	**(1,957)**
1.1 Debt securities	-	5	-	-	5
1.2 Equity securities	2,480	5	(4,547)	-	(2,062)
1.3 Units investment funds	51	67	-	(18)	100
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**118**
Total	**2,531**	**77**	**(4,547)**	**(18)**	**(1,839)**

As at December 31, 2018

(Amounts in € thousand)

Transactions/Income items	Unrealized gain (A)	Realized gain (B)	Unrealized losses (C)	Realized losses (D)	Net Profit (loss) (A+B)-(C+D)
1. Financial assets	**1,371**	**10**	**(3,031)**	**(65)**	**(1,715)**
1.1 Debt securities	-	2	(2)	-	-
1.2 Equity securities	1,371	8	(3,029)	-	(1,650)
1.3 Units investment funds	-	-	-	(65)	(65)
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**215**
Total	**1,371**	**10**	**(3,031)**	**(65)**	**(1,500)**

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	Total
	First and second stage	Third stage		First and second stage	Third stage	2019	2018
		Write-off	Others				
A. Loans and receivables with banks	**(221)**	**-**	**-**	**9,324**	**-**	**9,103**	**3,126**
- Loans	(147)	-	-	2,262	-	2,115	560
- Debt securities	(74)	-	-	7,062	-	6,988	2,566
of which: financial assetes purchased or originated credit impaired	-	-	-	-	-	-	-
B. Credit to clients	**(5,340)**	**(149)**	**(5,262)**	**5,479**	**1,547**	**(3,725)**	**(6,532)**
- Loans	(4,924)	(149)	(5,262)	4,676	1,547	(4,112)	(5,346)
- Debt securities	(416)	-	-	803	-	387	(1,186)
of which: financial assetes purchased or originated credit impaired	-	-	-	-	-	-	-
Total	**(5,561)**	**(149)**	**(5,262)**	**14,803**	**1,547**	**5,378**	**(3,406)**

8.2 Impairment losses on financial assets at fair value through comprehensive income: breakdown

(Amounts in € thousand)

Transactions/Income items	Adjustments (1)			Write-backs (2)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage	2019	2018
		Write-off	Others				
A. Debt Securities	(8)	-	-	10	-	2	(114)
B. Loans and receivables	-	-	-	-	-	-	-
- With customers	-	-	-	-	-	-	-
- With banks	-	-	-	-	-	-	-
of which:financial assetes purchased or originated credit impaired	-	-	-	-	-	-	-
Total	**(8)**	**-**	**-**	**10**	**-**	**2**	**(114)**

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 2019	Total 2018
1) Employees	(88,411)	(85,337)
a) wages and salaries	(61,036)	(56,636)
b) social security contributions	(15,319)	(14,569)
c) pension costs	(870)	(2,182)
d) severance pay	-	-
e) allocation to employee severance pay provision	(114)	(114)
f) provision for retirements and similar provisions:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(3,641)	(3,450)
- defined contribution	(3,641)	(3,450)
- defined benefit	-	-
h) costs related to share-based payments	(3,412)	(4,267)
i) other employee benefits	(4,166)	(4,364)
j) recovery of expenses for employees seconded	147	245
2) Other staffs	(385)	(69)
3) Directors and statutory auditors	(1,356)	(1,321)
4) Early retirement costs	-	-
Total	**(90,152)**	**(86,727)**

Item "1 h) Employees: costs related to share-based payments" includes costs incurred 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 €3,410 thousand (€4,243 thousand as at December 31, 2018), and on financial instruments issued by the former Parent Company UniCredit S.p.A., that are recorded against the item 80. "Other liabilities" for an amount of €2 thousand (€24 thousand as at December 31, 2018).

12.2 Average number of employees by category

	Total 2019	Total 2018
Employees	**1,189**	**1,138**
(a) executives	29	32
(b) managers	373	353
(c) remaining employees	787	753
Other personnel	**19**	**15**

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 expense/Amounts	Total 2019	Total 2018
Leaving incentives	(26)	(120)
Medical plan	(1,108)	(1,034)
Luncheon vouchers	(973)	(953)
Other	(2,059)	(2,257)
Total	**(4,166)**	**(4,364)**

12.5 Other administrative expenses: breakdown

(Amounts in € thousand)

Type of expense/Amounts	Total 2019	Total 2018
1) INDIRECT TAXES AND DUTIES	**(108,709)**	**(101,171)**
2) MISCELLANEOUS COSTS AND EXPENSES		
A) Advertising expenses - Marketing and communication	**(18,542)**	**(16,746)**
Mass media communications	(12,211)	(11,264)
Marketing and promotions	(4,997)	(5,130)
Sponsorships	(107)	(22)
Conventions and internal communications	(1,227)	(330)
B) Expenses related to credit risk	**(1,496)**	**(1,399)**
Credit recovery expenses	(332)	(377)
Commercial information and company searches	(1,164)	(1,022)
C) Expenses related to personnel	**(22,574)**	**(28,291)**
Personnel training	(515)	(473)
Car rental and other staff expenses	(68)	(80)
Personal financial advisor expenses	(20,964)	(26,885)
Travel expenses	(971)	(744)
Premises rentals for personnel	(56)	(109)
D) ICT expenses	**(38,593)**	**(34,694)**
Lease of ICT equipment and software	(2,658)	(2,360)
Software expenses: lease and maintenance	(9,818)	(8,848)
ICT communication systems	(7,695)	(6,658)
ICT services: external personnel/outsourced services	(7,398)	(6,812)
Financial information providers	(11,024)	(10,016)
E) Consultancies and professional services	**(4,687)**	**(3,950)**
Consultancy on ordinary activities	(3,116)	(3,114)
Consultancy for one-off regulatory compliance projects	(13)	(61)
Consultancy for strategy, business development and organisational optimisation	(819)	(238)
Legal expenses	(392)	(198)
Legal disputes	(347)	(339)
F) Real estate expenses	**(8,615)**	**(19,093)**
Real estate services	(757)	(705)
Repair and maintenance of furniture, machinery, and equipment	(437)	(213)
Maintenance of premises	(1,981)	(1,009)
Premises rentals	(2,331)	(14,594)
Cleaning of premises	(581)	(522)
Utilities	(2,528)	(2,050)
G) Other functioning costs	**(35,293)**	**(37,858)**
Surveillance and security services	(404)	(404)
Postage and transport of documents	(3,698)	(3,587)
Administrative and logistic services	(17,211)	(19,737)
Insurance	(3,355)	(3,940)
Printing and stationery	(529)	(594)
Association dues and fees	(9,581)	(9,118)
Other administrative expenses	(515)	(478)
H) Ex-ante contribution to the Single Resolution Fund and Interbank Deposit Guarantee Fund	**(18,129)**	**(14,306)**
Total	**(256,638)**	**(257,508)**

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 €1,749 thousand (€3,778 thousand December 31, 2018).

The costs accounted for in 2019 for contributions paid to Deposit Guarantee Schemes (DGS) during the year, shown in item “Other administrative expenses” (point H) of table above, amounted to €18.129 thousand in total and pertain to the ordinary, additional and supplementary contribution and to the contribution to the Solidarity Fund for 2019. For further details, see Section A – Account policies, of the notes to the consolidated accounts.

No cost was recorded for the Single Resolution Fund as no contribution is due.

Below is the information required by IFRS 16 regarding the costs recognized in Other administrative expenses relating to short-term leasing, the costs relating to low value assets leasing and the costs for variable payments due for the leasing not included in the valuation of the leasing liabilities.

(Amounts in € thousand)

	Total 2019
Expense relating to short-term leases ("*Short term lease*")	(1,447)
Expense relating to leases of low-value assets ("*Low value assets*")	(32)
Expense relating to variable lease payments not included in the measurement of lease liabilities	(21)
Total	**(1,500)**

It should also be noted that the VAT on rental related to the contracts included in the scope of IFRS 16 was also included in the Other administrative expenses, as it is not included in the assessment of the leasing liability.

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)

	Impairment		Write-backs			
Transactions/income items	First and second stage	Third stage	First and second stage	Third stage	Total 2019	Total 2018
1. Commitments	(13)	-	6	-	(7)	392
2. Financial guarantees given	(3)	-	37	-	34	10
Total	**(16)**	**-**	**43**	**-**	**27**	**402**

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 2019			Total 2018		
	Provisions	Reallocations	Total	Provisions	Reallocations	Total
Legal and fiscal disputes	(7,372)	5,128	(2,244)	(3,713)	3,048	(665)
Supplementary customer indemnity provision	(5,554)	-	(5,554)	(5,625)	-	(5,625)
Other provisions for risks and charges	(1,427)	202	(1,225)	(1,302)	518	(784)
Total	**(14,353)**	**5,330**	**(9,023)**	**(10,640)**	**3,566**	**(7,074)**

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	Depriciation (a)	Write-downs (b)	Write-backs (c)	Net profit (loss) 2019 (a + b - c)	Net profit (loss) 2018 (a + b - c)
A. Property, plant and equipment					0
1 Owned	(17,260)	(47)	-	(17,307)	(5,355)
- Used in the business	(7,773)	(46)	-	(7,819)	(5,355)
- Held for investment	(9,487)	(1)	-	(9,488)	-
2 Held under finance lease	(108)	-	-	(108)	(109)
- Used in the business	(108)	-	-	(108)	(109)
- Held for investment	-	-	-	-	-
3 Inventories	X	-	-	-	-
Total	**(17,368)**	**(47)**	**-**	**(17,415)**	**(5,464)**

Write-downs were recognised in the period 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	Depriciation (a)	Write-downs (b)	Write-backs (c)	Net profit (loss) 2019 (a + b - c)	Net profit (loss) 2018 (a + b - c)
A. Intangible assets					0
A.1 Owned	(5,449)	-	-	(5,449)	(4,959)
- Generated internally by the company	-	-	-	-	-
- Other	(5,449)	-	-	(5,449)	(4,959)
A.2 Held under finance lease	-	-	-	-	-
Total	**(5,449)**	**-**	**-**	**(5,449)**	**(4,959)**

A description of the methods used to calculate depreciation is provided in Part A – Accounting Policies of the notes to the consolidated accounts.

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)

Type of expense/Amounts	Total 2019	Total 2018
Refunds and allowances	(157)	(147)
Penalties, fines and unfavourable rulings	(975)	(1,170)
Improvements and incremental expenses incurred on leasehold properties	(2,129)	(2,300)
Exceptional write-downs of assets	(169)	(295)
Other operating expenses	(546)	(229)
Total	**(3,976)**	**(4,141)**

16.2 Other operating income: breakdown

(Amounts in € thousand)

Type of expense/Amounts	Total 2019	Total 2018
Recovery of expenses:	104,068	96,767
- recovery of ancillary expenses - other	162	155
- recovery of taxes	103,906	96,612
Rental income from properties	879	-
Other income from current year	4,576	3,752
Total	**109,523**	**100,519**

The Group has not carried out sub-leasing transactions.

The Group has no financial leases. As far as operating leases are concerned, the Group, as lessor, has outstanding operations represented by leasing contracts for a part of the property owned by FinecoBank, located in Milan Piazza Durante, 11, the proceeds of which are recognized in the item "Rental income from properties" and do not include income for ISTAT revaluations as, as contractually provided, the rent will be updated at the end of each rental year, therefore during the 2020 financial year.

Section 17 – Profit (loss) of associates – Item 250

No data to report.

Section 18 – Gains (losses) on tangible and intangible assets measured at fair value – Item 260

No data to report.

Section 19 – Impairment of goodwill – Item 270

No data to report.

Section 20 – Gains (losses) on disposal of investments – Item 280

20.1 Gains (losses) on disposal of investments: breakdown

(Amounts in € thousand)

Items income/Sectors	Total 2019	Total 2018
A. Properties	-	(18)
- Gains on disposal	-	-
- Losses on disposal	-	(18)
B. Other assets	-	(143)
- Gains on disposal	-	-
- Losses on disposal	-	(143)
Net profit (loss)	**-**	**(161)**

The Group has not carried out sales and leasing transactions for tangible assets.

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 components/Sectors	Total 2019	Total 2018
1. Current tax (-)	(116,539)	(109,767)
2. Adjustment to current tax of prior years (+/-)	96	-
3. Reduction in 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 (+/-)	20,760	(1,142)
5. Changes in deferred tax liabilities (+/-)	562	(2,624)
6. Tax expense for the year (-) (-1+/-2+3+ 3 bis +/-4+/-5)	(95,121)	(113,533)

21.2 Reconciliation of theoretical tax charge to actual tax charge

(Amounts in € thousand)

	Total 2019	Total 2018
Profit before tax	349,117	354,752

	Taxes				
	IRES	IRAP	Taxes Overseas	Total 2019	Total 2018
Amount corresponding to theoretical tax rate	**(89,466)**	**(18,121)**	**(7,269)**	**(114,856)**	**(111,316)**
Tax effects of charges not relevant to the calculation of taxable income	523	(2,503)	-	(1,980)	1,995
Tax effects of income not relevant to the calculation of taxable income	692	-	-	692	-
Tax effects deriving from the use of tax losses from previous years	-	-	-	-	-
Tax effects deriving from the application of substitute taxes	(396)	-	-	(396)	(446)
Amount corresponding to actual tax rate	**(88,647)**	**(20,624)**	**(7,269)**	**(116,540)**	**(109,767)**

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

No data to report.

1.4 Fees for annual audits and related services as prescribed by Art.149-duodecies of the Consob Issuers Regulation

The table below reports a detail of the fees (net of VAT and expenses) paid to the independent auditing company Deloitte & Touche S.p.A. and to the entities of the network to which the auditing company belongs.

(Amounts in €)

Type of service	Service provider	Fees
Accounting Audit	Deloitte & Touche S.p.A.	205,752
Accounting Audit	Deloitte Ireland LLP	15,000
Certification services	Deloitte & Touche S.p.A.	229,000
Certification services	Deloitte Ireland LLP	15,000
Other Services	Deloitte & Touche S.p.A.	10,000
Total		**474,752**

1.5 Disclosure regarding the transparency of public funding required by article 1, paragraph 125 of the Italian law 124/2017

For the purposes of fulfilling the requirements of art. 1, paragraph 125 of Law no. 124/2017 - Annual market and competition law, modified by art. 35 of the law decree n. 34/2019, and in accordance with Assonime circular no. 5 of 22 February 2019 and also kept the indications provided by the in-depth document issued by Assonime on May 6, 2019, the Group excluded from the disclosure the attributions that are justified in the performance of the company and in any case typical of the recipient's activity, as well as those aimed at the generality of the companies, such as tax and social security measures, thus limiting the information on the contributions to be presented and detailed in the National Register of State Aid "Transparency" section publicly available on the relevant website. In this sense, it should be noted that during the 2019 financial year the Group did not collect public contributions paid by Italian entities.

Section 25 - Earnings per share

25.1 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.

	2019	2018
Net profit for the year (€ thousands)	288,365	241,219
Average number of outstanding shares	607,720,344	607,575,060
Average number of outstanding shares (including potential ordinary shares with dilution effect)	609,239,420	609,101,538
Basic earnings per share	0.475	0.397
Diluted Earnings Per Share	0.473	0.396

25.2 Other information

No data to report.

Part D - Consolidated comprehensive income

Analytical Statement of consolidated comprehensive income

(Amounts in € thousand)

	items	Total 2019	Total 2018
10.	**Net Profit (Loss) for the year**	**288,365**	**241,219**
	Other comprehensive income without reclassification through profit or loss	**4,227**	**3,428**
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	-	-
40.	Hedge accounting of equity instruments designated at fair value through other comprehensive 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	6,280	5,063
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	(2,053)	(1,635)
	Other comprehensive income with reclassification through profit or loss	**6,569**	**(6,858)**
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	-	-
150.	Financial assets (different from equity instruments) at fair value through other comprehensive income:	9,815	(10,247)
	a) fair value changes	8,770	(6,565)
	b) reclassification through profit or loss	1,045	(3,682)
	- adjustments for credit risk	(10)	(1)
	- gains/losses on disposals	1,055	(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	-	-
180.	Tax for the year related to other comprehensive income with reclassification through profit or loss	(3,246)	3,389
190.	**Total other comprehensive income**	**10,796**	**(343)**
200.	**Comprehensive income (item 10+190)**	**299,161**	**237,789**
210.	Consolidated comprehensive income attributable to minorities	**-**	**-**
220.	**Consolidated comprehensive income attributable to Parent Company**	**299,161**	**237,789**

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 Group. 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 Parent Company 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 Board of Directors, individual company equity, and prudential supervisory rules.

Organisational

Organisational structure

The internal control system of the Group provides for the involvement of the following control bodies and functions, each for their respective competences:

- the Board of Directors;
- the Chief Executive Officer and General Manager;
- the Board of Statutory Auditors;
- the Risk and Related Parties Committee;
- the Remuneration Committee;
- the Corporate Governance Appointments and Sustainability Committee;
- the Supervisory Body set up pursuant to Legislative Decree 231/01;
- and the corporate control functions (Risk Management, Compliance, Internal Audit) as well as other company functions with specific internal control duties.

The corporate bodies and control functions collaborate and coordinate with each other both through specific information flows formalized in internal regulations, and through the establishment of managerial committees dedicated to control issues.

The Board of Directors of the Parent Company 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 Group's areas of activity. These powers are to be exercised in accordance with the applicable regulations and within the limits of 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.

With regards to risk management, the Board of Statutory Auditors is responsible for overseeing the completeness, adequacy, functionality and reliability of the Internal Control System and the Risk Appetite Framework.

The Risks and Related Parties Committee is made up of three non-executive and independent Directors, and has the task of supporting, with an adequate preliminary investigation, the assessments and decisions of the Board of Directors relating to the Internal Control and Risk System, as well as those relating to the approval of periodic financial reports.

The Remuneration Committee is composed of three non-executive and independent Directors and has the task of supporting, with an adequate preliminary activity, the assessments and decisions of the Board of Directors in the following main activities: in defining the general remuneration policy for the Chief Executive Officer, the General Manager, the other Executives with strategic responsibilities and the other identified Staff; in examining the stock or monetary incentive plans for employees and personal financial advisors of the Company and the Group and the strategic development policies of human resources.

The Compliance function presides over the management of the risk of non-compliance, i.e. the risk of incurring judicial or administrative sanctions, significant financial losses or damage to reputation as a result of violations of mandatory rules or self-regulation.

The validation function, placed in the staff of the Chief Risk Officer, is in charge of subjecting the Group's internal models to validation.

The CRO Department, 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 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 the Group Risk Appetite Framework 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 Group's overall risk profile by monitoring the various types of risk exposure, in accordance with the methods established by the Board of Directors.

The Risk Management Unit prevents and monitors different components of the Group risks. The Risk Management Unit specifically controls credit, market and operational risks to which the Group 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.

In particular, Group Risk Management:

- s involved in the definition of the RAF, the risk governance policies and the various phases that make up the risk management process, as well as in setting the operating limits for the assumption of the various types of risk. In this context, it has, inter alia, the task of proposing the quantitative and qualitative parameters necessary for the definition of the RAF, which also refer to stress scenarios and, in the event of changes to the internal and external operational context of the bank, the adjustment of these parameters;
- verifies the adequacy of the RAF;
- continuously checks the adequacy of the risk management and operating limits process;
- develops and maintains risk control models;
- ensures the effective implementation of the IT risk assessment methodology, supporting and coordinating the individual functions involved, each as far as it is concerned, during the ICT risk assessment process;
- defines common operational risk assessment metrics consistent with the RAF, coordinating with the compliance function, with the ICT function and with the business continuity function;
- defines methods of assessment and control of reputational risks, coordinating with the compliance function with the most exposed corporate functions and functions;
- assists the corporate bodies in assessing strategic risk by monitoring significant variables;
- develops and applies indicators capable of highlighting anomalous and inefficient situations of risk measurement and control systems;
- analyses the risks of new products and services. In particular, the identification of risks relating to new products and services is guaranteed by the permanent participation of the CRO and the Head of Risk Management in the products committee;
- verifies the correct performance of performance monitoring on individual credit exposures;
- constantly monitors the actual risk assumed by the Group and its consistency with the risk objectives as well as compliance with the operating limits assigned to the operating structures in relation to the assumption of the various types of risk.

The function monitors and reports to the corporate bodies (Chief Executive Officer and General Manager, Board of Directors, Audit Committee and Board of Statutory Auditors) and to the Risk and Related Parties Committee. The information provided to the corporate bodies is represented by the Quarterly Report on the Group's risk exposures; specific reports are also prepared for the Risk and Related Parties Committee with information, including management information, in relation to the performance of "key risk indicators" and consequent corrective measures.

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 new business activities, as well as creating and disseminating a risk culture in the various functional areas of the Group.

Risk Appetite

The Group gives great importance to risk management and control, as conditions for guaranteeing a reliable and sustainable generation of value in a context of controlled risk. The risk management strategy aims at a complete and coherent vision of the risks, considering both the macroeconomic scenario and the risk profile of the Group, stimulating the growth of the risk culture and strengthening a transparent and accurate representation of the risk of the Group's portfolios. The risk-taking strategies are summarized in the Group's Risk Appetite Framework (RAF), approved by the Board of Directors. The RAF is defined to ensure that the risk-taking activities remain in line with the expectations of the shareholders, taking into account the risk position in which the Group is located and the economic situation.

The main objectives of the risk appetite are:

- explicitly assessing the risks, and their interconnections at local and Group level, that the Group decides to assume (or avoid) in a long-term perspective;
- specifying the types of risk that the Group 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 Group's business model; for this reason, the Risk Appetite is incorporated in the budget and multi year plan process.

Part E - Information on Risks and relating hedging policies (CONTINUED)

The Risk Appetite includes a Statement and a set of KPIs. The Statement sets out the Group's positioning in terms of strategic objectives and associated risk profiles, while the KPIs are designed to quantitatively measure the Group'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 Group's positioning under several respects: absolute values, ratio between comparable measures, sensitivity analysis on defined parameters.

The Targets represent the amount of risk (overall and by type) that the Group is willing to take for the pursuit of its strategic objectives. The triggers define the maximum deviation from the permitted risk appetite; the tolerance threshold is set so as to ensure sufficient margins for the bank to operate, even under stress conditions, within the maximum risk that can be taken.

Limits are the maximum level of risk that the Group is technically able to assume without violating the regulatory requirements or other constraints imposed by the shareholders or the supervisory authority.

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.

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.

The definition of the Risk Appetite Framework is a structured process led by the Chief Risk Officer and the Chief Financial Officer which develops in accordance with the ICAAP, ILAAP and Recovery Plan processes and represents the risk framework within which the Budget is developed. and the Strategic Plan. In this way, consistency between the risk-taking strategy and policy and the Planning and Budget process is guaranteed.

The definition of the Risk Appetite Framework is a structured process, led by the Chief Risk Officer and the Chief Financial Officer, which develops in accordance with the ICAAP, ILAAP and Recovery Plan processes and represents the risk framework within which the Budget and the Strategic Plan are developed. In this way, consistency between the risk-taking strategy and policy and the Planning and Budget process is guaranteed.

As part of the RAF annual update process, some main phases can be identified:

- identification of risks; this phase is shared and preparatory to the ICAAP/ILAAP capital adequacy and liquidity assessment processes. The activity involves the identification by the Parent Company's Risk Management of all the risks - both quantitative and qualitative - to which the Group is or could be exposed, having regard to its operations and reference markets;
- definition and approval of the Risk Appetite by the Group Board of Directors;
- quarterly monitoring and reporting of Risk Appetite indicators.

ICAAP - Internal Capital Adequacy Assessment Process

The assessment of the Group's overall risk profile is carried out annually with the ICAAP, which represents the process of self-assessment of capital adequacy, the results of which are subject to discussion and analysis by the Supervisory Authority.

The ICAAP process includes two complementary perspectives: the regulatory perspective, in which the regulatory pillar risk metrics are represented, and the economic perspective, in which the management measures and metrics that cover all the risks, including those of second pillar.

For the Second Pillar, the reference metric is the Risk Taking Capacity, equal to the ratio between the available capital (Available Financial Resources - AFR) and the Internal Capital.

Risk culture

As indicated in the Risk Appetite Framework, the Group adopts a strategic approach to using a robust business model with a low risk appetite in order to create the foundations for sustainable profit and a return on the cost of capital, guaranteeing continuity in generating revenues. The Group's ambition is to achieve this result with the support of an optimal Internal Control System, with procedures that are effective and efficient at managing every risk.

To internalise these principles and values, and adopt a risk culture in day-to-day activities, numerous initiatives have been adopted, and in particular:

- Managerial Committees have been set up to ensure a risk awareness disseminated at all levels of the organisation, with the involvement of both business and control structures (so-called "tone from the top");
- incentive mechanisms have been adopted that consider a weighting for risks related to the annual performance of a subset of RAF indicators (so called "CRO Dashboard");
- ongoing relations are maintained with the Chief Risk Officers of Group Companies, to share information on the risk profile and on development plans, to improve their evolution and risk management;
- induction activities are held regularly with the Board of Directors and issues concerning risks are investigated in-depth with the Risks and Related Parties Committee;

- employees are given the chance to take part in the Risk Academy, in association with competence centers for learning and training, in order to develop and standardise an understanding and knowledge of risk.

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. 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 exposures	Unlikely to pay	Past due impaired exposures	Past due unimpaired exposures	Other unimpaired exposures	Total
1. Financial assets at amortised cost		1,685	1,391	492	19,018	26,194,243	26,216,829
2. Financial assets at fair value through other comprehensive income		-	-	-	-	321,694	321,694
3. Financial assets designated at fair value		-	-	-	-	-	-
4. Other financial assets mandatorily at fair value		-	-	-	-	32	32
5. Financial instruments classified as held for sale		-	-	-	-	-	-
Total	**12/31/2019**	**1,685**	**1,391**	**492**	**19,018**	**26,515,969**	**26,538,555**
Total	**12/31/2018**	**1,647**	**617**	**553**	**11,605**	**24,217,435**	**24,231,857**

As at December 31, 2019 there were no impaired purchased loans.

Part E - Information on Risks and relating hedging policies (CONTINUED)

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net values)

(Amounts in € thousand)

Portfolio/quality	Impaired				Unimpaired			
	Gross exposure	Total impairment provision	Net exposure	Total partial write-off	Gross exposure	Total impairment provision	Net exposure	Total (net exposure)
1. Financial assets at amortized cost	25,336	(21,768)	3,568	-	26,229,035	(15,774)	26,213,261	26,216,829
2. Financial assets at fair value through other comprehensive income	-	-	-	-	321,720	(26)	321,694	321,694
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	X	X	32	32
5. Financial instruments classified as held for sale	-	-	-	-	-	-	-	-
Total 12/31/2019	**25,336**	**(21,768)**	**3,568**	**-**	**26,550,755**	**(15,800)**	**26,534,987**	**26,538,555**
Total 12/31/2018	**23,934**	**(21,118)**	**2,818**	**-**	**24,254,263**	**(25,290)**	**24,229,039**	**24,231,857**

(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	-	-	4,639
2. Hedging derivatives	-	-	36,059
Total 12/31/2019	**-**	**-**	**40,698**
Total 12/31/2018	**-**	**-**	**8,078**

B. Disclosure on structured entities (other than securitisation companies)

B.1 Consolidated structured entities

No data to report.

B.2 Non-consolidated structured entities

B.2.1 Consolidated structured entities for supervisory purposes

No data to report

B.2.2 Other structured entities

Qualitative information

The Group 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.Vehicle company	-	-	-	-	-	-	-
2.U.C.I.TS.	MFV	867	-	-	867	867	-
	AC	12,548	-	-	12,548	12,548	-
	HFT	4	-	-	4	4	-
TOTAL		**13,419**	-	**-**	**13,419**	**13,419**	**-**

Key
MFV = Financial assets mandatorily at fair value AC = Financial assets at amortised cost HFT = Held for trading

Section 2 – Risk of the prudential consolidated perimeter
1.1 Credit risk

Qualitative information

1. General Matters

The Group's objective is to provide an adequate range of products able to satisfy and encourage loyalty among customers, through a competitive and complete offer. The development of the products and of the product line must also seek to maintain portfolio quality and, in any event, adequate processes to monitor profitability.

The factors that generate credit risk are determined by acceptance and creditworthiness polices, which are always adequately correlated to the risk/return ratio and in line with the Risk Appetite defined by the Board of Directors.

The quality of the loan portfolio, which is constantly monitored and supported by risk mitigation instruments, is protected by scoring models that contribute to evaluation during the approval process, ensuring that it is consistent and controlled. In addition to adequate coverage of the risk levels, monitoring of the portfolio and its segmentation by product and seniority allow a better understanding of the best loan issue strategies. The identification of any high-risk areas permits intervention on the automated measurement systems as well as on disbursement standards, with the possibility to take measures to limit credit risk in advance.

The credit product offer has evolved over the years, especially through the offer of mortgages loans 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.

The Group, 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 the subscription of Eurozone government bonds to diversify the exposure in bond instruments issued by UniCredit S.p.A. which will be carried to maturity. In order to optimise its portfolio by diversifying counterparty risk, during 2019 the Group also increased its exposure to Italian government securities (for more details, see the Information on Sovereign Exposures).

2. Credit Risk Management Policy

2.1 Organisational aspects

The direction and control activities of credit risk and counterparty risk are Chief Risk Officer responsibility. Within the CRO Department, the Credit Risk Team is responsible for:

- monitor the credit granted to customers, in order to check the level of risk to which the Group is exposed and promptly detect any anomaly phenomena;

- analyze the risk level of the individual products;
- develop and feed the models for calculating the decay rates of retail customers for individual products;
- ascertain the level of predictability of the automated credit assessment systems and propose any corrective actions to the CRO;
- define a reporting model for the Group by specifying the rules for recording stocks and flows;
- verify the correct performance of the credit concession and management, also through second level controls
- support the CFO in the impairment procedure ensuring the correct classification of customers and assigning risk parameters at counterparty (institutional customers) or portfolio (retail customers) level;
- prepare the database used for the calculation of economic capital for the group's credit risks, ensuring minimum data quality standards;
- systematically verify compliance with the operating limits relating to marginalization and formulate scenario analyses (stress tests) for assessing the sustainability of operations from an economic and equity point of view;
- support the CFO Department in the formulation of forecast and budget data relating to credit adjustments.

The Credit Unit within the CRO Department is responsible for ensuring the correct execution of the process of managing credit requests made by customers and managing the credits granted to customers, as well as ensuring the correct management of abnormal loans.

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 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.

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 finalize 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 amortization schedule 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 Group 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 Centre Credit Register.

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 Group 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.

The main causes of default are attributable to the loss of the borrower's autonomous capacity to ensure repayment of the debt, as well as to the emergence of macro-economic and political circumstances that are reflected in the financial conditions of the debtor.

In addition to the risk associated with the granting and disbursement of credit, the Group is also exposed to counterparty risk. 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.

Other banking activities, in addition to traditional loans and deposits, may expose the Group to additional credit risks. Counterparty risk may, for example, derive from:

- entering into derivative contracts;
- purchasing and selling securities, futures, or currencies;
- holding third-party securities.

The counterparties to these transactions or the issuers of securities held by Group companies could be in default due to insolvency, political and economic events, lack of liquidity, operational weakness or other reasons. Failure to comply with a large number of transactions or one or more transactions of a significant amount would have a materially negative effect on the Group's activity, financial condition and operating results.

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 Group therefore controls and manages the specific risk of each counterparty as well as the overall risk of the loan portfolio through processes, structures and rules aimed at directing, controlling and standardizing the assessment and management of this risk, in line with the principles and Group best practice.

2.2 Management, measurement and control system

The credit risk, associated with the potential loss arising from customer/issuer default or from a decrease in the market value of a financial obligation due to the deterioration of its credit rating, is measured at the level of each counterparty/transaction and for the entire portfolio.

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 data and private data from Credit Bureaus, flows from the Central Credit register or requests for initial information to the Bank of Italy and other information on customer performance logged by the Group. 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 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. In 2019, the Group updated the Global Collateral Management Policy which defines the rules for the eligibility, evaluation, monitoring and management of guarantees within the Fineco Group.

The purpose of the second level monitoring process, overseen by Risk Management, is to analyse the credit quality and dynamics of exposure to risk, calculating synthetic risk indicators and representing their evolution over time in order to prepare action plans necessary to mitigate or avoid risk factors. In particular, Risk Management prepares:

- the Quarterly Report on risk exposure, for the Board of Directors. This report presents the limits and parameters defined in the RAF and developments in the loans and receivables portfolio, divided by product type and classification;
- internal reports for Management which provides for a global assessment of portfolio risks, in order to identify asset sustainability and remuneration margins;
- specific reports produced to monitor the trend of loans and receivables by product type make it possible to identify potentially anomalous portfolio behaviour (deterioration rates) in the various dimensions analysed (customer segment, geographic area, etc.).

The counterparty risk 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, these limits are monitored by both first and second level functions.

The Board of Directors annually approves the Risk Appetite and the "Investment Plan"; the first one defines the propensity and limits for the Group's strategic investments, the second one provides an indication of the composition of the Group's strategic investments. Based on the guidelines of the Board of Directors, the Group defines specific risk limits (plafond) towards each FIBS counterparty ("Financial Institutions, Banks and Sovereigns") with which the Group will have a credit exposure, always in compliance with the regulatory limits of the Large exposures where applicable.

During 2019 the Group issued the Policy "Credit Business with Financial Institutions, Banks, Sovereigns and Corporate counterparties", 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 Group's portfolio to issuer risk; by analysing these indicators, it is possible to identify the onset of anomalous situations and assess the need to take corrective actions, to deal with a deterioration in the portfolio position. Credit risk is monitored as part of trading book management activities, with a breakdown by rating class and sector of issuers that determine the level of risk implicit in contracts.

Following the accounting standard IFRS 9: Financial Instruments adoption starting from January 1st, 2018 has been introduced a new model for recognising impairments for credit exposures based on (i) an “expected losses” approach instead of the previous model, which is based on the recognition of “incurred losses” and (ii) on the concept of the expected lifetime loss. For more details, see section 2.3. Methods for measuring expected losses.

2.3 Measurement methods for expected losses

In accordance with IFRS 9, financial assets at amortized cost, financial assets at fair value through comprehensive income and relevant off-balance sheet exposures are subject to impairment.

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 estimated in conservatively manner, 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.

The expected loss is calculated for institutional counterparties, using the credit parameters provided by UniCredit S.p.A., in accordance with a specific Master Service Agreement contract entered into between FinecoBank and UniCredit S.p.A..

For the purpose of calculating the expected loss for 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 non performing. 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 IFRS 9 rule, the proxies of the parameters are corrected using forward looking information.

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 Group’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 Group 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 bad loans, unlikely to pay and past due and/or overdrawn impaired exposures 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 guarantee and any other factors deemed relevant or, if the conditions exist, of expected market transactions.

Parameters and definitions of risk level used in the calculation of value adjustments

As mentioned above, the models for the calculate of the expected loss are based 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, for the most part made up of FIBS (Financial Institutions, Banks and Sovereigns) counterparties.

Specifically:

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

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

The main adjustments are made in order to:

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

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

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

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

In particular, reference is made to the EBA definition of Non-Performing exposures and to the definition of impaired assets established by the Bank of Italy, as reported in the section Part A - Accounting Policies - Impairment.

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.

Specifically, the forward looking component is determined by three macroeconomic scenarios, a basic scenario ("Baseline"), a positive scenario and an adverse scenario. The basic scenario is the central scenario of reference and is therefore considered the most probable realization; the positive and adverse scenarios represent alternative realizations, respectively better and worse.

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 Group from the requirement to carry out on overall assessment of the credit risk, primarily centred on the customer's income capacity regardless of the additional guarantee provided. The valuation of the lien collateral is based on its actual value, i.e. the market value for the financial instruments listed in a regulated market. The resulting value is subject to percentage haircuts, differentiated based on the financial instruments used as security and the concentration of the instrument in the customer's portfolio provided as security.

For real estate collateral, the principles and rules are described in the policy ”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. 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 to believe the debt exposure is very likely to be repaid.

The procedure for the management of irregularly performing loans involves, based on the seniority of the expiration, specific actions for the recovery of the credit.

3.2 Write-off

The Group 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 Group 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 Group and company policies approved by the Board of Directors do not provide for purchased of impaired loans or the provision of "new finance" in any form (personal loans, mortgages, current account credit facilities, etc.) to already non-performing customers.

4. Renegotiations

Renegotiations of financial instruments that lead to a change in the contractual terms are recognized on the basis of the 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.

Quantitative information

A. Credit quality

A.1 Impaired and unimpaired credit exposures: amounts, impairment, changes, distribution by business activity

A.1.1 Prudential consolidated perimeter - 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		17,070	896	35	14	932	72	28	22	3,128
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-
3. Financial instruments classified held for sale		-	-	-	-	-	-	-	-	-
Total	**12/31/2019**	**17,070**	**896**	**35**	**14**	**932**	**72**	**28**	**22**	**3,128**
Total	**12/31/2018**	**9,573**	**28**	**1**	**65**	**1,634**	**304**	**12**	**12**	**2,557**

A.1.2 Prudential consolidated - Financial assets, commitments and financial guarantees: changes in overall impairment and overall provisions

(Amounts in € thousand)

Source/Stages	Total impairment provision									
	Assets included in the first stage					Assets included in the second stage				
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individually measured allowances	of which: collectively measured allowances	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individually measured allowances	of which: collectively measured allowances
Opening balance	**(19,123)**	**(171)**	**-**	**-**	**(19,294)**	**(5,995)**	**-**	**-**	**-**	**(5,995)**
Increases due to origination and acquisition	-	-	-	-	-	-	-	-	-	-
Decreases due to derecognition other than write-off	5,523	143	-	-	5,666	-	-	-	-	-
Changes due to change in credit risk (net) (+/-)	4,020	2	-	-	4,022	(201)	-	-	-	(201)
Changes due to modifications without derecognition (net)	-	-	-	-	-	-	-	-	-	-
Changes due to update in the institution's methodology for estimation (net)	-	-	-	-	-	-	-	-	-	-
Write-off	3	-	-	-	3	-	-	-	-	-
Other adjustments	-	-	-	-	-	-	-	-	-	-
Closing balance	**(9,577)**	**(26)**	**-**	**-**	**(9,603)**	**(6,196)**	**-**	**-**	**-**	**(6,196)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	-	-	-	-	-	-	-	-	-	-
Amounts written-off directly to the statement of profit or loss	-	-	-	-	-	-	-	-	-	-

(continued)

(Amounts in € thousand)

Source/Stages	Total impairment provision						Total provisions on commitments and financial guarantees given			Total
	Assets included in the third stage					Of which: financial assets purchased or originated credit impaired	First stage	Second stage	Third stage	
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individually measured allowances	of which: collectively measured allowances					
Opening balance	**(21,118)**	**-**	**-**	**(17,988)**	**(3,130)**	**-**	**(49)**	**-**	**-**	**(46,456)**
Increases due to origination and acquisition	-	-	-	-	-	-	-	-	-	**-**
Decreases due to derecognition other than write-off	766	-	-	268	498	-	22	-	-	**6,454**
Changes due to change in credit risk (net) (+/-)	(4,514)	-	-	(1,848)	(2,666)	-	5	-	-	**(688)**
Changes due to modifications without derecognition (net)	-	-	-	-	-	-	-	-	-	**-**
Changes due to update in the institution's methodology for estimation (net)	-	-	-	-	-	-	-	-	-	**-**
Write-off	3,100	-	-	3,069	31	-	-	-	-	**3,103**
Other adjustments	-	-	-	1,296	(1,296)	-	-	-	-	**-**
Closing balance	**(21,766)**	**-**	**-**	**(15,203)**	**(6,563)**	**-**	**(22)**	**-**	**-**	**(37,587)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	10	-	-	10	-	-	-	-	-	**10**
Amounts written-off directly to the statement of profit or loss	(149)	-	-	(149)	-	-	-	-	-	**(149)**

A.1.3 Prudential consolidated perimeter - Financial assets, commitments and financial guarantees: transfers between the different stages (gross amount and nominal)

(Amounts in € thousand)

Portfolios/stages	Gross carrying amount/nominal 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 amortized cost	852	3,189	51	1,274	109	5,019
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments and financial guarantees given	-	-	-	1	10	-
12/31/2019	**852**	**3,189**	**51**	**1,275**	**119**	**5,019**
12/31/2018	**2,405**	**905**	**841**	**58**	**3,969**	**243**

A.1.4 Prudential consolidated perimeter - On-balance sheet and off-balance-sheet credit exposures to banks: gross and net values

(Amounts in € thousand)

Type of exposure/amounts	Gross exposures		Total impairment	Net Exposure	Total partial write-off
	Impaired	Unimpaired			
A. On-balance sheet credit exposures					
a) Bad exposure	-	X	-	-	-
- of wich: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of wich: forborne exposures	-	X	-	-	-
c) Past-due impaired loans	-	X	-	-	-
- of wich: forborne exposures	-	X	-	-	-
d) Past due non-impaired exposures	X	-	-	-	-
- of wich: forborne exposures	X	-	-	-	-
e) Other unimpaired exposures	X	9,440,657	(290)	9,440,367	-
- of wich: forborne exposures	X	-	-	-	-
Total (A)	**-**	**9,440,657**	**(290)**	**9,440,367**	**-**
B. Off-balance sheet exposures					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	79,374	(2)	79,372	-
Total (B)	**-**	**79,374**	**(2)**	**79,372**	**-**
Total (A+B)	**-**	**9,520,031**	**(292)**	**9,519,739**	**-**

In the above table, item B. "Off-balance sheet exposures" includes the counterparty risk related to repos that can be classified as "Securities Financing Transactions" (SFT) defined in prudential regulations, amounting to €26,083 thousand.

There were no securities lending transactions collateralised by other securities or without a cash guarantee with banks.

Part E - Information on Risks and relating hedging policies (CONTINUED)

A.1.5 Prudential consolidated perimeter - On-balance sheet and off-balance-sheet credit exposures to customers: gross and net values

(Amounts in € thousand)

Type of exposure/Amounts	Gross exposures		Total value adjustments and total provisions	Net exposure	Total Write-off
	Impairment	Non impairment			
A. On-balance sheet credit exposures					
a) Bad exposure	19,562	X	(17,877)	1,685	-
- of which: forborne exposures	253	X	(220)	33	-
b) Unlikely to pay	4,348	X	(2,957)	1,391	-
- of which: forborne exposures	421	X	(273)	148	-
c) Past-due impaired loans	1,424	X	(932)	492	-
- of which: forborne exposures	-	X	-	-	-
d) Past due non-impaired exposures	X	19,482	(464)	19,018	-
- of which: forborne exposures	X	40	-	40	-
e) Other unimpaired exposures	X	17,090,647	(15,045)	17,075,602	-
- of which: forborne exposures	X	58	(1)	57	-
Total (A)	**25,334**	**17,110,129**	**(37,275)**	**17,098,188**	**-**
B. Off-balance sheet exposures					
a) Impaired	165	X	-	165	-
b) Unimpaired	X	1,335,067	(20)	1,335,047	-
Total (B)	**165**	**1,335,067**	**(20)**	**1,335,212**	**-**
Total (A+B)	**25,499**	**18,445,196**	**(37,295)**	**18,433,400**	**-**

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 € 62.739 thousand.

There were no securities lending transactions without a cash guarantee or not collateralised by other securities with customers.

A.1.6 Prudential consolidated perimeter - On-balance sheet credit exposures to banks: gross changes in non-performing exposures

No data to report.

A.1.6bis Prudential consolidated perimeter - On-balance sheet credit exposures to banks: gross changes in forborne non-performing exposures breakdown by credit quality

No data to report.

A.1.7 Prudential consolidated perimeter - On-balance sheet credit exposures to customers: gross changes in non-performing exposures

(Amounts in € thousand)

Sources/categories	Bad exposure	Unlikely to pay	Past-due impaired loans
. Opening balance - gross exposure	**19,714**	**2,659**	**1,562**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**3,922**	**4,493**	**1,617**
B.1 transfers from performing exposures	1,835	3,169	1,296
B.2 transfers from financial assets purchased or originated credit impaired	-	-	-
B.3 transfers from other categories of impaired exposures	1,887	203	-
B.4 contractual changes without write-off	-	-	-
B.5 other increases	200	1,121	321
C. Decreases	**(4,074)**	**(2,804)**	**(1,756)**
C.1 transfers to performing exposures	-	(33)	(146)
C.2 write-off	(3,174)	(57)	(17)
C.3 collections	(783)	(1,021)	(692)
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposures	-	(1,244)	(846)
C.7 contractual changes without write-off	-	-	-
C.8 other decreases	(117)	(449)	(54)
D. Gross exposure closing balance	**19,562**	**4,348**	**1,424**
- of which: assets sold but not derecognised	-	-	-

A.1.7bis Prudential consolidated perimeter - On-balance sheet credit exposures to customers: gross changes in forborne non-performing exposures breakdown by credit quality

(Amounts in € thousand)

Sources/categories	Forborne exposure: non performing	Forborne exposure: performing
A. Opening balance - gross exposure	**326**	**224**
- of which: assets sold but not derecognised	-	-
B. Increases	**608**	**81**
B.1 transfers from performing exposures not forborne	-	57
B.2 transfers from performing forborne exposures	87	X
B.3 transfers from impaired forborne exposures	X	-
B.4 transfers from impaired not forborne exposure	433	-
B.5 other increases	88	24
C. Decreases	**(259)**	**(207)**
C.1 transfers to performing exposures not forborne	X	-
C.2 transfers to performing forborne exposures	-	X
C.3 transfers to impaired forborne exposures	X	(87)
C.4 write-offs	(26)	-
C.5 collections	(164)	(120)
C.6 proceeds from disposals	-	-
C.7 losses on disposals	-	-
C.8 other decreases	(69)	-
D. Gross exposure closing balance	**674**	**98**
- of which: assets sold but not derecognised	-	-

Part E - Information on Risks and relating hedging policies (CONTINUED)

A.1.8 Prudential consolidated perimeter - On-balance sheet credit exposures to banks: changes in overall impairment

No data to report.

A.1.9 Prudential consolidated perimeter - 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
A. Total opening impairment	**(18,067)**	**(161)**	**(2,042)**	**(74)**	**(1,009)**	**(23)**
of which: assets sold but not derecognised	-	-	-	-	-	-
B. Increases	**(3,731)**	**(99)**	**(2,389)**	**(260)**	**(929)**	**(54)**
B.1 value adjustments from financial assets purchased or originated credit impaired	-	X	-	X	-	X
B. 2 other value adjustments	(2,425)	(65)	(2,244)	(193)	(876)	(1)
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfer from other categories impaired exposures	(1,296)	(34)	(120)	(42)	-	-
B. 5 contractual changes without write-off	-	-	-	-	-	-
B.6 other increases	(10)	-	(25)	(25)	(53)	(53)
C. Decreases	**3,921**	**40**	**1,474**	**61**	**1,006**	**77**
C.1 write-backs from assessments	184	4	284	30	355	21
C.2 write-backs from recoveries	562	10	182	9	91	2
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-off	3,174	26	57	-	17	-
C.5 transfers to other categories of impaired exposures	-	-	925	22	492	54
C. 6 contractual changes without write-off	-	-	-	-	-	-
C.7 other decreases	1	-	26	-	51	-
D. Final overall impairment	**(17,877)**	**(220)**	**(2,957)**	**(273)**	**(932)**	**-**
of which: assets sold but not derecognised	-	-	-	-	-	-

A.2 Breakdown of financial assets, commitments and financial guarantees given by internal and external ratings

A.2.1 Prudential consolidated perimeter - 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		
A. Financial assets at amortized cost	**3,679,417**	**5,264,150**	**13,224,701**	**27,953**	**21,548**	**-**	**4,036,601**	**26,254,370**
- First stage	3,679,417	5,264,150	13,224,701	27,953	21,548	-	4,000,029	26,217,798
- Second stage	-	-	-	-	-	-	11,237	11,237
- Third stage	-	-	-	-	-	-	25,335	25,335
B. Financial assets valued at fair value through other comprehensive income	**107,559**	**41,431**	**172,704**	**-**	**-**	**-**	**-**	**321,694**
- First stage	107,559	41,431	172,704	-	-	-	-	321,694
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
C. Financial instruments classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B+C)	**3,786,976**	**5,305,581**	**13,397,405**	**27,953**	**21,548**	**-**	**4,036,601**	**26,576,064**
of which: of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	-	-
D. Commitments and financial guarantees given								
- First stage	-	-	17,170	-	-	-	20,550	37,720
- Second stage	-	-	-	-	-	-	186	186
- Third stage	-	-	-	-	-	-	11	11
Total (D)	**-**	**-**	**17,170**	**-**	**-**	**-**	**20,747**	**37,917**
Total (A+B+C+D)	**3,786,976**	**5,305,581**	**13,414,575**	**27,953**	**21,548**	**-**	**4,057,348**	**26,613,981**

The table 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, the Group 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) and Covered bonds. 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, 2019) were not externally ranked. Exposures with ratings to non-retail customers mainly derive from amounts due to banks with a high credit rating.

A.2.2 Prudential consolidated perimeter - 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 Prudential consolidated perimeter - Secured on-balance sheet and off-balance-sheet exposures to banks

(Amounts in € thousand)

	Gross exposure	Net exposures	Real guarantess (1) Property - mortgages	Real guarantess (1) Property - Financial leases	Real guarantess (1) Securities	Real guarantess (1) Other real guarantees	Personal guarantees (2) Credit derivatives CLN	Personal guarantees (2) Credit derivatives Other derivatives Central counterparties
1. Secured on-balance sheet exposures:	**7,505,695**	**7,505,693**	**-**	**-**	**7,505,575**	**-**	**-**	**-**
1.1 totally secured	7,505,695	7,505,693	-	-	7,505,575	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**17,166**	**17,164**	**-**	**-**	**17,164**	**-**	**-**	**-**
2.1 totally secured	17,166	17,164	-	-	17,164	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-

(continued)

(Amounts in € thousand)

	Personal guarantees (2) Credit derivatives Other derivatives Banks	Personal guarantees (2) Credit derivatives Other derivatives Other financial entities	Personal guarantees (2) Credit derivatives Other derivatives Other entities	Personal guarantees (2) Signature credits Public entities	Personal guarantees (2) Signature credits Banks	Personal guarantees (2) Signature credits Other financial entities	Personal guarantees (2) Signature credits Other entities	Total (1)+(2)
1. Secured on-balance sheet exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,505,575**
1.1 totally secured	-	-	-	-	-	-	-	7,505,575
- of which impaired	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,164**
2.1 totally secured	-	-	-	-	-	-	-	17,164
- of which impaired	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidated perimeter - Secured on-balance sheet and off-balance-sheet exposures to customers

(Amounts in € thousand)

	Gross exposure	Net exposures	Real guarantess (1)				Personal guarantees (2)	
							Credit derivatives	
			Property - Mortgages	Property - Financial leases	Securities	Other real assets	CLN	Other derivatives: Central counterparties
1. Secured on-balance sheet:	**2,504,874**	**2,500,751**	**1,156,339**	**-**	**1,316,839**	**27,552**	**-**	**-**
1.1 totally secured	2,504,525	2,500,402	1,156,115	-	1,316,720	27,552	-	-
- of which: impaired	759	469	396	-	74	-	-	-
1.2 partially secured	349	349	224	-	119	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**21,491**	**21,472**	**-**	**-**	**18,338**	**3,134**	**-**	**-**
2.1 totally secured	21,491	21,472	-	-	18,338	3,134	-	-
- of which: impaired	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-

(continued)

(Amounts in € thousand)

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Signature credits				
	Other derivatives							
	Banks	Other financial entities	Other entities	Public entities	Banks	Other financial entities	Other entities	
1. Secured on-balance sheet:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,500,730**
1.1 totally secured	-	-	-	-	-	-	-	2,500,387
- of which: impaired	-	-	-	-	-	-	-	470
1.2 partially secured	-	-	-	-	-	-	-	343
- of which: impaired	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,472**
2.1 totally secured	-	-	-	-	-	-	-	21,472
- of which: impaired	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-

A.4 Prudential consolidated perimeter - Financial and non-financial assets obtained through the enforcement of guarantees received

No data to report.

B. Distribution and concentration of credit exposures

B.1 Prudential consolidated perimeter - 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)

Exposures/Counterparty		Public entities		Financial entities		Financial companies(of which: insurance companies)	
		Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments
A. On-balance sheet credit exposures							
A.1 Bad loans		-	-	-	(11)	-	-
- of wich: forborne exposures		-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-
- of wich: forborne exposures		-	-	-	-	-	-
A.3 Past-due impaired loans		-	-	-	(1)	-	-
- of wich: forborne exposures		-	-	-	-	-	-
A.4 Performing exposures		13,418,361	(1,269)	246,995	(411)	18,474	(31)
- of wich: forborne exposures		-	-	-	-	-	-
Total (A)		**13,418,361**	**(1,269)**	**246,995**	**(423)**	**18,474**	**(31)**
B. Off-balance sheet exposures							
B.1 Impaired		-	-	-	-	-	-
B.2 Unimpaired		56	-	2,766	-	-	-
Total (B)		**56**	**-**	**2,766**	**-**	**-**	**-**
Total (A+B)	**12/31/2019**	**13,418,417**	**(1,269)**	**249,761**	**(423)**	**18,474**	**(31)**
Total (A+B)	**12/31/2018**	**8,835,797**	**(1,826)**	**181,483**	**(456)**	**19,028**	**(46)**

(continued)

(Amounts in € thousand)

Exposures/Counterparty		Non-financial entities		Households	
		Net exposure	Total impairments	Net exposure	Total impairments
A. On-balance sheet credit exposures					
A.1 Bad loans		1	(5)	1,683	(17,861)
- of wich: forborne exposures		-	-	33	(220)
A.2 Unlikely to pay		7	(16)	1,384	(2,941)
- of wich: forborne exposures		-	-	149	(273)
A.3 Past-due impaired loans		4	(8)	489	(923)
- of wich: forborne exposures		-	-	-	-
A.4 Performing exposures		341	(3)	3,428,924	(13,826)
- of wich: forborne exposures		-	-	97	(1)
Total (A)		**353**	**(32)**	**3,432,480**	**(35,551)**
B. Off-balance sheet exposures					
B.1 Impaired		-	-	165	-
B.2 Unimpaired		1	-	1,269,485	(20)
Total (B)		**1**	**-**	**1,269,650**	**(20)**
Total (A+B)	**12/31/2019**	**354**	**(32)**	**4,702,130**	**(35,571)**
Total (A+B)	**12/31/2018**	**1,205**	**(26)**	**3,817,678**	**(34,639)**

B.2 Prudential consolidated perimeter - 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)

Exposures/Geographical area		Italy		Other european countries		United States
		Net exposures	Total impairments	Net exposures	Total impairments	Net exposures
A. On-balance sheet exposures						
A.1 Bad loans		1,680	(17,851)	4	(26)	-
A.2 Unlikely to pay		1,389	(2,954)	2	(4)	-
A.3 Impaired past-due exposures		491	(926)	2	(3)	-
A.4 Unimpaired exposures		8,914,708	(14,910)	7,768,312	(593)	410,227
Total (A)		**8,918,268**	**(36,641)**	**7,768,320**	**(626)**	**410,227**
B. Off-balance sheet credit exposures						
B.1 Impaired exposures		165	-	-	-	-
B.2 Unimpaired exposures		1,268,617	(20)	3,206	-	72
Total (B)		**1,268,782**	**(20)**	**3,206**	**-**	**72**
Total (A+B)	**12/31/2019**	**10,187,050**	**(36,661)**	**7,771,526**	**(626)**	**410,299**
Total (A+B)	**12/31/2018**	**7,902,920**	**(36,012)**	**4,736,198**	**(926)**	**69,525**

(continued)

(Amounts in € thousand)

Exposures/Geographical area		United States	Asia		Rest of the world	
		Total impairments	Net exposures	Total impairments	Net exposures	Total impairments
A. On-balance sheet exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due exposures		-	-	-	-	-
A.4 Unimpaired exposures		(3)	1,239	(2)	135	-
Total (A)		**(3)**	**1,239**	**(2)**	**135**	-
B. Off-balance sheet credit exposures					-	
B.1 Impaired exposures		-	-	-	-	-
B.2 Unimpaired exposures		-	385	-	28	-
Total (B)		-	**385**	**-**	**28**	-
Total (A+B)	**12/31/2019**	**(3)**	**1,624**	**(2)**	**163**	-
Total (A+B)	**12/31/2018**	**(7)**	**911**	**(1)**	**126,610**	**-**

B.3 Prudential consolidated perimeter - 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)

Exposures/Geographical Area		Italy		Other european countries		America
		Net exposures	Total impairments	Net exposures	Total impairments	Net exposures
A. On-balance sheet exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due exposures		-	-	-	-	-
A.4 Not impaired exposures		8,066,710	(124)	819,100	(99)	88,669
Total (A)		**8,066,710**	**(124)**	**819,100**	**(99)**	**88,669**
B. Off-balance sheet credit exposures						
B.1 Impaired exposure		-	-	-	-	-
B.2 Unimpaired exposure		17,168	(2)	36,121	-	-
Total (B)		**17,168**	**(2)**	**36,121**	**-**	**-**
Total (A+B)	**12/31/2019**	**8,083,878**	**(126)**	**855,221**	**(99)**	**88,669**
Total (A+B)	**12/31/2018**	**12,406,124**	**(9,458)**	**193,096**	**(49)**	**-**

(continued)

(Amounts in € thousand)

Exposures/Geographical Area		America	Asia		Rest of the world	
		Total impairments	Net exposures	Total impairments	Net exposures	Total impairments
A. On-balance sheet exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due exposures		-	-	-	-	-
A.4 Not impaired exposures		(68)	-	-	465,888	-
Total (A)		**(68)**	**-**	**-**	**465,888**	**-**
B. Off-balance sheet credit exposures						
B.1 Impaired exposure		-	-	-	-	-
B.2 Unimpaired exposure		-	-	-	-	-
Total (B)		**-**	**-**	**-**	**-**	**-**
Total (A+B)	**12/31/2019**	**(68)**	**-**	**-**	**465,887**	**-**
Total (A+B)	**12/31/2018**	**-**	**-**	**-**	**101,271**	**-**

B.4 Large exposures

At December 31, 2019 the following "risk positions" constituted "large exposure" pursuant to the provisions of the Implementing Regulation (EU) no. 680/2014 of the Commission of 16 April 2014 which establishes technical implementation rules with regard to the reporting of entities for supervisory purposes in accordance with Regulation (EU) no. 575/2013 of the European Parliament and of the Council, and subsequent Regulations that modify its content, are the following:

a) book value: €23,389,415 thousand, excluding the reverse repo transactions;
b) non-weighted value: €23,390,883 thousand;
c) weighted value: €560,471 thousand;
d) number of "risk positions": 24.

It should be noted that, in compliance with the EBA Guidelines on connected customers pursuant to Article 4, paragraph 1, point 39) of Regulation (EU) no. 575/2013, the large exposures also include counterparties that have links with central administrations and that, although they do not exceed the threshold of 10% of the eligible capital for large exposures individually, exceed this limit considering also the exposure to the sovereign state to which they are connected with a control bond.

As described above, following the deconsolidation of FinecoBank from the UniCredit Group took place, FinecoBank and UniCredit S.p.A. have entered into a contract (Pledge Agreement) which provides for the granting by UniCredit S.p.A. of financial guarantees in favor of FinecoBank aimed at guaranteeing credit risk exposures represented by UniCredit bonds, until their natural expiry, from current accounts, until November 2019, and from the financial guarantees issued by FinecoBank in favor of the Agency of Enter at the request of UniCredit S.p.A., until they are completely extinguished. These guarantees meet the requirements of the applicable legislation to be eligible in the context of credit risk mitigation techniques (CRM), with consequent reduction of risk-weighted assets and exposure for large exposures of the Group.

Finally, please note that deferred tax assets within the exposure towards the Italian Central Government have been exempted and, therefore, their weighted value is null.

C. Securitisation transactions

Qualitative information

No data to report.

Quantitative information

No data to report.

D. Sales Transactions
A. Financial assets sold and partially derecognised

Qualitative information

The Group 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 Group 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.

Part E - Information on Risks and relating hedging policies (CONTINUED)

Quantitative information

D.1 Prudential consolidated perimeter - 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: securisation	of which: repurchase agreement	of which: impaired	Carrying amount	of which: securisation	of which: repurchase agreement
A. Financial assets held for trading	**133**	**-**	**133**	**X**	**143**	**-**	**143**
1. Debt securities	-	-	-	X	-	-	-
2. Equity instruments	133	-	133	X	143	-	143
3. Loans	-	-	-	X	-	-	-
4. Derivative instruments	-	-	-	X	-	-	-
B. Other financial assets mandatorily at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E.Financial assets at amortised cost	**1,345,152**	**-**	**1,345,152**	**-**	**1,390,473**	**-**	**1,390,473**
1. Debt securities	1,345,152	-	1,345,152	-	1,390,473	-	1,390,473
2. Loans	-	-	-	-	-	-	-
Total 12/31/2019	**1,345,285**	**-**	**1,345,285**	**-**	**1,390,616**	**-**	**1,390,616**
Total 12/31/2018	**1,874,877**	**-**	**1,874,877**	**-**	**1,821,735**	**-**	**1,821,735**

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.

D.2 Prudential consolidated perimeter - Financial assets sold partially recognized and associated financial liabilities: carrying value

No data to report.

D.3 Prudential consolidated perimeter - 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.

D.4 Prudential consolidated - Covered bond transactions

No data to report.

E. Prudential consolidated - Credit Risk Measurement Models

Credit Risk Measurement – Trading Book

The monitoring of credit risk as part of the management of the trading book is conducted through the rating of all financial instruments held.

Credit Risk Measurement – Banking Book

The banking book of the Group consists mainly of securities, current accounts with credit institution and deposits with Bank of Italy. Retail customer activities are limited to the granting of personal loans, mortgages, credit cards and credit lines.

Information on Sovereign Exposures

The Group 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, 2019. The Group 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 Group invested in debt securities issued by Supranational institutions and Agencies accounted for in "Financial assets at amortized cost” (for further details, see the Part B of these Notes to the Consolidated Accounts).

(Amounts in € thousand)

	Nominal value as at 12/31/2019	Carrying amount as at 12/31/2019	Fair value as at 12/31/2019	% Financial Statements item
Italy	**5,000,000**	**5,311,770**	**5,451,035**	**19.0%**
Financial assets at fair value through other comprensive income	160,000	172,704	172,704	53.7%
Financial assets at amortised cost	4,840,000	5,139,066	5,278,331	19.6%
Spain	**3,665,000**	**4,081,857**	**4,206,407**	**14.6%**
Financial assets at amortised cost	3,665,000	4,081,857	4,206,407	15.6%
Germany	**125,000**	**127,178**	**133,428**	**0.5%**
Financial assets at amortised cost	125,000	127,178	133,428	0.5%
Poland	**113,000**	**118,924**	**127,245**	**0.5%**
Financial assets at amortised cost	113,000	118,924	127,245	0.4%
France	**715,500**	**733,478**	**756,035**	**2.6%**
Financial assets at fair value through other comprensive income	35,000	36,668	36,668	11.4%
Financial assets at amortised cost	680,500	696,810	719,367	2.7%
USA	**409,471**	**409,137**	**411,792**	**1.5%**
Financial assets at fair value through other comprensive income	71,212	70,891	70,891	22.0%
Attività finanziarie valutate al costo ammortizzato	338,259	338,246	340,901	1.3%
Austria	**387,500**	**398,087**	**413,621**	**1.4%**
Financial assets at amortised cost	387,500	398,087	413,621	1.4%
Ireland	**731,500**	**772,336**	**812,987**	**2.8%**
Financial assets at fair value through other comprensive income	35,000	41,431	41,431	12.9%
Financial assets at amortised cost	696,500	730,905	771,556	2.8%
United Kingdom	**58,768**	**58,658**	**58,656**	**0.2%**
Financial assets at amortised cost	58,768	58,658	58,656	0.2%
Belgium	**405,000**	**417,485**	**433,666**	**1.5%**
Financial assets at amortised cost	405,000	417,485	433,666	1.6%
Portugal	**280,000**	**333,319**	**330,500**	**1.2%**
Financial assets at amortised cost	280,000	333,319	330,500	1.3%
Total Sovereing exposures	**11,890,739**	**12,762,229**	**13,135,372**	**45.5%**

Part E - Information on Risks and relating hedging policies (CONTINUED)

The % reported in line of the individual Sovereign states and in the item "Total Sovereign exposures" were determined on the total assets of the Group, while the % reported in line 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, 2019, investments in debt securities issued by Sovereign states accounted for 45.5% of the Group’s total assets. There were no structured debt securities among the sovereign debt securities held by the Group. The Group 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 Group's financial position and performance.

The following table shows the sovereign ratings as at December 31, 2019 for countries to which the Group 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+	AA-
Belgium	Aa3	AA-	AA
Portugal	Baa3	BBB	BBB
United Kingdom	Aa2	AA	AA

1.2 - Market risk

Market risk derives from the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can cause to the economic value of the Group'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 FinecoBank sets the strategic guidelines for the assumption of market risks, approves a general framework for market risk and any significant changes, relating to the organisational structure, strategies, and methodologies and defines maximum risk appetite level.

The strategic approach of the Group is to maintain the minimum level of market risk compatibly with the business needs and the established limits of 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

The Market Risk function, within the Risk Management Unit, in full compliance with local legal and regulatory obligations is tasked primarily – but not exclusively – with:

- define, implement and refine adequate metrics at a global level to measure exposure to market risk;
- propose, based on the defined metrics, the risk limits consistent with the risk appetite approved by the Board of Directors;
- calculating the risk measurements for the global and granular measures for the Group's portfolios;
- checking that the measurements are compatible with the approved limits;
- initiating the escalation process when limits are exceeded, engaging the Group’s Top Management;
- discussing and approving new products with innovative and complex market risk profiles.

Risk measurement and reporting systems

Trading Book

The main tool used by the Group 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 250 days.

Banking Book

The primary responsibility for monitoring and controlling Market Risk management in the banking book lies with the Group's competent Bodies. The Risk Management of the Group is responsible for monitoring market risk on the banking book by defining the structure, the relevant data and the frequency for adequate reporting.

Market risk in the banking book mainly consists of credit spread risk, interest rate risk and exchange rate risk.
The first 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 second type of risk, 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 Group. 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 Group 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 Group 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.

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 Group'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 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 Group’s framework uses additional instruments such as stress tests.

1.2.1 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 Group does not perform proprietary trading and does not assume speculative positions in its books. Entries in the Group'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 Group is a counterparty to the Customer. This activity is performed as a result of the options introduced by the MiFID which allow the execution of orders for financial instruments in a number of execution venues including internal execution.

B. Processes for managing and methods for measuring interest rate risk and price risk

For both a description of internal processes for monitoring and managing risk and an illustration of the approaches used to analyse exposure, please refer to the introduction.

Quantitative information

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)

Tipologia/Durata residua	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
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	72	-	-
- Others								
+ Long positions	33	62,464	-	-	-	287	2,109	-
+ Short positions	33	61,559	-	-	-	1,000	2,121	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others derivatives								
+ Long positions	-	27,330	30	45,080	-	-	-	-
+ Short positions	-	52,777	1,270	29,840	-	-	-	-

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").

Part E - Information on Risks and relating hedging policies (CONTINUED)

Currency: Other currencies

(Amounts in € thousand)

Tipologia/Durata residua	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
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others								
+ Long positions	-	147,239	-	-	-	22	-	-
+ Short positions	-	147,217	-	-	-	22	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others derivatives								
+ Long positions	-	94,170	2,020	45,025	-	-	-	-
+ Short positions	-	68,696	765	59,879	-	-	-	-

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 transaction/listing index	Listed						Unlisted
	U.S.A.	Switzerland	Italy	Germany	France	Other country	
A. Equity instruments							
- long positions	1,966	-	769	176	366	12	-
- short positions	1,407	-	404	54	28	14	-
B. Unsettled equity instrument trades							
- long positions	146,947	-	56,404	2,739	24	277	-
- short positions	147,034	-	56,630	2,717	24	265	-
C. Other equity instruments derivatives							
- long positions	2,309	-	516	95	127	26	-
- short positions	2,672	-	995	246	455	37	-
D. Share index derivatives							
- long positions	31,890	1,667	4,200	7,993	642	2,057	-
- short positions	32,827	1,758	4,409	8,801	656	2,164	-

3. Regulatory trading book: internal models and other methods of sensitivity analysis

The Group monitors the VaR of the Trading Book on a daily basis.

As at December 31, 2019, the daily VaR of the trading book amounted to €149 thousand. The average for the year 2019 is €193 thousand, with a maximum peak of €443 thousand, and a minimum of €27 thousand.

The volatility in the price of the instruments determines direct impacts on the income statement.

1.2.2 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 Group's earnings;
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows.

The Group measures and monitors interest rate risk daily, within the methodological framework and the corresponding limits or thresholds approved by the Board of Director. 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:

- gap risk: this derives from the term structure of the banking book and describes the risk arising from the times of changes in interest rates on the instrument. The gap risk also includes the repricing risk, arising from time mismatches in terms of the repricing of the Group's assets and liabilities. These mismatches result in a risk associated with the rate curve. This risk relates to the Group's exposure to changes in the slope and shape of the interest rate curve.
- basis risk: this can be divided into two types of risk:
  - tenor risk, arising from the mismatch between instrument expiry and the change in interest rates;
  - currency risk, defined as the risk of a potential offsetting between sensitivities to the interest rate arising from exposure to the interest rate risk in various currencies;
- option 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. These limits are set in terms of VaR (calculated using the methodology described above in relation to the trading book). The Parent Company 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; the six scenarios proposed by the Basel Committee are also conducted monthly. For more details see section *2. Banking book: internal models and other methods of sensitivity analysis.*

Part E - Information on Risks and relating hedging policies (CONTINUED)

Quantitative information

1. 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 to 1 year	Between 1 year and 5 years	Between 5 and 10 years	Over 10 years	Indefinite maturity
1. On-balance sheet assets	**1,531,848**	**9,272,430**	**196,027**	**820,827**	**3,877,448**	**9,624,467**	**336,422**	**-**
1.1 Debt securities	-	8,114,566	127,698	712,954	3,367,520	9,357,868	1	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	8,114,566	127,698	712,954	3,367,520	9,357,868	1	-
1.2 Loans to banks	72,465	254,618	9,994	715	-	-	-	-
1.3 Loans to customers	1,459,383	903,246	58,335	107,158	509,928	266,599	336,421	-
- current accounts	1,290,683	111	75	190	720	-	-	-
- others loans	168,700	903,135	58,260	106,968	509,208	266,599	336,421	-
- with early redemption option	4,627	380,596	58,100	105,549	505,064	266,536	336,374	-
- others	164,073	522,539	160	1,419	4,144	63	47	-
2. On-balance sheet liabilities	**24,886,031**	**121,403**	**2,297**	**106,467**	**30,811**	**23,731**	**2,614**	**-**
2.1 Deposits from customers	24,812,784	121,302	2,169	32,140	28,626	20,702	1,292	-
- current accounts	24,716,397	-	-	-	-	-	-	-
- other payables	96,387	121,302	2,169	32,140	28,626	20,702	1,292	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	96,387	121,302	2,169	32,140	28,626	20,702	1,292	-
2.2 Deposits from banks	73,247	101	128	74,327	2,185	3,029	1,322	-
- current accounts	70,081	-	-	-	-	-	-	-
- other payables	3,166	101	128	74,327	2,185	3,029	1,322	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**3,693,731**	**938,977**	**27,903**	**1,019,873**	**3,326,765**	**202,163**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	3,693,731	938,977	27,903	1,019,873	3,326,765	202,163	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others derivatives	-	3,693,731	938,977	27,903	1,019,873	3,326,765	202,163	-
+ Long positions	-	3,109,706	925,000	-	340,000	230,000	-	-
+ Short positions	-	584,025	13,977	27,903	679,873	3,096,765	202,163	-
4. Other off-balance sheet transactions	**2,503**	**16,671**	**15,643**	**144**	**341**	**25**	**-**	**-**
+ Long positions	506	5,815	10,832	144	341	25	-	-
+ Short positions	1,997	10,856	4,811	-	-	-	-	-

Currency: Other currencies

(Amounts in € thousand)

Type/maturity	On demand	Up to 3 months	Between 3 and 6 months	Between 6 months to 1 year	Between 1 year and 5 years	Between 5 and 10 years	Over 10 years	Indefinite maturity
1. On-balance sheet assets	**228,078**	**282,004**	**211,701**	**3,600**	**87,016**	**60,562**	**-**	**-**
1.1 Debt securities	-	246,675	211,701	-	87,015	60,562	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	246,675	211,701	-	87,015	60,562	-	-
1.2 Loans to banks	224,633	8	-	3,600	-	-	-	-
1.3 Loans to customers	3,445	35,321	-	-	1	-	-	-
- current accounts	402	-	-	-	1	-	-	-
- others loans	3,043	35,321	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	3,043	35,321	-	-	-	-	-	-
2. On-balance sheet liabilities	**861,918**	**24,534**	**22**	**55**	**351**	**-**	**-**	**-**
2.1 Deposits from customers	861,603	24,534	22	55	351	-	-	-
- current accounts	856,772	-	-	-	-	-	-	-
- other payables	4,831	24,534	22	55	351	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	4,831	24,534	22	55	351	-	-	-
2.2 Deposits from banks	315	-	-	-	-	-	-	-
- current accounts	315	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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	-	-	-	-	-	-	-	-
- Others derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**-**	**12,803**	**12,803**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	6,566	6,237	-	-	-	-	-
+ Short positions	-	6,237	6,566	-	-	-	-	-

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

To measure the interest rate risk contained in the Group's financial statements it is necessary to measure the sensibility of the loans and deposits to changes in the interest rate curve. FinecoBank 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)
12/31/2019	-51,955	240,436	-378	-3,830	123,971	-31,964

*1 day holding period, 99% confidence level%.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 200 basis points on the euro interest rate curve, showed a negative impact of €51,955 thousand. A shift of -200 basis points showed a positive impact of €240,436 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 -€378 thousand.

The interest rate VaR figure for the Bank came to approximately €3,830 thousand. The average for the year 2019 is equal to €2,010 thousand with a maximum peak of €4,166 thousand and a minimum of €595 thousand.

Total VaR, including the Credit Spread Risk component arising mainly from government securities held as investment of liquidity and including the Credit Spread Risk component deriving from UniCredit instruments, amounts to €44,725 thousand. The average for the year 2019 is equal to €63,929 thousand with a maximum peak of €90,006 thousand and a minimum of €44,404 thousand. During the year, the indicator calculation method was revised, including, among other things, the inclusion of UniCredit instruments and a different depth of the underlying time series.

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 €123,971 thousand. A shift of -30 basis points would have a negative impact of -€31,964 thousand on the interest rate over the next 12 months.

1.2.3 Exchange Rate Risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange rate risk

As part of its treasury activities, the Group collects funds in foreign currencies, mainly US dollars, through customer current accounts, subsequently investing these funds mainly in current accounts with leading credit institutions and bonds in the same currency. The impact on the value of balance sheet items is estimated using the Forex VaR indicator.

The VaR of the Group's positions is not used for the calculation of the Pillar 1 capital requirement because the traditional standardised approach is used. The VaR is only used for management and risk monitoring purposes.

B. Exchange rate risk hedging

Exchange rate risk is hedged through the matching of assets and liabilities denominated in currency or through spot transactions in foreign currencies.

The component of exchange rate risk that contributes to the formation of the overall VaR is usually tied to the temporal mismatch between assets and liabilities in US dollars.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

(Amounts in € thousand)

Items	Currency					
	USD	GBP	CHF	JPY	AUD	OTHER CURRENCIES
A. Financial assets	**698,728**	**92,244**	**83,405**	**765**	**2,745**	**7,647**
A.1 Debt securities	522,453	76,332	7,168	-	-	-
A.2 Equity securities	10,963	4	-	7	-	-
A.3 Loans to banks	127,159	15,427	76,154	758	2,745	7,598
A.4 Loans to customers	38,153	481	83	-	-	49
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**71**	**123**	**38**	**-**	**-**	**-**
C. Financial liabilities	**702,299**	**92,610**	**83,495**	**796**	**2,573**	**6,515**
C.1 Deposits from banks	-	-	100	-	-	214
C.2 Deposits from customers	702,299	92,610	83,395	796	2,573	6,301
C.3 Debt securities in issue	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**1,389**	**305**	**37**	**-**	**7**	**95**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	83,072	22,088	6,125	10,507	6,087	14,613
+ Short positions	72,967	21,444	5,628	9,860	6,243	14,413
Total assets	**781,871**	**114,455**	**89,568**	**11,272**	**8,832**	**22,260**
Total liabilities	**776,655**	**114,359**	**89,160**	**10,656**	**8,823**	**21,023**
Balance (+/-)	**5,216**	**96**	**408**	**616**	**9**	**1,237**

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, 2019, the daily Forex VaR of the overall portfolio (banking and trading books) was approximately €37 thousand. The average for the year 2019 is equal to €62 thousand with a maximum peak of €212 thousand and a minimum of €20 thousand.

Part E - Information on Risks and relating hedging policies (CONTINUED)

1.3 - Derivative instruments and hedging policies

1.3.1 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 12/31/2019				Total 12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	Without central counterparties			Central Counterparts	Wthout central counterparties		
		with netting agreement	without netting agreement			with netting agreement	without netting agreement	
1. Debt securities and interest rate indexes	**-**	**-**	**878**	**714**	**-**	**-**	**358**	**128**
a) Options	-	-	4	-	-	-	4	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	714	-	-	-	128
e) Others	-	-	874	-	-	-	354	-
2. Equities instruments and share indices	**-**	**-**	**68,169**	**38,444**	**-**	**-**	**33,506**	**11,588**
a) Options	-	-	72	-	-	-	72	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	38,444	-	-	-	11,588
e) Others	-	-	68,097	-	-	-	33,434	-
3. Currencies and gold	**-**	**-**	**164,604**	**136**	**-**	**-**	**195,226**	**561**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	34	-
d) Futures	-	-	-	136	-	-	-	561
e) Others	-	-	164,604	-	-	-	195,192	-
4. Commodities	**-**	**-**	**1,367**	**1,126**	**-**	**-**	**1,561**	**1,580**
5. Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**235,018**	**40,420**	**-**	**-**	**230,651**	**13,857**

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 12/31/2019				Total 12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties		
		With netting agreement	Without netting agreement			With netting agreement	Without netting agreement	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	35	-	-	-	43
g) Others	-	-	3,192	-	-	-	3,466	-
Total	**-**	**-**	**3,192**	**35**	**-**	**-**	**3,466**	**43**
2. Negative Fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	57	-	-	-	41
g) Others	-	-	523	-	-	-	658	-
Total	**-**	**-**	**523**	**57**	**-**	**-**	**658**	**41**

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 assets	Central counterparties	Banks	Other financial entities	Other entities
Contracts not included in netting agreement				
1) Debt securities and interest rate indexes				
- notional amount	X	-	-	878
- positive fair value	X	-	-	2
- negative fair value	X	-	-	-
2) Equity instruments and share indices				
- notional amount	X	-	303	67,866
- positive fair value	X	-	-	2,357
- negative fair value	X	-	1	294
3) Currencies and gold				
- notional amount	X	72,413	-	92,191
- positive fair value	X	58	-	751
- negative fair value	X	107	-	118
4) Commodities				
- notional amount	X	-	-	1,367
- positive fair value	X	-	-	23
- negative fair value	X	-	-	3
5) Others				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreement				
1) Debt securities and interest rate indexes				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity instruments and share indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others				
- 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 derivative contracts on debt securities and interest rates	874	-	4	878
A.2 Financial derivative contracts on equity instruments and share indices	7,478	-	60,691	68,169
A.3 Financial derivatives on exchange rates and gold	164,605	-	-	164,605
A.4 Financial derivatives on commodities	1,367	-	-	1,367
A.5 Financial derivatives on other instruments	-	-	-	-
Total 12/31/2019	**174,324**	**-**	**60,695**	**235,019**
Total 12/31/2018	**200,839**	**-**	**29,812**	**230,651**

B. Credit derivatives

No data to report.

1.3.2 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 unlisted derivative contracts. The latter, typically interest rate swaps, represent the family of instruments used mainly. The hedges adopted are normally classified as generic, that is, connected to amounts of money contained in portfolios of assets or liabilities. There are however hedging derivatives on fixed rate bonds, which carry out specific hedges. The derivatives subscribed for the purpose of hedging exactly replicate the hedged security in terms of notional, maturity, interest payment dates.

B. Cash flow hedging

Currently there are no cash flow hedging operations generated as part of the Group'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 Group'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 Group uses a test method based on sensitivity analisys. 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 analysing 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 (core insensitive component of on demand items). In a specific hedging relationship, the derivatives subscribed for the purpose of hedging exactly replicate the hedged security in terms of notional, maturity, interest payment dates.

It should be noted that the Group has decided not to apply in advance the "Amendments to IFRS 9, IAS 39 and IFRS 7: reform of the interest rate Benchmarks" issued by the IASB in September 2019 and pursuant to the Regulation (EU) 2020/34 of the Commission of 15 January 2020. At 31

December 2019 the Group has only fair value hedges in place which provide for the exchange of the fixed rate against Euribor whose assessment, as collateralised, is carried out by discounting future flows with the OIS curve.

Following the entry into force, in 2018, of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 (EU Benchmark Regulation - BMR), the Euribor was subject to a reform process conducted by the 'European Money Markets Institute (EMMI), manager of the same Institute, to make it compliant with BMR according to a new hybrid calculation methodology (based on three levels) to be implemented by the end of 2019. The authorization has been granted, pursuant to the art. 34 of the BMR, on 2 July 2019 by the Belgian authority FSMA, supervisor of EMMI. The full transition to the new calculation method was completed in November 2019 and the Euribor is therefore BMR-compliant and can continue to be used after January 1, 2020.

With reference to the OIS curve, the same will be replaced by the €STR curve. In particular, the clearing houses (Eurex\LCH) used by the Group have communicated that the OIS curve will be replaced with the €STR curve starting from 22 June 2020, anticipating the disposal of the Eonia rate which, due to the effect of the reform in question, will take place at the end of 2021.

The Group, which has chosen to continue to apply the hedge accounting requirements of IAS 39, has taken into account the above with respect to assessing the effectiveness of the hedging relationship, not detecting significant impacts on the existing hedging relationships.

E. Hedge item

The hedged assets are represented by mortgages granted to fixed-rate customers accounted and fixed rate bonds for in "Financial assets at amortized cost", while hedged liabilities are represented by direct customer current deposits (insensible core liquidity), recorded under "Financial liabilities at amortized cost ", modeled according to the model of sight items adopted by the Group.

The hedged assets also include fixed rate securities, accounted for in the "Financial assets at amortized cost", also covered for the interest rate risk component with Interest Rate swaps which exchange the fixed rate coupon with a variable rate.

Quantitative information

A. Hedging financial derivatives

A.1 Hedging financial derivatives: end of period notional amounts

(Amounts in € thousand)

Underlying assets/type of derivatives	12/31/2019				12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	Without central counterparties			Central Counterparts	Without central counterparties		
		With netting agreement	Without netting agreement			With netting agreement	Without netting agreement	
1. Debt securities and interest rate indexes	**4,354,706**	**250,000**	**-**	**-**	**896,477**	**250,000**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	4,354,706	250,000	-	-	896,477	250,000	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**4,354,706**	**250,000**	**-**	**-**	**896,477**	**250,000**	**-**	**-**

A.2 Hedging financial derivatives: gross positive and negative fair value – breakdown by product

(Amounts in € thousand)

Underlying assets/Types of derivatives	Positive and negative Fair value								Change in the value used to calculate the uneffectiveness of the hedge	
	Total 12/312019				Total 12/312018				Total 12/31/2019	Total 12/31/2018
	Over the counter			Organized markets	Over the counter			Organized markets		
	Central counterparts	Without central counterparties: With netting arrangements	Without central counterparties: Without netting arrangements		Central counterparts	Without central counterparties: With netting arrangements	Without central counterparties: Without netting arrangements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	33,922	2,138	-	-	2,316	998	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**33,922**	**2,138**	**-**	**-**	**2,316**	**998**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	80,852	-	-	-	5,341	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**80,852**	**-**	**-**	**-**	**5,341**	**-**	**-**	**-**	**-**	**-**

Part E - Information on Risks and relating hedging policies (CONTINUED)

A.3 OTC hedging financial derivative: notional amounts, gross positive and negative fair value by counterparty

(Amounts in € thousand)

Underlyings assets	Central Counterparts	Banks	Other financial entities	Other entities
Contracts not included in netting agreement				
1) Debt securities and interest rate indexes				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity instruments and share indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Others				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreement				
1) Debt securities and interest rate indexes				
- notional amount	4,354,706	250,000	-	-
- positive fair value	33,921	2,138	-	-
- negative fair value	80,852	-	-	-
2) Equity instruments and share indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others	-	-	-	-
- 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	55,905	1,019,873	3,528,928	4,604,706
A.2 Financial derivatives on equity instruments and share indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	-	-	-	-
A.3 Financial derivatives on commodities	-	-	-	-
A.5 Financial derivatives on other instruments	-	-	-	-
Total 12/31/2019	**55,905**	**1,019,873**	**3,528,928**	**4,604,706**
Total 12/31/2018	**42,731**	**462,843**	**640,903**	**1,146,477**

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 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 Group, 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 €718,706 thousand, subject to generic hedging, referring exclusively to mortgages;
- the amount of "Financial liabilities at amortized cost" covered amounted to €570,000 thousand, subject to generic hedging, referring exclusively to the core deposits,
- the book value of "Financial assets at amortized cost" amounted to €3,613,402 thousand, subject to specific hedging, referring exclusively to owned securities.

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.

1.3.3 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.

1.4 - Liquidity Risk

Qualitative information

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk can be succinctly defined as the risk that the Group, 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 Group are as follows:

- the short-term liquidity risk refers to the risk of non-compliance between the amount 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 Group 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 Group may not be able to liquidate these positions;
- the structural liquidity risk is defined as the Group'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 Group;
- 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;
- financing risk, the Group may not be able to deal effectively with any planned cash outflows.

To deal with its exposure to liquidity risk, the Group invests the component of its liquidity estimated by internal models as persistent and stable (so-called core liquidity) in medium/long-term investments, while the part of liquidity characterized by a persistence profile lower (so-called non-core liquidity) is used in liquid or easily liquidable assets, such as, for example, demand deposits, short-term loans or government securities that can be used as a short-term source of funding at 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 Group.

The key principles

The Group's purpose is to maintain liquidity at a level that allows to conduct the main operations safely, finance its activities at the best rate conditions in normal operating circumstances and always remain in a position to meet payment commitments. In particular, the use policy is based on prudence principles which consider the liquidity criterion of the instruments as a priority; the result of this policy translates into regulatory liquidity indicators that far exceed the minimum requirements.

On 5 November 2019, the Group updated its "Group Liquidity Policy", directly applicable to the Parent Company and to the subsidiary company, with the aim of defining the set of principles and rules that oversee the management of liquidity and related risks in the Group. In particular, the Policy describes the management of liquidity and its risks in standard conditions and in crisis conditions, the first and second level control activities and the Group's governance on the matter, defining roles and responsibilities of the Bodies and functions internal of the Parent Company and the subsidiary.

Roles and responsibilities

The "Group Liquidity Policy" establishes the principles adopted in terms of internal governance, which envisage the involvement of the Treasury and Risk Management functions.

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 the "Group Liquidity Policy" explicitly refers to the 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 Group's liquidity position from one day up to one year. The primary objective is to maintain the Group'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 Group'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 Group uses several scenarios ranging from general market crisis to idiosyncratic crisis, and combinations hereof.

In this context, the Group 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 Group from risks related to the transformation of maturity.

Short term liquidity management

Short-term liquidity management aims at ensuring that the Group 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 Group calculates the Operative Maturity Ladder, which measures the cash inflows and outflows affecting the monetary base, with details of the main temporal buckets.

The Group’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 Group'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 Group adopts a prudent approach to its investments of liquidity, taking into account funding maturities. The indicator used and monitored as part of the wider Risk Appetite Framework (NSFR) ensures 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 Group uses scenario analysis to evaluate the impact of simultaneous changes in various risk factors, defining a hypothetical and consistent stress event whose assumptions are mainly consist of outflows of demand deposits and a decrease in the value of Government securities (Counterbalancing Capacity).

Behavioural modelling of Liabilities

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 Group's Internal Validation Unit.

Group’s Contingency Liquidity Management

The objective of the Group "Contingency Plan on liquidity risk", defined in the Group Liquidity Policy, is to ensure timely implementation of 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 internal and external;
- a set of available mitigating liquidity actions;
- a set of early warning indicators, also included within the Group Recovery Plan, that may point towards a developing crisis.

Internal Liquidity Adequacy Assessment Process (ILAAP)

In accordance with the prudential provisions, the Group annually assesses the adequacy of the management system and liquidity risk management (ILAAP process) and informs the Supervisory Authority according to the terms established by the reference legislation.

Part E - Information on Risks and relating hedging policies (CONTINUED)

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 15 days and 1 month	Between 1 and 3 month	Between 3 and 6 month	Between 6 and 1 year	Between 1 and 5 year	Over 5 years	Unspecified maturity
On-balance sheet assets	**1,525,202**	**20,656**	**729,420**	**115,807**	**217,557**	**858,845**	**1,771,941**	**9,379,295**	**10,289,670**	**251,574**
A.1 Government securities	-	-	2,560	23,358	36,132	138,267	825,692	2,773,018	7,888,164	-
A.2 Debt securities	-	3,090	386,655	3,145	21,106	639,146	812,013	6,024,500	1,573,202	-
A.3 Units in investment funds	867	-	-	-	-	-	-	-	-	-
A.4 Loans	1,524,335	17,566	340,205	89,304	160,319	81,432	134,236	581,777	828,304	251,574
- Banks	70,896	257	-	2,791	-	9,994	716	-	-	251,574
- Customers	1,453,439	17,309	340,205	86,513	160,319	71,438	133,520	581,777	828,304	-
On-balance sheet liabilities	**24,900,070**	**15,182**	**14,279**	**9,823**	**82,625**	**2,512**	**106,907**	**30,807**	**26,769**	**-**
B.1 Deposits and current accounts	24,786,485	11	24	70	203	292	535	218	-	-
- Banks	70,081	-	-	-	-	-	-	-	-	-
- Customers	24,716,404	11	24	70	203	292	535	218	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	113,585	15,171	14,255	9,753	82,422	2,220	106,372	30,589	26,769	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	79,497	20	-	714	-	-	-	12,937	337
- Short positions	-	90,684	69	-	-	-	-	-	13,737	337
C.2 Financial derivatives without exchange of capital										
- Long positions	1,111	-	-	9,567	5,996	12,617	33,012	-	-	-
- Short positions	134	-	378	6,734	5,941	19,884	35,636	-	-	-
C.3 Deposits and loans to be collected										
- Long positions	-	4,811	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	4,811	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	320	124	368	456	56	10,832	144	527	25	-
- Short positions	1,997	10,669	-	186	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

Currency: Other currencies

(Amounts in € thousand)

Items/time buckets	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 month	Between 3 and 6 month	Between 6 and 1 year	Between 1 and 5 year	Over 5 years	Unspecified maturity
On-balance sheet assets	**230,020**	**7,977**	**1,002**	**14,473**	**137,681**	**214,305**	**19,137**	**194,993**	**62,311**	**-**
A.1 Government securities	-	-	-	11,750	113,568	213,773	1,024	71,212	62,311	-
A.2 Debt securities	-	-	113	-	553	532	14,511	123,777	-	-
A.3 Units in investment funds	4	-	-	-	-	-	-	-	-	-
A.4 Loans	230,016	7,977	889	2,723	23,560	-	3,602	4	-	-
- Banks	226,377	3	-	5	-	-	3,602	-	-	-
- Customers	3,639	7,974	889	2,718	23,560	-	-	4	-	-
On-balance sheet liabilities	**862,924**	**5,865**	**1,281**	**2,824**	**14,604**	**23**	**57**	**351**	**429**	**-**
B.1 Deposits and current accounts	857,087	-	-	-	-	-	-	-	-	-
- Banks	315	-	-	-	-	-	-	-	-	-
- Customers	856,772	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	5,837	5,865	1,281	2,824	14,604	23	57	351	429	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	176,549	69	329	306	-	-	-	18	-
- Short positions	-	164,949	19	627	136	-	-	-	18	-
C.2 Financial derivatives without exchange of capital										
- Long positions	2,112	-	-	-	-	-	-	-	-	-
- Short positions	443	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected										
- Long positions	-	6,566	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	6,566	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	6,237	-	-	-	-
- Short positions	-	6,237	-	-	-	-	-	-	-	-
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)

1.5 - Operating risk

Qualitative information

A. General aspects, operational processes and methods for measuring operational risk

Operational risk definition

Operational risk is defined as the risk of losses due to errors, violations, interruptions, or damage caused by internal processes, personnel, financial advisors, systems or by external events. This definition includes legal and compliance risks, but excludes strategic and reputational risk.

For example, losses arising from the following can be defined as operational: internal or external fraud, employment practices and workplace safety, customer claims, product distribution, fines and penalties for regulatory breaches, damage to the Company's physical assets, business disruption and system failures, and management of processes.

Operational risk framework

The Board of Director has approved the policies and procedures for controlling, measuring and mitigating Group’s operational . Operational and reputational risk policies 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.

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 Group and can actively intervene in the management and mitigation of the risks. The Chief Risk Officer and Risk Management's participation in the Products Committee also ensures oversight of the operational risk associated with the Group'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 Team in terms of operational risk are:

- define the system for the mitigation and control of operational risks, in compliance with what is defined by external regulations and, in accordance with the indications of the Board of Directors, with the Group's operational evolution;
- regularly prepare reports on exposure to operational and reputational risks aimed at informing and supporting management in management activities;
- prepare a system of Risk Indicators to prevent operational risks related to human errors, deficiencies in internal procedures and incorrect execution of processes;
- verify that the operating loss data identified by the various areas of the Group are regularly and promptly recorded;
- carry out, in collaboration with the other corporate functions, scenario analyses aimed at identifying and preventing potentially high impact losses, albeit unlikely;
- propose strategies for the mitigation of operational risks to the Head of the Unit and to the CRO;
- carry out training and support on the control of operational risks to the Group's structures;
- guarantee the monitoring of reputational risk within the perimeter defined by the Group;
- carry out systematic remote controls, through the Risk Indicators, on the entire PFA Network, in order to mitigate the fraud risks related to PFA operations;
- implement and update the management system of the Anomaly Indicators also in relation to new company activities and regulations;
- evaluate the effectiveness of PFA infidelity insurance coverage, considering renewals, limits and deductibles;
- evaluate the operational and/or reputational risks resulting from the most significant transactions (e.g. significant outsourcing), ensuring their consistency with the RAF;
- ensure the effective implementation of the IT risk assessment methodology, supporting and coordinating the individual functions involved, each as far as it is concerned, during the ICT risk assessment process.

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.

In Fineco 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 Group'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 (22 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, 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.

In addition to the aforementioned controls, reputational risks are monitored through the risk assessment carried out by the risk control function throughout the definition, development and approval phase of the Group's products and with participation in the Chief Risk Officer's Product Committee and of Risk Management.

Risk measurement system

Following the deconsolidation from the UniCredit Group, FinecoBank no longer uses the Advanced AMA (Advanced Measurement Approach) model to calculate the capital requirement in favor of the basic Approach (TSA) method. Moreover, the governance, the safeguards and the reporting framework required by the internal method for measuring the capital requirement (AMA), previously adopted and developed, have been maintained.

The Operational and Reputational Risk function carried out collection and classification of loss data, external loss data, scenario loss data and risk indicators.

The collection and classification of operating losses is carried out for internal prevention and improvement purposes.

In terms of risk indicators, there are currently 61 key risk indicators split into control areas (Credit Cards, Compliance,HR, Legal, Operations securities, Payment Systems, Claims, Risk Management, IT systems, Security, Administration and Audit), with which the Group uses to measure its exposure to operational risk. If an indicator abocementioned shows an irregular value, this may be related to changes in the exposure to operational risk.

Scenario analyses enable the Group’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.

Risk capital for operational risk used for regulatory purposes as at December 31, 2019, amounted to €88,265 thousand.

Risks arising from significant legal disputes

The Group, only referred to FinecoBank, 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 applicable international accounting standards, by making the best possible estimate of the amount that the Group 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, 2019, FinecoBank had a provision in place for risks and charges of €27,164 thousand. This provision includes the legal costs borne by the Group in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to legal advisors and/or any experts who assist the Group in ongoing disputes to the extent that it is believed that they will not be reimbursed by the counterparties. This estimate was determined by the Group, in relation to the current dispute, mainly based on the analysis of Forensic official tariffs provided for by current legislation.

Risks arising from tax disputes and audits

Risks arising from tax disputes and audits as at December 31, 2019 mainly relate to a notice of assessment for the year 2003 received by FinecoBank 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.

Part E - Information on Risks and relating hedging policies (CONTINUED)

With regard to the aforementioned dispute, 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 to the tax administration have been recognised.

In light of the foregoing, as at December 31, 2019 the Group 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 €3.8 million, for penalties and interest.

Environmental risk

The Group has long been sensitive to issues related to climate change and is constantly committed to monitoring the effects and assessing, in the context of risk governance, the repercussions and effects on its credit and asset management activities.

Considering its business activity carried out and its business model adopted, Fineco believes it has a moderate environmental impact, as well as being exposed to climate change to a limited extent. The use policy is in fact based on the granting of credit to Retail customers and on the investment mainly in financial instruments of Central Administrations (Government Bonds). Therefore, the assignment of large, small and medium-sized enterprises and the financing of corporate projects or plants is not part of the Group's policy.

The limited exposure to companies preserves the Group both from the risk of causing impacts on the environment through the financing of counterparties with high environmental risk (e.g. industries in the energy sector) and from the risk of indirectly suffering the indirect effect of possible environmental events on its customers. Indeed,: the high diversification of the commercial portfolio (both in individual and territorial terms) protects the Group from the possible deterioration of the solvency of customers due to environmental factors, such as atmospheric events or natural disasters.

The environmental impact of the FinecoBank Group is therefore mainly attributable to the direct consumption of resources at its operating offices and financial stores. For the initiatives promoted by the Group, aimed at reducing consumption at its operating offices, please refer to Consolidated Non-Financial declaration.

Risks associated with "Brexit"

The Group carefully assesses the risks that may arise from the United Kingdom's exit from the European Union and which are mainly related to the regulatory and political uncertainties deriving from Brexit. FinecoBank offers UK customers remote banking and investment services thanks to the MiFid passport of financial products. The freedom to provide investment services in the UK remains valid even after the Brexit event.

To continue the development of the business in the United Kingdom, FinecoBank has started the preparatory procedures for opening a branch in England with a role of promotion, marketing and placement. The limited activities that will be carried out by the branch allow to greatly mitigate the risk of Brexit without agreement. With regard to lending activities with banks and financial institutions, the Group does not foresee significant impacts by maintaining relations exclusively with counterparties having their registered office within the European Union.

The assessment of ICT operational risk

The prudential regulations require Banks to conduct an analysis, at least annually, of the Group'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 Group’s assets (hardware and software).

FinecoBank has established and adopted a framework for the assessment of ICT risk: the results of the analysis, conducted in collaboration with the Group’s Business, ICT and Organisation structures, were reported to the Board of Directors during 2019. The analysis showed that, with respect to the business volumes processed and the complexity of the processes involved, the residual IT risk of FinecoBank is on average low; exposure to residual risk has been formally accepted by Fineco's Top Management without the need to identify additional mitigation measures.

The Group's goal is also to protect customers and the business by ensuring data security, declined in its characteristics of availability, confidentiality and integrity. Particular attention is in fact paid to the issues of Cyber Security & Fraud Management from the system design phase, as enabling elements for the correct definition of solutions and services offered, also taking advantage of the opportunities offered by the evolving regulatory context, in order to create full security for the customer while maintaining ease of use.. For further information on Cyber Security and Fraud Management, please refer to the Consolidated Non-Financial declaration of the FinecoBank Group, published on the FinecoBank website (https://www.finecobank.com).

Analysis of operational and security risks related to payment services

In accordance with the 28th update of Bank of Italy Circular 285, the Group will carry out an assessment of operational and security risks relating to payment services provided by the Group and the adequacy of mitigation measures and control mechanisms during 2020 put in place to deal with them; the report of the results of the analysis conducted will be sent to Bank of Italy.

Risks arising from the spread of Covid-19 (Coronavirus)

Lastly, it should be noted the emergency generated by the spread of Covid-19 (Coronavirus) should be noted. As known, starting from the first weeks of January 2020, the international scenario has been characterized by the spread of Coronavirus (first in China and then in other countries), culminating in the declaration of the existence of an international public health emergency phenomenon by part of the World Health Organization on 30 January 2020, and the consequent restrictive measures for its containment put in place by the competent authorities. These circumstances, extraordinary in nature and extent, with their direct and indirect implications for public health, economic and production activities and trade, which are likely to have a negative impact on global growth and financial markets, have created a context of general uncertainty, the evolution of which and the related impacts, even in the Eurozone, are however not foreseeable at the moment. The effects of this phenomenon on the Group's economic, equity and financial performance, potentially mainly attributable to the brokerage margin and the cost of risk, are not currently determinable and will be subject to constant monitoring throughout the year.

Quantitative information

Operational loss analyses enable the ORM team to make assessments on the Group's exposure to operational risk and to identify any critical areas. As at December 31, 2019, operating losses recorded in the accounts amounted to approximately €3.35 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 Group 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 Group;
- Employment practices and workplace safety: losses due to actions not compliant with the law or to agreements regarding employment, health and safety, to the payment of compensation for bodily harm, or to cases of discrimination or non-application of equality conditions;
- Customers, products and professional practices: losses arising from non-fulfilment of professional obligations towards customers or from the nature or characteristics of the products or services provided;
- Damage from external events: losses arising from external events, including natural disasters, acts of terrorism and vandalism;
- Business disruption and system failures: losses owing to business disruption and system failures or interruptions;
- Process management, execution and delivery: losses due to deficiencies in the completion of transactions or management of processes, as well as losses due to relations with commercial counterparties, vendors and suppliers.

1.6 - Other risks

Although the types of risk described above represent the main categories, there are other types that the Group considers important. In accordance with the provisions of Basel II Pillar 2, the Group 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 Group'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 Group's cost structure;
- **Strategic risk** is the risk of incurring 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;
- **Real Estate Risk,** which represents the potential loss resulting from fluctuations in the market values of the real estate portfolio. It does not consider the properties held as collateral, which are included within the credit risk**.**

In addition to the risks listed above, the compliance risk (risk of compliance with the rules), i.e. the risk of incurring judicial or administrative sanctions, significant financial losses or damage to reputation as a result of violations of mandatory rules (of law or of regulations) has mentioned for completeness.

After identifying the relevant risks, the best method of analysing them is defined: qualitative and quantitative. Quantitative measurement is carried out through the calculation of Internal Capital. The latter represents the capital necessary for possible losses relating to the Group's activities and takes into account all the risks defined by the Group as quantifiable in terms of Economic Capital in line with the requirements of the Second Pillar.

Credit, market, operational, business and real estate risks are measured quantitatively through economic capital and the periodic execution of stress tests. The stress test is one of the tools used to control significant risks in order to assess the Group's vulnerability to "exceptional but plausible" events, providing additional information with respect to monitoring activities.

Part E - Information on Risks and relating hedging policies (CONTINUED)

Section 3 – Insurance companies risk

No information to report.

Section 4 – Other companies' risk

No information to report.

Part F - Consolidated shareholders' equity

Part F - Consolidated shareholders' equity

Section 1 - Consolidated Shareholders' equity

A. Qualitative information

The control of capital adequacy at individual and consolidated level is performed by the capital management activity where the size and optimal combination among the various capitalization instruments are defined, in compliance with regulatory constraints and in line with the risk profile assumed by the Group.

The Group assigns a priority role to the activities aimed at the management and allocation of capital according to the risks assumed, for the purpose of developing its operations with a view to creating value. The activities are articulated in the different phases of the planning and control process and, in particular, in the plan and budget processes and in the monitoring processes (analysis of expected and achieved performance, analysis and control of limits, analysis and trend monitoring of capital ratios). In the dynamic management of capital, therefore, the Holding draws up the financial plan and monitors the regulatory capital requirements, anticipating the appropriate interventions necessary to achieve the objectives. The monitoring relates on the 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) and exposure for the purpose of determining the Leverage ratio.

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

The consolidated shareholders' equity includes the following financial instrument:

- Additional Tier 1 issued on 31 January 2018. The financial instrument is a perpetual private placement[36], 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%;
- Additional Tier 1 issued on 11 July 2019. The financial instrument is a perpetual public placement, intended to trade on Euronext Dublin's non-regulated market, Global Exchange Market, notes rating of BB- (S&P Global Ratings), issued for a total of €300 million. The coupon for the first 5 years has been fixed at 5.875%.

[36] Unrated and unlisted

B. Quantitative information

B.1 Consolidated Shareholders' equity: breakdown by company type

(Amounts in € thousand)

Net equity items	Prudential consolidated	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total
1. Share capital	200,941	-	-	-	200,941
2. Share premium reserve	1,934	-	-	-	1,934
3. Reserves	397,593	-	-	-	397,593
4. Equity instruments	500,000	-	-	-	500,000
5. (Treasury shares)	(7,351)	-	-	-	(7,351)
6. Revaluation reserves:	1,002	-	-	-	1,002
- 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	3,159	-	-	-	3,159
- 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	(2,157)	-	-	-	(2,157)
- Provisions for valuation reserves related to equity investments valued at shareholders' equity	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
7. Net profit (loss) for the year	288,365	-	-	-	288,365
Total	**1,382,484**	**-**	**-**	**-**	**1,382,484**

B.2 Revaluation reserves for financial assets at fair value through comprehensive income: breakdown

(Amounts in € thousand)

Assets/values		Prudential consolidation		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		3,556	(397)	-	-	-	-	-	-	3,556	(397)
2. Equity securities		-	-	-	-	-	-	-	-	-	-
3. Loans		-	-	-	-	-	-	-	-	-	-
Total	**12/31/2019**	**3,556**	**(397)**	**-**	**-**	**-**	**-**	**-**	**-**	**3,556**	**(397)**
Total	**12/31/2018**	**410**	**(3,820)**	**-**	**-**	**-**	**-**	**-**	**-**	**410**	**(3,820)**

B.3 Revaluation reserves for financial assets at fair value through comprehensive income: annual changes

(Amounts in € thousand)

	Debt securities	Equity securities	Loans
1. Opening balance	**(3,410)**	**-**	**-**
2. Increases	**6,769**	**-**	**-**
2.1 Fair value increases	5,865	-	-
2.2 Adjustments for credit risk	5	X	-
2.3 Reclassification through profit or loss of realised negative reserves	899	X	-
2.4 Transfer from other shareholder's equity item (equity securities)	-	-	-
2.5 Other changes	-	-	-
3. Decreases	**(200)**	**-**	**-**
3.1 Fair value reductions	-	-	-
3.2 Recoveries for credit risk	(7)	-	-
3.3 Reclassification through profit or loss of realised positive reserves	(193)	X	-
3.4 Transfer to other shareholder's equity item (equity securities)	-	-	-
3.5 Other changes	-	-	-
4. Closing balance	**3,159**	**-**	**-**

B.4 Revaluation reserves on defined benefit obligations: annual changes

(Amounts in € thousand)

	Actuarial gains (losses) on defined benefits plans
1. Opening balance	**(6,384)**
2. Increases	**4,392**
2.1 Fair value increases	4,392
2.2 Other changes	-
3. Decreases	**(165)**
3.1 Fair value reductions	**(165)**
3.2 Other changes	**-**
4. Closing balance	**(2,157)**

Section 2 - Own funds and banking regulatory ratios

Please refer to the information on own funds and the capital adequacy contained in the document "FinecoBank Group public disclosure – Pillar III as at 31 December 2019", as required by Regulation (EU) 575/2013 subsequently updated in the Regulation (EU) 876/2019 of the European Parliament and of the Council, published on the Company's website www.finecobank.com .

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

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 within the Parent Company 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)

Items/sectors	Total 2019	Total 2018
Remuneration paid to "Key Management Personnel", Directors and the Board of Statutory Auditors		
a) short-term benefits	6,267	5,750
b) post-employment benefits	305	214
of which under defined benefit plans	-	-
of which under defined contribution plans	*305*	*214*
c) other long-term employee benefits	-	-
d) termination benefits	-	1,227
e) share-based payments	2,437	3,236
Total	**9,009**	**10,427**

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 favourable opinion of the Risk and Related Parties Committee and the Board of Statutory Auditors approved the new "*Procedures Global Policy for the management managing of transactions with subjects persons in potential conflict of interest of the FinecoBank Group" (the "Procedures Global Policy").*

The aforementioned Global Policy includes 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*".

Considering the above, the following Significant Transactions resolved by the Board of Directors during 2019 are recorded:

- on February 5, 2019, with the favourable 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 5th, 2020, which enables the Bank to enter into hedging derivatives with UniCredit S.p.A. 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 UniCredit S.p.A. and €1,300 million with UniCredit Bank AG;
- on May 6, 2019, with the favourable 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 UniCredit*", an ordinary Significant Transaction at market conditions (expiring May 6, 2020), concerning *(i)* Repurchase Agreements with UniCredit S.p.A. for an amount of €7.0 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and *(ii)* Term deposits with UniCredit S.p.A. for an amount of €7.4 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 6, 2020), 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 4, 2019, 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 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 4, 2020), 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) €1 billion with UniCredit S.p.A..

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.

Moreover, always on May 6, 2019, the Board of Directors, with the favourable opinion of the Risks and Related Parties Committee, approved the conclusion of all the contractual agreements (the “Operation”) made between FinecoBank and UniCredit S.p.A. in order to:

- allow the smooth transition of FinecoBank outside of the UniCredit Group (“Smooth Transition”) with a view to continuity and in the interests of the shareholders of both banks, with particular reference to the coverage of Fineco's exposures, the use of its brands and other distinctive marks, to the provision by UniCredit to Fineco of other services not formally contractualized, and the continued provision of services already covered by existing contracts; and, ultimately
- allow Finecobank to operate as an entity that is fully independent from a regulatory, liquidity and operational viewpoint following its exit from the UniCredit Group.

These contractual arrangements, despite being heterogeneous in nature, have been accepted as part of a unitary plan to enable the realisation of the objectives mentioned above. The Operation, considered as a whole and therefore taking into account all of the contractual arrangements as made, is classified as a greater relevance related-party.

For the purpose of fulfilling the disclosure obligations, Fineco prepared, in accordance with Article 5 and with the model contained in Annex 4 to the regulation passed by Consob in its decision no. 17221 of 12 March 2010, the Information Document available to the public on May 14, 2019, at the Bank’s registered office of FinecoBank S.p.A. (Milan, Piazza Durante n. 11), on FinecoBank website (www.finecobank.com), and on the website of the accredited storage system “eMarketSTORAGE” (www.emarketstorage.com) on May 14, 2019.

During 2019, no other transactions were undertaken with related parties that could significantly affect the Bank's and FinecoBank Group’s asset situation and results, or atypical and/or unusual transactions, including intercompany and related party transactions.

Minor Transactions were also carried out with related parties (including until July 11, 2019, UniCredit S.p.A. and other UniCredit Group companies), both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

The following statement shows the outstanding assets, liabilities, guarantees and commitments as at December 31, 2019, for each group of related parties pursuant to IAS 24:

(Amounts in € thousand)

	Amounts as at December 31, 2019					
	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 b) loans and receivable with customers	971	10	981	0,01%	4,437	0.03%
Other assets	17	-	17	0,00%	-	0.00%
Total assets	**988**	**10**	**998**	**0,00%**	**4,437**	**0.02%**
Financial liabilities at amortised cost b) deposits from customers	1,733	500	2,233	0,01%	567	0.00%
Other liabilities	164	-	164	0,05%	-	0.00%
Total liabilities	**1,897**	**500**	**2,397**	**0,01%**	**567**	**0.00%**
Commitments and financial guarantees given	**86**	**-**	**86**	**0,01%**	**-**	**0.00%**

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 year 2019					
	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	5	16	0,01%	76,489	25.68%
Interest expenses and similar charges	(1)	(2)	(3)	0,02%	(720)	4.33%
Fee and commission income	(6)	14,114	14,108	2,25%	18,904	3.01%
Fee and commission expenses	-	(102)	(102)	0,03%	(5,246)	1.73%
Gains and losses on disposal or repurchase of: a) financial assets at amortised cost	-	-	-	0,00%	1,831	62.94%
Impairment losses/writebacks	-	6	6	0,11%	8,786	163.31%
Administrative expenses a) staff expenses	-	-	-	0,00%	(138)	0.15%
Administrative expenses b) other administrative expenses	-	(18)	(18)	0,01%	(4,407)	1.72%
Other net operating income	43	7	50	0,05%	249	0.24%
Total income statement	**47**	**14,010**	**14,057**		**95,748**	

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 (excluding their remuneration, which are discussed in point 1. *Details of compensation for key management personnel*) and dealings with the Head of Internal Audit of FinecoBank, mainly concerning assets for credit card use, mortgages and liabilities for funds held by them with the Bank. The income statement for 2019 refers to the costs and revenues generated from the aforesaid assets and liabilities.

The "Other related parties" category, if any, 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;
- Group employee post-employment benefit plans.
- Transactions with "Other related parties", mainly refer to assets for credit card use and liabilities for funds held with the Bank. The income statement for 2019 refers to the costs and revenues generated from the aforesaid assets and liabilities.

The dealing with the "Other related parties" category mainly concerning assets for credit card use and liabilities for funds held by them with the Bank. The income statement for 2019 refers to the costs and revenues generated from the aforesaid assets and liabilities.

The "Shareholders" category includes the shareholders and their subsidiaries holding which at December 31, 2019 held an investment in FinecoBank higher than 3% of the share capital represented by shares with voting rights. The balance sheet amounts include for current receivables and debts associated with the provision of financial services referring to the commissions to be cashed for the placement and management of asset management products. The income statement includes the same fees and commissions accrued for the 2019 financial year.

It should be noted that the income statement for 2019 also includes the economic components accrued towards the UniCredit Group up to the date of sale, by the latter, of the entire shareholding in FinecoBank, mainly represented by the interest accrued on the UniCredit S.p.A. securities booked in the Bank's portfolio, from interest accrued on current accounts, from fees and commissions expenses and administrative expenses recognised to the UniCredit Group for the services provided, as well as from the impairments/ write-backs recognized up to that date.

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 FinecoBank and of the former parent company UniCredit S.p.A.;
- Cash Settled Share Based Payments that involve payments made in cash[37].

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);
- **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 Group's 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.

[37] Commensurate to the economic value of FinecoBank S.p.A.'s equity instruments.

The financial instruments for incentive plans for the Group'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 2019.

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 2018 Incentive System (Bonus Pool)

The plan was allocated in 2018 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FinecoBnk shares granted			
	2018 incentive system (bonus pool)			
	2021 instalment	2022 instalment	2023 instalment	2024 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	05-Feb-19	05-Feb-19	05-Feb-19	05-Feb-19
Vesting Period Start Date	01-Jan-18	01-Jan-18	01-Jan-18	01-Jan-18
Vesting Period End Date	31-Dec-18	31-Dec-20	31-Dec-21	31-Dec-22
FinecoBank Share Market Price [€]	9.570	9.570	9.570	9.570
Average Economic Value of Vesting conditions [€]	-0.639	-1.000	-1.385	-2.099
Performance Shares value per share at Grant Date [€]	8.931	8.570	8.185	7.471

1.2.2.2 2019 Incentive System (Bonus Pool)

The 2019 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 Stock granting for employees

1.2.3.1 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.

1.2.4 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 Mangers 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 2018 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

1.2.5 Stock granting for Personal Financial Advisors

1.2.5.1 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.

1.2.6 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	10.376	To be defined
Average Economic Value of Vesting conditions [€]	0.000	0.000	To be defined
Performance Shares value per share at Grant Date [€]	9.690	10.376	To be defined

1.2.7 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.

1.2.7.1 2018 PFA Incentive System

The plan was allocated in 2018 and the income statement and balance sheet effects will be recognised during the vesting period of the instruments.

	FinecoBank shares granted		
	2018 pfa incentive system		
	2021 instalment	2022 instalment	2023 instalment
Bonus Opportunity Economic Value Grant Date	10-Jan-18	10-Jan-18	10-Jan-18
Number of Shares - Date of Board resolution	05-Feb-19	05-Feb-19	05-Feb-19
Vesting Period Start Date	01-Jan-18	01-Jan-18	01-Jan-18
Vesting Period End Date	31-Dec-18	31-Dec-20	31-Dec-21
FinecoBank Share Market Price [€]	9.570	9.570	9.570
Average Economic Value of Vesting conditions [€]	-0.639	-1.000	-1.385
Performance Shares value per share at Grant Date [€]	8.931	8.570	8.185

1.2.7.2 2019 PFA Incentive System

The 2019 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.

1.2.8 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 12/31/2019			Total 12/31/2018		
	N. of options	Average price	Average maturity	N. of options	Average price	Average maturity	N. of options	Average price	Average maturity	N. of options	Average price	Average maturity	N. of options	Average price	Average maturity
A. Opening balance	3,580,245	-	Sep-20	-	-		-	-		3,580,245	-	Sep-20	1,971,985	-	Jan-19
B. Increases	**227,429**	**-**	**X**	**-**	**-**	**X**	**-**	**-**	**X**	**227,429**	**-**	**X**	**3,046,264**	**-**	**X**
B.1 New issues	227,429	-	X	-	-		-	-		227,429	-	X	3,046,264	-	Oct-20
B.2 Other increases	-	-	Dec-21	-	-	X	-	-	X	-	-	X	-	-	X
C. Decreases	(1,245,164)	-	X	-	-	X	-	-	X	(1,245,164)	-	X	(1,438,004)	-	X
C.1 Cancelled	(45,785)	-	X	-	-	X	-	-	X	(45,785)	-	X	(61,227)	-	X
C.2 Exercised	(1,199,379)	-	X	-	-	X	-	-	X	(1,199,379)	-	X	(1,376,777)	-	X
C.3 Expired	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
D. Closing balance	**2,562,510**	**-**	**Jun-21**	**-**	**-**		**-**	**-**		**2,562,510**	**-**	**Jun-21**	**3,580,245**	**-**	**Sep-20**
E. Vesting options at the end of the year	**676,318**	**-**	**X**	**-**	**-**	**X**	**-**	**-**	**X**	**676,318**	**-**	**X**	**552,883**	**-**	**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 of the former parent company 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

(Amounts in € thousand)

	Total 12/31/2019		Total 12/31/2018	
	Total	Vested plans	Total	Vested plans
Costs	5,502		8,410	
- connected to Equity Settled Plans	*5,484*		*8,354*	
- connected to Cash Settled Plans	*18*		*56*	
Sums paid to UniCredit S.p.A. for vested plans		122		417
Sums collected by UniCredit S.p.A. for vested plans		10		64
Payable due to UniCredit S.p.A.	59		179	
Credit accrued towards Unicredit S.p.A.	69		76	
Payable due to personal financial advisors for Cash Settled plans	83		159	

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 relevant and is not therefore disclosed.

Part M - Leasing

Section 1 - Lessee

Qualitative information

The leasing contracts that fall within the scope of application of the standard IFRS16 are represented by the lease contracts of the properties used by the Group and by the financial shops used by financial advisors and managed directly by the Bank, in addition to lease contracts for machinery and cars.

The Group is potentially exposed to outgoing financial flows, for variable payments due for leasing (in particular referring to the ISTAT revaluation), not included in the initial valuation of the lease liability.

The Group has determined the duration of the lease, for each individual contract, considering the "non-cancellable" period during which it has the right to use the underlying asset and taking into account all the contractual aspects that can change this duration, including, in particular, the possible presence of:

- periods covered by a right of resolution (with related penalties) or an option to extend the lease to the lessee, the lessor alone, or to both, even at different periods over the duration of the contract;
- periods covered by an option to purchase the underlying asset.

In general, with regard to contracts that provide the option right for the Bank or the subsidiary to automatically renew the lease at the end of an initial contractual period, the duration of lease has determined based on historical experience (in particular for the Bank) and the information available at the date, considering in addition to the non-cancellable period also the period subject to the extension option (first contract renewal period), except for the existence of business plans to dispose of the leased asset as well as clear and documented assessments by the competent Group structures that lead to consider reasonable the failure to exercise the option to renew or exercise the termination option, also taking into account, with particular regard to the financial shops in use by the financial advisors of the Bank, the commercial strategies of recruitment and territorial organization of the network.

The Group has not provided guarantees on the residual value of the leased asset and has no commitments for the stipulation of lease contracts not included in the value of the lease liability recognized in the financial statements.

In accordance with the rules set by the standard, which grants exemptions in this regard, contracts underlying the so-called "Low-value assets" (for which the threshold was set at €5 thousand) mainly consisting of mobile phone rental contracts, all leasing contracts with a contractual duration of 12 months or less (so-called "short term lease") it was decided not to apply the principle to the leasing of intangible assets (mainly represented by software leasing). For these contracts, the related fees are recognized in the income statement on accrual basis for the corresponding duration.

Quantitative information

With regard to the information on the rights of use acquired with the lease, please refer to Part B - Assets - Section 9 - Tangible assets - Item 90 of these notes to the consolidated accounts.

With regard to the information on the lease liabilities, please refer to Part B - Liabilities - Section 1 - Financial liabilities at amortized cost - Item 10 of these notes to the consolidated accounts.

Furthermore, with regard to the information on:

- interest expenses on leasing liabilities, please refer to Part C - Section 1 - Item 20;
- the other charges connected with the rights of use acquired with the lease, please refer to Part C - Section 14 - Net impairments / write-backs on property, plant and equipment - Item 210.

It should be noted that no gains and losses deriving from sale and leaseback transactions have been recorded, as well as income deriving from sub-lease transactions.

The depreciation recognized for the year for right-of-use assets by class of underlying asset is shown below:

(Amounts in € thousand)

Assets	Depreciation 2019
Right of use	
1. Property, plant and equipment	**(9,488)**
1.1 land	**-**
1.2 buildings	(9,239)
1.3 office furniture and fittings	-
1.4 electronic systems	-
1.5 other	(249)

As of December 31, 2019, there are no short-term leasing commitments for which the cost has not already been recognized in the income statement for the year 2019.

Section 2 - Lessor

Qualitative information

The Group has leasing operations, in its capacity as lessor, represented exclusively by lease contracts for approximately 21% of the surface of a part of the property owned by FinecoBank, located in Milan Piazza Durante, 11, classified as operating leases in the financial statements.

With reference to the ways in which the lessor manages the risk associated with the rights it maintain on the underlying assets, it should be noted that the contracts include clauses that prohibit the tenant from transferring the contract to third parties without the written consent of the lessor, periodic updates of the rent according to the ascertained variation of the ISTAT index for consumer prices for the families of workers and employees and a contractual expiry at the end of which, in the event of non-renewal where required, the lease contract ceases and the premises fall within the availability of the lessor.

Quantitative information

Payments due for operating leases have been recognized in the consolidated income statement as income. For more details, please refer to Part C - Section 16 - Other operating income and charges - Item 230 of these notes to the consolidated accounts.

1. Balance sheet and income statement information

The Group has not recognized leasing loans. As regards the activities granted under operating leasing, as previously described, the Group has leasing transactions in place as lessor represented by leasing contracts for a part of the property owned by FinecoBank, located in Milan Piazza Durante, 11.

The payments due for the operating lease have been recognized, on an accrual basis, in the consolidated income statement as income. For more details, please refer to that illustrated in Part C - Section 16 - Other operating expenses and income - Item 230 of these notes to the consolidated accounts.

2. Financial lease

2.1 Classification by time bands of the payments to be received and reconciliation with the loans for leasing entered in the assets

No information to report.

2.2 Other information

No information to report.

3. Operating lease

3.1 Classification by time bands of the payments to be received

A maturity analysis of the undiscounted lease payments to be received is shown below. It should be noted that the payments refer to the contractual rents provided for in the lease contracts of part of the property owned by FinecoBank, which allow tenants to withdraw early in compliance with the notice provided in the contract.

(Amounts in € thousand)

Time buckets	Total 2019 lease payments to be received
Up to 1 year	**957**
Between 1 year and 2 years	**570**
Between 2 years and 3 years	570
Between 3 years and 4 years	570
Between 4 years and 5 years	570
Over 5 years	47
Total	**3,284**

3.2 Other information

As indicated above, the Group has leasing transactions in place as a lessor represented by leasing contracts for a part of the property owned by FinecoBank, located in Milan Piazza Durante, 11. For information on the methods with the which the Group manages the risk associated with the rights it retains on the underlying assets, please refer to the paragraph "Qualitative information" included in this section.

Annexes

Reconciliation of condensed consolidated accounts to mandatory reporting schedule

(Amounts in € thousand)

Assets	Amount as at 12/31/2019	12/31/2018
Cash and cash balances = *item 10*	754,386	6
Financial assets held for trading	7,933	6,876
20. Financial assets at fair value through profit or loss a) financial assets held for trading	*7,933*	*6,876*
Loans and receivables with banks	566,033	3,058,882
40. Financial assets at amortised cost a) loans and receivables with banks	*9,440,362*	*12,440,994*
less: Financial assets at amortised cost a) loans and receivables with banks - Debt securities	*(8,874,329)*	*(9,382,112)*
Loans and receivables with customers	3,679,828	2,955,074
40. Financial assets at amortised cost b) loans and receivables with customers	*16,776,466*	*10,829,029*
less: Financial assets at amortised cost b) loans and receivables with customers - Debt securities	*(13,096,638)*	*(7,873,955)*
Financial investments	22,304,892	18,231,182
20. Financial assets at fair value through profit or loss c) other financial assets mandatorily at fair value	*12,226*	*13,342*
30. Financial asset at fair value through on other comprehensive income	*321,699*	*961,773*
Financial assets at amortised cost a) loans and receivables with banks - Debt securities	*8,874,329*	*9,382,112*
Financial assets at Amortised cost b) loans and receivables with customers - Debt securities	*13,096,638*	*7,873,955*
Hedging instruments	64,939	8,187
50. Hedging derivatives	*36,059*	*3,314*
60. Changes in fair value of portfolio hedged financial assets (+/-)	*28,880*	*4,873*
Property, plant and equipment = item 90	152,048	16,632
Goodwill = item 100. Intangible assets of which: goodwill	89,602	89,602
Other intangible assets = *item 100 net of goodwill*	37,492	8,705
Tax assets = *item 110*	23,444	6,714
Other assets = *item 130*	342,309	350,770
Total assets	**28,022,907**	**24,732,630**

(Amounts in € thousand)

Liabilities and shareholders' equity	Amount as at 12/31/2019	12/31/2018
Deposits from banks	154,653	1,009,774
10. Financial liabilities at amortised cost a) deposits from banks	*154,653*	*1,009,774*
Deposits from customers	25,919,858	22,273,188
10. Financial liabilities at amortised cost b) deposits from customers	*25,919,858*	*22,273,188*
Financial liabilities held for trading = item 20	3,777	2,221
Hedging instruments	94,950	7,941
40. Hedging derivatives	*80,852*	*5,341*
50. Changes in fair value of portfolio hedged financial liabilities (+/-)	*14,098*	*2,600*
Tax liabilities = item 60	11,437	12,390
Other liabilities	455,748	451,435
80. Other liabilities	*343,859*	*337,069*
90. Provisions for employee severance pay	*4,810*	*4,561*
100. Provisions for risks and charges	*107,079*	*109,805*
Shareholders' Equity	1,382,484	975,681
- Capital and reserves	1,093,117	744,256
140. Equity instruments	*500,000*	*200,000*
150. Reserves	*397,593*	*355,509*
160. Share premium reserve	*1,934*	*1,934*
170. Share capital	*200,941*	*200,773*
180. Treasury shares (-)	*(7,351)*	*(13,960)*
- revaluation reserves	1,002	(9,794)
120. Revaluation reserves of which: financial assets at fair value through other comprehensive income	*3,159*	*(3,410)*
120. Revaluation reserves for actuarial net gains (losses) for defined benefit plans	*(2,157)*	*(6,384)*
- net profit = item 200	288,365	241,219
Total liabilities and Shareholders' equity	**28,022,907**	**24,732,630**

(Amounts in € thousand)

Income statement	Year 2019	2018
Net interest	281,277	278,659
30. Net interest margin	*281,277*	*278,659*
Dividends and other income from equity investments	-	-
70. Dividend income and similar revenue	*1,695*	*94*
less: dividends and other income on equity instruments held-for-trading included in item 70	*(48)*	*(52)*
less: dividends and other income on equity investments and equity securities mandatorily at fair value included in item 70	*(1,647)*	*(42)*
Net fee and commission income = *item 60*	325,171	300,443
60. Net fee and commission income	*325,171*	*300,443*
Net trading, hedging and fair value income	44,761	44,281
80. Gains (losses) on financial assets and liabilities held for trading	*41,429*	*43,833*
90. Fair value adjustments in hedge accounting	*(160)*	*171*
110. Gains (losses) on financial assets and liabilities at fair value through profit or loss	*(1,839)*	*(1,500)*
100. Gains (losses) on disposal or repurchase of: b) financial asset at fair value through other comprehensive income	*727*	*1,666*
+ dividends and other income on equity instruments held-for-trading (from item 70)	*48*	*52*
+ dividends and other income on equity investments and equity securities mandatorily at fair value (from item 70)	*1,647*	*42*
+ gains (losses) on disposal or repurchase of: a) financial assets at amortised cost - debt securities (unimpaired)	*2,909*	*17*
Net other expenses/income	3,606	1,913
230. Other net operating income	*105,547*	*96,379*
less: other net operating income - of which: recovery of expenses	*(104,068)*	*(96,767)*
less: adjustments of leasehold improvements	*2,129*	*2,301*
100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost (unimpaired)	*2,909*	*17*
less: gains (losses) on disposal or repurchase of:a)financial assets at amortised cost-debt securities (unimpaired)	*(2,909)*	*(17)*
Operating income	**654,817**	**625,296**
Staff expenses	(90,152)	(86,606)
190. Administrative expenses - a) staff expenses	*(90,152)*	*(86,727)*
less: integration cost	*-*	*121*
Other administrative expenses	(240,638)	(245,502)
190. Administrative expenses - b) other administrative expenses	*(256,638)*	*(257,507)*
less: integration cost	*-*	*-*
less: ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)	*18,129*	*14,306*
+ adjustments of leasehold improvements	*(2,129)*	*(2,301)*
Recovery of expenses	104,068	96,767
230. Other net operating income- of which: recovery of expenses	*104,068*	*96,767*
Impairment/write-backs on intangible and tangible assets	(22,864)	(10,423)
210. Impairment/write-backs on property, plant and equipment	*(17,415)*	*(5,464)*
220. Impairment/write-backs on intangible assets	*(5,449)*	*(4,959)*
Operating costs	**(249,588)**	**(245,764)**
Operating profit (loss)	**405,231**	**379,532**
Net impairment losses on loans and provisions for guaranteed and commitments	(1,970)	(4,384)
130. Impairment losses/writebacks on: a) financial assets at amortised cost	*5,378*	*(3,406)*
less: impairment losses/writebacks on: a) financial assets at amortised cost - debt securities	*(7,375)*	*(1,380)*
130. Impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income	*2*	*(114)*
less: impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income - debt securities	*(2)*	*114*
200. Net provisions for risks and charges a) provision for credit risk of commitments and financial guarantees given	*27*	*402*
Net operating profit (loss)	**403,261**	**375,148**
Other charges and provisions	(27,152)	(21,380)
200. Net provisions for risks and charges b) other net provision	*(9,023)*	*(7,074)*
+ ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)	*(18,129)*	*(14,306)*
Integration costs	-	(121)
Net income from investments	7,377	1,105
+ impairment losses/writebacks on: a) financial assets at amortised cost - debt securities	*7,375*	*1,380*
+ impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income - debt securities	*2*	*(114)*
280. Gains (losses) on disposal of investments	*-*	*(161)*
Profit (loss) before tax from continuing operations	**383,486**	**354,752**
Income tax for the year = *item 300*	(95,121)	(113,533)
Net profit (loss) before tax from continuing operations	**288,365**	**241,219**
Profit (loss) for the year	**288,365**	**241,219**
Net profit (loss) attributable to the group	**288,365**	**241,219**

Certification of consolidated annual Financial Statements pursuant to article 81-ter of Consob regulation no. 11971 of May 14, 1999 and subsequent amendments

1. The undersigned, Alessandro Foti, as Managing Director and General Manager of FinecoBank S.p.A., and Lorena Pelliciari, as Nominated Official in charge of drawing up company accounts of FinecoBank S.p.A, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of February 24, 1998, do hereby certify:

- the adequacy in relation to the Company's features and
- the actual application

of the administrative and accounting procedures used in the preparation of the consolidated financial statements for the year ended December 31, 2019.

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, 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 11, 2020

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

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

Report of the External Auditors

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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 Group (the "Group"), which comprise the consolidated balance sheet as at December 31, 2019, 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, 2019 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.

Estimate of provisions for risks and charges related to legal disputes	
Description of the key audit matter	As represented in the notes of the consolidated account, Part B – *Consolidated Balance* Sheet - Section 10 of the Liabilities - *Provisions for risks and charges,* item 100 "Provisions for risks and charges: c) other provisions for risks and charges" of the consolidated balance sheet - liabilities as at December 31, 2019 includes provisions for legal disputes amounting to Euro 27.2 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 Group in the event of an unfavorable conclusion of the dispute, this provision includes the estimate of the costs to be paid to legal advisors and any technical advisors and/or experts who assist the Group in the ongoing 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 1.5 – *Operational Risks* of 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 Group, only referred to 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 Group will have to pay to settle its obligations. Paragraph "*Risks and uncertainties related to the use of estimates*" of Part A – *Accounting Policies*, A. 1 – *General*, Section 5 – *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 available information and the uncertainties regarding the final future outcomes of proceedings, disputes and litigations. Given the number of complaints and disputes, albeit physiological with respect to the Bank's typical operations, and the complexity and articulation of the estimation process, considered the uncertainties related to their outcome, 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, 2019.
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 legal advisors, 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 legal advisors 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* - Section 4 of the Assets - *Financial assets at amortised cost*, and in the report on operations, as at December 31, 2019 financial assets at amortised cost – loans to customers amount to Euro 3,680 million (net book value, including Euro 25.3 million of non-performing loans net of impairment losses of Euro 21.8 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 24% compared to the previous year, in relation to the disbursements of 2019. 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 2 – Risk of the prudential consolidated perimeter of the notes to the consolidated accounts, paragraph 1.1 – *Credit risk* 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, 2019.
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 specialists 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.

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, 2019, 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, 2019 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, 2019 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.

Deloitte.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of FinecoBank Banca Fineco S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Gibello Ribatto
Partner

Milan, Italy
April 6, 2020

This report has been translated into the English language solely for the convenience of international readers.

Financial Statements of FinecoBank S.p.A.

Financial Statements

Balance Sheet

(Amounts in €)

Assets		12/31/2019	12/31/2018
10.	Cash and cash balances	754,385,555	6,301
20.	Financial assets at fair value through profit and loss:	19,291,966	20,218,404
	a) financial assets held for trading	7,932,890	6,876,395
	c) other financial assets mandatorily at fair value	11,359,076	13,342,009
30.	Financial assets at fair value through other comprehensive income	321,699,374	961,772,500
40.	Financial assets at amortised cost	26,189,531,446	23,248,430,877
	a) loans and receivables with banks	9,423,960,986	12,427,086,350
	b) loans and receivables with customers	16,765,570,460	10,821,344,527
50.	Hedging derivatives	36,058,790	3,314,298
60.	Changes in fair value of portfolio hedged financial assets (+/-)	28,879,945	4,872,990
70.	Equity investments	3,000,000	3,000,000
80.	Property, plant and equipment	150,924,528	16,329,860
90.	Intangible assets	126,881,378	98,306,988
	of which:		
	- goodwill	89,601,768	89,601,768
100.	Tax assets	23,450,062	6,713,818
	a) current tax assets	-	467,153
	b) deferred tax assets	23,450,062	6,246,665
120.	Other assets	342,284,039	350,608,473
	Total assets	**27,996,387,083**	**24,713,574,509**

(Amounts in €)

Liabilities And Shareholders' Equity		12/31/2019	12/31/2018
10.	Financial liabilities at amortised cost	26,067,097,156	23,278,872,115
	a) deposits from banks	154,653,249	1,009,774,261
	b) deposits from customers	25,912,443,907	22,269,097,854
20.	Financial liabilities held for trading	3,776,967	2,221,144
40.	Hedging derivatives	80,851,594	5,341,114
50.	Changes in fair value of portfolio hedged financial liabilities (+/-)	14,098,114	2,599,548
60.	Tax liabilities	11,344,394	12,183,994
	a) current tax liabilities	11,344,394	12,183,994
80.	Other liabilities	340,452,877	335,441,396
90.	Provisions for employee severance pay	4,810,417	4,560,830
100.	Provisions for risks and charges:	107,079,284	109,805,202
	a) commitments and guarantees given	21,418	48,741
	c) other provisions for risks and charges	107,057,866	109,756,461
110.	Revaluation reserves	1,001,802	(9,793,542)
130.	Equity instruments	500,000,000	200,000,000
140.	Reserves	384,458,583	355,672,568
150.	Share premium reserve	1,934,113	1,934,113
160.	Share capital	200,941,488	200,773,450
170.	Treasury shares (-)	(7,351,109)	(13,959,749)
180.	Net Profit (Loss) for the year (+/-)	285,891,403	227,922,326
	Total liabilities and Shareholders' equity	**27,996,387,083**	**24,713,574,509**

Income statement

(Amounts in €)

Item		2019	2018
10.	Interest income and similar revenues	297,894,191	293,143,864
	of which: interest income calculated using the effective interest method	305,965,968	290,878,968
20.	Interest expenses and similar charges	(16,502,878)	(14,441,626)
30.	**Net interest margin**	**281,391,313**	**278,702,238**
40.	Fee and commission income	542,878,497	540,701,773
50.	Fee and commission expenses	(280,167,648)	(266,873,807)
60.	**Net fee and commission**	**262,710,849**	**273,827,966**
70.	Dividends income and similar revenue	49,995,636	8,094,622
80.	Gains (losses) on financial assets and liabilities held for trading	41,345,991	43,833,406
90.	Fair value adjustment in hedge accounting	(159,944)	170,678
100.	Gains and losses on disposal or repurchase of:	3,636,018	1,683,296
	a) financial assets at amortised cost	2,908,890	17,451
	b) financial assets at fair value through other comprehensive income	727,128	1,665,845
110.	Gains (losses) on financial assets and liabilities at fair value through profit or loss:	(1,909,947)	(1,500,396)
	b) other financial assets mandatorily at fair value	(1,909,947)	(1,500,396)
120.	**Operating income**	**637,009,916**	**604,811,810**
130.	Impairment losses/writebacks on:	5,383,869	(3,527,646)
	a) financial assets at amortised cost	5,381,600	(3,413,638)
	b) financial assets at fair value through other comprehensive income	2,269	(114,008)
150.	**Net profit from financial activities**	**642,393,785**	**601,284,164**
160.	Administrative expenses:	(339,927,114)	(340,446,086)
	a) staff expenses	(86,066,842)	(84,431,588)
	b) other administrative expenses	(253,860,272)	(256,014,498)
170.	Net provisions for risks and charges:	(8,995,312)	(6,671,938)
	a) provision for credit risk of commitments and financial guarantees given	27,323	401,654
	b) other net provision	(9,022,635)	(7,073,592)
180.	Impairment/write-backs on property, plant and equipment	(17,231,597)	(5,410,873)
190.	Impairment/write-backs on intangible assets	(5,395,719)	(4,959,091)
200.	Other operating income	102,893,277	94,766,784
210.	**Operating costs**	**(268,656,465)**	**(262,721,204)**
250.	Gains (losses) on disposal of investments	355	(161,161)
260.	**Total profit (loss) before tax from continuing operations**	**373,737,675**	**338,401,799**
270.	Tax expense (income) related to profit or loss from continuing operations	(87,846,272)	(110,479,473)
280.	**Total profit (loss) after tax from continuing operations**	**285,891,403**	**227,922,326**
300.	**Net Profit (Loss) for the year**	**285,891,403**	**227,922,326**

	2019	2018
Earnings per share (euro)	0.47	0.38
Diluted earnings per share (euro)	0.47	0.37

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

(Amounts in €)

Items		2019	2018
10.	**Net Profit (Loss) for the year**	**285,891,403**	**227,922,326**
	Other comprehensive income after tax without reclassification through profit or loss		
70.	Defined benefit plans	4,226,372	3,428,875
	Other comprehensive income after tax with reclassification through profit or loss		
140.	Financial assets (other equity securities) designated at fair value through other comprehensive income	6,568,972	(6,858,725)
170.	**Total other comprehensive income net tax**	**10,795,344**	**(3,429,850)**
180.	**Comprehensive income (voce 10+170)**	**296,686,747**	**224,492,476**

Statement of changes in shareholders’ equity

Statement of changes in shareholders’ equity at 12/31/2019

(Amounts in €)

	Balance as at 12/31/2018	Change in opening balance	Balance as at 01/01/2019	Allocation of profit from previous year: Reserves	Allocation of profit from previous year: Dividends and other distributions	Change during the year: Changes in reserves	Shareholders' equity transactions: Issues of new shares	Shareholders' equity transactions: Purchase of own shares	Shareholders' equity transactions: Distributions of extraordinary dividends	Shareholders' equity transactions: Changes in equity instruments	Shareholders' equity transactions: Own share derivatives	Shareholders' equity transactions: Stock options	Shareholders' equity transactions: Changes in ownership interests	Comprehensive income exercise 2019	Shareholders' equity exercise 2019
Share capital:															
- ordinary shares	200,773,450		200,773,450				168,038								200,941,488
- other shares															
Share premium reserve	1,934,113		1,934,113												1,934,113
Reserves:															
- from profits	321,700,148		321,700,148	43,421,505		(13,151,698)						(168,038)			351,801,917
- others	33,972,420		33,972,420									(1,315,754)			32,656,666
Revaluation reserves	(9,793,542)		(9,793,542)											10,795,344	1,001,802
Equity instruments	200,000,000		200,000,000							300,000,000					500,000,000
Treasury shares	(13,959,749)		(13,959,749)				6,789,531	(180,891)							(7,351,109)
Profit (loss) for the year	227,922,326		227,922,326	(43,421,505)	(184,500,821)									285,891,403	285,891,403
Shareholders' Equity	962,549,166	-	962,549,166	-	(184,500,821)	(13,151,698)	6,957,569	(180,891)	-	300,000,000	-	(1,483,792)	-	296,686,747	1,366,876,280

The amount of the dividend approved by the Fineco's Ordinary Shareholders' Meeting in 2019, totalling €184,500,820.80, corresponds to €0.303 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 12/31/2018

(Amounts in €)

	Balance as at 12/31/2017	Change in opening balance	Balance as at 01/01/2018	Allocation of profit from previous year: Reserves	Allocation of profit from previous year: Dividends and other distributions	Change during the year: Changes in reserves	Shareholders' equity transactions: Issues of new shares	Shareholders' equity transactions: Purchase of own shares	Shareholders' equity transactions: Distributions of extraordinary dividends	Shareholders' equity transactions: Changes in equity instruments	Shareholders' equity transactions: Own share derivatives	Shareholders' equity transactions: Stock options	Shareholders' equity transactions: Changes in ownership interests	Comprehensive income exercise 2018	Shareholders' equity exercise 2018
Share capital:															
- ordinary shares	200,545,404		200,545,404				228,0468								200,773,450
- other shares															
Share premium reserve	1,934,113		1,934,113												1,934,113
Reserves:															
- from profits	291,840,855	(4,868,257)	286,972,598	40,888,348		(5,932,752)						(228,046)			321,700,148
- 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.

Cash flow statement

Indirect method

(Amounts in €)

A. OPERATING ACTIVITIES	Amount 2019	Amount 2018
1. Operations	**373,072,458**	**334,930,310**
- profit (loss) for the year (+/-)	285,891,403	227,922,326
- unrealised gains/losses on financial assets/liabilities held for trading and on other assets/liabilities at fair value through profit or loss (-/+)	2,057,504	2,838,506
- gains (losses) on hedge accounting (-/+)	159,944	(170,678)
- net losses/recoveries on impairment (+/-)	(4,696,921)	4,409,064
- net value adjustments/write-backs on property, plant and equipment and intangible assets (+/-)	22,627,316	10,369,964
- net provisions for risks and charges and other expenses/income (+/-)	21,735,341	22,616,637
- unpaid duties, taxes and tax credits (+/-)	921,868	5,868,613
- impairment/write-backs after tax on discontinued operations (+/-)	-	-
- other adjustments (+/-)	44,376,003	61,075,878
2. Cash flows from/used by financial assets	**(4,255,251,980)**	**(2,409,937,472)**
- financial assets held for trading	(1,200,729)	196,874
- financial assets designed at fair value	-	-
- other financial assets mandatorily at fair value	32,692	142,484,215
- financial assets at fair value through other comprehensive income	641,188,706	56,220,463
- financial assets at amortised cost	(4,847,161,127)	(2,574,757,573)
- other assets	(48,111,522)	(34,081,451)
3. Cash flows from/used by financial liabilities	**2,761,365,255**	**2,120,120,081**
- financial liabilities measured at amortised cost	2,769,804,579	2,138,095,178
- financial liabilities held for trading	1,592,278	(35,102)
- financial liabilities designated at fair value	-	-
- other liabilities	(10,031,602)	(17,939,995)
Net cash flows from/used in operating activities	**(1,120,814,267)**	**45,112,919**
B. INVESTMENT ACTIVITIES		
1. Cash flows from		
- sales of equity investments	-	-
- collected dividends on equity investments	48,300,963	8,000,000
- sales of property, plant and equipment	355	92,518
- sales of intangible assets	-	-
- sales of subsidiaries and divisions	-	-
2. Cash flows used in		
- purchases of equity investments	-	(2,500,000)
- purchases of property, plant and equipment	(95,274,198)	(6,789,899)
- purchases of intangible assets	(33,970,109)	(5,754,738)
- purchases of subsidiaries and divisions	-	-
Net cash flows from/used in investing activities	**(80,942,989)**	**(6,952,119)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	6,776,678	(13,366,525)
- issue/purchase of equity instruments	300,000,000	200,000,000
- dividends and other distributions	(204,610,088)	(186,104,434)
Net cash flows from/used in financing activities	**102,166,590**	**529,041**
NET CASH FLOWS FROM/USED DURING THE YEAR	**(1,099,590,666)**	**38,689,841**

RECONCILIATION

(Amounts in €)

Balance sheet items	Amount 2019	Amount 2018
Cash and cash balances at the beginning of the period	2,013,386,265	1,950,529,450
Net cash flows generated/used during the period	(1,099,590,666)	38,689,841
Cash and cash balances: effect of changes in exchange rates	14,443,321	24,166,974
Cash and cash balances at the end of the period	928,238,920	2,013,386,265

Key
(+) generated
(-) used

Cash flow statement

Cash flows from/used by financial liabilities of the Bank, although in accordance with IAS 7 par. 44A is representative of flows deriving from the financing/funding activity, is classified, in line with the banking activity carried out and as required by Bank of Italy Circular 262/2005, as liquidity deriving from the operating activity.

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).

The item “Cash and cash balances” at the end of the year 2019 consisted of:

- Cash recognised under asset item 10 “Cash and cash balances” in the amount of €754,386 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 €244,249 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 €70,396 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 €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.

Notes to the Accounts

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, pursuant to EU Regulation 1606/2002 of July 19, 2002 and applicable to financial reports for the periods starting on or after January 1, 2019.

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 C5 b) of IFRS 16 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. 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 accounting standard and the operational choices made and the related methodology set forth in the transition to the new principle as well, in section 4. “Other matters - Transition to IFRS 16 Leasing of these notes to the accounts. The tables presented in the notes to the accounts with reference to the items impacted by the application of IFRS 16 have been modified in accordance with the provisions in this regard set by the 6th update of Circular 262 issued on November 30, 2018.

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, 2019.

The Separate Financial Statements at December 31, 2019 were approved by the Board of Directors of February 11, 2020, which authorised their publication also pursuant to IAS10.

With regard to the international emergency declared by WHO (World Health Organization) on 30 January 2020, in relation to the spread of Covid-19, it is specified that, pursuant to IAS 10, the Bank considers the same as an event that occurred after the financial statements date which does not entail adjustments to the same; the potential effects on future economic and financial results cannot currently be determined in consideration of the uncertainties connected with possible developments.

Section 4 - Other Matters

In 2019, the following accounting standards, amendments and interpretations, approved by the European Commission, become effective for reporting periods beginning on or after January 1, 2019:

- IFRS 16 – Leasing (EU Regulation 2017/1986)
- Amendments to IFRS 9 - Prepayment Features with Negative Compensation (EU Regulation 2018/498)
- IFRIC 23 – Uncertainty over Income Tax Treatments (EU Regulation 2018/1595)
- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures (EU Regulation 2019/237)
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (EU Regulation 2019/402)
- Annual Improvements to International Financial Reporting Standards, 2015-2017 Cycle (EU Regulation 2019/412)

Where applicable, these accounting standards, amendments and interpretations had no relevant impact on the financial position and results as at December 31, 2019, except of the accounting standard IFRS 16 which provides for a new accounting method for leasing contracts by the lessee, details of which are described below.

On 16 January 2020 the Commission Regulation (EU) 2020/34 of 15 January 2020 was published, which implements the "Amendments to IFRS 9, IAS 39 and IFRS 7: reform of the interest rate benchmarks" issued by the IASB in September 2019, applicable from the financial statements of the financial years that begin on January 1, 2020 or later, with early application allowed. It should be noted that the Bank has decided not to apply in advance the "Amendments to IFRS 9, IAS 39 and IFRS 7: reform of the interest rate Benchmarks" issued by the IASB in September 2019 and pursuant to the Regulation (EU) 2020/34 of the Commission of 15 January 2020. At 31 December 2019 the Bank has only fair value hedges in place which provide for the exchange of the fixed rate against Euribor whose assessment, as collateralised, is carried out by discounting future flows with the OIS curve.

Following the entry into force, in 2018, of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 (EU Benchmark Regulation - BMR), the Euribor was subject to a reform process conducted by the 'European Money Markets Institute (EMMI), manager of the same Institute, to make it compliant with BMR according to a new hybrid calculation methodology (based on three levels) to be implemented by the end of 2019. The authorization has been granted, pursuant to the art. 34 of the BMR, on 2 July 2019 by the Belgian authority FSMA, supervisor of EMMI. The full transition to the new calculation method was completed in November 2019 and the Euribor is therefore BMR-compliant and can continue to be used after January 1, 2020.

With reference to the OIS curve, the same will be replaced by the €STR curve. In particular, the clearing houses (Eurex\LCH) used by the Bank have communicated that the OIS curve will be replaced with the €STR curve starting from 22 June 2020, anticipating the disposal of the Eonia rate which, due to the effect of the reform in question, will take place at the end of 2021.

The Bank, which has chosen to continue to apply the hedge accounting requirements of IAS 39, has taken into account the above with respect to assessing the effectiveness of the hedging relationship, not detecting significant impacts on the existing hedging relationships.

In 2019, the following accounting standards, amendments and interpretations, approved by the European Commission, become effective for reporting periods beginning on or after January 1, 2020:

- Amendments to IAS 1 and IAS 8: definition of “Material” (EU Regulation 2019/2104)
- Amendments to references to the Conceptual Framework in IFRS (EU Regulation 2019/2075)

These accounting standards and amendments have not been applied in advance by the Bank and that significant effects are not expected from their application.

As at December 31, 2019, moreover, the IASB issued the following accounting principles and interpretations or revisions thereof, whose the application is however still subject to completion of the approval process by the competent bodies of 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 IFRS 3: Business combinations: Definition of a Business (October 2018)

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 November 30, 2018 the 6th update of Circular no. 262 was enacted: "The bank balance sheet: format and drafting rules" which implemented IFRS 16 "Leasing" and the consequent changes introduced in other international accounting standards, including IAS 40 on real estate investments, introduced to guarantee the overall consistency of the reference accounting framework.

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 (IFRS 16) with mandatory applicability to the financial statements relating to the periods starting on or after 1 January 2019 (with the faculty of early application in 2018, - together with the mandatory application of IFRS 15).

Starting from January 1, 2019 FinecoBank apply the aforementioned standard.

IFRS 16 replaced the previous set of international accounting principles and interpretations on leasing and, in particular, IAS17, provides a new definition of leasing and introduced a criterion based on the notion of control ("right of use") of an asset to distinguish leasing agreements from service agreements, identifying which discriminant of leases: 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 object of the contract.

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, and therefore to the accounting model relevant to FinecoBank, 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 lease payments set out in the agreement ("Lease liabilities").

At initial recognition, this asset is valued on the basis of the related lease contract cash flows on the date effective, corresponding to the current value of the payments due for leasing not paid on that date ("lease liability"), including payments made on or before the effective date and the initial direct costs incurred (if any) by the lessee. Payments due for leasing are discounted using the implicit interest rate of the lease, or if the latter cannot be easily determined, the marginal lending rate of the Bank, determined on the basis of the cost of funding for liabilities of similar duration and guarantees to those implicit in leasing contracts. After initial recognition, this asset will be valued on the basis of the provisions for tangible and intangible assets under IAS 38, IAS 16 or IAS 40 and, therefore, at cost net of amortization and any reductions in value, at the "redetermined value" or at fair value as applicable. The lease liability has to be restated, after the effective date, if changes are made to the payments due for the lease; the amount of the restatement of the lease liability has to be recognized as an adjustment to the asset consisting of the right of use.

The Bank carried out the activities aimed at ensuring full compliance with the new accounting standard on the transition date, in particular with reference to the calculation and accounting of the right of use and the associated lease liabilities, aspects that represent the main discontinuity with respect to the accounting model envisaged by IAS17. The activities relating to the development and implementation of rules, principles and IT systems to ensure the correct calculation of above mentioned assets and liabilities, their subsequent measurement and the determination of the related effects on the income statement, have been finalized.

The transition to IFRS 16 led to the definition of some accounting policies and the use of assumptions and estimates as illustrated below.

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.

For the purposes of calculating the leasing debt and the associated "right of use", the Bank proceed to discount future installments determined in the light of the provisions of the aforementioned lease contracts 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 the issuance of the invoice by the lessor and not as of the effective date of the leasing contract.

As envisaged by the standards, which grants exemptions in this regard, "low-value assets" contracts (whose threshold has been identified as €5 thousand), mainly relating to mobile phone rental contracts and all 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 leases of intangible assets (mainly represented by software lease payments). For these contracts, the related lease payments are recognized in the income statement on a linear basis for the corresponding duration. It should also be noted that the non-leasing components are separated from the leasing components and recognized in the income statement on an accrual basis in accordance with the applicable accounting standard and that the costs for variable payments due for the lease not included in the evaluation of the lease liabilities.

The lease of the building located in Milan, Piazza Durante 11, where the Bank's registered office is located, leased until 31 January 2019 when the Bank completed the purchase transaction, determining the simultaneous termination of the rental contract has been classified at First Time Adoption of the standard as "Short term lease" and, therefore, excluded from the scope of application of IFRS 16.

Duration of leasing

The Bank has determinated the duration of leasing for each contract within the scope of application as described above, 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 general, with reference to contracts that allow the Bank to tacitly renew the lease at the end of a first contractual period, the duration of the lease has been determined, based on historical experience and information available at the transition date, 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

As regards the discount rate to be used for determining the lease liability the nature of the contracts stipulated by the Bank, which fall within the scope of application of the standard and mainly represented by rental contracts of properties, does not allow to derive the implied rate in each contract, thus 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 existing lease contracts.

As FinecoBank did not issue own debt instruments at the date of the first application of the standard, the rate applied (the average weighted rate is around 1.49%) for the purposes and for the effects of the First Time Adoption was the senior secured funding rate of UniCredit S.p.A., at that date the parent company of the Bank , applied to finance the companies in the Italy of the UniCredit Group[38].

Accounting effects of the transition

As previously mentioned, the Bank decided not to recalculate the accounting data relating to previous years (comparative values) while applying the standard retrospectively, as envisaged by the same standard (transition with modified retrospective method).

It should be noted that no effect was recorded in the shareholders' equity as of January 1, 2019 as, 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).

Below are the tables in the Balance Sheet (Assets and Liabilities) showing: (i) the balance sheet balances of the financial statements as at 31 December 2018, (ii) the adjustments of IFRS 16 application to the balance sheet balances and (iii) the opening balance sheet balances at 1 January 2019.

[38] It should be noted that, following the exit from the UniCredit Group, the Bank, solely for the purpose of accounting for leasing contracts after that date, determined its marginal financing rate using the Bloomberg curve relating to bonds as a reference parameter issued by Italian Banks with a BBB rating.

(Amounts in € thousand)

Balance sheet assets		12/31/2018	Adjustment IFRS 16	01/01/2019 post application IFRS 16
10.	Cash and cash balances	6	-	6
20.	Financial assets at fair value through profit or loss	20,218	-	20,218
	a) financial assets held for trading	6,876	-	6,876
	c) other financial assets mandatorily at fair value	13,342	-	13,342
30.	Financial assets at fair value through other comprehensive income	961,773	-	961,773
40.	Financial assets at amortised cost	23,248,431	-	23,248,431
	a) loans and receivables with banks	12,427,086	-	12,427,086
	b) loans and receivables with customers	10,821,345	-	10,821,345
50.	Hedging derivatives	3,314	-	3,314
60.	Changes in fair value of portfolio hedged financial assets (+/-)	4,873	-	4,873
70.	Equity investments	3,000	-	3,000
80.	Property, plant and equipment	16,330	63,656	79,986
90.	Intangible assets	98,307	-	98,307
	of which		0	0
	- goodwill	89,602	-	89,602
100.	Tax assets	6,714	-	6,714
	a) current tax assets	467	-	467
	b) deferred tax assets	6,247	-	6,247
120.	Other assets	350,609	(424)	350,185
Total assets		**24,713,575**	**63,232**	**24,776,807**

It should be noted that the adjustments IFRS16 accounted for into the item 120. Other assets correspond to the amounts of prepayments related to the lease contracts, 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).

(Amounts in € thousand)

Balance sheet liabilities and Shareholder's equity		12/31/2018	Adjustment IFRS 16	01/01/2019 post application IFRS 16
10.	Financial liabilities at amortised cost	23,278,872	63,232	23,342,104
	a) deposits from banks	1,009,774	4,017	1,013,791
	b) deposits from customers	22,269,098	59,215	22,328,313
20.	Financial liabilities held for trading	2,221	-	2,221
40.	Hedging derivatives	5,341	-	5,341
50.	Changes in fair value of portfolio hedged financial liabilities (+/-)	2,600	-	2,600
60.	Tax liabilities	12,184	-	12,184
	a) current tax liabilities	12,184	-	12,184
80.	Other liabilities	335,443	-	335,443
90.	Provisions for employee severance pay	4,561	-	4,561
100.	Provisions for risks and charges:	109,805	-	109,805
	a) commitments and guarantees given	49	-	49
	c) other provisions for risks and charges	109,756	-	109,756
110.	Revaluation reserves	(9,794)	-	(9,794)
130.	Equity instruments	200,000	-	200,000
140.	Reserves	355,673	-	355,673
150.	Share premium reserve	1,934	-	1,934
160.	Share capital	200,773	-	200,773
170.	Treasury shares (-)	(13,960)	-	(13,960)
180.	Net Profit (Loss) for the year	227,922	-	227,922
Total liabilities and Shareholders' equity		**24,713,575**	**63,232**	**24,776,807**

The following tables show the effects of the First Time Adoption of IFRS 16 in detail.

Property, plant and equipment

(Amounts in € thousand)

Assets/amounts	12/31/2018	Adjustment IFRS 16	01/01/2019 post application IFRS 16
1. Owned assets	**14,242**	**-**	**14,242**
a) land	-	-	-
b) buildings	-	-	-
c) office furniture and fittings	1,608	-	1,608
d) electronic systems	10,869	-	10,869
e) other	1,765	-	1,765
2. Assets under financial lease	**-**	**63,656**	**63,656**
a) land	-	-	-
b) buildings	-	63,031	63,031
c) office furniture and fittings	-	-	-
d) electronic systems	-	-	-
e) other	-	625	625
Total	**14,242**	**63,656**	**77,898**

The amount equal to €625 thousand, accounted for as an increase in item "e) other" refers to the rights of use relating to plant, equipment and motor vehicles.

Financial liabilities at amortised cost: dues from banks

(Amounts in € thousand)

Transactions type / Amounts	12/31/2018	Adjustment IFRS 16	01/01/2019 post application IFRS 16
1. Deposits from central banks	-	-	-
2. Deposits from banks	**1,009,774**	**4,017**	**1,013,791**
2.1 Current accounts and demand deposits	52,563	-	52,563
2.2 Time deposits	-	-	-
2.3 Loans	933,352	-	933,352
2.3.1 Repos	933,352	-	933,352
2.3.2 Other	-	-	-
2.4 Liabilities in respect of commitments to repurchase treasury shares	-	-	-
2.5 Lease liabilities	-	4,017	4,017
2.6 Other liabilities	23,859	-	23,859
Total	**1,009,774**	**4,017**	**1,013,791**

Financial liabilities at amortised cost: dues from customers

(Amounts in € thousand)

Transactions type / Amounts	12/31/2018	Adjustment IFRS 16	01/01/2019 post application IFRS 16
1. Current accounts and demand deposits	22,046,700	-	22,046,700
2. Time deposits	3,106	-	3,106
3. Loans	116,299	-	116,299
3.1 Repos	116,299	-	116,299
3.2 Other	-	-	-
4. Liabilities in respect of commitments to repurchase treasury shares	-	-	-
5. Lease liabilities	-	59,215	59,215
6. Other liabilities	102,993	-	102,993
Total	**22,269,098**	**59,215**	**22,328,313**

Reconciliation of financial liabilities at 1 January 2019 with the commitments for operating leases recognized at 31 December 2018

(Amounts in € thousand)

Description	Amounts
Commitments for operating leasing as at December 31, 2018	**5,052**
Future leasing payments	69,236
Exceptions to recognition pursuant to IFRS 16	(1,637)
- short term lease	*(1,598)*
- low value lease	*(39)*
Future leasing payments intagible assets	(4,999)
Financial lease liability not discounted as at January 1, 2019	**67,652**
Discount effect	(4,420)
Financial lease liability as at January 1, 2019	**63,232**
Present value of financial lease liability as at December 31, 2018	-
Additional financial lease liability due to the transition to IFRS 16 as at January 1, 2019	**63,232**

As at December 31, 2018, no financial leases were in place and the commitments included exclusively operating lease/rental payments that could not be canceled, including lease/rental payments for intangible assets.

The item "Future leasing payments" includes the lease/rental payments that can be canceled, not included in the commitments as at December 31, 2018.

Impacts on regulatory capital deriving from the adoption of IFRS 16

The application of IFRS 16, which had no impact on shareholders' equity on the date of first application, resulted in a consequent increase in tangible assets recorded in the balance sheet assets as at 1 January 2019 of ca. €63.7 million and an increase in the Bank' RWAs whose effect is estimated 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 subscribed to the "Voluntary Scheme", introduced by the Interbank Deposit Guarantee Fund ("IDGF") in November 2015, through an amendment to its bylaws. The Voluntary Scheme is an instrument for resolving bank crises through support measures in favour of banks subscribing to it, when specific conditions established by the regulations apply. The Voluntary Scheme has its own independent financial resources and the banks subscribing to it have committed to provide funds on request for implementation of the measures.

From 2016 to 2018, the Voluntary Scheme, in a capacity as a private entity, approved initiatives to support some banks, and in particular Cassa di Risparmio di Cesena (CariCesena), Cassa di Risparmio di Rimini (Carim), Cassa di Risparmio di San Miniato (Carismi) and Banca Carige.

For the above initiatives, FinecoBank made cash payments with simultaneous recognition in the financial statements, as indicated in this regard by the Bank of Italy, recognised in the financial statements as equity instruments and previously classified as "Financial assets available for sale" under the accounting standard IAS 39 in effect until December 31st, 2017, and subsequently from January 1st, 2018, as "Financial assets measured at fair value" through profit or loss, based on the current accounting standard IFRS 9: c) other financial assets measured at fair value".

As at December 31, 2019, total exposure of equity instruments, arising from grants deriving from the aforementioned contributions paid by the Bank, net of write-downs and cancellations made in previous years and of the effects of the fair value valuation on that date amounted to €2,630 thousand (of which €2.307 thousand relating to the contributions paid for the intervention in favour of Carige and €323 thousand relating to the contributions paid for the intervention in favour of Carim, Carismi and CariCesena).

In particular, the fair value measurement as at December 31, 2019 of equity instruments booked by the Bank as part of the operation approved by the Voluntary Scheme for the initiative taken by Credit Agricole CariParma in support of CariCesena, Cassa di Risparmio di Rimini (Carim) and Cassa di Risparmio di San Miniato (Carismi) resulted in a further negative fair value measurement of €202 thousand being recognised in the income statement in 2019 in order to align the value to the estimate of the fair value of Berenice securitisation instruments (mezzanine and junior instruments issued for the securitisation of NPLs of the three banks acquired under the Voluntary Scheme) performed by the appointed advisor from the IDGF for the Voluntary Scheme Report as at December 31, 2019. The measurement model adopted by the advisor appointed by the IDGF is based on the Discounted Cash Flow model depending on recovery assumptions.

The fair value measurement as at December 31, 2019 of equity instruments booked by the Bank as part of the initiative supporting Banca Carige S.p.A. showed an impairment which resulted in a further negative fair value measurement of €4,344 thousand being recognised in the income statement in 2019. As market or price valuations of comparable instruments were not available nor, in addition, an updated assessment by the IDGF, the fair value of the instrument was determined by the Bank using internal models based on Market Multiples methodology applied to multi-scenario analysis and using the most recent information on the bank's recovery plan as the reference as the reference through the capital increase subscribed by the Voluntary Scheme with the conversion at par of the bond subscribed in December 2018.

It should also be noted on December 24, 2019 the Interbank Deposit Guarantee Fund communicated that the Voluntary Scheme has collected a total amount of €53.5 million relating to the for four tranches of interest, net of the costs incurred during the year 2019 on the aforementioned bond, recognizing FinecoBank's an amount of €1,594 thousand. These proceeds were recognized under item “70. Dividends and similar income ”in the income statement.

Contributions to guarantee and resolution funds.

The Directive 2014/49/EU of 16 April 2014, in relation to the Deposit Guarantee Schemes (DGS), aims to enhance the protection of depositors through the harmonisation of the related national legislation. The Directive provides for the launch of a mandatory national contribution mechanism that will allow a target level of 0.8% of the amount of its members' covered deposits to be collected by 3 July 2024. The contribution resumes when the financing capacity is below the target level, at least until the target level is reached. If, after the target level has been reached for the first time, the available financial resources have been reduced to below two thirds of the target level, the regular contribution shall be set at a level to achieve the target level within six years.

The contribution mechanism provides for ordinary annual contribution instalments, with the aim of distributing the costs evenly over time for the contributing banks, and also extraordinary contributions, if the available financial resources of a DGS are insufficient to repay depositors; the extraordinary contributions cannot exceed 0.5% of covered deposits per calendar year, but in exceptional cases and with the consent of the competent authority, the DGS may demand even higher contributions.

With reference to the contributory obligations under the aforementioned Directive, with the communication dated December 3, 2019, 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 2019 would be equal to €566.5 million.

Moreover, among the variables that affect the determination of effective contributions for the year 2019, the following are important:

- the supply of the Solidarity Fund, for an amount equal to €5 million, as approved by the IDGF Board at the meeting of 13 November 2019, with a corresponding reduction in the ordinary contributions of 2019;
- the outlay related to the intervention of the IDGF in favor of Banca Carige as part of its recovery plan. Pursuant to art. 25, paragraph 2 of the Articles of Association of the IDGF, the payment of additional contributions is required for the restoration by 2024 of the amount used, in order to achieve the target level by the scheduled date. In particular, the accumulation plan for 2019 provides representation of the intervention in favor of Banca Carige for a total amount of €323.8 million and, therefore, the additional contribution for 2019 and for the following years up to 2024 is quantified in €55.2 million;
- the loan agreement entered into on 2 August 2019 by the IDGF with a pool of member banks, with reference to which in the aforementioned meeting the IDGF Board resolved to request an additional €11.3 million contribution from the member banks, distinct from the ordinary and additional contributions intended for the financial endowment of the IDGF, to be paid to the financing banks by way of a commission for the availability of funds, a commission from the agent bank and legal fees.

In total, therefore, the contribution due by the consortium member banks for 2019, including the resources to be allocated to the Solidarity Fund and the additional contribution above mentioned, has been determinated equal to a total of €633 million, of which €616.7 million for the establishment of the financial envelope. The portion pertaining to each consortium member has been calculated based on the amount of the protected deposits as at 30 September 2019 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 2019 was paid and accounted for by the Bank under the item 160. Administrative Expenses, amounting to €18.1 million as follows:

- €16.1 million relating to the annual ordinary contribution;
- €1.6 million relating to the additional contribution;
- €0.1 million relating to the contribution to the Solidarity Fund;
- €0.3 million relating to the supplementary contribution.

With the introduction of the European Directive 2014/59/EU, the Regulation on the Single Resolution Mechanism (“BRRD Directive” Regulation (EU) No.806/2014 of the European Parliament and of the Council dated 15 July 2014) established a framework for the recovery and resolution of crises in credit institutions, by setting up a single resolution committee and a single resolution fund for banks (Single Resolution Fund, “SRF”). The Directive provides for the launch of a compulsory contribution mechanism that entails the collection of the target level of resources by 31 December 2023, equal to 1% of the covered deposits of all the authorised institutions acting in the European territory. The accumulation period may be extended for a further four years if the funding mechanisms have made cumulative disbursements for a percentage higher than 0.5% of the covered deposits. If, after the accumulation period, the available financial resources fall below the target level, the collection of contributions shall resume until that level has been recovered. Additionally, having reached the target level for the first time and, in the event that the available financial resources fall to less than two thirds of the target level, these contributions are set at the level which allows the target level to be reached within a period of six years. The contribution mechanism provides for ordinary annual contributions, with the aim of distributing the costs evenly over time for the contributing banks, and extraordinary additional contributions, of up to three times the expected annual contributions, when the available financial resources are not sufficient to cover the losses and costs of the interventions.

No contribution was requested from the Bank by the Single Resolution Board, for 2019, with regard to contribution obligations pursuant to aforementioned Directive.

Both Directives No.49 and No.59 specify the possibility of introducing irrevocable payment commitments as an alternative to collection of fund contributions lost through cash, up to a maximum of 30% of the total resources target, faculty of which the Bank did not avail himself.

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 take into account all the information available at the date of preparation of the financial statements and 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, 2019, 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, 2019. 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 estimated book values cannot be ruled out.

At the date of preparing these financial statements we believe, based on the available elements and taking into account the sensitivity analyses carried out, that there are no uncertainties such as to give rise to significant adjustments to the carrying amounts within one year. However, it cannot be excluded that, by their nature, the reasonably assumed assumptions may not be confirmed in the actual future scenarios in which the Group will operate. These scenarios could be influenced, among others, by elements of uncertainty about the effects of the Coronavirus epidemic and the containment measures that cannot be determined to date.

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 (for further details, refer to the specific section "Impairment");
- 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 of these notes to the accounts.

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 of these notes to the accounts.

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 these notes to the accounts.

For the details on the models and parameters used in the measurement of IFRS 9 adjustments, please refer to Part A - Section 15. Other information - Impairment of these notes to the accounts

Other information

The Financial statements as at December 31, 2019 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" of the liabilities in the balance sheet.

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 the income statement in item 1100. "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 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 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 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.

In the event of disposal, the accumulated profits and losses are recorded in item 140. “Reserves” in shareholders' equity.

3 - Financial assets at amortised cost

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

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

More specifically, this item includes:

- loans to banks and customers in the various technical forms that meet the requirements of the previous paragraph;
- debt securities that meet the requirements of the previous paragraph.

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

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

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

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

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

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

After initial recognition at fair value, these assets are measured at amortized cost using the effective interest method, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process in accordance with the illustration given in the 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 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 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 and under micro-hedges against the interest rate risk of securities issued by sovereign States.

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
- electronical 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 include rights of use of tangible assets, as defined by IFRS16, and 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 the consolidated balance sheet in item 120. "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).

With regard to the property, plant and equipment for the right of use acquired with lease, at the time of the initial registration this asset is evaluated on the basis of the financial flows associated with the leasing contract, corresponding to the present value of future installments due for unpaid leasing amounts on that date: "lease liability", including installments made on or before the effective date and the initial direct costs incurred by the lessee. Installments due for leasing are determined in light of the provisions of the lease agreement and calculated net of the VAT component, where applicable, by virtue of the fact that the obligation to pay this tax arises at the time the invoice is issued by of the lessor and not as of the effective date of the leasing contract, and are discounted using the marginal loan rate of the Bank, determined on the basis of the cost of funding for liabilities of a duration and guarantees similar to those implicit in the leasing contracts.

After initial recognition, this asset is measured based on the provisions for property, plant and equipment under IAS 16 or IAS 40 and, therefore, at cost net of amortization and any impairment, at the "redetermined value" or at fair value according to as applicable.

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.

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.

An item with a finite useful life is subject to straight-line depreciation.

Residual useful life is usually assessed as follows:

- Buildings up to 33,3 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

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 relative useful life is recalculated and the depreciation amount for the current and subsequent periods is adjusted accordingly.

In particular, it should be noted that the expenses for improvements capitalized on the main asset, in particular on properties, may result in a significant increase in the useful life of the asset, which may not in any case exceed the useful live below starting from the capitalization date of the improvement.

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 the income statement in item 180. "Net impairment/Write-backs on property, plant and equipment".

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 income statement in 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, brands and domains 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 and Fineco' brands and domains.

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 the income statement item 190. "Net impairment/write-backs on intangible assets".

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 the income statement in 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 the balance sheet in item 110. "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 in item 290. "Profit (Loss) after tax from discontinued operations". 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.

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 the income statement in 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 the balance sheet 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 (including deposits, current accounts, loans, lease liability, current payables related to the provision of financial services as defined by the T.U.B. and T.U.F.).

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.

Financial liabilities at amortized cost include the lease liabilities initially recognized equal to the present value of future installments due for unpaid leasing amounts on that date. Payments due for leasing are discounted using the Bank's marginal financing rate, determined on the basis of the cost of funding for liabilities of a duration and guarantees similar to those implicit in the leasing contracts. The lease liability must be restated, after the effective date, if changes are made to the payments due for the lease; the amount of the restatement of the liability for the lease must be recognized as an adjustment to the corresponding asset by right of use.

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 "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 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 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 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 year.

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 the income statement in item 80. "Gains and losses on financial assets and liabilities held for trading".

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:

- 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 the balance sheet 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 the Financial statement 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 purchase 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 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).

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 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 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[39]. In this regard, forward-looking information has also been included[40] with the elaboration of specific scenarios.

The expected loss is calculated for institutional counterparties, using the credit parameters provided by UniCredit S.p.A., in accordance with a specific Master Service Agreement contract entered into between FinecoBank and UniCredit S.p.A..

With reference to the expected loss for 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.

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

[39] 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.

[40] 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.

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 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, for the most part made up of FIBS (Financial Institutions, Banks and Sovereigns) counterparties.

Specifically:

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

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

The main adjustments are made in order to:

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

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

The rate of recovery incorporated in the through-the-cycle LGD was adapted in order to 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 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" (standardized method). Past-due and/or overdrawn impaired exposures are valued at a flat rate on a historical/stochastic basis.

Lastly, it is worth noting that the regulation relating to the "New definition of default" (Regulation UE 2018/171 and the EBA 2016/07 guidelines), which will come into force from 31 December 2020, establishes more restrictive criteria and methods for classifying default compared to those adopted so far by Italian intermediaries, with the aim of harmonizing the approaches to applying the definition of default and identifying the conditions of unlikely fulfillment between financial institutions and the various jurisdictions of the EU countries.

The main changes introduced will concern:

- the change to the materiality threshold which contributes, together with the expired days (90 days), to determine the classification as default. This threshold is composed of:
  - an absolute component of €100 for retail customers and €500 for all other types of exposure;
  - a relative component, represented by the percentage that expresses the relationship between the amount of the outstanding credit obligation and the total amount of all exposures to the same debtor; the percentage adopted by the Bank of Italy is 1%.
- the introduction of a three-month trial period (cure period) for the reclassification to performing of debtors previously classified as non-performing;
- Introduction of the prohibition to compensate the overdue amounts with any credit lines not used by the debtor.

The activities relating to the definition of rules-principles and the adaptation of IT systems, aimed at ensuring the correct application of the new regulatory requirements, are being implemented.

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.

Specifically, the forward looking component is determined by three macroeconomic scenarios, a basic scenario ("Baseline"), a positive scenario and an adverse scenario. The basic scenario is the central scenario of reference and is therefore considered the most probable realization; the positive and adverse scenarios represent alternative realizations, respectively better and worse.

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.

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, 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”.

As regards the share based payments consisting in the payment of shares of the former Parent Company UniCredit S.p.A., directly allocated to employees of the Group UniCredit that involve settlement with shares of UniCredit S.p.A., under arrangements between the company of the Unicredit Group and UniCredit S.p.A. (and still in place for FinecoBank under specific agreements) 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 expenses", as a contra entry to the balance sheet in 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 elements and, in the case of financial liabilities, 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 asset/liability through a qualitative analysis. With regard to the financial liabilities, moreover, 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 liability and the recognition of a new financial instrument (10% threshold test).

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 the balance sheet 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" in shareholders' equity, 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.

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 expenses (or interest income, in case of negative interest) also includes the interest on lease liabilities determinated based on the marginal loan rate. 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.

Among costs, administrative expenses also include short-term lease payments, low value lease payments (i.e. contracts whose assets underlying the contract do not exceed, when new, the threshold of €5 thousand), costs for variable payments due for leasing not included in the evaluation of the lease liability, the VAT component of the lease payments to be paid/paid on the leasing contracts recognized in accordance with IFRS 16 and the fees for the leasing of intangible assets.

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 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 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; as a result of which the amount 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 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 Bank'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.

During 2019 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 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.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 are independently and centrally tested and validated. 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 Market Risk function of the Holding 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, if listed, are classifies 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 a model 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; for the valuation as at 31 December 2019 this factor was determined equal to 7.85%, estimating the litigation risk of 1.85% and the illiquidity risk of 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 contributions paid for 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, 2019. The model used by the abovementioned advisor is based on the Discounted Cash Flow model according to the recovery forecasts made by the special servicers.

The fair value of the equity instruments for the contributions paid relating to the intervention in favour of Banca Carige S.p.A was, in the other hand, determined by the Bank using internal models based on the Market Multiples methodology applied to multi-scenario analysis and using the most recent information on the bank's recovery plan as the reference as the reference through the capital increase subscribed by the Voluntary Scheme with the conversion at par of the bond subscribed in December 2018.

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 a 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 issuer credit risk. 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

Due to their short term nature and generally negligible credit risk, the book value of the cash and cash balances approximates fair value,

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	12/312019			12/312018		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	4,670	3,302	11,320	3,390	3,557	13,271
a) financial assets held for trading	4,631	3,302	-	3,353	3,523	-
- Financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily at fair value	39	-	11,320	37	34	13,271
2. Financial assets at fair value through other comprehensive income	321,694	-	5	961,767	-	5
3. Hedging derivatives	-	36,059	-	-	3,314	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**326,364**	**39,361**	**11,325**	**965,157**	**6,871**	**13,276**
1. Financial liabilities held for trading	3,217	560	-	1,552	669	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	80,852	-	-	5,341	-
Total	**3,217**	**81,412**	**-**	**1,552**	**6,010**	**-**

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

In 2019 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 measured at fair value with impact on the income statement				Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily at fair value				
1. Opening balance	**13,271**	**-**	**-**	**13,271**	**5**	**-**	**-**	**-**
2. Increases	**2,623**	**22**	**-**	**2,601**	**-**	**-**	**-**	**-**
2.1 Purchases	22	22	-	-	-	-	-	-
2.2 Profits recognised in:	2,601	-	-	2,601	-	-	-	-
2.2.1 Income Statement	2,601	-	-	2,601	-	-	-	-
- of which unrealised gains	2,596	-	-	2,596	-	-	-	-
2.2.2 Shareholders' Equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-	-	-
3. Decreases	**(4,574)**	**(22)**	**-**	**(4,552)**	**-**	**-**	**-**	**-**
3.1 Sales	(27)	(22)	-	(5)	-	-	-	-
3.2 Redemptions	-	-	-	-	-	-	-	-
3.3 Losses recognised in:	(4,547)	-	-	(4,547)	-	-	-	-
3.3.1 Income Statement	(4,547)	-	-	(4,547)	-	-	-	-
- of which unrealised losses	(4,547)	-	-	(4,547)	-	-	-	-
3.3.2.Shareholders' Equity	-	X	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balances	**11,320**	**-**	**-**	**11,320**	**5**	**-**	**-**	**-**

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

No data to report.

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	12/31/2019				1231//2018			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets at amortised cost	26,189,532	14,781,018	7,779,770	4,346,828	23,248,432	8,115,915	9,182,023	6,095,734
2. Tangible assets held for investment	1,980			2,950	2,088			2,950
3. Non-current assets and disposal groups classified as held for sale								
Total	**26,191,512**	**14,781,018**	**7,779,770**	**4,349,778**	**23,250,520**	**8,115,915**	**9,182,023**	**6,098,684**
1. Financial liabilities at amortised cost	26,067,097		1,366	26,065,737	23,278,873		3,111	23,275,766
2. Liabilities included in disposal group calassified as held for sale								
Total	**26,067,097**	**-**	**1,366**	**26,065,737**	**23,278,873**	**-**	**3,111**	**23,275,766**

Key:
L1 = Level 1 - L2 = Level 2 - L3 = Level 3 - BV = Book Value

Property, plant and equipment held for investment consist of one property held by the Bank, the fair value of which corresponds to the market value as determined by an appraisal carried out by an external and independent valuation firm.

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

Section 1 - Cash and cash balances - Item 10

1.1 Cash and cash balances: breakdown

(Amounts in € thousand)

	Total 12/312019	Total 12/312018
a) Cash	53	6
b) Demand deposits with Central banks	754,333	-
Total	**754,386**	**6**

The item “(b) Demand deposits with central banks” refers to the liquidity deposited in the HAM (Home Accounting Model) account held with Bank of Italy, that FinecoBank opened in 2019.

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/Values	Total 12/31/2019			Total 12/31/2018		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	-	-	-	5	-	-
1.1 Structured securities	-	-	-	5	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity instruments	3,289	-	-	2,110	-	-
3. Units in investment funds	5	-	-	2	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repos	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**3,294**	**-**	**-**	**2,117**	**-**	**-**
B. Derivatives						
1. Financial derivatives	1,337	3,302	-	1,236	3,523	-
1.1 trading derivatives	1,337	3,302	-	1,236	3,523	-
1.2 related to the fair value option	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading derivatives	-	-	-	-	-	-
2.2 related to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total (B)	**1,337**	**3,302**	**-**	**1,236**	**3,523**	**-**
Total (A+B)	**4,631**	**3,302**	**-**	**3,353**	**3,523**	**-**

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 €3,227 thousand (€3,509 thousand as at December 31, 2018).

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 €1,412 thousand (€1,250 thousand as at December 31, 2018).

2.2 Financial assets held for trading: breakdown by issuer/borrower

(Amounts in € thousand)

Items/Values	Total 12/31/2019	Total 12/31/2018
A. ON-BALANCE SHEET ASSETS		
1. Debt securities	-	5
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	-	5
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	3,289	2,110
a) Banks	-	-
b) Other financial companies	217	175
of which: Insurance companies	4	-
c) Non-financial companies	3,072	1,935
d) Other issuers	-	-
3. Units in investment funds	5	2
4. Loans	-	-
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**3,294**	**2,117**
B. DERIVATIVE INSTRUMENTS	**-**	**-**
a) Central Counterparties	55	73
b) Others	4,584	4,686
Total (B)	**4,639**	**4,759**
Total (A+B)	**7,933**	**6,876**

Item B. “Derivative instruments” also includes the positive valuations of spot contracts for securities classified in the “Financial Assets held for trading” 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 12/31/2019			Total 12/31/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**32**	**-**	**-**	**31**	**34**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	32	-	-	31	34	-
2. Equity instruments	**7**	**-**	**11,320**	**6**	**-**	**13,271**
3. Units in investment funds	**-**	**-**	**-**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Reverse repos	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total	**39**	**-**	**11,320**	**37**	**34**	**13,271**

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 €8,682 thousand, which saw a positive change in *fair value* during 2019 of €2,596 thousand and the residual equity instruments exposure following the contribution paid to the Voluntary Scheme set up by the Interbank Deposit Guarantee Fund (IDGF), amounting to €2,630 thousand (of which €2,307 relating to the Banca Carige transaction and €323 thousand relating to Carim, Carismi and CariCesena transaction), with a negative effect recorded in 2019 income statement amounting to €4,547 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 12/31/2019	Total 12/31/2018
1. Equity instruments	**11,327**	**13,277**
of which: banks	1	1
of which: other financial companies	11,313	13,264
of which: other non-financial companies	13	12
2. Debts securities	**32**	**65**
a) Central Banks	-	-
b) Public Entities	29	29
c) Banks	3	2
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	34
3. Units investment funds	**-**	**-**
4. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**11,359**	**13,342**

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)

Item/Values	Total 12/31/2019			Total 2/31/2018		
	L1	L2	L3	L1	L2	L3
1. Debts securities	**321,694**	**-**	**-**	**961,767**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	321,694	-	-	961,767	-	-
2. Equity instruments	**-**	**-**	**5**	**-**	**-**	**5**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**321,694**	**-**	**5**	**961,767**	**-**	**5**

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.[41] For more details, see the information on Sovereign exposures set out in Part E of the notes to the accounts.

[41] 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).

3.2 Financial assets at fair value through comprehensive income: breakdown by issuer/borrower

(Amounts in € thousand)

Items/Amounts	Total 12/31/2019	Total 12/31/2018
1. Debt securities	**321,694**	**961,767**
a) Central Banks	-	-
b) Public Entities	321,694	961,767
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity Instruments	**5**	**5**
a) Banks	-	-
b) Other issuers:	5	5
- other financial companies	-	-
of which: insurance companies	-	-
- non-financial companies	5	5
- others	-	-
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**321,699**	**961,772**

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		321,720	321,720	-	-	(26)	-	-	-
Loans		-	-	-	-	-	-	-	-
Total	**12/31/12019**	**321,720**	**321,720**	**-**	**-**	**(26)**	**-**	**-**	**-**
Total	**12/31/12018**	**961,938**	**961,938**	**-**	**-**	**(171)**	**-**	**-**	**-**
of which: financial assets purchased or originated credit impaired		X	X	-	-	X	-	-	-

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 transaction/Amounts	Total 12/31/2019						Total 12/31/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**251,574**	**-**	**-**	**-**	**-**	**251,574**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserves	251,574	-	-	X	X	X	-	-	-	X	X	X
3. Reverse repos	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans and receivables with banks	**9,172,387**	**-**	**-**	**1,347,332**	**7,721,114**	**298,058**	**12,427,086**	**-**	**-**	**267,493**	**9,182,023**	**3,044,974**
1. Loans	298,058	-	-	-	-	298,058	3,044,974	-	-	-	-	3,044,974
1.1 Current accounts and demand deposits	244,094	-	-	X	X	X	1,916,128	-	-	X	X	X
1.2. Time deposits	-	-	-	X	X	X	1,119,303	-	-	X	X	X
1.3 Other loans:	53,964	-	-	X	X	X	9,543	-	-	X	X	X
- Reverse Repos	4,316	-	-	X	X	X	416	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Others	49,648	-	-	X	X	X	9,127	-	-	X	X	X
2. Debts securities	8,874,329	-	-	1,347,332	7,721,114	-	9,382,112	-	-	267,493	9,182,023	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	8,874,329	-	-	1,347,332	7,721,114	-	9,382,112	-	-	267,493	9,182,023	-
Total	**9,423,961**	**-**	**-**	**1,347,332**	**7,721,114**	**549,632**	**12,427,086**	**-**	**-**	**267,493**	**9,182,023**	**3,044,974**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

Loans and receivables with banks for "Current accounts and demand deposits" consist of current accounts held with credit institutions, including UniCredit S.p.A., for the settlement of transactions on payment circuits, for the settlement of securities transactions, for the management of the liquidity of UK customers and for the management of Fineco AM liquidity. As at 31 December 2018 the item included the liquidity deposited with UniCredit S.p.A., in part transferred during 2019 to the HAM (Home Accounting Model) account at Bank of Italy.

As at December 31, 2018 the "Time deposits" included the current accounts held with UniCredit S.p.A. for a total amount of €1,119,303 thousand and closed during 2019, including the deposit for compulsory reserve now held at Bank of Italy.

The item "Other loans: Other" refers for €43,854 thousand to the amount of the initial and variation margins and collateral deposits placed with credit institutions for derivative transactions (€5,280 thousand as at December 31, 2018), and €5,793 thousand to current receivables associated with the provision of financial services (€3,847 thousand as at December 31, 2018).

The item "Debt securities" includes €7,501,377 thousand relating to debt securities issued by UniCredit S.p.A. (€9,115,783 thousand as at December 31, 2018).

4.2 Financial assets at amortised cost: product breakdown of loans and receivables with customers

(Amounts in € thousand)

Type of transaction/Amounts	Total 12/31/2019						Total 12/31/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit impaired	L1	L2	L3
1. Loans	**3,665,365**	**3,568**	**-**	**-**	**-**	**3,797,196**	**2,944,573**	**2,817**	**-**	**-**	**-**	**3,050,760**
1.1 Current accounts	1,290,208	1,964	-	X	X	X	1,016,947	1,770	-	X	X	X
1.2 Reverse repos	160,112	-	-	X	X	X	148,767	29	-	X	X	X
1.3 Mortgages	1,155,943	410	-	X	X	X	856,856	14	-	X	X	X
1.4 Credit cards, personal loans and wage assignment loans	809,176	885	-	X	X	X	749,358	783	-	X	X	X
1.5 Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7 Other loans	249,926	309	-	X	X	X	172,644	221	-	X	X	X
2. Debt securities	**13,096,638**	**-**	**-**	**13,433,686**	**58,656**	**-**	**7,873,955**	**-**	**-**	**7,848,422**	**-**	**-**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	13,096,638	-	-	13,433,686	58,656	-	7,873,955	-	-	7,848,422	-	-
Total	**16,762,003**	**3,568**	**-**	**13,433,686**	**58,656**	**3,797,196**	**10,818,528**	**2,817**	**-**	**7,848,422**	**-**	**3,050,760**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

Debt securities 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 Financial assets at amortised cost: breakdown by issuer/borrower of loans and receivables with customers

(Amounts in € thousand)

Type of transaction/Amounts	Total 12/31/2019			Total 12/31/2018		
	First and second stage	Third stage	of which: purchased or originated credit impaired	First and second stage	Third stage	of which: purchased or originated credit impaired
1. Debt securities	**13,096,638**	**-**	**-**	**7,873,955**	**-**	**-**
a) Public entities	13,096,638	-	-	7,873,955	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Loans with:	**3,665,365**	**3,568**	**-**	**2,944,573**	**2,817**	**-**
a) Public entities	-	-	-	8	-	-
b) Other financial companies	236,099	1	-	171,751	2	-
of which: insurance companies	18,474	-	-	19,028	-	-
c) Non-financial companies	341	11	-	908	9	-
d) Households	3,428,925	3,556	-	2,771,906	2,806	-
Total	**16,762,003**	**3,568**	**-**	**10,818,528**	**2,817**	**-**

4.4 Financial assets at amortised cost: gross exposure and total impairment

(Amounts in € thousand)

		Carrying amount				Impairment provision			Write off partial total
		First stage	of which: instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities		21,972,304	21,972,304	-	-	(1,337)	-	-	-
Loans		4,218,201	-	11,237	25,335	(8,245)	(6,196)	(21,766)	-
Total	**12/312019**	**26,190,505**	**21,972,304**	**11,237**	**25,335**	**(9,582)**	**(6,196)**	**(21,766)**	**-**
Total	**12/312018**	**23,256,090**	**17,264,880**	**14,650**	**23,936**	**(19,131)**	**(5,994)**	**(21,118)**	**-**
of which: purchased or originated credit impaired financial assets		X	X	-	-	X	-	-	-

Section 5 – Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by type of hedge and by level

(Amounts in € thousand)

	Fair Value 12/31/2019			NA	Fair Value 12/31/2018			NA
	L1	L2	L3	12/31/2019	L1	L2	L3	12/31/2018
A. Financial derivatives								
1. Fair value	-	36,059	-	1,917,423	-	3,314	-	570,000
2. Cash flows	-	-	-	-	-	-	-	-
3. Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**36,059**	**-**	**1,917,423**	**-**	**3,314**	**-**	**570,000**

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)

Transaction/Type of hedge	Fair Value							Cash-flow hedges		Net investments in foreign subsidiaries
	Micro						Macro	Micro	Macro	
	Debt securities and interest rates	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	20,578	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	537	X	-	X
5. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**20,578**	**-**	**-**	**-**	**-**	**-**	**537**	**-**	**-**	**-**
1. Financial Liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	14,944	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**14,944**	**-**	**-**	
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)

Fair value of hedged assets/Amounts	Total 12/312019	Total 12/312018
1. Positive changes	**29,405**	**4,873**
1.1 of specific portfolios:	29,405	4,873
a) financial assets at amortized cost	29,405	4,873
b) financial assets at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative changes	**(525)**	**-**
2.1 of specific portfolios	(525)	-
a) financial assets at amortized cost	(525)	-
b) financial assets at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	**28,880**	**4,873**

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 12/31/2019	Total 12/31/2018
A. Opening balance	**3,000**	**500**
B. Increases	**-**	**2,500**
B.1 Purchases	-	-
- of which business combinations	-	-
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other variations	-	2,500
C. Decreases	**-**	**-**
C.1 Sales	-	-
- of which business combinations	-	-
C.2 Adjustments	-	-
C.3 Depreciations	-	-
C.4 Other changes	-	-
D. Closing balance	**3,000**	**3,000**
E. Total revaluations	**-**	**-**
F. Total adjustments	**-**	**-**

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.

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	Total 12/31/2019	Total 12/31/2018
1. Owened assets	**82,998**	**14,242**
a) lands	23,932	-
b) buildings	41,404	-
c) office furniture and fittings	2,393	1,608
d) electronic system	12,623	10,869
e) other	2,646	1,765
2. Assets under financial lease	**65,947**	**-**
a) lands	-	-
b) buildings	65,399	-
c) office furniture and fittings	-	-
d) electronic system	-	-
e) other	548	-
Total	**148,945**	**14,242**
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.

With reference to the building where the registered office of the Bank is located (Milan, Piazza Durante 11), purchased on 31 January 2019 with a price of the deal of €62 million, in addition to taxes and initial direct costs, it should be noted that the land was separately accounted for by the building, even if purchased together as required by IAS 16.

The Bank has operational leasing trasactions in place consisting of leases for approximately 21% of the surface of the above mentioned property owned.

The item “Right of use acquired with lease”, which replaced the previous item “Assets under financial lease” as required by the 6th update of Circular 262 of 22 December 2005, refers to the rights of use in relation to the Bank's existing leasing contracts, following the application of IFRS 16 standard starting from the year 2019.

8.2 Property, plant and equipment held for investment: breakdown of assets carried at cost

(Amounts in € thousand)

Assets/Amounts	Total 12/31/2019				Total 12/31/2018			
	Carrying value	Fair value			Carrying value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owened assets	**1,980**	**-**	**-**	**2,950**	**2,088**	**-**	**-**	**2,950**
a) lands	-	-	-	-	-	-	-	-
b) buildings	1,980	-	-	2,950	2,088	-	-	2,950
2. Assets under financial lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) lands	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**1,980**	**-**	**-**	**2,950**	**2,088**	**-**	**-**	**2,950**
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)

	Lands	Buildings	Office furniture and fittings	Electronic systems	Others	Total
A. Gross opening balance	**-**	**-**	**14,669**	**35,003**	**10,790**	**60,462**
A.1 Total net reduction in value	-	-	(13,061)	(24,134)	(9,025)	(46,220)
A.2 Net opening balance	**-**	**-**	**1,608**	**10,869**	**1,765**	**14,242**
B. Increases:	**23,932**	**125,947**	**2,285**	**6,192**	**2,435**	**160,791**
B.1 Purchases	23,932	59,692	2,130	6,191	1,773	93,718
B.2 Capitalised expenditure on improvements	-	1,555	-	-	-	1,555
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	-	64,700	155	1	662	65,518
C. Decreases:	**-**	**(19,144)**	**(1,500)**	**(4,438)**	**(1,006)**	**(26,088)**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	(10,419)	(1,339)	(4,437)	(882)	(17,077)
C.3 Impairment losses recognised	-	-	(9)	(1)	(37)	(47)
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	(9)	(1)	(37)	(47)
C.4 Decreases in fair value recognised	-	-	-	-	-	-
a) in equity	-	-	-	-	-	-
b) through profit or loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfer to:	-	-	-	-	-	-
a) property, plant and equipment held for investment	-	-	X	X	X	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	(8,725)	(152)	-	(87)	(8,964)
D. Net closing balance	**23,932**	**106,803**	**2,393**	**12,623**	**3,194**	**148,945**
D.1 Total net reduction in value	-	(10,039)	(13,543)	(27,038)	(9,288)	(59,908)
D.2 Gross closing balance	**23,932**	**116,842**	**15,936**	**39,661**	**12,482**	**208,853**
E. Carried at cost	23,932	106,802	2,393	12,623	3,195	148,945

The asset classes specified in the table above are carried at cost.

Items B.7 and C.7 "Other changes" include, in addition to the changes deriving from the application of IFRS16, the changes in the activities consisting of the right of use due to the changes made to the payments due for the leasing after the initial recognition. Below is the amount of changes by type of activity.

(Amounts in € thousand)

	Land	Buildings	Furniture and fittings	Electronic system	Other	Total
Other increases due to changes in rights of use	-	1,148	-	-	2	1,150
Other decreases due to changes in rights of use	-	(3,620)	-	-	-	(3,620)

8.7 Property, plant and equipment held for investment: annual changes

(Amounts in € thousand)

	Total	
	Lands	Buildings
A. Gross opening balance	**-**	**3,600**
A.1 Total net reduction in value	-	(1,512)
A.2 Net opening balance	**-**	**2,088**
B. Increase	**-**	**-**
B.1 Purchases	-	-
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	-	-
C. Decreases	**-**	**(108)**
C.1 Sales	-	-
C.2 Depreciation	-	(108)
C.3 Decreases in fair value	-	-
C.4 Impairment losses	-	-
C5 Negative exchange difference	-	-
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	-	-
D. Net closing balance	**-**	**1,980**
D.1 Total net reduction in value	-	(1,620)
D.2 Gross closing balance	**-**	**3,600**
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, 2019 the Bank had contractual commitments to purchase property, plant and equipment amounting to €353 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)

Activities/Values	Total 12/312019		Total 12/312018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	**89,602**	X	**89,602**
A.2 Other intangible assets	**9,828**	**27,452**	**8,705**	**-**
A.2.1 Assets	9,828	27,452	8,705	-
a) intangible assets generated internally	-	-	-	-
b) other assets	9,828	27,452	8,705	-
A.2.2 Assets carried at fair value	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**9,828**	**117,054**	**8,705**	**89,602**

Other intangible assets carried at cost with an indefinite life relate to the Fineco brands and domains purchased on November 28, 2019 from UniCredit S.p.A. for an amount of €22.5 million plus VAT.

The useful life of softwares, 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: internally generated		Other intangible assets: others		Total
		DEF	INDEF	DEF	INDEF	
A. Gross opening balance	**124,729**	**-**	**-**	**85,566**	**-**	**210,295**
A.1 Total net reduction in value	(35,127)	-	-	(76,861)	-	(111,988)
A.2 Net opening balance	**89,602**	**-**	**-**	**8,705**	**-**	**98,307**
B. Increases	**-**	**-**	**-**	**6,519**	**27,452**	**33,971**
B.1 Purchases	-	-	-	6,519	27,452	33,971
- of which business combinations	-	-	-	-	-	-
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	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**(5,396)**	**-**	**(5,396)**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	(5,396)	-	(5,396)
- Amortisations	X	-	-	(5,396)	-	(5,396)
- 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 differrences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**89,602**	**-**	**-**	**9,828**	**27,452**	**126,882**
D.1 Total net impairments	(35,127)	-	-	(82,257)	-	(117,384)
E. Gross closing balance	**124,729**	**-**	**-**	**92,085**	**27,452**	**244,266**
F. Carried at cost	89,602	-	-	9,828	27,452	126,882

Key
FIN: finite life
INDEF: indefinite life

The asset classes specified in the table above are carried at cost.

9.3 Other information

As at December 31, 2019 the Bank had contractual commitments to purchase intangible assets amounting to €975 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. The Fineco brand and domains purchased during the year from UniCredit S.p.A. are attributed to the same CGU. following the exit from the related group.

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 2020, in which the budget figures were considered (submitted for approval by the Board of Directors on January 15, 2020);
- years 2021-2023, which considers the financial forecasts of the Strategic Plan (submitted for approval by the same Board of Directors on January 15, 2020);
- intermediate period of five years from 2024 to 2028, for which the forecasts of the financial flows are projected by applying beginning in the last explicit estimate period (2023) 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 2018 was 1.8%. 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 daily average of the last 6 months of the 10-year Btp;
- Equity Risk Premium (Beta * Market Risk Premium): calculated using the value of 5.50% as MRP (consistent with the values used by financial analysts covering FinecoBank) and as Beta, the 3-year average (in order to reduce the volatility generated in 2019 by the sale of the equity investment by Unicredit) compared to the FTSEMIB and SXXP indices.

The cost of capital used for the impairment testing has 2 target points (2020 budget and 2021-2023 Multi Year Plan) within which a linear convergence is calculated and kept constant up to the "terminal value".

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 15, 2020. For the impairment testing the carrying amount of the goodwill, brand (including domains) 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 11, 2020, confirmed the sustainability of the goodwill and the brand recognised in the financial statements as at December 31, 2019, 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 of brand 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 12/31/2019 (18.12%)
Change of value in use	-14.4%	-1.9%	-12.8%	7.6%	-0.3%

* Consolidated Core Tier 1

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 11 percentage points, i.e. with a reduction of over 65% 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 €6,509 million at December 31, 2019, markedly higher than the Bank's shareholders' equity and the results provided by the model used for the impairment test, which confirms the implementation of prudent criteria for calculation of the value in use.

Section 10 - Tax Assets and Tax Liabilities - Asset item 100 and liability item 60

The item "Tax assets" amounting to €23,450 thousand as at December 31, 2019 exclusively comprises "Deferred tax assets".

The item "Tax liabilities" amounting to €11,344 thousand at the same date exclusively comprises "Current tax liabilities".

Current Tax Assets and Liabilities

(Amounts in € thousand)

Assets/amounts	Total 12/31/2019	Total 12/31/2018
Current tax assets	-	467
Current tax liabilities	11,437	12,184

Deferred tax assets/liabilities

Deferred tax assets/liabilities are shown in the balance sheet net of the related deferred tax liabilities/assets; the detail is as follows:

- "Deferred tax assets" of €50,914 thousand recognised as a balancing entry in the income statement;
- "Deferred tax assets" of €798 thousand recognised as a balancing entry of shareholders' equity;
- "Deferred tax liabilities" of €25,992 thousand recognised as a balancing entry in the income statement;
- "Deferred tax liabilities" of €2,270 thousand recognised as a balancing entry of shareholders' equity.

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 current and 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 are no deferred tax assets/liabilities not recognized in the financial statements in relation to temporary differences. Furthermore, there are no unused tax losses or tax credits.

10.1 Deferred tax assets: breakdown

(Amounts in € thousand)

Assets/amounts	Total 12/31/2019	Total 12/31/2018
Allocations through profit or loss	**47,086**	**26,237**
- of which Patent Box ex D.L. n.3/2015	21,577	-
- of which Provisions for Risks and Charges	19,137	19,454
- of which Other	6,372	6,783
Allocations through equity	**798**	**2,740**
- of which Revaluation reserve application IAS 19	602	840
- of which Financial assets at fair value through comprehensive income	196	1,888
- of which Other	-	12
Impairment losses on receivables (of which pursuant to Law 214/2011)	**3,828**	**4,033**
Total before IAS 12 offset	**51,712**	**33,010**
Offset against deferred tax liabilities - IAS 12	(28,262)	(26,763)
Total	**23,450**	**6,247**

10.2 Deferred tax liabilities: breakdown

(Amounts in € thousand)

Liabilit-ies/amounts	Total 12/31/2019	Total 12/31/2018
Allocations through profit or loss	**25,992**	**26,560**
- of which Goodwill and Brand	24,978	24,078
- of which Exposures in equity instruments with Voluntary Scheme	870	2,373
- of which Other	144	109
Allocations through equity	**2,270**	**203**
- of which Financial assets at fair value through comprehensive income	1,757	203
- of which Revaluation reserve IAS 19application	513	-
Total before IAS 12 offset	**28,262**	**26,763**
Offset against deferred tax liabilities - IAS 12	(28,262)	(26,763)
Total	**-**	**-**

10.3 Changes in deferred tax assets (through profit or loss)

(Amounts in € thousand)

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**30,270**	**31,446**
2. Increases	**25,614**	**3,727**
2.1 Deferred tax assets recognised in the year	25,614	3,727
a) relating to prior years	-	-
b) due to changes in accounting policies	-	206
c) write-backs	-	-
d) others	25,614	3,521
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- di cui operazioni di aggregazione aziendale	-	-
3. Decreases	**(4,970)**	**(4,903)**
3.1 Deferred tax assets cancelled in the year	(4,970)	(4,903)
a) reversals of temporary differences	(4,854)	(4,664)
b) write-downs of non-recoverable items	-	-
c) changes in accountable policies	-	-
d) others	(116)	(239)
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	-	-
a) conversion of tax credits as per Law 214/2011	-	-
b) others	-	-
- di cui operazioni di aggregazione aziendale	-	-
4. Closing balance	**50,914**	**30,270**

The increase in deferred tax assets recognized in the year as a balancing entry in the income statement mainly refers to the tax benefit connected to the Patent Box regime pursuant to Legislative Decree No. 3 of 2015 and to provisions for risks and charges. The decreases mainly refer to the use of the provision for risks and charges.

10.3bis Changes in deferred tax assets under Law 214/2011

(Amounts in € thousand)

	Total 12/31/2019	Total 1231//2018
1. Opening balance	**4,033**	**3,828**
2. Increases	**-**	**205**
- of which: business combinations	-	-
3. Decreases	**(205)**	**-**
3.1 Reversals	-	-
3.2 Conversion into tax credits	-	-
a) resulting from operating losses	-	-
b) resulting from tax losses	-	-
3.3 Other decreases	(205)	-
4. Closing balance	**3,828**	**4,033**

The decreases refer to a reclassification in deferred tax assets as a balancing entry in the income statement other than those referred to in Law 214/2011.

10.4 Changes in deferred tax liabilities (through profit or loss)

(Amounts in € thousand)

	Total 12/31/2019	Total 1231//2018
1. Opening balance	**26,560**	**24,069**
2. Increases	**935**	**2,688**
2.1 Deferred tax liabilities arising during the year	935	2,688
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) others	935	2,688
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- di cui operazioni di aggregazione aziendale	-	-
3. Decreases	**(1,503)**	**(197)**
3.1 Deferred tax liabilities de-recognised during the year	(1,503)	(197)
a) reversals of temporary differences	(1,503)	(64)
b) due to changes in accounting policies	-	-
c) others	-	(133)
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
- di cui operazioni di aggregazione aziendale	-	-
4. Closing balance	**25,992**	**26,560**

Increases in deferred taxes liabilities recorded in the financial year as a balancing item of the income statement refer to the recognition of deferred taxes liabilities resulting from the different accounting and tax treatment of goodwill and the brand. Decreases refer to the negative fair value measurement of financial assets represented by equity exposures to the Voluntary Scheme.

10.5 Changes in deferred tax assets (through equity)

(Amounts in € thousand)

	Total 12/31/2019	Total 1231//2018
1. Opening balance	**2,740**	**1,937**
2. Increases	**105**	**1,128**
2.1 Deferred tax assets recognised in the year	63	1,128
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) others	63	1,128
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	42	-
- of which: business combinations	-	-
3. Decreases	**(2,047)**	**(325)**
3.1 Deferred tax assets cancelled in the year	(2,047)	(325)
a) reversals of temporary differences	(2,047)	(325)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) others	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
- of which: business combinations	-	-
4. Closing balance	**798**	**2,740**

The decrease in deferred tax assets recognised during the year through equity refer to the reduction in negative fair value valuation of debt securities booked in "Financial assets at fair value through other comprehensive income" item and to the recognition of deferred tax assets on reduction in negative actuarial valuations recognised in equity revaluation reserves as per IAS 19 Revised.

10.6 Changes in deferred tax liabilities (through equity)

(Amounts in € thousand)

	Total 12/31/2019	Total 1231//2018
1. Opening balance	**203**	**2,463**
2. Increases	**2,163**	**192**
2.1 Deferred tax assets recognised in the year	2,163	192
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) others	2,163	192
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- di cui operazioni di aggregazione aziendale	-	-
3. Decreases	**(96)**	**(2,452)**
3.1 Deferred tax assets cancelled in the year	(96)	(2,452)
a) reversals of temporary differences	(96)	(2,452)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases:	-	-
- di cui operazioni di aggregazione aziendale	-	-
4. Other decreases	**2,270**	**203**

The increases in deferred tax liabilities recognised during the year through equity refer to the positive fair value valuation of debt securities booked in "Financial assets at fair value through other comprehensive income" item and to the recognition of deferred tax assets on positive actuarial valuations recognised in equity revaluation reserves as per IAS 19 Revised.

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.

Section 12 - Other assets - Item 120

12.1 Other assets: breakdown

(Amounts in € thousand)

	Total 12/31/2019	Total 1231//2018
Trade receivables according to IFRS15	4,579	8,489
Current receivables not related with the provision of financial services	2,904	2,188
Receivables due to disputed items not deriving from lending	-	119
Improvement and incremental expenses incurred on leasehold assets	6,067	6,928
Definitive items not recognised under other items:	28,062	30,251
- securities and coupons to be settled	1,537	5,131
- other transactions	26,525	25,120
Tax items other than those included in the item "Tax assets":	259,098	269,189
- tax advances	252,251	262,261
- tax credit	6,809	6,893
- tax advances on employee severance indemnities	38	35
Items awaiting settlement:	2,495	4,597
- notes, cheques and other documents	2,495	4,597
Items in processing	13	29
Items in transit not allocated to relevant accounts	50	2
Accrued income and prepaid expenses other than those related to contracts with customers and other than capitalised in related financial assets or liabilities	26,982	24,513
Accrued income and prepaid expenses related to contracts with customers other than capitalised in related financial assets or liabilities	12,034	4,303
Total	**342,284**	**350,608**

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” (Section 8 - Liabilities of this Part B of these Notes to the accounts), 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 12/31/2019	accrued expenses and prepaid income 12/31/2019
Opening balance	**4,303**	**2,800**
INCREASES	**11,186**	**5,046**
a) external acquisition	-	-
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	11,186	5,046
DECREASES	**(3,455)**	**995**
a) external acquisition	-	-
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) impairment of a contract asset (IFRS 15 Par 118.c)	(17)	-
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	(3,438)	995
Closing balances	**12,034**	**(6,851)**

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 durantion of performance <=1 12/31/2019	Expected durantion of performance >1 12/31/2019
Unsatisfied (or Partially Unsatisfied) Performance Obligations - Duration - Other Assets (IFRS 15 Par 120a)	10,678	-
Unsatisfied (or Partially Unsatisfied) Performance Obligations - Duration - Other Liabilities (IFRS 15 Par 120a)	1,100	2,690
Total	**11,778**	**2,690**

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 €14,468 thousand. 81.4% 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 12/31/2019				Total 12/31/2018			
	VB	Fair Value			VB	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Deposits from central banks	**-**	X	X	X	**-**	X	X	X
2. Deposits from banks	**154,653**	X	X	X	**1,009,774**	X	X	X
2.1 Current accounts and demand deposits	70,396	X	X	X	52,563	X	X	X
2.2 Time deposits	-	X	X	X	-	X	X	X
2.3 Loans	74,067	X	X	X	933,352	X	X	X
2.3.1 Repos	74,067	X	X	X	933,352	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X	-	X	X	X
2.5 Lease liabilities	7,207	X	X	X	-	X	X	X
2.6 Other liabilities	2,983	X	X	X	23,859	X	X	X
Total	**154,653**	**-**	**-**	**154,653**	**1,009,774**	**-**	**-**	**1,009,774**

Key:
VB = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item "2.5 Lease liabilities" was added to the table above, as required by the 6th update of Circular 262 of 22 December 2005 " Banking financial statements: schedules and rules compilation" and refers to the financial liabilities recorded in relation to the leasing contracts in existence at December 31, 2019 with bank counterparties in application of the IFRS16 "Leasing".

1.2 Financial liabilities at amortised cost: product breakdown deposits from customers

(Amounts in € thousand)

Transactions type/Amounts	Total 12/31/2019				Total 12/31/2018			
	VB	Fair Value			VB	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	25,573,169	X	X	X	22,046,700	X	X	X
2. Time deposits	1,359	X	X	X	3,106	X	X	X
3. Loans	163,450	X	X	X	116,299	X	X	X
3.1 Repos	163,450	X	X	X	116,299	X	X	X
3.2 Other	-	X	X	X	-	X	X	X
4. Liabilities in respect of commitments to repurchase treasury shares	-	X	X	X	-	X	X	X
5. Lease payables	59,321	X	X	X	-	X	X	X
6. Other liabilities	115,145	X	X	X	102,993	X	X	X
Total	**25,912,444**	**-**	**1,366**	**25,911,084**	**22,269,098**	**-**	**3,111**	**22,265,991**

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item "5 Lease liabilities" was added to the table above, , as required by the 6th update of Circular 262 of 22 December 2005 " Banking financial statements: schedules and rules compilation" and refers to the financial liabilities recorded in relation to the leasing contracts in existence at December 31, 2019 with counterparties different from in application of the IFRS16 "Leasing".

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

(Amounts in € thousand)

Items/time buckets	Up to 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Over 5 years
Lease liabilities	**9,934**	**8,679**	**8,060**	**7,053**	**6,722**	**26,080**
Lease liabilities - Banks	671	528	540	552	565	4,351
Lease liabilities - Customers	9,263	8,151	7,520	6,501	6,157	21,729

The amount of cash flows for leasing paid during 2019 is equal to €9,400 thousand.

Part B – 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 12/31/2019					Total 12/31/2018				
	NA	Fair Value			Fair Value *	NA	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-
2. Deposits from customers	595	1,908	-	-	1,908	589	346	-	-	346
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**595**	**1,908**	**-**	**-**	**1,908**	**589**	**346**	**-**	**-**	**346**
B. Derivatives										
1. Financial derivatives	X	1,309	560	-	X	X	1,206	669	-	X
1.1 Trading derivatives	X	1,309	560	-	X	X	1,206	669	-	X
1.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credits derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading derivatives	X	-	-	-	X	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**1,309**	**560**	**-**	**X**	**X**	**1,206**	**669**	**-**	**X**
Total (A+B)	**X**	**3,217**	**560**	**-**	**X**	**X**	**1,552**	**669**	**-**	**X**

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 €580 thousand (€699 thousand as at December 31, 2018).

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 €1,289 thousand (€1,177 thousand as at December 31, 2018).

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.

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)

	Fair value 12/31/2019			NA	Fair value 12/31/2018			NA
	L1	L2	L3	12/31/2019	L1	L2	L3	12/31/2018
A. Financial derivatives	**-**	**80,852**	**-**	**2,687,284**	**-**	**5,341**	**-**	**576,477**
1) Fair value	-	80,852	-	2,687,284	-	5,341	-	576,477
2) Cash flows	-	-	-	-	-	-	-	-
3) Net investment in foreign subsidiaries	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**80,852**	**-**	**2,687,284**	**-**	**5,341**	**-**	**576,477**

Key:
NA = notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged assets and risk

(Amounts in € thousand)

Transactions/Type of hedge	Fair Value							Cash flow		Net investment in foreign subsidiaries
	Micro						Macro	Micro	Macro	
	Debt securities and interest rates	Equities and equity index	Currencies and gold	Credit	Commodity	Others				
1. Financial assets at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets at ammortised cost	50,567	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	30,285	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**50,567**	**-**	**-**	**-**	**-**	**-**	**30,285**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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	-	-

Part B – Balance sheet – Liabilities (CONTINUED)

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 12/31/2019	Total 12/31/2018
1. Positive changes to financial liabilities	14,098	2,600
2. Negative changes to financial liabilities	-	-
Total	**14,098**	**2,600**

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)

Items/Amounts	Total 12/31/2019	Total 12/31/2018
Payables to Directors and Statutory auditors	164	163
Payables to employees	11,646	12,349
Social security contributions payable	6,577	6,415
Current payables not related to the provision of financial services	24,328	23,751
Payables for share-based payments	142	338
Sums available to be paid to customers	3,935	3,333
Definitive items not recognised under other items:	57,509	52,837
- securities and coupons to be settled	20,310	12,921
- payment authorisations	22,494	21,716
- other items	14,705	18,200
Tax items other than those included in the item "Tax liabilities":	133,562	115,972
- sums withheld from third parties as withholding agent	27,616	17,805
- other	105,946	98,167
Illiquid items for portfolio transactions	20,796	22,123
Items awaiting settlement:	74,298	94,642
- outgoing bank transfers	74,251	94,545
- POS and ATM cards	47	97
Items in processing:	463	561
- incoming bank transfers	419	543
- other items in processing	44	18
Accrued expenses and deferred income other than those related to contracts with customers and other than capitalised on the related financial assets or liabilities	183	157
Deferred income related to contracts with customers other than those capitalised on the related financial assets or liabilities	6,851	2,800
Total	**340,454**	**335,441**

Section 9 - Provisions for employee severance pay - Item 90

9.1 Provisions for employee severance pay: annual changes

(Amounts in € thousand)

	Total 12/31/2019	Total 12/31/2018
A. Opening balance	**4,561**	**4,999**
B. Increases	**488**	**136**
B.1 Provision of the year	71	70
B.2 Other increases	417	66
C. Decreases	**(239)**	**(574)**
C.1 Payments made	(196)	(305)
C.2 Other decreases	(43)	(269)
D. Closing balances	**4,810**	**4,561**
Total	**4,810**	**4,561**

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, 2019 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 the 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	12/31/2019	12/31/2018
Discount rate	0.85%	1.60%
Expected inflation rate	0.00%	1.00%

Part B – Balance sheet – Liabilities (CONTINUED)

(Amounts in € thousand)

Employee severance pay provision: other information	12/31/2019	12/31/2018
Provisions for the year	**71**	**70**
- Current service cost	-	-
- Interest expense on defined benefit obligations	71	70
- Gains and losses on curtailments and settlements	-	-
- Past service cost	-	-
Actuarial gains (losses) recognised in revaluation reserves (OCI)	**229**	**(234)**
- Actuarial gains (losses) for the year	(80)	(85)
- Actuarial gains/losses on demographic assumptions	-	1
- Actuarial gains/losses on financial assumptions	309	(150)

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 €136 thousand (+2.84%), whereas an equivalent increase in the rate would result in a reduction of the liability of €132 thousand (-2.75%). A change of -25 basis points in the inflation rate would result in a decrease in the liability of €82 thousand (-1.71%), whereas an equivalent increase in the rate would result in an increase in the liability of €83 thousand (+1.74%).

Section 10 - Provisions for risks and charges - Item 100

10.1 - Provisions for risks and charges: breakdown

(Amounts in € thousand)

Items/Components	Total 12/31/2019	Total 12/31/2018
1. Provisions for credit risk of commitments and financial guarantees given	21	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	107,058	109,756
4.1 legal and tax disputes	30,910	32,290
4.2 staff expenses	4,949	4,809
4.3 other	71,199	72,657
Total	**107,079**	**109,805**

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 €27,164 thousand (€28,045 thousand as at December 31, 2018) and provisions for tax disputes (penalties and interest) for €3,746 thousand (€3,885 thousand as at December 31, 2018). In addition to the costs incurred by the Bank in the event of an unfavourable conclusion of the dispute, this provision includes the estimate of the costs to be paid to legal advisors and any technical consultants and/or experts who assist the Bank in ongoing disputes 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 ongoing litigation, mainly on the basis of the Forensic Tariffs envisaged by current legislation.

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 €63,618 thousand (€64,139 thousand as at December 31, 2018), the Provision for contractual payments, of €395 thousand (€2,266 thousand as at December 31, 2018) and other provisions made for risks related to the Group's business and operations, of €7,186 thousand (€6,252 thousand as at December 31, 2018), including, in particular, provisions made for marketing and customer loyalty campaigns, incentive plans for personal financial advisors and training events for personal financial advisors.

On 20 December 2019, the Bank received a communication from the Guarantor for Competition and the Market Authority (A.G.C.M.) to initiate a procedure aimed at assessing the compliance with the Consumer Code (Legislative Decree 206/2005) of a commercial practice followed in the past by the Bank to promote the opening of the current account.

Fineco, assisted by its own lawyers, provided the Authority with all the information requested for the purposes of the assessment within the prescribed deadlines, illustrating the reasons why it believes it has operated correctly. However, pending the dispute formulated, it cannot exclude the possibility that the aforementioned procedure may be concluded in an unfavourable sense. In this regard, the same lawyers point out that, where following the conclusion of the procedure (expected within a maximum period of 150 days, unless extended in the event of request for further information and/or documentation), the Authority considers the violation of the Consumer Code, in consideration of the type of the same, the sanction applicable pursuant to article 27, paragraph 9, of the aforementioned Code would be in a range from a minimum of €5,000 euros to a maximum of €5,000,000. As there are currently no elements available to predict the outcome of the procedure just started, nor the amount of any sanction, the Bank has considered it as a potential liability and, in accordance with accounting principle IAS 37, provides this information without making provisions in the financial statements for the year 2019.

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
A. Opening balance	**-**	**-**	**109,756**	**109,756**
B. Increases	**-**	**-**	**16,298**	**16,298**
B.1 Provisions for the year	-	-	15,299	15,299
B.2 Changes due to the passage of time	-	-	966	966
B.3 Changes due to variations in the discount rate	-	-	33	33
B.4 Other increases	-	-	-	-
C. Decreases	**-**	**-**	**(18,996)**	**(18,996)**
C.1 Amounts used in the year	-	-	(12,454)	(12,454)
C.2 Changes due to variations in the discount rate	-	-	(34)	(34)
C.3 Other decreases	-	-	(6,508)	(6,508)
D. Closing balance	**-**	**-**	**107,058**	**107,058**

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			
	First stage	Second stage	Third stage	Total
Commitments	15	-	-	15
Financial guarantees given	6	-	-	6
Total	**21**	**-**	**-**	**21**

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.

Part B – Balance sheet – Liabilities (CONTINUED)

10.6 Provisions for risks and charges - other provisions

(Amounts in € thousand)

	Total 12/31/2019	Total 12/31/2018
Legal and fiscal disputes	**30,910**	**32,290**
- Pending cases	22,370	23,830
- Complaints	4,794	4,575
- Tax disputes	3,746	3,885
Staff expenses	**4,949**	**4,809**
Other	**71,199**	**72,657**
- Supplementary customer indemnity provision	63,618	64,139
- Provision for contractual payments and payments under non-competition agreements	395	2,266
- Other provisions	7,186	6,252
Total provisions for risks and charges	**107,058**	**109,756**

(Amounts in € thousand)

Provision for risks and charges	Total 12/31/2018	Uses	Transfers and other changes	Actuarial gains (losses) ias 19r *	Net provisions**	Total 12/31/2019
Legal and fiscal disputes	**32,290**	**(3,625)**	**-**	**-**	**2,245**	**30,910**
- Pending cases	23,830	(3,267)	229	-	1,578	22,370
- Complaints	4,575	(332)	(229)	-	780	4,794
- Tax disputes	3,885	(26)	-	-	(113)	3,746
Staff expenses	**4,809**	**(4,563)**	**-**	**-**	**4,703**	**4,949**
Other	**72,657**	**(4,266)**	**-**	**(6,507)**	**9,315**	**71,199**
- Supplementary customer indemnity provision	64,139	(1,492)	-	(4,582)	5,553	63,618
- Contractual payments and	-	-	-	-	-	-
payments under non-competition agreements	2,266	-	-	(1,925)	54	395
- Other provisions	6,252	(2,774)	-	-	3,708	7,186
Total provisions for risks and charges	**109,756**	**(12,454)**	**-**	**(6,507)**	**16,263**	**107,058**

* 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. "Fee and Commision expenses", "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	12/31/2019	12/31/2018
Discount rate	0.85%	1.60%
Expected inflation rate	0.00%	1.00%

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 €1,785 thousand (+2.81%); an equivalent increase in the rate, on the other hand, would reduce the liability by €1,711 thousand (-2.69%). A change of -25 basis points in the salary base would result in a reduction in the liability of €463 thousand (-0.73%); an equivalent increase in the rate, on the other hand, would result in an increase in liabilities of €475 thousand (+0.75%).

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 €4 thousand (+2.2%); an equivalent increase in the rate, on the other hand, would reduce the liability by €4 thousand (-2.12%). A change of -25 basis points in the salary base would not entail any significant change in the liability.

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, 2019 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.

It should be noted that due to the exit of FinecoBank from the UniCredit Group, the rate curve used for discounting the provision for risks and charges in the financial statements based on IAS 37 was changed, but this did not have a significant impact on the provision and on the economic situation and balance sheet.

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. In addition to the costs incurred by the Bank in the event of an unfavourable conclusion of the dispute, this provision includes the estimate of the costs to be paid to legal advisors and any technical consultants and/or experts who assist the Bank in ongoing disputes. This estimate was determined by the Bank in relation to the ongoing litigation, mainly on the basis of the Forensic Tariffs envisaged by current legislation.

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, in accordance with the provisions of IAS 19.

The **Provision for staff expenses** includes provisions made in relation to the variable remuneration to be paid to employees in subsequent years which have an uncertain due date and amount.

The **Provision for contractual payments and payments under non-competition agreements** is related to a limited number of personal financial advisors; these payments are contractually provided. More specifically, the non-competition agreement is an extension of the loyalty obligation at the end of the employment contract which protects the Bank from competition from former personal financial advisors; contractual payments are a special indemnity that the Bank agrees to pay to personal financial advisors, who opted to transfer the rights and obligations arising from their contract with the Bank to third parties, where these advisors continue to keep an ethical and professional conduct with the Bank after termination of employment, with specific regard to the customer portfolio. The amount of the obligation at the end of the period relating to contractual payments was assessed with the aid of an independent actuary.

The **Provision for tax disputes** is allocated to cover tax demands received from the Italian Revenue Agency following tax audits carried out on the Bank over the years, in relation to which the Bank considers it has calculated the tax correctly and legitimately and has therefore submitted an appeal at various levels of proceedings.

The above provisions for risks and charges include the allocations for fines and interest for the additional tax being contested and requested by the Tax Authorities through tax bills or payment notices paid and for the estimated amount of legal expenses to be incurred in the various proceedings.

For more details, see Part E – Information on risks and hedging policies – Section 1.5 – Operational risk – paragraph "Risks arising from tax disputes and audits" of these notes to the accounts.

The **Other Provisions** are mainly allocated to cover the risks related to the business and operations of the Bank. The provision specifically includes provisions for marketing and customer loyalty campaigns, incentive plans for the personal financial advisors and the provision for training events for the personal financial advisors.

Section 11 - 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, 2019, share capital came to €200,941 thousand, comprising 608,913,600 ordinary shares with a par value of €0.33 each.

As at December 31, 2019, the Bank held 737,448 treasury shares, in order to execute the PFA incentive plans, corresponding to 0.12% of the share capital, for an amount of €7.4 million. During 2019 n. 17,300 shares were purchased in relation to the “2018 PFA Incentive System” for personal financial advisors identified as “Key personnel” and n. 34,644 and n. 646,496 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors respectively in execution to the "2016 PFA Incentive System" and "2015-2017 PFA PLAN".

Part B – Balance sheet – Liabilities (CONTINUED)

On February 5, 2019, in view of the favourable opinion provided by the Remuneration Committee in its meeting of February 1, 2019, 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 335,624 free ordinary shares to the beneficiaries of the third tranche of the Plan, assigned in 2016, and consequently an increase in Share capital for a total amount of €110,755.92 with immediate effect (following registration of the related resolution in the Companies Register);
- 2014, 2015 and 2016 Incentive systems for employees. In particular, we approved the allotment of 173,581 free ordinary shares to the beneficiaries of the third equity tranche of the 2014 Incentive System, of the second tranche of the 2015 Incentive System and of the first tranche of the 2016 Incentive System, and consequently an increase in Share capital for a total amount of €57,281.73 with effect from 29 March 2019.

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

(Amounts in € thousand)

Items/Amounts	Amount 12/31/2019	Amount 12/31/2018
Share capital	200,941	200,773
Share premium reserve	1,934	1,934
Reserves	384,459	355,673
- legal	40,188	40,155
- extraordinary reserve	309,131	272,454
- treasury shares	7,351	13,960
- others	27,789	29,104
(Treasury shares)	(7,351)	(13,960)
Revaluation Reserves:	1,002	(9,794)
Equity instruments	500,000	200,000
Net profit (loss) for the year	285,891	227,922
Total	**1,366,876**	**962,548**

12.2 Share capital - Number of shares: annual changes

Items/Type	Ordinary	Others
A. Shares outstanding at the beginning of the year	**608,404,395**	**-**
- fully paid	608,404,395	-
- not fully paid	-	-
A.1 treasury shares (-)	(1,401,288)	-
A.2 Shares outstanding: Opening balance	**607,003,107**	**-**
B. Increases	**1,190,345**	**-**
B.1 New issues	509,205	-
- against payment:	-	-
- business combination transaction	-	-
- business combinations	-	-
- bonds converted	-	-
- others	-	-
- free:	509,205	-
- to employees	509,205	-
- to directors	-	-
- others	-	-
B.2 Sales of treasury shares	-	-
B.3 Other changes	681,140	-
C. Decreases	**(17,300)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(17,300)	-
C.3 Purchase of treasury shares	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**608,176,152**	**-**
D.1 Treasury shares (+)	737,448	-
D.2 Shares outstanding at the end of the year	608,913,600	-
- fully paid	608,913,600	-
- not fully paid	-	-

The item B.3 “Other changes” reports the shares allocated to the personal financial advisors under the stock granting plan ("2016 PFA Plan" and “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 €40,188 thousand;
- Extraordinary reserve, amounting to €309,131 thousand;
- Reserve for treasury shares held, amounting to €7.351 thousand;
- Negative reserve recognized following the introduction of IFRS 9, amounting to €-4,868 thousand;

As previously mentioned in para. 12.1 "Share capital and Treasury shares: breakdown", the Board of Directors of FinecoBank held on February 5, 2019, approved execution of the incentive/loyalty systems "2014-2017 Top Management Multi-Year Plan" and "2014, 2015 and 2016 Incentive systems with a consequent increase in share capital, against with the reserves from profits have been reduced for an amount of €168 thousand.

The FinecoBank Shareholders' Meeting of April 10, 2019 approved the allocation of profit for the year 2018, amounting to €227,922 thousand, as follows:

- €34 thousand 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;
- €43,388 thousand to the extraordinary reserve;
- to the 608,913,600 ordinary shares with a par value of €0.33, a unit dividend of €0.303 for a total amount of €184,501 thousand.

The share of dividends not distributed to treasury shares held by the Bank on the record date, equal to €419 thousand, was allocated to the Extraordinary Reserve.

As previously mentioned in para. 12.1 "Share capital and Treasury shares: breakdown", during 2019 n. 17,300 shares were purchased in relation to the "2018 PFA Incentive System" for personal financial advisors identified as "Key personnel" and n. 34,644 and n. 646,496 FinecoBank ordinary shares held in the portfolio were assigned to personal financial advisors respectively in relation to the "2016 PFA Incentive System" and "2015-2017 PFA PLAN". Consequently the Reserve for treasury shares held has been decreased by €6,609 thousand with a simultaneous increase in the Extraordinary reserve.

In addition, during 2019 the Extraordinary Reserve was used for the payment of the coupon of the Additional Tier 1 issued on 31 January 2018, for €6,989 thousand net of the related taxation, and for the payment of the transaction costs directly attributable to the issue and of the coupon of the Additional Tier 1 issued on 11 July 2019, for respectively €1,764 thousand and €4,818 thousand net of the related taxation.

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.

Part B – Balance sheet – Liabilities (CONTINUED)

(Amounts in € thousand)

					Summary of the amounts used in the past three years	
Type/description	**Amount**	**Possibile use**	**Amount available**		**To cover losses**	**For other reasons**
Share capital	200,941	-	-	-	-	-
Share premium reserve	1,934	A, B, C	1,934	(1)	-	-
Reserves:	-	-	-	-	-	-
Legal reserve	40,188	B	40,188	-	-	-
Extraordinary reserve	309,131	A, B, C	309,131	-	-	6,581
Reserve related to equity-settled plans	32,657	-	-	-	-	14,910
Reserve for treasury shares	7,351	-	-	-	-	-
Other reserves	(4,868)	-	(4,868)	-	-	-
Revaluation reserves:	-	-	-	-	-	-
Revaluation reserves for financial assets at fair value through comprehensive income	3,159	-	-	(2)	-	-
Revaluation reserves for actuarial gains (losses) from defined benefit plans	(2,157)	-	-	-	-	-
TOTAL	**588,336**	**-**	**346,385**	**-**	**-**	**-**
Undistributable amount	**-**	-	40,188	-	-	-
Distributable amount	-	-	306,197	-	-	-

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.

<u>2016 financial year:</u>

- 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".

<u>2017 financial year:</u>

- 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 ".

<u>2018 financial year:</u>

- use of the "Extraordinary reserve" for €228 thousand for the capital increase of the second tranche of the "2014-2017 Multi-year Plan Top Management" plan, of the second tranche of the "Group Executive Incentive System 2014 (Bonus Pool)" plan and of the first tranche of the "Group Executive Incentive System 2015 (Bonus Pool)" plan;
- use of the "Extraordinary reserve" for the payment of the transaction costs directly attributable to the issue and of the coupon of the Additional Tier 1 issued on 31 January 2018, for €5,958 thousand net of the related taxation;
- use of the "Reserve related to the equity-settled plans" for €6,548 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 first tranche of the stock granting plan "2015-2017 PFA PLAN".

12.5 Equity instruments: breakdown and annual changes

Equity instruments includes the following financial instrument:

- Additional Tier 1 issued on 31 January 2018. The financial instrument is a perpetual private placement[42], 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%;
- Additional Tier 1 issued on 11 July 2019. The financial instrument is a perpetual public placement, traded on Euronext Dublin's non-regulated market, Global Exchange Market, notes rating of BB- (S&P Global Ratings), issued for a total of €300 million. The coupon for the first 5 years has been fixed at 5.875%.

12.6 Other information

No data to report.

[42] 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 12/31/2019	Total 12/31/2018
	First stage	Second stage	Third stage		
1. Commitments	**18,908**	**186**	**11**	**19,105**	**10,021**
a) Central Banks	-	-	-	-	-
b) Governments	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	14	-	-	14	-
e) Non-financial companies	-	-	-	-	-
f) Households	18,894	186	11	19,091	10,021
2. Financial guarantees given	**18,812**	**-**	**-**	**18,812**	**256,827**
a) Central Banks	-	-	-	-	-
b) Governments	-	-	-	-	-
c) Banks	17,170	-	-	17,170	256,070
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	-	-	-	-	-
f) Households	1,642	-	-	1,642	757

The commitments to disburse funds mainly include the commitments to disburse reverse repos.

Financial guarantees given to banks include banks include the guarantees issued in 2012 to the Italian Revenue Agency on request of UniCredit S.p.A., with indefinite duration, for a total amount of €17,166 thousand (€256,065 thousand as at December 31, 2018). It worth noting that in 2019, the Revenue Agency has released bank guarantees for a total amount of about €238,899 thousand. With regard to the residual amount, UniCredit S.p.A. has also renewed the request for release for the consolidation of pending charges to the competent office of the Regional Directorate of Liguria and the Bank is awaiting the related response.

2 Other commitments and other guarantees given

(Amounts in € thousand)

	Nominal amount Total 12/31/2019	Nominal amount Total 12/31/2018
1. Other guarantees given		
of which: impaired	-	-
a) Central Banks	-	-
b) Governments	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments	**1,453,932**	**1,180,475**
of which: impaired	154	154
a) Central Banks	-	-
b) Governments	-	-
c) Banks	516	97
d) Other financial companies	20,971	19,533
e) Non-financial companies	90	184
f) Households	1,432,355	1,160,661

Other commitments refer to the margins available on revocable credit lines granted to customers and spot sales 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	Amounts 12/31/2019	Amounts 12/31/2018
1. Financial assets at fair value through profit and loss	133	-
2. Financial assets at fair value through other comprehensive income	18,300	529,725
3. Financial assets at amortized cost	1,763,853	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:

- debt 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 bonds are given as collateral for the entire duration of the transaction;
- government bonds 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 Group 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.

4. Asset management and trading on behalf of others

(Amounts in € thousand)

Type of service	Total 12/31/2019
1. Execution of orders for customers	**303,546,260**
Securities	**93,072,251**
a) purchases	46,062,523
1. settled	45,735,250
2. unsettled	327,273
b) sales	47,009,728
1. settled	46,704,812
2. unsettled	304,916
Derivative contracts	210,474,009
a) purchases	105,273,967
1. settled	105,246,673
2. unsettled	27,294
b) sales	105,200,042
1. settled	105,183,450
2. unsettled	16,592
2. Segregated accounts	**-**
3. Custody and administration of securities	**-**
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	24,073,509
1. securities issued by the bank preparing the accounts	3,628
2. other securities	24,069,881
c) third-party securities deposited with third parties	24,073,509
d) own securities deposited with third parties	21,393,741
4. Other transactions	**32,694,071**
Order receipt and transmission	32,694,071
a) purchases	16,258,541
b) sales	16,435,530

Part B – Balance sheet – Liabilities (CONTINUED)

5. 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 amounts (f=c-d-e)	Net amount
					Financial instruments (d)	Cash deposit received as guarantee (e)	12/31/2019	12/31/2018
1. Derivatives		2,137	-	2,137	-	2,137	-	358
2. Reverse repos		1,390,225	1,390,024	201	201	-	-	-
3. Securities lending		4,345	-	4,345	4,345	-	-	-
4. Others		-	-	-	-	-	-	-
Total	**12/31/2019**	**1,396,707**	**1,390,024**	**6,683**	**4,546**	**2,137**	**-**	**X**
Total	**12/31/2018**	**1,813,817**	**1,800,522**	**13,295**	**12,297**	**640**	**X**	**358**

6. 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 (f=c-d-e)	Net amount
					Financial instruments (d)	Cash deposit received as guarantee (e)	12/31/2019	12/31/2018
1. Derivatives		-	-	-	-	-	-	-
2. Reverse repos		1,390,473	1,390,024	449	201	-	248	9,361
3. Securities lending		102,787	-	102,787	95,545	-	7,242	9,392
4. Others		-	-	-	-	-	-	-
Total	**12/31/2019**	**1,493,260**	**1,390,024**	**103,236**	**95,745**	**-**	**7,490**	**X**
Total	**12/31/2018**	**2,817,950**	**1,800,522**	**1,017,428**	**998,675**	**-**	**X**	**18,753**

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, 2019 there were swap derivative contracts with a positive fair value of €33,921 thousand and a negative fair value of €80,851 thousand, for which a positive variance margin of €39,920 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.

7. Securities lending transactions

The Bank conducts securities lending transactions on a continuous and systematic basis, with the objective of satisfying the requests of its customers, of institutional counterparties and obtaining a profit. The Bank operates as the borrower, borrowing the securities of its customers and using them in securities lending transactions guaranteed by cash amounts with retail and institutional customers interested in the temporary ownership of the securities. During 2019 the Bank also carried out repos with institutional customers using securities borrowed from its customers.

Against securities lending transactions guaranteed by other securities, the Group 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 €318,870 thousand, with a fair value of €216,078 thousand, broken down as follows:

(Amounts in € thousand)

	Type of securities - Nominal value December, 31 2019		
Securities received on loan from:	**Sold**	**Sold in repos**	**Other purposes**
Banks	-	-	-
Financial companies	-	35	2
Insurance companies	-	-	-
Non-financial companies	-	398	42
Other entities	595	311,597	6,201
Total nominal value	**595**	**312,030**	**6,245**

(Amounts in € thousand)

	Type of securities - Fair value December, 31 2019		
Securities received on loan from:	**Sold**	**Sold in repos**	**Other purposes**
Banks	-	-	-
Financial companies	-	681	33
Insurance companies	-	-	-
Non-financial companies	-	917	95
Other entities	1,762	202,762	9,828
Total *fair value*	**1,762**	**204,360**	**9,956**

8. Disclosure on joint control activities

No data to report.

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 operations	Total 2019	Total /2018
1. Financial assets at fair value through profit and loss	**4**	**-**	**-**	**4**	**2**
1.1 Financial assets held for trading	1	-	-	1	-
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatory at fair value	3	-	-	3	2
2. Financial assets at fair value through other comprehensive income	**2,943**	**-**	**X**	**2,943**	**4,534**
3. Financial assets at amortised cost	**232,029**	**70,994**	**X**	**303,023**	**286,345**
3.1 loans and receivables with banks	133,749	7,555	X	141,304	170,575
3.2 loans and receivables with customers	98,280	63,439	X	161,719	115,770
4. Hedging derivatives	**X**	**X**	**(10,643)**	**(10,643)**	**(1,947)**
5. Other assets	**X**	**X**	**73**	**73**	**77**
6. Financial liabilities	**X**	**X**	**X**	**2,494**	**4,133**
Total	**234,976**	**70,994**	**(10,570)**	**297,894**	**293,144**
of which: income interests impaired financial assets	-	183	-	183	197
of which: interest income on financial lease	-	-	-	-	-

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 2019	Total 2018
Interest income on foreign currency financial assets	17,151	19,448

1.3 Interest expenses and similar charges: breakdown

(Amounts in € thousand)

Items/Type	Payables	Debt securities in issue	Other transactions	Total 2019	Total /2018
1. Financial liabilities at amortized cost	(11,929)	-	X	(11,929)	(11,315)
1.1 Deposits from central banks	-	X	X	-	-
1.2 Deposits from banks	(128)	X	X	(128)	(396)
1.3 Deposits from customers	(11,801)	X	X	(11,801)	(10,919)
1.4 Debt securities in issue	X	-	X	-	-
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(4,574)	(3,126)
Totale	**(11,929)**	**-**	**-**	**(16,503)**	**(14,441)**
of which: interest expense on lease liabilities	(946)	-	-	(946)	-

Part C - Income statement (CONTINUED)

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 2019	Total 2018
Interest expense on liabilities denominated in currency	(9,671)	(9,216)

1.5 Hedging differentials

(Amounts in € thousand)

Items	Total 2019	Total 2018
A. Positive hedging differentials	43,803	3,410
B. Negative hedging differentials	(54,446)	(5,357)
C. Balance (A-B)	**(10,643)**	**(1,947)**

Section 2 – Fees and commissions - Items 40 and 50

2.1 Fee and commission income: breakdown

(Amounts in € thousand)

Type of services/Amounts	Total 12/31/2019	Total 12/31/2018
a) guarantees given	40	82
b) credit derivatives	-	-
c) management, brokerage and consulting services:	481,412	487,115
1. securities trading	73,749	73,349
2. currency trading	-	-
3. segregated accounts	-	-
4. custody and administration of securities	849	895
5. custodian bank	-	-
6. placement of securities	13,287	10,511
7. reception and transmission of orders	14,156	13,114
8. advisory services	62,122	52,321
8.1. related to investments	62,122	52,321
8.2. related to financial structure	-	-
9. distribution of third-party services:	317,249	336,925
9.1. segregated accounts	246,592	269,390
9.1.1 individual	408	10
9.1.2 collective	246,184	269,380
9.2 insurance products	70,657	67,535
9.3 other products	-	-
d) collection and payment services	35,042	31,664
e) securitisation servicing	-	-
f) factoring	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) management of current accounts	4,564	4,641
j) other services	15,051	12,044
k) securities lending transactions	6,770	5,156
Total	**542,879**	**540,702**

The amount of fee and commission income recognized in 2019 that was included in the contract liability balance at the beginning of the period is equal to €995 thousand.

Lastly, it should be noted that item 9.1.2 " segregated accounts collective " also includes the maintenance commissions for UCIT units equal to €242,161 thousand (€266,055 thousand at 31 December 2018).

2.2 Fee and commission income: distribution channels for products and services

(Amounts in € thousand)

Channel/Amounts	Total /2019	Total 2018
b) at own branches:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
b) cold-calling:	**313,775**	**326,959**
1. portfolio management	-	-
2. placement of securities	11,875	8,895
3. third-party services and products	301,900	318,064
c) other distribution channels:	**16,761**	**20,477**
1. portfolio management	-	-
2. placement of securities	1,412	1,615
3. third-party services and products	15,349	18,861

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

(Amounts in € thousand)

Services/Amounts	Total 2019	Total 2018
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services:	(253,157)	(242,788)
1.trading in financial instruments	(7,401)	(7,547)
2. currency trading	-	-
3. portfolios management:	-	-
3.1 own portfolio	-	-
3.2 third party portfolio	-	-
4. custody and administration securities	(6,210)	(4,931)
5. financial instruments placement	-	-
6. out of office offer of financial instruments, products and services	(239,546)	(230,310)
d) collection and payment services	(24,584)	(21,650)
e) other services	(383)	(461)
f) securities lending transactions	(2,044)	(1,975)
Total	**(280,168)**	**(266,874)**

Item “c) management and brokerage services: 6. cold-calling to offer securities, products and services”, includes costs incurred 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 € 323 thousand (€310 thousand as at December 31, 2018) and the item 80. “Other liabilities” for an amount of € 18 thousand (€56 thousand as at December 31, 2018).

Section 3 – Dividend income and similar revenues – Item 70

3.1 Dividend income and similar revenue: breakdown

(Amounts in € thousand)

Items/Income	Total 2019		Total 2018	
	Dividends	Income from UCITS Units	Dividends	Income from UCITS Units
A. Financial assets held for trading	48	-	52	-
B. Other financial assets mandatorily at fair value	53	1,594	43	-
C. Financial assets at fair value through other comprehensive income	-	-	-	-
D. Equity investments	48,301	-	8,000	-
Total	**48,402**	**1,594**	**8,095**	**-**

“Income from UCITS units” recognised in “Other financial assets mandatorily at fair value”, include the profit recognized by the Voluntary Scheme to FinecoBank relating to the four tranches of interest, net of the costs incurred during the year 2019, paid by Banca Carige S.p.A. on the subordinated loan underwritten by the Voluntary Scheme. For further details, see Section A – Account policies, of the notes to the accounts.

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, 2019

(Amounts in € thousand)

Transactions/Income items	Unrealised gain (A)	Realized gains (B)	Unrealized losses (C)	Realized losses (D)	Net profit (loss) [(A+B) = (C+D)]
1. Financial assets held for trading	**20**	**112,540**	**(31)**	**(102,702)**	**9,827**
1.1 Debt securities	-	4,305	-	(3,716)	589
1.2 Equity instruments	20	107,439	(31)	(98,279)	9,149
1.3 UCITS units	-	796	-	(707)	89
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**35**	**783**	**(5)**	**(839)**	**(26)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	35	783	(5)	(839)	(26)
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**13,145**
4. Derivatives	**5,293**	**72,214**	**(4,335)**	**(60,161)**	**18,400**
4.1 Financial derivatives:	5,293	72,214	(4,335)	(60,161)	18,400
- On debt securities and interest rates	45	1,297	(45)	(1,220)	77
- On equity securities and share indices	5,197	65,699	(4,233)	(55,159)	11,504
- On currency and gold	X	X	X	X	5,389
- Others	51	5,218	(57)	(3,782)	1,430
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges related to the fair value option	X	X	X	X	-
Total	**5,348**	**185,537**	**(4,371)**	**(163,702)**	**41,346**

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)]
1. Financial assets held for trading	**43**	**119,843**	**(32)**	**(111,209)**	**8,645**
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	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**951**	**(14)**	**(932)**	**5**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	951	(14)	(932)	5
Financial assets and liabilities: exchange differences	X	X	X	X	**7,128**
3. Derivatives	**4,625**	**65,592**	**(5,168)**	**(46,808)**	**28,055**
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	-
Total	**4,668**	**186,386**	**(5,214)**	**(158,949)**	**43,833**

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 2019	Total 2018
A. Gains on:		
A.1 Fair value hedging instruments	34,826	6,391
A.2 Hedged asset items (in fair value hedge relationship)	53,087	5,212
A.3 Hedged liability items (in fair value hedge relationship)	-	-
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in currency	-	-
Total gains on hedging activities (A)	**87,913**	**11,603**
B. Losses on		
B.1 Fair value hedging instruments	(53,626)	(5,060)
B.2 Financial assets items (in fair value hedge relationship)	(22,948)	-
B.3 Hedged liability items (in fair value hedge relationship)	(11,499)	(6,372)
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in currency	-	-
Total losses on hedging activities (B)	**(88,073)**	**(11,432)**
C. Fair value adjustments in hedge accounting (A-B)	**(160)**	**171**
of which: net profit (loss) on net position	-	-

Part C - Income statement (CONTINUED)

Section 6 – Gains (Losses) on disposals/repurchases – Item 100

6.1 Gains (Losses) on disposals/repurchases: breakdown

(Amounts in € thousand)

Items/Income items	Total 2019			Total 2018		
	Gain	Losses	Net profit (loss)	Gain	Losses	Net profit (loss)
A. Financial assets						
1. Financial assets at amortized cost	2,909	-	2,909	17	-	17
1.1 Loans and receivables with banks	1,831	-	1,831	-	-	-
1.2 Loans and receivables with customers	1,078	-	1,078	17	-	17
2. Financial assets at fair value through other comprehensive income	984	(257)	727	1,666	-	1,666
2.1 Debt securities	984	(257)	727	1,666	-	1,666
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**3,893**	**(257)**	**3,636**	**1,683**	**-**	**1,683**
B. Financial liabilities at amortized cost						
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities (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.

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

As at December 31, 2019

(Amounts in € thousand)

Transactions/Income items	Unrealized gain (A)	Realized gain (B)	Unrealized losses (C)	Realized losses (D)	Net Profit (loss) (A+B)-(C+D)
1. Financial assets	**2,480**	**39**	**(4,547)**	**-**	**(2,028)**
1.1 Debt securities	-	5	-	-	5
1.2 Equity securities	2,480	5	(4,547)	-	(2,062)
1.3 UCITS units	-	29	-	-	29
1.4 Loans	-	-	-	-	-
2. Financial assets in currency: exchange differences	**X**	**X**	**X**	**X**	**118**
Total	**2,480**	**39**	**(4,547)**	**-**	**(1,910)**

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)]
1. Financial assets	**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	-	-	-	-	-
2. Financial assets in currency: exchange differences	X	X	X	X	**215**
Total	**1,371**	**10**	**(3,031)**	**(65)**	**(1,500)**

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	Total
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Others			2019	2018
A. Loans and receivables with banks	**(221)**	**-**	**-**	**9,323**	**-**	**9,102**	**3,142**
- Loans	(147)	-	-	2,261	-	2,114	576
- Debt securities	(74)	-	-	7,062	-	6,988	2,566
of which: financial assetes purchased or originated credit impaired	-	-	-	-	-	-	-
B. Credit to clients	**(5,336)**	**(149)**	**(5,262)**	**5,480**	**1,547**	**(3,720)**	**(6,556)**
- Loans	(4,920)	(149)	(5,262)	4,677	1,547	(4,107)	(5,370)
- Debt securities	(416)	-	-	803	-	387	(1,186)
of which: financial assetes purchased or originated credit impaired	-	-	-	-	-	-	-
Total	**(5,557)**	**(149)**	**(5,262)**	**14,803**	**1,547**	**5,382**	**(3,414)**

8.2 Impairment losses on financial assets at fair value through other comprehensive income: breakdown

(Amounts in € thousand)

Transactions/Income items	Adjustments (1)			Write-backs (2)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage	2019	2018
		Write-off	Others				
A. Debt Securities	(8)	-	-	10	-	2	(114)
B. Loans and receivables	-	-	-	-	-	-	-
- With customers	-	-	-	-	-	-	-
- With banks	-	-	-	-	-	-	-
of which:financial assetes purchased or originated credit impaired	-	-	-	-	-	-	-
Total	**(8)**	**-**	**-**	**10**	**-**	**2**	**(114)**

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 2019	Total 2018
1) Employees	(84,513)	(83,351)
a) wages and salaries	(57,587)	(54,884)
b) social security contributions	(15,004)	(14,401)
c) pension costs	(870)	(2,182)
d) severance pay	-	-
e) allocation to employee severance pay provision	(114)	(114)
f) provision for retirements and similar provisions:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external pension funds:	(3,445)	(3,247)
- defined contribution	(3,445)	(3,247)
- defined benefit	-	-
h) costs related to share-based payments	(3,370)	(4,193)
i) other employee benefits (4,364) (3,972)	(4,123)	(4,330)
2) Other staffs	-	-
3) Directors and statutory auditors	(1,316)	(1,278)
4) Early retirement costs	-	-
5) Recovery of expenses for employees seconded to other companies	147	266
6) Refunds of expenses for third party employees seconded to the company	(385)	(69)
Total	**(86,067)**	**(84,432)**

Item 1 "h) Employees: costs related to share-based payments" includes costs incurred 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 €3,410 thousand (€4,243 thousand as at December 31, 2018), and on financial instruments issued by the former Parent Company UniCredit S.p.A., that are recorded against the item 80. "Other liabilities" for an amount of €2 thousand (€24 thousand as at December 31, 2018).

10.2 Average number of employees by category

	Total 2019	Total 2018
Employees	**1,167**	**1,128**
(a) executives	28	27
(b) managers	371	349
(c) remaining employees	768	752
Other personnel	**13**	**12**

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 expense/Amounts	Total 2019	Total 2018
Leaving incentives	(26)	(120)
Medical plan	(1,065)	(1,011)
Luncheon vouchers	(973)	(953)
Other	(2,059)	(2,246)
Total	**(4,123)**	**(4,330)**

Part C - Income statement (CONTINUED)

10.5 Other administrative expenses: breakdown

(Amounts in € thousand)

Type of expense/Amounts	Total 2019	Total 2018
1) INDIRECT TAXES AND DUTIES	**(108,577)**	**(101,053)**
2) MISCELLANEOUS COSTS AND EXPENSES		
A) Advertising expenses - Marketing and communication	**(18,270)**	**(16,740)**
Mass media communications	(11,988)	(11,264)
Marketing and promotions	(4,948)	(5,124)
Sponsorships	(107)	(22)
Conventions and internal communications	(1,227)	(330)
B) Expenses related to credit risk	**(1,496)**	**(1,399)**
Credit recovery expenses	(332)	(377)
Commercial information and company searches	(1,164)	(1,022)
C) Expenses related to personnel	**(22,393)**	**(28,183)**
Personnel training	(515)	(473)
Car rental and other staff expenses	(67)	(80)
Personal financial advisor expenses	(20,995)	(26,885)
Travel expenses	(846)	(693)
Premises rentals for personnel	(1)	(52)
D) ICT expenses	**(37,204)**	**(34,498)**
Lease of ICT equipment and software	(2,658)	(2,360)
Software expenses: lease and maintenance	(9,782)	(8,832)
ICT communication systems	(7,600)	(6,614)
ICT services: external personnel/outsourced services	(6,853)	(6,745)
Financial information providers	(10,311)	(9,947)
E) Consultancies and professional services	**(4,188)**	**(3,353)**
Consultancy on ordinary activities	(2,775)	(2,753)
Consultancy for one-off regulatory compliance projects	(13)	(23)
Consultancy for strategy, business development and organisational optimisation	(819)	(238)
Legal expenses	(234)	-
Legal disputes	(347)	(339)
F) Real estate expenses	**(8,566)**	**(18,996)**
Real estate services	(757)	(705)
Repair and maintenance of furniture, machinery, and equipment	(437)	(213)
Maintenance of premises	(1,981)	(1,009)
Premises rentals	(2,331)	(14,529)
Cleaning of premises	(574)	(519)
Utilities	(2,486)	(2,021)
G) Other functioning costs	**(35,036)**	**(37,486)**
Surveillance and security services	(404)	(404)
Postage and transport of documents	(3,696)	(3,585)
Administrative and logistic services	(17,098)	(19,417)
Insurance	(3,292)	(3,906)
Printing and stationery	(517)	(587)
Association dues and fees	(9,514)	(9,110)
Other administrative expenses	(515)	(477)
H) Ex-ante contribution to the Single Resolution Fund and Interbank Deposit Guarantee Fund	**(18,129)**	**(14,306)**
Total	**(253,859)**	**(256,014)**

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 €1,749 thousand (€3,778 thousand December 31, 2018).

The costs posted in 2019 for contributions paid to Deposit Guarantee Schemes (DGS) during the year, shown in item "Other administrative expenses" (point H) of table above, amounted to €18.129 thousand in total and pertain to the ordinary, additional and supplementary contribution and to the contribution to the Solidarity Fund for 2019. For further details, see Section A – Account policies, of the notes to the accounts.

No cost was recorded for the Single Resolution Fund as no contribution is due.

Below is the information required by IFRS 16 regarding the costs recognized in Other administrative expenses relating to short-term leasing, the costs relating to low value assets leasing and the costs for variable payments due for the leasing not included in the valuation of the leasing liabilities.

(Amounts in € thousand)

	Total 2019
Expense relating to short-term leases ("*Short term lease*")	(1,447)
Expense relating to leases of low-value assets ("*Low value assets*")	(32)
Expense relating to variable lease payments not included in the measurement of lease liabilities	(21)
Total	**(1,500)**

It should also be noted that the VAT related to the contracts included in the scope of IFRS 16 was also included in the Other administrative expenses, as it is not included in the assessment of the leasing liability.

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)

	Impairment		Write-backs			
Transactions/income items	First and second stage	Third stage	First and second stage	Third stage	Total 2019	Total 2018
1. Commitments	(13)	-	6	-	(7)	392
2. Financial guarantees given	(3)	-	37	-	34	10
Total	**(16)**	**-**	**43**	**-**	**27**	**402**

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 2019			Total 2018		
	Provisions	Reallocations	Total	Provisions	Reallocations	Total
Legal and fiscal disputes	(7,373)	5,129	(2,244)	(3,713)	3,048	(665)
Supplementary customer indemnity provision	(5,554)	-	(5,554)	(5,625)	-	(5,625)
Other provisions for risks and charges	(1,427)	202	(1,225)	(1,302)	518	(784)
Total	**(14,354)**	**5,331**	**(9,023)**	**(10,640)**	**3,566**	**(7,074)**

Part C - Income statement (CONTINUED)

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	Depriciation (a)	Write-downs (b)	Write-backs (c)	Net profit (loss) 2019 (a + b - c)	Net profit (loss) 2018 (a + b - c)
A. Property, plant and equipment					
1 Owned	(17,076)	(47)	-	(17,123)	(5,302)
- Used in the business	(7,690)	(46)	-	(7,736)	(5,302)
- Held for investment	(9,386)	(1)	-	(9,387)	-
2 Held under finance lease	(108)	-	-	(108)	(109)
- Used in the business	(108)	-	-	(108)	(109)
- Held for investment	-	-	-	-	-
3 Inventories	X	-	-	-	-
Total	**(17,184)**	**(47)**	**-**	**(17,231)**	**(5,411)**

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	Depriciation (a)	Write-downs (b)	Write-backs (c)	Net profit (loss) 2019 (a + b - c)	Net profit (loss) 2018 (a + b - c)
A. Intangible assets					
A.1 Owned	(5,396)	-	-	(5,396)	(4,959)
- Generated internally by the company	-	-	-	-	-
- Other	(5,396)	-	-	(5,396)	(4,959)
A.2 Held under finance lease	-	-	-	-	-
Total	**(5,396)**	**-**	**-**	**(5,396)**	**(4,959)**

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)

Type of expense/Amounts	Total 2019	Total 2018
Refunds and allowances	(157)	(147)
Penalties, fines and unfavourable rulings	(975)	(1,170)
Improvements and incremental expenses incurred on leasehold properties	(2,129)	(2,300)
Exceptional write-downs of assets	(169)	(295)
Other operating expenses	(296)	(229)
Total	**(3,726)**	**(4,141)**

14.2 Other operating income: breakdown

(Amounts in € thousand)

Type of expense/Amounts	Total 2019	Total 2018
Recovery of expenses:	104,068	96,767
- recovery of ancillary expenses - other	162	155
- recovery of taxes	103,906	96,612
Rental income from properties	879	-
Other income from current year	1,672	2,141
Total	**106,619**	**98,908**

The Bank has not carried out sub-leasing transactions.

The Bank has no financial leases. As far as operating leases are concerned, the Bank has outstanding operations, as lessor, represented by leasing contracts for a part of the property owned by FinecoBank, located in Milan Piazza Durante, 11, the proceeds of which are recognized in the item "Rental income from properties" and do not include income for ISTAT revaluations as, as contractually provided, the rent will be updated at the end of each rental year, therefore during the 2020 financial year.

Section 15 – Profit (loss) of associates – Item 220

No data to report.

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.

Part C - Income statement (CONTINUED)

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 2019	Total 2018
A. Properties	-	(18)
- Gains on disposal	-	-
- Losses on disposal	-	(18)
B. Other assets	-	(143)
- Gains on disposal	-	-
- Losses on disposal	-	(143)
Net profit (loss)	**-**	**(161)**

The Bank has not carried out sales and leasing transactions for tangible assets.

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)

Income items/Amounts	Total 2019	Total 2018
1. Current tax (-)	(109,270)	(106,713)
2. Adjustment to current tax of prior years (+/-)	96	-
3. Reduction in 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 (+/-)	20,760	(1,142)
5. Changes in deferred tax liabilities (+/-)	568	(2,624)
6. Tax expense for the year (-) (-1+/-2+3+ 3 bis +/-4+/-5)	(87,846)	(110,479)

19.2 Reconciliation of theoretical tax charge to actual tax charge

(Amounts in € thousand)

	Total 2019	Total 2018
Profit before tax	373,738	354,752

	Taxes			
	IRES	IRAP	Total 2019	Total 2018
Amount corresponding to theoretical tax rate	**(102,778)**	**(20,817)**	**(123,595)**	**(111,909)**
Tax effects of charges not relevant to the calculation of taxable income	1,217	193	1,410	3,541
Tax effects of income not relevant to the calculation of taxable income	13,311	-	13,311	2,101
Tax effects deriving from the use of tax losses from previous years	-	-	-	-
Tax effects deriving from the application of substitute taxes	(396)	-	(396)	(446)
Amount corresponding to actual tax rate	**(88,646)**	**(20,624)**	**(109,270)**	**(106,713)**

Section 20 – Profit (Loss) after tax from discontinued operations – Item 290

No data to report.

Section 21 – Other information

1.1 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.	205,752
Certification services	Deloitte & Touche S.p.A.	229,000
Other Services	Deloitte & Touche S.p.A.	10,000
Total		**444,752**

1.2 Disclosure regarding the transparency of public funding required by article 1, paragraph 125 of the Italian law 124/2017

For the purposes of fulfilling the requirements of art. 1, paragraph 125 of Law no. 124/2017 - Annual market and competition law, modified by art. 35 of the law decree n. 34/2019, in accordance with Assonime circular no. 5 of 22 February 2019 and also kept the indications provided by the in-depth document issued by Assonime on May 6, 2019, the Bank excluded from the disclosure the attributions that are justified in the performance of the company and in any case typical of the recipient's activity, as well as those aimed at the generality of the companies, such as tax and social security measures, thus limiting the information on the contributions to be presented and detailed in the National Register of State Aid "Transparency" section publicly available on the relevant website. In this sense, it should be noted that during the 2019 financial year the Group did not collect public contributions paid by Italian entities.

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.

	2019	2018
Net profit for the year (€ thousands)	285,891	227,922
Average number of outstanding shares	607,720,344	607,575,060
Average number of outstanding shares (including potential ordinary shares with dilution effect)	609,239,420	609,101,538
Basic earnings per share	0.470	0.375
Diluted Earnings Per Share	0.469	0.396

22.2 Other information

No data to report.

Part D – Comprehensive income

Analytic Statement of comprehensive income

(Amounts in € thousand)

Items		12/31/2019	12/31/2018
10.	**Net Profit (Loss) for the year**	**285,891**	**227,922**
	Other comprehensive income without reclassification through profit or loss	**4,227**	**3,428**
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	-	-
40.	Hedge accounting of equity instruments designated at fair value through other comprehensive 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	6,280	5,063
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	(2,053)	(1,635)
	Other comprehensive income with reclassification through profit or loss	**6,569**	**(6,858)**
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	-	-
150.	Financial assets (different from equity instruments) at fair value through other comprehensive income:	9,815	(10,247)
	a) fair value changes	8,770	(6,565)
	b) reclassification through profit or loss	1,045	(3,682)
	- adjustments for credit risk	(10)	(1)
	- gains/losses on disposals	1,055	(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	-	-
180.	Tax for the year related to other comprehensive income with reclassification through profit or loss	(3,246)	3,389
190.	**Total other comprehensive income**	**10,796**	**(3,430)**
200.	**Comprehensive income (item 10+190)**	**296,687**	**224,492**

Part E - Information on Risks and relating hedging policies

Introduction

Con riferimento alla struttura organizzativa, al Risk Appetite ed ai processi ICAAP ed ILAAP di FinecoBank S.p.A. si rimanda alla Parte E – Informazioni sui rischi e sulle relative politiche di copertura della nota integrativa consolidata.

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 polices, which are always adequately correlated to the risk/return ratio and in line with the Risk Appetite defined by the Board of Directors.

The quality of the loan portfolio, which is constantly monitored and supported by risk mitigation instruments, is protected by scoring models that contribute to evaluation during the approval process, ensuring that it is consistent and controlled. In addition to adequate coverage of the risk levels, monitoring of the portfolio and its segmentation by product and seniority allow a better understanding of the best loan issue strategies. The identification of any high-risk areas permits intervention on the automated measurement systems as well as on disbursement standards, with the possibility to take measures to limit credit risk in advance.

The credit product offer has evolved over the years, especially through the offer of mortgages loans 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.

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 the subscription of Eurozone government bonds to diversify the exposure in bond instruments issued by UniCredit S.p.A. which will be carried to maturity. In order to optimise its portfolio by diversifying counterparty risk, during 2019 the Bank also increased its exposure to Italian government securities (for more details, see the Information on Sovereign Exposures).

2. Credit Risk Management Policy

2.1 Organisational aspects

The direction and control activities of credit risk and counterparty risk are Chief Risk Officer responsibility and in charge to the Credit Risk Team: For details on the responsibilities of the Bank's Credit Risk Team, please refer to the same part dealt with in the notes to the consolidated accounts.

The Credit Unit within the CRO Department is responsible for ensuring the correct execution of the process of managing credit requests made by customers and managing the credits granted to customers, as well as ensuring the correct management of abnormal loans.

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 .

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 finalize 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 causes of default are attributable to the loss of the borrower's autonomous capacity to ensure repayment of the debt, as well as to the emergence of macro-economic and political circumstances that are reflected in the financial conditions of the debtor.

In addition to the risk associated with the granting and disbursement of credit, the Bank is also exposed to counterparty risk . 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.

Other banking activities, in addition to traditional loans and deposits, may expose the Group to additional credit risks. Counterparty risk may, for example, derive from:

- entering into derivative contracts;
- purchasing and selling securities, futures, or currencies;
- holding third-party securities.

The counterparties to these transactions or the issuers of securities held by Group companies could be in default due to insolvency, political and economic events, lack of liquidity, operational weakness or other reasons. Failure to comply with a large number of transactions or one or more transactions of a significant amount would have a materially negative effect on the Bank's activity, financial condition and operating results.

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.

2.2 Management, measurement and control system

The credit risk, associated with the potential loss arising from customer/issuer default or from a decrease in the market value of a financial obligation due to the deterioration of its credit rating, is measured at the level of each counterparty/transaction and for the entire portfolio.

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 data and private data from Credit Bureaus, flows from the Central Credit register or requests for initial information to the Bank of Italy and other information on customer performance logged by the Group. 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 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. In 2019, the Group updated the Global Collateral Management Policy which defines the rules for the eligibility, evaluation, monitoring and management of guarantees within the Fineco Group.

The purpose of the second level monitoring process, overseen by Risk Management, is to analyse the credit quality and dynamics of exposure to risk, calculating synthetic risk indicators and representing their evolution over time in order to prepare action plans necessary to mitigate or avoid risk factors. In particular, Risk Management prepares:

- the Quarterly Report on risk exposure, for the Board of Directors. This report presents the limits and parameters defined in the RAF and developments in the loans and receivables portfolio, divided by product type and classification;
- internal reports for Management which provides for a global assessment of portfolio risks, in order to identify asset sustainability and remuneration margins;
- specific reports produced to monitor the trend of loans and receivables by product type make it possible to identify potentially anomalous portfolio behaviour (deterioration rates) in the various dimensions analysed (customer segment, geographic area, etc.).

The counterparty risk 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, these limits are monitored by both first and second level functions.

The Board of Directors annually approves the Risk Appetite and the "Investment Plan"; the first one defines the propensity and limits for the Group's strategic investments, the second one provides an indication of the composition of the Group's strategic investments. Based on the guidelines of the Board of Directors, the Group defines specific risk limits (plafond) towards each FIBS counterparty ("Financial Institutions, Banks and Sovereigns") with which the Group will have a credit exposure, always in compliance with the regulatory limits of the Large exposures where applicable.

During 2019 the Bank issued the Policy "Credit Business with Financial Institutions, Banks, Sovereigns and Corporate counterparties", 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 Group's portfolio to issuer risk; by analysing these indicators, it is possible to identify the onset of anomalous situations and assess the need to take corrective actions, to deal with a deterioration in the portfolio position. Credit risk is monitored as part of trading book management activities, with a breakdown by rating class and sector of issuers that determine the level of risk implicit in contracts.

After the adoption of the accounting standard IFRS 9: Financial Instruments occurred since January 1st, 2018 a new model for recognising impairments for credit exposures has been introduced, based on (i) an "expected losses" approach instead of the previous model, which is based on the recognition of "incurred losses" and (ii) on the concept of the expected lifetime loss. For more details, see section 2.3. Methods for measuring expected losses.

2.3 Measurement methods for expected losses

In accordance with IFRS 9, financial assets at amortized cost, financial assets at fair value through comprehensive income and relevant off-balance sheet exposures are subject to impairment.

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.

The expected loss is calculated for institutional counterparties, using the credit parameters provided by UniCredit S.p.A., in accordance with a specific Master Service Agreement contract entered into between FinecoBank and UniCredit S.p.A..

For the purpose of calculating expected loss for 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 guarantee and any other factors deemed relevant or, if the conditions exist, of expected market transactions.

Parameters and definitions of risk level used in the calculation of value adjustments

As mentioned above, the models for the 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, 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).

In particolare si fa riferimento alla definizione di EBA delle esposizioni Non-Performing e quella di attività deteriorate stabilite da Banca d'Italia, così come riportate nella sezione Parte A – Politiche Contabili – Impairment.

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.

Specifically, the forward looking component is determined by three macroeconomic scenarios, a basic scenario ("Baseline"), a positive scenario and an adverse scenario. The basic scenario is the central scenario of reference and is therefore considered the most probable realization; the positive and adverse scenarios represent alternative realizations, respectively better and worse.

2.4 Credit risk mitigation techniques

In order to mitigate risk when granting the different types of credit facilities, various types of collateral are obtained. Mortgages on property loans, pledge on shares, bonds or investment funds, insurance contracts and government bonds are used to guarantee current account overdraft facilities.

The presence of collateral does not, however, relieve the Bank from the requirement to carry out on overall assessment of the credit risk, primarily centred on the customer's income capacity regardless of the additional guarantee provided. The valuation of the lien collateral is based on its actual value, i.e. the market value for the financial instruments listed in a regulated market. The resulting value is subject to percentage haircuts, differentiated based on the financial instruments used as security and the concentration of the instrument in the customer's portfolio provided as security.

For real estate collateral, the principles and rules are described in the policy on the granting of residential mortgages with property collateral to current account holders of FinecoBank S.p.A.. The valuation of the assets is performed by external technical experts included in the Register of Engineers, Architects and Surveyors or industrial experts who are not therefore susceptible to conflict of interest.

Valuations, moreover, are subject to periodic reviews.

3. Impaired credit exposures

3.1 Management strategies and policies

Loans are classified as past due, unlikely to pay or bad exposure in accordance with the criteria set forth by the Bank of Italy. 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, based on the seniority of the expiration, specific actions for the recovery of the credit.

3.2 Write-off

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

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

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

3.3 Purchased or originated financial assets impaired

The current business model of the Bank and company policies approved by the Board of Directors do not provide for purchased of impaired loans or the provision of "new finance" in any form (personal loans, mortgages, current account credit facilities, etc.) to already non-performing customers.

4. Renegotiations

Renegotiations of financial instruments that lead to a change in the contractual terms are recognized on the basis of the 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.

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 exposures	Unlikely to pay	Past due impaired exposures	Past due unimpaired exposures	Other not impaired exposures	Total
1. Financial assets at amortised cost	1,685	1,391	493	19,018	26,166,945	26,189,532
2. Financial assets at fair value through other comprehensive income	-	-	-	-	321,694	321,694
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	32	32
5. Financial instruments classified as held for sale	-	-	-	-	-	-
Total 12/31/2019	**1,685**	**1,391**	**493**	**19,018**	**26,488,671**	**26,511,258**
Total 12/31/2018	**1,647**	**617**	**553**	**11,605**	**24,195,842**	**24,210,264**

As at December 31, 2019 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 impairment provision	Net exposure	Overall partial write-off*	Gross exposure	Total impairment provision	Net exposure	
1. Financial assets at amortized cost	25,336	(21,767)	3,569	-	26,201,741	(15,778)	26,185,963	26,189,532
2. Financial assets at fair value through other comprehensive income	-	-	-	-	321,720	(26)	321,694	321,694
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	X	X	32	32
5. Financial instruments classified as held for sale	-	-	-	-	-	-	-	-
Total 12/31/2019	**25,336**	**(21,767)**	**3,569**	**-**	**26,523,461**	**(15,804)**	**26,507,689**	**26,511,258**
Total 12/31/2018	**23,932**	**(21,118)**	**2,818**	**-**	**24,232,678**	**(25,297)**	**24,207,446**	**24,210,264**

(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	-	-	4,639
2. Hedging derivatives	-	-	36,059
Total 12/31/2019	**-**	**-**	**40,698**
Total 12/31/2018	**-**	**-**	**8,078**

Part E - Information on Risks and relating hedging policies (CONTINUED)

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		17,070	896	35	14	932	72	28	22	3,128
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-
3. Financial instruments classified held for sale		-	-	-	-	-	-	-	-	-
Total	**12/312019**	**17,070**	**896**	**35**	**14**	**932**	**72**	**28**	**22**	**3,128**
Total	**12/312018**	**9,573**	**28**	**1**	**65**	**1,634**	**304**	**12**	**12**	**2,557**

A.1.4 Financial assets, commitments and financial guarantees: changes in overall impairment and overall provisions

(Amounts in € thousand)

Source/Stages	Total impairment provision									
	Assets included in the first stage					Assets included in the second stage				
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individually measured allowances	of which: collectively measured allowances	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individually measured allowances	of which: collectively measured allowances
Opening balance	**(19,131)**	**(171)**	**-**	**-**	**(19,302)**	**(5,995)**	**-**	**-**	**-**	**(5,995)**
Increases due to origination and acquisition	-	-	-	-	-	-	-	-	-	-
Decreases due to derecognition other than write-off	5,523	143	-	-	5,666	-	-	-	-	-
Net value adjustments / write-backs for credit risk (+/-)	4,024	2	-	-	4,026	(202)	-	-	-	(201)
Changes due to modifications without derecognition (net)	-	-	-	-	-	-	-	-	-	-
Changes due to update in the institution's methodology for estimation (net)	-	-	-	-	-	-	-	-	-	-
Write-off	3	-	-	-	3	-	-	-	-	-
Other adjustments	-	-	-	-	-	-	-	-	-	-
Closing balance	**(9,581)**	**(26)**	**-**	**-**	**(9,607)**	**(6,196)**	**-**	**-**	**-**	**(6,196)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	-	-	-	-	-	-	-	-	-	-
Amounts written-off directly to the statement of profit or loss	-	-	-	-	-	-	-	-	-	-

(Amounts in € thousan

Source/Stages	Total impairment provision						Total provisions on commitments and financial guarantees given			Tot
	Assets included in the third stage					Of which: financial assets purchased or originated credit impaired				
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individually measured allowances	of which: collectively measured allowances		First stage	Second stage	Third stage	
Opening balance	**(21,118)**	**-**	**-**	**(17,988)**	**(3,130)**	**-**	**(49)**	**-**	**-**	**(46,46**
Increases due to origination and acquisition	-	-	-	-	-	-	-	-	-	
Decreases due to derecognition other than write-off	766	-	-	268	498	-	22	-	-	**6,45**
Net value adjustments / write-backs for credit risk (+/-)	(4,514)	-	-	(1,848)	(2,666)	-	5	-	-	**(68**
Changes due to modifications without derecognition (net)	-	-	-	-	-	-	-	-	-	
Changes due to update in the institution's methodology for estimation (net)	-	-	-	-	-	-	-	-	-	
Write-off	3,100	-	-	3,069	31	-	-	-	-	**3,10**
Other adjustments	-	-	-	1,296	(1,296)	-	-	-	-	
Closing balance	**(21,766)**	**-**	**-**	**(15,203)**	**(6,563)**	**-**	**(22)**	**-**	**-**	**(37,59**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	10	-	-	10	-	-	-	-	-	1
Amounts written-off directly to the statement of profit or loss	(149)	-	-	(149)	-	-	-	-	-	**(14**

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/nominal 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 amortized cost		852	3,189	51	1,274	109	5,019
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-
3. Financial assets held for sale		-	-	-	-	-	-
4. Commitments and financial guarantees given		-	-	-	1	10	-
Total	**12/31/2019**	**852**	**3,189**	**51**	**1,275**	**119**	**5,019**
Total	**12/31/2018**	**2,405**	**905**	**841**	**58**	**3,969**	**243**

A.1.6 On-balance sheet and off-balance-sheet credit exposures to banks: gross and net values

(Amounts in € thousand)

Type of exposure/amounts	Gross exposures		Total impairment	Net Exposure	Total partial write-off
	Impaired	Unimpaired			
A. On-balance sheet credit exposures					
a) Bad exposure	-	X	-	-	-
- of wich: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of wich: forborne exposures	-	X	-	-	-
c) Past-due impaired loans	-	X	-	-	-
- of wich: forborne exposures	-	X	-	-	-
d) Past due non-impaired exposures	X	-	-	-	-
- of wich: forborne exposures	X	-	-	-	-
e) Other unimpaired exposures	X	9,424,241	(276)	9,423,965	-
- of wich: forborne exposures	X	-	-	-	-
Total (A)	**-**	**9,424,241**	**(276)**	**9,423,965**	**-**
B. Off-balance sheet exposures					
a) Impaired	-	X	-	-	-
b) Unimpaired	X	79,374	(2)	79,372	-
Total (B)	**-**	**79,374**	**(2)**	**79,372**	**-**
Total (A+B)	**-**	**9,503,615**	**(278)**	**9,503,337**	**-**

In the above table, item B. "Off-balance sheet exposures" includes the counterparty risk related to repos that can be classified as "Securities Financing Transactions" (SFT) defined in prudential regulations, amounting to €26,083 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 exposure/Amounts	Gross exposures		Total value adjustments and total provisions	Net exposure	Total Write-off
	Impairment	Non impairment			
A. On-balance sheet credit exposures					
a) Bad exposure	19,562	X	(17,877)	1,685	-
- of which: forborne exposures	253	X	(220)	33	-
b) Unlikely to pay	4,348	X	(2,957)	1,391	-
- of which: forborne exposures	421	X	(273)	148	-
c) Past-due impaired loans	1,424	X	(932)	492	-
- of which: forborne exposures	-	X	-	-	-
d) Past due non-impaired exposures	X	19,482	(464)	19,018	-
- of which: forborne exposures	X	40	-	40	-
e) Other unimpaired exposures	X	17,079,769	(15,063)	17,064,706	-
- of which: forborne exposures	X	58	(1)	57	-
Total (A)	**25,334**	**17,099,251**	**(37,293)**	**17,087,292**	**-**
B. Off-balance sheet exposures					
a) Impaired	165	X	-	165	-
b) Unimpaired	X	1,335,067	(20)	1,335,047	-
Total (B)	**165**	**1,335,067**	**(20)**	**1,335,212**	**-**
Total (A+B)	**25,499**	**18,434,318**	**(37,313)**	**18,422,504**	**-**

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 € 62,739 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 forborne 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	Bad exposure	Unlikely to pay	Past due impaired exposures
. Opening balance - gross exposure	**19,714**	**2,660**	**1,563**
- of which: assets sold but not derecognised	-	-	-
B. Increases	**3,922**	**4,492**	**1,617**
B.1 transfers from performing exposures	1,835	3,168	1,296
B.2 transfers from financial assets purchased or originated credit impaired	-	-	-
B.3 transfers from other categories of impaired exposures	1,887	203	-
B.4 contractual changes without write-off	-	-	-
B.5 other increases	200	1,121	321
C. Decreases	**(4,074)**	**(2,804)**	**(1,756)**
C.1 transfers to performing exposures	-	(33)	(146)
C.2 write-off	(3,174)	(57)	(17)
C.3 collections	(783)	(1,021)	(692)
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposures	-	(1,244)	(847)
C.7 contractual changes without write-off	-	-	-
C.8 other decreases	(117)	(449)	(54)
D. Gross exposure closing balance	**19,562**	**4,348**	**1,424**
- of which: assets sold but not derecognised	-	-	-

A.1.9bis On-balance sheet credit exposures to customers: gross changes in forborne non-performing exposures breakdown by credit quality

(Amounts in € thousand)

Sources/categories	Forborne exposure: non performing	Forborne exposure: performing
A. Opening balance - gross exposure	**325**	**224**
- of which: assets sold but not derecognised	-	-
B. Increases	**608**	**81**
B.1 transfers from performing exposures not forborne	-	57
B.2 transfers from performing forborne exposures	87	X
B.3 transfers from impaired forborne exposures	X	-
B.4 transfers from impaired not forborne exposure	433	-
B.5 other increases	88	24
C. Decreases	**(259)**	**(207)**
C.1 transfers to performing exposures not forborne	X	-
C.2 transfers to performing forborne exposures	-	X
C.3 transfers to impaired forborne exposures	X	(87)
C.4 write-offs	(26)	-
C.5 collections	(164)	(120)
C.6 proceeds from disposals	-	-
C.7 losses on disposals	-	-
C.8 other decreases	(69)	-
D. Gross exposure closing balance	**674**	**98**
- of which: assets sold but not derecognised	-	-

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
A. Total opening impairment	**(18,067)**	**(161)**	**(2,042)**	**(74)**	**(1,009)**	**(23)**
of which: assets sold but not derecognised	-	-	-	-	-	-
B. Increases	**(3,731)**	**(99)**	**(2,389)**	**(260)**	**(929)**	**(54)**
B.1 value adjustments from financial assets purchased or originated credit impaired	-	X	-	X	-	X
B. 2 other value adjustments	(2,425)	(65)	(2,244)	(193)	(876)	(1)
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfer from other categories impaired exposures	(1,296)	(34)	(120)	(42)	-	-
B. 5 contractual changes without write-off	-	-	-	-	-	-
B.6 other increases	(10)	-	(25)	(25)	(53)	(53)
C. Decreases	**3,921**	**40**	**1,474**	**61**	**1,006**	**77**
C.1 write-backs from assessments	184	4	284	30	355	21
C.2 write-backs from recoveries	562	10	182	9	91	2
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-off	3,174	26	57	-	17	-
C.5 transfers to other categories of impaired exposures	-	-	925	22	492	54
C. 6 contractual changes without write-off	-	-	-	-	-	-
C.7 other decreases	1	-	26	-	51	-
D. Final overall impairment	**(17,877)**	**(220)**	**(2,957)**	**(273)**	**(932)**	**-**
of which: assets sold but not derecognised	-	-	-	-	-	-

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		
A. Financial assets at amortized cost	**3,679,417**	**5,264,150**	**13,224,701**	**27,953**	**21,548**	**-**	**4,009,308**	**26,227,077**
- First stage	3,679,417	5,264,150	13,224,701	27,953	21,548	-	3,972,736	26,190,505
- Second stage	-	-	-	-	-	-	11,237	11,237
- Third stage	-	-	-	-	-	-	25,335	25,335
B. Financial assets valued at fair value through other comprehensive income	**107,559**	**41,431**	**172,704**	**-**	**-**	**-**	**-**	**321,694**
- First stage	107,559	41,431	172,704	-	-	-	-	321,694
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
C. Financial instruments classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B+C)	**3,786,976**	**5,305,581**	**13,397,405**	**27,953**	**21,548**	**-**	**4,009,308**	**26,548,771**
of which: of which: financial assets purchased or originated credit impaired	-	-	-	-	-	-	-	-
D. Commitments and financial guarantees given								
- First stage	-	-	17,170	-	-	-	20,550	37,720
- Second stage	-	-	-	-	-	-	186	186
- Third stage	-	-	-	-	-	-	11	11
Total (D)	**-**	**-**	**17,170**	**-**	**-**	**-**	**20,747**	**37,917**
Total (A+B+C+D)	**3,786,976**	**5,305,581**	**13,414,575**	**27,953**	**21,548**	**-**	**4,030,055**	**26,586,688**

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, 2019) were not externally ranked. Exposures with ratings to non-retail customers mainly derive from amounts due to the due to 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)

			Collaterals (1)				Personal guarantees (2)	
							Credit derivatives	
								Other derivatives
	Gross exposure	Net exposures	Property - mortgages	Property - Financial leases	Securities	Other real guarantees	CLN	Central counterparties
1. Secured on-balance sheet exposures:	**7,505,695**	**7,505,693**	**-**	**-**	**7,505,575**	**-**	**-**	**-**
1.1 totally secured	7,505,695	7,505,693	-	-	7,505,575	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**17,166**	**17,164**	**-**	**-**	**17,164**	**-**	**-**	**-**
2.1 totally secured	17,166	17,164	-	-	17,164	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-

(continued)

(Amounts in € thousand)

	Personal guarantees (2)							
	Credit derivatives			Signature credits				
	Other derivatives							
	Banks	Other financial entities	Other entities	Public entities	Banks	Other financial entities	Other entities	Total (1)+2)
1. Secured on-balance sheet exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,505,575**
1.1 totally secured	-	-	-	-	-	-	-	7,505,575
- of which impaired	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,164**
2.1 totally secured	-	-	-	-	-	-	-	17,164
- of which impaired	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-

Part E - Information on Risks and relating hedging policies (CONTINUED)

A.3.2 Secured on-balance sheet and off-balance-sheet exposures to customers

(Amounts in € thousand)

	Gross exposure	Net exposures	Real guarantess (1)				Personal guarantees (2)	
							Credit derivatives	
								Other derivatives
			Property - Mortgages	Property - Financial leases	Securities	Other real assets	CLN	Central counterparties
1. Secured on-balance sheet:	**2,504,874**	**2,500,751**	**1,156,339**	**-**	**1,316,839**	**27,552**	**-**	**-**
1.1 totally secured	2,504,525	2,500,402	1,156,115	-	1,316,720	27,552	-	-
- of which: impaired	759	469	396	-	74	-	-	-
1.2 partially secured	349	349	224	-	119	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**21,491**	**21,472**	**-**	**-**	**18,338**	**3,134**	**-**	**-**
2.1 totally secured	21,491	21,472	-	-	18,338	3,134	-	-
- of which: impaired	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-

(continued)

(Amounts in € thousand)

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Signature credits				
	Other derivatives							
	Banks	Other financial entities	Other entities	Public entities	Banks	Other financial entities	Other entities	
1. Secured on-balance sheet:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,500,730**
1.1 totally secured	-	-	-	-	-	-	-	2,500,387
- of which: impaired	-	-	-	-	-	-	-	470
1.2 partially secured	-	-	-	-	-	-	-	343
- of which: impaired	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,472**
2.1 totally secured	-	-	-	-	-	-	-	21,472
- of which: impaired	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	-	-
- of which: impaired	-	-	-	-	-	-	-	-

A.4 Financial and non-financial assets obtained through the enforcement of guarantees received

No data to report.

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)

Exposures/Counterparty		Public entities		Financial entities		Financial companies(of which: insurance companies)	
		Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments
A. On-balance sheet credit exposures							
A.1 Bad loans		-	-	-	(11)	-	-
- of wich: forborne exposures		-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-
- of wich: forborne exposures		-	-	-	-	-	-
A.3 Past-due impaired loans		-	-	-	(1)	-	-
- of wich: forborne exposures		-	-	-	-	-	-
A.4 Performing exposures		13,418,361	(1,269)	236,098	(429)	18,474	(31)
- of wich: forborne exposures		-	-	-	-	-	-
Total (A)		**13,418,361**	**(1,269)**	**236,098**	**(441)**	**18,474**	**(31)**
B. Off-balance sheet exposures							
B.1 Impaired		-	-	-	-	-	-
B.2 Unimpaired		56	-	2,766	-	-	-
Total (B)		**56**	**-**	**2,766**	**-**	**-**	**-**
Total (A+B)	**12/31/2019**	**13,418,417**	**(1,269)**	**238,864**	**(441)**	**18,474**	**(31)**
Total (A+B)	**12/31/2018**	**8.835.797**	**(1.826)**	**173.798**	**(480)**	**19.028**	**(46)**

(continued)

(Amounts in € thousand)

Exposures/Counterparty		Non-financial entities		Households	
		Net exposure	Total impairments	Net exposure	Total impairments
A. On-balance sheet credit exposures					
A.1 Bad loans		1	(5)	1,683	(17,861)
- of wich: forborne exposures		-	-	33	(220)
A.2 Unlikely to pay		7	(16)	1,384	(2,941)
- of wich: forborne exposures		-	-	149	(273)
A.3 Past-due impaired loans		4	(8)	489	(923)
- of wich: forborne exposures		-	-	-	-
A.4 Performing exposures		341	(3)	3,428,924	(13,826)
- of wich: forborne exposures		-	-	97	(1)
Total (A)		**353**	**(32)**	**3,432,480**	**(35,551)**
B. Off-balance sheet exposures					
B.1 Impaired		-	-	165	-
B.2 Unimpaired		1	-	1,269,485	(20)
Total (B)		**1**	**-**	**1,269,650**	**(20)**
Total (A+B)	**12/31/2019**	**354**	**(32)**	**4,702,130**	**(35,571)**
Total (A+B)	**12/31/2018**	**1,205**	**(26)**	**3,817,678**	**(34,639)**

Part E - Information on Risks and relating hedging policies (CONTINUED)

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)

Exposures/Geographical area		Italy		Other european countries		United States
		Net exposures	Total impairments	Net exposures	Total impairments	Net exposures
A. On-balance sheet exposures						
A.1 Bad loans		1,680	(17,851)	4	(26)	-
A.2 Unlikely to pay		1,389	(2,954)	2	(4)	-
A.3 Impaired past-due exposures		491	(926)	2	(3)	-
A.4 Unimpaired exposures		8,914,708	(14,910)	7,757,415	(612)	410,227
Total (A)		**8,918,268**	**(36,641)**	**7,757,423**	**(645)**	**410,227**
B. Off-balance sheet credit exposures						
B.1 Impaired exposures		165	-	-	-	-
B.2 Unimpaired exposures		1,268,617	(20)	3,206	-	72
Total (B)		**1,268,782**	**(20)**	**3,206**	**-**	**72**
Total (A+B)	**12/31/2019**	**10,187,050**	**(36,661)**	**7,760,629**	**(645)**	**410,299**
Total (A+B)	**12/31/2018**	**7,902,920**	**(36,012)**	**4,728,513**	**(950)**	**69,525**

(continued)

(Amounts in € thousand)

Exposures/Geographical area		United States	Asia		Rest of the world	
		Total impairments	Net exposures	Total impairments	Net exposures	Total impairments
A. On-balance sheet exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due exposures		-	-	-	-	-
A.4 Unimpaired exposures		(3)	1,239	(2)	135	-
Total (A)		**(3)**	**1,239**	**(2)**	**135**	**-**
B. Off-balance sheet credit exposures						
B.1 Impaired exposures		-	-	-	-	-
B.2 Unimpaired exposures		-	385	-	28	-
Total (B)		-	**385**	**-**	**28**	**-**
Total (A+B)	**12/31/2019**	**(3)**	**1,624**	**(2)**	**163**	**-**
Total (A+B)	**1231//2018**	**(7)**	**911**	**(1)**	**126,610**	**-**

(Amounts in € thousand)

Exposures/Geographic area		North-West Italy		North-East Italy		Central Italy		South Italy and Islands	
		Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments
A. On-balance sheet exposures									
A.1 Bad loans		433	(4,782)	179	(2,395)	398	(3,734)	670	(6,940)
A.2 Unlikely to pay		685	(1,507)	100	(276)	186	(498)	418	(673)
A.3 Impaired past-due exposures		112	(213)	73	(127)	119	(231)	187	(355)
A.4 Unimpaired exposures		1,176,512	(4,919)	492,465	(1,539)	6,385,854	(4,928)	859,877	(3,524)
Total (A)		**1,177,742**	**(11,421)**	**492,817**	**(4,337)**	**6,386,557**	**(9,391)**	**861,152**	**(11,492)**
B. Off-balance sheet credit exposures									
B.1 Impaired exposures		19	-	45	-	47	-	54	-
B.2 Unimpaired exposures		463,554	(7)	198,372	(4)	332,150	(3)	274,541	(6)
Total (B)		463,573	(7)	198,417	(4)	332,197	(3)	274,595	(6)
Total (A+B)	**12/31/2019**	**1,641,315**	**(11,428)**	**691,234**	**(4,341)**	**6,718,754**	**(9,394)**	**1,135,747**	**(11,498)**
Total (A+B)	**12/31/2018**	**1,283,900**	**(10,328)**	**554,475**	**(4,275)**	**5,125,633**	**(9,609)**	**938,912**	**(11,796)**

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)

Exposures/Geographical Area		Italy		Other european countries		America
		Net exposures	Total impairments	Net exposures	Total impairments	Net exposures
A. On-balance sheet exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due exposures		-	-	-	-	-
A.4 Not impaired exposures		8,066,710	(124)	802,699	(84)	88,669
Total (A)		**8,066,710**	**(124)**	**802,699**	**(84)**	**88,669**
B. Off-balance sheet credit exposures						
B.1 Impaired exposure		-	-	-	-	-
B.2 Unimpaired exposure		17,168	(2)	36,121	-	-
Total (B)		**17,168**	**(2)**	**36,121**	**-**	**-**
Total (A+B)	**12/31/2019**	**8,083,878**	**(126)**	**838,820**	**(84)**	**88,669**
Total (A+B)	**12/31/2018**	**12,406,124**	**(9,458)**	**179,184**	**(36)**	**-**

Part E - Information on Risks and relating hedging policies (CONTINUED)

(continued)

(Amounts in € thousand)

Exposures/Geographical Area		America	Asia		Rest of the world	
		Total impairments	Net exposures	Total impairments	Net exposures	Total impairments
A. On-balance sheet exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Impaired past-due exposures		-	-	-	-	-
A.4 Not impaired exposures		(68)	-	-	465,887	-
Total (A)		**(68)**	**-**	**-**	**465,887**	**-**
B. Off-balance sheet credit exposures						
B.1 Impaired exposure		-	-	-	-	-
B.2 Unimpaired exposure		-	-	-	-	-
Total (B)		**-**	**-**	**-**	**-**	**-**
Total (A+B)	**12/31/2019**	**(68)**	**-**	**-**	**465,887**	**-**
Total (A+B)	**12/31/2018**	**-**	**-**	**-**	**101,271**	**-**

(Amounts in € thousand)

Exposures / Geographical Area		North-West Italy		North-East Italy		Central Italy		South - Italy and Islands	
		Net exposures	Total impairments	Net exposures	Total impairments	Net exposures	Total impairments	Net exposures	Total impairments
A. On-balance sheet exposures									
A.1 Bad loans		-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures		-	-	-	-	-	-	-	-
A.4 Unimpaired exposures		7,701,418	(85)	99,652	(26)	265,640	(13)	-	-
TOTAL		**7,701,418**	**(85)**	**99,652**	**(26)**	**265,640**	**(13)**	**-**	**-**
B. Off-balance sheet credit exposures									
B.1 Impaired exposures		-	-	-	-	-	-	-	-
B.2 Unimpaired exposures		17,168	(2)	-	-	-	-	-	-
Total (B)		**17,168**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**12/31/2019**	**7,718,586**	**(87)**	**99,652**	**(26)**	**265,640**	**(13)**	**-**	**-**
Total (A+B)	**12/31/2018**	**12,406,124**	**(9,458)**	**-**	**-**	**1**	**-**	**-**	**-**

B.4 Large exposures

At December 31, 2019 the following "risk positions" constituted "large exposure" pursuant to the provisions of the Implementing Regulation (EU) no. 680/2014 of the Commission of 16 April 2014 which establishes technical implementation rules with regard to the reporting of entities for supervisory purposes in accordance with Regulation (EU) no. 575/2013 of the European Parliament and of the Council, and subsequent Regulations that modify its content, are the following:

e) book value: €23,389,415 thousand, excluding the reverse repo transactions;
f) non-weighted value: €23,390,883 thousand;
g) weighted value: €560,471 thousand;
h) number of "risk positions": 24.

It should be noted that, in compliance with the EBA Guidelines on connected customers pursuant to Article 4, paragraph 1, point 39) of Regulation (EU) no. 575/2013, the large exposures also include counterparties that have links with central administrations and that, although they do not exceed the threshold of 10% of the eligible capital for large exposures individually, exceed this limit considering also the exposure to the sovereign state to which they are connected with a control bond.

As described above, following the deconsolidation of FinecoBank from the UniCredit Group took place, FinecoBank and UniCredit S.p.A. have entered into a contract (Pledge Agreement) which provides for the granting by UniCredit S.p.A. of financial guarantees in favor of FinecoBank aimed at guaranteeing credit risk exposures represented by UniCredit bonds, until their natural expiry, from current accounts, until November 2019, and from the financial guarantees issued by FinecoBank in favor of the Agency of Enter at the request of UniCredit SpA, until they are completely extinguished. These guarantees meet the requirements of the applicable legislation to be eligible in the context of credit risk mitigation techniques (CRM), with consequent reduction of risk-weighted assets and exposure for large exposures of the Group.

Finally, 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)

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.

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.

Part E - Information on Risks and relating hedging policies (CONTINUED)

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: securisation	of which: repurchase agreement	of which: impaired	Carrying amount	of which: securisation	of which: repurchase agreement
A. Financial assets held for trading	**133**	**-**	**133**	**X**	**143**	**-**	**143**
1. Debt securities	-	-	-	X	-	-	-
2. Equity instruments	133	-	133	X	143	-	143
3. Loans	-	-	-	X	-	-	-
4. Derivative instruments	-	-	-	X	-	-	-
B. Other financial assets mandatorily at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E.Financial assets at amortised cost	**1,345,152**	**-**	**1,345,152**	**-**	**1,390,473**	**-**	**1,390,473**
1. Debt securities	1,345,152	-	1,345,152	-	1,390,473	-	1,390,473
2. Loans	-	-	-	-	-	-	-
Total 12/31/2019	**1,345,285**	**-**	**1,345,285**	**-**	**1,390,616**	**-**	**1,390,616**
Total 12/31/2018	**1,874,877**	**-**	**1,874,877**	**-**	**1,821,735**	**-**	**1,821,735**

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.

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 mainly of securities, current accounts with credit institution and deposits with Bank of Italy. 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, 2019. 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 Part B of these Notes to the accounts).

Part E - Information on Risks and relating hedging policies (CONTINUED)

(Amounts in € thousand)

	Nominal value as at 12/31/2019	Carrying amount as at 12/31/2019	Fair value as at 12/31/2019	% Financial Statements item
Italy	**5,000,000**	**5,311,770**	**5,451,035**	**19.0%**
Financial assets at fair value through other comprensive income	160,000	172,704	172,704	53.7%
Financial assets at amortised cost	4,840,000	5,139,066	5,278,331	19.6%
Spain	**3,665,000**	**4,081,857**	**4,206,407**	**14.6%**
Financial assets at amortised cost	3,665,000	4,081,857	4,206,407	15.6%
Germany	**125,000**	**127,178**	**133,428**	**0.5%**
Financial assets at amortised cost	125,000	127,178	133,428	0.5%
Poland	**113,000**	**118,924**	**127,245**	**0.4%**
Financial assets at amortised cost	113,000	118,924	127,245	0.5%
France	**715,500**	**733,478**	**756,035**	**2.6%**
Financial assets at fair value through other comprensive income	35,000	36,668	36,668	11.4%
Financial assets at amortised cost	680,500	696,810	719,367	2.7%
USA	**409,471**	**409,137**	**411,792**	**1.5%**
Financial assets at fair value through other comprensive income	71,212	70,891	70,891	22.0%
Attività finanziarie valutate al costo ammortizzato	338,259	338,246	340,901	1.3%
Austria	**387,500**	**398,087**	**413,621**	**1.4%**
Financial assets at amortised cost	387,500	398,087	413,621	1.5%
Ireland	**731,500**	**772,336**	**812,987**	**2.8%**
Financial assets at fair value through other comprensive income	35,000	41,431	41,431	12.9%
Financial assets at amortised cost	696,500	730,905	771,556	2.8%
United Kingdom	**58,768**	**58,658**	**58,656**	**0.2%**
Financial assets at amortised cost	58,768	58,658	58,656	0.2%
Belgium	**405,000**	**417,485**	**433,666**	**1.5%**
Financial assets at amortised cost	405,000	417,485	433,666	1.6%
Portugal	**280,000**	**333,319**	**330,500**	**1.2%**
Financial assets at amortised cost	280,000	333,319	330,500	1.3%
Total Sovereing exposures	**11,890,739**	**12,762,229**	**13,135,372**	**45.6%**

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, 2019, investments in debt securities issued by Sovereign states accounted for 45.6% 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, 2019 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+	AA-
Belgium	Aa3	AA-	AA
Portugal	Baa3	BBB	BBB
United Kingdom	Aa2	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 FinecoBank sets the strategic guidelines for the assumption of market risks, approves a general framework for market risk and any significant changes, relating to the organisational structure, strategies, and methodologies and defines maximum risk appetite level.

The strategic approach of the Group is to maintain the minimum level of market risk compatibly with the business needs and the established limits of 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

For details of the responsibilities of the Market Risks function, within the Parent Company's Risk Management Unit, please refer to the same section of the notes to the consolidated accounts.

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 250 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 Risk Management of FinecoBank is responsible for monitoring market risk in the banking book by defining the structure, the relevant data and the frequency for adequate reporting.

Market risk in the banking book mainly consists of credit spread risk, interest rate risk and exchange rate risk.
The first 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 second type of risk, 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.

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 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 uses additional instruments such as stress tests.

2.1 Interest rate risk and price risk – regulatory trading book

Qualitative information

A. General Matters

The trading book is used to hold debt securities (ordinary and subordinated, structured and plain vanilla), equity instruments, and certificates – listed and non-listed – related to brokerage activities with retail customers.

The Bank does not perform proprietary trading and does not assume speculative positions in its books. Entries in the Bank's trading book are recorded against brokerage activities with retail customers particularly during the trading of OTC instruments. Other entries in the trading book are made for the internalisation of various financial instruments when the Bank is a counterparty to the Customer. This activity is performed as a result of the options introduced by the MiFID which allow the execution of orders for financial instruments in a number of execution venues including internal execution.

B. Processes for managing and methods for measuring interest rate risk and price risk

For both a description of internal processes for monitoring and managing risk and an illustration of the approaches used to analyse exposure, please refer to the introduction.

Quantitative information

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
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	72	-	-
- Others derivates								
+ Long positions	33	62,464	-	-	-	287	2,109	-
+ Short positions	33	61,559	-	-	-	1,000	2,121	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others derivatives								
+ Long positions	-	27,330	30	45,080	-	-	-	-
+ Short positions	-	52,777	1,270	29,840	-	-	-	-

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
1. On-balance sheet assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others derivates								
+ Long positions	-	147,239	-	-	-	22	-	-
+ Short positions	-	147,217	-	-	-	22	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others derivatives								
+ Long positions	-	94,170	2,020	45,025	-	-	-	-
+ Short positions	-	68,696	765	59,879	-	-	-	-

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 transaction/listing index	Listed						Unlisted
	U.S.A.	Switzerland	Italy	Germany	France	Other countries	
A. Equity instruments							
- long positions	1,966	-	769	176	366	12	-
- short positions	1,407	-	404	54	28	14	-
B. Unsettled equity instrument trades							
- long positions	146,947	-	56,404	2,739	24	277	-
- short positions	147,034	-	56,630	2,717	24	265	-
C. Other equity instruments derivatives							
- long positions	2,309	-	516	95	127	26	-
- short positions	2,672	-	995	246	455	37	-
D. Share index derivatives							
- long positions	31,890	1,667	4,200	7,993	642	2,057	-
- short positions	32,827	1,758	4,409	8,801	656	2,164	-

3. Regulatory trading book: internal models and other methods of sensitivity analysis

The Bank monitors the VaR of the Trading Book on a daily basis.

As at December 31, 2019, the daily VaR of the trading book amounted to €140 thousand. The average for the year 2019 is €193 thousand, with a maximum peak of €443 thousand, and a minimum of €27 thousand.

The volatility in the price of the instruments determines direct impacts on the income statement.

2.2 Interest rate risk and price risk – banking book

Qualitative information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

Interest rate risk consists of changes in interest rates that are reflected in:

- net interest margin sources, and thus, the Bank's earnings;
- the net present value of assets and liabilities, due to their impact on the present value of future cash flows.

The Bank measures and monitors interest rate risk daily, within the methodological framework and the corresponding limits or thresholds approved by the Board of Director. 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:

- gap risk: this derives from the term structure of the banking book and describes the risk arising from the times of changes in interest rates on the instrument. The gap risk also includes the repricing risk, arising from time mismatches in terms of the repricing of the Group's assets and liabilities. These mismatches result in a risk associated with the rate curve. This risk relates to the Group's exposure to changes in the slope and shape of the interest rate curve.
- basis risk : this can be divided into two types of risk:

  - tenor risk, arising from the mismatch between instrument expiry and the change in interest rates;
  - currency risk, defined as the risk of a potential offsetting between sensitivities to the interest rate arising from exposure to the interest rate risk in various currencies;
- option 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. 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; the six scenarios proposed by the Basel Committee are also conducted monthly. For more details see section *2. Banking book: internal models and other methods of sensitivity analysis*

Quantitative information

1. 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 to 1 year	Between 1 year and 5 years	Between 5 and 10 years	Over 10 years	Indefinite maturity
1. On-balance sheet assets	**1,525,441**	**9,261,535**	**186,033**	**820,827**	**3,877,448**	**9,624,467**	**336,422**	**-**
1.1 Debt securities	-	8,114,566	127,698	712,954	3,367,520	9,357,868	1	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	8,114,566	127,698	712,954	3,367,520	9,357,868	1	-
1.2 Loans to banks	66,058	254,618	-	715	-	-	-	-
1.3 Loans to customers	1,459,383	892,351	58,335	107,158	509,928	266,599	336,421	-
- current accounts	1,290,683	111	75	190	720	-	-	-
- others loans	168,700	892,240	58,260	106,968	509,208	266,599	336,421	-
- with early redemption option	4,627	380,596	58,100	105,549	505,064	266,536	336,374	-
- others	164,073	511,644	160	1,419	4,144	63	47	-
2. On-balance sheet liabilities	**24,886,031**	**114,759**	**2,270**	**106,414**	**30,385**	**23,466**	**2,614**	**-**
2.1 Deposits from customers	24,812,784	114,658	2,142	32,087	28,200	20,437	1,292	-
- current accounts	24,716,397	-	-	-	-	-	-	-
- other payables	96,387	114,658	2,142	32,087	28,200	20,437	1,292	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	96,387	114,658	2,142	32,087	28,200	20,437	1,292	-
2.2 Deposits from banks	73,247	101	128	74,327	2,185	3,029	1,322	-
- current accounts	70,081	-	-	-	-	-	-	-
- other payables	3,166	101	128	74,327	2,185	3,029	1,322	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**3,693,731**	**938,977**	**27,903**	**1,019,873**	**3,326,765**	**202,163**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	3,693,731	938,977	27,903	1,019,873	3,326,765	202,163	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others derivatives	-	3,693,731	938,977	27,903	1,019,873	3,326,765	202,163	-
+ Long positions	-	3,109,706	925,000	-	340,000	230,000	-	-
+ Short positions	-	584,025	13,977	27,903	679,873	3,096,765	202,163	-
4. Other off-balance sheet transactions	**2,503**	**16,671**	**15,643**	**144**	**341**	**25**	**-**	**-**
+ Long positions	506	5,815	10,832	144	341	25	-	-
+ Short positions	1,997	10,856	4,811	-	-	-	-	-

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 to 1 year	Between 1 year and 5 years	Between 5 and 10 years	Over 10 years	Indefinite maturity
1. On-balance sheet assets	**228,078**	**282,004**	**211,701**	**3,600**	**87,016**	**60,562**	**-**	**-**
1.1 Debt securities	-	246,675	211,701	-	87,015	60,562	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	246,675	211,701	-	87,015	60,562	-	-
1.2 Loans to banks	224,633	8	-	3,600	-	-	-	-
1.3 Loans to customers	3,445	35,321	-	-	1	-	-	-
- current accounts	402	-	-	-	1	-	-	-
- others loans	3,043	35,321	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	3,043	35,321	-	-	-	-	-	-
2. On-balance sheet liabilities	**861,918**	**24,534**	**22**	**55**	**351**	**-**	**-**	**-**
2.1 Deposits from customers	861,603	24,534	22	55	351	-	-	-
- current accounts	856,772	-	-	-	-	-	-	-
- other payables	4,831	24,534	22	55	351	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	4,831	24,534	22	55	351	-	-	-
2.2 Deposits from banks	315	-	-	-	-	-	-	-
- current accounts	315	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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	-	-	-	-	-	-	-	-
- Others derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**-**	**12,803**	**12,803**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	6,566	6,237	-	-	-	-	-
+ Short positions	-	6,237	6,566	-	-	-	-	-

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

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. FinecoBank 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)
12/31/2019	-51,955	240,436	-378	-3,830	123,971	-31,964

*1 day holding period, 99% confidence level%.

The sensitivity analysis on the value of shareholders' equity, which was conducted assuming a shift of + 200 basis points on the euro interest rate curve, showed a negative impact of -€51,955 thousand. A shift of -200 basis points showed a positive impact of €240,436 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 €378 thousand.

At December 31, 2019 the interest rate VaR figure for the Bank came to approximately €3,830 thousand. The average for the year 2019 is equal to €2,010 thousand with a maximum peak of €4,166 thousand and a minimum of €595 thousand.

Total VaR, including the Credit Spread Risk component arising mainly from government securities held as investment of liquidity and including the Credit Spread Risk component deriving from UniCredit instruments, amounts to €44,725 thousand. The average for the year 2019 is equal to €63,929 thousand with a maximum peak of €90,006 thousand and a minimum of €44,404 thousand. During the year, the indicator calculation method was revised, including, among other things, the inclusion of UniCredit instruments and a different depth of the underlying time series.

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 €123,971 thousand. A shift of -30 basis points would have a negative impact of -€31,964 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 mainly in current accounts with leading credit institutions and bonds in the same currency. 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	Currency					
	USD	GBP	CHF	JPY	AUD	OTHER CURRENCIES
A. Financial assets	**697,128**	**92,244**	**83,405**	**765**	**2,745**	**7,647**
A.1 Debt securities	522,453	76,332	7,168			
A.2 Equity securities	10,963	4		7		
A.3 Loans to banks	125,559	15,427	76,154	758	2,745	7,598
A.4 Loans to customers	38,153	481	83			49
A.5 Other financial assets						
B. Other assets	**71**	**123**	**38**			
C. Financial liabilities	**702,299**	**92,610**	**83,495**	**796**	**2,573**	**6,515**
C.1 Deposits from banks			100			214
C.2 Deposits from customers	702,299	92,610	83,395	796	2,573	6,301
C.3 Debt securities in issue						
C.4 Other financial liabilities						
D. Other liabilities	**1,389**	**305**	**37**		**7**	**95**
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions	83,072	22,088	6,125	10,507	6,087	14,613
+ Short positions	72,967	21,444	5,628	9,860	6,243	14,413
Total assets	**780,271**	**114,455**	**89,568**	**11,272**	**8,832**	**22,260**
Total liabilities	**776,655**	**114,359**	**89,160**	**10,656**	**8,823**	**21,023**
Balance (+/-)	**3,616**	**96**	**408**	**616**	**9**	**1,237**

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, 2019, the daily Forex VaR of the overall portfolio (banking and trading books) was approximately €37 thousand. The average for the year 2019 is equal to €62 thousand with a maximum peak of €212 thousand and a minimum of €20 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 12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with netting agreement	without netting agreement			with netting agreement	without netting agreement	
1. Debt securities and interest rate indexes	**-**	**-**	**878**	**714**	**-**	**-**	**358**	**128**
a) Options	-	-	4	-	-	-	4	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	714	-	-	-	128
e) Others	-	-	874	-	-	-	354	-
2. Equities instruments and share indices	**-**	**-**	**68,169**	**38,444**	**-**	**-**	**33,506**	**11,588**
a) Options	-	-	72	-	-	-	72	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	38,444	-	-	-	11,588
e) Others	-	-	68,097	-	-	-	33,434	-
3. Currencies and gold	**-**	**-**	**164,604**	**136**	**-**	**-**	**195,226**	**561**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	34	-
d) Futures	-	-	-	136	-	-	-	561
e) Others	-	-	164,604	-	-	-	195,192	-
4. Commodities	**-**	**-**	**1,367**	**1,126**	**-**	**-**	**1,561**	**1,580**
5. Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**235,018**	**40,420**	**-**	**-**	**230,651**	**13,857**

Letter e) Other in the “Over the counter – Without central counter-parties – not included in netting agreement” column consists of CFD derivatives.

Part E - Information on Risks and relating hedging policies (CONTINUED)

A.2 Trading book financial derivatives: gross positive and negative fair value – breakdown by product

(Amounts in € thousand)

Underlying assets/type of derivatives	Total 12/31/2019				Total 12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	Without central counterparties: With netting agreement	Without central counterparties: Without netting agreement		Central Counterparts	Without central counterparties: With netting agreement	Without central counterparties: Without netting agreement	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	35	-	-	-	43
g) Others	-	-	3,192	-	-	-	3,466	-
Total	**-**	**-**	**3,192**	**35**	**-**	**-**	**3,466**	**43**
2. Negative Fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	57	-	-	-	41
g) Others	-	-	523	-	-	-	658	-
Total	**-**	**-**	**523**	**57**	**-**	**-**	**658**	**41**

A.3 OTC trading book financial derivatives: 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				
1) Debt securities and interest rate indexes				
- notional amount	X	-	-	878
- positive fair value	X	-	-	2
- negative fair value	X	-	-	-
2) Equity instruments and share indices				
- notional amount	X	-	303	67,866
- positive fair value	X	-	-	2,357
- negative fair value	X	-	-	295
3) Currencies and gold				
- notional amount	X	72,413	-	92,191
- positive fair value	X	58	-	751
- negative fair value	X	107	-	118
4) Commodities				
- notional amount	X	-	-	1,367
- positive fair value	X	-	-	23
- negative fair value	X	-	-	3
5) Others				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreement				
1) Debt securities and interest rate indexes				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity instruments and share indices	-			
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold	-			
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities	-			
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others	-	-	-	-
- 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 derivative contracts on debt securities and interest rates	874	-	4	878
A.2 Financial derivative contracts on equity instruments and share indices	7,478	-	60,691	68,169
A.3 Financial derivatives on exchange rates and gold	164,605	-	-	164,605
A.4 Financial derivatives on commodities	1,367	-	-	1,367
A.5 Financial derivatives on other instruments	-	-	-	-
Total 12/31/2019	**174,324**	**-**	**60,695**	**235,019**
Total 12/31/2018	**200,839**	**-**	**29,812**	**230,651**

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 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 Group uses a test method based on sensitivity analisys. 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 analysing 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 (core insensitive component of on demand items). In a specific hedging relationship, the derivatives subscribed for the purpose of hedging exactly replicate the hedged security in terms of notional, maturity, interest payment dates.

It should be noted that the Bank has decided not to apply in advance the "Amendments to IFRS 9, IAS 39 and IFRS 7: reform of the interest rate Benchmarks" issued by the IASB in September 2019 and pursuant to the Regulation (EU) 2020/34 of the Commission of 15 January 2020. At 31 December 2019 the Bank has only fair value hedges in place which provide for the exchange of the fixed rate against Euribor whose assessment, as collateralised, is carried out by discounting future flows with the OIS curve.

Following the entry into force, in 2018, of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 (EU Benchmark Regulation - BMR), the Euribor was subject to a reform process conducted by the 'European Money Markets Institute (EMMI), manager of the same Institute, to make it compliant with BMR according to a new hybrid calculation methodology (based on three levels) to be implemented by the end of 2019. The authorization has been granted, pursuant to the art. 34 of the BMR, on 2 July 2019 by the Belgian authority FSMA, supervisor of EMMI. The full transition to the new calculation method was completed in November 2019 and the Euribor is therefore BMR-compliant and can continue to be used after January 1, 2020.

With reference to the OIS curve, the same will be replaced by the €STR curve. In particular, the clearing houses (Eurex\LCH) used by the Bank have communicated that the OIS curve will be replaced with the €STR curve starting from 22 June 2020, anticipating the disposal of the Eonia rate which, due to the effect of the reform in question, will take place at the end of 2021.

The Bank, which has chosen to continue to apply the hedge accounting requirements of IAS 39, has taken into account the above with respect to assessing the effectiveness of the hedging relationship, not detecting significant impacts on the existing hedging relationships.

E. Hedge item

The hedged assets are represented by mortgages granted to fixed-rate customers accounted and fixed rate bonds for in "Financial assets at amortized cost", while hedged liabilities are represented by direct customer current deposits (core insensible liquidity), recorded under "Financial liabilities at amortized cost ", modeled according to the model of sight items adopted by the Bank.

The hedged assets also include fixed rate securities, accounted for in the "Financial assets at amortized cost", also covered for the interest rate risk component with Interest Rate swaps which exchange the fixed rate coupon with a variable rate.

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 12/31/2018			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central Counterparts	without central counterparties			Central Counterparts	without central counterparties		
		with netting agreement	without netting agreement			with netting agreement	without netting agreement	
1. Debt securities and interest rate indexes	**4,354,706**	**250,000**	**-**	**-**	**896,477**	**250,000**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	4,354,706	250,000	-	-	896,477	250,000	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**4,354,706**	**250,000**	**-**	**-**	**896,477**	**250,000**	**-**	**-**

Part E - Information on Risks and relating hedging policies (CONTINUED)

A.2 Hedging financial derivatives: gross positive and negative fair value – breakdown by product

(Amounts in € thousand)

Underlying assets/Types of derivatives	Positive and Negative Fair value								Change in the value used to calculate the ueffectiveness of the hedge	
	Total 12/31/2019				Total 12/31/2018				Total 12/31/2019	Total 12/31/2018
	Over the counter			Organized markets	Over the counter			Organized markets		
	Central counterparts	Without central counterparties: With netting arrangements	Without central counterparties: Without netting arrangements		Central counterparts	Without central counterparties: With netting arrangements	Without central counterparties: Without netting arrangements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	33,922	2,138	-	-	2,316	998	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**33,922**	**2,138**	**-**	**-**	**2,316**	**998**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	80,852	-	-	-	5,341	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-	-	-
Total	**80,852**	**-**	**-**	**-**	**5,341**	**-**	**-**	**-**	**-**	**-**

A.3 OTC hedging financial derivative: notional amounts, gross positive and negative fair value by counterparty

(Amounts in € thousand)

Underlyings assets	Central Counterparts	Banks	Other financial entities	Other entities
Contracts not included in netting agreement				
1) Debt securities and interest rate indexes				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity instruments and share indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Others				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreement				
1) Debt securities and interest rate indexes				
- notional amount	4,354,706	250,000	-	-
- positive fair value	33,921	2,138	-	-
- negative fair value	80,852	-	-	-
2) Equity instruments and share indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

Part E - Information on Risks and relating hedging policies (CONTINUED)

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	55,905	1,019,873	3,528,928	4,604,706
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	-	-	-	-
Total 12/31/2019	**55,905**	**1,019,873**	**3,528,928**	**4,604,706**
Total 12/31/2018	**42,731**	**462,843**	**640,903**	**1,146,477**

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 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 €718,706 thousand, subject to generic hedging, referring exclusively to mortgages;
- the amount of "Financial liabilities at amortized cost" covered amounted to €570,000 thousand, subject to generic hedging, referring exclusively to the core deposits,
- the book value of "Financial assets at amortized cost" amounted to €3,613,402 thousand, subject to specific hedging, referring exclusively to owned securities.

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;
- financing risk, the Bank may not be able to deal effectively with any planned cash outflows.

To deal with its exposure to liquidity risk, the Bank invests the component of its liquidity estimated by internal models as persistent and stable (so-called core liquidity) in medium/long-term investments, while the part of liquidity characterized by a persistence profile lower (so-called non-core liquidity) is used in liquid or easily liquidable assets, such as, for example, demand deposits, short-term loans or government securities that can be used as a short-term source of funding at 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

The Bank's purpose is to maintain liquidity at a level that allows to conduct the main operations safely, finance its activities at the best rate conditions in normal operating circumstances and always remain in a position to meet payment commitments. In particular, the use policy is based on prudence principles which consider the liquidity criterion of the instruments as a priority; the result of this policy translates into regulatory liquidity indicators that far exceed the minimum requirements.

On 5 November 2019, the Bank updated its "Group Liquidity Policy", directly applicable to the Parent Company and to the subsidiary company, with the aim of defining the set of principles and rules that oversee the management of liquidity and related risks in the Group. In particular, the Policy describes the management of liquidity and its risks in standard conditions and in crisis conditions, the first and second level control activities and the Group's governance on the matter, defining roles and responsibilities of the Bodies and functions internal of the Parent Company and the subsidiary.

Roles and responsibilities

The "Group Liquidity Policy" establishes the principles adopted in terms of internal governance, which envisage the involvement of the Treasury and Risk Management functions.

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 the "Group Liquidity Policy" explicitly refers to the 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 indicator used and monitored as part of the wider Risk Appetite Framework (NSFR) ensures 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

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 Internal Validation Unit.

Contingency Liquidity Management

The objective of the Contingency Plan on liquidity risk, defined in the Group Liquidity Policy, is to ensure timely implementation of 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 internal and external;
- a set of available mitigating liquidity actions;
- a set of early warning indicators, also included within the Group Recovery Plan, that may point towards a developing crisis.

Internal Liquidity Adequacy Assessment Process (ILAAP)

In accordance with the prudential provisions, the Group annually assesses the adequacy of the management system and liquidity risk management (ILAAP process) and informs the Supervisory Authority according to the terms established by the reference legislation.

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 15 days and 1 month	Between 1 and 3 month	Between 3 and 6 month	Between 6 and 1 year	Between 1 and 5 year	Over 5 years	Unspecified maturity
A. On-balance sheet assets	**1,519,528**	**20,656**	**711,264**	**123,085**	**217,557**	**848,851**	**1,771,941**	**9,379,295**	**10,289,670**	**251,574**
A.1 Government securities	-	-	2,560	23,358	36,132	138,267	825,692	2,773,018	7,888,164	-
A.2 Debt securities	-	3,090	386,655	3,145	21,106	639,146	812,013	6,024,500	1,573,202	-
A.3 Units in investment funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	1,519,528	17,566	322,049	96,582	160,319	71,438	134,236	581,777	828,304	251,574
- Banks	66,089	257	-	2,791	-	-	716	-	-	251,574
- Customers	1,453,439	17,309	322,049	93,791	160,319	71,438	133,520	581,777	828,304	-
B. On-balance sheet liabilities	**24,900,070**	**15,182**	**7,662**	**9,823**	**82,598**	**2,485**	**106,854**	**30,381**	**26,504**	**-**
B.1 Deposits and current accounts	24,786,485	11	24	70	203	292	535	218	-	-
- Banks	70,081	-	-	-	-	-	-	-	-	-
- Customers	24,716,404	11	24	70	203	292	535	218	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	113,585	15,171	7,638	9,753	82,395	2,193	106,319	30,163	26,504	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	79,497	20	-	714	-	-	-	12,937	337
- Short positions	-	90,684	69	-	-	-	-	-	13,737	337
C.2 Financial derivatives without exchange of capital										
- Long positions	1,111	-	-	9,567	5,996	12,617	33,012	-	-	-
- Short positions	134	-	378	6,734	5,941	19,884	35,636	-	-	-
C.3 Deposits and loans to be collected										
- Long positions	-	4,811	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	4,811	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	320	124	368	456	56	10,832	144	527	25	-
- Short positions	1,997	10,669	-	186	-	-	-	-	-	-
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 15 days and 1 month	Between 1 and 3 month	Between 3 and 6 month	Between 6 and 1 year	Between 1 and 5 year	Over 5 years	Unspecified maturity
A. On-balance sheet assets	**228,420**	**7,977**	**1,002**	**14,473**	**137,681**	**214,305**	**19,137**	**194,993**	**62,311**	**-**
A.1 Government securities	-	-	-	11,750	113,568	213,773	1,024	71,212	62,311	-
A.2 Debt securities	-	-	113	-	553	532	14,511	123,777	-	-
A.3 Units in investment funds	4	-	-	-	-	-	-	-	-	-
A.4 Loans	228,416	7,977	889	2,723	23,560	-	3,602	4	-	-
- Banks	224,777	3	-	5	-	-	3,602	-	-	-
- Customers	3,639	7,974	889	2,718	23,560	-	-	4	-	-
B. On-balance sheet liabilities	**862,924**	**5,865**	**1,281**	**2,824**	**14,604**	**23**	**57**	**351**	**429**	**-**
B.1 Deposits and current accounts	857,087	-	-	-	-	-	-	-	-	-
- Banks	315	-	-	-	-	-	-	-	-	-
- Customers	856,772	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	5,837	5,865	1,281	2,824	14,604	23	57	351	429	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	176,549	69	329	306	-	-	-	18	-
- Short positions	-	164,949	19	627	136	-	-	-	18	-
C.2 Financial derivatives without exchange of capital										
- Long positions	2,112	-	-	-	-	-	-	-	-	-
- Short positions	443	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected										
- Long positions	-	6,566	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	6,566	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	-	-	-	-	6,237	-	-	-	-
- Short positions	-	6,237	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

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 Board of Director has approved the policies and procedures for controlling, measuring and mitigating Group's operational . Operational and reputational risk policies 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.

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 and Risk Management'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. For details on the activities carried out by the Operational Risk Team, please refer to the same section of the notes to the consolidated accounts.

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.

In FinecoBank 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 (22 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.

In addition to the aforementioned controls, reputational risks are monitored through the risk assessment carried out by the risk control function throughout the definition, development and approval phase of the Group's products and with participation in the Chief Risk Officer's Product Committee and of Risk Management.

Risk measurement system

Following the deconsolidation from the UniCredit Group, FinecoBank no longer uses the Advanced AMA (Advanced Measurement Approach) model to calculate the capital requirement in favor of the basic Approach (TSA) method. Moreover, the governance, the safeguards and the reporting framework required by the internal method for measuring the capital requirement (AMA), previously adopted and developed, have been maintained.

Part E - Information on Risks and relating hedging policies (CONTINUED)

The Operational and Reputational Risk function carried out collection and classification of loss data, external loss data, scenario loss data and risk indicators.

The collection and classification of operating losses is carried out for internal prevention and improvement purposes.

In terms of risk indicators, there are currently 61 key risk indicators split into control areas (Credit Cards, Compliance,HR, Legal, Operations securities, Payment Systems, Claims, Risk Management, IT systems, Security, Administration and Audit), with which the Group uses to measure its exposure to operational risk. If an abovementiond indicator shows an irregular value, this may be related to changes in the exposure to operational risk.

Scenario analyses enable the Group'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.

Risk capital for operational risk used for regulatory purposes as at December 31, 2019, amounted to €87,343 thousand.

Risks arising from significant legal disputes

FinecoBank 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 applicable 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, 2019, FinecoBank had a provision in place for risks and charges of €27,164 thousand. This provision includes the legal costs borne by the Bank in the event of an adverse conclusion of the dispute plus the estimated expenses to be paid to legal advisors and/or any experts who assist the Bank in ongoing disputes 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 Forensic official tariffs provided for by current legislation.

Risks arising from tax disputes and audits

Risks arising from tax disputes and audits as at December 31, 2019 mainly relate to a notice of assessment for the year 2003 received by the Bank 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 the abovementioned dispute, 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 to the tax administration have been recognised.

In light of the foregoing, as at December 31, 2019 the Group 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 €3.8 million, for penalties and interest.

Environmental risk

The Bank has long been sensitive to issues related to climate change and is constantly committed to monitoring the effects and assessing, in the context of risk governance, the repercussions and effects on its credit and asset management activities.

Considering its business activity carried out and its business model adopted, Fineco believes it has a moderate environmental impact, as well as being exposed to climate change to a limited extent. The use policy is in fact based on the granting of credit to Retail customers and on the investment mainly in financial instruments of Central Administrations (Government Bonds). Therefore, the assignment of large, small and medium-sized enterprises and the financing of corporate projects or plants is not part of the Group's policy.

The limited exposure to companies preserves the Bank both from the risk of causing impacts on the environment through the financing of counterparties with high environmental risk (e.g. industries in the energy sector) and from the risk of indirectly suffering the indirect effect of possible environmental events on its customers. Indeed,: the high diversification of the commercial portfolio (both in individual and territorial terms) protects the Bank from the possible deterioration of the solvency of customers due to environmental factors, such as atmospheric events or natural disasters.

The environmental impact of FinecoBank is therefore mainly attributable to the direct consumption of resources at its operating offices and financial stores. For the initiatives promoted by the Bank, aimed at reducing consumption at its operating offices, please refer to Consolidated Non-Financial declaration.

Risks associated with "Brexit"

The Bank carefully assesses the risks that may arise from the United Kingdom's exit from the European Union and which are mainly related to the regulatory and political uncertainties deriving from Brexit. FinecoBank offers UK customers remote banking and investment services thanks to the MiFid passport of financial products. The freedom to provide investment services in the UK remains valid even after the Brexit event.

To continue the development of the business in the United Kingdom, FinecoBank has started the preparatory procedures for opening a branch in England with a role of promotion, marketing and placement. The limited activities that will be carried out by the branch allow to greatly mitigate the risk of Brexit without agreement. With regard to lending activities with banks and financial institutions, the Bank does not foresee significant impacts by maintaining relations exclusively with counterparties having their registered office within the European Union.

The assessment of ICT operational risk

The prudential regulations require Banks to conduct an analysis, at least annually, of the Group'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 Group's assets (hardware and software).

FinecoBank has established and adopted a framework for the assessment of ICT risk: the results of the analysis, conducted in collaboration with the Group's Business, ICT and Organisation structures, were reported to the Board of Directors during 2019. The analysis showed that, with respect to the business volumes processed and the complexity of the processes involved, the residual IT risk of FinecoBank is on average low; exposure to residual risk has been formally accepted by Fineco's Top Management without the need to identify additional mitigation measures.

The Group's goal is also to protect customers and the business by ensuring data security, declined in its characteristics of availability, confidentiality and integrity. Particular attention is in fact paid to the issues of Cyber Security & Fraud Management from the system design phase, as enabling elements for the correct definition of solutions and services offered, also taking advantage of the opportunities offered by the evolving regulatory context, in order to create full security for the customer while maintaining ease of use.. For further information on Cyber Security and Fraud Management, please refer to the Consolidated Non-Financial declaration of the FinecoBank Group, published on the FinecoBank website (https://www.finecobank.com).

Analysis of operational and security risks related to payment services

In accordance with the 28th update of Bank of Italy Circular 285, the Group will carry out an assessment of operational and security risks relating to payment services provided by the Group and the adequacy of mitigation measures and control mechanisms during 2020 put in place to deal with them; the report of the results of the analysis conducted will be sent to Bank of Italy.

Risks arising from the spread of Covid-19 (Coronavirus)

Lastly, it should be noted the emergency generated by the spread of Covid-19 (Coronavirus) should be noted. As known, starting from the first weeks of January 2020, the international scenario has been characterized by the spread of Coronavirus (first in China and then in other countries), culminating in the declaration of the existence of an international public health emergency phenomenon by part of the World Health Organization on 30 January 2020, and the consequent restrictive measures for its containment put in place by the competent authorities. These circumstances, extraordinary in nature and extent, with their direct and indirect implications for public health, economic and production activities and trade, which are likely to have a negative impact on global growth and financial markets, have created a context of general uncertainty, the evolution of which and the related impacts, even in the Eurozone, are however not foreseeable at the moment. The effects of this phenomenon on the Bank's economic, equity and financial performance, potentially mainly attributable to the brokerage margin and the cost of risk, are not currently determinable and will be subject to constant monitoring throughout the year.

Quantitative information

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, 2019, operating losses recorded in the accounts amounted to approximately €3.35 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 Group 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 Group;
- 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.

Part E - Information on Risks and relating hedging policies (CONTINUED)

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 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 incurring 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;
- **Real Estate Risk,** which represents the potential loss resulting from fluctuations in the market values of the real estate portfolio. It does not consider the properties held as collateral, which are included within the credit risk**.**

In addition to the risks listed above, the compliance risk (risk of compliance with the rules), i.e. the risk of incurring judicial or administrative sanctions, significant financial losses or damage to reputation as a result of violations of mandatory rules (of law or of regulations) has mentioned for completeness.

After identifying the relevant risks, the best method of analysing them is defined: qualitative and quantitative. Quantitative measurement is carried out through the calculation of Internal Capital. The latter represents the capital necessary for possible losses relating to the Bank's activities and takes into account all the risks defined by the Bank as quantifiable in terms of Economic Capital in line with the requirements of the Second Pillar.

Credit, market, operational, business and real estate risks are measured quantitatively through economic capital and the periodic execution of stress tests. The stress test is one of the tools used to control significant risks in order to assess the Bank's vulnerability to "exceptional but plausible" events, providing additional information with respect to monitoring activities.

Part F – Shareholders' equity

Section 1 - Bank's shareholders' equity

Qualitative information

The control of capital adequacy at individual and consolidated level is performed by the capital management activity where the size and optimal combination among the various capitalization instruments are defined, in compliance with regulatory constraints and in line with the risk profile assumed by the Bank.

The Bank assigns a priority role to the activities aimed at the management and allocation of capital according to the risks assumed, for the purpose of developing its operations with a view to creating value. The activities are articulated in the different phases of the planning and control process and, in particular, in the plan and budget processes and in the monitoring processes (analysis of expected and achieved performance, analysis and control of limits, analysis and trend monitoring of capital ratios). In the dynamic management of capital, therefore, the Bank draws up the financial plan and monitors the regulatory capital requirements, anticipating the appropriate interventions necessary to achieve the objectives. The monitoring relates on the 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) and exposure for the purpose of determining the Leverage ratio.

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.

The consolidated shareholders’ equity includes the following financial instrument:

- Additional Tier 1 issued on 31 January 2018. The financial instrument is a perpetual private placement[43], 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%;
- Additional Tier 1 issued on 11 July 2019. The financial instrument is a perpetual public placement, intended to trade on Euronext Dublin’s non-regulated market, Global Exchange Market, notes rating of BB- (S&P Global Ratings), issued for a total of €300 million. The coupon for the first 5 years has been fixed at 5.875%.

[43] Unrated and unlisted

Quantitative information

B.1 Bank's shareholders' equity: breakdown

(Amounts in € thousand)

Items/Amounts	Amount 12/31/2019	Amount 12/31/2018
1. Share capital	200,941	200,773
2. Share premium reserve	1,934	1,934
3. Reserves	384,459	355,673
- from earnings	351,802	321,701
a) legal	40,188	40,155
b) statutory	-	-
c) treasury shares	7,351	13,960
d) others	304,263	267,586
- others	32,657	33,972
4. Equity instruments	500,000	200,000
5. (Treasury shares)	(7,351)	(13,960)
6. Revaluation Reserves:	1,002	(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	3,159	(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	(2,157)	(6,384)
- Revaluation reserves for associates carried at equity	-	-
- Special revaluation laws	-	-
7. Net profit (loss) for the year	285,891	227,922
Total	**1,366,876**	**962,548**

B.2 Revaluation reserves for financial assets at fair value through comprehensive income: breakdown

(Amounts in € thousand)

Items/Amount	Total 12/31/2019		Total 12/31/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	3,556	(397)	410	(3,820)
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
Total	**3,556**	**(397)**	**410**	**(3,820)**

B.3 Revaluation reserves for financial assets at fair value through comprehensive income: annual changes

(Amounts in € thousand)

	Debt securities	Equity securities	Loans
1. Opening balance	**(3,410)**	**-**	**-**
2. Increases	**6,769**	**-**	**-**
2.1 Fair value increases	5,865	-	-
2.2 Adjustments for credit risk	5	X	-
2.3 Reclassification through profit or loss of realised negative reserves	899	X	-
2.4 Transfer from other shareholder's equity item (equity securities)	-	-	-
2.5 Other changes	-	-	-
- di cui operazioni di aggregazione aziendale	-	-	-
3. Decreases	**(200)**	**-**	**-**
3.1 Fair value reductions	-	-	-
3.2 Recoveries for credit risk	(7)	-	-
3.3 Reclassification through profit or loss of realised positive reserves	(193)	X	-
3.4 Transfer to other shareholder's equity item (equity securities)	-	-	-
3.5 Other changes	-	-	-
- di cui operazioni di aggregazione aziendale	-	-	-
4. Closing balance	**3,159**	**-**	**-**

B.4 Revaluation reserves on defined benefit obligations: annual changes

(Amounts in € thousand)

	Actuarial gains (losses) on defined benefits plans
1. Opening balance	**(6,384)**
2. Increases	**4,392**
2.1 Fair value increases	4,392
2.2 Other changes	-
3. Decreases	**(165)**
3.1 Fair value reductions	(165)
3.2 Other changes	-
4. Closing balance	**(2,157)**

Section 2 - Own funds and regulatory ratios

Please refer to the information on own funds and the capital adequacy contained in the document "FinecoBank Group public disclosure – Pillar III as at 31 December 2019", as required by Regulation (EU) 575/2013 subsequently updated in the Regulation (EU) 876/2019 of the European Parliament and of the Council, published on the Company's website 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.

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)

Items/sectors	**Total 2019**	**Total 2018**
Remuneration paid to "Key Management Personnel", Directors and the Board of Statutory Auditors		
a) short-term benefits	6,267	5,750
b) post-employment benefits	305	214
of which under defined benefit plans	*-*	*-*
of which under defined contribution plans	*305*	*214*
c) other long-term employee benefits	-	-
d) termination benefits	-	1,227
e) share-based payments	2,437	3,236
Total	**9,009**	**10,427**

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 persons in potential conflict of interest, during the meeting on November 5, 2019 and with the prior favourable opinion of the Risk and Related Parties Committee and the Board of Statutory Auditors approved the new "Global Policy for the management managing of transactions with subjects persons in potential conflict of interest of the FinecoBank Group" (the "ProceduresGlobal Policy").

The aforementioned Global Policy includes 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*".

Considering the above, the following Significant Transactions resolved by the Board of Directors during 2019 are recorded:

- on February 5, 2019, with the favourable 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 5th, 2020, 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 UniCredit S.p.A. and €1,300 million with UniCredit Bank AG;

- on May 6, 2019, with the favourable 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 UniCredit*", an ordinary Significant Transaction at market conditions (expiring May 6, 2020), concerning (i) Repurchase Agreements with UniCredit S.p.A. for an amount of €7.0 billion, calculated as the sum of the individual transactions in absolute value (either repos or reverse repos) and (ii) Term deposits with UniCredit S.p.A. for an amount of €7.4 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 6, 2020), 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);

Part H – Related-party transactions (CONTINUED)

- on June 4, 2019, 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 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 4, 2020), 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) €1 billion with UniCredit S.p.A.;

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.

Moreover, always on May 6, 2019, the Board of Directors, with the favourable opinion of the Risks and Related Parties Committee, approved the conclusion of all the contractual agreements (the "Operation") made between FinecoBank and UniCredit S.p.A. in order to:

- allow the smooth transition of FinecoBank outside of the UniCredit Group ("Smooth Transition") with a view to continuity and in the interests of the shareholders of both banks, with particular reference to the coverage of Fineco's exposures, the use of its brands and other distinctive marks, to the provision by UniCredit to Fineco of other services not formally contractualized, and the continued provision of services already covered by existing contracts; and, ultimately
- allow FinecoBank to operate as an entity that is fully independent from a regulatory, liquidity and operational viewpoint following its exit from the UniCredit Group.

These contractual arrangements, despite being heterogeneous in nature, have been accepted as part of a unitary plan to enable the realisation of the objectives mentioned above. The Operation, considered as a whole and therefore taking into account all of the contractual arrangements as made, is classified as a greater relevance related-party.

For the purpose of fulfilling the disclosure obligations, FinecoBank prepared, in accordance with Article 5 and with the model contained in Annex 4 to the regulation passed by Consob in its decision no. 17221 of 12 March 2010, the Information Document available to the public on May 14, 2019, at the Bank's registered office of FinecoBank S.p.A. (Milan, Piazza Durante n. 11), on FinecoBank website (www.finecobank.com), and on the website of the accredited storage system "eMarketSTORAGE" (www.emarketstorage.com) on May 14, 2019.

During 2019, 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 related parties (including, as such until July 11, 2019, UniCredit S.p.A. and other UniCredit Group companies), both Italian and foreign, within the ordinary course of business and related financial activities of the Bank, at market or standard conditions.

The following statement shows the outstanding assets, liabilities, guarantees and commitments as at December 31, 2019, for each group of related parties pursuant to IAS 24:

(Amounts in € thousand)

	Amounts as at December 31, 2019					
	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 b) loans and receivable with customers	971	10	981	0.01%	4,437	0.03%
Other assets	17	-	17	0.00%	-	0.00%
Total assets	**988**	**10**	**998**	**0.00%**	**4,437**	**0.02%**
Financial liabilities at amortised cost a) deposits from banks	-	-	-	0.00%	-	0.00%
Financial liabilities at amortised cost b) deposits from customers	1,733	500	2,233	0.01%	-	0.00%
Other liabilities	164	-	164	0.05%	-	0.00%
Total liabilities	**1,897**	**500**	**2,397**	**0.01%**	**-**	**0.00%**
Commitments and financial guarantees given	**86**	**-**	**86**	**0.01%**	**-**	**0.00%**

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 year 2019					
	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	5	16	0.01%	76,475	25.67%
Interest expenses and similar charges	(1)	(2)	(3)	0.02%	(720)	4.36%
Fee and commission income	(6)	14,114	14,108	2.60%	18,904	3.48%
Fee and commission expenses	-	(102)	(102)	0.04%	(3,248)	1.16%
Gains and losses on disposal or repurchase of: a) financial assets at amortised cost	-	-	-	0.00%	1,831	62.94%
Impairment losses/writebacks	-	6	6	0.11%	8,786	163.19%
Administrative expenses a) staff expenses	-	-	-	0.00%	(138)	0.16%
Administrative expenses b) other administrative expenses	-	(18)	(18)	0.01%	(4,407)	1.74%
Other net operating income	43	7	50	0.05%	249	0.24%
Total income statement	**47**	**14,010**	**14,057**		**97,732**	

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 (excluding their remuneration, which are discussed in point 1. *Details of compensation for key management personnel*) and dealings with the Head of Internal Audit of FinecoBank, mainly concerning assets for credit card use, mortgages and liabilities for funds held by them with the Bank. The income statement for 2019 refers to the 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;
- Group employee post-employment benefit plans.

Transactions with "Other related parties", mainly refer to assets for credit card use and liabilities for funds held with the Bank. The income statement for 2019 refers to the costs and revenues generated from the aforesaid assets and liabilities.

Part H – Related-party transactions (CONTINUED)

The "Shareholders" category includes the shareholders and their subsidiaries holding which at December 31, 2019 held an investment in FinecoBank higher than 3% of the share capital represented by shares with voting rights. The balance sheet amounts include for current receivables and debts associated with the provision of financial services referring to the commissions to be cashed for the placement and management of asset management products. The income statement includes the same fees and commissions accrued for the 2019 financial year.

It should be noted that the income statement for 2019 also includes the economic components accrued towards the UniCredit Group up to the date of sale, by the latter, of the entire shareholding in FinecoBank, mainly represented by the interest accrued on the UniCredit S.p.A. securities booked in the Bank's portfolio, from interest accrued on current accounts, from fees and commissions expenses and administrative expenses recognised to the UniCredit Group for the services provided, as well as from the impairments/ write-backs recognized up to that date.

Outstanding amounts as at 31 December 2019 and the economic components accrued during the year 2019 with Fineco Asset Management DAC are excluded, as shown in the table below.

Transactions with the FinecoBank Group's companies

(Amounts in € thousand)

Fineco Asset Management DAC-	Total 12/31/2019
Assets	**7,449**
Financial assets at amortised cost b) loans and receivables with customers	7,278
Other assets	171
Income statement	**125,614**
Fee and commission income	77,212
Dividend income and similar revenue	48,301
Impairment losses/writebacks	5
Administrative expenses	22
Other net operating income	74

Part I – Share-based payments

Part I – Share-based payments

Qualitative information

1. Description of share-based payments

For the description share-based payments, see paragraph A. Qualitative information - 1. Description of the share-based payments - Part I of the Notes to the consolidated accounts.

Quantitative information

1. Annual changes

Items/number of options and exercise price	Total 12/31/2019 Number of options	Total 12/31/2019 Average prices	Total 12/31/2019 Average maturity	Total 12/31/2018 Number of options	Total 12/31/2018 Average prices	Total 12/31/2018 Average maturity
A. Opening balance	3,580,245	-	Sep-20	1,971,985	-	Jan-19
B. Increases	**227,429**	**-**	**X**	**3,046,264**	**-**	**X**
B.1 New issues	227,429	-	Dec-21	3,046,264	-	Oct-20
B.2 Other increases	-	-	X	-	-	X
C. Decreases	(1,245,164)	-	X	(1,438,004)	-	X
C.1 Cancelled	(45,785)	-	X	(61,227)	-	X
C.2 Exercised	(1,199,379)	-	X	(1,376,777)	-	X
C.3 Expired	-	-	X	-	-	X
C.4 Other changes	-	-	X	-	-	X
D. Closing balance	**2,562,510**	**-**	**Jun-21**	**3,580,245**	**-**	**Sep-20**
E. Vesting options at the end of the year	**676,318**	**-**	**X**	**552,883**	**-**	**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 former Parent Company 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

(Amounts in € thousand)

	Total 12/31/2019 Total	Total 12/31/2019 Vested plans	Total 12/31/2018 Total	Total 12/31/2018 Vested plans
Costs	5,502		8,410	
- connected to Equity Settled Plans	*5,484*		*8,354*	
- connected to Cash Settled Plans	*18*		*56*	
Sums paid to UniCredit S.p.A. for vested plans		122		417
Sums collected by UniCredit S.p.A. for vested plans		10		64
Payable due to UniCredit S.p.A.	59		179	
Credit accrued towards Unicredit S.p.A.	69		76	
Payable due to personal financial advisors for Cash Settled plans	83		159	

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 expenses.

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.

Part M – Leasing

Section 1 - Lessee

Qualitative information

The leasing contracts that fall within the scope of application of the standard IFRS16 are represented by the lease contracts of the properties used by the Bank and by the financial shops used by financial advisors and managed directly by the Bank, in addition to lease contracts for machinery and cars.

The Bank is potentially exposed to outgoing financial flows, for variable payments due for leasing (in particular referring to the ISTAT revaluation), not included in the initial valuation of the lease liability.

The Bank has determined the duration of the lease, for each individual contract, considering the "non-cancellable" period during which it has the right to use the underlying asset and taking into account all the contractual aspects that can change this duration, including, in particular, the possible presence of:

- periods covered by a right of resolution (with related penalties) or an option to extend the lease to the lessee, the lessor alone, or to both, even at different periods over the duration of the contract;
- periods covered by an option to purchase the underlying asset.

In general, with regard to contracts that provide the option right for the Bank to automatically renew the lease at the end of an initial contractual period, the duration of lease has determined based on historical experience (in particular for the Bank) and the information available at the date, considering in addition to the non-cancellable period also the period subject to the extension option (first contract renewal period), except for the existence of business plans to dispose of the leased asset as well as clear and documented assessments by the competent Bank structures that lead to consider reasonable the failure to exercise the option to renew or exercise the termination option, also taking into account, with particular regard to the financial shops in use by the financial advisors of the Bank, the commercial strategies of recruitment and territorial organization of the network.

The Bank has not provided guarantees on the residual value of the leased asset and has no commitments for the stipulation of lease contracts not included in the value of the lease liability recognized in the financial statements.

In accordance with the rules set by the standard, which grants exemptions in this regard, contracts underlying the so-called "Low-value assets" (for which the threshold was set at €5 thousand) mainly consisting of mobile phone rental contracts, all leasing contracts with a contractual duration of 12 months or less (so-called "short term lease") it was decided not to apply the principle to the leasing of intangible assets (mainly represented by software leasing). For these contracts, the related fees are recognized in the income statement on accrual basis for the corresponding duration.

Quantitative information

With regard to the information on the rights of use acquired with the lease, please refer to Part B - Assets - Section 8 - Tangible assets - Item 80 of these notes to the accounts.

With regard to the information on the lease liabilities, please refer to Part B - Liabilities - Section 1 - Financial liabilities at amortized cost - Item 10 of these notes to the accounts.

Furthermore, with regard to the information on:

- interest expenses on leasing liabilities, please refer to Part C - Section 1 - Item 20;
- the other charges connected with the rights of use acquired with the lease, please refer to Part C - Section 14 - Net impairments / write-backs on property, plant and equipment - Item 180.

It should be noted that no gains and losses deriving from sale and leaseback transactions have been recorded, as well as income deriving from sub-lease transactions.

The depreciation recognized for the year for right-of-use assets by class of underlying asset is shown below:

(Amounts in € thousand)

Assets	Depreciation 2019
Right of use	
1. Property, plant and equipment	**(9,387)**
1.1 land	**-**
1.2 buildings	(9,138)
1.3 office furniture and fittings	-
1.4 electronic systems	-
1.5 other	(249)

At 31 December 2019 there are no short-term leasing commitments for which the cost has not already been recognized in the 2019 income statement.

Section 2 - Lessor

Qualitative information

The Bank has leasing operations, in its capacity as lessor, represented exclusively by lease contracts for approximately 21% of the surface of the property owned, located in Milan Piazza Durante, 11, classified as operating leases in the financial statements.

With reference to the ways in which the lessor manages the risk associated with the rights it maintain on the underlying assets, it should be noted that the contracts include clauses that prohibit the tenant from transferring the contract to third parties without the written consent of the lessor, periodic updates of the rent according to the ascertained variation of the ISTAT index for consumer prices for the families of workers and employees and a contractual expiry at the end of which, in the event of non-renewal where required, the lease contract ceases and the premises fall within the availability of the lessor.

Quantitative information

Payments due for operating leases have been recognized in the consolidated income statement as income. For more details, please refer to Part C - Section 16 - Other operating income and charges - Item 200 of these notes to the accounts.

1. Balance sheet and income statement information

The Bank has not recognized leasing loans. As regards the activities granted under operating leasing, as previously described, the Group has leasing transactions in place as lessor represented by leasing contracts for a part of the property owned by FinecoBank, located in Milan Piazza Durante, 11.

The payments due for the operating lease have been recognized, on an accrual basis, in the consolidated income statement as income. For more details, please refer to that illustrated in Part C - Section 14 - Other operating expenses and income - Item 230 of these notes to the consolidated accounts.

2. Financial lease

2.1 Classification by time bands of the payments to be received and reconciliation with the loans for leasing entered in the assets

No information to report.

2.2 Other information

No information to report.

Part M – Leasing (CONTINUED)

3. Operating lease

3.1 Classification by time bands of the payments to be received

A maturity analysis of the undiscounted lease payments to be received is shown below. It should be noted that the payments refer to the contractual rents provided for in the lease contracts of part of the property owned by FinecoBank, which allow tenants to withdraw early in compliance with the notice provided in the contract.

(Amounts in € thousand)

Time buckets	Total 2019 lease payments to be received
Up to 1 year	957
Between 1 year and 2 years	570
Between 2 years and 3 years	570
Between 3 years and 4 years	570
Between 4 years and 5 years	570
Over 5 years	47
Total	**3,284**

3.2 Other information

As indicated above, the Bank has leasing transactions in place as a lessor represented by leasing contracts for a part of the property owned by FinecoBank, located in Milan Piazza Durante, 11. For information on the methods with the which the Bankmanages the risk associated with the rights it retains on the underlying assets, please refer to the paragraph "Qualitative information" included in this section.

Annexes

Attachment 1 - Reconciliation of condensed accounts to mandatory reporting schedule

(Amounts in € thousand)

Assets	Amount as at 12/31/2019	Amount as at 12/31/2018
Cash and cash balances = *item 10*	754,386	6
Financial assets held for trading	7,933	6,876
20. Financial assets at fair value through profit or loss a) financial assets held for trading	*7,933*	*6,876*
Loans and receivables with banks	549,632	3,044,974
40. Financial assets at amortised cost a) loans and receivables with banks	*9,423,961*	*12,427,086*
less: Financial assets at amortised cost a) loans and receivables with banks - Debt securities	*(8,874,329)*	*(9,382,112)*
Loans and receivables with customers	3,668,933	2,947,390
40. Financial assets at amortised cost b) loans and receivables with customers	*16,765,571*	*10,821,345*
less: Financial assets at amortised cost b) loans and receivables with customers - Debt securities	*(13,096,638)*	*(7,873,955)*
Financial investments	22,307,025	18,234,182
20. Financial assets at fair value through profit or loss c) other financial assets mandatorily at fair value	*11,359*	*13,342*
30. Financial asset at fair value through other comprehensive income	*321,699*	*961,773*
70. Equity investments	*3,000*	*3,000*
Financial assets at amortised cost a) loans and receivables with banks - Debt securities	*8,874,329*	*9,382,112*
Financial assets at amortised cost b) loans and receivables with customers - Debt securities	*13,096,638*	*7,873,955*
Hedging instruments	64,939	8,187
50. Hedging derivatives	*36,059*	*3,314*
60. Changes in fair value of portfolio hedged financial assets (+/-)	*28,880*	*4,873*
Property, plant and equipment = *item 80*	150,925	16,330
Goodwill = *item 90. Intangible assets of which: goodwill*	89,602	89,602
Other intangible assets = *item 90 net of goodwill*	37,280	8,705
Tax assets = *item 100*	23,450	6,714
Other assets = *item 120*	342,284	350,608
Total assets	**27,996,389**	**24,713,574**

(Amounts in € thousand)

Liabilities and Shareholders' Equity	Amount as at 12/31/2019	Amount as at 12/31/2018
Deposits from banks	154,653	1,009,774
10. Financial liabilities at amortised cost a) deposits from banks	*154,653*	*1,009,774*
Deposits from customers	25,912,444	22,269,098
10. Financial liabilities at amortised cost b) deposits from customers	*25,912,444*	*22,269,098*
Financial liabilities held for trading = *item 20*	3,777	2,221
Hedging instruments	94,950	7,941
40. Hedging derivatives	*80,852*	*5,341*
50. Changes in fair value of portfolio hedged financial liabilities (+/-)	*14,098*	*2,600*
Tax liabilities = *item 60*	11,344	12,184
Other liabilities	452,345	449,808
80. Other liabilities	*340,456*	*335,442*
90. Provisions for employee severance pay	*4,810*	*4,561*
100. Provisions for risks and charges	*107,079*	*109,805*
Shareholders' Equity	1,366,876	962,548
- capital and reserves	1,079,983	744,420
140. Equity instruments	*500,000*	*200,000*
150. Reserves	*384,459*	*355,673*
160. Share premium reserve	*1,934*	*1,934*
170. Share capital	*200,941*	*200,773*
180. Treasury shares (-)	*(7,351)*	*(13,960)*
- revaluation reserves	1,002	(9,794)
120. Revaluation reserves of which: financial assets at fair value through other comprehensive income	*3,159*	*(3,410)*
120. Revaluation reserves for actuarial net gains (losses) for defined benefit plans	*(2,157)*	*(6,384)*
- net profit = *item 200*	285,891	227,922
Total liabilities and shareholders' equity	**27,996,389**	**24,713,574**

(Amounts in € thousand)

INCOME STATEMENT	YEAR 2019	2018
Net interest	281,391	278,702
30. Net interest margin	*281,391*	*278,702*
Dividends and other income from equity investments	48,301	8,000
70. Dividend income and similar revenue	*49,995*	*8,094*
less: dividends and other income on equity instruments held-for-trading included in item 70	*(48)*	*(52)*
less: dividends and other income on equity investments and equity securities mandatorily at fair value included in item 70	*(1,647)*	*(42)*
Net fee and commission income = *item 60*	262,710	273,828
60. Net fee and commission income	*262,710*	*273,828*
Net trading, hedging and fair value income	44,607	44,281
80. Gains (losses) on financial assets and liabilities held for trading	*41,346*	*43,833*
90. Fair value adjustments in hedge accounting	*(160)*	*171*
100. Gains (losses) on disposal or repurchase of:b)financial asset at fair value through other comprehensive income	*727*	*1,666*
110. Gains (losses) on financial assets and liabilities at fair value through profit or loss	*(1,910)*	*(1,500)*
+ dividends and other income on equity instruments held-for-trading (from item 70)	*48*	*52*
+ dividends and other income on equity investments and equity securities mandatorily at fair value (from item 70)	*1,647*	*42*
+ gains (losses) on disposal or repurchase of: a) financial assets at amortised cost - debt securities (unimpaired)	*2,909*	*17*
Net other expenses/income	956	300
200. Other net operating income	*102,895*	*94,766*
less: other net operating income - of which: recovery of expenses	*(104,068)*	*(96,767)*
less: adjustments of leasehold improvements	*2,129*	*2,301*
100. Gains (losses) on disposal or repurchase of: a)financial assets at amortised cost (unimpaired)	*2,909*	*17*
less: gains (losses) on disposal or repurchase of:a)financial assets at amortised cost-debt securities (unimpaired)	*(2,909)*	*(17)*
Operating income	**637,965**	**605,111**
Staff expenses	(86,067)	(84,310)
160. Administrative expenses - a) staff expenses	*(86,067)*	*(84,431)*
less: integration cost	-	*121*
Other administrative expenses	(237,860)	(244,009)
160. Administrative expenses - b) other administrative expenses	*(253,860)*	*(256,014)*
less: ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)	*18,129*	*14,306*
+ adjustments of leasehold improvements	*(2,129)*	*(2,301)*
Recovery of expenses	104,068	96,767
200. Other net operating income- of which: recovery of expenses	*104,068*	*96,767*
Impairment/write-backs on intangible and tangible assets	(22,628)	(10,370)
180. Impairment/write-backs on property, plant and equipment	*(17,232)*	*(5,411)*
190. Impairment/write-backs on intangible assets	*(5,396)*	*(4,959)*
Operating costs	**(242,487)**	**(241,922)**
Operating profit (loss)	**395,478**	**363,189**
Net impairment losses on loans and provisions for guaranteed and commitments	(1,966)	(4,392)
130. Impairment losses/writebacks on: a) financial assets at amortised cost	*5,382*	*(3,414)*
less: impairment losses/writebacks on: a) financial assets at amortised cost - debt securities	*(7,375)*	*(1,380)*
130. Impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income	*2*	*(114)*
less: impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income - debt securities	*(2)*	*114*
170. Net provisions for risks and charges a)provision for credit risk of commitments and financial guarantees given	*27*	*402*
Net operating profit (loss)	**393,512**	**358,797**
Other charges and provisions	(27,152)	(21,380)
170. Net provisions for risks and charges b) other net provision	*(9,023)*	*(7,074)*
+ ex-ante contributions to the Single Resolution Fund (SRF) Deposit Guarantee Systems (DGS)	*(18,129)*	*(14,306)*
Integration costs	-	(121)
Net income from investments	*7,377*	1,105
+ impairment losses/writebacks on: a) financial assets at amortised cost - debt securities	*7,375*	*1,380*
+ impairment losses/writebacks on: b) financial assets at fair value through other comprehensive income - debt securities	*2*	*(114)*
250. Gains (losses) on disposal of investments	-	*(161)*
Profit (loss) before tax from continuing operations	**373,737**	**338,401**
Income tax for the year = *item 270*	(87,846)	(110,479)
Net profit (loss) before tax from continuing operations	**285,891**	**227,922**
Profit (loss) for the year	**285,891**	**227,922**

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 Pelliciari, as Nominated Official in charge of drawing up company accounts of FinecoBank S.p.A, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of February 24, 1998, do hereby certify:

- the adequacy in relation to the Company's features and g
- 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 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 11, 2020

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

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

Report of the External Auditors

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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, 2019, 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, 2019, 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	As represented in the notes to the accounts, Part B – *Balance* Sheet - Section 10 of the Liabilities - *Provisions for risks and charges*, 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, 2019 includes provisions for legal disputes amounting to Euro 27.2 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 unfavourable conclusion of the dispute, this provision includes the estimate of the costs to be paid to legal advisors and any technical advisors and/or experts who assist the Bank in the ongoing 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. 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 available information and the uncertainties regarding the final future outcomes of proceedings, disputes and litigations. Given the number of complaints and disputes, albeit physiological with respect to the Bank's typical operations, and the complexity and articulation of the estimation process, considered the uncertainties related to their outcome, 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, 2019.
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 legal advisors, 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 legal advisors 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* - Section 4 of the Assets - *Financial assets at amortised cost*, and in the report on operations, as at December 31, 2019 financial assets at amortised cost – loans to customers amount to Euro 3,669 million (net book value, including Euro 25.3 million of non-performing loans net of impairment losses of Euro 21.8 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 24% compared to the previous year, in relation to the disbursements of 2019.

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, 2019.

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 specialists 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.

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, 2019, 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, 2019 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, 2019 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
April 6, 2020

Report of the Board of Statutory Auditors

FINECOBANK S.P.A.

Report of the Board of Statutory Auditors to the Shareholders' Meeting pursuant to art. 153 of the Consolidated Law on Finance (TUF)

Dear Shareholders,

Pursuant to art. 153 of Legislative Decree no. 58 of February 24th, 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 31st, 2019.

During 2019, the Board of Statutory Auditors performed its institutional tasks in compliance with the Civil Code, Legislative Decrees no. 385/1993 (TUB), no. 58/1998 (TUF) and no. 39/2010 (Consolidated Law on Statutory Audits), with statutory regulations and regulations issued by supervisory and control authorities, and taking into account the Rules of Conduct of the Board of Statutory Auditors issued by the National Council of Chartered Accountants and Accounting Experts.

In compliance with the guidelines issued by Consob, published in notice no. DEM/ 1025564 of April 6th, 2001 and subsequent additions, we would like to 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 11th, 2017 and shall remain in office until the next Shareholders' Meeting, held to approve the Financial Statements at December 31st, 2019.

It should be noted that, pursuant to the applicable legislation and the Corporate Governance Code for listed companies, on February 5th, 2019 the Board of Directors, with the favourable opinion of the Appointments and Sustainability Committee (now Corporate Governance, Appointments and Sustainability Committee), had carried out the annual assessment of the independence requirements applicable to the majority of Directors, with the results included in the Report on Corporate Governance and Ownership Structures published in 2019, as well as on ongoing compliance with the requirements of integrity, professionalism and the ban on interlocking. The Board of Statutory Auditors had verified the correct implementation of the criteria and procedures used by the Board of Directors to assess the independence of its members. For the year 2020, due to the upcoming renewal of its corporate offices, the annual assessment of the requisites has been postponed to a meeting after the appointment of the new administrative body.

On January 15th, 2020, the Board of Directors decided the appointment of Andrea Zappia as the new Director of FinecoBank, pursuant to art. 2386 of the Civil Code and art. 13 of the Articles of Association, in order to reinstate the Board, following the resignation of Director Manuela D'Onofrio on May 10th, 2019, subject to a positive response from the Corporate Governance, Appointments and Sustainability Committee, and approval from the Board of Statutory Auditors, which also verified the proper application of the criteria and procedures adopted by the Board of Directors to assess its independence.

In consideration of the upcoming renewal of the Board of Directors, FinecoBank approved a process to govern the selection of candidates for it by the body itself, with respect for the rules of the Articles of Association, as modified by the Extraordinary Shareholders' Meeting of February 18th, 2020.

In compliance with current regulations for banks on monitoring corporate governance, the Board of Directors has defined the best composition in terms of quality and quantity for properly carrying out the tasks and responsibilities assigned to it by law, supervision regulations and Articles of Association.

The Board of Statutory Auditors supervised the procedures for presenting the lists and appointing the Boards of Directors (CONSOB communication No. DEM / 9017893 of 26.2.2009)

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 11th, 2017 and will remain in office until the Shareholders' Meeting called to approve the financial statements for the year ended December 31st, 2019.
At the meeting held on January 25th, 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 art. 36 of Law Decree no. 201/2011.
In line with the Board of Directors' instructions, in consideration of the upcoming renewal, the annual assessment of requirements for 2020 is postponed to a meeting after the Board of Statutory Auditors has been appointed.

In compliance with the requirements of the Supervisory Bodies, in particular of Circular 285/2013 of the Bank of Italy and the provisions of the regulations for Corporate Bodies, the Board of Statutory Auditors carried out a self-assessment on its composition and functioning on February 7th, 2020.

Even though current legislation does not expressly oblige it to model its composition so as to be ideal in terms of quality and quantity, the Board of FinecoBank deemed it appropriate to define the theoretical profiles of the candidates for the appointment. The document created was made available to the shareholders, published on the Bank's website, in time for them to keep it in mind when choosing candidates.

The Board of Statutory Auditors also supervised compliance with the regulations relating to the election of the control body pursuant to CONSOB Communication no. DEM / 9017893 of February 26th, 2009 and of article 144-sexies, paragraph 5, of the Consob Issuers Regulation.

During the year, the Board of Statutory Auditors met 26 times and took part in one Shareholder's Meeting, 15 meetings of the Board of Directors and 18 meetings of the Risks and Related Parties Committee. Furthermore, at least one Statutory Auditor participated in the 11 meetings of the Remuneration Committee and 11 meetings of the Corporate Governance, 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, with advisory, consultative and coordination functions, the Corporate Governance, Appointments and Sustainability Committee, the Remuneration Committee and the Risks and Related Parties Committee. The Committees consist of independent non-executive Directors.

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

Following transfer by the former Parent Company UniCredit of its shares in FinecoBank, beginning on May 11th, 2019, FinecoBank signed up, as "Parent Company" of the "FinecoBank Banking Group" (along with the subsidiary FAM), to the list of banking groups, therefore exercising direction and coordination of the group under existing legislation.

Compliance with the Law and company Articles of Association – Sound governance principles

The Board of Statutory Auditors monitored compliance with the Law, the company Articles of Association and sound governance principles both when performing its activity, including participating in meetings of the Board of Directors, the BoardCommittees, and during meetings with the Management and the Heads of the Bank's 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 of Statutory Auditors can reasonably state that the transactions themselves are compliant with the law and the company Articles of Association and are not manifestly imprudent, risky or such as to compromise the integrity of the corporate assets.

During the Board of Directors' Meetings, the Board of Statutory Auditors ascertained, inter alia, that the delegated parties reported on transactions executed based on the powers granted to them, pursuant to art. 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, in general, the information flows comply with legal obligations, the Articles of Association and obligations set out in applicable regulations.

The Board of Statutory Auditors verified compliance with information obligations for regulated and privileged information, or information requested by the Supervisory Bodies.

During meetings of the Risks and Related Parties Committee and 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 12th, 2020, the Board of Directors of FinecoBank approved the 2019 Report on Corporate Governance and Ownership Structures pursuant to art. 123-*bis* of the TUF.

Based on the information collected, the Board of Statutory Auditors is not aware of any operations that went against the principles of proper administration, were decided or implemented not in conformity with law or the Articles of Association, went against the decisions of the Shareholders' Meeting, or were manifestly unwise, risky or likely to compromise the company's assets.

Main events after the end of the year

The Board of Statutory Auditors points out, as also indicated in the Notes to the Accounts, that since the first weeks of January 2020, the international situation has been characterised by the spread of the coronavirus (first in China and then in other countries), culminating in the World Health Organization's declaration of an international public health emergency on January 30th, 2020, and the consequent restrictive measures implemented by the relevant authorities to contain it. These circumstances are extraordinary in their nature and extent, with all their implications, direct and indirect, for public health, economic activities, production and trade, which are likely to have a negative impact on global growth and financial markets. They led to a general environment of uncertainty, whose developments and related impacts, including in the Eurozone, are not, however, currently foreseeable.

The Bank has updated the Board of Statutory Auditors by illustrating the initiatives undertaken, highlighting, with reference to the business, that the potential effects of this phenomenon on the Group's economic and financial performance, mainly on operating income and cost of risk, cannot be determined at present and will be monitored constantly throughout the year.

With regard to staff, FinecoBank has provided for the possibility of flexible work (smart working) by progressively reducing physical presence at its offices and physical operations for financial advisors.

With regard to the Annual Shareholders' Meeting, convened for April 28th, 2020, the Board of Statutory Auditors notes that, in regard to the aforementioned restrictive rules adopted by the authorities, the Bank has added to the Shareholders' Meeting convening by providing for participation in and representation at it only through the representative appointed in line with the extraordinary provisions in art. 106 of Law Decree no. 18 of March 17th, 2020.

Lastly, it should be noted that the Board of Directors held today, having considered the indications of the Supervisory Authorities, resolved to revoke the proposal for the distribution of the dividend, for a total of € 195,052,000, established by the Board of Directors on February 11st, 2020, and therefore resolved to propose to the Shareholders' Meeting to allocate this amount to the Extraordinary Reserve.

The Board also resolved that FinecoBank will therefore convene the Ordinary Shareholders' Meeting after October 1st, 2020 to resubmit the aforementioned distribution proposal in the same amount already approved by the Board of Directors on last February 11.

For more details, please refer to the New Report for the Shareholders' Meeting on points 1 and 2 of the agenda.

With this resolution, FinecoBank has adopted the indication of the Bank of Italy which, in line with the ECB's invitation, recommended (i) not to pay dividends, including the distribution of reserves, and not to make any irrevocable commitment for the payment of dividends for the financial years 2019 and 2020 and (ii) to refrain from repurchasing shares aimed at remunerating shareholders..

Transactions of greatest economically, financially and to equity significance

Significant events during the year included the sale by the former Parent Company UniCredit of the shares held in FinecoBank, and the consequent termination of FinecoBank's membership of the UniCredit banking group on May 10th, 2019.

On May 6th, 2019, the Board of Directors approved actions and procedures to ensure Fineco's ability to operate as a fully independent company in terms of regulations, liquidity and operations.

The set of contractual agreements entered into by the Bank and UniCredit for the latter's orderly exit from the Group is described in an informative document, made available to the public on May 14th, 2019 and prepared in accordance with art. 5 of the Consob regulation, adopted in resolution no. 17221 of March 12th, 2010, as well as the "Procedures for managing transactions with parties in conflict of interest" adopted by the Bank.

Among these should be noted that in relation to the deconsolidation of FinecoBank from the UniCredit Group, on May 10th, 2019. FinecoBank and UniCredit entered into a contract (a pledge agreement) whereby UniCredit grants financial guarantees to FinecoBank to guarantee the risk exposures represented by UniCredit's bonds until their natural maturity, as well as the risk exposures arising from current accounts held with UniCredit, until November 2019, and financial guarantees given by FinecoBank to the inland revenue at UniCredit's request until their full maturity.

On July 4th, 2019, the Board of Directors authorised the issue, for qualified investors, of an Additional Tier 1 ("AT1") instrument, in euros, up to a maximum total of €200 million, subsequently increased to €300 million in light of favourable market conditions.

At the beginning of 2020, the Bank reached an agreement with the inland revenue's office for preventive agreements and international disputes, on the application submitted in 2015 for the patent box facilitation. The Group has therefore recognised the tax benefit for the five-year period 2015–2019 – estimated at €21.6 million (of which €7.2 million relates to the trademark) – in the 2019 Financial Statements.

Atypical or unusual transactions

The Management Report, the information received at the Board of Directors' meetings and from the Chairman and the CEO, the management and the Auditing Company did not point to the existence of atypical and/or unusual transactions, including infra-group ones or with related parties.

Infra-group or related-party transactions – Transactions approved under art. 136 of the TUB

The infra-group or related-party transactions of greatest significance economically, financially and to equity are highlighted in the Management Report and in the related section of the Explanatory Notes, with an indication of the assets, liabilities, guarantees and commitments outstanding as of December 31st, 2019, divided by the various types of related parties pursuant to IAS 24.

During the year, the Board of Statutory Auditors always participated in the meetings of the Risks and Related Parties Committee, which met to provide preliminary and motivated 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 November 5th, 2019, with the prior favourable opinions of the Risks and Related Parties Committee and of the Board of Statutory Auditors.

The Board of Statutory Auditors supervised compliance with the procedural rules adopted by the Bank and with the provisions on transparency and public information, 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.

For detailed information about individual infra-group and related party transactions – the most significant, ordinary and arm's length transactions – see the relevant sections of the Management Report and the Notes to the Financial Statements.

In 2019, the Board of Statutory Auditors, in compliance with the Bank's regulations and procedures in force, voted in favour of an operation approved pursuant to art. 136 of the Consolidated Banking Act.

Comments on the adequacy of the organizational structure

The Board of Statutory auditors oversaw the adequacy of the organisational structure and its proper functioning through various meetings with top management and with the heads of the various areas and functions. Such monitoring activity did not discover any significant organisational deficiencies.

Specifically, in 2019 the Board monitored initiatives aimed at improving the company's corporate management and acknowledged changes – approved in advance by the Board of Directors, after prior approval, if necessary, by the Corporate Governance, Appointments and Sustainability Committee – to the Central and Network departments, the Organisational Chart – with a clear indication of functions, roles and lines of responsibility – and the Bank's Internal Regulations.

In particular, in April 2019, a number of changes were made to the organisational structure of the Global Business department and the Bank's Organisation and Operations department, with new structures created, existing ones renamed and certain activities redistributed for better representation.

Following FinecoBank's exit from the UniCredit Banking Group and the registration of FinecoBank in the Register of Banking Groups, in May 2019 the internal audit function, previously outsourced to UniCredit S.p.A., was internalised and during the second half of 2019 specific structures for the management of the consolidated financial statements and consolidated supervisory reporting were identified within the Chief Financial Officer department. Furthermore, Regulatory Affairs and Procurement Office structures were set up, along with one for managing reports of laundering suspicious operations and communication with financial intelligence units (FIUs).

Lastly, a number of additional organisational changes were made within the Global Business, Chief Risk Officer, Securities Operations and Human Resources departments.

The Bank's Internal Regulations – whose most up-to-date version was approved by the Board of Directors on December 12th, 2019 – describe the organisational model and the structure it consists of (bodies, departments and 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
- Network Committee
- Product Committee
- Disciplinary Committee
- Private Banking Committee
- Treasury Committee
- ICT & Security Committee
- Violations Committee for Non-compliance
- Management Committee for Sustainability

The Board of Statutory Auditors has noted the constant implementation, until deconsolidation, and the degree of implementation of the guidelines issued by the former Parent Company UniCredit, as well as the definition of the new Fineco guidelines and the consequent organisational changes implemented by the Bank.

The Board acknowledges the constant updating and implementation – in line with the current provisions in the Bank of Italy's circular no. 285 and the internal Global Rules– of the Bank's Business Continuity Plan and of the implementation, with an overall positive outcome, of annually scheduled Business Continuity and Disaster Recovery test activities.

In 2020, the Bank will have to continue the activities necessary for the completion of the In-sourcing Plan defined after its exit from the UniCredit group, providing for subsequent adaptation of internal, operational and control procedures and processes.

In compliance with the applicable regulations and the policy on "Outsourcing/Insourcing", the Internal Audit function has issued the Report required by the supervisory provisions relating to the controls performed on the important operational or outsourced control functions and to any shortcomings detected. The Board has received the Annual Report which highlights a Partially Satisfactory result. Said document assisted by the considerations of the Board of Statutory Auditors, was approved by the Board of Directors held today.

Lastly, since July 2017, the Bank has been admitted to the collaborative compliance regime established by Legislative Decree no. 128/2015, to which taxpayers with a tax risk measurement and control system can adhere.

Based on the analysed 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.

It should be noted that as of September 2019, following the classification process carried out by the supervisory authorities after leaving the UniCredit Group, FinecoBank is now subject to Bank of Italy supervision. In November 2019, FinecoBank was included, upon decision of the ECB Supervisory Board, in the list of Less Significant Institutions (LSI) “High Priority”.

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 set up permanent and independent corporate control functions for: i) compliance with regulations; ii) risk management; iii) internal audit.

With regard to the subsidiary FAM, which was established at the end of 2017 and became operational in July 2018, the control system provides for the performance of Compliance, Risk Management activities by internal functions and Internal Audit, a function outsourced to PWC.

The CEO and General Manager was appointed as the Director Responsible for the Internal Control and Risk Management System in compliance with the provisions of the Corporate Governance Code of Borsa Italiana. On February 11th, 2020, the document "2019 Managerial Evaluation of the Internal Control and Risk System" was presented to the Board of Directors, in which the Bank's CEO declares, in the light of the analyses carried out, that FinecoBank's Internal Control System is "mostly satisfactory", confirming the evaluation expressed in February 2019, since, although some areas could be improved, for which the appropriate corrective actions have been defined, all its components determine a largely satisfactory level of functionality of the Control and Risk System.

With respect to the Personal Financial Advisors network, the Risk Management organisational structure also coordinates the work of the Operational and Reputational Risks team, which does systematic, long-distance checks on the entire network of Personal Financial Advisors using Risk Indicators, and submits reports on them. Moreover, in order to manage and prevent its own Personal Financial Advisors (PFAs) from adopting behaviour that is not compliant with the regulations, FinecoBank has adopted a number of first- and second level controls performed by several internal functions and an information flow that, for the purpose of immediately implementing any actions deemed necessary for PFAs, centralize to the Network Control, Monitoring and Network Service department all information collected by 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 Risk and Related Party Committee and the Board of Directors a specific report on the activity of Personal Financial Advisors that details, on the basis of specific anomaly indicators, the audits performed, their findings, any critical issues and the actions aimed at eliminating them.

Internal Audit

As mentioned, after the exit from the UniCredit Group, the Internal Audit activity is performed by the dedicated internal function. Previously the function was outsourced to the Internal Audit Department of UniCredit S.p.A. The head of the Bank's Internal Audit department, Patrizia Verdesca, was appointed by the Board of Directors on March 7th, 2017, with effect from March 13th, 2017 (following the opinion of the then Remuneration and Appointments Committee and the then Risk and Related Party Committee and after consulting the Board of Statutory Auditors) and confirmed by the Board of Directors on May 6th, 2019 as head of the Internal Audit function.

It was found that the quarterly reports prepared by Internal Audit to assess the Internal Control System – with sections dedicated to the results of the audit on Bank processes, on the Personal Financial Advisors Network and the Audit Findings, including their composition over time – were duly submitted to the Risks and Related Parties Committee and the Board of Directors and discussed within those bodies. The report as at 31.12.2019 also provides information on the Internal Audit function and on the audit activities of the subsidiary Fineco Asset Management DAC.

In November 2019, the Board of Directors approved, with the favourable opinion of the Risks and Related Parties Committee, after consulting the Board of Statutory Auditors, the amendment of the 2019 annual plan.

During its activity, the Board ascertained compliance with the audit plan defined before, concerning central structures and processes as well as network structures, checking the time frames of activity and the causes of any changes.

In 2019 all audit reports required by the amended plan for the Bank's processes were released, with the evaluations "satisfactory" and "good".

The audit plan for the network of financial advisors, which included 400 audits, was completed, with 400 audit reports issued in 2019, none of which had a "poor" evaluation, 21 (5%) of which had an "unsatisfactory" evaluation and 379 (95%) of which had a "satisfactory/good" evaluation. 284 were carried out on site and 116 off site.

Overall, the internal control system was rated "mostly satisfactory" by the internal audit function.

The Board also took note of the "Report on FinecoBank's internal audit activities, as set out in Consob's manual of disclosure obligations for monitored parties", prepared by the Internal Audit function, based on the work it performed in 2019, which was presented first to the Risks and Related Parties Committee and then to the Board of Directors at a meeting held on March 12th, 2020.

On the whole, the analyses carried out highlighted the general adequacy of the controls defined to mitigate the risks that characterise the Bank's business, which were found in the audits carried out during 2019 both on the Bank's processes and on the network of Personal Financial Advisors (PFAs). Nevertheless, there are some corrective actions in progress in response to the findings, in relation to certain regulations, including MiFID II.

The second-level control activities performed by Risk Management and the Compliance function checked in relation to the processes audited in 2019 were overall adequate.

Adequate management of the incentive systems for employees and the sales network has also emerged, in compliance with the provisions of the relevant external regulations and the Group's Remuneration Policy. For this report, the Board of Statutory Auditors will put forwards its own considerations to Consob within the required deadlines.

The Board of Statutory Auditors examined the Audit Report issued by Internal Audit in 2019, using the information contained in it to carry out its activities and to monitor, with particular attention to the managers of the organisational 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, the analysis of the information requested from the CEO pursuant to art. 151, paragraph 2, of the TUF and the audit results did not reveal any critical issues.

Compliance

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 completion of the corrective actions identified from time to time and paying particular attention to the residual risks highlighted in said monitoring actions.

The Board of Statutory Auditors has also taken note of the "Report on the activities of FinecoBank's Compliance function in 2019", in which the Compliance function expresses a "mostly satisfactory" summary opinion, as no significant critical issues emerged from the activities it carried out in 2019. In particular, the assessment of the primary risks of non-compliance subject to the direct supervision of the Compliance function, carried out taking into account the results of second-level controls, the findings formulated by Internal Audit and the supervisory authorities, did not identify any regulatory area with a risk level higher than "medium". At the end of 2018, the riskiness of the anti-money laundering area was evaluated "Significant" but, due to the completion of most of the planned corrective actions, it was awarded "Medium" at the end of 2019. The same level of risk was also awarded to the Financial Sanctions, Market Abuse, PRIIPs, MiFID, Anti-Bribery & Corruption, PSD2, Privacy, Payment Accounts, Anti-Usury, Banking Conflicts of Interests, IDD, Consumer Credit & Payment Services, Legislative Decree 231/01, Distance Marketing of Financial Services, Central Depositories, Short Selling and Major Holding, while for the Financial Benchmark, EMIR and Antitrust areas, the risk was assessed as "Limited".

The areas subject to indirect control present "Medium" risk levels (reports from Supervisory Bodies, Bank Representatives, Legislative Decree 81/2008, Tax, Law 68/1999, Legislative Decree 276/2003, Law 300/1970, Shareholders' Meeting) and, in two cases, "Limited" (Environmental Management, Business Continuity & Crisis Management).

The Board of Statutory Auditors shall prepare its "Observations", which will supplement the “Compliance Report” to be forwarded to CONSOB within 30 days of the approval of the Financial Statements.

In 2019, the results of the monitoring carried out were presented to the Risks and Related Parties Committee and to the Board of Statutory Auditors through specific quarterly reports. Certain activities based on regulatory changes are still being implemented, partly in view of the need to adopt new IT applications.

Data Protection Officer

The FinecoBank Data Protection Officer (DPO) prepared the "Report of the Data Protection Officer of FinecoBank S.p.A., 2019", submitted to the Board of Directors on March 12th, 2020, after examination by the Risk and Related Party Committee, and to the Board of Statutory Auditors, in order to summarise the results of the activities carried out and the initiatives undertaken by the Company to protect the personal data it processes and manage the risk of violation, the malfunctions ascertained and the corrective actions taken, as well as staff training activities, in accordance with the requirements of the General Data Protection Regulations (GDPR).

Anti-Money Laundering

With reference to the activity carried out by the Anti-Money Laundering function, the Board of Statutory Auditors notes that the Bank has begun – pursuant to the Bank of Italy's provision in force since March 26th, 2019 – adequate and timely information flows to the corporate bodies and top management on the situation of the company controls in place at FinecoBank, to prevent the risk of laundering money and funding terrorism, including the results of second-level controls.

The periodic report at December 31st, presented by the Anti-Money Laundering Officer to the Board of Directors on March 9th, 2020, highlights the results of the second level controls, with some "Critical" results – deriving in part from the so-called "zero tolerance" principle – for which the corrective measures to be implemented have been identified.

The corrective actions from the "Unsatisfactory" Anti-Money Laundering audit report issued at the end of 2018 were essentially completed.

The percentage of participation in compulsory training courses in December 2019 was 92% for employees and 97% for Personal Financial Advisors.

In relation to Directive IV on money laundering, implementations following the Bank of Italy's new Resolution of July 29th, 2019 are still ongoing. As regards anti-money laundering questionnaires, the scheduled date of completion has been set at June 30th, 2020.

Following deconsolidation from the UniCredit Group, given the regulatory prohibition from assigning the position of Head of Reporting Suspicious Operations that might involve money laundering or funding terrorism, to a person not belonging to the group, the delegated power previously assigned to the UniCredit Group national delegate ceased to exist. Therefore, at its meeting of June 4th, 2019, the Board of Directors appointed the internal Head of Reporting Suspicious Operations at Fineco. The Head of Reporting Suspicious Operations works within the Anti-Money Laundering Team, in the Compliance function. He/she has no direct responsibilities in operational areas of the Bank, and people within those areas report directly to him/her, just as he/she reports directly to the Head of the Anti-Money Laundering Team and therefore to the Compliance Officer.

The Board acknowledges that the Bank, using the extension of the terms granted by the Bank of Italy to mitigate the impact of COVID-19 on the Italian banking and financial system, has postponed the presentation of the self-assessment carried out by the Anti-Money Laundering Function (Press Release of Bank of Italy of 20 March 2020).

Complaints

The Board of Statutory Auditors also took note of the "Report on the overall situation of complaints received by FinecoBank S.p.A. in 2019", prepared by the Compliance function, concerning both complaints related to the provision of investment services and others.

The Complaints Report noted a 27.57% reduction in complaints received in 2019 compared to 2018, mainly due to a significant fall in complaints about "Loans and Mortgages" for complaints on salary loans, a type of account that was disposed of in 2008 and is no longer marketed by FinecoBank. The main area of dispute relates to "Current Accounts and Cash and Payment Transactions" (1,029, equal to 42.94% of the total amount received), for which there was an increase of 12.82% compared to 2018 (912). The increase is attributable to complaints (134) concerning the unilateral change in account maintenance costs communicated by the Bank at the end of November 2019 and in force since February 1st, 2020.

Whistle-blowing

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 whistle-blowing).

The Compliance function prepared the "Report on the internal system for reporting violations (so-called whistle-blowing)", submitted to the Board of Directors on March 12th, 2020, after examination by the Risks and Related Parties Committee, and to the Board of Statutory Auditors. The report summarises the information on the four reports received during 2019, all of which were closed during the year without any irregularities and/or unlawful behaviour being detected and therefore without any action being taken against the people reported.

Supervisory Body

FinecoBank relies on a Body set up specifically to perform the functions of Supervisory Body pursuant to Legislative Decree 231/2001. The Supervisory Body was appointed by resolution of the Board of Directors on April 11th, 2017, for a period of three years. Its composition was subsequently changed, by the Board of Directors resolution of October 16th, 2017, with the “internal members” reduced from three to two and the Internal Audit Manager officially leaving but still continuing to participate in the meetings as a permanent guest, and a new external member appointed, in place of the Chairman of the Board of Statutory Auditors, who had attended the meetings until that date.

The Board of Statutory Auditors met the Supervisory Body in 2019 and examined the "Information report on the activity performed by the Supervisory Body pursuant to Legislative Decree no. 231 of June 8th, 2001, as at December 31st, 2019”. Based on the results of the Supervisory Body's activities, there were no breaches of the applicable legislation and found that, among other things, it has:

(i) proposed an update to FinecoBank's Model – in relation to Fineco's exit from the UniCredit Group and new regulatory developments – submitted to the Bank's Board of Directors at the meeting of November 5th, 2019, together with the Operating Rules of the Supervisory Board under Decree no. 231;
(ii) analysed and approved the new 231 decision protocol no. 12 by the recently established Regulatory Affairs Team and the additions to protocols no. 2 "CRO", no. 4 "CFO", no. 6 "Global Banking Services", no. 7 "Compliance" and no. 8 "Global Business";
(iii) analysed the flows received in relation to the regular and occasional reports on conduct contrary to the principles of the decree;
(iv) examined the results of the audits carried out by Internal Audit in 2018 on no. 3 "Decision protocols".

Based on the documentation reviewed, information received and inspections done during its supervisory activities, the Board of Statutory Auditors, despite pointing out some corrective measures currently under way, deems the Internal Control System overall adequate.

Comments on the adequacy of risk management systems

FinecoBank S.p.A. has an active Risk Management function that assesses and monitors the adequacy of the measurement, control and management systems for typical risks linked to financial and banking activities, in particular liquidity, credit, market, operational, business risks, as well as reputational and IT risks.

In accordance with Prudential Regulation requirements, the CRO function has presented the "Annual report on the Group's risk exposures as at December 31st, 2019" which, among other things, details the activities carried out in 2019, including those of an extraordinary nature, mainly attributable to the deconsolidation from the UniCredit Group, including the analysis of the impact of the exit from the UniCredit Group and the preparation of the internalisation plan for the part falling under the responsibility of the CRO function, the analysis and selection of external companies for the provision of services previously provided by UniCredit and not internalised, the preparation of the ICAAP/ILAAP report addressed to the Bank of Italy, the planning of the internal regulation updates for the transfer of the UniCredit Group's ones to those of Fineco, the start of the development of internal methodologies for the calculation of Pillar II capital, and the integration of the framework of control over the subsidiary Fineco Asset Management, classified as a “Small” Legal Entity on the basis of the criteria of contribution to the Group's risk defined in the Group Risk Appetite Framework Policy; this classification provides for the implementation of risk appetite and capital calculation from Pillar II at a consolidated level, exempting the legal entity from the implementation of a local approach.

Ordinary activities include monitoring the Risk Appetite Framework (RAF), adequacy of the Bank's Internal Capital (ICAAP) and operational limits to the taking on various types of risk, as well as monitoring risks from the Bank's activities in its various components (credit, market, operational, liquidity, business), proposing risk mitigation policies, where deemed necessary, and quarterly reporting to the Corporate Bodies.

In the above report, the Risk Management function points out that during the past year, any breaching of the limits set out in the approved policies were managed through escalation processes and, as required, information was provided to the Corporate Bodies in the Quarterly Risk Exposure Report. In December 2018, in compliance with the Bank of Italy's instructions, FinecoBank S.p.A. approved the “2019 FinecoBank Risk

Appetite” document, whose metrics, which include the exchange rate risk with respect to hedging policies, were assessed by the Risks and Related Parties Committee, and which also aims at monitoring consistency between the business model, the aforementioned RAF and the budgeting process.

With regard to operational risks, in May 2019, following deconsolidation from the UniCredit Group, the Bank began the necessary process to adopt the Traditional Standardised Approach (TSA); in October 2019, the Bank's Internal Audit function issued the report "Operational Risk Management – Traditional Standardised Approach" in which it expresses a "satisfactory" overall assessment of compliance with external regulations of the business line classification process, established by the Bank to calculate the capital requirement for operational risk using the standardised method.

In the course of its work, the Board of Statutory Auditors met regularly with the Chief Risk Office to evaluate, among other things, its work, and to examine in greater detail the information reports it prepared for the Corporate Bodies, monitoring the effectiveness, completeness, functionality and reliability of the Internal Control and Risk Management System and the Risk Appetite Framework, in line with the provisions of the Corporate Governance Code and the supervisory provisions.

Also monitored the internalisation process of the ICAAP and ILAAP action plans, after the Bank's exit from the UniCredit Banking Group. The ICAAP and ILAAP report for the year 2019, which is currently being finalised and is on the agenda for the Board of Directors' meeting of April 7th, 2020, will then be sent to the Bank of Italy by April 30th.

Following the deconsolidation from the UniCredit Group, FinecoBank has assumed the status of Parent Company and, consequently, is required to draw up a Recovery Plan.

The Regulatory Affairs team, reporting directly to the Chief Executive Officer and General Manager, defined the Plan which, before its submission to the Internal Control Business Committee, the Risk and Related Parties Committee, the Board of Statutory Auditors and the Board of Directors, has been assessed by the Internal Audit which expressed a Mostly Satisfactory evaluation. The Recovery Plan will be sent to the Bank of Italy by April 30th.

The Board deems the risk management system overall adequate for the company's size and characteristics.

Supervisory activities pursuant to art. 19 of Legislative Decree 39/2010 – Relations with the External Auditors

The Board of Statutory Auditors, identified by art. 19 of Legislative Decree 39/2010 in the updated version following the reform of external audits implemented by 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 services other than auditing.

The Board of Statutory Auditors examined the audit reports issued on April 6th, 2020 by the Auditing Company Deloitte & Touche S.p.A. pursuant to art. 14 of Legislative Decree no. 39/2010 and art. 10 of EU regulation 537/2014 on the financial statements and consolidated financial statements of the Group at December 31st, 2019. 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 31st, 2019, 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 IFRS adopted by the European Union, as well as the provisions issued in implementation of art. 9 of Legislative Decree 38/2005 and of art. 43 of Legislative Decree 136/2015;
- express a judgment of consistency and compliance, showing that the Management Report accompanying the individual and consolidated financial statements at December 31st, 2019, is consistent with those statements and prepared in compliance with the law, 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;

- 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 April 6th, 2020, the External Auditors presented the supplementary report to the Board, pursuant to art. 11 of EU regulation 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 (art. 6 of the aforementioned EU regulation) which does not reveal any situations that could compromise their independence.

The Board had many regular meetings, in compliance with art. 150, paragraph 3, of the TUF and the instructions in Legislative Decree no. 39/2010, with the Auditing Company, in which they examined the 2019 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 Notes to the Accounts 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 31st, 2019, to FinecoBank and the subsidiary 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:

Type of service	***Service provider***	***Fees***
Audit	Deloitte & Touche S.p.A.	205,752
Audit	Deloitte Ireland LLP	15,000
Certification services	Deloitte & Touche S.p.A.	229,000
Certification services	Deloitte Ireland LLP	15,000
Other services	Deloitte & Touche S.p.A.	10,000
TOTAL		474,752

(amounts in euros)

Certification services refer to the performance of the procedures for the issuance of the comfort letter to the ECB in order to include the profit for the year in the calculation of the Bank's and the Group's Class 1 Capital (CET1), the limited audit of the quarterly financial statements for the purpose of determining the profit for the period for supervisory purposes, and the review of the prospectus for advertising investments for tax credit; other services refer to agreed inspection procedures on reporting for the contribution to the resolution Fund.

In 2019 the Board of Statutory Auditors authorised:

- on July 5th, 2019, the assignment for services aimed to issue a Comfort Letter and a Bring Down Letter as part of issuing an Additional Non-Cumulative Temporary Write-Down Deeply Subordinated Fixed Rate Resettable Notes;
- on November 22nd, 2019, the assignment to carry out the limited review, in accordance with the provisions of the ISAE 3000 Revised "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 Revised") standard, of the Consolidated Non-Financial Statements referred to in Decree no. 254/16.

It should be noted that in October 2019 the Circular for the management of contractual relations with the Independent Auditors appointed to carry out the statutory audit following the exit from the UniCredit Group was updated.

Consolidated non-financial statements pursuant to Legislative Decree 254/2016 (NFS)

Following its deconsolidation from the UniCredit Group in 2019, Fineco must prepare a non-financial statements for each financial year in accordance with art. 2 of Legislative Decree 254/2016.

The Board of Statutory Auditors is responsible for checking the adequacy of the organisational, administrative, reporting and control system set up by the Bank in order to provide a correct and complete representation of non-financial information, in accordance with the provisions of the consolidated financial statements.

The Board of Statutory Auditors supervised the non-financial reporting process and therefore compliance with the provisions of the law regarding the manner and timing of publication of the NFS both through periodic meetings with the function of the Bank that manages the reporting process, during which it received updates on the progress of the process and the implementation of the data collection system, and by attending meetings of the Corporate Governance, Appointments and Sustainability Committee.

The External Auditors in charge are also responsible for verifying the approval by the Directors of the non-financial statements.

Pursuant to art. 3, paragraph 10, of Legislative Decree 254/16 and art. 5 of Consob regulation 20267/2018, the External Auditors Company is responsible for verifying that the NFS complies with the requirements of Legislative Decree 254/16 and the GRI Sustainability Reporting Standards, based on which the NFS was prepared.

The related certification was issued on April 6th, 2020.

Supervision of financial reporting process – Comments on the adequacy of the administrative and accounting system

The Board of Statutory Auditors verified compliance with the internal regulations governing the process that allows the Financial Reporting Officer and the Chief Executive Officer to issue the attestations required by art. 154-*bis* of the TUF. The administrative and accounting procedures for the preparation of the financial statements, the consolidated financial statements and all other financial disclosures were the responsibility of the Financial Reporting Officer, who, together with the Chief Executive Officer, in regular reports on them and, most recently, in the "Report on the system of internal controls on financial reporting in compliance with Law 262/2005", approved by the Board of Directors on February 11th, 2020, attests – on the basis of tests on the effective application of the checks – to their adequacy in relation to the characteristics of the Fineco Group and to the effective application of the administrative and accounting procedures for writing the consolidated and ordinary financial statements of FinecoBank at December 31st, 2019. The assigned manager, during meetings with the Board of Statutory Auditors, did not report any failings in the operating or control processes that might have affected the above judgment on the adequacy and effective application of the administrative and accounting procedures for proper representation of the economic, financial and asset aspects of the facts of management, in compliance with 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 acknowledges that the Financial Statements at December 31st, 2019 were drawn up in accordance with the accounting standards issued by the International Accounting Standards Board, including the SIC and IFRIC interpretation documents, approved by the European Commission up to December 31st, 2019, as established by EU regulation no. 1606/2002 of July 19th, 2002 and applicable to financial statements as of January 1st, 2017.

The financial statements as at December 31st, 2019 consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flow and the Notes to the Financial Statements, in addition to the “Directors' Report on Operations” and the Certification of the Financial Statements provided for by art. 81-*ter* of Consob regulation no. 11971 of May 14th, 1999 and subsequent amendments and additions issued on February 11th, 2020. The Financial

Statements also follow formats for Financial Statements and pertaining Notes set out by Bank of Italy's provisions with Circular no. 262 of December 22nd, 2005, and subsequent updates and amendments.

Pursuant to Bank of Italy/Consob/ISVAP Document no. 4 of March 3rd, 2010 and the internal regulations implementing Law no. 262/2005, it is hereby acknowledged that the Board of Directors approved, prior to and separately from the approval of the Financial Statements, the impairment test procedure for goodwill, begun after the hearing of February 11th, 2020. The results confirmed the sustainability of the goodwill value recognised in the financial statements.

As at December 31st, 2019 the CET1 capital ratio (Primary Tier 1 capital/Risk-weighted assets) was 18.12% as detailed in the document "Disclosure by Institutions pursuant to EU regulation 575/2013 as at December 31st, 2019" published by the Bank on its website. Since the Bank's Board of Directors has resolved to suspend the dividend distribution proposal, FinecoBank, in line with the latest clarification issued by the European Central Bank on 29 March 2020, will no longer deduct the dividend, as has been done so far, for the year 2019 from CET1 capital for prudential purposes; the pro-forma CET1 will therefore be 24.19%.

The Board of Statutory Auditors, in light of the information received, the documentation examined and the activity performed, assesses the process of preparation of the financial reporting as essentially adequate.

Remarks on the remuneration policy

In 2019, 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 external legislation of the remuneration policies and practices adopted by FinecoBank and the related corporate processes.

The Bank has implemented the 2019 Remuneration Policy and, on March 12th, 2020, taking into account the favourable opinion of the Remuneration Committee, it approved the "FinecoBank Remuneration Policy for the year 2020", 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 Shareholders' Meeting. This document also considers the Remuneration Policy applied to the members of FinecoBank's Personal Financial Advisors network, in line with their specific remuneration policies. The 2020 Policy implements the new regulations governing the remuneration of listed companies – introduced by Shareholder Rights Directive II and implemented by Legislative Decree no. 49 of May 10th, 2019, which amends art. 123-*ter* of the Consolidated Finance Act (TUF) – which changes the vote of the Shareholders' Meeting on the report on remuneration policy and paid remuneration, introducing a consultative vote on the section of the report on paid remuneration, as well as updates to the regulations on Banking Transparency ("Provisions on the transparency of financial banking transactions and services – Correctness of relations between intermediaries and customers" of March 19th, 2019) with regard to the adoption of additional principles for the definition of the remuneration of employees and third-party sales staff.

The Internal Audit function carried out an annual review of the remuneration and incentive system adopted by FinecoBank and the Group to determine and pay compensation to members of corporate bodies and variable compensation to employees and the sales network, in order to verify compliance with the supervisory regulations issued by the Bank of Italy and the Remuneration Policy defined for 2019 and approved by the Shareholders' Meeting.

The verification – whose results were presented to the Remuneration Committee of March 9th, 2020 – turned down the awarding of a "good" opinion.

The 2020 Remuneration Policy, including the “Annual Remuneration Report”, which includes the “2020 remuneration plans based on financial instruments”, has now been made available to the public pursuant to Consob regulation no. 11971/1999. The report fulfils the disclosure requirements in arts. 114-*bis* and 123-*ter* of the TUF and the banking regulations’ requirements at the same time.

Following the changes in relation to the allocation of the profit for the year, as described above, the Board held today made a minimal change to the Compensation Policy, deleting only the reference to the dividends distribution.

Processing of privileged information

FinecoBank has prepared a specific procedure for the processing of privileged information aimed at preventing such processing taking place in an untimely, incomplete or inadequate manner.

In compliance with the regulations in force, the Board of Directors, most recently on January 10th, 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 of the Civil Code – Reports – Opinions issued pursuant to the law

In 2019, the Board of Statutory Auditors did not receive any complaints pursuant to art. 2408 of the Civil Code. At the beginning of 2020, the Board of Statutory Auditors received a complaint by certified e-mail pursuant to art. 2408 of the Civil Code, which it analysed and verified.

The Board was asked to express its opinion on the changes to the "Procedures for the management of transactions with persons in conflict of interest".

The Board of Statutory Auditors commented on the "Report on Internal Audit Activities" and the "Annual report on the Group's risk exposures at December 31st, 2019", on the Annual Report "Outsourcing - Supervision of important outsourced operational functions and IT services outsourced or provided by third parties".and will formulate its considerations on the "Annual report on the 2019 activities of the Compliance function" too.

It also expressed its opinion, in view of the resolutions for which the Board of Directors is responsible, as required by art. 7, criterion 7.C.1, of the Corporate Governance Code, in relation to the 2019 Internal Audit activity plan.

Lastly, the Board of Statutory Auditors approved the appointment made by the Board of Directors on January 15th, 2020 of the new non-executive Director, Andrea Zappia, to replace Manuela D'Onofrio, who resigned on May 10th, 2019.

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

In its supervisory activity, the Board of Statutory Auditors did not find significant irregularities or omissions and/or facts worthy of censure, nor did it become aware of transactions not compliant with the principles of proper administration, resolved and implemented not in compliance with the law or company Articles of Association, not in the interests of FinecoBank, in conflict 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 art. 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 External Auditors, the Board of Statutory Auditors does not find, as regards its duties, any reasons impeding the approval of the financial statements at December 31st, 2019, and the allocation of profits for the year formulated by the today Board of Directors. In particular the Board has taken note that FinecoBank has taken into account the Recommendations of the European Central Bank and the Bank of Italy issued on March 27, 2020, revoking the dividend distribution proposal made by the Board of Directors on last February 11, and deliberating their destination to the Extraordinary Reserve.

Turin, 6 April 2020

The Statutory Auditors
Elena Spagnol - Chairwoman

Barbara Aloisi - Member

Marziano Viozzi – Member

Glossary

Additional Tier 1

Equity instruments in line with the provisions of Regulation (EU) No.575/2013 (CRR) on prudential requirements for credit institutions and investment firms, which have the following characteristics:
- full discretion of the issuer in coupon payments and redemptions, also advanced, of the principal outstanding;
- the instrument is perpetual or has a maturity equal to duration of the entity;
- it maintains within the full discretion of the issuer the possibility to perform a write-up of the nominal value after the occurrence of a capital event that has determined a write-down;
- no provisions that force the issuer to provide for payments (must-pay clauses) following genuine events under the direct control of the parties.

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).

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 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.

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

The ratio of Net impairment losses of loans with customers in the last 12 months to loans and receivables with customers (average of the averages of the last four quarters, calculated as the average balance at the end of the quarter and the balance at the end of the previous quarter). The scope only includes loans to commercial 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 impairment losses of loans with customers in the last 12 months to loans and receivables with customers (average of the balance at period end and the balance at December 31 of the previous year). The scope of the exposures excludes positions deriving from bonds and advances to personal financial advisors.

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 profit excluding extraordinary charges and related tax effects (integration costs and net profits from extraordinary investments), 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).

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", "Advice Top Valor", "Old Mutual", "Best in class", "FAM Evolution", "Core Pension", "Private Client Insurance" e "GP Private value" 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.

LCP

Loss Confirmation Period.

LCR - Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) is structured in such a way as to ensure that an institution maintains an adequate level of high quality non-restricted liquid assets that can be converted into cash to meet its liquidity needs over a period of 30 calendar days in a particularly acute liquidity stress scenario specified by the supervisory authorities. The LCR is defined as the ratio between the stock of high quality liquid assets and the total cash outflows in the next 30 calendar days.

Leasing

Contract whereby one party (the lessor) conveys the right to use an asset to another party (the lessee) for a given period of time and in exchange for consideration.

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.).

Glossary (CONTINUED)

Liquidity risk

The risk of the company being unable to meet its payment commitments due to the inability to liquidate assets or obtain sufficient funding from the market (funding liquidity risk) or due to the difficulty/inability to easily liquidate positions in financial assets without significantly and unfavourably affecting the price because of insufficient depth or temporary malfunction of the financial market (market liquidity risk).

Long and Short Margining

Margining is a trading method that allows investors to buy (long leverage) or sell (short selling) by investing only a part of the liquidity required.

Market risk

Consists of the effect that changes in market variables (interest rates, securities prices, exchange rates, etc.) can cause to the economic value of the portfolio, when it includes assets held in the trading book, as well as those posted in the banking book, both on the operations characteristically involved in commercial banking and in the choice of strategic investments.

Master servicing agreement

Type of contract under which two or more parties regulate the key terms of subsequent transactions and/or further agreements to be implemented between them in the future.

Maturity Ladder

Instrument for managing and monitoring short-term liquidity (operational liquidity), which, by offsetting assets and liabilities whose maturity falls within each individual time band, enables the identification of mismatches (periodic and cumulative) between incoming and outgoing cash flows and, therefore, to calculate the net financial requirement (or surplus) over the period of the year.

Model Risk Category

The MRCs have been introduced at the group level in order to characterise the types of operational loss in more detail. They are obtained from the combination of the seven event types established by Basel II with one or more of products offered to customers.

Non-performing exposures

According to the EBA Implementing Technical Standards, non-performing exposures are all on-balance-sheet and off-balance-sheet exposures that satisfy either or both of the following criteria:

- 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

On-balance sheet exposures, other than those classified as bad loans or unlikely to pay that are past due or overdrawn at the reporting date. They represent the total exposure to any borrower not included in the unlikely to pay and bad 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 (as described above) and the average of the quarters of the year of the allocated capital (calculated with the same methods envisaged for the calculation of the EVA) and expresses in percentage terms the capacity to create value per 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.

Return on asset – R.O.A.

Ratio of net profit after tax to total assets.

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 the average of the quarters of the year of the allocated capital (calculated with the same methods envisaged for the calculation of the EVA).

ROE

Ratio between net profit and the average shareholders’ equity for the period (excluding dividends and any donations expected to be distributed and the revaluation reserves), calculated as the average of the balance at the end of the period and that of the previous December 31st.

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

Tier 1 capital (tier 1) includes Common Equity Tier 1 - CET1 and Tier 1 additional capital (Additional Tier 1 - AT1).

Tier 1 Capital Ratio

The percentage of a bank's Tier 1 Capital to its risk weighted assets "RWA – Risk Weighted Assets" (q.v.).

Total Financial Assets - TFA

Assets Under Management (q.v.), Assets Under Custody (q.v.) and Direct Deposits (q.v.).

Trading Book

Positions held for trading are those held intentionally for a subsequent sale in the near term and/or assumed with the intention of benefiting, in the short term, from the differences between buying and selling prices, or other price or interest rate interest variations.

UCI – Undertakings for Collective Investment

This term includes "UCITS – Undertakings for Collective Investment in Transferable Securities" (q.v.) and collective investment funds (real estate collective investment funds, closed-end investment funds).

UCITS – Undertakings for Collective Investment in Transferable Securities

This term covers open-end real estate investment funds, both Italian and foreign, and investment companies with variable capital. The latter are joint stock companies that have the sole purpose of collective investment of the assets gathered through a public offer of their own shares.

Unlikely to pay

On-balance and off-balance sheet exposures that meet the definition of unlikely to pay, which do not meet the conditions to be classified as bad loans. The classification as "unlikely to pay" derives from the assessment of the debtor's unlikeliness (without actions such as realisation of collateral) to repay fully his credit obligation (principal and/or interest). This assessment is made independently of any past due and unpaid amount (or instalment). The classification of an exposure as unlikely to pay is not necessarily tied to evident issues (non-repayment), but is rather linked to indicators of a potential default of the borrower.

VaR – Value at Risk

A method used for quantifying risk. It measures potential future losses which will not be exceeded within a specified period and with a specified probability.