STRATEGIES AND METHODS USED FOR THE OTC DERIVATIVE DEALING ON OWN-ACCOUNT SERVICE

INTRODUCTION

This document, “Strategies and methods used for the OTC derivative own-account dealing service,” is presented together with the master framework agreement for OTC derivative transactions (hereafter, the “Agreement”), proposed by UniCredit S.p.A. (hereafter, also the “Bank”).

The objective of this document is to provide information:

– about the methods adopted by the Bank to carry out the OTC derivative own-account dealing service;
– the monitoring and updating of the strategies and methods adopted to carry out the OTC derivative own-account dealing service.

The Bank, in providing an own-account dealing service, undertakes to adopt all reasonable measures to obtain “best execution” for the Customer, to be understood as the best “expected” result and not as the best “actual” result.

FIRST SECTION: STRATEGIES AND METHODS USED FOR THE OTC DERIVATIVE DEALING ON OWN-ACCOUNT SERVICE

1. METHODS USED FOR THE OTC DERIVATIVE DEALING ON OWN-ACCOUNT SERVICE

With reference to OTC derivative business, the Bank offers a dealing on own-account service and, in this context, carries out interest-rate, exchange-rate and commodity transactions with its customers. UniCredit entrusts UniCredit Bank AG (Dealer) with concluding transactions which mirror those concluded with its customers, to cover any risk that the Bank has taken on.

This dealing method is part of the wider method of execution used each time the customer gives an order regarding financial instruments not traded on a regulated market ("over the counter trading" or "OTC").

The Customer generally grants explicit consent to the use of this method by signing the Agreement.

Transactions concluded for own account are therefore completed only when the Bank and the client reach an agreement about the elements of the transaction and, therefore, of the overall price of the same.

The derivatives that the Bank trades are those provided for by Italian Legislative Decree no. 58 of 24 February 1998. These are represented in contracts stipulated by the Bank and the Client, in which the features of the instrument traded and the conditions of the operation are established. The price of these instruments generally derives from the definition of a series of financial parameters which, through the application of complex pricing models, are used to define the value of the transaction. The Bank, in pursuing the best interests of the Client, adopts measures aimed at guaranteeing that the price of the instruments is determined correctly, and adequately represents the various components which may make up the price.

1.1 Best execution factors identified by the Bank used for the OTC derivative own-account dealing service

The Bank has identified the following best execution factors:

– price of the financial instrument

To determine the price of the OTC derivatives, the Dealer and the Bank make use of models commonly used commonly in the market. These models comply with the pricing methods adopted in order to measure the value of the derivatives portfolio owned to manage market risk and for accounting purposes;

– cost of the OTC derivative dealing on own-account:
the cost of OTC derivative dealing consists of the fee for trading (mark-up) plus the cost to balance the financial risks of the Bank, for which it makes use of the dealer (hedging cost).

The mark-up and hedging cost cannot exceed the maximum limits defined in the Global Policy – Methods for defining pricing and valuation of financial products sold to retail customers via Italian networks (Pricing Policy).

1.2 **Degree of importance attributed by the bank to the best execution factors**

The Bank, taking into account the characteristics of the clients it serves and the financial instruments dealt with, considers the following best execution factor to have priority:

– the combination of the price of the financial instrument and all the dealing costs (known as “Total Consideration”).

1.3 **Counterparty risk arising from execution outside a trading venue**

Trading on own account of OTC derivatives generates for the client a counterparty risk. In case of insolvency, the Bank is unable to fulfill the obligations related to the transactions completed or to comply with the relevant payments, and the Client may lose all or part of the payments made or suffer unlimited losses.

In addition, if the Bank is unable to pay its debts or require extraordinary public financial intervention, the Client is subject to the risk that the Bank will take measures of resolution by the Authority, including early termination of the Derivative contracts concluded. If such termination entails a credit to the Bank, the related amount may be reduced or converted into equity (shares or other types of securities) by the same authority (“Bail in”).

**SECOND SECTION: MONITORING AND REVIEW**

The Bank monitors the effectiveness of the measures adopted in order to obtain the best possible result for the Client pursuant to this document “Strategies and methods used for the OTC derivative dealing on own-account Service” through checks:

- on the market data used to define the price and, where possible (equity), on similar or comparable products,
- on the compliance with maximum mark up and hedging costs.

The above controls are systematic and, in particular, those relating to compliance with maximum mark up and hedging costs, are made for each negotiated transaction.

This document is also subject to at least annual monitoring to ensure that the Bank's ability to continue to achieve the best possible result for the Client in the event of changes in the regulatory environment, the market context or other internal factors.

The Bank communicates to the Client the relevant changes to the strategies and modalities set out in this document, in accordance with the terms of the Agreement, and in any case by making it available at www.unicredit.it/it/info/normativa-mifid.html.