



ANNUAL INTEGRATED REPORT 2018

THE REPORT INCLUDES THE CONSOLIDATED NON-FINANCIAL STATEMENT
PURSUANT TO LEGISLATIVE DECREE NO. 254/2016

ANNUAL INTEGRATED REPORT

at 31.12.2018

BOARD OF DIRECTORS
08 MARCH 2019

This Annual Integrated Report has been translated from that issued in Italy, from the Italian into the English language, solely for the convenience of international readers. The Italian version remains the definitive version.

Banca Generali S.p.A. **Administration and Control Bodies**

Board of Directors - 8 March 2019

Board of Directors	Giancarlo Fancel Gian Maria Mossa Giovanni Brugnoli Azzurra Caltagirone Anna Gervasoni Massimo Lapucci Annalisa Pescatori Cristina Rustignoli Vittorio Emanuele Terzi	Chairman Chief Executive Officer Director Director Director Director Director Director
Board of Statutory Auditors	Massimo Cremona Mario Francesco Anaclerio Flavia Minutillo	Chairman
General Manager	Gian Maria Mossa	
Manager in charge of preparing the Company's Financial Reports	Tommaso Di Russo	

Contents

Letter to Stakeholders	5
Statement of Methods	7
Highlights 2018	8
An Integrated View of Financial and Non-financial Reporting	10
Materiality Matrix	12
01. Identity and Governance	19
Banca Generali History	20
Corporate Governance and Organisational Structure	22
Mission, Vision, Values	25
Business Model	26
Strategic Plan	29
Strategic Focus on Sustainability	31
Risks and Uncertainties	32
Internal Control and Risk Management System	35
Transparent Business Management and Fight against Corruption	38
02. The Value Creation and Management Model	41
Banca Generali Group	42
Macroeconomic Context and Competitive Positioning	46
Group's Operating Results	52
Group's Capital and Financial Position	67
Results by Line of Business	81
Banca Generali Stock Performance	84
Parent Company's Operations	86
Performance of Subsidiaries	95
Related Party Transactions	96
Products and Marketing	99
Organisation and ICT	105
Business Outlook	108
Proposal for the Distribution of Profits	109
03. Consolidated Non-financial Statement	111
Banca Generali and the Environmental Issues	112
Banca Generali and its People	118
Banca Generali and its Suppliers	130
Banca Generali and its Clients	132
Banca Generali and the Distribution Network	140
Dialogue with Stakeholders	148
04. Annexes	151
GRI Guideline Table	152
05. Consolidated Financial Statements as of 31.12.2018	155
Consolidated Financial Statements	156
Notes and Comments	161
Independent Auditors' Report on the Consolidated Financial Statements	312
Independent Auditors' Report on the Consolidated Non-financial Statement	319
06. Financial Statements of Banca Generali S.p.A. as of 31.12.2018	323
Economic and Financial Highlights	324
Financial Statements	325
Notes and Comments	332
Independent Auditors' Report on the Financial Statements	475
Board of Statutory Auditors' Report	481
07. Attestation	487
08. Annexes	491



Letter to Stakeholders

Dear Stakeholders,

For Banca Generali, 2018 was a very intense year, in which the foundation was laid for swifter long-term growth in a scenario of rapid change driven by new challenges of a technological, financial and regulatory nature.

Wealth protection services were expanded, the range of investment solutions was reviewed and enhanced and further steps forward were taken thanks to various acquisitions. The details of the considerable efforts dedicated to ensuring the bank's increasing competitiveness were presented to the financial community during the Investor Day held in December. "Continuity in Discontinuity" was the title of the strategic guidelines for the three-year period 2019-2021 presented to investors, who were immediately appreciative of the desire to pursue a solid, sustainable growth process, in keeping with our company's evolution.

The strategy remains based on the three pillars that set apart Banca Generali's business model and services: the quality of its people – driven by the awareness of the importance of the role played by financial advisors – the unique nature of its wealth management services and its digital focus. Yet in addition to these, the company's initiatives in the coming three years will also be directed towards gradual international development, the renewal of the digital presence in relations with clients and increasingly complete integration into strategic and offering dynamics of a culture of sustainability, viewed as a way of making the most of people, the environment and the community.

The sensitivity towards social responsibility and sustainability issues becomes a part not just of operating and business processes, but also an integral aspect of the bank's very "vision": "To be the No. 1 private bank, unique by value of Service, Innovation and Sustainability." To reinforce the strategic alignment with social goals, a Board committee was formed to set sustainability guidelines. Various initiatives were launched in the areas of governance, respect for the environment and resource management, also extending to the sphere of commercial offerings. In future, we aim to further expand its effects and area of action. The goal, in fact, is to ensure that Banca Generali is an increasingly solid, cohesive member of the community. It is a company capable of creating value at various levels, starting with the remuneration of our shareholders, thanks to sustainable growth and results increasingly independent of market trends.

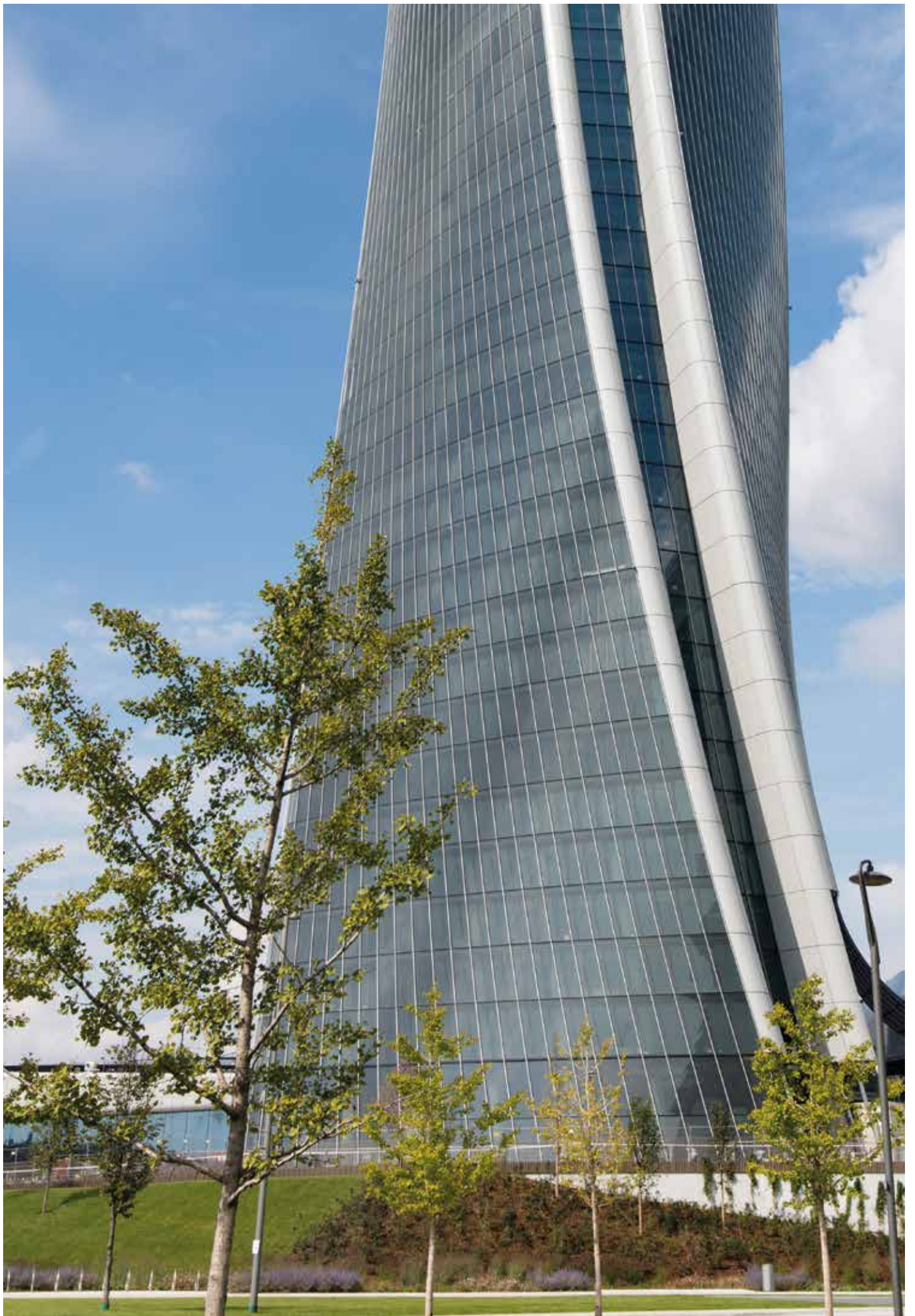
Last year saw a scenario in which almost no asset classes succeeded in closing in positive territory. Volatility made a dramatic resurgence and risk averseness undid the traditional de-correlations, leaving investors with little cause for satisfaction at the international level. Within this scenario, Banca Generali nonetheless continued to grow in size, reporting net inflows of 5.02 billion euros, bringing its total assets to 57.5 billion euros. The solidity of its recurring business resulted in profits of 180.1 million euros, enabling the distribution of total dividends of 144.9 million euros, or 1.25 euros per share, bearing witness to the commitment to generous shareholder remuneration. This commitment was also reaffirmed by the top management on Investor Day as a target for the next three years.

The economic uncertainty and the complexity of the global geopolitical scenario result in an outlook marked with unknowns for the coming months, yet the strength of Banca Generali's team, of all its people, and their determination to pursue increasingly ambitious milestones represent an ideal point of departure for the coming months. I would like to thank the top management, employees and network personnel for their hard work and ambition to continue to excel within Italy's financial services industry. Heartfelt thanks also to the bank's directors, who through their expertise and experience contribute to ensuring dynamic, constructive debate, thus aiding our bank in rising to the challenges of an increasingly challenging scenario for the benefit of all its stakeholders.



Giancarlo Fancel
Chairman

“2018 was a very intense year during which Banca Generali laid the basis for boosting its long-term growth with a clear vision: To be the No. 1 private bank, unique by value of Service, Innovation and Sustainability.”



Statement of Methods

In 2018 the Banca Generali Group decided to implement a progressively integrated reporting process, which will result – in line with the Parent Company, Assicurazioni Generali – in the preparation of a Report according to the Guiding Principles and Content Elements of the International Integrated Reporting (“IR”) Framework. As the first step towards this new reporting structure and format, beginning this year non-financial information, which in the previous nine editions was included in the Sustainability Report, will be presented in the Report on Operations included in Banca Generali’s Consolidated Financial Statements, henceforth known as the “Integrated Annual Report”.

Despite qualifying for the exemption under Legislative Decree No. 254/2016 (the “Decree”) as a member of a group that drafts a Consolidated Non-Financial Statement (NFS), as in the case of the Assicurazioni Generali Group, in accordance with the Parent Company, Banca Generali has decided to comply voluntarily with the provisions of the Decree with regard to environmental and social matters, respect for human rights, human resource issues and the fight against corruption, guiding its reporting in the direction of more complete, integrated and exhaustive disclosure to its stakeholders and to the financial community, more specifically.

Report Scope and Reporting Process

The Banking Group’s Consolidated Non-Financial Statement has been prepared in accordance with the guidelines of the GRI Sustainability Reporting Standards (“GRI Standards”) – referenced option – issued in 2016 by the Global Reporting Initiative, which represent the most commonly adopted sustainability reporting standards at the international level.

All of the corporate structures have contributed to defining the contents of this Statement and activities aimed at dialoguing with stakeholders. Data were gathered at the offices of the Administrative Department, which already oversee the economic and financial trends of the Business Units. The process of involving all structures – including managerial structures – resulted in the redefinition of the material topics in a way that better represents the Banking Group’s specific characteristics and business.

The reporting scope includes all the Banca Generali Companies (in particular, the offices in Milan and Trieste), BG Fund Management Luxembourg S.A. and Generfid S.p.A., with the exception of environmental data. The information presented hereinafter refers to financial year 2018 and is compared with 2017 results, where possible. Figures come from direct surveys, with the exception of certain estimates that have been made but that do not affect the specific figure. These estimates are however reported in this document. Nextam Partners and Valeur Fiduciaria have not been included since the acquisition bids were formalized near the end of the reporting year and will be finalized in 2019.

Highlights 2018

NET AUM & INSURANCE
INFLOWS

2,228

€ MILLION

TOTAL AUM

42.7

€ BILLION

NET INFLOWS

5,020

€ MILLION

TOTAL AUM/C

57.5

€ BILLION

OWN FUNDS

537.9

€ MILLION

NET EQUITY

734.9

€ MILLION

TOTAL CAPITAL RATIO

19%

TIER 1

17.5%

SMART WORKING:
UTILISED BY

10%

OF EMPLOYEES

1,985

FINANCIAL ADVISORS



NET OPERATING INCOME

449.4

€ MILLION

NET OPERATING EXPENSES

196.6

€ MILLION

OPERATING RESULT

252.8

€ MILLION

PROFIT BEFORE
TAXATION

219.8

€ MILLION

NET PROFIT

180.1

€ MILLION

GROSS GLOBAL VALUE ADDED
DISTRIBUTED

729.5

€ MILLION

EMPLOYEES

868

OF WHOM 50.4% WOMEN

EMPLOYEE TRAINING
HOURS

39,182

NETWORK TRAINING
HOURS

124,932

CO2 EMISSIONS (tCO₂e)
(SCOPE 1: 265 t/SCOPE2: 793 t)

-55%/-29%

VS 2013

An Integrated View of Financial and Non-financial Reporting

In accordance with Banca Generali's decision to report the non-financial information provided for in Legislative Decree No. 254/2016, despite qualifying for an exemption (see the Statement of Methods), starting in reporting year 2018 the information provided for in the said Decree will be included in the aforementioned Integrated Annual Report, also available from the address: www.bancagenerali.com/site/home/investor-relations.html



The financial statement documents are also accompanied by legally mandated additional documentation that contains more detailed information regarding specific aspects of the Banking Group's business:

1. the Annual Report on Corporate Governance and Company Ownership;
2. the Annual Remuneration Report;
3. the Pillar 3 public disclosures;
4. the Country by Country Reporting.



Report on Corporate Governance and Company Ownership 2018

The Annual Report on Corporate Governance and Company Ownership drafted in accordance with Article 123-bis of the Consolidated Law on Finance (TUF) contains a broad set of information regarding, inter alia, the structure of share capital and relevant shareholdings, the structure and functioning of the Board of Directors and its internal committees, the role of the Board of Statutory Auditors, the functioning of the Shareholders' Meeting and an overview of the functioning of the internal control and risk management system.

As permitted by Article 123-bis of the TUF, this information is presented in a separate report, approved by the Board of Directors, published together with this Report.

The "Annual Report on Corporate Governance and Company Ownership" can be consulted in the Corporate Governance section of Banca Generali's corporate website:



www.bancagenerali.com/site/en/home/corporate-governance.html



Remuneration Report

Drawn up pursuant to Article 123-ter of TUF and Consob Resolution No. 18049 of 23 December 2011, this Report analyses in detail the Group's Remuneration and Incentivisation policies and reports on the application of remuneration and incentivisation policies in the year under review. In addition, this Report includes the information required by the Bank of Italy (Circular No. 285/2013 - "Supervisory Provisions Concerning Banks", Part I, Title IV, Chapter 2 - Remuneration and incentivisation policies and practices) and by Article 450 of Regulation EU 575/2013 (Basel 3).

The Banca Generali Group publishes its Remuneration Report on its corporate website, in the Corporate Governance section dedicated to the General Shareholders' Meeting.

The 2018 Remuneration Report is available at the following link:



www.bancagenerali.com/site/en/home/corporate-governance/agm.html



Pillar 3 Public Disclosures

Within the framework of the banking regulatory system governed by the Basel Accords (Basel 3), Pillar 3 represents the "disclosure requirements" that complement the regulatory capital requirement (Pillar 1) and supervisory review process (Pillar 2).

The document includes a wealth of qualitative and quantitative information, structured so as to provide to market operators as complete as possible an overview of the risks assumed, the characteristics of the related systems aimed at identifying, measuring and managing the said risks and the capital adequacy of the Banca Generali Group.

Public disclosure is governed directly by European Regulation No 575/2013 (“CRR”), Part 8 “Disclosure by institutions” (Articles 431-455), the Commission Delegated Regulations and the Bank of Italy Supervisory Regulations (Circular No. 285 of 17 December 2013, Part II, Chapter 13).

The public disclosure is drafted at the consolidated level by the Banking Parent Company and shall be published on at least an annual basis, along with the financial reporting documents. With effect from reporting year 2018, following the entry into force of the fifth update to Circular No. 262/2005, which sets out the rules for the preparation of bank financial statements, detailed disclosures on the composition of own funds, capital requirements and regulatory ratios is included solely in Pillar 3.

The Banca Generali Group regularly publishes its public Pillar 3 disclosures on its website, at the following address:

www.bancagenerali.com/site/en/home/investor-relations.html



Country by Country Reporting

In accordance with the provisions set forth in Circular No. 285 issued by the Bank of Italy on 17 December 2013 (Part I, Title III, Chapter 2), information on operations by country to be disclosed by the Banking Group, pursuant to Article 89 of Directive No. 2013/36/EU dated 26 June 2013, is available on the corporate website of Banca Generali:

www.bancagenerali.com/site/en/home/corporate-governance/corporate-governance-system.html



According to the provisions of Article 41, paragraph 5-bis, of Legislative Decree No. 136/2015 of 18 August 2015, the Consolidated Report on Operations and the Separate Report on Operations of the Company may be presented as a single document. The Consolidated Report on Operations therefore includes a chapter that provides the data and information specifically required by the Separate Report on Operations.

Materiality Matrix

In drafting its Consolidated Non-Financial Statement, Banca Generali conducted a **materiality analysis** aimed at identifying and determining the priorities of the topics deemed material and significant to its business and its stakeholders. These topics are deemed “material” since they reflect the Group’s economic, social and environmental impact, or because they may influence the decisions of its internal and external stakeholders.

In order to identify topics that are material and significant for Banca Generali, a survey was conducted according to a structured process based on the following steps:

- › analysis of the existing internal documentation (including that issued by the parent company, Assicurazioni Generali);
- › analysis of articles, statistics, findings of watchdogs and public documents on the type of standards and international frameworks adopted in sustainability reporting;
- › analysis of the characteristics of the sector of reference and benchmark in order to identify the main topics on which competitors also focus;
- › planning and conduct of interviews of top management and company exponents that occupy key positions in the areas identified as priorities in respect of the sustainability topics and provisions of Legislative Decree No. 254/2016.

This analysis resulted in the identification of **21 main topics in 6 macro-areas**: Community, Governance, Social Responsibility, Economic Responsibility, Product Responsibility and Environmental Responsibility.

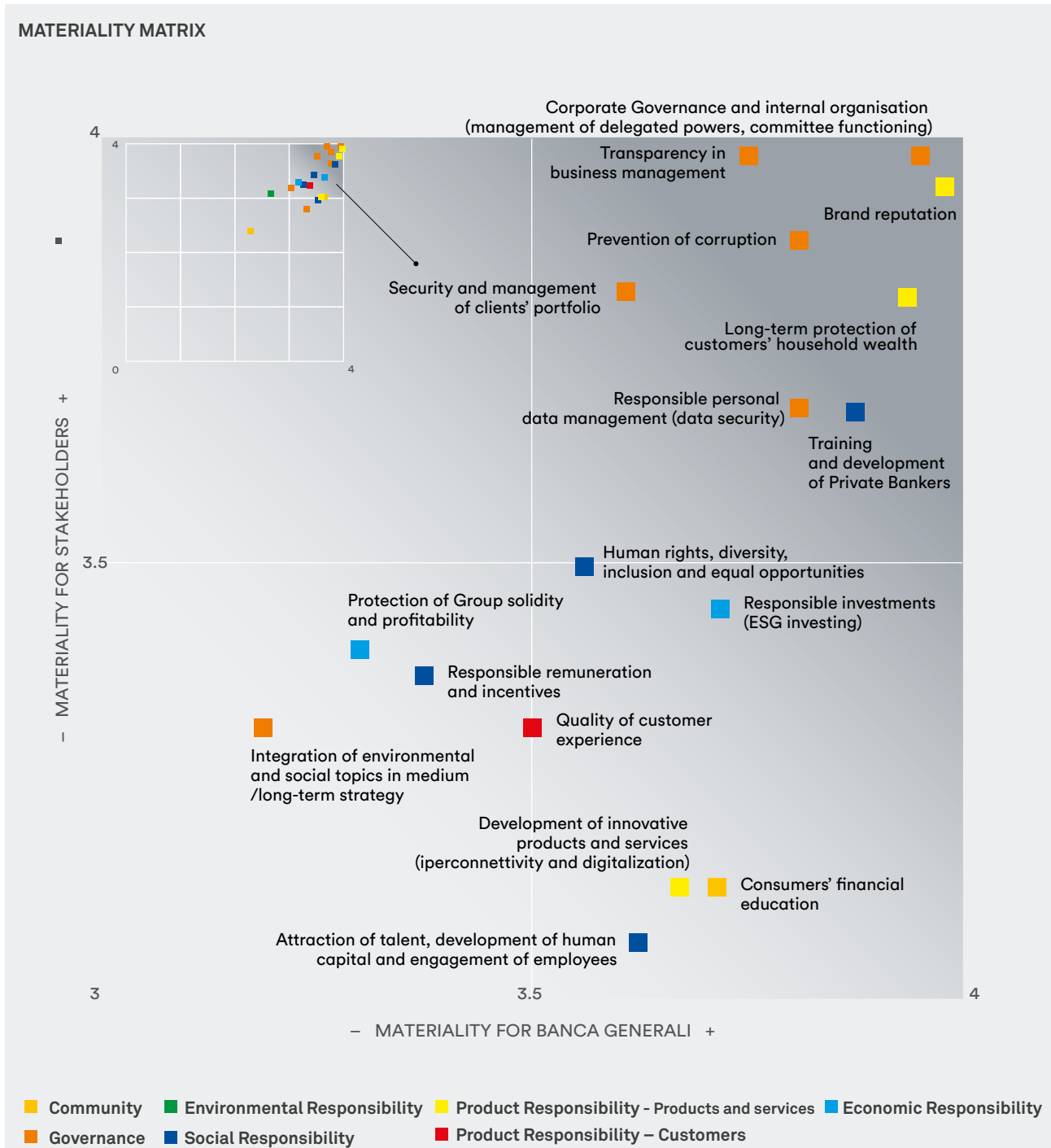
■	Community	<ul style="list-style-type: none"> › Engagement and development of communities › Consumers’ financial education
■	Governance	<ul style="list-style-type: none"> › Corporate Governance and internal organisation (management of delegated powers, committee functioning) › Transparency in business management › Responsible personal data management (data security) › Security and management of clients’ portfolio › Regulatory complexity › Integration of environmental and social topics in medium/long-term strategy › Prevention of corruption
■	Social Responsibility	<ul style="list-style-type: none"> › Attraction of talent, development of human capital and engagement of employees › Human rights, diversity, inclusion and equal opportunities › Fair remuneration and incentives › Training and development of Private Banker
■	Economic Responsibility	<ul style="list-style-type: none"> › Responsible investments (ESG investing) › Relationship with Business partners (distribution network) › Protection of Group solidity and profitability
■	Product Responsibility	<ul style="list-style-type: none"> › Quality of customer experience › Brand reputation › Long-term protection of customers’ household wealth › Development of innovative products and services (iperconnettivity and digitalization)
■	Environmental Responsibility	<ul style="list-style-type: none"> › Energy consumption and emissions in atmosphere

In order to select the topics of true relevance to the Bank from among those identified in this initial survey, the degree of importance of each topic was then assessed separately by 16 representatives of the main company functions, who in completing the **materiality questionnaire** considered the perspectives of both Banca Generali (“internal” perspective) and its stakeholders (“external” perspective).

The following **materiality matrix** represents an overview of the findings of the materiality topic analysis, in which the material topics are shown as dots on the plane defined by the two axes that represent the significant economic, environmental and social aspects for Banca Generali (horizontal axis) and for its stakeholders (vertical axis). In further detail, it contains only topics that have exceeded what is known as the “**materiality threshold**”, i.e. those that have received a score of over three on a scale of zero (negligible aspect) to four (very significant aspect) on both axes. As may be seen from the graph, many of the topics deemed most relevant to both Banca Generali and its stakeholders (i.e. those shown in the upper right of the matrix) fall within the Governance, Product Responsibility and Social Responsibility macro-area. Finally, atten-

tion should be drawn to the high level of importance attributed to aspects such as responsible investments, a term that refers to investment strategies that integrate environment, social and corporate governance (ESG) topics with the aim of generating a superior financial return, integration of environmental and social topics into the medium- and long-term strategy and human rights, diversity, inclusion and equal opportunities.

As indicated in the Banca Generali's strategic guidelines, the most significant topics reflect the comprehensive approach that the Banking Group has adopted and intends to continue to pursue in order "To be the No. 1 private bank, unique by value of Service, Innovation and Sustainability" while also contributing to the achievement of the SDGs. The "re-thinking" in which BG is engaged involves and impacts all aspects of its business: governance, people, products, services and tools, communication and image, economic sustainability and commercial approach. The sustainable development goals thus guide and support the process of determining the company's strategic priorities on which to focus its policies, objectives and actions aimed at creating value.



Given the nature of its business, to focus its efforts BG has identified, in particular, a selection of SDGs to which to refer more closely, as illustrated in the chart that depicts the relationships between the SDGs, areas of impact and material topics involved.

The formation of the internal Nomination, Governance and Sustainability Committee within the Board of Directors, the comprehensive internal control system and the policies and procedures in place with regard to preventing corruption and ensuring sound management of the business bear witness to BG's commitment to **developing effective, accountable and inclusive institutions** within its area of responsibility. Moreover, the focus on governance extends beyond the internal level to the external level, with a **growing commitment to engaging and listening to stakeholders**.

BG views people as key assets to its strategy and develops various initiatives and measures designed to **ensure equal opportunity and respectful, fair and flexible working conditions, to avoid all forms of discrimination**, from work-life programmes and attention to the person and the family, to engagement and development of growth processes, as well as a Diversity & Inclusion action plan.

BG's vision and strategy translate into a strong focus on **social, environmental and corporate governance issues, which are taken into account when designing its products and services**. The wide range made available is aimed at ensuring the effective, practical ability to introduce ESG filters and the selection of specific SDGs when designing Clients' investment strategies and thus to **raising awareness and 'educate' the various types of clients** regarding sustainability issues. The growing focus on sustainability is combined with consolidated attention on **maintaining the profitability and solidity of investments**, adapted to the client's specific needs.



Finally, BG is launching a process of **identifying and selecting specialised, dedicated partners** with which to implement ESG-related strategies, products and services, which, combined with the elements mentioned above, will contribute to strengthening BG's role as a solid, reliable institution of excellence. Among these activities, mention should be made of the relationship with MainStreet Partners, specialised in identifying sustainable portfolio solutions and impact investments through themed shares and bonds or third-party funds. BG's commitment also extends to proper external disclosure, **promoting its image as a responsible Bank** that also encourages other operators to familiarise themselves with and adopt sustainable practices.

For each of the material topics identified by Banca Generali, the following table describes: the topic-specific GRI Standards of reference; the main risks associated with the topic concerned; the scope where the actual and potential impacts occur ; and the main policies adopted by Banca Generali to prevent or limit the negative impacts associated with the topics. The management models associated with each topic, the results achieved and the relevant non-financial performance indicators are set out in the sections indicated in the final column of the table.

AREA	MATERIAL ISSUES	GRI STANDARDS OF REFERENCE (A DETAILED DESCRIPTION IS GIVEN IN THE "GRI GUIDELINES TABLE")	ASSOCIATED RISKS	SCOPE OF IMPACTS		POLICIES
				IMPACTS INTERNAL TO BG	IMPACTS EXTERNAL TO BG	
Governance	Transparency in business management	<ul style="list-style-type: none"> > GRI 102-11 > GRI 103-2 > GRI 103-3 	<ul style="list-style-type: none"> > Reputational risk, in terms of loss of the trust of investors and clients > Strategic risk 	All the Group	<ul style="list-style-type: none"> > Suppliers > Organisations and institutions 	<ul style="list-style-type: none"> > GG's Code of Ethics > Organisational and Management Model pursuant to Legislative Decree No. 231 > The Ten Principles of the UN Global Compact (GG) > GG's Charter of Sustainability Commitments > BG's Internal Code of Conduct > Code of Ethics for the GG's suppliers > IT Security Policy (Intranet) > Group's Policy for the Environment and Climate > Internal Audit Model > Internal Policies Governing Controls of Risk Assets and Conflicts of Interest > Internal Liquidity Adequacy Assessment Process > Whistleblowing Procedure > Internal Fraud Policy > Data Protection Policy
	Integrating environmental and social issues in the medium/long-term strategy	<ul style="list-style-type: none"> > GRI 102-26 > GRI 103-2 > GRI 103-3 > GRI 102-16 	<ul style="list-style-type: none"> > Strategic risk, in terms of failure to enter specific markets and failure to acquire potential new clients 	All the Group	<ul style="list-style-type: none"> > Investors > Community > Customers > Suppliers > Organisations and institutions 	<ul style="list-style-type: none"> > GG's Code of Ethics > The European Social Charter of the GG > The Ten Principles of the UN Global Compact (GG) > GG's Charter of Sustainability Commitments > Group's Policy for the Environment and Climate
	Corporate governance and internal organisation (management of delegated powers, functioning of committees)	<ul style="list-style-type: none"> > GRI 102-5 > GRI 103-2 > GRI 103-3 > GRI 102-18 	<ul style="list-style-type: none"> > Strategic risk 	All the Group		<ul style="list-style-type: none"> > GG's Code of Ethics > Internal Audit Model > Organisational and Management Model pursuant to Legislative Decree No. 231

GG = Generali group

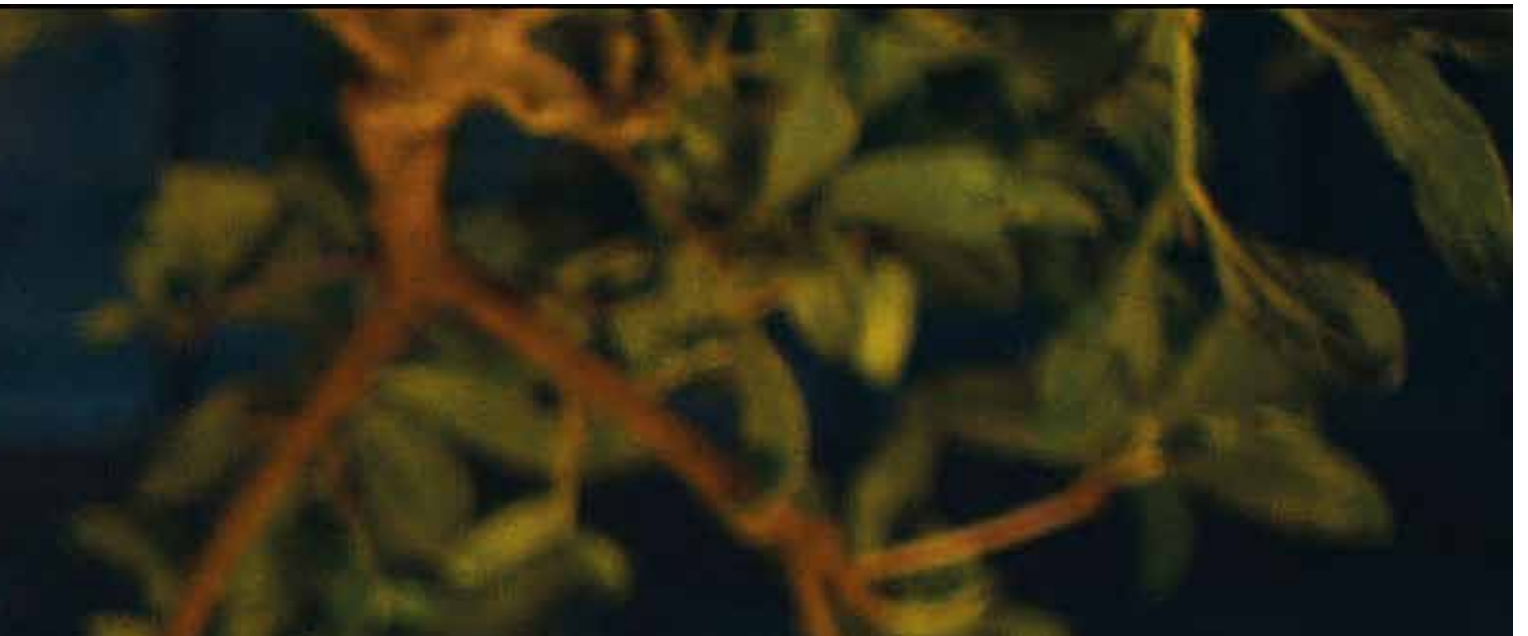
BG = Banca Generali

(*) Source: GRI Standards 103-1: "For each material topic, the reporting organization shall report where the impacts occur."

AREA	MATERIAL ISSUES	GRI STANDARDS OF REFERENCE (A DETAILED DESCRIPTION IS GIVEN IN THE "GRI GUIDELINES TABLE")	ASSOCIATED RISKS	SCOPE OF IMPACTS		POLICIES
				IMPACTS INTERNAL TO BG	IMPACTS EXTERNAL TO BG	
	Prevention of corruption	<ul style="list-style-type: none"> > GRI 103-2 > GRI 103-3 > GRI 205-2 > GRI 205-3 	<ul style="list-style-type: none"> > Reputational risk, in terms of loss of the trust of funders > Strategic risk > Operating risk, in terms of fraud risk 	All the Group	<ul style="list-style-type: none"> > Suppliers > Customers > Organisations and institutions 	<ul style="list-style-type: none"> > GG's Code of Ethics > Organisational and Management Model pursuant to Legislative Decree No. 231 > The Ten Principles of the UN Global Compact (GG) > BG's Internal Code of Conduct > Code of Ethics for the GG's suppliers > Internal Policies Governing Controls of Risk Assets and Conflicts of Interest > Internal Liquidity Adequacy Assessment Process > Internal Fraud Policy
	Security and management of customer portfolios	<ul style="list-style-type: none"> > GRI 103-2 > GRI 103-3 	<ul style="list-style-type: none"> > Reputational risk, in terms of the loss of the trust of clients and investors > Strategic risk > Operating risk, in terms of IT risk 	All the Group	<ul style="list-style-type: none"> > Customers 	<ul style="list-style-type: none"> > GG's Code of Ethics > BG's Internal Code of Conduct > IT Security Policy (Intranet) > Commercial Policy (Intranet) > Customer Relations Charter > Data Protection Policy
	Responsible personal data management (data security)	<ul style="list-style-type: none"> > GRI 418-1 	<ul style="list-style-type: none"> > Operating risk, in terms of the release of sensitive information and data > Reputational risk, in terms of loss of the trust of clients and investors > Operating risk, in terms of IT risk 	All the Group	<ul style="list-style-type: none"> > Suppliers; > Organisations and institutions; > Customers 	<ul style="list-style-type: none"> > GG's Code of Ethics > GG's Charter of Sustainability Commitments > BG's Internal Code of Conduct > Code of Ethics for the GG's suppliers > IT Security Policy (Intranet) > Data Protection Policy
Product responsibility	Brand reputation	<ul style="list-style-type: none"> > GRI 102-2 > GRI 102-15 	<ul style="list-style-type: none"> > Reputational risk 	All the Group	<ul style="list-style-type: none"> > Suppliers > Organisations and institutions 	
	Long-term protection of customers' household wealth	<ul style="list-style-type: none"> > GRI 103-2 > GRI 103-3 	<ul style="list-style-type: none"> > Reputational risk, in terms of loss of the trust of clients and investors > Strategic risk 	All the Group	<ul style="list-style-type: none"> > Suppliers 	<ul style="list-style-type: none"> > GG's Code of Ethics > GG's Charter of Sustainability Commitments > BG's Internal Code of Conduct > Commercial Policy (Intranet)
	Quality of customer experience	<ul style="list-style-type: none"> > GRI 103-2 > GRI 103-3 	<ul style="list-style-type: none"> > Reputational risk, in terms of the loss of clients and competitiveness 	All the Group	<ul style="list-style-type: none"> > Suppliers > Customers 	<ul style="list-style-type: none"> > GG's Code of Ethics > GG's Charter of Sustainability Commitments > Commercial Policy (Intranet) > Customer Relations Charter > Internal disputes and complaints policy > Disputes and complaints organisational procedure
	Development of innovative products and services	<ul style="list-style-type: none"> > GRI 102-2 > GRI 103-2 > GRI 103-3 	<ul style="list-style-type: none"> > Reputational risk > Strategic risk, in terms of loss of competitiveness and exclusion/failure to enter specific markets > Operating risk, including in terms of IT risk 	All the Group	<ul style="list-style-type: none"> > Community > Investors > Customers > Suppliers > Organisations and institutions 	<ul style="list-style-type: none"> > The Ten Principles of the UN Global Compact (GG) > IT Security Policy (Intranet) > Group's Policy for the Environment and Climate > Organisational procedure for asset management product offering

AREA	MATERIAL ISSUES	GRI STANDARDS OF REFERENCE (A DETAILED DESCRIPTION IS GIVEN IN THE "GRI GUIDELINES TABLE")	ASSOCIATED RISKS	SCOPE OF IMPACTS		POLICIES
				IMPACTS INTERNAL TO BG	IMPACTS EXTERNAL TO BG	
Economic responsibility	Responsible investments (ESG investing)	> GRI 102-2 > GRI 103-2 > GRI 103-3	> Strategic risk, in terms of loss of competitiveness and exclusion/failure to enter specific markets	All the Group	> Community > Investors > Customers > Suppliers > Organisations and institutions	> GG's Code of Ethics > The Ten Principles of the UN Global Compact (GG) > GG's Charter of Sustainability Commitments > BG's Internal Code of Conduct > Group's Policy for the Environment and Climate > Environmental Management System > Investment Policy > Ethic guidelines > Organisational procedure > Drafting of the strategic plan and budget
	Protection of the Group's solidity and profitability	> GRI 103-2 > GRI 103-3 > GRI 201-1	> Liquidity risk > Operating risk > Credit and concentration risk > Market and exchange rate risk > Strategic risk > Reputational risk	All the Group	> Community > Investors > Customers > Suppliers > Organisations and institutions	> GG's Code of Ethics > BG's Internal Code of Conduct > Commercial Policy (Intranet) > Investment Policy > Code of Ethics for the GG's suppliers > The Ten Principles of the UN Global Compact (GG)
Social responsibility	Human rights, diversity, inclusion and equal opportunities	> GRI 103-2 > GRI 103-3 > GRI 403-2 > GRI 405-1 > GRI 405-2 > GRI 406-1 > GRI 412-1	> Reputational risk, in terms of the loss of the trust of employees	All the Group	> Community > Investors > Customers > Suppliers > Organisations and institutions	> GG's Code of Ethics > The European Social Charter of the GG > The Ten Principles of the UN Global Compact (GG) > GG's Charter of Sustainability Commitments > BG's Internal Code of Conduct > Code of Ethics for the GG's suppliers > Diversity Policy for Members of Company Bodies
	Responsible remuneration and incentives	> GRI 103-2 > GRI 103-3 > GRI 405-2	> Reputational risk, in terms of loss of employees; > Strategic risk, in terms of the loss of competitiveness	All the Group	> Community > Investors > Customers > Suppliers > Organisations and institutions	> GG's Code of Ethics > The European Social Charter of the GG > GG's Charter of Sustainability Commitments > BG's Internal Code of Conduct > Code of Ethics for the GG's suppliers > Remuneration Report > Remuneration policies > Diversity Policy for Members of Company Bodies
	Attraction of talent, development of human capital, involvement of employees and promotion of a common culture	> GRI 102-8 > GRI 103-2 > GRI 103-3 > GRI 102-41 > GRI 401-1 > GRI 401-2 > GRI 404-1 > GRI 404-3	> Operating risk, in terms of turnover increase > Lack of interaction > Organisational imbalance > Increase in work-related accidents and stress > Reputational risk	All the Group	> Investors > Organisations and institutions	> GG's Code of Ethics > The European Social Charter of the GG > GG's Charter of Sustainability Commitments > BG's Internal Code of Conduct > Job rotation policies > Policies/guidelines for professional development and career advancement > Welfare policies > Circular No. 269 "Management of obligations related to health and safety at work"
	Private Bankers' training and education	> GRI 103-2 > GRI 103-3 > GRI 404-1	> Reputational and strategic risk, in terms of loss of clients and competitiveness > Operating risk	All the Group	> Customers	> GG's Code of Ethics > The European Social Charter of the GG > BG's Internal Code of Conduct > Financial advisor procedure/manual > Sales Policies
	Investors' financial education	> GRI 103-2 > GRI 103-3	> Reputational risk, in terms of loss of clients and competitiveness	All the Group	> Community > Investors > Customers > Suppliers	> GG's Code of Ethics > The European Social Charter of the GG > BG's Internal Code of Conduct





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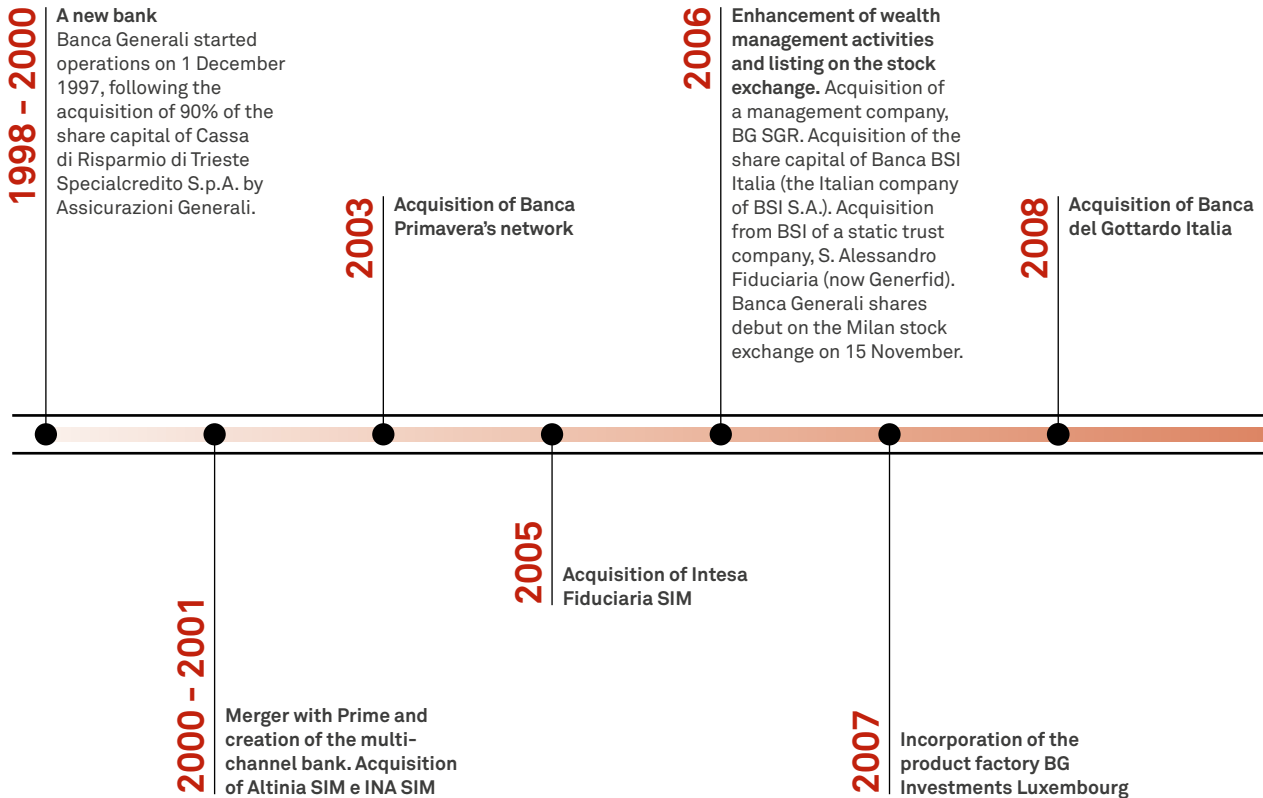
IDENTITY AND GOVERNANCE



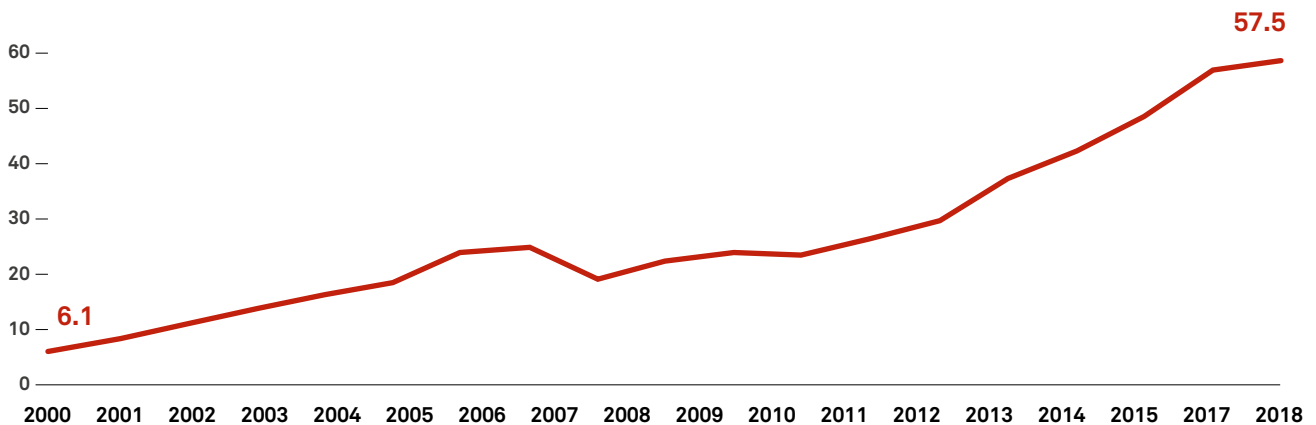
Banca Generali History

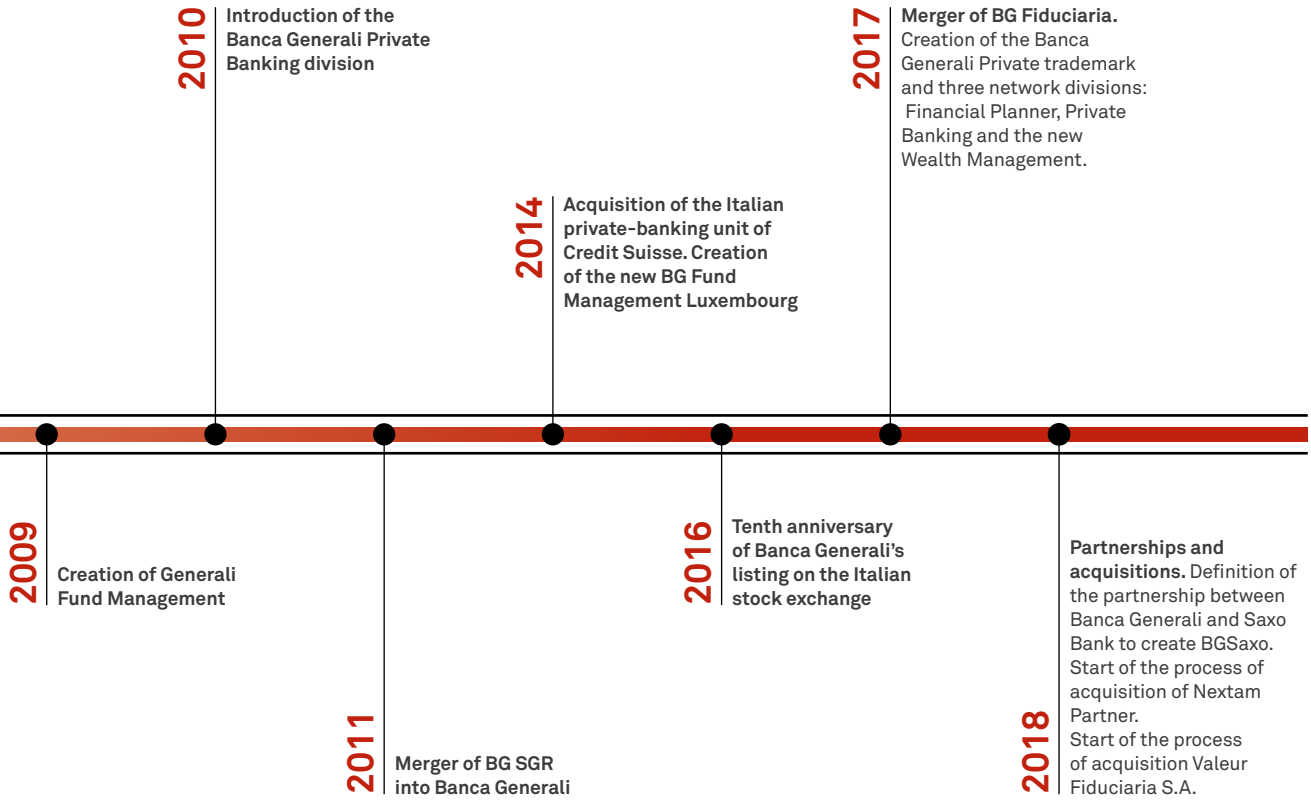
A history of growth marked by a mix of skills stimulated by internal innovation and an ability to incorporate external realities. Prior to listing, there was a period of expansion and mergers of various companies and networks of Financial Advisors. Since the Company's listing on the Stock Exchange in 2006, there has been an increase in business efficiency, a focus on the highest end of the market and the development of a wealth management hub.

Over the years, Banca Generali has established itself as one of the main players in its industry, through a path of constant, sound and sustainable growth.



BANCA GENERALI - TOTAL ASSETS: EVOLUTION 2000-2018 (€ billion)





Prizes received

“Best Financial Advisor Network for Customer Satisfaction”: medal by Deutsche Institut für Qualität und Finanzen (2016, 2017, 2018).

- › “Best Private Bank in Italy” - Professional Wealth Management (Financial Times Group - 2016, 2017)
- › “Bank of the Year 2017” (Le Fonti prize)
- › “Best Wealth Management Bank” (Guido Carli prize, 2017)



Best Private Banking Brand in Italy (2018)



Best CEO - Private Banking in Italy (2018)



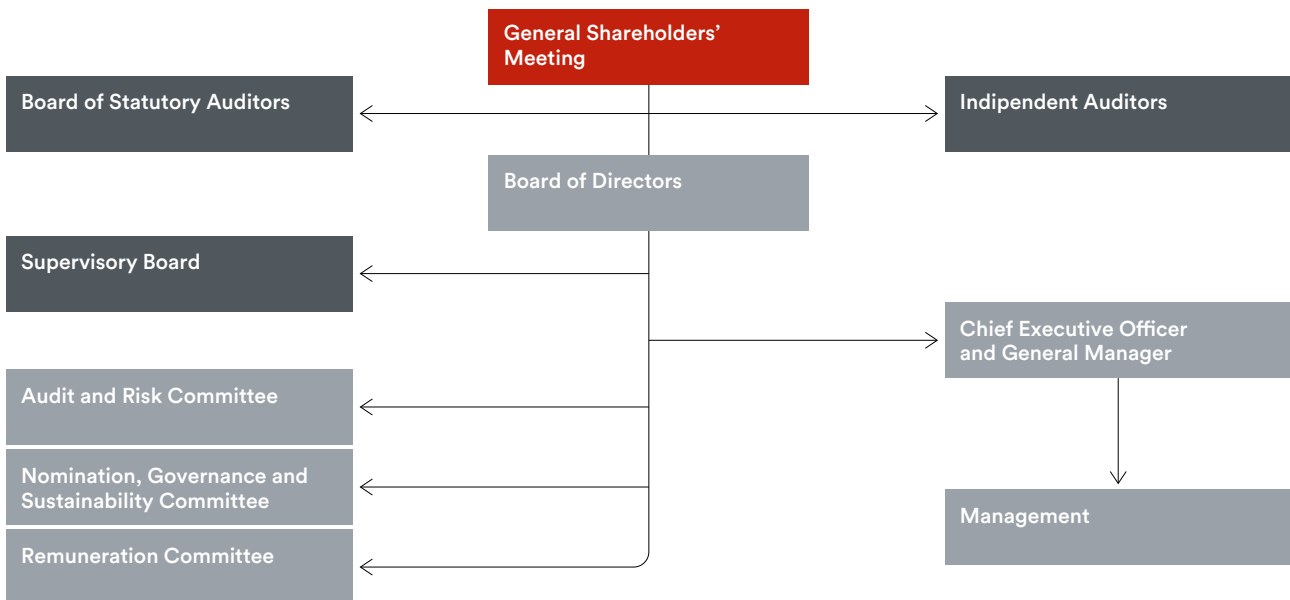
- › “Best Job”: gold medal by Deutsche Institut für Qualität und Finanzen
- › “Top Career”: gold medal by Deutsche Institut für Qualität und Finanzen
- › “Bank of the Year in Italy” by Blue Financial Communication

Corporate Governance and Organisational Structure

At the level of Banca Generali, responsibility for sustainability falls to the Board of Directors, which performs this task through its Nomination, Governance and Sustainability Committee. The Chief Executive Officer and General Manager implements the strategies defined by the Board of Directors, setting the fundamental guidelines.

Organisational structure

Banca Generali’s governance structure is based on the traditional model, with a Board of Directors (composed of 9 members, including the Chairman and the CEO), within which there are 3 internal Committees (Remuneration Committee, Nomination, Governance and Sustainability Committee, and Audit and Risk Committee), a Board of Statutory Auditors and a General Shareholders’ Meeting.



Board of Directors

The Board of Directors plays a central role in the Company’s corporate governance system.

ROLE WITHIN THE BOARD OF DIRECTORS	NAME	
Chairman of the Board of Directors	Giancarlo Fancel	Non-executive and non-independent Director
Chief Executive Officer and General Manager	Gian Maria Mossa	Executive and non-independent Director
Directors	Azzurra Caltagirone Cristina Rustignoli Giovanni Brugnoli Anna Gervasoni Massimo Lapucci Annalisa Pescatori Vittorio Emanuele Terzi	Non-executive and non-independent Directors Non-executive Directors, independent pursuant to laws and industry regulations.

Board committees

Three Committees have been set up within the Board of Directors, composed and chaired exclusively by independent non-executive Directors, as recommended by the Supervisory Authority and the Corporate Governance Code.

NOME	NOMINATION, GOVERNANCE AND SUSTAINABILITY COMMITTEE – IT PROVIDES ADVICE AND SUBMITS PROPOSALS	REMUNERATION COMMITTEE - IT EXPRESSES OPINIONS AND SUBMITS PROPOSALS	AUDIT AND RISK COMMITTEE – IT PROVIDES ADVICE AND SUBMITS PROPOSALS
Giovanni Brugnoli	X	C	
Anna Gervasoni		X	C
Massimo Lapucci	C		X
Annalisa Pescatori		X	X
Vittorio Emanuele Terzi	X		X

C: Chairman

X: Member

Sustainability

In accordance with Banca Generali's Internal Rules, the Nomination, Governance and Sustainability Committee is, *inter alia*, responsible for:

- › overseeing all sustainability matters related to the Banking Group's operations and the ways in which it interacts with all stakeholders, also fostering a culture of sustainability within the Bank and the Banking Group companies;
- › examining the general outline of the of the reporting of non-financial information (included in a separate sustainability report or integrated with financial information as part of an annual integrated report), its content organisation, as well as the completeness and transparency of the information it provides, expressing its observations in this regard to the Board of Directors called to approve the said Report;
- › monitoring the evolution of all matters related to the Banking Group's social, environmental and sustainability responsibility, also in light of the applicable international guidelines and standards;
- › preparing proposals regarding the Banking Group's environmental and social strategies, annual targets and goals to be pursued, while also monitoring their implementation over time.

Ownership structure

Assicurazioni Generali, through Alleanza Assicurazioni S.p.A., Generali Italia S.p.A., Generali Vie S.A., Genertel S.p.A. and Genertellife S.p.A., currently holds 50.17 % of Banca Generali's share capital. Allianz Global Investors GmbH holds a 5.08% stake. The remaining 44.75% is the free float. No shares bearing special rights of control have been issued.

Organizational structure

In 2018, Banca Generali continued with its ongoing work to raise the efficiency of the organisational structure and bring it into line with external business conditions, serving the strategies to increase and diversify the products and services offered by the Bank, also with a view to sustainability (see section "Products and Marketing") and growth of the Financial Advisor network. In addition to the measures to make the strategic growth plan's action lines sustainable, the organisational review carried out in 2018 focused on reorganisation initiatives to provide the Bank with new processes and tools that, on the one hand, increase the security of company information and assets and, on the other, structurally safeguard the Bank's IT and operating outsourcers.

The CEO/General Manager was granted delegated powers and attributed functions consistent with his position. As defined in the Bank's organisational model, the second-tier control functions (Risk & Capital Adequacy function and Compliance & Anti Money Laundering function) report directly to the CEO, whilst the Internal Audit function reports directly to the Board of Directors, in the person of its Chairman.

In addition to the second-tier control functions (as detailed in the dedicated section "Internal Control System"), the CEO coordinates the General Management, which includes the following structures:

- › **General Counsel Area.** This Area includes the structures of the Legal Department and those of the Corporate Affairs and Relations with Authorities Department. It also coordinates all

- activities related to Governance, Sustainability and Strategic Operations;
- › **Human Resources Department:** this Department oversees the Human Resources Administration structure and the Human Resources Management and Development structure;
 - › **Marketing and External Relations Department:** this Department is dedicated to managing promotional initiatives, and to promoting and protecting the Bank's image both within the organisation and with the public;
 - › **CFO (Chief Financial Officer) & Strategy Area:** this Area coordinates the economic, commercial and strategic planning activities, all operations in the finance and accounting-administrative field, as well as the Investor Relations structure that represents the Company with the national and international financial community. The CFO also holds the role of Manager responsible for preparing the company's reports (both financial and non-financial information)
 - › **COO & Innovation Area:** the COO (Chief Operating Officer) – also acting as Chief Information Security Officer (CISO) – oversees the Bank's operational and organisational structures (Projects Management; Outsourcing and Data Management; Systems, Technology and IT Security Management; Internal Processes and Regulations);
 - › **Wealth Management, Markets and Products Deputy General Department:** this role is tasked with synergistically increasing the suitability of the Bank's products and services, which represent the Department's primary focus; it aims at constantly improving the level of commercial services provided. The Wealth Management, Markets and Products Deputy General Manager coordinates the Wealth Management Area, the Asset Management Area and the Products, Loans, Network Development and Training functions.
 - › **Commercial Networks, Alternative and Support Channels Deputy General Manager:** to facilitate synergies and interactions between organisational structure and the commercial network universe, the Deputy General Manager coordinates the distribution networks of Financial Advisors who are not employees (Financial Planners, Private Bankers and Wealth Advisors), a Department that provides commercial and operational support to the distribution networks, the Private Relationship Manager Area (employed FAs) and the Alternative and Support Channel Area, whose function is to provide excellent assistance to network activities and customer requirements, also through the Branches, the Contact Centre Service and dedicated quality monitoring staff.

Banca Generali recognises and reaps the benefits of Diversity at the level of the Group, its Corporate Bodies and its management, in all respects, including gender, age, qualification, competencies, training and professional background. To this end, Banca Generali's Board of Directors approved the “**Diversity Policy for Members of Company Bodies**” which formally establishes the criteria and tools adopted by Banca Generali to ensure an adequate level of diversity within its Corporate Bodies. The provisions contained herein are drawn up in accordance with the **Diversity Policy adopted by the Generali Group** and in compliance with applicable legislation, the Articles of Association and internal regulations. The Policy formally lays down the criteria and methods of implementation currently adopted by Banca Generali to ensure an adequate level of Diversity and Inclusion among members of Corporate Bodies, with the aim of:

MANAGEMENT BODIES BY GENDER	31.12.2018			31.12.2017		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
BoD Banca Generali	4	5	9	4	5	9
BoD Generfid	4	3	7	3	1	4
BoD BGFML	2	4	6	2	4	6
Total	10	12	22	9	10	19
%	45%	55%	100%	47%	53%	100%

MANAGEMENT BODIES BY AGE	31.12.2018				31.12.2017			
	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL
BoD Banca Generali	-	4	5	9	-	4	5	9
BoD Generfid	-	1	6	7	-	1	3	4
BoD BGFML	-	-	6	6	-	-	6	6
Total	-	5	17	22	-	5	14	19
%	-	23%	77%	100%	-	26%	74%	100%

Mission, vision, values



VISION

To be the No. 1 private bank, unique by value of Service, Innovation and Sustainability



MISSION

Trusted professionals always by the Customers' side, developing and looking after their life plans

DELIVER ON THE PROMISE

We want to build a long-term relationship of trust with people: employees, customers and stakeholders. The objective of our work is to improve our customers' lives, turning a promise into reality.

LIVE THE COMMUNITY

We are proud to belong to a Group that operates throughout the world with a major focus on social responsibility matters. We feel at home in all markets.

BANCA GENERALI VALUES ARE IN LINE WITH THOSE OF THE GENERALI GROUP

VALUES

VALUE OUR PEOPLE

We give value to people, promote diversity and invest in encouraging ongoing learning and professional growth to create an environment that is transparent, collaborative and accessible to all.

BE OPEN

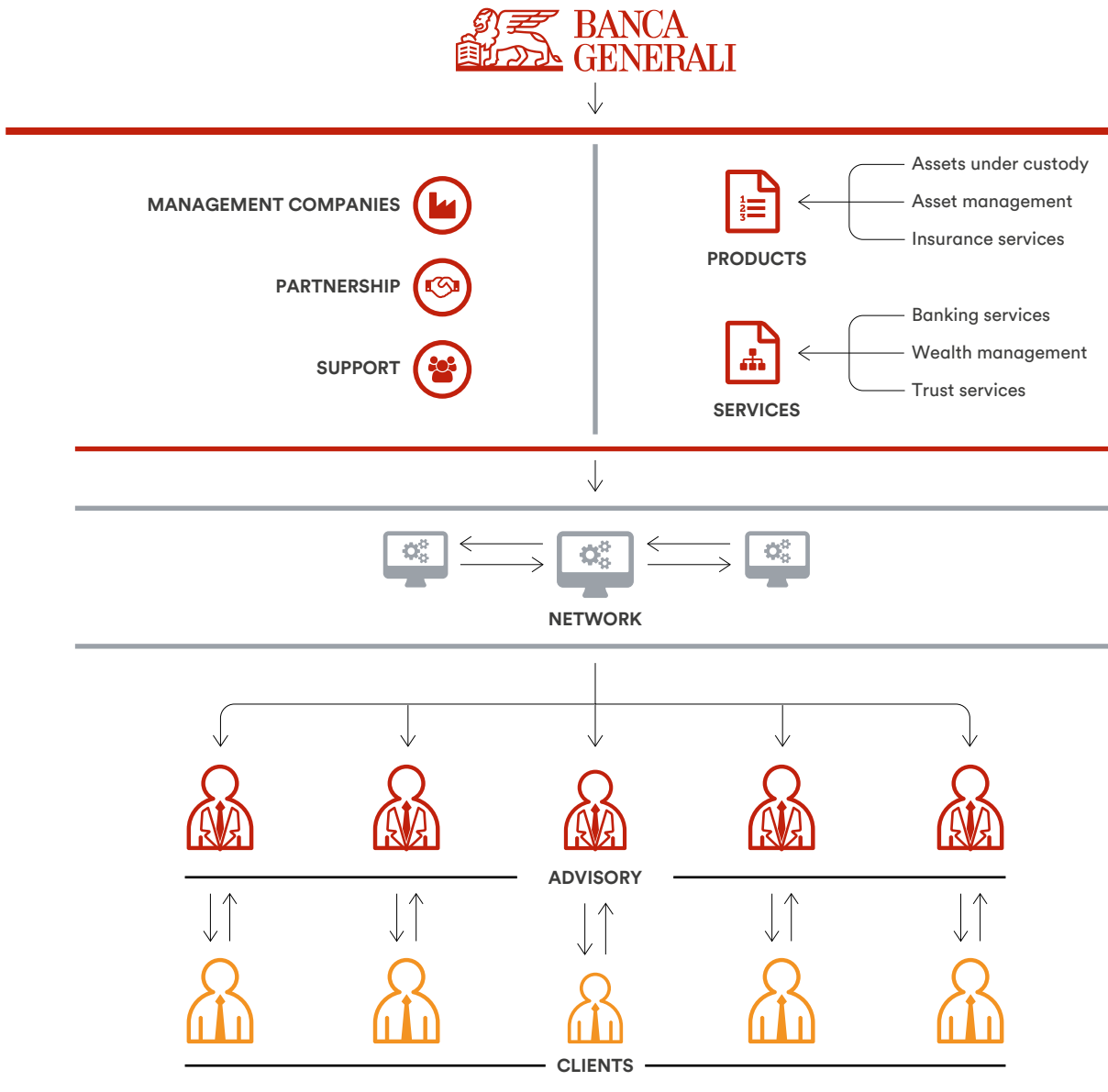
We are curious, proactive and dynamic people with open, diverse minds that want to look at the world from another viewpoint.

For further information, reference is made to Banca Generali's Internal Code of Conduct, available on the corporate website www.bancagenerali.com



Business Model

Banca Generali stands apart within the Italian finance sector for the central role played by the financial advisory and wealth planning services it offers to the Private and Affluent Client segments through a network of Financial Advisors ranked at the top of the industry by competency and professionalism. The bond of trust between Financial Advisor and Client is key and is complemented by the range of products, services and support made available by the Bank.



Banca Generali offers:

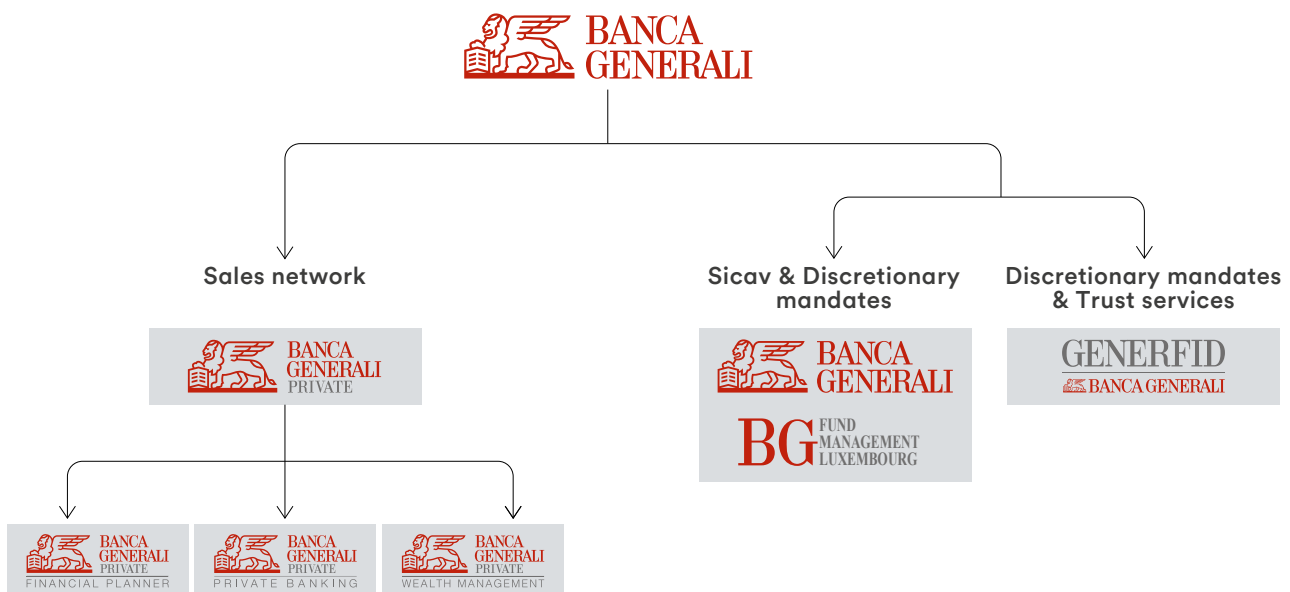
- › **Banking services:** the Bank provides its Clients with a range of bespoke banking accounts and services that make doing day-to-day business simple and efficient: a line of innovative options that ensure the utmost security in online and mobile payments and banking.
- › **Assets under custody:** Banca Generali tends to the AUC component of its Clients' portfolios by providing advice on the purchase and sale of securities on the secondary and primary markets, in addition to offering certificates. Moreover, in 2019 the Bank will begin to provide its Financial Advisors and Clients with one of the world's finest trading platforms, made possible by its partnership with the Danish Saxo Bank.
- › **Asset management:** Banca Generali offers a wide range of mutual funds within an open-architecture environment that benefits from its expertise in selecting the top asset management options from among thousands of asset management products offered by international

firms. The Bank also provides a market-leading line-up of wrapper solutions and discretionary portfolio management services, which can be used to design custom solutions – while always ensuring that risk management remains a priority.

- › **Insurance solutions:** with regard to insurance investments, the Company profits from the synergies and expertise provided by the Generali Group, supported by its experience and pursuit of innovation in the use of asset management products to protect and personalise investments.
- › **Wealth management** and trust services: the Bank offers a wide array of financial advisory solutions that extend the conversation between families beyond investment issues to encompass pension planning, corporate finance, real estate and art advisory, with an eye to potential optimisation in protection for future contingencies and challenges relating to generational transfer (family protection).

This range has been designed and is offered to the Client with the support of a value chain consisting of:

- › **Networks:** the Client relationship is built on a network of Financial Advisors divided into various categories: Financial Planners, Private Bankers, Wealth Managers and Relationship Managers. Segmentation is designed to meet the needs of both Financial Advisors and Clients to the fullest.
- › **Management companies:** in addition to offering banking services, the Group includes a management company, the Luxembourg-based BG Fund Management Luxembourg SA (BGFML), responsible for offering in-house funds. In 2018 the Bank also launched the acquisitions of Nextam Partners, a management boutique with a reputation in Italy's private-banking sector, and Valeur Fiduciaria, a boutique financial advisory and asset management firm based in Switzerland; both acquisitions will be finalised in 2019. In 2018 the Bank also struck a partnership with the Danish Saxo Bank, which owns one of the finest trading platforms on the market, to create the brokerage BG Saxo. Finally, the Group also includes a trust services company (Generfid).
- › **Partnership:** to bring its Clients the best specialist services the market has to offer in terms of products, wealth management and technology, the Bank has formed selected partnerships with other firms in Italy and internationally.



Background, opportunities and challenges

Italy's financial advisory industry is undergoing a **period of change** that presents new challenges and opportunities for industry players.

After positive years for the **financial markets**, 2018 ended in negative territory for most asset classes, many of which even registered their worst performances in a decade. The main central banks are committed to normalising monetary policy, putting an end to the quantitative easing era of zero interest rates and plentiful liquidity. At the same time, the **economy** is also showing signs of slowing, after one of the longest expansions in the post-War period. In the **geopolitical scenario**, the balance of power has shifted as a result of the emerging clash between

populism and the establishment, and the strategic confrontation between the United States and China. Europe will soon have to face a series of events of crucial importance to its political and economic future in the medium and long term (Brexit, the European elections and the change of leadership at the ECB). Within this scenario, **Italy** continues to suffer from the well-known structural issues of anaemic growth, high government debt and political instability, which resulted in episodes of severe volatility of the BTP-Bund spread in 2018, and could continue to do so in the future.

The country remains a very attractive market for wealth management, due to its high levels of **private wealth** and the still-considerable margins for a continuing transition to professional wealth management. From the standpoint of distribution channels, the **banking industry** continues to occupy a dominant position in wealth management due to its decades-long monopoly in the supply of credit to households and businesses. However, this position has weakened considerably over the past decade due to a general decline in lending and the challenges faced by many institutions. Although the main hotbeds of crisis have now largely been put to rest, the industry continues to suffer from excessive fragmentation and low profitability, with a considerable number of participants lacking the scale and resources to rise to the challenges posed by regulatory and technological changes and the needs expressed by Clients.

In the **regulatory** arena, the entry into force of MiFID II will bring greater transparency to the sector, shifting the focus to value of service weighed against the costs borne by the Client. The industry may be forced to reckon with pressure on its margins. From the perspective of **technology**, the entire financial sector is undergoing a period of profound change, which moving forward will result in far-reaching effects on the entire value chain. Among the key issues, attention should be drawn to the entry of new high-tech players, the spread of partnerships and ecosystems and the structural increase in the pace of innovation in an industry that traditionally has had little inclination to change. Turning to **Customers**, there is a growing focus on the digital customer experience. Yet even more importantly, there is a growing need for advice and protection due to increasing individual responsibility in areas such as healthcare, education and pensions, the complexity of the situation and the limits shown over the last decade by the classic investment solutions: government and bank bonds and real estate.

Within this scenario, we see considerable room for more dynamic advisory networks, which can continue to draw strength from their focus and their distinct business model to **gain market share** by attracting top professionals and making the most of technological innovation. Banca Generali aspires to be at the forefront of this trend.

Strategic Plan

Banca Generali stands out in the Italian finance industry for the central role played by its financial advisory and wealth planning services, firmly supported by the pillars formed by its outstanding financial advisory network, exclusive approach to wealth management and strong focus on the digital channel. The new strategic plan presented to the financial community on Investor Day combined these strategic pillars with three new pillars relating to a People Strategy based on a culture of talent, sustainability, diversity & inclusion, the digital enhancement of the brand to reinforce customer touch points and a strong drive towards internationalisation.

Banca Generali's ambitions

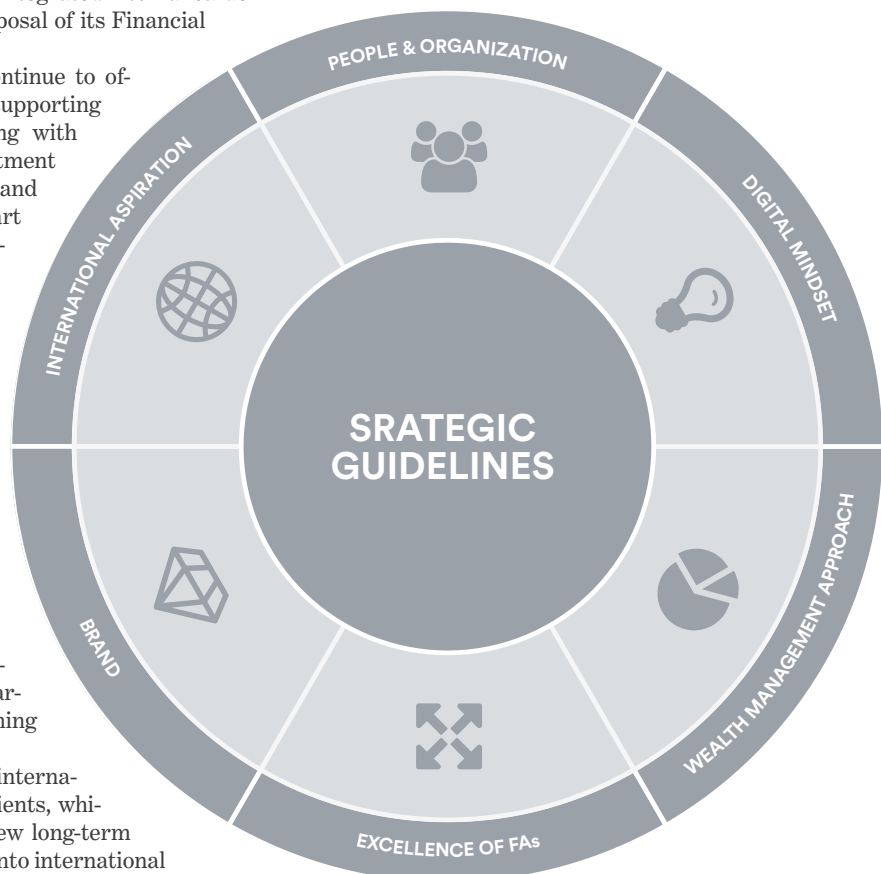
Banca Generali's strategic plan for 2019-2021 is based on the following ambitions:

- › Consolidating its position of leadership in supporting the best Financial Advisors in managing their Clients and growing their portfolios.
- › Remaining Clients' first choice in terms of the quality of its professionals, protection and value of service, with a digital presence consistent with best practices.
- › Creating a new engine of long-term growth through selective international expansion of the business.

Strategic guidelines

The Bank intends to realise its ambitions through the **six strategic guidelines** set out below:

- › **Human resources and organisation:** encouraging a culture of sustainability and creating an attractive working environment for talent that is inclusive and capable of making the most of diversity.
- › **Digital mindset:** reinforcing the open-banking approach, positioning itself as a systems integrator for an ecosystem of partnerships, where the top platforms and skills the market has to offer are integrated into Banca Generali's line-up and placed at the disposal of its Financial Advisors and Clients.
- › **Wealth management approach:** continue to offer an holistic advisory approach supporting the Financial Advisors in dialoguing with households not only regarding investment issues, but also pension planning and corporate welfare, real estate and art advisory, and for the study of potential optimisation in protection for the future and in the challenges tied to generational transfer. The Bank's ambition is to make the services typically offered by a Family Office – traditionally the privilege of a few – available to an increasingly broad portion of its Client base.
- › **Network excellence:** continuing to offer a best-in-class network in terms of the professionalism of its Financial Advisors, by providing constant training and recruiting the top talent on the market.
- › **Brand:** making the most of the strength of the Generali brand, with a particular focus on its premium positioning and digital presence.
- › **International aspiration:** taking an international approach to serving Italian Clients, while also creating the conditions for new long-term growth through selective expansion into international



markets, developing specific value propositions for local Financial Advisors and Clients.

Planning

The strategic guidelines described above translate into a planning platform, some initiatives from which are cited below by way of example:

- › **at the network level:** commercial best practices will be drawn from the most successful cases and applied on a general basis; increasing efforts will also be devoted to spreading the team-based model, aimed at keeping high levels of productivity in a context of ever larger portfolios by encouraging disciplinary specialisation and facilitating more senior Financial Advisors' handover.
- › **at the level of products and services** (see the section "Products and marketing activity"): in the financial arena, development work will continue on Lux IM, the Group's new Luxembourg SICAV, and integration will be completed with Nextam Partners, recently acquired to strengthen inhouse asset management services; in insurance business, recurring-premium products will be introduced, alongside innovative cover and a new private insurance line-up for the highest net worth Clients; the Bank also intends to grasp the considerable opportunities to grow and set itself apart from the competition in assets under custody, promoting a new service model based on a combination of new skills, platforms and partnerships; in lending, the Bank will increase its offering of Lombard credit, while maintaining extremely high asset quality levels; finally, in non-financial services, in addition to the traditional focus on real estate and succession, a range of corporate services targeting business owners will be developed.
- › **at the level of platforms:** a new advanced trading platform will be launched through BG Saxo, a joint venture between Banca Generali and Saxo Bank for the Italian market. In addition, a robo-for-advisor service will be launched in partnership with UBS to support our Financial Advisors in monitoring portfolio quality and identifying commercial opportunities.
- › **at the level of international expansion:** investment and advisory services will be offered for Italian Clients with assets under custody in Switzerland under partnership agreements with leading local banking players; in addition, the recent acquisition of Valeur, a trust management company known for its management and distribution skills on the Swiss market, will be used to develop a local network of bankers and an international Client base.

2019-2021 financial targets

The targets presented to the financial community for the three-year period 2019-2021 are aimed at maintaining high levels of growth, profitability and shareholder remuneration, despite the changed market context. They include:

- › cumulative net inflows of over 14.5 billion euros, due in part to advanced trading and internationalisation projects;
- › Assets under management of between 76 billion euros and 80 billion euros, with assets under custody in Switzerland of between 3.1 billion euros and 4.4 billion euros by 2021 and assets under advanced advisory in excess of 5.5 billion euros;
- › a recurring net banking income¹ of over 63 bps due to the development of new sources of recurring revenues and of net interest income, offsetting possible pressure on asset management margins;
- › an increase in core operating expenses² resulting in a 3-5% CAGR, despite the significant efforts in terms of growth and innovation;
- › a payout ratio of 70% to 80%, with a minimum dividend per share in the three-year period of 1.25 euros, while maintaining levels of absolute capital solidity.

Further information is available in the Investor Relations section of the website www.bancagenerali.com, under "Investor Day 2018".



⁽¹⁾ Based on the Group scope, including the impact of the recent acquisitions and international expansion projects; the recurring net banking income is calculated by subtracting performance fees, the net result from trading activities and dividends from net banking income.

⁽²⁾ Based on the current business scope, excluding the impact of the recent acquisitions and international expansion; core operating costs are calculated as net operating costs, minus sales personnel costs.

Strategic Focus on Sustainability

Given the ever-increasing importance of sustainability-related issues at national and international level, in 2018 Banca Generali continued – consistent with the steps already taken in previous years – to demonstrate its commitment to sustainability with strategies and activities aimed at proving its forward thinking capacity. In this regard, Banca Generali has always been acting keeping in mind the needs of all its stakeholders, who are more and more seeking a business approach that is both sustainable and socially responsible and implies medium- to long-term strategies that take account of ESG (Environmental, Social and Governance) indicators and are able to make a positive contribution to society and the context in which they operate.

Banca Generali is presenting a strategic development and sustainability project that covers not only the area closely linked to ESG investments, but includes a “re-thinking” of the Bank and its overall management approach, also including all its aspects, ranging from Wealth Management and the Financial Advisor Network to Human Resources and Governance, passing through Communications and Integrated Reporting.

As concrete proof of Banca Generali’s major interest in these issues, a number of measures have been implemented at Corporate Governance level, designed to bring about real integration of Sustainability in the business strategy and culture, so that it is fully embraced and shared, starting with the decision-making bodies. In March 2018, the Board of Directors set up an internal Board committee – the Nomination, Governance and Sustainability Committee – and also allocated all Sustainability-related responsibilities to the General Counsel Area as from September 2018. The measures introduced include, for example, the new Charter of Sustainability Commitments, the new Policy for the Environment and Climate, and the Diversity Policy for Members of the Company Bodies.

Banca Generali’s strategy also places huge value on its **People**, encouraging constant development of skills and training combined with the adoption of a useful review-based and transparent approach in the remuneration, incentive and performance management systems.

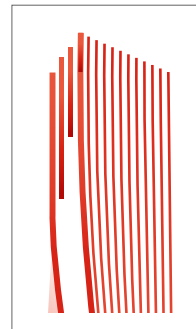
The centrality of these issues also affects the **Commercial Approach**, the wealth advisory service and the **Product and Service offer**. The products and services offered by Banca Generali seek to meet the threefold purpose of excellence in customer service, innovation and sustainable growth. A new sustainability-related dimension now complements the traditional financial allocation methodology: the starting point is the United Nations 17 Sustainable Development Goals (SDGs), which customers can select to best realise their own investment prospects.

Banca Generali is also committed to reducing the **Environmental** impacts by reducing consumption. This strategy was exemplified during 2018 when more than 400 Banca Generali employees were transferred to the Zaha Hadid Tower at CityLife (Milan), an example of a sustainable building that reduces energy consumption. In 2019, Banca Generali will also commit to achieving the goals and targets defined in the Group’s Environmental and Climate Policy regarding a reduction in greenhouse gas emissions and electricity, water and paper consumption.

Thanks to its constant and concrete commitment in these areas, Banca Generali received a full investment grade sustainability rating of EE- (on a scale of EEE to F) awarded by Standard Ethics, an independent sustainability rating agency, in addition to a rating of 1 for its corporate governance (on a scale of 1 to 10, where 1 is the lowest level of risk) by ISS.

The policies and actions aimed at achieving the sustainable development goals become more effective the more Banca Generali is able to promote them and disseminate them through **Events and Communications**. In this sense the Bank is engaged in numerous projects, both at the level of awareness-raising campaigns – such as “The Human Safety Net”, “Campioni di Vita” or the partnership with FAI (*Fondo Ambiente Italiano* – Italian Environment Fund) – and in the academic and research field – such as the recent collaboration with SDA Bocconi’s Sustainability Lab investigating millennials’ propensity to ESG investments.

Boosted also by the great success achieved with these initiatives, Banca Generali now intends to promote a new major Sustainability Project, able to combine the business’s typical wealth management and protection needs with an integrated vision of innovation and environmental, social and economic sustainability. Sustainability has now become – and will increasingly become so in the near future – a key driver of growth for all Banca Generali’s activities.



Risks and Uncertainties

In a macroeconomic and financial context characterized by increased global risks, which arise from potential repercussions of protectionist measures on firms' investment and the potential exacerbation of financial tensions in emerging economies, the monitoring of banks' risks, capital adequacy and liquidity has become all the more stringent, also in light of the new regulatory processes (SREP), in order to ensure the constant management and monitoring of risks and coordinated capital management for long-term business sustainability.

The main risks and uncertainties to which the Banking Group is exposed are summarised here below.

Credit risk **Credit risk:** it mainly arises from its investments in the money market (interbank deposits), financial instruments held in portfolios measured at amortised cost, HTCS and loans to customers (both corporate and retail). Credit risk refers to the possibility that a counterparty will become insolvent or a borrower will be unable to meet its obligations or unable to meet them on time. More specifically, credit risk is the possibility that an unexpected change in a counterparty's creditworthiness may generate a corresponding unexpected change in the market value of the associated exposure.

Particular importance is placed on managing the credit risk associated with institutional borrowers. These borrowers are allocated appropriate credit lines, which are monitored by the Risk and Capital Adequacy Department and established with the objective of maintaining a level of risk that is consistent with the strategies and risk appetite defined by the Board of Directors.

- › Loans and receivables from customers: they show a limited impact of NPLs on the Bank's overall portfolio, down in the year in terms of gross amount and net of provisions, mainly due to the closing and recovery of a portion of this portfolio.
- › Non-performing loans: mostly guaranteed by pledges on transferable securities and personal bank guarantees, for a significant portion of the portfolio, with a high coverage ratio as to the residual portion not covered by guarantees.
- › Performing loans: mainly to retail clients (about 79%), with high credit standing and in the technical form of revocable or Lombard credit (about 65%) and, similarly to the above, in accordance with the bank's credit policies, they are mainly secured by pledges on readily marketable financial instruments and products.

Exchange risk **Exchange risk:** it arises from changes in the value of assets and liabilities, the valuation of which is sensitive to changes in the term structure of interest rates or interest rate volatility. In light of the Bank's significant position in government securities (about 90% of the portfolio owned), the Bank is particularly sensitive to the spread/country risk, which is constantly monitored using sensitivity analyses.

Market risk **Market risk:** it stems mainly from the trading by the Parent Company, Banca Generali, of financial instruments on its own account; it is currently limited and residual. Market risk is represented by the possibility to suffer losses due to variations in the value of a security or a portfolio of securities associated with unexpected variations in market conditions (share prices, interest rates, exchange rates, the prices of goods and the volatility of risk factors).

Market risks are maintained within appropriate limits, which are monitored by the Risk and Capital Adequacy Department. Such limits are established with the objective of maintaining a level of risk that is consistent with the strategies and risk appetite defined by the Board of Directors.

Operating risk **Operating risk:** the exposure across the various legal entities in the Group is closely linked to the type and volume of business conducted, as well as the operating procedures implemented. In detail, the operations undertaken (primarily management of third-party assets and the distribution of the Group's own and third-party investment products), the use of information technology systems, the definition of operating procedures, interaction with parties protected by the law, the marketing structure adopted (chiefly Financial Advisors) and the direct involvement of all personnel in operations structurally expose the Group to operating risk, which is defined as the possibility of sustaining financial losses deriving from the inadequacy or improper functioning of procedures, human resources, internal systems or external events. This type of risk includes, inter alia, losses due to fraud, human error, interruptions of operation, unavailability of systems, breach of contract, natural disasters and legal risk.

The Risk and Capital Adequacy Department carries out risk assessment and scoring activities and Loss Data Collection processes; it monitors the action plans adopted to mitigate material risks, and controls KRIs (Key Risk Indicators) instrumental to monitoring the areas marked by the highest levels of risk.

Moreover, the Banca Generali Group has adopted an insurance coverage for operating risks deriving from acts of third parties or caused to third parties, as well as adequate clauses cove-

ring damages caused by providers of infrastructure and services; it also approved a Business Continuity Plan.

Concentration risk: it results from the exposure to groups of related counterparties and counterparties operating in the same sector/geographical area. The Bank reports a good level of diversification, consistent with its business model and with a lending activity targeted primarily at Italian private clients and well-distributed at geographical level. In addition, the Bank guarantees *ex-ante* compliance with the regulatory limits regarding the level of exposure towards related parties and major risks.

Concentration risk

Liquidity risk: it derives from funding and lending transactions in the course of the Group's ordinary business. Such risk takes the form of default on payment obligations, which may be caused by funding liquidity risk or market liquidity risk. Liquidity risk also includes the risk that an entity may be forced to meet its own payment obligations at non-market costs, that is to say while incurring a high cost of funding or (and in some cases concurrently) sustaining capital losses when divesting assets.

Liquidity risk

The Finance Department is responsible for managing treasury and proprietary investment cash flows with the aim of ensuring thorough diversification of sources of financing and monitoring cash flows and daily liquidity. Any liquidity needs are primarily managed through recourse to the money market (interbank deposits and repurchase agreements) and, to a secondary degree, where available, through the measures proposed by the ECB. In addition, the Group maintains a portfolio of listed, highly liquid and high-quality financial instruments in order to respond to potential crisis scenarios that allow to ensure a high level of High Quality Liquid Assets. The funding structure is mainly focused on customer deposits characterized by a stable performance and on institutional sources of funding.

Liquidity risk is managed through appropriate short-term and structural (beyond one year) operating limits, monitored by the Risk and Capital Adequacy Department, aimed at maintaining a level of risk deemed consistent with the strategies and risk appetite set by the Board of Directors.

The Group also implemented a Contingency Funding Plan aimed at anticipating and handling liquidity crises at both the systemic and idiosyncratic level.

In addition to the aforementioned risks, the Group also ensures monitoring of the following risks.

Strategic risk: it is the actual or prospective risk of a decrease in profits or capital arising from changes in the operating context or poor company decisions, the inadequate implementation of decisions, or insufficient reaction to changes in the competitive scenario. The first pillar of the framework for strategic risk management is Governance, which ensures constant monitoring for the traceability of decisions. The strategic risk is tackled by policies and procedures in which the most important decisions are reported to the Board of Directors and supported by specific preventive impact analyses in terms of capital adequacy and liquidity, consistency with the Risk Appetite Framework and sustainability of the business model. The Board of Directors has approved specific strategic planning guidelines, which regulate the CRO/CFO interaction, for the purpose of defining and updating the strategic plan and the Risk Appetite Framework and the ensuing approval of the budget for first year of the plan.

Strategic risk

Reputational risk: the current or prospective risk of a decrease in profits or capital arising from a negative perception of the corporate image by clients, counterparties, shareholders, investors or regulatory authorities. The Banca Generali Group is structurally exposed to reputational risk due to the Group's distinctive operations, which focus on offering and placing asset management products with its clients through its own Financial Advisor Network. To monitor this risk, the Bank has adopted specific codes of conduct and codes of ethics that govern the Group's operations and its dealings with its main stakeholders. In addition, the Bank has adopted a dedicated reputational risk management framework, which provides for the identification of risks potentially prejudicial to the corporate image and the assessment of the associated exposure, as well as the identification of safeguards and controls to mitigate risk.

Reputational risk

With a view to mitigating reputational and strategic risks, Banca Generali is also constantly committed to managing the operational and financial aspects of its business with a focus on social and environmental responsibility and the sustainability for future generations. To this end, Banca Generali aims to:

- › pursue sustainable growth in the long term, while reducing the risks tied to the volatility of the economic scenario in which the Bank operates;
- › realise the full potential of all those who work at the Bank, by developing their skills and providing the proper recognition of each individual's contribution to the organisation's success;
- › focusing on the social context in which it is based by participating in welfare, cultural and sports initiatives in favour of the community;
- › favouring the reduction of direct and indirect environmental impacts by taking steps to mini-

**Compliance risk and risks
of money laundering and
financing of terrorism**

mise the consumption of energy, paper and water, and lower pollutant emissions.

Compliance risk and risks of money laundering and financing of terrorism: the effective management of compliance risk, defined as the risk that the Company may incur legal or administrative penalties, significant financial losses or reputational damages as a result of the breach of laws, regulations or voluntary codes of conduct, as well as money laundering and terrorist financing activity, defined as the risk of involvement, also unintentional, of the Company in such offences, requires a company culture that promotes integrity, propriety and compliance with the spirit of the law in accordance with the principle of proportionality and the entity's size and specific operational characteristics.

'Compliance' is a process that permeates the entirety of each Banca Generali Group company's activities and organisation, beginning with the definition of company values and strategies and extending to influencing the definition of policies, internal procedures, operating practices and conduct. Likewise, an efficient prevention and management of money laundering and terrorism financing risks necessarily require an adequate definition of internal policies and procedures aimed at combating these events.

Accordingly, the said risk monitoring is most effectively pursued in a company context that emphasises the principles of honesty and integrity; it applies to each resource by involving Company Boards, Committees, the Compliance function, as well as the Anti-money Laundering function, each to the extent of its respective competency, and, more generally, all employees and professionals.

A comprehensive and informed management of risks, including by incorporating principles of fairness and customer protection in the definition of business strategies and in decision-making and operating processes, is the prerequisite for creating stable and long-term relationships with customers and, more generally, with all the stakeholders, thereby strengthening the reputation and credibility of the Bank and of the entire Banking Group. Furthermore, the pursuit of regulatory compliance is an opportunity for improving operating procedures and company practices with consequent positive effects on the effectiveness and efficiency of processes.

Organisational and Management Model pursuant to Legislative Decree No. 231/2001

Pursuant to Legislative Decree No. 231/01 (as amended) on the administrative liability of legal entities, companies and associations, Banca Generali has adopted and implemented an Organisational and Management Model. The Model is an integral part of the set of rules, procedures and control systems developed by Banca Generali, and contributes to the overall structured and comprehensive organizational framework that is designed to prevent unlawful conducts and in particular those envisaged by the legislation in question.

The understanding and dissemination of the content and underlying principles of that Model are ensured by specific training initiatives provided through e-learning systems targeted at all employees and Financial Advisors, so as to ensure that all human resources are duly trained. The Model is updated whenever there are regulatory and/or organizational changes and is submitted to the Board of Directors for analysis and approval.

Internal Control and Risk Management System

The Internal Control System of Banca Generali S.p.A. (hereinafter also the 'Bank') is composed of the set of rules, functions, structures, resources, processes and procedures that aim, through an adequate process of identification, measurement, management and monitoring of the main risks, to ensure that the following aims are achieved, in accordance with sound, prudent management:

- › verification of the implementation of company strategies and policies;
- › containment of risk within the limits indicated in the framework of reference for determining the Bank's risk appetite (Risk Appetite Framework or RAF);
- › safeguarding the value of assets and protecting against losses;
- › effectiveness and efficiency of corporate processes;
- › reliability and security of company information and IT procedures;
- › prevention of the risk that the Bank may be involved, voluntarily or involuntarily, in unlawful activities (with particular regard to activities relating to money-laundering, usury and financing of terrorism);
- › operational compliance with the law and supervisory regulations, as well as policies, regulations and internal procedures.

The Banca Generali Banking Group has implemented an internal control model consistent with best practices at the national and international levels, aimed to reduce the risks of inefficiency, overlapping of roles, sub-optimal system performance and loss of system efficiency.

The Internal Control System is defined and updated from time to time by the Company's Board of Directors in accordance with any changes in the law and the Bank's operations.

The Internal Control structure is divided into the following three levels:

1. Line checks (so called "First-tier checks"), aimed at ensuring that operations are conducted properly. These are carried out by the operating structures themselves (e.g., hierarchical, systematic and sample-based checks), including through units dedicated solely to control duties that report to the heads of operating structures, or by back-office company areas and units; to the extent possible, line checks are incorporated into IT procedures;
2. Risks and compliance checks (so called "second-tier checks"), performed by functions not involved in production and broken down as follows:
 - a. Risk management checks: these are part of the process of determining risk measurement methods, with a view to ensuring compliance with the thresholds assigned to the various operating functions, as well as in order to maintain the operations of individual production units in line with the risk/return targets set for specific types of risk.
 - b. Compliance checks: these focus on the compliance of operations with laws, measures by supervisory authorities and the Bank's self-regulation provisions; checks of the operation of the Financial Advisor distribution network fall into this category.
 - c. Anti-money laundering checks: these assess compliance with laws and provisions by supervisory authorities concerning money-laundering and prevention of financing of terrorism, as well as compliance with the related Bank's self-regulation provisions governing operations and safeguards aimed at ensuring full knowledge of the customer, the traceability of financial transactions and the identification of suspicious transactions.
3. Internal Audit (so called "third-tier checks"), performed with the aim of providing assurance that the risks identified are appropriately monitored, while offering advice on emerging risks, including those resulting from the use of new technologies. The Internal Audit function collaborates and communicates with the second-tier control structures to implement a holistic vision of risks and the compliance system, while also promoting a culture of risk. Moreover, Internal Audit checks are aimed at detecting breaches of rules and procedures, in addition to periodically assessing the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the Internal Control System and IT system.

The Internal Control System is completed by:

- › the *Law 262 Organisational Unit*, which acts as a point of reference, orienting and coordinating the management of all the Group's administrative and accounting risks, for the intents and purposes of Law No. 262/2005;
- › the *Supervisory Board*, set up pursuant to Legislative Decree No. 231/2001.

INTERNAL CONTROL SYSTEM

1.

1st-Tier Checks

- › LINE CHECKS

2.

2nd-Tier Checks

Dedicated Functions:

- a. RISK MANAGEMENT
- b. COMPLIANCE
- c. ANTI MONEY LAUNDERING

3.

3rd-Tier Checks

- › INTERNAL AUDIT

Completed by:

- › Law 262 Organisational Unit
- › Supervisory Board

The structure of the Bank's Internal Control System is intended to:

- › ensure appropriate control oversight of all of the Group's activities and proper disclosure on this subject, in pursuit of the values of substantive and procedural fairness and transparency;
- › ensure the efficiency, traceability and auditing of transactions, and more in general all management activities, the reliability of accounting and management data, compliance with laws and regulations, and the protection of the integrity of the Company's assets, especially with a view to prevent fraud against the Company and the financial markets;
- › promote an informed attitude in risk management;
- › provide assurance and adequate protection of client information;
- › facilitate processes of innovation.

The circulation of information amongst and within Corporate Bodies and control functions allows to meet the targets of efficient management and effective internal controls, thus representing a fundamental condition for the integrated Internal Control System.

In terms of capital adequacy, in accordance with the provisions of the Basel Committee and Community regulations, and in compliance with the supervisory instructions issued by the Bank of Italy (cf. Bank of Italy Circular No. 285 of 17 December 2013, "Supervisory Provisions for Banks"), the Banking Group has defined an internal process (ICAAP – Internal Capital Adequacy Assessment Process) for independently assessing its capital adequacy, that is to say, the adequacy, in current and prospective terms, of the overall capital at its disposal to meet the relevant risks to which it is exposed and support its strategic decisions. That process presupposes a solid corporate governance system, a clear, appropriate organisational structure and the definition and implementation of all processes required for the effective identification, management, monitoring and reporting of risks and the presence of adequate internal control mechanisms.

The Group has formally defined a policy for each of the risks identified that lays down:

- › the general principles, roles and responsibilities of the company bodies and functions involved in risk management;
- › the guidelines regarding risk management in accordance with the business model, the risk appetite, the internal control system, system of delegated powers defined by the Board of Directors and provisions of the Supervisory Authority.

STRUCTURES IN CHARGE OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

BODY	TASKS
Board of Directors	Person with a management role responsible for implementing strategic guidelines
Chief Executive Officer and General Manager	Person with a management role responsible for implementing strategic guidelines
Board of Statutory Auditors	Body with a control role that also serves as Supervisory Body pursuant to Legislative Decree No. 231/01
Internal Audit and Risk Committee	Body in charge of providing advice and putting forward recommendations; it assists the Board of Directors in the discharge of the tasks entrusted to the latter in respect of the Internal Control System, and, more specifically, in assessing the efficiency and appropriateness of the said system
Risk Committee	Ensures coordinated coverage of the system for managing and controlling risks. Addresses specific operating issues with decision-making powers relating to risk containment measures
Manager in Charge of preparing the Company's financial reports	Defines and maintains an organisational and control model focusing on the Banking Group's financial information, with a view to ensuring the reliability and accuracy of accounting and management data. In this activity, this function is supported by the Law 262 Unit
Risk and Capital Adequacy Department	Responsible for second-tier checks, as risk management function
Compliance and Anti-Money Laundering Department	Responsible for second-tier checks, with the Compliance Service as regulatory compliance function and with the Anti-Money Laundering Service as anti-money laundering function
Internal Audit Department	Responsible for third-tier checks, as internal audit function
Heads of company structures (Areas, Departments, Services, Organisational Units, Branches, etc.)	They are charged with implementing the line checks required under existing procedures or necessary for the effective monitoring of the risks associated with the business operations effected within each organisational unit

In order to prevent conduct contrary to the principles of propriety, legality and transparency in the handling of operations by personnel, with the additional goal of avoiding the attribution of administrative liability to companies for offences committed by personnel in the interest or to the benefit of those companies, the Banca Generali Group has adopted and implemented an Organisational and Management Model, pursuant to Legislative Decree No. 231/01 as amended. The proper understanding and dissemination of the content and underlying principles of that model are ensured by specific training initiatives provided through e-learning systems targeted

at all employees and Financial Advisors. The Organisational and Management Model (231 Model) has been updated for crimes of corruption between private individuals, and whistleblowing procedures have been introduced for anonymous AML reports and other reports.

The internal control system maintains a constantly evolving approach to counter and prevent fraud, money laundering offences, usury or funding of terrorism.

The security of customer information is under constant analysis and alignment with industry regulations and guidelines as well as best practices.

No breaches to customer data have been reported and the authentication measures, reinforced through the use of different channels for instructions and authorisations, have enabled transactions ordered by customers on the Bank's IT platform to be fully protected.

Employee cybersecurity training is continuing.

Internal audit activity

Banca Generali's Internal Audit Function, a third-tier check function, carries out independent, objective assurance and advisory activity aimed at improving the organisation's efficiency, in addition to providing the management and top managers with improvement actions for the implementation of control measures aimed at mitigating company risks and promoting an effective governance process, with a view to ensure the long-term stability and sustainability of the Banking Group.

On the one hand, the Function is tasked with expressing its opinion on the completeness, adequacy, functionality and reliability of the overall Internal Control System and ICT system, checking and performing onsite audits of the regular conduct of operations and the evolution of risks, while also supporting company bodies, the Board of Directors, the Board of Statutory Auditors, the Internal Audit and Risks Committee and Top Managers in defining the structure of the internal control and corporate governance system, as well as propose possible improvements area within risk management.

Audit work is performed on the basis of the methodologies and internal and external standards specified in the function's Rules and Procedures:

- > the Bank of Italy's supervisory instructions;
- > International professional standards of the Association of Internal Auditors;
- > Borsa Italiana's Corporate Governance Code;
- > Basel Committee on Banking Supervision, June 2012 and July 2015;
- > Consob-Bank of Italy Joint Regulation;
- > Evolutions of the new SREP and "Guidelines on common procedures and methodologies for the supervisory review and evaluation process" EBA 19 December 2014;
- > CoSo Report, ERM (Enterprise Risk Management) model and CobiT-Pam methodology.

In the reporting year, work on updating and developing the Audit Model, which focuses on inherent risks, was completed. The purpose was to achieve a valuable tool for predicting new control requirements in relation to potential changes in the risk scenarios resulting from national and international legislation, economic variables and technological innovations.

The audit model was brought into line with the European Supervisor's audit principles. It is aimed more than before at satisfying management in the adoption of conduct and procedures designed to prove to the Supervisor the short-term and long-term adequacy of the business, governance, capital and liquidity model.

The risk governance activity increasingly involves effective collaboration between the corporate Control Functions, to boost cooperation across topics related to top risks and provide the Audit and Risks Committee with an increasingly integrated and complete reporting system.

Internal Audit has continued to focus on strengthening alignment processes between the Bank's various structures.

During the year, the digital evolution, the attention paid to possible customer data breaches and the increased focus on data as a business asset have required different measures to increase the security of the Bank's data and information.

The improvement paths for existing controls, which were initiated as a result of previous activities, have been monitored (follow-up).

The Banking Group suffered no significant losses in 2018 and the risks continued to be low and reported constantly to Management and the Corporate Bodies.

Transparent Business Management and Fight against Corruption

Banca Generali aims at actively contributing to economic and social development based on respect for rights, professional ethics and business transparency.

For this purpose, and operating in the asset management market – a sector requiring high ethical and transparency standards to be met in business activities and in relations with customers and all the stakeholders –, Banca Generali operates in accordance with legislation, policies, internal regulations and professional ethics. In fact, it is only by creating and consolidating a relationship with customers based on complete trust that long-term economic and financial stability objectives can be pursued and achieved.

For these reasons, Banca Generali has adopted an **Internal Code of Conduct**, drawn up in accordance with the principles set forth in the Code of Conduct of the Generali Group, which defines the rules of conduct binding on management and control bodies, employees, Financial Advisors and professionals.

In this area, particular attention is paid to the fight against corruption. In addition to upholding conduct based on honesty and respect for professional ethics, Banca Generali does not tolerate any form of corruption and, accordingly, specifically prohibits the offering or acceptance of inducements, such as undue payments, gifts, entertainment or other benefits.

It is also committed to ensuring full transparency in its relations with customers, with the market and with suppliers: the Bank has adopted a rigorous selection approach the values of which are based on the Internal Code of Conduct and the “relationship value”, as well as the Code of Ethics for Suppliers of the Generali Group which sets out the general principles for managing relations with the contractual partners in a correct and productive manner, with particular reference to the fight against corruption.

The Internal Code of Conduct is an integral part of the Organisational and Management Model, which has been designed to prevent crime and represents the right tool for ensuring a strong focus on compliance with Legislative Decree No. 231/2001 on the vicarious corporate liability. As a company whose shares are listed on the market managed and organised by Borsa Italiana S.p.A., Banca Generali has also decided to adhere to Borsa Italiana’s Corporate Governance Code for Listed Companies.

Ethics and transparency are continually used as a benchmark in business activities and so are included within the broader area of compliance with self-regulation and external regulation rules. In this context, Banca Generali adopts an internal control system founded on three levels of control³, designed to ensure the constant monitoring of activities, as well as transparent reporting to the administrative and control bodies.

Banca Generali has also adopted specific controls to ensure that the transparency rules are observed and to help the fight against corruption with a particular focus on the following areas:

- › MiFID II Directive;
- › Supervisory provisions on banking transparency;
- › Insurance Distribution Directive (“IDD Directive”);
- › V Anti-Money Laundering Directive;
- › Tax due diligence;
- › Whistleblowing.

The policies and procedures mentioned above are communicated to all the employees (843 for Italy and 25 for Luxembourg) and members of the individual Boards of Directors (16 for Italy-based companies and 6 for Luxembourg) of the Banca Generali Group, as well as to the Financial Advisors.

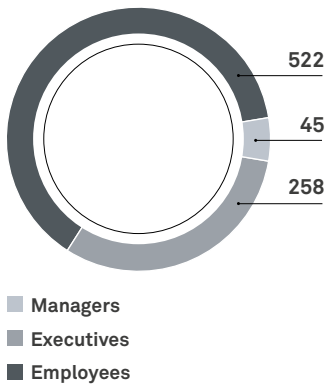
⁽³⁾ For more detail, reference is made to the paragraph “Internal Control and Risk Management System”.

Regarding anti-corruption training, a special course was run during the year relating to Legislative Decree No. 231/01, which also covered the crime of corruption. This training was delivered only to employees based in Italy, in particular:

TRAINING PROVIDED TO EMPLOYEE ON ANTI-CORRUPTION ISSUES	NUMBER	%
Managers	45	90.00%
Executives	258	98.10%
Employees	522	98.49%

Lastly, it should be noted that no cases of corruption were reported during the reporting period.

ANTI-CORRUPTION TRAINING







02

THE VALUE CREATION AND MANAGEMENT MODEL



In 2018, the Bank recorded a very solid result as confirmed by all recurring items that bear witness both to the validity and sustainability of its business model and to the skills and competences of all its professionals, who contribute in their capacity to efficiently implement the medium/long-term strategic guidelines.

In a year of severe volatility, which had an impact on variable revenues, Banca Generali's management approach contributed not only to expand the Bank's assets and customer base, but also to lay the groundwork for future growth, allowing to sign two M&A deals and strike an important partnership with Saxo.

The Bank was able to maintain its capital solidity and profitability also thanks to the fact that it expanded its investment solution range – which made it more distinctive and competitive – and launched numerous new cutting-edge projects, while also nearly doubling its assets under advanced advisory, drawing increasing interest in its wealth management services and thus further strengthening the relationships with entrepreneurs.

Despite the prudent approach required by global economy and the uncertainties on the future geopolitical scenario, the market continue to record a dynamic demand confirming that Banca Generali has the quality and professionalism to continue to grow and gain market share in the investment sector, while also maintaining its level of solidity and profitability.

The goals in view of which this growth will be assessed are further consolidation of the recurring items of the profit and loss account, together with capital ratios and the ability to continue to provide its shareholders attractive returns according to a best-in-class dividend distribution policy in terms of payout ratio and dividend per share.

The Banca Generali Group

The merger of the subsidiary BG Fiduciaria Sim S.p.A. into the Parent Company, Banca Generali, became effective **1 January 2018**.

The transaction did not require an increase in the capital of Banca Generali, as the Bank already held 100% of the merged company.

Since this business combination qualifies as a transaction between entities under common control, it was accounted for in accordance with the principle of the continuity of values of the transferred assets and liabilities on the basis of the book values indicated in Banca Generali's 2017 Consolidated Financial Statements, and therefore it will not have any effects on the Consolidated Financial Statements for 2018.

It should be recalled that, on **9 March 2018**, the Boards of Directors of Banca Generali and Saxo Bank approved the agreements to set up a joint venture dealing with online trading and digital services.

The terms of the agreements provide for the incorporation of a new company, BG Saxo Sim, in which the Bank will hold an interest of just under 20%.

The objective of the partnership, which has a duration of eight years and may be renewed upon expiry, is to offer clients, on an exclusive basis for the Italian market, access to an innovative platform for advanced trading based on Saxo Bank's technology. Banca Generali will make available its banking platform and its leading market position in private banking to foster synergies and develop new opportunities for its Financial Advisors and clients, who will thus enjoy access to one of the most comprehensive suites of global trading tools.

On 28 December 2018, the new Sim, incorporated by Saxo Bank and denominated BG Saxo Sim, received Consob's authorisation and was registered in the Register of securities brokerage firms.

Banca Generali's entry into the ownership structure of BG Saxo Sim's instead subject to the completion of all antitrust investigative procedures still underway in some non-EU countries.

The company is expected to become fully operational in early 2019, once the online trading IT platform and related services are completely integrated into the technological infrastructure provided by Banca Generali, which will act as outsourcer.

On **22 October 2018**, Banca Generali formally defined a binding offer – accepted by the parties involved – aimed at acquiring 100% of the **Nextam Partners S.p.A.** financial group. Nextam Partners S.p.A. is an investment boutique, which has been offering asset and wealth management and advisory services to private-banking and institutional clients in Italy since 2001.

The deal is part of Banca Generali's wider private-banking growth strategy launched with a view to strengthening the Bank's range of services and its distinctive asset management and advisory expertise.

Nextam Partners Group (80% owned by its three founding partners – independent managers with extensive experience in the industry – and 20% owned by other Italian and foreign shareholders) includes Nextam Partners SGR, Nextam Partners Sim, with offices in Milan and Florence, and the London-based Nextam Partners Ltd. Nextam Partners has a portfolio of approxi-

mately 2,500 clients, on behalf of whom the Group manages about 5.5 billion euros assets under advisory, in addition to 1.3 billion euros assets under management. The deal will be subject to the appropriate conditions customarily applied to transactions of this kind.

In December 2018, a binding offer was made – and accepted by the parties involved – for the acquisition of 90.1% of **Valuer Fiduciaria S.A.**, a Lugano-based asset management and advisory boutique that serves private banking clients and manages CHF 1,326 million in assets. The deal will also be subject to the appropriate conditions customarily applied to transactions of this kind.

Summary of operations

The Banca Generali Group closed 2018 with consolidated net profit of 180.1 million euros and total net inflows of over 5.02 billion euros, bringing the total volume of the assets entrusted by customers to the Banking Group for management to 57.5 billion euros, up 3.3% compared to the previous year, despite the particularly unfavourable market trend in late 2017.

Assets growth was driven by net inflows, of which 1.7 billion euros managed solutions, 2.8 billion euros AUC and 0.5 billion euros traditional insurance policies.

The high volatility of stock and bond markets over the second half of the year led to a very conservative net inflows mix, driving flows towards deposits (nearly 1.4 billion euros YTD) and AUC in general. The increase in AUC net inflows also reflects the acquisition of new clients, who currently prefer to await the most appropriate moment for planning decisions.

With regard to managed solutions, net inflows of approximately 1.0 billion euros were generated by the Bank's innovative wrapper solutions, particularly insurance products (BG Stile Libero), which are increasingly appreciated by customers and Financial Advisors thanks to their operational flexibility and wide range of opportunities for investment diversification. Among managed products, the new sub-funds of the Luxembourg-based Sicav Lux IM met with great success. In addition, Assets under Advisory amounted to over 2.3 billion euros.

Net banking income was virtually stable at 449.4 million euros, driven by the robust structural growth of **management fees**, which rose to 633.5 million euros (+8.0% compared to 2017), as a result of the constant rise in average AUM.

Similarly, **net financial income** – the sum of net interest income and net income from trading activities and dividends – grew by 5.8% following the banking book de-risking strategy launched at the end of the previous year and successfully implemented also in 2018. As a result, net income from trading activities and dividends amounted to 24.1 million euros, up 6.0 million euros compared to the previous year. **Net interest income** continued to decline slightly by 1.4 million euros (-2.4%), partly due to the extremely low interest rates, and partly to the conservative profile of the banking book adopted in the last months of 2017. As a result, the balance of cash on deposit with the ECB also remained consistently high, and amounted to 992 million euros at the end of December 2018.

However, net interest income's quarterly performance showed signs of a gradual recovery thanks to the natural turnover of investments, marking an increase of 9.8% on the fourth quarter of 2017.

Conversely, market performance resulted in a decline in the most volatile components of the profit and loss account, i.e., **performance fees**, which fell sharply by 76.5 million euros (-66.5%).

Net operating expenses amounted to 196.6 million euros, up slightly on the same period of the previous year (+4.6%), despite the significant business expansion and non-recurring components such as the higher contributions to the resolution and deposit protection funds.

With reference to capital, Banca Generali confirmed the **soundness of its regulatory aggregates**. On a phased-in basis, CET1 ratio stood at 17.5% and Total Capital Ratio at 19.0%. Excess capital on a phase-in basis amounted to 311.4 million euros, accounting for nearly 58% of total consolidated Own Funds.

Capital ratios were well above the specific requirements set by the Bank of Italy for the Group (i.e., CET1 ratio at 6.5% and Total Capital Ratio at 10.2%, as the minimum required by the SREP – Supervisory Review and Evaluation Process).

The total value of AUM managed by the Group on behalf of its customers – which is the figure used for communications to Assoreti – amounted to 57.5 billion euros at 31 December 2018. In addition, managed assets also included 0.8 billion euros in AUC of Generali Group companies, and 3.0 billion euros in funds and Sicavs distributed directly by management firms, for an overall total of 61.3 billion euros.

Group Economic and Financial Highlights

CONSOLIDATED FIGURES

(€ MILLION)	31.12.2018	31.12.2017	CHANGE %
Net interest income	60.0	61.4	-2.4
Net income (loss) from trading activities and dividends	24.1	18.1	33.3
Net fees ^(c)	365.3	370.5	-1.4
Net banking income	449.4	450.0	-0.1
Staff expenses	-84.2	-84.8	-0.7
Other net general and administrative expenses	-162.5	-149.8	8.5
Amortisation and depreciation	-9.3	-8.1	14.2
Other operating income and expenses	59.4	54.9	8.3
Net operating expenses	-196.6	-187.9	4.6
Operating result	252.8	262.2	-3.6
Provisions	-25.4	-18.0	41.0
Adjustments	-7.3	-5.4	33.9
Profit before taxation	219.8	238.6	-7.9
Net profit	180.1	204.1	-11.7

PERFORMANCE INDICATORS

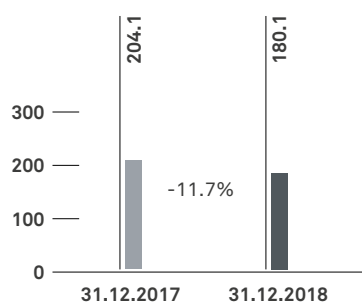
	31.12.2018	31.12.2017	CHANGE %
Cost income ratio ^(c)	41.7%	39.9%	4.4
Operating Costs/Total Assets (AUM)	0.46%	0.49%	-7.0
EBTDA ^(c)	262.1	270.3	-3.0
ROE ^{(a) (c)}	24.5%	29.5%	-17.0
ROA ^(b)	0.42%	0.53%	-21.5
EPS - Earning per share (euro)	1.556	1.751	-11.2

(a) Net return on equity, excluding net profit (share capital, share premium, reserves, valuation reserves, treasury shares) at the end of the reporting period and the end of the previous year.

(b) Ratio of net result to the average of Assoreti's annualised quarterly AUM.

(c) The figures for the comparison period have been restated net of provisions.

NET PROFIT (€ million)



NET INFLOWS

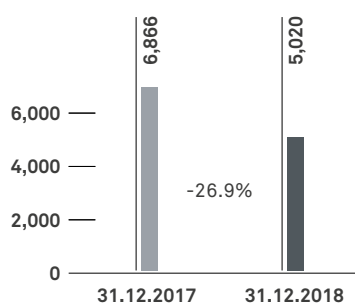
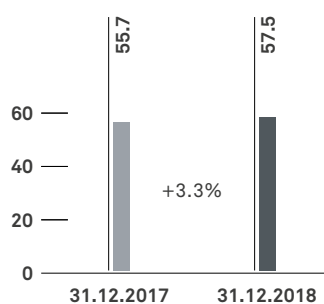
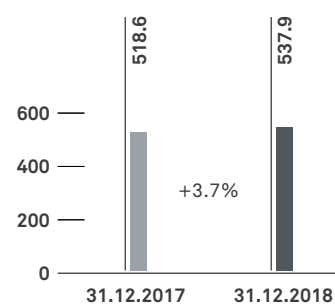
(€ MILLION)(ASSORETI DATA)	31.12.2018	31.12.2017	CHANGE %
Funds and Sicavs	786	1,906	-58.8
Financial wrappers	-78	2,289	-103.4
Insurance wrappers	1,040	1,546	-32.7
Asset management	1,748	5,741	-69.6
Insurance/Pension funds	480	224	114.3
Securities/Current accounts	2,792	901	209.9
Total	5,020	6,866	-26.9

ASSETS UNDER MANAGEMENT & CUSTODY (AUM/C)

(€ BILLION)(ASSORETI DATA)	31.12.2018	31.12.2017	CHANGE %
Funds and Sicavs	13.2	13.6	-2.9
Financial wrappers	6.4	7.1	-9.5
Insurance wrappers	7.7	7.3	5.6
Asset management	27.3	28.0	-2.3
Traditional life insurance policies	15.4	14.9	3.4
AUC	14.8	12.8	15.6
Total	57.5	55.7	3.3

NET EQUITY

(€ MILLION)	31.12.2018	31.12.2017	CHANGE %
Net equity	734.9	736.1	-0.2
Own funds	537.9	518.6	3.7
Excess capital	311.4	313.5	-0.7
Total Capital Ratio	19.0%	20.2%	-6.1

NET INFLOWS
(€ million)ASSET UNDER MANAGEMENT
(€ billion)OWN FUNDS
(€ million)

Macroeconomic Context and Competitive Positioning

2018 was marked by heightened market volatility and a bear market across all major asset classes.

Various factors adversely affected the markets. Economic growth estimates were revised downwards from 3.9% to 3.7% in the course of the year. The **economic slowdown** came in addition to various types of **political tensions**, foremost among which was the trade policy pursued by the United States, which levied import tariffs, the negotiations for the separation of the United Kingdom from the European Community ("Brexit") and, in Italy, the tensions sparked by the country's Budget Planning Document, partly allayed near the end of the year by the agreement reached with the European Union.

In 2018, the **U.S. economy grew by approximately 3%**, benefiting from strong consumption and the tax reform implemented by the Trump administration. The job market remained solid and the unemployment rate fell to 3.7%. However, the economic cycle now seems to have peaked, and growth is expected to slow to 2.4% in 2019.

Inflation is no cause for concern, fluctuating within a range of 1.6% to 2% during the year, in line with the Federal Reserve's target.

In response to positive economic data, the Federal Reserve continued its rate normalisation policy, raising interest rates from 1.50% to 2.50% in November 2018.

The **Eurozone grew by approximately 1.9%** overall: growth increased by 1.6% in Germany, by 1.5% in France, by 1% in Italy and by 2.5% in Spain.

In 2018, growth was supported by retail sales, up 1.7%, and by investments, up 1.9%. The job market confirmed a trend of improvement and the unemployment rate fell to 7.9%, the lowest level of the last ten years. Inflation moved in a range between 1% and 2.2%, reaching 1.6% in December. The European Central Bank (ECB) continued to implement an expansionary policy, without changing interest rates and maintaining its quantitative easing programme, while beginning the gradual process of reducing economic stimuli with the end of the quantitative easing and a possible rate hike after autumn 2019.

In **China**, GDP growth neared 6.5% over the year and is expected to reach 6.2% by next year. Retail sales declined from a 10% growth in March to 8.1% in November, according to data published. Emerging economies grew by 4.7% overall.

Market uncertainty and the downwards revision of growth forecasts translated into a **bear equity market**. Stock Exchanges closed the year with negative results, particularly for Italy among advanced countries. The MSCI World index in euro dropped by 7.2%, the S&P500 by 2.7% and the Topix by approximately 12%. In Europe, the benchmark index DJ Stoxx 600 decreased by 15%; the Italian market index declined by 17%. During the reporting year, emerging market stock exchanges also reported extremely negative performance, however varying by reference area: -14% overall (the MSCI Emerging Markets index in euro), -6% in India, -17% in China and -9% in Eastern Europe. Overall, the market sectors that performed best in Europe were the more defensive ones, such as utilities and consumer goods. Technology reported a good performance, but in the first half of the year only. The banking and automotive sectors performed below average, with the automotive being particularly impacted by the 'trade war' between China and the United States.

Bond yields on the markets of reference (Treasuries and Bunds) showed a diverging trend. In the United States, short-term yields (two years) rose, in line with the official rate increases announced by the Federal Reserve, from 1.90% at the beginning of the year to 2.60% at the end of December 2018. Long-term rates (ten years) initially climbed to 3.2% in the wake of the constant stream of positive U.S. economic data, but then in the fourth quarter went on to reflect a GDP growth rate that is forecast to fall in the coming years, closing the year at 2.76%. In Europe, the German two-year rate remained essentially unchanged at -0.62%, consistent with the ECB's policy, whereas the ten-year rate fell from 0.42% at the beginning of the year to 0.22% in December in response to growth data that fell short of expectations and structural inflation that remained low. Spreads between the various countries of the European Monetary Union remained stable on the whole, with the exception of Italy, where political uncertainty drove spreads to peak at 327 bps against the Bund, after which they subsided following the agreement reached with the European Commission on the Budget Law. In particular, Italy's spread rose from 155 bps at the beginning of the period to 258 bps at the end.

On foreign exchange markets, the increase in interest rates in the United States drove up the value of the dollar against the euro by approximately 5%. The euro also suffered as a result of the tensions that flared up within the EU in the course of the year, from the Italian elections to the Brexit. The strength of the dollar also caused emerging countries to underperform their

developed counterparts, owing to the significant share of their public debt denominated in U.S. dollars. During the period, the euro went from 1.20 dollars per euro to approximately 1.14, while the yen strengthened, going from 135 at year-start to 126 at the end of December. Finally, the prices of commodities fluctuated throughout the year. In October 2018, the price of oil (WTI) reached a high since 2014 at \$76 a barrel, after which it shed 40% of its value in the last two months of the year to close at \$45. Gold's performance was specular: after depreciating by approximately 10% in late August, it rallied to close at 1,272, still down from 1,317 at the end of 2017.

Outlook

Various international economic research organisations estimate that **global growth in 2019 will be slower than in 2018**: expansion has become less balanced between the various geographical areas and some major economies have reached the late stages of their cycles (the Eurozone, Japan, the UK and China).

Finally, it bears remarking that the risks of **slowing growth** are heightened as a result of expansionary policies that, in Europe's case, seem to be winding down and a U.S. economy that after benefiting from the stimulus provided by the tax reform appears to be moving towards the end of a cycle that has now reached ten years. All this is occurring in an environment dominated by market uncertainty triggered by international trade tensions.

Competitive Positioning

Banca Generali is a leading Italian distributor of financial products and services for affluent and private customers through Financial Advisors. The Group's markets of reference are asset management and distribution through Financial Advisor networks.

The asset management market

In December 2018, the Italian asset management industry recorded a total of 1,071 billion euros of assets under management (-6.3% compared to the figure at December of the previous year). All types of products declined compared to the previous year, as a result of the net inflows and negative market performances, which worsened compared to 2017 due to high volatility. The table reported below shows that net inflows from the Italian asset management industry (Assogestioni market) were negative for approximately -4 billion euros at the end of December 2018.

This figure was significantly impacted by the negative performance of discretionary mandates. Net inflows from fund was instead positive for 0.1 billion euros, broken down as follows: 8.8 billion euros generated by flexible funds (compared to 21.6 billion euros in 2017); -25.0 billion euros by bond funds (compared to 29.5 billion euros in 2017); 9.9 billion euros by balanced funds (compared to 17.7 billion euros in 2017); 4.1 billion euros by equity funds (compared to 8.2 billion euros in 2017); and 2.2 billion euros by money-market and other funds.

However, it should be noted that the comparison between the assets reported in 2018 and 2015 shows an increase of about 104 billion euros. The comparison with the 2015 figures also reveals that the fund component increased from 843 billion euros to 950 billion euros, whereas portfolio management decreased slightly, from 124 billion euros to 121 billion euros.

The following tables show the evolution of assets under management over the past four years, broken down by product/service type and the associated net inflows.

EVOLUTION OF NET INFLOWS AND ASSETS UNDER MANAGEMENT (€ million)

	NET INFLOWS				ASSETS			
	12.2018	12.2017	12.2016	12.2015	12.2018	12.2017	12.2016	12.2015
Italian funds	-3,440	15,779	5,274	26,280	239,101	259,094	242,246	234,442
Foreign funds	3,511	60,942	29,219	67,984	711,285	754,237	658,072	608,143
Total funds	71	76,721	34,493	94,264	950,386	1,013,331	900,318	842,585
GP Retail	-4,319	3,965	-154	16,643	120,755	130,152	124,712	124,498
Total	-4,248	80,686	34,339	110,907	1,071,141	1,143,483	1,025,030	967,083

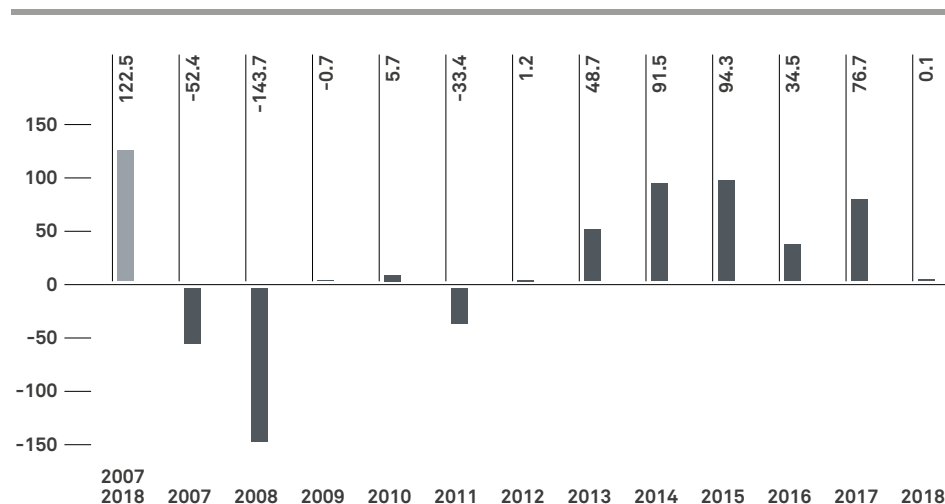
Source: Assogestioni

High volatility prevailed on the markets in 2018, primarily driven by the climate of political and economic uncertainty that dominated Italy.

The financial assets of Italian households were thus concentrated in the more liquid categories (bank deposits and repurchase agreements), capital protection (life insurance and pension funds) and mutual funds, to the detriment of bonds, equities, discretionary mandates and direct equity investments.

Management companies continued to propose forms of investment in diversified sectors with a strong technological component.

THE UCITS* MARKET IN ITALY (€ billion)



* Undertakings for Collective Investment in Transferable Securities
Source: Assogestioni data

The Assoreti market

At December 2018, total net inflows generated by the Financial Advisor networks authorised to make off-premises exceeded 30 billion euros, down -23.4% compared to 2017.

Assets under management and insurance products recorded 13.4 billion euros (-62% compared to the same month of 2017), accounting for 44% of total net inflows (89% in 2017). Instead, AUC rose sharply by 12.4 billion euros (a 295% increase over the same period of the previous year).

(€ MILLION)	31.12.2018	31.12.2017	CHANGE
Total Assets under Management	4,047	23,000	-18,953
Total insurance products	9,304	11,977	-2,673
Total Assets under Administration and Custody	16,653	4,212	12,442
Total	30,004	39,189	-9,184

Source: Assoreti

In the asset management market, direct net investments were primarily made in UCITS units: net inflows from collective asset management totalled 4.2 billion euros (18.8 billion euros at the end of 2017; -78%). Net inflows were concentrated in international UCITS, with net volumes of 3.1 billion euros, whereas the annual balance of Italian funds was a positive 0.6 billion euros. A slight decrease was reported by net inflows from individual management products, with total investments of -0.1 billion euros.

In this aggregate, within discretionary mandates, GPF net inflows amounted to 0.2 billion euros, whereas GPM net investment volumes amounted to -0.3 billion euros.

With regard to insurance and pension products, net premiums paid during the year amounted to approximately 9.3 billion euros (-22.3% compared to 2017). Of this total, 3.4 billion euros was invested in unit-linked products, 2.3 billion euros in multi-line policies and 2.7 billion euros in traditional life products. Index-linked products were negative for -0.01 billion euros, whereas pension funds amounted to 0.5 billion euros and individual pension plans to 0.4 billion euros.

Banca Generali

Despite the severe economic and financial scenario, Banca Generali's net inflows amounted to 5.02 billion euros in December 2018 (-26.9% compared to the figure at December 2017), thus confirm its role as a market leader. The Bank's market share is 16.7%, as highlighted by the comparison with the market of reference (Assoreti) given here below.

The net inflow performance achieved in December 2018 bears witness to the quality and versatility of the products offered by Banca Generali, which continues to meet with strong approval for its bespoke advisory service featuring wealth protection and portfolio management solutions. The Bank relies on a platform open to the world's top asset managers which has enabled it to continue to introduce households to the opportunities provided by bespoke private banking services.

Despite the growth of the most liquid components driven by severe market volatility, insurance and asset management products – the core focus of Financial Advisor networks – together accounted for approximately 2.2 billion euros. The market share was 16.7%, at the absolute top of the Financial Advisor networks market.

In 2018, the Bank also increased the number of its Financial Advisors, continuing to prove highly attractive to talented Financial Advisors interested in joining a company offering an innovative product line and extreme financial solidity due to the overall balance of its assets.

TOTAL NET INFLOWS ASSORETI – 27.4 BILLION EUROS –
AND MARKET SHARE %
December 2018 (€ million)
Source: Assoreti

NET INFLOWS FROM AUM AND INSURANCE PRODUCTS
ASSORETI – 11.9 BILLION EUROS – AND MARKET SHARE %
December 2018 (€ million)
Source: Assoreti

	Net Inflows (€ million)	Market Share (%)
FINECOBANK	5,453	18.2%
BANCA FIDEURAM	5,088	17.0%
ISPB	4,154	13.8%
BANCA GENERALI	5,020	16.7%
BANCA MEDIOLANUM	3,536	11.8%
ALLIANZ BANK	3,413	11.4%
AZIMUT	1,227	4.1%
BNL LIFE BANKERS	994	3.3%
DEUTSCHE BANK	702	2.3%
MPS	230	0.8%
IW BANK	189	0.6%
CONSULTINVEST	48	0.2%
CREDEM	-50	-
	MILLION	%

	Net Inflows (€ million)	Market Share (%)
BANCA MEDIOLANUM	2,461	18.4%
ALLIANZ BANK	2,343	17.5%
BANCA GENERALI	2,228	16.7%
ISPB	1,697	12.7%
BANCA FIDEURAM	1,658	12.4%
FINECOBANK	1,693	12.7%
AZIMUT	735	5.5%
BNL LIFE BANKERS	562	4.2%
DEUTSCHE BANK	368	2.8%
CONSULTINVEST	46	0.3%
IW BANK	-111	-
MPS	-136	-
CREDEM	-192	-
	MILLION	%

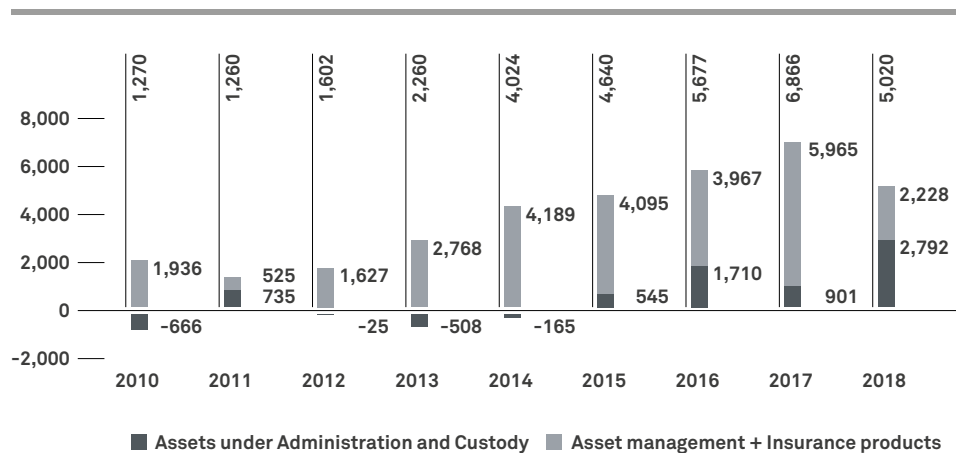
NET INFLOWS OF BANCA GENERALI

(€ MILLION)	BG GROUP		Y/Y CHANGES VS 2017	
	31.12.2018	31.12.2017	AMOUNT	%
BG Group Funds and Sicavs	-130	-181	51	-28%
Third parties Funds and Sicavs	916	2,087	-1,171	-56%
Financial wrappers	-78	2,289	-2,367	-103%
Insurance wrappers	1,040	1,546	-506	-33%
Total assets under management	1,748	5,741	-3,993	-70%
Total insurance products	480	224	256	114%
Total assets under administration and custody	2,792	901	1,891	210%
Total assets placed by the network	5,020	6,866	-1,846	-26.9%

At 31 December 2018, the Bank's net inflows reported a significant decrease in the performance of asset management products compared to the previous year (-70%). Net inflows generated by financial wrappers declined sharply (-103%), whereas a more stable trend was reported by funds and Sicavs (0.8 billion euros) and insurance wrappers (approximately 1 billion euros). Traditional life insurance policies gathered 0.5 billion euros overall, up 114% over the previous year.

The most significant growth was posted by AUC (+210%) as a result of the high market volatility.

BANCA GENERALI'S NET INFLOWS EVOLUTION 2010-2018 (€ million)



In 2018, the Bank reported a positive performance also in terms of assets under management, reaching fifth place in the rankings of the largest companies on the Financial Advisor network market, with market share of 11.3% (market share was 13.9% if the contribution of Intesa Sanpaolo Private Banking is excluded on a like-for-like basis).

ASSORETI TOTAL AUM – 531.2 BILLION EUROS – AND MARKET SHARE % December 2018 (€ billion) Source: assoreti

BANCA FIDEURAM	106.4	20.7%
ISPB	99.1	19.3%
BANCA MEDIOLANUM	67.5	13.1%
FINCOBANK	59.9	11.7%
BANCA GENERALI	57.5	11.3%
ALLIANZ BANK	45.3	8.8%
AZIMUT	38.4	7.4%
DEUTSCHE BANK	14.0	2.7%
IW BANK	8.7	1.8%
MPS	6.2	1.2%
CREDEM	5.2	1.0%
BNL LIFE BANKERS	4.5	0.8%
CONSULTINVEST	1.1	0.2%
	BILLION	%

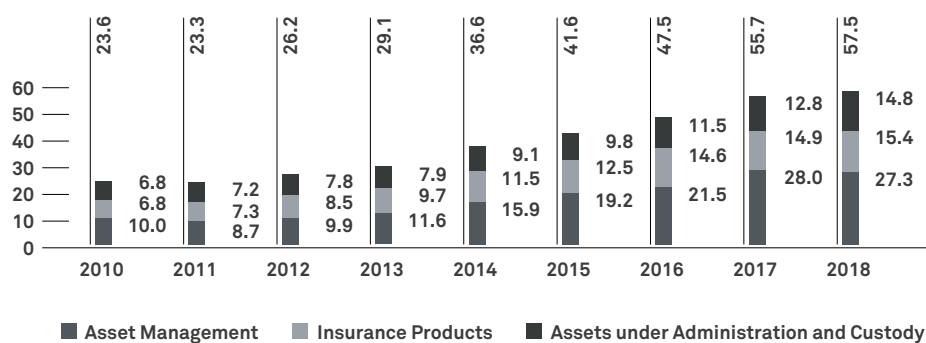
13.9% without ISPB

In 2018, Banca Generali achieved positive results also in terms of asset under management growth, with a +3.3% increase compared to December 2017. The ratio of managed products to total assets decreased slightly (48%), whereas traditional life insurance policies were stable compared to the previous year (27%). The AUC component increase significantly (+15.6%), reflecting the high market volatility.

BANCA GENERALI'S AUM

(€ MILLION)	BG GROUP		CHANGES VS 31.12.2017	
	31.12.2018	31.12.2017	AMOUNT	%
BG Group Funds and Sicavs	5,532	6,230	-699	-11.2%
Third parties Funds and Sicavs	7,687	7,381	306	4.1%
Financial wrappers	6,426	7,102	-676	-9.5%
Insurance wrappers	7,693	7,282	411	5.6%
Total assets under management	27,338	27,995	-657	-2.3%
Total insurance products	15,405	14,897	508	3.4%
Total assets under administration and custody	14,791	12,793	1,999	15.6%
Total AUM placed by the network	57,534	55,684	1,850	3.3%

BANCA GENERALI'S TOTAL ASSETS EVOLUTION 2010-2018 (€ billion)



The Group's Operating Results

The Group's net profit at year-end 2018 amounted to 180.1 million euros, down by 11.7% compared to the previous year's result, which had benefited from the strong contribution associated with financial markets' performance.

The Group closed 2018 with **consolidated net profit amounting to 180 million euros**, compared to 204.1 million euros for the previous year, which - unlike 2018 - had benefitted from a particularly favourable financial market scenario. **Net of variable revenue components, recurring net profit grew sharply by 48% to 128 million euros**, thus proving the efficacy of the many initiatives taken to increase revenue sustainability and operating efficiency.

The 2018 results reflect the positive effect of some amortisation schedule changes¹ for incentives paid to Financial Advisors on the basis of net inflows targets, partially offset by one-off charges² at the level of operating costs and provisions. The 5.6 million euros balance of these one-off items had a 3% impact on total net profit.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Net interest income	59,972	61,421	-1,449	-2.4%
Net income (loss) from trading activities and dividends	24,119	18,091	6,028	33.3%
Net financial income	84,091	79,512	4,579	5.8%
Fee income	741,666	760,490	-18,824	-2.5%
Fee expense	-376,344	-389,992	13,648	-3.5%
Net fees	365,322	370,498	-5,176	-1.4%
Net banking income	449,413	450,010	-597	-0.1%
Staff expenses	-84,227	-84,825	598	-0.7%
Other general and administrative expenses	-162,494	-149,765	-12,729	8.5%
Net adjustments of property, equipment and intangible assets	-9,301	-8,144	-1,157	14.2%
Other operating expenses/income	59,437	54,879	4,558	8.3%
Net operating expenses	-196,585	-187,855	-8,730	4.6%
Operating result	252,828	262,155	-9,327	-3.6%
Net adjustments for non-performing loans	-7,286	-5,441	-1,845	33.9%
Net provisions for liabilities and contingencies	-25,351	-17,979	-7,372	41.0%
Gain (loss) from equity investments	-431	-166	-265	159.6%
Operating profit before taxation	219,760	238,569	-18,809	-7.9%
Income taxes for the year	-39,634	-34,464	-5,170	15.0%
Net profit	180,126	204,105	-23,979	-11.7%

Reclassified net banking income³ amounted to 449.4 million euros, essentially stable compared to the previous year (-0.6 million euros), as a result of the following factors:

- › the significant increase in **management fee income** (+47.0 million euros), which represents the central component of the Banking Group's business model, closely tied to the quality and growth of assets under management (+8.0%), and in **advisory fees** (+7.4 million euros), associated with the great success achieved by advanced advisory services;
- › the decrease in the most volatile components of the profit and loss account, namely **performance fees**, which fell by 76.5 million euros (-66.5%) as a result of increased market volatility;

1 Alignment of the accounting treatment of the incremental costs paid to the sales structure in relation to the organic growth of assets under management with those of recruitment incentives linked to the acquisition of new clients, thanks also to the greater accounting flexibility of IFRS 15. The change, which generated a net positive impact of 13.6 million euros, net of the tax effect, ensures a more effective correlation between total fees paid and fee income generated by client investments.

2 Extraordinary charges totaling 8.0 million euros, net of the tax effect attributable to the development of strategic projects, external growth, transfer of administrative offices, additional contributions to the National Resolution and Interbank Deposit Protection Funds and provisions for Network reorganization.

3 To ensure a better understanding of operating performance, in the reclassified consolidated Profit and Loss Account the provisions for incentive fees and recruitment have been reclassified within the net fee aggregate. As a result, net provisions were restated net of these items for an amount of 22.7 million euros for 2018 and 41.2 million euros for 2017.

- › the increase in **net financial income** – the sum of net interest income and net income from trading activities and dividends – up by 4.6 million euros (+5.8%) following the banking book de-risking strategy launched at the end of 2017 and successfully implemented also in the first half of 2018.

Within this latter aggregate, net income from trading activities and dividends increased by 6.0 million euros overall, partially offset by a modest 1.4 million euros decline in **net interest income** (-2.4%) attributable to both still extremely low interest rates and the banking book prudent profile adopted as of late 2017.

Net banking income also includes several changes⁴ to the amortisation period for the ordinary incentives paid to Financial Advisors on the basis of inflow targets, which at year-end resulted in a positive effect on the fee aggregate of 20.1 million euros (13.5 million euros net of the tax effect).

Net operating expenses amounted to 196.6 million euros, in line with the previous year, despite the significant business expansion and the increase in non-recurring components associated with the numerous ongoing projects.

The **cost/income ratio**, which measures the ratio of operating expenses (gross of adjustments to property, equipment and intangible assets) to net operating income, amounted to an excellent 41.7% (42.3% net of performance fees and some one-off components⁵), confirming the Bank's ability to maximise its operating leverage.

Provisions and net adjustments amounted to 32.6 million euros, marking a significant increase (+39.4%), mainly as a result of the provisions for all types of financial advisor network's long-term contractual indemnities, and to a lower extent, of the increase in collective adjustments on financial instruments following the implementation of the new IFRS9 procedures.

Operating profit before taxation was 219.8 million euros, down by 18.8 million euros compared to the same period of 2017. The tax burden for the reporting year increased slightly to an overall tax rate of 18.0%, due to the increased weight of profit generated in Italy.

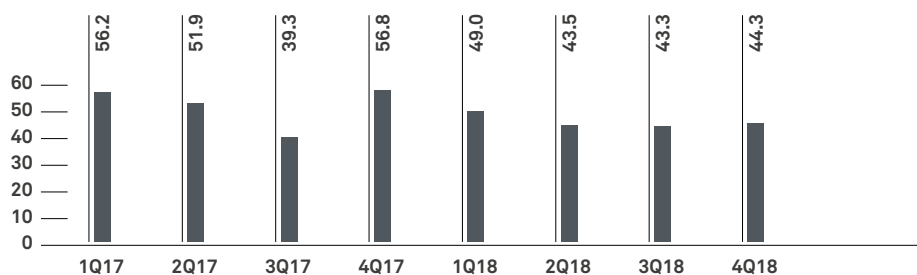
At year-end 2018, basic net earnings per share (EPS) was 1.56 euros.

Net profit for Q4 2018 totalled 44.3 million euros compared to 56.8 million euros in the previous year. This comparison is however impacted by the financial markets' exceptional volatility over the past three months that severely reduced the contribution of performance fees (-30.2 million euros).

However, net banking income benefited from the recovery of net interest income (15.7 million euros; +9.8% on the fourth quarter of 2017), solid recurring fee income (173 million euros), achieved on the strength of the initiatives launched to diversify revenues, and the new accounting treatment of ordinary incentives.

In addition, in the quarter one-off costs and provisions amounted to 5.3 million euros. Despite the numerous initiatives launched, **operating expenses**, net of one-off items, remained flat, thus confirming the Bank's tight cost discipline.

QUARTERLY NET PROFIT (€ million)



⁴ These changes, implemented in part owing to the greater flexibility of the accounting standard IFRS 15, made it possible to align the accounting treatment of incremental costs paid to Financial Advisors in relation to the organic growth of assets under management with the treatment of recruitment incentives tied to the acquisition of new customers (amortised over five years), thereby ensuring a more effective correlation between total fee expenses and the fee income generated by customer investments.

⁵ In calculating the recurring cost/income ratio, performance fees have been excluded from the operating income aggregate, whereas amortisation and depreciation, FITD/BRRD charges (7.6 million euros) and other one-off operating costs (6.1 million euros) have been eliminated from the operating cost aggregate.

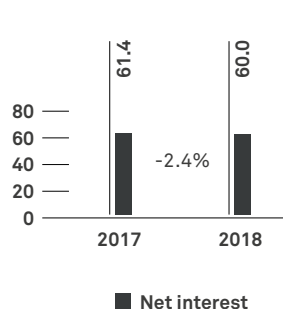
QUARTERLY EVOLUTION OF THE PROFIT AND LOSS ACCOUNT

(€ THOUSAND)	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17
Net interest	15,736	16,177	14,816	13,243	14,327	15,514	15,842	15,738
Net income (loss) from trading activities and dividends	2,056	1,481	5,355	15,227	4,016	4,688	6,025	3,362
Net financial income	17,792	17,658	20,171	28,470	18,343	20,202	21,867	19,100
Fee income	175,007	190,056	194,238	182,365	206,272	171,386	190,425	192,407
Fee expense	-75,217	-99,267	-105,126	-96,734	-108,803	-92,729	-99,481	-88,979
Net fees	99,790	90,789	89,112	85,631	97,469	78,657	90,944	103,428
Net banking income	117,582	108,447	109,283	114,101	115,812	98,859	112,811	122,528
Staff expenses	-21,459	-20,459	-21,173	-21,136	-21,506	-19,459	-23,133	-20,727
Other general and administrative expenses	-49,000	-39,279	-36,914	-37,301	-43,249	-36,942	-34,623	-34,951
Net adjustments of property, equipment and intangible assets	-3,048	-2,094	-2,113	-2,046	-2,315	-2,037	-2,069	-1,723
Other operating expenses/income	20,259	12,113	13,125	13,940	18,386	12,499	13,503	10,491
Net operating expenses	-53,248	-49,719	-47,075	-46,543	-48,684	-45,939	-46,322	-46,910
Operating result	64,334	58,728	62,208	67,558	67,128	52,920	66,489	75,618
Net adjustments for non-performing loans	-1,224	-2,456	-3,798	192	563	-2,840	-6	-3,158
Net provisions	-10,753	-3,987	-5,828	-4,783	-4,093	-3,051	-4,804	-6,031
Gain (loss) from equity investments	-265	-25	-53	-88	-70	-19	-44	-33
Operating profit before taxation	52,092	52,260	52,529	62,879	63,528	47,010	61,635	66,396
Income taxes for the year	-7,813	-8,979	-9,010	-13,832	-6,777	-7,739	-9,774	-10,174
Net profit	44,279	43,281	43,519	49,047	56,751	39,271	51,861	56,222

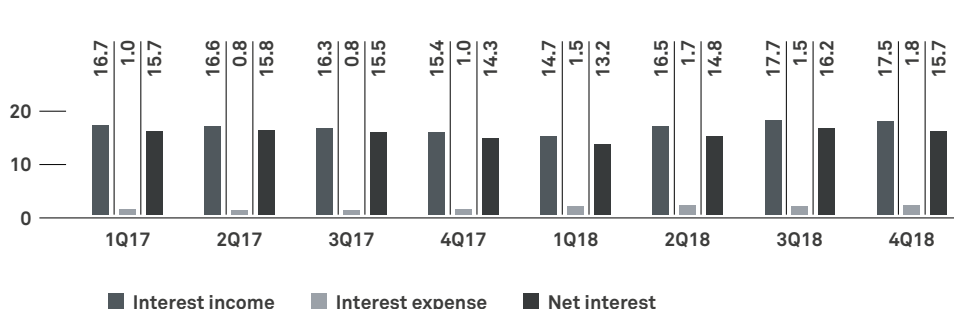
Net interest income

Net interest income amounted to 60.0 million euros, down by 1.4 million euros compared to 2017 (-2.4%), decreasing despite a modest expansion of business volumes, as a result of the constantly declining interest rates.

NET INTEREST (€ million)



QUARTERLY NET INTEREST (€ million)



Throughout 2018, interest rate performance in the Euro Area continued to be essentially influenced by the unconventional quantitative easing policy launched by the ECB in 2015.

Following the conclusion of the purchasing programme at the end of 2018, at its last meeting on 24 January of this year the ECB's Governing Council announced that no rate increases were planned until at least summer 2019⁶.

⁶ In this regard, it should be recalled that, in order to stimulate a recovery of inflation, in June 2016 the ECB had decided, inter alia, to reduce the interest rate applied to its primary refinancing operations to the all-time low of 0%, in addition to increase the negative interest rates applied to deposit operations with the ECB to the exceptional level of -0.40%.

It was also confirmed that the securities purchased within the framework of the Programme would continue to be reinvested at maturity for an extended period of time, even in the event of an increase in the reference rates, for as long as it is necessary to maintain favourable liquidity conditions and a generously accommodative monetary policy.

Therefore, the interest-rate curve on the interbank market did not show significant signs of recovery on the whole, consolidating an anomalous situation of positive funding rates but negative lending rates that have now exceeded the 12-month maturity. As a result, in December 2018 short-term interbank rates stood at a monthly average of -0.367% for the one-month Euribor and of -0.312% for the three-month Euribor.

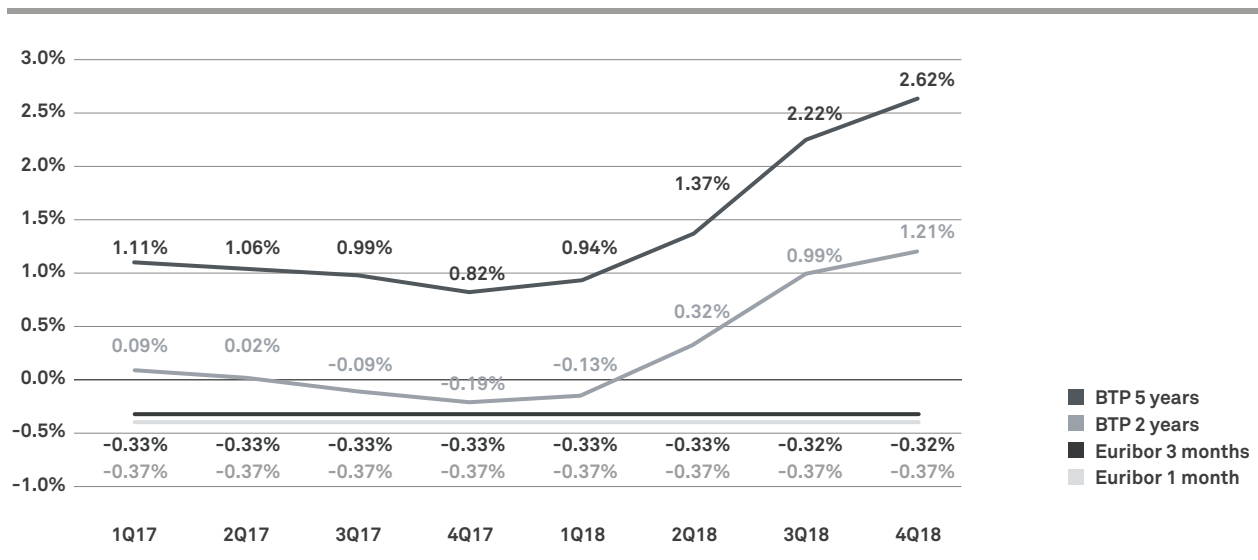
In May 2018, the **Italian government bond market** began to experience severe volatility, triggered initially by the situation of political uncertainty that followed the formation of Italy's new government, and then building in the fourth quarter as a result of the conflict with the European Commission on the content of the Budget Planning Document (DPEF), only partly defused near the end of the year due to the agreement reached on the 2019 Budget Law.

However, this situation resulted in renewed financial market turbulence, driving the spread between the ten-year BTP and German Bund to widen to a peak level of 327 bps, with the resulting effect on the Italian government bond yield curve as well.

Additional tensions surrounding government bond yields were also fuelled by expectations of rising interest rates in light of the strong U.S. economic recovery and the announced end to the ECB's financial asset purchasing programme.

Yields on Italian government bonds with average residual maturities of two years thus climbed from -0.22% in April to +1.04% in September, to then fall back to 0.75% in December 2018. Bonds with residual maturities of 4.5 to 6.5 years rose from 0.78% in April to 2.27% in September, reaching a 2.21% average yield in December.

INTEREST RATE EVOLUTION (quarterly average)



Within this environment, interest income grew slightly to 1.4 million euros compared to the previous year (+2.2%), mainly due to the impact of the aforementioned increases in bond market interest rates on the securities in the Bank's investment portfolio (+1.3 million euros; +3.1%). The weighted average yield of the HTC portfolio therefore stood at 1.1% at year-end.

Interest on loans to customers, most of which are benchmarked on the Euribor, gave minor signs of a recovery, chiefly attributable to the modest increase in loan volume compared to 2017. The cost of net inflows continued to rise, largely attributable to the increase in negative interest income on deposits with ECB.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	144	159	-15	-9.4%
Financial assets at fair value through other comprehensive income	4,525	18,269	-13,744	-75.2%
Financial assets at amortised cost	37,779	22,728	15,051	66.2%
Total financial assets	42,448	41,156	1,292	3.1%
Loans to banks	568	192	376	195.8%
Loans to customers	21,186	20,572	614	3.0%
Other assets	2,217	3,091	-874	-28.3%
Total interest income	66,419	65,011	1,408	2.2%
Due to banks	511	630	-119	-18.9%
Due to customers	812	546	266	48.7%
Subordinated loan	1,667	1,660	7	0.4%
Other liabilities	3,457	754	2,703	358.5%
Total interest expense	6,447	3,590	2,857	79.6%
Net interest income	59,972	61,421	-1,449	-2.4%

The negative interest income paid to counterparties on loans and negative interest expense paid by counterparties on the Bank's funding operations amounted to 3,457 thousand euros and 2,217 thousand euros, respectively.

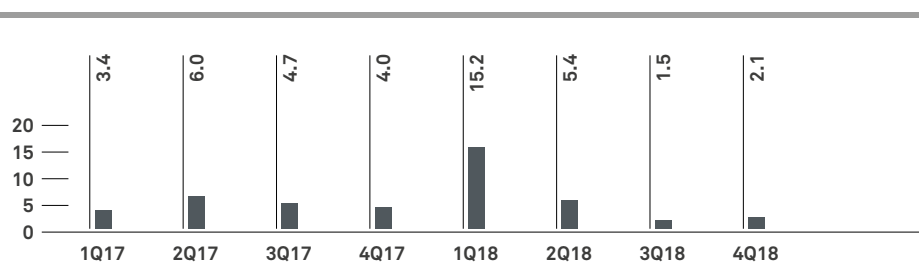
The expenses incurred primarily relate to balances held with the Central Bank (3,321 thousand euros), whereas the income accrued relates to repurchase agreements at negative rates (566 thousand euros) and net inflows from institutional clients belonging to the Generali Group (1,408 thousand euros).

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Banks	101	1,658	-1,557	-93.9%
Customers	2,116	1,433	683	47.7%
Total negative interest expense	2,217	3,091	-874	-28.3%
Banks	3,398	743	2,655	357.3%
Customers	59	11	48	436.4%
Total negative interest income	3,457	754	2,703	358.5%
Negative net interest income and expense	-1,240	2,337	-3,577	-153.1%

Net income from trading activities and dividends

Net income from trading activities and dividends⁷ showed a positive contribution of 24.1 million euros, up on the previous year's figure, primarily due to the capital gains earned on the banking book de-risking process that began at the end of the previous year.

NET RESULT OF FINANCIAL OPERATIONS (€ million)



⁷ Net income from trading activities and dividends is composed of the net income on financial assets and liabilities of the trading book and other assets at fair value through profit or loss, realised gains and losses from the disposal of financial assets designated at fair value through other comprehensive income and financial assets measured at amortised cost, dividends and any gain or loss on hedging.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Dividends and income on UCITS	2,308	2,745	-437	-15.9%
Trading of financial assets and equity derivatives	20	316	-296	-93.7%
Trading of financial assets and derivatives on debt securities and interest rates	436	1,545	-1,109	-71.8%
Trading of UCITS units	-75	-104	29	-27.9%
Securities transactions	381	1,757	-1,376	-78.3%
Currency and currency derivative transactions	4,910	3,167	1,743	55.0%
Net income (loss) from trading activities	5,291	4,924	367	7.5%
Equity securities and UCITS (*)	392	1,283	-891	-69.4%
Debt securities	23	-	23	n.a.
Financial Advisors' policies	63	-	63	n.a.
Net income (loss) of assets mandatorily measured at fair value through profit and loss	478	1,283	-805	-62.7%
Debt securities	16,042	9,139	6,903	75.5%
Gains (losses) from disposal on HTC and HTCS debt securities	16,042	9,139	6,903	75.5%
Net result of financial operations	24,119	18,091	6,028	33.3%

(*) Classified as AFS in 2017.

Excluding the trading portfolio, the growth of net gains on the disposal of debt instruments – primarily government bonds – included in the HTC and HTCS portfolios (+6.9 million euros), was driven by the aforementioned banking book de-risking measures. Net income from activities other than trading activities, valued at fair value through profit and loss, was instead generated by net capital gains on the UCITS portfolio (1.4 million euros), only partially offset by the decline in the value of contributions to the FITD Voluntary Scheme following the Caricesena and Carigenova transactions and an equity investment listed on the AIM (+1.0 million euros).

Net income from trading activities remained essentially stable compared to the same period of the previous year thanks to the contribution of monetary operations, which offset the decline in gains from trading on own account as market maker and with institutional customers.

(€ THOUSAND)	TRANSFER OF RESERVE	GAINS	LOSSES	CAPITAL GAINS	CAPITAL LOSSES	2018	2017	CHANGE
Debt securities at FV through other comprehensive income	16,065	3,756	-6,385	x	x	13,436	8,098	5,338
Debt securities at amortised cost	x	2,606	-	x	x	2,606	1,040	1,566
Financial assets mandatorily measured at FV:	x	152	-1,756	3,186	-1,104	478	1,284	-806
Debt securities	x	96	-	-	-73	23	-	23
UCITS units	x	15	-1,756	3,164	-55	1,368	-2	1,370
Equity securities	x	-	-	-	-976	-976	1,286	-2,262
Financial Advisors' policies	x	41	-	22	-	63	-	63
Total	16,065	6,514	-8,141	3,186	-1,104	16,520	10,422	6,098

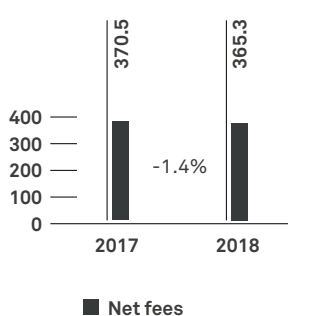
Net fees

Net fees amounted to 365.3 million euros, down slightly by 1.4% compared to the previous year, mainly due to the decline in the non-recurring component consisting of performance fees, which were impacted by financial markets' greater volatility and uncertainty.

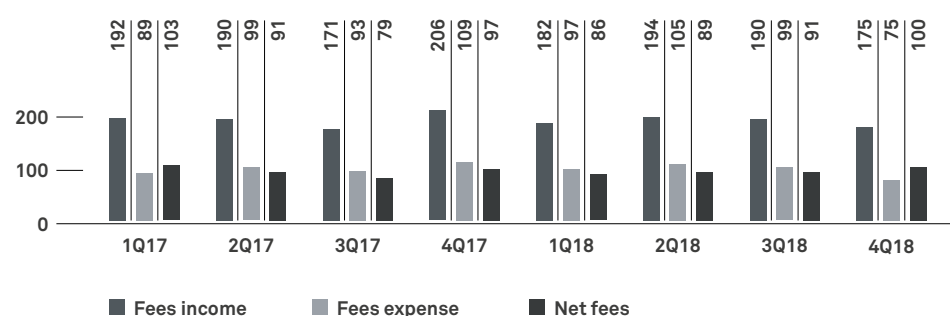
(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Collective and individual portfolio management fees	365,033	429,601	-64,568	-15.0%
Fees for the placement of securities and UCITS	103,031	80,730	22,301	27.6%
Fees for the distribution of third-party financial products	225,660	211,642	14,018	6.6%
Fees for trading and securities custody	22,931	21,886	1,045	4.8%
Investment advisory fees	15,395	7,967	7,428	93.2%
Fees for other banking and financial services	9,616	8,664	952	11.0%
Total fee income	741,666	760,490	-18,824	-2.5%
Fees for off-premises offer (*)	335,595	347,241	-11,646	-3.4%
Fees for trading of securities custody	6,898	7,005	-107	-1.5%
Fees for portfolio management	28,977	32,732	-3,755	-11.5%
Fees for other banking services	4,875	3,014	1,860	61.7%
Total fee expense	376,344	389,992	-13,648	-3.5%
Net fees	365,322	370,498	-5,176	-1.4%

(*) Including allocations and provisions for incentives and recruitment bonuses.

NET FEES (€ million)



QUARTERLY NET FEES (€ million)



Fee income

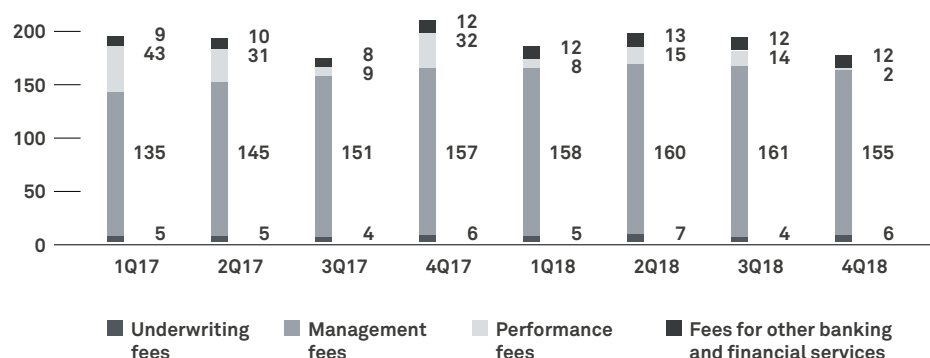
Fee income totalled 741.7 million euros, decreasing slightly by 2.5% due to the aforementioned decline in performance fees calculated on the income generated by the Sicavs promoted by the Group (-76.5 million euros), which was however efficiently offset by the increase in recurring fees (+9.0%).

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Underwriting fees	21,602	20,402	1,200	5.9%
Management fees	633,508	586,469	47,039	8.0%
Performance fees	38,614	115,102	-76,488	-66.5%
Fees for other services	47,942	38,517	9,425	24.5%
Total	741,666	760,490	-18,824	-2.5%

Worth of notice is the robust growth reported by management fees (+8.0%), in line with increased average AUM invested in asset management and insurance products (+9.4%).

The excellent result achieved by the innovative solutions offered by the Banking Group was also borne out by the increase in **fees for other banking and financial services** (+24.5%) thanks to higher revenues arising from advanced advisory services (+7.4 million euros). In this regard, it should be noted that **Assets under Advisory** grew significantly, bringing the total value of AUM to 2.34 billion euros at the end of 2018.

BREAKDOWN OF FEE INCOME (€ million)



Fee income from the solicitation of investment and asset management of households reached 693.7 million euros, with a 7.9% increase compared to the previous year, net of the aforementioned non-recurring component.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
1. Collective portfolio management	284,380	369,533	-85,153	-23.0%
2. Individual portfolio management	80,653	60,068	20,585	34.3%
Portfolio management fees	365,033	429,601	-64,568	-15.0%
1. Placement of UCITS	94,609	78,896	15,713	19.9%
<i>of which: underwriting of UCITS promoted by the Group</i>	4,192	5,499	-1,307	-23.8%
2. Placement of bonds and equity securities	8,422	1,834	6,588	359.2%
3. Distribution of third-party asset management products (GPM/GPF, pension funds)	792	821	-29	-3.5%
4. Distribution of third-party insurance products	224,208	210,304	13,904	6.6%
5. Distribution of other third-party financial products	660	517	143	27.7%
Fees for the placement and distribution of financial services	328,691	292,372	36,319	12.4%
Asset management fee income	693,724	721,973	-28,249	-3.9%

Fee income from **distribution of insurance products** continued to progress constantly, growing +6.6% compared to 2017, thanks to the steady increase in average AUM relating to the segment (+7.1%).

At 31 December 2018, net inflows from insurance products amounted to 1.5 billion euros, reflecting the contribution of the multi-line policy **BG Stile Libero**, which gathered 1.0 billion euros, reaching over 7.7 billion euros overall (+5.6%).

The revenues generated by the distribution of the subsidiary Genertellife's products reached 223.3 million euros.

The multi-line **portfolio management BG Solution** reported a 34.3% increase in revenues compared to 2017, as a result of the growth in the segment's average AUM compared to the previous year and the good net inflows performance in the first half of the year. In the second half of the year, the segment was negatively impacted by the difficult market situation.

Sicavs promoted by the Banking Group – net of the effect of non-recurring performance components – yielded a 3.7% decrease in management fees compared to the previous year, due to the more dynamic performance of institutional classes than their retail counterparts.

Within this segment, worth of mention is the commercial success reported by the innovative Luxembourg-based Sicav **Lux IM**, which was launched in April 2018 and posted an AUM increase of over 2.6 billion euros compared to the end of the previous year (+71.5%), of which nearly 0.7 billion referring to the retail segment.

As regard the distribution of asset management products through the open architecture model, fees for the **placement of UCITS** not promoted by the Group amounted to 94.6 million euros,

with an increase of 19.9% on 2017, due to very positive demand for a la carte funds and Sicavs, which attracted net inflows of over 0.9 billion euros in 2018.

In addition, the placement of **Certificates** also reported a strong performance, generating fees for almost 7.0 million euros compared to 1.4 million euros for 2017.

Fee income for other services amounted to 47.9 million euros, up 24.5%, due to the expansion of customer order execution and collection and payment services, in addition to the aforementioned rise in Assets under Advisory.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Fees for trading and custody	22,931	21,887	1,044	4.8%
Investment advisory fees	15,395	7,967	7,428	93.2%
Fees for collection and payment services	4,318	2,994	1,324	44.2%
Fee income and account-keeping expenses	2,166	2,288	-122	-5.3%
Fees for other services	3,132	3,381	-249	-7.4%
Total fee income for other services	47,942	38,517	9,425	24.5%

Fee expense

Fee expense, including fee provisions⁸, amounted to 376.3 million euros, down moderately compared to the previous year (-3.5%), mostly due to the decline in fees paid to the Financial Advisor network for off-premises offers (-3.4%).

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Ordinary payout	250,702	225,794	24,908	11.0%
Extraordinary payout	84,893	121,447	-36,554	-30.1%
Fee expense for off-premises offer	335,595	347,241	-11,646	-3.4%
Fees for portfolio management	28,977	32,732	-3,755	-11.5%
Fee expense for other services	11,772	10,019	1,753	17.5%
Total	376,344	389,992	-13,648	-3.5%

Ordinary fees for off-premises offers paid or allocated to the Financial Advisors network amounted 250.7 million euros, up 24.9 million euros compared to 2017 (+11.0%), whereas incentive fees totalled 84.9 million euros, down sharply in part as a result of the amortisation schedule changes for annual incentives paid to Financial Advisors on the basis of net inflows targets, which had a gross positive effect of 20.1 million euros on the aggregate at year-end.

Incentive fees referred to the organic growth in net inflows achieved thanks to both the efforts of the existing sales network and to the recruitment and induction of new professionals. Overall, they represent costs incurred to develop a network of high standing Financial Advisors. The amortisation schedule changes regarding ordinary fees adopted at the end of the year made it possible to align the accounting treatment of incremental costs paid to Financial Advisors in relation to the organic growth of assets under management with the treatment of recruitment incentives tied to the acquisition of new customers (amortised over five years), thereby ensuring a more effective correlation between total fee expenses and the fee income generated by customer investments

Fees for portfolio management amounted to 29.0 million euros at the end of 2018 and referred essentially to administration and third-party management fees incurred by the Group's management company for the management of the Sicavs under administration.

Fee expense for other services grew by 17.5%, essentially reflecting the symmetric increase in fee income for collection and payment services.

⁸ Incentive fee expense also includes net fee provisions for an amount of 22.7 million euros for 2018 and 41.2 million euros for 2017.

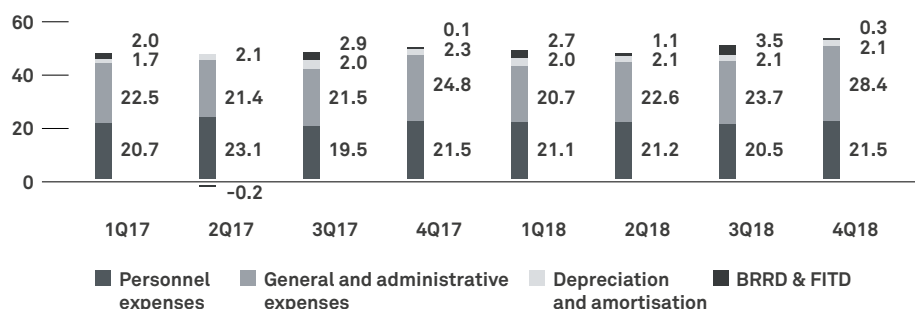
(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Fees for securities trading and custody	-6,898	-7,005	107	-1.5%
Fees for collection and payment services	-3,991	-2,414	-1,577	65.3%
Fees for other services	-883	-600	-283	47.2%
Total fee expense for other services	-11,772	-10,019	-1,753	17.5%

Operating expenses

Operating expenses totalled 196.6 million euros, up slightly compared to the previous year (+4.6%), chiefly due to the higher contributions to the resolution and deposit protection funds. (+2.9 million euros) and the one-off charges related to the many ongoing strategic projects (6.1 million euros). Net of these items, operating expenses were essentially unchanged, proof of the ability to maximise the operating leverage in a context of constant business expansion.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Staff expenses	84,227	84,825	-598	-0.7%
General and administrative expenses (net of duty recovery) and other net income	95,442	90,148	5,294	5.9%
BRRD and FITD contributions	7,615	4,738	2,877	60.7%
Net adjustments of property, equipment and intangible assets	9,301	8,144	1,157	14.2%
Operating expenses	196,585	187,855	8,730	4.6%

BREAKDOWN OF OPERATING EXPENSES (€ million)



The increase in **expenses related to the contributions to the Italian National Resolution and Interbank Deposit Protection Funds** in 2018 (+2.9 million euros) was due to both the rise in ordinary contributions to the Interbank Deposit Protection Fund and Single Resolution Fund, respectively attributable to the increase in protected assets and the volume of the Group's banking assets (+1.9 million euros), and to the additional contribution requested by the National Resolution Fund managed by the Bank of Italy to cover the interventions undertaken in 2015 (+1.0 million euros).

Staff expenses reached 84.3 million euros, virtually stable compared to the previous year (-0.7%), mainly as a result of the decline in the variable component of incentivisation, largely attributable to lower costs associated with the recruitment plans for new Relationship Managers, which fully offset the modest increase reported by the recurring remuneration component and other employee benefits.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
1) Employees	82,743	83,502	-759	-0.9%
Ordinary remuneration	63,538	60,991	2,547	4.2%
Variable remuneration and incentives	13,685	17,816	-4,131	-23.2%
Other employee benefits	5,520	4,695	825	17.6%
2) Other staff	173	185	-12	-6.5%
3) Directors and Auditors	1,311	1,138	173	15.2%
Total	84,227	84,825	-598	-0.7%

Other general and administrative expenses, and other net income from customers, amounted to 95.4 million euros, reporting a moderate growth compared to the previous year (+5.9%).

In fact, the increase in this aggregate was influenced by the costs (1.4 million euros) incurred for transferring the Bank's headquarters to the new Hadid Tower in the Milan Cityliffe district, as well as the one-off costs associated with strategic projects (2.9 million euros) and M&As (1.8 million euros).

Net provisions

Net provisions not related to fees amounted to 25.4 million euros, up by 7.4 million euros compared to 2017, partly due to non-recurring items associated with the refinancing of the provisions for redundancy incentives and the reorganisation of sales manager network.

Net of these items, provisions referred mainly to all types of Financial Advisor network's contractual indemnities, whose increase was offset by the decrease in both provisions for litigation and other provisions.

Provisions for contractual indemnities chiefly included provisions for termination indemnities for the Financial Advisors network (10.0 million euros), provisions for the second annual cycle of the Framework Loyalty Programme for the Financial Advisors Network (3.8 million euros), and the charge relating to the inception of the new manager incentive indemnity mechanism (7.1 million euros), partly accounting for all one-off charges associated with the network organisation.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Provision for staff liabilities and contingencies	300	1,897	-1,597	-84.2%
Restructuring provisions – Voluntary redundancy plan	697	-2,690	3,387	-125.9%
Provisions for legal disputes	2,542	4,511	-1,969	-43.6%
Provision for contractual indemnities to the sales network	20,566	12,871	7,695	59.8%
Other provisions for liabilities and contingencies	1,364	1,390	-26	-1.9%
Guarantees and commitments	-118	-	-118	n.a.
Total	25,351	17,979	7,372	41.0%

Adjustments

Net adjustments for non-performing loans were 7.3 million euros, up 1.8 million euros compared to 2017, which had been significantly impacted by losses generated by the Alitalia bond known as "Dolce Vita", now allocated to the HTC portfolio following the airline's default.

(€ THOUSAND)	ADJUSTMENTS	REVERSALS	2018	2017	CHANGE
Specific adjustments/reversals	-1,632	1,052	-580	-7,995	7,415
Equity securities	-	-	-	-604	604
Debt securities	-	6	6	-2,642	2,648
Non-performing loans of the banking book	-1,166	1,001	-165	-1,592	1,427
Operating loans to customers	-466	45	-421	-184	-237
Contribution to the Interbank Deposit Protection Fund (FITD)	-	-	-	-2,973	2,973
Portfolio adjustments/reversals	-7,241	535	-6,706	2,554	-9,260
Debt securities	-7,172	-	-7,172	2,578	-9,750
Performing loans to customers and banks	-69	535	466	-24	490
Total	-8,873	1,587	-7,286	-5,441	-1,845

The provision for the impairment of securities represents the majority of adjustments and largely refers to the decline in the creditworthiness of Italian government bonds, calculated on the basis of the new criteria for calculating forward-looking probabilities of default (PD) on the basis of market data adopted following the transition to IFRS 9.

Taxes

Income taxes for the year on a current and deferred basis were estimated at 39.6 million euros, up 5.2 million euros compared to estimated taxes at the end of the previous year.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Current taxes for the year	-44,052	-41,743	-2,309	5.5%
Prior years' taxes	2,051	1,513	538	35.6%
Changes of prepaid taxation (+/-)	1,058	6,377	-5,319	-83.4%
Changes of deferred taxation (+/-)	1,309	-611	1,920	-314.2%
Total	-39,634	-34,464	-5,170	15.0%

The estimated total tax rate was 18.0%, up compared to the figure estimated at end of 2017, chiefly due to the increase of the share of profits generated by the Parent Company in Italy.

Comprehensive income

The Banking Group's comprehensive income is determined by the consolidated net profit and all other components that contribute to company performance without being reflected in the Profit and Loss Account, such as changes in valuation reserves for securities at fair value through other comprehensive income.

At the end of 2018, the latter component provided a negative overall contribution of 25.7 million euros, against a net positive change of 12.7 million euros recorded at the end of the previous year. In detail, the reduction in valuation reserves on the portfolio of financial assets at fair value with a counterentry in the other comprehensive income (OCI) was attributable to the following factors:

- › the increase in net valuation capital losses totalling 21.7 million euros;
- › the reduction of pre-existing net positive reserves due to re-absorption through profit or loss upon realisation (16.0 million euros);
- › the positive net tax effect associated with the above changes and resulting from increases in DTLs and reabsorption of DTAs (12.1 million euros).

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Net profit	180,126	204,105	-23,979	-11.7%
Other income, net of income taxes:				
With transfer to Profit and Loss Account:				
Exchange differences	-18	-17	-1	5.9%
Financial assets at fair value through other comprehensive income	-25,617	12,795	-38,412	-300.2%
Without transfer to Profit and Loss Account:				
Actuarial gains (losses) from defined benefit plans	-52	-111	59	-53.3%
Total other income, net of taxes	-25,687	12,667	-38,354	-302.8%
Comprehensive income	154,439	216,772	-62,333	-28.8%

The creation and distribution of Value Added

The creation of value for all its stakeholders is one of Banca Generali's key objectives.

Most of the economic value generated by the Banking Group is distributed to the various stakeholders with which the Group comes into contact in the course of its day-to-day operations, including shareholders, the Financial Advisors network and human resources, the State and, finally, the community and the environment.

The economic value retained, calculated as the difference between the economic value generated and economic value distributed, represents the resources intended for productive investments aimed to permit economic growth and financial stability, as well as to ensure the creation of new wealth for the benefit of stakeholders.

The economic value generated and distributed was analysed by determining GAV (Global Added Value), calculated by restating the items of the 2018 consolidated profit and loss account on the basis of the guidelines issued by the Italian Banking Association and the GRI (Global Reporting Initiative).

GAV is equal to the difference between total revenues and total costs for the purchase of goods and services (consumption), less the portion of costs incurred for the benefit of the various categories of stakeholders.

Therefore, this aggregate includes charges in support of the banking system, inclusive of contributions to the National Resolution and Interbank Deposit Protection Funds, for a total of 7.7 million euros, and charges incurred for the bail-outs implemented by the Voluntary Scheme of the Interbank Deposit Protection Fund amounting to 0.1 million euros, classified according to the view that they are a form of taxation.

The net provisions for incentives and indemnities for the Financial Advisors network, recoveries of expenses and indemnities charged to Financial Advisors and net provisions for staff were classified in the respective stakeholders categories during the allocation/Value Added allocation process.

In 2018, Gross Global Value Added (GVA) generated by the Group's overall operations reached 729.5 million euros, down slightly compared to the previous year (-2.6%).

This value was distributed to stakeholders as follows:

- the Human Resources (employees and other collaborators) received approximately **11.4%** of the gross GVA generated, in the amount of 81.7 million euros, up slightly compared to the previous year (11.0%);
- the Financial Advisors received a portion of 48.3% of gross GAV generated, for a total of 352.4 million euros, inclusive of net provisions for incentives, recruitment plans and other contractual indemnities of 43.3 million euros, with a modest increase compared to the previous year (47.7%);
- the Shareholders received **19.9%** of gross GAV, also thanks to the dividend approved, unchanged at 1.25 euros;
- the State received approximately **14.3%** of gross GAV (104.2 million euros), up compared to 12.9% for the previous year; this aggregate also includes the charges in support of the banking system and the expense for the stamp duty on current accounts and financial instruments

Accordingly, the business system retained, in the form of undistributed profits, depreciation and amortisation, an overall amount of 44.5 million euros, or 6.1% of GAV, sharply down compared

to 8.9% in 2017. The amount is to be regarded as an investment that the other categories of stakeholders make each year in order to keep the company in efficient condition and foster its development.

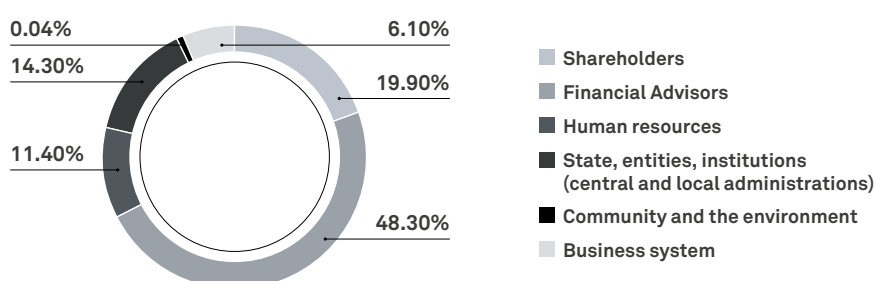
The following tables show in particular the process of creation of Group economic Value and its distribution.

BREAKDOWN AND DISTRIBUTION OF GROSS GLOBAL VALUE ADDED

ITEMS (€ THOUSAND)	2018	2017	CHANGE	% CHANGE
A. TOTAL NET REVENUES	885,832	895,041	-9,209	-1.0%
B. TOTAL CONSUMPTION	-156,022	-146,209	-9,813	6.7%
C. NET RESULT FROM INSURANCE OPERATIONS	-	-	-	n.a.
D. CORE GROSS VALUE ADDED	729,810	748,832	-19,022	-2.5%
E. GROSS GLOBAL VALUE ADDED	729,528	748,817	-19,289	-2.6%
Divided among:				
1. Shareholders	144,900	145,474	-574	-0.4%
Private shareholders (1)	144,900	145,474	-574	-0.4%
Minority interests for the year	-	-	-	n.a.
2. Human resources	435,581	439,814	-4,233	-1.0%
- employee expense; expense for indefinite- and fixed-term contracts	81,690	81,157	533	0.7%
- Financial Advisor expense, including net payments on account	352,407	357,311	-4,904	-1.4%
- Expense for other collaborators	1,484	1,346	138	10.3%
3. System, entities, institutions (central and local administrations)	104,242	96,642	7,600	7.9%
Indirect and income taxation	56,849	53,415	3,434	6.4%
Charges in support of the banking system	7,759	8,763	-1,004	-11.5%
Income taxes for the year	39,634	34,464	5,170	15.0%
4. Community and the environment	278	112	166	148.2%
Charitable gifts	278	112	166	148.2%
5. Business system	44,527	66,775	-22,248	-33.3%
Change in reserves	35,226	58,631	-23,405	-39.9%
Amortisation and depreciation	9,301	8,144	1,157	14.2%
GROSS GLOBAL VALUE ADDED	729,528	748,817	-19,289	-2.6%

⁽¹⁾ Figures take into account the official dividend approved.

BREAKDOWN OF VALUE ADDED



STATEMENT OF DETERMINATION OF THE GLOBAL VALUE ADDED

ITEMS (€ THOUSAND)		2018	2017	CHANGE	%
10.	Interest income and similar revenues	66,419	65,011	1,408	2.2%
40.	Fee income	741,666	760,489	-18,823	-2.5%
70.	Dividends and similar income	2,308	2,745	-437	-15.9%
80.	Net income (loss) from trading activities ⁽⁷⁾	5,435	4,924	511	10.4%
100.	Gain (loss) on disposal or repurchase of:	16,042	11,474	4,568	39.8%
	a) financial assets at amortised cost	2,606	1,041	1,565	150.3%
	b) financial assets at fair value through other comprehensive income ⁽⁷⁾	13,436	10,433	3,003	28.8%
110.	Net income (loss) from financial assets and liabilities at fair value through profit and loss	478	-	478	n.a.
	b) other financial assets mandatorily measured at fair value	478	-	478	n.a.
220.	Other operating expenses/income ⁽⁴⁾	53,633	50,549	3,084	6.1%
240.	Gains (losses) from equity investments	-149	-151	2	-1.3%
	A. TOTAL NET REVENUES	885,832	895,041	-9,209	-1.0%
20.	Interest expense and similar charges	-6,447	-3,590	-2,857	79.6%
50.	Fee expense ⁽¹⁾	-40,749	-42,749	2,000	-4.7%
180.b	Other general and administrative expenses ⁽²⁾	-97,752	-91,500	-6,252	6.8%
130.	Net adjustments/Reversals due to impairment	-7,286	-2,468	-4,818	195.2%
	a) financial assets at amortised cost	-5,001	-604	-4,397	728.0%
	b) financial assets at fair value through other comprehensive income ⁽⁷⁾	-2,285	-1,806	-479	26.5%
	c) other financial transactions	-	-58	58	-100.0%
190.	Net provisions for liabilities and contingencies ⁽³⁾	-3,788	-5,902	2,114	-35.8%
	B. TOTAL CONSUMPTION	-156,022	-146,209	-9,813	6.7%
	C. CORE GROSS VALUE ADDED	729,810	748,832	-19,022	-2.5%
270.	Gains (losses) on disposal of investments	-282	-15	-267	n.a.
	D. GROSS GLOBAL VALUE ADDED	729,528	748,817	-19,289	-2.6%
	Amortisation and depreciation	-9,301	-8,144	-1,157	14.2%
	E. NET GLOBAL VALUE ADDED	720,227	740,673	-20,446	-2.8%
180.a	Staff expenses ⁽⁵⁾	-435,581	-439,814	4,233	-1.0%
180.b	Other general and administrative expenses: indirect taxation ⁽⁶⁾	-56,849	-53,415	-3,434	6.4%
180.b	Other general and administrative expense: charges for the Italian National Resolution Fund and the Interbank Deposit Protection Fund ⁽⁶⁾	-7,759	-8,763	1,004	-11.5%
180.b	Other general and administrative expense: charitable gifts ⁽⁶⁾	-278	-112	-166	148.2%
	F. PROFIT BEFORE TAXATION	219,760	238,569	-18,809	-7.9%
290.	Income taxes for the year on operating activities	-39,634	-34,464	-5,170	15.0%
	G. NET PROFIT (LOSS) OF THE PARENT COMPANY FOR THE YEAR	180,126	204,105	-23,979	-11.7%

⁽¹⁾ This figure differs from that included in the Profit and Loss Account in the Financial Statements, as the remuneration for the Financial Advisor network has been reclassified to "Staff expenses".

⁽²⁾ This figure differs from that included in the Profit and Loss Account in the Financial Statements, due to the exclusion of indirect and direct taxes, contributions to the National Resolution and Interbank Deposit Protection Funds and charitable gifts (which have been stated in the related specific items).

⁽³⁾ This figure differs from that included in the Profit and Loss Account in the Financial Statements, due to the exclusion of net provisions for incentives and indemnities in favour of the Financial Advisor network and net provisions for personnel.

⁽⁴⁾ This figure differs from that included in the Profit and Loss Account in the Financial Statements, due to the exclusion of expenses recovered from Financial Advisors and staff contingencies (which have been stated in the related specific items).

⁽⁵⁾ This figure differs from that included in the Profit and Loss Account in the Financial Statements, as it includes remuneration paid to the Financial Advisor network and the relevant provisions.

⁽⁶⁾ This figure is stated as a specific item in the statement of determination of Added Value.

⁽⁷⁾ This figure differs from that included in the Financial Statements as it was modified to exclude the charges related to the Bank's commitment to contribute to the Interbank Deposit Protection Fund (FITD) aimed at supporting the Italian banking system, restated under a specific item.

The Group's Capital and Financial Position

At the end of 2018, total consolidated assets amounted to 9.7 billion euros, up by approximately 0.7 billion euros (+8.3%) compared to the end of 2017.

Total net inflows amounted to 8.7 billion euros (+10.1%), driven by the significant net inflows from customers (+18.8%), which more than offset the decline in interbank net inflows and the early repayment of the TLTRO financing.

Core loans totalled 9.2 billion euros, up 8.9%.

ASSETS (€ THOUSAND)	31.12.2018	31.12.2017	CHANGE		01.01.2018 FTA
			AMOUNT	%	
Financial assets at fair value through profit or loss	90,640	49,814	40,826	82.0%	118,778
Financial assets at fair value through other comprehensive income	1,987,315	4,612,728	-2,625,413	-56.9%	2,977,389
Financial assets at amortised cost	7,166,172	3,831,104	3,335,068	87.1%	5,389,959
a) Loans to banks (*)	1,434,533	923,095	511,438	55.4%	922,492
b) Loans to customers	5,731,639	2,908,009	2,823,630	97.1%	4,467,467
Equity investments	1,661	1,820	-159	-8.7%	1,820
Property, equipment and intangible assets	101,834	98,380	3,454	3.5%	98,381
Tax receivables	52,799	45,735	7,064	15.4%	46,794
Other assets	335,473	351,430	-15,957	-4.5%	355,526
Total assets	9,735,894	8,991,011	744,883	8.3%	8,988,647

(*) Demand deposits with ECB have been reclassified among loans to banks.

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2018	31.12.2017	CHANGE		01.01.2018 FTA
			AMOUNT	%	
Financial liabilities at amortised cost	8,675,596	7,879,779	795,817	10.1%	7,879,968
a) Due to banks	128,725	682,531	-553,806	-81.1%	682,531
b) Due to customers	8,546,871	7,197,248	1,349,623	18.8%	7,197,437
Financial liabilities held for trading and hedging	384	206	178	86.4%	206
Tax payables	18,018	35,564	-17,546	-49.3%	35,168
Other liabilities	142,176	185,218	-43,042	-23.2%	184,757
Special purpose provisions	164,845	154,174	10,671	6.9%	155,305
Valuation reserves	-11,636	21,646	-33,282	-153.8%	14,051
Reserves	414,368	348,519	65,849	18.9%	353,287
Share premium reserve	57,889	58,219	-330	-0.6%	58,219
Share capital	116,852	116,852	-	-	116,852
Treasury shares (-)	-22,724	-13,271	-9,453	71.2%	-13,271
Net profit (loss) for the year (+/-)	180,126	204,105	-23,979	-11.7%	204,105
Total net equity and liabilities	9,735,894	8,991,011	744,883	8.3%	8,988,647

QUARTERLY EVOLUTION OF CONSOLIDATED BALANCE SHEET

ASSETS (€ THOUSAND)	31.12.2018	30.09.2018	30.06.2018	31.03.2018 RESTATED	01.01.2018 FTA	31.12.2017	30.09.2017	30.06.2017	31.03.2017
Financial assets at fair value through profit or loss	90,640	98,128	104,355	115,739	118,778	49,814	49,670	46,189	42,301
Financial assets at fair value through other comprehensive income	1,987,315	2,129,338	2,379,521	2,917,725	2,977,389	4,612,728	4,595,225	4,750,650	4,654,312
Financial assets at amortised cost	7,166,172	6,495,179	6,550,780	5,834,313	5,389,959	3,831,104	3,306,838	3,623,434	3,433,062
a) Loans to banks	1,434,533	912,269	1,133,932	1,111,505	922,492	923,095	406,974	740,320	539,010
b) Loans to customers	5,731,639	5,582,910	5,416,848	4,722,808	4,467,467	2,908,009	2,899,864	2,883,114	2,894,052
Equity investments	1,661	1,688	1,716	1,736	1,820	1,820	1,879	1,898	1,954
Property, equipment and intangible assets	101,834	93,603	95,318	96,778	98,381	98,380	94,436	95,820	97,383
Tax receivables	52,799	57,226	54,734	46,605	46,794	45,735	52,551	50,975	52,707
Other assets	335,473	304,856	328,518	291,632	355,526	351,430	288,272	305,317	287,552
Total assets	9,735,894	9,180,018	9,514,942	9,304,528	8,988,647	8,991,011	8,388,871	8,874,283	8,569,271
NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2018	30.09.2018	30.06.2018	31.03.2018 RESTATED	01.01.2018 FTA	31.12.2017	30.09.2017	30.06.2017	31.03.2017
Financial liabilities at amortised cost	8,675,596	8,201,383	8,521,256	8,186,830	7,879,968	7,879,779	7,381,076	7,545,634	7,564,740
a) Due to banks	128,725	72,348	497,996	505,127	682,531	682,531	792,737	946,895	1,034,603
b) Due to customers	8,546,871	8,129,035	8,023,260	7,681,703	7,197,437	7,197,248	6,588,339	6,598,739	6,530,137
Financial liabilities held for trading and hedging	384	925	518	290	206	206	988	1,013	1,097
Tax payables	18,018	25,123	37,049	36,307	35,168	35,564	41,066	32,324	20,826
Other liabilities	142,176	114,659	147,761	143,151	184,757	185,218	133,097	516,464	165,865
Special purpose provisions	164,845	160,820	158,926	159,234	155,305	154,174	165,521	152,473	136,129
Valuation reserves	-11,636	-23,388	-19,350	10,200	14,051	21,646	11,253	-955	-16,066
Reserves	414,368	412,683	411,409	557,668	353,287	348,519	346,597	345,626	470,576
Share premium reserve	57,889	57,893	57,893	58,170	58,219	58,219	58,504	58,363	56,171
Share capital	116,852	116,852	116,852	116,852	116,852	116,852	116,852	116,839	116,644
Treasury shares (-)	-22,724	-22,779	-9,938	-13,221	-13,271	-13,271	-13,437	-1,581	-2,933
Net profit (loss) for the year (+/-)	180,126	135,847	92,566	49,047	204,105	204,105	147,354	108,083	56,222
Total net equity and liabilities	9,735,894	9,180,018	9,514,942	9,304,528	8,988,647	8,991,011	8,388,871	8,874,283	8,569,271

Direct inflows from customers

Total direct inflows from customers amounted to 8.6 billion euros, up by 18.7% compared to 31 December 2017.

(€ THOUSAND)	31.12.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
1. Current accounts and demand deposits	8,187,790	6,903,451	1,284,339	18.6%	6,903,451
2. Term deposits	25,939	-	25,939	n.a.	-
3. Financing	173,824	83,845	89,979	107.3%	83,845
Repurchase agreements	130,542	40,567	89,975	221.8%	40,567
Subordinated loans	43,282	43,278	4	-	43,278
4. Other debts	159,318	210,141	-50,823	-24.2%	209,952
Operating debts to sales network	108,896	119,560	-10,664	-8.9%	119,371
Other (money orders, amounts at the disposal of customers)	50,422	90,581	-40,159	-44.3%	90,581
Total due to customers	8,546,871	7,197,437	1,349,434	18.7%	7,197,248

The growth in inflows from customers (external to the Insurance Group) continued to be driven mostly by demand current account balances, which reported a net increase of 1,256 million euros to 7,708 million euros.

2018 saw also the relaunch of net inflows in the form of repurchase agreements, which rose by 90 million euros, and term deposits.

Captive inflows from the companies within the Assicurazioni Generali Group increased moderately by 28.3 million euros to 524.1 million euros at the end of the reporting year, thus accounting for 6.1% of total inflows.

The aggregate includes 43.3 million euros for the Tier-2 subordinated loan issued by the subsidiary Generali Beteiligungs GmbH in 2014.

(€ THOUSAND)	31.12.2018	01.01.2018 FTA	CHANGE AMOUNT	31.12.2017
Inflows from Parent Company	87,798	6,247	81,551	n.a.
Inflows from other subsidiaries of the Generali Group	436,349	489,596	-53,247	-10.9%
Total inflows from Generali Group	524,147	495,843	28,304	5.7%
Inflows from other parties	8,022,724	6,701,594	1,321,130	19.7%
of which: current accounts	7,707,735	6,451,682	1,256,053	19.5%
Total inflows from customers	8,546,871	7,197,437	1,349,434	18.7%

The non-interest-bearing debt position consisted of other sums available to customers, primarily relating to claims settlement activity by the Group's insurance companies (money orders), as well as of payables to the sales network for the placement of financial products and services. This segment instead shrank significantly, mostly driven by the reduction of the collection of the money orders issued on behalf of insurance companies.

Indirect inflows

The Banking Group's indirect inflows (not limited to the "Assoreti market") consist of inflows from retail and corporate customers through the sale of third-party and group products – asset management, insurance products and assets under custody/AUC (securities portfolios).

Asset management

Asset Management Products of the Banking Group

In the asset management segment, in 2018 the Banking Group conducted wealth management operations through the Luxembourg-based BG Fund Management Luxembourg, in addition to managing Banca Generali's discretionary mandates.

(€ MILLION)	BG GROUP		CHANGE VS 31.12.2017	
	31.12.2018	31.12.2017	AMOUNT	%
Funds and Sicavs	14,111	14,967	-856	-5.7%
GPF/GPM	6,421	7,115	-694	-9.8%
Total Group's managed assets	20,532	22,082	-1,550	-7.0%
<i>of which UCITS attributable to the Banking Group</i>				
<i>GPF</i>	1,925	2,177	-252	-11.6%
Total assets managed by the Banking Group, net of discretionary mandates, included in the GPF of the Banking Group	18,607	19,906	-1,298	-6.5%

Total assets invested in UCITS managed by the Banking Group amounted to 14.1 billion euros, with a decline of about -0.9 million euros (-5.7%) compared to December 2017.

Group's investments in UCITS are currently represented exclusively by Luxembourg Sicavs placed by BG Fund Management Luxembourg, a subsidiary of Banca Generali, with own management or management mandate.

In the course of the years, these classes of collective investment products were complemented by several new sub-funds (40 for BG Selection, 63 for Lux IM Sicavs, and 3 BG Alternative), which are managed either directly or – in most of the cases – through mandate granted to third parties. Discretionary mandates of the Banking Group amounted to 6.4 billion euros, down compared to the figure at December 2017 (-9.8%).

Third-party asset management products

As part of its brokerage and placement operations, the Group places third-party products in both the asset management and insurance areas.

In further detail, within its Italian and foreign UCITS (mainly Luxembourg Sicavs), Banca Generali distributed the products of the Assicurazioni Generali Group and major international investment firms.

In 2018, third-party UCITS assets amounted to 7,687 million euros, up by 4% compared to December 2017 (7,381 million euros). This was made possible thanks to the adoption of the so-called "open architecture," which affords customers access to a very wide range of investment products, including at an international level, in support of the advisory approach that characterises Banca Generali's commercial offerings.

(€ MILLION)	BG GROUP		CHANGE VS 31.12.2017	
	31.12.2018	31.12.2017	AMOUNT	%
Funds and Sicavs	7,687	7,381	306	4%
GPF/GPM	13	58	-45	-78%
Total third-party assets managed by the Group	7,700	7,439	261	4%

Within the overall Bank's offering, the placement of third-party products is much more diversified than shown in the previous table due to two main reasons.

Investments directed towards the Luxembourg umbrella fund-of-funds BG Selection Sicav gradually increased since its launch in 2009. The Sicav is placed directly by the Banca Generali Group but invests almost exclusively in third-party UCITS.

In addition to the foregoing and in confirmation of the product's multi-manager orientation,

since the Sicav's introduction, marketing was launched for its sub-funds (currently, 25 of 40 total sub-funds), management of which is entrusted directly to some of the leading international investment firms, thereby significantly increasing the management diversification of the asset management portfolios held by the Bank's customers.

The same process had been implemented for 45 out of Lux IM's 63 sub-funds and for the 3 new BG Alternative's sub-funds with management mandate granted to third parties.

Insurance products

Third-party insurance products

Almost all assets invested in insurance and pension products consist of traditional, unit-linked and multi-line policies of Genertel Life, a company of the Assicurazioni Generali Group.

At year-end 2018, total assets amounted to 23.1 billion euros, up 4% compared to December 2017. The result, less redemptions and contractual maturities, was mainly attributable to the extraordinary result of life new business in the year, relating to the multi-line policy BG Stile Libero and the more traditional policies BG Cedola Più and BG Custody.

(€ MILLION)	BG GROUP		CHANGE VS 31.12.2017	
	31.12.2018	31.12.2017	AMOUNT	%
Insurance products (unit-linked, traditional, multi-line policies, etc.)	23,098	22,178	920	4%
Total third-party insurance products	23,098	22,178	920	4%

Assets under administration and custody

Indirect net inflows of assets under administration and custody consist of securities deposited by retail and corporate customers for custody and administration in portfolios opened with the Parent Company, Banca Generali. At 31 December 2018, these net inflows amounted to 7,887 million euros at market value, compared to the 7,192 million euros reported at the end of 2017 (+10%).

(€ MILLION)	BG GROUP		CHANGE VS 31.12.2017	
	31.12.2018	31.12.2017	AMOUNT	%
Securities portfolios of the Generali Group's customers	240	342	-102	-30%
Other customers' securities portfolios	7,647	6,851	796	12%
Indirect net inflows of assets under administration and custody of the Banking Group (market value)	7,887	7,192	694	10%

Core loans

Core loans totalled 9,244 million euros overall, with an increase by 758 million euros compared to 1 January 2018 that impacted the most liquid component of the aggregate (interbank deposits and repurchase agreements).

Demand deposits with the ECB remained at high levels at 991.9 million euros, as a result of the high volatility in the financial markets in the fourth quarter of the year that led to a significant increase in customers' deposits subject to immediate withdrawal and a decrease in investments in the Bank's financial instruments.

The temporary growth of this item was aimed at mitigating the Bank's risk exposure against a backdrop of increasingly high volatility in the financial markets associated with the uncertainty posed by the Italian and international political scenario and the expectations on the central banks' future stance.

The rise in loans to customers was mainly attributable to reverse repurchase agreement managed by Cassa di Compensazione e Garanzia (CC&G) as the counterparty, effected at year-end to absorb a temporary liquidity increase.

Investments in financial asset portfolios therefore decreased slightly by 39.4 million euros (-0.7%).

(€ THOUSAND)	31.12.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
Financial assets at fair value through profit or loss	90,640	118,778	-28,138	-23.7%	49,814
Financial assets at fair value through other comprehensive income	1,987,315	2,977,389	-990,074	-33.3%	4,612,728
Financial assets at amortised cost	3,629,126	2,650,309	978,817	36.9%	1,073,896
Financial assets	5,707,081	5,746,476	-39,395	-0.7%	5,736,438
Loans to and deposits with banks (*)	1,354,804	829,864	524,940	63.3%	829,992
Loans to customers	2,028,164	1,768,192	259,972	14.7%	1,768,965
Operating loans and other loans	154,078	141,594	12,484	8.8%	158,251
Total interest-bearing financial assets and loans	9,244,127	8,486,126	758,001	8.9%	8,493,646

(*) ECB demand deposits included.

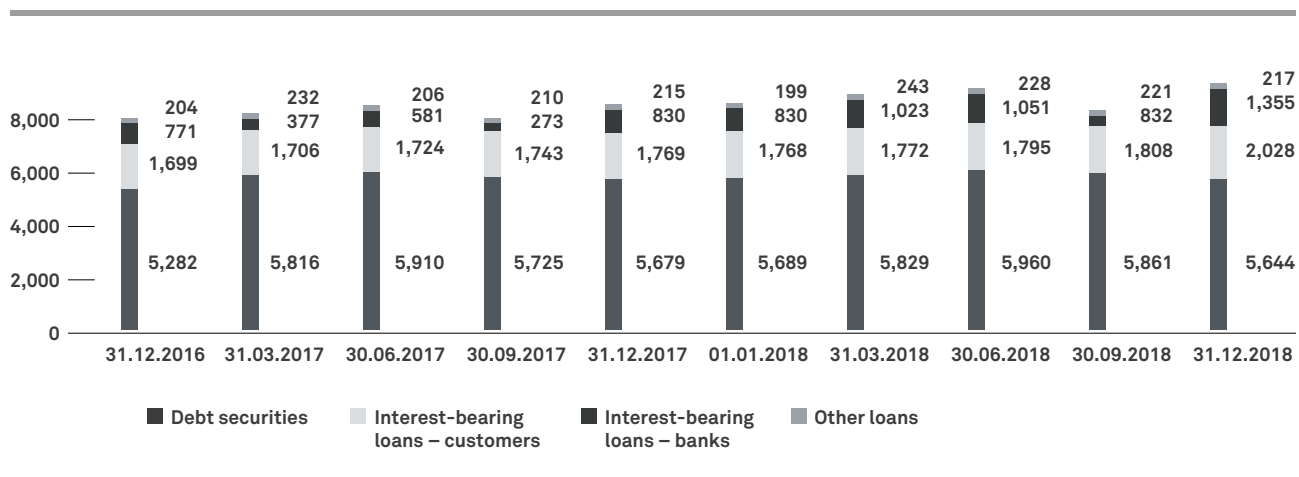
In 2018, the Banking Group began a process of revising its investment policies with the aim of shifting the core banking book towards the less volatile component of financial assets at amortised cost (HTC) with a reduction of financial assets designated at fair value through other comprehensive income (HTCS).

On the basis of the guidelines on the adoption of the new risk framework and the new industrial plan currently being developed, the increase in financial assets was concentrated in the held-to-collect (HTC) portfolio, i.e., assets measured at amortised cost and held for investment, which grew by 978.8 million euros, mainly driven by the government bond purchases.

The portfolio of financial assets designated at fair value through other comprehensive income was rebalanced symmetrically, resulting in a decline of 990.1 million euros.

Overall, financial assets accounted for 61.7% of the core loan aggregate's total, down compared to 67.7% at the beginning of 2018. The exposure to financial instruments other than debt securities was extremely limited.

QUARTERLY EVOLUTION OF LOANS (€ million)



(€ THOUSAND)	31.12.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
Government securities	5,150,100	5,306,058	-155,958	-2.9%	5,316,611
Other public institutions	13,019	8,283	4,736	57.2%	8,283
Securities issued by banks	271,636	186,689	84,947	45.5%	186,293
Securities issued by other issuers	209,103	169,994	39,109	23.0%	168,038
Equity securities and other securities	63,223	75,452	-12,229	-16.2%	57,213
Total financial assets	5,707,081	5,746,476	-39,395	-0.7%	5,736,438

Sovereign debt exposure decreased by 151.2 million euros accounting for 90.5% of total investments in financial instruments, essentially stable compared to the end of the previous year (92.4%).

Such exposure mostly included bonds of the Italian Republic, with the only exception of some US Treasury bonds for an overall amount of 8.6 million euros.

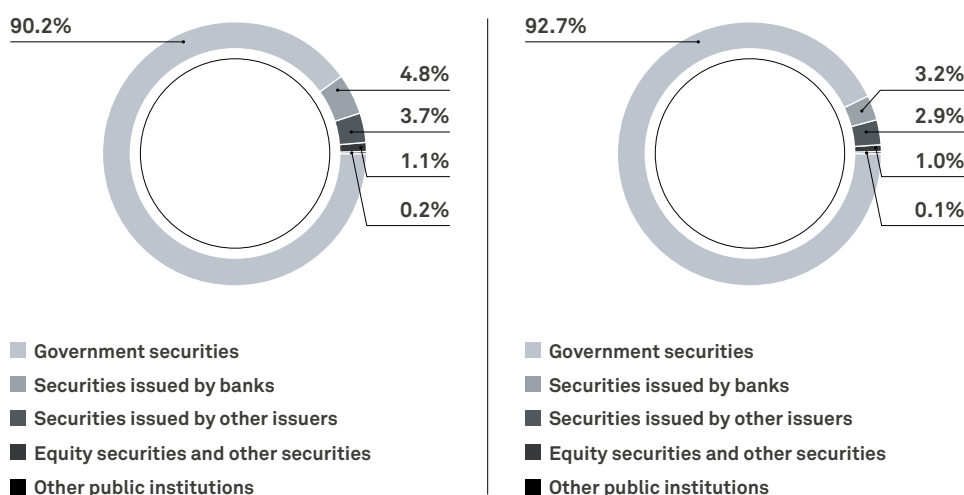
(€ THOUSAND)	31.12.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
Exposure to the sovereign risk by portfolio:					
Financial assets at fair value through profit or loss	-	-	-	n.a.	-
Financial assets at fair value through other comprehensive income	1,736,525	2,890,047	-1,153,522	-39.9%	4,465,316
Financial assets at amortised cost	3,426,594	2,424,294	1,002,300	41.3%	859,578
Total	5,163,119	5,314,341	-151,222	-2.8%	5,324,894

The overall geographical breakdown of the portfolio of debt securities thus showed a high concentration of investments relating to Italian securities (95.0%).

BREAKDOWN OF FINANCIAL ASSETS PORTFOLIO

at 31.12.2018

at 31.12.2017

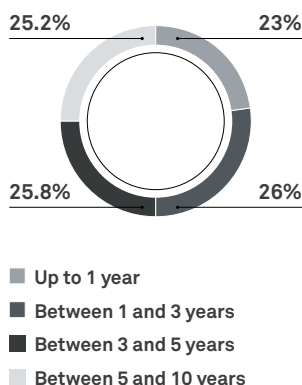
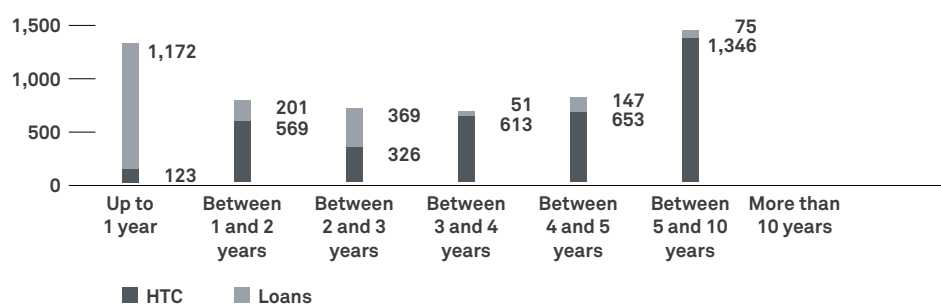


In a context marked by increasingly volatile financial markets, the Banking Group adopted a policy aimed at narrowing the maturities of its portfolio issues.

At the end of the year, the share of financial assets with a maturity of more than 5 years dropped to 25.2% from 30.6% at the end of 2017, whilst the share of assets having a residual life of up to 1 year rose from 16.9% to 23.0%.

The portfolio of debt securities had an overall average residual life of about 3.5 years (3.7 years at the end of 2017). In particular, the average maturity of the HTC portfolio is 4.46 years, whereas the average maturity of the HTCS portfolio was 1.76 years.

Moreover, 40.8% of the portfolio was made up of variable-rate issues, and for the remainder, of fixed-rate issues and zero coupons (54.4% at the end of 2017).

**BREAKDOWN OF BONDS
PORTFOLIO BY MATURITY
at 31.12.2018**

**BONDS PORTFOLIO MATURITY
(€ million)**


Loans to customers reached 2,028 million euros and, net of year-end treasury repurchase agreements (200 million euros), increased slightly compared to the beginning of 2018 (+3.4%) due to the moderate expansion of overdraft facilities, partly offset by mortgages.

(€ THOUSAND)	31.12.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
Current accounts	985,907	894,596	91,311	10.2%	895,369
Mortgages and personal loans	840,147	869,793	-29,646	-3.4%	869,793
Other financing and loans not in current accounts	2,173	3,803	-1,630	-42.9%	3,803
Reverse repurchase agreement with customers and deposits on the MIC	199,937	-	199,937	n.a.	-
Loans	2,028,164	1,768,192	259,972	14.7%	1,768,965
Operating loans to management companies	117,126	112,333	4,793	4.3%	112,333
Sums advanced to Financial Advisors	19,395	17,719	1,676	9.5%	34,376
Stock exchange interest-bearing daily margin	13,088	3,562	9,526	267.4%	3,562
Charges to be debited and other loans	4,172	7,629	-3,457	-45.3%	7,629
Operating loans and other loans	153,781	141,243	12,538	8.9%	157,900

Net non-performing exposures on loans to customers amounted to 36.8 million euros, or 1.82% of total loans to customers reported in the table above.

The aggregate includes all the exposures originating in the portfolio of Banca del Gottardo Italia, fully covered by the loan indemnity granted by BSI S.A.⁹ upon the sale of the said company and chiefly secured to that end by cash collateral payments by the counterparty.

Net of this aggregate, non-performing exposures on loans to customers amounted to 17.0 million euros and consisted for 95% of credit facilities secured by financial collaterals mainly in the form of pledges of financial instruments and/or similar products, such as mandate to policy redemption.

Unsecured exposures to customers, for which risk is effectively borne by the Bank, amounted to just 0.8 million euros, or around **0.04%** of total loans to customers.

⁹ As of 7 April 2017, the Swiss operations of BSI S.A. were totally transferred to EFG Bank AG - Lugano Branch, as per the Swiss law on mergers.

CASH LOANS TO CUSTOMERS – NON-PERFORMING EXPOSURES

(€ THOUSAND)	31.12.2018				31.12.2017				CHANGE	CH. %
	BAD LOANS	UNLIKELY TO PAY	NON PERFORMING PAST-DUE EXPOSURES	TOTAL NON-PERFORMING LOANS AT 31.12.2018	BAD LOANS	UNLIKELY TO PAY	NON PERFORMING PAST-DUE EXPOSURES	TOTAL NON-PERFORMING LOANS AT 31.12.2017		
Gross exposure	32,380	11,849	5,074	49,303	36,210	40,423	9,735	86,368	-37,065	-43%
Adjustments	10,913	1,294	281	12,488	12,318	1,191	409	13,918	-1,430	-10%
Total net exposure	21,467	10,555	4,793	36,815	23,892	39,232	9,326	72,450	-35,635	-49%
Gross exposure	28,214	-	-	28,214	31,968	5,255	-	37,223	-9,009	-24%
Adjustments	8,427	-	-	8,427	9,990	-	-	9,990	-1,563	-16%
Exposure guaranteed by net indemnity	19,787	-	-	19,787	21,978	5,255	-	27,233	-7,446	-27%
Gross exposure	4,166	11,849	5,074	21,089	4,242	35,168	9,735	49,145	-28,056	-57%
Adjustments	2,486	1,294	281	4,061	2,328	1,191	409	3,928	133	3%
Exposure net of indemnity	1,680	10,555	4,793	17,028	1,914	33,977	9,326	45,217	-28,189	-62%
Net guaranteed exposure	1,625	9,926	4,691	16,242	1,850	33,358	9,103	44,311	-28,069	-63%
Net exposure not guaranteed	55	629	102	786	64	619	223	906	-120	-13%

Within **operating loans**, significant growth was reported by daily margin due to the shift from indirect to direct participation to Cassa Compensazione e Garanzia for the bonds segment, effective at the end of 2017.

The expansion of the Bank's business also led to a growth in matured commercial loans from placement and distribution of financial and insurance products, and sums advanced to Financial Advisors.

At 31 December 2018, the **interbank position**, net of the securities portfolio and operating loans, showed a net credit balance of 1,226.1 million euros, up compared to a net exposure of 147.3 million euros at year-start.

This situation was mainly due to the combined effect of the ongoing significant level of demand deposits with the ECB (991.9 million euros), the end of leveraged net inflows in the form of repurchase agreements at negative rates on the interbank market (-189.7 million euros), and lastly, the full early repayment of the TLTRO2 (-400 million euros) granted on 29 June 2016 and with a four-year term.

(€ THOUSAND)	31.12.2018		CHANGE		31.12.2017
	31.12.2018	01.01.2018 FTA	AMOUNT	%	
1. Repayable on demand	1,253,295	696,236	557,059	80.0%	696,364
Demand deposits with ECB and Bank of Italy (*)	991,874	545,632	446,242	81.8%	545,632
Demand deposits with credit institutions	29,918	-	29,918	n.a.	-
Transfer accounts	231,503	150,604	80,899	53.7%	150,732
2. Time deposits	101,509	133,628	-32,119	-24.0%	133,628
Mandatory reserve	82,714	67,617	15,097	22.3%	67,617
Term deposits	17,611	65,938	-48,327	-73.3%	65,938
Collateral margins	1,184	73	1,111	n.a.	73
Total loans to banks	1,354,804	829,864	524,940	63.3%	829,992
1. Due to Central Banks	-	400,000	-400,000	-100.0%	400,000
TLTRO	-	400,000	-400,000	-100.0%	400,000
2. Due to banks	128,725	282,531	-153,806	-54.4%	282,531
Transfer accounts	108,850	57,472	51,378	89.4%	57,472
Term deposits	-	3,796	-3,796	-100.0%	3,796
Repurchase agreements	-	189,657	-189,657	-100.0%	189,657
Collateral margins	-	9,532	-9,532	-100.0%	9,532
Other debts	19,875	22,074	-2,199	-10.0%	22,074
Total due to banks	128,725	682,531	-553,806	-81.1%	682,531
Net interbank position	1,226,079	147,333	1,078,746	732.2%	147,461

(*) Reclassified from Item 10 – Demand loans to Central Banks

Provisions

Total special purpose provisions amounted to 164.8 million euros overall, up 9.5 million euros compared to the previous year (+6.1%) chiefly due to the provisions for contractual indemnities of the sales network (+19.3 million euros).

(€ THOUSAND)	31.12.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
Provision for termination indemnity	4,831	4,859	-28	-0.6%	4,859
Provisions for guarantees issued and commitments	86	204	-118	n.a.	-
Other provisions for liabilities and contingencies	159,928	150,242	9,686	6.4%	149,315
Provisions for staff expenses	13,762	15,404	-1,642	-10.7%	15,404
Restructuring provisions – Redundancy incentives plan	1,369	1,089	280	25.7%	1,089
Provision for legal disputes	14,287	17,747	-3,460	-19.5%	17,747
Provisions for contractual indemnities to the sales network	81,595	62,251	19,344	31.1%	61,459
Provisions for sales network incentives	46,131	52,211	-6,080	-11.6%	52,076
Other provisions for liabilities and contingencies	2,784	1,540	1,244	80.8%	1,540
Total provisions	164,845	155,305	9,540	6.1%	154,174

Contractual indemnities mainly included 55.1 million euros referring to provisions for covering the cost of Financial Advisors' termination indemnities pursuant to Article 1751 of the Italian Civil Code, which are determined on an actuarial basis.

The aggregate included a 7.3 million euros provision for the service of the annual cycles of the 2017-2026 Framework Loyalty Programme for the Network, which saw the launch of the second annual cycle (2018-2026) in 2018.

The Framework Loyalty Programme is divided into eight annual separate plans, all set to expire on 31 December 2026 and of decreasing lengths, which may be activated from one year to the next, with the authorisation of the Banca Generali Group's company bodies and in accordance with its remuneration policies. Both cycles call for the allotment of Banca Generali shares for an amount equal to 50% of the indemnity accrued.

In June 2018, Banca Generali's Board of Directors introduced the manager incentive indemnity mechanism, intended to ensure fair treatment of all network managers in the event of dismissal from their additional roles; 7.1 million euros were allocated to this mechanism.

With regard to the tax dispute, on 29 June 2018 the Friuli-Venezia Giulia Regional Department of the Italian Revenue Service served the Bank with a report on findings (PVC) regarding the assessment process focusing on tax period 2014.

The audit had begun on 27 March 2017 and the first auditors' report on findings (PVC), claiming some irregularities relating to the matching and accrual principle in respect of costs for the year, had been served on 22 December 2017.

The auditors' report on findings that had been served at the end of June instead focused on transfer pricing issues, with particular regard to dealings with the Luxembourg management company BGFML pertaining to the distribution of the Sicavs promoted by the Group.

At the end of August, by the legal deadline, Banca Generali lodged a detailed defence statement with the Italian Agency of Revenue, disputing the irregularities identified in the auditors' report and highlighting that it had acted properly. It is currently awaiting the beginning of a consultation procedure with the audit authorities in order to reach a settlement of the dispute.

Since it believes the charges to be entirely without merit, during the above consultation procedure Banca Generali will dispute any assessment notices based on the alleged irregularities identified in the auditors' report, through both administrative and judicial process.

Net equity and regulatory aggregates

At 31 December 2018, consolidated net equity, including net profit for the year, amounted to 734.9 million euros compared to 736.1 million euros at the end of the previous year.

(€ THOUSAND)	31.12.2018	31.12.2017	CHANGE		01.01.2018 FTA
			AMOUNT	%	
Share capital	116,852	116,852	-	-	116,852
Share premium reserve	57,889	58,219	-330	-0.6%	58,219
Reserves	414,368	348,519	65,849	18.9%	353,287
(Treasury shares)	-22,724	-13,271	-9,453	71.2%	-13,271
Valuation reserves	-11,636	21,646	-33,282	-153.8%	14,051
Net profit (loss) for the year	180,126	204,105	-23,979	-11.7%	204,105
Group net equity	734,875	736,070	-1,195	-0.2%	733,243

The change in net equity was primarily attributable to the decline in net profit for the year, the distribution of the 2017 dividend of 145.5 million euros – approved by the session of the General Shareholders' Meeting held on 12 April 2018 that also approved the Financial Statements – the purchases of treasury shares, and the change in the reserves for shared-based payments (IFRS 2), the negative change in fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (HTCS) and other reserves included in other comprehensive income.

Following the entry into force, effective 1 January 2018, of the new accounting standards IFRS 9 and IFRS 15, approximately 4.8 million euros FTA net equity reserves were recognised, and approximately 7.6 million euros valuation reserves were reversed, for an overall negative impact of 2.8 million euros.

ITEMS (€ THOUSAND)	31.12.2018	31.12.2017
Net equity at year-start	736,070	646,521
IFRS 9 and IFRS 15 FTA	-2,827	-
Dividend paid	-145,474	-124,674
Purchase and sale of treasury shares	-12,841	-10,338
Issue of new shares (stock options)	-	3,057
Matured IFRS 2 reserves on own financial instruments	4,408	2,937
Matured IFRS 2 reserve on LTIP	1,100	1,796
Change in valuation reserves (net of FTA)	-25,687	12,667
Consolidated net profit	180,126	204,105
Net equity at year-end	734,875	736,070
Change	-1,195	89,549

Fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (HTCS) showed a net decrease of 25.6 million euros, primarily owing to the portfolio of Italian government bonds, for which net reserves amounted to -6.2 million euros compared to 15.2 million euros at the date of transition to IFRS9 (1 January 2018).

31.12.2018

(€ THOUSAND)	DEBT SECURITIES				TOTAL
	EQUITY SECURITIES	UCITS UNITS	CORPORATE	GOVERNMENT	
1. Amount at year-start	445	2,780	480	19,850	23,555
Adjustment of opening balances	-445	-2,780	230	-4,600	-7,595
1. Amount at year-start	-	-	710	15,250	15,960
2. Increases	-	-	2,515	11,288	13,803
2.1 Fair value increases	-	-	63	1	64
2.2 Adjustments for credit risk	-	-	352	857	1,209
2.3 Transfer to Profit and Loss Account of negative reserves due to disposal	-	-	3	-	3
2.3 Other changes	-	-	2,097	10,430	12,527
3. Decreases	-	-	6,702	32,718	39,420
3.1 Fair value decreases	-	-	6,188	16,776	22,964
3.2 Reversals for credit risk	-	-	-	-	-
3.3 Transfer to Profit and Loss Account of positive reserves due to disposal	-	-	401	15,667	16,068
3.4 Other changes	-	-	113	275	388
4. Amount at year-end	-	-	-3,477	-6,180	-9,657

Consolidated own funds, calculated in accordance with the phase-in Basel 3 rules, amounted to 537.9 million euros, up by 19.3 million euros compared to the end of the previous year as a result of the portion of non-consolidated net profit that was not allocated as dividend to be distributed (+35.2 million euros), which was partly offset by the net purchases of treasury shares for the service of the Remuneration policies (-12.8 million euros).

Noteworthy is also the impact of negative valuation reserves for government bonds classified as financial assets in the HTCS category (-6.2 million euros), which, following the phase-in period defined by the CRR and the Italian national rule for neutralising such reserves, are now fully included when determining CET1 capital, with effect from 1 January 2018.

The overall effects of the FTA of IFRS 9 and IFRS 15 in terms of both income reserves and valuation reserve were particularly limited (-2.8 million euros) and partially offset by lower regulatory adjustments associated with the reduced fair value exposure of the financial instrument portfolio (+1.6 million euros at the transition date).

ITEMS (€ THOUSAND)	31.12.2018
Own funds at year-start	518,602
IFRS 9 and IFRS 15 FTA	-2,827
Purchase and sale of treasury shares	-12,841
Change in reserves for share-based payments (IFRS2)	5,507
Estimated regulatory provisions for retained earnings	35,226
Change in OCI reserves on HTCS	-5,043
Change in IAS 19 OCI reserves (net of filter application)	-130
Change in goodwill and intangibles	-2,794
Negative prudential filters (prudent valuation)	2,584
Total changes in TIER 1 capital	19,683
Phase-in: change in positive AFS reserves	-370
Total changes in TIER 2 capital	-370
Own funds at year-end	537,915

At the end of the reporting year, the aggregate capital for regulatory purposes recorded 311.4 million euros in excess of the amount required to cover credit, market, and operating risks. CET1 ratio reached 17.5%, compared to a minimum requirement of 6.5%, and Total Capital Ratio (TCR) reached 19.0%, compared to the SREP minimum requirement of 10.2%.

(€ THOUSAND)	31.12.2018		31.12.2017	CHANGE		01.01.2018
	FULLY LOADED	PHASE IN	PHASE IN	AMOUNT	%	FTA-PHASE IN
Common Equity Tier 1 capital (CET1)	494,845	494,915	475,232	19,683	4.1%	494,564
Additional Tier 1 (AT1) capital	-	-	-	-	n.a.	-
Tier 2 (T2) capital	43,000	43,000	43,370	-370	-0.9%	43,000
Total own funds	537,845	537,915	518,602	19,313	3.7%	537,564
Credit and counterparty risk	152,708	152,708	131,410	21,298	16.2%	132,219
Market risks	575	575	1,735	-1,160	-66.9%	1,735
Operating risk	73,274	73,274	71,914	1,360	1.9%	71,914
Total absorbed capital	226,557	226,557	205,059	21,498	10.5%	205,868
Excess over absorbed capital	311,288	311,358	313,543	-2,185	-0.7%	331,696
Non-committed capital	57.88%	57.88%	60.46%	0.58	-4.3%	61.70%
Risk-weighted assets	2,831,965	2,831,965	2,563,242	268,723	10.5%	2,573,350
Tier 1 capital/Risk-weighted assets (Tier 1 Capital Ratio)	17.47%	17.48%	18.54%	-1.06%	-5.74%	19.22%
Total own funds/Risk-weighted assets (Total capital ratio)	18.99%	18.99%	20.23%	-1.24%	-6.12%	20.89%

As highlighted in the document "IFRS 9 and IFRS 15 Transition Report", the impact on own funds and regulatory capital ratios was very limited.

Phase-in CET1 ratio, remeasured at 1 January 2018, would thus have been 19.22%, up by 68 bps compared to that at 31 December 2017 and down slightly by 12 bps compared to the fully-loaded ratio at the same date. The phase-in CET1 ratio takes into account the end of the phase-in period for neutralising evaluation reserves for government bonds as of 1 January 2018.

Similarly, Total Capital Ratio would be 20.9%, up 66 bps compared to that at 31 December 2017 and with a limited reduction of 13 bps compared to the fully loaded ratio at the same date.

Therefore, with reference to the adoption of IFRS 9, the Banking Group did not opt to apply the phase-in regime set forth in the Regulation (EU) No. 217/2395 which allows banks, whose opening balance sheet at the date of IFRS 9 first-time adoption reports a decline in CET1 due to the increase in expected credit loss provisions (net of tax effects), to include in their CET1 a portion of the said increased provisions for a phase-in period of five years.

The leverage ratio at the end of the year reached 4.95%, in line with that at the end of the previous year.

RECONCILIATION STATEMENT BETWEEN PARENT COMPANY BANCA GENERALI'S NET EQUITY AND CONSOLIDATED NET EQUITY

(€ THOUSAND)	31.12.2018		
	SHARE CAPITAL AND RESERVES	NET PROFIT	NET EQUITY
Net equity of Banca Generali	443,552	189,058	632,610
Differences between net equity and book value of companies consolidated using the line-by-line method	72,863	-	72,863
- Profit carried forward of consolidated companies	72,708	-	72,708
- Other changes	155	-	155
Dividends from consolidated companies	38,724	-148,724	-110,000
Consolidated companies' result for the year	-	139,942	139,942
Result of associates valued at equity	-259	-150	-409
Valuation reserves - consolidated companies	-131	-	-131
Consolidation adjustments	-	-	-
Net equity of the Banking Group	554,749	180,126	734,875

Cash flows

At the end of 2018, operating activities generated a total of 621 million euros in cash flows. In detail, cash inflows were generated by operations (157.3 million euros) and by the significant increase in net inflows from customers (+1,360 million euros), partly offset by the reduction in interbank funding due to the early repayment of the ECB TLTRO2 at the end of September (-400 million euros).

Such liquidity was only partially absorbed by the expansion of loans to customers (270 million euros), which included short-term repurchase agreements for 200 million euros and investments in financial assets (+52 million euros) and interbank deposits (+78.7 million euros).

Total net cash flows generated by operating activities thus allowed to cover the significant amount of dividends paid (-145.4 million euros) and outlays for new investments, resulting in a balance of cash and deposits at year-end of over 1,012.9 million euros.

(€ THOUSAND)	31.12.2018	31.12.2017	CHANGE
Liquidity generated by operations	157,258	226,516	-69,258
Financial assets	-52,002	-528,214	476,212
Loans to banks	-78,720	-80,917	2,197
Loans to customers	-269,814	-72,425	-197,389
Other operating assets	104,745	105,089	-344
Total assets	-295,791	-576,467	280,676
Amounts due to banks	-551,413	-123,970	-427,443
Amounts due to customers	1,359,898	529,133	830,765
Other operating liabilities	-49,208	65,806	-115,014
Total liabilities	759,278	470,969	288,309
Liquidity generated by/used for operating activities	620,745	121,018	499,727
Investments	-13,036	-8,726	-4,310
Purchase of business units and equity investments	-	-	-
Liquidity generated by/used for investing activities	-13,036	-8,726	-4,310
Dividends paid	-145,474	-124,674	-20,800
Issue/purchase of treasury shares	-12,841	-7,281	-5,560
Liquidity generated by/used for financing activities	-158,315	-131,955	-26,360
Net liquidity generated/used	449,394	-19,663	469,057
Cash and cash equivalents	1,012,891	563,498	449,393

Results by Line of Business

In application of IFRS 8, Banca Generali Group's segment reporting is based on information that management uses to make its operating decisions (so-called "management approach").

Until December 2017, the Banking Group identified the following three main business areas:

- › the Affluent Channel, which referred to the total earnings generated for the Group by the network of Financial Advisors reporting to the Financial Planner Division;
- › the Private Channel, which referred to the total earnings generated for the Group by the network of Private Bankers and Relationship Managers reporting to the Private Division;
- › the Corporate Channel, which referred to the total earnings generated for the Group by the financial activities of the Finance Department and the provision of banking and investment services to medium-sized and large enterprises, including those belonging to the Assicurazioni Generali Group, as well as all revenues and costs not attributable to the sales channels.

It should be noted that the extensive reorganisation of the sales networks approved by the Board of Directors of 8 November 2017 also led to a review of the operating segments identified by the corporate management for purposes of management reporting. In particular, effective as of 1 January 2018 the networks of non-employed Financial Advisors have been revised according to specialisation and reorganised into two macro-divisions on the basis of the total AUM managed by each Financial Advisor, with the introduction of the new Wealth Management network, which brings together Financial Advisors in the highest asset bracket (i.e., with AUM of more than 50 million euros).

The new **Wealth Management CGU ("WM CGU")** consists of the assets attributable to the network of Financial Advisors identified within Banca Generali's sales network as managing total client assets of more than 50 million euros and the respective clients.

The new **Private Banking CGU ("PB CGU")** consists of the assets attributable to the network of Financial Advisors identified within Banca Generali's sales network as managing total client assets of less than 50 million euros, as well as the assets attributable to Relationship Managers and the respective clients.

The interest expense incurred by the segments mentioned below was determined on the basis of the actual interest paid on each segment's direct inflows. Interest income for the segments includes the actual interest accrued on the loans issued to customers in each segment. Both components are recognised net of the share of the "notional interest" calculated on the basis of the internal reference rate (TIT) and attributed to the Corporate Centre segment.

Performance fees have been directly allocated to the business areas which place the products. All the revenue components presented are measured using the same accounting principles adopted to prepare the Group's Consolidated Financial Statements so that segment data can be reconciled more easily with consolidated data.

In light of the effects of the reorganisation of the sales network and the fine-tuning of the model based on the internal reference rate, 2017 figures have been reclassified on a like-for-like basis.

The following table shows the consolidated profit and loss results of each of the three operating segments, stated net of intra-segment eliminations.

BANCA GENERALI GROUP PROFIT AND LOSS ACCOUNT BY BUSINESS SEGMENT	31.12.2018				31.12.2017			
	PB CGU	WM CGU	CORPORATE CENTRE	TOTAL	PB CGU	WM CGU	CORPORATE CENTRE	TOTAL
NET INTEREST INCOME	5,479	2,451	52,043	59,972	11,820	4,702	44,899	61,421
Fee income	505,169	173,959	62,539	741,666	507,317	180,315	72,856	760,489
of which: underwriting	17,323	3,100	485	20,908	13,713	4,881	1,146	19,740
of which: management	446,802	158,386	29,015	634,202	416,391	148,256	22,483	587,130
of which: performance	24,198	6,373	8,044	38,614	60,673	21,760	32,669	115,102
of which: other	16,846	6,101	24,995	47,942	16,541	5,418	16,558	38,517
Fee expense	-256,302	-106,543	-13,500	-376,345	-264,634	-110,177	-15,179	-389,991
NET FEES	248,866	67,417	49,038	365,321	242,683	70,138	57,676	370,498
Net income (loss) from trading activities			21,811	21,811			15,347	15,347
Dividends			2,308	2,308			2,745	2,745
NET BANKING INCOME	254,345	69,867	125,200	449,412	254,503	74,840	120,668	450,011
Staff expenses				-84,227				-84,824
Other general and administrative expenses				-162,494				-149,765
Net adjustments/reversal of property, equipment and intangible assets				-9,301				-8,144
Other operating expense/income				59,437				54,879
Net operating expenses				-196,584				-187,855
Operating result				252,828				262,156
Adjustments of other assets				-7,286				-5,441
Net provisions				-25,351				-17,979
Gains (losses) from of equity investments				-431				-166
Operating profit before taxation				219,760				238,570
Income taxes for the year on current operations				-39,634				-34,464
Profit (loss) from AFS assets								
Minority interests (+/-) for the year								
Net profit				180,126				204,105
(€ MILLION)								
Assets Under Management	41,023	16,055	4,271	61,349	39,497	15,634	4,267	59,398
Net inflows	3,967	1,334	-281	5,020	4,778	2,206	-117	6,868
No. of FAs/RMs	1,720	265	n.a.	1,985	1,686	250	n.a.	1,936

PB CGU

PB CGU	31.12.2018	31.12.2017	CHANGE
Net interest income	5,479	11,820	-53.64%
Net fees	248,866	242,683	2.55%
Net banking income	254,345	254,503	-0.06%
AUM	41,023	39,497	3.86%
Net Inflows	3,967	4,778	-16.97%
Financial Advisors	1,720	1,686	2.02%
AUM/FA	23.85	23.43	1.81%
Inflows/FA	2.31	2.83	-18.61%

At 31 December 2018, this CGU's AUM amounted to 41.0 billion euros, up compared to the previous year by about 1.5 billion euros (+3.9%), thanks to the contribution of net inflows, which more than offset the market's negative performance.

In 2018, this CGU's net banking income amounted to 254.3 million euros, essentially in line with 2017 (254.5 million euros). This result was attributable to:

- > a reduction in net interest income (-53.6%), chiefly due to the rise in the curve of the interest rates applied within model based on the internal reference rate, which therefore resulted in a higher share of notional interests attributed to the Corporate Centre CGU;
- > an increase in net fees (+2.55%), despite the significant decline in performance fees compared to the previous year (-60%), thanks to the rise of all components, driven by higher management fees (+7.3%) due to the growth in average assets (+10%).;

The CGU's contribution to total consolidated net banking income was 57%, in line with 2017 (51% in 2016), whereas the ratio of net fees to average AUM was 0.61% (0.65% in 2017).

WM CGU

WM CGU	31.12.2018	31.12.2017	CHANGE
Net interest income	2,451	4,702	-47.88%
Net fees	67,417	70,138	-3.88%
Net banking income	69,867	74,840	-6.64%
AUM	16,055	15,634	2.69%
Net Inflows	1,334	2,206	-39.54%
Financial Advisors	265	250	6.00%
AUM/FA	60.59	62.54	-3.12%
Inflows/FA	5.03	8.83	-42.96%

At 31 December 2018, WM CGU's AUM amounted to 16.1 billion euros, up compared to 2017 (+0.4 billion euros; +2.7%), with net inflows of over 1.3 billion euros, down compared to 2017 (2.2 billion euros). In 2018, the CGU's net banking income was 69.9 million euros (74.8 million euros in 2017), down 6.7%. The reasons of this performance are the same as those already illustrated for the PB CGU. The CGU's contribution to total net banking income was 16% (17% in 2017), whereas the ratio of net fees to average AUM was 0.42% (0.49% in 2017).

Corporate Centre CGU

CORPORATE CENTRE	31.12.2018	31.12.2017	CHANGE
Net interest income	52,043	44,899	15.91%
Net fees	49,038	57,676	-14.98%
Net income (loss) from trading activities and dividends	24,119	18,092	33.31%
Net banking income	125,200	120,668	3.76%
AUM	4,271	4,267	0.08%
Net Inflows	n.a.	n.a.	n.a.
Financial Advisors	n.a.	n.a.	n.a.

At 31 December 2018, the Corporate Centre CGU's AUM amounted to 4.3 billion euros, in line with the figures at year-end 2017. In 2018, net banking income in the Corporate channel reached 125.2 million euros (120.7 million euros in 2017), with an annual increase of 3.8% due to:

- > an increase in net financial income, due both to the net interest income component (+15.9%) and the higher gains and losses reported in the previous year (+33.3%).
- > a decline in net fees, mainly as a result of the lower contribution of performance fees (8.0 million euros in 2018 compared to 32.7 million in 2017), partly offset by the increase in management fees (29.0 million euros) due to the expansion of assets under management relating to the UCITS underlying the policies placed by Assicurazioni Generali Group companies. The contribution to consolidated net banking income was 28% (27% in 2017).

Banca Generali Stock Performance

2018 was an extremely complex year for international equity markets. The launch of the process of normalising monetary policy in the United States and Europe, the slowing of the global economic cycle and growing geopolitical tensions drove a return of financial market volatility and an increase in the cost of risk, with the resulting decline in equity market valuations. The Italian market was among those most severely penalised (-16.1%), due in part to the strong role played by its banking sector, whose performance (-30.3%) was affected by the extreme Italian government bond volatility in 2018.

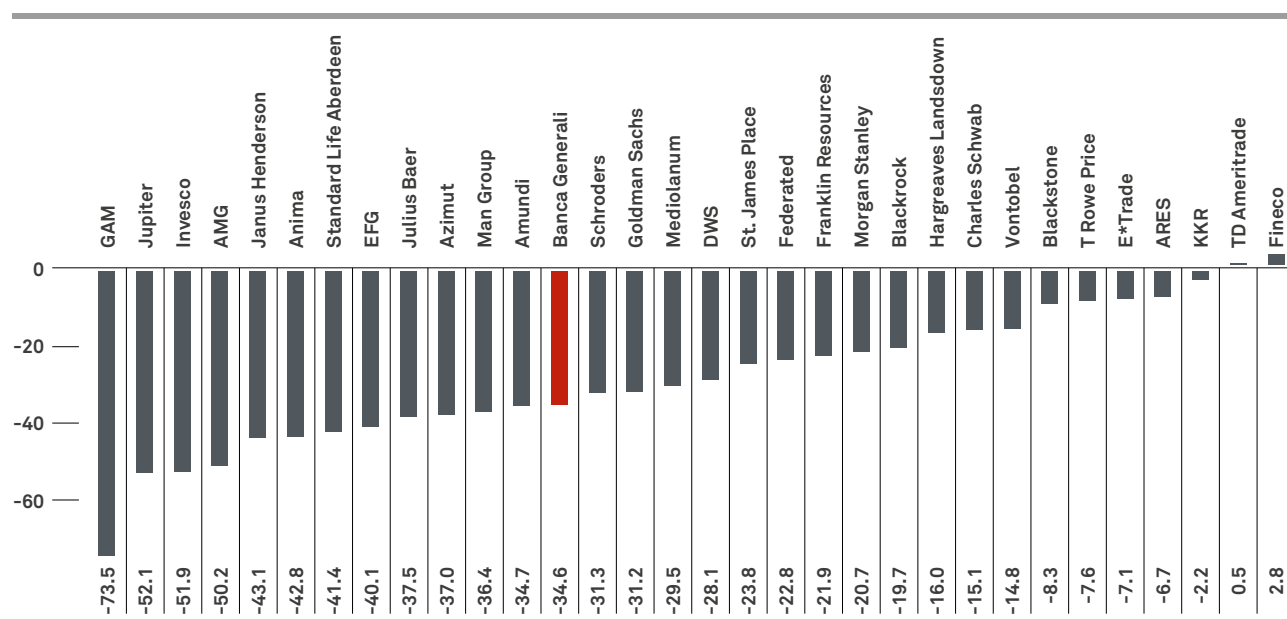
PERFORMANCE OF THE MAIN STOCK INDICES (% change, YoY)

	2014	2015	2016	2017	2018
Banca Generali	2.4%	26.6%	-22.3%	22.4%	-34.6%
FTSE MIB	0.2%	12.7%	-10.2%	13.6%	-16.1%
FTSE Italia Banks (All Shr)	6.8%	14.8%	-38.2%	14.9%	-30.3%
DJ EuroStoxx 600	4.4%	7.8%	-1.7%	7.7%	-13.2%
DJ EuroStoxx 600 Banks	-4.9%	-4.2%	-8.5%	10.9%	-33.3%
MSCI World	17.3%	8.5%	8.1%	5.3%	-6.5%
S&P 500 (USA)	26.9%	10.5%	12.3%	4.7%	-2.3%
DAX 50 (Germany)	2.7%	9.6%	6.9%	12.5%	-18.3%
CAC 40 (France)	-0.5%	10.2%	4.0%	9.3%	-11.0%
CSI 300 (China)	68.5%	15.9%	-14.9%	13.6%	-25.8%
IBOV (Brazil)	-1.8%	-35.3%	38.9%	9.3%	-0.04%

Note: changes in euros

The performance of the Bank's shares, and that of the entire international asset management industry more generally, was affected by the pressure on international financial markets, which also coincided with the implementation of a new regulatory framework, the European MiFID II Directive, with effect from 1 January 2018. The prudent attitude prompted by these European and global industry trends was further reinforced by the specific Italian situation, particularly the extreme volatility of its government bonds, which only partly abated near year-end. All these factors affected the Bank's share price, which thus declined by 34.6% in the course of the year.

PERFORMANCE OF INTERNATIONAL ASSET MANAGEMENT INDUSTRY'S MAIN STOCKS



BANCA GENERALI STOCK PERFORMANCE (2018-2019 YTD)



MARKET PRICES OF BANCA GENERALI SHARES - SUMMARY

	2014	2015	2016	2017	2018
Maximum	25,110	33,360	28,300	30,500	30,840
Minimum	18,580	22,230	16,020	22,790	17,030
Average	21,810	28,110	22	26,860	23,529
Year-end	23,050	29,180	22,660	27,740	18,130
Capitalisation (€ million)	2,668	3,388	2,638	3,241	2,119

Banca Generali continues to be included in the FTSE MIB index, which is composed of the top 40 securities on the Italian exchange by market capitalisation.

The Bank's shares amounted to 116,851,637, of which 50.2% held by the parent company Assicurazioni Generali. Allianz is the second largest shareholder (5% of share capital). The number of the Bank's treasury shares has rose over the years. They are intended for the service of long-term remuneration plans for the Bank's key personnel, highlighting their link to the stock performance.

AUTHORISED SHARE CAPITAL

	2014	2015	2016	2017	2018
Number of shares issued	115,746,023	116,092,599	116,424,502	116,851,637	116,851,637
No. of outstanding shares at year-end*	115,735,952	115,995,422	116,298,373	116,379,062	115,922,547
Treasury shares	10,071	97,177	126,129	472,575	929,090

*net of treasury shares

Parent Company's Operations

Considering the Banca Generali Group's operating structure, the report on consolidated figures better meets the needs of valid representation of earnings and financial position performance than an analysis of the Bank's aggregates alone.

Accordingly, these comments complete the consolidated information to which primary reference should be made.

Profit and Loss results

Banca Generali closed 2018 with net profit of 189.0 million euros, down compared to 206.4 million euros reported at the end of the previous year, chiefly due to the lower contribution of dividends distributed both in advance and at the end of the previous year by the Luxembourg subsidiary BG Fund Management Luxembourg S.A., which decreased from 201.8 million euros to 148.7 million euros.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Net interest income	60,195	61,477	-1,282	-2.1%
Net income (loss) from trading activities and dividends	24,119	18,087	6,032	33.3%
Net financial income	84,314	79,564	4,750	6.0%
Fee income	554,158	500,310	53,848	10.8%
Fee expense	-348,114	-357,745	9,631	-2.7%
Net fees	206,044	142,565	63,479	44.5%
Net operating income	290,358	222,129	68,229	30.7%
Staff expenses	-79,330	-78,590	-740	0.9%
Other general and administrative expenses	-160,328	-145,921	-14,407	9.9%
Net adjustments of property, equipment and intangible assets	-9,223	-8,089	-1,134	14.0%
Other operating expenses/income	59,040	53,717	5,323	9.9%
Net operating expenses	-189,841	-178,883	-10,958	6.1%
Operating result	100,517	43,246	57,271	132.4%
Net adjustments for non-performing loans	-7,276	-5,418	-1,858	34.3%
Net provisions	-25,342	-17,455	-7,887	45.2%
Dividends and income from equity investments	148,724	201,770	-53,046	-26.3%
Gains (losses) from equity investments	-282	-15	-267	n.a.
Operating profit before taxation	216,341	222,128	-5,787	-2.6%
Income taxes for the year	-27,283	-15,679	-11,604	74.0%
Net profit	189,058	206,449	-17,391	-8.4%

Reclassified banking income¹⁰, net of the dividends distributed by the Banking Group's investors, amounted to 290.4 million euros, increasing by 68.2 million euros (+31.0%) on the previous year, primarily due to the rise in net fees (+63.5 million euros) and in net financial income (+4.7 million euros), following the banking book de-risking strategy launched at the end of the previous year and successfully implemented also in the first half of 2018.

Within this latter aggregate, net income from trading activities and dividends increased by 6.0 million euros overall, partially offset by a modest 1.3 million euros decline in **net interest income** (-2.1%) attributable to both still extremely low interest rates and the banking book prudent profile adopted as of late 2017.

¹⁰ To ensure a better understanding of operating performance, in the reclassified consolidated Profit and Loss Account the provisions for incentive fees and recruitment plans have been reclassified within the net fee aggregate. As a result, net provisions were restated net of these items for an amount of 22.7 million euros for 2018 and 41.2 million euros for 2017.

Net banking income reflects some amortisation schedule changes¹¹ for ordinary incentives paid to Financial Advisors on the basis of net inflow targets which generated a 20.1 million euros positive effect on the fee aggregate at year-end (13.5 million euros net of tax effect).

Net fees were 206.0 million euros, up sharply compared to the previous year (+45.0%).

As regards this aggregate, fee income on placement and asset management increased during the year (+44.4 million euros), whereas distribution fee expense declined (-11.6 million euros).

In the other banking and financial services segment, advisory fees rose (+7.4 million euros), driven by the new advanced advisory service.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Fees for portfolio management	79,452	60,068	19,384	32.3%
Fees for placement of securities and UCITS	201,500	188,137	13,363	7.1%
Fees for distribution of third-party financial products	225,708	214,046	11,662	5.4%
Fees for trading, receipt of orders, and custody of securities and currencies	22,931	21,806	1,125	5.2%
Consultancy	15,395	7,967	7,428	93.2%
Fees for collection and payment services	4,318	2,993	1,325	44.3%
Fees for other banking services	4,854	5,293	-439	-8.3%
Total fee income	554,158	500,310	53,848	10.8%
Fees for off-premises offer	335,595	347,242	-11,647	-3.4%
Fees for collection and payment services	3,991	2,414	1,577	65.3%
Fees for trading and securities custody	6,898	6,898	-	-
Fees for portfolio management	746	595	151	25.4%
Fees for other banking services	884	596	288	48.3%
Total fee expense	348,114	357,745	-9,631	-2.7%
Net fees	206,044	142,565	63,479	44.5%

Fee income from the solicitation of investment and asset management of households reached 506.7 million euros, rising 9.6% compared to the previous year.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
1. Individual portfolio management	79,452	60,068	19,384	32.3%
Portfolio management fees	79,452	60,068	19,384	32.3%
1. Placement of Banking Group's UCITS units	102,661	112,907	-10,246	-9.1%
2. Placement of UCITS units	90,417	73,395	17,022	23.2%
3. Bond placement	8,422	1,835	6,587	359.0%
4. Distribution of portfolio management services	792	3,187	-2,395	-75.1%
5. Distribution of insurance products	224,208	210,304	13,904	6.6%
6. Distribution of other third-party financial services	708	555	153	27.6%
Placement and distribution of third party products	427,208	402,183	25,025	6.2%
Total	506,660	462,251	44,409	9.6%

In 2018, fees on the distribution of insurance products rose to 224.2 million euros (+6.6%) and **fees on the placement of UCITS** not promoted by the Banking Group grew sharply to 90.4 million euros, up 23.2% compared to 2017, due to very positive demand for à la carte funds and Sicavs.

¹¹ These changes, implemented in part owing to the greater flexibility of the accounting standard IFRS 15, made it possible to align the accounting treatment of incremental costs paid to Financial Advisors in relation to the organic growth of assets under management with the treatment of recruitment incentives tied to the acquisition of new customers (amortised over five years), thereby ensuring a more effective correlation between total fee expenses and the fee income generated by customer investments.

Underwriting and management fees on the **placement of Banking Group's Sicav** instead declined by 9.1%.

The result of individual portfolio management schemes increased by 32.3% compared to 2017, thanks to the new multi-line product BG Solution.

In addition, the placement of Certificates generated fees for almost 7.0 million euros compared to 1.4 million euros reported in 2017.

Fee expense, including fee provisions, amounted to 348.1 million euros, down compared to the previous year (-2.7%), mostly due to the decrease in fees paid to the Financial Advisor network for off-premises offers (-3.4%).

The Bank's total **payout ratio** to total fee income was thus 62.8%, down compared to 71.5% in 2017. The payout ratio for off-premises offers alone, calculated on the basis of asset management fees, amounted to 66.2%, compared to 75.1% in the previous year.

Operating expenses totalled 189.8 million euros, up by nearly 11.0 million euros overall compared to the previous year (+6.1%), chiefly due to the higher contributions to the resolution and deposit protection funds. (+2.9 million euros) and the one-off charges related to the many ongoing strategic projects (6.1 million euros). Net of these items, operating expenses were essentially unchanged, proof of the ability to maximise the operating leverage in a context of constant business expansion.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Staff expenses	-79,330	-78,590	-740	0.9%
Other general and administrative expenses (net of tax recovery)	-97,596	-90,252	-7,344	8.1%
BRRD and FITD contributions	-7,615	-4,738	-2,877	60.7%
Net adjustments of property, equipment and intangible assets	-9,223	-8,089	-1,134	14.0%
Other income and expenses (net of tax recovery)	3,923	2,786	1,137	40.8%
Operating expenses	-189,841	-178,883	-10,958	6.1%

The **cost/income ratio**, which measures the ratio of operating expenses (gross of adjustments of property, equipment and intangible assets) to net operating income, amounted to 62.2%, compared to 76.9% reported at year-end 2017.

Staff expenses, including full-time employees, interim staff and directors, reached 79.3 million euros, essentially in line with the previous year (-0.9%).

Other general and administrative expenses, net of recoveries of taxes paid by clients, amounted to 97.6 million euros, increasing slightly compared to the previous year (+7.3 million euros; +8.1%).

This aggregate includes the moving and facility management costs associated with the Bank's new offices in the Hadid Tower, in the Citylife complex, and the higher costs generated by the expansion of the local network structure over the past two years that amounted to 1.8 million euros, whereas the increase in costs related to strategic projects and M&As was estimated at 4.7 million euros.

Net provisions not related to fees amounted to 25.3 million euros, up by 7.9 million euros compared to 2017, partly due to non-recurring items associated with the refinancing of the provisions for redundancy incentives and the reorganisation of sales manager network.

Net adjustments for non-performing loans were 7.3 million euros, up 1.8 million euros compared to 2017, largely as a result of the decline in the creditworthiness of Italian government bonds, arising on the new criteria for calculating forward-looking probabilities of default (PD) based on market data adopted following the transition to IFRS 9.

Current and deferred **taxes for the year** were estimated at 27.3 million euros, up by +11.6 million euros on the expected amount reported at the end of the previous year.

The Bank's overall tax rate rose from 7.1% estimated at the end of 2017 to 12.6%, mainly due to the lower weight of dividends from equity investments (-53.0 million euros), which were 95% excluded from taxes for IRES purposes and 50% excluded for IRAP.

(€ THOUSAND)	2018	2017	CHANGE	
			AMOUNT	%
Current taxes for the year	-31,688	-22,970	-8,718	38.0%
Prior years' taxes	2,018	1,553	465	29.9%
Deferred tax receivables and payables	2,387	5,738	-3,351	-58.4%
Total	-27,283	-15,679	-11,604	74.0%

Balance sheet and net equity aggregates

At the end of 2018, total assets amounted to 9.7 billion euros, increasing by 0.7 billion euros compared to the end of 2017 (+8.2%).

2018 was marked by a remarkable increase in overall net inflows, which reached 8.7 billion euros (+9.4%), driven by the significant net inflows from customers (+17.9%), which offset the decline in interbank net inflows and the TLTRO early repayment.

The volume of core loans at the end of the year was 9.2 billion euros (+8.8%).

ASSETS (€ THOUSAND)	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	90,640	49,814	40,826	82.0%
Financial assets at fair value through other comprehensive income	1,987,315	4,612,724	-2,625,409	-56.9%
Financial assets at amortised cost	7,087,789	3,763,702	3,324,087	88.3%
a) Loans to banks	1,391,802	902,613	489,189	54.2%
b) Loans to customers	5,695,987	2,861,089	2,834,898	99.1%
Equity investments	4,445	16,225	-11,780	-72.6%
Property, equipment and intangible assets	101,435	94,025	7,410	7.9%
Tax receivables	52,756	45,363	7,393	16.3%
Other assets	334,553	348,820	-14,267	-4.1%
Total assets	9,658,933	8,930,673	728,260	8.2%

(*) Demand deposits with ECB have been reclassified among loans to banks.

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
Financial liabilities at amortised cost	8,706,397	7,958,931	747,466	9.4%
a) Due to banks	128,725	682,526	-553,801	-81.1%
b) Due to customers	8,577,672	7,276,405	1,301,267	17.9%
Financial liabilities held for trading and hedging	384	206	178	86.4%
Tax payables	14,175	22,280	-8,105	-36.4%
Other liabilities	140,874	182,114	-41,240	-22.6%
Special purpose provisions	164,493	153,078	11,415	7.5%
Valuation reserves	-11,505	21,846	-33,351	-152.7%
Reserves	303,040	223,969	79,071	35.3%
Share premium reserve	57,889	58,219	-330	-0.6%
Share capital	116,852	116,852	-	-
Treasury shares (-)	-22,724	-13,271	-9,453	71.2%
Net profit (loss) for the year (+/-)	189,058	206,449	-17,391	-8.4%
Total net equity and liabilities	9,658,933	8,930,673	728,260	8.2%

Direct inflows from customers amounted to 8.6 billion euros, with an increase of 1.3 billion euros compared to 31 December 2017, attributable to the sharp rise in net inflows from retail customers.

(€ THOUSAND)	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
1. Current accounts and demand deposits	8,228,273	6,992,747	1,235,526	17.7%
2. Term deposits	25,939	-	25,939	n.a.
3. Financing	173,824	83,845	89,979	107.3%
Repurchase agreements	130,542	40,567	89,975	221.8%
Subordinated loans	43,282	43,278	4	-
4. Other debts	149,636	199,813	-50,177	-25.1%
Operating debts to sales network	99,213	109,232	-10,019	-9.2%
Other (money orders, amounts at the disposal of customers)	50,423	90,581	-40,158	-44.3%
Total due to customers	8,577,672	7,276,405	1,301,267	17.9%

Captive inflows from subsidiaries and the companies within the Assicurazioni Generali Group decreased by 17.1 million euros to 567.3 million euros at the end of the year, thus accounting for 6.6% of total net inflows.

The aggregate includes 43.3 million euros for the Tier-2 subordinated loan issued by the subsidiary Generali Beteiligungs GmbH in 2014.

(€ THOUSAND)	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
Inflows from subsidiaries	40,260	89,296	-49,036	-54.9%
Inflows from Parent Company	87,798	6,247	81,551	1,305.4%
Inflows from other subsidiaries	439,197	488,813	-49,616	-10.2%
Total inflows from Generali Group	567,255	584,356	-17,101	-2.9%
Inflows from other parties	8,010,417	6,692,049	1,318,368	19.7%
of which: current accounts	7,704,315	6,451,682	1,252,633	19.4%
Total inflows from customers	8,577,672	7,276,405	1,301,267	17.9%

The growth in inflows from customers (external to the Insurance Group) continued to be driven mostly by demand current account balances, which reported a net increase of 1,253 million euros to 7,704 million euros.

2018 saw also the relaunch of net inflows in the form of repurchase agreements, which rose by 90 million euros, and term deposits.

The non-interest-bearing debt position consisted of other sums available to customers, primarily relating to claims settlement activity by the Group's insurance companies (money orders), as well as of payables to the sales network for the placement of financial products and services. This segment instead shrank significantly, mostly driven by the reduction of the collection of the money orders issued on behalf of insurance companies.

Core loans totalled 9.2 billion euros overall and increased by 739.5 million euros (+8.8%) compared to 31 December 2017.

(€ THOUSAND)	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	90,640	49,814	40,826	82.0%
Financial assets at fair value through other comprehensive income	1,987,315	4,612,724	-2,625,409	-56.9%
Financial assets at amortised cost	7,087,789	3,763,702	3,324,087	88.3%
a) Loans to banks	1,391,802	902,613	489,189	54.2%
Deposits and financing (*)	1,312,073	809,510	502,563	62.1%
Debt securities	79,432	92,752	-13,320	-14.4%
Other operating loans	297	351	-54	-15.4%
b) Loans to customers	5,695,987	2,861,089	2,834,898	99.1%
Financing	2,028,163	1,768,965	259,198	14.7%
Debt securities	3,549,694	981,143	2,568,551	261.8%
Other operating loans	118,130	110,981	7,149	6.4%
Total interest-bearing financial assets and loans	9,165,744	8,426,240	739,504	8.8%

(*) ECB demand deposits included

Demand deposits with the ECB remained at high levels at 991.9 million euros, as a result of the high volatility in the financial markets in the fourth quarter of the year that led to a significant increase in customers' deposits subject to immediate withdrawal and a decrease in investments in the Bank's financial instruments.

The rise in loans to customers was mainly attributable to reverse repurchase agreement managed by Cassa di Compensazione e Garanzia (CC&G) as the counterparty, effected at year-end to absorb a temporary liquidity increase.

Loans to customers reached 2,028 million euros, up compared to year-end 2017 (+14.7%), mainly as a result of the increase in loans in the form of repurchase agreements (+200 million euros) and the modest expansion of overdraft facilities, partly offset by the decline of mortgages.

(€ THOUSAND)	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
Current accounts	985,906	895,369	90,537	10.1%
Mortgages and personal loans	840,147	869,793	-29,646	-3.4%
Other financing and loans not in current accounts	2,173	3,803	-1,630	-42.9%
Reverse repurchase agreements	199,937	-	199,937	n.a.
Total loans	2,028,163	1,768,965	259,198	14.7%
Operating loans to product companies	81,475	69,089	12,386	17.9%
Sums advanced to Financial Advisors	19,395	34,376	-14,981	-43.6%
Stock exchange interest-bearing daily margin	13,088	3,562	9,526	267.4%
Charges to be debited and other loans	4,172	3,954	218	5.5%
Operating loans and other loans	118,130	110,981	7,149	6.4%

Net non-performing exposures on loans to customers amounted to 36.8 million euros, or 1.82% of total loans to customers reported in the table above.

The aggregate includes all the exposures originating in the portfolio of Banca del Gottardo Italia, fully covered by the loan indemnity granted by BSI S.A.¹² upon the sale of the said company and chiefly secured to that end by cash collateral payments by the counterparty.

Net of this aggregate, non-performing exposures on loans to customers amounted to 17.0 million euros and consisted for 95% of credit facilities secured by financial collaterals mainly in the form of pledges of financial instruments and/or similar products, such as mandate to policy redemption.

Unsecured exposures to customers, for which risk is effectively borne by the Bank, amounted to just 0.8 million euros, or around 0.04% of total loans to customers.

¹² As of 7 April 2017, the Swiss operations of BSI S.A. were totally transferred to EFG Bank AG - Lugano Branch, as per the Swiss law on mergers.

At 31 December 2018, the **interbank position**, net of the securities portfolio and operating loans, showed a net credit balance of 1,183.3 million euros, sharply up compared to a net credit imbalance of 127.0 million euros at the end of the previous year.

This situation was mainly due to the combined effect of the ongoing significant level of demand deposits with the ECB (991.9 million euros), the end of leveraged net inflows in the form of repurchase agreements at negative rates on the interbank market (-189.7 million euros), and lastly, the full early repayment of the TLTRO2 (-400 million euros) granted on 29 June 2016 and with a four-year term.

(€ THOUSAND)	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
1. Repayable on demand	1,210,726	675,882	534,844	79.1%
Demand deposits with ECB and Bank of Italy (*)	991,874	545,632	446,242	81.8%
Demand deposits with credit institutions	29,918	-	29,918	n.a.
Transfer accounts	188,934	130,250	58,684	45.1%
2. Time deposits	101,347	133,628	-32,281	-24.2%
Mandatory reserve	82,714	67,617	15,097	22.3%
Term deposits	17,449	65,938	-48,489	-73.5%
Collateral margins	1,184	73	1,111	n.a.
Total loans to banks	1,312,073	809,510	502,563	62.1%
1. Due to Central Banks	-	400,000	-400,000	-100.0%
TLTRO	-	400,000	-400,000	-100.0%
2. Due to banks	128,725	282,526	-153,801	-54.4%
Transfer accounts	108,850	57,472	51,378	89.4%
Term deposits	-	3,796	-3,796	-100.0%
Repurchase agreements	-	189,657	-189,657	-100.0%
Collateral margins	-	9,532	-9,532	-100.0%
Other debts	19,875	22,069	-2,194	-9.9%
Total due to banks	128,725	682,526	-553,801	-81.1%
Net interbank position	1,183,348	126,984	1,056,364	831.9%

(*) Reclassified from Item 10 – Demand loans to Central Banks.

Net equity and regulatory aggregates

At 31 December 2018, Banca Generali's net equity, including net profit for the year, amounted to 632.6 million euros compared to 614.1 million euros at the end of the previous year.

(€ THOUSAND)	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
Share capital	116,852	116,852	-	-
Share premium reserve	57,889	58,219	-330	-0.6%
Reserves	303,040	223,969	79,071	35.3%
(Treasury shares)	-22,724	-13,271	-9,453	71.2%
Valuation reserves	-11,505	21,846	-33,351	-152.7%
Net profit (loss) for the year	189,058	206,449	-17,391	-8.4%
Total net equity	632,610	614,064	18,546	3.0%

The change in net equity was primarily attributable to the increase in net profit for the year, the distribution of the 2017 dividend of 145.5 million euros – approved by the session of the General Shareholders' Meeting held on 12 April 2018 that also approved the Financial Statements – the buy-back of treasury shares, and the change in the reserves for shared-based payments (IFRS 2), the negative change in fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (HTCS) and other reserves included in other comprehensive income, as well as profit.

On **1 January 2018**, the merger of the subsidiary BG Fiduciaria Sim S.p.A. into the Parent Company, Banca Generali, became effective. Following this transaction, a 10.9 million euros merger surplus equity reserve was recognised, in addition to negative valuation reserves amounting to 0.1 million euros.

Following the entry into force, effective 1 January 2018, of the new accounting standards IFRS 9 and IFRS 15, approximately 4.8 million euros FTA net equity reserves were recognised, and approximately 7.6 million euros valuation reserves were written off, for an overall negative impact of 2.8 million euros.

	31.12.2018
Net equity at year-start	614,064
Merger of BG Fiduciaria	10,814
IFRS 9 and IFRS 15 FTA	-2,826
Dividend paid	-145,474
Purchase and sale of treasury shares	-12,841
matured IFRS 2 reserve for remuneration policies	4,383
Matured IFRS 2 reserve on LTIP	1,100
Change in valuation reserves	-25,669
Net profit for the year	189,058
Net equity at year-end	632,610
Change	18,546

Fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (HTCS) showed a net decrease of 25.6 million euros, primarily owing to the portfolio of Italian government bonds, for which net reserves amounted to -6.2 million euros compared to 15.2 million euros at the date of transition to IFRS 9 (1 January 2018).

The aggregate had an overall negative balance of 11.5 million euros, down by 33.4 million euros compared to year-end 2017.

Own funds, calculated in accordance with the phase-in Basel 3 rules, amounted to 433.8 million euros, up by 32.9 million euros compared to the end of the previous year, chiefly due to the portion of retained earnings.

At year-end, the aggregate capital for regulatory purposes recorded 240.2 million euros in excess of the amount required to cover credit, market, and operating risks. Total Capital Ratio (TCR) was 17.9%, compared to the minimum requirement of 7%, and the capital conservation buffer was 1.25%

(€ THOUSAND)	31.12.2018		31.12.2017		CHANGE	
	FULL LOADED	PHASE IN	PHASE IN	AMOUNT	%	
Total Common Equity Tier 1 capital (CET1)	390,622	390,794	357,502	33,292	9.31%	
Total Additional Tier 1 (AT1) capital	-	-	-	-	n,a	
Total Tier 2 (T2) capital	43,000	43,000	43,370	-370	-0.85%	
Total own funds	433,622	433,794	400,872	32,922	8.21%	
Credit risk	147,391	147,391	126,617	20,774	16.41%	
Market risk	575	575	1,735	-1,160	-66.86%	
Operating risk	45,643	45,643	40,821	4,822	11.81%	
Total own funds absorbed	193,609	193,609	169,173	24,436	14.44%	
Positive excess margin over absorbed capital	240,013	240,185	231,699	8,485	3.66%	
Risk-weighted assets	2,420,115	2,420,115	2,114,663	305,452	14.44%	
Tier 1 capital/Risk-weighted assets (Tier 1 Capital Ratio)	16.1%	16.148%	16.906%	-0.8%	-4.5%	
Own funds/Risk-weighted assets (Total capital ratio)	17.9%	17.9%	19.0%	-1.0%	-5.4%	

RECONCILIATION OF OWN FUNDS

31.12.2018

Own funds at year-start	400,872
IFRS 9 and IFRS 15 FTA	-2,826
Merger of BG Fiduciaria	10,901
Buy back of treasury shares	-12,841
Retained earnings	44,157
IFRS 2 reserves	5,483
Change in OCI reserves on HTCS	-5,078
Change in IAS 19 OCI reserves (net of filter application)	-151
Change in goodwill and other intangibles	-7,030
Negative prudential filters (prudent valuation)	2,584
Deduction of DTA portion exceeding allowance	-1,907
Total changes in TIER 1 capital	33,292
Phase-in: change in positive AFS reserves	-370
Total changes in TIER 2 capital	-370
Own funds at year-end	433,794
Change	32,922

Purchase of Treasury Shares and Parent Company Shares

Treasury shares

At 31 December 2018, the Parent Company, Banca Generali, held 929,090 treasury shares, with a value of 22,723 thousand euros.

On the basis of the resolution passed by the Shareholders' Meeting on 12 April 2018 and the subsequent authorisation granted by the Supervisory Authority on 14 June 2018, in the third quarter of 2018 Banca Generali repurchased 577,644 treasury shares in service of the Banking Group's Remuneration Policy.

In particular, the repurchased shares will be used to cover the commitments under remuneration plans for key personnel in 2018, the second cycle of the loyalty plan for 2018 and the new Long-Term Incentive Plan for the three-year period 2018-2020, in addition to all other commitments as provided for by the Remuneration Policies.

In 2018, with reference to the achievement of the performance objectives and other commitments set out in the Remuneration Policy, 121,129 treasury shares, with a value of 3,388 thousand euros, were allotted to company managers and network managers.

During the year, treasury shares showed the following movements:

	NO. OF SHARES	VALUE	AVERAGE PRICE
Amount at year-start	472,575	13,271,045	28.08
Allotments	-121,129	-3,387,508	27.97
Purchases	577,644	12,840,075	22.23
Amount at year-end	929,090	22,723,612	24.46

Pursuant to Article 2357-ter of the Italian Civil Code, as per Legislative Decree No. 139/2015, and to Bank of Italy Circular No. 262/2015, the value of treasury shares was recognised in the Balance Sheet as a reduction to net equity in Item 200 of Liabilities.

Parent Company shares

At 31 December 2018, Banca Generali held 61,854 shares in the Parent Company, Assicurazioni Generali, broken down as follows:

- › 45,955 shares, originally acquired in the service of two stock-option plans for the Chief Executive Officer for 2004 and 2005, with no restrictions;
- › 15,899 shares originally purchased by the merged Banca BSI Italia, in the capacity of fund charged with the repurchase of non-negotiable fractions of Assicurazioni Generali shares from bonus share issues.

In the reporting year, the Parent Company shares remained virtually unchanged. At 31 December 2018, they were measured at fair value in the amount of 903 thousand euros.

Pursuant to Article 2359-*bis* of the Italian Civil Code, a restricted provision was allocated in relation to the ownership of Parent Company shares.

Performance of Subsidiaries

Performance of BG Fund Management Luxembourg S.A.

BG Fund Management Luxembourg S.A. (hereinafter BGFML) is a company under Luxembourg law specialising in the administration and management of the Sicavs promoted by the Banking Group (Lux IM Sicav and BG Selection Sicav) and the Sicav called BG Alternative, reserved for institutional investors.

BGFML ended 2018 with net profit of 139.9 million euros, down 58.7 million euros compared to the previous year, chiefly due to the decrease in performance fees (-76.4 million euros).

Net banking income amounted to 157.9 million euros (-64.7 million euros). Total operating expenses were stable at 5.6 million euros (4.1 million euros of which consisted of staff expenses).

The company's net equity amounted to 104.2 million euros, net of a dividend payout of 148.7 million euros, as payment in advance for 2018 and total payment for 2017.

Overall, assets under management at 31 December 2018 amounted to 14,111 million euros, compared to 14,967 million euros at 31 December 2017, down 856 million euros.

Performance of Generfid S.p.A.

Generfid, a company specialising in custodian capacity of assets, ended 2018 with a slight net loss and net equity amounting to about 0.85 million euros.

Net banking income amounted to about 1.2 million euros and virtually covers operating expenses.

Assets under management amounted to 1,261 million euros (1,300 million euros at the end of 2017).

Related Party Transactions

The Banca Generali's Board of Directors approved the¹³ **Procedure for Related Party and Connected Party Transaction and Transactions of Greater Importance**, in force as from 1 January 2011 and most recently updated with effect as of 15 May 2017, is intended to implement Consob and Bank of Italy regulations, by adopting, at group level, rules on Transactions with Related Parties and Connected Parties and Transactions of Greater Importance, governing the related investigation, approval, reporting and disclosure activities.

On 18 December 2012, the **Internal Policies Governing Controls of Risk Assets and Conflicts of Interest in Relations to Connected Parties** were approved in view of the actual implementation of the above-mentioned procedure. Said policies were most recently updated during the Shareholders' Meeting held on 9 May 2017.

This Procedure envisages that authorisation must be obtained from the Company in any event for any and all Highly Significant Transactions with Related Parties or Connected Parties to be effected by Italian or foreign subsidiaries within the meaning of Article 2359 of the Italian Civil Code.

To ensure full and proper disclosure of any and all Related Party and Connected Party Transactions effected by the Company, the Procedure also requires that:

1. the Company's Board of Directors include an account of all related party transactions concluded during any financial year, including through Subsidiaries, in the Directors' Report on Operations as per Article 2428 of the Italian Civil Code;
2. the Chief Executive Officer and General Manager report to the Board of Directors, as well as the Board of Auditors in respect of the conclusion of any and all Moderately Significant Related Party and Connected Party Transactions, at least on a quarterly basis;
3. the Chairman of the Board of Directors ensure that adequate information on all Moderately Significant RP Transactions pertaining to the Board of Directors and all Highly Significant RP Transactions without exception is made available not only to all Directors in compliance with Article 2381 of the Italian Civil Code, but also to the Board of Statutory Auditors;
4. the Board of Statutory Auditors monitor compliance with the provisions of the above-mentioned Procedure and submit a report in such regard to the Shareholders' Meeting as per section 2429, paragraph 2, of the Italian Civil Code or Article 153 of the Consolidation Law on Finance.

Moreover, since Banca Generali belongs to the Generali Group, any and all transactions effected with related parties of the parent company Assicurazioni Generali must be identified and managed in accordance with the provisions of the Procedures adopted by Assicurazioni Generali in such regard, with the result that in certain cases, the said transactions may be subject to prior approval by the Parent Company.

Disclosure on Related Party Transactions

Unusual, atypical or extraordinary transactions

There were no atypical and/or unusual transactions to be reported in 2018, nor were such transactions undertaken with parties other than related parties such as intra-group entities or third parties.

Pursuant to Consob Notices Nos. 98015375 of 27 February 1998 and 1025564 of 6 April 2001, atypical and unusual transactions are defined as all transactions that due to their significance/materiality, the nature of the counterparties, the subject matter of the transaction (including in relation to ordinary operations), the transfer pricing method and timing of occurrence (near the end of the period) may give rise to doubts as to the accuracy/completeness of the information presented in the financial statements, conflicts of interest, the safeguarding of company assets and the protection of minority shareholders.

¹³ Pursuant to Article 2391-bis of the Italian Civil Code, the Related Party Transaction Regulation, adopted by Consob with Resolution No. 17221 of 12 March 2010, as amended by Resolution No. 17389 of 23 June 2010, Bank of Italy Circular No. 263/2006 "New Regulations for the Prudential Supervision of Banks", 9th update of 12 December 2011 concerning risk assets and conflicts of interest for banks and banking groups in relation to connected Parties, and Bank of Italy Circular No. 285/2013 "Regulations for the Prudential Supervision of Banks", 11th and following updates.

Highly Significant Transactions

In 2018, the Banking Group undertook the following transactions qualifying as "highly significant".

- › Session of 20 March 2018: the Board of Directors approved the redefinition of the intragroup agreements on the brand and policy distribution.
- › Session of 31 July 2018: the Board of Directors approved the new lease agreement with Generali Italia S.p.A. for the real-estate premises located at Piazza Tre Torri 1 (Citylife), Milan, Italy, and granted the Chief Executive Officer all powers appropriate to executing the deeds required to finalise the agreements.

Since these transactions qualified as highly significant, the Audit and Risk Committee was duly involved in the negotiations and produced its own binding opinion, as required by the above Procedure. The relevant Information Document was also prepared in accordance with Article 5 of the "Regulations containing provisions relating to transactions with related parties" adopted by Consob with Resolution No. 17221 of 12 March 2010 and subsequently amended by Consob with Resolution No. 17389 of 23 June 2010.

Intra-group Highly Significant Transactions of the bank

With respect to Intra-group Highly Significant Transactions of the bank – which, pursuant to the Procedure on Related Party Transactions, are exempt from the escalated decision-making process and the obligation to publish a market disclosure document, unless there are significant interests in the subsidiary by other related parties – in the reporting year no transaction was made.

Other significant transactions

With regard to ordinary transactions qualifying as Moderately Significant Transactions, which are however subject to a prior favourable non-binding opinion by the Audit and Risks Committee, it should be noted that the Board of Directors passed the following resolutions in the meetings reported here below:

- › on 9 February 2018: revision of the conditions applied to Generali Investment Europe SGR, relating to the approval of the document on the "Conditions for orders placed by institutional customers qualifying as connected parties and related parties" and the economic conditions applied to the institutional customer qualifying as a related party, Generali Investment Europe SGR. In 2017, the fees generated by the orders placed by companies of the Insurance Group in 2017 amounted to 769,000 euros. Accordingly, pursuant to the Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance, the conditions reserved for companies of the Insurance Group have been classified as Moderately Significant Transactions;
- › on 20 March 2018: granting of powers to enter into the management agreement between Generali Italia S.p.A. and Banca Generali S.p.A. aimed at performing the management activities preliminary to the execution of the investment/disinvestment transactions relating to the UCITS of which the above lines of investment are composed;
- › on 12 April 2018: approval of the signing of a new lease contract with Generali Real Estate on behalf of the Toscanini Fund. Since this is a related-party transaction, the firm CB Richard Ellis was engaged to assess the market rent attributable to the real-estate units in question, which was found to be consistent with market conditions and in line with the economic conditions requested by Generali Real Estate;
- › on 23 April 2018: approval of the signing of the management agreement between Alleanza Assicurazioni S.p.A. and Banca Generali S.p.A. The benchmark analysis made it possible to determine that the consideration provided for in the agreement is comparable to the conditions applied by other market operators in transactions of a similar nature, scope and risk;
- › on 15 May 2018: approval of the transaction with the Generali Group involving the security ABS Quarzo CL1 S.r.l. class A, 2007 series, ISIN IT0004284706; ii) granting to the Chief Executive Officer of powers to negotiate the sale of the security in question with his person in charge at Generali Investment Europe, within the range established by the independent appraisal;
- › on 26 July 2018: approval of the renewal of the line of credit for the granting of a surety for the benefit of Genagricola SpA;
- › on 18 October 2018: granting of a line of credit to Gian Maria Mossa, jointly with his spouse. The transaction was also within the scope of application of Article 136 of the Consolidated Law on Banking (TUB), and as such was approved according to the approval process provided for by law (resolution by the Board of Directors, passed unanimously with the interested party excluded from voting and with the vote in favour of all members of the control body).

Ordinary or recurring transactions

Transactions of an ordinary or recurring nature carried out in 2018 with related parties fall within the Group's ordinary course of business and are usually carried out at arm's length and in any case based on mutual economic advantage, in compliance with the internal procedures mentioned above.

As regard these transactions, there were no changes in the situation of related party transactions, which might have a material effect on the financial situation and the results of the Company and the Banking Group compared to 2017.

The developments of ordinary transactions with related parties are presented in the specific section of the Notes and Comments – Part H of the Separate and Consolidated Financial Statements for the year ended 31 December 2018, along with other information on related party transactions.

Products and Marketing

The growing complexity of the scenario, dominated by new global trends with an increasingly significant effect on the industry, formed the backdrop to Banca Generali's development. In particular, heightened volatility, lower returns, intensified regulatory pressure, the increasingly central role of technology and the changing nature of customers' needs are the main factors that drove a remodelling of the product range, with a focus on expansion and innovation, according to an approach that fully integrates sustainability criteria.

The Banca Generali Group's products

Following the introduction of the new MiFID II directive in January 2018, Banca Generali conducted specific analyses of its product catalogue with the goal of improving product governance in accordance with the principles and guidelines set out in the directive. The adoption of the new process led to a review of the offering catalogue and the definition of analysis, inclusion/exclusion, systemic and structured monitoring processes.

In keeping with its positioning as leading Private Bank in terms of level of service and innovation, Banca Generali's entire product range has been designed to be accessible to retail customers in Italy. The range also includes more sophisticated solutions (often featuring high entry requirements, complex instruments and less-than-daily liquidity) dedicated to professional clients, and solutions designed for institutional clients.

In light of the important innovative approach that has always been one of the Bank's distinctive features, in 2018 the product offering dedicated to retail customers was significantly revamped. The new **Lux IM Sicav** was launched early in the second quarter of the year. Its name refers, on the one hand, to the Luxembourg-based asset management product factory that created the strategies and, on the other, to the light of innovation that this project casts on fund management. This Sicav already offers an impressive 40 sub-funds (including those retained as the product of successful experience at BG Sicav), and further expansion is slated for as soon as the first quarter of 2019.

The significant evolution of the financial markets in recent years has prompted the Bank to make various specific changes to **BG Selection Sicav**, the fund-of-fund platform of BG Fund Management Luxembourg with a track record of ten years and a distinctive level of coverage in terms of strategies and asset classes. In detail, several mergers and manager changes took place with the aim of increasing the platform's efficiency.

With the aim of constantly improving its services, in 2018 the Bank forged ahead the expansion and ongoing adjustment of the funds offered by applying the **open architecture model**. As regards the strategy for expanding the catalogue, sustainability has occupied a central position, driving the addition of a considerable number of specialised undertakings for collective investment (UCITS) managed by leading asset managers with strong track records in sustainable investments and recognised brands among the top ten positions in the ESG rankings.

With regard to **portfolio management**, 2018 was characterised by:

- › optimisation of the product range, following the finalisation of the merger of BG Fiduciaria Sim into Banca Generali;
- › constant enhancement of the product range to include solutions increasingly focused on the private-banking segment through the creation of new offerings for professional clients and/or new advisory products taking advantage of the recent acquisition of a highly specialised and qualified player, Nextam, known for its well-established track record in managing high-profile client portfolios;
- › the restyling of BG Target aimed at continuing to offer solutions that combine the need for capital protection with the search for alpha.

In 2018, Banca Generali's insurance products continued to achieve significant results, again thanks in particular to **BG Stile Libero**, the multi-line policy that combines investment in a segregated account in both euros and U.S. dollars (from 5% to 30% of investment) with a selection of more than 1,000 UCITS sub-funds from 52 investment firms. In particular, in the second half of 2018 a large number of initiatives began to be taken with the aim of improving the line of insurance products, such as the release of version 2.0 of the flagship product with improved capital protection services, the addition of the Lux IM range to BG Stile Libero, the expansion of sustainable options in investment universes through the selection of UCITS managed by asset managers ranked among the top ten ESG brands, and review of access requirements for the versions dedicated to HNWI clients. Finally, interest continues to be shown in traditional LOB I policies, featuring a renewed, expansive range of solutions constantly focused on protecting clients' wealth and the solidity of the returns produced by the segregated accounts, which by nature are not impacted by financial market volatility.

In 2018, in keeping with its strategy of strengthening its presence in the private credit market, and in particular in illiquid investments backed by high-quality collateral, Banca Generali developed three **securitisation programmes** dedicated to professional investors. These are innovative, unique illiquid solutions that, in specific market niches (healthcare receivables and export financing), have proved capable of providing Italian SMEs with an alternative source of financing to the banking channel, and investors with an investment opportunity offering attractive rates.

In 2018, Banca Generali's range of AUC products was expanded to include **Private Certificates**. Each week three products with three different value propositions (Income, Extra Return and Protection) are offered. In addition, in keeping with the Bank's ongoing commitment to sustainability, a bond issued by the World Bank with a focus on human capital development was placed.

Development of new products

Lux IM

The highly innovative new Sicav is set apart by:

- › its specific focus on four investment families reflecting the major innovations in the asset management industry, expectations of control over market volatility, influential long-term macro-trends and clients' main needs. It includes four families:
 - **LONG TERM TRENDS**: a family of funds that focus on long-term trends that may result in profound, lasting change, such as demographic change, Millennials' consumption habits and the evolution of energy and technology. This family will be expanded to include important new developments such as ESG products and strategies focused on top applications of blockchain technology (in this case, with advice from an industrial partner with a strong specialisation in this sector);
 - **SEARCH FOR INCOME**: a family that includes sub-funds focusing on the search for income, with fixed income, equities and multi-asset approaches capable of combining, with an eye towards risk and volatility, debt and equity solutions offering attractive, sustainable dividends;
 - **NEW SOURCES OF ALPHA**: a family that includes strategies capable of outperforming the markets of reference, in particular in the credit sector, leveraging expertise in the corporate and high-yield universe, also extending to commercial and emerging securities;
 - **RISK MITIGATION**: a family that selects cutting-edge quantum mathematical strategies that take advantage of the enhanced computing power available today to generate very effective low-volatility management approaches.
- › The integration of the sustainability principle is witnessed by the inclusion of strategies under mandate to third-party asset managers with sound track records in sustainable investments. The range already includes five strategies (a number that is expected to increase as early as the first half of 2019) centred around the use of various ESG management approaches (e.g., Best-in-Class, Best-Effort and Engagement), designed according to specific proprietary models:
 - a Multi-Asset sub-fund and an Equity sub-fund with a global profile and volatility targets that invest in long-term secular trends in particular. The former adopts an ESG process that combines the Exclusion principle with Engagement, whereas the second adopts a Best-Effort approach based on a proprietary model (including 34 criteria);
 - a Multi-Asset sub-fund and a Liquid Alternative strategy, with a global profile and a flexible approach to sustainable investments in the case of the former; and with a European focus designed to select companies with stable ownership and the presence of family groups in the case of the latter. Whereas the Multi-Asset strategy involves an ESG process that uses a proprietary sustainability rating (based on 36 factors), the Liquid Alternative sub-fund combines ESG filters with a Best-in-Class/Effort approach;
 - a Multi-Asset sub-fund with a global profile and a volatility target based on a proprietary model. The ESG process is quite complex inasmuch as it integrates stringent governance criteria and combines a Best-in-Class approach with thematic investing.

At 31 December 2018, Lux IM had 55 sub-funds, of which 10 managed by BG Fund Management Luxembourg and 45 under mandate entrusted to leading international investment houses. By the end of the first half of 2019, the new SICAV will be able to boast over 60 solutions (of which two other certified ESG investment processes) offered to its clients. All strategies will be available both in the retail class and in the institutional class within Banca Generali innovative wrapper solutions (BG Stile Libero, BG Solution and BG Solution Top Client).

BG Selection Sicav

The increasingly differentiated and complex market scenario was one of the main driving factors behind the review of BG Selection Sicav, performed through mergers and the appointment of new third-party managers according to the following rationale:

- › to increase the efficiency of the flexible/multi-asset component while reducing the number of sub-funds in favour of those that have achieved stable, appreciable results over time;
- › to change the third-party manager of two sub-funds (Equity and Multi-Asset), both focused on the emerging markets area.

At 31 December 2018, BG Selection Sicav had 40 sub-funds, of which 11 managed by BG Fund Management Luxembourg and 29 under mandate entrusted to leading international investment houses.

Open architecture

Throughout 2018, the topic of sustainability informed the strategy for expanding Banca Generali's product catalogue, which now includes approximately 140 highly specialised and qualified ESG UCITS (e.g., impact and thematic investing, bond funds specialised in selecting green bonds, etc.) distributed in all formats (retail catalogue, and financial and insurance wrappers). In particular, the bottom-up approach – which will also continue in 2019 – led to the selection of new asset manager partners (alongside the current managers, which already stand out for their long track record in sustainable investments) that present a range characterised by clear investment objectives aimed at capturing value in accordance with specific ESG criteria, and thus UCITS that integrate sustainable filters capable of measuring the impact of their investments into their processes. A top-down approach instead contributed to keeping a high level of diversification by asset class, geographical area, strategy and ESG management style.

Specifically, all the main approaches, including the following, are present:

- › Integration – UCITS characterised by portfolios that take account of ESG opportunities;
- › Exclusion – investment processes that automatically exclude companies for ethical reasons;
- › Best-in-Universe – UCITS characterised by concentrated portfolios that take account of companies' ESG quality;
- › Best-in-Class/Effort – investment processes that select top companies that show a trend towards constant improvement in terms of ESG criteria;
- › Thematic Investing – UCITS featuring a management approach with a themed focus;
- › Engagement – Dialogue with companies to improve ESG practices through voting rights.

At 31 December 2018, Banca Generali's multi-manager retail platform included over 55 asset managers with more than 5,800 UCITS overall.

Portfolio management

Optimisation and expansion of the product range were the salient traits of portfolio management in 2018.

Specifically, the optimisation and restyling process extended to:

- › all BG Fiduciaria's existing discretionary mandate schemes were migrated and integrated into the numerous investment opportunities offered by the current multi-line BG Solution and BG Solution Top Client;
- › the investment solution BG Target Monolinea, which combines the need to protect invested capital at maturity with the search for alpha; its maturity was extended from 2026 to 2030. Starting in November, this process allowed approximately 75% to be invested in the government bond 2030 strip and approximately 25% in the equity component: bond strip component will support capital protection, whereas the equity component will give investors upside exposure to long-term equity trends.

The expanded range, increasingly centred on the private-banking segment, saw the launch of:

- › BG Solution Special, a new multi-line investment solution distinguished by the bonus paid to the client upon initial subscription;
- › four new lines of BG Solution Top Client (dedicated to the private-banking segment), with advisory service provided by Nextam Partners, designed for clients able to invest at least 5 million euros and taking advantage of top expertise in fundamental analysis, the value approach, stock picking and active management;
- › the second edition of the 3Y Credit Coupon management line (BG Next), a multi-line wrapper solution devoted to professional clients that invests in a mix of innovative strategies with the objective of limiting the portfolio's volatility and offering a valid alternative to traditional investments.

Insurance products

The constant focus on evolution throughout the first half of the year resulted in the implementation of numerous new initiatives, such as the launch of BG Stile Libero 2.0. Specifically, this is an advanced version that revolutionises capital protection services, with a pure life insurance policy for capital losses that each year consolidates protection at the highest level reached from one year to the next, depending on the performance achieved. The launch was also accompanied by a promotional initiative (which lasted until the end of the year) and involved the following versions of the range:

- › BG Stile Libero 2.0 offered a greater flexibility in the combination of the lines and more advantageous pricing for all investment segments;
- › BG Stile Libero Private Insurance 2.0, the version dedicated to HNWI clients, redefined the rules for access.

In 2018, the traditional policy range was also significantly revamped through:

- › the launch of BG Custody, a new policy featuring an enhanced mechanism for revaluing the segregated account and capital guarantee at the ten-year maturity, thus adding a new LOB I solution to the commercial line-up;
- › the new product BG LifeCare, which revolutionised the term life insurance policy range, representing an effective response to the need for protection and the new option of pairing early death cover with critical illness cover providing an additional payout in the event of a severe illness.

Assets under custody

Private Certificates began to be offered in the first half of 2018. These investment instruments, distributed with weekly frequency, offer three different value propositions with the aim of satisfying the various needs of private-banking clients. In addition, thanks to the definition of the strike value of the underlying on the same day as weekly distribution ends, these products are also efficient from the standpoint of time to market, making it possible to move quickly to take advantage of the opportunities offered by the market.

In 2018, Banca Generali's interest in sustainability issues also extended to the offering of AUC, as further witnessed by the placement on the primary market of the World Bank bond linked to the SOHUMAN Capital Index, with a maturity of five years, denominated in USD. The index is composed of the shares of 50 companies with a high people score. In addition to their strong performances, the companies selected are also noteworthy for their focus on developing their human capital. Specifically, these are companies that succeed in creating jobs, developing skills, promoting gender equality and increasing satisfaction in the workplace.

Significant innovations were implemented in payment services:

- › the new prepaid card BG Cash with contactless technology, which can be used to make payments of up to 25 euros by holding the card near the reader (using the Tap&Go system) without any need to enter a PIN;
- › introduction of the ability to make payments by smartphone using credit and prepaid cards, i.e., card virtualisation via the main payment wallets (Apple Pay, Google Pay and Samsung Pay).

The range of accounts was expanded to include BG Business account for notaries, the mandatory account for notaries required by Law No. 124 of 4 August 2017. Sums deposited into accounts of this type are separate from the account holder's other assets and are not part of the account holder's estate.

To ensure customer retention, promotional activity was extended in the area of the exemption from stamp duty for current and new customers who transfer financial instruments to Banca Generali by increasing the maximum bonus assigned compared to the previous years, whereas mortgage lending saw the renewal of the referral agreement with the Intesa Sanpaolo Group and the related promotions for customers.

Securitisations

In 2018, in keeping with its strategic focus on strengthening its presence in the private credit market, and in particular in illiquid investments backed by high-quality collateral, Banca Generali developed three securitisation programmes:

- › securitisation of the healthcare receivables of SMEs that have supplied goods and services to Italy's National Health Service through the vehicle Astrea Due Spv;

- › securitisation of import-export receivables guaranteed by the banking system (e.g., via letters of credit) and insured by export credit agencies, in accordance with the trade finance concept of preventing the risks inherent in international transactions. The programme was implemented through the Luxembourg-based vehicle Sovereign Credit Opportunities S.A.;
- › securitisation of loans granted by Credimi to a selection of SMEs concurrently enrolled in Borsa Italiana's Elite programme that meet the requirements to qualify for a guarantee from Mediocredito Centrale, constantly monitored on the basis of a rating report drafted by CDR for the entire term of the loan and filtered by Credimi's credit analysis engine. The programme is being developed through the vehicle LUMEN SPV S.r.l.

Marketing activities

In 2018, Banca Generali promoted a transparent and proactive communication strategy designed to strengthen its private banking position through sustainable growth with a range of advisory and household wealth protection services that revolve around the role of Financial Advisors.

Brand strategy

Numerous initiatives to support the Bank's new vision and mission were launched in line with the brand positioning objectives through the claim "You created it, together we protect it".

In particular, a **campaign** was launched in the Autumn focused on a suggestive and creative concept that plays on the metaphor of greenhouse care. It was run primarily with an advert distributed online and in cinemas

that gives a clear interpretation of the Bank's private approach to its customers, combining a reassuring language with images of a "protective" natural environment, thus evoking concepts of sustainability.

The "**Ricette di Innovazione**" (**Recipes for Innovation**) cycle of events has helped reinforce the image of an innovation-oriented Bank. These meetings have seen the CEO in discussions with some exceptional people who have been able to trail-blaze new horizons thanks to the contribution of technology.

The Company's values were then disseminated through the renewed **partnership with FAI (Fondo Ambiente Italiano - Italian Environment Fund)** in the Spring Days, and the ninth edition of Banca Generali - A Champion for a Friend, the event dedicated to children. Financial education briefs were organised in each of the ten stages of the event in collaboration with the FEduF Foundation (funded by ABI, the Italian Banking Association, to promote financial education), and prominence was given to the Generali Group's project "The Human Safety Net".

The **solidarity and sport-supporting initiatives** also include the renewed support to Dynamo Camp through the Dynamo Bike Challenge sponsorship.

As regards the cultural field, mention should be made of the **participation in "Galileo - Festival dell'Innovazione" (Innovation Festival)** promoted by Padua University and the Private Banking Observatory in collaboration with LIUC - Libera Università di Castellanza.

The Private Banking headquarters in Milan hosted the exhibition entitled "Resilienza" (Resilience) by artist Christian Balzano, whilst the new "Hana to Yama" exhibition of the young emerging artist Linda Fregni Nagler, marking the start of the three-year programme BG ART TALENT, was inaugurated at the end of 2018.

Media Relations

The Bank maintains an active relationship with the main media organisations, so that it can keep all stakeholders up to date on the Company's performance. In 2018, Banca Generali issued a total of 58 press releases – both in Italian and English – which covered monthly net inflows results and accompanied the annual and quarterly financial reports.

At the Investor Day on 3 December 2018, Banca Generali received a lot of attention from the media who appreciated the clarity with which the business plan goals for the next three-year period 2019-2021 were conveyed.

In total, during 2018 Banca Generali appeared in more than 7,000 press and Web articles. Finally, the Bank's communication on social media, which have been enhanced with official profiles on Instagram and Twitter alongside the traditional presence on Facebook, LinkedIn and YouTube, has been met with appreciation.



Communications with customers and the network

Transparency, accuracy and timeliness are the principles that guide the Bank's dialogue with its customers, which is increasingly inspired by the concept of reporting clarity in line with the guidelines of the new MiFID directive.

During the year, new information materials were prepared and made available to Financial Advisors to better present to the customers the Bank's evolution, its results and services, as well as its investment solutions.

In addition to the Intranet and dedicated Apps, Financial Advisors benefit from tailor-made information tools, where they can obtain all the communication material.

Relations with the financial community

In 2018, the number of meetings with investors and analysts amounted to 244 (333 in 2017). The decrease in meetings compared to the previous year was due to the marketing activity being suspended in the second half of the year in anticipation of the Investor Day dedicated to the presentation of the Bank's three-year Plan. The event was held in December 2018 and was very successful in terms of those attending in person and via webcast. The feedback was unanimously positive and allowed the stock to recover well, both in absolute value and market index terms.

The year was marked by a sharp increase in investors' direct engagement, with office visits and conference call requests, representing more than a quarter of the total number of meetings.

Just as in the previous year, the marketing activity provided an opportunity to give visibility to the Bank's entire top management team, highlighting their experience and commitment to achieving the plan's objectives.

Mention should be made first of all of the work carried out in response to the lead provided by the association 'E.DIVA - Etica Dignità e Valori - Associazione Stakeholders Aziende di Credito Onlus' which has been active for years in promoting corporate social responsibility and ethical finance issues in the banking world, and with which Banca Generali has been engaged for years, drawing inspiration for its stakeholder engagement activities regarding these issues. In December 2018, E.DIVA and Banca Generali promoted a conference on the topic "Sustainable Finance and UN 2030 Agenda: prospects and opportunities". Important personalities from the academic world, business sector and press contributed to the conference alongside representatives of Banca Generali's and the Generali Group's top management. The conference was also attended, among others, by a group of students: this was the occasion to provide training about the values of ethics in economics and finance, with the aim of spreading knowledge about the UN 2030 Agenda amongst the younger generations.

Ambassadors



The ten-year partnership with the women's ski champion Federica Brignone was very satisfying. She was awarded the bronze medal at the Winter Olympics, crowning a hugely successful season. Banca Generali, accompanying Federica in her project to raise awareness about marine pollution, reiterated its commitment to environmental sustainability themes.

In addition, the Bank also continued to collaborate with Michelin-star chef Davide Oldani, the icon for a top-level job whose success is based on painstaking attention to detail as part of a continuous process of development, also illustrated during the "Ricette d'Innovazione" (Recipes for innovation) event.

Organisation and ICT

Sales network services

Continuing with the projects started in recent years and wishing to introduce constant digital innovation in work tools and procedures, 2018 saw Banca Generali take forward numerous initiatives designed to develop and consolidate the services already in place, as well as add new solutions for its own sales network.

The **integrated portal** for handling electronic credit line applications introduced in 2017 was further developed both in terms of the tools directly available to Financial Advisors and the development of the end-to-end process, thus generating benefits for all those involved.

Further developments were also made available concerning the offer that can be proposed remotely for customers to sign through the Digital Collaboration platform.

During the year, the range of applications available to the Network was extended further with tools such as **BG Editor**, intended to support the commercial relationship and allow personalised presentations to be prepared and shared with Customers, and **BG Prodotti**, a vertical platform for the Bank's product range which concentrates in a single place the information and communication material available to Financial Advisors and Customers.

A particular focus was placed on the ways in which the Bank assists its sales network and it is in this context that the new virtual assistant **BG Irma** was created. This provides telephone support to Financial Advisors also when on the move, supplying them with the information and documentation needed in real time, as well as sending their requests to a dedicated contact centre with brand-new resources and organisation. In the assistance area, mention should also be made of the establishment of the new First Operation unit. This provides Financial Advisors with day-to-day support with their operating needs and information concerning the developments taking place on the new platform for managing Network-Headquarters requests.

Customer services

In 2018, the Bank was strongly committed to renewing its digital points of contact with customers (more detail in the "Relations with customers" section), continuing the digitalisation process conducted in recent years and with the intention to offer its Customers increasingly efficient tools that are in step with the times.

Initiatives involving the mobile channel were twofold: on the one hand, an important update of the **home banking app** for Apple and Android devices was performed in the first half of the year, and on the other, a project to create a new app was also launched in order to introduce new innovative services, as well as an innovative graphic format.

Again in the home banking area, the new Web portal was made available late in the year, offering brand-new graphics and user experience, but continuing to maintain the broad functional coverage that distinguished the previous platform.

In line with the Bank's new communication strategy and its consolidated private positioning, the commercial **website** was also revamped in 2018 and made available in the latter part of the year at the new address www.bancageneraliprivate.it. Its graphics format and content have been completely renewed.

During the year, the Bank also paid significant attention to developing a new **advanced online trading platform** in collaboration with Saxo Bank, and a new platform for the digital onboarding process of new customers, both in an advanced stage of completion.

Internal support processes for company business

Operations

2018 featured the introduction of major changes, designed to transform Operations into a centre of excellence, ever closer to the needs of the Network and Customers. Certain administrative activities were outsourced to enable people to focus on activities that provide higher value added. In particular, the time thus saved was used to set up an internal unit dedicated to the effective and timely management of requests for operating assistance received from Financial Advisors. Finally, measures were taken to simplify work processes with the aim of improving service quality, recoup efficiency margins and mitigate the related operating risks.

Administration

The initiatives carried out in 2018 involved chiefly accounting and regulatory projects, including:

- › compliance with the new IFRS 16 (effective 1 January 2019) for lease accounting: the steps completed in 2018 included an assessment of the feasible IT solutions and the selection of the Tagetik solution (contractual agreements between the parties are currently being finalised);
- › launch of internal projects relating to IFRS15 compliance;
- › phase 2 of the IFRS 9 project, characterised by the parallel application of IFRS 9 and IAS 39 (Banca Generali already adheres to IFRS 9 whilst the Parent Company still adopts IAS 39; therefore, the Bank is required to convert its accounting items from IFRS 9 to IAS 39 for the purpose of drafting the consolidated financial statements of the Assicurazioni Generali Group).

Loans

In 2018, in keeping with the decision taken in the previous year, work continued on supporting the expansion of the credit base by operationally upgrading the Lombard credit facility for private customers. This upgrade was achieved by expanding the type of financial instruments allowable for collateral (AUC) and also making the revolving pledge mechanism eligible.

Furthermore, throughout the year the new Loans Platform (Quiclic) was available to manage:

- › new loan applications;
- › loan cancellations/changes/renewals;
- › credit pricing;
- › sending/receiving documentation, contracts, pledge letters and other guarantees.

In addition to support the Network in providing assistance and advice in the credit area (functions completed by the first quarter of 2018), the Platform aims to maximise the operating efficiency of the loan application/approval and finalisation/disbursement phases by creating the conditions for reducing processing times and costs, as well as increasing the possibility of expanding the number of customers served while limiting the organisational impacts for the same service level offered.

The Platform's development, managed through BPM Pega, will continue throughout 2019 until all the functions envisaged for the Lending Department's centralised structures are implemented in full.

Asset management

Following completion of the final phases of the BG Fiduciaria merger project, which saw the Bank's structures involved throughout January 2018, the other initiatives carried out in the year concerning the Asset Management segment mainly included:

- › the fine tuning of operations;
- › the launch of wealth management products that provide for the payment of bonuses regulated/managed also through calculations of the "seniority" of investment using "tunnel" logics (launch performed at the end of Q1 2018);
- › adjustments/rationalisations of the product offer through the launch of new management lines and new asset allocation strategies;
- › the launch of new forms of collaboration with GTL to create high value added personalised services for restricted negotiations (so called "internal funds" with Banca Generali having responsibility for asset management).

Finance

The main projects in the Finance Department regarded:

- › **MiFID II**: implementation of compliance measures resulting from the entry into force of the MiFID II Directive regarding the Bank's operating continuity on the markets (new rational for communicating with the markets and with counterparties) and meeting disclosure obligations on the matter of transaction reporting and post-trade transparency;
- › **Master Finance**: new Treasury platform which came into force at the end of 2018 to replace the TOMS platform, that will continue to be fed until its full decommissioning, scheduled for the end of February 2019. The Master Finance platform is already operating for securities portfolio pricing (in accordance with the new fair value policy which entered into force at year-start 2019), as well as for the daily reconciliation between personal balances/book values and the Bank's accounting system.

- › **Mermaid project:** relating to the creation of a partnership with Saxo Bank in order to offer customers an advanced trading platform able to compete with the industry's best performers. At the end of 2018, the first version of the platform able to operate on cash instruments was released in production in order to create, once the authorisations have been issued by the competent authorities, a first pilot project with internal customers in order to carry out a general fine tuning of the application and other directly and indirectly related systems.
- › **New IT interfaces and new operating protocols at GIAM and BG FM LUX:** the replacement of the asset management platform (SOFIA) used by GIAM and BG FM LUX – decided by the Parent Company – required the launch of a new project to ensure that the operations of the two institutional customers mentioned above were guaranteed on an ongoing basis. IT developments were started by FIS Global, supplier of the trading platform used at Banca Generali's trading desk, to allow IT communications with the new platforms to be adopted by GIAM (Simcorp and Trading Screen) and BG FM LUX (Simcorp). The test phases will be completed during 2019 and a gradual roll-out plan will be started for the two customers' portfolios to change from the old to the new operating system.

Legal compliance

In 2018, efforts to bringing organisational processes and the IT system into line with new provisions of law continued to be significant. The main changes related to:

- › **MiFID II:** major project and economic resources were invested during the year to adopt the regulatory changes of the MiFID II Directive in the Bank's service model with a focus on advice and management of customer investments; In detail, Banca Generali implemented numerous compliance initiatives resulting from the entry into force of the MiFID II Directive.
- › **IV AML Directive:** organisational and procedural changes following the enactment in 2018 of the Bank of Italy's implementing measures referring to Legislative Decree No. 90/2017 (entered into force in July 2017).
- › **IDD:** organisational and IT measures in the insurance field regarding adequacy controls, product governance, conflicts of interest, reporting and transparency vis-à-vis customers. Additional refinements to the previous areas, as well as organisational and IT initiatives regarding ex-post transparency are planned for 2019.
- › **GDPR Data Protection:** organisational and IT measures aimed at ensuring compliance with the new data protection regulation.
- › **PSD2:** adjustment to Phase 1 of PSD2 and definition of the Phase 2 To Be model.

Business Outlook

Financial year 2019 is likely to be characterised by a macroeconomic scenario of slowing global growth compared with 2018, and a shift in the market scenario following the normalisation of expansionary monetary and fiscal policies and international trade tensions. Furthermore, various geopolitical and financial factors – such as increased volatility, instability in the Middle East, Brexit, political events in major European countries and immigration – may contribute additional risks to growth forecasts. Within this framework, modest GDP growth is expected in 2019, accompanied by political risk involving a possible government debt downgrade.

This macroeconomic scenario is overlaid with certain dynamics in the financial intermediation sector that increase its complexity and related risks. In particular, the aspects that may lead to a change in the favourable market context that accompanied the Bank's growth in recent years include: the **discontinuity in the regulatory field** including the entry into force of MiFID II; the **reinforcement of the traditional banking system**; the **accelerating pace of technological change** and the **growing importance of technology** as a successful factor in business; **customer evolution** as a consequence of digital literacy and increasing transparency; and the **rise in competition in asset management**.

In this context – which is certainly complex but offers excellent growth opportunities – choices focusing on service and product innovation, implementation of stronger financial planning and advisory skills, the increased quality of the Bank's network and the emphasis on internationalisation will prove the winning elements for ensuring that Banca Generali enjoys **sustainable growth** capable of allowing it to continue to gain market share in the asset management sector in Italy. This will require increasing investments to train the network, complete the range of products and services offered, and develop technological tools in support of more sophisticated and informed investment decisions.

In 2019, and in continuity with its industrial plan, the Banking Group will aim to focus its attention on households, strengthening its position as a **private bank** and increasing its commitment towards **sustainability** themes, while constantly ensuring greater dedication to developing bespoke solutions in both investment products and advisory services.

In particular, the main measures that will be taken in 2019 will include:

- › **improvement of the quality of the Financial Advisors network** through both professional training for the existing network and the recruitment of high-profile, experienced professionals on the market;
- › **product innovation** that will take the form of a range of flexible financial services, which can be built according to the customer's choices and appetites – including with a sustainability-oriented approach – through wrapper products and solutions with a high risk-return correlation, and sustainable also in the new MiFID II context;
- › **development of new lines of business**, in particular through the growth of AUC solutions, leveraging on the partnership with Saxo Bank in online trading and the development of business in Switzerland, together with the expansion of lending, primarily in the form of the Lombard loan;
- › **reinforcement of the Bank's management capacities** through the acquisition and integration of the Nextam Group;
- › enhancement of the **comprehensive advisory service** covering all of the customer's wealth-related needs, in addition to advice concerning securities. In particular, thanks to several selected exclusive partnerships, the Bank can provide advice concerning **Real Estate, Wealth Planning, Generational Transfer, Corporate Finance and Family Office issues**;
- › **digital innovation**, that will provide access to cutting-edge tools for **improving and expediting the relationship between the Bank, Customer and Financial Advisor**, including through the development of specific apps in support of the Financial Advisor's activity, with the progressive extension of Digital Collaboration, as well as the Robo Advisory partnership with UBS;
- › **enhancement of the communication of a solid, innovative brand**, including through the new social channels;
- › continuation of a project to completely revamp the relationship between the Bank, Customer and Financial Advisor to ensure greater correlation between all methods of contact and communication with clients, so that it is simpler, increasingly seamless and more efficient, with a view to improving customer service.

On the cost front, in 2019 the Bank will continue to pursue its current strategy aimed at containing cost growth well below revenue growth, also thanks to the strategic decision to build partnership in the high-tech investment sectors. More specifically, the modest increase in costs will be primarily applied to the development of useful products and services that help further improve the quality of advice given to customers and the network's productivity, with specific focus on technology investments.

The activities aimed at growing the assets under management and market share will therefore be accompanied by tight cost discipline, including through constant efforts to implement more efficient processes and focus on activities that provide higher value added to customers and the Financial Advisors network.

Proposal for the Distribution of Profits

Shareholders,

We invite you to approve the Financial Statements as at 31 December 2018, which include the Balance Sheet, the Profit and Loss Account, the Notes and Comments and related attachments, as well as this Report on Operations, both taken as a whole and with regard to the individual entries. We therefore propose allocating net profit for the year as follows:

Net profit for the year	189,057,613
to the restricted reserve pursuant to Article 6, first paragraph, letter a) of Legislative Decree No. 38/2005	2,143,423
to retained earnings	42,007,408
Distribution to shareholders of a 2018 dividend of 1.25 euros	144,906,782
allocation to the 115,924,332 outstanding ordinary shares of a dividend of 1.25 euro per share, including the amount to treasury shares as per Article 2357-ter of the Italian Civil Code	144,906,782

The proposed dividend provides shareholder remuneration consistent with the Group's sustainable profitability, while also ensuring that the Bank and Group are adequately capitalised. The above is true both from the perspective of the set of rules known as Basel 3 and the recommendations made by the Bank of Italy and ECB. As stated in further detail in this Report on Operations, the individual and consolidated capital requirements determined on the basis of the content of this proposal are well in excess of the mandatory levels set by Community authorities and the Supervisory Board.

Pursuant to Article 6, paragraph 1 (a), of Legislative Decree No. 38/2005, a portion of the profits for the year corresponding to the capital gains taken to profit and loss, net of the related tax charges, based on the application of the fair value criterion, must be allocated to a restricted reserve. At 31 December 2018, this amount was 2,143,423 euros.

The dividend payment date will be 22 May 2019, with ex-date 20 May 2019 and record date 21 May 2019, pursuant to Article 83-terdecies of Consolidated Law on Finance.

It should be noted that the portion of dividends, if any, not distributed in respect of shares in issue subject to retention constraints pursuant to the Remuneration Policies will be transferred to the retained earnings reserve.

Trieste, 8 March 2019

The Board of Directors





03

**CONSOLIDATED NON-FINANCIAL
STATEMENT**





Banca Generali and the Environmental Issues

Safeguarding the environment as a primary good is one of the values pursued by the Generali Group, which is committed to directing its decisions in such a way as to ensure alignment between economic performance and environmental concerns, while taking on an active role in shaping a sustainable future.

Environmental Policy

The Banca Generali Group, which is part of the Generali Group, is well aware that the conduct of its business – in a scenario that varies enormously on a social, environmental and cultural level – entails a commitment to pursuing the goal of a sustainable economic development that is able to lead to a continuous improvement of business results and, at the same time, of economic, social and environmental conditions of the communities in which it operates.

In this regard, on 29 September 2010, Banca Generali's Board of Directors adopted the **Generali Group's Code of Conduct** that states explicitly that economic and social development should be based not only on respect for fundamental human and labour rights, but also on environmental protection, to which the Group contributes by fostering a reduction of the direct environmental impacts of its operational activities and the indirect impacts associated with its value chain.

In 2014, the Generali Group approved its new **Group's Policy for the Environment and Climate** that applies to all Group companies.

The Policy's basic principles are inspired by those expressed by the **United Nations Global Compact** for environmental protection, which aim to:

- › **sustain a preventive approach towards environmental challenges** by means of systemic management designed to ensure compliance with legislation and the prevention of environmental risks;
- › **promote environmental responsibility and greater awareness** of environmental issues both amongst customers and the public in general, by engaging them actively in schemes and initiatives in a process focused on ongoing improvement and the creation of shared value;
- › **encourage the development and dissemination of environmentally-friendly technologies** that can support efficient management of energy and water resources and protect biodiversity, and represent effective measures for mitigating and adapting to climate change.

In order to implement the Policy and ensure constantly improving environmental performance, thereby contributing to the fight against climate change caused by greenhouse gas emissions, the Generali Group has identified the following **areas of intervention**, for which specific indicators and related targets have been identified:

- › reduction of the environmental impacts of its business;
- › integration of environmental and climatic aspects into its investment strategies;
- › promotion and raising of awareness of environmental and climatic risks;
- › a public commitment to climate;
- › reporting and transparency.

In this regard, on 21 February 2018, Assicurazioni Generali's Board of Directors approved the **climate change strategy**. This provides for specific investment and underwriting actions and identifies stakeholder engagement and dialogue as the means for advancing the transition to a low environmental impact company.

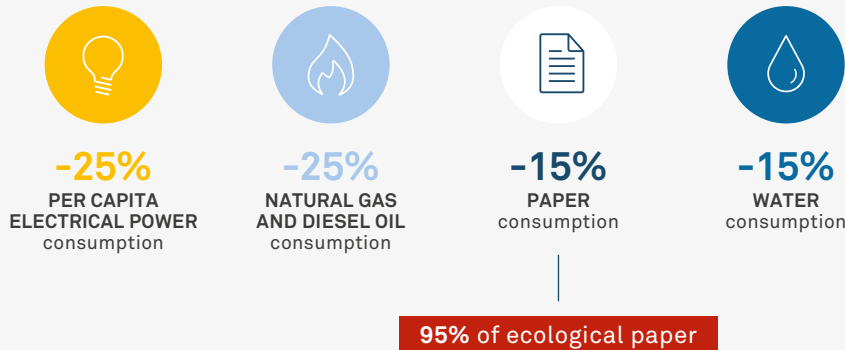
Following on from this resolution, November 2018 saw the Group publish a technical note detailing the operating implications of the strategy (published on the corporate website www.generali.com).

The **Environmental Management System**, based on the ISO 14001 standard, is the tool that the Group uses to manage its environmental impacts and implement the Group's Policy for the Environment and Climate.

With the aim of implementing and upholding the goals stated in the Group's Policy for the Environment and Climate, the Bank has also committed to achieving the **targets set for the period 2013-2020**.

2020 TARGET

-20% total GHG emissions



Environmental impacts

The Environmental Management System contemplates both direct impacts – i.e., those attributable to the conduct of business by Group companies – and indirect impacts, i.e., those associated with purchasing processes, planning and distribution of financial products and institutional investment activity.

Direct environmental impacts

The following have been identified as areas in which to take action:

- › **company building and facility management:** such management increasingly occurs within a framework that combines constant improvement of the operational comfort of personnel with the efficient use of natural resources. The following are pursued with the aim of minimising adverse impacts on the environment:
 - reduced consumption of electrical power, water and paper;
 - more efficient management of waste, with an increase in waste sorting;
- › **corporate mobility management:** in pursuit of sustainable management of the business travel needs of administrative personnel, the Group's Travel Policy envisages:
 - containment of travel through increasing use of audio and video conferencing, e-learning training courses, etc.;
 - preference for the use of public or collective transport (company shuttle buses, car pooling, etc.);
 - introduction of a new way of working, i.e., the option of working remotely (generally from home).

Indirect environmental impacts

Banca Generali is aware it can encourage environmentally friendly behaviour by our stakeholders by engaging them in protecting the environment through the adoption of appropriate measures. In particular, the main areas of activity in which Banca Generali is willing to exert such influence are relations with suppliers (procurement ecology), customers (product ecology) and issuers (investment ecology).

- › **procurement ecology:** to ensure the integrity of its supply chains, Banca Generali has included in the Generali Group's requirements operational mechanisms (such as penalty clauses that, in the event of a breach, may result in the termination of the contracts) intended to ensure compliance by all suppliers and their procurement chains with applicable legislation on health and safety in the workplace and environmental protection, as well as with the Group's ethical principles;
- › **product ecology:** in order to encourage the adoption of environmentally friendly behaviour by its customers and consumers in general, Banca Generali intends to expand and enhance the range of insurance products and services offered, including through appropriate information and awareness-raising measures;
- › **investment ecology:** Banca Generali has adopted an investment policy and laid down ethical guidelines that seek to prevent the risk of supporting companies involved in severe damage to the environment by investing in them.

Emissions

2018 performance:
1,264 tCO₂eq
 total GHG emissions
 (1,661 tCO₂eq in 2017)
 (-36% vs 2013)

In accordance with the Generali Group's strategies, the Banca Generali Group has also decided to use the control approach to quantify and report GHG emissions, but opted to apply it only to properties used as headquarters that fall within the Generali Group's EMS, over which it has complete financial and operational oversight, including through the Generali Group's Facility Management functions.

In 2018, the system scope included the Bank's offices in Milan, via Ugo Bassi 6¹, and in Trieste, via Corso Cavour 5/a. The facilities in question host 660 employees, accounting for 76% of the Banca Generali Group's workforce.

It was decided to exclude banking branches, due to their marginal contribution in terms of size and consumption, along with operations centres (Financial Advisors' offices): these are local logistics facilities to which the Bank applies various models of management and cost bearing/allocation, and where Financial Advisors do not provide the Bank with full financial and operational control of the offices.

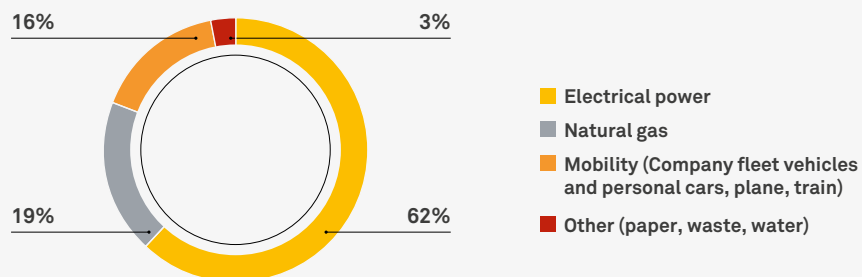
GHG EMISSIONS*

(tCO ₂ EQ)	2013	2017	2018	CHANGE	
				2018/2017	2018/2013
SCOPE 1 Direct emissions produced by heating fuels and the kilometres travelled by the fleet of company cars	593	472	265	-44%	-55%
SCOPE 2 – location based Indirect emissions caused by power consumption associated with the use of electrical power and district heating	1,114	955	793	-17%	-29%
SCOPE 3** Other indirect emissions caused by power consumption associated with employees' business trips, paper and water consumption, as well as the waste disposal (including toner cartridges)	272**	233	206	-12%	-24%
Total	1,979	1,661	1,264	-24%	-36%

* The calculation of emissions does not include the following gases: Carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O).

** Employee mobility includes the use of personal cars only.

BREAKDOWN OF 2018 GHG EMISSIONS (%)



¹ In the fourth quarter of 2018, Banca Generali moved to its new Headquarters in the Hadid-Generali Tower, located in the Milan CityLife district, Piazza Tre Torri 1. The environmental data relating to the said Tower will be included in the next data collection (2019 report) in accordance with the Generali Group's strategy.

Consumption

Electrical power and fossil fuels consumption

In 2018, Banca Generali consumed a total of 10,544 GJ of energy. Energy consumption chiefly consists of electrical power consumption: the two offices involved in the EMS reported a consumption of 2,044,768 kWh (+13% compared to 2013), with a per-capita consumption of 3,098 kWh (+3% compared to 2013). The electrical power consumed is derived from renewable sources, thereby contributing to the preservation of natural resources.

Regarding the Milan Headquarters, as indicated in the paragraph on greenhouse gas emissions, the consumption values for the last quarter of 2018 have been estimated based on average consumption for the first nine months of the year.

Overall gas consumption amounted to 92,838 Sm³ (-47% compared to 2013), with a per-capita consumption of 141 Sm³ (-52% compared to 2013).

At the site of Trieste, natural gas is used both for heating and cooling (so-called chilled beams system). Again on this site the Group Facility Management function has carried out work to replace the external windows and has also adopted a system for monitoring temperature setting of the water delivered through the chilled beams and of the air entering through the beams, thereby ensuring that the system works efficiently with the slightest change in climate conditions. These operations have allowed consumption to be contained at a steady rate. In addition, for the year in question, the gas provider has made a number of adjustments to previous consumption meter readings as they had been recorded incorrectly.

As regards the Milan Headquarters, as indicated in the paragraph on greenhouse gas emissions, the gas consumption values for the last quarter of 2018 have been estimated based on average consumption for the first nine months of the year.

ASPECT	TYPE OF SOURCE	CONVERSION FACTORS
Natural gas	Non-renewable	0,03428
Electrical power	Renewable	0,0036

Paper

Paper is the material most used in the reference sector. To reduce its consumption, Banca Generali has introduced several measures/practices, which it is actively promoting:

- › electronic archiving and dematerialisation of documents;
- › use of e-mail and messaging in communications between companies, branches, offices of Financial Advisors and customers;
- › introduction of BG Digital Collaboration, whereby Financial Advisors can send their investment proposals to customers, who in turn can review and redefine their investment decisions, with the possibility to confirm the instructions digitally without using paper/print material.

In the offices included in the EMS, individual printers, photocopiers and faxes have been replaced with multi-function machines that have been installed at each office or floor. The same process was implemented in more than 30 Financial Advisor offices.

Where possible, BG buys material with a lower unit weight than normal in order to contain the weight of the paper consumed. More than 88% of the paper consumed in 2018 consisted of certified green paper, originating in forests managed in accordance with environmental, social and economic standards established by national and international schemes.

In addition to green paper, Banca Generali promotes the purchase of low environmental-impact stationery and toner cartridges, preferably belonging to the green products catalogue, which includes, for example, pens with water-based, solvent-free ink, pencils made of wood from sustainably managed forests, toner cartridges that are remanufactured or produced with recycled material.

Water

Banca Generali considers water to be a hugely important resource and is therefore committed to using it sparingly at all the Group's offices.

Water is used primarily for the purposes of hygiene and sanitation and to supply and cool climate-control systems. Almost all the water that is consumed comes from municipal or state mains.

Photocells or timer controls have been installed to reduce water consumption and allow water flow to be controlled effectively, so that wastage of this resource is reduced to a minimum.

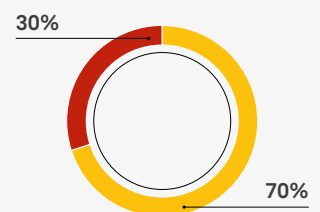
2018 performance:

10,544 GJ
total energy consumption

(12,445 GJ in 2017)
(-16% vs 2013)

15.98 GJ
per-capita energy consumption

(18.4 GJ in 2017)
(-23% vs 2013)



■ Electrical power (7,361 GJ)

■ Natural gas (3,183 GJ)

2018 performance:

344 q
paper consumption

(292 q in 2017)
(-14% vs 2013)

-0.52 q
per-capita paper consumption

2018 performance:

7,108 m³
water consumption

(9,350 m³ in 2017)
(-22% vs 2013)

11 m³
per-capita water consumption

Waste

2018 performance:
53 q
 waste generated
 (238 q in 2017)

8 kg
 waste generated
 per-capita

In recent years, Banca Generali has invested heavily in waste sorting and recycling, aware that nothing should be wasted, and everything can be recycled.

To make its actions more effective, Banca Generali has conducted special campaigns to raise employee awareness of separate collection of waste.

Paper and cardboard are the major part of the sorted waste collected. Each corporate site has separate waste containers for paper and cardboard, plastic, glass and aluminium. Other metals, wood, hazardous waste, IT waste and toner cartridges are also sorted separately.

A high level of care is also taken in the correct disposal of waste that is most hazardous or harmful for the environment.

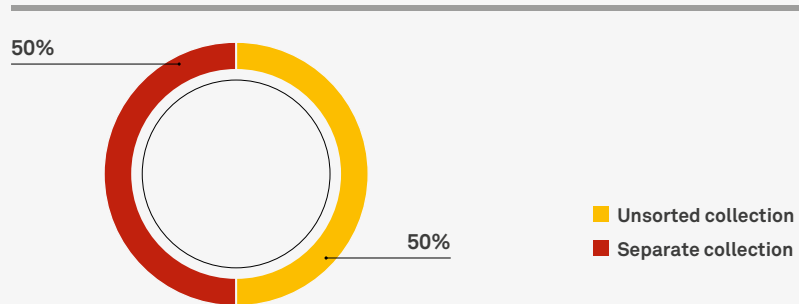
IT waste made up of obsolete electronic equipment is returned to the suppliers or to plants handling the disposal and recycling of reusable parts.

Most used toner cartridges are returned to the supplier to be recycled or remanufactured, whilst the rest are disposed of in accordance with regulations.

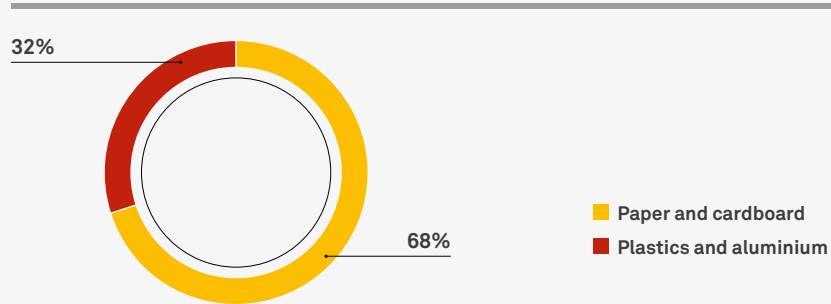
Hazardous waste (fluorescent tubes, batteries, etc.) is just a small portion of all the waste produced by Banca Generali and is disposed of separately in an appropriate way, using specialist firms and keeping registers and mandatory documentation, in accordance with current legislation on the matter.

During 2018, the collection of waste produced by the Trieste site was assigned by the Group Facility Management functions to Trieste Council's municipally owned company ACEGAS, which does not release weight data.

BREAKDOWN OF 2018 WASTE COLLECTED (%)



BREAKDOWN OF 2018 SEPARATED WASTE COLLECTION (%)



Mobility

Banca Generali is committed to reduce GHG emissions through sustainable mobility management as well, encouraging video conferencing to reduce employees' travels. At all sites included in the EMS, video conference calls may also be made from individual workstations thanks to the availability of dedicated tools such as, for example, Microsoft Lync.

The travel policy adopted by the Banca Generali Group encourages the use of public transport instead of personal cars, and promotes the use of public transport vehicles that are the least polluting (for example, trains instead of planes). The Group's car policy calls for maximum carbon dioxide limits for company cars.

In addition, Banca Generali entered into agreements with the main public transport operators for the Province of Milan to reduce the cost of annual season tickets for public transport such as buses, trams, metro and trains. Banca Generali also encourages and promotes bicycle use for getting to work, providing reserved bicycle parking for the Bank's employees.

2018 performance*:

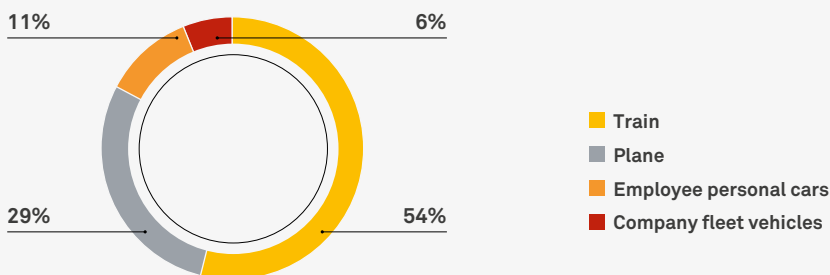
2,698,496 km
travelled by car, train
and plane by employees

(2,802,938 km in 2017)
(-0.72% vs 2013)

3,109 km
per-capita

(* data refers to all the Banca Generali Banking Group's employees, including those who are based outside the EMS scope)

BREAKDOWN OF KM TRAVELLED BY EMPLOYEES IN 2018 (%)



2018 EMISSION FACTORS

ASPECT	SCOPE	EMISSION FACTORS	UNIT	SOURCE
Natural gas	Scope 1	0.000232686	tCO ₂ e/kWh	GaBI
Electrical power	Scope 2	0.000387872	tCO ₂ e/kWh	GaBI
Water (from municipal sources)	Scope 3	0.000398	tCO ₂ e/m ³	VfU
Waste (burned)	Scope 3	0.101710791	tCO ₂ e/t	GABI
Waste (toner cartridges)	Scope 3	2.4	tCO ₂ e/t	VfU
Waste (disposed)	Scope 3	0.814238443	tCO ₂ e/t	GABI
Mobility - Company fleet vehicles	Scope 1	0.00018064	kgCO ₂ e/m	DEFRA
Mobility - Personal cars	Scope 3	0.00018064	kgCO ₂ e/m	DEFRA
Mobility - Traditional train	Scope 3	0.04424	kgCO ₂ e/km	DEFRA
Mobility - High-speed train	Scope 3	0.01226	kgCO ₂ e/km	DEFRA
Mobility - Plane (short distance)	Scope 3	0.11237	kgCO ₂ e/km	DEFRA
Mobility - Plane (medium distance)	Scope 3	0.08584	kgCO ₂ e/km	DEFRA
Mobility - Plane (long distance)	Scope 3	0.15777	kgCO ₂ e/km	DEFRA



Banca Generali and its People

Passion, professional expertise, reliability and a sense of belonging are the distinctive traits of all the people making up the Banca Generali Group's Team. As part of a dynamic context, each person is encouraged to participate in the business, through engagement in strategic planning and the creation of meeting opportunities between the Company's top management and bottom-line personnel, with a view to ensuring inclusivity and strategy sharing at all levels and encouraging proactivity in proposing new projects also through across-the-board collaboration between the different business areas.

The Banking Group believes that it is of utmost importance to invest in its own human resources by promoting a business culture based on shared values. It therefore sees it as a priority to encourage their internal professional development, accompanying them on development paths designed to bring out talent and distinctive skills. In addition, the development and professional growth of human resources already holding key positions or currently on a career path are ensured also by participation in training schemes at qualified academic institutions, as well as courses aimed at consolidating managerial skills.

The Diversity & Inclusion Policy that the Banca Generali Group promotes internally amongst all its employees is founded, inter alia, on the appreciation of differences through inclusion and the equal opportunities recognised in the processes for growth and development without any discrimination.

Furthermore, all those people belonging to the Banca Generali team, depending on the offices where they are assigned, are also beneficiaries of engagement policies aimed to ensure the best work-life balance: the Smart Working initiative, introduced in 2018 for certain professional categories, in addition to special agreements with childcare facilities, parking for pregnant employees, in-house laundry pick-up and temporary shops to name but a few, which have already been tried out successfully in a number of offices in recent years.

Number and type of human resources

EMPLOYEES BY TYPE OF CONTRACT AND GENDER

	31.12.2018			31.12.2017		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
Indefinite-term contract	419	413	832	413	406	819
Fixed-term contract	18	18	36	19	35	54
Total employees	437	431	868	432	441	873

There was a net decrease in workforce of 5 resources compared to 2017, as follows:

- › an increase of 13 resources under indefinite-term contract;
- › a decrease of 18 resources under fixed-term contract, of which:
 - 10 resources hired to replace employees on maternity leave and various other types of leave;
 - 8 resources hired as a support during peak workloads linked with special projects and activities.

This movement, which indicates a trend toward reinforcing and strengthening the permanent workforce, also includes the change of 15 contracts from fixed- to indefinite-term, in order to both cover new positions and to replace staff who had left previously.

The Group's workforce under indefinite-term contract rose from 94% in 2017 to 96% in 2018.

EMPLOYEES BY TYPE OF CONTRACT AND REGION

	31.12.2018			31.12.2017		
	ITALY	LUXEMB.	TOTAL	ITALY	LUXEMB.	TOTAL
Indefinite-term contract	808	24	832	795	24	819
Fixed-term contract	35	1	36	54	-	54
Total employees	843	25	868	849	24	873

97% of the Group's employees worked within the Italian territory. The remaining 3% was based in Luxembourg.

EMPLOYEES BY TYPE OF EMPLOYMENT AND GENDER

	31.12.2018			31.12.2017		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
Full-time	384	429	813	375	438	813
Part-time	53	2	55	57	3	60
Total employees	437	431	868	432	441	873

Part-time employees accounted for 6% of the total (7% in 2017). Those choosing to work part-time are mainly women who are more involved in managing and caring for a family: in 2018, women represented 96% of part-time employees (95% in 2017).

All activities were carried out by employees. No important/significant activities were carried out by non-employees. Sometimes the Company uses temporary staff to deal with work peaks or specific projects. At year-end 2018, 1 resource was under temporary contract (2 in 2017, including employees under temporary contract and freelancers).

TURNOVER

2018 ITALY	WOMEN				MEN				TOTAL
	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL	
Headcount	25	321	84	430	24	269	120	413	843
Number of hirings	20	13	1	34	19	22	4	45	79
Number of terminations	15	12	2	29	17	35	4	56	85
Percentage of hirings	80%	4%	1%	8%	79%	8%	3%	11%	9%
Turnover rate	60%	4%	2%	7%	71%	13%	3%	14%	10%

2017 ITALY	WOMEN				MEN				TOTAL
	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL	
Headcount	26	325	74	425	30	283	111	424	849
Number of hirings	23	17	-	40	23	36	7	66	106
Number of terminations	11	17	7	35	10	21	18	49	84
Percentage of hirings	88%	5%	-	9%	77%	13%	6%	16%	12%
Turnover rate	42%	5%	9%	8%	33%	7%	16%	12%	10%

2018 LUXEMBOURG	WOMEN				MEN				TOTAL
	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL	
Headcount	1	3	3	7	3	12	3	18	25
Number of hirings	-	-	-	-	1	1	-	2	2
Number of terminations	-	-	-	-	-	1	-	1	1
Percentage of hirings	-	-	-	-	33%	8%	-	11%	8%
Turnover rate	-	-	-	-	-	8%	-	6%	4%

2017 LUXEMBOURG	WOMEN				MEN				TOTAL
	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL	
Headcount	1	3	3	7	2	12	3	17	24
Number of hirings	-	-	-	-	2	2	-	4	4
Number of terminations	-	-	-	-	1	1	-	2	2
Percentage of hirings	-	-	-	-	10	17%	-	24%	17%
Turnover rate	-	-	-	-	5	8%	-	12%	8%

In 2018, the rate of hirings was 9% (12% in 2017). The highest rate of hirings was reported for personnel aged under 30.

In 2018, 43% of hirings in Italy were women (36% in 2017); of these, 59% of women were under 30.

With regard to terminations in Italy, 34% of them related to women. 52% of the women who left employment were under 30.

The under-30 employee age bracket is affected in particular by terminations of fixed-term contracts, in addition to the natural propensity for younger staff to change jobs.

In 2018, 67% of terminations (45.4% in 2017) was attributable to the aforementioned expiry of fixed-term contracts, 6% (7% in 2017) to the transfer of sales personnel into the sales network, while the remaining 27% to resignations and other residual reasons.

It should be noted that turnover figures include not only hirings and terminations of fixed-term contracts (including replacements for maternity leaves), but also transfers to and from other companies that are part of the Generali Group. Moreover, they do not include changes due to the merger of BG Fiduciaria, effective 1 January 2018, following which 10 resources joined Banca Generali's workforce.

In order to meet and attract talented young people capable to supporting its employer branding, for some years the Banca Generali Group has been developing a dedicated plan targeted at attracting talent through the attendance of career days, sponsorship of initiatives and collaboration with universities and other bodies. 2018 also saw increased participation in Diversity Days: events organised by a number of universities in collaboration with companies specialised in the diversity sector to bring together the world of work and people with disabilities. These days also form part of the initiatives promoted by Banca Generali under the Diversity & Inclusion programme.

In 2018, Group companies continued to encourage access to the job market by young people through the launch of training projects (internships). At 31 December 2018, there were 12 interns (9 women and 3 men).

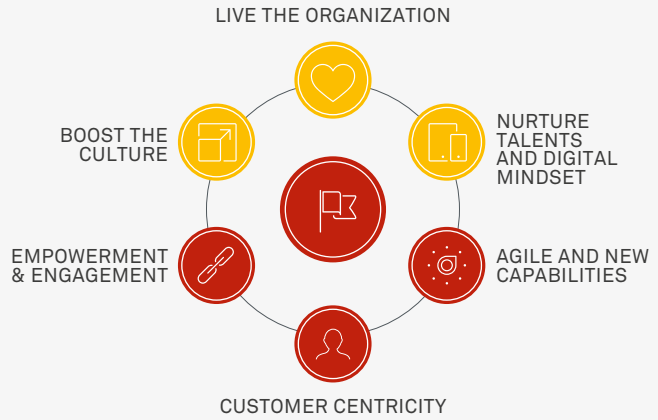
2018 People Strategy

The 2018 People Strategy, inspired by the Generali Group's four priorities, has three major themes:

- › **Boost the Culture:** implementing projects and initiatives to boost the Banca Generali's culture leveraging communication, closer relationships between departments, personal accountability, a stronger managerial culture at all levels and streamlined organisational complexity.
- › **Live the Organization:** increasing the organisational and business awareness of the people working at all levels of the Bank through frontal communication and training initiatives, increased efficiency of dialogue between departments, investment in diversity and inclusion projects and development of faster execution to keep pace with an increasingly dynamic business.
- › **Nurture Talents & Develop Digital Mindset:** supporting the already deeply rooted customer-centric culture with a more digital approach consistent with the Banca Generali's business strategy, involving the organisation's best people in network and Bank events, developing talent with a digital focus and making the most of internal resources through a job rotation policy based on a combination of personal evaluation and position weightings.

As mentioned above, these three pillars come together in the Group's People Strategy, which in turn is based on the following four priorities:

1.  **REINFORCING THE SKILLS OF OUR LEADERS**
Developing training courses in support of leadership and development of the Banca Generali Group's resources
2.  **PROMOTE ENGAGEMENT AND EMPOWERMENT**
Implementing projects and initiatives starting from opportunities for improvement identified by colleagues
3.  **BUILDING AN AGILE ORGANISATION AND CREATING NEW SKILLS**
Organisational analyses with the aim of constantly aligning the organisational structure with business needs
4.  **FOSTERING CUSTOMER CENTRICITY**
Adoption of the Generali Group's "simpler and smarter" philosophy, in the form of the particular attention devoted to Customers in view of constant improvement of the service offered (favouring a customer-centric culture)



Training and Development of Human Capital

Training

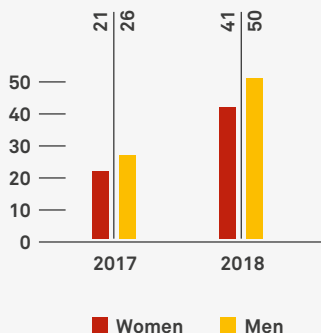
In accordance with the Banca Generali Group's strategic positioning, involving employees in training activities is a fundamental means of driving engagement and empowerment within the Company.

In 2018, Banca Generali therefore continued to confirm its commitment to continuous staff training, so as to develop people and provide them with the means to work independently in their operating functions, confident in their own abilities and aware of the professional pathway.

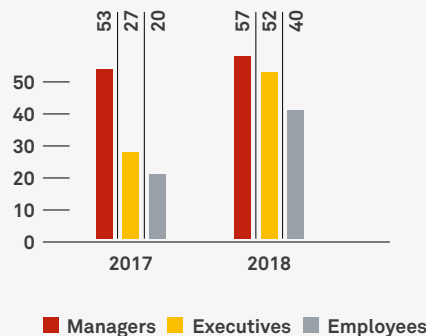
The total expertise, skills and abilities acquired by Banca Generali staff are an essential asset as illustrated by the number of training hours delivered within the Bank in 2018, amounting to more than 39,000 hours (classroom and e-learning), almost twice the hours achieved in 2017 (21,451 hours).

39,000+
training hours
(21,451 h in 2017)

AVERAGE TRAINING HOURS BY GENDER



AVERAGE TRAINING HOURS BY TYPE OF EMPLOYMENT



As shown, the training initiatives implemented in 2018 confirm the focus on four major areas, continuing on from the significant investments made in previous years:

1. REGULATORY/SAFETY TRAINING

To make the Bank sustainable in the long-term

Regulatory training	Always delivered in accordance with legal guidance, which in 2018 focused on Anti-Money Laundering, Data Protection and Transparency issues. All mandatory Web-based courses for new hires, under both indefinite- and fixed-term contracts, are provided on an ongoing basis through the dedicated e-learning platform.
Training on General Employee Safety	Classroom and e-learning dedicated to the entire workforce, including Managers.
Transfer to the Generali Tower	Updating of emergency team employees on the new level of risk and increase in the number of personnel in charge at each floor. Information to all employees on the 'new way of working' concept, inspired by the Tower's physical space: open space, smart working, paperless, etc.

2. MANAGEMENT AND BEHAVIOURAL TRAINING

To support staff in the major strategic changes

Meetings with Top Managers and business meetings	Dedicated occasions for staff to share and align with Banca Generali's strategic lines and to structure work plans around them. Illustration and presentation to employees in plenary session of strategic guidelines and key projects.
Outdoor training activities	Events dedicated to specific Departments to strengthen integration, confidence and cohesion in teams, encouraging the sharing of new ideas.
Specific training activities	Training for management and the entire workforce on developing skills and expertise. These initiatives also include MAP (described in more detail below).

3. TECHNICAL BUSINESS TRAINING

On continuing to establish Banca Generali's position as the "No. 1 Private Bank" amongst its competitors

Master's courses	The Wealth Management Area's staff was provided with master's courses in prestigious business schools and training institutions in order to be trained as competent specialists qualified in financial and non-financial services able to provide support to Financial Advisors.
Detailed analyses of Banca Generali's dedicated Network applications	Information-training workshops on BG Personal Advisory's customer-centric advisory approach for headquarters staff.
Training activities on banking/financial themes	Focus on the Loans theme and financial skills for various Bank structures.
Courses on new investment strategies	"Awareness on new asset classes" course run in partnership with a major Business School.

4. TECHNICAL NON-BUSINESS TRAINING

to ensure that Banca Generali's organisational development continues to grow

MiFID II	<ul style="list-style-type: none"> E-learning course to raise the awareness of all employees on its scope of application and new obligations. Specific ad-hoc training for structures identified as "Information Givers", so they can be certified in the role.
Security Awareness Program	<ul style="list-style-type: none"> Programme sponsored at Group level to create a culture that reduces IT risks and safeguards personal data inside and outside the Company.
Language and IT training	<ul style="list-style-type: none"> Continuation of training to support day-to-day working activities and in keeping with the Generali Group's ever-increasing globalisation.
Project Management Programme	<ul style="list-style-type: none"> Programme designed to support the implementation of a structured methodology for managing the Bank's projects.

Banca Generali participates constantly in training projects promoted by the Parent Company. In 2018, Banca Generali's people increased their collaboration and participation in initiatives promoted by the Group, which enhanced their knowledge of other situations and colleagues with different expertise:

- › **MAP Managerial Acceleration Program:** a project targeted to People Managers and aimed at developing and strengthening managers' leadership, starting with the guidelines provided in the GEM - Generali Empowerment Manifesto.
- › **GATE - Generali Advanced Technical Education:** an international programme that seeks to consolidate, refresh and innovate the technical and business skills that are a part of Generali's DNA and culture.
- › **D&I - Diversity & Inclusion:** projects designed to ensure equal opportunities, the development of talent and inclusion: Women's Leadership Program, Mentoring Program and Unconscious Bias are the three founding schemes within the D&I programme, which is implemented with a common format throughout the Generali Group (a detailed analysis is given in the section on training).

Diversity is an asset for creating new ideas and processes, for seizing and managing market discontinuities and challenges in the best way. In this regard, Banca Generali has started to promote the implementation of suitable **Cross-Functional Projects**, aimed precisely to develop diversity in terms of expertise and skills, with a view to creating innovative and high value-added solutions. In this way, everyone will be able to not only manage diversity, but also look for each person's specific qualities, promoting discussion and giving room and value to different work styles and aptitudes.

Procedures for Evaluating Human Resources

% OF EMPLOYEES WHO UNDERWENT A PERFORMANCE ASSESSMENT

	31.12.2018		31.12.2017	
	WOMEN	MEN	WOMEN	MEN
Managers	28.57%	42.11%	30.77%	37.14%
Executives	80.00%	87.79%	84.44%	80.23%
Employees	87.00%	89.14%	86.93%	81.62%
Total	83.52%	84.45%	84.72%	77.55%

The Performance Management and Skills Assessment Process was hugely important in 2018. The **Individual Development Plan (IDP)** tool was introduced for the first time: during the annual supervisor/employee interview, staff were asked to take a lead role in the session and play an active part in building their annual individual development plan.

Training activities involving the entire workforce have been implemented to support and guide the change in mindset envisaged:

- › training dedicated to managers to analyse their role in guiding and coaching their own staff in developing plans in line with team/strategic objectives;
- › training dedicated to employees, designed to support them in proposing their own IDP and dealing with personal development and the acquisition of new skills.

The **supervisor/employee feedback** session (envisaged for all staff belonging to the employee and manager categories employed for at least six months) has also been improved. This provides both parties with the opportunity to discuss their respective expectations and development options, also by identifying specific training supported by the new BGPerforma Training Catalogue, linked to Banca Generali's core skills.

Engagement

Carrying on from the previous year, the Banca Generali Group continued to develop initiatives to ensure the best work-life balance without affecting the Bank's operations: in line with the Group's People Strategy, the **Smart Working** trial was launched, running from April 2018 to 30 November 2019; this scheme involved 10% of the workforce and aims to reach 25% during 2019. The project was implemented in two successive waves with a very tight timescale: starting with defining the scope of the Smart Working project, then moving on to individual agreements, until arriving at training and provision of suitable IT resources. Banca Generali's commitment thus enabled staff included in the project to exploit the Smart Working potential right from the start of 2018.

In addition, benefits linked to reduced and/or flexible hours continued to meet the needs of employees or their families such as, for example, the birth or adoption of children: personnel returning after a long absence can, in fact, access a number of ad-hoc benefits aimed primarily at women who have taken maternity leave. In particular, new mothers have the right to change their full-time contract to part-time (for an overall period that cannot extend beyond the child's seventh birthday).

In further pursuit of **job flexibility**, the Banca Generali Group recognises the importance of the "hour bank". Besides the right to take periods of leave as set forth by law or contract, it entitles all employees – irrespective of gender – to paid leave for health reasons and at their discretion, in addition to the mandatory maternity leave for female and male personnel and parental leave.

The work-life balance initiatives that also deserve mention are flexible start times in some structures (raised to one hour) and the option for certain professional categories of employees to reduce their lunch break.

In addition, Banca Generali employees can benefit of the favourable terms applied to Generali Group staff, including discounted rates, as well as the payment by the Company of annual subscription fees.

Banca Generali is also committed to the payment of full salary, supplementing the benefits paid by Italian national security institute (INPS), in the event of early maternity leave prescribed by the competent public authorities.

An always eagerly awaited opportunity has been reinstated: the opportunity for **some employees to have lunch with the CEO and the two Deputy General Managers**. Now in its fourth edition, this event is organised both in Trieste and Milan and provides staff with the opportunity to listen to and discuss directly with top management, and understand the strategic objectives and most innovative projects on which the Bank is working, in a relaxed and convivial ambience, with the possibility of receiving suggestions and proposals.

In addition, the second edition of the **BG Open** programme came to an end, resulting in the identification of nine project proposals (35 in the first edition) based on suggestions submitted by all employees of the Banca Generali Group on how to optimise internal processes, improve the quality of company life, develop innovative products and create more synergies between offices. Based on staff suggestions, a rating process has been used to select the projects to be developed.

A series of initiatives targeting employees and their families were also carried out in 2018, in keeping with the Group's mission.

The Banca Generali Group's goal is to support families with their life projects, with a view to fostering an increasingly close relationship between the Company and its employees and to increasing engagement within the Group. This mission is inspired by the principles of sustainable growth, which apply not just to our clients, but to all of the Bank's stakeholders, starting with employees' families.

In view of this goal, the new edition of **Kids at the Office** - Working Moms and Dads Day was launched at the offices in Trieste and Milan in May 2018. During the half-day office event, ini-

tiatives and opportunities for togetherness were organised in a playful, informal context. This year's focus was on the theme of savings.

The communications aspect led to the development of **Prima Pagina**, a digital newspaper that reports on all the Bank's events during the month (financial results, monthly net inflows reports, new products and company guidelines). Information on sponsorships, company events, ambassadors and company initiatives for employees were then added.

The **transfer to the Generali Tower** has also offered 30 Banca Generali employees the opportunity to take an active part in the moving process as Facilitators, helping to distribute information, receive reports from colleagues and contribute to the successful implementation of the project.

A pilot run of "**Sfumiamo**", a quit smoking initiative, was also organised for the Milan site. The scheme was promoted by Banca Generali in collaboration with LILT (Italian League in the Fight Against Cancer): from June to November, it aimed to raise employee awareness about the harm caused by cigarette smoking.

Diversity & Inclusion

To Banca Generali, "diversity" means understanding, recognising and making the most of differences (e.g., gender, age, values, training); 'inclusion' means being committed to attracting and developing talent, regardless of all aspects of diversity, encouraging all those who are a part of the Group to realise their fullest potential.

It is precisely due to these principles that Banca Generali and its CEO have the honour of representing the Diversity & Inclusion Programme within the Generali Group. A huge recognition of everything achieved so far, but serving as a boost to achieve increasingly challenging targets in the near future.

Banca Generali Group bases its success on the enhancement of human resources, attention and commitment towards collaborators, respect for human dignity, freedom and equality, and equal opportunity in the workplace and on career paths, without any kind of discrimination. In the light of these key principles, the guarantee of equal treatment between men and women, the protection of differently abled and foreign-national employees and the avoidance of age-related criteria in the selection process, training, career advancement and remuneration are accompanied by the ambition to build a culture without borders that values diversity of thought, considered to be an essential resource for company development and growth.

A particular focus is also dedicated to developing female talent by creating ad-hoc development and self-awareness courses such as the Women's Leadership Program, alongside courses to raise awareness about Diversity & Inclusion aimed at a broader range of employees. These include the Mentoring Program for managers with the aim of encouraging them to appreciate and support talent present in the team, and the Unconscious Bias course and Managerial Acceleration Program aimed at all People Managers to help them manage staff in the best way by nurturing their strengths.

- › **Women's Leadership Program**, to support women in increasing awareness of their own leadership style;
- › **Mentoring Program**, to develop managers' mentoring capacity and their ability to constantly support Mentees, who will be the leaders of tomorrow;
- › **Unconscious Bias**, to explore the power of "Mindfulness" for consciously managing the individual/organisational behavioural models;
- › **MAP – Managerial Acceleration Program**, already illustrated above, offers an in-depth analysis of D&I issues through a module dedicated to diversity.

The selection and hiring policies are also based on the principles promoted by the D&I Programme: 25% of short-listed candidates (whether selected from within or outside the Group) must be women, so as to increase the female percentage among managerial positions. Human resources are selected on the basis of their technical and managerial competences (soft skills), through a process that encourages people already working in the Group and relies on collaborations with Universities, specialist head hunting companies and the use of recruitment search engines. Once hired, new recruits are offered training programmes aimed at fostering both integration and corporate business knowledge.

In reflecting the diversity of the Company's workforce, total equality between male and female employees, particularly at top management level, is preserved and promoted. Banca Generali Group guarantees equal treatment for men and women, both during the selection processes and in terms of remuneration.

The gender balance is also achieved through the numerous forms of work-life balance support illustrated above.

EMPLOYEES BY PROFESSIONAL POSITION AND GENDER

	31.12.2018			31.12.2017		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
Managers	14	38	52	13	35	48
Executives	100	172	272	90	172	262
Employees	323	221	544	329	234	563
Total	437	431	868	432	441	873
Percentage	50.3%	49.7%	100%	49.5%	50.5%	100%

The percentage of women who serve in positions of responsibility (managers and executives) was 35%, increasing compared to the previous year (33%).
74% of women falls within the “employee” category (76% in 2017).

EMPLOYEE BY PROFESSIONAL POSITION AND AGE

	31.12.2018				31.12.2017			
	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL
Managers	-	24	28	52	-	19	29	48
Executives	-	168	104	272	-	156	106	262
Employees	53	435	56	544	59	448	56	563
Total	53	627	188	868	59	623	191	873
Percentage	6.1%	72.2%	21.7%	100%	6.7%	71.4%	21.9%	100%

Workforce’s average age is 44. In detail, managers’ average age is 51, that of executive is 48, whereas that of employees is 41.

PROTECTED CLASSES BY PROFESSIONAL POSITION AND GENDER

	31.12.2018			31.12.2017		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
Managers	1	-	1	-	-	-
Executives	2	1	3	3	1	4
Employees	24	20	44	23	17	40
Total	27	21	48	26	18	44
Percentage	56.2%	43.8%	100%	59.1%	40.9%	100%

The “protected categories” include staff with disabilities and employees featured on the list of protected categories.

The figures given in the table are consistent with the criteria adopted when preparing the reports to the competent bodies. It should be noted that additional staff members were present both in 2018 and 2017 (4 staff in 2018, including 3 women, and 3 staff in 2017, including 2 women) who, despite being included on the disabled list, were not counted since they were not part of the statutory reports.

As further proof of Banca Generali’s diversity and inclusion focus, it is highlighted that, in the two-year period in question, no incidents of gender discrimination of any kind were recorded.

Compensation

Remuneration

Without distinction by gender, Banca Generali offers remuneration in line with the market and additional benefits and incentivisation systems aimed at improving the quality of life of its people and rewarding, on the basis of merit, performance and achievement of specific objectives.

In Italy, the total remuneration of women managers is still lower than that of men because there are more men in strategic responsibility roles, which entail considerably greater remuneration. Among executives, the total remuneration of men in Italy is greater than that of women because this category includes most of Banca Generali's sales personnel – a large portion of whom are men – who benefit from a MBO bonus system.

Among employees, the gap between the total remuneration of women and that of men is due to the presence of part-time contracts (almost fully related to women).

In Luxembourg, for the category of managers and executives, the ratio is influenced by the strong component of female key management personnel.

RATIO OF REMUNERATION OF WOMEN TO THAT OF MEN (*)

	31.12.2018		31.12.2017	
	ITALY	LUXEMBOURG	ITALY	LUXEMBOURG
Managers	0.84	1.29	0.73	1.46
Executives	0.76	1.44	0.80	1.37
Employees	0.95	0.80	0.96	0.88

* Annual amount paid by the Group to employees, which includes the amount established by the national collective labour agreement and supplementary agreement, in addition to any other types of additional remuneration, such as seniority of service, overtime, bonuses, allowances and benefits.

For further information, reference is made to the 2018 Remuneration Report.

Benefits & Welfare

As far as company benefits are concerned, since 2018 all Banking Group employees (868) – irrespective of employment category and type of contract – have enjoyed a number of benefits, including:

- › life insurance and incapacity and disability cover, which in 2017 were granted to all employees of the Luxembourg-based subsidiary, but only to top managers as far as Italian companies were concerned;
- › health coverage;
- › supplementary pension schemes.

Moreover, an “additional” welfare benefit was introduced for managers in 2018, which consists of a fixed amount to be used for:

- › reimbursement of educational costs for family members;
- › reimbursement of medical costs for family members over 75 or with serious illnesses;
- › reimbursement of public transport costs;
- › purchase of wellbeing goods and services at special terms and conditions (leisure, culture, entertainment, etc.).

All employees employed under an indefinite-term contract – and with at least one year's seniority for BG Fund Management Luxembourg staff – also have access to preferential-rate loans and financing.

Industrial and trade union relations

The Group always observes trade union rights and the freedom of association, with regard to both corporate and local unions and the rights of individual employees.

At the end of 2018, the rate of membership (employees registered with unions vs the total workforce in Italy) was 36%, essentially unchanged compared to 2017. 97% of employees are subject to social and national legislation, and the provisions of the National Collective Labour Agreement (Credit Managers). The sole exceptions are the employees of BG FML, to which the local legislation applies.

The national collective agreement (CCNL Credito) provides for a series of annual or six-monthly trade union meetings, during which the Company can meet with the union representatives to discuss the following aspects:

- › **strategic prospects** (economic and business performance, key balance sheet data, new markets and products);
- › **structural aspects** (data on total workforce and the principal occupational/operational dynamics);
- › **quality of human resources** (data/information about performance appraisals, rewards and training).

On 30 June 2016, the economic conditions of the supplementary contract for employees (employee and executives) of Banca Generali (Italy area) were renewed and extended until 30 June 2019. As of 2018, the Company has started to provide life, permanent and total disability, and dead disease cover for its employees.

The provision concerning the collective company bonus is particularly innovative. In 2016-2018, it will be available to employees not only in the traditional cash format, but also as “welfare”, i.e., reimbursement of the expenses incurred on behalf of family members (spouses, children and relatives up to the second degree) for education, training, school books, summer and winter camps, educational vacations, language or computer courses and care for family members with severe disability or family members over age 75.

Since it is the result of collective bargaining, it applies to all employees in the categories of employees and executives. The sole exception pertains to staff under fixed-term contracts, for whom the ability to benefit from discounts on home mortgages or personal loans is not provided. Moreover, in implementation of the National Collective Labour Agreement, the activity of Fondazione Prosolidar, which is involved in solidarity projects at an international level, was promoted. In 2018, approximately 450 employees participated, paying in the established contribution, followed by a similar contribution by the Company.

Within Banca Generali all employees may terminate their employment agreement, provided that they observe the notice period established by the contract.

Legal disputes

There were two disputes running in 2018 with regard to employment positions – one to recover an amount due to the Company by a former employee, and the other, out of court, relating to the application of rights as per Legislative Decree No. 81/2015. In 2017, there had been two disputes on this matter. The disputes related solely to employment relationships that were terminated. The management of judicial and out-of-court litigation regarding this matter is regulated by the disputes and complaints organisational procedure. This procedure details all the activities that follow receipt of a claim, whether made against the Company or requiring Company action, concerning the employment relationship. The HR Department is involved constantly in the event of litigation regarding this matter, to ensure that the context of the dispute is reconstructed correctly.

The Company uses leading expert firms for the judicial management of such disputes and to provide an objective assessment of the complaints and the Bank's position.

If it appears that the content of the complaints made by former employees cannot be opposed, the option of a settlement agreement is always taken into consideration as a matter of good practice instead of ineffective and more expensive legal proceedings.

At quarterly intervals, the Board of Directors is given an overall report on the Company's litigation and complaints status. When the quarterly litigation and complaints report is presented, proposals are put forward for risk provisions to be set aside and for the write-down of receivables recognised for litigation positions, so as to ensure that the risks connected with the litigation and/or the non-recoverability of receivables are adequately covered. This report also discusses and specifically evaluates the positions belonging to the type of dispute mentioned in this section.

Health and safety in the workplace

Banca Generali considers the physical safety of its workers to be a priority; therefore, it guarantees working conditions in a safe, healthy environment, in accordance with existing health and safety legislation.

Banca Generali complies with and implements national legislation governing differently abled employees, in view of equal opportunities within the Company. To this end, the Group's buildings are constantly inspected to ensure that they meet law requirements (architectural restrictions and workstations) and guarantee, for instance, parking spaces reserved for differently abled people in the immediate vicinity, both at the office in Trieste and the new headquarters in Piazza Tre Torri in Milan.

At 31 December 2018, the Banking Group had 47 differently abled employees (satisfying the criteria used for reporting to competent bodies), 27 of whom were women (equal to 57% of the total).

In areas at risk of attacks, specific crime **prevention measures and deterrents** are implemented, such as access control systems, alarms and video surveillance at the Milan and Trieste offices. The banking branches have also implemented **active and passive security systems** (interlocking entrance doors, cash in-out) and **organisational measures** including devices to protect deposits, safes, keys, systems, security and emergency equipment.

In order to always ensure a rapid response, the two head offices in Milan and the one in Trieste, as well as the Private Banking Centres with more than 10 employees, have established their respective **emergency teams** formed of volunteers with training on first aid and fire safety, as well as on the use of semi-automatic defibrillator (Milan and Trieste offices).

In 2018, personnel eligible for health supervision underwent **medical examinations** according to the protocol established in current legislation for the associated risk group. In total, 371 medical examinations were carried out (186 men and 185 women), involving 20 different offices. The results showed clearly that most staff were fit to work without any limitations and/or special precautions.

Employees at the Trieste, Mogliano, Milan, Turin, Genoa, Rome and Naples offices enjoy access, during working hours, to the services in the **multipurpose nursing centres** set up by the Generali Group: in 2018, employees were again offered the opportunity to receive a flu shot free of charge.

Banca Generali employees participate in **training programmes** dedicated to safety issues through classroom and/or e-learning sessions, available from the online platform Simulware. All employees are trained and kept updated on risk prevention, laws and regulations, and recommended procedures in the case of a fire or other emergency through information materials (available on the corporate Intranet).

Specific training is provided on an ongoing basis, at the established intervals, for the roles specifically indicated in Legislative Decree No. 81/2008 and identified within the Company (executives, compliance supervisors, emergency team members, members of the Prevention and Protection Service and Workers' Safety Representatives).

During 2018, a total of four incidents occurred (all during commuting), none of which caused death, serious or permanent injury, or an occupational illness to the members of staff involved. These accidents related to 2 women and 2 men; in 2017 accidents related to 3 men (all during commuting) and 3 women (2 during commuting and 1 at work).

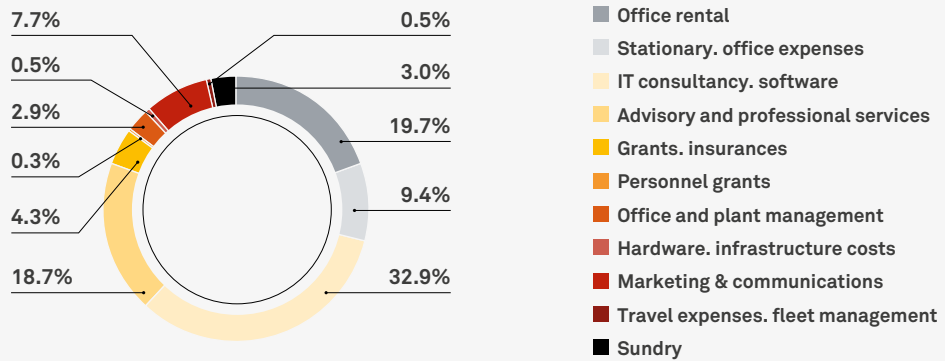
The rate of accident-related absenteeism in 2018, calculated as a frequency index (No. of accidents/total hours worked" x 1,000,000) was 2.96 (4.52 in 2017), whilst the rate of days lost, calculated as a gravity index (No. of days lost due to accident and occupational disease/total workable hours) x 1,000 was 0.04 (0.06 in 2017).



Banca Generali and its Suppliers

In 2018, the Banca Generali Group engaged in dealings with 1,529 suppliers, for a total of 100.2 million euros, broken down into 92.5 million euros (92.4% of the total) referring to Italian suppliers and 7.6 million euros (7.6% of the total) to foreign suppliers.

BREAKDOWN OF SUPPLIERS BY TYPE OF SUPPLY AND % VALUE OF THE SUPPLY



	2018	2017
Number of suppliers	1, 529	1,483
Expenditure/suppliers (€ thousand)	100,190	93,649

The procurement process within Banca Generali is founded on principles of propriety, honesty, impartiality and transparency. While maintaining an autonomous procurement policy and bargaining position in dealings with suppliers, Banca Generali adopts a conduct in line with the Generali Group's principles and promotes fair and sustainable competition amongst its suppliers, promoting a balanced approach and avoiding the creation and maintenance of positions of economic dependency.

Banca Generali develops contractual relationships only with those suppliers whose credentials are such as to provide it with a good degree of reliability and efficiency: the creation of a long-lasting and mutually beneficial network of relationships with qualified suppliers is a strategic objective and a source of competitive success and allows product and service quality to be kept high at all times.

In line with the criteria defined by the Group, the Bank asks its contractual partners to align themselves with the policies adopted when carrying out their own activity and to ensure that they are observed at all levels of the supply chain. In 2018, there were no reports of significant changes in terms of organisation, structure and ownership within the supply chain.

At regulatory level, the Procurement process, already regulated by a special Circular and, more specifically, the procedures for selecting suppliers and awarding supplies, was revised. A special procedure is envisaged for related party transactions. For each purchase, Banca Generali requests and compares several offers through an appropriate evaluation and selection process involving suppliers considered to be suitable ("qualified") and a special scoring system defined in concert with the Generali Group. The qualification system takes account of financial data, risk assessment and quality analysis of the goods/services supplied. For all purchases over 40,000 euros excluding VAT, at least three "qualified" suppliers are involved in the selection process and their offers are examined so as to identify the most advantageous source in terms of total purchase cost, quality, delivery times and service performance.

The process of selecting suppliers is based on clear, well-defined and non-discriminatory procedures, through the exclusive use of objective, documentable and transparent parameters tied to the quality of the products and services offered.

Without prejudice to the primary need to meet the requesting office's requirements, and without running any type of supplier-related risk (e.g., defect levels, delays, non-compliance, indirect damages, conflict situations, breaches of legislative obligations), the founding principle for

selecting and choosing the supplier is to ensure the best economic supply conditions, through competition between several qualified suppliers and in full compliance with the Code of Ethics to which the Bank adheres.

Banca Generali works only with suppliers who conduct their business in rigorous compliance with national and international laws and regulations, safeguarding human rights and labour protection, privileging companies able to supply goods and/or services throughout Italy.

The Group's Policy for the Environment and Climate defines the objectives and undertakings that guide the Group's choices and actions, including procurement, in order to make a positive contribution to sustainable development. For this purpose and with the specific aim of limiting the environmental impact of the Company's activity along the entire procurement chain, preference is given to suppliers with social responsibility policies that adopt ecological criteria (e.g., use of green technologies and procedures). **Banca Generali, in concert with the Group to which it belongs, intends to acquire tools and systems for a more in-depth social analysis of suppliers.**

For supplies of goods and/or services having an environmental impact, contractors/suppliers are held responsible for checking that the specific authorisations required by the law regarding waste treatment and management have been obtained.

Banca Generali is committed to reducing environmental impacts by containing consumption. This strategy was exemplified during 2018 when more than 400 Banca Generali employees were transferred to the Zaha Hadid Tower at CityLife (Milan), an example of a sustainable building that reduces energy consumption.

For all supplies of goods that are important for workplace and employee safety (e.g., video terminals, lifts, air conditioning systems, electrical plant), there is an obligation to check compliance with the legal regulations and technical/structural standards required.

Banca Generali has also insurance covers, as well as adequate clauses covering damages caused by providers of infrastructure and services.



Banca Generali and its Customers

Banca Generali intends to use its own service model and commercial offer to meet its customers' investment needs fully, adopting multiple technical resources and identifying, through its Financial Advisors and with the support of specially developed IT procedures, the right solutions for each customer. In order to achieve this objective, the Banca Generali Group's strategy is to adopt a holistic advisory approach to propose a wide range of financial, banking and insurance solutions, services and products, which can be subdivided into four main areas: asset management, insurance products, AUC and alternative investments.

- › With regard to asset management products, Banca Generali's objective is to offer its customers a full range of investment solutions based on the open-architecture model and featuring flexibility and personalisation, in order to meet the different needs and requirements, in terms of financial planning objectives, risk tolerance and asset allocation;
- › the insurance product range offer is concentrated on Life and Pension Insurance, meeting protection and planning goals for generational transfer;
- › banking services and AUC provide access to a complete range of cross-border products (current accounts, services and payment instruments) and investment products (security deposit and trading of securities and loans);
- › finally, in the alternative products field, in line with its own strategic line of reinforcing its presence in the private credit market, Banca Generali has developed illiquid solutions aimed at professional customers, focused on specific niche markets (e.g., securitisations of health credits, CMBSs, senior secured loans).

Considering that, for the commercial offer to be developed properly, it is necessary, on the one hand, to identify the needs of customers and homogeneous groups of target customers and, on the other, to study the features of each new product and analyse its suitability for meeting the needs identified, Banca Generali has developed a well-structured process for studying, constructing and launching new products, whether these are engineered in-house or developed in collaboration with third party product companies. The following factors are particularly important for purposes of identifying customer features and investment needs:

- › the type of customer (retail, professional, qualified counterparty);
- › customers' knowledge and experience;
- › customers' financial situation and ability to sustain losses;
- › customers' risk tolerance;
- › customers' objectives and needs (protection/growth/income/..., time horizon, specific needs).

A direct knowledge of customers is essential for evaluating, with reference to each of them, the suitability of the products distributed to meet the relevant investment needs. Banca Generali gathers information on each customer's knowledge and experience of financial products and the customer's financial situation and investment objectives. This information serves to give every customer a financial profile, which is then used, together with other factors (such as for example the features of the products offered), to check the investor's capacity to understand the nature and features of the product and the related effects also in risk terms. An adequacy and appropriateness assessment can then be carried out through a specially developed IT support procedure.

This procedure features an assessment model in which specific profiles are determined and product and/or portfolio risk is monitored constantly, by means of two levels of control:

- › "transaction frequency" – this control is designed to check that the number of transactions ordered by customers, in a given time period, is below a threshold fixed by the Bank and defined through a control matrix obtained from crossing the customer's risk class and the risk class of the product being assessed;
- › "transaction size" – this control checks that the value of the transaction ordered by the customer is below a threshold fixed by the Bank and defined through a control matrix obtained by crossing the customer's risk class and the risk class of the product being assessed.

The IT procedures developed by Banca Generali continually check that the adequacy conditions are met over time. In addition, as part of the advanced advisory service, the portfolio risk level is constantly monitored, checking that it is consistent with the profile assigned to the customer on the basis of the information gathered on knowledge and experience of financial products, financial situation, risk tolerance and investment objectives.

Knowing the customers

Banca Generali strives to become the No.1 private bank, unique by value of service, innovation and sustainability. To achieve this goal, it is essential that the Bank have full knowledge of its Customers, so that it can satisfy their investment and protection needs in a specific way.

Knowledge of the Bank's Customers is based on direct relationships with the Financial Advisors, trend analysis and more general indicators transversal to the entire customer base.

In 2018, the Bank reported an increase in both the total assets under management (+3.4%) and the number of Customers served (about +4%). The increasingly lower percent weight of client segments with limited assets was offset by the increase in Clients in clusters with greater invested AUM.

NUMBER OF CUSTOMERS AND AUM

	2017	2018	% CHANGE
Number of customers	279,004	289,956	3.9%
AUM (€ billion)	55.6	57.5	3.4%

There was a slight decrease among Generation X customers (35-50 years of age), whereas Baby Boomers (50-70 years of age) and those over 70, in the share of customers with high levels of income and assets, remained stable.

BREAKDOWN OF CUSTOMERS BY AGE BRACKET

AGE	% 2017**	% 2018
Up to 35	9%	9%
35-50	25%	23%
50-60	24%	24%
60-70	18%	18%
over 70	21%	22%
Other *	3%	3%
Overall total	100%	100%

* The category "Other" includes all the clients that cannot be classified by age (i.e., legal entities, clients with trustee mandates, etc)

** Figures for 2017 were restated following a refining of classification.

The geographical distribution of customers shows strong concentration in Northern Italy (collectively, about 61% of the total).

BREAKDOWN OF CUSTOMERS BY GEOGRAPHICAL AREA

GEOGRAPHICAL AREA	% 2017	% 2018
Overseas	-	1%
Centre	19%	19%
Islands	4%	4%
North-east	30%	31%
North-west	31%	31%
South	16%	15%
Overall total	100%	100%

Breaking customers down by gender, 57% are men and 43% are women.

BREAKDOWN OF CUSTOMERS BY GENDER

GENDER	% 2017**	% 2018
Women	42%	43%
Men	55%	54%
Other *	3%	3%
Overall total	100%	100%

* The category "Other" includes all the clients that cannot be classified by age (i.e., legal entities, clients with trustee mandates, etc)

** Figures for 2017 were restated following a refining of classification.

Customers relations

The current customer communication process allows Banca Generali to adapt rapidly to market changes and ensure timely, clear communication of new solutions and services aimed at creating value for its customers and investors in general.

Drawing its inspiration from the Code of Ethics of the Generali Group, **the principles guiding customer relations** are:

- › conducting business in compliance with the law, internal regulations and professional ethics;
- › promoting the culture of sustainability in all of its spheres of influence to contribute concretely to economic and social development based on respect for fundamental human rights and labour conditions and environmental protection;
- › processing personal data in a manner respectful of data protection rights, while ensuring they are inaccessible to third parties, except for justified company reasons or in the presence of a specific external mandate;
- › avoiding any conflicts of interest and, where it is not possible to do so, managing them in such a way as not to result in harm to the Bank or its customers;
- › guaranteeing free competition, a fundamental factor for the development of company business and results;
- › providing comprehensive and accurate financial disclosures, as well as information on products and services, so that customers can make informed decisions;
- › combating all forms of bribery and corruption;
- › opposing any conduct that could be intended as supportive of money laundering and financing of terrorism;
- › pursuing customer satisfaction, a key factor in the Bank's strategic vision.

Creating value through innovation

Banca Generali recognises innovation as a fundamental driver to remain competitive on the market and meet the customers' changing needs in order to create value in the long term.

The first level of innovation on which the Bank focuses concerns the implementation of **procedures and solutions for monitoring risks and supporting customers in managing their financial interests and any other need**.

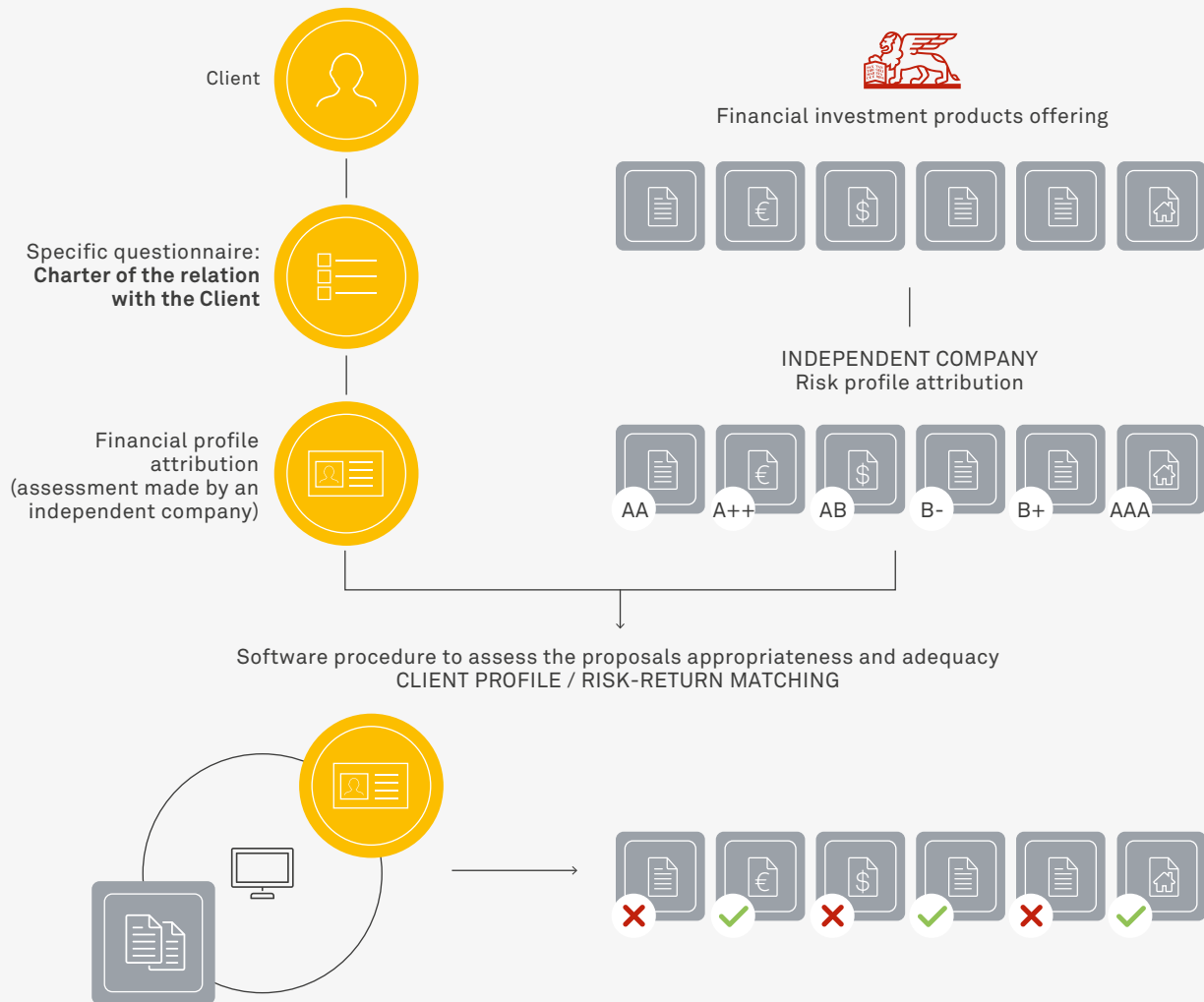
Banca Generali provides its Customers with access to the innovative Advanced Advisory service "BG Personal Advisory", which takes an integrated approach to asset management to protect Customers' total wealth.

Capable of meeting constantly evolving needs in a synergistic manner, BG Personal Advisory can be used by customers to analyse and manage, together with their Financial Advisors, not only their financial investments, but also other important aspects of their wealth, such as real-estate, family and business assets.

BG Personal Advisory allows customers to make the most of their wealth, monitoring it constantly over time and taking action at any time through measures and strategies suited to their specific, constantly evolving needs.

Banca Generali adopts a multi-manager open architecture and selects asset management skills to manage complex markets characterised by an increasingly difficult search for returns, geo-political risks and lack of correlations. The investment solutions proposed by Banca Generali are **à la carte** solutions or **wrappers of products**.

KNOWING THE CLIENT AND UNDERSTANDING PROPOSALS



Creating value through protection

Over time, Banca Generali has created solutions aimed at protecting customers and preserving their wealth, with respect to both the financial and real estate components, as well as safeguarding all their family members.

Protecting its customers' investments is a key priority for Banca Generali, which it pursues through:

- › BG Stile Libero, an insurance wrapper including pure life cover based on age, accident cover and increased cover in the event of capital losses, allowing policyholders to protect their investments and guarantee peace of mind to their families;
- › the Family Protection tool, which, as part of the BG Personal Advisory platform, allows Financial Advisors to analyse their Customers' total wealth (financial and non-financial assets) from the standpoint of generational transfer to identify any related problems in terms of asset allocation and distribution or access to real estate assets.

Creating value through communications: new technologies

The banking sector is undergoing a period of great transformation. The evolution of society is driving radical change in bank-customer interactions, in the direction of a renewed dialogue focused on involvement and transparency and a "digital revolution" that is identifying new needs and ways to access to services.

Innovation and sustainability are Banca Generali's guiding pillars in offering a unique service in quality and value terms. For this reason, Banca Generali has launched a digital improvement process involving all the online channels.

New commercial site

In 2018, Banca Generali launched the new commercial site BancaGeneraliPrivate.it, which remains faithful to the Bank's values, but features brand-new graphics, and the new Home Banking service, revamped to offer an improved user experience, conceived and constructed for all our Customers.

The new website allows content to be accessed easily through more innovative and intuitive navigation than in the past, also making use of smarter and more modern graphics.

Using the "responsive Web design" technique, existing and future Customers will be able to navigate the content in which they are interested from a desktop, tablet and mobile device. The experience will be customised and become functional also on the move.

Consistent with the Bank's business model, which places the Financial Advisor at the centre, the website shifts the attention from investment solutions to the Advisory model. BancaGeneraliPrivate.it is changing to an essential tool for reporting on the Advanced Advisory service and highlighting how Banca Generali enhances and protects its Customers' wealth.

For this reason, a more immediate and essential content architecture has been designed, which can be used to navigate quickly through the different sections, subdivided by areas of interest.

New home banking service

Graphics, layout and architecture are three of the key elements that have guided the creation of the new home banking service. The Customer area is becoming a modern digital experience, keeping the same features as the previous portal, but easier to use, and ensuring that all the banking services can be accessed directly from each Customer's PC.

Assets can be managed in the new Home Banking service even more quickly and intuitively, with the ability to perform banking transactions from the comfort of one's own home and with the maximum security possible, 365 days a year.

The mode of access has not changed: the Customer can enter the home banking service with the same credentials used to date. The main menu allows to navigate all different sections, thanks to a more intuitive and lean content structure.

The homepage features can be personalised by each user, managing the panels directly from the profile settings, with the ability to choose how assets, accounts, cards, investments, restrictions and news are displayed. In addition, thanks to the "Favourites" function, Customers may create their own navigation list, to access their favourite and frequent-use features more quickly.

Digital Collaboration

Moreover, as of 2018 operations relating to investments on BG Certificates have also become available in Digital Collaboration.

Thanks to an increasingly rich portfolio of transactions available, 2018 saw further growth trends in Customer Digital Collaboration operations. Investments exceeding 2 billion euros were confirmed digitally in 2018, and more than 6,000 transactions were dematerialised every month, eliminating the environmental impacts and paper wastage completely.

The telephone support service provided by the Banca Generali Contact Center complements the Internet channel; the service, which is intended above all to allow customers to access information about Bank operations and to execute transactions, in 2018 saw operators field approximately 150,000 calls, of a total of over 230,000, with response times of approximately 30 seconds and a dropped-call rate of nearly 2% (figures slightly decreasing compared to 2017).

Digitalisation of tools for Financial Advisors

The innovation and digitalisation work that marked Banca Generali's last few years also continued in the area of tools and applications to support Financial Advisors. Two new applications, in particular, were made available to Advisors in 2018:

- › BG Editor: a new digital tool to simply and intuitively create personalised presentations to be used in meetings with Customers, accessing a wide collection of documents subdivided by thematic areas;
- › BG Prodotti: a new virtual and digital archive with all the information material on the commercial offer (in terms of launch presentations, periodic reports, detailed analyses, videos, ...) always up to date and easy to access and consult.

Creating value through education

Banca Generali wishes to contribute concretely to economic and social development based on respect for fundamental human rights and environmental protection, while promoting the culture of sustainability in all of its spheres of influence. Moreover, out of an awareness of the role that financial education plays in the process of strengthening the bonds of trust between banks and citizens, Banca Generali continues to invest in creating and spreading financial culture.

The Bank encourages socially and environmentally friendly behaviour by developing and distributing solutions with social and environmental value:

- › **technologies and digital services aimed at reducing the use of paper**, such as Doc@online;
- › **favourable terms in order to promote health lifestyles and a greater focus on health**, such as the tariff for non-smokers in the temporary life-insurance policy BG Tutela, which pays a lump-sum benefit to the designated beneficiaries in the event of the policyholder's death.

Banca Generali promotes “**Aperitivi Finanziari**” events throughout Italy. These free meetings, open to all customers and the public generally, organised in collaboration with its network and leading asset management firms, are intended to illustrate macroeconomic scenarios and the financial market situation, as well as development and innovation of investment solutions. In 2018, over 5,000 customers and prospects took part in the events organised by Banca Generali throughout Italy, a result in line with that of the previous year and thus confirming the Bank's capability to draw the public attention onto economic-financial issues, as well as to increase interest towards these matters.

The Bank also proposes initiatives of an educational nature devoted to young people: the campaign “**Un Campione per Amico/A Champion for a Friend**”, which tours the Italian major cities with the help of four sports champions, aims to involve young people in financial education through sports and play.

Security and data protection

Banca Generali considers safeguarding company information assets within its areas of operation as fundamental to protecting the Company's business and its relation of trust with customers.

In order to safeguard data and ensure the security of IT tools deployed to protect information assets, **Banca Generali takes action to prevent events that could cause the loss or alteration of information through:**

- › **policies** on data protection, IT security and strategic direction on the matter of information communication technology (ICT);
- › **systems and tools** to ensure data security (firewall, anti-malware and antivirus software...);
- › **training** of people.

In this regard, Banca Generali is committed to ensuring the respect of the data protection laws through the adoption of the principles set forth by the **GDPR – General Data Protection Regulation** (Regulation EU 2016/679), which became effective on 25 May 2018. In this regard, Banca Generali has adopted the ‘**Data Protection Policy**’, which has replaced and supplemented the regulatory provisions already contained in the Bank's internal regulations, which define the guidelines with which Banca Generali and the Banking Group companies must comply in order to safeguard data protection.

Banca Generali has also identified, within the business organisation, a Group **Data Protection Officer** (DPO), whose main responsibility is to analyse, assess and manage personal data processing (and hence data protection) within the Company, so that data is handled in accordance with European and national data protection legislation.

Within the scope of data protection related work, the **Compliance** function, which serves as a second-tier check, is involved in monitoring and assessing the risk of non-compliance with regulations on the matter in accordance with the related compliance requirements, as well as processes and procedures in this area.

In 2018, Banca Generali set up specific and dedicated **training initiatives** on the processing of personal data, in the light of the regulatory changes introduced in the year, as well as a course on “Security Awareness” to offer an in-depth awareness of the issue, offering concrete examples of good habits to be remembered in order to safeguard information assets. As proof of the effectiveness of the data protection measures taken, it can be reported that no confirmed complaints regarding breaches of data protection were received during the reporting period.

Dialogue with customers

Customer satisfaction

Customer satisfaction is a key factor in Banca Generali's strategic vision. Periodically monitoring customer satisfaction allows the Bank to measure its ability to meet customers' needs and expectations with the aim of reinforcing its leading position.

The level of satisfaction is measured directly with Customers through the use of quantitative indicators, and indirectly through the level of satisfaction of Financial Advisors, who manage relationships with Customers personally.

Customers

To analyse the level of customer satisfaction, Banca Generali has prepared a series of indicators based on data concerning the customer base. A comparison with 2017 shows that customer retention is virtually stable, with a retention rate and customers' average period with the Bank remaining virtually stable. Customers' perceptions of the financial services offered improved: the number of single-product customers declined (cross selling equal to 1).

CUSTOMER SATISFACTION	N. PRODOTTI	2017	2018
Customer retention rate		95%	95%
Average duration of the agreement*		12 years and 4 months	12 years and 3 months
Cross selling	1	41.6%	40.4%
	2-3	40.0%	40.6%
	4+	18.4%	19.0%

* The figures refer to persons who have been Banca Generali customers for at least one year.

Financial Advisors

With the support of a leading external company, approximately 2,960 Financial Advisors and Private Bankers belonging to the various networks operating within the banking market, chosen by the external company in an entirely anonymous fashion, were called upon in 2018 to express their sense of belonging to the Company and their level of satisfaction with the line of products, services, tools and training provided to them to serve customers as best as possible.

Once again, Banca Generali is in first place amongst the different financial advisory networks: 2018 data confirmed that the network's general level of satisfaction and the attention dedicated to customers were well above the average reference figures.

The trend then sees Banca Generali placed third in the advisory networks' ranking, but growing steadily compared to its competitors.

Management of disputes and complaints

Banca Generali's Litigations and Complaints Unit receives customer complaints regarding both investments services and banking products and services. Customers may lodge complaints in writing by post, fax, telegram, e-mail, certified electronic mail or by hand-delivered letter addressed to the branches, private centres, as well as representatives or other offices of the Bank. Complaints are managed in compliance with applicable laws and regulations. Banca Generali has become a member of Conciliatore Bancario Finanziario – an association for Alternative Dispute Resolution (ADR) focusing specifically on banking, financial and corporate matters. ADR offers out-of-court dispute resolution procedures.

The Bank has adopted an **internal disputes and complaints policy and an organisational procedure**.

The organisational procedure identifies the activities involved in handling complaints (from recording them in a special dedicated database, to sending the letter of response). Complaints are logged based on the category to which they belong. It can be noted, in particular, that: i) Banking Complaints (concerning any malfunction, complaint, omission, expression of dissatisfaction or objection regarding the Bank's operations related to banking or financial services as identified in Title VI, Chapter I, of Legislative Decree No. 385/93 – TUB – Consolidate Law on Banking Banking) provide for a 30-day time limit for processing the complaint; ii) **Financial Complaints** (concerning any malfunction, complaint, omission, expression of dissatisfaction or objection regarding the Bank's operations related to investment services and activities and ancillary servic-

es as identified in Part I, Article 1, of Legislative Decree No. 58/1998 – TUF – Consolidated Law on Finance) provide for a 90-day processing time limit when the complaint concerns questions outside the scope of the Banking and Financial Ombudsman, and a 60-day limit if the complaint refers to disputes for which an appeal could be brought before the Banking and Financial Ombudsman; iii) **Insurance Complaints** (concerning any malfunction, complaint, omission, expression of dissatisfaction or objection regarding the Bank's operations related to insurance contracts and services falling within the scope of the IVASS pursuant to Article 4, paragraph 1, of Isvap Regulation No. 24/2008) provide for a 45-day processing time limit.

The organisational procedure also identifies the activities involved in dispute management. This phase normally develops as the result of the complaints received being rejected. During this phase, the Company avails of the service of leading independent experts to manage the judicial process and provide an objective assessment of customer complaints and the Bank's position. Both during the complaint phase and the dispute phase, if it appears that the content of the complaints made by the customers cannot be opposed, the option of a settlement agreement is always taken into consideration as a matter of good practice instead of ineffective and more expensive legal proceedings.

The policy mentions the importance of handling the complaints received in a timely manner in accordance with the timescales indicated in contract legislation.

Complaints must also be handled in a pertinent manner, carrying out suitable checks on the grounds/lack of grounds of their content and providing a prompt and exhaustive response to customers at the end of such checks.

At quarterly intervals, the Board of Directors is given an overall report on the Company's litigation and complaints status. When the quarterly litigation and complaints report is presented, proposals are put forward for risk provisions to be set aside and for the write-down of receivables recognised for litigation positions, so as to ensure that the risks connected with the litigation and/or the non-recoverability of receivables are adequately covered. This report also covers and specifically assesses the positions belonging to the type discussed in this paragraph.



Banca Generali and the Distribution Network

Features, size and composition

The quality and efficiency of the sales network determine the customer satisfaction level. Since they work in a sector where reputation is the most valuable asset, Financial Advisors play a very delicate role. The range of products and services, supported by advice from qualified professionals, places affluent and private customers (i.e., customers who have more advanced needs due to the amount and quality of their assets) at the heart of Banca Generali's mission.

The utmost attention is dedicated to the human and professional profiles of these customer service professionals. Supported by the use of the most modern technology and the multi-channel platform, the advisory relationship continues to represent the heart of the services offered by Banca Generali to meet increasingly complex needs that require customised solutions. This is why a special focus is placed on Financial Advisor selection and their subsequent professional growth.

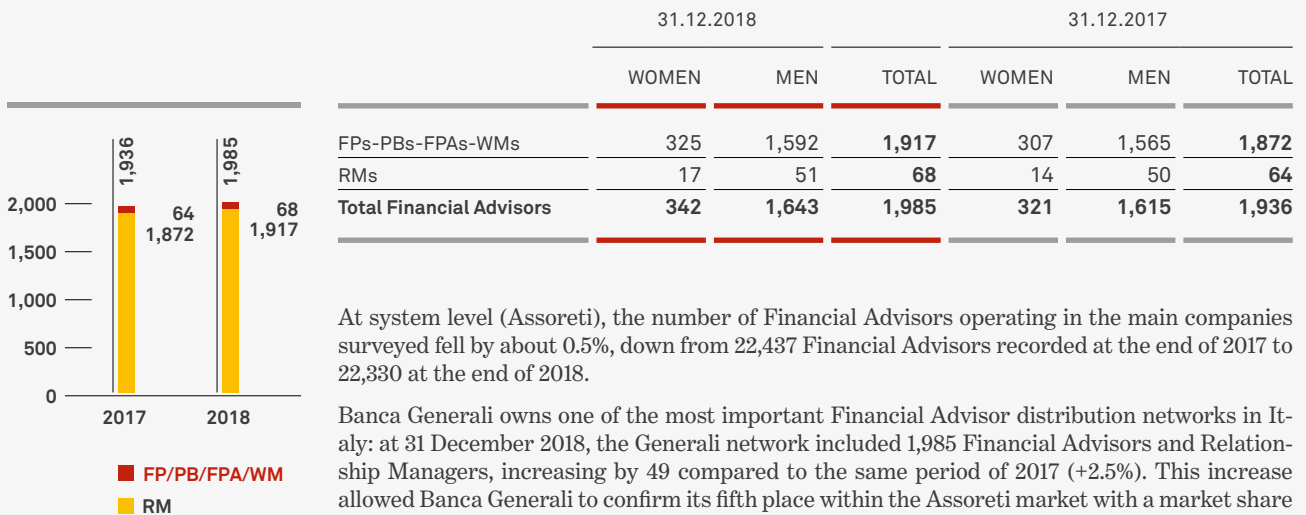
Banca Generali's distribution network is the result of the aggregation of various networks of Financial Advisors and private banks over the years. In parallel to the launch of this integration process, the Bank has gradually recruited highly-skilled professionals on the financial services distribution market, drawn by the Bank's business model.

Composition

The Banca Generali's distribution network consists of two categories of collaborators (all based in Italy):

- > the Private Bankers (PBs)/Financial Planners (FPs) and the Wealth Advisors (WAs); they collaborate with the Company as freelance professionals;
- > the Relationship Managers (RMs), who are company employees.

FINANCIAL ADVISORS BY GENDER



At system level (Assoreti), the number of Financial Advisors operating in the main companies surveyed fell by about 0.5%, down from 22,437 Financial Advisors recorded at the end of 2017 to 22,330 at the end of 2018.

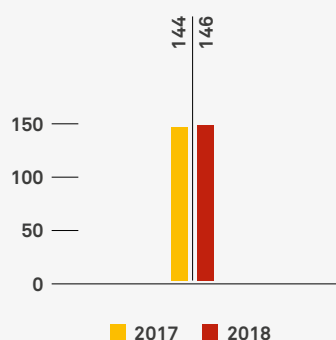
Banca Generali owns one of the most important Financial Advisor distribution networks in Italy: at 31 December 2018, the Generali network included 1,985 Financial Advisors and Relationship Managers, increasing by 49 compared to the same period of 2017 (+2.5%). This increase allowed Banca Generali to confirm its fifth place within the Assoreti market with a market share of 8.9%, slightly up compared to the same period of 2017.

This increase was also the result of the recruiting activity: in 2018, 105 new professionals with sound experience in the sector joined Banca Generali. Despite normal network staff turnover, which has always been very modest, the number of Financial Advisors of the Banca Generali's network grew by 2.5% compared to the same period of 2017. The low turnover rate is due to the network's high retention level, as illustrated by the average length of service, and Banca Generali's attractive proposal compared to the market.

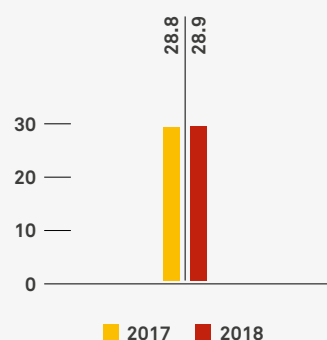
The increase in the number of Financial Advisors operating within the network and Banca Generali's leadership within the Assoreti market, both in terms of net inflows and per-capita AUM, can also be seen as a clear sign of the improvement in network quality.

CUSTOMERS' ASSETS	2017	2018	CHANGE %
Average number of customers per FA	144	146	+1.4%
Average AUM per FA (€ million)	28.8	28.9	+0.3%
Average net inflows per FA (€ million)	3,546	2,529	-29%

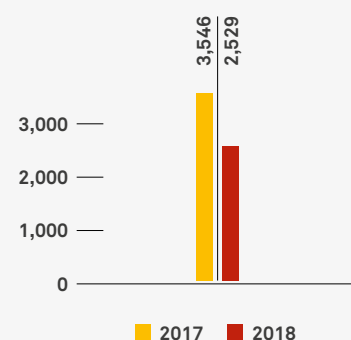
AVERAGE NUMBER OF CUSTOMERS PER FP/PB



AVERAGE ASSETS PER FP/PB (€ million)



AVERAGE NET INFLOWS PER FP/PB (€ million)



In 2018, Banca Generali's distribution network underwent a significant reorganisation. The networks of non-employed Financial Advisors were revised according to specialisation and reorganised into two macro-divisions on the basis of the total AUM managed by each Financial Advisor, with the introduction of the new Wealth Management network, which brings together Financial Advisors in the highest asset bracket (i.e., with AUM of more than 50 million euros). The other Financial Advisors were included in the PB/FP Division and segmented based on total AUM, according to the brackets of 50 to 15 million euros for Private Bankers and less than 15 million euros for Financial Planners.

In 2018, Banca Generali's per-capita net inflows amounted to 2.5 million euros, 88% above the sector's average. Similarly, per-capita net inflows of managed and insurance products (approximately 1.1 million euros) exceeded market average (0.6 million euros) by 88%. The per-capita average asset figure stood at the top of the market as well, with a value 29% higher than the general average (28.9 million euros as against 22.5 million euros).

The network is broadly distributed throughout Italy, with a greater concentration in the regions of the Centre-North than in the Centre-South, in accordance with the distribution of Italian population's wealth. Banca Generali's extensive Financial Advisor network was supported by a total of 212 local Bank branches and FA offices.

The female presence in Banca Generali's network was about 17% of the total, marking a steady increase both in absolute and percentage terms. This percentage, which hence improved and showed a significant part of them coming from the traditional banking world, was however still low given the increase in the number of women working as Financial Advisors only in recent years.

WORKFORCE BY AGE

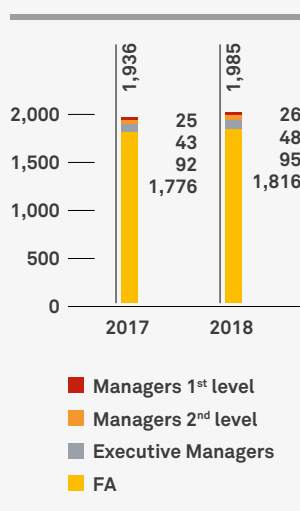
	31.12.2018				31.12.2017			
	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL	< 30 YEARS	30-50 YEARS	> 50 YEARS	TOTAL
FPs-PBs-FPAs-WMs	16	738	1,163	1,917	9	684	1,179	1,872
RMs	1	27	38	68	1	22	41	64
Total Financial Advisors	17	767	1,201	1,985	10	706	1,220	1,936
Percentage	1%	39%	60%	100%	1%	36%	63%	100%

PBS-FPs/WAs	RMs	TOTAL	%WOMEN	AVERAGE AGE (YEARS)		AVERAGE LENGTH OF SERVICE (YEARS)*			
				MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
1,917	68	1,985	17%	53.1	50.7	52.7	12.5	9.9	12,1

* Length of service also contemplates service rendered to Companies acquired by the Banca Generali (e.g., Prime, Altinia SIM, etc.).

The average length of service was about 12 years; this figure – also in light of the Bank’s “young age” – bears further witness to the network’s stability, its high retention rate and low turnover rate.

Network’s organisational structure



At Banca Generali, managers, narrowly defined (1st and 2nd Level managers, i.e., those who perform roles of administration and coordination of the collaborators dedicated solely to customer relations), make up approximately 4% of the total network. Compared to the previous year, in 2018 the number of managers (1st and 2nd Level) remained stable over time with respect to the total number of Financial Advisors, which instead increased as a result of the recruitment of professionals exclusively tasked with customers relationships.

Banca Generali’s network management structure represents one of the distribution network’s strengths and an avenue for merit-based career development.

A management career is one of the possible paths, although not the primary option, given the high level of professionalism of Financial Advisors working in the customer relations area.

Following the release of the platform to the sales network in 2017, the sophisticated advisory model (BG Personal Advisory) was further developed throughout 2018. The Service Model aims to increase knowledge of the Customer in terms of total assets, family situation and risk appetite, with the goal of offering an integrated, balanced approach to managing customers’ assets and risks.

At year-end 2018, Assets under Advisory managed through BG Personal Advisory amounted to 2,342 million euros, up 80% compared to 2017.

Multi-channel nature of the service

Banca Generali has 46 bank branches which ensure customers enjoy direct access to certain banking services. Bank branches also host employed Private Bankers (Relationship Managers), who assist private-banking clients alongside the other Financial Advisors. In addition to the bank branches, there are 166 Financial Advisor offices that are home to the network's administrative, training and informational activity and represent another possible point of reference for clients. In 2018, the number of branches and offices slightly increased.

Financial Advisors generally engage in typical "off-premises" activity directly at the customers' residence.

Lastly, completing the multi-channel approach is the availability of online and call-centre services.

	BRANCHES	OFFICES	TOTAL
PBs / FPs	41	119	124
WAs	5	47	52
Total	46	166	212

Sales policies

Customer satisfaction is pursued by applying high quality standards both to the personnel in charge of customer relations and the products and services offered, and by constantly adjusting those products and services to suit new needs and expectations.

Extending the sphere of advice beyond a simple financial approach

The Bank pays constant attention to improving its internal procedures and developing sophisticated information technology. Tools such as the electronic signature and digital collaboration enable the sales network to complete contractual tasks without using paper media. **Dedicated communication tools** are available to support the work of Financial Advisors. These include websites, the Intranet, periodic publications and circular letters containing behavioural guidelines for performing the work, with a particular focus on legislation relating to financial intermediation, and the adequacy principle in particular.

Reference is also made to the **Banca Generali's Internal Code of Conduct**, requesting the networks to apply the principles set forth in the Code. Sales departments also monitor the application of guidelines, periodically supporting Financial Advisors in verifying that business is conducted in accordance with laws and regulations.

Contractual relations and communications with customers must be guided by the principles of integrity, honesty, professionalism, transparency and cooperation in the search for the solutions best suited to their needs. The information provided during pre-contractual negotiations must be complete, transparent and comprehensible to allow the customer to make informed choices based on the awareness of costs and possible risks, the quality of the products and services offered and the customer's goals. In this regard, a scrupulous, thorough application of MiFID – Markets in Financial Instruments Directive, a EU directive aimed at harmonising the rules governing the activities of brokers and financial markets – with the related completion of informational questionnaires and the systematic, automated review of proposed solutions, provides the guidelines for the brokerage and advisory activity carried out by Financial Advisors.

In this context, surveying properly and thoroughly the customer's expectations and characteristics is crucial to formulating a proposal that is adequate to the requirements reported and the needs expressed. In order to support the entire sales network, the advanced **BG Personal Advisory** model is available, also as a tool for maximising income performance, protection, succession issues, taxation and so forth. This extends customer advice service to include all the customer's assets (financial and real-estate).

Financial Advisors must also act in an objective and balanced manner in dealing with potential customers and prevent personal gain from influencing their conduct or independent judgement. Sales network management personnel not only assess sales activity in the field, but are also responsible for conducting timely reviews of complaints from customers as part of their ordinary operational support duties and sample-based inspections. Where necessary, such as when complaints have been received from customers, recommendations concerning the conduct in which to engage are reiterated to individual collaborators and responsible management personnel. Agency agreements contain clauses allowing them to be terminated in cases of irregularities or breaches of rules of conduct, laws or regulations.

Incentives and development

The recognition of individual contributions to a company's success is a fundamental part of solid personnel relations.

The incentive programmes, which in the industry are typically a critical factor, do not make any reference to the placement of specific products, but rather, reward the ability of those involved in increasing the scope of offerings in general terms, for example by acquiring a new customer or developing existing customers. The disbursement of incentives is contingent upon the satisfaction in customer relations of the general requirements of professionalism, propriety, containment of risks and diversification of investments. These are in addition to specific prerequisites, such as not being subject to disciplinary measures and the achievement by the Bank of certain financial ratios, in the interest of safeguarding more general consistency between individual and collective results.

Training

Against a highly competitive market context and within a constantly evolving legal framework, training is a key driver for the development and professional growth of the commercial network.

Training programmes are organised based on two main areas:

- › Managerial training, in support of the role of Financial Advisors and for developing the skills and behaviour that set them apart from the rest of the market;
- › High-profile technical/commercial and institutional training, that takes account of the customers' evolving needs to develop and look after their life plans.

MANAGERIAL TRAINING

Has been structured so as to consolidate the leadership of the various managerial figures, guiding them through training programmes aimed at ensuring their ongoing development and reinforcing their knowledge, competencies and behaviour.

The Value of Consulting	<p>A new outstanding training programme that aims to provide support for the evolving Role of Financial Advisors and to understand the needs of Customers through a process of raising participants' awareness of the professional identity of Financial Advisors and the FA-Customer relationship.</p> <p>In 2018, the programme has been enriched with an additional Follow-up day to consolidate learning acquired and applied in the field and share best and worst practices.</p>
Coaching programmes	<p>Nationwide individual and team coaching business courses for managers and the Leadership Programme aimed at female network Financial Advisors to consolidate their professional and personal effectiveness, including two days dedicated to managing their own emotional intelligence in the relationship with Customers.</p>
Development programmes	<p>Programmes for specific managerial roles, with a particular focus on analysing the skills and behaviour needed to align managerial abilities and the tools essential to fulfilling their roles.</p>

COMMERCIAL TRAINING

focused on a number of product and service themes to reinforce the Network's authoritative and reliability and its ability to provide a holistic advisory service to meet Customers' needs.

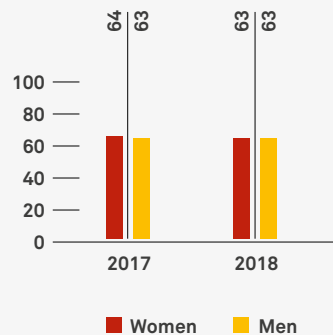
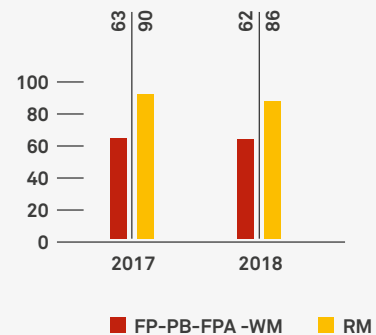
BG Personal Advisory	Training initiatives dedicated to the consulting approach with an overview of the legislative, market and client scenario, according to a customer-centric vision, and in-depth analysis of the distinctive content of the Advanced Advisory offered by Banca Generali.
Road to MiFID II – The Relationship with the Customer	Training day to support and guide all Financial Advisors in managing the relationship with the Customer in the best way before the statement arrives. Course designed to provide the Network with areas for reflection and tools for advising their Customers/Prospects in advance about the essential elements and impacts of MiFID II and supporting them in managing any objections in the best way.
Self-Efficacy	Course designed following an analysis of skills and behaviour, to support certain management positions in their professional activity and provide the basics for effective management of the Role in Performance & People Management terms by sharing a common language and culture.
Wealth Management Behavioral Finance	"Wealth Management Behavioral Finance", an international convention reserved solely for the network's top Financial Advisors and featuring Professor Werner DeBondt, one of the world's foremost experts in this field, to emphasise that financial advisors play an increasingly important role in seeking to temper excessive enthusiasm or fear in the minds of investors.
Welcome Program	A two-day induction session for Financial Advisors who recently joined Banca Generali.
Portfolio building techniques	Course examining macroeconomic scenarios, tackling the need to use innovative tools to protect and grow Customers' wealth.
Investment certificates	Training classrooms, developed in collaboration with BNP, Banca Generali's partner, dedicated to developing knowledge of these AUC solutions, which serve to provide customers with a diversified risk portfolio.
New lending policies	Training course designed in the light of the regulatory changes introduced by the Basel III Directive. Aimed at Financial Advisors to raise customers' awareness of the opportunities linked to the world of credit, also thanks to the new dedicated platform launched in the second half of the year.

The **mandatory training** covered the introduction of the MIFID II regulations with the training linked to the professional updating of every Financial Advisor. The training was structured in collaboration with Università Cattolica del Sacro Cuore in Milan and consisted of a series of courses lasting 30 hours in total, in addition to a final test which, if passed, allows the Financial Advisor to provide the Advisory service for the next year.

2018 also saw the completion of whole-network professional updating valid for IVASS purposes on insurance products and the new regulatory scenario, through specific product training and e-learning courses dedicated to insurance and wealth protection tools.

The beginning of October 2018 saw the launch of BG Lab, the consolidated digital training channel where Financial Advisors can find all of the new developments and content relating to their training. BG Lab is a way of ensuring optimal adoption of the ongoing training approach, based on physical/digital integration that takes full advantage of all training opportunities, through engagement focused on learning and self-study.

From the tools standpoint, in addition to classroom training, it was decided to improve the development of online training with live webinars, tutorials and training clips to provide detailed analyses and updates in real time on all developments linked to commercial training.

AVERAGE TRAINING HOURS
BY GENDERAVERAGE TRAINING HOURS
BY TYPE OF ADVISOR

The absolute number of total man hours in 2018 (equal to 124,932 actual hours provided) was slightly higher than in 2017. The increase is partly due to a rise in the training activities linked to the new MiFID II directive and partly to a slight increase in the total number of Financial Advisors.

Dialogue with sales networks

Banca Generali pays the utmost attention to managing the relationship with its own Financial Advisors, who represent the face of Banca Generali in respect of customers. It is their professionalism that creates the opportunity to identify and adequately respond to the various customer requirements, defining and offering increasingly personalised solutions.

Therefore, the satisfaction of its own sales network is one of Banca Generali's objectives, to ensure an effective and trusted collaboration and maintain a high level of quality in the services offered.

For this purpose, Banca Generali has created opportunities for listening and discussion with its sales network, either through the managers, who represent the entire pool of Financial Advisors and their needs, or by involving the network directly, thereby promoting active engagement.

In fact, provision is made for a monthly meeting between Top Management, managers and business functions who attend based on the topics discussed: the purpose is to report progress in terms of activities and projects, and to discuss updates regarding the products and the new commercial and non-commercial initiatives that the Bank wishes to propose to Financial Advisors.

On these occasions, there is ample opportunity to illustrate any proposals received from the sales network, as well as possible critical points to be discussed with Banca Generali.

To prove the fact that Banca Generali believes in the process of directly involving its Financial Advisors from the very start of the phase when new projects and initiatives are being defined, a total of 10 focus groups were organised in 2018, in which more than 200 Financial Advisors were asked to take part, in addition to the 30 Network Managers. The initiative has been running since 2015, and its goal is to create constant opportunities for discussion with and listening to the network, always agreed with the management structures

In fact, Banca Generali's Top Management reports regularly to managers on the potential initiatives, and the managers in turn indicate those Financial Advisors to be involved based on qualitative-quantitative parameters. The main issues covered by the focus groups run in 2018 were: implementation of the services and features offered by the BG Personal Advisory platform; simplified management of daily operations (e.g., operating memos, anomalies, e-mails, etc. ...); the approach to the new MIFID II directive; and identification of a common organisational and authorisation process for initiatives proposed directly by Financial Advisors.

These focus groups showed a broad response from the network in terms of engagement and active participation regarding the topics discussed: an analysis of the feedback received showed how their contribution was found to be essential during the initiative planning and development phases.

Litigation Management

With reference to the agency relationship of Financial Advisors authorised to make off-premises offers of Banca Generali S.p.A., in 2018 there were 57 disputes, each involving legal proceedings. In 2017, there were 39 disputes. Disputes pertained exclusively to agency contracts that have been terminated and mainly entailed financial issues related to the termination of the relationship.

The management of judicial and out-of-court litigation regarding the distribution network is regulated by the **disputes and complaints organisational procedure**. This procedure details all the activities that follow receipt of a claim, whether made against the Company or requiring Company action, concerning the agency agreement. The commercial Departments, the administrative function and those involved in remuneration-related matters are involved constantly in the event of litigation regarding this matter, to ensure that the context of the dispute is reconstructed correctly.

The Company uses leading expert firms for the judicial management of such disputes and to provide an objective assessment of the complaints and the Bank's position. If it appears that the content of the complaints made by former agents cannot be opposed, the option of a settlement agreement is always taken into consideration as a matter of good practice instead of ineffective and more expensive legal proceedings.

At quarterly intervals, the Board of Directors is given an overall report on the Company's litigation and complaints status. When the quarterly litigation and complaints report is presented, proposals are put forward for risk provisions to be set aside and for the write-down of receivables recognised for litigation positions, so as to ensure that the risks connected with the litigation and/or the non-recoverability of receivables are adequately covered. This report also discusses and specifically evaluates the positions belonging to the type of dispute mentioned in this section.



Dialogue with Stakeholders

Banca Generali liaises with numerous different stakeholders, both as regards type, and the requirements and needs expressed. The main stakeholders and the procedures followed to involve them are identified taking into account a number of major considerations:

- > the significance of the stakeholders for Banca Generali and for the reference context (including the socio-geographical context);
- > the representativeness of a significant broad sample of stakeholders;
- > the presence of essential players from the sector and the State.

The main channels for dialogue with stakeholders are listed here under. Some details on the activities reported below are given in the dedicated sections (e.g., “Banca Generali and Its Customers”; “Banca Generali and the Distribution Network”).

INSTITUTIONS, BUSINESSES, MEDIA, NGOS AND OTHER ORGANISATIONS, OPINION LEADERS, PROFESSIONAL ASSOCIATIONS, NON-PROFIT ORGANISATIONS AND THE WELFARE INDUSTRY

CHANNELS FOR DIALOGUE

- Local conventions on financial education
- Press conferences
- Company points of contact dedicated to media and institutional relations
- Meetings with institutions and NGOs
- Multistakeholder meetings
- Website and mobile apps
- Social activities in favour of community



SHAREHOLDERS, INVESTORS, ANALYSTS, PROXY ADVISORS

CHANNELS FOR DIALOGUE

- General Shareholders' Meeting
- Media news
- Meetings and interviews with analysts, investors and proxy advisors
- International roadshows
- Company points of contact and digital tools dedicated to relations with financial investors
- Digital channels and social media



SUPPLIERS, STRATEGIC PARTNERS

CHANNELS FOR DIALOGUE

- Meetings with Bank and Networks
- Working groups on common projects
- Participation in local meetings
- Media
- Events





EMPLOYEES

EMPLOYEES AND THEIR FAMILIES

CHANNELS FOR DIALOGUE

Engagement survey (every two years)
 Individual performance evaluation interviews and joint determination of development goals
 Roundtables with unions and workers' representatives
 Portal, internal newsletter and house organ
 Annual meeting with all employees
 Events and initiatives
 Internal meetings and cascading initiatives
 Outdoor training sessions



FINANCIAL ADVISORS

FINANCIAL ADVISORS AND THEIR FAMILIES

CHANNELS FOR DIALOGUE

Dedicated portal
 Dedicated conventions
 Eurisko survey on the level of satisfaction
 Website and mobile apps
 Media
 Training
 Local events
 Social media



CLIENTS

CUSTOMERS, CUSTOMER FAMILIES, CONSUMERS

CHANNELS FOR DIALOGUE

Surveys on the level of satisfaction
 Market researches
 Dialogue with consumer associations
 Communications channels devoted to customers (website, e-mail, toll-free phone number)
 Media
 Dedicated events
 Advertising campaigns
 Periodic documentation and in-depth reporting
 Social support activities
 Social media





04

ANNEXES



GRI Guideline Table

GRI STANDARD TITLE	GRI DISCLOSURE NUMBER	GRI DISCLOSURE TITLE	PAGE/COMMENTS
GRI 102: General Disclosures 2016 - Organizational profile	102-1	Name of the organisation	Cover
	102-2	Activities, brands, products, and services	99-103
	102-3	Location of headquarters	Backcover
	102-4	Location of operations	7
	102-5	Ownership and legal form	22, header
	102-6	Markets served	99, 13-134
	102-7	Scale of the organisation	9, 156
	102-8	Information on employees and other workers	118-119, 140, 142
	102-9	Supply chain	130-131
	102-10	Significant changes to the organization and its supply chain	130-131
	102-11	Precautionary Principle or approach	35-36
GRI 102: General Disclosures 2016 - Strategy	102-14	Statement from senior decision-maker	5
	102-15	Key impacts, risks, and opportunities	32-34
GRI 102: General Disclosures 2016 - Ethics and integrity	102-16	Values, principles, standards, and norms of behavior	25, 134
GRI 102: General Disclosures 2016 - Governance	102-18	Governance structure	22-23
	102-26	Role of highest governance body in setting purpose, values, and strategy	22-23
GRI 102: General Disclosures 2016 - Stakeholder engagement	102-40	List of stakeholder groups	148-149
	102-41	Collective bargaining agreements	128
	102-42	Identifying and selecting stakeholders	148-149
	102-43	Approach to stakeholder engagement	124-125, 134-137, 146, 148-149
	102-44	Key topics and concerns raised	148-149
GRI 102: General Disclosures 2016 - Reporting practice	102-45	Entities included in the consolidated financial statements	27
	102-46	Defining report content and topic Boundarie	7
	102-47	List of material topics	13
	102-48	Restatements of information	7
	102-49	Changes in reporting	7
	102-50	Reporting period	7
	102-51	Date of most recent report	1 March 2018
	102-52	Reporting cycle	7
	102-53	Contact point for questions regarding the report	Backcover
	102-54	Claims of reporting in accordance with the GRI Standards	7
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	15-17
	103-2	The management approach and its components	38, 42, 112, 130-131, 132, 140, 143-144
	103-3	Evaluation of the management approach	38, 42, 112, 130-131, 132, 140
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	64-65
GRI 204-1 Procurement Practices 2016	204-1	Proportion of spending on local suppliers	130-131

GRI STANDARD TITLE	GRI DISCLOSURE NUMBER	GRI DISCLOSURE TITLE	PAGE/COMMENTS
GRI 205: Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	38-39. Data concerning communication to business partners about anti-corruption policies and procedures were not available. Banca Generali undertakes to obtain them in the following financial years.
	205-3	Confirmed incidents of corruption and actions taken	39
GRI 302: Energy 2016	302-1	Energy consumption within the organization	115
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	114-117
	305-2	Energy indirect (Scope 2) GHG emissions	114-117
	305-3	Other indirect (Scope 3) GHG emissions	114-117
	305-5	Reduction of GHG emissions	114
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	119-120
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	127
GRI 403: Occupational Health and Safety 2016	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	129
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	121-123, 144-146. The figure referring to training hours delivered to employees does not include the amount of hours delivered to BGFML employees, as no structured process able to measure this data was in place in 2018. Starting from financial year 2019, training hours delivered to the Luxembourg-based subsidiary will be included in the calculation. With regard to training hours delivered to the sales network, it should be noted that the effective amount of training hours has been broken down by gender and type of network, applying the estimates based on the number of Financial Advisors and the characteristics of the network. In addition, it bears recalling that it is not possible to provide the figure referring to the actual amount of hours per each of the aforementioned categories as some courses are held with delivery methods (eg. webinars) that do not allow to track the user profile.
	404-3	Percentage of employees receiving regular performance and career development reviews	123-124
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	24, 126, 142
	405-2	Ratio of basic salary and remuneration of women to men	127
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	126
GRI 412: Human Rights Assessment 2016	412-1	Operations that have been subject to human rights reviews or impact assessments	In line with the aforementioned principles of inclusion and gender equality, the Banca Generali Group ensures full respect of fundamental human rights, in accordance with its internal policies. In light of the nature of the Company's business and the location of the operations undertaken, no transactions subject to auditing or human right impact assessment were performed during the reporting period.
GRI 414: Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria	No new suppliers, assessed on the basis of social criteria, were selected in the reporting period.
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	37, 137





05

**CONSOLIDATED FINANCIAL
STATEMENTS OF BANCA GENERALI S.P.A.
as of 31.12.2018**

Board of Directors
8 March 2019



Consolidated accounting statements

CONSOLIDATED BALANCE SHEET

ASSETS

(€ THOUSAND)	31.12.2018	31.12.2017
10. Cash and deposits	1,012,891	563,498
20. Financial assets measured at fair value through profit or loss:	90,640	49,814
a) HFT financial assets	33,887	49,814
c) other financial assets mandatorily measured at fair value	56,753	-
30. Financial assets at fair value through other comprehensive income	1,987,315	4,612,728
40. Financial assets at amortised cost:	6,174,298	3,285,472
a) loans to banks	442,659	377,463
b) loans to customers	5,731,639	2,908,009
70. Equity investments	1,661	1,820
90. Property and equipment	6,724	6,570
100. Intangible assets	95,110	91,810
of which		
- goodwill	66,065	66,065
110. Tax receivables:	52,799	45,735
a) current	81	776
b) prepaid	52,718	44,959
130. Other activities	314,456	333,564
Total Assets	9,735,894	8,991,011

NET EQUITY AND LIABILITIES

(€ THOUSAND)	31.12.2018	31.12.2017
10. Financial liabilities at amortised cost:	8,675,596	7,879,779
a) due to banks:	128,725	682,531
b) due to customers:	8,546,871	7,197,248
20. HFT financial liabilities	384	206
60. Tax liabilities:	18,018	35,564
a) current	11,734	21,024
b) deferred	6,284	14,540
80. Other liabilities	142,176	185,218
90. Employee termination indemnities	4,831	4,859
100. Provisions for liabilities and contingencies:	160,014	149,315
a) commitments and guarantees issued	86	-
c) other provisions for liabilities and contingencies	159,928	149,315
120. Valuation reserves	-11,636	21,646
150. Reserves	414,368	348,519
160. Share premium reserve	57,889	58,219
170. Share capital	116,852	116,852
180. Treasury shares (-)	-22,724	-13,271
200. Net profit (loss) for the year (+/-)	180,126	204,105
Total Net equity and Liabilities	9,735,894	8,991,011

CONSOLIDATED PROFIT AND LOSS ACCOUNT

ITEMS

(€ THOUSAND)	2018	2017
10. Interest income and similar revenues	66,419	65,011
20. Interest expense and similar charges	-6,447	-3,590
30. Net interest income	59,972	61,421
40. Fee income	741,666	760,489
50. Fee expense	-353,616	-348,746
60. Net fees	388,050	411,743
70. Dividends and similar income	2,308	2,745
80. Net income (loss) from trading activities	5,291	4,924
100. Gain (loss) on disposal or repurchase of:	16,042	10,422
a) financial assets at amortised cost	2,606	1,041
b) financial assets at fair value through other comprehensive income	13,436	9,381
110. Net income (loss) from financial assets and liabilities at fair value through profit and loss:	478	-
b) other financial assets mandatorily measured at fair value	478	-
120. Net banking income	472,141	491,255
130. Net adjustments/reversals due to credit risk relating to:	-7,286	-5,441
a) financial assets at amortised cost	-5,001	-1,806
b) financial assets at fair value through other comprehensive income	-2,285	-1,487
c) other financial transactions	-	-2,148
150. Net income (loss) from trading activities	464,855	485,814
190. General and administrative expenses:	-246,721	-234,590
a) staff expenses	-84,227	-84,825
b) other general and administrative expenses	-162,494	-149,765
200. Net provisions for liabilities and contingencies:	-48,079	-59,224
a) commitments and guarantees issued	118	-
b) other net provisions	-48,197	-59,224
210. Net adjustments/reversals of property and equipment	-1,559	-1,428
220. Net adjustments/reversals of intangible assets	-7,742	-6,716
230. Other operating expenses/income	59,437	54,879
240. Operating expenses	-244,664	-247,079
250. Gains (losses) from equity investments	-149	-151
280. Gains (losses) on disposal of investments	-282	-15
290. Profit from operating activities before income taxes	219,760	238,569
300. Income taxes for the year on operating activities	-39,634	-34,464
310. Net profit from operating activities after income taxes	180,126	204,105
330. Net profit for the year	180,126	204,105

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

ITEMS

(€ THOUSAND)	2018	2017
10. Net profit for the year	180,126	204,105
Other income net of income taxes without transfer to Profit and Loss Account		
70. Defined benefit plans	-52	-111
Other income net of income taxes with transfer to Profit and Loss Account		
110. Exchange differences	-18	-17
140. Financial assets (other than equity securities) at fair value through other comprehensive income	-25,617	12,795
170. Total other income net of income taxes	-25,687	12,667
180. Comprehensive income	154,439	216,772
200. Consolidated comprehensive income attributable to the Parent Company	154,439	216,772

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ITEMS

(€ THOUSAND)	SHARE CAPITAL		RESERVES			VALUATION RESERVE	EQUITY	INTERIM	TREASURY	NET PROFIT (LOSS) FOR THE YEAR	NET EQUITY	GROUP NET EQUITY
	A) ORDINARY SHARES	B) OTHER	SHARE PREMIUM RESERVE	A) RETAINED EARNINGS	B) OTHER							
Net equity at 31.12.2017	116,852	-	58,219	331,823	16,696	21,646	-	-	-13,271	204,105	736,070	736,070
Change in opening balances	-	-	-	4,768	-	-7,595	-	-	-	-	-2,827	-2,827
Amounts at 01.01.2018	116,852	-	58,219	336,591	16,696	14,051	-	-	-13,271	204,105	733,243	733,243
Allocation of net profit for the previous year	-	-	-	58,631	-	-	-	-	-	-204,105	-145,474	-145,474
- Reserves	-	-	-	58,631	-	-	-	-	-	-58,631	-	-
- Dividends and other allocations	-	-	-	-	-	-	-	-	-	-145,474	-145,474	-145,474
Change in reserves	-	-	-	-	1,100	-	-	-	-	-	1,100	1,100
Transactions on net equity:	-	-	-330	-	1,350	-	-	-	-9,453	-	-8,433	-8,433
- Issue of new shares	-	-	-330	-	-3,058	-	-	-	3,388	-	-	-
- Purchase of treasury shares	-	-	-	-	-	-	-	-12,841	-	-	-12,841	-12,841
- Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	-	-	-
- Change in equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
- Stock options	-	-	-	-	4,408	-	-	-	-	-	4,408	4,408
- Change in ownership interests	-	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income	-	-	-	-	-	-25,687	-	-	-	180,126	154,439	154,439
Net equity at 31.12.2018	116,852	-	57,889	395,222	19,146	-11,636	-	-	-22,724	180,126	734,875	734,875
Group net equity	116,852	-	57,889	395,222	19,146	-11,636	-	-	-22,724	180,126	734,875	-

(€ THOUSAND)	SHARE CAPITAL		RESERVES			VALUATION RESERVE	EQUITY	INTERIM	TREASURY	NET PROFIT (LOSS) FOR THE YEAR	NET EQUITY	GROUP NET EQUITY
	A) ORDINARY SHARES	B) OTHER	SHARE PREMIUM RESERVE	A) RETAINED EARNINGS	B) OTHER							
Net equity at 31.12.2016	116,425	-	53,803	300,603	13,750	8,979	-	-	-2,933	155,894	646,521	646,521
Change in opening balances	-	-	-	-	-	-	-	-	-	-	-	-
Amounts at 01.01.2018	116,425	-	53,803	300,603	13,750	8,979	-	-	-2,933	155,894	646,521	646,521
Allocation of net profit for the previous year	-	-	-	31,220	-	-	-	-	-	-155,894	-124,674	-124,674
- Reserves	-	-	-	31,220	-	-	-	-	-	-31,220	-	-
- Dividends and other allocations	-	-	-	-	-	-	-	-	-	-124,674	-124,674	-124,674
Change in reserves	-	-	-	-	1,796	-	-	-	-	-	1,796	1,796
Transactions on net equity:	427	-	4,416	-	1,150	-	-	-10,338	-	-	-4,344	-4,344
- Issue of new shares	427	-	4,416	-	-1,786	-	-	1,518	-	-	4,575	4,575
- Purchase of treasury shares	-	-	-	-	-	-	-	-11,856	-	-	-11,856	-11,856
- Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	-	-	-
- Change in equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
- Stock options	-	-	-	-	2,937	-	-	-	-	-	2,937	2,937
Comprehensive income	-	-	-	-	-	12,667	-	-	-	204,105	216,772	216,772
Net equity at 31.12.2017	116,852	-	58,219	331,823	16,696	21,646	-	-	-13,271	204,105	736,070	736,070
Group net equity	116,852	-	58,219	331,823	16,696	21,646	-	-	-13,271	204,105	736,070	-

CONSOLIDATED CASH FLOW STATEMENT

INDIRECT METHOD

(€ THOUSAND)

2018

2017

A. OPERATING ACTIVITIES	2018	2017
1. Operations	157,258	226,516
Net profit (loss) for the year	180,126	204,105
Gain/loss on HFT financial assets and other assets and liabilities at fair value through profit or loss	-1,300	-566
Gain/loss on hedging assets	-	-
Net adjustments/reversals due to credit risk	7,286	5,441
Net adjustments/reversals of property, equipment and intangible assets	9,301	8,144
Net provisions for liabilities and contingencies and other costs/revenues	9,568	32,281
Taxes, duties and tax credits not paid	-10,026	10,527
Adjustments/reversals of discontinued operations	-	-
Other adjustments	-37,697	-33,416
2. Liquidity generated by/used for financial assets (+/-)	-295,791	-576,667
HFT financial assets	5,790	-10,454
Financial assets at fair value	-	-
Other financial assets mandatorily measured at fair value	23,986	-
Financial assets at fair value through other comprehensive income	947,451	-194,457
Financial assets at amortised cost:	-1,327,680	-331,533
Loans to banks	-65,877	-8,599
Loans to customers	-1,261,803	-322,934
Other assets	54,661	-40,223
3. Liquidity generated by/used for financial liabilities (+/-)	759,278	470,969
Financial liabilities at amortised cost:	808,485	405,163
Due to banks	-551,413	-123,970
Due to customers	1,359,898	529,133
Securities issued	-	-
HFT financial liabilities	-206	-1,145
Financial liabilities at fair value	-	-
Other liabilities	-49,001	66,951
Net liquidity generated by/used for operating activities	620,745	120,818

(€ THOUSAND)	2018	2017
B. INVESTING ACTIVITIES		
1. Liquidity generated by	-	-
Disposal of equity investments	-	-
Dividends received	-	-
Disposal of property and equipment	-	-
Disposal of intangible assets	-	-
Disposal of business units	-	-
2. Liquidity used for	-13,036	-8,726
Purchase of equity investments	-	-
Purchase of property and equipment	-1,995	-1,680
Purchase of intangible assets	-11,041	-7,046
Purchase of business units and equity investments in subsidiaries	-	-
Net liquidity generated by/used for investing activities	-13,036	-8,726
C. FUNDING ACTIVITIES		
Issue/purchase of treasury shares	-12,841	-7,281
Issue/purchase of equity instruments	-	-
Distribution of dividends and other	-145,474	-124,674
Net liquidity generated by/used for funding activities	-158,315	-131,955
NET LIQUIDITY GENERATED/USED IN THE YEAR	449,394	-19,863
Reconciliation		
Cash and cash equivalents at year-start	563,497	583,361
Total liquidity generated/used in the year	449,394	-19,863
Cash and cash equivalents – effects of exchange rate fluctuations	-	-
Cash and cash equivalents at year-end	1,012,891	563,498

Legend:
 (+) Liquidity generated
 (-) Liquidity used

Notes and Comments

Part A - Accounting Policies	163
Part B - Information on the Consolidated Balance Sheet	200
Part C - Information on the Consolidated Profit and Loss Account	235
Part D - Consolidated Comprehensive Income	250
Part E - Information on Risks and Risk Hedging Policies	252
Part F - Information on Consolidated Net Equity	286
Part G - Business Combinations of Companies or Business Units	291
Part H - Related Party Transactions	295
Part I - Payment Agreements Based on Own Equity Instruments	303
Part L - Segment Reporting	309

PART A – ACCOUNTING POLICIES

Part A.1 – General

Section 1 – Declaration of Compliance with International Accounting Standards

These consolidated financial statements have been drawn up in compliance with Italian Legislative Decree No. 38 of 28 February 2005, based on the International Accounting Standards issued by the International Accounting Standards Board (IASB) and interpretation of the International Financial Reporting Interpretations Committee (IFRIC), and endorsed by the European Commission with Regulation No. 1606 of 19 July 2002.

In preparing the consolidated Financial Statements, Banca Generali adopted the IASs/IFRSs in force at 31 December 2018 (including SIC and IFRIC interpretations), which were endorsed by the European Union.

It should be noted that, following the completion of the endorsement procedure, as of 1 January 2018, several amendments to the IASs/IFRSs, and IFRICs were adopted and new IFRICs were issued.

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED IN PREVIOUS YEARS AND EFFECTIVE AS OF 2018

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRS 9 <i>Financial Instruments</i>	2016/2067	29.11.2016	01.01.2018
Amendments to IFRS 4: Applying IFRS 9 <i>Financial Instruments</i> with IFRS 4 <i>Insurance Contracts</i> (issued on 12 September 2016)	2017/1988	09.11.2017	01.01.2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	2016/1905	29.10.2016	01.01.2018
Clarifications to IFRS 15 <i>Revenues</i> (issued on 12 April 2016)	2017/1987	09.11.2017	01.01.2018

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED IN 2018 AND EFFECTIVE AS OF 2018

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> (issued on 8 December 2016)	2018/519	28.03.2018	01.01.2018
Amendments to IAS 40: <i>Transfers of Investment Property</i> (issued on 8 December 2016)	2018/800	14.03.2018	01.01.2018
Amendments to IFRS 2: <i>Classification and Measurement of Share-based Payment Transactions</i> (issued on 20 June 2016)	2018/289	26.02.2018	01.01.2018
Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016)	2018/182	07.02.2018	01.01.2018

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED BUT NOT EFFECTIVE YET

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRS 16 <i>Leases</i> (issued on 13 January 2016)	2017/1986	09.11.2017	01.01.2019
Amendments to IFRS 9: <i>Prepayment Features with Negative Compensation</i> (issued on 12 October 2017)	2018/489	22.03.2018	01.01.2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> (issued on 7 June 2017)	2018/1595	24.10.2018	01.01.2019

The date of entry into force of some of the already endorsed standards has been postponed until subsequent years. The early application option has not been exercised for those standards.

The effects of the first-time adoption as of 1 January 2018 of IFRS 9 and IFRS 15 are outlined in a specific Transition Report attached to this consolidated Annual Report.

The other standards and interpretations that entered into force in 2018 did not have a significant impact on the Group's balance sheet and profit and loss account.

Section 2 – Preparation Criteria

The consolidated Financial Statements consist of the following documents:

- > Balance Sheet,
- > Profit and Loss Account,
- > Statement of Other Comprehensive Income,
- > Statement of Changes in Net equity,
- > Cash Flow Statement,
- > Notes and Comments.

The accounts are accompanied by a Directors' report on the Group's operations, financial situation, profit and loss and balance sheet results.

In compliance with the requirements of Article 5 of Legislative Decree No. 38/2005, the Consolidated Financial Statements were prepared in euros. All amounts in the Accounting Statements are expressed in thousands of euros. Unless otherwise specified, the figures in the Notes and Comments and the Directors' Report on Operations are expressed in thousands of euros.

The Financial Statements and Notes and Comments include figures for the period under review, as well as comparative data at 31 December 2017.

The Financial Statements are prepared by applying the general standards set out in IAS 1 and the specific accounting standards approved by the European Commission, as illustrated in Part A.2 of these Notes and Comments. International accounting standards have been applied in compliance with the Framework for the Preparation and Presentation of Financial Statements drafted by the IASB. There were no derogations of the application of IASs/IFRSs.

The Directors' Report on Operations and the Notes and Comments include the information required by international accounting standards, the law, the Bank of Italy and the Italian National Commission for Listed Companies and the Stock Exchange (Consob), as well as other non-compulsory information that was deemed necessary to provide an accurate and fair picture of the Bank's situation.

The measurement standards have been adopted on a going-concern basis and are shaped by the principles of accrual-basis accounting and the relevance and meaningfulness of accounting disclosures. Economic substance takes precedence over legal form.

In further detail, the directors are reasonably certain that the Bank will continue to operate in its current form for the foreseeable future (for at least 12 months) and have prepared the Financial Statements on a going-concern basis. Any uncertainty detected has not been deemed material and does not cast doubt on the Group's ability to operate as a going concern.

Contents of the Financial Statements

The Financial Statements have been prepared in accordance with Bank of Italy's Circular No. 262/2005 and the fifth update published on 28 December 2017 and effective as of 1 January 2018.

This update endorses the new IFRS 9 *Financial Instruments*, the ensuing amendments introduced into other international financial standards, and it also takes into account the new IFRS 15 "*Revenue from Contracts with Customers*".

Accounts that do not include items pertaining to the year under review or the previous year are not stated in the Balance Sheet and Profit and Loss Account. Likewise, sections or tables which include no values are not included in the Notes and Comments.

The Statement of Comprehensive Income begins with the net profit (loss) for the year and then presents components of profit and loss recognised through valuation reserves, net of the related tax effect, in accordance with international accounting standards.

Consolidated comprehensive income is presented by providing a separate account of components of profit and loss that will not be reversed to the profit and loss account in the future, and components that may subsequently be reclassified to net profit (loss) for the year under certain conditions.

As for the balance sheet and profit and loss account, items with nil amounts in both the reporting year and previous year are not presented.

The Statement of Changes in Consolidated Net Equity is presented by inverting the rows and columns with respect to the presentation requested by the Bank of Italy's Circular No. 262/2005.

The statement presents the composition of and changes in net equity accounts during the reporting year and the previous year, broken down into share capital, capital reserves, earnings reserves, asset and liability valuation reserves, and net profit. Treasury shares are recorded as a reduction to net equity.

The Cash Flow Statement was prepared using the indirect method, according to which cash flows from operating activities are derived by adjusting net profit for the effects of non-cash transactions.

Cash flows generated in the year are recognised without plus or minus signs, whereas cash flows used in the year are preceded by a minus sign.

Cash flows are broken down into:

- > cash flows from operating activities, including cash flows from operations and cash flows from increases and decreases in financial assets and liabilities;
- > cash flows generated by (used for) investing activities involving fixed assets;
- > cash flows generated by (used for) funding activities that alter the company's equity capital.

Specifically, sections 2 and 3 include only cash generated by (used for) the decrease (increase) in financial assets or the increase (decrease) in financial liabilities resulting from new transactions or reimbursements related to existing transactions.

Accordingly, these sections do not include items such as changes in value (adjustments, reversal values), amortisation and depreciation, the net balance of unpaid taxes (current and deferred), interest and unpaid or uncollected fees; these items have been disclosed separately and classified under operating activities.

These cash flows also do not include changes in operating assets and liabilities, but include those relating to financing activities, such as changes in operating loans and amounts payable to financial advisors and employees and any related advance payments.

Annual Financial Report

The Consolidated Financial Statements are published in accordance with Article 154-*ter* of Legislative Decree No. 58/1998. The statute requires that, within four months of the end of the year, listed issuers whose home country is Italy make an **Annual Financial Report** including the following items available to the public at their registered offices, on their websites and in the other ways specified by Consob in a regulation:

- > the Consolidated Financial Statements,
- > the Annual Financial Statements,
- > the Report on Operations,
- > the Attestation as per Article 154-*bis*, paragraph 5.

The Independent Auditors' Report and the Board of Statutory Auditors' Report pursuant to Article 153 of the Consolidated Finance Act (TUF) are published in their entirety with the Annual Financial Report.

In addition, no fewer than 21 days must lapse between the date of publication of the Annual Financial Report and the date of the General Shareholders' Meeting.

According to the provisions of Article 41, paragraph 5-*bis*, of Legislative Decree No. 136/2015 of 18 August 2015, implementing Directive No. 2013/34/EU, the Consolidated Report on Operations and the Separate Report on Operations of the company may be presented as a single document, in which additional attention is dedicated to issues relevant to the entirety of the companies within the scope of consolidation, as appropriate.

Banca Generali elected to exercise this option by presenting a single document. Consequently, the Consolidated Report on Operations also includes the information required for the Separate Report on Operations.

Non-Financial Statement

Legislative Decree No. 254 of 30 December 2016, which implemented Directive 2014/95/EU as regards disclosure of non-financial and diversity information, introduced an obligation for large groups to publish a Non-Financial Statement that covers environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, and represents the management and organisation model for the activities, policies applied and main risks in these areas.

Despite not being subject to this obligation, in 2017 Banca Generali voluntarily began to prepare a Consolidated Non-Financial Statement, which was included in its Sustainability Report.

Starting in 2018, the information required by the above decree will be included in the Annual Financial Report, which will be renamed the Integrated Financial Report.

The Consolidated Non-Financial Statement will therefore be supplemented to include information of a financial nature, within the framework of the Consolidated Report on Operations.

Section 3 – Scope of Consolidation and Consolidation Methods

Scope of Consolidation

1. Equity investments in wholly owned subsidiaries

The companies consolidated by the Group in accordance with IFRS 10 include the Parent Company, Banca Generali S.p.A., and the following subsidiaries:

COMPANY NAME	REGISTERED OFFICE	TYPE OF CONTROL	SHAREHOLDING RELATIONSHIP		% OF VOTES IN ORDINARY SHARE-HOLDERS' MEETING
			INVESTOR	% OF OWNERSHIP INTEREST	
A. Companies in consolidated accounts					
A.1 recognised using the line-by-line method					
- BG Fund Management Luxembourg S.A.	Luxembourg	1	Banca Generali	100.00%	100.00%
- Generfid S.p.A.	Milan	1	Banca Generali	100.00%	100.00%

Legend: type of control:

(1) Control pursuant to Article 2359, paragraph 1(1), of the Italian Civil Code (majority of voting rights at General Shareholders' Meeting).

The consolidated accounts include the separate accounts of the Parent Company and its subsidiaries at 31 December 2018, reclassified and adjusted where necessary to take account of consolidation requirements.

The most significant intra-Group transactions, influencing both the balance sheet and profit and loss account, were eliminated. Unreconciled amounts were recognised in other assets/liabilities and other revenues/expenses, respectively.

2. Significant judgements and assumptions used in determining the scope of consolidation

2.1 Subsidiaries

Entities, including structured entities, over which the Group has a direct or indirect control, are subsidiaries.

Control over an entity exists when the Group has the power to influence the variable returns to which the Group is exposed from its involvement with the investee.

To determine that control exists, the Group considers the following factors:

- > the investee's purpose and design, to identify the entity's purpose, the activities that determine its returns and how decisions about such activities are made;
- > power, to understand whether the Group has contractual rights that give the Group the ability to direct the relevant activities; for this purpose, only substantive rights entailing practical ability to direct the investee are considered;
- > exposure in the investee, to establish whether the Group has relations with the investee whose returns can vary based on changes in the investee's performance;
- > existence of possible principal/agent relationships.

Where relevant activities are directed through voting rights, the following factors are evidence of control:

- > ownership, direct or indirect through subsidiaries, of more than half of the voting rights of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control;
- > ownership of half or less of the votes that can be exercised in the General Shareholders' Meeting and the effective power to unilaterally govern significant activities through:
 - control of more than half of the voting rights by virtue of an agreement with other investors;
 - the power to determine the financial and operating policies of the entity under a statute or an agreement;
 - the power to appoint or remove the majority of the members of the board of directors or equivalent governing body, and the entity is managed by that board or body;
 - the power to cast the majority of votes at meetings of the board of directors or equivalent governing body, and the entity is controlled by that board or body.

The existence and effect of potential voting rights, if substantive, are taken into consideration when assessing whether a party has the power to direct the financial and management policies of another entity.

Subsidiaries may also include "structured entities" in which voting rights are not significant in assessing the existence of control, including special purpose entities and investment funds.

Structured entities are considered as subsidiaries when:

- > the Group has power arising from contractual rights to direct relevant activities;
- > the Group is exposed to variable returns arising from such activities.

2.2 Associate companies

An associate company is one over which the investor has significant influence and that is neither a subsidiary nor a joint venture.

Significant influence is assumed when the investor:

- > holds, directly or indirectly, 20% or more of the share capital in the investee, or
- > has significant influence over the investee, also by way of shareholders' agreements, through:
 - a) representation on the governing body of the investee;
 - b) participation in policy making processes, including with regard to decisions on dividends and other distributions;
 - c) material transactions;
 - d) interchange of management personnel;
 - e) provision of essential technical information.

Investments in associates are valued using the equity method.

As of 31 December 2018, the only associative shareholding included in the scope of consolidation of the Banking Group is IOCA Entertainment Ltd., a company under the UK law, in which Banca Generali subscribed, in 2015, a 35% interest, equivalent at the acquisition date to approximately 2.2 million euros.

2.3 Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Under IFRS 11, joint arrangements are classified as either a joint operation or a joint venture based on the Group's contractual rights or obligations:

- > a Joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities relating to the arrangement;
- > a Joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement.

Investments in joint arrangements are valued using the equity method.

On 9 March 2018, the Board of Directors of Banca Generali approved the final agreements with Saxo Bank to set up a joint arrangement for the development of online trading market and related digital services in Italy.

The terms of the agreements provide for the incorporation of a new company, BG Saxo Sim, in which the Bank will hold a 19.9% interest.

The objective of the partnership, which has a duration of eight years and may be renewed upon expiry, is to offer clients, on an exclusive basis for the Italian market, access to an innovative platform for advanced trading based on Saxo Bank's technology.

Banca Generali will make available its banking platform and its leading market position in private banking to foster synergies and develop new opportunities for its Financial Advisors and clients, who will thus enjoy access to one of the most comprehensive suites of global trading tools.

The Bank will also provide outsourced services to the new brokerage firm (Sim), specifically various back-office activities relating to customer order receipt and execution services.

Saxo Bank will instead provide the new Sim with its multi-assets platform that enhances the range of trading and dynamic hedging services, with a particular expertise in FX.

On 28 December 2018, the new Sim, incorporated by Saxo Bank and denominated BG Saxo Sim, received Consob's authorisation and was registered in the Register of securities brokerage firms.

Banca Generali's entry in the shareholding structure is instead subject to the completion of all antitrust investigative procedures still underway in some non-EU countries.

The company is expected to become fully operational in early 2019, once the online trading IT platform and related services are completely integrated into the technological infrastructure provided by Banca Generali, which will act as outsourcer.

According to the assessment conducted, it is believed that BG Saxo Sim may qualify under IFRS 11 as a joint arrangement, and in particular as a joint venture. As a result, in accordance with paragraphs 24 and 26 of IFRS 11, Banca Generali will have to recognise its 19.90% equity investment in the company's share capital as follows:

- a) in the consolidated financial statements by applying the equity method in accordance with IAS 28;
- b) in the separate financial statements, in accordance with IAS 27, paragraph 10, using the cost method, as provided for by IFRS 9 or by applying the equity method as provided for by IAS 28.

3. Equity investments in wholly owned subsidiaries with significant non-controlling interests

As of 31 December 2018, all the Group's equity investments were wholly owned and there were no non-controlling interests.

4. Significant restrictions

As of 31 December 2018, there were no significant restrictions of a legal, contractual, or statutory nature on the Parent Company's ability to access or use the Group's assets and settle the Group's liabilities.

Consolidation methods

Full consolidation method

Subsidiaries are included in the accounts using the full consolidation method, whereby the balance sheet and profit and loss items are consolidated on a line-by-line basis.

After the attribution to minority interests of any portion of net equity and profit and loss results, the value of the equity investment is cancelled due to the residual value of the subsidiary's net equity.

The resulting differences are allocated to the assets or liabilities - including intangible assets - of the subsidiary in question and any remaining balances, if positive, are recorded as goodwill under Intangible Assets. Negative differences are charged to the profit and loss account.

The most significant intra-Group transactions, influencing both the balance sheet and profit and loss account, were eliminated. Unreconciled amounts were recognised in other assets/liabilities and other revenues/expenses, respectively. Dividends distributed by subsidiaries were eliminated from the consolidated profit and loss account and a corresponding adjustment was made to income reserves.

Equity method

Associate companies are consolidated according to the concise equity method.

Under the equity method, an equity investment is initially recognised at acquisition cost, inclusive of goodwill, and subsequently adjusted according to the investor's share in the investee's net equity.

Upon acquisition, the difference between the cost of the equity investment and the share of the net fair value of the investee's identifiable assets and liabilities must be determined and recognised as goodwill, if positive, or as income, if negative.

The carrying amount is then increased or decreased to recognise the investor's share of the profits or losses of the investee recorded after the acquisition date under item 250 "Gains (losses) from equity investments" of the profit and loss account.

That share is adjusted to reflect:

- > gain and loss on transactions with the associate company, in proportion to the percent interest in the associate company;
- > depreciation and amortisation of depreciable assets at their respective fair values at the acquisition date and impairment losses on goodwill and any other non-monetary elements.

Dividends received from an investee reduce the carrying amount of the equity investment.

Changes in the valuation reserves of associate companies are presented separately in the statement of comprehensive income.

If the associate company prepares its financial statements in a foreign currency, the translation differences at the reporting date are recognised in a specific valuation reserve for monetary conversion in other comprehensive income.

When there is indication of a possible loss in value of an equity investment, the recoverable amount of the investment is estimated based on the present value of future cash flows that the company could generate, including the disposal value of the investment. If the recoverable amount is less than the carrying amount, the difference is recognised in profit or loss.

Translation of financial statements denominated in currencies other than the euro

The financial statements of companies operating in areas other than the Euro Area are translated into euro by applying the current exchange rates at period-end to assets and liabilities and average exchange rates for the year to items of profit and loss.

The foreign exchange differences of the financial statements of such companies on the application of different exchange rates to assets and liabilities and profit and loss are recognised among Valuation reserves in net equity. Foreign exchange differences on investees' net equity are also recognised among Valuation reserves.

Other information

The consolidated accounts include the separate financial statements of the Parent Company and the subsidiaries at 31 December 2018, reclassified and adjusted where necessary to take account of consolidation requirements.

Section 4 – Events Occurred After the Consolidated Balance Sheet Date

The draft Consolidated Financial Statements of Banca Generali have been approved by the Board of Directors on 8 March 2019, when the Board also authorised its disclosure pursuant to IAS 10.

No events occurred after 31 December 2018 and until the publication was authorised that would significantly impact the Banking Group's operations and P&L results.

Section 5 – Other Aspects

IASs/IFRSs that have been endorsed and that will enter into effect this year

For the effects of the first-time adoption of IFRS 9 and IFRS 15 please refer to the specific Transition Report attached to this Integrated Annual Report.

IASs/IFRSs that have been endorsed but will enter into effect after 31 December 2018

Introduction of IFRS 16 - Leases

The Standard was issued by the IASB on 13 January 2016 with the aim of improving the accounting treatment of leasing contracts, replacing the previous standards and interpretations (IAS 17 *Leasing*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*).

The Standard was endorsed by the European Commission by Regulation (EU) No 2017/1986 and entered into effect on 1 January 2019.

IFRS 16 lays down the principles for recognition, measurement, presentation in the financial statements and disclosures regarding leasing. It is designed to ensure that lessee and lessors provide appropriate information in a way that faithfully represents the transactions, in order to permit an understanding of the effect of the lease on the entity's financial position, operating result and cash flows.

In particular, IFRS 16 introduces:

- > a new definition of leasing;
- > a single accounting model applicable to lessees' transactions, similar to that already used to account for finance leases in accordance with IAS 17.

Accordingly, on the basis of the new standard, the distinction between operating and finance leases for accounting purposes is eliminated for the lessees.

However, the Standard provides for two exemptions from application of the model:

- > lease contracts relating to low value assets (indicatively, less than USD/EUR 5,000);
- > short-term lease contracts with terms of less than twelve months.

A lease is defined as a contract the fulfilment of which depends on the use of an identified asset and which grants the right to control the asset's use for a period of time in exchange for consideration.

This standard applies to all the contracts that refer to a right of use of an asset for a certain period of time, for a consideration, regardless of the contractual form adopted (finance or operating leases, rental or other).

With respect to the accounting model to be applied by the lessee, the new Standard provides that for all types of leases an asset must be recognised to represent the right of use of the leased property, alongside the lease payment due in accordance with the lease contract.

This results in a significant change in the treatment of lease transactions in the financial statements of the lessee, which recognises a liability in the balance sheet on the basis of the present value of the future lease payments and an asset consisting of the right to use the asset governed by the lease contract.

After initial recognition, the right of use is amortised over the term of the contract or the useful life of the leased asset, while the liability is progressively reduced due to lease payments made and the interest on the liability is recognised in profit or loss.

Accordingly, rather than the previous accounting treatment in profit or loss, administrative expenses will decline due to the decrease in the lease payments caption, offset by an increase in the amortisation and interest expense recognised in respect of the financial liabilities booked.

IFRS 16 implementation project

In 2018, the Banking Group carried out an assessment activity - within the framework of a broader project coordinated by the Assicurazioni Generali Group - aimed at identifying contracts governing leases of assets (real estate, operating assets, etc.) that fall within the scope of application of the new Standard and of impacts on accounting and operating processes. A specific IT product was acquired for IFRS 16 accounting management, and for the measurement and recognition of the right of use and associated lease liabilities - aspects that represent the main element of discontinuity from the IAS 17 accounting model.

With regard to the scope of application, the banking group only acts as lessee in operating lease transactions, previously classified as operating leases under IAS 17, involving a wide range of assets.

It should be emphasised that the Group's entire logistical structure - divided into head offices, bank branches and financial advisor offices - is based on leased properties¹ and therefore falls within the scope of the new Standard.

Most of the lease contracts relating to the branch network have terms of six years, subject to automatic renewal for an additional six years, with an option to terminate with six months' notice, as well as a break option for the lessor at the end of the first period.

However, the contracts for the most prestigious properties and those in which the head offices are located have longer initial terms (up to ten years) and are subject to limitations on early termination or cancellation by the lessor.

The scope of application of the Standard also extends to the fleet of company cars, primarily granted to the Group's executives for personal and business use and, to a residual extent, the limited ATM fleet managed by the outsourcer CSE.

The scope does not include ICT equipment, consisting of hardware and network infrastructure, subject to the facility management contracts with the outsourcers CSE (legacy infrastructure) and GBS (servers, PCs, telephones, etc.), since the requirement of control of the right of use has been excluded for the assets subject to these contracts.

Within the office equipment category, it was opted to apply the exemption for low value assets to the multifunction printer and fax pool managed directly by the bank under lease contracts, which has an average value per asset of under 5,000 euros.

First-time adoption

On the basis of paragraphs C7 to C13 of the Appendix to IFRS 16, the Banking Group has decided to elect to apply the modified retrospective method on the basis of the cumulative approach upon first-time adoption.

According to this method, the lessee may apply the Standard retroactively, recognising the cumulative effect of initial application of the Standard at the date of initial application, i.e., 1 January 2019 (IFRS 16 C5 b), with an adjustment to retained earnings, where applicable, and **without restating the comparative information** (IFRS 16 C8).

Accordingly, the comparative figures will not be restated on a like-for-like basis in the financial statements of first-time adoption of the new Standard.

In particular, at the date of initial application, the Banking Group, for contracts in which it acts as the lessee:

- > measured **the leasing liability** at the present value of the remaining payments due for the lease, discounted according to the lessee's marginal financing rate at the date of initial application;
- > recognised **the asset consisting of the right of use (ROU)** at the amount of the leasing liability, adjusted by the amount of any deferred income or accrued income relating to the lease recognised in the statement of financial position immediately prior to the date of initial application;
- > conducted an impairment test on the assets recognised on the basis of IAS 36.

Taking account of the Banking Group's extensive use of lease contracts for its offices and branch network, the adoption of the new Standard is expected to result in an increase in assets and liabilities, as a consequence of the recognition of the aforementioned rights of use and associated liabilities, and thus also in an increase in RWAs, given the need to apply prudential rules to the newly recognised assets as well².

On the basis of the method adopted, it is not believed that there will be financial effects on retained earnings upon initial application.

The new accounting Standard will entail the recognition at 1 January 2019 of new intangible assets, consisting of rights of use, in the amount of approximately 80 million euros, net of lease prepayments, already recognised in the 2018 financial statements.

However, this amount remains subject to revision in the light of an assessment of the term of certain particularly significant property lease contracts, currently in the process of being finalised. Financial liabilities associated with the aforementioned lease transactions will be recognised in a symmetrical manner.

The impact on RWAs could exceed 6 million euros and result in an effect on prudential ratios of at least 50 bps in respect of the consolidated TCR.

Use of estimates and assumptions in the preparation of the Consolidated Financial Statements

The preparation of the consolidated Financial Statements requires the use of estimates and assumptions that could influence the amounts reported in the consolidated balance sheet and profit and loss account and the disclosure of contingent assets and liabilities therein.

The estimates and assumptions used are based on the information available on operations and subjective judgements, which may be based on historical trends.

Given their nature, the estimates and assumptions used may vary from year to year, meaning that reported amounts may differ materially due to changes in the subjective judgements used.

¹ In particular, there are over 200 such contracts used for branches and the financial advisor network, in addition to 20 contracts referring to the head offices, mostly with companies of the Insurance Group, in addition to a residual number of guest residences.

² ROUs must be 100% weighted like property, plant and equipment.

The main areas for which management is required to use subjective judgements include:

- > determining the amount of provisions for liabilities and contingencies;
- > determining the expenses of personnel productivity bonuses;
- > determining the amount of incentive fees to be paid to the sales network as an annual incentive and of incentives related to recruitment plans;
- > determining the deferred incentives granted to the sales network, when linked to defined inflow targets.
- > determining the fair value of cash financial instruments and derivatives to be used in financial statements, when not based on current prices drawn from active markets;
- > determining the analytical and collective impairment of financial instruments;
- > determining the value adjustments and reversals of non-performing loans and the collective provision for performing loans;
- > preparing estimates and assumptions underlying the determination of current taxes, which may differ from the effective tax liability computed in conjunction with the payment of the balance of taxes for the year and the filing of the income tax return;
- > preparing estimates and assumptions on the recoverability of deferred tax assets;
- > evaluating the appropriateness of the amounts of goodwill and other intangible assets.

In the fourth quarter the **amortisation period for costs of obtaining contracts or incurred to fulfil contracts** with customers was modified from a time horizon based on the payback criterion to a time horizon more consistent with the average duration of contractual relationships with customers, determined to be five years.

These changes, implemented in part owing to the greater flexibility of the accounting standard IFRS 15, made it possible to align the accounting treatment of incremental costs paid to Financial Advisors in relation to the organic growth of assets under management with the treatment of recruitment incentives tied to the acquisition of new customers (amortised over five years), thereby ensuring a more effective correlation between total fee expenses and the fee income generated by customer investments.

In particular, the modification affected the accounting treatment of ordinary sales incentives tied to the net inflow targets paid to the financial advisors network, which upon first-time adoption had been accounted for according to the practical expedient of taking them to the profit and loss account for the year in full.

At 31 December 2018, one-fifth of the charge related to these incentives was therefore entered to the profit and loss account for the year, whereas the remaining fourth-fifths were deferred to future years.

The modification, which qualifies as a change of accounting estimate in respect of the amortisation period for incentives, was applied prospectively in accordance with IAS 8 and resulted an incremental benefit of 20.1 million euros gross of the tax effect and of 13.5 million euros net of the tax effect.

Overall, the prospective application of the new accounting treatment will result in an initial reduction of incentive fee expenses due to the recognition in the profit and loss account of only the amortisation charge for the year, which, however, will increase from one year to the next due to the accumulation of amortisation charges in respect of the subsequent annual incentive plans, until stabilising in the year in which the new time horizon is reached.

At 31 December, 2018, ordinary incentive costs, inclusive of the recruitment charge already capitalised at 1 January 2018, amounted to 22.2 million euros gross of the tax effect and to 15.0 million euros net of the tax effect.

Additional information regarding the estimation procedures used for specific cases is provided in Part A.2 of the Notes on the Accounting Policies adopted by the Banca Generali Group.

Measurement of goodwill

During the preparation of the 2018 Financial Statements, goodwill was tested for impairment and the carrying value was determined to be accurate. For further information, see Part G, section 3 of these Consolidated Notes and Comments.

Non-recurring significant events and transactions

During the year, there were no non-recurring transactions or events outside the scope of ordinary operations that had a significant impact on the aggregate items of the balance sheet and profit and loss account (CONSOB Notice No. DEM/6064293 of 28 July 2006), except as illustrated in the Consolidated Report on Operations.

“Atypical and unusual transactions” are defined as all transactions that due to their significance/materiality, the nature of the counterparties, the subject matter of the transaction (including in relation to ordinary operations), the transfer pricing method and/or timing of occurrence (near the end of the reporting period) may give rise to doubts as to the accuracy/completeness of the information presented in the financial statements, conflicts of interest, the safeguarding of company assets and the protection of minority shareholders.

National Tax Consolidation option

In 2004, the Parent Company Assicurazioni Generali and some Italian companies belonging to the Assicurazioni Generali Group, including Banca Generali S.p.A., began participating in the National Tax Consolidation governed by Articles 117-129 of the TUIR (Italy's income tax code), which was introduced into Italy's fiscal legislation by Italian Legislative Decree No. 344/2003.

Under the scheme, Banca Generali transfers its taxable profit (or tax losses) to the Parent Company, Assicurazioni Generali S.p.A., which computes a single taxable profit (or a single tax loss) for the Group as the sum of the profits and/or losses of the individual companies, and reports a single tax receivable from or payable to the Tax Authorities.

Other information

Information on government grants pursuant to Article 1, paragraph 125, of Law No. 124 of 4 August 2017 (“Annual market and competition law”)

In accordance with Article 1, paragraph 125, of Law No. 124/2017 “Annual market and competition law”, pending interpretative clarification and as directed by Assonime Circular No. 5 of 22 February 2019, which provides interpretations of various uncertain issues relating to the aforementioned law, according to which the disclosure obligation does not apply to amounts, consideration and remuneration justified by business services and, in any event, by synallagmatic contracts related to the recipient’s core business, nor to measures intended for all undertakings generally - such as tax and contribution relief - it is deemed that the following grants received by Banca Generali 2018 should be disclosed:

BENEFICIARY	TYPE OF GRANT	GRANTOR AUTHORITY	AMOUNTS RECEIVED (EUROS THOUSAND)
Banca Generali	Personnel training	FBA Banks and Insurers' Fund (*)	204

(*) This sum refers to aid for personnel training applied for in 2014, 2015 and 2016 and received in January and November 2018. It should be noted that the grants listed in the National Public Register, available for free consultation on the relevant website, refer to grants with a grant date in or after October 2017, for which no disbursements were made in 2018.

Audit

The Consolidated Financial Statements has been audited by BDO Italia S.p.A. in accordance with the Resolution passed by the Shareholders’ Meeting on 23 April 2015 and appointing the said company as the independent auditors for the years 2015-2023, included.

Part A.2 – Main Financial Statements Aggregates

This section sets out the accounting policies adopted for the preparation of the consolidated Financial Statements as of 31 December 2018, as regards the stages of classification, recognition, measurement and derecognition of the various asset and liability items and the methods of recognition of costs and revenues.

With reference to the foregoing, it should be noted that the accounting standards adopted for preparing these Consolidated Financial Statements, as regards the stages of classification, recognition, measurement and derecognition of the various asset and liability items and the methods of recognition of costs and revenues, differ from those adopted for drawing up the 2017 Annual Report. The change mainly is attributable to the mandatory application, effective 1 January 2018, of the following international accounting standards:

- > IFRS 9 – *Financial Instruments*, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation No. 2067/2016, which superseded IAS 39 for all matters concerning the classification and measurement of financial instruments, as well as their impairment;
- > IFRS 15 – *Revenue from Contracts with Customers*, endorsed by the European Commission through Regulation No. 1905/2016, which superseded and replaced IAS 18 – *Revenues* and IAS 11 – *Construction Contracts*.

The effects of the first-time adoption as of 1 January 2018 of IFRS 9 and IFRS 15 are outlined in a specific Transition Report attached to this Annual Integrated Report.

In light of the above, the new consolidated accounting policies of the Banca Generali Group are presented here below with an analysis of the main financial statements items.

1. Financial assets measured at fair value through profit or loss (FVTPL)

Classification

This category includes all financial assets other than those recognised among Financial assets at fair value through other comprehensive income and Financial asset at amortised cost.

In particular, the item includes:

- > financial assets held for trading, essentially consisting of debt and equity securities and the positive value of derivative contracts held for trading; such assets are included in the regulatory trading book (the “trading book” pursuant to IFRS 9) and are also known as “hold-to-sell” or “HTS” assets;
- > financial assets mandatorily measured at fair value, i.e., financial assets that do not meet the requirements for measurement at amortised cost or fair value through other comprehensive income. These are financial assets the contractual terms of which do not provide solely for payments of principal and interest (“SPPI test” not passed) or that are not held within a business model whose objective is to hold the assets to collect the contractual cash flows (a “hold-to-collect” business model) or whose objective is achieved by both collecting the contractual cash flows and selling the financial assets (a “hold-to-collect-and-sell” business model);
- > financial assets designated at fair value, i.e., financial assets identified as such upon initial recognition, where the requirements have been met. In cases of this kind, upon recognition an entity may irrevocably designate a financial asset as at fair value through profit or loss if, and only if, so doing eliminates or significantly reduces a measurement or recognition inconsistency.

Accordingly, the following are included in this item:

- > debt securities and loans that are held within an Other/Trading business model (i.e., not a hold-to-collect or hold-to-collect-and-sell business model) or that do not pass the SPPI test;
- > equity securities - not qualifying as controlling interests in subsidiaries, associates and joint ventures - that are held for trading or that were not designated at fair value through other comprehensive income upon initial recognition;
- > UCITS units.

The item also includes derivatives accounted for among financial assets held for trading, classified as assets if fair value is positive, and as liabilities if fair value is negative.

It is possible to set off current positive and negative values deriving from outstanding transactions with the same counterparty only if there is currently a legal right to set off the recognised amounts and the entity intends to settle the positions subject to offsetting on a net basis.

Derivatives also include those embedded in hybrid financial contracts, in which the host contract is a financial liability, and which have been separately recognised inasmuch as:

- > their economic characteristics and risks are not closely related to the characteristics of the underlying contract;
- > the embedded instruments considered separately meet the definition of a derivative;
- > the hybrid instruments in which they are embedded are not recognised at fair value and changes in fair value are recognised in profit or loss.

According to the general rules for the reclassification of financial assets (with the exception of equity securities, which cannot be reclassified) laid down by IFRS 9, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be quite rare, financial assets may be reclassified from fair value through profit or loss to one of the two other categories provided for in IFRS 9 (financial assets at amortised cost or financial assets at fair value through other comprehensive income). The transfer value is the fair value at the time of reclassification and the effects of reclassification apply prospectively from the reclassification date. In such cases, the effective interest rate of the reclassified financial asset is determined on the basis of its reclassification date fair value, and the reclassification date is taken as the date of initial recognition for allocation to the various credit risk stages (stage assessment) for impairment purposes.

Recognition

Debt and equity securities are initially recognised on the settlement date. Loans are initially recognised on the disbursement date, while derivative contracts on the date the contract is entered into.

Financial assets at fair value through profit and loss are initially recognised at fair value, less transaction costs or income directly related to the instrument itself.

Measurement

Subsequent to initial recognition, financial assets held for trading are recognised at fair value. The effects of the application of this measurement consideration are recognised in profit and loss.

The fair value of financial instruments traded in active markets is determined by referring to the appropriate quoted market price of such instruments.

A financial instrument is regarded as listed in an active market if quoted prices represent actual and regularly occurring market transactions on an arm's length basis over a normal reference period and those prices are readily and regularly available from an exchange, dealer, broker, industry company, pricing service or authorised entity.

In the absence of an active market, alternative valuation methods based on market data are used, such as quotes drawn from inactive markets, or on markets where similar instruments are traded, the notional value of financial instruments, quotas from brokers or placing agents involved in the issue of financial instruments, quotes from info providers specialised in specific sectors, and values drawn from recent comparable transactions.

The cost criterion is used for equity securities and derivative instruments that have as their underlying equity securities, not listed on an active market, as an estimate of fair value solely to a residual degree and limited to a few cases, such as cases in which all previously discussed measurement methods are not applicable, or where there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within the range.

Further information on the criteria used for determining fair value is given in Section "A.4 Information on fair value" of Part A of these Notes and Comments, to which reference is made as no material changes have been made following the application of IFRS 9.

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all related risks and rewards, is transferred.

Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried in the financial statements, even though the ownership of said assets has been effectively transferred in legal terms.

In cases where the transfer of substantially all risks and rewards cannot be assessed, derecognition occurs when no control has been retained over such assets. Conversely, if even partial control is retained, the asset continues to be recognised in the financial statements to the extent of continuing involvement, which is measured by the exposure to changes in the value of the transferred assets and related cash flows.

Lastly, financial assets are also derecognised from the financial statements if contractual rights to receive the asset's cash flows are retained, but a contractual obligation to pay, without a significant delay, those (and only those) cash flows to a third party is assumed.

2. Financial assets at fair value through other comprehensive income (FVOCI)

Classification

This category includes financial assets that satisfy both of the following conditions:

- > the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets (a "hold-to-collect-and-sell" business model); and
- > the contractual terms of the financial asset give rise, on specific dates, to cash flows consisting solely of payments of principal and interest ("SPPI test" passed).

The item also includes equity instruments not held for trading electively designated at fair value through other comprehensive income upon initial recognition.

Specifically, it includes:

- > debt securities and loans held within a hold-to-collect-and-sell business model that have passed the SPPI test;
- > equity interests, equity investments and capital contributions of various kinds not qualifying as controlling interests in subsidiaries, associates and joint ventures, not held for trading purposes, designated at fair value through other comprehensive income upon initial recognition.

According to the general rules for the reclassification of financial assets (with the exception of equity securities, which cannot be reclassified) laid down by IFRS 9, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets.

In such cases, which are expected to be quite rare, financial assets may be reclassified from fair value through other comprehensive income to one of the two other categories provided for in IFRS 9 (financial assets at amortised cost or financial assets at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to that at amortised cost, the cumulative gain (loss) recognised in the valuation reserve is taken as an adjustment of the financial asset's fair value at the reclassification date. In the event of reclassification to fair value through profit or loss, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from net equity to net profit (loss) for the year.

Recognition

Debt and equity securities are initially recognised on the settlement date. Loans are initially recognised at the disbursement date. Assets are initially recognised at fair value, being the fair value of the instrument including transaction costs or income directly related to the instrument.

Measurement

After initial recognition, assets designated at fair value through other comprehensive income other than equity securities are measured at fair value and the impact of the application of amortised cost, the effects of impairment and any foreign exchange effect are taken to profit or loss, whereas other gains or losses due to changes in fair value are entered to a specific equity reserve until the financial asset is derecognised.

Upon total or partial derecognition, cumulative gains and losses in the valuation reserve are recognised, fully or partially, through profit or loss.

Equity securities that have been classified to this category on an elective basis are measured at fair value through other comprehensive income (net equity) and cannot be transferred to profit and loss thereafter, even in the event of disposal. The only component attributable to the equity instruments in question that may be recognised in profit or loss is the related dividends.

Fair value is determined on the basis of the criteria set out above for financial assets designated at fair value through profit or loss.

In the case of equity instruments included in this category not listed on an active market, the cost criterion is only used to estimate fair value on a residual basis, limited to a few circumstances, i.e., where all previously discussed measurement methods do not apply, or where there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within the range.

Further information on the criteria used for determining fair value is given in Section "A.4 Information on fair value" of Part A of these Notes and Comments, to which reference is made as no material changes have been made following the application of IFRS 9.

Derecognition

Financial assets are derecognised from the financial statements only if the transfer results in the transfer of substantially all risks and rewards connected to such assets. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried in the financial statements, even though the ownership of said assets has been effectively transferred in legal terms.

In cases where the transfer of substantially all risks and rewards cannot be assessed, derecognition occurs when no control has been retained over such assets. Conversely, if even partial control is retained, the asset continues to be recognised in the financial statements to the extent of continuing involvement, which is measured by the exposure to changes in the value of the transferred assets and related cash flows.

Lastly, financial assets are also derecognised from the financial statements if contractual rights to receive the asset's cash flows are retained, but a contractual obligation to pay, without a significant delay, those (and only those) cash flows to a third party is assumed.

3. Financial assets measured at amortised cost

Classification

This category includes financial assets (and in particular loans and debt securities) that satisfy both of the following conditions:

- > the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows (a “hold-to-collect” business model); and
- > the contractual terms of the financial asset give rise, on specific dates, to cash flows consisting solely of payments of principal and interest (“SPPI test” passed).

In further detail, the following are classified to this item:

- > loans to banks in various forms that meet the requirements set out in the foregoing paragraph;
- > loans to customers in various forms that meet the requirements set out in the foregoing paragraph;
- > debt securities that meet the requirements set out in the foregoing paragraph.

This category also includes operating loans associated with the provision of financial assets and services, as defined in the Consolidated Law on Banking (TUB) and the Consolidated Law on Finance (TUF) (for example, the distribution of financial products and servicing activities). This latter category also includes receivables from management companies and receivables from the Financial Advisor network for advances on commissions paid.

According to the general rules for the reclassification of financial assets laid down by IFRS 9, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be quite rare, financial assets may be reclassified from the category measured at amortised cost to one of the two other categories provided for in IFRS 9 (Financial assets at fair value through other comprehensive income or Financial assets at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification apply prospectively from the reclassification date. Gains or losses resulting from the difference between the amortised cost and fair value of a financial asset are taken to profit or loss in the event of reclassification to financial assets at fair value through profit or loss, and to a specific valuation reserve in net equity in the event of reclassification to financial assets at fair value through other comprehensive income.

Recognition

Financial assets are initially recognised on the settlement date. Loans are initially recognised on the disbursement date. Financial assets are initially recognised at fair value including transaction costs or income directly related to the instrument.

In the case of loans, in particular, the date of disbursement normally coincides with the date of execution of the contract. If the two dates do not coincide, a commitment to disburse funds terminating on the date of disbursement of the loan is added when the contract is executed. A loan is initially recognised on the basis of the fair value of the same, which is equal to the amount disbursed or the subscription price, including costs/income directly attributable to the individual loan that may be determined at the inception of the transaction, even if settled at a later time. Costs with the above-described characteristics are excluded if they are to be repaid by a third-party borrower or can be considered normal, internal, general and administrative expenses.

Measurement

After initial recognition, these financial assets are measured at amortised cost using the effective interest-rate method. Accordingly, such assets are measured at an amount equal to their initial recognition value, minus redemptions, plus or minus cumulative amortisation (calculated according to the aforementioned effective interest-rate method) of the difference between that initial amount and its value at maturity (typically derived from the costs/income directly attributable to the individual asset) and adjusted by loss allowance, if any. The effective interest rate is the rate that equates the discounted future cash outflows (for principal and interest payments) with the amount disbursed including the costs and income relating to the said financial asset. This method of recognition allows, by applying a financial logic, the financial effect of the costs and income directly attributable to a financial asset to be distributed across its expected remaining life.

The amortised cost method is not used for assets measured at historical cost whose short durations suggest that the effects of discounting would be negligible, nor is it applied to assets without fixed maturities or revocable lines of credit.

The measurement criteria are closely connected to the inclusion of the instruments in question in one of the three stages (credit risk stages) provided for in IFRS 9, the last of which (stage 3) includes non-performing financial assets, and the remainder (stages 1 and 2) performing financial assets.

In terms of the accounting treatment of the above measurement effects, adjustments attributable to this type of asset are taken to profit or loss:

- > upon initial recognition, in an amount equal to the expected loss at twelve months;

- > upon subsequent measurement of the asset, where credit risk has not increased significantly compared with initial recognition, in respect of changes in the amount of adjustments for expected losses in the following twelve months;
- > upon subsequent measurement of the asset, where the credit risk has increased significantly with respect to initial recognition, in respect of the recognition of adjustments for expected credit losses attributable to the asset's entire residual contractual life;
- > upon subsequent measurement of the asset, where, after a significant increase in credit risk with respect to initial recognition, this increase has ceased to be significant in respect of the adjustment of cumulative impairment losses to account for the transition from an expected loss over the entire residual lifetime of the instrument to the expected loss over a twelve-month period.

Where performing, the financial assets in question are measured with the aim of determining the impairment losses to be recognised at the level of each individual credit relationship (or “tranche” of a security) on the basis of the risk parameters of probability of default (PD), loss given default (LGD) and exposure at default (EAD).

If, in addition to a significant increase in credit risk, there is objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset - classified as “non-performing” along with all other relationships with the counterparty in question - and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The amount of the loss, to be recognised in profit or loss, is determined on the basis of a measurement process performed for individual assets or uniform categories of assets, and then allocated to each position.

Non-performing loans include financial instrument classified as follows:

- 1) **bad loans**: this category refers to formally non-performing loans, consisting of exposures to customers who are in a state of insolvency, regardless of whether confirmed by a court, or in similar situations;
- 2) **unlikely to pay**: these are on- and off-balance sheet exposures for which the conditions have not been met for classification as bad loans and for which it is deemed unlikely that the borrower will be capable of fulfilling all of its debt obligations (in terms of principal and/or interest) in the absence of actions such as the enforcement of guarantees. This assessment is conducted regardless of the presence of any past due and unpaid amounts or instalments.
Classification as unlikely to pay is not necessary tied to the explicit presence of anomalies (non-payment), but rather is linked to the existence of elements indicative of a situation of risk of default of the borrower;
- 3) **non-performing past-due exposures**: these are on-balance sheet exposures other than those classified as bad debts or unlikely to pay loans that are past due by more than 90 days at the reporting date. Non-performing past-due exposures may be identified in reference to either the individual borrower or individual transaction.

Expected cash flows take account of expected collection times and the presumed realisable value of any underlying guarantees.

The original effective interest rate of each asset remains unchanged over time, even if a renegotiation of the terms results in a change of the contractual rate, including if the contract becomes non-interest-bearing.

If the reasons for impairment cease to exist due to an event occurring after the impairment was recognised, the impairment loss is reversed and the reversal is recognised in profit or loss. The reversal may not exceed the amortised cost that would have been attributable to the asset had the impairment not been recognised. Reversals due to the passage of time are taken in net interest income.

In some cases, over the lifetimes of the financial assets in question, and in particular over those of loans, the original contractual conditions are modified at the will of the parties to the contract.

When contractual terms are modified in the course of an instrument's life, it must be verified whether the original asset is to continue to be recognised or the original instrument is instead to be derecognised and a new financial instrument recognised.

When the modifications of financial assets are “substantial”, the original asset is generally derecognised and a new asset is instead recognised. A modification is determined to be “substantial” on the basis of both qualitative and quantitative elements. In some cases, in fact, it may be clear, without the need for complex analysis, that the changes made substantially modify an asset's contractual characteristics and/or cash flows, whereas in other cases additional analyses (including of a quantitative nature) must be conducted to measure the effects of such modifications and verify whether the asset should be derecognised and a new financial instrument recognised.

Accordingly, the qualitative and quantitative analyses, aimed at determining whether contractual modifications of a financial asset are substantial, must be based on:

- > the purposes of the modifications: for example, renegotiations for commercial reasons and forbearance measures due to financial difficulties by the counterparty;
 1. the former, aimed at “retaining” the customer, involve a debtor not in a situation of financial difficulty. This category also encompasses all renegotiation transactions aimed at adjusting the cost of debt to market conditions. Such transactions entail a modification of the original terms of the contract, typically at the debtor's request, relating to

aspects affecting the cost of the debt, with the resulting economic benefit for the debtor. It is generally held that, whenever the bank renegotiates in order to avoid losing a customer, such renegotiation must be considered substantial inasmuch as, had it not occurred, the customer could have obtained financing from another intermediary and the bank would have incurred a loss of expected future revenues;

2. the latter, undertaken for “reasons of credit risk” (forbearance measures), are attributable to the bank’s attempt to maximise the recovery of the cash flows from the original loan. Substantially all the underlying risks and rewards are typically not transferred as a result of such modifications. Accordingly, the accounting treatment that provides the most relevant information for the readers of the financial statements (without prejudice to the remarks presented below regarding objective elements) is that based on “modification accounting”, which entails the recognition in profit or loss of the difference between the carrying amount and the present value of the modified cash flows, discounted at the original interest rate, and not through derecognition;
- > the presence of specific objective elements (“triggers”) that affect the contractual characteristics and/or cash flows of the financial instrument (including, but not limited to, a change of currency or modification of the type of risk exposure, where correlated with equity and commodity parameters) that are believed to entail derecognition by virtue of their impact (expected to be significant) on the original contractual cash flows.

Derecognition

Financial assets are derecognised from the financial statements only if the transfer results in the transfer of substantially all risks and rewards connected to such assets. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried in the financial statements, even though the ownership of said assets has been effectively transferred in legal terms.

In cases where the transfer of substantially all risks and rewards cannot be assessed, derecognition occurs when no control has been retained over such assets. Conversely, if even partial control is retained, the asset continues to be recognised in the financial statements to the extent of continuing involvement, which is measured by the exposure to changes in the value of the transferred assets and related cash flows.

Lastly, financial assets are also derecognised from the financial statements if contractual rights to receive the asset’s cash flows are retained, but a contractual obligation to pay, without a significant delay, those (and only those) cash flows to a third party is assumed.

4. Hedging transactions

Types of hedging transactions

The objective of hedging is to eliminate possible losses on a specific item or group of items that could be incurred as a result of a certain risk with gains on another item or group of items in cases where that specific risk actually occurs.

Possible types of hedges include:

- > fair-value hedges, intended to hedge exposure to changes in the fair value of a balance-sheet item attributable to a particular risk;
- > cash-flow hedge, intended to hedge exposure to changes in future cash flows of balance-sheet items attributable to particular risks;
- > hedges of a net investment in a foreign operation, intended to hedge the foreign currency exposure of an investment in a foreign enterprise.

Measurement

Hedging derivatives are measured at fair value. Specifically:

- > in the case of a fair-value hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. Both the change in value of the hedged item attributable to the hedged risk (with reference to changes due to the underlying risk factor) and the change in value of the hedging instrument are recognised in profit or loss. Any difference between the two represents an element of ineffectiveness of the hedge and determines the net effect on net profit or loss;
- > in the case of cash-flow hedges, the effective portion of changes in the fair value of the derivative is recognised immediately in net equity and recognised in profit or loss only when there are changes in the cash flow of the hedged item;
- > hedges of a net investment in a foreign operation are accounted for similarly to cash-flow hedges.

Derivatives qualify as hedging instruments when the relationship between the hedged item and the hedging instrument is formally documented and the hedge is effective at inception and is expected to be effective on an ongoing basis over the term of the hedge.

The effectiveness of the hedge depends on the degree to which changes in the fair value or cash flows of the hedged item are offset by changes in the fair value or cash flows of the hedging instrument. Effectiveness is thus assessed by comparing these changes in light of the intentions expressed by the enterprise at the hedge’s inception.

A hedge is considered effective (within a range of 80-125%) when the changes in fair value (or cash flows) of the hedging instrument almost entirely offset the changes in the hedged item with respect to the risk being hedged.

Effectiveness is assessed at annual and interim reporting dates using:

- > *prospective tests*, which justify the use of hedge accounting by demonstrating effectiveness;
- > *retrospective tests*, which show the degree of effectiveness achieved in the period under review. In other words, retrospective tests measure the extent to which actual results differed from a perfect hedge.

If these tests do not confirm the effectiveness of a hedge, the hedge accounting procedures described above are discontinued and the derivative instrument is reclassified as a trading instrument.

5. Equity investments

The initial recognition and subsequent measurement criteria used for equity investments under IFRS 10 - *Consolidated Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures* are given in Part A.1, Section 3 “Scope of consolidation and consolidation methods” of these Notes and Comments.

Other investments - other than subsidiaries, associates, joint ventures and those recognised in items 120. “Non-current assets available for sale and disposal groups” and 70. “Liabilities associated to assets held for sale” (see section 8) - are classified as financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss and are recognised accordingly.

6. Property and equipment

Classification

Property and equipment include technical systems, furniture, furnishings and equipment of any type. They also include assets held exclusively for operating purposes, to be used in the production or provision of goods and services to be leased to third parties or for administrative purposes and that are expected to be used for more than one year.

Recognition

Property and equipment are initially recognised at cost, which includes the purchase price, as well as all directly related costs necessary to purchase the asset and bring it into working condition.

Extraordinary maintenance costs that increase the future economic benefits of the asset are added to the carrying amount of the asset to which they relate while routine maintenance costs are recognised through profit and loss.

Measurement

Property and equipment, including those not used in production, are measured at cost less depreciation and impairment losses.

They are systematically depreciated over their estimated useful life using the straight-line method.

At each annual or interim reporting date, if there is indication that an asset may be impaired, its carrying amount is compared to its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use, i.e., the present value of future cash flows expected to be generated by the asset. Impairment losses are recognised in the profit or loss account.

If the reasons for impairment cease to exist, the impairment loss is reversed; the new amount cannot exceed the carrying amount the asset would have had after depreciation, had no previous impairment loss been recognised.

Derecognition

Property and equipment are removed from the balance sheet upon disposal or when permanently withdrawn from use and no future economic benefits are expected from their disposal.

7. Intangible assets

Classification

An intangible asset is an identifiable non-monetary asset controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

In order to be identifiable, an asset must be separable, i.e., capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or must arise from contractual or other legal rights, regardless of whether those rights are transferrable or separable from the entity or from other rights and obligations.

An entity controls an asset if the entity has the power to obtain the future benefits flowing from the underlying resource and simultaneously restrict the access of others to those benefits.

The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law.

Goodwill, which represents the positive difference between the purchase cost and the fair value of the acquiree's assets and liabilities, is also recognised among intangible assets.

Intangible assets include the value of contractual relations with customers acquired as a result of the business combination of Banca del Gottardo Italia.

This asset is an intangible asset, as defined by IAS 38, from which future economic benefits are likely to flow to the acquirer. The value of these relationships was determined on the basis of an estimate of the return on the assets managed by Banca del Gottardo Italia, analysed by asset class, while the useful life was estimated as a ten-year period, based on the historic percentage of decline of assets under management, before the company was acquired.

The remaining intangible assets are application software intended for long-term use, including the expenses of modifying the legacy system, which in turn include intangible assets in progress at the end of the year.

Software costs recorded as intangible assets refer to application software developed by third parties for company use (software development contracts) or purchased with a multi-year licence for use.

Software costs recognised among intangible assets include, at set conditions, also charges for the development of the IT system used by the Bank based on the outsourcing contract with CSE (legacy, front-end financial advisors and front-end customers, etc.).

Such charges are capitalised when they refer to the development of innovative components of the system, which are not part of consortium projects, for which it is possible to identify a control situation, and from which future economic rewards are expected.

Expenses related to corrective and evolution maintenance of IT procedures and the website already in use are usually recognised through profit and loss in the year in which they are borne.

Recognition

Goodwill

An intangible asset can be classified as goodwill when the positive difference between the fair value of the assets and liabilities acquired and the cost of the investment (including incidental expenses) is representative of the investee company's ability to generate future income (goodwill).

In case of badwill, or if the goodwill is not representative of the investee company's ability to generate future income, the difference is recognised directly through profit and loss.

Other intangible assets

Other intangible assets are recorded at cost less any incidental expenses when it is probable that the asset will produce future economic benefits and if the cost of the asset can be reliably determined. When this is not the case, the cost of the intangible asset is recognised in the profit and loss account in the period in which it is incurred.

Measurement

Intangible assets are amortised on a straight-line basis over their useful lives.

Software costs are typically amortised over a three-year period.

Other capitalised costs associated with legacy systems are amortised over a five-year period.

For contractual relations with customers, acquired as a result of the above-mentioned business combination of Banca del Gottardo Italia, the useful lives are estimated at ten years.

Intangible assets with indefinite lives are not amortised, but are periodically reviewed to assess the appropriateness of their carrying amount.

Impairment

Goodwill

In accordance with IAS 36, goodwill is no longer amortised, but is tested for impairment at least annually.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs), which may be no larger than the segments identified for management reporting.

To determine the amount of impairment, the carrying amount of the CGU is compared with its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The impairment test for goodwill is presented in Section 3. “Retrospective Adjustments” in Part G of these Notes and Comments.

Other intangible assets

At each reporting date, if impairment is indicated, the recoverable amount of the asset is estimated. The amount of impairment, which is recognised in the Profit and Loss Account, is the amount by which the asset’s carrying amount exceeds its recoverable amount.

Derecognition

Intangible assets are removed from the Balance Sheet on disposal or when no future economic benefits are expected from their use.

8. Non-current assets held for sale or disposal groups

The asset item “Non-current assets held for sale or disposal groups” and liability item “Liabilities associated with assets held for sale or disposal groups” include non-current assets or groups of assets/liabilities for which a disposal process has been initiated and the sale of which is deemed highly likely. Such assets/liabilities are measured at the lesser of their carrying value and fair value less costs to sell.

The net balance of income and expenses (net of the tax effect) attributable to a group of assets available for sale or a group of assets recognised as available for sale during the year is taken through profit and loss under a specific separate item, “Income (Loss) of disposal groups, net of taxes.”

9. Current and deferred taxes

Income taxes are recognised in the Profit and Loss Account, with the exception of those relating to items posted directly to net equity.

Provisions for income taxes are made based on a conservative estimate of current taxes, and deferred tax assets and liabilities, which are calculated using prevailing tax rates.

Specifically, deferred tax assets and liabilities are calculated based on the temporary differences - without time limits - between the carrying amount of assets and liabilities and their corresponding values for tax purposes.

Deferred tax assets are recognised to the extent that it is probable that they will be recovered, which is determined based on the ability of the company in question or the Parent Company Assicurazioni Generali - as a result of its exercise of the option provided by the Italian tax consolidation scheme - to generate ongoing taxable income.

Deferred tax liabilities are recognised in the financial statements, except for the main assets pending taxation, represented by equity investments.

Deferred tax assets and liabilities are shown separately in the balance sheet and are not offset; deferred tax assets are recorded under “tax assets” and deferred tax liabilities are recorded under “tax liabilities”.

Deferred taxes resulting from consolidation are recognised where it is probable that they will give rise to a tax charge for one of the consolidated enterprises. Such taxes arise when positive differences resulting from consolidation are allocated to the assets of the subsidiary in question.

Deferred tax assets and liabilities are systematically assessed to take account of any changes in tax legislation or rates, as well as changes to the specific situations.

Provisions for taxes also include allocations made to cover charges that could arise from audits or litigation underway with revenue authorities.

Accounting effects of the redemption of goodwill and other intangible assets pursuant to Italy’s tax laws

In recent years, the tax regime applicable to corporate reorganisation transactions has undergone considerable changes aimed at allowing surplus amounts (for example, goodwill) recognised following an extraordinary transaction involving contribution, merger or de-merger to be recognised for income-tax purposes, as well as through the payment of a substitute tax.

Law No. 244 of 24 December 2007 (the 2008 Consolidated Finance Law) introduced the new paragraph *2-ter* into Article 176 of the Consolidated Income Tax Law (hereinafter TUIR) that allows entities to recognise for income-tax purposes greater amounts recognised in the accounts following a corporate reorganisation transaction in relation to intangible assets, including goodwill, and property and equipment.

That provision requires that the entity pay a substitute tax, determined according to three income brackets, on the basis of the realigned amounts (12% up to 5 million euros, 14% up to 10 million euros and 16% for amounts in excess of the latter bracket, respectively) in lieu of the ordinary rates of 27.5% (IRES) and 3.9% (IRAP).

The substitute tax is to be paid in three annual instalments beginning on the term of payment of the balance of income taxes for the year in which the extraordinary transaction is undertaken, whereas the greater amounts are recognised for the purposes of the tax-deductibility of depreciation and amortisation charges beginning in the tax period in progress when the option for payment of substitute tax is exercised on the tax return, that is to say in the year in which the first instalment is paid.

Legislative Decree No. 185 of 29 November 2008 (the Anti-Crisis Decree), converted to Law No. 2 of 28 January 2009 and subsequently amended, introduced a new system of optional realignment of tax and balance-sheet values. The provision, set forth in Article 15, paragraph 10, of the cited Decree, states that, in derogation of the substitute-tax regime introduced by the 2008 Finance Law, taxpayers may obtain recognition for tax purposes of the greater amounts attributed to goodwill, trademarks and other intangible assets with finite useful lives in the financial statements by paying a substitute tax in lieu of IRES and IRAP at the fixed rate of 16%, that is to say without any reference to income brackets and the possibility of paying in instalments.

However, the greater amounts attributed to goodwill and trademarks may be recovered through the off-the-books procedure for amortising goodwill in ten annual instalments instead of the 18 ordinary required under Article 103 of TUIR, beginning in the tax period after that in which the tax is paid.

That statute also requires that the option be exercised by paying the substitute tax by the term of payment for income taxes for the year in which the extraordinary transactions in question are finalised.

Lastly, paragraphs 12 to 14 of Article 23 of Legislative Decree No. 98/2011 (known as the “Summer Manoeuvre”) introduced the new paragraphs 10-*bis* and 10-*ter* to Article 10 of Legislative Decree No. 185/2008, thus allowing an extension of the “special redemption” procedure to goodwill recognised at the consolidated level only due to not being presented in the carrying amount of the equity investment.

The additional redemption scenario is founded solely on the accounting figures presented in the consolidated financial statements (it is not required that the value of the goodwill be separated from that of the equity investment at an accounting level) and applies not only to cases of equity investments arising from mergers or other extraordinary transactions, but also to cases of non-tax neutral transactions excluded from the previous rules, such as the acquisition of an entity whose assets also include a control interest or the acquisition of such a control interest (the new paragraph 10-*ter*).

The statute also provides that in order to close redemption transactions, as limited to previous transactions undertaken prior to 31 December 2010, the payment of the 16% substitute tax must have been made by 30 November 2011, whereas the non-accounting deduction of amortisation in ten equal instalments had to take place beginning in financial year 2013.

Banca Generali has undertaken the following transactions in connection with the aforementioned options afforded by the tax code:

- 1) redemption of the mismatch between the carrying amounts and book values of goodwill arising from the merger of Banca del Gottardo Italia into Banca BSI S.p.A. (subsequently merged into Banca Generali effective 1 January 2010), closed in 2010 on the basis of the provisions of Article 15, paragraph 10, of Legislative Decree No. 185/2008;
- 2) redemption of other intangible assets (client relationships) arising from the above transaction undertaken in 2010 on the basis of the amounts carried in the financial statements of Banca BSI Italia at 31 December 2009 according to the ordinary procedure outlined in Article 176, paragraph 2-*ter*, of the TUIR;
- 3) redemption of goodwill recognised on a consolidated basis in connection with the full equity interest in the subsidiary BG Fiduciaria Sim S.p.A. undertaken in 2011.

The accounting treatment of the payment of substitute tax on goodwill is susceptible to varying interpretations, given that there is no specific provision of IAS 12 regarding the taxable element of goodwill after initial recognition.

IAS 12 merely prohibits the recognition of deferred tax assets on initial recognition of goodwill from acquisitions not relevant for tax purposes.

The analyses conducted by the OIC - the Italian Accounting Standard Setter - summarised in application document No. 1 of 27 February 2009 entitled “*Accounting treatment of substitute tax on the redemption of goodwill in accordance with Article 15, paragraph 10, of Legislative Decree No. 185 of 29 November 2008 (converted into Law No. 2 of 28 January 2009) for entities that prepare financial statements in accordance with IASs/IFRSs*”, which can however be extended to other special redemption cases envisaged by tax laws, have led to three different accounting treatments being considered compatible with IFRSs:

1. recognition through profit and loss of substitute tax only, without recognising deferred tax assets;
2. immediate recognition through profit and loss of both substitute tax and the deferred tax assets representing the future tax benefit; and
3. recognition of substitute tax as a tax credit under assets and subsequent recognition through profit and loss over the years to coincide with the non-accounting deduction of the redeemed amortised amounts.

In this regard, it should be noted that the accounting policy adopted by Banca Generali is based on the second method, which allows the attribution of the entire tax benefit, equal to the difference between the substitute tax paid and the deferred tax assets recognised (IRES and IRAP) during the year to which the redemption transaction refers.

During the years in which the redeemed goodwill may be deducted on a straight-line basis, the entity will release the previously recognised deferred tax assets to profit and loss at a constant rate, based on the specific system adopted (ten or eighteen amortisation charges), thereby neutralising the decrease in current taxes. Any impairment losses to the goodwill are not relevant to measuring the recognised deferred tax asset, provided that the value of that asset continues to be believed to be recoverable on the basis of future taxable income.

10. Provisions for Liabilities and Contingencies

Provisions for commitments and guarantees issued

The sub-item of provisions for liabilities and contingencies in question includes provisions for credit risk recognised on the basis of loan commitments and guarantees issued that come within the scope of application of impairment rules pursuant to IFRS 9.

Such cases are generally subject to the same methods of allocation to the three credit risk stages and calculation of expected losses presented in regard to financial assets at amortised cost or at fair value through other comprehensive income.

Other Provisions

Other provisions for liabilities and contingencies include allocations relating to provisions for legal contractual or non-contractual obligations or legal disputes, including tax disputes, arising from a past event where fulfilment of such obligation is likely to require an outflow of financial resources, provided that the amount of the outflow can be reliably estimated.

Therefore, a provision is recognised only when:

- > there is a present obligation (legal or constructive) as a result of a past event;
- > it is likely 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 relating to the fulfilment of the obligation.

The amount recognised as provision corresponds to the best estimate of the expenditure required to settle the present obligation at the balance sheet date and accounts for all the risks and uncertainties that inevitably are entailed in certain events and circumstances.

Where the effect of the time-value of money is material, provisions are discounted using current market rates. Provisions and increases due to the time value of money are recognised in the Profit and Loss Account.

Provisions are periodically reviewed and, where necessary, adjusted to reflect the best current estimate. If, upon review, it is determined that it is unlikely that a cost will be incurred, the provision is reversed.

Other provisions for liabilities and contingencies include, in particular:

- > provisions for contractual indemnities for the network of Financial Advisors (end-of-service, portfolio development indemnity, managerial development indemnity, and other similar indemnities), measured according to the actuarial method;
- > provisions for Financial Advisors and Relationship Managers serving the obligations assumed in relation to the *2017-2026 Framework Loyalty Programme for the sales network*;
- > several types of provisions for incentive or recruitment bonuses (recruitment plans) for Financial Advisors;
- > provisions for long-term employee benefits;
- > provisions for restructuring plans.

In some circumstances, provisions for liabilities and contingencies (for example, charges relating to staff expenses) have been presented in a separate item of the profit and loss account to best reflect their nature.

Termination indemnity for Financial Advisors

The provision covering the cost of termination indemnities for Financial Advisors is assessed in compliance with IAS 37 according to an actuarial approach, pursuant to the law (Article 1751 of the Italian Civil Code) and the specific disbursement criteria set by the Bank.

In detail, the indemnity to be paid to a Financial Advisor is calculated on the basis of the annual average direct and indirect fees paid to the Financial Advisor during his or her final five years of service (Article 1751 of the Italian Civil Code), net of:

- a) the total amount paid to Enasarco each year by the Bank until the date of termination;
- b) the contractual lump-sum reduction which gradually declines with the length of service at the date of retirement or termination (with the exception of cases of death and permanent disability).

In cases of withdrawal for cause with service, the indemnity may be further reduced as a function of the decline in AUM during the post-termination observation period.

The assessment is then conducted according to actuarial methods on the basis of demographic parameters, expected turnover rates, with and without the right to service, assumptions regarding the age of entry into the compulsory general insurance (AGO) system and the retirement age.

The procedure also takes account of:

- a) the percent fee reduction expected as a function of the estimated period of past service at the date of termination;
- b) the prospective termination indemnity fund, i.e., the payments that the Bank is to make each year directly to the Enasarco Foundation by way of termination indemnity contributions for the Financial Advisor's entire period of service and that, in the end, are to be deducted from the gross indemnity owed.

Portfolio development indemnity

The portfolio development scheme calls for Financial Advisors with at least five years of service who leave service permanently due to retirement, serious disability, death or voluntary removal from the register to be entitled to an indemnity commensurate to the profitability of the portfolio previously managed.

The indemnity, which is governed by an appendix to the Agency agreement, is only due on the condition that the outgoing advisor formally undertakes to conduct a hand-over to an incoming Financial Advisor identified by the Company and discharges the obligation for removal from the register. Conversely, the incoming Financial Advisor undertakes to pay the company an indemnity commensurate to that obtained from the outgoing advisor.

In relation to recent market practices in the area, a thorough contractual revision of the scheme entered into effect on 1 January 2012 was carried out.

The system introduces a rule, namely that the indemnity collected by the outgoing Financial Advisor is to correspond exactly to the indemnities paid by the recipients of the hand-over; thus limiting the principal's role to the service represented by handling the cash flows between the parties.

Therefore, on the basis of the new rules, the outgoing Financial Advisor may only collect the agreed indemnity provided that it has actually been paid to the Bank by the incoming Financial Advisor, thereby fostering greater involvement of the interested parties in the successful completion of the transaction and an appropriate hand-over of customer relationships.

However, the Bank's guarantee has been maintained in cases of the reassignment of customer relationships due to the death or permanent disability of the Financial Advisor to whom they had been assigned. In such cases, the Bank will immediately pay out the entire indemnity to the outgoing Financial Advisor's beneficiary or heirs and then recover the amount from the incoming advisors under an instalment plan, in the reduced amount of 75% in consideration of the increased expense associated with the impossibility of conducting an appropriate hand-over.

The specific provision covering the obligations associated with the scheme is determined through an assessment conducted according to statistical and actuarial methods on the basis of an estimate, carried out through IT procedures, of the development coefficient for the assets managed by the Financial Advisors at the reference date, the historical percentages of indemnity payouts, network turnover rates and other demographic, welfare-related and financial variables.

According to IAS 1, paragraph 234 b), accruals are presented net of contractually established reimbursements to be provided by incoming Financial Advisors.

The provisions for long-term contractual indemnities also included the provision for the 2017-2026 Framework Loyalty Programme for the sales network, approved by the Board of Directors on 21 March 2017 and ratified by the General Shareholders' Meeting on 20 March 2017. Said programme is aimed at improving the retention of the network and the customers acquired over time and creating value for the Group by attracting stable, high-quality net inflows.

Framework Loyalty Programme for the Sales Network

The Framework Programme provides for the possibility to activate during the 2017-2026 period eight individual annual plans set to expire on 31 December 2026 and of decreasing lengths, from a maximum of eight years to a minimum of one year; with the authorisation of the Banca Generali Group's company bodies and in accordance with its remuneration policies.

This indemnity is paid to Financial Advisors and Relationship Managers with a minimum level of seniority of service who meet certain AUM and net inflow requirements at the end of the year of activation of the plan in which they have participated. The indemnities thus accrued in respect of the individual plans will then be disbursed cumulatively to the beneficiaries, in accordance with the Banking Group's current remuneration policies, within 60 days of the approval of the 2026 financial statements.

Departure from the Banking Group entails the loss of entitlement to disbursement of the bonuses accrued, except in the event of death, permanent disability or eligibility to receive a pension. Even in the above circumstances, the indemnity will still be paid at the end of the Programme.

A part of the bonus, up to 50% of its value, for each of the individual plans in the Framework Network Loyalty Programme may be paid in Banca Generali shares. In accordance with the Banking Group's Remuneration Policy, the number of shares will be determined according to the average price of Banca Generali shares during the 90 days prior to the date of the meeting of the Board of Directors called to approve the draft financial statements for the year prior to that of activation of the individual plan.

The Banca Generali shares for each of the eight plans will be purchased on the market after authorisation is granted, from one year to the next, by the company bodies (Board of Directors and Shareholders' Meeting) and the Regulator and cumulatively assigned to beneficiaries.

The second plan under the Programme, covering the period 2018-2026, was activated in 2018. Both plans call for 50% of the bonus to be paid in Banca Generali shares.

The amount of the provision for the portion of the indemnity to be paid in cash is measured on the basis of the indemnity accrued as at the reporting date, taking account of the time value of money for the period until the date of disbursement and the forecasted rate of turnover, without entitlement to benefits, for the beneficiary population.

11. Financial liabilities at amortised cost

Classification

Due to banks, *Due to customers* and *Securities issued* include the various forms of interbank funding and direct customer inflows, as well as funding through certificates of deposit and the issue of other debt securities, net of any amounts repurchased.

Due to banks and due to customers also include operating debts from financial services.

Recognition

These items are initially recognised when funding is received or the debt securities are issued.

Initial recognition is at the fair value of the liabilities, which is normally the amount received or the issue price plus any costs or income directly attributable to each funding transaction or issuance and not repaid by the creditor. Internal general and administrative expenses are excluded.

For financial liabilities issued below market value, the fair value is estimated and the difference with respect to the market value is recognised directly in the profit and loss account.

Measurement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, with the exception of short-term liabilities where the time-value of money is not material. These are measured at the amount received, and any costs incurred are recognised in the profit and loss account on a straight-line basis for the contractual duration of the liability.

Derecognition

Financial liabilities are removed from the balance sheet when they mature or are settled, or when previously issued securities are repurchased. The difference between the carrying amount of the liability and the amount paid for repurchase is recognised in the profit and loss account.

The reissue of securities on the market after their repurchase is considered a new issue; such securities are therefore measured at the new placement price without any effect on net profit and loss.

12. HFT financial liabilities

This item includes the negative value of trading derivative contracts measured at fair value.

If the fair value of a financial asset falls below zero due to trading, it is recorded as a financial liability held for trading.

13. Financial liabilities designated at fair value

There are currently no financial liabilities measured at fair value.

14. Foreign currency transactions

Initial recognition measurement criteria

On initial recognition, foreign currency transactions are recorded in the functional currency using the exchange rate at the date of the transaction.

Subsequent recognition measurement criteria

At each annual or interim reporting date, monetary items denominated in foreign currency are translated using the exchange rate as follows:

- > monetary items are translated using the exchange rate at the reporting date;

- > non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- > non-monetary items that are measured at fair value are translated using the exchange rate at the reporting date.

Exchange rate differences that result from the settlement of monetary items or the translation of monetary items at a rate that is different from the one used for initial translation or for translating the previous year's financial statements are recognised through profit or loss in the period in which they arise.

15. Other information

Cash and deposits

The portion of the balance of the settlement account held with the Bank of Italy that is not restricted according to the mandatory reserve rules is recognised as demand deposits with the Central Bank and has therefore been reclassified to item 10 of the balance sheet, cash and deposits.

Treasury shares

Treasury shares are recognised at their purchase cost under a specific item decreasing net equity and are not subject to measurement. Where subsequently sold, any difference between the purchase cost and sale price is recognised among the components of net equity.

Repurchase agreements

Securities received under a transaction involving a contractual obligation to resell said securities and securities delivered under a transaction involving a contractual obligation to repurchase said securities are not recognised and/or derecognised inasmuch as the associated risks/rewards are not transferred.

Consequently, if securities are purchased under a resale agreement, the amount paid is recognised as a loan to customers or banks. If securities are sold under a repurchase agreement, the liability is recognised among due to banks or customers. Investment income, in the form of coupons accrued on securities and the difference between the spot and forward price of said securities, is recognised to the profit and loss account items associated with interest on an accrual basis.

Leasehold improvements

Costs associated with refurbishing properties owned by third parties are capitalised due to the fact that, for the duration of the lease, the company using the property has control of the assets and can therefore receive the related future economic benefits.

The above costs, which have been classified among "Other assets", as required by the Bank of Italy's Instructions, are amortised for a period that may not exceed the term of the lease agreement.

Share-based payments

These are payments to employees or other similar persons, such as financial advisors, as consideration for services rendered, based on the equity instruments of the banking or ultimate parent company.

Such plans may provide for either:

- > the right to subscribe for rights issues at a pre-determined price (stock-option plans);
- > the free assignment of a certain number of shares, generally repurchased (stock-granting plans).

In accordance with IFRS 2 - *Share-Based Payments*, share-based benefit plans for personnel and financial advisors are recognised as costs on the profit and loss account based on the fair value of the shares on the assignment date, spreading out the charges over the period covered in the plan.

In light of the difficulty inherent in reliably measuring the fair value of the services received in return for equity instruments, reference is made to the fair value of such instruments measured at the grant date.

The fair value of options is measured using a model whose inputs are exercise price, time to maturity, the current share price, expected volatility, expected dividend, the risk-free interest rate, and the specific features of the plan in effect. The pricing model measures distinctly the option and the probability that the conditions on which basis the option was assigned will be realised. The combination of the two amounts generates the fair value of the assigned instrument.

In cases of stock-granting plans, the fair value of the shares granted is determined on the basis of market prices on the date of the resolution of the shareholders' meeting authorising the plans.

Any reduction in the number of financial instruments assigned is recognised as a cancellation of part of them.

Charges relating to shared-based payment plans are recognised as a cost in the profit and loss account for the period under item 190.a) "General and administrative expenses: staff expenses", where they relate to employment services, and under

item 50) "Fee expense" where they relate to contractual relationships with financial advisors. In both cases, such charges are recognised through item 150. "Equity reserves".

The Long-Term Incentive Plan

The Long Term Incentive Plan (LTIP) is a share-based incentive plan approved annually by the shareholders' meeting of the parent company, Assicurazioni Generali, and intended for the key personnel of the latter company and other insurance group companies, including several Key Managers of the Banking Group.

The plan is aimed at encouraging the pursuit of the objective of an increase in the value of the company's shares by strengthening the link between the remuneration of beneficiaries and performance as identified in the framework of the group's strategic plans ("absolute" performance) and the increase in value compared to a peer group ("relative" performance).

However, for beneficiaries from the Banking Group, the targets triggering accrual of the incentive are broken down into:

- > insurance group targets, i.e., ROE (return on equity) and relative total shareholders' return (rTSR), compared to a peer group, assigned a weight of 40% of the total bonus; and
- > business unit targets (Banking Group ROE and EVA), assigned a 60% weight.

The key characteristics of the plan are as follows:

- > the incentive accrued upon achieving the targets is disbursed by Assicurazioni Generali S.p.A. in a single instalment at the end of the three-year vesting period through the free granting to the beneficiaries of its own ordinary shares;
- > the maximum number of the shares to be granted is determined at the beginning of the three-year period and is divided into three instalments for the three years of the plan;
- > each year, the level of satisfaction of the objectives initially set for the three-year period is verified in order to determine the number of shares to be set aside for each instalment;
- > from the 2015-2017 cycle, a lock-up restriction is envisaged for the shares assigned, applicable to 50% of the shares for one year from assignment and to 50% after two years from assignment;
- > malus and claw-back clauses have been included and a minimum access gate set for each tranche.

The new plan may be classified as an equity-settled transaction and therefore within the scope of IFRS 2.

IFRS 2, in the new formulation endorsed by Commission Regulation (EU) No. 244/2010 of 23 March 2010, includes a specific section governing share-based payment transactions between group entities (paragraphs 43B-43C and B45-B61 of the Application Guidance).

In that section, it is specified that in share-based payment transactions between group entities, the entity that receives the goods or services must assess whether the cost of the goods or services are to be accounted for as an equity-settled shared-based payment transaction, through a balancing entry to a capital reserve, or on a cash basis, through a balancing entry to a liability.

In this regard, the accounting standard envisages (paragraph 43B) that if the arrangement calls for the shares of the parent company to be granted directly by itself to a subsidiary's employees - and therefore with no action on the part of the subsidiary -, the charge to the profit and loss account will be recognised to an equity reserve through a balancing entry, inasmuch as it is similar to a capital contribution by the parent company.

Given the specific nature of the plans reserved for beneficiaries belonging to the Banking Group, such plans must be assessed individually for components relating to group targets and business targets (for the Banking Group).

More specifically:

- > as it is a pure stock grant, the plan component linked to business unit objectives should be valued exclusively based on the fair value of the Assicurazioni Generali ordinary shares at the grant date;
- > the plan component linked to the Group's objectives includes TSR as an objective, since it qualifies as market condition whose value is included in the fair value of the stock grant.

The total cost of the plan is equal to the sum of the cost calculated for each tranche on the basis of the fair value determined according to the above methods, multiplied by the number of shares that may potentially be granted in respect of the performance condition, the likelihood that the service condition will be met and the achievement of the minimum eligibility threshold. That cost is allocated over a three-year vesting period starting from the grant date, with a balancing entry to a specific equity reserve.

Starting from 2018, the Assicurazioni Generali Group's LTIP was replaced by a new LTI Plan ("LTI BG Plan"), based on Banca Generali S.p.A. shares. The LTI BG Plan is aimed at increasing the value of Banca Generali shares, by further strengthening the link between the remuneration of beneficiaries and performance of the Banking Group, without prejudice to the consistency required with the expected results set forth in the Insurance Group's strategic plan.

The new plan's characteristics are similar to those of the plan implemented by the parent company, with the exception of a greater weight of targets relating to the Banking Group, which are weighted at 80%.

Employee termination indemnities

Employee termination indemnities, which are governed by Article 2220 of the Italian Civil Code, constitute “**post-employment benefits**” as defined in IAS 19 - *Employee Benefits*.

Following the entry into force of Italy’s 2007 Finance Law, which brought forward to 1 January 2007 the supplementary pension reform enacted by Italian Legislative Decree No. 252 of 5 December 2005, the portions of employees’ termination indemnities accrued starting from 1 January 2007 must - depending on the employees’ choice - be allocated to a supplementary pension fund or maintained within the company and - in the case of companies with at least 50 employees - transferred to a special fund managed by Italy’s national security institute (INPS).

Accordingly, obligations to employees have taken on a twofold nature from an accounting standpoint:

- > “**a defined contribution plan**” for termination indemnities accrued by personnel starting on 1 January 2007 whether the employee chooses to redirect such amount to a supplementary pension fund or allocate it to the INPS treasury fund.
For such portions, the amount recognised amongst staff expenses is determined on the basis of the contributions owed, without the application of actuarial calculation methods.
The portions paid to supplementary pension funds are recognised in the specific item, whilst the portions paid to the INPS fund are reclassified to the item “employee termination indemnities” by convention.
- > “**a defined-benefit plan**” for the portion of termination indemnities accrued to personnel through 31 December 2006, which is thus recognised on the basis of the actuarial value of the expected future benefit, determined according to the “**Projected Unit Credit**” method”.

According to this method, the amount already accrued is to be increased by the unit amount accrued annually (current service cost) projected into the future through the date of expected termination of employment then discounted to the reference date. The unit amount accrued is also determined on the basis of the employee’s entire expected working life.

In the specific case, however, the past liability is assessed without pro-rating past service because the service cost of the termination indemnity has already fully accrued. Accordingly, the annual accrual consists solely of the interest cost relating to the revaluation of the expected benefit due to the passage of time.

The rate used for discounting is determined by reference to market yields on high quality corporate bonds, taking into account the average time-to-maturity of the liability, and calculated using the percentage paid and expected to be paid for each contractual period compared to the total amount to be paid and expected to be paid until the final settlement of the entire obligation.

Considering that IAS 19R requires that the discount rate is to be determined by reference to the yields on “high-quality corporate bonds,” it was decided to use the index IBOXX Euro Corp, formed of AA series.

The plan’s service costs have been recognised amongst staff expenses under the item “provisions for post-employment benefits.”

Following the entry into force of IAS 19R from 1 January 2013, with the aim of improving financial statement comparability, it was decided to eliminate the option of adopting different treatments for **actuarial gains and losses** deriving from the assessment of the obligation, i.e., decreases or increases in liabilities deriving from changes in the parameters used for the actuarial assessment (change in the discount rate, estimate of expected staff turnover rates, salary increases, etc.).

In fact, changes in liabilities due to actuarial assessments are now required to be recognised in full in the other comprehensive income, and thus with a balancing entry to an equity reserve, net of the associated tax effect.

By contrast, in the previous accounting arrangement adopted by the Bank the above item was recognised in the profit and loss account according to the corridor method, i.e., the amount of cumulative actuarial gains/losses resulting at the end of the previous year in excess of 10% of the present value of the benefits generated by the plan.

The elimination of this method entailed an impact on the Bank’s net equity from the date of first-time application of the new Standard due to the recognition of actuarial gains or losses not previously booked in application of the corridor method. Finally, actuarial assessments of the provision are conducted net of the 11% substitute tax and 0.50% contribution, which are thus reclassified to the profit and loss account during the year of accrual under a specific item.

Productivity Bonuses for Salaried Employees

Pursuant to the first update to Circular Letter No. 262/05 of 18 November 2009, productivity bonuses to be paid to salaried employees during the following year are to be allocated to the item “Other liabilities.”

More specifically, in accordance with IAS 19 - *Employee Benefits*, the following are allocated to current liabilities:

- > the share of variable remuneration to be paid to managers and employees for which there are legal obligations that may be reliably estimated, such as bonuses relating to the supplementary company agreement, managerial bonuses associated with balance scorecards (MBO) and other individual incentive plans of a contractual nature, such as those for sales personnel and managers;

- > incentives not subject to contractual agreement for which there is objective evidence of their customary nature, giving rise to a constructive obligation for the bank.

For these items, a reliable estimate has been prepared of the expense owed to staff under the formal conditions of the individually assigned incentive plans and the probability that the quantitative and qualitative targets set out therein will be met.

Pursuant to IAS 19, the Company also recognises among staff expense in the profit and loss account the following types of expenses that do not constitute certain short-term liabilities and thus have the item for provisions for liabilities and contingencies as their balancing entry in equity:

- > the share of the variable remuneration of managers of the Banking Group deferred up to two years, and conditional upon the satisfaction of the access gates requirements established in the Banking Group's new remuneration policy;
- > the long-term incentive plans authorised by the parent company Assicurazioni Generali for the benefit of the Group's top managers and adopted by Banca Generali's Board of Directors, analysed in greater detail in the following paragraph.

By contrast, it was determined that the requirements set forth in IAS 19 had not been met in the following cases:

- > incentives for employees that have yet to be formally defined at the date of approval of the financial statements and are of a non-customary nature;
- > provisions for post-employment medical benefits of Group executives;
- > allocations intended to support company restructuring and reorganisation plans and other expenses associated with the classification of staff still to be determined at the date of authorisation of publication of the financial statements.

Such expenses are therefore attributed in their entirety to the item for provisions for liabilities and contingencies.

Expenses functionally related to staff

In accordance with IAS 19, under item 150 a) Staff expenses are recognised exclusively costs representing remuneration for professional services rendered, thus excluding those representing pure reimbursement of the expenses incurred by the employee for the benefit of the enterprise in the performance of professional activity.

Accordingly, indirect expenses functionally related to activity performed by staff are recognised under item 150 b) Other general and administrative expenses. Such expense also include:

- a) documented, specific reimbursements of the costs of room and board incurred by employees during business trips;
- b) documented, specific mileage reimbursements, calculated on the basis of rates recognised as valid (e.g., Automobile Club d'Italia) and the mileage actually travelled;
- c) costs of check-ups conducted when staff are hired and the costs of compulsory examinations of staff required by law.

By contrast, amongst other items, the costs of professional refresher courses for employees continue to be recognised under staff expenses.

Recognition of revenues and costs

Revenues are recognised when they are realised or when it is probable that the related future benefits will be received and such benefits can be reliably measured. More specifically:

- > interest payable is recognised on a pro-rated basis according to contractual interest rate, or the effective interest rate if amortised cost is used;
- > default interest accrued on the basis of contractual terms is recognised in the profit and loss account only when received;
- > dividends are recognised in the profit and loss account when dividend payout is approved;
- > service revenue commissions are recognised, on the basis of the existence of contractual agreements, during the period in which the services in question are rendered; in further detail, trading commissions on securities trading are recognised when the service is rendered. Portfolio management, advisory and mutual fund management commissions are recognised according to the length of the service. Commissions considered among amortised cost for the purposes of determining the effective interest rate are excluded and are recognised among interest.

Costs are taken through profit or loss during the periods in which the associated revenues are recognised. If the above matching can only be done generally or indirectly, then the costs are allocated to more than one accounting period according to rational procedures and on a systematic basis. Those costs that cannot be matched with the related revenues are immediately taken through profit and loss.

Calculation of impairment losses

Impairment losses of financial assets

At each reporting date, in accordance with IFRS 9, financial assets other than those at fair value through profit or loss are tested for evidence that their carrying amounts may not be fully recoverable. Similar tests are also performed for loan commitments and guarantees issued that come within the scope of impairment testing pursuant to IFRS 9.

Where such evidence of impairment exists, the financial assets in question are considered impaired and included in stage 3, along with all remaining assets associated with the same counterparty, if any. Such exposures, represented by financial assets classified, in accordance with Bank of Italy Circular No. 262/2005, as bad loans, unlikely-to-pay loans and exposures past due by more than 90 days must be accounted for by recognising impairment losses equivalent to the expected losses over their entire residual lifetimes.

Impairment losses of performing financial assets

For financial assets for which there is no evidence of impairment (performing financial instruments), it must be verified whether there are any indicators that the credit risk associated with each transaction has increased significantly with respect to initial recognition. The consequences of this assessment, from the standpoint of classification (or, to be more precise, “staging”) and measurement, are as follows:

- > where such indicators exist, the financial asset is classified as stage 2. In such cases, in accordance with international accounting standards, and despite the absence of a manifest decline in value, measurement involves recognising impairment losses equal to the expected losses over the financial instrument’s entire residual lifetime;
- > where such indicators do not exist, the financial asset is classified as stage 1. In such cases, in accordance with international accounting standards, and despite the absence of a manifest decline in value, measurement involves recognising impairment losses equal to the expected losses for the specific financial instrument over the following twelve months.

Such impairment losses are revised on each subsequent reporting date to verify periodically that they are consistent with constantly updated loss estimates and to take account of the changed forecasting period for calculating expected loss, in the event of changes in indicators signalling “significantly increased” credit.

With regard to the tracking of credit quality, in accordance with the provisions of the Standard and the Supervisory Authority’s instructions as to how to apply the Standard in the case of less significant institutions, a detailed analysis was conducted for each relationship, whether in the form of a security or a loan.

To identify whether there has been a “significant deterioration” of credit quality since initial recognition and there is thus a need for classification to stage 2 and, vice versa, whether the conditions have been met for reclassification from stage 2 to stage 1, it has been decided to make a comparison, at each reporting date, between the credit quality of the financial instrument at the time of measurement and at the time of initial disbursement or purchase (stage assignment).

In view of the above, the factors that will be decisive when determining transitions between the various stages are as follows:

- > a change in rating class with respect to the moment of initial recognition of the financial asset. In other words, this is an assessment according to a “relative” criterion;
- > the presence of a position past due by at least 30 days. Where such positions exist, in other words, the credit risk of the exposure is presumed to have increased significantly and the position is thus reclassified to stage 2;
- > the presence of forbearance measures, which entail the classification of the exposure as among those whose credit risk has “significantly increased” with respect to initial recognition.

Some particular considerations apply to the staging of securities. In the case of this type of exposure - as opposed to loans - purchase transactions following an initial purchase of securities with the same ISIN may be a customary part of ordinary management of such positions (resulting in the need to establish an approach to identify sales and redemptions to determine the residual balances of individual transactions with which to associate a credit quality/rating upon origination to be compared with that as at the reporting date). The “first-in-first-out” (“FIFO”) method has thus been deemed to contribute to more transparent management of the portfolio, including from the standpoint of front-office personnel, thus also permitting assessments of creditworthiness to be updated constantly on the basis of new purchases.

Finally, Banca Generali has adopted the low credit risk exemption provided for in IFRS 9 for certain financial assets, namely debt instruments issued by governments and public administrations. Accordingly, exposures that are rated investment grade or above as at the reporting date will be deemed low credit risk exposures and thus classified to stage 1.

Once exposures have been allocated to the various credit risk stages, expected credit losses (ECLs) are determined for each transaction or tranche of a security, on the basis of the parameters of probability of default (PD), loss given default (LGD) and exposure at default (EAD).

The measurement of financial assets also reflects the best estimate of the effects of future conditions - above all those of the economic context - with an impact on forward-looking PD and LGD.

Impairment losses of non-performing financial assets

Non-performing loans classified to the bad loan category are measured as follows:

- > individual measurement of all exposures classified as bad loans;
- > individual measurement of all exposures classified as unlikely-to-pay (UTP) and past-due of amounts in excess of 10 thousand euros and secured positions under 10 thousand euros;

- > statistical measurement for all positions classified as unlikely-to-pay (UTP) and past-due below the above thresholds.

Individual measurement is performed by managers on individual positions on the basis of a qualitative and quantitative analysis of the debtor's financial performance and position, the risk level of the credit relationship and any mitigating factors (guarantees), while also taking account of the financial effect of the time estimated to be necessary for recovery.

In the case of bad loans in particular, significance is attached to a series of elements - present to varying degrees depending on the characteristics of the positions - to be assessed as thoroughly and prudently as possible, including, but not limited to:

- > the nature of the claim, i.e., preferred or unsecured;
- > the net assets of the obligors/third party guarantors;
- > the complexity of ongoing or potential litigation and/or the underlying legal matters;
- > exposure of obligors to the banking system and other creditors;
- > most recent available financial statements;
- > legal status of obligors and pending insolvency and/or individual procedures.

Statistical assessments are conducted on the basis of the parameters set out in the ECB guidelines. Residual exposures of amounts beneath a predetermined threshold are written off.

The financial effect of time (time value) is not taken into account for exposures classified as past due by more than 90 days due to the high frequency of return to performing status in the short term.

Contributions to deposit guarantee systems and resolution mechanisms

Through Directives 2014/49/EU of 16 April 2014 and 2014/59/EU of 15 May 2014, respectively the "Deposit Guarantee Schemes Directive (DGSD)" and "Bank Recovery and Resolution Directive (BRRD)" and the institution of the Single Resolution Mechanism (Regulation (EU) No. 806/2014 of 15 July 2014), European lawmakers made significant changes to the rules concerning banking crises with the strategic aim of strengthening the single market and ensuring systemic stability. As illustrated in further detail below, the above legislative changes had a significant impact on financial performance and financial position as a result of the obligation to establish specific funds with financial resources that must be provided by contributions from financial institutions starting in 2015.

Contributions deriving from the Deposit Guarantee Schemes Directive (DGS)

Directive 2014/49/EU, effective as of 3 July 2015, harmonises the levels of protection offered by national deposit guarantee schemes (DGSs) and their methods of intervention, with the aim of eliminating possible competitive disparities within the European market. To that end, the Directive provides that national DGSs (in Italy, the Interbank Deposit Protection Fund or FITD) must endow themselves with means commensurate to the deposits protected, which must be provided through mandatory contributions from financial institutions. The new element for Italian banks is the new mechanism for financing the fund: the previous after-the-fact contribution system, in which funds were requested in case of need, has been replaced by a mixed system, in which funds must be paid in advance, so as to reach, within ten years of the entry into force of the Directive (3 July 2024), a minimum target level of **0.8% of the deposits guaranteed**.

The contributions from each entity are calculated as a function of the ratio of the amount of own deposits to the total protected deposits in the country.

Article 10 of Directive 2014/49/EU provides that contributions are to be paid by banks with at least annual frequency.

In its extraordinary meeting of 26 November 2015, the FITD then amended its Articles of Association to comply with the new contribution rules and regulatory framework.

The Directive was then transposed into Italian law through Legislative Decree No. 30/2016.

Contribution charges deriving from the Bank Recovery and Resolution Directive (BRRD)

Directive 2014/59/EU establishes the new resolution rules, applicable from 1 January 2015 to all European Union banks in a state of current or prospective default. These rules, which introduce the "bail-in" principle, require, under certain circumstances, that funding for resolution may also be supported by a national resolution fund instituted by each of the 28 European Union Member States and managed by a national resolution authority.

To that end, the Directive provides that the national resolution funds be endowed with financial means provided through mandatory advance contributions from authorised financial institutions.

In particular, the funds are to be paid in advance until reaching a minimum target level, over a period of ten years, i.e. by 31 December 2024, **of 1% of guaranteed deposits**³.

³ Also in this case, in order to achieve the target level, the financial means provided by the credit institutions may include payment commitments up to a maximum of 30%.

The contributions from each entity are calculated as a function of the ratio of its total eligible liabilities, i.e., net of own funds and the guaranteed deposits, to the total liabilities of all authorised financial institutions in the country.

In this context, on 16 November 2015 Legislative Decrees 180/2015 and 181/2015 were enacted, introducing the National Resolution Fund into the Italian legal order and assigning the Bank of Italy the role of National Resolution Authority.

In particular, Articles 78 and following of Legislative Decree 180/15 provide that such funds are to be financed by, among other sources:

- a) ordinary contributions paid on an annual basis in the amount determined by the Bank of Italy in accordance with Directive 2014/59/EU (Article 103) and commensurate for the purposes of reaching the fund's target funding level;
- b) extraordinary contributions when ordinary contributions are insufficient to cover losses, costs or other expenses incurred to achieve resolution objectives, up to an amount of three times annual average ordinary contributions.

The new European Single Resolution Fund (SRF) provided for in Regulation No. 806/2014, instituting the Single Resolution Mechanism (SRM) and managed by a new European resolution authority, formed within the ECB (Single Resolution Board – SRB), began to function on 1 January 2016.

From 1 January 2016 to 31 December 2023 (a period of eight years), the Single Resolution Fund must reach a target level of means of at least 1% of the amount of the protected deposits of all authorised entities in the banking union. The contribution rules for the period 2016-2023 are established in Article 8 of Implementing Regulation 81 of 2015.

Accordingly, the banks of Member States of the Banking Union (including Italian banks) contributed to the National Resolution Fund in 2015 and contributed to the Single Resolution Fund starting in 2016 (until 2023). During the initial period, when calculating each institution's individual contributions, this transfer will be taken into account.

Accounting treatment of contribution charges deriving from the BRRD and DGSD

The accounting and reporting treatment applicable to contributions to resolution funds was the subject of the Bank of Italy's notice dated 20 January 2016, as well as of a notice dated 25 January 2017 specifically relating to "Additional contributions to the national resolution fund".

Similar conclusions were reached by ESMA in its Opinion 2015/ESMA/1462 "Application of the IFRS requirements in relation to the recognition of contributions to Deposit Guarantee Schemes in IFRS accounts" of 25 September 2015 with regard to non-reimbursable cash contributions to be paid in advance into deposit guarantee funds.

For financial reporting purposes, reference should be made to IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets* and the Interpretation IFRIC 21 - *Levies*, which entered into force on 1 January 2015.

The Interpretation concerns the accounting treatment of a liability for a levy where the liability falls within the scope of application of IAS 37.

As defined in IFRIC 21, "a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation".

Obligations to contribute to the National Guarantee Fund, in both ordinary and extraordinary form, are imposed by legislation, and thus fall within the scope of "levies" as defined in IFRIC 21.

IAS 37 and IFRIC 21 provide that a liability must be recognised when the obligating event that gives rise to a present obligation occurs. Since the decree does not provide for contributions to be reduced or refunded to intermediaries, in whole or in part, whenever the obligating event occurs the liability relating to the contributions in question must be recognised for the full amount.

Since it is not possible to account for the liability through either an intangible asset pursuant to IAS 38 or a prepayment asset, the contributions must be recognised in profit and loss.

In this regard, the Bank of Italy has clarified that the item to which to classify such contributions, which for accounting purposes may be regarded as levies, is sub-item 150 b "General and administrative expense – other general and administrative expense" of the profit and loss account in the separate financial statements (item 180 b) of the consolidated financial statements), which is also used to account for the indirect levies and taxes (paid and unpaid) accrued during the year.

Business combinations

Business combinations are regulated by the IFRS 3 - *Business Combinations*.

Based on this standard, any acquisition of companies is accounted for using the purchase method, whereby the assets, liabilities, and contingent liabilities of the acquired company are recognised at fair value on the acquisition date. Any positive difference of the price paid over fair value is recognised as goodwill or other intangible assets; if the price is less, the difference is recognised in the Profit and Loss Account.

The purchase method is applied as of the acquisition date, i.e. from the time effective control of the acquired company is obtained. Accordingly, the results of subsidiaries acquired during the year are included in the Consolidated Financial Statements from the date of acquisition. Also the profit and loss results of a subsidiary which has been disposed of are included in the Consolidated Financial Statements, up to the date control is transferred.

Business combinations of entities under common control are not included in the scope of IFRS 3, nor are they covered by other IFRS. They are accounted for in accordance with IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*.

The IASs/IFRSs provide specific guidelines for transactions not covered by IFRS (described in paragraphs 10-12 of IAS 8); according to these guidelines, management is encouraged to consider the most recent pronouncements of other regulatory bodies that use a similar conceptual framework to define accounting standards.

In fulfilment of this requirement, we observed that the Financial Accounting Standards Board (FASB) has published an accounting standard regarding business combinations (FAS 141) that in some respects is similar to IFRS 3. Unlike IFRS 3, however, FAS 141 includes an appendix containing limited accounting guidelines for transactions under common control that were previously included in the Accounting Principles Board's (APB) Opinion 16. According to the pooling of interest method, for this type of transaction the assets and liabilities of business combinations are stated at historical (book) value instead of fair value, and goodwill is not recognised.

This solution was essentially adopted at national level by Assirevi, with documents OPI No. 1R on the accounting treatment of business combinations of entities under common control, and OPI No. 2R on the accounting treatment of mergers.

Intra-group combinations or other combinations of entities under common control within the Banca Generali Group are therefore accounted for based on the book value of the entity transferred. Any difference between the consideration paid for the acquisition of the equity interest and the book value of the entity transferred (goodwill) is deducted from the net equity of the acquirer, and the transaction is classified as an extraordinary distribution of reserves.

In a similar way, if an entity is disposed of, the amount received is directly recognised in an equity reserve, as it is a capital contribution by other companies of the Group to which it belongs.

Part A.4 – Information on fair value

With the introduction of IFRS 13, the definition of **fair value** has been modified with respect to IAS 39, in view of a more market-based approach.

According to the new standard, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value is thus not an entity-specific measurement, but rather a market-based measurement.

In detail, measurement at fair value:

- > presumes that the asset or liability is exchanged in an orderly transaction between market operators under current market conditions;
- > refers to a particular asset or liability and must take account of the characteristics of the asset or liability that market participants take into account when pricing the asset or liability;
- > assumes that market participants act in their economic best interest;
- > assumes that the sale of the asset or the transfer of the liability takes place:
 - a. in the principal market for the asset or liability; or
 - b. in the most advantageous market, in the absence of a principal market.

Fair value hierarchy

International accounting standard IFRS 13 requires that financial assets be classified according to a hierarchy of levels (the “fair-value hierarchy”) that reflects the significance of the inputs used in valuation.

- > **Level 1:** quoted prices in active markets, as defined in IFRS 13, for identical instruments;
- > **Level 2:** inputs other than the price quotations indicated above, observable on the market either directly (prices) or indirectly (price-derived data) (Level 2);
- > **Level 3:** inputs not based on observable market data.

For the purposes of the fair value hierarchy, inputs may thus be classified as:

- > **observable**, when the information used in the measurement techniques is based on market data obtained from sources independent of the Bank and available on the market;
- > **unobservable**, when they reflect assumptions by the Bank reached by drawing on the best available information in such circumstances.

Valuation criteria of the fair value of financial instruments

In 2010, Banca Generali adopted its Fair Value Policy, which sets out the procedures for measuring the fair value of financial instruments and entrusts responsibility for the measurement process to the Finance Department and review and validation of the data to the Risk Management Service.

The procedure lays down a decision-making process aimed at identifying the best measurement method in the context of the classification of available price sources in the three levels of the fair-value hierarchy.

The fair value of financial instruments is determined through the use of prices obtained from capital markets, if the instruments are quoted on active markets (the mark-to-market policy) or through the use of valuation procedures for other financial instruments (the mark-to-model policy), based on the analysis of recent transactions involving similar instruments (comparable approach) or, failing the latter, on valuation models.

When determining a financial instrument's fair value, it is thus fundamental to verify whether the market on which that instrument is traded may be considered active, i.e., whether the quoted prices observed represent actual, regular market transactions undertaken during a normal reference period and are promptly and regularly available through exchanges, intermediaries, brokers, industry companies, quotation services and other authorised entities.

Equity securities, exchange-traded funds (ETFs), government bonds listed on regulated markets and financial derivatives listed on regulated markets are normally considered to be listed on an active market that meets the foregoing requirements.

However, quotation on a regulated or official market does not in itself guarantee the presence of significant prices owing to the limited, sporadic nature of transactions (illiquid securities) on certain securities exchanges, such as that of Luxembourg, whereas there are market types that are unregulated yet show significant daily exchanges in terms of volumes that are suitable to providing prices on an ongoing basis.

Accordingly, most bonds are considered listed on an active market if objective parameters such as the following may be observed:

- > an adequate number of counterparties that presents a minimum number of executable ask and bid offers;
- > a spread between the ask and bid price that falls within an interval deemed appropriate; and
- > continuity of quotations on both sides of the market.

For financial instruments listed on active markets, the current bid price is used for financial assets and the current ask price for financial liabilities.

For equity securities, ETFs and government bonds listed on regulated markets, for which the bid-ask spread is not material, the official closing price for the last trading day is also used.

A.4.1 Fair value Level 2 and Level 3: valuation techniques and inputs used

Financial instruments measured at fair value on a recurring and non-recurring basis

For securities not listed on active markets, the procedure calls for the analysis of:

1. prices of similar instruments quoted on active or inactive markets; and
2. inputs other than quotations observable directly or indirectly on the market.

The first category includes bonds that do not meet the price significance requirements for classification as listed on an active market but for which it is determined that there is:

1. a single contributor on a regulated market or exchange system capable of providing a fair, binding price at the measurement date;
2. a consensus pricing mechanism capable of determining the fair value, for example:
 - Bloomberg Bondtrade Composite (CBBT/BBT), which provides prices constructed as the average of the most recent executable prices;
 - Bloomberg Generic Number (BGN), which represents Bloomberg's market consensus price and is calculated using the prices contributed to Bloomberg;
 - Markit European ABS, a consensus platform for measuring ABS-type instruments;
3. a reference to current market values of other essentially identical or similar instruments.

UCITS not listed on regulated markets are usually not considered listed on active markets and are valued at the unit value (NAV) at the end of the period in question.

Since it is impossible or inappropriate to use the comparable approach for OTC financial derivatives, the Group uses widespread valuation techniques commonly used by financial operators, including:

- > the analysis of discounted cash flows;
- > option pricing models.

Lastly, the class L3 of financial instruments measured according to non-observable market parameters includes securities measured according to prices and market data obtained from brokers.

Level 3 also includes certain financial instruments measured at cost in the absence of reliable estimates of fair value. These consist mainly of "minor equity investments" in companies with which the Group has service relationships, and disposal of which is not conceivable (CSE, GBS Caricese, SWIFT, etc.).

Other financial assets and liabilities not measured at fair value on a recurring basis

The fair value and hierarchical classification of financial assets other than debt securities, equity securities and units of UCITS, as well as of financial and operating receivables classified amongst loans to banks and customers, are determined as follows.

On-demand and uncommitted financial assets and financial assets with residual lives of less than one year

The fair value of this class of assets, which essentially consists of uncommitted current account exposures, on-demand deposits or short-term time deposits, as well as operating receivables, is not believed to differ significantly from its carrying amount. Considering that the measurement process does not contemplate significant unobservable inputs, such instruments are typically classified as L2.

Assets with fixed contractual lives included in the financial portfolio

This class of assets consists primarily of medium- or long-term mortgages or loans with financial instruments as collateral.

The fair value of loans with amortisation schedules is calculated according to a discounted cash flow model that calls for the cash flows expected on the basis of the contractual amortisation schedule to be discounted at the proper rate for the risks associated with the instrument. This correction consists of a spread to be added to the risk-free discount rate for the cash flows.

The spread in question is to be defined in such a way as to include the following components of risk:

- > the cost of credit risk (the cost of covering expected losses in relation to credit risk);
- > the cost of funding (the cost of funding positions);
- > the cost of capital (the cost of covering unexpected losses in relation to credit risk);
- > operating costs (any other costs, specific to the type of loan, that are to be considered in the exit price).

The cost of credit risk is calculated on the basis of multi-period historic PDs related to the rating of the counterparty in the transaction and the LGD specific to the type of instrument.

Loans with a fixed contractual maturity are classified to Level 3 of the fair value hierarchy, in consideration of the significant presence of unobservable inputs (spreads determined on the basis of internal PD and LGD).

Non-performing loans

When bad loans and substandard loans are separately assessed, their book value is believed to be a reasonable approximation of their fair value.

Such loans are classified to Level 3 of the fair value hierarchy.

Other financial liabilities

Financial liabilities classified as amounts due to customers and banks consist mainly of on-demand current account deposits, short-term time deposits and operating payables.

Such liabilities also include repurchase agreements that are set to mature within the year and, in the case of interbank funding, fully collateralised, with the determination of daily margins of change.

Such financial liabilities are subject to fair value measurement criteria similar to those applied to other on-demand or uncommitted financial assets.

A.4.2 Processes and sensitivity of measurements

For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the new standard IFRS 13 requires a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement.

The unobservable inputs capable of affecting the measurement of instruments categorised within Level 3 consist mainly of estimates and assumptions underlying the models used to measure investments in equities and other UCITS. For such investments, no quantitative analysis has been prepared of the sensitivity of the fair value to changes in unobservable inputs, given that the fair value either has been drawn from third sources without any adjustments or is the result of a model, the inputs to which are specific to the entity subject to measurement (for example, the company's asset values) and for which the use of alternative values is not reasonably feasible.

The case in question does not apply to Level 3 financial instruments classified as assets measured at OCI and FV-OCI. The reader is referred to the detailed analysis of individual positions provided in the subsequent section concerning quantitative information.

A.4.3 Fair value hierarchy

The new IFRS 13, recalling the contents of IFRS 7, requires that entities that apply IASs/IFRSs make adequate disclosure of the fair value measurements used for each class of financial instruments, and in particular:

1. the level in the fair value hierarchy into which the fair value measurements are categorised, segregating instruments belonging to different categories;
2. any significant transfers between Level 1 and Level 2 during the year;
3. for instruments measured in Level 3, a reconciliation from the beginning balances to the ending balances, disclosing separately changes in profit and loss (in the Profit and Loss Account and net equity), purchases and sales, and transfers out of Level 3 due to the use of market data.

Transfers between levels refer to the end of the accounting period of reference (half-yearly or annual), in an independent manner, and generally enter into effect from the beginning of the year of reference.

Transfers to and from Level 3 are infrequent and primarily involve the occurrence of situations of default in which the Bank's subjective assessment of the recoverability of the debt takes pre-eminence.

A.4.4 Other information

No cases envisaged in IFRS 13, paragraphs 48, 93(i) and 96, occur in these Financial Statements.

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 fair-value levels

ASSETS/LIABILITIES AT FAIR VALUE	31.12.2018				TOTAL
	L1	L2	L3	AT COST	
1. Financial assets measured at fair value through profit or loss (FVTPL)					
a) HFT financial assets	958	32,929	-	-	33,887
b) financial assets designated at fair value	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	903	53,512	2,338	-	56,753
2. Financial assets measured at fair value through other comprehensive income	1,966,451	11,863	214	8,787	1,987,315
3. Hedging derivatives	-	-	-	-	-
4. Property and equipment	-	-	-	-	-
5. Intangible assets	-	-	-	-	-
Total	1,968,312	98,304	2,552	8,787	2,077,955
1. HFT financial liabilities	-	384	-	-	384
2. Financial liabilities designated at fair value	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-
Total	-	384	-	-	384

ASSETS/LIABILITIES MEASURED AT FAIR VALUE	31.12.2017				TOTAL
	L1	L2	L3	AT COST	
1. Financial assets measured at fair value through profit or loss (FVTPL)					
a) HFT financial assets	3,922	36,426	9,466	-	49,814
b) financial assets designated at fair value	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	4,558,493	46,128	792	7,315	4,612,728
3. Hedging derivatives	-	-	-	-	-
4. Property and equipment	-	-	-	-	-
5. Intangible assets	-	-	-	-	-
Total	4,562,415	82,554	10,258	7,315	4,662,542
1. HFT financial liabilities	128	78	-	-	206
2. Financial liabilities designated at fair value	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-
Total	128	78	-	-	206

At the reporting date, Banca Generali's portfolios at fair value, i.e., the portfolio of assets and liabilities held for trading and the portfolio of financial assets measured at fair value through other comprehensive income (HTCS), comprised 94.7% of financial assets eligible for allocation to class L1, with an unchanged ratio compared to the previous year. L1 is mainly comprised of Italian government bonds (1,723.5 million euros), which decreased compared to the previous year (-2.7 million equal to -61.0%). It also includes other debt securities (230.8 million euros) chiefly referring to credit sector (147.7 million euros), and equities listed on Italian and European regulated markets (0.9 million euros).

The financial assets allocated to the L2 class, on the other hand, consist primarily of UCITS not listed on regulated markets (32.8 million euros), including an interest in the Sicav SIF Tyndaris, a closed-end fund that invests in subordinated financial assets linked to the real estate market, as well as of unit-linked policies that, due to failing the SPPI Test, have been reclassified among assets at FV-OCI. In addition, the L2 portfolio includes bonds of Italian banks and banks of the main Eurozone countries (41.5 million euros) and derivative financial assets and liabilities consisting solely of currency outright, valued on the basis of observable market parameters.

In the reporting year, no significant transfers of financial assets were performed between class L1 and class L2.

A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (level L3)

	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
	TOTAL FINANCIAL ASSETS	OF WHICH: A) HFT FINANCIAL ASSETS	OF WHICH: B) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	OF WHICH: C) OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE	
1. Amount at year-start	9,636	-	-	9,636	7,937
2. Increases	3,202	-	-	3,202	1,492
2.1 Purchases	2,312	-	-	2,312	1,492
2.2 Gains through:	96	-	-	96	-
2.2.1 Profit and loss	96	-	-	96	-
- of which: capital gains	-	-	-	-	-
2.2.2 Net equity	X	X	X	X	-
2.3 Transfers from other levels	794	-	-	794	-
2.4 Other increases	-	-	-	-	-
3. Decreases	10,500	-	-	10,500	428
3.1 Disposals	9,562	-	-	9,562	21
3.2 Redemptions	-	-	-	-	407
3.3 Losses through:	938	-	-	938	-
3.3.1 Profit and loss	938	-	-	938	-
- of which: capital losses	938	-	-	938	-
3.3.2 Net equity	X	X	X	X	-
3.4 Transfers to other levels	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-
4. Amount at year-end	2,338	-	-	2,338	9,001

L3 financial assets in the portfolio of Other financial assets mandatorily measured at fair value consist of two capital contributions to the FITD Voluntary Scheme:

- > the first, made in December 2017, and originally amounting to 1,053 thousand euros, for the purchase of the junior tranche and a portion of the mezzanine tranche of the securitisation of the Caricesena NPLs as part of the second rescue intervention for this latter bank. This contribution, already written down by 883 thousand euros at the end of 2017, was subject to a further impairment loss at the end of 2018, thus reaching a value of 121 thousand euros;
- > the second, made in December 2018 for the Banca Carige intervention, for a contribution of 2,312 thousand euros. At year-end this contribution was written down by 95 thousand euros, resulting in a closing balance of 2,217 thousand euros.

The considerable decline in other financial assets mandatorily measured at fair value level L3 compared with the previous year (-7.3 million euros) was due to the disinvestment in the first half of 2018 from Quarzo 1, a residential mortgage securitisation programme (RMBSs) originated by Mediobanca and Morgan Stanley involving the assets of the Scarlatti Real Estate Fund, promoted by Assicurazioni Generali.

By contrast, L3 financial assets in the portfolio of Financial assets at fair value through other comprehensive income, for a total amount of 9,001 thousand euros, consist of:

- > the investment in the private-equity special purpose entity Athena Private Equity (0.2 million euros), which is currently in the course of liquidation and repayment, had already become impaired in previous years;
- > some equity investments continued to be measured at purchase cost, in the absence of reliable estimates of fair value. In detail:
 - a) the “minor investments” in companies with which the Bank has long-term service arrangements (CSE, GBS, Caricese, SWIFT, etc.) or commercial partnerships (Tosetti Value), for a total of 7.7 million euros. In 2018, in particular, the Tosetti Value investment was increased by approximately 1.1 million euros;
 - b) the contributions to film production ventures with Tyco film S.r.l., Fabula Pictures S.r.l., Eskimo S.r.l., already held in portfolio as of 1 January 2018, to which two were added in 2018, with the companies Zocotoco S.r.l. and Palomar S.p.A., for a total amount of about 1 million euros.

A.4.5.4 Breakdown by fair-value levels of assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis

FINANCIAL ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31.12.2018			
	BV	L1	L2	L3
1. Financial assets at amortised cost	6,174,298	3,509,405	1,725,126	875,023
2. Property and equipment held as investments	-	-	-	-
3. Non-current assets available for sale and disposal groups	-	-	-	-
Total	6,174,298	3,509,405	1,725,126	875,023
1. Financial liabilities at amortised cost	8,675,595	-	8,632,314	44,210
2. Liabilities associated to assets held for sale	-	-	-	-
Total	8,675,595	-	8,632,314	44,210

FINANCIAL ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31.12.2017			
	BV	L1	L2	L3
1. Financial assets at amortised cost	3,285,472	1,053,383	1,342,745	938,864
2. Property and equipment held as investments	-	-	-	-
3. Non-current assets available for sale and disposal groups	-	-	-	-
Total	3,285,472	1,053,383	1,342,745	938,864
1. Financial liabilities at amortised cost	7,879,779	-	7,836,510	45,656
2. Liabilities associated to assets held for sale	-	-	-	-
Total	7,879,779	-	7,836,510	45,656

Part A.5 – Disclosure about so-called “Day-one profit/loss”

IFRS 7, paragraph 28, governs the specific case in which, following the purchase of a financial instrument designated at fair value but not listed on an active market, the transaction price, which generally represents the best estimate of fair value at initial recognition, differs from the fair value according to the valuation technique used by the entity.

In this case, there is a valuation gain/loss upon acquisition of which adequate disclosure must be given by financial instrument class.

It should be noted that no such cases occur in the Financial Statements in question.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET⁴ ASSETS

Section 1 – Cash and deposits - Item 10

1.1 Breakdown of cash and deposits

ITEMS/VALUES	31.12.2018	31.12.2017
a) Cash	21,017	17,865
b) Demand deposits with Central Banks	991,874	545,632
Total	1,012,891	563,497

Item b) Demand deposits with Central Banks represents the portion of the balance of the settlement account held with the Bank of Italy that is not restricted according to the mandatory reserve rules.

Section 2 – Financial assets measured at fair value through profit or loss - Item 20

2.1 HFT financial assets: categories

ITEMS/VALUES	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	958	32,429	-	2,998	35,865	9,466
1.1 Structured securities	-	29,557	-	-	30,683	-
1.2 Other debt securities	958	2,872	-	2,998	5,182	9,466
2. Equity securities	1	-	-	799	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	959	32,429	-	3,797	35,865	9,466
B. Derivatives						
1. Financial	-	499	-	125	561	-
1.1 Trading	-	499	-	125	561	-
1.2 Related to the fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-
2.2 Related to the fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Total B	-	499	-	125	561	-
Total (A + B)	959	32,928	-	3,922	36,426	9,466

⁴ A more detailed analysis of the fair value hierarchy of financial instruments (L1, L2, L3) is given in Part A.4 of these Notes and Comments - Information on Fair Value

2.2 HFT financial assets: debtors/issuers/counterparties

ITEMS/VALUES	31.12.2018	31.12.2017
A. Cash assets		
1. Debt securities	33,387	48,329
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	32,383	37,892
d) Other financial companies	1,004	10,437
of which:		
- insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	1	799
a) Banks	-	1
b) Other financial companies	-	242
of which:		
- insurance companies	-	242
c) Non-financial companies	1	556
d) Other issuers	-	-
3. UCITS units	-	-
4. Financing	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which:		
- insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	33,388	49,128
B. Derivatives		
a) Central counterparties	-	-
b) Other	499	686
Total B	499	686
Total (A + B)	33,887	49,814

2.5 Other financial assets mandatorily measured at fair value: categories

ITEMS/VALUES	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	3,031	-	-	-	-
1.1 Structured securities	-	3,031	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	903	-	2,338	-	-	-
3. UCITS units	-	32,822	-	-	-	-
4. Financing	-	17,659	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	17,659	-	-	-	-
Total	903	53,512	2,338	-	-	-

2.6 Other financial assets mandatorily measured at fair value: debtors/issuers

ITEMS/VALUES	31.12.2018	31.12.2017
1. Equity securities	3,241	-
<i>of which:</i>		
- banks	-	-
- other financial companies	903	-
- other non-financial companies	2,338	-
2. Debt securities	3,031	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	3,031	-
d) Other financial companies	-	-
<i>of which:</i>		
- insurance companies	-	-
e) Non-financial companies	-	-
3. UCITS units	32,822	-
4. Financing	17,659	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	17,659	-
<i>of which:</i>		
- insurance companies	17,659	-
e) Non-financial companies	-	-
f) Households	-	-
Total	56,753	-

Upon FTA of the new accounting standard IFRS 9, the following were reclassified to the portfolio of financial assets mandatorily measured at fair value: equity securities and units of UCITS, mostly originating from the portfolio of financial assets available for sale (AFS), amounting to 46,128 thousand euros, debt securities previously measured at amortised cost that did not pass the SPPI test and a portfolio of investments in insurance policies in service of contractual obligations towards financial advisors, previously classified among loans to customers.

The **UCITS portfolio** included 22,414 thousand euros related to an interest of about 8% in Tyndaris European Real Estate Finance S.A. (TECREF), an alternative fund under Luxembourg law, which through the master/feeder fund invests in financial instruments linked to the European business real estate market, particularly in mezzanine instruments.

The residual UCITS portfolio is comprised for 4,127 thousand euros of the investment in the Luxembourg vehicle Algebris, for 6,024 thousand euros of the units of the Tenax Italian Credit Fund, managed by the Irish firm Tenax Capital Ltd., and for the remainder 257 thousand euros of investments in the fund BNP Paribas Bond Italy PMI, specialised in mini-bonds. In the first half of 2018, the units of sub-funds of Group's Sicav BG Selection Sicav were sold. At 31 December 2017, they amounted to 2,105 thousand euros.

In particular, **equity securities** include all equity investments in shares of the parent company, Assicurazioni Generali (903 thousand euros).

In addition, the fair value of the equity investment in Axelero was also reduced to zero during the year in view of a decline in credit quality, following the suspension of the company for trading on the AIM market and the commencement of the composition with creditors procedure (794 thousand euros).

In the equity securities portfolio also the capital contribution, in the original amount of 1,053 thousand euros, made to the Interbank Deposit Protection Fund (FITD) for the purchase of the junior tranche and a portion of the mezzanine tranche of the securitisation of the Caricesena NPLs, as part of the second rescue intervention for this latter bank, was reallocated. This contribution – already subject to an impairment loss of 883 thousand euros at the end of 2017 – became further impaired at the end of 2018, reaching a value of 121 thousand euros.

In December 2018 Banca Generali also participated in the new intervention by the Voluntary Scheme of the Interbank Deposit Protection Fund targeting Banca Carige aimed at subscribing for a Tier 2 subordinated convertible bond, paying a contribution of 2,312 thousand euros.

On 19 January 2019, the Interbank Deposit Protection Fund sent member banks a notice regarding the valuation of the financial assets held by the Voluntary Scheme indicating the fair value as at 31 December 2018 of the bond issued by Carige

subscribed by the fund, supported by an independent appraisal from an international consultancy firm. On the basis of this appraisal, an impairment loss of 95 thousand euros was recognised on this contribution to the Voluntary Scheme, bringing the final value of the investment to 2,217 thousand euros.

Section 3 – Financial assets measured at fair value through other comprehensive income - Item 30

3.1 Financial assets measured at fair value through other comprehensive income: categories

ITEMS/VALUES	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,966,451	11,863	-	4,557,000	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,966,451	11,863	-	4,557,000	-	-
2. Equity securities	-	-	9,001	1,493	-	8,107
3. Financing	-	-	-	-	-	-
UCITS units (Other financial assets mandatorily measured at fair value) (*)	-	-	-	-	46,128	-
Total	1,966,451	11,863	9,001	4,558,493	46,128	8,107

(*) This item is no longer considered, in accordance with the 5th update to Bank of Italy's Circular Letter No. 262 of 22 December 2017.

3.2 Financial assets measured at fair value through other comprehensive income: debtors/issuers

ITEMS/VALUES	31.12.2018	31.12.2017
1. Debt securities	1,978,314	4,557,000
a) Central Banks	-	-
b) Public administration bodies	1,736,525	4,465,316
c) Banks	156,790	55,649
d) Other financial companies	72,033	23,173
of which:		
- insurance companies	-	-
e) Non-financial companies	12,966	12,862
2. Equity securities	9,001	9,600
a) Banks	-	-
b) Other issuers:	9,001	9,600
- other financial companies	2,323	2,320
of which: insurance companies	-	699
- non-financial companies	6,671	7,273
- other	7	7
3. Financing	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which:		
- insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	1,987,315	4,566,600
UCITS units (Other financial assets mandatorily measured at fair value)	-	46,128

Following the entry into force of IFRS 9, the portfolio of financial assets at fair value through other comprehensive income consists solely of debt securities purchased within the hold to collect and sell (HTCS) business model that pass the SPPI test and equity securities measured at fair value without transfer of gains and losses on disposal to profit or loss.

Item “Debt securities” includes assets sold but not written off, which refer to own securities used in repurchase agreements amounting to 130,909 thousand euros. This item also includes securities committed in transactions on the collateralised interbank market managed by CC&G of 15,096 thousand euros.

The equity securities portfolio includes for 7,731 thousand euros “minor equity investments”, which are largely related to service agreements concluded by the Group (CSE, GBS Tosetti Value Sim, Caricese, SWIFT, etc.), usually non-negotiable. In the absence of reliable estimates of fair value, those interests are measured at purchase cost. In 2018 Banca Generali increased its equity interest in Tosetti Value Sim from 9.9% to 19.9% through an investment of 1,110 thousand euros.

This item also refers to capital contributions relating to joint film production ventures, without maturity, in connection with which two new contributions were made during the year with Palomar S.r.l. and Zocotoco S.r.l. for the production of the film “La vita segreta di Maria Capasso” in the total amount of 350 thousand euros. The contributions are covered by film tax credits and fully secured by collateral, and therefore have not become impaired. The total amount of the contributions in portfolio as at 31 December 2018 therefore amounted to 1,055 thousand euros.

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total adjustments

	GROSS VALUE				TOTAL ADJUSTMENTS			OVERALL PARTIAL WRITE-OFFS
	STAGE 1	OF WHICH: LOW CREDIT RISK INSTRUMENTS	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3	
Debt securities	1,968,677	-	12,875	-	3,074	164	-	-
Financing	-	-	-	-	-	-	-	-
Total at 31 December 2018	1,968,677	-	12,875	-	3,074	164	-	-
Total at 31 December 2017	4,554,939	-	2,061	-	-	-	-	-
<i>of which:</i>								
- <i>acquired or originated impaired financial assets</i>	X	X	-	-	X	-	-	-

In respect of the new model for measuring expected credit losses (ECLs) provided for in IFRS 9, as at 31 December 2018, collective reserves of 3,238 thousand euros had been recognised for the debt securities portfolio, of which 2,736 thousand euros relating to the portfolio of government securities.

Section 4 – Financial assets measured at amortised cost - Item 40

4.1 Financial assets measured at amortised cost: categories of loans to banks

TYPE OF TRANSACTIONS/VALUES	31.12.2018 - BOOK VALUE			31.12.2017 - BOOK VALUE		
	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED
A. Loans to Central Banks	82,714	-	-	67,617	-	-
1. Terms deposits	-	-	-	-	-	-
2. Mandatory reserve	82,714	-	-	67,617	-	-
3. Repurchase agreements	-	-	-	-	-	-
4. Other	-	-	-	-	-	-
B. Loans to banks	359,945	-	-	309,846	-	-
1. Loans	280,513	-	-	217,094	-	-
1.1 Current accounts and demand deposits	261,421	-	-	150,732	-	-
1.2 Term deposits	17,611	-	-	65,938	-	-
1.3 Other loans:	1,481	-	-	424	-	-
- repurchase agreements	-	-	-	-	-	-
- finance lease	-	-	-	-	-	-
- other	1,481	-	-	424	-	-
2. Debt securities	79,432	-	-	92,752	-	-
2.1 Structured securities	-	-	-	3,035	-	-
2.2 Other debt securities	79,432	-	-	89,717	-	-
Total (book value)	442,659	-	-	377,463	-	-

TYPE OF TRANSACTIONS/VALUES	31.12.2018				31.12.2017			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
A. Loans to Central Banks	82,714	-	82,714	-	67,617	-	67,617	-
B. Loans to banks	359,945	59,655	300,384	-	309,846	66,403	245,727	-
1. Loans	280,513	-	280,513	-	217,094	-	217,094	-
2. Debt securities	79,432	59,655	19,871	-	92,752	66,403	28,633	-
2.1 Structured securities	-	-	-	-	3,035	-	3,104	-
2.2 Other debt securities	79,432	59,655	19,871	-	89,717	66,403	25,529	-
Total	442,659	59,655	383,098	-	377,463	66,403	313,344	-

4.2 Financial assets measured at amortised cost: categories of loans to customers

TYPE OF TRANSACTIONS/VALUES	31.12.2018			31.12.2017		
	BOOK VALUE			BOOK VALUE		
	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED
1. Loans	2,145,129	36,815	-	1,854,415	72,450	-
1.1 Current accounts	968,638	17,269	-	851,523	43,846	-
1.2 Repurchase agreements	199,937	-	-	-	-	-
1.3 Mortgages	818,689	19,065	-	831,476	28,598	-
1.4 Credit cards, personal loans and loans on wages	-	6	-	-	6	-
1.5 Finance lease	-	-	-	-	-	-
1.6 Factoring	-	-	-	-	-	-
1.7 Other loans	157,865	475	-	171,416	-	-
2. Debt securities	3,549,689	6	-	981,144	-	-
2.1 Structured securities	13,206	-	-	13,545	-	-
2.2 Other debt securities	3,536,483	6	-	967,599	-	-
Total	5,694,818	36,821	-	2,835,559	72,450	-

TYPE OF TRANSACTIONS/VALUES	31.12.2018				31.12.2017			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1 Loans	2,181,944	-	1,321,145	860,723	1,926,865	-	961,523	924,755
2. Debt securities	3,549,695	3,449,750	20,883	14,300	981,144	986,980	20,983	14,085
2.1 Structured securities	13,206	-	-	14,300	13,545	-	-	14,085
2.2 Other debt securities	3,536,489	3,449,750	20,883	-	967,599	986,980	20,983	-
Total	5,731,639	3,449,750	1,342,028	875,023	2,908,009	986,980	982,506	938,840

Item 2.1 “Structured securities” refers to a 14.0 million euro convertible loan issued on 16 December 2015 by Tyndaris LLP, an English fund management company. The bond has a term of six years and may be converted into an interest in Tyndaris LLP at the end of the second year and at final maturity, in an amount not to exceed 2 million GBP at each maturity, and in any event, up to a maximum share of 9.9% of the partnership. The loan provides for an interest of 3% for the first two years and subsequently of 7.5%. The bond may be redeemed in advance by the issuer. A collective reserve amounting to about 1.4 million euros was allocated in relation with that position.

Item 2.2 “Debt securities” includes encumbered assets used as collateral for ECB refinancing operations totalling 218,974 thousand euros and certificates of deposit with Cassa di Compensazione e Garanzia amounting to 199,524 thousand euros.

Item 1.7 “Other loans” includes two operating receivables relating to the placement and distribution of financial and insurance products in the amount of 117,126 thousand euros, consisting solely of short-term receivables from managing companies and insurance companies belonging to the Generali Group, collected in the early months of the following year.

Breakdown of loans to customers - other transactions

TYPE OF TRANSACTIONS/VALUES	31.12.2018	31.12.2017
Other grants and pooled funding	4,567	13,516
Stock exchange interest-bearing daily margin	13,088	3,562
Sums advanced to Financial Advisors	19,395	34,376
Operating loans	117,126	112,333
Interest-bearing caution deposits	995	964
Amounts to be collected	3,169	6,665
Total	158,340	171,416

Pursuant to IFRS 15, paragraph 116 a), the previous table includes the opening and closing balances of receivables within the scope of IFRS 15 (operating receivables and fees receivable).

In reference to paragraph 118 of IFRS 15, the change in receivables during the year - which incidentally, was not material - was due to the Bank's normal operations and therefore is not attributable to changes due to business combinations, contractual amendments or changes in the time required for the right to the consideration to become unconditional.

Sums advanced to Financial Advisors listed on the Register of Financial Advisors include non-performing positions for a net amount of 1,147 thousand euros, largely attributable to advances to former financial advisors who have left service due to a dispute or pre-dispute.

4.4 Financial assets measured at amortised cost: loans to customers - debtors/issuers

TYPE OF TRANSACTIONS/VALUES	31.12.2018			31.12.2017		
	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED IMPAIRED ASSETS	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED IMPAIRED ASSETS
1. Debt securities	3,549,689	6	-	981,144	-	-
a) Public administration bodies	3,426,594	-	-	859,578	-	-
b) Other financial companies	61,653	-	-	62,619	-	-
<i>of which:</i>						
- insurance companies	-	-	-	-	-	-
c) Non-financial companies	61,442	6	-	58,947	-	-
2. Loans	2,145,129	36,815	-	1,854,415	72,450	-
a) Public administration bodies	-	-	-	-	-	-
b) Other financial companies	377,368	6,719	-	166,267	6,901	-
<i>of which:</i>						
- insurance companies	29,444	-	-	20,458	-	-
c) Non-financial companies	305,543	19,573	-	416,022	35,033	-
d) Households	1,462,218	10,523	-	1,272,126	30,516	-
Total	5,694,818	36,821	-	2,835,559	72,450	-

4.5 Financial assets measured at amortised cost: gross value and total adjustments

	GROSS VALUE			TOTAL ADJUSTMENTS			OVERALL PARTIAL WRITE-OFFS	
	STAGE 1	OF WHICH: LOW CREDIT RISK INSTRUMENTS	STAGE 2	STAGE 3	STAGE 1	STAGE 2		STAGE 3
Debt securities	3,605,068	-	32,193	2,642	6,621	1,519	2,636	-
Loans	2,341,700	-	168,730	49,303	1,245	829	12,488	-
Total at 31.12.2018	5,946,768	-	200,923	51,945	7,866	2,348	15,124	-
Total at 31.12.2017	3,218,242	-	-	89,010	5,220	-	16,560	-
<i>of which:</i>								
- acquired or originated impaired financial assets	X	X	-	-	X	-	-	-

In respect of the new model for assessing expected credit losses (ECLs) provided for in IFRS 9, at 31 December 2018, performing loans measured at amortised cost classified to Stage 1 and Stage 2 are recognised net of the collective reserves for a total amount of 10,214 thousand euros, of which:

- > 8,140 thousand euros relating to the debt securities portfolio;
- > 2,074 thousand euros relating to other loans.

Within this item, losses on exposures to banks amounted to 396 thousand euros, of which 193 thousand euros on debt securities and 198 thousand euros on other loans.

By contrast, the provision for expected losses on debt securities refers to the government bond portfolio in the amount of 6,295 thousand euros.

The item relating to non-performing “Debt securities”, referring solely to the Alitalia bond known as “Dolce Vita”, and amounting to 2,642 thousand euros, was fully written off in 2017 due to the airline’s serious state of crisis, which resulted in a court declaration of the company’s insolvency and the commencement of the extraordinary administration procedure. In the third quarter of 2018, it was subject to a reversal of 6 thousand euros.

The amount of the provision for expected losses on trade receivables, measured in accordance with IFRS 9 5.5.15, is not material in view of the short-term nature of the exposures concerned, all of which were collected in full in the first few months of the following year.

Section 7 – Equity investments - Item 70

7.1 Equity investments: disclosure on type of relations

COMPANY NAME	REGISTERED OFFICE	OPERATING OFFICE	TYPE OF RELATION	SHAREHOLDING		% OF VOTING RIGHTS
				INVESTOR COMPANY	% HELD	
A. Subsidiaries under common control						
B. Companies subject to significant influence						
1. IOCA Entertainment Limited	United Kingdom - London	United Kingdom - London	Associate company	Banca Generali	35%	35%

Reference is made to IOCA Entertainment Ltd., a company based in the United Kingdom, in which Banca Generali subscribed a 35% interest, in the form of 3,500 shares with a par value of 1.00 pound sterling each, for a total of 1,616,125 pounds sterling, equivalent to approximately 2.2 million euros at the acquisition date, 19 October 2015. In accordance with the Shareholders’ Agreement, the company’s Board of Directors is composed of three Directors, one of whom is a senior manager of Banca Generali. The remaining 65% interest (6,500 shares) is held by the UK-based company IOCA Ventures Ltd. (Jersey), which is entitled to appoint the other two directors.

The company is an e-commerce/social-networking start-up currently engaged in the commercial development of an app for smartphones and tablets, named “dringle”. In 2018, the portion of loss for the year recognised by Banca Generali amounted to approximately 149 thousand euros, whereas the exchange differences on the equity investment in foreign currency amounted to 131 thousand euros.

7.4 Non significant equity investments: accounting information

COMPANY NAME	BOOK VALUE OF EQUITY INVESTMENTS	TOTAL ASSETS	TOTAL LIABILITIES	TOTAL REVENUES	PROFIT (LOSS) FROM CURRENT ACTIVITIES NET OF INCOME TAXES	PROFIT (LOSS) FROM OPERATING ACTIVITIES NET OF INCOME TAXES	NET PROFIT (LOSS) FOR THE YEAR (1)	OTHER INCOME COMPO-NENTS NET OF INCOME TAXES (2)	COMPRE-HENSIVE INCOME (3) = (1) + (2)
B. Companies subject to significant influence									
1. IOCA Entertainment Limited	1,661	637	24	-	-418	-	-418	-	-418
Total	1,661	637	24	-	-418	-	-418	-	-418

7.5 Equity investments: year changes

	31.12.2018	31.12.2017
A. Amount at year-start	1,820	1,988
B. Increases	-	-
B.1 Purchases	-	-
B.2 Reversals	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	159	168
C.1 Sales	-	-
C.2 Adjustments	149	151
C.3 Write-downs	10	17
C.4 Other changes	-	-
D. Amount at year-end	1,661	1,820
E. Total revaluations	-	-
F. Total adjustments	159	168

Section 9 – Property and equipment - Item 90

9.1 Operating property and equipment: assets valued at cost

ASSETS/VALUES	31.12.2018	31.12.2017
1. Owned assets	6,724	6,570
a) Land	-	-
b) Buildings	-	-
c) Furniture	5,464	5,033
d) Electronic equipment	264	411
e) Other	996	1,126
2. Acquired under finance lease	-	-
a) Land	-	-
b) Buildings	-	-
c) Furniture	-	-
d) Electronic equipment	-	-
e) Other	-	-
Total	6,724	6,570
- of which: obtained through the enforcement of guarantees received	-	-

9.6 Operating property and equipment: year changes

	LAND	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
A. Gross amount at year-start	-	-	23,676	5,528	9,256	38,460
A.1 Total net impairment	-	-	18,643	5,117	8,130	31,890
A.2 Net amount at year-start	-	-	5,033	411	1,126	6,570
B. Increases:	-	-	1,626	75	210	1,911
B.1 Purchases	-	-	1,626	75	210	1,911
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals	-	-	-	-	-	-
B.4 Fair value positive changes in:						
a) Net equity	-	-	-	-	-	-
b) Profit and Loss Account	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer of buildings held as investments	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases:	-	-	1,195	222	340	1,757
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	-	1,020	222	317	1,559
C.3 Adjustments for impairment in:						
a) Net equity	-	-	-	-	-	-
b) Profit and Loss Account	-	-	-	-	-	-
C.4 Fair value negative changes in:						
a) Net equity	-	-	-	-	-	-
b) Profit and Loss Account	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:						
a) property and equipment held as investments	-	-	-	-	-	-
b) non-current assets available for sale and disposal groups	-	-	-	-	-	-
C.7 Other changes	-	-	175	-	23	198
D. Net amount at year-end	-	-	5,464	264	996	6,724
D.1 Total net impairment	-	-	17,930	5,216	7,777	30,923
D.2 Gross amount at year-end	-	-	23,394	5,480	8,773	37,647
E. Valued at cost	-	-	5,464	264	996	6,724

Section 10 – Intangible assets - Item 100

10.1 Intangible assets: categories

ASSETS/VALUES	31.12.2018			31.12.2017		
	DEFINITE LIFE	INDEFINITE LIFE	TOTAL	DEFINITE LIFE	INDEFINITE LIFE	TOTAL
A.1 Goodwill	-	66,065	66,065	-	66,065	66,065
A.1.1 Attributable to the Group	-	66,065	66,065	-	66,065	66,065
A.1.2 Attributable to minority interests	-	-	-	-	-	-
A.2 Other intangible assets	29,045	-	29,045	25,745	-	25,745
A.2.1 Assets valued at cost:	29,045	-	29,045	25,745	-	25,745
a) Internally generated intangible assets	-	-	-	-	-	-
b) Other assets	29,045	-	29,045	25,745	-	25,745
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-	-
b) Other assets	-	-	-	-	-	-
Total	29,045	66,065	95,110	25,745	66,065	91,810

10.2 Intangible assets: year changes

	GOODWILL	OTHER INTANGIBLE ASSETS: INTERNALLY GENERATED		OTHER INTANGIBLE ASSETS: OTHER		TOTAL
		DEFINITE LIFE	INDEFINITE LIFE	DEFINITE LIFE	INDEFINITE LIFE	
A. Amount at year-start	66,065	-	-	58,612	-	124,677
A.1 Total net impairment	-	-	-	32,867	-	32,867
A.2 Net amount at year-start	66,065	-	-	25,745	-	91,810
B. Increases	-	-	-	11,042	-	11,042
B.1 Purchases	-	-	-	11,042	-	11,042
B.2 Increase of internal intangible assets	-	-	-	-	-	-
B.3 Reversals	-	-	-	-	-	-
B.4 Fair value positive changes in	-	-	-	-	-	-
- Net equity	-	-	-	-	-	-
- Profit and Loss Account	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	7,742	-	7,742
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	7,742	-	7,742
- Amortisation	-	-	-	7,742	-	7,742
- Write-downs	-	-	-	-	-	-
- Net equity	-	-	-	-	-	-
- Profit and Loss Account	-	-	-	-	-	-
C.3 Fair value negative changes in	-	-	-	-	-	-
- Net equity	-	-	-	-	-	-
- Profit and Loss Account	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net amount at year-end	66,065	-	-	29,045	-	95,110
D.1 Total net adjustments	-	-	-	40,609	-	40,609
E. Gross amount at year-end	66,065	-	-	69,654	-	135,719
F. Valued at cost	66,065	-	-	29,045	-	95,110

10.3 Other information

Breakdown of consolidated goodwill

	31.12.2018	31.12.2017
Prime Consult Sim e INA Sim	2,991	2,991
BG Fiduciaria Sim S.p.A.	4,289	4,289
Banca del Gottardo	31,352	31,352
Credit Suisse Italy	27,433	27,433
Total	66,065	66,065

Breakdown of intangible assets - other assets

	31.12.2018	31.12.2017
Charges associated with the implementation of legacy CSE procedures	10,713	8,137
Customer relationships (former Credit Suisse Italy)	12,480	13,632
Other software costs	7	-
Other intangible assets	102	710
Advance payments on intangible assets	5,743	3,266
Total	29,045	25,745

The consideration for the acquisition of the former Credit Suisse's business unit amounting to 44,712 thousand euros was allocated pursuant to IFRS 3 (PPA - Purchase Price allocation) for 17,280 thousand euros to intangible assets (Customer relationships) and 27,432 thousand euros to goodwill. The asset recognised for contractual relations on assets under management is the economic valuation of expected financial flows from this portfolio based on the profitability ratio and adequate impairment rates. A useful life of 15 years has been estimated for this asset.

Section 11 – Tax assets and liabilities - Item 110 (Assets) and Item 60 (Liabilities)

Breakdown of item 110 (Assets): tax assets

TYPE OF TRANSACTIONS/VALUES	31.12.2018	31.12.2017
Current taxation	81	776
Sums due for taxes to be refunded	78	483
IRES arising on National Tax Consolidation scheme	-	-
IRES	-	248
IRAP	3	45
Deferred tax assets	52,718	44,959
With impact on Profit and Loss Account	46,581	43,672
IRES	38,970	37,115
IRAP	7,611	6,557
With impact on Net Equity	6,137	1,287
IRES	5,318	1,167
IRAP	819	120
Total	52,799	45,735

Current tax assets and liabilities represent the positive or negative imbalance between the estimated income taxes due for the year and the associated tax credits due to overpayments in previous tax periods, prepayments made and amounts withheld.

In further detail, for Banca Generali current IRES (corporate income) tax assets and liabilities take the form of account receivable from or payable to, respectively, the consolidating entity, Assicurazioni Generali S.p.A. Due to Banca Generali's participation in Assicurazioni Generali's tax consolidation programme, the former's taxable profits or losses for IRES purposes, along with the tax credits to which it is entitled and sums withheld from it, are transferred to the consolidating entity, which then figures and pays the tax owed by the Group. The consolidating entity is also responsible for paying the taxes owed by or to the credit of the consolidated entity and requesting the associated prepayments.

Sums due for taxes to be refunded refer mostly to the excess IRES paid in years 2007-2011 due to the effect of the introduction, in accordance with Legislative Decree No. 201/2011, of the deductibility from that tax of the share of IRAP paid on the cost of labour. The account receivable was recognised on the basis of the provisions of the Order of the Director of the Italian Revenue Service of 17 December 2012, which governs the methods for presenting refund applications, and also takes the form of a positive entry in Assicurazioni Generali's tax consolidation programme.

Breakdown of item 60 (Liabilities): tax liabilities

TYPE OF TRANSACTIONS/VALUES	31.12.2018	31.12.2017
Current taxation	11,734	21,024
IRES arising on National Tax Consolidation scheme	6,893	2,592
IRES and other income taxes	4,543	15,051
IRAP	298	3,381
Deferred tax liabilities	6,284	14,540
With impact on Profit and Loss Account	5,200	2,731
IRES	4,565	2,375
IRAP	635	356
With impact on Net Equity	1,084	11,809
IRES	927	10,083
IRAP	157	1,726
Total	18,018	35,564

11.1 Breakdown of deferred tax assets

	31.12.2018	PURSUANT TO LAW NO. 214/2011	31.12.2017	PURSUANT TO LAW NO. 214/2011
With impact on Profit and Loss Account	46,581	8,107	43,672	8,107
Provisions for liabilities and contingencies	36,618	-	34,600	-
Write-downs of loans to customers before 2015	2,735	2,735	2,735	2,735
Redeemed goodwill (pursuant to Art. 15, para. 10, of Legislative Decree No. 185/2008)	3,024	3,024	3,024	3,024
Consolidated goodwill of BG Fiduciaria Sim (Art. 15, para. 10-ter)	1,379	1,379	1,379	1,379
Redeemed goodwill of former BG SGR (Art. 176, para. 2-ter, of TUIR)	969	969	969	969
Collective reserve for collaterals granted	-	-	127	-
Alitalia analytical impairment reserve (IRAP only)	123	-	123	-
Collective reserve for loans to customers arising from IFRS 9 FTA	981	-	-	-
Write-downs of items for disputed positions in other assets (*)	681	-	681	-
IFRS 9-related revaluation of Financial Advisors' policies	61	-	-	-
Other	10	-	34	-
With impact on Net Equity	6,137	-	1,287	-
Measurement at fair value of HTCS financial assets	5,660	-	830	-
Actuarial losses IAS 19	477	-	457	-
Total	52,718	8,107	44,959	8,107

(*) Item reclassified from provisions for risks and charges restated for 2017.

The DTAs eligible for conversion into tax credits pursuant to Law No. 214/2011 include:

- assets associated with goodwill and other intangible assets redeemed in accordance with Article 10 of Legislative Decree No. 185/08 and Article 172 of TUIR;
- assets related to goodwill recognised for tax purposes but not for accounting purposes as they refer to business combinations "under common control" (Circular Letter Assonime 33/2013 paragraph 3.3.2);
- assets related to adjustments on loans not deducted from taxes as at 31 December 2015, for which Decree Law 83/2015, by introducing a system of full deductibility of losses with effect from that year, had remodulated deductibility percentages according to a thorough ten-year recovery scheme, from 2016 to 2025, based on variable annual quotas.⁵

⁵ It should be noted that such previous adjustments included:

- assets associated with write-downs in excess of 0.30% in connection with the banking book, pursuant to Article 106, para. 3 of TUIR, in the version effective until 2012 (previously eligible for deduction over 18 years on a straight-line basis);
- assets associated with write-downs of loans to customers recognised in the financial statements in accordance with Article 106, paragraph 3, as reformulated by the 2014 Financial Stability Law, applicable for financial years 2013 and 2014 (formerly deductible in the financial year of reference and in the following four years using the straight-line method);
- assets related to 25% of value adjustments of loans operated in 2015 pursuant to new Article 106, paragraph 3, introduced by Law Decree No. 83 of 27 June 2015.

However, the 2019 Finance Law (Law 145 of 30 December 2018) once again deferred the deduction of the goodwill and previous adjustments that had given rise to the recognition of deferred tax assets eligible for conversion into tax credits. In particular, the Law provides for:

- > the remodulation of the deductibility of part of the goodwill and other intangible assets, which will be deductible over a ten-year period, from 2019 to 2029;
- > the deferral until 2026 of the deduction of the portion of adjustments to loans not deducted as at 31 December 2015 that accrued in 2018, set by Decree Law 83/2015 at 10% as at 31 December 2026.

Accordingly, no DTAs eligible for conversion into tax credits were recovered in 2018.

By way of partial exception to the full deduction scheme for adjustments to loans classified as loans to customers in the accounts, the 2018 Finance Law also permits the effect of initial application of IFRS 9 relating to the increase in the provision for expected credit losses to be deducted in ten equal instalments. In particular, the income components deriving from the application of the expected credit loss (ECL) model, following the adoption of IFRS 9, recognised in connection with loans to customers, will be deductible in the 2018 tax period, from both IRES and IRAP, for 10% of their amount, with the remaining 90% deductible in the nine following tax periods. The original scheme (Ministerial Decree of 10 January 2018) instead provided for the full deductibility of this component upon initial application. DTAs relating to the adjustments in question are not among those eligible for conversion into tax credits and amounted to 981 thousand euros as at 31 December 2018.

The 2015 Financial Stability Law (Law No. 305 of 28 December 2015) mandated a general reduction in the ordinary IRES rate from 27.5% to 24% with effect from 1 January 2017. However, for the credit sector alone, a permanent IRES surtax of 4.5% was concurrently introduced, to be applied with effect from the same date, essentially with the aim of permitting the recovery of the very large volume of DTAs accumulated by the banking industry. In view of the combined effect of the two provisions, the DTAs/DTLs continue to be recognised for IRES purposes on the basis of a tax rate of 27.5%, inclusive of the credit sector surtax.

11.2 Breakdown of deferred tax liabilities

	31.12.2018	31.12.2017
With impact on Profit and Loss Account	5,200	2,731
Residual value of capital contribution to FITD	752	55
Termination indemnity	153	155
FTA IFRS 9 - Revaluation of equity securities and policies for	539	-
IFRS 15 FTA - Prepayments for recruitment incentives	772	-
Goodwill	2,984	2,521
With impact on Net Equity	1,084	11,809
Measurement at fair value of HTCS financial assets	1,084	11,809
Total	6,284	14,540

The residual DTLs deriving from the FTA of IFRS 9 refer to the revaluation of financial assets mandatorily classified at fair value other than debt securities and units of UCITS (equity securities and unit linked policies), the tax relevance of which is deferred until they are realised.

The residual DTLs deriving from the FTA of IFRS 15 refer to contract acquisition costs relating to ordinary recruitment incentives, taken to the profit and loss account in previous years and as assets at 1 January 2018 (prepayments).

11.3 Change in deferred tax assets (offsetting entry to the Profit and Loss Account)

	31.12.2018	31.12.2017
1. Amount at year-start	43,672	37,294
2. Increases	18,686	20,031
2.1 Deferred tax assets for the year	16,753	20,031
a) Relative to prior years	-	-
b) Change in accounting criteria	-	-
c) Reversals	-	-
d) Other	16,753	20,031
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	1,933	-
<i>of which</i>		
- <i>adjustment for IFRS 9 FTA</i>	1,817	-
3. Decreases	15,777	13,653
3.1 Deferred tax assets eliminated in the year	15,777	13,653
a) Transfers	15,399	13,516
b) Write-downs for non-recoverability	378	137
c) Change in accounting criteria	-	-
d) Other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
a) Conversion into tax credits pursuant to Law No. 214/2011	-	-
b) Other	-	-
4. Amount at year-end	46,581	43,672

11.4 Change in deferred tax assets pursuant to Law No. 214/2011

	31.12.2018	31.12.2017
1. Amount at year-start	8,107	9,755
2. Increases	-	-
3. Decreases	-	1,648
3.1 Transfers	-	1,648
3.2 Conversion into tax credits	-	-
a) due to losses for the year	-	-
b) due to fiscal losses	-	-
3.3 Other decreases	-	-
4. Amount at year-end	8,107	8,107

11.5 Change in deferred tax liabilities (offsetting entry to the Profit and Loss Account)

	31.12.2018	31.12.2017
1. Amount at year-start	2,731	2,120
2. Increases	5,010	611
2.1 Deferred tax liabilities recognised during the year	1,233	611
a) Relative to prior years	-	-
b) Change in accounting criteria	-	-
c) Other	1,233	611
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	3,777	-
<i>of which:</i>		
- <i>adjustment for IFRS 9-IFRS 15 FTA</i>	3,777	-
3. Decreases	2,541	-
3.1 Deferred tax liabilities eliminated in the year	2,541	-
a) Transfers	2,514	-
b) Change in accounting criteria	-	-
c) Other	27	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Amount at year-end	5,200	2,731

11.6 Changes in deferred tax assets (offsetting entry to the Net Equity)

	31.12.2018	31.12.2017
1. Amount at year-start	1,287	3,408
2. Increases	7,402	869
2.1 Deferred tax assets for the year	7,383	869
a) Relative to prior years	-	-
b) Change in accounting criteria	-	-
c) Other	7,383	869
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	19	-
3. Decreases	2,552	2,990
3.1 Deferred tax assets eliminated in the year	1	1,842
a) Transfers	1	1,842
b) Write-downs for non-recoverability	-	-
c) Change in accounting criteria	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	2,551	1,148
<i>of which:</i>		
- <i>adjustment for IFRS 9 FTA</i>	756	-
4. Amount at year-end	6,137	1,287

The item 3.3 “Other decreases” refers, for the portion exceeding the adjustment deriving from the first application of IFRS 9, to the reduction in deferred tax assets following the re-absorption of deductible temporary differences as a result of reversals of assets in the HTCS portfolio.

11.7 Changes in deferred tax liabilities (offsetting entry to the Net Equity)

	31.12.2018	31.12.2017
1. Amount at year-start	11,809	7,206
2. Increases	409	8,174
2.1 Deferred tax liabilities recognised during the year	409	8,174
a) Relative to prior years	-	-
b) Change in accounting criteria	-	-
c) Other	409	8,174
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	11,134	3,571
3.1 Deferred tax liabilities eliminated in the year	5,166	2,424
a) Transfers	5,166	2,424
b) Change in accounting criteria	-	-
c) Other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	5,968	1,147
- of which: adjustment for IFRS 9 FTA	4,173	-
4. Amount at year-end	1,084	11,809

The item 3.3 “Other decreases” refers, for the portion exceeding the adjustment deriving from the first time application of IFRS 9, to the reduction in deferred tax liabilities following the re-absorption of deductible temporary differences as a result of higher adjustments of assets in the HTCS portfolio.

Section 13 – Other assets - Item 130

13.1 Breakdown of other assets

	31.12.2018	31.12.2017
Fiscal items	61,602	47,229
Advances paid to fiscal authorities – current account withholdings	829	1,032
Advances paid to fiscal authorities – stamp duty	43,305	31,154
Advances of substitute tax on capital gains	15,127	13,124
Excess payment of substitute tax for tax shield	634	634
Other advances paid to and sums due from fiscal authorities	914	194
Fiscal Authorities/VAT	115	254
Sums due from fiscal authorities for other taxes to be refunded	678	837
Leasehold improvements	6,558	5,849
Operating loans not related to financial transactions	155	1,073
Sundry advances to suppliers and employees	1,540	260
Cheques under processing	7,312	25,307
C/a cheques drawn on third parties under processing	-	481
Our c/a cheques under processing c/o service	-	9,735
Money orders and other amounts receivable	7,312	15,091
Other amounts to be debited under processing	30,774	65,273
Amounts to be settled in the clearing house (debits)	6,095	3,853
Clearing accounts for securities and funds procedure	22,187	59,246
Other amounts to be debited under processing	2,492	2,174
Amounts receivable for legal disputes related to non-credit transactions	446	2,459
Trade receivables from customers and banks that cannot be traced back to specific items	32,407	37,791
Other amounts	173,662	148,322
Prepayments for the new supplementary fees for sales network	123,585	121,401
Prepayments of exclusive portfolio management fees	333	496
Prepayments for ordinary incentives	26,346	-
Prepayments of segregated asset management fees	14,611	19,808
Other accrued income and deferred charges that cannot be traced back to specific items	8,644	6,016
Sundry amounts	143	601
Total	314,456	333,563

Receivables from fiscal authorities for withholdings on current accounts represent the positive imbalance between payments on account and the related payable to fiscal authorities.

Other assets include assets associated with the incremental costs of obtaining a contract or incurred to fulfil a contract with customers as set out in IFRS 15, paragraphs 91-104.

Prepayments for the new supplementary fees for sales network refer to incremental costs of acquiring new customers paid to new financial advisors within the framework of recruitment programmes and based on the achievement of specific net inflows targets.

Prepayments for ordinary incentives to the sales network constitute incremental costs of obtaining a contract or costs incurred to fulfil a contract and consist of fees paid annually to the existing sales network based on the achievement of net inflows targets, irrespective of whether they have been achieved by acquiring new customers or by strengthening relationships already in place with existing customers.

This latter class of assets includes a portion of incentives paid to the management in respect of the recruitment of new financial advisors, essentially based on net inflows targets and akin to recruitment incentives, subject to recognition upon FTA of IFRS 15.

Both categories of costs are systematically amortised over a time horizon corresponding to the transfer to the customer of the goods or services to which the asset refers, estimated to amount to five years.

Prepaid segregated portfolio fees refer to the upfront fees paid in 2017 to the sales network for the stabilisation of the LOB I insurance portfolio in post-sales over a five-year time horizon.

The changes in the main prepaid expenses during the year are shown below.

	31.12.2017	FTA	AMORTISATION	OF WHICH RELATIVE TO PRIOR YEARS	INCREASES	OTHER CHANGES	31.12.2018
Supplementary fees	121,401	-	-45,116	-39,828	47,300	-	123,585
Ordinary incentives	-	4,095	-7,683	-1,697	29,934	-	26,346
Up-front fees on segregated accounts	19,808	-	-5,064	-5,064	-	-133	14,611
Total network incentives	141,209	4,095	-57,863	-46,589	77,234	-133	164,542
Entry bonus on BG Solution portfolio management	496	-	-290	-127	2,208	-	2,414
Bonus on JP Morgan funds	1,222	-	-530	-530	339	-	1,031
Total other acquisition costs	1,718	-	-820	-657	2,547	-	3,445
Total	142,927	4,095	-58,683	-47,246	79,781	-133	167,987

Other unallocated prepaid expenses of 5,532 thousand euros consist primarily of prepaid expenses not accrued during the year, of which 3,382 thousand euros of lease prepayments.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET LIABILITIES

Section 1 – Financial liabilities measured at amortised cost - Item 10

1. Financial liabilities measured at amortised cost: due to banks - categories

TYPE OF TRANSACTIONS/VALUES	31.12.2018 BOOK VALUE	31.12.2017 BOOK VALUE
1. Due to Central Banks	-	400,000
2. Due to banks	128,725	282,531
2.1 Current accounts and demand deposits	108,850	57,472
2.2 Term deposits	-	3,796
2.3 Financing:	-	189,657
2.3.1 Repurchase agreements	-	189,657
2.3.2 Other	-	-
2.4 Liabilities for repurchase commitments of own equity instruments	-	-
2.5 Other debts	19,875	31,606
Total	128,725	682,531
Fair value – L1	-	-
Fair value – L2	128,725	682,534
Fair value – L3	-	-
Total - Fair value	128,725	682,534

The 400 million euro long-term refinancing operation disbursed by the ECB under the new TLTRO 2 programme (Targeted Longer Term Refinancing Operations) and launched in 2016, was repaid in advance in September 2018.

The item “Other debts” entirely refers to deposits made by EFG Bank S.A. as a guarantee for some non-performing exposures, arising on the acquisition of Banca del Gottardo Italia (collateral deposits).

1.2 Financial liabilities measured at amortised cost: due to customers - categories

TYPE OF TRANSACTIONS/VALUES	31.12.2018 BOOK VALUE	31.12.2017 BOOK VALUE
1. Current accounts and demand deposits	8,187,790	6,903,451
2. Term deposits	25,939	-
3. Financing	173,824	83,845
3.1 Repurchase agreements	130,542	40,567
3.2 Other	43,282	43,278
4. Liabilities for repurchase commitments of own equity instruments	-	-
5. Other debts	159,318	209,952
Total	8,546,871	7,197,248
Fair value – L1	-	-
Fair value – L2	8,503,589	7,233,127
Fair value – L3	44,210	45,656
Total - Fair value	8,547,799	7,278,783

The item 5 “Other debts” refers for 22,341 thousand euros to the stock of money orders issued by the parent company Banca Generali in relation to claims payment of insurance companies of the Generali Group, and, for the remaining amount, to other sums made available to customers, and trade payables to the sales network.

The item 3.2 “Other financing” amounted to 43,282 thousand euros, referring entirely to the subordinated loan illustrated in the table below.

1.4 Subordinated debts - detail

TYPE OF TRANSACTIONS/VALUES	31.12.2018	31.12.2017
Due to customers: subordinated debts	43,282	43,278
Generali Beteiligungs GmbH subordinated loan	43,282	43,278

The subordinated loan, amounting to 43 million euros, was entered into with the German company Generali Beteiligungs GmbH to fund the acquisition of the Credit Suisse (Italia) S.p.A. business unit. The loan, entered into on 30 October 2014, has a ten-year term and is repayable on maturity in one instalment. Provision is also made for an early repayment option, as from the sixth year, subject to the supervisory authority's prior approval. The interest rate for the first 5 years is fixed and equal to 3.481% per annum, corresponding to the 5-year mid swap rate identified at the contract execution date, plus a spread of 300 bps; from the start of the sixth year the rate will be reparametrised to the 3-month Euribor, plus the same spread identified when the original fixed rate was determined. The loan is subordinated in the event of a default by the Bank.

Section 2 – Held-for-trading Financial liabilities - Item 20

2.1 HFT financial liabilities: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2018					31.12.2017				
	NV	FV			FV (*)	NV	FV			FV (*)
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial	-	-	384	-	-	-	128	78	-	-
1.1 Trading	X	-	384	-	X	X	128	78	-	X
1.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit	-	-	-	-	-	-	-	-	-	-
2.1 Trading	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	-	384	-	X	X	128	78	-	X
Total (A + B)	X	-	384	-	X	X	128	78	-	X

(*) FV* fair value measured without taking account of issuer's credit merit changes compared to issue date.

HFT financial liabilities consist for 384 thousand euros of trading transactions relating to currency outright with customers as counterparty. This item has its balancing entry in assets classified under Item 20.

Section 6 – Tax liabilities - Item 60

Breakdown of tax liabilities – Item 60

Section 11 (Assets) provides an analysis.

Section 8 – Other liabilities - Item 80

8.1 Breakdown of other liabilities

	31.12.2018	31.12.2017
Trade payables	29,722	20,623
Due to suppliers	29,083	19,565
Due for payments on behalf of third parties	639	1,058
Due to staff and social security institutions	20,088	20,381
Due to staff for accrued holidays etc.	3,074	3,039
Due to staff for productivity bonuses to be paid out	10,001	10,391
Contributions to be paid to social security institutions	2,711	2,588
Contributions to Financial Advisors to be paid to Enasarco	4,302	4,363
Tax authorities	18,026	39,812
Withholding taxes to be paid to tax authorities on behalf of employees and contract workers	4,876	5,272
Withholding taxes to be paid to tax authorities on behalf of customers	2,485	22,174
Notes to be paid into collection services	10,284	8,887
VAT payables	279	2,916
Tax payables - other (stamp duty and substitute tax on medium-/long-term loans)	102	563
Amounts to be debited under processing	68,756	99,281
Bank transfers, cheques and other sums payable	11,677	3,139
Amounts to be settled in the clearing house (credits)	29,033	33,375
Liabilities from reclassification of portfolio subject to collection (SBF)	3,724	563
Other amounts to be debited under processing	24,322	62,204
Sundry items	5,584	5,121
Accrued expenses and deferred income that cannot be traced back to specific items	1,867	2,369
Sums made available to customers	1,182	862
Sundry items	1,606	455
Amounts to be credited	929	974
Payables for non-performing signature loans	-	461
Total	142,176	185,218

In accordance with the new provisions introduced by IFRS 9, effective 1 January 2018, the collective reserve for commitments and guarantees issued, amounting to 461 thousand euros, has been recognised in a specific item under Provisions for liabilities and contingencies.

Pursuant to paragraph 116 a) and 116 b) of IFRS 15, it is reported that the caption deferred income includes liabilities associated with contracts within the scope of application of IFRS 15 and relating to three-year upfront fees received in connection with the distribution of certain classes of international UCITS.

Opening balance at 1 January 2018	1,961
Increases	451
Decreases due to the transfer to profit and loss of prior years' balance	-839
<i>of which:</i>	
- relating to prior years	-752
Closing balance at 31 December 2018	1,573

Section 9 – Provisions for termination indemnity - Item 90

9.1 Provisions for termination indemnity: year changes

	31.12.2018	31.12.2017
A. Amount at year-start	4,859	5,129
Change in opening balance	-	-
B. Increases	142	243
B.1 Provisions for the year	71	90
B.2 Other increases	71	153
<i>of which: business combinations</i>	-	-
C. Decreases	170	513
C.1 Amounts paid	170	513
C.2 Other decreases	-	-
<i>of which: business combinations</i>	-	-
D. Amount at year-end	4,831	4,859

9.2 Other information

The amount of termination indemnity can be considered as a non-financial defined benefit plan after the termination of the employment, in accordance with IAS 19.

The provision was measured based on the actuarial value using the methods described in Part A.2 of these Notes and Comments.

The following are the main actuarial assumptions and the breakdown of the provision for the year and actuarial gains/(losses):

	31.12.2018	31.12.2017
Discount rate (*)	1.44%	1.19%
Annual inflation rate	2.00%	1.50%
Salary increase rate	2.00%	1.50%
Average duration (years)	10	10

(*) Rate applied to Banca Generali

	31.12.2018	31.12.2017
1. Provisions:	71	90
- current service cost	14	32
- interest cost	57	58
2. Actuarial gains and losses	71	153
- based on financial assumptions	-79	57
- based on actuarial demographic assumptions	150	96
Total provisions for the year	142	243
Actuarial value	4,831	4,859
Value calculated re. Article 2120 of the Italian Civil Code	4,520	4,557

Section 10 – Provisions for liabilities and contingencies - Item 100

10.1 Breakdown of provisions for liabilities and contingencies

ITEMS/COMPONENTS	31.12.2018	31.12.2017
1. Provisions for credit risk relating to commitments and financial guarantees issued	86	-
2. Provisions for other commitments and other guarantees issued	-	-
3. Company provisions for pensions	-	-
4. Other provisions for liabilities and contingencies	159,928	149,315
4.1 Legal disputes	14,287	17,746
4.2 Staff	15,131	16,494
4.3 Other	130,510	115,075
Total	160,014	149,315

Other provisions for liabilities and contingencies: detail

	31.12.2018	31.12.2017
Provision for staff expenses	15,131	16,494
Provision for restructuring plan	1,369	1,088
Provision for staff expenses – other	13,762	15,406
Provision for legal disputes	14,287	17,746
Provision for risks related to litigations connected with sales network's embezzlements	6,784	9,225
Provision for risks related to legal disputes with sales network	980	580
Provision for risks related to legal disputes with staff	-	-
Provision for other legal disputes	6,523	7,941
Provision for termination indemnity of Financial Advisors	81,595	61,459
Provision for termination indemnity of sales network	55,117	46,212
Provision for portfolio overfee indemnities	3,530	4,059
Provision for managerial development indemnity	7,057	-
Provision for pension bonuses for Financial Advisors	8,601	7,679
Provision for Framework Loyalty Programme	7,290	3,509
Provision for risks related to network incentives	46,131	52,076
Provision for network development plans	32,603	34,096
Provision for deferred bonus	1,212	1,136
Provision for managers with access gate	3,972	5,262
Provision for sales incentives	4,713	7,971
Provision for travel incentives	3,251	2,948
Provision for other fee plans	380	606
Provision for loyalty programme	-	57
Other provisions for liabilities and contingencies	2,784	1,540
Total	159,928	149,315

10.2 Provisions for liabilities and contingencies: year changes

ITEMS/COMPONENTS	PROVISIONS FOR COMMITMENTS AND GUARANTEES ISSUED	PROVISIONS FOR PENSIONS	OTHER PROVISIONS FOR RISKS AND CHARGES	TOTAL
A. Amount at year-start	-	-	149,315	149,315
B. Increases	204	-	62,455	62,659
B.1 Provisions for the year	-	-	61,528	61,528
B.4 Other changes	204	-	927	1,131
<i>of which:</i>				
- <i>adjustment for IFRS9 FTA</i>	204	-	927	1,131
C. Decreases	118	-	51,842	51,960
C.1 Use in the year	-	-	37,398	37,398
C.3 Other changes	118	-	14,444	14,562
D. Amount at year-end	86	-	159,928	160,014

Other provisions for liabilities and contingencies - details of movements

	31.12.2017	OTHER CHANGES	USES	SURPLUS	PROVISIONS	31.12.2018
Provisions for staff expenses	16,494	-219	-3,664	-1,390	3,910	15,131
Provision for restructuring plan	1,088	-	-416	-	697	1,369
Provision for staff expenses – other	15,406	-219	-3,248	-1,390	3,213	13,762
Provisions for legal disputes	17,746	-2,414	-3,584	-2,937	5,476	14,287
Provision for risks related to legal disputes connected with sales network's embezzlements	9,225	-2,414	-756	-1,146	1,875	6,784
Provision for risks related to legal disputes with sales network	580	-	-65	-	465	980
Provision for risks related to legal disputes with staff	-	-	-	-	-	-
Provision for other legal disputes	7,941	-	-2,763	-1,791	3,136	6,523
Provisions for termination indemnity of Financial Advisors	61,459	792	-1,222	-1,665	22,231	81,595
Provision for termination indemnity of sales network	46,212	-	-1,014	-1,122	11,041	55,117
Provision for portfolio overfee indemnities	4,059	-	-116	-472	59	3,530
Provision for managerial development indemnity	-	-	-	-	7,057	7,057
Provision for pension bonuses for Financial Advisors	7,679	792	-92	-71	293	8,601
Provision for Framework Loyalty Programme	3,509	-	-	-	3,781	7,290
Provisions for risks related to network incentives	52,076	135	-28,807	-5,819	28,546	46,131
Provision for network development plans	34,096	-	-20,157	-5,764	24,428	32,603
Provision for deferred bonus	1,136	135	-246	-	187	1,212
Provision for managers with access gate	5,262	-	-1,590	-	300	3,972
Provision for sales incentives	7,971	-	-3,258	-	-	4,713
Provision for fees – travel incentives	2,948	-	-2,897	-51	3,251	3,251
Provision for fee plans	606	-	-602	-4	380	380
Provision for loyalty programme	57	-	-57	-	-	-
Other provisions for liabilities and contingencies	1,540	-	-120	-	1,364	2,784
Total	149,315	-1,706	-37,397	-11,811	61,527	159,928

10.3 Provisions for credit risk relating to commitments and financial guarantees issued

	STAGE 1	STAGE 2	STAGE 3	TOTAL
Commitments to disburse funds	-	-	-	-
Financial guarantees issued	49	37	-	86
Total	49	37	-	86

10.6 Provisions for liabilities and contingencies - other provisions

10.6.1 Provisions for staff expenses

Provisions for staff expenses include the following amounts:

- > the share of the variable compensation of managers of the Banking Group deferred up to two years and conditional upon continuing satisfaction of the predetermined quantitative levels of asset solidity and liquidity (access gates) established in compliance with the Banking Group's Remuneration policy;
- > allocations to the provision for the recruitment plans regarding new employed Relationship Managers (RM), valued also based on the specific contractual conditions agreed upon and on the probability to achieve the net inflows targets set;
- > allocations for post-employment medical benefits of Group's managers, valued using the actuarial method pursuant to IAS 19;
- > the provision related to the performance bonus, if at the balance sheet date the company supplementary contract (CIA) has expired or has not been renewed yet.

The above-mentioned provisions have as their balancing entries staff expenses.

Provisions for staff expenses also include, to a lesser extent, provisions outside the scope of IAS 19 but for which IAS 37 applies and that have therefore as their balancing entries net provisions for liabilities and contingencies.

10.6.2 Restructuring provisions – Redundancy incentives plan

The voluntary redundancy plan covered by the specific company restructuring provision was launched at the end of 2015 to encourage the rotation of resources through incentives for voluntary departure for groups of employees nearest to retirement age and the filling of the resulting vacant positions with professional and/or managerial profiles more suited to the specific skills now required from a business standpoint.

The redundancy incentives plan was prolonged by the Board of Directors on 11 December 2018 until 31 December 2019, with a limited amount of resources of 1.3 million euros.

10.6.3 Provisions for legal disputes

This type of provisions for risks includes provisions for pending litigations connected with sales network's embezzlements after insurance coverage, as well as those with disputes currently underway with the sales network and employees and other legal and extra-legal disputes with customers and other entities.

10.6.4 Provisions for contractual indemnities for the sales network

These include provisions for termination indemnities paid to the sales network, the portfolio development indemnity, the social-security bonus, the provisions associated with the Framework Loyalty Programme, approved by the General Shareholders' Meeting on 20 April 2017 and, lastly, the new provisions for manager development indemnity.

Provisions covering the cost of the **termination indemnity** of Financial Advisors with an agency agreement is valued as provided for by the law (Article 1751 of the Italian Civil Code) and the specific disbursement criteria defined by Banca Generali. Further details on the latter are provided in Part A.2 of the Notes and Comments of the consolidated Financial Statements for the year ended on 31 December 2018.

The expense associated with obligations extant at period-end relating to Financial Advisors is valued using the statistical-actuarial method, with the advice of independent professionals.

The following are the main actuarial assumptions:

TERMINATION INDEMNITY	31.12.2018	31.12.2017
Discount rate (Eur IRS + 100 bps)	2.5%	2.5%
Turnover rate (professionals)	1.30%	1.88%
Average duration (years)	13 anni	14 anni
DBO IAS 37/Indemnity provision at the measurement date	59.54%	56.21%

The ratio of Deferred benefit obligations (DBO) to nominal value of the accrued obligation towards Financial Advisors is given using the value of the provision after one-off deductions related to seniority.

The increase in the provision for termination indemnities accrued by Financial Advisors during the year was mainly due to basic fees as a result of the increase in the number of active Financial Advisors and the ongoing development of business, and the adjustment of demographic and statistical parameters.

A specific measurement is made for Financial Advisors who have left service.

The DBO already accrued by Financial Advisors formerly employed by Credit Suisse, totalling 2.8 million euros, is still based on the payment criteria established by the previous employer and was recognised as a debt payable to the acquired sales network. Their DBO accrued with Banca Generali will be due only for the amount exceeding that accrued with Credit Suisse, if any.

The portfolio development indemnity is instead a scheme (further details are provided in Part A.2 of the Notes and Comments of the consolidated Financial Statements as at 31 December 2018) that calls for Financial Advisors with at least five years of service who leave service permanently to be entitled to an indemnity commensurate to the profitability of the portfolio previously managed, in case of reallocation of the latter.

The indemnity due to the outgoing FA is entirely borne by the incoming FA identified by the Company, except for a residual guarantee by the Bank - equal to 25% of the total indemnity - in the event of termination for death or permanent disability. Even in this case, the charge is determined based on the statistical actuarial method, with the support of independent experts and with reference to the percentage of the Bank's residual risk, i.e., 25% of the indemnity due in case of death or permanent disability.

The "**pension bonus**" is a component of the sales network's indemnity plans, which entailed the yearly provision of an amount based on the achievement of pre-set sales objectives and to be paid only upon final termination for retirement or permanent disability. The actuarial method is used also for this type of evaluation. This incentive has been discontinued as of 2016, without prejudice to the rights acquired by the beneficiaries in previous years.

Provisions for contractual indemnities also include the **Framework Loyalty Programme** for the sales network which was approved by the Board of Directors on 21 March 2017 and subsequently ratified by the General Shareholders' Meeting held on 20 April 2017. Said programme is aimed at improving the retention of the network and the customers acquired over time, and creating value for the Group by attracting stable, high-quality net inflows.

The Framework Loyalty Programme is divided into eight annual individual plans, all set to expire on 31 December 2026 and of decreasing lengths, to be activated following prior authorisation by the General Shareholders' Meeting of Banca Generali.

This indemnity is paid to Financial Advisors and Relationship Managers with a minimum level of seniority of service of five years who meet certain AUM and net inflows requirements at the end of the year of reference of the individual plan in which they have participated.

The indemnities thus accrued in respect of the individual plans will then be disbursed cumulatively to the beneficiaries, in accordance with the Banking Group's current remuneration policies, within 60 days of the approval of the 2026 financial statements.

Departure from the banking group entails the loss of entitlement to disbursement of the bonuses accrued, except in the event of death, permanent disability or eligibility to receive a pension. Even in the above circumstances, the indemnity will still be paid at the end of the Programme.

Recognition of the indemnities on the disbursement date is also subject to the banking group's access gates being exceeded as defined in the Remuneration Policies applicable from time to time and the rules of propriety.

For each plan, a portion of the accrued indemnity may be paid out in Banca Generali shares (up to a maximum of 50%), following an assessment of the potential effects at the level of capital ratios and floating capital by the Corporate Bodies (Board of Directors and General Shareholders' Meeting).

In this regard, it should be noted that the Board of Directors of 20 March 2018 approved the launch of the second plan 2018-2026 on the basis of the same provisions set forth for the first plan of 2017 (assignment of Banca Generali shares for an amount equal to 50% of the indemnity accrued). This resolution was subsequently ratified by the General Shareholders' Meeting on 12 April 2018.

Provisions for contractual indemnities refer also to the charge relating to the inception of the new **managerial development indemnity mechanism**, approved by the BoD in June and intended to ensure fair treatment of all network managers in the event of dismissal from their additional roles.

10.6.5 Provisions for sales network incentives

This aggregate includes:

- > the estimate of the charges accrued in relation with several recruitment plans for middle-term expansion of managed portfolios. These plans envisage different kinds of incentives (entry bonus, deferred bonus, volume bonus, etc.) related to the achievement of net inflow target and the presence in the company for one or more years (up to 5 or 7

- years);
- > the share of network managers' annual incentives deferred up to two years and conditional upon continuing satisfaction of the predetermined quantitative levels of asset solidity and liquidity (access gates) established in compliance with the Banking Group's remuneration policy;
 - > the share of annual incentives (particular transactions), contingent upon the maintenance over time of the inflow targets achieved;
 - > provisions for incentive plans based on the network's performance for the period, including the BG Premier Club trip and other special fee plans (supplementary allowances, stabilisers, target-achievement bonuses, etc.) that involve the payment of benefits or increases in advances paid when certain conditions are met, such as continuous service on the network or the achievement of sales targets.

10.6.6 Other provisions for liabilities and contingencies

Lastly, other provisions for liabilities and contingencies include provisions for operating risks.

They also include the provision to cover the tax dispute.

Tax dispute

With regard to the tax dispute, on 29 June 2018 the Friuli-Venezia Giulia Regional Department of the Italian Revenue Service served the Bank with a report on findings (PVC) regarding the assessment process focusing on tax period 2014.

The audit had begun on 27 March 2017 and the first auditors' report on findings (PVC), claiming some irregularities relating to the matching and accrual principle in respect of costs for the year, had been served on 22 December 2017.

The auditors' report on findings that had been served at the end of June instead focused on transfer pricing issues, with particular regard to dealings with the Luxembourg management company BGFML pertaining to the distribution of the Sicavs promoted by the Group.

At the end of August, by the legal deadline, Banca Generali lodged a detailed defence statement with the Italian Agency of Revenue, disputing the irregularities identified in the auditors' report and highlighting that it had acted properly. It is currently awaiting the beginning of a consultation procedure with the audit authorities in order to reach a settlement of the dispute.

Since it believes the charges to be entirely without merit, during the above consultation procedure Banca Generali will dispute any assessment notices based on the alleged irregularities identified in the auditors' report, through both administrative and judicial process.

Section 13 – Group net equity - Items 120, 130, 140, 150, 160, 170 and 180

13.1 Breakdown of share capital and treasury shares

	UNIT VALUE	NUMBER	NOMINAL VALUE (€)	BOOK VALUE (€ THOUSAND)
Share capital				
- Ordinary shares	1.00	116,851,637	116,851,637	116,852
Treasury shares				
- Ordinary shares	1.00	-929,090	-929,090	-22,724
Total		115,922,547	115,922,547	94,128

13.2 Share capital - Number of Shares of the Parent Company: year changes

ITEMS/TYPES	ORDINARY	OTHER
A. Existing shares at year-start	116,851,637	-
- paid up	116,851,637	-
- partially paid	-	-
A.1 Treasury shares (-)	-472,575	-
A.2 Outstanding shares: at year-start	116,379,062	-
B. Increases	121,129	-
B.1 Newly issued shares		
- against payment:	-	-
- business combinations	-	-
- bonds conversion	-	-
- exercise of warrants	-	-
- other	-	-
- for free:	-	-
- to staff	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	121,129	-
B.3 Other changes	-	-
C. Decreases	-577,644	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-577,644	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: at year-end	115,922,547	-
D.1 Treasury shares (+)	929,090	-
D.2 Existing shares at year-end	116,851,637	-
- paid up	116,851,637	-
- partially paid	-	-

13.3 Share capital: further information

At the reporting date, the share capital of the Bank consisted of 116,851,637 ordinary shares of 1 euro each, with regular dividend entitlement, and it was fully paid up.

13.4 Income reserves: further information

	31.12.2017	PROFIT ALLOCATION DIVIDEND DISTRIBUTION	PURCHASES/ DISPOSALS OF TREASURY SHARES	STOCK OPTION PLANS AND OTHER IFRS2- RELATED PAYMENTS	ISSUE OF NEW SHARES	STOCK GRANT PLANS LTIP	OTHER CHANGES	31.12.2018
Legal reserve	23,329	41	-	-	-	-	-	23,370
Restricted reserve for shares of the Parent Company	717	-	-	-	-	-	-	717
Merger surplus reserve – BG SGR	3,853	-	-	-	-	-	-	3,853
Merger surplus reserve – BG Fiduciaria	-	-	-	-	-	-	10,901	10,901
Reserves for IFRS 9 and IFRS 15 FTA	-	-	-	-	-	-	4,768	4,768
Share-based payments reserve (IFRS2) – plans ended	507	-	-	-	-	-	-	507
Reserve for the allotment of Assicurazioni Generali shares (175°)	19	-	-	-	-	-	-19	-
IFRS 2 reserves – LTIP cycles underway (1)	4,316	-	-	-	-	1,100	-2,671	2,745
IFRS 2 reserves – LTIP cycles ended (1)	4,509	-	-	-	-	-	2,671	7,180
IFRS 2 reserves – LTI plans based on BG shares	-	-	-	579	-	-	-	579
IFRS 2 reserve – Key personnel remuneration	3,301	-	-3,058	3,363	-	-	-	3,606
IFRS 2 reserve – Group key personnel remuneration	139	-	-	16	-	-	-	155
IFRS 2 reserve - Framework Loyalty Programme	214	-	-	442	-	-	-	656
Reserve from profit (loss) carried forward - Parent Company	179,513	60,934	-	-	-	-	-	240,447
Reserve from profit (loss) carried forward - consolidated	124,392	-3,283	-	-	-	-	-9,935	111,174
Equity reserve from the transfer of the funds business unit	3,710	-	-	-	-	-	-	3,710
Total	348,519	57,692	-3,058	4,400	-	1,100	5,715	414,368

(1) This reserve shows the capital increase ensuing from share-based payments to employees and Directors through assignment of shares of the parent company Assicurazioni Generali S.p.A.

PART B – INFORMATION ON THE BALANCE SHEET

Other information

1. Commitments and financial guarantees issued

	NOMINAL VALUE OF COMMITMENTS AND FINANCIAL GUARANTEES ISSUED			31.12.2018	31.12.2017
	STAGE 1	STAGE 2	STAGE 3		
1. Commitments to disburse funds	11	-	-	11	846
a) Central Banks	-	-	-	-	-
b) Public administration bodies	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	-	-	-	-	735
f) Households	11	-	-	11	111
2. Financial guarantees issued	90,819	14,809	31	105,659	74,504
a) Central Banks	-	-	-	-	-
b) Public administration bodies	-	-	-	-	-
c) Banks	1,044	-	-	1,044	73
d) Other financial companies	7,243	-	-	7,243	2,324
e) Non-financial companies	49,897	9,715	31	59,643	54,987
f) Households	32,635	5,094	-	37,729	17,120
Total	90,830	14,809	31	105,670	75,350

Loan commitments include commitments subject to mandatory and optional use towards customers and refer to irrevocable lines of credit already granted.

Items 2 c) and 2 d) also include assets pledged as collateral of third-party bonds consisting of the default fund contributed to cover possible losses of defaulted operators within the New MIC and transactions concerning customers' securities and derivatives.

2. Other commitments and other guarantees issued

	NOMINAL VALUE	
	31.12.2018	31.12.2017
1. Other guarantees issued	-	-
<i>of which: non-performing</i>	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments	173,386	101,918
<i>of which: non-performing</i>	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	173,386	101,599
d) Other financial companies	-	319
e) Non-financial companies	-	-
f) Households	-	-
Total	173,386	101,918

Loan commitments include commitments subject to certain or uncertain use towards banks and refer to financial commitments for securities to be received.

3. Assets pledged as collateral for own liabilities and commitments

PORTFOLIO	31.12.2018				31.12.2017			
	REPURCHASE AGREEMENTS	ECB	CC&G	TOTAL	REPURCHASE AGREEMENTS	BCE	CC&G	TOTAL
1. Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	130,909	-	15,096	146,005	40,408	425,284	101,498	567,190
3. Financial assets at amortised cost	-	218,974	199,524	418,498	195,944	317,684	207,812	721,440
4. Property and equipment <i>of which: assets constituting inventories</i>	-	-	-	-	-	-	-	-
Total	130,909	218,974	214,620	564,503	236,352	742,968	309,310	1,288,630

Financial assets pledged as collateral for own liabilities and commitments refer mainly to repurchase agreement transactions with a commitment to repurchase with customers and banks and collateral for refinancing transactions with ECB. This amount also includes financial instruments pledged with Cassa di Compensazione e Garanzia for possible transactions on the New MIC for ordinary operations.

6. Trading of financial instruments on behalf of third parties

TYPE OF SERVICE	31.12.2018	31.12.2017
1. Execution of orders on behalf of customers	31,388,245	36,726,583
a) Purchases	16,869,201	19,822,600
1. Settled	16,800,942	19,733,854
2. To be settled	68,259	88,746
b) Sales	14,519,044	16,903,983
1. Settled	14,479,100	16,824,110
2. To be settled	39,944	79,873
2. Portfolio management	18,045,345	19,393,429
a) Individual	5,859,410	6,603,157
b) Collective	12,185,935	12,790,272
3. Custody and administration of securities	22,291,640	20,114,480
a) Third-party securities held in deposit: related to services provided as depository bank (excluding portfolio management)	-	-
1. Securities issued by companies included in the consolidation area	-	-
2. Other	-	-
b) Third-party securities held in deposit (excluding portfolio management): other	8,305,363	7,235,283
1. Securities issued by companies included in the consolidation area	16,126	13,921
2. Other	8,289,237	7,221,362
c) Third-party securities deposited with third parties	8,251,513	7,188,942
d) Portfolio securities deposited with third parties	5,734,764	5,690,255
4. Other transactions	-	-

The item "Portfolio management" refers to the overall amount, at market value, of assets managed on behalf of third parties, that include individual (GPM/GPF) and collective (Funds, Sicavs) portfolio management. The figure referring to individual management does not include 598 million euros of liquidity.

The figure referring to collective management does not include 1,925 million euros of funds included in Group individual discretionary accounts GPM/GPF.

Securities under custody and administration are recognised at nominal value.

7. Financial assets offset in the financial statements or falling within the scope of master netting agreements or similar agreements

TECHNICAL TYPE	GROSS AMOUNT OF FINANCIAL LIABILITIES (A)	AMOUNT OF FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS (B)	NET AMOUNT OF FINANCIAL LIABILITIES RECOGNISED IN THE FINANCIAL STATEMENTS (C = A - B)	CORRELATED AMOUNT NOT OFFSET IN THE FINANCIAL STATEMENTS		NET AMOUNT AT 31.12.2018 (F = C - D - E)	NET AMOUNT AT 31.12.2017
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS AS COLLATERAL (E)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	199,937	-	199,937	199,937	-	-	-
3. Securities loans	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31.12.2018	199,937	-	199,937	199,937	-	-	X
Total at 31.12.2017	-	-	-	-	-	X	-

8. Financial liabilities offset in the financial statements or falling within the scope of master netting agreements or similar agreements

TECHNICAL TYPE	GROSS AMOUNT OF FINANCIAL LIABILITIES (A)	AMOUNT OF FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS (B)	NET AMOUNT OF FINANCIAL LIABILITIES RECOGNISED IN THE FINANCIAL STATEMENTS (C = A - B)	CORRELATED AMOUNT NOT OFFSET IN THE FINANCIAL STATEMENTS		NET AMOUNT AT 31.12.2018 (F = C - D - E)	NET AMOUNT AT 31.12.2017
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS AS COLLATERAL (E)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	130,542	-	130,542	130,542	-	-	-
3. Securities loans	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total at 31.12.2018	130,542	-	130,542	130,542	-	-	X
Total at 31.12.2017	230,224	-	230,224	230,224	-	X	-

IFRS 7 requires a detailed disclosure on offsetting of financial instruments pursuant to IAS 32 or financial instruments that can be potentially set off, under certain conditions, but have been recognised in the balance sheet without any offsetting as they fall within the scope of master netting agreements or similar agreements that do not meet all the requirements under IAS 32 paragraph 42.

In this regard, it should be noted that Banca Generali has not entered into any netting arrangements that meet the requirements of IAS 32.42 on offsetting in the financial statements.

With reference to financial instruments that can be potentially set off under certain conditions, currently Banca Generali, as far as repurchase agreements (REPO) are concerned, participates in the MTS S.p.A. Repo market through a Clearing Agreement with Cassa Compensazione e Garanzia (CC&G) concerning the centralised management of transaction clearing.

It should be noted that Banca Generali usually in repurchase agreements (REPO) with banks has in place master netting arrangements that enable offsetting of credits and debts in case of default of the counterparty and compliant with international standards (Global Master Repurchase Agreement - GMRA). Such transactions are also covered by GMRA-compliant financial guarantee agreements, envisaging the bilateral exchange of collaterals in cash and/or government bonds. These agreements, in the case of repurchase agreements, mitigate the liquidity risk by offsetting the debt to the counterparty up to the fair value of the collateral. In the table, repurchase agreements are valued at amortised cost, whereas financial instruments used as collateral are valued at fair value up to the amount of the guaranteed liability.

PART C – INFORMATION ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

Section 1 – Interests - Items 10 and 20

1.1 Breakdown of interest income and similar revenues

ITEMS/TECHNICAL TYPES	DEBT SECURITIES	FINANCING	OTHER TRANSACTIONS	2018	2017
1. Financial assets measured at fair value through profit or loss:	144	-	-	144	159
1.1 HFT financial assets	66	-	-	66	159
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	78	-	-	78	-
2. Financial assets at fair value through other comprehensive income	4,525	-	-	4,525	18,269
3. Financial assets at amortised cost:	37,779	21,754	-	59,533	43,492
3.1 Loans to banks	1,385	568	-	1,953	2,377
3.2 Loans to customers	36,394	21,186	-	57,580	41,115
4. Hedging derivatives	-	-	-	-	-
5. Other assets	-	-	-	-	-
6. Financial liabilities	-	-	-	2,217	3,091
Total	42,448	21,754	-	66,419	65,011
<i>of which: interest income on impaired financial assets</i>	-	465	-	-	552

By convention, interest on “Financial liabilities” includes the negative interest expense accrued on funding transactions and refers in part to funding repurchase agreements with banks and customers and in part to the negative interest applied to the captive balances of the Generali Group and Banking Group.

1.2 Interest income and similar revenues: further information

	2018	2017
1.2.1 Interest income on financial assets in foreign currencies	688	204
1.2.2 Interest income on finance lease transactions	-	-
Total	688	204

Breakdown of negative interest income

	2018	2017
Interest income on bank deposits and current accounts	14	59
Repurchase agreements with banks	87	1,599
Repurchase agreements with customers	566	3
Interest income on customer deposit and current accounts	1,550	1,430
Total	2,217	3,091

1.3 Breakdown of interest expense and similar charges

ITEMS/TECHNICAL TYPES	DEBTS	SECURITIES	OTHER TRANSACTIONS	2018	2017
1. Financial liabilities at amortised cost					
1.1 Due to central banks	-	-	-	-	-
1.2 Due to banks	511	-	-	511	630
1.3 Due to customers	2,479	-	-	2,479	2,206
1.4 Securities issued	-	-	-	-	-
2. HFT financial liabilities	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and funds	-	-	-	-	-
5. Hedging derivatives	-	-	-	-	-
6. Financial assets	-	-	-	3,457	754
Total	2,990	-	-	6,447	3,590

By convention, interest on “Other liabilities” includes the negative interest income accrued on lending transactions and primarily refers to demand deposits with the Central Bank.

1.4 Interest expense and similar charges: further information

	2018	2017
1.4.1 Interest expense on financial liabilities in foreign currencies	389	87
1.4.2 Interest expense on finance lease liabilities	-	-
Total	389	87

Breakdown of negative interest expense

	2018	2017
Interest expense on deposits with the ECB	3,321	663
Interest expense on deposits with banks	77	80
Repurchase agreements with customers	7	-
Interest expense on customer deposits	52	11
Total	3,457	754

Section 2 – Fees - Items 40 and 50

2.1 Breakdown of fee income

TYPE OF SERVICE/VALUES	2018	2017
a) Guarantees issued	586	631
b) Credit derivatives	-	-
c) Management, brokerage and consultancy services:	732,049	751,827
1. Trading of financial instruments	13,824	15,194
2. Currency trading	-	-
3. Portfolio management	365,033	429,601
3.1. Individual	80,653	60,068
3.2. Collective	284,380	369,533
4. Custody and administration of securities	456	414
5. Depository bank	-	-
6. Placement of securities	103,031	80,731
7. Order receiving and collection	8,650	6,278
8. Consultancy activities	15,395	7,967
8.1 Investment advice	15,395	7,967
8.2 Advice on financial structure	-	-
9. Distribution of third-party services	225,660	211,642
9.1. Portfolio management	792	821
9.1.1. Individual	28	175
9.1.2. Collective	764	646
9.2. insurance products	224,208	210,304
9.3. other products	660	517
d) Collection and payment services	4,318	2,993
e) Servicing related to securitisations	-	-
f) Factoring-related services	-	-
g) Tax collection services	-	-
h) Management of multilateral trading facilities	-	-
i) Keeping and management of current accounts	2,166	2,288
j) Other services	2,547	2,750
All-inclusive fees on credit lines	1,759	1,771
Total	741,666	760,489

Table 2.1 relating to the breakdown of fee income includes revenues arising from financial services falling within the scope of IFRS 15, broken down by type of service rendered. With reference to the provisions of IFRS 15 paragraph 113, fee income may be further divided into the following four categories:

(€ THOUSANDS)	2018	2017
Underwriting fees	21,603	20,402
Management fees	633,508	586,469
Performance fees	38,614	115,102
Fees for other services	47,941	38,517
Total	741,666	760,489

Underwriting, management and performance fees refer, in particular, to individual (discretionary) and collective (Sicavs promoted by the Banking Group) portfolio management, placement of securities and distribution of third-party services.

	UNDERWRITING FEES	MANAGEMENT FEES	PERFORMANCE FEES	OTHER	TOTAL
Individual portfolio management	647	80,005	1	-	80,653
Collective portfolio management	4,192	245,767	38,613	-	288,572
Placement of UCITS	3,799	86,618	-	-	90,417
Placement of securities	8,422	-	-	-	8,422
Distribution of third-party services	4,543	221,118	-	-	225,661
Other services and banking products	-	-	-	47,941	47,941
Total fee income	21,603	633,508	38,614	47,941	741,666

Underwriting fees refer to the support provided by the Bank's sales network to customers for the purchase of financial products and services and their useful lives concluded when the products and services concerned are subscribed. In particular, the item includes the distribution and private placement of certificates.

Variable performance fees refer solely to the management of the Sicavs promoted by the Banking Group and are applied on the basis of the rules set out in the prospectuses for the Sicavs concerned. Such fees were accrued and definitively earned at year-end and were collected in January of the following year.

Management fees refer to:

- > discretionary management of financial assets on behalf of customers according to the conditions specified in individual mandates, accruing on a quarterly basis;
- > collective management of the assets of the Sicavs managed by the Banking Group's management company (Lux IM Sicav, BG Selection Sicav and BG Alternative Sicav) on the basis of the conditions established for each sub-fund in the relevant prospectuses, accruing on a monthly basis;
- > the ongoing customer support activity carried out by the Financial Advisor network with regard to the placement of units of third-party UCITS and the distribution of insurance products.

Finally, fees on other services include revenues on traditional banking services (custody and trading of financial instruments, collection and payment services, current account keeping and management services, etc.) and advisory fees, mostly consisting of recurring fees.

Fee revenues consist solely of short-term items, normally collected on a monthly or quarterly basis and therefore do not include a component of a financial nature relating to the passage of time.

In reference to IFRS 15, paragraph 116 b), fee income on the placement of securities includes revenues of 752 thousand euros on the recycling to the profit and loss account for the year of liabilities included in the opening balance attributable to contracts (deferred income).

2.2 Breakdown of fee expense

SERVICES/VALUES	2018	2017
a) Guarantees received	13	19
b) Credit derivatives	-	-
c) Management and brokerage services:	348,742	345,732
1. Trading of financial instruments	5,262	5,336
2. Currency trading	-	-
3. Portfolio management	28,977	32,721
3.1 Own portfolio	28,977	32,721
3.2 Third-party portfolio	-	-
4. Custody and administration of securities	1,636	1,669
5. Placement of financial instruments	-	-
6. Off-premises offer of financial instruments, products and services	312,867	306,006
d) Collection and payment services	3,991	2,414
e) Other services	870	581
Total	353,616	348,746

Fee expense for off-premises offer includes the costs incurred to obtain or fulfil contracts with customers of 58,683 thousand euros, of which 47,246 thousand euros relating to previous years.

Section 3 – Dividends and similar income - Item 70

3.1 Breakdown of dividends and similar income

ITEMS/INCOME	2018		2017	
	DIVIDENDS	SIMILAR INCOME	DIVIDENDS	SIMILAR INCOME
A. HFT financial assets	38	-	53	25
B. Other financial assets mandatorily measured at fair value	52	1,394	1,493	1,174
C. Financial assets measured at fair value through other comprehensive income	824	-	-	-
D. Equity investments	-	-	-	-
Total	914	1,394	1,546	1,199

Section 4 – Net income from trading - Item 80

4.1 Breakdown of net income from trading

TRANSACTIONS/INCOME COMPONENTS	CAPITAL GAINS	INCOME FROM TRADING	CAPITAL LOSSES	LOSSES FROM TRADING	NET RESULT 2018	NET RESULT 2017
1. HFT financial liabilities	34	1,030	396	206	462	1,659
1.1 Debt securities	34	813	395	16	436	1,545
1.2 Equity securities	-	216	1	114	101	218
1.3 UCITS units	-	1	-	76	-75	-104
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	-	-	-	-	-
2. HFT financial liabilities	-	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-	-
2.2 Debts	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Other financial assets and liabilities: exchange gains and losses	-	-	-	-	4,909	3,178
3. Derivatives	-	595	-	676	-80	87
3.1 Financial:	-	595	-	676	-80	87
- On debt securities and interest rates	-	-	-	-	-	-
- interest rate swaps	-	-	-	-	-	-
- government bond forwards	-	-	-	-	-	-
- On equity securities and stock indexes	-	595	-	676	-81	98
- options	-	582	-	636	-54	93
- futures	-	13	-	40	-27	5
- On currency and gold ⁽¹⁾	-	-	-	-	1	-11
- Other	-	-	-	-	-	-
3.2 Credit	-	-	-	-	-	-
<i>of which</i>						
- <i>natural hedging related to the fair value option</i>	-	-	-	-	-	-
Total	34	1,625	396	882	5,291	4,924

(1) It includes currency options and currency outright.

Section 6 – Gains (losses) on disposal/repurchase - Item 100

6.1 Breakdown of gains (losses) on disposal/repurchase

ITEMS/INCOME COMPONENTS	2018			2017		
	GAINS	LOSSES	NET RESULT	GAINS	LOSSES	NET RESULT
Financial assets						
1. Financial assets at amortised cost:	2,606	-	2,606	1,115	74	1,041
1.1 Loans to banks	-	-	-	715	-	715
1.2 Loans to customers	2,606	-	2,606	400	74	326
2. Financial assets at fair value through other comprehensive income	19,824	6,388	13,436	16,049	7,951	8,098
2.1 Debt securities	19,824	6,388	13,436	16,049	7,951	8,098
2.2 Loans	-	-	-	-	-	-
Total assets	22,430	6,388	16,042	17,164	8,025	9,139
Assets mandatorily measured at fair value	-	-	-	2,501	1,217	1,284
Total assets	22,430	6,388	16,042	19,665	9,242	10,423
Financial liabilities at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

HTCS equity reserves transferred back to the profit and loss account due to the disposal of pre-existing equity reserves of the HTCS portfolio are illustrated in the following table.

	POSITIVE	NEGATIVE	NET
Debt securities	16,068	-3	16,065
Total	16,068	-3	16,065

Section 7 – Net result on other financial assets and liabilities measured at fair value through profit and loss - Item 110

7.2 Net change of other financial assets and liabilities measured at fair value through profit and loss account: breakdown of other financial assets mandatorily measured at fair value

TRANSACTIONS/INCOME COMPONENTS	2018					2017				
	CAPITAL GAINS	GAINS ON DISPOSAL	CAPITAL LOSSES	LOSSES ON DISPOSAL	NET RESULT	CAPITAL GAINS	GAINS ON DISPOSAL	CAPITAL LOSSES	LOSSES ON DISPOSAL	NET RESULT
1. Financial assets	3,186	152	1,104	1,756	478	-	-	-	-	-
1.1 Debt securities	-	96	73	-	23	-	-	-	-	-
1.2 Equity securities	-	-	976	-	-976	-	-	-	-	-
1.3 UCITS units	3,164	15	55	1,756	1,368	-	-	-	-	-
1.4 Loans	22	41	-	-	63	-	-	-	-	-
2. Financial assets in foreign currencies: exchange differences	-	-	-	-	-	-	-	-	-	-
Total assets	3,186	152	1,104	1,756	478	-	-	-	-	-

Section 8 – Net adjustments/reversals for credit risk - Item 130

8.1 Breakdown of net adjustments for credit risk relating to financial assets measured at amortised cost

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS		2018	2017
	STAGE 1 AND STAGE 2	STAGE 3		STAGE 1 AND STAGE 2	STAGE 3		
		WRITE-OFF	OTHER				
A. Loans to banks	172	-	-	-	-	-172	1,025
- Loans	69	-	-	-	-	-69	-
- Debt securities	103	-	-	-	-	-103	1,025
<i>of which:</i>							
- <i>acquired or originated impaired loans</i>	-	-	-	-	-	-	-
B. Loans to customers	4,784	34	1,598	535	1,052	-4,829	-2,831
- Loans	-	34	1,598	535	1,046	-51	-1,741
- Debt securities	4,784	-	-	-	6	-4,778	-1,090
<i>of which:</i>							
- <i>acquired or originated impaired loans</i>	-	-	-	-	-	-	-
Total	4,956	34	1,598	535	1,052	-5,001	-1,806

Specific adjustments to loans to customers classified under “stage 3” amounted to 1,598 thousand euros and included 235 thousand euros for positions past due by more than 90 days, 799 thousand euros for unlikely-to-pay positions, 97 thousand euros for bad loans, and, for the remainder, to other operating loans and loans to sales network. The item also includes impairment losses on fee income deriving from contracts within the scope of application of IFRS 15 of approximately 300 thousand euros.

These write-downs were partially offset through reversals relating to positions past due at the end of the previous year (237 thousand euros) and reclassified out of the non-performing category, to unlikely-to-pay exposures (711 thousand euros), to bad loans (54 thousand euros) and, for the remainder, to operating loans and advance payments to the sales network (45 thousand euros).

Reserves covering expected losses on loans classified to Stage 1 and Stage 2 presented net reversals of 466 thousand euros. Portfolio adjustments on debt securities classified under “Stage 1” and “Stage 2” - including loans to banks for 103 thousand euros and loans to customers amounting to 4,784 thousand euros - referred to the adjustment of the collective reserve allocated to account for expected impairment of the corporate bond portfolio.

During the transition to IFRS 9, the method for calculating impairment was modified from PD based on historical series of default rates surveyed globally by issuer rating class and residual maturity of the security to a new forward-looking method based on market price trends from which the credit-risk component has been isolated.

8.2 Breakdown of net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS		2018	2017
	STAGE 1 AND STAGE 2	STAGE 3		STAGE 1 AND STAGE 2	STAGE 3		
		WRITE-OFF	OTHER				
A. Debt securities	2,285	-	-	-	-	-2,285	-
B. Loans	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
<i>of which:</i>							
- <i>acquired or originated impaired financial assets</i>	-	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-	-1,487
Total	2,285	-	-	-	-	-2,285	-1,487

Portfolio adjustments on debt securities classified under “stage 1” and “stage 2” amounted to 2,285 thousand euros and refer to the adjustments of the collective reserve allocated to account for contingent impairment of the bond portfolio.

Net adjustments for impairment of other financial transactions

The Financial Statements at 31 December 2017 included net adjustments for impairment of financial transactions amounting to 2,148 thousand euros were.

This amount consisted, almost exclusively, of the contributions made by the Bank to the Interbank Deposit Protection Fund (FITD), which used them as part of the bail-out of Caricesena, CARIM and CARISMI for the recapitalisation of the three banks before selling them to Cariparma.

Section 12 – General and administrative expenses - Item 190

Breakdown of general and administrative expenses

	2018	2017
190 a) Staff expenses	84,227	84,825
190 b) Other general and administrative expenses	162,494	149,765
Total	246,721	234,590

12.1 Breakdown of staff expenses

TYPE OF EXPENSES/SECTORS	2018	2017
1) Employees	82,743	83,480
a) Wages and salaries	47,154	45,117
b) Social security charges	11,490	11,285
c) Termination indemnity	662	615
d) Retirement benefit plans	-	-
e) Provision for termination indemnity	88	93
f) Provision for pensions and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) Amounts paid to supplementary external pension funds:	4,144	3,880
- defined contribution	4,144	3,880
- defined benefit	-	-
h) Costs related to payment agreements based on own equity instruments	2,183	2,278
i) Other employee benefits	17,022	20,212
2) Other staff	173	185
3) Directors and Auditors	1,311	1,138
4) Retired personnel	-	22
Total	84,227	84,825

12.2 Average number of employees by category

	2018	2017
Employees	871	862
a) Managers	50	48
b) Executives	267	261
of which:		
- 3 rd and 4 th level	151	150
c) Employees at other levels	554	553
Other employees	-1	1
Total	870	863

Breakdown of personnel

	2018	2017
Employees	868	873
a) Managers	52	48
b) Total executives	272	262
<i>of which:</i>		
- 3 rd and 4 th level	153	149
c) Employees at other levels	544	563
Other employees	-2	-
Total	866	873

12.4 Other employee benefits

	2018	2017
Short-term productivity bonuses	9,588	9,986
Long-term benefits	2,169	5,810
Charges for Relationship Manager recruitment plans	743	4,260
Charges for deferred variable remuneration (managers' MBO)	1,171	1,292
Charges for post-employment medical care plans	255	258
Other benefits	5,265	4,416
Charges for staff supplementary pensions	2,650	2,424
Amounts replacing cafeteria indemnities	947	862
Training expenses	816	764
Contributions to employees	315	260
Transfer incentives and other indemnities	315	-
Other expenses	222	106
Total	17,022	20,212

Short-term productivity bonuses include the portion of non-deferred variable remuneration payable in cash (MBO) for office and sales managers and portfolio managers, the performance bonus envisaged in company supplementary contracts and allocations in service of the 2018 plan for measures.

12.5 Breakdown of other general and administrative expenses

	2018	2017
Administration	18,823	18,102
Advertising	4,149	4,164
Audit fees	8,762	9,079
Corporate boards and auditing firms	548	433
Insurance	3,214	3,108
Entertainment expenses	924	412
Membership contributions	958	794
Charity	268	112
Operations	38,288	36,087
Rent and usage of premises and management of property	19,937	18,433
Outsourced administrative services	5,451	5,437
Post and telephone	2,528	2,356
Print material	1,444	1,329
Other expenses for sales network management	2,965	2,859
Other expenses and purchases	3,654	3,337
Other indirect staff expenses	2,309	2,336
Information system and equipment	40,919	37,423
Expenses related to outsourced IT services	28,528	26,813
Fees for IT services and databases	7,247	6,943
Software maintenance and servicing	4,261	2,869
Fees for equipment hired and software used	160	173
Other maintenance	723	625
Indirect taxation	56,849	53,415
Stamp duty on financial instruments	55,619	51,793
Substitute tax on medium/long-term financing	563	961
Other indirect taxes to be paid by the bank	667	661
Contributions to the Italian National Resolution Fund and the Interbank Protection Fund	7,615	4,738
Total	162,494	149,765

Section 13 – Net provisions for liabilities and contingencies - Item 200

13.1 Breakdown of net provisions for credit risk relating to commitment to disburse funds and financial guarantees issued

	2018			2017		
	PROVISIONS	SURPLUS	NET	PROVISIONS	SURPLUS	NET
Provisions for commitments and guarantees issued	-	-118	-118	-	-	-
Total	-	-118	-118	-	-	-

13.3 Breakdown of net provisions to other provisions for liabilities and contingencies

	2018			2017		
	PROVISIONS	SURPLUS	NET	PROVISIONS	SURPLUS	NET
Provision for staff expenses	1,655	-655	1,000	1,823	-2,616	-793
Provision for restructuring plan	697	-	697	-	-2,690	-2,690
Provision for staff expenses – Other ⁽¹⁾	958	-655	303	1,823	74	1,897
Provision for legal disputes	5,476	-2,937	2,539	6,932	-2,421	4,511
Provision for risks related to legal disputes with subscribers	1,875	-1,146	729	1,220	-1,333	-113
Provision for risks related to legal disputes with Financial Advisors	465	-	465	270	-38	232
Provision for risks related to legal disputes with staff	-	-	-	-	-50	-50
Provision for risks related to legal disputes with other parties	3,136	-1,791	1,345	5,442	-1,000	4,442
Provisions for termination indemnity – Financial Advisors	22,231	-1,664	20,567	13,993	-1,122	12,871
Provisions for risks related to termination indemnity - Financial Advisors	11,041	-1,122	9,919	9,146	-940	8,206
Provision for portfolio overfee indemnities	59	-472	-413	853	-46	807
Provision for pension bonuses	293	-70	223	485	-136	349
Provision for manager incentive indemnity	7,057	-	7,057	-	-	-
Provisions for Framework Loyalty Programme	3,781	-	3,781	3,509	-	3,509
Provisions for network incentives	28,546	-5,819	22,727	42,713	-1,469	41,244
Provision for network development plans	24,428	-5,764	18,664	31,411	-1,099	30,312
Provision for deferred bonus	187	-	187	186	-182	4
Provision for sales incentives	-	-	-	4,994	-	4,994
Provisions for managers with access gate	300	-	300	2,565	-188	2,377
Provision for incentive travels	3,251	-51	3,200	2,948	-	2,948
Provision for fee plans	380	-4	376	606	-	606
Provision for loyalty programme	-	-	-	3	-	3
Other provisions for liabilities and contingencies	1,364	-	1,364	1,390	-	1,390
Total	59,272	-11,075	48,197	66,851	-7,628	59,223

(1) Provisions for staff expenses do not include the items that are classified as “Staff expenses - Other benefits” in accordance with IAS 19.

Section 14 – Net adjustments/reversals of property and equipment - Item 210

14.1 Breakdown of net adjustments of property and equipment

ASSETS/INCOME COMPONENTS	DEPRECIATION	ADJUSTMENTS FOR IMPAIRMENT	REVERSALS	NET RESULT 2018	NET RESULT 2017
A. Property and equipment					
A.1 Owned	1,559	-	-	1,559	1,428
- operating	1,559	-	-	1,559	1,428
- investment	-	-	-	-	-
- inventories	-	-	-	-	-
A.2 Finance leases	-	-	-	-	-
- operating	-	-	-	-	-
- investment	-	-	-	-	-
Total	1,559	-	-	1,559	1,428

Section 15 – Net adjustments/reversals of intangible assets - Item 220

15.1 Breakdown of net adjustments of intangible assets

ASSETS/INCOME COMPONENTS	AMORTISATION	ADJUSTMENTS FOR IMPAIRMENT	REVERSALS	NET RESULT 2018	NET RESULT 2017
A. Intangible assets					
A.1 Owned	7,742	-	-	7,742	6,716
- generated in-house	-	-	-	-	-
- other	7,742	-	-	7,742	6,716
A.2 Finance leases	-	-	-	-	-
Total	7,742	-	-	7,742	6,716

Breakdown of value adjustments of intangible fixed assets - amortisation

	2018	2017
Charges associated with the implementation of legacy CSE procedures	5,977	4,062
Customer relationships	1,152	2,105
Other intangible fixed assets	613	549
Total	7,742	6,716

Section 16 – Other operating income and expenses - Item 230

16.1 Breakdown of other operating expenses

	2018	2017
Adjustments of leasehold improvements	2,074	1,646
Write-downs of other assets	-	37
Indemnities and compensation for litigation and claims	517	427
Charges from accounting adjustments with customers	1,154	1,275
Charges for card compensation and guarantees	14	7
Costs associated with tax disputes, penalties and fines	9	10
Other contingent liabilities and non-existent assets	810	1,139
Other operating expenses	133	-
Total	4,711	4,541

16.2 Breakdown of other operating income

	2018	2017
Recovery of taxes from customers	55,351	52,124
Recovery of expenses from customers	570	643
Fees for outsourced services	56	56
Charge-back of portfolio development indemnity to incoming Financial Advisors	1,922	1,601
Indemnities for Financial Advisors' termination without notice	562	199
Other recoveries of repayments and costs from Financial Advisors	1,269	1,001
Contingent assets related to provisions for staff expenses	1,823	1,524
Contributions to provision for employment in the banking sector (FOC) and the fund for staff training	226	232
Other contingent assets and non-existent liabilities	2,020	1,452
Insurance compensation and indemnities	134	303
Other income	215	285
Total	64,148	59,420
Total other net income	59,437	54,879

Section 17 – Gains (losses) of equity investments - Item 250

17.1 Breakdown of gains (losses) of equity investments

INCOME COMPONENTS/SECTORS	2018	2017
A. Gains	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Reversals	-	-
4. Other gains	-	-
B. Charges	-149	-151
1. Write-downs	-149	-151
2. Adjustments for impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net result	-149	-151

Write-downs on equity investments amounted to 149 thousand euros and related to the measurement using the equity method of the associate company IOCA Entertainment Ltd.

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

20.1 Breakdown of gains (losses) on disposal of investments

INCOME COMPONENTS/SECTORS	2018	2017
A. Buildings	-	-
Gains on disposal	-	-
Losses on disposal	-	-
B. Other assets	-282	-15
Gains on disposal	-	1
Losses on disposal	282	16
Net result	-282	-15

Section 21 – Income tax for the year for current operations - Item 300

21.1 Breakdown of income tax for the year for current operations

INCOME COMPONENTS/SECTORS	2018	2017
1. Current taxation (-)	-44,052	-41,743
2. Change in prior years' current taxes (+/-)	2,052	1,514
3. Reduction of current taxes for the year (+)	-	-
3-bis Reduction of current taxes for the year arising on tax credits, pursuant to Law No. No. of 214/2011 (+)	-	-
4. Changes of prepaid taxation (+/-)	1,058	6,377
5. Changes of deferred taxation (+/-)	1,308	-612
6. Taxes for the year (-)	-39,634	-34,464

21.2 Reconciliation between theoretical and actual tax expense

The following table reconciles the total amount of taxes due for the year, including both current and deferred taxes, as indicated in Item 300 of the Profit and Loss Account, and the theoretical corporate income tax IRES calculated by applying the 27.5% current applicable tax rate to profit before taxation.

It should be noted that the effects of the reduction of the IRES tax rate from 27.50% to 24% with effect from 1 January 2017 for tax periods after that in progress at 31 December 2016 by the "2016 Stability Law" were neutralised for the Bank as a result of the introduction by that same Law of a surtax of 3.5 percentage points on credit and financial institutions in respect of the same tax periods.

The reconciliation statement is therefore expressed based on higher or lower current and deferred taxes debited or credited to the Profit and Loss Account compared to the theoretical taxation.

	2018	2017
Current taxation	-44,052	-41,743
IRES	-34,999	-32,573
IRAP	-9,053	-9,164
Other	-	-6
Prepaid and deferred taxation	2,366	5,766
IRES	1,454	4,432
IRAP	912	1,334
Prior years' taxes	2,052	1,513
IRES	1,344	987
IRAP	708	526
Income taxes	-39,634	-34,464
Theoretical tax rate	27.5%	27.5%
Profit (loss) before taxation	219,760	238,570
Theoretical taxation	-60,434	-65,607
Non-taxable income (+)		
Dividends	229	390
ACE	900	758
Deductible IRAP and other	48	54
Non-deductible charges (-)		
Double taxation on 5% of Group's dividends	-2,045	-2,774
Impairment of equity securities PEX	-234	-493
Other non-deductible costs	-1,585	-1,816
IRAP	-8,141	-7,830
Rate change of companies under foreign law	29,525	41,389
Prior years taxes	2,052	1,513
Other (foreign) taxes	-	-6
Not related deferred tax assets and liabilities	92	-
Other consolidation adjustments	-41	-42
Actual tax expense	-39,634	-34,464
Total actual tax rate	18.0%	14.4%
Actual tax rate (IRES)	14.7%	11.4%
Actual tax rate (IRAP)	3.4%	3.1%

Section 25 – Earnings per Share

25.1 Average number of ordinary shares with diluted capital

	2018	2017
Net profit for the year (euro thousand)	180,126	204,105
Earnings attributable to ordinary shares (euro thousand)	180,126	204,105
Average number of outstanding shares (thousand)	115,784	116,482
EPS - Earnings per Share (euro)	1.56	1.75
Average number of outstanding shares with diluted capital (thousand)	115,784	116,482
EPS - Diluted earnings per share (euros)	1.56	1.75

PART D – CONSOLIDATED COMPREHENSIVE INCOME**Analytical Consolidated Statement of Comprehensive Income**

ITEMS	2018	2017
10. Net profit (loss) for the year	180,126	204,105
Other income, without transfer to Profit and Loss Account	-52	-111
20. Equity securities at fair value through other comprehensive income:	-	-
a) fair value changes	-	-
b) transfers to other net equity components	-	-
30. Financial liabilities at fair value through profit or loss (change in the own creditworthiness):	-	-
a) fair value changes	-	-
b) transfers to other net equity components	-	-
40. Equity security hedges at fair value through other comprehensive income:	-	-
a) fair value changes (hedged instrument)	-	-
b) fair value changes (hedging instrument)	-	-
50. Property and equipment	-	-
60. Intangible assets	-	-
70. Defined benefit plans	-71	-153
80. Non-current assets available for sale and disposal groups	-	-
90. Share of valuation reserves of equity investments valued at equity	-	-
100. Income taxes on other income, without transfer to Profit and Loss Account	19	42
Other income, with transfer to Profit and Loss Account	-25,635	12,778
110. Hedges of foreign investments:	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-	-
120. Exchange differences:	-18	-17
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-18	-17
130. Cash-flow hedges:	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-	-
<i>of which: result of net positions</i>	-	-
140. Hedging instruments (non-designated items):	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-	-
150. Financial assets (other than equity securities) at fair value through other comprehensive income:	-37,755	19,559
a) fair value changes	-22,899	22,913
b) transfer to Profit and Loss Account	-14,856	-3,354
- adjustments due to credit risk	1,208	11
- gains (losses) on disposal	-16,064	-3,365
c) other changes	-	-

ITEMS	2018	2017
160. Non-current assets available for sale and disposal groups:	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-	-
170. Share of valuation reserves of equity investments valued at equity:	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
- adjustments due to impairment	-	-
- gains (losses) on disposal	-	-
c) other changes	-	-
180. Income taxes on other income, with transfer to Profit and Loss Account	12,138	-6,764
190. Total other income components	-25,687	12,667
200. Comprehensive income (Items 10 + 190)	154,439	216,772
210. Consolidated comprehensive income attributable to minority interests	-	-
220. Consolidated comprehensive income attributable to the Parent Company	154,439	216,772

PART E – INFORMATION ON RISKS AND RISK HEDGING POLICIES

Foreword

The companies in the Banca Generali Banking Group included in the accounting consolidation scope are the same as those included in the prudential consolidation scope.

Section 1 – Accounting consolidation risks

Refer to Section 2 – Prudential consolidation risks for the qualitative information required by Circular 262 of 22 December 2005 – fifth update.

Quantitative Information

A. Credit quality

A.1 Credit exposures to non-performing and performing loans: balances, adjustments, performance and income breakdown

For the purposes of quantitative information about credit quality, credit exposures include the entire financial asset portfolio, regardless of the portfolio of allocation for accounting purposes, with the exception of equities and units of UCITS.

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

PORTFOLIOS /QUALITY	BAD LOANS	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE EXPOSURES	PERFORMING PAST-DUE EXPOSURES	OTHER PERFORMING EXPOSURES	TOTAL
1. Financial assets at amortised cost	21,473	10,555	4,793	22,962	6,114,515	6,174,298
2. Financial assets at fair value through other comprehensive income	-	-	-	-	1,978,314	1,978,314
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	20,690	20,690
5. HFS financial assets	-	-	-	-	-	-
Total at 31.12.2018	21,473	10,555	4,793	22,962	8,113,519	8,173,302
Total at 31.12.2017	23,892	39,232	9,326	41,949	7,728,073	7,842,472

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

PORTFOLIOS/QUALITY	NON-PERFORMING				PERFORMING			
	GROSS EXPOSURE	TOTAL ADJUSTMENTS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS ^(*)	GROSS EXPOSURE	TOTAL ADJUSTMENTS	NET EXPOSURE	TOTAL (NET EXPOSURE)
1. Financial assets at amortised cost	51,945	15,124	36,821	-	6,147,692	10,215	6,137,477	6,174,298
2. Financial assets at fair value through other comprehensive income	-	-	-	-	1,981,551	3,237	1,978,314	1,978,314
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	20,690	20,690
5. HFS financial assets	-	-	-	-	-	-	-	-
Total at 31.12.2018	51,945	15,124	36,821	-	8,129,243	13,452	8,136,481	8,173,302
Total at 31.12.2017	89,010	16,560	72,450	-	7,775,242	5,220	7,770,022	7,842,472

(*) Value to be indicated for disclosure purposes.

PORTFOLIOS/QUALITY	ASSETS WITH OBVIOUSLY POOR CREDIT QUALITY		
	CUMULATIVE CAPITAL LOSSES	NET EXPOSURE	OTHER ASSETS NET EXPOSURE
1. HFT financial assets	-	-	33,887
2. Hedging derivatives	-	-	-
Total at 31.12.2018	-	-	33,887
Total at 31.12.2017	-	-	49,015

B. Information on structured entities (other than securitisation companies)

The scope on consolidation of the Banca Generali Banking Group does not include structured entities, either consolidated or non-consolidated.

Section 2 – Prudential consolidation risks

The development of a genuine risk culture within Banca Generali is based upon an understanding of the risks that the Bank assumes and how they are managed, while always taking full account of the risk tolerance threshold defined in the Bank's Risk Appetite Framework (RAF).

In this context, the internal control system plays a key role in the risk management process, as well as in the Bank's corporate governance generally.

The internal control system is a set of rules, procedures and organisational structures aimed at ensuring compliance with Company strategies, while also seeking to achieve:

- > the efficiency and effectiveness of work processes;
- > the maintenance of asset value and protection against losses;
- > the reliability and integrity of accounting and operating information;
- > operational compliance with the law and supervisory regulations;
- > policies, plans, regulations and internal procedures; and
- > the dissemination of a culture of control involving training initiatives for the various levels.

The Banca Generali Banking Group has designed an internal control model consistent with best practices at the national and international levels and structured on three different organisational levels:

- > first-tier checks: they are performed by production or back-office company areas and organisational units, with the support of information technology procedures, where envisaged, and take the form of hierarchical or line checks;
- > second-tier checks: they aim at preventing and mitigating risks of different nature through prior risk assessment of products and business practices, and the development of ex-ante support to operating activities. The aforementioned checks are performed by the following functions:
 - the Risk and Capital Adequacy Department is tasked with identifying, measuring/evaluating and monitoring all the types of risks to which the Banking Group is exposed in terms of its own assets (excluding the risks of non-compli-

ance, money laundering and financing of terrorism), providing relevant information and thereby contributing to the definition and implementation of the Risk Appetite Framework, as well as all related risk management policies. The Department acts with a view to maintaining risk levels within the limits and tolerance thresholds indicated in the exposure profile and strategies established by the Board of Directors in the Risk Appetite Framework; it assures that risks are fully and transversally analysed, and to this end it applies a strategic, consistent and prospective approach and duly provides periodic reports;

- Compliance Service: it is tasked with verifying the observance of obligations relating to the provision of services for Banking Group companies and preventing and managing the risk of non-compliance with applicable legislation;
 - Anti-Money Laundering Service: it is responsible, within the Banking Group, for preventing and combating transactions involving money laundering and financing of terrorism;
- > third-tier checks: they are conducted by the Internal Audit Department and are aimed at an independent verification of the operating efficacy and quality of control systems and the verification of any conduct departing from the established rules.

The proper functioning of the risk governance system adopted by the Banca Generali Group is ensured by consistency from the standpoint of organisational structure, competencies and a guarantee of the independence of functions.

Within the internal control system, it is possible to identify the second tier as the home to an internal risk management culture that then effectively translates into company behaviour and choices.

The following entities operate within the Internal Control System, in addition to the tasks assigned to the Board of Directors, the control body and the independent auditors (who are responsible for accounting control):

- > the Audit and Risk Committee, which was set up pursuant to the Corporate Governance Code of Listed Companies and supervisory regulations, and is tasked with performing a supporting role, with investigative, propositional and advisory duties in relation to the Board of Directors and the Board of Statutory Auditors, in particular on matters of internal control and risk management, related parties and connected parties, statutory auditing and equity investments. The tasks and functions of the Committee, as well as the frequency of its meetings and the operating procedures to be followed to ensure that its duties are smoothly and properly performed, shall be regulated pursuant to specific Internal Audit and Risk Committee Rules;
- > the Risks Committee is charged with ensuring coordinated coverage of the system for managing and controlling the risks assumed by the Group in compliance with the Risk Appetite Framework; it is vested with specific responsibility for monitoring the Group's risks, such as the management of risk containment measures, as well as decision-making powers for identifying and implementing said measures;
- > the Supervisory Body, which is the corporate body in charge of updating the Organisational and Management Model and monitoring the implementation of and compliance with the said Model;
- > the Law 262 Organisational Unit, which acts as a point of reference, orienting and coordinating the management of all the Banking Group's administrative and accounting risks, for the intents and purposes of Law No. 262/2005.

1.1 Credit Risk

Qualitative Information

1. General Aspects

Credit risk is defined as the possibility that an unexpected variation in the creditworthiness of a counterparty may result in a corresponding unexpected variation in the current value of the loan exposure. Credit risk thus manifests as a decline in the counterparty's creditworthiness (migration or downgrading risk) and the risk of insolvency.

With regard to credit risk management, the Group has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group's risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

Credit risk exposure derives from loans to customers, which include current accounts and mortgage loans and unsecured loans to individuals and businesses, operating receivables, financial instruments classified in the Hold To Collect portfolio (IFRS 9) and then valued at amortised cost, and liquidity invested on the money market through interbank deposits.

If one focuses on customer loans in the traditional form of current account credit lines and loans, one can see that this activity, in Banca Generali, is an accessory function to the core activity consisting of managing investment services for private customers.

Credit is provided primarily to private customers (70%) and the rest to companies (about 30%), with a high credit rating. The first case focuses on credit lines secured by collateral, primarily in the form of pledges on financial instruments and

first mortgages on residential properties; the second case, corporate customers, concerns transactions secured almost exclusively by collateral on financial instruments.

The Group has also formally defined lending policy guidelines within the Lending Rules and Procedures of Banca Generali S.p.A. that assign specific responsibilities to each company unit involved.

The Group has defined an extensive system of powers and limits associated with loan authorisation. In this context, detailed levels of autonomy have been defined and formalised regarding the authorisation powers resting with the various decision-making levels together with specific operating procedures.

In terms of the monitoring of loans, after they have been disbursed, the Group has assigned specific tasks pertaining to timely monitoring of outstanding loan positions.

First-tier control activities are conducted by the Lending Department and the Finance Department, which is responsible for lending operations involving institutional borrowers (loans to banks) and securities investment operations, which are considered when defining the Group's overall credit exposure.

The second-tier control activities are the responsibility of the Risk and Capital Adequacy Department which ensures that the operations, strategies and Risk Appetite Framework (RAF), approved by the Bank's Board of Directors, are coherent. In the specific case of portfolios of loans to retail and corporate counterparties, the Risk and Capital Adequacy Department is tasked with identifying, measuring, assessing, monitoring and managing credit risk through performance monitoring aimed at identifying any anomalies or substantial changes in the trend in the portfolio of reference in order to obtain an overview of the risk profile of the portfolio in question, prepare timely, adequate information for company bodies and report any anomalies in first-tier monitoring.

Moreover, particular importance is placed on managing the credit risk associated with institutional borrowers. These borrowers are allocated appropriate credit lines, which are monitored by the Risk Department and established with the objective of always maintaining a level of risk that is consistent with the strategies and the risk appetite framework.

Third-tier controls are conducted by the Internal Audit Service, in accordance with the Internal Rules and Procedures.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the credit risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

2. Credit Risk Management Policies

2.1 Organisational aspects

The Bank's processes provide for the retail and corporate customer credit activity to be run by the Credit Department and loans to institutional counterparties and banks to be run by Banca Generali's Finance Department.

The Lending Department is tasked with issuing loans to retail and corporate customers, since it is responsible for loan approval and outstanding loan management, as provided for in the Lending Rules and Regulations.

2.2 Management, measurement and control systems

In addition to issuing loans, the Lending Department is also charged with credit managing and first-tier control, with a special focus on the performance of doubtful loans.

Within the Lending Department, responsibility for monitoring is assigned to specialised individual units on the basis of the supervisory classification of customers (performing and non-performing). The purpose of this is to maximise the efficacy of the actions aimed at monitoring and mitigating credit risk and managing the commercial relationship.

The Bank's loan portfolio has a low incidence of non-performing loans (NPLs), compared with both the previous year and the total portfolio, and a rather high level of quality in terms of the creditworthiness of performing loans. The Bank uses a management rating model to manage the creditworthiness of its counterparties in quantitative terms. An analysis of the distribution by rating class shows an improvement in the distribution by class compared with the previous year in terms of both the number of counterparties and exposure amounts.

As mentioned above, at the end of 2018 the NPL portfolio declined compared to the end of 2017 due to the closing of part of the portfolio with a recovery and the effect of the new credit granting and monitoring policies.

The improvement seen in the quality of the portfolio was also due to the thorough revision of credit processes launched in 2017 and rendered operational in January 2018 with the update of the loan authorisation and renewal policy, the release of the new Quiclic Credit Platform and full use of the Lombard loan form (inclusion in the range in Q4 2017), all accompanied by the Bank's efforts to provide information and training to the network in order to spread the fundamental principles that form the basis for the credit process. The positive effects of all these initiatives made it possible to ensure timely alignment of credit activity with the new supervisory guidelines, pursued alongside the goals of credit product quality and competitiveness.

In accordance with the revamped loan authorisation policies, in Q4 2018 the Bank also began to introduce new credit pricing policies, differentiated by type of exposure and assessment of customer creditworthiness.

In 2019 the Bank plans to intensify the efforts it began in 2018 through even more thorough monitoring of the performance of the credit risk associated with individual positions made possible by new developments in the relevant IT procedures and organisational units – activities capable of ensuring further improvement of portfolio quality, while also effectively supporting the network in its relationships with customers.

The credit risk on the securities portfolio is very low since it predominantly consists of government and bank-issued securities. The corporate securities in the portfolio are negligible.

2.3 Expected loss measurement methods

Following the introduction of the accounting standard IFRS 9, the Bank has adopted an impairment model based on the concept of expected losses, which makes it possible to determine adjustments to loans on the basis of the parameters PD (probability of default) and LGD (loss given default) in forward-looking and point-in-time terms. Such value adjustments are determined over a time horizon of one year in the event of positions classified to Stage 1, or on a lifetime horizon, in the event of positions classified to Stage 2.

The stage assignment criteria for the portfolio of loans to customers in the traditional form of account overdrafts and mortgage/unsecured loans take account of the counterparty's status, any forbearance measures, decline in creditworthiness compared with origination and limits exceeded for more than 30 days.

When calculating impairment, the probability of default is determined on the basis of the counterparty's rating class (the Bank adopts a management rating model, developed with the CSE consortium) and the residual term of the loan. LGD is instead largely determined on the basis of loan type and counterparty type and whether certain guarantees are present. Finally, the parameter EAD (exposure at default) is equal to the accounting balance for demand positions, individual contractual cash flows discounted according to the internal rate of return for term positions and the accounting balance adjusted by the regulatory credit conversion factor (CCF) for off-balance sheet exposures.

Within the debt securities portfolio, securities classified to the held to collect and the held to collect and sell portfolios that have passed the SPPI test are tested for impairment.

When calculating impairment, it is fundamental to classify the staging of individual positions in order to identify any decline in creditworthiness (credit quality) between the purchase of the security and the reporting date. This process (stage assignment) determines the residual quantities and the date with which to associate the credit quality/rating upon purchase, to be compared with the credit quality/rating observed at the reporting date for the purposes of identifying any "significant decline" in credit quality.

The impairment of securities subject to the IFRS 9 rules is calculated according to the following variables:

- > PD: the model adopted for calculating the probability of default (PD) to be applied to the proprietary portfolio within the impairment scope is based on an estimate of a term structure default probability for each security. The component representing the remuneration for operator risk is eliminated from default probability measures so as to isolate the credit component (this is known as the "real world approach");
- > LGD: the estimate of the loss given default (LGD) to be applied to the portfolio is calculated according to a deterministic approach in which the LGD parameter is assumed to be constant over the financial asset's entire time horizon as a function of the ranking of the instrument and the classification of the issuer's country;
- > EAD: in the case of the proprietary finance portfolio, reference is made to the nominal value, inclusive of the coupon accrued at the measurement date, discounting both values at the security's rate of return.

2.4 Credit Risk Mitigation Techniques

With regard to the portfolio of loans to retail and corporate customers, in order to mitigate credit risk, collaterals - or more sporadically personal guarantees - are typically required to secure the loans granted.

Collaterals are chiefly in the form of pledges on securities, including discretionary mandates, funds and insurance products. As limited to certain segments of customers (Group's employees and Financial Advisors), mortgages are also acquired, almost exclusively in residential properties used as a primary residence: on a conservative basis, they are registered in an amount in excess of the obligation they secure. Where securities are used as collateral, a volatility haircut is normally applied to the value of the collateral upon the disbursement of the loan and its market value then periodically monitored.

Banca Generali also benefits from an additional master guarantee, known as an indemnity, provided by BSI SA, now EFG Bank AG as a result of the merger of the two institutions in 2017, for the entire loan portfolio originating with Banca del Gottardo Italia acquired by BSI Italia S.p.A. on 1 October 2008.

This guarantee, which is similar to a first-demand bank guarantee, covers all loans and any associated losses sustained from acquisition until 31 December 2009. After such date, the indemnity was maintained for those positions managed with the aim of recovery and those positions that showed a default event for which payment of the indemnity was requested from the guarantor, BSI SA, today EFG Bank AG.

At 31 December 2018, the guarantee covers positions other than bad loans of approximately 140 thousand euros and bad loan positions of approximately 19 million (see paragraph 3. Non-performing past due exposures).

Finally, as for credit card issuance, in 2018 the Bank continued to follow a very conservative policy, aimed almost exclusively at households.

In 2018, in accordance with the changed regulatory environment, which necessitates increasingly close attention to credit quality – such as the guidelines for non-performing loans issued by the EBA and ECB – and with the action plan to increase the efficiency of and implement more streamlined credit processes consistent with the regulators’ guidelines and the accounting standard IFRS 9, which entered into force on 1 January 2018, a new procedural and IT framework was defined to ensure a nimbler, more systematic credit process, reduce processing times and contain loan review and case conclusion anomalies.

The grounding of this strategy during the year and the consolidation of the initiatives launched in 2017, in addition to the creation of a unit dedicated to monitoring and managing anomalous positions, permitted a net reduction in non-performing exposures, which at the end of 2018 had been essentially halved (from 72,450 thousand euros net at the end of 2017 to 36,821 thousand euros net).

Banca Generali thus further focused its lending business - which is instrumental to its ability to attract and manage customer assets - on creditworthy borrowers, with the aim of eliminating assets that, despite being secured, may prove problematic and costly to manage.

An additional objective for the coming year will be to complete the Quiclic credit platform to include the features required to increase the efficiency of the process of reviewing, approving and concluding loan applications.

3. Credit exposures to non-performing loans

3.1 Management strategies and policies

Non-performing financial assets are classified into default categories in accordance with the instructions issued by the regulatory authority, as provided for in Bank of Italy Circular Letter No. 272 dated 20 July 2008 (as subsequently amended).

The process of identifying doubtful positions requires constant monitoring of positions. When limits are exceeded, various debt procedures are triggered. In general, considering that the vast majority of positions are secured by pledges of financial instruments, there are no residual debt exposures once the enforcement procedure has been concluded. If the exposure is unsecured or there is a residual unsecured exposure, the Bank avails itself of the services of major debt collection agencies.

Expected losses are formulated specifically for each position on the basis of all relevant valuation elements (debtor’s assets, earned income, date of expected recovery, etc.), with the exception of unsecured positions classified as past due and unlikely to pay of amounts less than 10 thousand euros, which are subject to impairment at a standard rate.

On-balance sheet net non-performing loans (hereinafter also referred as “NPLs”) (see table A.1.1) totalled 36,821 thousand euros, of which:

- > bad loans of 21,473 thousand euros, of which 19,787 thousand euros (92.1%) covered by indemnities, 1,625 thousand euros (7.6%) secured by mortgages and 61 thousand euros (0.3%) not secured or secured by personal guarantees;
- > unlikely-to-pay loans of 10,555 thousand euros, of which just 629 thousand euros (6%) actually at risk, and 9,926 thousand euros (94%) are secured by collateral or similar guarantees⁶;
- > non-performing past-due loans of 4,793 thousand euros, of which 4,691 thousand euros (97.8%) secured by collateral or similar guarantees and 102 thousand euros not secured.

Net non-performing loans may be broken down as follows:

- > about 53.7% (19,787 thousand euros) of exposures referring to Banca del Gottardo Italia’s customers and guaranteed by indemnity issued by the seller BSI S.A., now EFG Bank AG; as described above, these exposures do not entail any risk for the Bank. Therefore, no adjustments were made to these positions with respect to the impairment already carried out by Banca del Gottardo Italia;
- > about 46.3% (17,034 thousand euros) of exposures for which the Bank is at risk, almost all of which are secured by pledges or mortgages.

Excluding positions covered by indemnities - which, as mentioned above, are without risk for Banca Generali - non-performing cash positions amounted to 17,034 thousand euros, representing 0.3% of total net loans to customers. However, considering positions secured by collateral or similar guarantees, which at 16,243 thousand euros make up approximately 95% of total net non-performing loans, 791 thousand euros of net non-performing loans are not secured by collateral, representing 5% of total net non-performing loans and an entirely marginal fraction of total net loans to customers (0.01%).

In 2018, the NPL portfolio contracted considerably owing to the closure of several significant positions due to repayment or enforcement of security interests, in addition to the closure of several “ex indemnity” positions that had been classified among non-performing loans.

⁶ “Similar guarantees” refer to authorisation to redeem insurance policies.

In particular, these consisted of three positions totalling 12 million euros covered by indemnities (of which 8 million euros relating to the closure of a single position) and ten fully secured positions totalling 29.6 million euros recovered through repayment or enforcement of pledges (11 million euros is attributable to a single position secured by a pledge that was repaid in full).

3.2 Write-offs

The Banking Group has not adopted any write-off policy.

3.3 Acquired or originated impaired financial assets

The Banking Group's portfolio does not include acquired or originated impaired financial assets.

4. Financial assets subject to commercial renegotiations and forbore exposures

A forbearance measure is an amendment of the original contractual conditions or refinancing granted to a customer in a situation of financial distress in respect of a credit position, which would not have been granted if the customer had not been in such a situation and/or that, conversely, would have resulted in default by the customer had they not been granted.

The Bank takes an individual measurement approach to each exposure. The Bank considers an exposure forbore when one of the following conditions has been met:

- a) the amended contract has been fully or partially past due by more than 30 days at least once in the three months prior to the contractual amendment or would have been fully or partially past due by more than 30 days without the amendment;
- b) at or around the same time as an additional loan is granted, the customer repays the principal or pays the interest on another contract fully or partially past due by 30 days at least once in the three months prior to the refinancing;
- c) the Bank approves the use of contractual clauses ("embedded clauses") in which the customer is past due by 30 days or the debtor would have been past due by 30 days without the exercise of such clauses.

This assessment is performed by a specific specialised unit of the Lending Department.

At 31 December 2018, outstanding forbore exposures were mostly classified as performing (98.7%), with the remainder classified as non-performing (4.3%). All were secured by collateral (primarily pledges) or similar security interest.

In support of the effectiveness and quality of the forbearance measures granted, it should be emphasised that in 2018, due to the consolidation of the mass revision of the entire portfolio of outstanding loans, launched in 2017, in accordance with the changed regulatory environment, it was possible to achieve a net reduction in exposures subject to forbearance measures (86 million euros at 31 December 2018, compared with 104 million euros as at 31 December 2017), due to the elimination of various positions as a result of repayment in full.

Exposures subject to forbearance measures at 31 December 2018 almost all had a level of seniority of less than 24 months and mostly (approximately 73%) consisted of exposures in amortisation and, to a lesser extent, committed on balance sheet exposures.

As for the impact on the net present value of the contractual cash flows of the forbearance measures granted over a period of 24 months, given the nature of the renegotiation operations subject to forbearance measures, represented essentially by the renegotiation of the committed on-balance sheet exposure in amortising loans with a final variable rate, the impact of such exposures on net present value is believed not to be material.

Quantitative information

A. Credit quality

A.1 Credit exposures to non-performing and performing loans: balances, adjustments, performance, and income breakdown

A.1.1 Prudential consolidation - Breakdown of financial assets by maturity brackets (book value)

PORTFOLIOS/RISK STAGES	STAGE 1			STAGE 2			STAGE 3		
	OVER 1 DAY, UP TO 30 DAYS	OVER 30 DAYS, UP TO 90 DAYS	OVER 90 DAYS	OVER 1 DAY, UP TO 30 DAYS	OVER 30 DAYS, UP TO 90 DAYS	OVER 90 DAYS	OVER 1 DAY, UP TO 30 DAYS	OVER 30 DAYS, UP TO 90 DAYS	OVER 90 DAYS
1. Financial assets at amortised cost	10,752	-	1	2,400	7,188	2,621	852	49	26,912
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total at 31.12.2018	10,752	-	1	2,400	7,188	2,621	852	49	26,912

A.1.2 Prudential consolidation: Financial assets, commitments to disburse funds and financial guarantees issued: changes in total adjustments and total provisions

CAUSES/RISK STAGES	TOTAL ADJUSTMENTS											TOTAL PROVISIONS FOR COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED					
	ASSETS ALLOCATED TO STAGE 1			ASSETS ALLOCATED TO STAGE 2				ASSETS ALLOCATED TO STAGE 3				OF WHICH: ACQUIRED OR ORIGINATED IMPAIRED FINANCIAL ASSETS	STAGE 1	STAGE 2	STAGE 3	TOTAL	
	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	OF WHICH: INDIVIDUAL WRITE-DOWNS	OF WHICH: COLLECTIVE WRITE-DOWNS	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	OF WHICH: INDIVIDUAL WRITE-DOWNS	OF WHICH: COLLECTIVE WRITE-DOWNS	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	OF WHICH: INDIVIDUAL WRITE-DOWNS		OF WHICH: COLLECTIVE WRITE-DOWNS				
Total adjustment at year-start	3,443	-	-	3,443	1,778	-	-	1,778	16,560	-	16,560	-	-	444	17	-	22,242
Increases from acquired or originated financial assets	2,398	1,287	-	3,685	68	39	-	107	857	-	857	-	-	15	2	-	4,666
Cancellations other than write-offs	-112	-1,066	-	-1,178	0	-11	-	-11	-	-	-	-	-	-	-	-	-1,189
Net adjustments/reversals for credit risk (+/-)	2,075	931	-	3,006	-119	28	-	-91	-574	-	-574	-	-	-121	-14	-	2,206
Contractual changes without cancellations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the assessment methods	62	1,922	-	1,984	621	108	-	729	-	-	-	-	-	-290	33	-	2,456
Write-offs not directly recognised through profit and loss	-	-	-	-	-	-	-	-	-1,719	-	-1,719	-	-	-	-	-	-1,719
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total adjustments at year-start	7,866	3,074	-	10,940	2,348	164	-	2,512	15,124	-	15,124	-	-	48	38	-	28,662
Recovery from collection of written off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs directly recognised through profit and loss	-	-	-	-	-	-	-	-	7	-	7	-	-	-	-	-	7

Pursuant to IFRS 7, paragraph 35H, letter b) (iii), it is reported that the final total adjustments to Stage 2 trade receivables amounted to approximately 11 thousand euros and did not change considerably from their initial levels.

The increase of adjustments in stage 1 and stage 2 was largely attributable to the lower creditworthiness of Italian government bonds as a result of the new criteria for calculating forward-looking probabilities of default (PD) on the basis of market data adopted following the transition to IFRS 9.

A.1.3 Prudential consolidation: Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the different credit risk stages (gross and nominal values)

PORTFOLIOS/RISK STAGES	GROSS AMOUNTS/NOMINAL VALUE					
	TRANSFERS BETWEEN STAGE 1 AND STAGE 2		TRANSFERS BETWEEN STAGE 2 AND STAGE 3		TRANSFERS BETWEEN STAGE 1 AND STAGE 3	
	FROM STAGE 1 TO STAGE 2	FROM STAGE 2 TO STAGE 1	FROM STAGE 2 TO STAGE 3	FROM STAGE 3 TO STAGE 2	FROM STAGE 1 TO STAGE 3	FROM STAGE 3 TO STAGE 1
1. Financial assets at amortised cost	60,259	170,867	1,925	-	4,943	-
2. Financial assets at fair value through other comprehensive income	-	2,557	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	5,834	-	50	-	47	-
Total at 31.12.2018	66,093	173,424	1,975	-	4,990	-

A.1.4 Prudential consolidation: cash and off-balance sheet credit exposures with banks: gross and net values

TYPES OF EXPOSURES/VALUES	GROSS EXPOSURE		TOTAL VALUE ADJUSTMENTS AND TOTAL PROVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS ^(*)
	NON-PERFORMING	PERFORMING			
A. Cash exposure					
a) Bad loans	-	X	-	-	-
<i>of which: forborne exposures</i>	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
<i>of which: forborne exposures</i>	-	X	-	-	-
c) Non-performing past-due exposures	-	X	-	-	-
<i>of which: forborne exposures</i>	-	X	-	-	-
d) Performing past-due exposures	X	-	-	-	-
<i>of which: forborne exposures</i>	X	-	-	-	-
e) Other performing exposures	X	635,551	686	634,865	-
<i>of which: forborne exposures</i>	X	-	-	-	-
Total A	-	635,551	686	634,865	-
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	258	-	258	-
Total B	-	258	-	258	-
Total (A + B)	-	635,809	686	635,123	-

(*) Value to be indicated for disclosure purposes.

Cash exposures with banks include all cash financial assets claimed from banks, regardless of the portfolio of allocation for accounting purposes: financial assets at amortised cost, financial assets measured at fair value through other comprehensive income, financial assets designated at fair value and other financial assets mandatorily valued at fair value.

Off-balance sheet exposures include all financial transactions other than cash transactions, such as financial derivatives, guarantees issued and commitments, that entail the assumption of credit risk, determined on the basis of the measurement criteria established by the Bank of Italy.

A.1.5 Prudential consolidation: cash and off-balance sheet credit exposures with customers: gross and net values

TYPES OF EXPOSURES/VALUES	GROSS EXPOSURE		TOTAL VALUE ADJUSTMENTS AND TOTAL PROVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS (*)
	NON-PERFORMING	PERFORMING			
A. Cash exposures					
a) Bad loans	35,022	X	13,549	21,473	-
<i>of which: forborne exposures</i>	-	X	-	-	-
b) Unlikely to pay	11,849	X	1,294	10,555	-
<i>of which: forborne exposures</i>	3,032	X	595	2,437	-
c) Non-performing past-due exposures	5,074	X	281	4,793	-
<i>of which: forborne exposures</i>	657	-	14	643	-
d) Performing past-due exposures	X	23,186	224	22,962	-
<i>of which: forborne exposures</i>	X	2,204	41	2,163	-
e) Other performing exposures	X	7,524,618	12,575	7,512,043	-
<i>of which: forborne exposures</i>	X	84,567	352	84,215	-
Total A	51,945	7,547,804	27,923	7,571,826	-
B. Off-balance sheet credit exposures					
a) Non-performing	31	X	-	31	X
b) Performing	X	275,152	86	275,066	-
Total B	31	275,152	86	275,097	-
Total (A + B)	51,976	7,822,956	28,009	7,846,923	-

(*) Value to be indicated for disclosure purposes.

Cash exposures with customers include all cash financial assets claimed from customers, regardless of the portfolio of allocation for accounting purposes: financial assets at amortised cost, financial assets measured at fair value through other comprehensive income, financial assets designated at fair value and other financial assets mandatorily valued at fair value. Off-balance sheet exposures include all financial transactions other than cash transactions, such as financial derivatives, guarantees issued and commitments, that entail the assumption of credit risk, determined on the basis of the measurement criteria established by the Bank of Italy.

All non-performing off-balance sheet exposures refer to positions entirely secured by pledges.

Bad loans

Gross bad loans amounted to 35,022 thousand euros and included 13,549 thousand euros of value adjustments; therefore, net bad loans recognised totalled 21,473 thousand euros.

Of this amount, 19,787 thousand euros (92.1%) related to positions attributable to former Banca del Gottardo Italia's customers, fully covered by cash collateral deposits granted by BSI S.A., now EFG Bank AG, as part of the indemnity guarantee.

Therefore, net bad loans to remaining ordinary customers amounted to 1,680 thousand euros, equal to about 7.8% of total net bad loans and 0.03% of total net loans to customers.

Considering bad loans secured by mortgages, which amounted to 1,625 thousand euros, the residual net bad loans amount to 55 thousand euros.

Moreover, it should be noted that bad loans also include the exposure relating to the Alitalia bond allocated to the HTC portfolio and deemed almost entirely no longer recoverable due to the airline's serious state of crisis. In the Financial Statements at 31 December 2018, the net exposure amounted to 6 thousand euros.

The item (see table A.1.7) decreased by 3,830 thousand euros gross, due to gross collections and write-offs of 4,755 thousand euros, offset by increases of 925 thousand euros.

The most significant items in terms of non-performing loan inflows are represented by a gross increase of 789 thousand euro related primarily to interest on positions secured by indemnities, and 122 thousand euro for transfers from other categories of impaired exposures relating to about 20 marginal amount positions which are all at the Bank's risk. The residual amount of 14 thousand euros can, instead, be related to a single position at the Bank's risk resulting from a non-impaired class.

The reductions, on the other hand, include cancellations of 1,270 thousand euros and 3,485 thousand euros received, the most significant amounts of which are all secured by pledges or indemnities.

Unlikely to pay

At 31 December 2018 gross unlikely-to-pay loans amounted to 11,849 thousand euros (in sharp decline compared to 28,573 thousand euros in 2017), subject to impairment losses of 1,294 thousand euros, resulting in a net balance of 10,555 thousand euros.

In particular, attention should be drawn to the decline (in gross terms) of 34,601 thousand euros, due to collections of 28,986 thousand euros, attributable to several counterparties with significant exposures secured by collateral or similar security interests (73%) and a position secured by an indemnity (of 5,165 thousand euros), which were definitively recovered, and positions of 5,106 thousand euros reclassified from UTP to performing status.

The increases of 6,028 thousand euros refer for 1,113 thousand euros to increases in positions already classified as non-performing and for 4,915 thousand euros to new positions from performing categories, broken down as follows: exposures secured by collateral or similar security interests of 3,487 thousand euros (71%), exposures secured by personal guarantees of 890 thousand euros and unsecured exposures of 538 thousand euros (the latter referring to just over one thousand positions).

Non-performing past-due exposures

Non-performing past-due exposures amounted to 5,074 thousand euros, subject to impairment losses of 281 thousand euros, yielding a net balance of 4,793 thousand euros. The net aggregate mainly included:

- > exposures, largely secured by pledges or, to a marginal extent, by assignment of policies, amounting to 4,618 thousand euros;
- > other unsecured exposures with an average balance per position of approximately 2,500 euros.

Performing past-due exposures

Performing past-due exposures include also positions past due or expired by more than 90 days, for which the outstanding amount does not exceed the materiality threshold of 5% of the overall loan granted, in compliance with the provisions set forth in Bank of Italy Circular Letter No. 272.

In almost all cases, these are positions guaranteed by pledges of securities found to be expired at the reporting date and currently being repaid.

At year-end, this aggregate stood at 23,186 thousand euros, broken down as follows:

- > 13,558 thousand euros for positions that were already settled in the first 50 days of operations of the current year;
- > 2,592 thousand euros for 16 positions currently subject to recovery procedures;
- > 6,548 thousand euros of positions secured by collateral - almost exclusively consisting of pledges of financial instruments, and to a lesser extent, a mandate to collect insurance policy premiums or mortgages - regarding outstanding balances in excess of the approved credit limits due to interest charges or extended positions subject to repayment plans;
- > 388 marginal positions totalling 488 thousand euros, with an average amount past due of approximately 500 euros each, subject to debt recovery procedures or written off when deemed uncollectible.

A.1.7 Prudential consolidation - Cash credit exposure with customers: changes in gross non-performing exposures

CAUSES/CATEGORIES	BAD LOANS	UNLIKELY TO PAY	NON PERFORMING PAST DUE EXPOSURES
A. Gross exposure at year-start	38,852	40,423	9,735
- of which: exposures transferred but non written off	-	-	-
B. Increases	925	6,028	5,198
B.1 Inflows from performing exposures	14	4,915	4,783
B.2 Inflows from acquired or originated impaired financial assets	-	-	-
B.3 Transfers from other categories of non-performing exposures	122	23	-
B.4 Contractual changes without cancellations	-	-	-
B.5 Other increases	789	1,090	415
C. Decreases	4,755	34,602	9,859
C.1 Outflows to performing exposures	-	5,106	6,636
C.2 Write-offs	1,270	14	28
C.3 Repayments received	3,485	28,986	2,990
C.4 Gains on disposals	-	-	-
C.5 Losses on disposals	-	-	-
C.6 Transfer to other categories of non-performing exposures	-	56	166
C.7 Contractual changes without cancellations	-	-	-
C.8 Other decreases	-	440	39
D. Gross exposure at year-end	35,022	11,849	5,074
- of which: exposures transferred but non written off	-	-	-

With regard to outflows, collections were primarily represented by the following:

1. bad loans of 3,485 thousand euros relating to two positions covered by indemnities issued by the seller, then BSI S.A., currently EFG Bank AG, closed by enforcing the indemnity agreement;
2. unlikely to pay positions of 28,986 thousand euros, of which approximately 11 million euros attributable to a single position secured by a pledge, repaid in full, and 5.2 million euros attributable to a position secured by an indemnity recovered through enforcement and collection of the indemnity; they also include two positions of significant amounts (approximately 8 million euros) secured by a pledge and recovered through repayment and two positions totalling approximately 3.4 million euros, recovered through enforcement against the pledged assets;
3. non-performing past-due loans of 2,990 thousand euros, of which over 1 million euros attributable to a single position secured by a pledge recovered through repayment.

A.1.7-bis Prudential consolidation: Cash credit exposures with customers: changes in gross forborne exposures, broken down by credit quality

CAUSES/QUALITY	NON-PERFORMING EXPOSURES WITH FORBEARANCE MEASURES	PERFORMING FORBORNE EXPOSURES
A. Gross exposure at year-start	7,836	104,880
- of which: exposures transferred but non written off	-	-
B. Increases	4,081	35,361
B.1 Inflows from performing non-forborne exposures	2,795	32,468
B.2 Inflows from performing forborne exposures	689	X
B.3 Inflows from non-performing exposures with forbearance measures	X	1,070
B.4 Other increases	597	1,823
C. Decreases	8,236	53,754
C.1 Outflows for performing non-forborne exposures	X	28,179
C.2 Outflows to forborne performing exposures	1,070	X
C.3 Outflows to non-performing exposures with forbearance measures	X	689
C.4 Write-offs	-	-
C.5 Repayments received	6,694	24,547
C.6 Gains on disposals	-	-
C.7 Losses on disposals	-	-
C.8 Other decreases	472	339
D. Gross exposure at year-end	3,681	86,487
- of which: exposures transferred but non written off	-	-

Forborne exposures

Forborne exposures consist largely of performing positions of 86,487 thousand euros gross, fully secured by collateral or similar security interests, the result of the consolidation in 2018 of the portfolio review and enhancement process. A residual share consists of non-performing forborne exposures of 3,681 thousand euros gross (accounting for 4% of total performing and non-performing forborne exposures), almost all of which were fully secured by pledges.

In particular, total non-performing on-balance sheet forborne positions declined by 4,155 thousand euros overall (in gross terms) due to the net effect of inflows (4,081 thousand euros) and outflows (8,236 thousand euros).

The increases in the portfolio are attributable to the reclassification of 2,795 thousand euros of positions previously classified as performing positions to non-performing forborne status, the reclassification of positions already considered forborne to non-performing status for 689 thousand euros, and other increases in the exposure to positions already classified to non-performing forborne status for 597 thousand euros.

The decrease in the portfolio was due to the reclassification of 1,070 thousand euros to performing forborne status and the repayment or enforcement of security interests for positions totalling 6,694 thousand euros. The highest amount among Repayment received is an outflow against the full recovery of a position classified amongst unlikely to pay, subject to forbearance in the form of turnaround agreements (pursuant to Article 67, paragraph 3, of the Bankruptcy Law) and associated with the portfolio guaranteed by the seller EFG Bank AG (indemnity granted by BSI S.A.), thus with no risk for Banca Generali.

Performing on-balance sheet forborne exposures declined by 18,393 thousand euros overall due to the combination of new forbearance measures for performing exposures (32,468 thousand euros), outflows following the cure period of non-performing forborne positions (1,070 thousand euros) and changes in positions previously classified to performing forborne status (1,823 thousand euros). The decreases were primarily due to the conclusion of forbearance measures of 28,179 thousand euros and repayments of 24,547 thousand euros.

A.1.9 Prudential consolidation - Cash credit exposures to non-performing loans with customers: changes in total adjustments

CAUSES/CATEGORIES	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST-DUE EXPOSURES	
	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES
A. Total adjustments at year-start	14,960	-	1,191	42	409	5
- of which: exposures transferred but non written off	-	-	-	-	-	-
B. Increases	333	-	889	584	251	14
B.1 Adjustments to acquired or originated impaired financial assets	-	X	-	X	-	X
B.2 Other adjustments	250	-	802	584	251	14
B.3 Losses on disposals	-	-	-	-	-	-
B.4 Transfers from other categories of non-performing exposures	83	-	87	-	-	-
B.5 Contractual changes without cancellations	-	X	-	X	-	X
B.6 Other increases	-	-	-	-	-	-
C. Decreases	1,744	-	786	31	379	5
C.1 Reversal of adjustments	36	-	117	29	192	-
C.2 Reversal of collections	29	-	594	2	45	5
C.3 Gains on disposals	-	-	-	-	-	-
C.4 Write-offs	1,679	-	19	-	28	-
C.5 Transfer to other categories of non-performing exposures	-	-	56	-	114	-
C.6 Contractual changes without cancellations	-	X	-	X	-	X
C.7 Other decreases	-	-	-	-	-	-
D. Total adjustment at year-end	13,549	-	1,294	595	281	14
- of which: exposures transferred but non written off	-	-	-	-	-	-

The most significant component of reversals due to collection (item C.2) of 668 thousand euros was represented by unlikely to pay positions of 594 thousand euros, of which 348 thousand euros relating to a position still considered UTP at the end of 2018, which had already been reduced due to partial repayment during the year and was repaid in full in early 2019, and 98 thousand euros relating to a position repaid in full in 2018.

Besides the exposures included in the previous tables, other non-performing positions are recognised in the Financial Statements for a net amount of 1,165 thousand euros, attributable to operating receivables not involving loans, mostly relating to disputes and pre-dispute positions against former Financial Advisors (terminated or expired contracts).

OPERATING RECEIVABLES UNDER DISPUTE	31.12.2018		
	GROSS	WRITE-DOWNS	NET
Receivables related to FA litigation	1,769	-622	1,147
Advances to FAs	79	-79	-
Write-downs of receivables from FAs	1,848	-701	1,147
Write-downs of operating receivables	406	-388	18
Total write-downs	2,254	-1,089	1,165

A.2 Classification of exposures based on internal and external ratings

Banca Generali has always regarded lending as instrumental to its ability to attract and manage its customers' assets. Accordingly, the Bank has not traditionally used an internal rating system to assess its customers' creditworthiness. The bank therefore uses ratings published by the main rating companies (Moody's, S&P and Fitch) in making decisions regarding its trading activities.

A.2.1 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued broken down by rating classes (gross values)

EXPOSURES	EXTERNAL RATING CLASSES						WITHOUT RATING	TOTAL
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	< B-		
A. Financial assets at amortised cost	2,518	38,668	3,516,705	57,069	-	2,557	2,582,119	6,199,636
- Stage 1	2,518	38,668	3,506,812	57,069	-	-	2,341,701	5,946,768
- Stage 2	-	-	9,893	-	-	2,557	188,473	200,923
- Stage 3	-	-	-	-	-	-	51,945	51,945
B. Financial assets at fair value through other comprehensive income	13,022	85,606	1,845,050	35,916	-	-	1,957	1,981,551
- Stage 1	13,022	85,606	1,834,133	35,916	-	-	-	1,968,677
- Stage 2	-	-	10,917	-	-	-	1,957	12,874
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B)	15,540	124,274	5,361,755	92,985	-	2,557	2,584,076	8,181,187
- of which: acquired or originated impaired financial assets	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees issued								
- Stage 1	-	-	-	-	-	-	90,830	90,830
- Stage 2	-	-	-	-	-	-	14,809	14,809
- Stage 3	-	-	-	-	-	-	31	31
Total C	-	-	-	-	-	-	105,670	105,670
Total (A + B + C)	15,540	124,274	5,361,755	92,985	-	2,557	2,689,746	8,286,857

Financial assets measured at amortised cost without rating include trade receivables and advances to Financial Advisors totalling 136,618 thousand euros.

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.2 Prudential consolidation - Guaranteed cash and off-balance sheet credit exposures with customers

	GROSS EXPOSURE	NET EXPOSURE	COLLATERALISED GUARANTEES (1)						PERSONAL GUARANTEES (2)						TOTAL (1) + (2)		
			BUILDINGS - MORTGAGES	BUILDINGS - FINANCE LEASE	SECURITIES	OTHER COLLATERALISED GUARANTEES	CREDIT DERIVATIVES			SIGNATURE LOANS							
							CLN	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES	PUBLIC ADMINISTRATION BODIES	BANKS	OTHER FINANCIAL COMPANIES		OTHER ENTITIES	
1. Guaranteed cash credit exposures:	1,950,837	1,939,643	413,423	-	1,285,315	224,905	-	-	-	-	-	-	-	-	2	4,489	1,928,134
1.1 Totally guaranteed	1,895,386	1,885,174	409,407	-	1,256,779	214,892	-	-	-	-	-	-	-	-	-	4,096	1,885,174
- of which: non-performing	35,376	32,071	14,896	-	7,517	9,658	-	-	-	-	-	-	-	-	-	-	32,071
1.2 Partially guaranteed	55,451	54,469	4,016	-	28,536	10,013	-	-	-	-	-	-	-	-	2	393	42,960
- of which: non-performing	1,062	411	-	-	-	35	-	-	-	-	-	-	-	-	-	373	408
2. Guaranteed off-balance sheet credit exposures:	546,120	546,039	10	-	358,030	177,180	-	-	-	-	-	-	-	-	-	1,409	536,629
2.1 Totally guaranteed	504,328	504,252	10	-	337,975	165,062	-	-	-	-	-	-	-	-	-	1,204	504,251
- of which: non-performing	1,082	1,082	-	-	637	445	-	-	-	-	-	-	-	-	-	-	1,082
2.2 Partially guaranteed	41,792	41,787	-	-	20,055	12,118	-	-	-	-	-	-	-	-	-	205	32,378
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

All assets held as security (whether financial or non-financial) may only be liquidated in the event of default by the primary debtor, subject to formal notification of the guarantor. Accordingly, the Bank cannot sell or reuse as collateral such assets unless the debtor defaults.

B. Breakdown and concentration of credit exposures

B.1 Prudential consolidation - Sector breakdown of cash and off-balance sheet credit exposures with customers

EXPOSURES/COUNTERPARTY	NET EXPOSURE	TOTAL ADJUSTMENTS
A. Cash exposures		
1. Public administration bodies	5,163,119	9,035
A.1 Bad loans	-	-
- of which: forborne exposures	-	-
A.2 Unlikely to pay	-	-
- of which: forborne exposures	-	-
A.3 Non-performing past-due exposures	-	-
- of which: forborne exposures	-	-
A.4 Performing exposures	5,163,119	9,035
- of which: forborne exposures	-	-
2. Financial companies	489,333	476
A.1 Bad loans	5,085	90
- of which: forborne exposures	-	-
A.2 Unlikely to pay	1,627	44
- of which: forborne exposures	-	-
A.3 Non-performing past-due exposures	7	10
- of which: forborne exposures	-	-
A.4 Performing exposures	482,614	332
- of which: forborne exposures	-	-
3. Financial companies (of which insurance companies)	47,103	7
A.1 Bad loans	-	-
- of which: forborne exposures	-	-
A.2 Unlikely to pay	-	-
- of which: forborne exposures	-	-
A.3 Non-performing past-due exposures	-	-
- of which: forborne exposures	-	-
A.4 Performing exposures	47,103	7
- of which: forborne exposures	-	-
4. Non-financial companies	399,530	15,469
A.1 Bad loans	14,376	12,530
- of which: forborne exposures	-	-
A.2 Unlikely to pay	4,527	612
- of which: forborne exposures	536	457
A.3 Non-performing past-due exposures	677	11
- of which: forborne exposures	453	4
A.4 Performing exposures	379,950	2,316
- of which: forborne exposures	25,457	192
5. Households	1,472,741	2,936
A.1 Bad loans	2,012	929
- of which: forborne exposures	-	-
A.2 Unlikely to pay	4,401	639
- of which: forborne exposures	1,896	143
A.3 Non-performing past-due exposures	4,109	255
- of which: forborne exposures	190	10
A.4 Performing exposures	1,462,219	1,113
- of which: forborne exposures	60,920	201
Total A - cash credit exposures	7,571,826	27,923

EXPOSURES/COUNTERPARTY	NET EXPOSURE	TOTAL ADJUSTMENTS
B. Off-balance sheet exposures		
1. Public administration bodies	173,365	-
B.1 Non-performing exposures	-	-
B.2 Performing exposures	173,365	-
2. Financial companies	458	-
B.1 Non-performing exposures	-	-
B.2 Performing exposures	458	-
3. Financial companies (of which insurance companies)	3,847	-
B.1 Non-performing exposures	-	-
B.2 Performing exposures	3,847	-
4. Non-financial companies	59,646	58
B.1 Non-performing exposures	31	-
B.2 Performing exposures	59,615	58
5. Households	37,781	28
B.1 Non-performing exposures	-	-
B.2 Performing exposures	37,781	28
Total B - Off-balance sheet exposures	275,097	86
	NET EXPOSURE	TOTAL ADJUSTMENTS
Public administration bodies	5,336,484	9,035
Financial companies	489,791	476
Financial companies (of which insurance companies)	50,950	7
Non-financial companies	459,176	15,527
Households	1,510,522	2,964
Overall total (A + B) at 31.12.2018	7,846,923	28,009
Overall total (A + B) at 31.12.2017	7,586,139	21,286

B.2 Prudential consolidation - Geographical breakdown of cash and off-balance-sheet credit exposures to customers

EXPOSURES/ GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS
A. Cash exposures										
A.1 Bad loans	21,473	12,920	-	629	-	-	-	-	-	-
A.2 Unlikely to pay	10,555	1,294	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	4,793	273	-	8	-	-	-	-	-	-
A.4 Other performing exposures	7,270,057	11,198	209,280	1,556	45,327	38	6,703	4	3,638	3
Total A	7,306,878	25,685	209,280	2,193	45,327	38	6,703	4	3,638	3
B. Off-balance sheet exposures										
B.1 Non-performing exposures	31	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	274,901	86	165	-	-	-	-	-	-	-
Total B	274,932	86	165	-	-	-	-	-	-	-
Total at 31.12.2018	7,581,810	25,771	209,445	2,193	45,327	38	6,703	4	3,638	3
Total at 31.12.2017	7,408,025	18,745	202,681	2,486	17,235	42	1,479	-	3,640	13

B.3 Prudential consolidation -Geographical breakdown of cash and off-balance-sheet credit exposures to banks

EXPOSURES/GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
A. Cash credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	405,818	518	202,079	149	4,376	3	17,581	12	5,011	4
Total A	405,818	518	202,079	149	4,376	3	17,581	12	5,011	4
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	258	-	-	-	-	-	-	-
Total B	-	-	258	-	-	-	-	-	-	-
Total at 31.12.2018	405,818	518	202,337	149	4,376	3	17,581	12	5,011	4
Total at 31.12.2017	381,954	374	62,963	94	14,107	-	7,539	17	4,996	9

B.4 Large exposures

The Regulation (EU) No. 575/2013 (CRR) and the Directive No. 2013/36/EU (CRD IV), published on the *Official Journal of the European Union* on 27 June 2013, enacted the new rules defined by the Basel Committee on banking supervision. On 17 December 2013, the Bank of Italy applied the above provisions by issuing Circular Letter No. 285 "New Prudential Supervisory Provisions Concerning Banks" - further amended in various years (latest update, No. 25, dated 23 October 2018) - and Circular Letter No. 286 "Instructions for the Compilation of Prudential Reports for Banks and Securities Brokerage Companies". Also the latter was subject to several amendments during the years (latest update, No. 11, on 16 January 2018). In detail, according to the new rules, exposure values of a bank to a counterparty or to a group of connected counterparties must be defined as a "large exposure" if it is equal to or above 10% of the bank's eligible capital base.

The EU Regulation CRR No. 575/2013 defines the "eligible capital" as the sum of Tier 1 capital and Tier 2 capital that is equal to or less than one third of Tier 1 capital.

The exposure value of an asset item shall be its accounting value and not its weighted value. Therefore, the positions which fall within the meaning of "Large Exposure" are recognised at both book value and weighted value.

BIG RISKS	31.12.2018	31.12.2017
a) Carrying amount	7,093,959	6,346,225
b) Weighted amount	235,236	145,485
c) Number	5	4

C. Securitisation

Financial statements at 31 December 2018 do not include exposures resulting from securitisation.

D. Transfer Operations

D.1 Prudential consolidation - Transferred financial assets fully recognised and related financial liabilities: book value

	TRANSFERRED FINANCIAL ASSETS FULLY RECOGNISED				RELATED FINANCIAL LIABILITIES		
	BOOK VALUE	OF WHICH: SECURITIZED	OF WHICH: REVERSE REPURCHASE AGREEMENTS	OF WHICH: NON- PERFORMING	BOOK VALUE	OF WHICH: SECURITIZED	OF WHICH: REVERSE REPURCHASE AGREEMENTS
A. HFT financial assets	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value							
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	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	130,909	-	130,909	-	130,542	-	130,542
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost							
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
Total at 31.12.2018	130,909	-	130,909	-	130,542	-	130,542
Total at 31.12.2017	236,252	-	236,252	-	230,224	-	230,224

1.2 Market risks

The exposure to market risk is mainly due to the trading of financial instruments on its own account. Market risk is represented by the possibility to suffer losses due to variations in the value of a security or a portfolio of securities associated with unexpected variations in market conditions (share prices, interest rates, exchange rates, the prices of goods and the volatility of risk factors).

The Bank monitors market risks with reference both to the banking book and the trading book. Specifically as regards monitoring this risk the Risk and Capital Adequacy Department applies the regulatory method to the trading book whilst the rate risk on the banking book follows the regulations specified in annex C of circular 285/2013 and subsequent Bank of Italy updates.

With regard to market risk management, the Bank has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group's risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority. The Finance Department conducts first-tier management and monitoring of Banca Generali's exposure to market risk in accordance with predefined operating limits detailed in the Parent Company's Regulation of limits and escalation process.

Second-tier checks are a responsibility of the Risk and Capital Adequacy Department, as is the monitoring of operating limits with the objective of maintaining a level of risk that is consistent with the strategies and risk appetite defined by the Board of Directors.

The Internal Audit Department conducts independent controls (third-tier checks) on transactions undertaken by the Departments/Functions involved in the management of market risk in accordance with the Parent Company's Internal Rules and Procedures.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the credit risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

The own securities portfolio is mainly invested in Italian government securities, securities issued by domestic and international banks and, to a lesser extent, in securities of corporate issuers.

The portfolio's exposure to the equities market is limited compared to the bond component and derivatives transactions are absolutely marginal. Exposure to non-OECD issuers and entities is limited.

The main objective of exchange rate operations is to contain open positions in foreign currencies. Regarding the rate activity, the main objective is to align balance sheet assets and liabilities.

Banca Generali holds marginal amounts of securities denominated in foreign currencies.

1.2.1 Interest Rate and Price Risk – Regulatory Trading Book

Qualitative Information

A. General Aspects

The main activities of the Bank that increase its exposure to interest rate risk relating to its trading book include:

- > management of the government bond book;
- > management of the portfolio of financial and corporate bonds;
- > dealings in derivatives, both plain vanilla typical of regulated markets and OTC derivatives.

As the majority of financial products and services are distributed by the sales network, the objectives assigned to the Finance Department in relation to the trading book are aimed at the minimisation of risks.

Management of the trading book is therefore based on the following strategies:

- > supporting the activities of the sales network in relation to placing repurchase agreements for customers;
- > supporting secondary market trading for the financial instruments placed with customers, such as certificates and structured bonds.

B. Management Processes and Interest Rate and Price Risk Measurement Techniques

Market risks are measured for management purposes according to a daily sensitivity analysis, prudentially monitored at the level of the Bank's entire proprietary portfolio with the aim of identifying interest rate and spread risk. These are supplemented by the monitoring of deterministic measurements (level measurements such as the notional and Mark to Market values) defined in the Bank's "Regulation of limits and escalation process".

In detail, the model adopted by the Risk and Capital Adequacy Department to conduct the sensitivity analysis is based on the Fundamental Review of Trading Book rules and has been developed to calculate sensitivity:

- > on interest-rate risk: the possibility of calculating sensitivity according to a full-evaluation approach, based on shocks to the base risk-free curve in foreign currency;
- > on country risk: the possibility of calculating sensitivity according to a full-evaluation approach, based on shocks to loan/sector curves.

The sensitivities of the two components described above are calculated as a parallel shock of +100 bps on all nodes of the curve, with regard to both the interest-rate risk and country risk portions.

The following table shows the sensitivity of the entire proprietary portfolio as measured at 31 December 2018, broken down into interest-rate risk and country risk.

(€ THOUSAND)	PORTFOLIO
Interest-rate risk sensitivity	-114,366.0
Country risk sensitivity	-167,826.0

Quantitative Information

1. Regulatory trading book: breakdown by time-to-maturity (repricing date) of cash financial assets and liabilities and financial derivatives

TYPE/TIME-TO-MATURITY	REPAYABLE ON DEMAND	UP TO 3 MONTHS	OVER 3 MONTHS, UP TO 6 MONTHS	OVER 6 MONTHS, UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS, UP TO 10 YEARS	OVER 10 YEARS	UNSPECIFIED MATURITY	TOTAL
1. Cash assets	-	2,911	14,109	16,514	-	-	-	-	33,534
1.1 Debt securities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	2,911	14,109	16,514	-	-	-	-	33,534
1.2 Other assets	-	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-	-
2.1 Repurchase agreement liabilities	-	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-	-
3. Financial derivatives	-	268,751	105,208	10,444	20,880	10,077	-	-	415,360
3.1 With underlying securities	-	218,545	97,368	-	20,880	10,077	-	-	346,870
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	45,161	97,368	-	20,680	10,077	-	-	173,286
+ short positions	-	173,384	-	-	200	-	-	-	173,584
3.2 Without underlying securities	-	50,206	7,840	10,444	-	-	-	-	68,490
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	25,103	3,920	5,222	-	-	-	-	34,245
+ short positions	-	25,103	3,920	5,222	-	-	-	-	34,245

2. Regulatory trading book: breakdown of exposures in equity securities and stock indices for the main countries on the market of listing

TYPE OF TRANSACTION/INDEX	LISTED			NON-LISTED
	ITALY	USA	OTHER	
A. Equity securities				
- long positions	-	1	-	-
- short positions	-	-	-	-
B. Equity security purchases/sales to be settled				
- long positions	-	-	-	-
- short positions	-	-	-	-
C. Other derivatives on equity securities				
- long positions	-	-	-	-
- short positions	-	-	-	-
D. Stock index derivatives				
- long positions	-	-	-	-
- short positions	-	-	-	-

Price risk consists of the risk that the fair value or future cash flows of a given financial instrument may fluctuate as a result of changes in market prices (other than changes triggered by **interest-rate risk** or **exchange-rate risk**), regardless of whether such changes are the result of factors specific to the instrument or issuer in question, or are due to factors that influence all similar financial instruments traded on the market.

“Price risk” arises mainly as a result of the trading of shares, stock-index and/or stock futures, stock-index and/or stock options, warrants, covered warrants, option rights, etc. and in relation to UCITS units held in the portfolio. However, the Group’s exposure to this risk is moderate given the limited weight of such securities in its portfolio of financial assets held for trading.

3. Regulatory trading book: internal models and other methods of sensitivity analysis

Sensitivity analysis was also employed to assess the market risks originating in the trading book.

This sort of analysis quantifies the change in the value of a financial portfolio as a result of variation in the primarily risk factors, which for Banca Generali Group are interest-rate and price risk.

In calculating interest-rate risk, the analysis assumed a parallel, uniform shift of +100/-100 basis points in the rate curve.

The next stage involves establishing the potential effects on the profit and loss account both in terms of the point change in the fair value of the portfolio under analysis on the reporting date and the change in the net interest income for the current year.

In calculating the price risk associated with equities, a 10% change in market prices was considered. On this basis, the point impact of such a change on the current equities portfolio was then determined.

On the whole, a change in market prices of +10%/-10% would result in the recognition through profit and loss of capital gains/losses of +90.3/-90.3 thousand euros, gross of the tax effect, on the portfolio of equity securities held for trading.

A change in interest rates of +100/-100 basis points would have an overall effect on the fair value of the portfolio of debt securities held for trading of -562.5/ +538.4 thousand euros, gross of the tax effect.

(€ THOUSAND)	HTS
FV equity delta (+10%)	90.3
FV equity delta (-10%)	-90.3
FV bonds delta (+1%)	-562.5
FV bonds delta (-1%)	538.4

1.2.2 Interest Rate and Price Risk – Banking Book

Qualitative information

A. General Aspects, Management Processes and Interest Rate and Price Risk Measurement Techniques

The interest rate risk to which the banking book is exposed consists of the risk of incurring losses due to potential fluctuations in interest rates.

This risk is generated by the gaps between the maturities and time required to reset the interest rate on the Bank’s assets and liabilities. Where such gaps are present, fluctuations in interest rates result in variations of net income, and therefore projected profit, as well as variations in the market value of the assets and liabilities, and, in turn, the value of net equity.

With regard to the management of the interest rate risk of the banking book, the Bank has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group’s risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

The Finance Department and Lending Department conduct first-tier controls on the management of interest rate risk. The Risk and Capital Adequacy Department is responsible for second-tier controls with the aim of conducting specific independent measurement, control and monitoring of the interest rate risk to which the banking book is exposed.

The Internal Audit Department is responsible for third-tier controls of loans and inflows transactions.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the management and control system for interest rate risk in the banking book and for deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Most of the interest rate risk in the Bank’s banking book arises from:

- > trading on the interbank deposits market;
- > customer lending activities and
- > investment operations of the debt securities portfolio held as treasury investment, which can cause a mismatch in the

repricing dates and currencies of asset and liability items, with a negative impact on the Group's objectives in terms of net interest income.

The price risk associated with the banking book is limited to the equity investments classified to the portfolio of financial assets mandatorily measured at fair value.

Financial instruments mainly refer to equities and UCITS units listed on regulated markets, except for SIF Tyndaris Sicav (closed-end fund linked to the real-estate market), the Algebris NPL fund, the Tenax Italian Credit Funds, and the BNP Paribas Bond Italia fund.

B. Fair Value and Cash Flow Hedging

The Bank does not currently engage in fair value or cash flow hedging.

Quantitative Information

1. Banking book: broken down by time-to-maturity (according to repricing date) of financial assets and liabilities

TYPE/TIME-TO-MATURITY	REPAYABLE ON DEMAND	UP TO 3 MONTHS	OVER 3 MONTHS, UP TO 6 MONTHS	OVER 6 MONTHS, UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS, UP TO 10 YEARS	OVER 10 YEARS	UNSPECI- FIED MATURITY	TOTAL
1. Cash assets	1,407,274	1,311,463	1,698,571	571,696	1,991,414	996,121	196,762	-	8,173,301
1.1 Debt securities									
- with early repayment option	-	30,622	-	-	23,098	12,001	-	-	65,721
- other	-	920,314	1,659,850	491,136	1,637,150	836,300	-	-	5,544,750
1.2 Loans to banks	262,901	100,326	-	-	-	-	-	-	363,227
1.3 Loans to customers									
- current accounts	979,048	8	5,433	1,375	42	-	-	-	985,906
- other loans	165,325	260,193	33,288	79,185	331,124	147,820	196,762	-	1,213,697
- with early repayment option	16,794	24,559	30,972	79,183	329,784	147,820	196,762	-	825,874
- other	148,531	235,634	2,316	2	1,340	-	-	-	387,823
2. Cash liabilities	8,443,818	140,223	25,932	-	-	43,282	-	-	8,653,255
2.1 Due to customers									
- current accounts	8,187,797	-	25,932	-	-	-	-	-	8,213,729
- other payables	127,296	140,223	-	-	-	43,282	-	-	310,801
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	127,296	140,223	-	-	-	43,282	-	-	310,801
2.2 Due to banks									
- current accounts	107,081	-	-	-	-	-	-	-	107,081
- other payables	21,644	-	-	-	-	-	-	-	21,644
2.3 Debt securities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
2.4 Other liabilities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-	-
3.1 With underlying securities									
- Options									
+long positions	-	-	-	-	-	-	-	-	-
+short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+long positions	-	-	-	-	-	-	-	-	-
+short positions	-	-	-	-	-	-	-	-	-
3.2 Without underlying securities									
- Options									
+long positions	-	-	-	-	-	-	-	-	-
+short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+long positions	-	-	-	-	-	-	-	-	-
+short positions	-	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-

2. Banking book: internal models and other methods of sensitivity analysis

The sensitivity analysis was conducted only for the interest rate risk component also for the banking book, with regard to the portfolio of financial assets at fair value through other comprehensive income, the portfolio of financial assets measured at amortised cost, and the portfolio of loans to customers and banks.

As regards the price risk, a change of +100/-100 basis points would yield a change in the valuation reserves on debt securities in the HTCS category of -23.8/+22.8 million euros, gross of the tax effect.

The fair value delta component associated with the government bonds in the HTCS portfolio would amount to -21.1/+20.2 million euros as a result of the hypothesised shift in the rate curve, or about 90% of the fair value delta of the entire HTCS bond portfolio.

To provide a complete information, the following table shows the effect of a similar price shock in the fair value of portfolios recognised at amortised cost.

(€ THOUSAND)	HTCS	HTC	LOANS ^(*)	TOTAL
FV bonds delta (+1%)	-23,807	-89,996	-12,721	-126,524
- of which: government bonds	-21,130	-85,673	-	-106,803
FV bonds delta (-1%)	22,786	86,137	12,721	121,644
- of which: government bonds	20,224	81,998	-	102,222

(*) Loans to banks and Loans to customers.

The same criteria were also applied to a sensitivity analysis of net interest income of all financial statement items. It resulted in a potential impact on the Profit and Loss Account of +28.6 million euros, gross of the tax effect in case of increase of interest rates by 1%, and -28.5 million euros in case of decrease by the same amount.

(€ THOUSAND)	ASSETS	LIABILITIES	NET
Net interest income delta (+1%)	41,308	-12,675	28,633
Net interest income delta (-1%)	-31,585	3,031	-28,554

1.2.3 Exchange Rate Risk

Qualitative Information

A. General Aspect, Management Processes and Exchange Rate Risk Measurement Techniques

Exchange-rate risk is the possibility of incurring losses due to adverse fluctuations in the value of foreign currencies on all positions held by the Bank, regardless of the portfolio to which they have been allocated.

With regard to exchange risk management, the Group has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group's risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

The Finance Department performs first-tier controls of exchange-rate risk management.

The Risk and Capital Adequacy Department is responsible for second-tier controls with the aim of conducting specific independent measurement, control and monitoring of the exchange rate risk.

The Internal Audit Department is responsible for third-tier controls of loans and inflows in foreign currency.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the exchange rate risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Most of the exchange-rate risk arises from:

- > trading of securities and other financial assets in foreign currency;
- > interest to be collected and/or paid, reimbursements, fees or dividends in foreign currency;
- > bank transfers in foreign currency to customers (Institutional and Retail customers);
- > currency trading on behalf of customers.

The main objective of exchange rate operations is to contain open positions in foreign currencies and limited to currency account currencies.

Exchange rate risk is mitigated through funding activities in the same currency as that of lending transactions.

Quantitative Information

1. Breakdown by currency of denomination for assets, liabilities, and derivatives

ITEMS	CURRENCY								TOTAL CURRENCIES
	US DOLLAR	JAPANESE YEN	SWISS FRANC	POUND STERLING	ICELAND KRONA	CANADIAN DOLLAR	AUSTRALIAN DOLLAR	OTHER CURRENCIES	
A. Financial assets	68,389	2,273	13,148	7,070	1,202	2,100	2,014	2,544	98,740
A.1 Debt securities	13,019	-	-	-	-	-	-	-	13,019
A.2 Equity securities	1	-	-	-	-	-	-	-	1
A.3 Loans to banks	55,369	2,273	10,886	7,070	1,202	2,100	2,014	2,544	83,458
A.4 Loans to customers	-	-	2,262	-	-	-	-	-	2,262
A.5 Other financial assets	-	-	-	-	-	-	-	-	-
B. Other assets	-	-	-	-	-	-	-	-	-
C. Financial liabilities	65,401	2,251	12,288	6,807	1,170	2,377	1,818	2,065	94,177
C.1 Due to banks	-	-	-	-	-	-	-	-	-
C.2 Due to customers	65,401	2,251	12,288	6,807	1,170	2,377	1,818	2,065	94,177
C.3 Debt securities	-	-	-	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-	-	-	-
E. Financial derivatives	-221	-48	-1,582	-30	-	-	8	-71	-1,944
Options	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
Other derivatives	-221	-48	-1,582	-30	-	-	8	-71	-1,944
- long positions	12,669	45	7	398	-	81	81	2,870	16,151
- short positions	12,890	93	1,589	428	-	81	73	2,941	18,095
Total assets	81,058	2,318	13,155	7,468	1,202	2,181	2,095	5,414	114,891
Total liabilities	78,291	2,344	13,877	7,235	1,170	2,458	1,891	5,006	112,272
Excess	2,767	-26	-722	233	32	-277	204	408	2,619

2. Internal models and other methods of sensitivity analysis

The sensitivity analysis discussed in the foregoing paragraph has been also conducted on assets and liabilities denominated in currencies other than the euro, regardless of the portfolio to which they have been allocated.

On the whole, a change in market prices of +10%/-10% would result in a change of the value of equity securities of +/-100 euros, whereas a shock of +/-100 bps in rates would have an effect on the fair value of bonds and securities other than equities in foreign currency of -168/+161 thousand euros, gross of the tax effect.

(€ THOUSAND)

ASSETS

FV equity delta (+10%)	0.1
FV equity delta (-10%)	-0.1
FV non-equity delta (+1%)	-168
FV non-equity delta (-1%)	161

By contrast, an interest rate movement of +100/-100 basis points would have an effect of -68/+68 thousand euros on the flow of interest on assets and liabilities denominated in currencies other than the euro.

(€ THOUSAND)

TOTAL ITEMS

Net interest income delta (+1%)	-68
Net interest income delta (-1%)	68

1.3 Derivatives and hedging policies

1.3.1 Trading derivatives

A. Financial derivatives

A.1 Trading derivatives: notional amounts at year-end

TYPES OF DERIVATIVES/UNDERLYING ASSETS	31.12.2018				31.12.2017			
	OVER THE COUNTER				OVER THE COUNTER			
	CENTRAL COUNTER-PARTIES	WITHOUT CENTRAL COUNTERPARTIES		ORGANISED MARKETS	CENTRAL COUNTER-PARTIES	WITHOUT CENTRAL COUNTERPARTIES		ORGANISED MARKETS
		WITH NETTING ARRANGEMENTS	WITHOUT NETTING ARRANGEMENTS			WITH NETTING ARRANGEMENTS	WITHOUT NETTING ARRANGEMENTS	
1. Debt securities and interest rates	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	-	-	-	-	-	15,948	-
a) Options	-	-	-	-	-	-	15,948	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	13,506	-	-	-	9,208	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	13,506	-	-	-	9,208	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	13,506	-	-	-	25,156	-

A.2 HFT financial derivatives: positive and negative gross fair value - breakdown by products

TYPE OF DERIVATIVES	31.12.2018				31.12.2017			
	OVER THE COUNTER				OVER THE COUNTER			
	CENTRAL COUNTERPARTIES	WITHOUT CENTRAL COUNTERPARTIES		ORGANISED MARKETS	CENTRAL COUNTERPARTIES	WITHOUT CENTRAL COUNTERPARTIES		ORGANISED MARKETS
		WITH NETTING ARRANGEMENTS	WITHOUT NETTING ARRANGEMENTS			WITH NETTING ARRANGEMENTS	WITHOUT NETTING ARRANGEMENTS	
1. Positive fair value								
a) Options	-	-	111	-	-	-	605	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	388	-	-	-	81	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	499	-	-	-	686	-
1. Negative fair value								
a) Options	-	-	-	-	-	-	128	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	384	-	-	-	78	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	384	-	-	-	206	-

A.3 OTC HFT financial derivatives: notional values, positive and negative gross fair value by counterparties

UNDERLYING ASSETS	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES
Contracts other than netting arrangements				
1) Debt securities and interest rates				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	111	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	6,753	-	6,753
- positive fair value	X	258	-	130
- negative fair value	X	129	-	255
4) Goods				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Other values				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts within the scope of netting agreements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Goods				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Other values				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Time-to-maturity of OTC financial derivatives: notional values

UNDERLYING/RESIDUAL LIFE	UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS	TOTAL
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	13,506	-	-	13,506
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total at 31.12.2018	13,506	-	-	13,506
Total at 31.12.2017	20,831	4,325	-	25,156

1.3.3 Other information on derivatives (held for trading and for hedging)**A. Financial and credit derivatives****A.1 OTC financial and credit derivatives: net fair value by counterparties**

	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES
A. Financial derivatives				
1) Debt securities and interest rates	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and equity indices	-	-	111	-
- notional value	-	-	-	-
- positive fair value	-	-	111	-
- negative fair value	-	-	-	-
3) Currencies and gold	-	7,140	-	7,138
- notional value	-	6,753	-	6,753
- positive fair value	-	258	-	130
- negative fair value	-	129	-	255
4) Goods	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchase and protection	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Sale and protection	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

1.4 Liquidity Risk

Qualitative Information

A. General Aspect, Management Processes and Liquidity Risk Measurement Techniques

Exposure to liquidity risk derives from funding and lending transactions in the course of the Bank's normal business, as well as from the presence of unlisted financial instruments in its proprietary portfolios. Such risk takes the form of default on payment obligations, which may be caused by an inability to raise funds (funding liquidity risk) or the existence of limits on the divestment of assets (market liquidity risk). Liquidity risk also includes the risk that an entity may be forced to meet its own payment obligations at non-market costs, that is to say while incurring a high cost of funding or (and in some cases concurrently) sustaining capital losses when divesting assets.

The Bank's liquidity risk governance model is based on "centralised" management for all Group companies. As the Parent Company, the Bank:

- > is responsible for the liquidity policy;
- > manages liquidity risk.

The structure of the liquidity risk management system is intended to ensure sound and prudent management of liquidity and liquidity risk and purses the following goals:

- > ensuring that the Bank remains solvent in both the normal course of business and crisis conditions;
- > complying with instructions from the supervisory authority and the guidelines on banking supervision issued by the various international authorities, while also taking account of the specificity of the Bank's business;
- > maintaining a liquidity profile that is consistent with the risk tolerance statements issued by its governing bodies.

In particular, the liquidity risk management and monitoring policy implemented by the Group at the consolidated level is in turn divided into:

- > managing **operating liquidity** risk, i.e., events that affect the Group's liquidity position on the short-term time horizon, with the primary objective of maintaining the Group's capacity to meet its ordinary and extraordinary payment obligations, while minimising the related costs;
- > managing **structural liquidity** risk, i.e., all events that affect the Group's liquidity position, including in the medium/long term, with the primary objective of maintaining an adequate relationship between liabilities and assets on the various time horizons. In particular, the management of structural liquidity allows:
 - pressure on current and prospective sources of liquidity to be avoided;
 - the cost of funding to be optimised.

With regard to liquidity risk management, the Bank has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group's risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority. The Finance Department is responsible for first-tier controls and managing treasury and proprietary investment cash flows with the aim of ensuring thorough diversification of sources of financing and monitoring cash flows and daily liquidity. Liquidity needs are primarily managed through recourse to the money market (interbank deposits and repurchase agreements) and, secondly, where present, through extraordinary measures provided by the ECB. The Group also holds a portfolio of highly liquid, listed financial instruments in order to react to possible crisis scenarios involving a sudden interruption of funding flows.

The Risk and Capital Adequacy Department is responsible for second-tier controls. Liquidity risk is managed within appropriate short-term and structural (beyond one year) limits, monitored by the Department, assuming that financial markets will continue to function normally and in conditions of particular stress, aimed at ensuring that the risk level expressed is consistent with the strategies and risk appetite established by the Board of Directors.

The Internal Audit Department is responsible for third-tier controls of loans and inflows transactions.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the liquidity risk management and control system and for deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

The Group also implemented a Contingency Funding Plan aimed at anticipating and handling liquidity crises at both the systemic and idiosyncratic level.

The Bank uses a maturity ladder to apply the guidelines set out in the Prudential Supervisory provisions governing the measurement of net financial position. Through the maturity ladder the bank assesses the matching of expected cash flows, by balancing assets and liabilities whose maturity falls within each maturity range; the balances and therefore the mismatches between expected inflows and outflows within each maturity range allows, through the construction of cumulative mismatches, the calculation of the net balance of funding requirement (or surplus) over the holding period considered.

Commission Implementing Regulation (EU) No. 2016/322, which contains the Implementing Technical Standards for the liquidity coverage ratio, was published in the *Official Journal of the European Union* on 10 March 2016. With effect from 30 September 2016, the Bank is required to report on a monthly basis according to the new reporting framework for this ratio. The LCR, calculated according to the provisions applicable on a consolidated basis as at 31 December 2018, amounted to 393%, far in excess of the current mandatory minimum level, thanks to high quality liquid assets (“HQLAs”) of approximately 5.2 billion euros, primarily Italian government bonds, offsetting the estimated net cash outflows in the following 30 days.

During the year the structural regulatory indicator, the net stable funding ratio, also remained consistently above the established limits, amounting to 197% as at 31 December 2018, due to long-term stable funding in excess of the on-balance sheet assets requiring such long-term stable funding.

Quantitative Information

1. Breakdown of financial assets and liabilities by time to contractual maturity

ITEM/TIME-TO-MATURITY	ON DEMAND	OVER 1 DAY UP TO 7 DAYS	OVER 7 DAYS UP TO 15 DAYS	OVER 15 DAYS UP TO 1 MONTH	OVER 1 MONTH UP TO 3 MONTHS	OVER 3 MONTHS UP TO 6 MONTHS	OVER 6 MONTHS UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	UNSPECIFIED MATURITY	TOTAL
A. Cash assets											
A.1 Government securities	-	-	835	-	8,269	315,773	954,984	2,566,063	1,377,500	-	5,223,424
A.2 Other debt securities	-	-	156	3,202	6,034	18,353	32,070	372,360	73,406	-	505,581
A.3 UCITS units	32,822	-	-	-	-	-	-	-	-	-	32,822
A.4 Loans											
- to banks	263,082	17,629	-	-	-	-	-	-	-	82,714	363,425
- to customers	1,137,880	199,940	6,349	55	55,904	41,071	85,493	336,451	344,648	-	2,207,791
Total	1,433,784	217,569	7,340	3,257	70,207	375,197	1,072,547	3,274,874	1,795,554	82,714	8,333,043
B. Cash liabilities											
B.1 Deposits and current accounts											
- from banks	108,850	-	-	-	-	-	-	-	-	-	108,850
- from customers	8,187,790	-	-	-	-	26,032	-	-	-	-	8,213,822
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	169,512	140,224	-	-	-	-	-	-	43,028	-	352,764
Total	8,466,152	140,224	-	-	-	26,032	-	-	43,028	-	8,675,436
C. Off-balance sheet transactions											
C.1 Financial derivatives with capital swap											
- long positions	-	20,942	-	349	4,015	53,920	5,222	20,068	110,000	-	214,516
- short positions	-	194,123	-	349	4,015	3,920	5,222	68	-	-	207,697
C.2 Financial derivatives without capital swap											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds											
- long positions	83,803	-	-	-	-	48	501	38	286	-	84,676
- short positions	84,676	-	-	-	-	-	-	-	-	-	84,676
C.5 Financial guarantees issued	3,571	-	50	20	503	506	33,418	16,958	13,067	-	68,093
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with capital swap											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without capital swap											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
Total	172,050	215,065	50	718	8,533	58,394	44,363	37,132	123,353	-	659,658

1.5 Operating risks

Qualitative Information

A. General Aspect, Management Processes and Operating Risk Measurement Techniques

The Bank's exposure to operating risks is closely linked to the type and volume of business conducted, as well as the operating procedures implemented. In detail, the operations undertaken (primarily management of third-party assets and the distribution of the Group's own and third-party investment products), the use of information technology systems, the definition of operating procedures, interaction with parties protected by the law, the marketing structure adopted (chiefly financial advisors) and the direct involvement of all employees in operations structurally expose the Group to operating risk, which is defined as the possibility of sustaining financial losses deriving from the inadequacy or improper functioning of procedures, human resources, internal systems or external events. This type of risk includes, *inter alia*, losses due to fraud, human error, interruptions of operation, unavailability of systems, breach of contract, natural disasters and legal risk.

With regard to operating risk management, the Bank has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group's risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

The functions dealing with Organisation and IT guarantee the efficient functioning of application procedures and information systems that support organisational processes. It also evaluates the physical and logical security conditions within the Bank and, if necessary, implements measures to guarantee a higher general level of security.

The Risk and Capital Adequacy Department carries out risk assessment and scoring activities and Loss Data Collection processes, it monitors the action plans adopted to mitigate material risks, and controls KRIs (Key Risk Indicators).

The Internal Auditing function supervises the regular conduct of the Bank's operations and processes, and assesses the efficacy and efficiency of the overall internal control system established to monitor activities exposed to risk.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the operating risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Moreover, Banca Generali has insurance coverage for operating risks deriving from acts of third parties or caused to third parties and adequate clauses covering damages caused by providers of infrastructure and services and has approved a Business Continuity Plan.

Quantitative Information

The impact of operating losses in 2018 is broken down below by event type:

EVENT TYPE	%
ET 01 – Internal fraud	39%
ET 02 – External fraud	13%
ET 03 – Employment and workplace safety	8%
ET 04 – Customers, products and business practices	28%
ET 05 – Damages to property, plant and equipment	0%
ET 06 – Interruptions of operation and unavailability of systems	0%
ET 07 – Process execution, delivery and management	12%

Percentage breakdown of frequency by event type:

EVENT TYPE	%
ET 01 – Internal fraud	32%
ET 02 – External fraud	24%
ET 03 – Employment and workplace safety	5%
ET 04 – Customers, products and business practices	7%
ET 05 – Damages to property, plant and equipment	0%
ET 06 – Interruptions of operation and unavailability of systems	1%
ET 07 – Process execution, delivery and management	31%

The event type recording the most impact is "ET01 Internal fraud" (about 39%) which includes losses due to fraud, misappropriation or evasion of laws, regulations or company directives by internal staff, including Financial Advisors, in the performance of their duties and which also involves the Bank in that it is liable for the actions of its employees. The Bank carefully examines the individual disputes and complaints and, where necessary, makes an appropriate provision for the risk of legal disputes and continually monitors any developments, adjusting the amount set aside as circumstances change.

The second source of risk can be related to Event Type "ET 04 – Customers, products and business practices" (about 28%) arising from breaches of professional obligations towards customers by the Bank or its Financial Advisors either involuntarily or due to negligence, or due to the nature or configuration of the service/product provided.

Losses included under "ET – 02 External fraud" (about 13%) relating to cases of fraud, misappropriation or infringement of laws by persons outside the Bank, the majority of which can be related to the IT risk. A similar weight (about 12%) is attached to losses due to "ET 07 – Execution, delivery and management of processes" resulting from problems with completing transactions and managing processes linked to activities carried out by the Bank and from relations with commercial counterparts and suppliers.

Losses due to "ET 03 – Employment and workplace safety" (about 8%) depend on actions not conforming to employment and workplace health and safety laws or agreements, payment of compensation for personal injury or episodes of discrimination or failure to apply equal opportunity conditions.

Residual losses are covered by event types "Damage to tangible assets" due to damage or destruction of tangible assets caused by natural disasters or other events and "interruption of operations and system malfunction" as a result of operations being halted or system malfunctions.

PART F – INFORMATION ON CONSOLIDATED NET EQUITY

Section 1 – Consolidated net equity

A. Qualitative Information

The Banca Generali Group's capital management strategy aims to ensure that the capital and ratios of Banca Generali and the banks and financial companies it controls are consistent with its risk profile and regulatory requirements.

The Banca Generali Group and the banks and financial companies belonging to it are subject to the capital adequacy requirements established by the Basel Committee in accordance with the rules defined by the EU (CRR/CRD IV) and applied by the Bank of Italy.

Such rules envisage the concept of "Own Funds", which is separate from the net equity stated in the financial statements. Own funds are calculated as the sum of positive and negative items, which are included in the calculation based on the quality of capital attributed to them.

Compliance with minimum capital requirements is monitored by the Risk Management Service, whereas the Regulatory Reporting function is responsible for calculating and disclosing of own funds and capital requirements on a regular basis, as well as safeguarding the related databases (historical regulatory archive).

The Parent Company's compliance with capital adequacy ratios is monitored throughout the year and on a quarterly basis, and the necessary measures are taken to ensure control over the balance sheet items.

Additional analyses and control of the capital adequacy is also carried out any time the Company carries out extraordinary transactions (e.g., acquisitions, transfers, etc.). In these cases, information concerning the transaction is used to estimate its impact on the capital ratios, and any actions that may be necessary to comply with the requirements of the supervisory authorities are planned.

Compliance with capital adequacy is also guaranteed by the adoption of ECB's recommendations issued on 7 January 2019 on dividend distribution policies (Recommendation ECB/2019/1) and ECB's Letter dated 9 January 2019 concerning variable remuneration policies, both aimed at observing minimum capital adequacy requirements in the medium-/long-term and detecting the potential effects of any adverse market situation.

B. Quantitative Information

At 31 December 2018, consolidated net equity, including net profit for the year, amounted to 734.9 million euros compared to 736.1 million euros at the end of the previous year.

	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
1. Share capital	116,852	116,852	-	-
2. Share premium reserve	57,889	58,219	-330	-0.6%
3. Reserves	414,368	348,519	65,849	18.9%
4. (Treasury shares)	-22,724	-13,271	-9,453	71.2%
5. Valuation reserves	-11,636	21,646	-33,282	-153.8%
6. Equity instruments	-	-	-	n.a.
7. Minority interests	-	-	-	n.a.
8. Net profit (loss) for the year	180,126	204,105	-23,979	-11.7%
Total net equity	734,875	736,070	-1,195	-0.2%

The change in net equity was primarily influenced by the distribution of the 2017 dividend of 145.5 million euros - approved by the session of the General Shareholders' Meeting held on 12 April 2018 that also approved the Financial Statements - the buy-back of treasury shares, the change in the reserves for shared-based payments (IFRS 2), the negative change in fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (HTCS) and other reserves included in other comprehensive income, and net profit.

In 2018, with reference to the achievement of the performance objectives and other commitments set out in the Remuneration Policy, 121,129 treasury shares, with a value of 3,388 thousand euros, were allotted to company managers and network managers.

On the basis of the resolution passed by the Shareholders' Meeting on 12 April 2018 and the subsequent authorisation granted by the Supervisory Authority on 14 June 2018, Banca Generali repurchased 577,644 treasury shares in service of the Banking Group's Remuneration Policy.

In particular, the repurchased shares will be used to cover the commitments under remuneration plans for key personnel in 2018, the second cycle of the loyalty plan for 2018 and the new Long-Term Incentive Plan for the three-year period 2018-2020, in addition to all other commitments as provided for by the Remuneration Policies.

At 31 December 2018, the Parent Company, Banca Generali, thus held 929,090 treasury shares, with a value of 22,724 thousand euros.

	31.12.2018	31.12.2017
Net equity at period-start	736,070	646,521
Dividend paid	-145,474	-124,674
IFRS 9 and IFRS 15 FTA	-2,827	-
Purchase and sale of treasury shares	-12,841	-10,338
Stock option plans: capital increases	-	3,056
Matured IFRS 2 reserves (from stock option plans and remuneration policies)	4,408	2,937
Matured IFRS 2 reserve on LTIP	1,100	1,796
Change in valuation reserves	-25,687	12,667
Consolidated net profit	180,126	204,105
Net equity at period-end	734,875	736,070
Change	-1,195	89,549

B.1 Consolidated net equity: breakdown by type of company

ITEMS OF NET EQUITY (€ THOUSAND)	SCOPE OF REGULATORY CONSOLIDATION	INSURANCE COMPANIES	OTHER COMPANIES	CANCELLATIONS AND ADJUSTMENTS FOR CONSOLIDATION PURPOSES	TOTAL AT	TOTAL AT	CHANGE
					31.12.2018	31.12.2017	
1. Share capital	116,852	-	-	-	116,852	116,852	-
2. Share premium reserve	57,889	-	-	-	57,889	58,219	-330
3. Reserves	414,368	-	-	-	414,368	348,519	65,849
4. Equity instruments	-	-	-	-	-	-	-
5. (Treasury shares)	-22,724	-	-	-	-22,724	-13,271	-9,453
6. Valuation reserves	-11,636	-	-	-	-11,636	21,646	-33,282
Equity securities at fair value through other comprehensive income	-	-	-	-	-	445	-445
Equity security hedges at fair value through OCI	-	-	-	-	-	-	-
Financial assets (other than equity securities) at fair value through OCI	-9,657	-	-	-	-9,657	23,110	-32,767
Property and equipment	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-	-	-
Cash-flow hedges	-	-	-	-	-	-	-
Hedging instruments	-	-	-	-	-	-	-
Exchange differences	-131	-	-	-	-131	-113	-18
Non-current assets available for sale and disposal groups	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss (change in the own creditworthiness)	-	-	-	-	-	-	-
Actuarial gains (losses) from defined benefit plans	-1,848	-	-	-	-1,848	-1,796	-52
Share of valuation reserves of investee companies valued at equity	-	-	-	-	-	-	-
Special revaluation laws	-	-	-	-	-	-	-
7. Net profit (loss) for the year (+/-) attributable to the Group and minority interests	180,126	-	-	-	180,126	204,105	-23,979
Total net equity	734,875	-	-	-	734,875	736,070	-1,195

B.2 Breakdown of valuation reserves of financial assets at fair value through OCI

Valuation reserves of financial assets at fair value through OCI measure the unrealised capital gains and losses, net of the associated tax effect, on the assets allocated to that portfolio and recognised at fair value.

The change in these reserves contributes to determining the overall company performance in relation to other comprehensive income (OCI), without passing through the Profit and Loss Account.

However, when gains or losses are realised or an impairment loss is recognised, the cumulative amount of the reserve is reclassified to the Profit and Loss Account in the year of reference.

Valuation reserves of financial assets at fair value through OCI varied significantly compared to the end of the previous year, primarily due to the performance of reserves for government bonds, as a result of the greater volatility of the spread on Italian securities.

The aggregate had an overall negative balance of 11.6 million euros, down by 33.3 million euros compared to year-end 2017. This trend was mainly influenced by the portfolio of Italian government bonds, for which net reserves amounted to -6.2 million euros compared to 19.9 million euros at year-end 2017.

ASSETS/VALUES	SCOPE OF REGULATORY CONSOLIDATION		INSURANCE COMPANIES		OTHER COMPANIES		CANCELLATIONS AND ADJUSTMENTS FOR CONSOLIDATION PURPOSES		TOTAL	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	2,288	-11,945	-	-	-	-	-	-	2,288	-11,945
2. Equity securities	-	-	-	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-	-	-	-
Total at 31.12.2018	2,288	-11,945	-	-	-	-	-	-	2,288	-11,945
Total at 31.12.2017	25,306	-1,751	-	-	-	-	-	-	25,306	-1,751

B.3 Valuation reserves of financial assets at fair value through OCI: year changes

In detail, the reduction in valuation reserves on the portfolio of financial assets measured at fair value through other comprehensive income was attributable to the following factors:

- > an increase in net valuation capital losses totalling 21.7 million euros;
- > the 16.1 million euros reduction of pre-existing net positive reserves due to re-absorption through profit or loss upon realisation;
- > the positive net tax effect associated with the above changes and resulting from increases in DTLs and re-absorption of DTAs (12.1 million euros).

	31.12.2018				
	DEBT SECURITIES		EQUITY SECURITIES	UCITS UNITS	TOTAL
	CORPORATE	GOVERNMENT			
1. Amount at year-start	480	19,850	445	2,780	23,555
Adjustment of opening balances	230	-4,600	-445	-2,780	-7,595
1. Amount at year-start	710	15,250	-	-	15,960
2. Increases	2,515	11,288	-	-	13,803
2.1 Fair value increases	63	1	-	-	64
2.2 Adjustments due to credit risk	352	857	X	-	1,209
2.3 Transfer to Profit and Loss Account of negative reserves: due to disposal	3	-	X	-	3
2.4 Transfer to other net equity components (equity securities)	-	-	-	-	-
2.5 Other changes	2,097	10,430	-	-	12,527
3. Decreases	6,702	32,718	-	-	39,420
3.1 Fair value decreases	6,188	16,776	-	-	22,964
3.2 Reversals for credit risk	-	-	-	-	-
3.3 Transfer to Profit and Loss Account of positive reserves: due to disposal	401	15,667	X	-	16,068
3.4 Transfer to other net equity components (equity securities)	-	-	-	-	-
3.5 Other changes	113	275	-	-	388
4. Amount at period-end	-3,477	-6,180	-	-	-9,657

B.4 Reserves relating to defined benefit plans: annual changes

	31.12.2018		
	RESERVES	DTAS	NET RESERVES
1. Amount at year-start	-2,477	681	-1,796
2. Increases	-	-	-
- decreases of actuarial losses	-	-	-
- other increases	-	-	-
3. Decreases	-71	19	-52
- increases of actuarial losses	-71	19	-52
- other decreases	-	-	-
4. Amount at year-end	-2,548	700	-1,848

Section 2 – Own funds and banking capital ratios

In accordance with Circular No. 262 of 22 December 2005, fifth update of 22 December 2017, for the details of own funds and regulatory capital ratios, reference is made to the information regarding own funds and capital adequacy provided in the “Pillar 3” public disclosure provided at the consolidated level, available from Banca Generali’s corporate website at the address www.bancagenerali.com.

PART G – BUSINESS COMBINATIONS OF COMPANIES OR BUSINESS UNITS

This section includes both transactions within the scope of IFRS 3 and business combinations between entities under common control.

The results of impairment testing of the Banking Group's goodwill are also stated in the interest of consistency of presentation.

Section 1 – Transactions undertaken during the year

The merger of the subsidiary BG Fiduciaria Sim S.p.A. into the Parent Company, Banca Generali, became effective 1 January 2018.

The merger did not require an increase in the capital of Banca Generali, as the Bank already held 100% of the merged company.

Since this business combination qualifies as a transaction between entities under common control, it was accounted for in accordance with the principle of the continuity of values of the transferred assets and liabilities on the basis of the book values indicated in Banca Generali's 2017 Consolidated Financial Statements, and therefore it did not have any effects on the Consolidated Financial Statements for 2018.

Part G of Section 2 of the Notes and Comments of the Company's Financial Statements provides further details on this transaction.

Section 2 – Transactions after the close of the period

No business combination transactions were undertaken after 31 December 2018 and until the date of approval of the Consolidated Financial Statements.

However, 2018 saw the launch of some corporate transactions that are to be finalised in 2019.

On **22 October 2018**, Banca Generali formally defined a binding offer - accepted by the parties involved - aimed at acquiring 100% of the Nextam Partners S.p.A. financial group. Nextam Partners S.p.A. is an investment boutique, which has been offering asset and wealth management and advisory services to private-banking and institutional clients in Italy since 2001. The deal is part of Banca Generali's wider private-banking growth strategy launched with a view to strengthening the Bank's range of services and its distinctive asset management and advisory expertise.

Nextam Partners Group (80% owned by its three founding partners - independent managers with extensive experience in the industry - and 20% owned by other Italian and foreign shareholders) includes Nextam Partners SGR, Nextam Partners Sim, with offices in Milan and Florence, and the London-based Nextam Partners Ltd. Nextam Partners has a portfolio of approximately 2,500 clients, on behalf of whom the Group manages about 5.5 billion euros assets under advisory, in addition to 1.3 billion euros assets under management.

The deal will be subject to the appropriate conditions customarily applied to transactions of this kind.

In **December 2018**, a binding offer was made by Banca Generali - and accepted by the parties involved - for the acquisition of 90.1% of **Valeur Fiduciaria S.A.**, a Lugano-based asset management and advisory boutique that has been operating since 2009 in the private banking sector and manages CHF 1,326 million in assets. The deal will also be subject to the appropriate conditions customarily applied to transactions of this kind.

Section 3 – Retrospective Adjustments

No retrospective adjustments to business combinations carried out by the Banking Group in previous years were undertaken in 2018 pursuant to paragraphs 61 and B7 of IFRS 3.

The latter provision also requires that the amount of goodwill during the year be reconciled, including an indication of any impairment of goodwill recognised.

The Banking Group's goodwill totalled 66.1 million euros at 31 December 2018, broken down as follows:

	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
Prime Consult and INA Sim	2,991	2,991	-	-
Banca del Gottardo Italia	31,352	31,352	-	-
Credit Suisse Italy	27,432	27,432	-	-
BG Fiduciaria	4,290	-	4,290	n.a.
Total	66,065	61,775	4,290	6.9%

Impairment test

In accordance with IAS 36, goodwill is no longer amortised, but is reviewed at least annually for impairment.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs), which may be no larger than the operating segment identified for management reporting, pursuant to IFRS 8.

To determine the amount of impairment, the carrying amount of the CGU is compared with its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

It should be noted that the extensive reorganisation of the sales networks approved by the Board of Directors of 8 November 2017 also led to a review of the operating segments identified by the corporate management for purposes of management reporting.

In detail effective as of 1 January 2018, the networks of non-employed Financial Advisors have been revised according to specialisation and reorganised into two macro-divisions on the basis of the total AUM managed by each Financial Advisor, with the introduction of the new Wealth Management network, which brings together Financial Advisors in the highest asset bracket (i.e., with AUM of more than 50 million euros).

Moreover, as of 1 January 2018, the subsidiary BG Fiduciaria was merged into Banca Generali and therefore the relevant goodwill has been included in the Bank's CGUs.

IAS 36, paragraph 87 envisages that *"If an entity reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganised units."*

Consequently, to conduct impairment testing according to IAS 36, the CGUs were redefined and goodwill was reallocated to each with the aim of providing an accurate representation reflecting the changes made.

The full amount of goodwill (66.0 million euros) was definitively allocated to the two new CGUs, Wealth Management and Private Banking, on the basis of the AUM (assets under management) weighted according to profitability for each Financial Advisor included in the two new CGUs.

Definitions of CGUs

The new **Wealth Management CGU ("WM CGU")** consists of the assets attributable to the network of Financial Advisors identified within Banca Generali's sales network as managing total client assets of more than 50 million euros and the respective clients, assigned to the new *Wealth Management and Private Relationship Manager Commercial Development and Support Department*.

It therefore includes:

- > a portion of the goodwill arising on the operations of the companies Banca BSI Italia S.p.A. and Banca del Gottardo Italia S.p.A., merged into the Parent Company Banca Generali in 2010;
- > a portion of the goodwill arising from the Bank's acquisition at the end of 2014 of the Italian Affluent and Upper Affluent private banking operations of Credit Suisse Italy S.p.A.;
- > a portion of goodwill referring to the mergers of subsidiary Prime Consult Sim S.p.A. and INA Sim S.p.A. carried out in 2002;
- > a portion of the goodwill related to the merger of BG Fiduciaria into the parent company Banca Generali carried out effective 1 January 2018.

At 31 December 2018, the goodwill allocated to the new CGU Wealth Management amounted to 14.3 million euros.

The value analyses of the above-mentioned CGUs carried out by the Bank as at 31 December 2018, as part of the impairment test, are supported by a fairness opinion issued by a leading consulting company and submitted for approval to the Board of Directors of Banca Generali on 7 February 2019.

The new **Private Banking Management CGU (“PB CGU”)** consists of the assets attributable to the network of Financial Advisors identified within Banca Generali’s sales network as managing total client assets of less than 50 million euros, the assets attributable to Relationship Managers and the respective clients, assigned to the new *Private Banking and Financial Planner Commercial Development and Support Department*.

It therefore includes:

- > a portion of the goodwill arising on the operations of the companies Banca BSI Italia S.p.A. and Banca del Gottardo Italia S.p.A., merged into the parent company Banca Generali in 2010;
- > a portion of the goodwill arising from the Bank’s acquisition at the end of 2014 of the Italian Affluent and Upper Affluent private banking operations of Credit Suisse Italy S.p.A.;
- > a portion of goodwill referring to the mergers of subsidiary Prime Consult Sim S.p.A. and INA Sim S.p.A. carried out in 2002;
- > a portion of the goodwill related to the merger of BG Fiduciaria into the parent company Banca Generali carried out effective 1 January 2018.

At 31 December 2018, the goodwill allocated to the new CGU Private Banking amounted to 51.7 million euros.

The value analyses of the above-mentioned CGUs carried out by the Bank as at 31 December 2018, as part of the impairment test, are supported by a fairness opinion issued by a leading consulting company and submitted for approval to the Board of Directors of Banca Generali on 7 February 2019.

Approach to determining the values of the CGUs

To determine the recoverable amount, both market assessments (to arrive at fair value) and basic methodologies (to arrive at value in use) were considered.

Value in use was calculated by employing an analytical method (used as the main method), whereas fair value was calculated by employing an empirical method (used as the control method).

In detail, the analytical method employed was the Dividend Discount Model (DDM), specifically the Excess Capital variant of said model, on the basis of which the value of an asset is a function of:

- a) current value of future cash flows generated within a specific time period and available for distribution to shareholders (dividends);
- b) the perpetual capitalisation of the expected normalised dividend from the final year of the financial plan of reference, on the basis of a payout consistent with ordinary profitability.

The control method employed was the comparable market multiples method.

Impairment tests carried out on the CGU specified did not indicate goodwill impairment.

The value according to the analytical method exceeds the carrying amounts of the CGUs, inclusive of intangible assets, goodwill and capital allocated, as shown in the following table.

	FIGURATIVE CAPITAL	GOODWILL	OTHER INTANG. ASSETS	CARRYING AMOUNT
PB CGU	167.2	51.7	5.2	224.2
WM CGU	65.6	14.3	7.2	87.2
Total	232.8	66.0	12.4	311.4

	CGU VALUE		CARRYING AMOUNT
	MIN	MAX	
PB CGU	975.3	1,106.0	224.2
WM CGU	256.2	289.5	87.2

The analyses performed for each CGU are detailed below.

Wealth Management CGU (“WM CGU”)

In light of economic-financial forecasts based on the 2019-2021 Economic and Financial Plan, the CGU’s mean portfolio of assets under management (AUM) is expected to expand by 8.7% over the three years in question (CAGR), whilst the long-term growth rate expected following the planning period, and used to determine the Terminal Value (perpetual yield), was estimated at 1.5%.

The cost of capital employed to discount cash flows, determined according to the Capital Asset Pricing Model (CAPM), was estimated at 8.13%.

The cost of capital was established applying the Capital Asset Pricing Model, on the basis of the following assumptions:

- a) risk free rate of 2.60%, equivalent to the annual gross return on 10-year BTPs (Italian government bonds), over the last 12 months;
- b) market risk premium of 5.5%, established on the basis of the difference in long-term yields between equity securities and bonds on international financial markets;
- c) a value of 1.01 assigned to the Beta coefficient measuring the extent to which the performance of any given stock is likely to depart from market trends, and determined on the basis of a sample of comparable companies, duly weighted for their respective market capitalisation values.

The foregoing assumptions are substantially in line with the estimates and variables used during the previous financial year.

The tests performed on the CGU did not detect any goodwill impairment.

Compared to the WM CGU's carrying amount of 87.2 million euros, the value obtained by applying the analytical method described above amounted to a minimum of 256.2 million euros and a maximum of 289.5 million euros.

In accordance with the requirements of IAS 36, paragraph 134(f), a sensitivity analysis was conducted as a function of the parameters "cost of capital" (Ke) and "long-term growth rate", using a range of variation of 7.9%-8.4% and 1.25%-1.75%, respectively.

The test performed using the control method also confirmed that the carrying amount remained applicable.

Private Banking CGU ("PB CGU")

In light of economic-financial forecasts based on the 2019-2021 Economic and Financial Plan, the CGU's mean portfolio of assets under management (AUM) is expected to expand by 8.8% over the three years in question (CAGR), whilst the long-term growth rate expected following the planning period, and used to determine the Terminal Value (perpetual yield), was estimated at 1.5%.

The cost of capital employed to discount cash flows, determined according to the Capital Asset Pricing Model (CAPM), was estimated at 8.13%.

The cost of capital was established applying the Capital Asset Pricing Model, on the basis of the following assumptions:

- a) risk free rate of 2.60%, equivalent to the annual gross return on 10-year BTPs (Italian government bonds), over the last 12 months;
- b) market risk premium of 5.5%, established on the basis of the difference in long-term yields between equity securities and bonds on international financial markets;
- c) a value of 1.01 assigned to the Beta coefficient measuring the extent to which the performance of any given stock is likely to depart from market trends, and determined on the basis of a sample of comparable companies, duly weighted for their respective market capitalisation values.

The foregoing assumptions are substantially in line with the estimates and variables used during the previous financial year.

The tests performed on the CGU did not detect any goodwill impairment.

Compared to the PB CGU's carrying amount of 224.2 million euros, the value obtained by applying the analytical method described above amounted to a minimum of 975.3 million euros and a maximum of 1,106.0 million euros.

In accordance with the requirements of IAS 36, paragraph 134(f), a sensitivity analysis was conducted as a function of the parameters "cost of capital" (Ke) and "long-term growth rate", using a range of variation of 7.9%-8.4% and 1.25%-1.75%, respectively.

The test performed using the control method also confirmed that the carrying amount remained applicable.

Finally, it should be noted that the impairment test conducted at the level of the consolidated financial statements also includes a test of the value of the goodwill and intangible assets recognised in the separate financial statements.

PART H – RELATED PARTY TRANSACTIONS

Procedural aspects

Banca Generali's Board of Directors approved the "Related Party Transaction Procedure", effective as of 1 January 2011, in compliance with the provisions of Article 2391-*bis* of the Italian Civil Code, and Article 4 of the Regulations adopted with Consob Resolution No. 17221 of 12 March 2010, as subsequently amended.

On 12 December 2011, the Bank of Italy also updated the Prudential Supervisory Instructions for Banks (Bank of Italy Circular No. 263/2006), issuing new Provisions regulating risk-taking and conflicts of interest on the part of banks and banking groups, towards Associated Undertakings (Title V, Chapter 5).

The Procedure was last updated to bring it in line with Article 150 of TUF and the provisions introduced by the Bank of Italy on 2 July 2013 with the 15th amendment of Circular No. 263 of 27 December 2006 concerning "New Prudential Supervisory Provisions for Banks" on Transactions of Greater Importance.

The new Procedure for Related Party and Connected Party Transaction and Transactions of Greater Importance, in force as from 1 July 2014 and most recently updated 15 May 2017, is intended to implement Consob and Bank of Italy regulations, by adopting, at group level, rules on Transactions with Related Parties and Connected Parties and Transactions of Greater Importance, governing the related investigation, approval, reporting and disclosure activities.

The related party perimeter

Based on Consob Regulations, the Provisions issued by the Supervisory Body, and the Procedure, the following parties are considered as Banca Generali's related parties:

- > subsidiaries of the Banking Group;
- > the ultimate parent Assicurazioni Generali S.p.A., its subsidiaries (companies subject to common control), including the direct parent Generali Italia S.p.A., and pension funds established for the benefit of Generali Group employees;
- > Key management personnel of the Bank and the parent company Assicurazioni Generali (key managers), close relatives of the above personnel and the related relevant subsidiaries (entities in which one of these persons exercises control, joint control or significant influence or holds, directly or indirectly, a significant shareholding of no less than 20% of the voting rights).

Under IAS 24, whose revised version is in force since 1 January 2011, the associate companies of the banking Group and the insurance group Generali Group are also considered related parties.

With specific regard to **key managers**, the following persons have been designated as such:

- > the Directors and the members of the Board of Statutory Auditors of the Banking Group's companies;
- > the members of the Top Management, as defined in the Remuneration Policies of the Banking Group⁷, namely the Chief Executive Officer, the General Manager and the two Deputy General Managers⁸;
- > representatives of the parent company Assicurazioni Generali S.p.A. identified as Key Management Personnel in the corresponding procedure regarding transactions with related parties adopted by that Insurance Group.

Significance thresholds of Related Party transactions

The procedure lays down specific provisions on decision-making authority, obligation to provide justification and documentation to be prepared depending on the type of transaction.

More specifically:

- > **Highly Significant Transactions** - that is, transactions exceeding the threshold of 5% of at least one of the significance indicators of the countervalue of the transaction, as provided by Consob Resolution No. 17221, reduced to 2.5% for transactions carried out with the Parent Company that is listed on regulated markets or with undertakings thereto related which are in turn related to the Company - must be approved by the Board of Directors, upon the binding favourable opinion of the Internal Control Committee;
- > **Moderately Significant Transactions** - falling short of the threshold defining Highly Significant RP Transactions; they must be approved by the relevant corporate officers as established pursuant to the system of delegated powers in force from time to time, only after hearing the non-binding opinion of the Internal Control Committee in such regard. The aforesaid transactions must be presented with a full and in-depth information about the reasons underlying each and every transaction in question, as well as the advisability of proceeding with the latter in light of the substantive propriety of the related terms and conditions;
- > **Low Value transactions**, whose value, defined pursuant to the Bank of Italy's Provisions, cannot exceed the amount of **250,000 euros** for banks with Own Funds below 1 million euros, and are excluded from the scope of application of the regulation on approval and disclosure transparency.

In addition to transactions for modest amounts, in accordance with Consob Regulation, there are additional circumstances which are not subject to the specific approval procedures:

- > **share-based remuneration plans** approved by the General Shareholders' Meeting within the meaning of Article 114-*bis* of the TUF, and related implementing transactions;

⁷ Banking Group's Remuneration and Incentivisation Policies approved by the General Shareholders' Meeting on 12 April 2018.

⁸ Chief Executive Officer/General Manager, Deputy General Manager Wealth Management Markets and Products, Deputy General Manager Commercial Networks, Alternative and Support Channels.

- > **resolutions on the remuneration of directors** entrusted with specific tasks other than those determined on an overall basis pursuant to Article 2389, third paragraph, of the Italian Civil Code and **resolutions regarding the remuneration of Key Management Personnel**, provided that the Company has adopted a remuneration policy with certain characteristics;
- > **ordinary transactions** that are part of the ordinary operations and any and all related financial activities, and effected at arm's-length or standard terms or conditions. Pursuant to the Bank of Italy's provisions, all transactions that exceed the Highly Significant threshold, even if carried out on an arms' length basis or standard conditions, should be considered as non-ordinary transactions;
- > **transactions with or between Subsidiaries and Associates**, provided that none of the Company's other related parties holds any interest in the Subsidiaries or Associates in question.

On the basis of the indicator consisting of the consolidated Own funds, the threshold of transactions of greater importance currently stands at around **26.9 million** euros, reduced to **13.4 million** euros for transactions with the parent company Assicurazioni Generali and the latter's related entities.

Moreover, the provisions issued by the Bank of Italy impose, for the first time, prudential restrictions, based on Own funds, on risk assets in respect of Connected Parties. The limits vary according to the different types of Connected Parties, in proportion with the level of involvement in the relationship and the potential impact of the resulting risks on sound and prudent management. In light of the greater risks associated with conflicts of interest in bank-industry relations, more stringent limits are envisaged for risk assets carried out with entities qualifying as non-financial related parties. Exposure in respect of the Generali Group's connected parties, on the other hand, is capped at **7.5%** of consolidated Own funds. Even if the aforesaid consolidated cap is not exceeded, Banca Generali's exposure in respect of any given set of associated undertakings may in no event exceed **20%** of the sum total of their respective Capital for Regulatory Purposes.

1. Disclosure of remuneration of directors and executives

As required by IAS 24, the total remuneration recorded in the Profit and Loss account for the year is disclosed below, broken down by personnel category and type.

	2018				2017	CHANGE
	DIRECTORS	AUDITORS	OTHER KEY MANAGEMENT PERSONNEL	TOTAL		
Short-term benefits (current remuneration and social security charges) ⁽¹⁾	1,013	222	1,934	3,169	3,100	69
Post-employment benefits ⁽²⁾	-	-	242	242	125	117
Other long-term benefits ⁽³⁾	-	-	269	269	72	197
Severance indemnities	-	-	-	-	-	-
Share-based payments ⁽⁴⁾	-	-	1,232	1,232	1,828	-596
Total	1,013	222	3,677	4,912	5,125	- 213
Total 2017	1,004	230	3,891	5,125	-	-

(1) Includes current remuneration and social security charges payable by the company and short-term benefits.

(2) Includes the company's pension fund contribution and allocation to the provision for post-retirement benefits provided for by the law and company regulations.

(3) Includes 40% of the bonus with access gate.

(4) Includes the estimated cost for share-based payment plans, determined based on IFRS 2 criteria and recognised in the financial statements.

The table presents the total expenses recognised in the profit and loss account presented in the consolidated annual financial statements on the basis of the application of international accounting principles (IASs/IFRSs). It therefore also includes the social security charges for which the Company is liable, the allocation to the provision for post-employment benefits, the expenses associated with share-based payment plan determined in accordance with IFRS 2, and the estimate of the variable remuneration accrued during the year on the basis of the Remuneration and Incentivisation Policy for the Key Personnel of the Banking Group.

It should also be noted that the amounts are net of recoverable remuneration associated with services rendered to other companies.

In further detail, the item "Other long-term benefits" includes the estimate of the 40% share of variable remuneration for the year in excess of 75,000 euros payable on a deferred basis over the next two years, contingent upon specific access gate conditions being met, in accordance with the aforementioned Remuneration Policy.

The item "Short-term benefits" includes the fixed remuneration and the 60% share of variable remuneration accrued in the reporting year and payable in the following one.

Beginning in 2015, a 25% portion of the variable remuneration - both current and deferred - will be paid in Banca Generali shares.

Therefore, the item “Share-based payments” accounts for the costs associated with IFRS 2 accrued in the year and regarding:

- > the Long-Term Incentive Plans (LTIPs) introduced by the parent company Assicurazioni Generali, for a total amount of 0.7 million euros;
- > the new LTI Plan based on Banca Generali S.p.A.’s shares implemented in 2018 for an amount of 0.4 million euros;
- > the share-based payments envisaged in the new Remuneration Policy mentioned above and discussed in greater detail in Part I of these Notes and Comments (0.1 million euros).

For detailed information concerning Remuneration Policies, the reader is therefore referred to the specific document concerning Remuneration Policies instituted by Consob Resolution No. 1849 of 23 December 2011.

2. Disclosure of Related Party Transactions

As part of its normal business operations, Banca Generali carries out numerous financial and commercial transactions with related parties included in the scope of consolidation of the Generali Group.

Banca Generali is a direct subsidiary of Generali Italia S.p.A., the holding of all the Insurance Group’s operations in Italy. However, the company engaging in management and coordination activities pursuant to Article 2497 of the Italian Civil Code continues to be the ultimate Parent Company, Assicurazioni Generali S.p.A. This is the reason why reference is made to the latter when speaking of the “Parent Company” of Banca Generali, in compliance with IAS 24.

In the banking area, such relationships include current accounts, the custody and administration of securities, stock brokerage and commercial portfolio collection.

As regard the distribution and sale of financial services, a number of agreements were established regarding the Financial Advisors network’s placement of asset-management and insurance products, as well as banking products and services.

To a lesser extent, advisory and wealth management activities are also carried out, with reference to underlying assets of insurance products placed by the companies of the Insurance Group.

Finally, as part of its normal operations, the Bank also maintains relationships pertaining to outsourcing, IT and administration, insurance and leasing relationships, as well as other minor relationships with Generali Group companies. Transactions with related parties outside the Generali Group are mostly confined to direct and indirect funding activities and loans to Key Management Personnel (and their relatives) of the Bank and its Parent Company. These transactions are carried out at arm’s length. Banca Generali’s direct investments in activities on which such related parties exercise significant influence or control are absolutely not material.

2.1 Extraordinary and non-recurring transactions

Unusual, atypical or extraordinary transactions

There were no atypical and/or unusual transactions to be reported in 2018, nor were such transactions undertaken with parties other than related parties such as intra-group entities or third parties.

Pursuant to Consob Notices Nos. 98015375 of 27 February 1998 and 1025564 of 6 April 2001, atypical and unusual transactions are defined as all transactions that due to their significance/materiality, the nature of the counterparties, the subject matter of the transaction (including in relation to ordinary operations), the transfer pricing method and timing of occurrence (near the end of the period) may give rise to doubts as to the accuracy/completeness of the information presented in the financial statements, conflicts of interest, the safeguarding of company assets and the protection of minority shareholders.

Highly Significant Transactions

In 2018, the Banking Group (Banca Generali) undertook the following transactions qualifying as “Highly Significant”.

- > During the session of 20 March 2018, the Board of Directors approved the redefinition of the intra-group agreements on the brand and policy distribution. Since these transactions qualified as Highly Significant, the Audit and Risk Committee was duly involved in the negotiations and produced its own binding opinion, as required by the above Procedure. The relevant Information Document was also prepared in accordance with Article 5 of the “Regulations containing provisions relating to transactions with related parties” adopted by Consob with Resolution No. 17221 of 12 March 2010 and subsequently amended by Consob with Resolution No. 17389 of 23 June 2010;
- > during the session of 31 July 2018, the Board of Directors approved the new lease agreement with Generali Italia S.p.A. for the real-estate premises located at Piazza Tre Torri 1 (Citylife), Milan, Italy, and granted the Chief Executive Officer all powers appropriate to executing the deeds required to finalise the agreements. Since these transactions qualified as Highly Significant, the Audit and Risk Committee was duly involved in the negotiations and produced its own binding opinion, as required by the above Procedure. The relevant Information Document was also prepared in accordance with Article 5 of the “Regulations containing provisions relating to transactions with related parties” adopted by Consob with Resolution No. 17221 of 12 March 2010 and subsequently amended by Consob with Resolution No. 17389 of 23 June 2010.

Other significant transactions

In 2018, some transactions were approved qualifying as “moderately significant” transactions, which are subject to the prior non-binding opinion of the Audit and Risk Committee; in this regard, the reader is referred to the dedicated section of the Report on Operations.

2.2 Ordinary or recurring transactions

The developments of ordinary transactions with related parties during 2018 are presented in the following sections.

Transactions with Assicurazioni Generali Group

Balance Sheet data

	PARENT COMPANY ASS. GENERALI	SUBSIDIARIES OF THE AG GROUP	31.12.2018	31.12.2017	WEIGHT % 2018
Financial assets measured at fair value through profit or loss:	903	-	903	242	1.0%
a) HFT financial assets	-	-	-	242	-
c) other financial assets mandatorily measured at fair value	903	-	903	-	1.6%
Financial assets at fair value through other comprehensive income	-	246	246	945	-
Financial assets at amortised cost:	-	29,456	29,456	20,520	0.5%
b) Loans to customers	-	29,456	29,456	20,520	0.5%
Other assets	-	105	105	269	-
Total assets	903	29,807	30,710	21,976	0.3%
Financial liabilities at amortised cost	87,798	439,965	527,763	495,843	6.1%
b) Due to customers	87,798	439,965	527,763	495,843	6.2%
Tax liabilities (AG tax consolidation)	6,893	-	6,893	2,592	38.3%
Other liabilities	-	11,541	11,541	5,481	8.1%
Total liabilities	94,691	451,506	546,197	503,916	5.6%
Guarantees issued	1,847	858	2,705	2,931	2.8%

The total exposure to the Parent Company, **Assicurazioni Generali**, of companies subject to its control, including the direct parent, Generali Italia S.p.A., and its associate companies, amounted to 30.7 million euros, compared to the 21.9 million euros recognised at the end of 2017, equal to 0.3% of Banca Generali Group’s total balance sheet assets.

By contrast, the total debt position reached 546.2 million euros, accounting for 5.6% of liabilities, up by 42.3 million euros (+8.4%) compared to the previous year.

As part of assets, **financial assets mandatorily measured at fair value through other comprehensive income (OCI FV)** claimed from the parent company refer to shares of Assicurazioni Generali held in the corresponding portfolio of Banca Generali. As part of the **financial assets measured at fair value through other comprehensive income (HTCS)** portfolio, shareholdings in subsidiaries of the Generali insurance group refer to the shares held in the consortia of the GBS Group (Generali Business Solutions).

Exposures to Generali Group companies recognised as **loans to customers** amounted to 29.5 million euros and refer to the following transactions:

COMPANY	RELATIONSHIP	TYPE OF TRANSACTION	31.12.2018		31.12.2017	
			AMOUNT	REVENUES	AMOUNT	REVENUES
Genertellife	Subsidiary of the AG Group	Operating loans	27,512	-	19,005	-
Other companies of the Generali Group	Subsidiary of the AG Group	Operating loans	1,940	-	1,498	-
Other exposures with Group companies	Subsidiary of the AG Group	Temporary current account exposures	4	1,383	17	1,472
			29,456	1,383	20,520	1,472

Operating loans are comprised of transitional items including fees accrued over the last quarter for the distribution of insurance and financial products of Group companies.

Amounts due to customers attributable to Generali Group’s related parties reached 527.8 million euros at the end of the year and included amounts due to the parent company Assicurazioni Generali S.p.A. for 87.9 million euros and amounts due to Generali Italia S.p.A. for 89.5 million euros.

Amounts due to customers also included the **subordinated loan** with Generali Beteiligungs GmbH, taken up at the end of 2014 to acquire the Credit Suisse Italia S.p.A.'s business unit and amounting to 43.3 million euros, gross of accrued interest.

Finally, a total of 2.7 million euros in personal guarantees was issued for Generali Group companies, of which 1.8 million euros on behalf of Assicurazioni Generali S.p.A.

Amounts payable from the Parent Company and classified as **tax liabilities** consisted of Banca Generali S.p.A.'s net tax debt resulting from the balance between tax prepayments, withholdings and credits and the IRES tax calculated at the end of the year.

Profit and Loss Account data

At 31 December 2018, the profit and loss components recognised in the Financial Statements with regard to transactions with companies of the Generali Group amounted to 212.3 million euros, or 77.1% of operating profit before taxation.

	PARENT COMPANY ASS. GENERALI	SUBSIDIARIES OF THE AG GROUP	2018	2017	WEIGHT % 2018
Interest income	57	1,326	1,383	1,472	2.1%
Interest expense	-1	-1,677	-1,678	-1,662	26.0%
Net interest income	56	-351	-295	-190	-0.5%
Fee income	1	232,036	232,037	217,715	31.3%
Fee expense	-	-2,030	-2,030	-1,681	0.6%
Net fees	1	230,006	230,007	216,034	59.3%
Dividends	39	-	39	49	1.7%
Operating income	96	229,655	229,751	215,893	48.7%
Staff expenses	-	173	173	195	-0.2%
General and administrative expenses	-119	-17,530	-17,649	-15,880	10.9%
Other operating income and expenses	-	73	73	72	0.1%
Net operating expenses	-119	-17,284	-17,403	-15,613	8.9%
Operating result	-23	212,371	212,348	200,280	77.1%
Operating profit	-23	212,371	212,348	200,280	96.6%
Net profit (loss) for the year	-23	212,371	212,348	200,280	117.9%

Overall **net interest income** accrued in dealings with members of the insurance Group is negative and amounted to 0.3 million euros.

By convention, interest income also includes the negative interest expense applied to the deposits of Generali Group companies starting in June 2016, calculated according to the average one-month Euribor for the month prior to the month of calculation.

Interest expense amounted to 1.7 million euros, equal to 26.0% of the total amount recognised in the Profit and Loss Account and mostly refer to the subordinated loan of Generali Beteiligungs GmbH, whereas the interest income from other companies of the Generali Group was absolutely negligible due to the persistence of negative short-term interest rates.

Fee income paid back by companies of the insurance Group amounted to 232 million euros, equal to 31.3% of the aggregate amount and was broken down as follows:

	2018	2017	CHANGE	
			ABSOLUTE	%
Asset management fees	3,169	4,114	-945	-23.0%
Distribution of insurance products	223,307	209,360	13,947	6.7%
Advisory fees	5,319	3,704	1,615	43.6%
Other banking fees	242	537	-295	-54.9%
Total	232,037	217,715	14,322	6.6%

The most significant component consists of fees on the **distribution of insurance products** by Genertellife, reaching 223.3 million euros, up by 6.7% compared to the same period of the previous year.

Fees on the placement of units of UCITS of the Insurance Group were largely related to the income on the distribution of GI Focus funds, promoted by Generali Investments Europe SGR.

Furthermore, Banca Generali advises on, or directly manages through portfolio management, a portion of the underlying assets of the Group's insurance products. In this regard, in 2018 fee income for advisory service rendered to Alleanza Assicurazioni S.p.A. and Generali Italia S.p.A. amounted to 5.3 million euros.

The other bank fees refer both to SDD collection activity on behalf of Group companies and current account keeping fees.

It should also be noted that Banca Generali renders trading and order receipt services to Italian and international UCITS administered by management companies that belong to the banking and insurance Group. Such fees are generally charged directly against the assets of the UCITS, which are considered entities beyond the scope of IAS 24.

To hedge obligations towards the insured, the insurance wrappers of the Insurance Group (BG Stile Libero, Valore futuro) also invest a portion of the reserves in UCIT units managed by the Banking Group's management company (BGFML), which receives the related management fees.

The Bank also directly collects from customers - through the correspondent bank - underwriting fees for the Sicavs promoted by the group (LUX IM Sicav, BG Selection Sicav, Generali Investments Sicav).

	2018	2017	CHANGE	
			ABSOLUTE	%
Sicav underwriting fees	60	32	28	87.5%
Trading fees on funds and Sicavs	2,587	3,632	-1,045	-28.8%
Total fees	2,647	3,664	-1,017	-27.8%

The **net operating expenses** reported by the Banca Generali Group in relation to transactions with related parties of the Generali Group amounted to 17.4 million euros and refer for 8.9% to outsourced services in the insurance, leasing, administrative and IT sector.

	2018	2017	CHANGE	
			ABSOLUTE	%
Insurance services	2,578	2,410	168	7.0%
Property services	5,822	5,731	91	1.6%
Administration, IT and logistics services	9,176	7,667	1,509	19.7%
Financial services	-	-	-	-
Staff services	-173	-195	22	-11.3%
Total administrative expenses	17,403	15,613	1,790	11.5%

Administrative expenses incurred in relation to Generali Italia S.p.A. amounted to 4.5 million euros, of which 2.2 million euros refer to insurance services and the remainder to rentals for property leases.

The cost of property services relating to the lease of offices, branch network and the bank's operating outlet premises totalled 5.8 million euros and referred to Generali Italia S.p.A. (2.3 million euros), as well as to the real-estate fund Mascagni (1.6 million euros), the real-estate fund Tiepolo (1.6 million euros) and the real-estate fund Schubert (268 thousand euros).

Expenses relating to IT, administration and logistics related chiefly to services rendered by Generali Business Solutions S.r.l. (GBS) on the basis of current outsourcing agreements.

Transactions with other related parties

Exposure in respect of **Key Managers** of the Bank and its parent company Assicurazioni Generali mainly referred to residential mortgages subject to the same terms and conditions applied to similar mortgages held by other Executives of the Banking and Insurance Group.

Amounts due to such parties consist of the balances of correspondent accounts with Banca Generali and are regulated on the basis of conditions applicable to employees of the Banking and Insurance Group.

Equity investments include the interest acquired by the Banking Group in 2015 in the UK-based firm IOCA Entertainment Ltd.

In 2018, the share of the loss for the year attributable to Banca Generali amounted to approximately 149 thousand euros, whereas the exchange differences on the equity investment in foreign currency amounted to 131 thousand euros.

	KEY MANAGEMENT PERSONNEL	ENTITIES UNDER CONTROL OR SIGNIFICANT INFLUENCE
Loans to customers	3,188	-
Equity investments	-	1,661
Due to customers	3,748	-
Guarantees issued	45	-

Direction and Coordination

Pursuant to Article 2497-*bis* of the Italian Civil Code, Banca Generali is subject to Assicurazioni Generali S.p.A.'s "management and coordination" activities.

A summary of the main items of this company's latest Financial Statements is reported hereunder.

2017 Highlights of assicurazioni generali

The highlights of the Parent Company Assicurazioni Generali S.p.A shown above were taken from the company's Financial Statements for the year ended 31 December 2017. These are available together with the Independent Auditors' Report as provided for by the law. Consequently, these figures of the Parent Company are not subject to audit performed by the auditing firm engaged by Banca Generali.

(€ MILLION)	2017
Net profit	1,404.5
Aggregate dividend	1,330.0
<i>Increase</i>	6.49%
Total net premiums	2,516.5
Total gross premiums	3,369.4
Total gross premiums from direct business	627.6
<i>Increase on equivalent terms ^(a)</i>	
Total gross premiums from indirect business	2,741.8
<i>Increase on equivalent terms ^(a)</i>	
Acquisition and administration costs	466.5
<i>Expense ratio ^(b)</i>	18.54%
Life business	
Life net premiums	1,344.8
Life gross premiums	1,708.3
<i>Increase on equivalent terms ^(a)</i>	
Life gross premiums from direct business	225.2
<i>Increase on equivalent terms ^(a)</i>	
Life gross premiums from indirect business	1,483.2
<i>Increase on equivalent terms ^(a)</i>	
Life acquisition and administration costs	213.8
<i>Expense ratio ^(b)</i>	15.90%
Non-life business	
Non-life net premiums	1,171.8
Non-life gross premiums	1,661.1
<i>Increase on equivalent terms ^(a)</i>	
Non-life gross premiums from direct business	402.5
<i>Increase on equivalent terms ^(a)</i>	
Non-life gross premiums from indirect business	1,258.6
<i>Increase on equivalent terms ^(a)</i>	
Non-life acquisition and administration costs	252.7
<i>Expense ratio ^(b)</i>	21.6%
<i>Loss ratio ^(c)</i>	70.3%
<i>Combined ratio ^(d)</i>	91.9%
Current financial result	2,450.0
Technical provisions	12,676.5
Life segment technical provisions	11,236.6
Non-life segment technical provisions	1,440.0
Investments	40,644.8
Capital and reserves	13,421.0

(a) At constant exchange rates.

(b) Ratio of administrative expense to total premiums.

(c) Ratio of accrued claims to accrued premiums.

(d) Total (b) + (c).

PART I – PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

At 31 December 2018, Banca Generali activated the following payment agreements based on own equity instruments:

- > the plans launched with respect to the Banca Generali Group's Remuneration and Incentivisation Policy, in effect from time to time, which calls for a part of the variable remuneration of Key Personnel to be paid by assigning Banca Generali's own financial instruments;
- > the plans launched in service of the Framework Loyalty Programme 2017-2026, approved by the General Shareholders' Meeting on 20 April 2017 and now in its second annual cycle (2018-2026), which calls for a maximum of 50% of the indemnity accrued to be paid using own financial instruments;
- > the new Long-Term Incentive plan based on shares of Banca Generali for the Banking Group's top management, approved by the General Shareholders' Meeting on 12 April 2018.

Qualitative Information

1. Share-based payment plans linked to the variable portion of remuneration based on performance objectives

The Remuneration and Incentivisation Policy for the Key Personnel of the Banca Generali Group - adopted in compliance with the Supervisory Provisions⁹ currently in force - requires a portion of the variable component of remuneration, both current and deferred, to be paid by assigning Banca Generali's own financial instruments, based on the rules annually submitted for approval to the General Shareholders' Meeting.

In detail, for Key Personnel, including the main Network Managers, 25% of the variable remuneration linked to short-term objectives will be paid in Banca Generali shares, according to a retention mechanism until the end of the year of assignment.¹⁰

If the bonus accrued falls above the threshold of 75 thousand euros, the following assignment and retention mechanism applies:

- > 60% of the bonus is paid up-front during the year after that of reference, 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period until the end of the year of assignment;
- > 20% paid up-front, deferred for one year: 75% in cash, and 25% in Banca Generali shares, subject to a retention period until the end of the year of assignment;
- > the remaining 20% is deferred by two years: 75% in cash, and 25% in Banca Generali shares, subject to a retention period until the end of the year of assignment;

In calculating the number of shares to be assigned, a method is applied where:

- > the numerator is the portion of variable remuneration subject to payment in shares accrued in relation to the achievement of objectives set for the year in question and,
- > the denominator is equal to the average price of Banca Generali shares during the three months prior to the meeting of the Board of Directors that approves the draft Separate and Consolidated Financial Statements for the year prior to that in which the cycle in question begins.

The payment in shares is executed after the Board of Directors verifies the earnings results for the year in question and is conditional not only upon the achievement of the pre-set objectives¹¹, but also to the satisfaction of access gates established by the Banking Group (TCR - Total Capital Ratio, LCR - Liquidity Coverage Ratio) for the year in which the remuneration is accrued and the following two-year period of deferral.

The Banking Group's Remuneration Policies for the reference year together with the authorisation to buy own shares to be used to service them are submitted annually to the General Shareholders' Meeting that approves the previous year's financial statements. The resolution authorising the buy-back of own shares is also subject to authorisation by the Bank of Italy.

These plan categories also include any other compensation paid in the form of shares related to:

- > ordinary sales incentives and new-recruit plan for Financial Advisors other than the main network managers and employed sales personnel;
- > agreements entered into in view or upon the early termination of the work or agency relationship, with regard to the beneficiaries falling within the category of Key Personnel.

⁹ Bank of Italy Circular No. 285/2013, "Supervisory Provisions for Banks", Part I, Title IV, Chapter 2, Remuneration and Incentivisation Policies and Procedures.

¹⁰ During the retention period voting and dividend rights are unrestricted, without prejudice to the fact that no dividends are payable on assigned shares.

¹¹ Provided for by the Management by Objectives (MBO) mechanism or by specific incentive/recruitment plans.

Measurement of fair value and accounting treatment

Pursuant to IFRS 2 - *Share-based Payments*, the mechanisms to Remuneration variable remuneration - discussed in the previous section - are considered as equity-settled share-based payment transactions.

The accounting treatment set forth for these transactions requires an entity to reflect in its profit and loss, under the most appropriate items (staff expenses, fee expense), the estimated expense associated with services received and paid in shares, and allocate a specific equity reserve as offsetting entry.

As the agreements relating to share-based payments based on the above-mentioned plans do not call for an exercise price, they can be considered similar to a stock grant and recognised in compliance with the rules set forth for this category of transactions.

The overall expense regarding said agreements is therefore determined based on the number of shares expected to be assigned, multiplied by the fair value of the Banca Generali stock at the date of assignment.

The fair value of Banca Generali stock at the assignment date is measured based on the market price reported at the date of the General Shareholders' Meeting that is called annually to approve the Remuneration Policy for the year of reference, adjusted to account for the estimate of expected dividends, that will not be received by the beneficiaries during the deferral period.

The recognition through the equity reserve of the value of the plans - determined as described above - is measured pro-rata temporis, based on the vesting conditions, i.e., the period between assignment and final maturity of the right to receive the shares, likewise taking into account the probability that exercise conditions will not be realised for all recipients.

Since the plans are generally organised into different tranches with differentiated vesting periods, each plan is valued separately. In detail, if the share assignment is effected in three tranches, with a first tranche (60%) paid up-front after the approval of the Financial Statements for the year of reference, and two annual tranches (40%) to be deferred and subject to both the continuation of service and the satisfaction of access gates established on an annual basis the vesting period for the tranche paid up-front lasts from 1 January to 31 December of the year of reference of the remuneration (12 months), whereas for the two deferred tranches the vesting period is extended up to 31 December of the first subsequent year (24 months) and of the second subsequent year (36 months).¹²

However, the number of shares actually granted to beneficiaries may change based on the assessment of satisfaction of the individual objectives.

The IFRS 2 expense relating to any beneficiaries belonging to the Banking Group's companies other than the Banca Generali parent company is recognised directly by those companies. However, when the own shares bought back are actually assigned to them, the Bank charges back to the companies involved an amount corresponding to the fair value of the relevant plans¹³.

1.1 Information on the share-based payment plans in connection to the Remuneration Policies

At 31 December 2018, there are three active cycles of share-based plans in connection to the Remuneration Policies relating to 2016, 2017 and 2018.

The main features of the share-based plan, linked to 2016 Remuneration Policies and approved by the General Shareholders' Meeting on **21 April 2016**, are as follows:

- > for the purpose of determining the number of shares to be assigned, the price of reference of Banca Generali shares, calculated as the average official market price during the period 12 December 2015 to 9 March 2016, was determined to be **25.26 euros**;
- > the fair value of Banca Generali stock at the assignment date was equal to the market price (approximately **26 euros**) reported on 21 April 2016, subsequently adjusted to account for the loss of dividends expected in the deferral period.

In that cycle, the shares to be assigned to Key Personnel totalled **72,973**, of which **59,377** were granted to Network Managers, **11,695** to employees, and **1,721** referred to the subsidiary BGFML, for a total fair value amounting to approximately **1.7 million euros**.

In 2016, a plan for new recruits was also implemented. This plan is subject to long-term deferral and envisages the assignment of ten annual variable instalments to be paid from 2016 to 2025, conditional upon the maintenance of the net inflows contributed at 30 November 2016. Each annual instalment of this plan is also subject to deferral and payment in shares according to the Remuneration Policy from time to time in force, until the year 2028. The shares to be assigned under this plan have been quantified as **18,373**, including **2,847** already assigned.

¹² Since 2018, IFRS2-related charges regarding ordinary incentives accrued by Financial Advisors and linked to objectives of net inflows or acquisition of new customers, where paid in shares, are expensed over the longer time period of 5 years.

¹³ They include, in particular, the bonuses paid in shares to Key Personnel and some managers of the subsidiary BGFML.

The main features of the share-based plan, linked to 2017 Remuneration Policies and approved by the General Shareholders' Meeting on **20 April 2017**, are as follows:

- > for the purpose of determining the number of shares to be assigned, the price of reference of Banca Generali shares, calculated as the average official market price during the period 12 December 2016 to 9 March 2017, was determined to be **23.73 euros**;
- > the fair value of Banca Generali stock at the assignment date was equal to the market price (approximately **25.4 euros**) reported on 20 April 2017, subsequently adjusted to account for the loss of dividends expected in the deferral period.

In that cycle, the shares to be assigned to Key Personnel totalled **146,436**, of which **98,454** were awarded to Network Managers, **30,973** referred to ordinary incentives and entry bonuses paid to Financial Advisors falling within Key Personnel on the basis of the fee volume accrued, **16,311** to employees, and **4,297** referred to the subsidiary BGFML, for a total fair value amounting to approximately **3.3 million euros**.

In 2017, a settlement agreement was also reached with a former Area Manager which, based on the current Remuneration Policy, provided for the granting of a portion of the indemnity, estimated in the amount of **17,591** Banca Generali shares and a total fair value of an additional **0.4 million euros**.

The main features of the share-based plan, linked to 2017 Remuneration Policies and approved by the General Shareholders' Meeting on **12 April 2018**, are as follows:

- > for the purpose of determining the number of shares to be assigned, the price of reference of Banca Generali shares, calculated as the average official market price during the period 28 December 2017 to 1 March 2018, was determined to be **28.57 euros**;
- > the fair value of Banca Generali stock at the assignment date was equal to the market price (approximately **27.00 euros**) reported on 12 April 2018, subsequently adjusted to account for the loss of dividends expected in the deferral period.

In respect of the assessment of the achievement by Key Personnel of the objectives set for 2018, it was estimated that the portion of variable remuneration subject to share-based payment amounted to approximately **118 thousand shares**, for a total plan fair value of **2.7 million euros**.

In 2018, a settlement agreement was also reached with a former Employee which, based on the current Remuneration Policy, provided for the granting of a portion of the indemnity, amounting to **2,975** of Banca Generali shares.

In the reporting period, on the basis of the achievement of the performance objectives set out in the 2015, 2016 and 2017 Remuneration Policy, **121,129** treasury shares were granted to company managers and network managers, of which **18,895** assigned to employees and **102,234** to area managers and Financial Advisors.¹⁴

In particular, the shares assigned for 2015 and 2016 related, respectively, to the first and second tranche deferred by one year (20%), whereas the shares assigned for 2017 related to the upfront amount (60%).

(THOUSAND OF SHARES)	DATE OF SHARE-HOLDERS' MEETING	BANK OF ITALY'S AUTHORIZATION	PRICE ASS.	WEIGHTED AVERAGE FV	TOTAL SHARES ACCRUED/ACCRUING	SHARES VESTED	SHARES ASSIGNED IN 2018	SHARES TO BE ASSIGNED	PLAN'S FAIR VALUE (€ MILLION)
Year 2015	23.04.2015	03.06.2015	23.94	29.43	61.9	61.9	11.5	-	2.0
Year 2016	21.04.2016	06.06.2016	25.28	23.20	90.0	76.5	15.3	28.0	2.1
Year 2017	20.04.2017	03.07.2017	23.73	22.53	164.0	129.7	94.4	68.7	3.7
FY 2018 - estimated	12.04.2018	11.06.2018	28.57	23.54	118.5	72.4	-	118.5	2.7
Total (*)					434.4	340.4	121.1	215.2	10.5

(*) Including leaving-incentive agreements.

2. Framework Loyalty Programme for the Sales Network 2017-2026

The *Framework Loyalty Programme for the Sales Network 2017-2026* was approved by the Board of Directors on 21 March 2017 and ratified by the General Shareholders' Meeting on 20 April 2017.

The Framework Loyalty Programme is divided into eight annual separate plans, all set to expire on 31 December 2026 and of decreasing lengths, to be activated following prior authorisation by the General Shareholders' Meeting of Banca Generali.

The indemnities accrued over the term of the Programme will be, in any event, paid out in one tranche, within 60 days from the General Shareholders' Meeting called to approve the 2026 Financial Statements.

¹⁴ Including former area managers.

For each plan, a portion of the accrued indemnity may be paid out in Banca Generali shares (up to a maximum of 50%), following an assessment of the potential effects at the level of capital ratios and floating capital, by the Corporate Bodies (Board of Directors and General Shareholders' Meeting).

Participation in each of the plans envisaged by the Programme is reserved for Financial Advisors and Relationship Managers who have at least five years of company seniority by 31 December of the financial year before the reference year for each Plan.

To be eligible to access the benefits of the plans activated it is necessary:

- > to achieve at the end of the reference year a minimum volume of total AUM and qualified AUM increasing over time and with non-negative net inflows (vesting condition);
- > to be regularly employed and not in a notice period on the disbursement date, except when the termination of employment is caused by death or permanent incapacity, retirement or withdrawal from the relationship by Banca Generali not for cause (condition of service).

In the event of death, the indemnities accrued are understood to be permanently acquired but are payable to the heirs under the same conditions specified for the other beneficiaries.

Finally, the accrued indemnity is commensurate for each individual plan with a rate for verified AUM and is differentiated according to the type of person (Financial Advisor/RM) and service seniority until a cap is reached.

Recognition of the indemnities on the disbursement date is also subject to the banking group's access gates being exceeded as defined in the Remuneration Policies applicable from time to time and the rules of propriety.

The number of Banca Generali shares due is determined in the same way as for the share-based payment Plans connected with the Remuneration Policies, namely based on the average price of Banca Generali shares during the three months prior to the meeting of the Board of Directors that approves the draft Separate and Consolidated Financial Statements for the year prior to that in which the annual plan of reference begins.

Measurement of fair value and accounting treatment

Without prejudice to the accounting framework already analysed in point 1.2 above, set out below are the specific details of the share-based payment plans that can be activated as part of the Loyalty Programme.

The fair value of the Banca Generali share for plan valuation purposes is determined starting from the market stock price reported on the date of the General Shareholders' Meeting that approves their activation, adjusted to take account of the estimate of expected dividends that the Bank will distribute along all the time horizon, decreasing for each successive plan, running up to the date the shares are actually assigned.

The impact on the profit and loss account is measured pro rata temporis based on the vesting period, which decreases for each successive plan, i.e., the period between assignment and final maturity of the right to receive the shares, taking into account the probability that vesting conditions will not be realised for all recipients.

2.1 Information on the share-based payment plans linked to the Framework Loyalty Programme

For the two annual plans launched up to now, 50% of the indemnity accrued can be paid out in shares.

The accrued indemnity value was determined based on the AUM of the plan's potential beneficiaries at 31 December 2017 and 31 December 2018, respectively, whilst the number of financial instruments to be assigned was determined based on the same reference value as the Banca Generali stock applied for the Remuneration Policies in force in the respective years.

Overall, the total number of shares, either assigned or in the process of accruing, amounted to about 360.5 thousand (334 thousand net of the estimated turnover), for a total value of 4.6 million euros, of which 0.7 million already recognised through profit and loss.

(€ THOUSAND)	MAXIMUM NO. OF SHARES	NO. OF SHARES NET OF THE ESTIMATED TURNOVER	PLAN'S FAIR VALUE (€ MILLION)
2017- 2026 Plan - estimate	207.5	190.9	2.4
2018- 2026 Plan - estimate	153.1	143.1	2.2
	360.6	334.1	4.7

3. Long-Term Incentive Plan

On **12 April 2018**, the General Shareholders' Meeting of Banca Generali approved a new long-term incentive plan for the Banking Group's top management based exclusively on Banca Generali S.p.A. shares (LTI Plan 2018).

The new plan presents characteristics similar to those of the plans that the parent company Assicurazioni Generali activates yearly and are based on the assignment of its own shares. However, this plan is mainly aimed at increasing the value of Banca Generali shares, by strengthening the link between the remuneration of beneficiaries and performance of the

Banking Group, without prejudice to the consistency required with the expected results set forth in the Insurance Group's strategic plan.

In light of the above, the new incentivisation plan calls for:

1. assignment of Banca Generali shares acquired on the market to the beneficiaries instead of Assicurazioni Generali shares directly assigned by the latter;
2. increased weight of the Banking Group's objectives, equal to 80%.

The key characteristics of the plan are as follows:

- > the maximum number of the shares to be granted is determined at the beginning of the period of reference using a multiplier of the beneficiary's current remuneration¹⁵ and is divided into three notional instalments, respectively referring to each of the three years of the plan;
- > each year, once it has been determined that the access gate¹⁶ conditions of the Banking Group and of the Insurance Group have been met, Banca Generali's Board of Directors assesses the attainment of the targets set for the three-year period and determined the exact number of shares that can potentially be allotted for the year in question;
- > at the end of the three-year period, after having assessed that the access gate conditions have been met, the total number of shares accrued are paid in one tranche through the free granting to the beneficiaries of own ordinary shares, repurchased on the market (stock granting), provided that the beneficiary's work relationship with one of the Banking Group companies is still in force (service condition);
- > 50% of the shares assigned vest immediately upon assignment, whereas the remaining 50% do not vest for an additional two years¹⁷;
- > The plan does not include dividend equivalent mechanisms, in accordance with the law and common practice in the banking sector.

The targets triggering accrual of the incentive are broken down into:

- > two Banking Group targets (ROE and EVA), weighting for 80% on the overall bonus;
- > two Insurance Group targets (Operating ROE and rTSR – relative Total Shareholders' Return compared to a Peer Group), weighting for the remaining 20%.

Performance levels are expressed as percent satisfaction of the target levels linked to each of the four indicators.

The actual percentage of accrual of the shares that can be potentially allotted are therefore calculated individually for each target basket (indicator and relevant weighting) using the linear interpolation between the levels of the indicators and the performances actually achieved.

Measurement of fair value and accounting treatment

Without prejudice to the accounting framework already analysed in point 1.2 above, set out below are the specific details of the share-based payment plans that can be activated as part of the LTI BG.

The number of shares due must be valued separately for each plan year and for each of the 4 weighted baskets linked to the objectives of the Banking Group and the Insurance Group.

More specifically:

- > the two plan components linked to the banking Group's objectives are to be valued based on the achievement level of the performance conditions (ROE and EVA);
- > the valuation of the plan component linked to the Insurance Group's relevant TSR, which is categorised as a "market condition", is, instead, carried out by the insurance Parent Company¹⁸ only at the start of the plan and determines an achievement percentage for the objective set;
- > the valuation of the plan component linked to the Insurance Group's Operating ROE is reported annually by the insurance Parent Company.

In this case as well, the fair value of the Banca Generali share for plan valuation purposes is determined starting from the market stock price reported on the date of the General Shareholders' Meeting that approves their activation, adjusted to take account of the estimate of expected dividends that the Bank will distribute along all the time horizon, running up to the date the shares are actually assigned.

¹⁵ The potential maximum bonus to be paid in shares corresponds to 175% of the gross annual remuneration of the plan participants for top managers and to 87.5% for other beneficiaries.

¹⁶ The access gate conditions consist of:

- > two indicators representing the specific access thresholds for the Banking Group tied to the Total Capital Ratio and Liquidity Capital Ratio, on which the right to assignment of the shares (100%) is contingent;
- > an indicator representing an access threshold for the Generali Group linked to the Regulatory Solvency Ratio, on which the right to the assignment of the part of the shares tied to the satisfaction of the Generali Group Objectives (20%) is contingent.

¹⁷ Subject to the requirement that the Chief Executive Officer retain an adequate number of the shares assigned until the end of the term in office in progress on the vesting date.

¹⁸ Through Montecarlo simulations.

The total cost of the plan is equal to the sum of the cost calculated on the basis of the fair value of the Banca Generali share determined according to the above methods, multiplied by the number of shares that may potentially be granted, for each tranche and for each basket, in respect of the performance condition, the likelihood that the service condition will be met and the achievement of the minimum eligibility threshold.

That cost is allocated over a three-year vesting period starting from the year in which the plan is approved and until the end of the last year of the reference three-year period, with a balancing entry to a specific equity reserve.

3.1 Information on the share-based payment plans linked to the LTI BG

Overall, the total number of shares, either assigned or in the process of accruing, amounted to about 90 thousand, for a total value of 1.7 million euros, of which 0.6 million already recognised in the income statement.

Quantitative Information

The value of own shares assigned during the year was 3,388 thousand euros, against IFRS 2 reserves totalling 3,058 thousand euros, with a negative net effect on the share premium reserve of about 330 thousand euros.

New provisions have also been made to the reserve totalling 3,363 thousand euros.

At 31 December 2018, total IFRS 2 reserves allocated therefore amount to 4.9 million euros, of which:

- > 3.6 million in relation to the Remuneration Policies;
- > 0.7 million in relation to the Loyalty Programme;
- > 0.6 million in relation to the LTI BG.

PART L – SEGMENT REPORTING

In application of IFRS 8, Banca Generali Group's segment reporting is based on information that management uses to make its operating decisions (so-called "management approach").

Until December 2017, the Banking Group identified the following three main business areas:

- > the Affluent Channel, which referred to the total earnings generated for the Group by the network of Financial Advisors reporting to the Financial Planner Division;
- > the Private Channel, which referred to the total earnings generated for the Group by the network of Private Bankers and Relationship Managers reporting to the Private Division;
- > the Corporate Channel, which referred to the total earnings generated for the Group by the financial activities of the Finance Department and the provision of banking and investment services to medium-sized and large enterprises, including those belonging to the Assicurazioni Generali Group, as well as all revenues and costs not attributable to the sales channels.

It should be noted that the thorough reorganisation of the sales networks approved by the Board of Directors of 8 November 2017 also led to a review of the operating segments identified by the corporate management for management reporting purposes. In particular, with effect from 1 January 2018 the networks of non-employed Financial Advisors have been revised according to specialisation and reorganised into two macro-divisions on the basis of the total AUM managed by each Financial Advisor, with the introduction of the new Wealth Management network, which brings together Financial Advisors in the highest asset bracket (i.e., with AUM of more than 50 million euros).

The new **Wealth Management CGU ("WM CGU")** consists of the assets attributable to the network of Financial Advisors identified within Banca Generali's sales network as managing total client assets of more than 50 million euros and the respective clients.

The new **Private Banking CGU ("PB CGU")** consists of the assets attributable to the network of Financial Advisors identified within Banca Generali's sales network as managing total client assets of less than 50 million euros, as well as the assets attributable to Relationship Managers and the respective clients.

The periodical reports analysed by the Management requires the Group to assess the performance of its operating segments on the basis of the performance of the net banking income attributable to such segments.

The financial aggregates presented for each segment therefore consist of net interest, net fees and the result of trading activity including dividends. They include both components arising from transactions with third parties external to the Group ("external revenues"), and those deriving from transactions with other segments ("internal revenues").

It should be noted in this regard that internal revenues can be identified solely with reference to the interest margin; in fact, since net fees are generated directly by volumes of gross inflows and Assets Under Management relating to the individual segments, they are generated in full as external revenues.

The interest expense incurred by the segments mentioned below was determined on the basis of the actual interest paid on each segment's direct inflows. Interest income for the segments includes the actual interest accrued on the loans issued to customers in each segment. Both components are recognised net of the share of the "notional interest" calculated on the basis of the TIT (Internal Transfer Rate) and attributed to the Corporate Center segment.

Performance fees have been directly allocated to the business areas which place the products. All the revenue components presented are measured using the same accounting principles adopted to prepare the Group's Consolidated Financial Statements so that segment data can be reconciled more easily with consolidated data.

As a result of the effects of the reorganisation of the sales networks and the refinements made to the TIT (Internal Transfer Rate) model, the figures for 2017 have been restated so as to make them comparable.

The following table shows the consolidated profit and loss results of each of the identified segments, stated net of intra-segment eliminations and reclassified based on IFRS 8.

Moreover, below the table, by way of additional quantitative information analysed by the management to evaluate the Group's performance, a breakdown is given of assets under management at year-end and net inflows for the year ended 31 December 2018, along with the comparative figures, by operating segment.

BANCA GENERALI GROUP PROFIT AND LOSS ACCOUNT BY BUSINESS SEGMENT (€ THOUSAND)	31.12.2018				31.12.2017			
	PB CGU	WM CGU	CORPORATE CENTER	TOTAL	PB CGU	WM CGU	CORPORATE CENTER	TOTAL
Net interest income	5,479	2,451	52,043	59,972	11,820	4,702	44,899	61,421
Fee income	505,167	173,960	62,539	741,666	507,318	180,315	72,856	760,489
<i>of which:</i>								
- <i>underwriting</i>	17,323	3,100	485	20,908	13,713	4,881	1,146	19,740
- <i>management</i>	446,800	158,386	29,015	634,202	416,391	148,256	22,483	587,130
- <i>performance</i>	24,198	6,373	8,044	38,614	60,673	21,760	32,669	115,102
- <i>other</i>	16,846	6,101	24,995	47,942	16,541	5,418	16,558	38,517
Fee expense	-256,302	-106,542	-13,500	-376,344	-264,634	-110,177	-15,179	-389,990
<i>of which:</i>								
- <i>incentives</i>	-14,990	-7,738	-	-22,728	-27,973	-13,271	-	-41,244
Net fees	248,865	67,418	49,039	365,322	242,684	70,138	57,677	370,499
Net income (loss) from trading activities	-	-	21,811	21,811	-	-	15,347	15,347
Dividends	-	-	2,308	2,308	-	-	2,745	2,745
Net banking income	254,344	69,869	125,201	449,413	254,504	74,840	120,668	450,011
Staff expenses	-	-	-	-84,227	-	-	-	-84,825
Other general and administrative expenses	-	-	-	-162,494	-	-	-	-149,765
Net adjustments/reversal of property, equipment and intangible assets	-	-	-	-9,301	-	-	-	-8,144
Other operating expenses/income	-	-	-	59,437	-	-	-	54,879
Net operating expenses	-	-	-	-196,585	-	-	-	-187,855
Operating result	-	-	-	252,828	-	-	-	262,156
Adjustments of other assets	-	-	-	-7,286	-	-	-	-5,441
Net provisions	-	-	-	-25,351	-	-	-	-17,979
Gains (losses) from the disposal of equity investments	-	-	-	-431	-	-	-	-166
Operating profit before taxation	-	-	-	219,760	-	-	-	238,570
Income taxes for the year on operating activities	-	-	-	-39,634	-	-	-	-34,465
Net profit	-	-	-	180,126	-	-	-	204,105

(€ MILLION)	31.12.2018				31.12.2017			
Assets Under Management	41,023	16,055	4,271	61,349	39,497	15,634	4,267	59,398
Net Inflows	3,967	1,334	-281	5,020	4,778	2,206	-117	6,868
No. of FAs/RMs	1,720	265	n.a.	1,985	1,686	250	n.a.	1,936

Notes

- (1) Interest income includes negative interest income classified under Item 20 of the Profit and Loss Account (Interest expense).
- (2) Interest expense includes negative interest expense classified under Item 10 of the Profit and Loss Account (Interest income).
- (3) The financial data in segment reporting are stated in accordance with Top management's view, reclassifying fee provisions to the item Fee expense.

With respect to the information about assets and liabilities required by IFRS 8, it should be noted that the Group's management does not present or analyse the data in question in a format that differs from that as approved in the consolidated and separate financial statements.

Accordingly, for comments on the Group's balance sheet figures, the reader is referred to the other sections of these Notes and Comments.

The following table allocates the balance of consolidated intangible assets, showing separately goodwill, between the two segments.

(€ THOUSAND)	31.12.2018		
	PB CGU	WM CGU	TOTAL
Goodwill	51,748	14,317	66,065
Intangible assets (client relationships)	5,240	7,240	12,480

In accordance with the requirements of IFRS 8.33, we report that the Group's business is substantially evenly distributed throughout Italy. The management does not receive any reports on performance by geographical area.

In accordance with the requirements indicated in IFRS 8.34, it is specified that the Group has no customers that allow revenues of more than 10% of consolidated revenues to be obtained, the only exception being the product insurance distribution activity of the associate company Genertellife for which reference is made to Part H of these Notes and Comments to the Financial Statements.

Trieste, 8 March 2019

The Board of Directors

Independent Auditors' Report on the Consolidated Financial Statements

Banca Generali S.p.A.

Independent auditor's report pursuant
to article 14 of Legislative Decree n. 39,
dated January 27 2010 and article 10 of
EU Regulation n. 537/2014

Consolidated financial statements at December 31, 2018

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

RVC/PPL/cpo - RC047182018BD0907





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Independent auditor's Report

pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

To the shareholders of
 Banca Generali S.p.A.

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Banca Generali Group (the Group), which comprise the consolidated balance sheet as at December 31, 2018, the profit and loss account, the statement of other comprehensive income, the statement of changes in net equity, cash flow statement for the year then ended, and notes and comments to the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 as well as article 43 of 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 Banca Generali S.p.A. (the Company) in accordance with the ethical and independence requirements applicable in Italy to the audit of 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.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Pescara, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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Page 1 of 6



Key audit matters	Audit responses
<p>VALUATION OF GOODWILL</p> <p>Notes: Part B) Information on the consolidated balance sheet assets - Section 13; Part G) Business combinations of entities or branches - Section 3.</p> <p>The entity recorded in the financial statements, goodwill/intangible at indefinite life for Euro 66,1 million.</p> <p>We focused on this area due to the significance of its amount and the significant judgement and complexity of the evaluation process; the recoverable amount of goodwill is based on the realisation of the assumptions of the plan, discount rates and expected future growth rates and other subjective assumptions.</p>	<p>Our main audit procedures performed, also with the support of our specialists, in response to the key audit matter regarding the valuation of goodwill, included the following:</p> <ul style="list-style-type: none"> ▪ we challenged the reasonableness of the key underlying assumptions of the plan; ▪ we assessed and challenged the adequacy of the impairment model adopted; ▪ we assessed the key underlying assumptions for the impairment model, in particular the ones related to cash flow projections, discount rates, long term growth rates. ▪ we verified the clerical accuracy of the impairment model adopted. ▪ we performed sensitivity analysis of the control model of impairment when key assumptions change; ▪ we verified the disclosures provided.
<p>VALUATION OF THE PROVISIONS REGARDING THE INDEMNITY OF THE NETWORK AND LEGAL DISPUTES</p> <p>Notes: Part B) Information on the balance sheet liabilities - Section 10.</p> <p>Provisions for liabilities and contingencies at December 31, 2018 show a balance of Euro 160 million.</p> <p>The item includes Provisions for termination indemnity of Financial Advisors, which are equal to Euro 81,61 million, Provisions for network incentives, which are equal to Euro 46,1 million, Provisions for legal disputes are equal to Euro 14,3 million and Provisions for staff expenses are equal to Euro 15,1 million.</p> <p>We focused on these items due to the significance of their amount, the complexity of the algorithms of actuarial statistical calculation adopted and significant judgement in the evaluation process, based on various assumptions and factors.</p>	<p>Our main audit procedures performed in response to the key audit matter regarding the valuation of the provisions regarding the indemnity to the network and legal disputes included the following:</p> <ul style="list-style-type: none"> ▪ we analysed the methodology used by the Group to estimate the provisions; ▪ we performed test of details on the completeness and accuracy of data used to determine the provisions for risks and charges; ▪ we performed an actuarial review of the approach and assumptions adopted for the evaluations at December 31,2018; ▪ we obtained an external confirmation from legal experts of the Group on their evaluation about the existing disputes' development and the chance of losing; ▪ we verified the disclosures provided.



Key audit matters

Audit responses

VALUATION OF THE ASSETS RECORDED IN RELATION TO INCREMENTAL COSTS OF OBTAINING A CONTRACT AND COSTS TO FULFIL THE CONTRACTS WITH CUSTOMERS

Notes: Part A) Accounting policies - Section 5; Part B) Information on the consolidated balance sheet assets - Section 13.

Prepayments at December 31, 2018 show a balance of Euro 173,7 million. The item includes prepayments for the new supplementary fees for sales network represented by incremental fees of obtaining new customers for Euro 123,6 million while prepayments for ordinary incentives qualified as costs to fulfil the contracts are equal to Euro 26,3 million.

At the end of 2018 the Group modified the amortisation period of incremental costs and costs of obtaining a contract, moving from a period based on the payback criteria to a period aligned to the average life of contractual relationships with customers, determined on a five years period.

This intervention had a particular effect on recognition measures of incentives for sales. The variation, that represents a change in accounting estimates related to the amortisation period of incentives, has been applied prospectively in compliance with IAS 8 and determined a gross incremental profit on income statement of Euro 20,1 million and Euro 13,5 million net of fiscal effect.

We focused on these items due to the significance of their amount and significant judgement in the evaluation process, based on various assumptions and factors, as well as in consideration of the change of amortisation criteria.

Our main audit procedures performed in response to the key audit matter regarding the valuation of assets recorded in relation to incremental costs of obtaining a contract and costs to fulfil the contracts, included the following:

- we obtained an understanding of the methodology adopted by the Group on the management process to incentive the network;
- we obtained a comprehension of the results of the assessment performed by the Group, also with the support of an external specialist;
- we obtained a comprehension of underlying assumptions to the strategic decision to modify the evaluation criteria, also conducting discussion with the Management and analysis of relevant documentation;
- we obtained and verified the meetings' minutes of the Board Of Directors regarding the discussions and deliberations on this matter;
- we verified, also with the support of our specialists, the correct application of accounting standards;
- we performed substantive procedures on the completeness and accuracy of information used to determine accrued income;
- we verified the disclosures provided.



Key audit matters	Audit responses
<p>FIRST TIME APPLICATION OF INTERNATIONAL ACCOUNTING STANDARD IFRS 9 "FINANCIAL INSTRUMENTS"</p> <p>Disclosure on the effects from the first time application of IFRS 9 included in the "IFRS 9 and IFRS 15 Transition Report", attached to the consolidated financial statements.</p> <p>Beginning from January 1 2018, date of first time application of IFRS 9 "financial instruments", balance sheet amounts existing at the end of the prior period have been subject to reclassification and measurement processes, required by the new accounting standard, based on the management of these financial assets (Business Model) and the characteristics of the cash flows characteristics of the contract of the financial instrument; furthermore, regarding the evaluation of financial assets that are not measured at fair value through profit and loss, the assessment of a new methodology to measure the value adjustments (impairment) under the expected losses model (Expected Credit Losses).</p> <p>As required by IAS 8 and by the provisions provided for in the 5th update of Circular 262 of December 22, 2005, the Group provided disclosure on the effects produced by the application of the new accounting standard on the Group net equity, showing a decrease of evaluation reserves for Euro 7,6 million and the recognition of a positive reserve of earnings for FTA for Euro 2 million, with a net total effect, included the fiscal effect, negative for Euro 5,6 million.</p> <p>For purposes of audit activities, the effects of the introduction of this new accounting standard are considered significant with respect to the complexity of the first application.</p>	<p>Our main audit procedures performed in response to the key audit matter regarding the application of IFRS 9, included the following:</p> <ul style="list-style-type: none"> ▪ we analysed the procedures and processes related to classification and measurement of financial assets, specifically regarding the business model definition for the management; of financial instruments and the policy related to the characteristics of cash flows of financial instruments (SPPI test); ▪ we analysed the procedures and processes related to the impairment model of receivables, specifically regarding the comprehension of the significant increase in credit risk for the movement from stage 1 to stage 2 and understanding the models adopted to measure the expected losses ("Expected Credit Losses", "ECL") and methodologies for the assessment of parameters of the impairment model (PD, LGD, EAD); ▪ we verified the matching procedures and the data included in the schemes of reconciliation between balances as of December 31 ,2017 closing as for the last approved financial statements and the opening balances as of January 1 2018 as for the first financial statements prepared in accordance with IFRS 9; ▪ we analysed the matching procedures between items included in the management systems and the information included in the reconciliation schemes; ▪ we verified the disclosures provided.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 and article 43 of Legislative Decree NO. 136/15 and, within the terms provide by the law, for such internal control as management determines 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, management is responsible for assessing the Company'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 management either intends to liquidate the holding Banca Generali S.p.A. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Banca Generali S.p.A. | Independent auditor's Report pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

Page 4 of 6



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 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 consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded 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 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.
- Evaluated 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.
- Obtained 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 have communicated with those charged with governance, as properly identified in accordance with ISA Italia, 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 have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated 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 described those matters in the auditor's report.



Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Banca Generali S.p.A. on April 23, 2015 to perform the audits of the financial statements and of the consolidated financial statements of each fiscal year starting from December 31, 2015 to December 31, 2023.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Banca Generali S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Banca Generali S.p.A. as at December 31, 2018, including their consistency with the consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the consolidated financial statements of Banca Generali S.p.A. as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the consolidated financial statements of Banca Generali Group as at December 31, 2017 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation in application of Legislative Decree n.254, of December 30 2016

The Directors of Banca Generali S.p.A. are responsible for the preparation of the consolidated non financial statements in accordance with Legislative Decree n.254, of December 30, 2016.

We verified the approval of the consolidated non financial statements by the Board of Directors.

According to article 3, paragraph 10, of Legislative Decree n.254, of December 30, 2016 we performed a separate audit analysis on this statement.

Milan, March 25, 2019

BDO Italia S.p.A.
(signed in the original)
Rosanna Vicari
Partner

Independent Auditors' Report on the Consolidated Non-financial Statement



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Independent Auditors' Report

on the consolidated non-financial statement pursuant to article 3, paragraph 10 of Legislative Decree no. 254 of December 30, 2016 and of article 5 of CONSOB Regulation n. 20267 of January 18, 2018

To the Board of Directors of Banca Generali S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 ("Decree") and to article 5 of the CONSOB Regulation n. 20267 of January 18, 2018, we have been engaged to perform a limited assurance engagement on the Consolidated Non-Financial Statement (hereinafter the "NFS") of Banca Generali S.p.A. and subsidiaries (the "Group") as of December 31, 2018 prepared in accordance with article 4 of the Decree, and approved by the Board of Directors on March 8th, 2019.

Directors' and Board of Statutory Auditors' responsibility for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and "Global Reporting Initiative Sustainability Reporting Standards" established in 2016 by GRI - Global Reporting Initiative ("GRI Standards").

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the Directors are responsible for the identification of the content of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the Group's business and characteristics, to the extent necessary to ensure an understanding of the Group's business, performance, results and the related impacts.

Finally, the Directors are responsible to design a business management model for the organisation of the Group's activities, as well as, with reference to the topics identified and reported in the NFS, for the policies for the identification and management of the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, compliance with the provisions set out in the Decree.

Auditors' Independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control that includes directives and procedures concerning compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Pescara, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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Page 1 of 3



Auditors' responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the requirements of the Decree and the GRI Standards. We carried out our work in accordance with the criteria established in the *International Standard on Assurance Engagements 3000 (Revised) ~ Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000 Revised")*, issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with *ISAE 3000 Revised*, and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS are based on our professional judgement and include inquiries, primarily of the company's personnel responsible for the preparation of the information presented in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence, as appropriate.

Specifically, we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in the light of the provisions of article 3 of the Decree and taking into account the adopted reporting standard.
2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance to the Decree.
3. Comparison of data and financial economic disclosures presented in the NFS with those included in the Group's consolidated financial statements.
4. Understanding of the following matters:
 - Business management model of the Group's activity, with reference to the management of the topics set out in article 3 of the Decree;
 - Policies adopted by the entity in connection with the topics set out in article 3 of the Decree, achieved results and related key performance indicators;
 - Main risks, generated and/or undertaken, in connection with the topics set out in article 3 of the Decree.

With reference to these matters, we compared them with the disclosures presented in the NFS and carried out the procedures described in point 5, letter a).

5. Understanding of the processes underlying the origination, recording and management of significant qualitative and quantitative information disclosed in the NFS.

Specifically, we carried out interviews and discussions with the management of Banca Generali S.p.A. and we also performed limited documentary verifications, in order to gather information on the processes and procedures supporting the collection, aggregation, processing and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

In addition, with respect to significant information, taking into consideration the Group's business and characteristics:

- at parent company's and subsidiaries level:
 - a) with regards to qualitative information included in the NFS, and specifically with reference to the business model, policies applied and main risks, we carried out interviews and gathered supporting documentation to check for consistency with available evidence.
 - b) with regards to quantitative information, we carried out both analytical and limited procedures to ensure, on a sample basis, the correct aggregation of data.



- for Banca Generali sites of Milan and Trieste, selected on the basis of their business activities, their contribution to the key performance indicators at consolidated level and location, we carried out site visits, to meet their management and gather supporting documentation with reference to the correct application of the procedures and methods used to calculate the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Banca Generali Group as of December 31, 2018 has not been prepared, in all material respects, in accordance with the requirements of article 3 and 4 of the Decree and the Global Reporting Initiative Sustainability Reporting Standards" established by GRI - Global Reporting Initiative ("GRI Standards").

Milan, 25 March 2019

Signed by
BDO Italia S.p.A.

Rosanna Vicari
Partner

*This report has been translated into English language
Solely for the convenience of international readers.*





06

**FINANCIAL STATEMENTS
OF BANCA GENERALI S.P.A.
as of 31.12.2018**

Board of Directors
8 March 2019



Economic and Financial Highlights

ECONOMIC AND FINANCIAL HIGHLIGHTS

(€ MILLION)	31.12.2018	31.12.2017	CHANGE %
Net interest income	60.2	61.5	-2.1
Net fees ^(c)	206.0	142.6	44.5
Net income (loss) from trading activities	24.1	18.1	33.3
Net banking income	290.4	222.1	30.7
Staff expenses	-79.3	-78.6	0.9
Other net general and administrative expenses	-160.3	-145.9	9.9
Amortisation and depreciation	-9.2	-8.1	14.0
Other operating income and expenses	59.0	53.7	9.9
Net operating expenses	-189.8	-178.9	6.1
Operating result	100.5	43.2	132.4
Provisions	-25.3	-17.5	45.2
Dividends and income from equity investments	148.7	201.8	-26.3
Adjustments	-7.3	-5.4	34.3
Profit before taxation	216.3	222.1	-2.6
Net profit	189.1	206.4	-8.4

PERFORMANCE INDICATORS

	31.12.2018	31.12.2017	CHANGE %
Cost/Income ratio ^(c)	62.2%	76.9%	-19.1
EBTDA ^(c)	109.7	51.3	113.8
ROE ^{(a) (c)}	30.3%	36.3%	-16.5
EPS - Earnings per Share (euro)	1.633	1.772	-7.9

NET INFLOWS

(€ MILLION) (ASSORETI DATA)	31.12.2018	31.12.2017	CHANGE %
Mutual Funds and Sicavs	786	1,906	-58.8
Portfolio management	-78	2,289	-103.4
Insurance/Pension funds	1,520	1,770	-14.1
Securities/Current accounts	2,792	901	209.9
Total	5,020	6,866	-26.9

(a) Net return on equity (share capital, share premium, reserves, valuation reserves, treasury shares) at the end of the reporting period and the end of the previous year.

(b) Net return on assets calculated on the average of Assoreti's non-annualised quarterly AUM.

(c) The figures for the period under review have been restated net of provisions.

ASSETS UNDER MANAGEMENT & CUSTODY (AUM/C)

(€ BILLION) (ASSORETI DATA)	31.12.2018	31.12.2017	CHANGE %
Mutual Funds and Sicavs	13.2	13.6	-2.9
Portfolio management	6.4	7.1	-9.9
Insurance/Pension funds	23.1	22.2	4.1
Securities/Current accounts	14.8	12.8	15.6
Total	57.5	55.7	3.2

NET EQUITY

(€ MILLION)	31.12.2018	31.12.2017	CHANGE %
Net equity	632.6	614.1	3.0
Own funds	433.8	400.9	8.2
Excess capital	240.2	231.7	3.7
Total Capital Ratio	17.9%	19.0%	-5.4

Accounting statements

BALANCE SHEET

ASSETS

(EURO)	31.12.2018	31.12.2017
10. Cash and deposits	1,012,890,014	563,494,067
20. Financial assets measured at fair value through profit or loss:	90,640,392	49,813,754
a) HFT financial assets	33,887,440	49,813,754
c) other financial assets mandatorily measured at fair value	56,752,952	-
30. Financial assets at fair value through other comprehensive income	1,987,314,692	4,612,723,552
40. Financial assets measured at amortised cost:	6,095,915,212	3,218,069,722
a) loans to banks	399,927,936	356,981,185
b) loans to customers	5,695,987,276	2,861,088,537
70. Equity investments	4,445,258	16,224,545
80. Property and equipment	6,333,321	6,503,658
90. Intangible assets	95,102,084	87,521,060
<i>of which:</i>		
- goodwill	66,064,683	61,775,347
100. Tax receivables:	52,755,760	45,363,001
a) current	75,529	503,346
b) prepaid	52,680,231	44,859,655
120. Other activities	313,536,744	330,959,218
Total Assets	9,658,933,477	8,930,672,577

NET EQUITY AND LIABILITIES

(EURO)	31.12.2018	31.12.2017
10. Financial liabilities at amortised cost:	8,706,397,459	7,958,931,049
a) due to banks	128,725,238	682,526,238
b) due to customers	8,577,672,221	7,276,404,811
20. HFT financial liabilities	384,030	206,274
60. Tax payables	14,175,318	22,279,997
a) current	7,890,858	7,743,082
b) deferred	6,284,460	14,536,915
80. Other liabilities	140,874,161	182,112,771
90. Employee termination indemnities	4,817,910	4,344,765
100. Provisions for liabilities and contingencies:	159,675,155	148,732,849
a) commitments and guarantees issued	85,620	-
c) other provisions for liabilities and contingencies	159,589,535	148,732,849
110. Valuation reserves	-11,504,968	21,845,991
140. Reserves	303,039,654	223,969,428
150. Share premium reserve	57,889,178	58,219,468
160. Share capital	116,851,637	116,851,637
170. Treasury shares (-)	-22,723,670	-13,271,045
180. Net profit for the year	189,057,613	206,449,393
Total Net equity and Liabilities	9,658,933,477	8,930,672,577

PROFIT AND LOSS ACCOUNT

ITEMS

(EURO)	2018	2017
10. Interest income and similar revenues	66,642,135	65,050,090
20. Interest expense and similar charges	-6,446,829	-3,573,332
30. Net interest income	60,195,306	61,476,758
40. Fee income	554,158,256	500,309,720
50. Fee expense	-325,386,034	-316,500,313
60. Net fees	228,772,222	183,809,407
70. Dividends and similar income	151,031,902	204,515,321
80. Net income (loss) from trading activities	5,291,180	4,920,082
100. Gain (loss) on disposal or repurchase of:	16,042,027	10,422,625
a) financial assets at amortised cost	2,605,899	1,041,219
b) financial assets at fair value through other comprehensive income	13,436,128	9,381,406
110. Net income (loss) from financial assets and liabilities at fair value through profit and loss	478,140	-
b) other financial assets mandatorily measured at fair value	478,140	-
120. Net banking income	461,810,777	465,144,193
130. Net adjustments/reversals due to credit risk:	-7,276,309	-5,417,425
a) financial assets at amortised cost	-4,991,167	-1,782,411
b) financial assets at fair value through other comprehensive income	-2,285,142	-1,487,040
d) other financial transactions	-	-2,147,974
150. Net income (loss) from trading activities	454,534,468	459,726,768
160. General and administrative expenses:	-239,659,135	-224,511,430
a) staff expenses	-79,330,286	-78,589,987
b) other general and administrative expenses	-160,328,849	-145,921,443
170. Net provisions for liabilities and contingencies	-48,070,422	-58,700,284
a) commitments and guarantees issued	118,023	-
b) other net provisions	-48,188,445	-58,700,284
180. Net adjustments/reversals of property and equipment	-1,485,108	-1,372,605
190. Net adjustments/reversals of intangible assets	-7,737,629	-6,715,735
200. Other operating expenses/income	59,040,533	53,716,558
210. Operating expenses	-237,911,761	-237,583,496
250. Gains (losses) on disposal of investments	-282,176	-15,304
260. Profit (loss) from operating activities before income taxes	216,340,531	222,127,968
270. Income taxes for the year on operating activities	-27,282,918	-15,678,575
280. Profit (loss) from operating activities net of income taxes	189,057,613	206,449,393
300. Net profit for the year	189,057,613	206,449,393

STATEMENT OF COMPREHENSIVE INCOME

ITEMS

(EURO)	2018	2017
10. Net profit (loss) for the year	189,057,613	206,449,393
Other income net of income taxes without transfer to Profit and Loss account		
70. Defined benefit plans	-51,653	-106,834
Other income net of income taxes with transfer to Profit and Loss account		
140. Financial assets (other than equity securities) at fair value through other comprehensive income	-25,617,505	12,794,608
170. Total other income net of income taxes	-25,669,158	12,687,774
180. Comprehensive income	163,388,455	219,137,167

STATEMENT OF CHANGES IN NET EQUITY

ITEMS

(EURO)	SHARE CAPITAL		SHARE PREMIUM RESERVE	RESERVES		VALUATION RESERVE	EQUITY INSTRUMENTS	TREASURY SHARES	NET PROFIT (LOSS) FOR THE YEAR	NET EQUITY
	A) ORDINARY SHARES	B) OTHER		A) RETAINED EARNINGS	B) OTHER					
Net equity at 31.12.2017	116,851,637	-	58,219,468	207,411,500	16,557,928	21,845,991	-	-13,271,045	206,449,393	614,064,872
Change in opening balances	-	-	-	4,768,489	-	-7,594,568	-	-	-	-2,826,079
Amounts at 01.01.2018	116,851,637	-	58,219,468	212,179,989	16,557,928	14,251,423	-	-13,271,045	206,449,393	611,238,793
Allocation of net profit for the previous year	-	-	-	60,975,565	-	-	-	-	-206,449,393	-145,473,828
- Reserves	-	-	-	60,975,565	-	-	-	-	-60,975,565	-
- Dividends and other allocations	-	-	-	-	-	-	-	-	-145,473,828	-145,473,828
Change in reserves	-	-	-	10,900,807	1,099,674	-87,233	-	-	-	11,913,248
Transactions on net equity:	-	-	-330,290	-	1,325,691	-	-	-9,452,625	-	-8,457,224
- Issue of new shares	-	-	-330,290	-	-3,057,640	-	-	3,387,930	-	-
- Purchase of treasury shares	-	-	-	-	-	-	-	-12,840,555	-	-12,840,555
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	-
- Change in equity instruments	-	-	-	-	-	-	-	-	-	-
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	-
- Stock options	-	-	-	-	4,383,331	-	-	-	-	4,383,331
Comprehensive income	-	-	-	-	-	-25,669,158	-	-	189,057,613	163,388,455
Net equity at 31.12.2018	116,851,637	-	57,889,178	284,056,361	18,983,293	-11,504,968	-	-22,723,670	189,057,613	632,609,444

(EURO)	SHARE CAPITAL		SHARE PREMIUM RESERVE	RESERVES		VALUATION RESERVE	EQUITY INSTRUMENTS	TREASURY SHARES	NET PROFIT (LOSS) FOR THE YEAR	PATRIMONIO NETTO
	A) ORDINARY SHARES	B) OTHER		A) RETAINED EARNINGS	B) OTHER					
Net equity at 31.12.2016	116,424,502	-	53,803,000	187,334,242	13,694,162	9,158,217	-	-2,932,856	144,751,324	522,232,591
Change in opening balances	-	-	-	-	-	-	-	-	-	-
Amounts at 01.01.2017	116,424,502	-	53,803,000	187,334,242	13,694,162	9,158,217	-	-2,932,856	144,751,324	522,232,591
Allocation of net profit for the previous year	-	-	-	20,077,258	-	-	-	-	-144,751,324	-124,674,066
- Reserves	-	-	-	20,077,258	-	-	-	-	-20,077,258	-
- Dividends and other allocations	-	-	-	-	-	-	-	-	-124,674,066	-124,674,066
Change in reserves	-	-	-	-	1,795,675	-	-	-	-	1,795,675
Transactions on net equity:	427,135	-	4,416,468	-	1,068,091	-	-	-10,338,189	-	-4,426,495
- Issue of new shares	427,135	-	4,416,468	-	-1,751,396	-	-	1,517,888	-	4,610,095
- Purchase of treasury shares	-	-	-	-	-	-	-	-11,856,077	-	-11,856,077
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	-
- Change in equity instruments	-	-	-	-	-	-	-	-	-	-
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	-
- Stock options	-	-	-	-	2,819,487	-	-	-	-	2,819,487
Comprehensive income	-	-	-	-	-	12,687,774	-	-	206,449,393	219,137,167
Net equity at 31.12.2017	116,851,637	-	58,219,468	207,411,500	16,557,928	21,845,991	-	-13,271,045	206,449,393	614,064,872

CASH FLOW STATEMENT

INDIRECT METHOD

(EURO)	2018	2017
A. OPERATING ACTIVITIES		
1. Operations	-30,922,368	16,988,509
Net profit (loss) for the year	189,057,613	206,449,393
Gain/loss on HFT financial assets and other assets and liabilities at fair value through profit or loss	-1,301,150	-565,757
Gain/loss on hedging assets	-	-
Net adjustments/reversals due to credit risk	7,276,309	5,417,425
Net adjustments/reversals of property, equipment and intangible assets	9,222,737	8,088,340
Net provisions for liabilities and contingencies and other costs/revenues	9,642,597	32,023,238
Taxes, duties and tax credits not paid	-591,887	4,887,870
Net adjustments/reversals of discontinued operations net of the tax effect	-	-
Other adjustments	-244,228,587	-239,312,000
2. Liquidity generated by/used for financial assets (+/-)	-264,670,397	-309,707,555
HFT financial assets	5,789,870	-10,454,273
Financial assets at fair value	-	-
Other financial assets mandatorily measured at fair value	23,986,823	-
Financial assets at fair value through other comprehensive income	947,451,820	-194,457,744
Financial assets at amortised cost:	-1,284,299,643	-64,295,992
Loans to banks	-20,756,281	4,393,853
Loans to customers	-1,263,543,363	-68,689,845
Other assets	42,400,732	-40,499,546
3. Liquidity generated by/used for financial liabilities (+/-)	767,205,359	211,691,961
Financial liabilities at amortised cost:	798,345,752	151,537,580
Due to banks	-556,194,792	-119,193,106
Due to customers	1,354,540,544	270,730,686
HFT financial liabilities	-206,274	-1,144,612
Financial liabilities at fair value	-	-
Other liabilities	-30,934,119	61,298,993
Net liquidity generated by/used for operating activities	471,612,594	-81,027,085

(EURO)	2018	2017
B. INVESTING ACTIVITIES		
1. Liquidity generated by	148,724,000	201,770,000
Disposal of equity investments	-	-
Dividends received	148,724,000	201,770,000
Disposal of property and equipment	-	-
Disposal of intangible assets	-	-
Disposal of business units	-	-
2. Liquidity used for	-12,626,264	-8,684,968
Purchase of equity investments	-	-
Purchase of property and equipment	-1,596,947	-1,639,147
Purchase of intangible assets	-11,029,317	-7,045,821
Purchase of business units	-	-
Net liquidity generated by/used for investing activities	136,097,736	193,085,032
C. FUNDING ACTIVITIES		
Issue/purchase of treasury shares	-12,840,555	-7,245,982
Issue/purchase of equity instruments	-	-
Distribution of dividends and other	-145,473,828	-124,674,066
Net liquidity generated by/used for funding activities	-158,314,383	-131,920,048
NET LIQUIDITY GENERATED BY/USED IN THE YEAR	449,395,947	-19,862,101
+ Liquidity generated (-) Liquidity used		
Reconciliation		
Cash and cash equivalents at year-start	563,494,067	583,356,168
Total liquidity generated/used in the year	449,395,947	-19,862,101
Cash and cash equivalents – effects of exchange rate fluctuations	-	-
Cash and cash equivalents at year-end	1,012,890,014	563,494,067

Legend:
 (+) Liquidity generated
 (-) Liquidity used

Notes and Comments

Part A – Accounting Policies	333
Part B – Information on the Balance Sheet	365
Part C – Information on the Profit and Loss Account	401
Part D – Comprehensive Income	417
Part E– Information on Risks and Risk Hedging Policies	418
Part F – Information on Net equity	452
Part G – Business Combinations of Companies or Business Units	456
Part H – Related Party Transactions	461
Part I – Payment Agreements Based on Own Equity Instruments	469

PART A – ACCOUNTING POLICIES

Part A.1 – General

Section 1 - Declaration of Compliance with International Accounting Standards

These financial statements have been drawn up in compliance with Italian Legislative Decree No. 38 of 28 February 2005, based on the International Accounting Standards issued by the International Accounting Standards Board (IASB) and interpretation of the International Financial Reporting Interpretations Committee (IFRIC), and endorsed by the European Commission with Regulation No. 1606 of 19 July 2002.

In preparing the annual Financial Statements, Banca Generali adopted the IAS/IFRS in force at 31 December 2018 (including SIC and IFRIC interpretations), as endorsed by the European Commission.

It should be noted that, following the completion of the endorsement procedure, as of 1 January 2018, several amendments to the IASs/IFRSs, and IFRICs were adopted and new IFRICs were issued.

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED IN PREVIOUS YEARS AND EFFECTIVE AS OF 2018

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRS 9 <i>Financial Instruments</i>	2016/2067	29.11.2016	01.01.2018
Amendments to IFRS 4: <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> (issued on 12 September 2016)	2017/1988	09.11.2017	01.01.2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	2016/1905	29.10.2016	01.01.2018
Clarifications to IFRS 15 <i>Revenues</i> (issued on 12 April 2016)	2017/1987	09.11.2017	01.01.2018

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED IN 2018 AND EFFECTIVE AS OF 2018

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> (issued on 8 December 2016)	2018/519	28.03.2018	01.01.2018
Amendments to IAS 40: <i>Transfers of Investment Property</i> (issued on 8 December 2016)	2018/800	14.03.2018	01.01.2018
Amendments to IFRS 2: <i>Classification and Measurement of Share-based Payment Transactions</i> (issued on 20 June 2016)	2018/289	26.02.2018	01.01.2018
Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016)	2018/182	07.02.2018	01.01.2018

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED BUT NOT EFFECTIVE YET

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRS 16 <i>Leases</i> (issued on 13 January 2016)	2017/1986	09.11.2017	01.01.2019
Amendments to IFRS 9: <i>Prepayment Features with Negative Compensation</i> (issued on 12 October 2017)	2018/489	22.03.2018	01.01.2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> (issued on 7 June 2017)	2018/1595	24.10.2018	01.01.2019

The date of entry into force of some of the already endorsed standards has been postponed until subsequent years. The early application option has not been exercised for those standards.

The effects of the first-time adoption as of 1 January 2018 of IFRS 9 and IFRS 15 are outlined in a specific Transition Report attached to the Consolidated Annual Report.

The other standards and interpretations that entered into force in 2018 did not have a significant impact on the Bank's balance sheet and profit and loss account.

Section 2 – Preparation Criteria

The Financial Statements consists of the following documents:

- > Balance Sheet,
- > Profit and Loss Account,
- > Statement of Other Comprehensive Income,
- > Statement of Changes in Net equity,
- > Cash Flow Statement,
- > Notes and Comments.

The accounts are accompanied by a Directors' report on the Banca Generali's operations, financial situation, profit and loss and balance sheet results.

According to the provisions of Article 41, paragraph 5-*bis*, of Legislative Decree No. 2015/2015 of 18 August 2015, implementing Directive No. 2013/34/EC, the Consolidated Report on Operations and the Separate Report on Operations of the company may be presented as a single document, in which additional attention is dedicated to issues relevant to the entirety of the companies within the scope of consolidation, as appropriate.

Banca Generali elected to exercise this option by presenting a single document. Consequently, the Consolidated Report on Operations also includes the information required for the Separate Report on Operations.

In compliance with the requirements of Article 5 of Legislative Decree No. 38/2005, the Financial Statements were prepared in euros. All amounts in the Accounting Statements are expressed in euro units, while the figures in the Notes and Comments and Directors' Report on Operations, unless otherwise specified, are expressed in thousands of euros.

The Financial Statements and Notes and Comments include figures for the period under review, as well as comparative data at 31 December 2017.

The Financial Statements are prepared by applying the general standards set out in IAS 1 and the specific accounting standards approved by the European Commission, as illustrated in Part A.2 of these Notes and Comments.

International accounting standards have been applied in compliance with the Framework for the Preparation and Presentation of Financial Statements drafted by the IASB.

There were no derogations of the application of IASs/IFRSs.

The Directors' Report on Operations and the Notes and Comments include the information required by international accounting standards, the law, the Bank of Italy and the Italian National Commission for Listed Companies and the Stock Exchange (Consob), as well as other non-compulsory information that was deemed necessary to provide an accurate and fair picture of the Bank's situation.

The measurement standards have been adopted on a going-concern basis and are shaped by the principles of accrual-basis accounting and the relevance and meaningfulness of accounting disclosures. Economic substance takes precedence over legal form.

In further detail, the directors are reasonably certain that the Bank will continue to operate in its current form for the foreseeable future (for at least 12 months) and have prepared the Financial Statements on a going-concern basis. Any uncertainty detected has not been deemed material and does not cast doubt on the Group's ability to operate as a going concern.

Contents of the Financial Statements

The Financial Statements and the Notes and Comments have been prepared in accordance with Bank of Italy's Circular No. 262/2005 and the fifth update published on 28 December 2017 and effective as of 1 January 2018.

This update endorses the new IFRS 9 *Financial Instruments*, the ensuing amendments introduced into other international financial standards; it also takes into account the new IFRS 15 "*Revenue from Contracts with Customers*".

Accounts that do not include items pertaining to the year under review or the previous year are not stated in the Balance Sheet and Profit and Loss Account. Likewise, sections or tables which include no values are not included in the Notes and Comments.

The Statement of Comprehensive Income begins with the net profit (loss) for the year and then presents components of profit and loss recognised through valuation reserves, net of the related tax effect, in accordance with international accounting standards.

Comprehensive income is presented by providing a separate account of components of profit and loss that will not be reversed to the profit and loss account in the future, and components that may subsequently be reclassified to net profit (loss) for the year under certain conditions.

As for the balance sheet and profit and loss account, items with nil amounts in both the reporting year and previous year are not presented.

The Statement of Changes in Net Equity is presented by inverting the rows and columns with respect to the presentation suggested by the Bank of Italy's Circular No. 262/2005.

The statement presents the composition of and changes in net equity accounts during the reporting year and the previous year, broken down into share capital, capital reserves, earnings reserves, asset and liability valuation reserves, and net profit. Treasury shares are recorded as a reduction to net equity.

The Cash Flow Statement was prepared using the indirect method, according to which cash flows from operating activities are derived by adjusting net profit for the effects of non-cash transactions. Cash flows generated in the year are recognised without plus or minus signs, whereas cash flows used in the year are preceded by a minus sign.

Cash flows are broken down into:

- > cash flows from operating activities, including cash flows from operations and cash flows from increases and decreases in financial assets and liabilities;
- > cash flows generated by (used for) investing activities involving fixed assets;
- > cash flows generated by (used for) funding activities that alter the company's equity capital.

Specifically, sections 2 and 3 include only cash generated by (used for) the decrease (increase) in financial assets or the increase (decrease) in financial liabilities resulting from new transactions or reimbursements related to existing transactions.

Accordingly, these sections do not include items such as changes in value (adjustments, reversal values), amortisation and depreciation, the net balance of unpaid taxes (current and deferred), interest and unpaid or uncollected fees; these items have been disclosed separately and classified under operating activities.

These cash flows also do not include changes in operating assets and liabilities, but include those relating to financing activities, such as changes in operating loans and amounts payable to Financial Advisors and employees and any related advance payments.

Section 3 – Events Occurred after the Balance Sheet Date

The draft Financial Statements of Banca Generali have been approved by the Board of Directors on 8 March 2019, when the Board also authorised its disclosure pursuant to IAS 10.

No events occurred after 31 December 2018 and until the publication was authorised that would significantly impact the Bank's operations and P&L results.

Section 4 – Other Issues

IASs/IFRSs that have been endorsed and that will enter into effect this year

For the effects of the first-time adoption of IFRS 9 and IFRS 15 please refer to the specific Transition Report attached to this Integrated Annual Report.

IASs/IFRSs that have been endorsed but will enter into effect after 31 December 2018

Introduction of IFRS 16 - Leases

The Standard was issued by the IASB on 13 January 2016 with the aim of improving the accounting treatment of leasing contracts, replacing the previous standards and interpretations (IAS 17 *Leasing*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*).

The Standard was endorsed by the European Commission by Regulation (EU) No 2017/1986 and entered into effect on 1 January 2019.

IFRS 16 lays down the principles for recognition, measurement, presentation in the financial statements and disclosures regarding leasing. It is designed to ensure that lessee and lessors provide appropriate information in a way that faithfully represents the transactions, in order to permit an understanding of the effect of the lease on the entity's financial position, operating result and cash flows.

In particular, IFRS 16 introduces:

- > a new definition of leasing;
- > a single accounting model applicable to lessees' transactions, similar to that already used to account for finance leases in accordance with IAS 17.

Accordingly, on the basis of the new standard, the distinction between operating and finance leases for accounting purposes is eliminated for the lessees.

However, the Standard provides for two exemptions from application of the model:

- > lease contracts relating to low value assets (indicatively, less than USD/EUR 5,000);
- > short-term lease contracts with terms of less than twelve months.

A lease is defined as a contract the fulfilment of which depends on the use of an identified asset and which grants the right to control the asset's use for a period of time in exchange for consideration.

This standard applies to all the contracts that refer to a right of use of an asset for a certain period of time, for a consideration, regardless of the contractual form adopted (finance or operating leases, rental or other).

With respect to the accounting model to be applied by the lessee, the new Standard provides that for all types of leases an asset must be recognised to represent the right of use of the leased property, alongside the lease payment due in accordance with the lease contract.

This results in a significant change in the treatment of lease transactions in the financial statements of the lessee, which recognises a liability in the balance sheet on the basis of the present value of the future lease payments and an asset consisting of the right to use the asset governed by the lease contract.

After initial recognition, the right of use is amortised over the term of the contract or the useful life of the leased asset, while the liability is progressively reduced due to lease payments made and the interest on the liability is recognised in profit or loss.

Accordingly, rather than the previous accounting treatment in profit or loss, administrative expenses will decline due to the decrease in the lease payments caption, offset by an increase in the amortisation and interest expense recognised in respect of the financial liabilities booked.

IFRS 16 implementation project

In 2018, the Banking Group carried out an assessment activity - within the framework of a broader project coordinated by the Assicurazioni Generali Group - aimed at identifying contracts governing leases of assets (real estate, operating assets, etc.) that fall within the scope of application of the new Standard and of impacts on accounting and operating processes.

A specific IT product was acquired for IFRS 16 accounting management, and the measurement and recognition of the right of use and associated lease liabilities - aspects that represent the main element of discontinuity from the IAS 17 accounting model.

With regard to the scope of application, the banking group only acts as lessee in operating lease transactions, previously classified as operating leases under IAS 17, involving a wide range of assets.

It should be emphasised that the Group's entire logistical structure - divided into head offices, bank branches and Financial Advisor offices - is based on leased properties¹ and therefore falls within the scope of the new Standard.

Most of the lease contracts relating to the branch network have terms of six years, subject to automatic renewal for an additional six years, with an option to terminate with six months' notice, as well as a break option for the lessor at the end of the first period.

However, the contracts for the most prestigious properties and those in which the head offices are located have longer initial terms (up to ten years) and are subject to limitations on early termination or cancellation by the lessor.

The scope of application of the Standard also extends to the fleet of company cars, primarily granted to the Group's executives for personal and business use and, to a residual extent, the limited ATM fleet managed by the outsourcer CSE.

The scope does not include ICT equipment, consisting of hardware and network infrastructure, subject to the facility management contracts with the outsourcers CSE (legacy infrastructure) and GBS (servers, PCs, telephones, etc.), since the requirement of control of the right of use has been excluded for the assets subject to these contracts.

Within the office equipment category, it was opted to apply the exemption for low value assets to the multifunction printer and fax pool managed directly by the bank under lease contracts, which has an average value per asset of under 5,000 euros.

First-time adoption

On the basis of paragraphs C7 to C13 of the Appendix to IFRS 16, the Banking Group has decided to elect to apply the modified retrospective method on the basis of the cumulative approach upon first-time adoption.

According to this method, the lessee may apply the Standard retroactively, recognising the cumulative effect of initial application of the Standard at the date of initial application, i.e., 1 January 2019 (IFRS 16 C5 b), with an adjustment to retained earnings, where applicable, and **without restating the comparative information** (IFRS 16 C8).

Accordingly, the comparative figures will not be restated on a like-for-like basis in the financial statements of first-time adoption of the new Standard.

In particular, at the date of initial application, the Banking Group, for contracts in which it acts as the lessee:

- > measured **the leasing liability** at the present value of the remaining payments due for the lease, discounted according to the lessee's marginal financing rate at the date of initial application;
- > recognised **the asset consisting of the right of use (ROU)** at the amount of the leasing liability, adjusted by the amount of any deferred income or accrued income relating to the lease recognised in the statement of financial position immediately prior to the date of initial application;

¹ In particular, there are over 200 such contracts used for branches and the Financial Advisor network, in addition to 20 contracts referring to the head offices, mostly with companies of the Insurance Group, in addition to a residual number of guest residences.

- > conducted an impairment test on the assets recognised on the basis of IAS 36.

Taking account of the Banking Group's extensive use of lease contracts for its offices and branch network, the adoption of the new Standard is expected to result in an increase in assets and liabilities, as a consequence of the recognition of the aforementioned rights of use and associated liabilities, and thus also in an increase in RWAs, given the need to apply prudential rules to the newly recognised assets as well².

On the basis of the method adopted, it is not believed that there will be financial effects on retained earnings upon initial application.

The new accounting Standard will entail the recognition at 1 January 2019 of new intangible assets, consisting of rights of use, in the amount of approximately 80 million euros, net of lease prepayments, already recognised in the 2018 financial statements.

However, this amount remains subject to revision in the light of an assessment of the term of certain particularly significant property lease contracts, currently in the process of being finalised. Financial liabilities associated with the aforementioned lease transactions will be recognised in a symmetrical manner.

The impact on RWAs could exceed 6 million euros and result in an effect on prudential ratios of at least 50 bps in respect of the consolidated TCR.

Use of estimates and assumptions in the preparation of the Financial Statements

The preparation of the annual report requires the use of estimates and assumptions that could influence the amounts reported in the balance sheet and profit and loss account and the disclosure of contingent assets and liabilities therein.

The estimates and assumptions used are based on the information available on operations and subjective judgements, which may be based on historical trends.

Given their nature, the estimates and assumptions used may vary from year to year, meaning that reported amounts may differ materially due to changes in the subjective judgements used.

The main areas for which management is required to use subjective judgements include:

- > determining the amount of provisions for liabilities and contingencies;
- > determining the expenses of personnel productivity bonuses;
- > determining the amount of incentive fees to be paid to the sales network as an annual incentive and of incentives related to recruitment plans;
- > determining the deferred incentives granted to the sales network, when linked to defined inflow targets.
- > determining the fair value of cash financial instruments and derivatives to be used in financial statement disclosures, when not based on current prices drawn from active markets;
- > determining the analytical and collective impairment of financial instruments;
- > determining the value adjustments and reversals of non-performing loans and the collective provision for performing loans;
- > preparing estimates and assumptions underlying the determination of current taxes, which may differ from the effective tax liability computed in conjunction with the payment of the balance of taxes for the year and the filing of the income tax return;
- > preparing estimates and assumptions on the recoverability of deferred tax assets;
- > evaluating the appropriateness of the amounts of goodwill and other intangible assets.

In the fourth quarter, the **amortisation period for costs incurred to obtain or fulfil contracts** with customers was modified from a time horizon based on the payback criterion to a time horizon more consistent with the average duration of contractual relationships with customers, determined to be five years.

These changes, implemented in part owing to the greater flexibility of the accounting standard IFRS 15, made it possible to align the accounting treatment of incremental costs paid to Financial Advisors in relation to the organic growth of assets under management with the treatment of recruitment incentives tied to the acquisition of new customers (amortised over five years), thereby ensuring a more effective correlation between total fee expenses and the fee income generated by customer investments.

In particular, the modification affected the accounting treatment of ordinary sales incentives tied to the net inflows targets paid to the Financial Advisor network, which upon first-time adoption had been accounted for according to the practical expedient of taking them to the profit and loss account for the year in full.

At 31 December 2018 one-fifth of the charge related to these incentives was therefore entered to the profit and loss account for the year, whereas the remaining fourth-fifths were deferred to future years.

The modification, which qualifies as a change of accounting estimates in respect of the amortisation period for incentives, was applied prospectively in accordance with IAS 8 and resulted an incremental benefit of 20.1 million euros gross of the tax effect and of 13.5 million euros net of the tax effect.

Overall, the prospective application of the new accounting treatment will result in an initial reduction of incentive fees due to the recognition in the profit and loss account of only the amortisation charge for the year, which, however, will increase from one year to the next due to the accumulation of amortisation charges in respect of the subsequent annual incentive plans, until stabilising in the year in which the new time horizon is reached.

² ROUs must be 100% weighted like property, plant and equipment.

At 31 December, 2018, ordinary incentive costs, inclusive of the recruitment charge already capitalised at 1 January 2018, amounted to 22.2 million euros gross of the tax effect and to 15.0 million euros net of the tax effect.

Additional information regarding the estimation procedure used for specific cases is provided in Part A.2 of the Notes on the Accounting Policies adopted by Banca Generali.

Measurement of goodwill

During the preparation of the 2018 Financial Statements, goodwill was tested for impairment and the carrying value was determined to be accurate. For further information, see Part G, section 3 of these Notes and Comments.

Non-recurring significant events and transactions

During the year, there were no non-recurring transactions or events outside the scope of ordinary operations that had a significant impact on the aggregate items of the balance sheet and profit and loss account (Consob Notice No. DEM/6064293 of 28 July 2006), except as illustrated in the Consolidated Report on Operations.

“Atypical and unusual transactions” are defined as all transactions that due to their significance/materiality, the nature of the counterparties, the subject matter of the transaction (including in relation to ordinary operations), the transfer pricing method and/or timing of occurrence (near the end of the reporting period) may give rise to doubts as to the accuracy/completeness of the information presented in the financial statements, conflicts of interest, the safeguarding of company assets and the protection of minority shareholders.

National Tax Consolidation option

In 2004, the Parent Company Assicurazioni Generali S.p.A. and some Italian companies belonging to the Assicurazioni Generali Group, including Banca Generali S.p.A., began participating in the National Tax Consolidation governed by Articles 117-129 of the TUIR (Italy’s income tax code), which was introduced into Italy’s fiscal legislation by Italian Legislative Decree No. 344/2003.

Under the scheme, Banca Generali transfers its taxable profit (or tax losses) to the Parent Company, Assicurazioni Generali S.p.A., which computes a single taxable profit (or a single tax loss) for the Group as the sum of the profits and/or losses of the individual companies, and reports a single tax receivable from or payable to the Tax Authorities.

Other information

Information on government grants pursuant to Article 1, paragraph 125, of Law No. 124 of 4 August 2017 (“Annual market and competition law”)

In accordance with Article 1, paragraph 125, of Law No. 124/2017 “Annual market and competition law”, pending interpretative clarification and as directed by Assonime Circular No. 5 of 22 February 2019, which provides interpretations of various uncertain issues relating to the aforementioned law, according to which the disclosure obligation does not apply to amounts, consideration and remuneration justified by business services and, in any event, by synallagmatic contracts related to the recipient’s core business, nor to measures intended for all undertakings generally - such as tax and contribution relief - it is deemed that the following grants received by Banca Generali 2018 should be disclosed:

BENEFICIARY	TYPE OF GRANT	GRANTOR AUTHORITY	AMOUNTS RECEIVED (€ thousand)
Banca Generali	Personnel training	FBA Banks and Insurers’ Fund (*)	204

(*) This sum refers to aid for personnel training applied for in 2014, 2015 and 2016 and received in January and November 2018. It should be noted that the grants listed in the National Public Register, available for free consultation on the relevant website, refer to grants with a grant date in or after October 2017, for which no disbursements were made in 2018.

Audit

The Financial Statements were audited by BDO Italia S.p.A. in accordance with the Resolution passed by the General Shareholders’ Meeting on 23 April 2015, which appointed the said company as the independent auditors for the years 2015-2023, included.

Part A.2 – Main Financial Statements Aggregates

Accounting Standards

This section sets out the accounting policies adopted for the preparation of the Financial Statements as of 31 December 2018, as regards the stages of classification, recognition, measurement and derecognition of the various asset and liability items and the methods of recognition of costs and revenues.

With reference to the foregoing, it should be noted that the accounting standards adopted for preparing these Financial Statements, as regard the stages of classification, recognition, measurement and derecognition of the various asset and liability items and the methods of recognition of costs and revenues, differ from those adopted for drawing up the 2017 Annual Report. The change is mainly attributable to the mandatory application, effective 1 January 2018, of the following international accounting standards:

- > IFRS 9 – *Financial Instruments*, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation No. 2067/2016, which superseded IAS 39 for all matters concerning the classification and measurement of financial instruments, as well as their impairment;
- > IFRS 15 – *Revenue from Contracts with Customers*, endorsed by the European Commission through Regulation No. 1905/2016, which superseded and replaced IAS 18 – *Revenues* and IAS 11 – *Construction Contracts*.

The effects of the first-time adoption as of 1 January 2018 of IFRS 9 and IFRS 15 are outlined in a specific Transition Report attached to this Annual Integrated Report.

In light of the above, the new accounting policies of Banca Generali are presented here below with an analysis of the main financial statements items.

1. Financial assets measured at fair value through profit or loss (FVTPL)

Classification

This category includes all financial assets other than those recognised among Financial assets at fair value through other comprehensive income and Financial asset at amortised cost.

In particular, the item includes:

- > financial assets held for trading, essentially consisting of debt and equity securities and the positive value of derivative contracts held for trading; such assets are included in the regulatory trading book (the “trading book” pursuant to IFRS 9) and are also known as “hold-to-sell” or “HTS” assets;
- > financial assets mandatorily measured at fair value, i.e., financial assets that do not meet the requirements for measurement at amortised cost or fair value through other comprehensive income. These are financial assets the contractual terms of which do not provide solely for payments of principal and interest (“SPPI test” not passed) or that are not held within a business model whose objective is to hold the assets to collect the contractual cash flows (a “hold-to-collect” business model) or whose objective is achieved by both collecting the contractual cash flows and selling the financial assets (a “hold-to-collect-and-sell” business model);
- > financial assets designated at fair value, i.e., financial assets identified as such upon initial recognition, where the requirements have been met. In cases of this kind, upon recognition an entity may irrevocably designate a financial asset as at fair value through profit or loss if, and only if, so doing eliminates or significantly reduces a measurement or recognition inconsistency.

Accordingly, the following are included in this item:

- > debt securities and loans that are held within an Other/Trading business model (i.e., not a hold-to-collect or hold-to-collect-and-sell business model) or that do not pass the SPPI test;
- > equity securities - not qualifying as controlling interests in subsidiaries, associates and joint ventures - that are held for trading or that were not designated at fair value through other comprehensive income upon initial recognition;
- > UCITS units.

The item also includes derivatives accounted for among financial assets held for trading, classified as assets if fair value is positive, and as liabilities if fair value is negative.

It is possible to set off current positive and negative values deriving from outstanding transactions with the same counterparty only if there is currently a legal right to set off the recognised amounts and the entity intends to settle the positions subject to offsetting on a net basis.

Derivatives also include those embedded in hybrid financial contracts, in which the host contract is a financial liability, and which have been separately recognised inasmuch as:

- > their economic characteristics and risks are not closely related to the characteristics of the underlying contract;

- > the embedded instruments considered separately meet the definition of a derivative;
- > the hybrid instruments in which they are embedded are not recognised at fair value and changes in fair value are recognised in profit or loss.

According to the general rules for the reclassification of financial assets (with the exception of equity securities, which cannot be reclassified) laid down by IFRS 9, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be quite rare, financial assets may be reclassified from fair value through profit or loss to one of the two other categories provided for in IFRS 9 (financial assets at amortised cost or financial assets at fair value through other comprehensive income). The transfer value is the fair value at the time of reclassification and the effects of reclassification apply prospectively from the reclassification date. In such cases, the effective interest rate of the reclassified financial asset is determined on the basis of its reclassification date fair value, and the reclassification date is taken as the date of initial recognition for allocation to the various credit risk stages (stage assessment) for impairment purposes.

Recognition

Debt and equity securities are initially recognised on the settlement date. Loans are initially recognised on the disbursement date, while derivative contracts on the date the contract is entered into.

Financial assets at fair value through profit and loss are initially recognised at fair value, less transaction costs or income directly related to the instrument itself.

Measurement

Subsequent to initial recognition, financial assets held for trading are recognised at fair value. The effects of the application of this measurement consideration are recognised in profit and loss.

The fair value of financial instruments traded in active markets is determined by referring to the appropriate quoted market price of such instruments.

A financial instrument is regarded as listed in an active market if quoted prices represent actual and regularly occurring market transactions on an arm's length basis over a normal reference period and those prices, are readily and regularly available from an exchange, dealer, broker, industry company, pricing service or authorised entity.

In the absence of an active market, alternative valuation methods based on market data are used, such as quotes drawn from inactive markets, or on markets where similar instruments are traded, the notional value of financial instruments, quotes from brokers or placing agents involved in the issue of financial instruments, quotes from info providers specialised in specific sectors, and values drawn from recent comparable transactions.

The cost criterion is used for equity securities and derivative instruments that have as their underlying equity securities, not listed on an active market, as an estimate of fair value solely to a residual degree and limited to a few cases, such as cases in which all previously discussed measurement methods are not applicable, or where there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within the range.

Further information on the criteria used for determining fair value is given in Section "A.4 Information on fair value" of Part A of these Notes and Comments, to which reference is made as no material changes have been made following the application of IFRS 9.

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all related risks and rewards, is transferred.

Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried in the financial statements, even though the ownership of said assets has been effectively transferred in legal terms.

In cases where the transfer of substantially all risks and rewards cannot be assessed, derecognition occurs when no control has been retained over such assets. Conversely, if even partial control is retained, the asset continues to be recognised in the financial statements to the extent of continuing involvement, which is measured by the exposure to changes in the value of the transferred assets and related cash flows.

Lastly, financial assets are also derecognised from the financial statements if contractual rights to receive the asset's cash flows are retained, but a contractual obligation to pay, without a significant delay, those (and only those) cash flows to a third party is assumed.

2. Financial assets at fair value through other comprehensive income (FVOCI)

Classification

This category includes financial assets that satisfy both of the following conditions:

- > the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets (a "hold-to-collect-and-sell" business model); and

- > the contractual terms of the financial asset give rise, on specific dates, to cash flows consisting solely of payments of principal and interest (“SPPI test” passed).

The item also includes equity instruments not held for trading electively designated at fair value through other comprehensive income upon initial recognition.

Specifically, it includes:

- > debt securities and loans held within a hold-to-collect-and-sell business model that have passed the SPPI test;
- > equity interests, equity investments and capital contributions of various kinds not qualifying as controlling interests in subsidiaries, associates and joint ventures, not held for trading purposes, designated at fair value through other comprehensive income.

According to the general rules for the reclassification of financial assets (with the exception of equity securities, which cannot be reclassified) laid down by IFRS 9, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets.

In such cases, which are expected to be quite rare, financial assets may be reclassified from fair value through other comprehensive income to one of the two other categories provided for in IFRS 9 (financial assets at amortised cost or financial assets at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to that at amortised cost, the cumulative gain (loss) recognised in the valuation reserve is taken as an adjustment of the financial asset's fair value at the reclassification date. In the event of reclassification to fair value through profit or loss, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from net equity to net profit (loss) for the year.

Recognition

Debt and equity securities are initially recognised on the settlement date. Loans are initially recognised at the disbursement date. Assets are initially recognised at fair value, being the fair value of the instrument including transaction costs or income directly related to the instrument.

Measurement

After initial recognition, assets designated at fair value through other comprehensive income other than equity securities are measured at fair value and the impact of the application of amortised cost, the effects of impairment and any foreign exchange effect are taken to profit or loss, whereas other gains or losses due to changes in fair value are entered to a specific equity reserve until the financial asset is derecognised.

Upon total or partial derecognition, cumulative gains and losses in the valuation reserve are recognised, fully or partially, through profit or loss.

Equity securities that have been classified to this category on an elective basis are measured at fair value through other comprehensive income (net equity) and cannot be transferred to profit and loss thereafter, even in the event of disposal. The only component attributable to the equity instruments in question that may be recognised in profit or loss is the related dividends.

Fair value is determined on the basis of the criteria set out above for financial assets designated at fair value through profit or loss.

In the case of equity instruments included in this category not listed on an active market, the cost criterion is only used to estimate fair value on a residual basis, limited to a few circumstances, i.e., where all previously discussed measurement methods do not apply, or where there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within the range.

Further information on the criteria used for determining fair value is given in Section “A.4 Information on fair value” of Part A of these Notes and Comments, to which reference is made as no material changes have been made following the application of IFRS 9.

Derecognition

Financial assets are derecognised from the financial statements only if the transfer results in the transfer of substantially all risks and rewards connected to such assets. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried in the financial statements, even though the ownership of said assets has been effectively transferred in legal terms.

In cases where the transfer of substantially all risks and rewards cannot be assessed, derecognition occurs when no control has been retained over such assets. Conversely, if even partial control is retained, the asset continues to be recognised in the financial statements to the extent of continuing involvement, which is measured by the exposure to changes in the value of the transferred assets and related cash flows.

Lastly, financial assets are also derecognised from the financial statements if contractual rights to receive the asset's cash flows are retained, but a contractual obligation to pay, without a significant delay, those (and only those) cash flows to a third party is assumed.

3. Financial assets measured at amortised cost

Classification

This category includes financial assets (and in particular loans and debt securities) that satisfy both of the following conditions:

- > the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows (a “hold-to-collect” business model); and
- > the contractual terms of the financial asset give rise, on specific dates, to cash flows consisting solely of payments of principal and interest (“SPPI test” passed).

In further detail, the following are classified to this item:

- > loans to banks in various forms that meet the requirements set out in the foregoing paragraph;
- > loans to customers in various forms that meet the requirements set out in the foregoing paragraph;
- > debt securities that meet the requirements set out in the foregoing paragraph.

This category also includes operating loans associated with the provision of financial assets and services, as defined in the Consolidated Law on Banking (TUB) and the Consolidated Law on Finance (TUF) (for example, the distribution of financial products and servicing activities). This latter category also includes receivables from management companies and receivables from the Financial Advisor network for advances on commissions paid.

According to the general rules for the reclassification of financial assets laid down by IFRS 9, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be quite rare, financial assets may be reclassified from the category measured at amortised cost to one of the two other categories provided for in IFRS 9 (Financial assets at fair value through other comprehensive income or Financial assets at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification apply prospectively from the reclassification date. Gains or losses resulting from the difference between the amortised cost and fair value of a financial asset are taken to profit or loss in the event of reclassification to financial assets at fair value through profit or loss, and to a specific valuation reserve in net equity in the event of reclassification to financial assets at fair value through other comprehensive income.

Recognition

Financial assets are initially recognised on the settlement date. Loans are initially recognised on the disbursement date. Financial assets are initially recognised at fair value including transaction costs or income directly related to the instrument. In the case of loans, in particular, the date of disbursement normally coincides with the date of execution of the contract. If the two dates do not coincide, a commitment to disburse funds terminating on the date of disbursement of the loan is added when the contract is executed. A loan is initially recognised on the basis of the fair value of the same, which is equal to the amount disbursed or the subscription price, including costs/income directly attributable to the individual loan that may be determined at the inception of the transaction, even if settled at a later time. Costs having the above-described characteristics are excluded if they are to be repaid by a third-party borrower or can be considered normal, internal, general and administrative expenses.

Measurement

After initial recognition, these financial assets are measured at amortised cost using the effective interest-rate method. Accordingly, such assets are measured at an amount equal to their initial recognition value, minus redemptions, plus or minus cumulative amortisation (calculated according to the aforementioned effective interest-rate method) of the difference between that initial amount and its value at maturity (typically derived from the costs/income directly attributable to the individual asset) and adjusted by loss allowance, if any. The effective interest rate is the rate that equates the discounted future cash outflows (for principal and interest payments) with the amount disbursed including the costs and income relating to the said financial asset. This method of recognition allows, by applying a financial logic, the financial effect of the costs and income directly attributable to a financial asset to be distributed across its expected remaining life.

The amortised cost method is not used for assets measured at historical cost whose short durations suggest that the effects of discounting would be negligible, nor is it applied to assets without fixed maturities or revocable lines of credit.

The measurement criteria are closely connected to the inclusion of the instruments in question in one of the three stages (credit risk stages) provided for in IFRS 9, the last of which (stage 3) includes non-performing financial assets, and the remainder (stages 1 and 2) performing financial assets.

In terms of the accounting treatment of the above measurement effects, adjustments attributable to this type of asset are taken to profit or loss:

- > upon initial recognition, in an amount equal to the expected loss at twelve months;
- > upon subsequent measurement of the asset, where credit risk has not increased significantly compared with initial recognition, in respect of changes in the amount of adjustments for expected losses in the following twelve months;

- > upon subsequent measurement of the asset, where the credit risk has increased significantly with respect to initial recognition, in respect of the recognition of adjustments for expected credit losses attributable to the asset's entire residual contractual life;
- > upon subsequent measurement of the asset, where, after a significant increase in credit risk with respect to initial recognition, this increase has ceased to be significant in respect of the adjustment of cumulative impairment losses to account for the transition from an expected loss over the entire residual lifetime of the instrument to the expected loss over a twelve-month period.

Where performing, the financial assets in question are measured with the aim of determining the impairment losses to be recognised at the level of each individual credit relationship (or "tranche" of a security) on the basis of the risk parameters of probability of default (PD), loss given default (LGD) and exposure at default (EAD).

If, in addition to a significant increase in credit risk, there is objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset - classified as "non-performing" along with all other relationships with the counterparty in question - and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The amount of the loss, to be recognised in profit or loss, is determined on the basis of a measurement process performed for individual assets or uniform categories of assets, and then allocated to each position.

Non-performing loans include financial instruments classified as follows:

- > bad loans: this category refers to formally non-performing loans, consisting of exposures to customers who are in a state of insolvency, regardless of whether confirmed by a court, or in similar situations;
- > unlikely to pay: these are on- and off-balance sheet exposures for which the conditions have not been met for classification as bad loans and for which it is deemed unlikely that the borrower will be capable of fulfilling all of its debt obligations (in terms of principal and/or interest) in the absence of actions such as the enforcement of guarantees. This assessment is conducted regardless of the presence of any past due and unpaid amounts or instalments.
Classification as unlikely to pay is not necessarily tied to the explicit presence of anomalies (non-payment), but rather is linked to the existence of elements indicative of a situation of risk of default of the borrower;
- > non-performing past-due exposures: these are on-balance sheet exposures other than those classified as bad debts or unlikely to pay loans that are past due by more than 90 days at the reporting date. Non-performing past-due exposures may be identified in reference to either the individual borrower or individual transaction.

Expected cash flows take account of expected collection times and the presumed realisable value of any underlying guarantees.

The original effective interest rate of each asset remains unchanged over time, even if a renegotiation of the terms results in a change of the contractual rate, including if the contract becomes non-interest-bearing.

If the reasons for impairment cease to exist due to an event occurring after the impairment was recognised, the impairment loss is reversed and the reversal is recognised in profit or loss. The reversal may not exceed the amortised cost that would have been attributable to the asset had the impairment not been recognised. Reversals due to the passage of time are taken in net interest income.

In some cases, over the lifetimes of the financial assets in question, and in particular over those of loans, the original contractual conditions are modified at the will of the parties to the contract.

When contractual terms are modified in the course of an instrument's life, it must be verified whether the original asset is to continue to be recognised or the original instrument is instead to be derecognised and a new financial instrument recognised.

When the modifications of financial assets are "substantial", the original asset is generally derecognised and a new asset is instead recognised. A modification is determined to be "substantial" on the basis of both qualitative and quantitative elements. In some cases, in fact, it may be clear, without the need for complex analysis, that the changes made substantially modify an asset's contractual characteristics and/or cash flows, whereas in other cases additional analyses (including of a quantitative nature) must be conducted to measure the effects of such modifications and verify whether the asset should be derecognised and a new financial instrument recognised.

Accordingly, the qualitative and quantitative analyses, aimed at determining whether contractual modifications of a financial asset are substantial, must be based on:

- > the purposes of the modifications: for example, renegotiations for commercial reasons and forbearance measures due to financial difficulties by the counterparty;
 1. the former, aimed at "retaining" the customer, involve a debtor not in a situation of financial difficulty. This category also encompasses all renegotiation transactions aimed at adjusting the cost of debt to market conditions. Such transactions entail a modification of the original terms of the contract, typically at the debtor's request, relating to aspects affecting the cost of the debt, with the resulting economic benefit for the debtor. It is generally held that, whenever the bank renegotiates in order to avoid losing a customer, such renegotiation must be considered sub-

stantial inasmuch as, had it not occurred, the customer could have obtained financing from another intermediary and the bank would have incurred a loss of expected future revenues;

2. the latter, undertaken for “reasons of credit risk” (forbearance measures), are attributable to the bank’s attempt to maximise the recovery of the cash flows from the original loan. Substantially all the underlying risks and rewards are typically not transferred as a result of such modifications. Accordingly, the accounting treatment that provides the most relevant information for the readers of the financial statements (without prejudice to the remarks presented below regarding objective elements) is that based on “modification accounting”, which entails the recognition in profit or loss of the difference between the carrying amount and the present value of the modified cash flows, discounted at the original interest rate, and not through derecognition;
- > the presence of specific objective elements (“triggers”) that affect the contractual characteristics and/or cash flows of the financial instrument (including, but not limited to, a change of currency or modification of the type of risk exposure, where correlated with equity and commodity parameters) that are believed to entail derecognition by virtue of their impact (expected to be significant) on the original contractual cash flows.

Derecognition

Financial assets are derecognised from the financial statements only if the transfer results in the transfer of substantially all risks and rewards connected to such assets. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried in the financial statements, even though the ownership of said assets has been effectively transferred in legal terms.

In cases where the transfer of substantially all risks and rewards cannot be assessed, derecognition occurs when no control has been retained over such assets. Conversely, if even partial control is retained, the asset continues to be recognised in the financial statements to the extent of continuing involvement, which is measured by the exposure to changes in the value of the transferred assets and related cash flows.

Lastly, financial assets are also derecognised from the financial statements if contractual rights to receive the asset’s cash flows are retained, but a contractual obligation to pay, without a significant delay, those (and only those) cash flows to a third party is assumed.

4. Hedging transactions

Types of hedging transactions

The objective of hedging is to eliminate possible losses on a specific item or group of items that could be incurred as a result of a certain risk with gains on another item or group of items in cases where that specific risk actually occurs.

Possible types of hedges include:

- > fair-value hedges, intended to hedge exposure to changes in the fair value of a balance-sheet item attributable to a particular risk;
- > cash-flow hedge, intended to hedge exposure to changes in future cash flows of balance-sheet items attributable to particular risks;
- > hedges of a net investment in a foreign operation, intended to hedge the foreign currency exposure of an investment in a foreign enterprise.

Measurement

Hedging derivatives are measured at fair value. Specifically:

- > in the case of a fair-value hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. Both the change in value of the hedged item attributable to the hedged risk (with reference to changes due to the underlying risk factor) and the change in value of the hedging instrument are recognised in profit or loss. Any difference between the two represents an element of ineffectiveness of the hedge and determines the net effect on net profit or loss;
- > in the case of cash-flow hedges, the effective portion of changes in the fair value of the derivative is recognised immediately in net equity and recognised in profit or loss only when there are changes in the cash flow of the hedged item;
- > hedges of a net investment in a foreign operation are accounted for similarly to cash-flow hedges.

Derivatives qualify as hedging instruments when the relationship between the hedged item and the hedging instrument is formally documented and the hedge is effective at inception and is expected to be effective on an ongoing basis over the term of the hedge.

The effectiveness of the hedge depends on the degree to which changes in the fair value or cash flows of the hedged item are offset by changes in the fair value or cash flows of the hedging instrument. Effectiveness is thus assessed by comparing these changes in light of the intentions expressed by the enterprise at the hedge’s inception.

A hedge is considered effective (within a range of 80-125%) when the changes in fair value (or cash flows) of the hedging instrument almost entirely offset the changes in the hedged item with respect to the risk being hedged.

Effectiveness is assessed at annual and interim reporting dates using:

- > *prospective tests*, which justify the use of hedge accounting by demonstrating effectiveness;

- > *retrospective tests*, which show the degree of effectiveness achieved in the period under review. In other words, retrospective tests measure the extent to which actual results differed from a perfect hedge.

If these tests do not confirm the effectiveness of a hedge, the hedge accounting procedures described above are discontinued and the derivative instrument is reclassified as a trading instrument.

5. Equity investments

This item includes equity investments in subsidiaries and associates.

The Bank does not hold equity investments in joint arrangements.

Subsidiaries are entities in which the Bank is exposed to variable returns or holds rights to such returns, arising from its relationship with the said entities, whilst having the ability to affect those returns through the power it exercises over the said entities.

Entities subject to significant influence (associates) are those entities in which the Bank holds 20% or more of the voting power (including “potential” rights), or in which - although holding a lower voting power - it has the power to participate in the financial and management policy-making process, in light of specific legal ties, such as syndicate agreements.

Recognition

Equity investments are recognised at the transaction settlement date, i.e., the date the acquisition becomes effective. Equity investments are initially recognised at cost, including costs or income directly attributable to the transaction.

Measurement

Equity investments are measured at cost, adjusted for impairment where applicable.

When there is indication of a possible loss in value of an equity investment, the recoverable amount of the investment is estimated based on the present value of future cash flows that the company could generate, including the disposal value of the investment.

If the recoverable amount is less than the carrying amount, the difference is recognised through profit or loss.

If the reasons for impairment cease to exist due to an event occurring after the impairment was recognised, the impairment loss is reversed and the reversal is recognised in profit or loss.

Derecognition

Equity investments are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all related risks and rewards, is transferred.

6. Property and equipment

Classification

Property and equipment include technical systems, furniture, furnishings and equipment of any type.

They also include assets held exclusively for operating purposes, to be used in the production or provision of goods and services to be leased to third parties or for administrative purposes and that are expected to be used for more than one year.

Recognition

Property and equipment are initially recognised at cost, which includes the purchase price, as well as all directly related costs necessary to purchase the asset and bring it into working condition.

Extraordinary maintenance costs that increase the future economic benefits of the asset are added to the carrying amount of the asset to which they relate while routine maintenance costs are recognised through profit and loss.

Measurement

Property and equipment, including those not used in production, are measured at cost less depreciation and impairment losses.

They are systematically depreciated over their estimated useful life using the straight-line method.

At each annual or interim reporting date, if there is indication that an asset may be impaired, its carrying amount is compared to its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use, i.e., the present value of future cash flows expected to be generated by the asset. Impairment losses are recognised in the profit or loss account.

If the reasons for impairment cease to exist, the impairment loss is reversed; the new amount cannot exceed the carrying amount the asset would have had after depreciation, had no previous impairment loss been recognised.

Derecognition

Property and equipment are removed from the balance sheet upon disposal or when permanently withdrawn from use and no future economic benefits are expected from their disposal.

7. Intangible assets

Classification

An intangible asset is an identifiable non-monetary asset controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

In order to be identifiable, an asset must be separable, i.e., capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or must arise from contractual or other legal rights, regardless of whether those rights are transferrable or separable from the entity or from other rights and obligations.

An entity controls an asset if the entity has the power to obtain the future benefits flowing from the underlying resource and simultaneously restrict the access of others to those benefits.

The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law.

Goodwill, which represents the positive difference between the purchase cost and the fair value of the acquiree's assets and liabilities, is also recognised among intangible assets.

Intangible assets include the value of contractual relations with customers acquired as a result of the business combination of Banca del Gottardo Italia.

This asset is an intangible asset, as defined by IAS 38, from which future economic benefits are likely to flow to the acquirer. The value of these relationships was determined on the basis of an estimate of the return on the assets managed by Banca del Gottardo Italia, analysed by asset class, while the useful life was estimated as a ten-year period, based on the historic percentage of decline of assets under management, before the company was acquired.

The remaining intangible assets are application software intended for long-term use, including the expenses of modifying the legacy system, which in turn include intangible assets in progress at the end of the year.

Software costs recorded as intangible assets refer to application software developed by third parties for company use (software development contracts) or purchased with a multi-year licence for use.

Software costs recognised among intangible assets include, at set conditions, also charges for the development of the IT system used by the Bank based on the outsourcing contract with CSE (legacy, front-end financial advisors and front-end customers, etc.).

Such charges are capitalised when they refer to the development of innovative components of the system, which are not part of consortium projects, for which it is possible to identify a control situation, and from which future economic rewards are expected.

Expenses related to corrective and evolution maintenance of IT procedures and the website already in use are usually recognised through profit and loss in the year in which they are borne.

Recognition

Goodwill

An intangible asset can be classified as goodwill when the positive difference between the fair value of the assets and liabilities acquired and the cost of the investment (including incidental expenses) is representative of the investee company's ability to generate future income (goodwill).

In case of badwill, or if the goodwill is not representative of the investee company's ability to generate future income, the difference is recognised directly through profit and loss.

Other intangible assets

Other intangible assets are recorded at cost less any incidental expenses when it is probable that the asset will produce future economic benefits and if the cost of the asset can be reliably determined. When this is not the case, the cost of the intangible asset is recognised in the profit and loss account in the period in which it is incurred.

Measurement

Intangible assets are amortised on a straight-line basis over their useful lives.

Software costs are typically amortised over a three-year period.

Other capitalised costs associated with legacy systems are amortised over a five-year period.

For contractual relations with customers, acquired as a result of the above-mentioned business combination of Banca del Gottardo Italia, the useful lives are estimated at ten years.

Intangible assets with indefinite lives are not amortised, but are periodically reviewed to assess the appropriateness of their carrying amount.

Impairment

Goodwill

In accordance with IAS 36, goodwill is no longer amortised, but is tested for impairment at least annually.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs), which may be no larger than the segments identified for management reporting.

To determine the amount of impairment, the carrying amount of the CGU is compared with its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The impairment test for goodwill is presented in Section 3. “Retrospective Adjustments” in Part G of these Notes and Comments.

Other intangible assets

At each reporting date, if impairment is indicated, the recoverable amount of the asset is estimated. The amount of impairment, which is recognised in the Profit and Loss Account, is the amount by which the asset’s carrying amount exceeds its recoverable amount.

Derecognition

Intangible assets are removed from the Balance Sheet on disposal or when no future economic benefits are expected from their use.

8. Non-current assets held for sale or disposal groups

The asset item “Non-current assets held for sale or disposal groups” and liability item “Liabilities associated with assets held for sale or disposal groups” include non-current assets or groups of assets/liabilities for which a disposal process has been initiated and the sale of which is deemed highly likely. Such assets/liabilities are measured at the lesser of their carrying value and fair value less costs to sell.

The net balance of income and expenses (net of the tax effect) attributable to a group of assets available for sale or a group of assets recognised as available for sale during the year is taken through profit and loss under a specific separate item, “Income (Loss) of disposal groups, net of taxes.”

9. Current and deferred taxes

Income taxes are recognised in the Profit and Loss Account, with the exception of those relating to items posted directly to net equity.

Provisions for income taxes are made based on a conservative estimate of current taxes, and deferred tax assets and liabilities, which are calculated using prevailing tax rates.

Specifically, deferred tax assets and liabilities are calculated based on the temporary differences - without time limits - between the carrying amount of assets and liabilities and their corresponding values for tax purposes.

Deferred tax assets are recognised to the extent that it is probable that they will be recovered, which is determined based on the ability of the company in question or the Parent Company Assicurazioni Generali - as a result of its exercise of the option provided by the Italian tax consolidation scheme - to generate ongoing taxable income.

Deferred tax liabilities are recognised in the financial statements, except for the main assets pending taxation, represented by equity investments.

Deferred tax assets and liabilities are shown separately in the balance sheet and are not offset; deferred tax assets are recorded under “tax assets” and deferred tax liabilities are recorded under “tax liabilities”.

Deferred taxes resulting from consolidation are recognised where it is probable that they will give rise to a tax charge for one of the consolidated enterprises. Such taxes arise when positive differences resulting from consolidation are allocated to the assets of the subsidiary in question.

Deferred tax assets and liabilities are systematically assessed to take account of any changes in tax legislation or rates, as well as changes to the specific situations.

Provisions for taxes also include allocations made to cover charges that could arise from audits or litigation underway with revenue authorities.

Accounting effects of the redemption of goodwill and other intangible assets pursuant to Italy’s tax laws

In recent years, the tax regime applicable to corporate reorganisation transactions has undergone considerable changes aimed at allowing surplus amounts (for example, goodwill) recognised following an extraordinary transaction involving contribution, merger or de-merger to be recognised for income-tax purposes, as well as through the payment of a substitute tax.

Law No. 244 of 24 December 2007 (the 2008 Consolidated Finance Law) introduced the new paragraph *2-ter* into Article 176 of the Consolidated Income Tax Law (hereinafter TUIR) that allows entities to recognise for income-tax purposes greater amounts recognised in the accounts following a corporate reorganisation transaction in relation to intangible assets, including goodwill, and property and equipment.

That provision requires that the entity pay a substitute tax, determined according to three income brackets, on the basis of the realigned amounts (12% up to 5 million euros, 14% up to 10 million euros and 16% for amounts in excess of the latter bracket, respectively) in lieu of the ordinary rates of 27.5% (IRES) and 3.9% (IRAP).

The substitute tax is to be paid in three annual instalments beginning on the term of payment of the balance of income taxes for the year in which the extraordinary transaction is undertaken, whereas the greater amounts are recognised for the purposes of the tax-deductibility of depreciation and amortisation charges beginning in the tax period in progress when the option for payment of substitute tax is exercised on the tax return, that is to say in the year in which the first instalment is paid.

Legislative Decree No. 185 of 29 November 2008 (the Anti-Crisis Decree), converted to Law No. 2 of 28 January 2009 and subsequently amended, introduced a new system of optional realignment of tax and balance-sheet values. The provision, set forth in Article 15, paragraph 10, of the cited Decree, states that, in derogation of the substitute-tax regime introduced by the 2008 Finance Law, taxpayers may obtain recognition for tax purposes of the greater amounts attributed to goodwill, trademarks and other intangible assets with finite useful lives in the financial statements by paying a substitute tax in lieu of IRES and IRAP at the fixed rate of 16%, that is to say without any reference to income brackets and the possibility of paying in instalments.

However, the greater amounts attributed to goodwill and trademarks may be recovered through the off-the-books procedure for amortising goodwill in ten annual instalments instead of the 18 ordinary required under Article 103 of TUIR, beginning in the tax period after that in which the tax is paid.

That statute also requires that the option be exercised by paying the substitute tax by the term of payment for income taxes for the year in which the extraordinary transactions in question are finalised.

Lastly, paragraphs 12 to 14 of Article 23 of Legislative Decree No. 98/2011 (known as the “Summer Manoeuvre”) introduced the new paragraphs 10-*bis* and 10-*ter* to Article 10 of Legislative Decree No. 185/2008, thus allowing an extension of the “special redemption” procedure to goodwill recognised at the consolidated level only due to not being presented in the carrying amount of the equity investment.

The additional redemption scenario is founded solely on the accounting figures presented in the consolidated financial statements (it is not required that the value of the goodwill be separated from that of the equity investment at an accounting level) and applies not only to cases of equity investments arising from mergers or other extraordinary transactions, but also to cases of non-tax neutral transactions excluded from the previous rules, such as the acquisition of an entity whose assets also include a control interest or the acquisition of such a control interest (the new paragraph 10-*ter*).

The statute also provides that in order to close redemption transactions, as limited to previous transactions undertaken prior to 31 December 2010, the payment of the 16% substitute tax must have been made by 30 November 2011, whereas the non-accounting deduction of amortisation in ten equal instalments had to take place beginning in financial year 2013.

Banca Generali has undertaken the following transactions in connection with the aforementioned options afforded by the tax code:

- 1) redemption of the mismatch between the carrying amounts and book values of goodwill arising from the merger of Banca del Gottardo Italia into Banca BSI S.p.A. (subsequently merged into Banca Generali effective 1 January 2010), closed in 2010 on the basis of the provisions of Article 15, paragraph 10, of Legislative Decree No. 185/2008;
- 2) redemption of other intangible assets (client relationships) arising from the above transaction undertaken in 2010 on the basis of the amounts carried in the financial statements of Banca BSI Italia at 31 December 2009 according to the ordinary procedure outlined in Article 176, paragraph 2-*ter*, of the TUIR;
- 3) redemption of goodwill recognised on a consolidated basis in connection with the full equity interest in the subsidiary BG Fiduciaria Sim S.p.A. undertaken in 2011.

The accounting treatment of the payment of substitute tax on goodwill is susceptible to varying interpretations, given that there is no specific provision of IAS 12 regarding the taxable element of goodwill after initial recognition.

IAS 12 merely prohibits the recognition of deferred tax assets on initial recognition of goodwill from acquisitions not relevant for tax purposes.

The analyses conducted by the OIC - the Italian Accounting Standard Setter - summarised in application document No. 1 of 27 February 2009 entitled “*Accounting treatment of substitute tax on the redemption of goodwill in accordance with Article 15, paragraph 10, of Legislative Decree No. 185 of 29 November 2008 (converted into Law No. 2 of 28 January 2009) for entities that prepare financial statements in accordance with IASs/IFRSs*”, which can however be extended to other special redemption cases envisaged by tax laws, have led to three different accounting treatments being considered compatible with IFRSs:

1. recognition through profit and loss of substitute tax only, without recognising deferred tax assets;
2. immediate recognition through profit and loss of both substitute tax and the deferred tax assets representing the future tax benefit; and
3. recognition of substitute tax as a tax credit under assets and subsequent recognition through profit and loss over the years to coincide with the non-accounting deduction of the redeemed amortised amounts.

In this regard, it should be noted that the accounting policy adopted by Banca Generali is based on the second method, which allows the attribution of the entire tax benefit, equal to the difference between the substitute tax paid and the deferred tax assets recognised (IRES and IRAP) during the year to which the redemption transaction refers.

During the years in which the redeemed goodwill may be deducted on a straight-line basis, the entity will release the previously recognised deferred tax assets to profit and loss at a constant rate, based on the specific system adopted (ten or eighteen amortisation charges), thereby neutralising the decrease in current taxes.

Any impairment losses to the goodwill are not relevant to measuring the recognised deferred tax asset, provided that the value of that asset continues to be believed to be recoverable on the basis of future taxable income.

10. Provisions for Liabilities and Contingencies

Provisions for commitments and guarantees issued

The sub-item of provisions for liabilities and contingencies in question includes provisions for credit risk recognised on the basis of loan commitments and guarantees issued that come within the scope of application of impairment rules pursuant to IFRS 9.

Such cases are generally subject to the same methods of allocation to the three credit risk stages and calculation of expected losses presented in regard to financial assets at amortised cost or at fair value through other comprehensive income.

Other provisions

Other provisions for liabilities and contingencies include allocations relating to provisions for legal contractual or non-contractual obligations or legal disputes, including tax disputes, arising from a past event where fulfilment of such obligation is likely to require an outflow of financial resources, provided that the amount of the outflow can be reliably estimated.

Therefore, a provision is recognised only when:

- > there is a present obligation (legal or constructive) as a result of a past event;
- > it is likely 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 relating to the fulfilment of the obligation.

The amount recognised as provision corresponds to the best estimate of the expenditure required to settle the present obligation at the balance sheet date and accounts for all the risks and uncertainties that inevitably are entailed in certain events and circumstances.

Where the effect of the time-value of money is material, provisions are discounted using current market rates. Provisions and increases due to the time value of money are recognised in the Profit and Loss Account.

Provisions are periodically reviewed and, where necessary, adjusted to reflect the best current estimate. If, upon review, it is determined that it is unlikely that a cost will be incurred, the provision is reversed.

Other provisions for liabilities and contingencies include, in particular:

- > provisions for contractual indemnities for the network of Financial Advisors (end-of-service, portfolio development indemnity, managerial development indemnity, and other similar indemnities), measured according to the actuarial method;
- > provisions for Financial Advisors and Relationship Managers serving the obligations assumed in relation to the *2017-2026 Framework Loyalty Programme for the sales network*;
- > several types of provisions for incentive or recruitment bonuses (recruitment plans) for Financial Advisors;
- > provisions for long-term employee benefits;
- > provisions for restructuring plans.

In some circumstances, provisions for liabilities and contingencies (for example, charges relating to staff expenses) have been presented in a separate item of the profit and loss account to best reflect their nature.

Termination indemnity for Financial Advisors

The provision covering the cost of termination indemnities for Financial Advisors is assessed in compliance with IAS 37 according to an actuarial approach, pursuant to the law (Article 1751 of the Italian Civil Code) and the specific disbursement criteria set by the Bank.

In detail, the indemnity to be paid to a Financial Advisor is calculated on the basis of the annual average direct and indirect fees paid to the Financial Advisor during his or her final five years of service (Article 1751 of the Italian Civil Code), net of:

- a) the total amount paid to Enasarco each year by the Bank until the date of termination;
- b) the contractual lump-sum reduction which gradually declines with the length of service at the date of retirement or termination (with the exception of cases of death and permanent disability).

In cases of withdrawal for cause with service, the indemnity may be further reduced as a function of the decline in AUM during the post-termination observation period.

The assessment is then conducted according to actuarial methods on the basis of demographic parameters, expected turnover rates, with and without the right to service, assumptions regarding the age of entry into the compulsory general insurance (AGO) system and the retirement age.

The procedure also takes account of:

- a) the percent fee reduction expected as a function of the estimated period of past service at the date of termination;
- b) the prospective termination indemnity fund, i.e., the payments that the Bank is to make each year directly to the Enasarco Foundation by way of termination indemnity contributions for the Financial Advisor's entire period of service and that, in the end, are to be deducted from the gross indemnity owed.

Portfolio development indemnity

The portfolio development scheme calls for Financial Advisors with at least five years of service who leave service permanently due to retirement, serious disability, death or voluntary removal from the register to be entitled to an indemnity commensurate to the profitability of the portfolio previously managed.

The indemnity, which is governed by an appendix to the Agency agreement, is only due on the condition that the outgoing advisor formally undertakes to conduct a hand-over to an incoming Financial Advisor identified by the Company and discharges the obligation for removal from the register. Conversely, the incoming Financial Advisor undertakes to pay the company an indemnity commensurate to that obtained from the outgoing advisor.

In relation to recent market practices in the area, a thorough contractual revision of the scheme entered into effect on 1 January 2012 was carried out.

The system introduces a rule, namely that the indemnity collected by the outgoing Financial Advisor is to correspond exactly to the indemnities paid by the recipients of the hand-over, thus limiting the principal's role to the service represented by handling the cash flows between the parties.

Therefore, on the basis of the new rules, the outgoing Financial Advisor may only collect the agreed indemnity provided that it has actually been paid to the Bank by the incoming Financial Advisor, thereby fostering greater involvement of the interested parties in the successful completion of the transaction and an appropriate hand-over of customer relationships.

However, the Bank's guarantee has been maintained in cases of the reassignment of customer relationships due to the death or permanent disability of the Financial Advisor to whom they had been assigned. In such cases, the Bank will immediately pay out the entire indemnity to the outgoing Financial Advisor's beneficiary or heirs and then recover the amount from the incoming advisors under an instalment plan, in the reduced amount of 75% in consideration of the increased expense associated with the impossibility of conducting an appropriate hand-over.

The specific provision covering the obligations associated with the scheme is determined through an assessment conducted according to statistical and actuarial methods on the basis of an estimate, carried out through IT procedures, of the development coefficient for the assets managed by the Financial Advisors at the reference date, the historical percentages of indemnity payouts, network turnover rates and other demographic, welfare-related and financial variables.

According to IAS 1, paragraph 234 b), accruals are presented net of contractually established reimbursements to be provided by incoming Financial Advisors.

The provisions for long-term contractual indemnities also included the provision for the 2017-2026 Framework Loyalty Programme for the sales network, approved by the Board of Directors on 21 March 2017 and ratified by the General Shareholders' Meeting on 20 March 2017. Said programme is aimed at improving the retention of the network and the customers acquired over time and creating value for the Group by attracting stable, high-quality net inflows.

Framework Loyalty Programme for the Sales Network

The Framework Programme provides for the possibility to activate during the 2017-2026 period eight individual annual plans set to expire on 31 December 2026 and of decreasing lengths, from a maximum of eight years to a minimum of one year, with the authorisation of the Banca Generali Group's company bodies and in accordance with its remuneration policies.

This indemnity is paid to Financial Advisors and Relationship Managers with a minimum level of seniority of service who meet certain AUM and net inflow requirements at the end of the year of activation of the plan in which they have participated. The indemnities thus accrued in respect of the individual plans will then be disbursed cumulatively to the beneficiaries, in accordance with the Banking Group's current remuneration policies, within 60 days of the approval of the 2026 financial statements.

Departure from the Banking Group entails the loss of entitlement to disbursement of the bonuses accrued, except in the event of death, permanent disability or eligibility to receive a pension. Even in the above circumstances, the indemnity will still be paid at the end of the Programme.

A part of the bonus, up to 50% of its value, for each of the individual plans in the Framework Network Loyalty Programme may be paid in Banca Generali shares. In accordance with the Banking Group's Remuneration Policy, the number of shares will be determined according to the average price of Banca Generali shares during the 90 days prior to the date of the meeting of the Board of Directors called to approve the draft financial statements for the year prior to that of activation of the individual plan.

The Banca Generali shares for each of the eight plans will be purchased on the market after authorisation is granted, from one year to the next, by the company bodies (Board of Directors and Shareholders' Meeting) and the Regulator and cumulatively assigned to beneficiaries.

The second plan under the Programme, covering the period 2018-2026, was activated in 2018. Both plans call for 50% of the bonus to be paid in Banca Generali shares.

The amount of the provision for the portion of the indemnity to be paid in cash is measured on the basis of the indemnity accrued as at the reporting date, taking account of the time value of money for the period until the date of disbursement and the forecasted rate of turnover, without entitlement to benefits, for the beneficiary population.

11. Financial liabilities at amortised cost

Classification

Due to banks, Due to customers and *Securities issued* include the various forms of interbank funding and direct customer inflows, as well as funding through certificates of deposit and the issue of other debt securities, net of any amounts repurchased. *Due to banks* and *due to customers* also include operating debts from financial services.

Recognition

These items are initially recognised when funding is received or the debt securities are issued. Initial recognition is at the fair value of the liabilities, which is normally the amount received or the issue price plus any costs or income directly attributable to each funding transaction or issuance and not repaid by the creditor. Internal general and administrative expenses are excluded.

For financial liabilities issued below market value, the fair value is estimated and the difference with respect to the market value is recognised directly in the profit and loss account.

Measurement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. With the exception of short-term liabilities where the time-value of money is not material. These are measured at the amount received, and any costs incurred are recognised in the profit and loss account on a straight-line basis for the contractual duration of the liability.

Derecognition

Financial liabilities are removed from the balance sheet when they mature or are settled, or when previously issued securities are repurchased. The difference between the carrying amount of the liability and the amount paid for repurchase is recognised in the profit and loss account.

The reissue of securities on the market after their repurchase is considered a new issue; such securities are therefore measured at the new placement price without any effect on net profit and loss.

12. HFT financial liabilities

This item includes the negative value of trading derivative contracts measured at fair value. If the fair value of a financial asset falls below zero due to trading, it is recorded as a financial liability held for trading.

13. Financial liabilities designated at fair value

There are currently no financial liabilities measured at fair value.

14. Foreign currency transactions

Initial recognition measurement criteria

On initial recognition, foreign currency transactions are recorded in the functional currency using the exchange rate at the date of the transaction.

Subsequent recognition measurement criteria

At each annual or interim reporting date, monetary items denominated in foreign currency are translated using the exchange rate as follows:

- > monetary items are translated using the exchange rate at the reporting date;
- > non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- > non-monetary items that are measured at fair value are translated using the exchange rate at the reporting date.

Exchange rate differences that result from the settlement of monetary items or the translation of monetary items at a rate that is different from the one used for initial translation or for translating the previous year's financial statements are recognised through profit or loss in the period in which they arise.

15. Other information

Cash and deposits

The portion of the balance of the settlement account held with the Bank of Italy that is not restricted according to the mandatory reserve rules is recognised as demand deposits with the Central Bank and has therefore been reclassified to item 10 of the balance sheet, cash and deposits.

Treasury shares

Treasury shares are recognised at their purchase cost under a specific item decreasing net equity and are not subject to measurement. Where subsequently sold, any difference between the purchase cost and sale price is recognised among the components of net equity.

Repurchase agreements

Securities received under a transaction involving a contractual obligation to resell said securities and securities delivered under a transaction involving a contractual obligation to repurchase said securities are not recognised and/or derecognised inasmuch as the associated risks/rewards are not transferred.

Consequently, if securities are purchased under a resale agreement, the amount paid is recognised as a loan to customers or banks. If securities are sold under a repurchase agreement, the liability is recognised among due to banks or customers. Investment income, in the form of coupons accrued on securities and the difference between the spot and forward price of said securities, is recognised to the profit and loss account items associated with interest on an accrual basis.

Leasehold improvements

Costs associated with refurbishing properties owned by third parties are capitalised due to the fact that, for the duration of the lease, the company using the property has control of the assets and can therefore receive the related future economic benefits.

The above costs, which have been classified among “Other assets”, as required by the Bank of Italy’s Instructions, are amortised for a period that may not exceed the term of the lease agreement.

Share-based payments

These are payments to employees or other similar persons, such as Financial Advisors, as consideration for services rendered, based on the equity instruments of the banking or ultimate parent company.

Such plans may provide for either:

- > the right to subscribe for rights issues at a pre-determined price (stock-option plans);
- > the free assignment of a certain number of shares, generally repurchased (stock-granting plans).

In accordance with IFRS 2 - *Share-Based Payments*, share-based benefit plans for personnel and Financial Advisors are recognised as costs on the profit and loss account based on the fair value of the shares on the assignment date, spreading out the charges over the period covered in the plan.

In light of the difficulty inherent in reliably measuring the fair value of the services received in return for equity instruments, reference is made to the fair value of such instruments measured at the grant date.

The fair value of options is measured using a model whose inputs are exercise price, time to maturity, the current share price, expected volatility, expected dividend, the risk-free interest rate, and the specific features of the plan in effect. The pricing model measures distinctly the option and the probability that the conditions on which basis the option was assigned will be realised. The combination of the two amounts generates the fair value of the assigned instrument.

In cases of stock-granting plans, the fair value of the shares granted is determined on the basis of market prices on the date of the resolution of the shareholders’ meeting authorising the plans.

Any reduction in the number of financial instruments assigned is recognised as a cancellation of part of them.

Charges relating to shared-based payment plans are recognised as a cost in the profit and loss account for the year under item 160.a) “General and administrative expenses: staff expenses”, where they relate to employment services, and under item 50) “Fee expense” where they relate to contractual relationships with Financial Advisors. In both cases, such charges are recognised through item 140. “Equity reserves”.

The Long-Term Incentive Plan

The Long Term Incentive Plan (LTIP) is a share-based incentive plan approved annually by the shareholders’ meeting of the parent company, Assicurazioni Generali, and intended for the key personnel of the latter company and other insurance group companies, including several Key Managers of the Banking Group.

The plan is aimed at encouraging the pursuit of the objective of an increase in the value of the company’s shares by strengthening the link between the remuneration of beneficiaries and performance as identified in the framework of the group’s strategic plans (“absolute” performance) and the increase in value compared to a peer group (“relative” performance).

However, for beneficiaries from the Banking Group, the targets triggering accrual of the incentive are broken down into:

- > insurance group targets, i.e., ROE (return on equity) and relative total shareholders’ return (rTSR), compared to a peer group, assigned a weight of 40% of the total bonus; and
- > business unit targets (Banking Group ROE and EVA), assigned a 60% weight.

The key characteristics of the plan are as follows:

- > the incentive accrued upon achieving the targets is disbursed by Assicurazioni Generali S.p.A. in a single instalment at the end of the three-year vesting period through the free granting to the beneficiaries of its own ordinary shares;
- > the maximum number of the shares to be granted is determined at the beginning of the three-year period and is divided into three instalments for the three years of the plan;

- > each year, the level of satisfaction of the objectives initially set for the three-year period is verified in order to determine the number of shares to be set aside for each instalment;
- > from the 2015-2017 cycle, a lock-up restriction is envisaged for the shares assigned, applicable to 50% of the shares for one year from assignment and to 50% after two years from assignment;
- > malus and claw-back clauses have been included and a minimum access gate set for each tranche.

The new plan may be classified as an equity-settled transaction and therefore within the scope of IFRS 2.

IFRS 2, in the new formulation endorsed by Commission Regulation (EU) No. 244/2010 of 23 March 2010, includes a specific section governing share-based payment transactions between group entities (paragraphs 43B-43C and B45-B61 of the Application Guidance).

In that section, it is specified that in share-based payment transactions between group entities, the entity that receives the goods or services must assess whether the cost of the goods or services are to be accounted for as an equity-settled shared-based payment transaction, through a balancing entry to a capital reserve, or on a cash basis, through a balancing entry to a liability.

In this regard, the accounting standard envisages (paragraph 43B) that if the arrangement calls for the shares of the parent company to be granted directly by itself to a subsidiary's employees - and therefore with no action on the part of the subsidiary -, the charge to the profit and loss account will be recognised to an equity reserve through a balancing entry, inasmuch as it is similar to a capital contribution by the parent company.

Given the specific nature of the plans reserved for beneficiaries belonging to the Banking Group, such plans must be assessed individually for components relating to group targets and business targets (for the Banking Group).

More specifically:

- > as it is a pure stock grant, the plan component linked to business unit objectives should be valued exclusively based on the fair value of the Assicurazioni Generali ordinary shares at the grant date;
- > the plan component linked to the Group's objectives includes TSR as an objective, since it qualifies as market condition whose value is included in the fair value of the stock grant.

The total cost of the plan is equal to the sum of the cost calculated for each tranche on the basis of the fair value determined according to the above methods, multiplied by the number of shares that may potentially be granted in respect of the performance condition, the likelihood that the service condition will be met and the achievement of the minimum eligibility threshold. That cost is allocated over a three-year vesting period starting from the grant date, with a balancing entry to a specific equity reserve.

Starting from 2018, the Assicurazioni Generali Group's LTIP was replaced by a new LTI Plan ("LTI BG Plan"), based on Banca Generali S.p.A. shares. The LTI BG Plan is aimed at increasing the value of Banca Generali shares, by further strengthening the link between the remuneration of beneficiaries and performance of the Banking Group, without prejudice to the consistency required with the expected results set forth in the Insurance Group's strategic plan.

The new plan's characteristics are similar to those of the plan implemented by the parent company, with the exception of a greater weight of targets relating to the Banking Group, which are weighted at 80%.

Employee termination indemnities

Employee termination indemnities, which are governed by Article 2220 of the Italian Civil Code, constitute "**post-employment benefits**" as defined in IAS 19 - *Employee Benefits*.

Following the entry into force of Italy's 2007 Finance Law, which brought forward to 1 January 2007 the supplementary pension reform enacted by Italian Legislative Decree No. 252 of 5 December 2005, the portions of employees' termination indemnities accrued starting from 1 January 2007 must - depending on the employees' choice - be allocated to a supplementary pension fund or maintained within the company and - in the case of companies with at least 50 employees - transferred to a special fund managed by Italy's national security institute (INPS).

Accordingly, obligations to employees have taken on a twofold nature from an accounting standpoint:

- > "**a defined contribution plan**" for termination indemnities accrued by personnel starting on 1 January 2007 whether the employee chooses to redirect such amount to a supplementary pension fund or allocate it to the INPS treasury fund. For such portions, the amount recognised amongst staff expenses is determined on the basis of the contributions owed, without the application of actuarial calculation methods. The portions paid to supplementary pension funds are recognised in the specific item, whilst the portions paid to the INPS fund are reclassified to the item "employee termination indemnities" by convention.
- > "**a defined-benefit plan**" for the portion of termination indemnities accrued to personnel through 31 December 2006, which is thus recognised on the basis of the actuarial value of the expected future benefit, determined according to the "**Projected Unit Credit**" method".

According to this method, the amount already accrued is to be increased by the unit amount accrued annually (current service cost) projected into the future through the date of expected termination of employment then discounted to the reference date. The unit amount accrued is also determined on the basis of the employee's entire expected working life.

In the specific case, however, the past liability is assessed without pro-rating past service because the service cost of the termination indemnity has already fully accrued. Accordingly, the annual accrual consists solely of the interest cost relating to the revaluation of the expected benefit due to the passage of time.

The rate used for discounting is determined by reference to market yields on high quality corporate bonds, taking into account the average time-to-maturity of the liability, and calculated using the percentage paid and expected to be paid for each contractual period compared to the total amount to be paid and expected to be paid until the final settlement of the entire obligation.

Considering that IAS 19R requires that the discount rate is to be determined by reference to the yields on “high-quality corporate bonds,” it was decided to use the index IBOXX Euro Corp, formed of AA series.

The plan’s service costs have been recognised amongst staff expenses under the item “provisions for post-employment benefits.”

Following the entry into force of IAS 19R from 1 January 2013, with the aim of improving financial statement comparability, it was decided to eliminate the option of adopting different treatments for **actuarial gains and losses** deriving from the assessment of the obligation, i.e., decreases or increases in liabilities deriving from changes in the parameters used for the actuarial assessment (change in the discount rate, estimate of expected staff turnover rates, salary increases, etc.).

In fact, changes in liabilities due to actuarial assessments are now required to be recognised in full in the other comprehensive income, and thus with a balancing entry to an equity reserve, net of the associated tax effect.

By contrast, in the previous accounting arrangement adopted by the Bank the above item was recognised in the profit and loss account according to the corridor method, i.e., the amount of cumulative actuarial gains/losses resulting at the end of the previous year in excess of 10% of the present value of the benefits generated by the plan.

The elimination of this method entailed an impact on the Bank’s net equity from the date of first-time application of the new Standard due to the recognition of actuarial gains or losses not previously booked in application of the corridor method. Finally, actuarial assessments of the provision are conducted net of the 11% substitute tax and 0.50% contribution, which are thus reclassified to the profit and loss account during the year of accrual under a specific item.

Productivity Bonuses for Salaried Employees

Pursuant to the first update to Circular Letter No. 262/05 of 18 November 2009, productivity bonuses to be paid to salaried employees during the following year are to be allocated to the item “Other liabilities.”

More specifically, in accordance with IAS 19 – *Employee Benefits*, the following are allocated to current liabilities:

- > the share of variable remuneration to be paid to managers and employees for which there are legal obligations that may be reliably estimated, such as bonuses relating to the supplementary company agreement, managerial bonuses associated with balance scorecards (MBO) and other individual incentive plans of a contractual nature, such as those for sales personnel and managers;
- > incentives not subject to contractual agreement for which there is objective evidence of their customary nature, giving rise to a constructive obligation for the bank.

For these items, a reliable estimate has been prepared of the expense owed to staff under the formal conditions of the individually assigned incentive plans and the probability that the quantitative and qualitative targets set out therein will be met.

Pursuant to IAS 19, the Company also recognises among staff expense in the profit and loss account the following types of expenses that do not constitute certain short-term liabilities and thus have the item for provisions for liabilities and contingencies as their balancing entry in equity:

- > the share of the variable remuneration of managers of the Banking Group deferred up to two years, and conditional upon the satisfaction of the access gates requirements established in the Banking Group’s new remuneration policy;
- > the long-term incentive plans authorised by the parent company Assicurazioni Generali for the benefit of the Group’s top managers and adopted by Banca Generali’s Board of Directors, analysed in greater detail in the following paragraph.

By contrast, it was determined that the requirements set forth in IAS 19 had not been met in the following cases:

- > incentives for employees that have yet to be formally defined at the date of approval of the financial statements and are of a non-customary nature;
- > provisions for post-employment medical benefits of Group executives;
- > allocations intended to support company restructuring and reorganisation plans and other expenses associated with the classification of staff still to be determined at the date of authorisation of publication of the financial statements.

Such expenses are therefore attributed in their entirety to the item for provisions for liabilities and contingencies.

Expenses functionally related to staff

In accordance with IAS 19, under item 160 a) Staff expenses are recognised exclusively costs representing remuneration for professional services rendered, thus excluding those representing pure reimbursement of the expenses incurred by the employee for the benefit of the enterprise in the performance of professional activity.

Accordingly, indirect expenses functionally related to activity performed by staff are recognised under item 160 b) Other general and administrative expenses. Such expense also include:

- a) documented, specific reimbursements of the costs of room and board incurred by employees during business trips;
- b) documented, specific mileage reimbursements, calculated on the basis of rates recognised as valid (e.g., Automobile Club d'Italia) and the mileage actually travelled;
- c) costs of check-ups conducted when staff are hired and the costs of compulsory examinations of staff required by law.

By contrast, amongst other items, the costs of professional refresher courses for employees continue to be recognised under staff expenses.

Recognition of revenues and costs

Revenues are recognised when they are realised or when it is probable that the related future benefits will be received and such benefits can be reliably measured. More specifically:

- > interest payable is recognised on a pro-rated basis according to contractual interest rate, or the effective interest rate if amortised cost is used;
- > default interest accrued on the basis of contractual terms is recognised in the profit and loss account only when received;
- > dividends are recognised in the profit and loss account when dividend payout is approved;
- > service revenue commissions are recognised, on the basis of the existence of contractual agreements, during the period in which the services in question are rendered; in further detail, trading commissions on securities trading are recognised when the service is rendered. Portfolio management, advisory and mutual fund management commissions are recognised according to the length of the service. Commissions considered among amortised cost for the purposes of determining the effective interest rate are excluded and are recognised among interest.

Costs are taken through profit or loss during the periods in which the associated revenues are recognised. If the above matching can only be done generally or indirectly, then the costs are allocated to more than one accounting period according to rational procedures and on a systematic basis. Those costs that cannot be matched with the related revenues are immediately taken through profit and loss.

Calculation of impairment losses

Impairment losses of financial assets

At each reporting date, in accordance with IFRS 9, financial assets other than those at fair value through profit or loss are tested for evidence that their carrying amounts may not be fully recoverable. Similar tests are also performed for loan commitments and guarantees issued that come within the scope of impairment testing pursuant to IFRS 9.

Where such evidence of impairment exists, the financial assets in question are considered impaired and included in stage 3, along with all remaining assets associated with the same counterparty, if any. Such exposures, represented by financial assets classified, in accordance with Bank of Italy Circular No. 262/2005, as bad loans, unlikely-to-pay loans and exposures past due by more than 90 days must be accounted for by recognising impairment losses equivalent to the expected losses over their entire residual lifetimes.

Impairment losses of performing financial assets

For financial assets for which there is no evidence of impairment (performing financial instruments), it must be verified whether there are any indicators that the credit risk associated with each transaction has increased significantly with respect to initial recognition. The consequences of this assessment, from the standpoint of classification (or, to be more precise, "staging") and measurement, are as follows:

- > where such indicators exist, the financial asset is classified as stage 2. In such cases, in accordance with international accounting standards, and despite the absence of a manifest decline in value, measurement involves recognising impairment losses equal to the expected losses over the financial instrument's entire residual lifetime;
- > where such indicators do not exist, the financial asset is classified as stage 1. In such cases, in accordance with international accounting standards, and despite the absence of a manifest decline in value, measurement involves recognising impairment losses equal to the expected losses for the specific financial instrument over the following twelve months.

Such impairment losses are revised on each subsequent reporting date to verify periodically that they are consistent with constantly updated loss estimates and to take account of the changed forecasting period for calculating expected loss, in the event of changes in indicators signalling "significantly increased" credit risk.

With regard to the tracking of credit quality, in accordance with the provisions of the Standard and the Supervisory Authority's instructions as to how to apply the Standard in the case of less significant institutions, a detailed analysis was conducted for each relationship, whether in the form of a security or a loan.

To identify whether there has been a "significant deterioration" of credit quality since initial recognition and there is thus a need for classification to stage 2 and, vice versa, whether the conditions have been met for reclassification from stage 2 to stage 1, it has been decided to make a comparison, at each reporting date, between the credit quality of the financial instrument at the time of measurement and at the time of initial disbursement or purchase (stage assignment).

In view of the above, the factors that will be decisive when determining transitions between the various stages are as follows:

- > a change in rating class with respect to the moment of initial recognition of the financial asset. In other words, this is an assessment according to a "relative" criterion;

- > the presence of a position past due by at least 30 days. Where such positions exist, in other words, the credit risk of the exposure is presumed to have increased significantly and the position is thus reclassified to stage 2;
- > the presence of forbearance measures, which entail the classification of the exposure as among those whose credit risk has “significantly increased” with respect to initial recognition.

Some particular considerations apply to the staging of securities. In the case of this type of exposure - as opposed to loans - purchase transactions following an initial purchase of securities with the same ISIN may be a customary part of ordinary management of such positions (resulting in the need to establish an approach to identify sales and redemptions to determine the residual balances of individual transactions with which to associate a credit quality/rating upon origination to be compared with that as at the reporting date). The “first-in-first-out” (“FIFO”) method has thus been deemed to contribute to more transparent management of the portfolio, including from the standpoint of front-office personnel, thus also permitting assessments of creditworthiness to be updated constantly on the basis of new purchases.

Finally, Banca Generali has adopted the low credit risk exemption provided for in IFRS 9 for certain financial assets, namely debt instruments issued by governments and public administrations. Accordingly, exposures that are rated investment grade or above as at the reporting date will be deemed low credit risk exposures and thus classified to stage 1.

Once exposures have been allocated to the various credit risk stages, expected credit losses (ECLs) are determined for each transaction or tranche of a security, on the basis of the parameters of probability of default (PD), loss given default (LGD) and exposure at default (EAD).

The measurement of financial assets also reflects the best estimate of the effects of future conditions - above all those of the economic context - with an impact on forward-looking PD and LGD.

Impairment losses of non-performing financial assets

Non-performing loans classified to the bad loan category are measured as follows:

- > individual measurement of all exposures classified as bad loans;
- > individual measurement of all exposures classified as unlikely-to-pay (UTP) and past-due of amounts in excess of 10 thousand euros and secured positions under 10 thousand euros;
- > statistical measurement for all positions classified as unlikely-to-pay (UTP) and past-due below the above thresholds.

Individual measurement is performed by managers on individual positions on the basis of a qualitative and quantitative analysis of the debtor’s financial performance and position, the risk level of the credit relationship and any mitigating factors (guarantees), while also taking account of the financial effect of the time estimated to be necessary for recovery.

In the case of bad loans in particular, significance is attached to a series of elements - present to varying degrees depending on the characteristics of the positions - to be assessed as thoroughly and prudently as possible, including, but not limited to:

- > the nature of the claim, i.e., preferred or unsecured;
- > the net assets of the obligors/third party guarantors;
- > the complexity of ongoing or potential litigation and/or the underlying legal matters;
- > exposure of obligors to the banking system and other creditors;
- > most recent available financial statements;
- > legal status of obligors and pending insolvency and/or individual procedures.

Statistical assessments are conducted on the basis of the parameters set out in the ECB guidelines. Residual exposures of amounts beneath a predetermined threshold are written off.

The financial effect of time (time value) is not taken into account for exposures classified as past due by more than 90 days due to the high frequency of return to performing status in the short term.

Contributions to deposit guarantee systems and resolution mechanisms

Through Directives 2014/49/EU of 16 April 2014 and 2014/59/EU of 15 May 2014, respectively the “Deposit Guarantee Schemes Directive (DGSD)” and “Bank Recovery and Resolution Directive (BRRD)” and the institution of the Single Resolution Mechanism (Regulation (EU) No. 806/2014 of 15 July 2014), European lawmakers made significant changes to the rules concerning banking crises with the strategic aim of strengthening the single market and ensuring systemic stability. As illustrated in further detail below, the above legislative changes had a significant impact on financial performance and financial position as a result of the obligation to establish specific funds with financial resources that must be provided by contributions from financial institutions starting in 2015.

Contributions deriving from the Deposit Guarantee Schemes Directive (DGS)

Directive 2014/49/EU, effective as of 3 July 2015, harmonises the levels of protection offered by national deposit guarantee schemes (DGSs) and their methods of intervention, with the aim of eliminating possible competitive disparities within the European market. To that end, the Directive provides that national DGSs (in Italy, the Interbank Deposit Protection Fund or FITD) must endow themselves with means commensurate to the deposits protected, which must be provided through mandatory contributions from financial institutions. The new element for Italian banks is the new mechanism for financing the fund: the previous after-the-fact contribution system, in which funds were requested in case of need, has been replaced by a mixed system, in which funds must be paid in advance, so as to reach, within ten years of the entry into force of the Directive (3 July 2024), a minimum target level of **0.8% of the deposits guaranteed**.

The contributions from each entity are calculated as a function of the ratio of the amount of own deposits to the total protected deposits in the country.

Article 10 of Directive 2014/49/EU provides that contributions are to be paid by banks with at least annual frequency. In its extraordinary meeting of 26 November 2015, the FITD then amended its Articles of Association to comply with the new contribution rules and regulatory framework.

The Directive was then transposed into Italian law through Legislative Decree No. 30/2016.

Contribution charges deriving from the Bank Recovery and Resolution Directive (BRRD)

Directive 2014/59/EU establishes the new resolution rules, applicable from 1 January 2015 to all European Union banks in a state of current or prospective default. These rules, which introduce the “bail-in” principle, require, under certain circumstances, that funding for resolution may also be supported by a national resolution fund instituted by each of the 28 European Union Member States and managed by a national resolution authority.

To that end, the Directive provides that the national resolution funds be endowed with financial means provided through mandatory advance contributions from authorised financial institutions.

In particular, the funds are to be paid in advance until reaching a minimum target level, over a period of ten years, i.e., by 31 December 2024, **of 1% of guaranteed deposits**³. The contributions from each entity are calculated as a function of the ratio of its total eligible liabilities, i.e., net of own funds and the guaranteed deposits, to the total liabilities of all authorised financial institutions in the country.

In this context, on 16 November 2015 Legislative Decrees 180/2015 and 181/2015 were enacted, introducing the National Resolution Fund into the Italian legal order and assigning the Bank of Italy the role of National Resolution Authority.

In particular, Articles 78 and following of Legislative Decree 180/15 provide that such funds are to be financed by, among other sources:

- a) ordinary contributions paid on an annual basis in the amount determined by the Bank of Italy in accordance with Directive 2014/59/EU (Article 103) and commensurate for the purposes of reaching the fund's target funding level;
- b) extraordinary contributions when ordinary contributions are insufficient to cover losses, costs or other expenses incurred to achieve resolution objectives, up to an amount of three times annual average ordinary contributions.

The new European Single Resolution Fund (SRF) provided for in Regulation No. 806/2014, instituting the Single Resolution Mechanism (SRM) and managed by a new European resolution authority, formed within the ECB (Single Solution Board – SRB), began to function on 1 January 2016.

From 1 January 2016 to 31 December 2023 (a period of eight years), the Single Resolution Fund must reach a target level of means of at least 1% of the amount of the protected deposits of all authorised entities in the banking union. The contribution rules for the period 2016-2023 are established in Article 8 of Implementing Regulation 81 of 2015.

Accordingly, the banks of Member States of the Banking Union (including Italian banks) contributed to the National Resolution Fund in 2015 and contributed to the Single Resolution Fund starting in 2016 (until 2023). During the initial period, when calculating each institution's individual contributions, this transfer will be taken into account.

Accounting treatment of contribution charges deriving from the BRRD and DGSD

The accounting and reporting treatment applicable to contributions to resolution funds was the subject of the Bank of Italy's notice dated 20 January 2016, as well as of a notice dated 25 January 2017 specifically relating to “Additional contributions to the national resolution fund”.

Similar conclusions were reached by ESMA in its Opinion 2015/ESMA/1462 “Application of the IFRS requirements in relation to the recognition of contributions to Deposit Guarantee Schemes in IFRS accounts” of 25 September 2015 with regard to non-reimbursable cash contributions to be paid in advance into deposit guarantee funds.

For financial reporting purposes, reference should be made to IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets* and the Interpretation IFRIC 21 - *Levies*, which entered into force on 1 January 2015.

The Interpretation concerns the accounting treatment of a liability for a levy where the liability falls within the scope of application of IAS 37.

As defined in IFRIC 21, “a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation”.

Obligations to contribute to the National Guarantee Fund, in both ordinary and extraordinary form, are imposed by legislation, and thus fall within the scope of “levies” as defined in IFRIC 21.

IAS 37 and IFRIC 21 provide that a liability must be recognised when the obligating event that gives rise to a present obligation occurs. Since the decree does not provide for contributions to be reduced or refunded to intermediaries, in whole or in part, whenever the obligating event occurs the liability relating to the contributions in question must be recognised for the full amount.

Since it is not possible to account for the liability through either an intangible asset pursuant to IAS 38 or a prepayment asset, the contributions must be recognised in profit and loss.

³ Also in this case, in order to achieve the target level, the financial means provided by the credit institutions may include payment commitments up to a maximum of 30%.

In this regard, the Bank of Italy has clarified that the item to which to classify such contributions, which for accounting purposes may be regarded as levies, is sub-item 160 b “General and administrative expense – other general and administrative expense” of the profit and loss account in the separate financial statements (item 190 b) of the consolidated financial statements), which is also used to account for the indirect levies and taxes (paid and unpaid) accrued during the year.

Business combinations

Business combinations are regulated by the IFRS 3 - *Business Combinations*.

Based on this standard, any acquisition of companies is accounted for using the purchase method, whereby the assets, liabilities, and contingent liabilities of the acquired company are recognised at fair value on the acquisition date. Any positive difference of the price paid over fair value is recognised as goodwill or other intangible assets; if the price is less, the difference is recognised in the Profit and Loss Account.

The purchase method is applied as of the acquisition date, i.e. from the time effective control of the acquired company is obtained. Accordingly, the results of subsidiaries acquired during the year are included in the Consolidated Financial Statements from the date of acquisition. Also the profit and loss results of a subsidiary which has been disposed of are included in the Consolidated Financial Statements, up to the date control is transferred.

Business combinations of entities under common control are not included in the scope of IFRS 3, nor are they covered by other IFRS. They are accounted for in accordance with IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*.

The IASs/IFRSs provide specific guidelines for transactions not covered by IFRS (described in paragraphs 10-12 of IAS 8); according to these guidelines, management is encouraged to consider the most recent pronouncements of other regulatory bodies that use a similar conceptual framework to define accounting standards.

In fulfilment of this requirement, we observed that the Financial Accounting Standards Board (FASB) has published an accounting standard regarding business combinations (FAS 141) that in some respects is similar to IFRS 3. Unlike IFRS 3, however, FAS 141 includes an appendix containing limited accounting guidelines for transactions under common control that were previously included in the Accounting Principles Board’s (APB) Opinion 16. According to the pooling of interest method, for this type of transaction the assets and liabilities of business combinations are stated at historical (book) value instead of fair value, and goodwill is not recognised.

This solution was essentially adopted at national level by Assirevi, with documents OPI No. 1R on the accounting treatment of business combinations of entities under common control, and OPI No. 2R on the accounting treatment of mergers.

Intra-group combinations or other combinations of entities under common control within the Banca Generali Group are therefore accounted for based on the book value of the entity transferred. Any difference between the consideration paid for the acquisition of the equity interest and the book value of the entity transferred (goodwill) is deducted from the net equity of the acquirer, and the transaction is classified as an extraordinary distribution of reserves.

In a similar way, if an entity is disposed of, the amount received is directly recognised in an equity reserve, as it is a capital contribution by other companies of the Group to which it belongs.

Part A.4 – Information on fair value

With the introduction of IFRS 13, the definition of **fair value** has been modified with respect to IAS 39, in view of a more market-based approach.

According to the new standard, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value is thus not an entity-specific measurement, but rather a market-based measurement.

In detail, measurement at fair value:

- > presumes that the asset or liability is exchanged in an orderly transaction between market operators under current market conditions;
- > refers to a particular asset or liability and must take account of the characteristics of the asset or liability that market participants take into account when pricing the asset or liability;
- > assumes that market participants act in their economic best interest;
- > assumes that the sale of the asset or the transfer of the liability takes place:
 - a) in the principal market for the asset or liability; or
 - b) in the most advantageous market, in the absence of a principal market.

Fair value hierarchy

International accounting standard IFRS 13 requires that financial assets be classified according to a hierarchy of levels (the “fair-value hierarchy”) that reflects the significance of the inputs used in valuation.

- > **Level 1:** quoted prices in active markets, as defined in IFRS 13, for identical instruments;
- > **Level 2:** inputs other than the price quotations indicated above, observable on the market either directly (prices) or indirectly (price-derived data) (Level 2);
- > **Level 3:** inputs not based on observable market data.

For the purposes of the fair value hierarchy, inputs may thus be classified as:

- > **observable**, when the information used in the measurement techniques is based on market data obtained from sources independent of the Bank and available on the market;
- > **unobservable**, when they reflect assumptions by the Bank reached by drawing on the best available information in such circumstances.

Valuation criteria of the fair value of financial instruments

In 2010, Banca Generali adopted its Fair Value Policy, which sets out the procedures for measuring the fair value of financial instruments and entrusts responsibility for the measurement process to the Finance Department and review and validation of the data to the Risk Management Service.

The procedure lays down a decision-making process aimed at identifying the best measurement method in the context of the classification of available price sources in the three levels of the fair-value hierarchy.

The fair value of financial instruments is determined through the use of prices obtained from capital markets, if the instruments are quoted on active markets (the mark-to-market policy) or through the use of valuation procedures for other financial instruments (the mark-to-model policy), based on the analysis of recent transactions involving similar instruments (comparable approach) or, failing the latter, on valuation models.

When determining a financial instrument's fair value, it is thus fundamental to verify whether the market on which that instrument is traded may be considered active, i.e., whether the quoted prices observed represent actual, regular market transactions undertaken during a normal reference period and are promptly and regularly available through exchanges, intermediaries, brokers, industry companies, quotation services and other authorised entities.

Equity securities, exchange-traded funds (ETFs), government bonds listed on regulated markets and financial derivatives listed on regulated markets are normally considered to be listed on an active market that meets the foregoing requirements.

However, quotation on a regulated or official market does not in itself guarantee the presence of significant prices owing to the limited, sporadic nature of transactions (illiquid securities) on certain securities exchanges, such as that of Luxembourg, whereas there are market types that are unregulated yet show significant daily exchanges in terms of volumes that are suitable to providing prices on an ongoing basis.

Accordingly, most bonds are considered listed on an active market if objective parameters such as the following may be observed:

- > an adequate number of counterparties that presents a minimum number of executable ask and bid offers;
- > a spread between the ask and bid price that falls within an interval deemed appropriate; and
- > continuity of quotations on both sides of the market.

For financial instruments listed on active markets, the current bid price is used for financial assets and the current ask price for financial liabilities.

For equity securities, ETFs and government bonds listed on regulated markets, for which the bid-ask spread is not material, the official closing price for the last trading day is also used.

A.4.1 Fair value Level 2 and Level 3: valuation techniques and inputs used

Financial instruments measured at fair value on a recurring and non-recurring basis

For securities not listed on active markets, the procedure calls for the analysis of:

1. prices of similar instruments quoted on active or inactive markets; and
2. inputs other than quotations observable directly or indirectly on the market.

The first category includes bonds that do not meet the price significance requirements for classification as listed on an active market but for which it is determined that there is:

1. a single contributor on a regulated market or exchange system capable of providing a fair, binding price at the measurement date;
2. a consensus pricing mechanism capable of determining the fair value, for example:
 - Bloomberg Bondtrade Composite (CBBT/BBT), which provides prices constructed as the average of the most recent executable prices;
 - Bloomberg Generic Number (BGN), which represents Bloomberg's market consensus price and is calculated using the prices contributed to Bloomberg;
 - Markit European ABS, a consensus platform for measuring ABS-type instruments;
3. a reference to current market values of other essentially identical or similar instruments.

UCITS not listed on regulated markets are usually not considered listed on active markets and are valued at the unit value (NAV) at the end of the period in question.

Since it is impossible or inappropriate to use the comparable approach for OTC financial derivatives, the Group uses widespread valuation techniques commonly used by financial operators, including:

- > the analysis of discounted cash flows;
- > option pricing models.

Lastly, the class L3 of financial instruments measured according to non-observable market parameters includes securities measured according to prices and market data obtained from brokers.

Level 3 also includes certain financial instruments measured at cost in the absence of reliable estimates of fair value. These consist mainly of "minor equity investments" in companies with which the Group has service relationships, and disposal of which is not conceivable (CSE, GBS Caricese, SWIFT, etc.).

Other financial assets and liabilities not measured at fair value on a recurring basis

The fair value and hierarchical classification of financial assets other than debt securities, equity securities and units of UCITS, as well as of financial and operating receivables classified amongst loans to banks and customers, are determined as follows.

On-demand and uncommitted financial assets and financial assets with residual lives of less than one year

The fair value of this class of assets, which essentially consists of uncommitted current account exposures, on-demand deposits or short-term time deposits, as well as operating receivables, is not believed to differ significantly from its carrying amount. Considering that the measurement process does not contemplate significant unobservable inputs, such instruments are typically classified as L2.

Assets with fixed contractual lives included in the financial portfolio

This class of assets consists primarily of medium- or long-term mortgages or loans with financial instruments as collateral.

The fair value of loans with amortisation schedules is calculated according to a discounted cash flow model that calls for the cash flows expected on the basis of the contractual amortisation schedule to be discounted at the proper rate for the risks associated with the instrument. This correction consists of a spread to be added to the risk-free discount rate for the cash flows.

The spread in question is to be defined in such a way as to include the following components of risk:

- > the cost of credit risk (the cost of covering expected losses in relation to credit risk);
- > the cost of funding (the cost of funding positions);
- > the cost of capital (the cost of covering unexpected losses in relation to credit risk);
- > operating costs (any other costs, specific to the type of loan, that are to be considered in the exit price).

The cost of credit risk is calculated on the basis of multi-period historic PDs related to the rating of the counterparty in the transaction and the LGD specific to the type of instrument.

Loans with a fixed contractual maturity are classified to Level 3 of the fair value hierarchy, in consideration of the significant presence of unobservable inputs (spreads determined on the basis of internal PD and LGD).

Non-performing loans

When bad loans, unlikely-to-pay loans and other non-performing past-due exposures are separately assessed, their book value is believed to be a reasonable approximation of their fair value. Such loans are classified to Level 3 of the fair value hierarchy.

Other financial liabilities

Financial liabilities classified as amounts due to customers and banks consist mainly of on-demand current account deposits, short-term time deposits and operating payables.

Such liabilities also include repurchase agreements that are set to mature within the year and, in the case of interbank funding, fully collateralised, with the determination of daily margins of change.

Such financial liabilities are subject to fair value measurement criteria similar to those applied to other on-demand or uncommitted financial assets.

A.4.2 Processes and sensitivity of measurements

For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the new standard IFRS 13 requires a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement.

The unobservable inputs capable of affecting the measurement of instruments categorised within Level 3 consist mainly of estimates and assumptions underlying the models used to measure investments in equities and other UCITS. For such investments, no quantitative analysis has been prepared of the sensitivity of the fair value to changes in unobservable inputs, given that the fair value either has been drawn from third sources without any adjustments or is the result of a model, the inputs to which are specific to the entity subject to measurement (for example, the company's asset values) and for which the use of alternative values is not reasonably feasible.

The case in question does not apply to Level 3 financial instruments classified as assets measured at OCI and FV-OCI. The reader is referred to the detailed analysis of individual positions provided in the subsequent section concerning quantitative information.

A.4.3 Fair value hierarchy

The new IFRS 13, recalling the contents of IFRS 7, requires that entities that apply IASs/IFRSs make adequate disclosure of the fair value measurements used for each class of financial instruments, and in particular:

- 1) the level in the fair value hierarchy into which the fair value measurements are categorised, segregating instruments belonging to different categories;
- 2) any significant transfers between Level 1 and Level 2 during the year;
- 3) for instruments measured in Level 3, a reconciliation from the beginning balances to the ending balances, disclosing separately changes in profit and loss (in the Profit and Loss Account and net equity), purchases and sales, and transfers out of Level 3 due to the use of market data.

Transfers between levels refer to the end of the accounting period of reference (half-yearly or annual), in an independent manner, and generally enter into effect from the beginning of the year of reference.

Transfers to and from Level 3 are infrequent and primarily involve the occurrence of situations of default in which the Bank's subjective assessment of the recoverability of the debt takes pre-eminence.

A.4.4 Other information

No cases envisaged in IFRS 13, paragraphs 48, 93(i) and 96, occur in these Financial Statements.

In the reporting year, no significant transfers of financial assets were performed between class L1 and class L2.

A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (level L3)

	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
	TOTAL	OF WHICH: A) HFT FINANCIAL ASSETS	OF WHICH: B) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	OF WHICH: C) OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE	
1. Amount at year-start	9,636	-	-	9,636	7,932
2. Increases	3,202	-	-	3,202	1,497
2.1 Purchases	2,312	-	-	2,312	1,492
2.2 Gains through:	96	-	-	96	-
2.2.1 Profit and loss	96	-	-	96	-
- of which: capital gains	-	-	-	-	-
2.2.2 Net equity	X	X	X	-	-
2.3 Transfers from other levels	794	-	-	794	-
2.4 Other increases	-	-	-	-	5
3. Decreases	10,500	-	-	10,500	428
3.1 Disposals	9,562	-	-	9,562	21
3.2 Redemptions	-	-	-	-	407
3.3 Losses through:	938	-	-	938	-
3.3.1 Profit and loss	938	-	-	938	-
- of which: capital losses	938	-	-	938	-
3.3.2 Net equity	X	X	X	-	-
3.4 Transfers to other levels	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-
4. Amount at year-end	2,338	-	-	2,338	9,001

L3 financial assets in the portfolio of Other financial assets mandatorily measured at fair value consist of two capital contributions to the FITD Voluntary Scheme:

- > the first, made in December 2017, and originally amounting to 1,053 thousand euros, for the purchase of the junior tranche and a portion of the mezzanine tranche of the securitisation of the Caricesena NPLs as part of the second rescue intervention for this latter bank. This contribution, already written down by 883 thousand euros at the end of 2017, was subject to a further impairment loss at the end of 2018, thus reaching a value of 121 thousand euros;
- > the second, made in December 2018 for the Banca Carige intervention, for a contribution of 2,312 thousand euros. At year-end this contribution was written down by 95 thousand euros, resulting in a closing balance of 2,217 thousand euros.

The considerable decline in other financial assets mandatorily measured at fair value level L3 compared with the previous year (-7.3 million euros) was due to the disinvestment in the first half of 2018 from Quarzo CLI, a residential mortgage securitisation programme (RMBSs) originated by Mediobanca and Morgan Stanley involving the assets of the Scarlatti Real Estate Fund, promoted by Assicurazioni Generali.

By contrast, L3 financial assets in the portfolio of Financial assets at fair value through other comprehensive income, for a total amount of 9,001 thousand euros, consist of:

- > the investment in the private-equity special purpose entity Athena Private Equity (0.2 million euros), which is currently in the course of liquidation and repayment, had already become impaired in previous years;
- > some equity investments continued to be measured at purchase cost, in the absence of reliable estimates of fair value. In detail:
 - a) the so-called “minor investments” in companies with which the Bank has long-term service arrangements (CSE, GBS, Caricese, SWIFT, etc.) or commercial partnerships (Tosetti Value), for a total of 7.7 million euros. In 2018, in particular, the Tosetti Value investment was increased by approximately 1.1 million euros;
 - b) the contributions to film production ventures with Tyco film S.r.l., Fabula Pictures S.r.l., Eskimo S.r.l., already held in portfolio as of 1 January 2018, to which two were added in 2018, with the companies Zocotoco S.r.l. and Palomar S.p.A., for a total amount of about 1 million euros.

A.4.5.4 Breakdown by fair-value levels of assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis

FINANCIAL ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31.12.2018			
	BV	L1	L2	L3
1. Financial assets at amortised cost	6,095,915	3,509,405	1,646,758	875,008
2. Property and equipment held as investments	-	-	-	-
3. Non-current assets available for sale and disposal groups	-	-	-	-
Total	6,095,915	3,509,405	1,646,758	875,008
1. Financial liabilities at amortised cost	8,706,397	-	8,663,116	44,210
2. Liabilities associated to assets held for sale	-	-	-	-
Total	8,706,397	-	8,663,116	44,210

FINANCIAL ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31.12.2017			
	BV	L1	L2	L3
1. Financial assets at amortised cost	3,218,070	1,053,382	1,275,368	938,840
2. Property and equipment held as investments	-	-	-	-
3. Non-current assets available for sale and disposal groups	-	-	-	-
Total	3,218,069	1,053,382	1,275,368	938,840
1. Financial liabilities at amortised cost	7,958,931	-	7,915,661	45,656
2. Liabilities associated to assets held for sale	-	-	-	-
Total	7,958,931	-	7,915,661	45,656

Part A.5 – Disclosure about so-called “Day-one profit/loss”

IFRS 7, paragraph 28, governs the specific case in which, following the purchase of a financial instrument designated at fair value but not listed on an active market, the transaction price, which generally represents the best estimate of fair value at initial recognition, differs from the fair value according to the valuation technique used by the entity.

In this case, there is a valuation gain/loss upon acquisition of which adequate disclosure must be given by financial instrument class.

It should be noted that no such cases occur in the Financial Statements in question.

PART B – INFORMATION ON THE BALANCE SHEET⁴ ASSETS

Section 1 – Cash and deposits - Item 10

1.1 Breakdown of cash and deposits

	31.12.2018	31.12.2017
a) Cash	21,016	17,862
b) Demand deposits with Central Banks	991,874	545,632
Total	1,012,890	563,494

Item b) Demand deposits with Central Banks represents the portion of the balance of the settlement account held with the Bank of Italy that is not restricted according to the mandatory reserve rules.

Section 2 – Financial assets measured at fair value through profit or loss - Item 20

2.1 HFT financial assets: categories

ITEMS/VALUES	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	958	32,429	-	2,998	35,865	9,466
1.1 Structured securities	-	29,557	-	-	30,683	-
1.2 Other debt securities	958	2,872	-	2,998	5,182	9,466
2. Equity securities	1	-	-	799	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	959	32,429	-	3,797	35,865	9,466
B. Derivatives						
1. Financial	-	499	-	125	561	-
1.1 Trading	-	499	-	125	561	-
1.2 Related to the fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-
2.2 Related to the fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Total B	-	499	-	125	561	-
Total (A + B)	959	32,928	-	3,922	36,426	9,466

⁴ Part A.4 Information of Fair Value of these Notes and Comments provides a more detailed analysis of the classes of the Fair Value hierarchy of financial instruments (L1,L2,L3).

2.2 HFT financial assets: debtors/issuers/counterparties

ITEMS/VALUES	31.12.2018	31.12.2017
A. Cash assets		
1. Debt securities	33,387	48,329
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	32,383	37,892
d) Other financial companies	1,004	10,437
of which:		
- insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	1	799
a) Banks	-	1
b) Other financial companies	-	242
of which:		
- insurance companies	-	242
c) Non-financial companies	1	556
d) Other issuers	-	-
3. UCITS units	-	-
4. Financing	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which:		
- insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	33,388	49,128
B. Derivatives		
a) Central counterparties	-	-
b) Other	499	686
Total B	499	686
Total (A + B)	33,887	49,814

2.5 Other financial assets mandatorily measured at fair value: categories

ITEMS/VALUES	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	3,031	-	-	-	-
1.1 Structured securities	-	3,031	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	903	-	2,338	-	-	-
3. UCITS units	-	32,822	-	-	-	-
4. Financing	-	17,659	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	17,659	-	-	-	-
Total	903	53,512	2,338	-	-	-

2.6 Other financial assets mandatorily measured at fair value: debtors/issuers

ITEMS/VALUES	31.12.2018	31.12.2017
1. Equity securities	3,241	-
<i>of which:</i>		
- banks	-	-
- other financial companies	903	-
- other non-financial companies	2,338	-
2. Debt securities	3,031	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	3,031	-
d) Other financial companies	-	-
<i>of which:</i>		
- insurance companies	-	-
e) Non-financial companies	-	-
3. UCITS units	32,822	-
4. Financing	17,659	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	17,659	-
<i>of which:</i>		
- insurance companies	17,659	-
e) Non-financial companies	-	-
f) Households	-	-
Total	56,753	-

Upon FTA of the new accounting standard IFRS 9, the following were reclassified to the portfolio of financial assets mandatorily measured at fair value: equity securities and units of UCITS, mostly originating from the portfolio of financial assets available for sale (AFS), amounting to 46,128 thousand euros, debt securities previously measured at amortised cost that did not pass the SPPI test and a portfolio of investments in insurance policies in service of contractual obligations towards financial advisors, previously classified among loans to customers.

The UCITS portfolio included 22,414 thousand euros related to an interest of about 8% in Tyndaris European Real Estate Finance S.A. (TECREF), an alternative fund under Luxembourg law, which through the master/feeder fund invests in financial instruments linked to the European business real estate market, particularly in mezzanine instruments. The residual UCITS portfolio is comprised for 4,127 thousand euros of the investment in the Luxembourg vehicle Algebris, for 6,024 thousand euros of the units of the Tenax Italian Credit Fund, managed by the Irish firm Tenax Capital Ltd., and for the remainder 257 thousand euros of investments in the fund BNP Paribas Bond Italy PMI, specialised in mini-bonds. In the first half of 2018, the units of sub-funds of Group's Sicav BG Selection Sicav were sold. At 31 December 2017, they amounted to 2,105 thousand euros.

In particular, **equity securities** include all equity investments in shares of the parent company, Assicurazioni Generali (903 thousand euros).

In addition, the fair value of the equity investment in Axelero was also reduced to zero during the year in view of a decline in credit quality, following the suspension of the company for trading on the AIM market and the commencement of the composition with creditors procedure (794 thousand euros).

In the equity securities portfolio also the capital contribution, in the original amount of 1,053 thousand euros, made to the Interbank Deposit Protection Fund (FITD) for the purchase of the junior tranche and a portion of the mezzanine tranche of the securitisation of the Caricesena NPLs, as part of the second rescue intervention for this latter bank, was reallocated. This contribution – already subject to an impairment loss of 883 thousand euros at the end of 2017 – became further impaired at the end of 2018, reaching a value of 121 thousand euros.

In December 2018, Banca Generali participated in the new intervention by the Voluntary Scheme of the Interbank Deposit Protection Fund targeting Banca Carige aimed at subscribing for a Tier 2 subordinated convertible bond, paying a contribution of 2,312 thousand euros.

On 19 January 2019, the Interbank Deposit Protection Fund sent member banks a notice regarding the valuation of the financial assets held by the Voluntary Scheme indicating the fair value as at 31 December 2018 of the bond issued by Carige subscribed by the fund, supported by an independent appraisal from an international consultancy firm. On the basis of this appraisal, an impairment loss of 95 thousand euros was recognised on this contribution to the Voluntary Scheme, bringing the final value of the investment to 2,217 thousand euros.

Section 3 – Financial assets measured at fair value through other comprehensive income - Item 30

3.1 Financial assets measured at fair value through other comprehensive income: categories

ITEMS/VALUES	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,966,450	11,863	-	4,557,000	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,966,450	11,863	-	4,557,000	-	-
2. Equity securities	-	-	9,001	1,493	-	8,103
3. Financing	-	-	-	-	-	-
UCITS units (Other financial assets mandatorily measured at fair value) (*)	-	-	-	-	46,128	-
Total	1,966,450	11,863	9,001	4,558,493	46,128	8,103

(*) This item is no longer considered, in accordance with the 5th update to Bank of Italy's Circular Letter No. 262 of 22 December 2017

3.2 Financial assets measured at fair value through other comprehensive income: debtors/Issuers

ITEMS/VALUES	31.12.2018	31.12.2017
1. Debt securities	1,978,313	4,557,000
a) Central Banks	-	-
b) Public administration bodies	1,736,525	4,465,316
c) Banks	156,790	55,649
d) Other financial companies	72,033	23,173
of which: insurance companies	-	-
e) Non-financial companies	12,965	12,862
2. Equity securities	9,001	9,596
a) Banks	-	-
b) Other issuers	9,001	9,596
- other financial companies	2,323	2,320
of which: insurance companies	-	699
- non-financial companies	6,671	7,269
- other	7	7
3. Financing	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which:	-	-
- insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	1,987,314	4,566,596
UCITS units (Other financial assets mandatorily measured at fair value)	-	46,128

Following the entry into force of IFRS 9, the portfolio of financial assets at fair value through other comprehensive income consists solely of debt securities purchased within the hold to collect and sell (HTCS) business model that pass the SPPI test and equity securities measured at fair value without transfer of gains and losses on disposal to profit or loss.

Item “Debt securities” includes assets sold but not written off, which refer to own securities used in repurchase agreements amounting to 130,909 thousand euros. This item also includes securities committed in transactions on the collateralised interbank market managed by CC&G of 15,096 thousand euros.

The equity securities portfolio includes for 7,731 thousand euros “minor equity investments” and largely related to service agreements concluded by the Group (CSE, GBS Tosetti Value Sim, Caricese, SWIFT, etc.), usually non-negotiable. In the absence of reliable estimates of fair value, those interests are measured at purchase cost.

In 2018, Banca Generali increased its equity interest in Tosetti Value Sim from 9.9% to 19.9% through an investment of 1,110 thousand euros.

This item also refers to capital contributions relating to joint film production ventures, without maturity, in connection with which two new contributions were made during the year with Palomar S.r.l. and Zocotoco S.r.l. for the production of the film “La vita segreta di Maria Capasso” in the total amount of 350 thousand euros. The contributions are covered by a film tax credit and fully secured by collateral and so have not been subject to impairment. The total amount of the contributions in portfolio as at 31 December 2018 therefore amounted to 1,055 thousand euros.

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total adjustments

	GROSS VALUE				TOTAL ADJUSTMENTS			OVERALL PARTIAL WRITE-OFFS
	STAGE 1	OF WHICH: LOW CREDIT RISK INSTRUMENTS	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3	
Debt securities	1,968,676	-	12,875	-	3,074	164	-	-
Financing	-	-	-	-	-	-	-	-
Total at 31.12.2018	1,968,676	-	12,875	-	3,074	164	-	-
Total at 31.12.2017	4,554,939	-	2,061	-	-	-	-	-
<i>of which:</i>								
- <i>acquired or originated impaired financial assets</i>	X	X	-	-	X	-	-	-

In respect of the new model for measuring expected credit losses (ECLs) provided for in IFRS 9, as at 31 December 2018 collective reserves of 3,238 thousand euros had been recognised for the debt securities portfolio, of which 2,736 thousand euros relating to the portfolio of government securities.

Section 4 – Financial assets measured at amortised cost - Item 40

4.1 Financial assets measured at amortised cost: categories of loans to banks

TYPE OF TRANSACTIONS/VALUES	31.12.2018			31.12.2017		
	BOOK VALUE			BOOK VALUE		
	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED
A. Loans to Central Banks	82,714	-	-	67,617	-	-
1. Terms deposits	-	-	-	-	-	-
2. Mandatory reserve	82,714	-	-	67,617	-	-
3. Repurchase agreements	-	-	-	-	-	-
4. Other	-	-	-	-	-	-
B. Loans to banks	317,214	-	-	289,364	-	-
1. Loans	237,782	-	-	196,612	-	-
1.1 Current accounts and demand deposits	218,852	-	-	130,250	-	-
1.2 Term deposits	17,449	-	-	65,938	-	-
1.3 Other loans:	1,481	-	-	424	-	-
- Repurchase agreements	-	-	-	-	-	-
- Finance lease	-	-	-	-	-	-
- Other	1,481	-	-	424	-	-
2. Debt securities	79,432	-	-	92,752	-	-
2.1 Structured securities	-	-	-	3,035	-	-
2.2 Other debt securities	79,432	-	-	89,717	-	-
Total	399,928	-	-	356,981	-	-

TYPE OF TRANSACTIONS/VALUES	31.12.2018				31.12.2017			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
A. Loans to Central Banks	82,714	-	82,714	-	67,617	-	67,617	-
B. Loans to banks	317,214	59,655	257,653	-	289,364	66,403	225,245	-
1. Loans	237,782	-	237,782	-	196,612	-	196,612	-
2. Debt securities	79,432	59,655	19,871	-	92,752	66,403	28,633	-
2.1 Structured securities	-	-	-	-	3,035	-	3,104	-
2.2 Other debt securities	79,432	59,655	19,871	-	89,717	66,403	25,529	-
Total	399,928	59,655	340,367	-	356,981	66,403	292,862	-

4.2 Financial assets measured at amortised cost: categories of loans to customers

TYPE OF TRANSACTIONS/VALUES	31.12.2018			31.12.2017		
	BOOK VALUE			BOOK VALUE		
	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED
1. Loans	2,109,479	36,815	-	1,807,496	72,450	-
1.1 Current accounts	968,637	17,269	-	851,523	43,846	-
1.2 Repurchase agreements	199,937	-	-	-	-	-
1.3. Mortgages	818,689	19,065	-	831,476	28,598	-
1.4 Credit cards, personal loans and loans on wages	-	6	-	-	6	-
1.5 Finance lease	-	-	-	-	-	-
1.6 Factoring	-	-	-	-	-	-
1.7 Other loans	122,216	475	-	124,497	-	-
2. Debt securities	3,549,688	6	-	981,142	-	-
2.1 Structured securities	13,206	-	-	13,545	-	-
2.2 Other debt securities	3,536,482	6	-	967,597	-	-
Total	5,659,167	36,821	-	2,788,638	72,450	-

TYPE OF TRANSACTIONS/VALUES	31.12.2018				31.12.2017			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1 Loans	2,146,294	-	1,285,508	860,708	1,879,946	-	961,523	924,755
2. Debt securities	3,549,694	3,449,750	20,883	14,300	981,142	986,979	20,983	14,085
2.1 Structured securities	13,206	-	-	14,300	13,545	-	-	14,085
2.2 Other debt securities	3,536,488	3,449,750	20,883	-	967,597	986,979	20,983	-
Total	5,695,988	3,449,750	1,306,391	875,008	2,861,088	986,979	982,506	938,840

Item 2.1. "Structured securities" refers to a 14.0 million euro convertible loan issued on 16 December 2015 by Tyndaris LLP, an English fund management company. The bond has a term of six years and may be converted into an interest in Tyndaris LLP at the end of the second year and at final maturity, in an amount not to exceed 2 million GBP at each maturity, and in any event, up to maximum share of 9.9% of the partnership. The loan provides for an interest of 3% for the first two years and subsequently of 7.5%. The bond may be redeemed in advance by the issuer. A collective reserve amounting to about 1.4 million euros was allocated in relation with that position.

The item "Debt securities" includes encumbered assets used as collateral for ECB refinancing operations totalling 218,974 thousand euros and certificates of deposit with Cassa di Compensazione e Garanzia amounting to 199,524 thousand euros.

Item 1.7 "Other loans" includes two operating receivables relating to the placement and distribution of financial and insurance products in the amount of 81,475 thousand euros, consisting solely of short-term receivables from managing companies and insurance companies belonging to the Generali Group, collected in the early months of the following year.

Breakdown of loans to customers - other transactions

TYPE OF TRANSACTIONS/VALUES	31.12.2018	31.12.2017
Other grants and pooled funding	4,567	13,516
Stock exchange interest-bearing daily margin	13,088	3,562
Sums advanced to Financial Advisors	19,395	34,376
Operating loans	81,475	69,089
Interest-bearing caution deposits	995	964
Amounts to be collected	3,171	2,990
Total	122,691	124,497

Pursuant to IFRS 15, paragraph 116 a), the previous table includes the opening and closing balances of receivables within the scope of IFRS 15 (operating receivables and fees receivable).

In reference to paragraph 118 of IFRS 15, the change in receivables during the year - which incidentally, was not material - was due to the Bank's normal operations and therefore is not attributable to changes due to business combinations, contractual amendments or changes in the time required for the right to the consideration to become unconditional.

Sums advanced to Financial Advisors listed on the Register of Financial Advisors include non-performing positions for a net amount of 1,147 thousand euros, largely attributable to advances to former Financial Advisors who have left service due to a dispute or pre-dispute.

4.4 Financial assets measured at amortised cost: loans to customers - debtors/issuers

TYPE OF TRANSACTIONS/VALUES	31.12.2018			31.12.2017		
	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED IMPAIRED ASSETS	STAGE 1 AND STAGE 2	STAGE 3	OF WHICH: ACQUIRED OR ORIGINATED IMPAIRED ASSETS
1. Debt securities	3,549,688	6	-	981,142	-	-
a) Public administration bodies	3,426,593	-	-	859,577	-	-
b) Other financial companies	61,653	-	-	62,619	-	-
<i>of which:</i>						
- insurance companies	-	-	-	-	-	-
c) Other non-financial companies	61,442	6	-	58,946	-	-
2. Loans	2,109,479	36,815	-	1,807,496	72,450	-
a) Public administration bodies	-	-	-	-	-	-
b) Other financial companies	341,975	6,719	-	123,242	6,901	-
<i>of which:</i>						
- insurance companies	29,407	-	-	20,367	-	-
c) Other non-financial companies	305,543	19,573	-	416,022	35,033	-
d) Households	1,461,961	10,523	-	1,268,232	30,516	-
Total	5,659,167	36,821	-	2,788,638	72,450	-

4.5 Financial assets measured at amortised cost: gross value and total adjustments

	GROSS VALUE				TOTAL ADJUSTMENTS			OVERALL PARTIAL WRITE-OFFS
	STAGE 1	OF WHICH: LOW CREDIT RISK INSTRUMENTS	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3	
Debt securities	3,605,067	-	32,193	2,642	6,621	1,519	2,636	-
Financing	2,298,969	-	133,080	49,303	1,245	829	12,488	-
Total at 31.12.2018	5,904,036	-	165,273	51,945	7,866	2,348	15,124	-
Total at 31.12.2017	3,150,749	-	-	89,010	5,220	-	16,560	-
<i>of which:</i>								
- acquired or originated impaired financial assets	X	X	-	-	X	-	-	-

In respect of the new model for assessing expected credit losses (ECLs) provided for in IFRS 9, at 31 December 2018 performing loans at amortised cost, classified to Stage 1 and Stage 2 are recognised net of the collective reserves for a total of 10,214 thousand euros, of which:

- > 8,140 thousand euros relating to the debt securities portfolio;
- > 2,074 thousand euros relating to other loans.

Within this item, losses on exposures to banks amounted to 396 thousand euros, of which 193 thousand euros on debt securities and 198 thousand euros on other loans.

By contrast, the provision for expected losses on debt securities refers to the government bond portfolio in the amount of 6,295 thousand euros.

The item relating to non-performing “Debt securities”, referring solely to the Alitalia bond known as “Dolce Vita”, and amounting to 2,642 thousand euros, was fully written off in 2017 due to the airline’s serious state of crisis, which resulted in a court declaration of the company’s insolvency and the commencement of the extraordinary administration procedure. In the third quarter of 2018, it was subject to a reversal of 6 thousand euros.

The amount of the provision for expected losses on trade receivables, measured in accordance with IFRS 9 5.5.15, is not material in view of the short-term nature of the exposures concerned, all of which were collected in full in the first few months of the following year.

Section 7 – Equity investments - Item 70

7.1 Equity investments: disclosure on type of relations

COMPANY NAME	COMPANY NAME	OPERATING OFFICE	% HELD	% OF VOTING RIGHTS
A. Wholly controlled subsidiaries				
2. BG Fund Management Luxembourg S.A.	Luxembourg	Luxembourg	100%	100%
3. Generfid S.p.A.	Milan	Milan	100%	100%
C. Companies subject to significant influence				
1. IOCA Entertainment Limited	United Kingdom - London	United Kingdom - London	35%	35%

Controlling equity investments – accounting information

	31.12.2018	31.12.2017	CHANGE
BG Fiduciaria Sim S.p.A.	-	11,779	-11,779
Generfid S.p.A.	245	245	-
BG Fund Management Luxembourg S.A.	2,000	2,000	-
Total	2,245	14,024	-11,779

The merger of the subsidiary BG Fiduciaria Sim S.p.A. into Banca Generali, became effective 1 January 2018. For further details on this transaction, reference is made to Part G, Section 1 – Transactions undertaken during the year, of the Notes and Comments.

Companies subject to significant influence – accounting information

	31.12.2018	31.12.2017	CHANGE
IOCA Entertainment Limited	2,200	2,200	-
Total	2,200	2,200	-

Reference is made to IOCA Entertainment Ltd., a company based in the United Kingdom, in which Banca Generali subscribed a 35% interest, in the form of 3,500 shares with a par value of 1.00 pound sterling each, for a total of 1,616,125 pounds sterling, equivalent to approximately 2.2 million euros at the acquisition date, 19 October 2015. In accordance with the Shareholders’ Agreement, the company’s Board of Directors is composed of three Directors, one of whom is a senior manager of Banca Generali. The remaining 65% interest (6,500 shares) is held by the UK-based company IOCA Ventures Ltd. (Jersey), which is entitled to appoint the other two directors.

The company is an e-commerce/social-networking start-up currently engaged in the commercial development of an app for smartphones and tablets, named “Dringle”. In 2018, the portion of loss for the year recognised by Banca Generali amounted to approximately 149 thousand euros, whereas the exchange differences on the equity investment in foreign currency amounted to 131 thousand euros.

7.5 Equity investments: year changes

	31.12.2018	31.12.2017
A. Amount at year-start	16,224	16,224
B. Increases	-	-
B.1 Purchases	-	-
B.2 Reversals	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	11,779	-
C.1 Disposals and redemptions	11,779	-
<i>of which:</i>		
- <i>business combinations</i>	11,779	-
C.2 Adjustments	-	-
C.3 Write-downs	-	-
C.4 Other changes	-	-
D. Amount at year-end	4,445	16,224
E. Total revaluations	-	-
F. Total adjustments	-	-

Section 8 – Property and equipment - Item 80

8.1 Operating property and equipment: assets valued at cost

ASSETS/VALUES	31.12.2018	31.12.2017
1. Owned assets	6,333	6,504
a) Land	-	-
b) Buildings	-	-
c) Furniture	5,159	5,012
d) Electronic equipment	178	366
e) Other	996	1,126
2. Acquired under finance lease	-	-
a) Land	-	-
b) Buildings	-	-
c) Furniture	-	-
d) Electronic equipment	-	-
e) Other	-	-
Total	6,333	6,504
<i>of which:</i>		
- <i>obtained through the enforcement of guarantees received</i>	-	-

8.6 Operating property and equipment: year changes

	LAND	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
A. Gross amount at year-start	-	-	23,618	4,999	9,256	37,873
A.1 Total net impairment	-	-	18,606	4,633	8,130	31,369
A.2 Net amount at year-start	-	-	5,012	366	1,126	6,504
B. Increases:	-	-	1,290	12	210	1,512
B.1 Purchases	-	-	1,290	12	210	1,512
<i>of which:</i>						
- <i>business combinations</i>	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals	-	-	-	-	-	-
B.4 Fair value positive changes in:						
a) Net equity	-	-	-	-	-	-
b) Profit and Loss Account	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer of buildings held as investments	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
<i>of which:</i>						
- <i>business combinations</i>	-	-	-	-	-	-
C. Decreases	-	-	1,143	200	340	1,683
C.1 Sales	-	-	-	-	-	-
<i>of which:</i>						
- <i>business combinations</i>	-	-	-	-	-	-
C.2 Depreciation	-	-	968	200	317	1,485
C.3 Adjustments for impairment in:						
a) Net equity	-	-	-	-	-	-
b) Profit and Loss Account	-	-	-	-	-	-
C.4 Fair value negative changes in:						
a) Net equity	-	-	-	-	-	-
b) Profit and Loss Account	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:						
a) property and equipment held as investments	-	-	-	-	-	-
b) non-current assets available for sale and disposal groups	-	-	-	-	-	-
C.7 Other changes	-	-	175	-	23	198
D. Net amount at year-end	-	-	5,159	178	996	6,333
D.1 Total net impairment	-	-	17,841	4,710	7,777	30,328
D.2 Gross amount at year-end	-	-	23,000	4,888	8,773	36,661
E. Valued at cost	-	-	5,159	178	996	6,333

Section 9 – Intangible assets - Item 90

9.1 Intangible assets: categories

ASSETS/VALUES	31.12.2018		31.12.2017	
	DEFINITE LIFE	INDEFINITE LIFE	DEFINITE LIFE	INDEFINITE LIFE
A.1 Goodwill	-	66,065	-	61,775
A.2 Other intangible assets	29,037	-	25,746	-
A.2.1 Assets valued at cost:	29,037	-	25,746	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	29,037	-	25,746	-
A.2.2 Assets valued at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	29,037	66,065	25,746	61,775

9.2 Intangible assets: year changes

	OTHER INTANGIBLE ASSETS					TOTAL
	GOODWILL	INTERNALLY GENERATED		OTHER		
		DEFINITE LIFE	INDEFINITE LIFE	DEFINITE LIFE	INDEFINITE LIFE	
A. Gross amount at year-start	61,775	-	-	58,613	-	120,388
A.1 Total net impairment	-	-	-	32,867	-	32,867
A.2 Net amount at year-start	61,775	-	-	25,746	-	87,521
B. Increases	4,290	-	-	11,029	-	15,319
B.1 Purchases	4,290	-	-	11,029	-	15,319
<i>of which:</i>						
- <i>business combinations</i>	4,290	-	-	-	-	4,290
B.2 Increase of internal intangible assets	-	-	-	-	-	-
B.3 Reversals	-	-	-	-	-	-
B.4 Fair value positive changes in	-	-	-	-	-	-
- net equity	-	-	-	-	-	-
- profit and Loss Account	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	7,738	-	7,738
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	7,738	-	7,738
- Amortisation	-	-	-	7,738	-	7,738
- Write-downs	-	-	-	-	-	-
+ net equity	-	-	-	-	-	-
+ profit and loss account	-	-	-	-	-	-
C.3 Fair value negative changes in	-	-	-	-	-	-
- net equity	-	-	-	-	-	-
- profit and Loss Account	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net amount at year-end	66,065	-	-	29,037	-	95,102
D.1 Total net adjustments	-	-	-	40,605	-	40,605
E. Gross amount at year-end	66,065	-	-	69,642	-	135,707
F. Valued at cost	66,065	-	-	29,037	-	95,102

9.3 Intangible assets: other information

Breakdown of goodwill

	31.12.2018	31.12.2017
Merger of Consult Sim and INA Sim	2,991	2,991
Merger of Banca del Gottardo	31,352	31,352
Credit Suisse Italy business unit	27,432	27,432
BG Fiduciaria Sim S.p.A.	4,290	-
Total	66,065	61,775

Breakdown of intangible assets - other assets

	31.12.2018	31.12.2017
Charges associated with the implementation of legacy CSE procedures	10,713	8,137
Transactions with customers (former Credit Suisse)	12,480	13,632
Other intangible assets	101	711
Advance payments on intangible assets	5,743	3,266
Total	29,037	25,746

The consideration for the acquisition of the former Credit Suisse's business unit amounting to 44,712 thousand euros was allocated pursuant to IFRS 3 (PPA - Purchase Price allocation) for 17,280 thousand euros to intangible assets (Customer relationships) and 27,432 thousand euros to goodwill. The asset recognised for contractual relations on assets under management is the economic valuation of expected financial flows from this portfolio based on the profitability ratio and adequate impairment rates. A useful life of 15 years has been estimated for this asset.

Section 10 – Tax assets and liabilities - Item 100 (Assets) and Item 60 (Liabilities)

Breakdown of item 100 (Assets) - tax assets

TYPE OF TRANSACTIONS/VALUES	31.12.2018	31.12.2017
Current taxation	76	503
Sums due for taxes to be refunded	76	405
IRES arising on National Tax Consolidation scheme	-	-
IRES (excess surtax paid 8.5%)	-	98
IRAP	-	-
Deferred tax assets	52,680	44,860
With impact on Profit and Loss Account	46,543	43,604
IRES	38,932	37,047
IRAP	7,611	6,557
With impact on Net Equity	6,137	1,256
IRES	5,318	1,136
IRAP	819	120
Total	52,756	45,363

Current tax assets and liabilities represent the positive or negative imbalance between the estimated income taxes due for the year and the associated tax credits due to overpayments in previous tax periods, prepayments made and amounts withheld.

In further detail, for Banca Generali current IRES (corporate income) tax assets and liabilities take the form of account receivable from or payable to, respectively, the consolidating entity, Assicurazioni Generali S.p.A. Due to Banca Generali's participation in Assicurazioni Generali's tax consolidation programme, the former's taxable profits or losses for IRES purposes, along with the tax credits to which it is entitled and sums withheld from it, are transferred to the consolidating entity, which then figures and pays the tax owed by the Group. The consolidating entity is also responsible for paying the taxes owed by or to the credit of the consolidated entity and requesting the associated prepayments.

Sums due for taxes to be refunded refer mostly to the excess IRES paid in years 2007-2011 due to the effect of the introduction, in accordance with Legislative Decree No. 201/2011, of the deductibility from that tax of the share of IRAP paid on the cost of labour. The account receivable was recognised on the basis of the provisions of the Order of the Director of the Italian Revenue Service of 17 December 2012, which governs the methods for presenting refund applications, and also takes the form of a positive entry in Assicurazioni Generali's tax consolidation programme.

Breakdown of item 60 (Liabilities): tax liabilities

TYPE OF TRANSACTIONS/VALUES	31.12.2018	31.12.2017
Current taxation	7,891	7,743
IRES arising on National Tax Consolidation scheme	6,893	2,592
IRES	695	1,770
IRAP	303	3,381
Deferred tax liabilities	6,284	14,537
With impact on Profit and Loss account	5,200	2,728
IRES	4,565	2,372
IRAP	635	356
With impact on Net Equity	1,084	11,809
IRES	927	10,083
IRAP	157	1,726
Total	14,175	22,280

10.1 Breakdown of deferred tax assets

TYPE OF TRANSACTIONS/VALUES	31.12.2018		31.12.2017	
		PURSUANT TO LAW NO. 214/2011		PURSUANT TO LAW NO. 214/2011
With impact on Profit and Loss account	46,543	8,107	43,604	8,107
Provisions for liabilities and contingencies	36,580	-	34,532	-
Write-downs of loans to customers before 2015	2,735	2,735	2,735	2,735
Redeemed goodwill (pursuant to Art. 15, para. 10, of Legislative Decree 185/08)	3,024	3,024	3,024	3,024
Redeemed goodwill of former BG SGR (art. 176, para. 2-ter, of TUIR)	969	969	969	969
Consolidated goodwill of BG Fiduciaria (art. 15, para. 10-ter, of Legislative Decree No. 185/2008)	1,379	1,379	1,379	1,379
Collective reserve for collaterals granted	-	-	127	-
Alitalia analytical impairment reserve (IRAP only)	123	-	123	-
Collective reserve for loans to customers arising from IFRS 9 FTA	981	-	-	-
Write-downs of items for disputed positions in other assets (*)	681	-	681	-
IFRS 9-related revaluation of Financial Advisors' policies	61	-	-	-
Other operating expenses	10	-	34	-
With impact on Net equity	6,137	-	1,256	-
Measurement at fair value of HTCS financial assets	5,660	-	830	-
Actuarial losses IAS 19	477	-	426	-
Total	52,680	8,107	44,860	8,107

(*) Item reclassified from provisions for risks and charges restated for 2017.

The DTAs eligible for conversion into tax credits pursuant to Law No. 214/2011 include:

- assets associated with goodwill and other intangible assets redeemed in accordance with Article 10 of Legislative Decree No. 185/08 and Article 172 of TUIR;
- assets related to goodwill recognised for tax purposes but not for accounting purposes as they refer to business combinations "under common control" (Circular Letter Assonime 33/2013 paragraph 3.3.2);
- assets related to adjustments on loans not deducted from taxes as at 31 December 2015, for which Decree Law No. 83/2015, by introducing a system of full deductibility of losses with effect from that year, had remodulated deductibility percentages according to a thorough ten-year recovery scheme, from 2016 to 2025, based on variable annual quotas.⁵

⁵ It should be noted that such previous adjustments included:

- assets associated with write-downs in excess of 0.30% in connection with the banking book, pursuant to Article 106, para. 3 of TUIR, in the version effective until 2012 (previously eligible for deduction over 18 years on a straight-line basis);
- assets associated with write-downs of loans to customers recognised in the financial statements in accordance with Article 106, paragraph 3, as reformulated by the 2014 Financial Stability Law, applicable for financial years 2013 and 2014 (formerly deductible in the financial year of reference and in the following four years using the straight-line method);
- assets related to 25% of value adjustments of loans operated in 2015 pursuant to new Article 106, paragraph 3, introduced by Law Decree No. 83 of 27 June 2015.

However, the 2019 Finance Law (Law 145 of 30 December 2018) once again deferred the deduction of the goodwill and previous adjustments that had given rise to the recognition of deferred tax assets eligible for conversion into tax credits. In particular, the Law provides for:

- > the remodulation of the deductibility of part of the goodwill and other intangible assets, which will be deductible over a ten-year period, from 2019 to 2029;
- > the deferral until 2026 of the deduction of the portion of adjustments to loans not deducted as at 31 December 2015 that accrued in 2018, set by Decree Law 83/2015 at 10% as at 31 December 2026.

Accordingly, no DTAs eligible for conversion into tax credits were recovered in 2018.

By way of partial exception to the full deduction scheme for adjustments to loans classified as loans to customers in the accounts, the 2018 Finance Law also permits the effect of initial application of IFRS 9 relating to the increase in the provision for expected credit losses to be deducted in ten equal instalments. In particular, the income components deriving from the application of the expected credit loss (ECL) model, following the adoption of IFRS 9, recognised in connection with loans to customers, will be deductible in the 2018 tax period, from both IRES and IRAP, for 10% of their amount, with the remaining 90% deductible in the nine following tax periods. The original scheme (Ministerial Decree of 10 January 2018) instead provided for the full deductibility of this component upon initial application. DTAs relating to the adjustments in question are not among those eligible for conversion into tax credits and amounted to 981 thousand euros as at 31 December 2018.

The 2015 Financial Stability Law (Law No. 305 of 28 December 2015) mandated a general reduction in the ordinary IRES rate from 27.5% to 24% with effect from 1 January 2017. However, for the credit sector alone, a permanent IRES surtax of 4.5% was concurrently introduced, to be applied with effect from the same date, essentially with the aim of permitting the recovery of the very large volume of DTAs accumulated by the banking industry. In view of the combined effect of the two provisions, the DTAs/DTLs continue to be recognised for IRES purposes on the basis of a tax rate of 27.5%, inclusive of the credit sector surtax.

10.2 Breakdown of deferred tax liabilities

TYPE OF TRANSACTIONS/VALUES	31.12.2018	31.12.2017
With impact on Profit and Loss Account	5,200	2,728
Residual value of capital contribution to FITD	752	55
Goodwill	2,984	2,521
Provision for post-employment benefits (IAS19)	153	152
IFRS 9 FTA - Revaluation of equity securities and policies	539	-
IFRS 15 FTA - Prepayments for recruitment incentives	772	-
With impact on NeteEquity	1,084	11,809
Measurement at fair value of HTCS financial assets	1,084	11,809
Total	6,284	14,537

The residual DTLs deriving from the FTA of IFRS 9 refer to the revaluation of financial assets mandatorily classified at fair value other than debt securities and units of UCITS (equity securities and unit linked policies), the tax relevance of which is deferred until they are realised.

The residual DTLs deriving from the FTA of IFRS 15 refer to costs for obtaining contracts and relating to ordinary recruitment incentives, taken to the profit and loss account in previous years and recognised as assets at 1 January 2018 (prepayments).

10.3 Change in deferred tax assets (offsetting entry to the Profit and Loss Account)

	31.12.2018	31.12.2017
1. Amount at year-start	43,604	37,254
2. Increases	18,702	19,979
2.1 Deferred tax assets for the year	16,753	19,979
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) reversals	-	-
d) other	16,753	19,979
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	1,949	-
<i>of which:</i>		
- <i>adjustment of losses used within the National Tax Consolidation scheme</i>	-	-
- <i>business combinations</i>	43	-
- <i>adjustment for IFRS 9 FTA</i>	1,817	-
3. Decreases	15,763	13,629
3.1 Deferred tax assets eliminated in the year	15,763	13,629
a) transfers	15,385	13,492
b) write-downs for non-recoverability	378	137
c) change in accounting criteria	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
a) conversion into tax credits pursuant to Law No. 214/2011	-	-
b) other	-	-
<i>of which:</i>		
- <i>adjustment of losses used within the National Tax Consolidation scheme</i>	-	-
- <i>business combinations</i>	-	-
4. Amount at year-end	46,543	43,604

10.3-bis Change in deferred tax assets pursuant to Law No. 214/2011

	31.12.2018	31.12.2017
1. Amount at year-start	8,107	9,755
2. Increases	-	-
3. Decreases	-	1,648
3.1 Transfers	-	1,648
3.2 Conversion into tax credits	-	-
a) due to losses for the year	-	-
b) due to fiscal losses	-	-
3.3 Other decreases	-	-
4. Amount at year-end	8,107	8,107

10.4 Change in deferred tax liabilities (offsetting entry to the Profit and Loss Account)

	31.12.2018	31.12.2017
1. Amount at year-start	2,728	2,117
2. Increases	5,013	611
2.1 Deferred tax liabilities recognised during the year	1,233	611
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	1,233	611
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	3,780	-
of which:		
- business combinations	3	-
- adjustment for IFRS 9-IFRS 15 FTA	3,777	-
3. Decreases	2,541	-
3.1 Deferred tax liabilities eliminated in the year	2,541	-
a) transfers	2,514	-
b) change in accounting criteria	-	-
c) other	27	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Amount at year-end	5,200	2,728

10.5 Changes in deferred tax assets (offsetting entry to the Net Equity)

	31.12.2018	31.12.2017
1. Amount at year-start	1,256	3,378
2. Increases	7,433	868
2.1 Deferred tax assets for the year	7,383	868
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	7,383	868
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	50	-
of which:		
- business combinations	31	-
3. Decreases	2,552	2,990
3.1 Deferred tax assets eliminated in the year	1	1,842
a) transfers	1	1,842
b) write-downs for non-recoverability	-	-
c) change in accounting criteria	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	2,551	1,148
of which:		
- adjustment for IFRS 9 FTA	756	-
4. Amount at year-end	6,137	1,256

The item 3.3 “Other decreases” refers, for the portion exceeding the adjustment deriving from the first application of IFRS 9, to the reduction in deferred tax assets following the re-absorption of deductible temporary differences as a result of reversals of assets in the HTCS portfolio.

10.6 Changes in deferred tax liabilities (offsetting entry to the Net equity)

	31.12.2018	31.12.2017
1. Amount at year-start	11,809	7,206
2. Increases	409	8,174
2.1 Deferred tax liabilities recognised during the year	409	8,174
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	409	8,174
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	11,134	3,571
3.1 Deferred tax liabilities eliminated in the year	5,166	2,424
a) transfers	5,166	2,424
b) change in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	5,968	1,147
<i>of which:</i>		
- <i>adjustment for IFRS 9 FTA</i>	4,173	-
4. Amount at year-end	1,084	11,809

The item 3.3 “Other decreases” refers, for the portion exceeding the adjustment deriving from the first application of IFRS 9, to the reduction in deferred tax assets following the re-absorption of deductible temporary differences as a result of reversals of assets in the HTCS portfolio.

Section 12 – Other assets - Item 120

12.1 Breakdown of other assets

	31.12.2018	31.12.2017
Fiscal items	61,214	45,861
Advances paid to fiscal authorities – current account withholdings	829	1,032
Advances paid to fiscal authorities – stamp duty	43,305	30,031
Advances of substitute tax on capital gains	15,127	13,124
Excess payment of substitute tax for tax shield	634	634
Other advances paid to and sums due from fiscal authorities	914	837
Sums due from fiscal authorities for other taxes to be refunded	405	203
Leasehold improvements	6,558	5,849
Operating loans not related to financial transactions	60	197
Sundry advances to suppliers and employees	1,540	1,046
Cheques under processing	7,312	25,307
C/a cheques drawn on third parties under processing	-	481
Our c/a cheques under processing c/o service	-	9,735
Money orders and other amounts receivable	7,312	15,091
Other amounts to be debited under processing	30,774	65,273
Amounts to be settled in the clearing house (debits)	6,095	3,853
Clearing accounts for securities and funds procedure	22,187	59,246
Other amounts to be debited under processing	2,492	2,174
Amounts receivable for legal disputes related to non-credit transactions	446	2,459
Trade receivables from customers and banks that cannot be traced back to specific items	32,407	37,791
Other amounts	173,226	147,176
Prepayments for the new supplementary fees for sales network	123,585	121,401
Prepayments of segregated asset management fees	14,611	19,808
Prepayments for ordinary incentives	26,346	-
Other accrued income and deferred charges that cannot be traced back to specific items	8,585	5,874
Sundry amounts	99	93
Total	313,537	330,959

Receivables from fiscal authorities for withholdings on current accounts represent the positive imbalance between payments on account and the related payable to fiscal authorities.

Other assets include assets associated with the incremental costs of obtaining a contract or incurred to fulfil a contract with customers as set out in IFRS 15, paragraphs 91-104.

Prepayments for the new supplementary fees for sales network refer to incremental costs of acquiring new customers paid to new financial advisors within the framework of recruitment programmes and based on the achievement of specific net inflows targets.

Prepayments for ordinary incentives to the sales network constitute incremental costs of obtaining a contract or costs incurred to fulfil a contract and consist of fees paid annually to the existing sales network based on the achievement of net inflows targets, irrespective of whether they have been achieved by acquiring new customers or by strengthening relationships already in place with existing customers.

This latter class of assets includes a portion of incentives paid to the management in respect of the recruitment of new financial advisors, essentially based on net inflows targets and akin to recruitment incentives, subject to recognition upon FTA of IFRS 15.

Both categories of costs are systematically amortised over a time horizon corresponding to the transfer to the customer of the goods or services to which the asset refers, estimated to amount to five years.

Prepayments of segregated asset management fees refer to the upfront fees paid in 2017 to the sales network for the stabilisation of the LOB I insurance portfolio in post-sales over a five-year time horizon.

The changes in the main prepaid expenses during the year are shown below.

	31.12.2017	FTA	AMORTISATION	OF WHICH RELATIVE TO PRIOR YEARS	INCREASES	OTHER CHANGES	31.12.2018
Supplementary fees	121,401	-	-45,116	-39,828	47,300	-	123,585
Ordinary incentives	-	4,095	-7,683	-1,697	29,934	-	26,346
Up-front fees on segregated accounts	19,808	-	-5,064	-5,064	-	-133	14,611
Total network incentives	141,209	4,095	-57,863	-46,589	77,234	-133	164,542
Entry bonus on BG Solution portfolio management	496	-	-290	-127	2,208	-	2,414
Bonus on JP Morgan funds	1,222	-	-530	-530	339	-	1,031
Total other acquisition costs	1,718	-	-820	-657	2,547	-	3,445
Total	142,927	4,095	-58,683	-47,246	79,781	-133	167,987

Other unallocated prepaid expenses of 5,140 thousand euros consist primarily of prepaid expenses not accrued during the year; of which 3,382 thousand euros of lease prepayments.

PART B – INFORMATION ON THE BALANCE SHEET LIABILITIES

Section 1 – Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: due to banks - categories

TYPE OF TRANSACTIONS/VALUES	31.12.2018 BOOK VALUE	31.12.2017 BOOK VALUE
1. Due to Central Banks	-	400,000
2. Due to banks	128,725	282,526
2.1 Current accounts and demand deposits	108,850	57,472
2.2 Term deposits	-	3,796
2.3 Financing:	-	189,657
2.3.1 Repurchase agreements	-	189,657
2.3.2 Other	-	-
2.4 Liabilities for repurchase commitments of own equity instruments	-	-
2.5 Other debts	19,875	31,601
Total	128,725	682,526
Fair value - L1	-	-
Fair value - L2	128,725	682,534
Fair value - L3	-	-
Total - Fair value	128,725	682,534

The 400 million euro long-term refinancing operation disbursed by the ECB under the new TLTRO 2 programme (Targeted Longer Term Refinancing Operations) and launched in 2016, was repaid in advance in September 2018.

The item "Other debts" entirely refers to deposits made by EFG BANK S.A. as a guarantee for some non-performing exposures, arising on the acquisition of Banca del Gottardo Italia (collateral deposits).

1.2 Financial liabilities measured at amortised cost: due to customers - categories

TYPE OF TRANSACTIONS/VALUES	31.12.2018 BOOK VALUE	31.12.2017 BOOK VALUE
1. Current accounts and demand deposits	8,228,273	6,992,747
2. Term deposits	25,939	-
3. Financing	173,824	83,845
3.1 Repurchase agreements	130,542	40,567
3.2 Other	43,282	43,278
5. Other debts	149,636	199,813
Total	8,577,672	7,276,405
Fair value - L1	-	-
Fair value - L2	8,534,390	7,233,127
Fair value - L3	44,210	45,656
Total - Fair value	8,578,600	7,278,783

The item 5 "Other debts" refers for 22,341 thousand euros to the stock of money orders issued by the parent company Banca Generali in relation to claims payment of insurance companies of the Generali Group, and, for the remaining amount, to other sums made available to customers and trade payables to the sales network.

The item 3.2 "Other financing" amounted to 43,282 thousand euros, referring entirely to the subordinated loan illustrated in table below.

1.4 Subordinated debts - detail

TYPE OF TRANSACTIONS/VALUES	31.12.2018	31.12.2017
Due to customers: subordinated debts	43,282	43,278
Generali Beteiligungs GmbH subordinated loan	43,282	43,278

The subordinated loan, amounting to 43 million euros, was entered into with the German company Generali Beteiligungs GmbH to fund the acquisition of the Credit Suisse (Italia) S.p.A. business unit. The loan, entered into on 30 October 2014, has a ten-year term and is repayable on maturity in one instalment. Provision is also made for an early repayment option, as from the sixth year, subject to the supervisory authority's prior approval. The interest rate for the first 5 years is fixed and equal to 3.481% per annum, corresponding to the 5-year mid swap rate identified at the contract execution date, plus a spread of 300 bps; from the start of the sixth year the rate will be reparametrised to the 3-month Euribor, plus the same spread identified when the original fixed rate was determined. The loan is subordinated in the event of a default by the Bank.

Section 2 – Held-for-trading Financial liabilities - Item 20

2.1 HFT financial liabilities: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2018					31.12.2017				
	VN	FV			FV (*)	VN	FV			FV (*)
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial	-	-	384	-	-	-	128	78	-	-
1.1 Trading	X	-	384	-	X	X	128	78	-	X
1.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit	-	-	-	-	-	-	-	-	-	-
2.1 Trading	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	-	384	-	X	X	128	78	-	X
Total (A + B)	X	-	384	-	X	X	128	78	-	X

(*) FV measured without taking account of issuer's credit merit changes compared to issue date.

HFT financial liabilities consist for 384 thousand euros of trading transactions relating to currency outright with customers as counterparty. This item has its balancing entry in assets classified under Item 20.

Section 6 – Tax liabilities - Item 60

Breakdown of tax liabilities - Item 60

The relevant analysis is given in Section 10 (Assets).

Section 8 – Other liabilities - Item 80

8.1 Breakdown of other liabilities

	31.12.2018	31.12.2017
Trade payables	29,994	20,131
Due to suppliers	29,355	19,073
Due for payments on behalf of third parties	639	1,058
Due to staff and social security institutions	19,126	18,935
Due to staff for accrued holidays etc.	3,108	2,788
Due to staff for productivity bonuses	9,258	9,450
Contributions to be paid to social security institutions	2,458	2,334
Contributions to Financial Advisors to be paid to Enasarco	4,302	4,363
Tax authorities	17,909	38,649
Withholding taxes to be paid to tax authorities on behalf of employees and contract workers	4,861	5,228
Withholding taxes to be paid to tax authorities on investment return	2,485	21,102
Notes to be paid into collection services	10,284	8,887
VAT and other tax payables	279	3,432
Amounts to be debited under processing	68,756	99,270
Bank transfers, cheques and other sums payable	11,677	3,139
Amounts to be settled in the clearing house (credits)	29,033	33,375
Liabilities from reclassification of portfolio subject to collection (SBF)	3,724	563
Other amounts to be debited under processing	24,322	62,193
Sundry items	5,089	5,129
Amounts to be credited	929	974
Sundry items	1,115	455
Accrued expenses and deferred income	1,863	2,370
Sums made available to customers	1,182	869
Payables for non-performing signature loans	-	461
Total	140,874	182,114

In accordance with the new provisions introduced by IFRS 9, effective 1 January 2018, the collective reserve for commitments and guarantees issued, amounting to 461 thousand euros, has been recognised in a specific item under Provisions for liabilities and contingencies.

Pursuant to paragraphs 116 a) and 116 b) of IFRS 15, it is reported that the caption deferred income includes liabilities associated with contracts within the scope of application of IFRS 15 and relating to three-year upfront fees received in connection with the distribution of certain classes of international UCITS.

Opening balance at 1 January 2018	1,961
Increases	451
Decreases due to the transfer to profit and loss of prior years' balance	-839
<i>of which:</i>	
- relating to prior years	-752
Closing balance at 31 December 2018	1,573

Section 9 – Provisions for termination indemnity - Item 90

Breakdown of provisions for termination indemnity

	31.12.2018	31.12.2017
Provision for termination indemnity	4,818	4,345
Total	4,818	4,345

9.1 Provisions for termination indemnity: year changes

	31.12.2018	31.12.2017
A. Amount at year-start	4,345	4,645
Change in opening balance	-	-
B. Increases	641	208
B.1 Provisions for the year	65	61
B.2 Other increases	576	147
of which:		
- business combinations	505	-
C. Decreases	168	508
C.1 Amounts paid	168	508
C.2 Other decreases	-	-
of which:		
- business combinations	-	-
D. Amount at year-end	4,818	4,345

9.2 Other information

The amount of termination indemnity can be considered as a non-financial defined benefit plan after the termination of the employment, in accordance with IAS 19.

The provision was measured based on the actuarial value using the methods described in Part. A.2 of these Notes and Comments.

The following are the main actuarial assumptions and the breakdown of the provision for the year and actuarial gains/(losses):

	31.12.2018	31.12.2017
Discount rate	1.44%	1.19%
Annual inflation rate	2.00%	1.50%
Salary increase rate	2.00%	1.50%
Average duration (years)	10	10

	31.12.2018	31.12.2017
1. Provisions:	65	61
- current service cost	8	8
- interest cost	57	53
2. Actuarial gains and losses	71	147
- based on financial assumptions	-79	56
- based on actuarial demographic assumptions	150	91
Total provisions for the year	136	208
Actuarial value	4,818	4,345
Value calculated re. Article 2120 of the Italian Civil Code	4,507	4,078

Section 10 – Provisions for liabilities and contingencies - Item 100

10.1 Breakdown of provisions for liabilities and contingencies

ITEMS/VALUES	31.12.2018	31.12.2017
1. Provisions for credit risk relating to commitments and financial guarantees issued	85	-
2. Provisions for other commitments and other guarantees issued	-	-
3. Company provisions for pensions	-	-
4. Other provisions for liabilities and contingencies	159,590	148,733
4.1 Legal disputes	14,264	17,677
4.2 Staff	14,816	15,981
4.3 Other	130,510	115,075
Total	159,675	148,733

Other provisions for liabilities and contingencies: detail

	31.12.2018	31.12.2017
Provision for staff expenses	14,816	15,981
Provision for restructuring plan	1,369	1,088
Provision for staff expenses - other	13,447	14,893
Provisions for legal disputes	14,264	17,677
Provision for risks connected with sales network's embezzlements	6,784	9,225
Provision for risks related to legal disputes with sales network	980	580
Provision for other legal disputes	6,500	7,872
Provisions for termination indemnity of Financial Advisors	81,595	61,459
Provision for termination indemnity	55,117	46,212
Provision for manager incentive indemnity	7,057	-
Provision for portfolio overfee indemnities	3,530	4,059
Provision for pension bonuses	8,601	7,679
Provisions risks for the Framework Loyalty Programme	7,290	3,509
Provisions for network incentives	46,131	52,076
Provision for network development plans	32,603	34,096
Provision for deferred bonus	1,212	1,136
Provisions for managers with access gate	3,972	5,262
Provision for sales incentives	4,713	7,971
Provision for fees – travel incentives	3,251	2,948
Provision for fee plans	380	606
Provision for loyalty programme	-	57
Other provisions for liabilities and contingencies	2,784	1,540
Total	159,590	148,733

10.2 Provisions for liabilities and contingencies: year changes

	PROVISIONS FOR OTHER COMMITMENTS AND OTHER GUARANTEES ISSUED	PROVISIONS FOR PENSIONS	OTHER PROVISIONS FOR LIABILITIES AND CONTINGENCIES	TOTAL
A. Amount at year-start	-	-	148,733	148,733
B. Increases	204	-	62,386	62,590
B.1 Provisions for the year	-	-	61,291	61,291
B.4 Other changes	204	-	1,095	1,299
of which:				
- business combinations	-	-	168	168
- adjustment for IFRS 9 FTA	204	-	927	1,131
C. Decreases	119	-	51,529	51,648
C.1 Use in the year	-	-	37,344	37,344
C.3 Other changes	119	-	14,185	14,304
of which:				
- business combinations	-	-	-	-
D. Amount at year-end	85	-	159,590	159,675

Other provisions for liabilities and contingencies - details of movements

	31.12.2017	USES	SURPLUS	OTHER CHANGES	PROVISIONS	31.12.2018
Provision for staff expenses	15,981	-3,611	-1,350	117	3,679	14,816
Provision for restructuring plan	1,088	-416	-	-	697	1,369
Provision for staff expenses - other	14,893	-3,195	-1,350	117	2,982	13,447
Provision for legal disputes	17,677	-3,584	-2,937	-2,363	5,471	14,264
Provision for risks connected with sales network's embezzlements	9,225	-756	-1,146	-2,414	1,875	6,784
Provision for risks related to legal disputes with sales network	580	-65	-	-	465	980
Provision for risks related to legal disputes with staff	-	-	-	-	-	-
Provision for other legal disputes	7,872	-2,763	-1,791	51	3,131	6,500
Provisions for termination indemnity for Financial Advisors	61,459	-1,222	-1,665	792	22,231	81,595
Provision for termination indemnity of sales network	46,212	-1,014	-1,122	-	11,041	55,117
Provision for manager incentive indemnity	-	-	-	-	7,057	7,057
Provision for portfolio overfee indemnities	4,059	-116	-472	-	59	3,530
Provision for pension bonuses	7,679	-92	-71	792	293	8,601
Provisions risks for the Framework Loyalty Programme	3,509	-	-	-	3,781	7,290
Provisions for network incentives	52,076	-28,807	-5,819	135	28,546	46,131
Provision for network development plans	34,096	-20,157	-5,764	-	24,428	32,603
Provision for deferred bonus	1,136	-246	-	135	187	1,212
Provisions for managers with access gate	5,262	-1,590	-	-	300	3,972
Provision for sales incentives	7,971	-3,258	-	-	-	4,713
Provision for incentive travels	2,948	-2,897	-51	-	3,251	3,251
Provision for fee plans	606	-602	-4	-	380	380
Provision for loyalty programme	57	-57	-	-	-	-
Other provisions for liabilities and contingencies	1,540	-120	-	-	1,364	2,784
Total	148,733	-37,344	-11,771	-1,319	61,291	159,590

10.3 Provisions for credit risk relating to commitments and financial guarantees issued

	STAGE 1	STAGE 2	STAGE 3	TOTAL
Commitments to disburse funds	-	-	-	-
Financial guarantees issued	48	37	-	85
Total	48	37	-	85

10.6 Provisions for liabilities and contingencies - other provisions

10.6.1 Provisions for staff expenses

Provisions for staff expenses include the following amounts:

- > the share of the variable compensation of managers of the Banking Group deferred up to two years and conditional upon continuing satisfaction of the predetermined quantitative levels of capital solidity and liquidity (access gates) established in compliance with the Banking Group's Remuneration policy;
- > allocations to the provision for the recruitment plans regarding new employed Relationship Managers (RM), valued also based on the specific contractual conditions agreed upon and on the probability to achieve the net inflow targets set;
- > allocations for post-employment medical benefits of Group's managers, valued using the actuarial method pursuant to IAS 19;
- > the provision related to the performance bonus, if at the balance sheet date the company supplementary contract (CIA) has expired or has not been renewed yet.

The above-mentioned provisions have as their balancing entries staff expenses.

Provisions for staff expenses also include, to a lesser extent, provisions outside the scope of IAS 19 but for which IAS 37 applies and that have therefore as their balancing entries net provisions for liabilities and contingencies.

10.6.2 Restructuring provisions - Redundancy incentives plan

The voluntary redundancy plan covered by the specific company restructuring provision was launched at the end of 2015 to encourage the rotation of resources through incentives for voluntary departure for groups of employees nearest to retirement age and the filling of the resulting vacant positions with professional and/or managerial profiles more suited to the specific skills now required from a business standpoint.

The redundancy incentives plan was prolonged by the Board of Directors on 11 December 2018 until 31 December 2019, with a limited amount of resources of 1.3 million euros.

10.6.3 Provisions for legal disputes

This type of provisions for risks includes provisions for pending litigations connected with sales network's embezzlements after insurance coverage, as well as those with disputes currently underway with the sales network and employees and other legal and extra-legal disputes with customers and other entities.

10.6.4 Provisions for contractual indemnities for the sales network

These include provisions for termination indemnities paid to the sales network, the portfolio development indemnity, the social-security bonus, the provisions associated with the Framework Loyalty Programme, approved by the General Shareholders' Meeting on 20 April 2017 and, lastly, the new provisions for manager development indemnity.

Provisions covering the cost of the **termination indemnity** of Financial Advisors with an agency agreement is valued as provided for by the law (Article 1751 of the Italian Civil Code) and the specific disbursement criteria defined by Banca Generali. Further details on the latter are provided in Part A.2 of the Notes and Comments of the Financial Statements for the year ended on 31 December 2018.

The expense associated with obligations extant at period-end relating to Financial Advisors is valued using the statistical-actuarial method, with the advice of independent professionals.

The following are the main actuarial assumptions:

TERMINATION INDEMNITY	31.12.2018	31.12.2017
Discount rate (Eur IRS + 100 bps)	2.5%	2.5%
Turnover rate (professionals)	1.30%	1.88%
Average duration (years)	13 years	14 years
DBO IAS 37/Indemnity provision at the measurement date	59.54%	56.21%

The ratio of Deferred benefit obligations (DBO) to nominal value of the accrued obligation towards Financial Advisors is given using the value of the provision after one-off deductions related to seniority.

The increase in the provision for termination indemnities accrued by Financial Advisors during the year was mainly due to basic fees as a result of the increase in the number of active Financial Advisors and the ongoing development of business, and the adjustment of demographic and statistical parameters.

A specific measurement is made for Financial Advisors who have left service.

The DBO already accrued by Financial Advisors formerly employed by Credit Suisse, totalling 2.8 million euros, is still based on the payment criteria established by the previous employer and was recognised as a debt payable to the acquired sales network. Their DBO accrued with Banca Generali will be due only for the amount exceeding that accrued with Credit Suisse, if any.

The portfolio development indemnity is instead a scheme (further details are provided in Part A.2 of the Notes and Comments of the Financial Statements as at 31 December 2018) that calls for Financial Advisors with at least five years of service who leave service permanently to be entitled to an indemnity commensurate to the profitability of the portfolio previously managed, in case of reallocation of the latter.

The indemnity due to the outgoing FA is entirely borne by the incoming FA identified by the Company, except for a residual guarantee by the Bank - equal to 25% of the total indemnity - in the event of termination for death or permanent disability. Even in this case, the charge is determined based on the statistical actuarial method, with the support of independent experts and with reference to the percentage of the Bank's residual risk, i.e., 25% of the indemnity due in case of death or permanent disability.

The "**pension bonus**" is a component of the sales network's indemnity plans, which entailed the yearly provision of an amount based on the achievement of pre-set sales objectives and to be paid only upon final termination for retirement or permanent disability. The actuarial method is used also for this type of evaluation. This incentive has been discontinued as of 2016, without prejudice to the rights acquired by the beneficiaries in previous years.

Provisions for contractual indemnities also include the **Framework Loyalty Programme** for the sales network which was approved by the Board of Directors on 21 March 2017 and subsequently ratified by the General Shareholders' Meeting held on 20 April 2017. Said programme is aimed at improving the retention of the network and the customers acquired over time and creating value for the Group by attracting stable, high-quality net inflows.

The Framework Loyalty Programme is divided into eight annual individual plans, all set to expire on 31 December 2026 and of decreasing lengths, to be activated following prior authorisation by the General Shareholders' Meeting of Banca Generali.

This indemnity is paid to Financial Advisors and Relationship Managers with a minimum level of seniority of service of five years who meet certain AUM and net inflows requirements at the end of the year of reference of the individual plan in which they have participated.

The indemnities thus accrued in respect of the individual plans will then be disbursed cumulatively to the beneficiaries, in accordance with the Banking Group's current remuneration policies, within 60 days of the approval of the 2026 financial statements.

Departure from the Banking Group entails the loss of entitlement to disbursement of the bonuses accrued, except in the event of death, permanent disability or eligibility to receive a pension. Even in the above circumstances, the indemnity will still be paid at the end of the Programme.

Recognition of the indemnities on the disbursement date is also subject to the banking group's access gates being exceeded as defined in the Remuneration Policies applicable from time to time and the rules of propriety.

For each plan, a portion of the accrued indemnity may be paid out in Banca Generali shares (up to a maximum of 50%), following an assessment of the potential effects at the level of capital ratios and floating capital by the Corporate Bodies (Board of Directors and General Shareholders' Meeting).

In this regard, it should be noted that the Board of Directors of 20 March 2018 approved the launch of the second plan 2018-2026 on the basis of the same provisions set forth for the first plan of 2017 (assignment of Banca Generali shares for an amount equal to 50% of the indemnity accrued). This resolution was subsequently ratified by the General Shareholders' Meeting on 12 April 2018.

Provisions for contractual indemnities refer also to the charge relating to the inception of the new **managerial development indemnity mechanism**, approved by the BoD in June and intended to ensure fair treatment of all network managers in the event of dismissal from their additional roles.

10.6.5 Provisions for sales network incentives

This aggregate includes:

- > the estimate of the charges accrued in relation with several recruitment plans for middle-term expansion of managed portfolios. These plans envisage different kinds of incentives (entry bonus, deferred bonus, volume bonus, etc.) related to the achievement of net inflows target and the presence in the company for one or more years (up to 5 or 7 years);

- > the share of network managers' annual incentives deferred up to two years and conditional upon continuing satisfaction of the predetermined quantitative levels of asset solidity and liquidity (access gates) established in compliance with the Banking Group's remuneration policy;
- > the share of annual incentives (particular transactions), contingent upon the maintenance over time of the inflow targets achieved;
- > provisions for incentive plans based on the network's performance for the period, including the BG Premier Club trip and other special fee plans (supplementary allowances, stabilisers, target-achievement bonuses, etc.) that involve the payment of benefits or increases in advances paid when certain conditions are met, such as continuous service on the network or the achievement of sales targets.

In 2014, provisions were also made, for an initial amount of 8.0 million euros, for the **Loyalty Plans** agreed upon with Financial Advisors of the former Credit Suisse business unit, intended to facilitate their inclusion in Banca Generali's sales structure and for loyalty-building purposes. The last remaining tranche of 57 thousand euros was paid out in 2018.

10.6.6 Other provisions for liabilities and contingencies

Lastly, other provisions for liabilities and contingencies include provisions for operating risks. They also include the provision to cover the tax dispute.

Tax dispute

With regard to the tax dispute, on 29 June 2018 the Friuli-Venezia Giulia Regional Department of the Italian Revenue Service served the Bank with a report on findings (PVC) regarding the assessment process focusing on tax period 2014. The audit had begun on 27 March 2017 and the first auditors' report on findings (PVC), claiming some irregularities relating to the matching and accrual principle in respect of costs for the year, had been served on 22 December 2017.

The auditors' report on findings that had been served at the end of June instead focused on transfer pricing issues, with particular regard to dealings with the Luxembourg management company BGFML pertaining to the distribution of the Sicavs promoted by the Group.

At the end of August, by the legal deadline, Banca Generali lodged a detailed defence statement with the Italian Agency of Revenue, disputing the irregularities identified in the auditors' report and highlighting that it had acted properly. It is currently awaiting the beginning of a consultation procedure with the audit authorities in order to reach a settlement of the dispute.

Since it believes the charges to be entirely without merit, during the above consultation procedure Banca Generali will dispute any assessment notices based on the alleged irregularities identified in the auditors' report, through both administrative and judicial process.

Section 12 – Company net equity - Items 110, 130, 140, 150, 160, 170 and 180

12.1 Breakdown of share capital and treasury shares

	UNIT VALUE	NUMBER	NOMINAL VALUE (€)	BOOK VALUE (€ THOUSAND)
Share capital				
- ordinary shares	1.00	116,851,637	116,851,637	116,852
Treasury shares				
- ordinary shares	1.00	-929,090	-929,090	-22,724
Total		115,922,547	115,922,547	94,128

12.2 Share capital - Number of shares: year changes

ITEMS/TYPES	ORDINARY	OTHER
A. Existing shares at year-start	116,851,637	-
- paid up	116,851,637	-
- partially paid	-	-
A.1 Treasury shares (-)	-472,575	-
A.2 Outstanding shares: at year-start	116,379,062	-
B. Increases	121,129	-
B.1 Newly issued shares		
- against payment:	-	-
- business combinations	-	-
- bonds conversion	-	-
- exercise of warrants	-	-
- other	-	-
- for free:	-	-
- to staff	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	121,129	-
B.3 Other changes	-	-
C. Decreases	-577,644	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-577,644	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: at year-end	115,922,547	-
D.1 Treasury shares (+)	929,090	-
D.2 Existing shares at year-end	116,851,637	-
- paid up	116,851,637	-
- partially paid	-	-

12.3 Share capital: further information

At the reporting date, the share capital of the Bank consisted of 116,851,637 ordinary shares of 1 euro each, with regular dividend entitlement, and it was fully paid up.

12.4 Income reserves: further information

	31.12.2017	PROFIT ALLOCATION DIVIDEND DISTRIBUTION	PURCHASE/ DISPOSAL OF TREASURY SHARES	ISSUE OF NEW SHARES	STOCK OPTION PLANS AND OTHER IFRS 2-RELATED CHARGES	STOCK GRANT PLANS LTIP	OTHER CHANGES	31.12.2018
Legal reserve	23,329	41	-	-	-	-	-	23,370
Restricted reserve for shares of the Parent Company	717	-	-	-	-	-	-	717
Merger surplus reserve – BG SGR	3,853	-	-	-	-	-	-	3,853
Merger surplus reserve – BG Fiduciaria	-	-	-	-	-	-	10,901	10,901
Reserves for IFRS 9 and IFRS 15 FTA	-	-	-	-	-	-	4,768	4,768
Share-based payments reserve (IFRS2)	-	-	-	-	-	-	-	-
Share-based payments reserve (IFRS2) – plans ended	507	-	-	-	-	-	-	507
IFRS 2 reserves – LTIP plans based on BG shares	-	-	-	-	579	-	-	579
IFRS2 reserves – LTIP cycles underway	4,316	-	-	-	-	1,100	-2,671	2,745
IFRS2 reserves – LTIP cycles ended	4,509	-	-	-	-	-	2,671	7,180
IFRS 2 reserve – Key personnel remuneration	3,301	-	-3,058	-	3,363	-	-	3,606
IFRS 2 reserve – Framework Loyalty Programme	214	-	-	-	442	-	-	656
Reserve from profit (loss) carried forward	179,513	60,934	-	-	-	-	-	240,447
Equity reserve from the transfer of the funds business unit	3,710	-	-	-	-	-	-	3,710
Total	223,969	60,975	-3,058	-	4,384	1,100	15,669	303,039

12.4.1 Disclosure pursuant to Article 2427, paragraph 7-bis, of the Italian Civil Code

As required by Article 2427, paragraph 7-bis, of the Italian Civil Code, the following table contains an analytical illustration of net equity items, including an indication of their origins, possible draw-downs and distribution, as well as draw-downs made during previous years.

	31.12.2018	POSSIBLE DRAW-DOWNS ⁽¹⁾	RESTRICTED PORTION	UNRESTRICTED PORTION	DISTRIBUTABLE PORTION	DRAW-DOWNS 2018-2017	
						DIVIDENDS	LOSSES
Share capital	116,852	-	116,852	-	-	-	-
Treasury shares	-22,724	-	-22,724	-	-	-	-
Share premium reserve	57,889	A, B, C ⁽³⁾	-	57,889	-	-	-
Reserves	303,039		717	302,322	271,366	-	-
Legal reserve	23,370	B ⁽⁴⁾	-	23,370	-	-	-
Restricted reserve for shares of the Parent Company	717	B	717	-	-	-	-
Merger surplus reserve – BG SGR	3,853	A, B, C	-	3,853	3,853	-	-
Merger surplus reserve – BG Fiduciaria	10,901	A, B, C	-	10,901	10,901	-	-
Share-based payments reserve (IFRS2)	-	A ⁽⁵⁾	-	-	-	-	-
Share-based payments reserve (IFRS2) – plans ended	507	A, B, C	-	507	507	-	-
IFRS 2 reserves – LTIP cycles based on BG shares	579	A, B	-	579	-	-	-
IFRS 2 reserves – LTIP cycles underway ⁽⁶⁾	2,745	A ⁽⁵⁾	-	2,745	-	-	-
IFRS 2 reserves – LTIP cycles ended ⁽⁶⁾	7,180	A, B, C	-	7,180	7,180	-	-
IFRS 2 reserve – Key personnel remuneration	3,606	A ⁽⁵⁾	-	3,606	-	-	-
IFRS 2 reserve – Framework Loyalty Programme	656	A ⁽⁵⁾	-	656	-	-	-
Reserve from income (loss) carried forward	240,447	A, B, C	-	240,447	240,447	-	-
Equity reserve from the transfer of the funds business unit	3,710	A, B, C	-	3,710	3,710	-	-
FTA reserve	4,768	-	-	4,768	4,768	-	-
Valuation reserves ⁽²⁾	-11,505	-	-11,505	-	-	-	-
Reserve from valuation of actuarial gains and losses	-1,848	-	-1,848	-	-	-	-
Reserve from valuation of HTCS financial assets	-9,657	-	-9,657	-	-	-	-
Net profit (loss) for the year	189,058	A, B, C	2,143	189,058	186,915	X	X
Net equity for accounting purposes	632,609	-	85,483	549,269	458,281	-	-

Pursuant to Article 2427, paragraph 1- 27-septies, 2018 net profit will be distributed as follows:

- 2,143 thousand euros to the restricted reserve pursuant to Article 6, paragraph 1, of Legislative Decree No. 38/2005;
- 42,007 thousand euros to reserve from profit carried forward;
- 144,907 thousand euros as dividend distributed to shareholders.

(1) Availability refers to: A – capital increase; B – replenishment of losses; C – distribution to shareholders

(2) Restricted reserve pursuant to Article 6 of Legislative Decree No. 38/2005.

(3) May not be distributed until the legal reserve has reached 1/5th of share capital (Article 2431 of Italian Civil Code).

(4) Draw-downs for capital increases and distributions may be effected exclusively for portion exceeding 1/5th of share capital (Article 2430 of the Italian Civil).

(5) The reserve can only be used for stock option plans.

(6) This reserve shows the capital increase ensuing from share-based payments to employees and Directors through assignment of shares of the Parent Company Assicurazioni Generali S.p.A.

PART B – INFORMATION ON THE BALANCE SHEET

Other information

1. Commitments and financial guarantees issued (other than those measured at fair value)

	NOMINAL VALUE OF COMMITMENTS AND FINANCIAL GUARANTEES ISSUED			31.12.2018	31.12.2017
	STAGE 1	STAGE 2	STAGE 3		
1. Commitments to disburse funds	11	-	-	11	846
a) Central Banks	-	-	-	-	-
b) Public administration bodies	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	-	-	-	-	735
f) Households	11	-	-	11	111
2. Financial guarantees issued	90,819	14,809	31	105,659	74,504
a) Central Banks	-	-	-	-	-
b) Public administration bodies	-	-	-	-	-
c) Banks	1,044	-	-	1,044	73
d) Other financial companies	7,243	-	-	7,243	2,324
e) Non-financial companies	49,897	9,715	31	59,643	54,987
f) Households	32,635	5,094	-	37,729	17,120
Total	90,830	14,809	31	105,670	75,350

Loan commitments include commitments subject to mandatory and optional use towards customers and refer to irrevocable lines of credit already granted.

Items 2 c) and 2 d) also include assets pledged as collateral of third-party bonds consisting of the default fund contributed to cover possible losses of defaulted operators within the New MIC and transactions concerning customers' securities and derivatives.

2. Other commitments and other guarantees issued

	31.12.2018 NOMINAL VALUE	31.12.2017 NOMINAL VALUE
1. Other guarantees issued	-	-
<i>of which:</i>		
- <i>non-performing</i>	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments	173,386	101,918
<i>of which:</i>		
- <i>non-performing</i>	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	173,386	101,599
d) Other financial companies	-	319
e) Non-financial companies	-	-
f) Households	-	-
Total	173,386	101,918

Loan commitments include commitments subject to certain or uncertain use towards banks and refer to financial commitments for securities to be received.

3. Assets pledged as collateral for own liabilities and commitments

PORTFOLIO	31.12.2018				31.12.2017			
	REPURCHASE AGREEMENTS	ECB	CC&G	TOTAL	REPURCHASE AGREEMENTS	ECB	CC&G	TOTAL
1. Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	130,909	-	15,096	146,005	40,408	425,284	101,498	567,190
3. Financial assets at amortised cost	-	218,974	199,524	418,498	195,944	317,684	207,812	721,440
4. Property and equipment	-	-	-	-	-	-	-	-
of which:								
- assets constituting inventories	-	-	-	-	-	-	-	-
Total	130,909	218,974	214,620	564,503	236,352	742,968	309,310	1,288,630

Financial assets pledged as collateral for own liabilities and commitments refer mainly to repurchase agreement transactions with a commitment to repurchase with customers and banks and collateral for refinancing transactions with ECB. This amount also includes financial instruments pledged with Cassa di Compensazione e Garanzia for possible transactions on the New MIC for ordinary operations.

5. Trading of financial instruments on behalf of third parties

TYPE OF SERVICE	31.12.2018	31.12.2017
1. Execution of orders on behalf of customers	31,388,245	36,726,583
a) Purchases	16,869,201	19,822,600
1. Settled	16,800,942	19,733,854
2. To be settled	68,259	88,746
b) Sales	14,519,044	16,903,983
1. Settled	14,479,100	16,824,110
2. To be settled	39,944	79,873
2. Individual portfolio management	5,859,410	5,965,060
a) Individual	5,859,410	5,965,060
b) Collective	-	-
3. Custody and administration of securities (excluding portfolio management)	22,291,640	20,114,480
a) Third-party securities held in deposit: related to services provided as depository bank	-	-
1. Securities issued by the bank that prepares the financial statements	-	-
2. Other	-	-
b) Third-party securities held in deposit: other	8,305,363	7,235,283
1. Securities issued by the bank that prepares the financial statements	16,126	13,921
2. Other	8,289,237	7,221,362
c) Third-party securities deposited with third parties	8,251,513	7,188,942
d) Portfolio securities deposited with third parties	5,734,764	5,690,255
4. Other transactions	-	-

Securities under custody and administration are recognised at nominal value.

6. Financial assets offset in the financial statements or falling in the scope of master netting agreements or similar agreements

TECHNICAL TYPE	GROSS AMOUNT OF FINANCIAL LIABILITIES (A)	AMOUNT OF FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS (B)	NET AMOUNT OF FINANCIAL LIABILITIES RECOGNISED IN THE FINANCIAL STATEMENTS (C=A-B)	CORRELATED AMOUNT NOT OFFSET IN THE FINANCIAL STATEMENTS		NET AMOUNT AT 31.12.2018 (F = C - D - E)	NET AMOUNT AT 31.12.2017
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS AS COLLATERAL (E)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	199,937	-	199,937	199,937	-	-	-
3. Securities loans	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31.12.2018	199,937	-	199,937	199,937	-	-	X
Total at 31.12.2017	-	-	-	-	-	X	-

7. Financial liabilities offset in the financial statements or falling within the scope of master netting agreements or similar agreements

TECHNICAL TYPE	GROSS AMOUNT OF FINANCIAL LIABILITIES (A)	AMOUNT OF FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL STATEMENTS (B)	NET AMOUNT OF FINANCIAL LIABILITIES RECOGNISED IN THE FINANCIAL STATEMENTS (C = A - B)	CORRELATED AMOUNT NOT OFFSET IN THE FINANCIAL STATEMENTS		NET AMOUNT AT 31.12.2018 (F = C - D - E)	NET AMOUNT AT 31.12.2017
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS AS COLLATERAL (E)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	130,542	-	130,542	130,542	-	-	-
3. Securities loans	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31.12.2018	130,542	-	130,542	130,542	-	-	X
Total at 31.12.2017	230,224	-	230,224	230,224	-	X	-

IFRS 7 requires a detailed disclosure on offsetting of financial instruments pursuant to IAS 32 or financial instruments that can be potentially set off, under certain conditions, but have been recognised in the balance sheet without any offsetting as they fall within the scope of master netting agreements or similar agreements that do not meet all the requirements under IAS 32 paragraph 42.

In this regard, it should be noted that Banca Generali has not entered into any netting arrangements that meet the requirements of IAS 32.42 on offsetting in the financial statements.

With reference to financial instruments that can be potentially set off under certain conditions, currently Banca Generali, as far as repurchase agreements (REPO) are concerned, participates in the MTS S.p.A. Repo market through a Clearing Agreement with Cassa Compensazione e Garanzia (CC&G) concerning the centralised management of transaction clearing.

It should be noted that Banca Generali usually in repurchase agreements (REPO) with banks has in place master netting arrangements that enable offsetting of credits and debts in case of default of the counterparty and compliant with international standards (Global Master Repurchase Agreement - GMRA). Such transactions are also covered by GMRA-compliant financial guarantee agreements, envisaging the bilateral exchange of collaterals in cash and/or government bonds. These agreements, in the case of repurchase agreements, mitigate the liquidity risk by offsetting the debt to the counterparty. In the table, repurchase agreements are valued at amortised cost, whereas financial instruments used as collateral are valued at fair value up to the amount of the guaranteed liability.

PART C – INFORMATION ON THE PROFIT AND LOSS ACCOUNT

Section 1 – Interests - Items 10 and 20

1.1 Breakdown of interest income and similar revenues

ITEMS/TECHNICAL TYPES	DEBT SECURITIES	FINANCING	OTHER TRANSACTIONS	2018	2017
1. Financial assets measured at fair value through profit or loss:	144	-	-	144	159
1.1 HFT financial assets	66	-	-	66	159
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	78	-	-	78	-
2. Financial assets at fair value through other comprehensive income	4,525	-	-	4,525	18,269
3. Financial assets at amortised cost:	37,779	21,754	-	59,533	43,531
3.1 Loans to banks	1,385	568	-	1,953	2,377
3.2 Loans to customers	36,394	21,186	-	57,580	41,154
4. Hedging derivatives	-	-	-	-	-
5. Other assets	-	-	-	-	-
6. Financial liabilities	-	-	-	2,440	3,091
Total	42,448	21,754	-	66,642	65,050
<i>of which:</i>					
- <i>interest income on impaired financial assets</i>	-	465	-	465	552

By convention, interest on “Financial liabilities” includes the negative interest expense accrued on funding transactions and refers in part to funding repurchase agreements with banks and customers and in part to the negative interest applied to the captive balances of the Generali Group and Banking Group.

1.2 Breakdown of interest income and similar revenues: further information

	2018	2017
1.2.1 Interest income on financial assets in foreign currencies	688	204
1.2.2 Interest income on finance lease transactions	-	-
Total	688	204

Breakdown of negative interest income

	2018	2017
Interest income on bank deposits and current accounts	14	59
Repurchase agreements with banks	87	1,599
Repurchase agreements with customers	566	3
Interest income on customer deposit and current accounts	1,773	1,430
Total	2,440	3,091

1.3 Breakdown of interest expense and similar charges

ITEMS/TECHNICAL TYPES	DEBTS	SECURITIES	OTHER TRANSACTIONS	2018	2017
1. Financial liabilities at amortised cost:	2,990	-	-	2,990	2,819
1.1 Due to central banks	-	-	-	-	-
1.2 Due to banks	511	-	-	511	612
1.3 Due to customers	2,479	-	-	2,479	2,207
1.4 Securities issued	-	-	-	-	-
2. HFT financial liabilities	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and funds	-	-	-	-	-
5. Hedging derivatives	-	-	-	-	-
6. Financial assets	-	-	-	3,457	754
Total	2,990	-	-	6,447	3,573

By convention, interest on “Financial assets” includes the negative interest income accrued on lending transactions and primarily refers to demand deposits with the Central Bank.

1.4 Breakdown of interest expense and similar charges: further information

	2018	2017
1.4.1 Interest expense on liabilities in foreign currencies	389	87
1.4.2 Interest expense on finance lease transactions	-	-
Total	389	87

Breakdown of negative interest expense

	2018	2017
Interest expense on deposits with the ECB	3,321	663
Interest expense on deposits with banks	77	80
Repurchase agreements with customers	7	-
Interest expense on customer deposits	52	11
Total	3,457	754

Section 2 – Fees - Items 40 and 50

2.1 Breakdown of fee income

TYPE OF SERVICE/VALUES	2018	2017
a) Guarantees issued	586	631
b) Credit derivatives	-	-
c) Management, brokerage and consultancy services:	544,986	492,024
1. Trading of financial instruments	13,824	15,112
2. Currency trading	-	-
3. Individual portfolio management	79,452	60,068
4. Custody and administration of securities	456	414
5. Depository bank	-	-
6. Placement of securities	201,500	188,137
7. Order receiving and collection	8,651	6,280
8. Consultancy activities	15,395	7,967
8.1 Investment advice	15,395	7,967
8.2 Advice on financial structure	-	-
9. Distribution of third-party services	225,708	214,046
9.1 Portfolio management	792	3,187
9.1.1 Individual	28	2,541
9.1.2 Collective	764	646
9.2 Insurance products	224,208	210,304
9.3 Other products	708	555
d) Collection and payment services	4,318	2,993
e) Servicing related to securitisations	-	-
f) Factoring-related services	-	-
g) Tax collection services	-	-
h) Management of multilateral trading facilities	-	-
i) Keeping and management of current accounts	2,166	2,289
j) Other services	2,102	2,373
of which:		
- all-inclusive fees on credit lines	1,759	1,771
Total	554,158	500,310

Table 2.1 relating to the breakdown of fee income includes revenues arising from financial services falling within the scope of IFRS 15, broken down by type of service rendered. With reference to the provisions of IFRS 15 paragraph 113, fee income may be further divided into the following four categories:

	2018	2017
Underwriting fees	21,619	20,419
Management fees	485,041	441,026
Performance fees	1	806
Other fees for banking and financial services	47,497	38,059
Total fee income	554,158	500,310

Underwriting, management and performance fees refer, in particular, to individual (discretionary) and collective (Sicavs promoted by the Banking Group) portfolio management, placement of securities and distribution of third-party services.

	UNDERWRITING FEES	MANAGEMENT FEES	PERFORMANCE FEES	OTHER	TOTAL
Individual portfolio management	615	78,836	1	-	79,452
Placement of Group's UCITS	4,192	98,469	-	-	102,661
Placement of UCITS	3,799	86,618	-	-	90,417
Placement of securities	8,422	-	-	-	8,422
Distribution of third-party services	4,590	221,118	-	-	225,708
Other services and banking products	-	-	-	47,498	47,498
Total fee income	21,618	485,041	1	47,498	554,158

Underwriting fees refer to the support provided by the Bank's sales network to customers for the purchase of financial products and services and their useful lives concluded when the products and services concerned are subscribed. In particular, the item includes the distribution and private placement of certificates.

Management fees refer to:

- > discretionary management of financial assets on behalf of customers according to the conditions specified in individual mandates, accruing on a quarterly basis;
- > collective management of the assets of the Sicavs managed by the Banking Group's management company (Lux IM Sicav, BG Selection Sicav and BG Alternative Sicav) on the basis of the conditions established for each sub-fund in the relevant prospectuses, accruing on a monthly basis;
- > the ongoing customer support activity carried out by the Financial Advisor network with regard to the placement of units of third-party UCITS and the distribution of insurance products.

Finally, fees on other services include revenues on traditional banking services (custody and trading of financial instruments, collection and payment services, current account keeping and management services, etc.) and advisory fees, mostly consisting of recurring fees.

Fee revenues consist solely of short-term items, normally collected on a monthly or quarterly basis and therefore do not include a component of a financial nature relating to the passage of time.

In reference to IFRS 15, paragraph 116 b), fee income on the placement of securities includes revenues of 752 thousand euros on the recycling to the profit and loss account for the year of liabilities included in the opening balance attributable to contracts (deferred income).

2.2 Fee income: distribution channels of products and services offered

CHANNELS/VALUES	2018	2017
a) Group branches	1,416	388
1. Portfolio management	-	-
2. Placement of securities	1,416	388
3. Third-party products and services	-	-
b) Off-premises offer	505,244	461,863
1. Portfolio management	79,452	60,068
2. Placement of securities	200,084	187,749
3. Third-party products and services	225,708	214,046
c) Other distribution channels	-	-
1. Portfolio management	-	-
2. Placement of securities	-	-
3. Third-party products and services	-	-
Total	506,660	462,251

2.3 Breakdown of fee expense

SERVICES/VALUES	2018	2017
a) Guarantees received	13	19
b) Credit derivatives	-	-
c) Management and brokerage services:	320,511	313,490
1. Trading of financial instruments	5,262	5,336
2. Currency trading	-	-
3. Portfolio management	746	595
3.1 Own portfolio	746	595
3.2 Third-party portfolio	-	-
4. Custody and administration of securities	1,636	1,562
5. Placement of financial instruments	-	-
6. Off-premises offer of financial instruments, products and services	312,867	305,997
d) Collection and payment services	3,991	2,414
e) Other services	871	577
Total	325,386	316,500

Fee expense for off-premises offer includes the costs incurred to acquire or fulfil contracts with customers of 58,683 thousand euros, of which 47,246 thousand euros relating to previous years.

Section 3 – Dividends and similar income - Item 70

3.1 Breakdown of dividends and similar income

ITEMS/INCOME	2018		2017	
	DIVIDENDS	SIMILAR INCOME	DIVIDENDS	SIMILAR INCOME
A. HFT financial assets	38	-	53	25
B. Other financial assets mandatorily measured at fair value	52	1,394	1,493	1,174
C. Financial assets measured at fair value through other comprehensive income	824	-	-	-
D. Equity investments	148,724	-	201,770	-
Total	149,638	1,394	203,316	1,199

Section 4 – Net income from trading - Item 80

4.1 Breakdown of net income from trading

TRANSACTIONS/INCOME COMPONENTS	CAPITAL GAINS	INCOME FROM TRADING	CAPITAL LOSSES	LOSSES FROM TRADING	NET RESULT 2018	NET RESULT 2017
1. HFT financial liabilities	34	1,030	396	206	462	1,659
1.1 Debt securities	34	813	395	16	436	1,545
1.2 Equity securities	-	216	1	114	101	218
1.3 UCITS units	-	1	-	76	-75	-104
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	-	-	-	-	-
2. HFT financial liabilities	-	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-	-
2.2 Debts	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
3. Other financial assets and liabilities: exchange gains and losses	-	-	-	-	4,909	3,174
4. Derivatives	-	595	-	676	-80	87
4.1 Financial:	-	595	-	676	-80	87
- On debt securities and interest rates	-	-	-	-	-	-
- <i>interest rate swaps</i>	-	-	-	-	-	-
- <i>government bond forwards</i>	-	-	-	-	-	-
- On equity securities and stock indexes	-	595	-	676	-81	98
- <i>options</i>	-	582	-	636	-54	93
- <i>futures</i>	-	13	-	40	-27	5
- On currency and gold ⁽¹⁾	-	-	-	-	1	-11
- Other	-	-	-	-	-	-
4.2 Credit	-	-	-	-	-	-
<i>of which:</i>						
- <i>natural hedging related to the fair value option</i>	-	-	-	-	-	-
Total	34	1,625	396	882	5,291	4,920

(1) It includes currency options and currency outright.

Section 6 – Gains (losses) on disposal/repurchase - Item 100

6.1 Breakdown of gains (losses) on disposal/repurchase

ITEMS/INCOME COMPONENTS	2018			2017		
	GAINS	LOSSES	NET RESULT	GAINS	LOSSES	NET RESULT
A. Financial assets						
1. Financial assets at amortised cost:	2,606	-	2,606	1,115	74	1,041
1.1 Loans to banks	-	-	-	715	-	715
1.2 Loans to customers	2,606	-	2,606	400	74	326
2. Financial assets at fair value through other comprehensive income	19,824	6,388	13,436	16,049	7,951	8,098
2.1 Debt securities	19,824	6,388	13,436	16,049	7,951	8,098
2.2 Loans	-	-	-	-	-	-
Total assets	22,430	6,388	16,042	17,164	8,025	9,139
Assets mandatorily measured at fair value	-	-	-	2,501	1,217	1,284
Total assets	22,430	6,388	16,042	19,665	9,242	10,423
B. Financial liabilities at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

HTCS equity reserves transferred back to the profit and loss account due to the disposal of pre-existing equity reserves of the HTCS portfolio are illustrated in the following table.

	POSITIVE	NEGATIVE	NET
Debt securities	16,068	-3	16,065
Total	16,068	-3	16,065

Section 7 – Net result on other financial assets and liabilities measured at fair value through profit and loss - Item 110

7.2 Net change of other financial assets and liabilities measured at fair value through profit and loss account: breakdown of other financial assets mandatorily measured at fair value

TRANSACTIONS/INCOME COMPONENTS	2018				
	CAPITAL GAINS	GAINS ON DISPOSAL	CAPITAL LOSSES	LOSSES ON DISPOSAL	NET RESULT
1. Financial assets	3,186	152	1,104	1,756	478
1.1 Debt securities	-	96	73	-	23
1.2 Equity securities	-	-	976	-	-976
1.3 UCITS units	3,164	15	55	1,756	1,368
1.4 Loans	22	41	-	-	63
2. Financial assets in foreign currencies:	-	-	-	-	-
Exchange differences	-	-	-	-	-
Total	3,186	152	1,104	1,756	478

Section 8 – Net adjustments/reversals for credit risk - Item 130

8.1 Breakdown of net adjustments for credit risk relating to financial assets measured at amortised cost

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS		2018	2017
	STAGE 1 AND STAGE 2	STAGE 3		STAGE 1 AND STAGE 2	STAGE 3		
		WRITE-OFF	OTHER				
A. Loans to banks	172	-	-	-	-	-172	1,025
- Loans	69	-	-	-	-	-69	-
- Debt securities	103	-	-	-	-	-103	1,025
<i>of which:</i>							
- <i>acquired or originated impaired loans</i>	-	-	-	-	-	-	-
B. Loans to customers	4,784	34	1,588	535	1,052	-4,819	-2,807
- Loans	-	34	1,588	535	1,046	-41	-1,718
- Debt securities	4,784	-	-	-	6	-4,778	-1,089
<i>of which:</i>							
- <i>acquired or originated impaired loans</i>	-	-	-	-	-	-	-
Total	4,956	34	1,588	535	1,052	-4,991	-1,782

Specific adjustments to loans to customers classified under “Stage 3” amounted to 1,588 thousand euros and included 235 thousand euros for positions past due by more than 90 days, 799 thousand euros for unlikely-to-pay positions, 97 thousand euros for bad loans, and, for the remainder, to other operating loans and loans to sales network. The item also includes impairment losses on fee income deriving from contracts within the scope of application of IFRS 15 of approximately 300 thousand euros.

These write-downs were partially offset through reversals relating to positions past due at the end of the previous year (237 thousand euros) and reclassified out of the non-performing category, to unlikely-to-pay exposures (711 thousand euros), to bad loans (54 thousand euros) and, for the remainder, to operating loans and advance payments to the sales network (45 thousand euros).

Reserves covering expected losses on loans classified to Stage 1 and Stage 2 presented net reversals of 466 thousand euros.

Portfolio adjustments on debt securities classified under “Stage 1” and “Stage 2” - including loans to banks for 103 thousand euros and loans to customers amounting to 4,784 thousand euros - referred to the adjustment of the collective reserve allocated to account for expected impairment of the corporate bond portfolio.

During the transition to IFRS 9, the method for calculating impairment was modified from PD based on historical series of default rates surveyed globally by issuer rating class and residual maturity of the security to a new forward-looking method based on market price trends from which the credit-risk component has been isolated.

8.2 Breakdown of net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS		2018	2017
	STAGE 1 AND STAGE 2	STAGE 3		STAGE 1 AND STAGE 2	STAGE 3		
		WRITE-OFF	OTHER				
A. Debt securities	2,285	-	-	-	-	-2,285	-
B. Loans	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which:							
- acquired or originated impaired financial assets	-	-	-	-	-	-	-
Total	2,285	-	-	-	-	-2,285	-
Equity securities	-	-	-	-	-	-	-1,487
Total	2,285	-	-	-	-	-2,285	-1,487

Portfolio adjustments on debt securities classified under “stage 1” and “stage 2” amounted to 2,285 thousand euros and refer to the adjustments of the collective reserve allocated to account for potential impairment of the bond portfolio.

Net adjustments for impairment of other financial transactions

The Financial Statements at 31 December 2017 included net adjustments for impairment of financial transactions amounting to 2,148 thousand euros were.

This amount consisted, almost exclusively, of the contributions made by the Bank to the Interbank Deposit Protection Fund (FITD), which used them as part of the bail-out of Caricesena, CARIM and CARISMI for the recapitalisation of the three banks before selling them to Cariparma.

Section 10 – General and administrative expenses - Item 160

Breakdown of general and administrative expenses

	2018	2017
160 a) Staff expenses	79,330	78,590
160 b) Other general and administrative expenses	160,329	145,921
Total	239,659	224,511

10.1 Breakdown of staff expenses

TYPE OF EXPENSES/VALUES	2018	2017
1) Employees	78,353	77,921
a) Wages and salaries	44,421	41,970
b) Social security charges	11,177	10,793
c) Termination indemnity	662	611
d) Retirement benefit plans	-	-
e) Provision for termination indemnity	83	63
f) Provision for pensions and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) Amounts paid to supplementary external pension funds:	3,901	3,639
- defined contribution	3,901	3,639
- defined benefit	-	-
h) Costs related to payment agreements based on own equity instruments	2,170	2,160
i) Other employee benefits	15,939	18,685
2) Other staff	380	437
3) Directors and Auditors	980	765
4) Retired personnel	-	22
5) Recovery of expenses for staff seconded to other companies	-540	-621
6) Repayments of expenses for staff seconded to the Company	157	66
Total	79,330	78,590

10.2 Average number of employees by category

	2018	2017
Employees	837	823
a) Managers	48	45
b) Executives	254	245
of which:		
- 3 rd and 4 th level	139	137
- 1 st and 2 nd level	115	108
c) Employees at other levels	535	533
Other employees	-5	-5
Total	832	818

Breakdown of personnel

	2018	2017
Employees	837	834
a) Managers	49	46
b) Executives	262	245
of which:		
- 3 rd and 4 th level	143	135
- 1 st and 2 nd level	119	110
c) Employees at other levels	526	543
Other employees	-5	-5
Contract and temporary workers	1	2
Seconded staff from other companies	1	1
Seconded staff to other companies	-7	-8
Total	832	829

10.4 Other employee benefits

	2018	2017
Short-term productivity bonuses	8,858	8,954
Long-term benefits	2,026	5,612
Charges for Relationship Manager recruitment plans	743	4,260
Charges for deferred variable remuneration (managers' MBO)	1,028	1,094
Charges for post-employment medical care plans	255	258
Other benefits	5,055	4,119
Charges for staff supplementary pensions	2,589	2,292
Amounts replacing cafeteria indemnities	905	803
Training expenses	812	752
Contributions to employees	314	260
Transfer incentives and other indemnities	315	-
Other expenses	120	12
Total	15,939	18,685

Short-term productivity bonuses include the portion of non-deferred variable remuneration payable in cash (MBO) for office and sales managers and portfolio managers, the performance bonus envisaged in company supplementary contracts and allocations in service of the 2018 plan for measures.

10.5 Breakdown of other general and administrative expenses

	2018	2017
Administration	17,898	17,066
Advertising	3,847	4,154
Audit fees	8,436	8,439
Corporate boards and auditing firms	411	272
Insurance	3,210	3,105
Entertainment expenses	880	376
Membership contributions	853	613
Charity	261	107
Operations	38,804	36,065
Rent and usage of premises and management of property	19,604	18,063
Outsourced administrative services	6,491	6,046
Post and telephone	2,498	2,319
Print material	1,442	1,324
Other expenses for sales network management	2,965	2,778
Other expenses and purchases	3,632	3,337
Other indirect staff expenses	2,172	2,198
Information system and equipment	39,399	35,836
Expenses related to outsourced IT services	27,711	26,200
Fees for IT services and databases	6,608	6,163
Software maintenance and servicing	4,208	2,687
Fees for equipment hired and software used	149	161
Other maintenance	723	625
Indirect taxation	56,613	52,216
Stamp duty on financial instruments	55,385	50,600
Substitute tax on medium/long-term financing	563	961
Other indirect taxes to be paid by the bank	665	655
Contributions to the Italian National Resolution Fund and the Interbank Protection Fund	7,615	4,738
Total	160,329	145,921

Section 11 – Net provisions for liabilities and contingencies - Item 170

11.1 Breakdown of net provisions for credit risk relating to commitment to disburse funds and financial guarantees issued

	2018			2017		
	PROVISIONS	SURPLUS	NET	PROVISIONS	SURPLUS	NET
Provisions for commitments and guarantees issued	-	-118	-118	-	-	-
Total	-	-118	-118	-	-	-

11.3 Breakdown of net provisions to other provisions for liabilities and contingencies

	2018			2017		
	PROVISIONS	SURPLUS	NET	PROVISIONS	SURPLUS	NET
Provision for staff expenses	1,652	-655	997	1,823	-3,121	-1,298
Provision for restructuring plan	697	-	697	-	-2,690	-2,690
Provision for staff expenses – Other ⁽¹⁾	955	-655	300	1,823	-431	1,392
Provision for legal disputes	5,471	-2,937	2,534	6,914	-2,421	4,493
Provision for risks related to legal disputes with subscribers	1,875	-1,146	729	1,220	-1,333	-113
Provision for risks related to legal disputes with Financial Advisors	465	-	465	270	-38	232
Provision for risks related to legal disputes with staff	-	-	-	-	-50	-50
Provision for risks related to legal disputes with other parties	3,131	-1,791	1,340	5,424	-1,000	4,424
Provisions for termination indemnity – Financial Advisors	22,231	-1,665	20,566	13,993	-1,122	12,871
Provision for termination indemnity – Financial Advisors	11,041	-1,122	9,919	9,146	-940	8,206
Provision for manager incentive indemnity	7,057	-	7,057	-	-	-
Provision for portfolio overfee indemnities	59	-472	-413	853	-46	807
Provision for pension bonuses	293	-71	222	485	-136	349
Provisions risks for the Framework Loyalty Programme	3,781	-	3,781	3,509	-	3,509
Provisions for network incentives	28,546	-5,819	22,727	42,713	-1,469	41,244
Provision for network development plans	24,428	-5,764	18,664	31,411	-1,099	30,312
Provision for deferred bonus	187	-	187	186	-182	4
Provision for sales incentives	-	-	-	4,994	-	4,994
Provisions for managers with access gate	300	-	300	2,565	-188	2,377
Provision for incentive travels	3,251	-51	3,200	2,948	-	2,948
Provision for fee plans	380	-4	376	606	-	606
Provision for loyalty programme	-	-	-	3	-	3
Other provisions for liabilities and contingencies	1,364	-	1,364	1,390	-	1,390
Total	59,264	-11,076	48,188	66,833	-8,133	58,700

(1) Provisions for staff expenses do not include the items that are classified as “Staff expenses - Other benefits” in accordance with IAS 19.

Section 12 – Net adjustments/reversals of property and equipment - Item 180

12.1 Breakdown of net adjustments of property and equipment

ASSETS/INCOME COMPONENTS	DEPRECIATION (A)	ADJUSTMENTS FOR IMPAIRMENT (B)	REVERSALS (C)	NET RESULT (A + B - C) 2018	NET RESULT 2017
A. Property and equipment					
A.1 Owned	1,485	-	-	1,485	1,373
- operating	1,485	-	-	1,485	1,373
- investment	-	-	-	-	-
- inventories	-	-	-	-	-
A.2 Finance leases	-	-	-	-	-
- operating	-	-	-	-	-
- investment	-	-	-	-	-
Total	1,485	-	-	1,485	1,373

Section 13 – Net adjustments/reversals of intangible assets - Item 190

13.1 Breakdown of net adjustments of intangible assets

ASSETS/INCOME COMPONENTS	DEPRECIATION (A)	ADJUSTMENTS FOR IMPAIRMENT (B)	REVERSALS (C)	NET RESULT (A + B - C) 2018	NET RESULT 2017
A. Intangible assets					
A.1 Owned	7,738	-	-	7,738	6,716
- generated in-house	-	-	-	-	-
- other	7,738	-	-	7,738	6,716
A.2 Finance leases	-	-	-	-	-
Total	7,738	-	-	7,738	6,716

Breakdown of value adjustments of intangible fixed assets - amortisation

	2018	2017
Charges associated with the implementation of legacy CSE procedures	5,977	4,062
Customer relationships	1,152	2,105
Other intangible fixed assets	609	549
Total	7,738	6,716

Section 14 – Other operating income and expenses - Item 200

14.1 Breakdown of other operating expenses

	2018	2017
Adjustments of leasehold improvements	2,074	1,646
Write-downs of other assets	-	37
Indemnities and compensation for litigation and claims	517	427
Charges from accounting adjustments with customers	1,154	1,275
Charges for card compensation and guarantees	14	7
Costs associated with tax disputes, penalties and fines	6	9
Other contingent liabilities and non-existent assets	758	1,128
Other operating expenses	133	-
Total	4,656	4,529

14.2 Breakdown of other operating income

	2018	2017
Recovery of taxes from customers	55,117	50,931
Recovery of expenses from customers	570	643
Fees for outsourced services	136	261
Charge-back of portfolio development indemnity to incoming Financial Advisors	1,922	1,601
Indemnities for Financial Advisors' termination without notice	562	199
Other recoveries of repayments and costs from Financial Advisors	1,269	1,001
Contingent assets related to staff expenses	1,816	1,367
Contributions to provision for employment in the banking sector (FOC) and the fund for staff training	224	227
Other contingent assets and non-existent liabilities	1,812	1,429
Insurance compensation and indemnities	134	303
Other income	134	284
Total	63,696	58,246
Total other net income	59,040	53,717

Section 18 – Gains (losses) on disposal of investments - Item 250

18.1 Breakdown of gains (losses) on disposal of investments

INCOME COMPONENTS/VALUES	2018	2017
A. Buildings	-	-
Gains on disposal	-	-
Losses on disposal	-	-
B. Other assets	-282	-15
Gains on disposal	-	1
Losses on disposal	282	16
Net result	-282	-15

Section 19 – Income tax for the year for current operations - Item 270

19.1 Breakdown of income tax for the year for current operations

INCOME COMPONENTS/VALUES	2018	2017
1. Current taxation (-)	-31,688	-22,970
2. Change in prior years' current taxes (+/-)	2,018	1,553
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current taxes for the year arising on tax credits, pursuant to Law No. of 214/2011 (+)	-	-
4. Changes of prepaid taxation (+/-)	1,079	6,350
5. Changes of deferred taxation (+/-)	1,308	-612
6. Taxes for the year (-)	-27,283	-15,679

19.2 Reconciliation between theoretical and actual tax expense

The following table reconciles the total amount of taxes due for the year, including both current and deferred taxes, as indicated in Item 270 of the Profit and Loss Account, and the theoretical corporate income tax IRES calculated by applying the 27.5% current applicable tax rate to profit before taxation.

It should be noted that the effects of the reduction of the IRES tax rate from 27.50% to 24% with effect from 1 January 2017 for tax periods after that in progress at 31 December 2016 by the "2016 Stability Law" were neutralised for the Bank as a result of the introduction by that same Law of a surtax of 3.5 percentage points on credit and financial institutions in respect of the same tax periods.

The reconciliation statement is therefore expressed based on higher or lower current and deferred taxes debited or credited to the Profit and Loss Account compared to the theoretical taxation.

	2018	2017
Current taxation	-31,688	-22,970
IRES	-22,635	-13,903
IRAP	-9,053	-9,061
Other	-	-6
Prepaid and deferred taxation	2,387	5,738
IRES	1,470	4,405
IRAP	917	1,333
Prior years' taxes	2,018	1,553
IRES	1,309	1,007
IRAP	709	546
Income taxes	-27,283	-15,679
Theoretical tax rate	27.5%	27.5%
Profit (loss) before taxation	216,341	222,128
Theoretical taxation	-59,494	-61,085
Non-taxable income (+)		
Dividends	39,083	53,102
ACE	897	710
Deductible IRAP and other	47	50
Non-deductible charges (-)		
Impairment of equity securities PEX	-234	-493
Other non-deductible costs	-1,556	-1,782
IRAP	-8,136	-7,728
Prior years taxes	2,018	1,553
Other (foreign) taxes	-	-6
Change in deferred taxes without offsetting entry	92	-
Actual tax expense	-27,283	-15,679
Total actual tax rate	12.6%	7.1%
Actual tax rate (IRES)	9.2%	3.8%
Actual tax rate (IRAP)	3.4%	3.2%

Section 22 – Earnings per Share

22.1 Average number of ordinary shares with diluted capital

	2018	2017
Net profit for the year (€ thousand)	189,058	206,449
Earnings attributable to ordinary shares (€ thousand)	189,058	206,449
Average number of outstanding shares (thousand)	115,784	116,482
EPS - Earnings per Share (euro)	1.63	1.77
Average number of outstanding shares with diluted capital (thousand)	115,784	116,482
EPS - Diluted earnings per share (euros)	1.63	1.77

PART D – COMPREHENSIVE INCOME

Analytical Statement of Comprehensive Income

ITEMS	2018	2017
10. Net profit (loss) for the year	189,058	206,449
Other income, without transfer to Profit and Loss Account	-52	-107
20. Equity securities at fair value through other comprehensive income:	-	-
a) fair value changes	-	-
b) transfers to other net equity components	-	-
30. Financial liabilities at fair value through profit or loss (change in the own creditworthiness):	-	-
a) fair value changes	-	-
b) transfers to other net equity components	-	-
40. Equity security hedges at fair value through OCI:	-	-
a) fair value changes (hedged instrument)	-	-
b) fair value changes (hedging instrument)	-	-
50. Property and equipment	-	-
60. Intangible assets	-	-
70. Defined benefit plans	-71	-148
80. Non-current assets available for sale and disposal groups	-	-
90. Share of valuation reserves of equity investments valued at equity	-	-
100. Income taxes on other income, without transfer to Profit and Loss Account	19	41
Other income, with transfer to Profit and Loss Account	-25,618	12,795
110. Hedges of foreign investments:	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-	-
120. Exchange differences:	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-	-
130. Cash-flow hedges:	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-	-
of which: result of net positions	-	-
140. Hedging instruments (non-designated items):	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-	-
150. Financial assets (other than equity securities) at fair value through other comprehensive income:	-37,756	19,559
a) fair value changes	-22,899	22,913
b) transfer to Profit and Loss Account	-14,857	-3,354
- adjustments due to credit risk	1,208	11
- gains (losses) on disposal	-16,065	-3,365
c) other changes	-	-
160. Non-current assets available for sale and disposal groups:	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-	-
170. Share of valuation reserves of equity investments valued at equity:	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
- adjustments due to impairment	-	-
- gains (losses) on disposal	-	-
c) other changes	-	-
180. Income taxes on other income, with transfer to Profit and Loss Account	12,138	-6,764
190. Total other income components	-25,670	12,688
200. Comprehensive income (Items 10 + 190)	163,388	219,137

PART E – INFORMATION ON RISKS AND RISK HEDGING POLICIES

Foreword

The development of a genuine risk culture within Banca Generali is based upon an understanding of the risks that the Bank assumes and how they are managed, while always taking full account of the risk tolerance threshold defined in the Bank's Risk Appetite Framework (RAF).

In this context, the internal control system plays a key role in the risk management process, as well as in the Bank's corporate governance generally.

The internal control system is a set of rules, procedures and organisational structures aimed at ensuring compliance with Company strategies, while also seeking to achieve:

- > the efficiency and effectiveness of work processes;
- > the maintenance of asset value and protection against losses;
- > the reliability and integrity of accounting and operating information;
- > operational compliance with the law and supervisory regulations;
- > policies, plans, regulations and internal procedures; and
- > the dissemination of a culture of control involving training initiatives for the various levels.

The Banca Generali Banking Group has designed an internal control model consistent with best practices at the national and international levels and structured on three different organisational levels:

- > first-tier checks: they are performed by production or back-office company areas and organisational units, with the support of information technology procedures, where envisaged, and take the form of hierarchical or line checks;
- > second-tier checks: they aim at preventing and mitigating risks of different nature through prior risk assessment of products and business practices, and the development of ex-ante support to operating activities. The aforementioned checks are performed by the following functions:
 - the Risk and Capital Adequacy Department is tasked with identifying, measuring/evaluating and monitoring all the types of risks to which the Banking Group is exposed in terms of its own assets (excluding the risks of non-compliance, money laundering and financing of terrorism), providing relevant information and thereby contributing to the definition and implementation of the Risk Appetite Framework, as well as all related risk management policies. The Department acts with a view to maintaining risk levels within the limits and tolerance thresholds indicated in the exposure profile and strategies established by the Board of Directors in the Risk Appetite Framework. It assures that risks are fully and transversally analysed, and to this end it applies a strategic, consistent and prospective approach and duly provides periodic reports;
 - Compliance Service: it is tasked with verifying the observance of obligations relating to the provision of services for Banking Group companies and preventing and managing the risk of non-compliance with applicable legislation;
 - The Anti-Money Laundering Service is responsible within the Banking Group for preventing and combating the transactions involving money laundering and financing of terrorism;
- > third-tier checks: they are conducted by the Internal Audit Department and are aimed at an independent verification of the operating efficacy and quality of control systems and the verification of any conduct departing from the established rules.

The proper functioning of the risk governance system adopted by the Banca Generali Group is ensured by consistency from the standpoint of organisational structure, competencies and a guarantee of the independence of functions.

Within the internal control system, it is possible to identify the second tier as the home to an internal risk management culture that then effectively translates into company behaviour and choices.

The following entities operate within the Internal Control System, in addition to the tasks assigned to the Board of Directors, the control body and the independent auditors (who are responsible for accounting control):

- > the Audit and Risk Committee, which was set up pursuant to the Corporate Governance Code of Listed Companies and supervisory regulations, and is tasked with performing a supporting role, with investigative, propositional and advisory duties in relation to the Board of Directors and the Board of Statutory Auditors, in particular on matters of internal control and risk management, related parties and connected parties, statutory auditing and equity investments. The tasks and functions of the Committee, as well as the frequency of its meetings and the operating procedures to be followed to ensure that its duties are smoothly and properly performed, shall be regulated pursuant to specific Internal Audit and Risk Committee Rules;
- > the Risks Committee is charged with enduring coordinated coverage of the system for managing and controlling the risks assumed by the Group in compliance with the Risk Appetite Framework; it is vested with specific responsibility for monitoring the Group's risks, such as the management of risk containment measures, as well as decision-making powers for identifying and implementing risk containment measures;
- > the Supervisory Body, which is the corporate body in charge of updating the Organisational and Management Model and monitoring the implementation of and compliance with the said Model;

- > the Law 262 Organisational Unit, which acts as a point of reference, orienting and coordinating the management of all the Banking Group's administrative and accounting risks, for the intents and purposes of Law No. 262/2005.

Section 1 - Credit risks

Qualitative Information

1. General Aspects

Credit risk is defined as the possibility that an unexpected variation in the creditworthiness of a counterparty may result in a corresponding unexpected variation in the current value of the loan exposure. Credit risk thus manifests as a decline in the counterparty's creditworthiness (migration or downgrading risk) and the risk of insolvency.

With regard to credit risk management, the Group has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group's risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

Credit risk exposure derives from loans to customers, which include current accounts and mortgage loans and unsecured loans to individuals and businesses, operating receivables, financial instruments classified in the Hold To Collect portfolio (IFRS 9) and then valued at amortised cost, and liquidity invested on the money market through interbank deposits.

If one focuses on customer loans in the traditional form of current account credit lines and loans, one can see that this activity, in Banca Generali, is an accessory function to the core activity consisting of managing investment services for private customers.

Credit is provided primarily to private customers (70%) and the rest to companies (about 30%), with a high credit rating. The first case focuses on credit lines secured by collateral, primarily in the form of pledges on financial instruments and first mortgages on residential properties; the second case, corporate customers, concerns transactions secured almost exclusively by collateral on financial instruments.

The Group has also formally defined lending policy guidelines within the Lending Rules and Procedures of Banca Generali S.p.A. that assign specific responsibilities to each company unit involved.

The Group has defined an extensive system of powers and limits associated with loan authorisation. In this context, detailed levels of autonomy have been defined and formalised regarding the authorisation powers resting with the various decision-making levels together with specific operating procedures.

In terms of the monitoring of loans, after they have been disbursed, the Group has assigned specific tasks pertaining to timely monitoring of outstanding loan positions.

First-tier control activities are conducted by the Lending Department and the Finance Department, which is responsible for lending operations involving institutional borrowers (loans to banks) and securities investment operations, which are considered when defining the Group's overall credit exposure.

The second-tier control activities are the responsibility of the Risk and Capital Adequacy Department which ensures that the operations, strategies and Risk Appetite Framework (RAF), approved by the Bank's Board of Directors, are coherent. In the specific case of portfolios of loans to retail and corporate counterparties, the Risk and Capital Adequacy Department is tasked with identifying, measuring, assessing, monitoring and managing credit risk through performance monitoring aimed at identifying any anomalies or substantial changes in the trend in the portfolio of reference in order to obtain an overview of the risk profile of the portfolio in question, prepare timely, adequate information for company bodies and report any anomalies in first-tier monitoring.

Particular importance is placed on managing the credit risk associated with institutional borrowers. These borrowers are allocated appropriate credit lines, which are monitored by the Risk Management function and established with the objective of always maintaining a level of risk that is consistent with the strategies and the risk appetite framework.

Third-tier controls are conducted by the Internal Audit Service, in accordance with the Internal Rules and Procedures.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the credit risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

2. Credit Risk Management Policies

2.1 Organisational aspects

The Bank's processes provide for the retail and corporate customer credit activity to be run by the Credit Department and loans to institutional counterparties and banks to be run by Banca Generali's Finance Department.

The Lending Department is tasked with issuing loans to retail and corporate customers, since it is responsible for loan approval and outstanding loan management, as provided for in the Lending Rules and Regulations.

2.2 Management, measurement and control systems

In addition to issuing loans, the Lending Department is also charged with credit managing and first-tier control, with a special focus on the performance of doubtful loans.

Within the Lending Department, responsibility for monitoring is assigned to specialised individual units on the basis of the supervisory classification of customers (performing and non-performing). The purpose of this is to maximise the efficacy of the actions aimed at monitoring and mitigating credit risk and managing the commercial relationship.

The Bank's loan portfolio has a low incidence of non-performing loans (NPLs), compared with both the previous year and the total portfolio, and a rather high level of quality in terms of the creditworthiness of performing loans. The Bank uses a management rating model to manage the creditworthiness of its counterparties in quantitative terms. An analysis of the distribution by rating class shows an improvement in the distribution by class compared with the previous year in terms of both the number of counterparties and exposure amounts.

As mentioned above, at the end of 2018 the NPL portfolio declined compared to the end of 2017 due to the closing of part of the portfolio with a recovery and the effect of the new credit granting and monitoring policies.

The improvement seen in the quality of the portfolio was also due to the thorough revision of credit processes launched in 2017 and rendered operational in January 2018 with the update of the loan authorisation and renewal policy, the release of the new Quiclic Credit Platform and full use of the Lombard loan form (inclusion in the range in Q4 2017), all accompanied by the Bank's efforts to provide information and training to the network in order to spread the fundamental principles that form the basis for the credit process. The positive effects of all these initiatives made it possible to ensure timely alignment of credit activity with the new supervisory guidelines, pursued alongside the goals of credit product quality and competitiveness.

In accordance with the revamped loan authorisation policies, in Q4 2018 the Bank also began to introduce new credit pricing policies, differentiated by type of exposure and assessment of customer creditworthiness.

In 2019 the Bank plans to intensify the efforts it began in 2018 through even more thorough monitoring of the performance of the credit risk associated with individual positions made possible by new developments in the relevant IT procedures and organisational units – activities capable of ensuring further improvement of portfolio quality, while also effectively supporting the network in its relationships with customers.

The credit risk on the securities portfolio is very low since it predominantly consists of government and bank-issued securities. The corporate securities in the portfolio are negligible.

2.3 Expected loss measurement methods

Following the introduction of the accounting standard IFRS 9, the Bank has adopted an impairment model based on the concept of expected losses, which makes it possible to determine adjustments to loans on the basis of the parameters PD (probability of default) and LGD (loss given default) in forward-looking and point-in-time terms. Such value adjustments are determined over a time horizon of one year in the event of positions classified to Stage 1, or on a lifetime horizon, in the event of positions classified to Stage 2.

The stage assignment criteria for the portfolio of loans to customers in the traditional form of account overdrafts and mortgage/unsecured loans take account of the counterparty's status, any forbearance measures, decline in creditworthiness compared with origination and limits exceeded for more than 30 days.

When calculating impairment, the probability of default is determined on the basis of the counterparty's rating class (the Bank adopts a management rating model, developed with the CSE consortium) and the residual term of the loan. LGD is instead largely determined on the basis of loan type and counterparty type and whether certain guarantees are present. Finally, the parameter EAD (exposure at default) is equal to the accounting balance for demand positions, individual contractual cash flows discounted according to the internal rate of return for term positions and the accounting balance adjusted by the regulatory credit conversion factor (CCF) for off-balance sheet exposures.

Within the debt securities portfolio, securities classified to the held to collect and the held to collect and sell portfolios that have passed the SPPI test are tested for impairment.

When calculating impairment, it is fundamental to classify the staging of individual positions in order to identify any decline in creditworthiness (credit quality) between the purchase of the security and the reporting date. This process (stage assignment) determines the residual quantities and the date with which to associate the credit quality/rating upon purchase, to be compared with the credit quality/rating observed at the reporting date for the purposes of identifying any "significant decline" in credit quality.

The impairment of securities subject to the IFRS 9 rules is calculated according to the following variables:

- > PD: the model adopted for calculating the probability of default (PD) to be applied to the proprietary portfolio within the impairment scope is based on an estimate of a term structure default probability for each security. The component representing the remuneration for operator risk is eliminated from default probability measures so as to isolate the credit component (this is known as the “real world approach”);
- > LGD: the estimate of the loss given default (LGD) to be applied to the portfolio is calculated according to a deterministic approach in which the LGD parameter is assumed to be constant over the financial asset's entire time horizon as a function of the ranking of the instrument and the classification of the issuer's country;
- > EAD: in the case of the proprietary finance portfolio, reference is made to the nominal value, inclusive of the coupon accrued at the measurement date, discounting both values at the security's rate of return.

2.4. Credit Risk Mitigation Techniques

With regard to the portfolio of loans to retail and corporate customers, in order to mitigate credit risk, collaterals - or more sporadically personal guarantees - are typically required to secure the loans granted.

Collaterals are chiefly in the form of pledges on securities, including discretionary mandates, funds and insurance products. As limited to certain segments of customers (Group's employees and Financial Advisors), mortgages are also acquired, almost exclusively in residential properties used as a primary residences: on a conservative basis, they are registered in an amount in excess of the obligation they secure. Where securities are used as collateral, a volatility haircut is normally applied to the value of the collateral and its market value then periodically monitored.

Banca Generali also benefits from an additional master guarantee, known as an indemnity, provided by BSI SA, now EFG Bank AG as a result of the merger of the two institutions in 2017, for the entire loan portfolio originating with Banca del Gottardo Italia acquired by BSI Italia S.p.A. on 1 October 2008.

This guarantee, which is similar to a first-demand bank guarantee, covers all loans and any associated losses sustained from acquisition until 31 December 2009. After such date, the indemnity was maintained for those positions managed with the aim of recovery and those positions that showed a default event for which payment of the indemnity was requested from the guarantor, BSI S.A., today EFG Bank AG.

At 31 December 2018, the guarantee covers positions other than bad loans of approximately 140 thousand euros and bad loan positions of approximately 19 million euros (see paragraph 3. Non-performing past due exposures)

Finally, as for credit card issuance, in 2018 the Bank continued to follow a very conservative policy, aimed almost exclusively at households.

In 2018, in accordance with the changed regulatory environment, which necessitates increasingly close attention to credit quality – such as the guidelines for non-performing loans issued by the EBA and ECB – and with the action plan to increase the efficiency of and implement more streamlined credit processes consistent with the regulators' guidelines and the accounting standard IFRS 9, which entered into force on 1 January 2018, a new procedural and IT framework was defined to ensure a nimbler, more systematic credit process, reduce processing times and contain loan review and case conclusion anomalies.

The grounding of this strategy during the year and the consolidation of the initiatives launched in 2017, in addition to the creation of a unit dedicated to monitoring and managing anomalous positions, permitted a net reduction in non-performing exposures, which at the end of 2018 had been essentially halved (from 72,450 thousand euros net at the end of 2017 to 36,821 thousand euros net).

Banca Generali thus further focused its lending business - which is instrumental to its ability to attract and manage customer assets - on creditworthy borrowers, with the aim of eliminating assets that, despite being secured, may prove problematic and costly to manage.

An additional objective for the coming year will be to complete the Quiclic credit platform to include the features required to increase the efficiency of the process of reviewing, approving and concluding loan applications.

3. Credit exposures to non-performing loans

3.1 Management strategies and policies

Non-performing financial assets are classified into default categories in accordance with the instructions issued by the regulatory authority, as provided for in Bank of Italy Circular Letter No. 272 dated 20 July 2008 (as subsequently amended). The process of identifying doubtful positions requires constant monitoring of positions. When limits are exceeded, various debt procedures are triggered. In general, considering that the vast majority of positions are secured by pledges of financial instruments, there are no residual debt exposures once the enforcement procedure has been concluded. If the exposure is unsecured or there is a residual unsecured exposure, the Bank avails itself of the services of major debt collection agencies.

Expected losses are formulated specifically for each position on the basis of all relevant valuation elements (debtor's assets, earned income, date of expected recovery, etc.), with the exception of unsecured positions classified as past due and unlikely to pay of amounts less than 10 thousand euros, which are subject to impairment at a standard rate.

On-balance sheet net non-performing loans (hereinafter also referred as “NPLs”) (see table A.1.1) totalled 36,821 thousand euros, of which:

- > bad loans of 21,473 thousand euros, of which 19,787 thousand euros (92.1%) covered by indemnities, 1,625 thousand euros (7.6%) secured by mortgages and 61 thousand euros (0.3%) not secured or secured by personal guarantees;
- > unlikely-to-pay loans of 10,555 thousand euros, of which just 629 thousand euros (6%) actually at risk, and 9,926 thousand euros (94%) are secured by collateral or similar guarantees⁶;
- > non-performing past-due loans of 4,793 thousand euros, of which 4,691 thousand euros (97.8%) secured by collateral or similar guarantees and 102 thousand euros not secured.

Net non-performing loans may be broken down as follows:

- > about 53.7% (19,787 thousand euros) of exposures referring to Banca del Gottardo Italia’s customers and guaranteed by indemnity issued by the seller BSI S.A., now EFG Bank AG; as described above, these exposures do not entail any risk for the Bank. Therefore, no adjustments were made to these positions with respect to the impairment already carried out by Banca del Gottardo Italia;
- > about 46.3% (17,034 thousand euros) of exposures for which the Bank is at risk, almost all of which are secured by pledges or mortgages.

Excluding positions covered by indemnities - which, as mentioned above, are without risk for Banca Generali - non-performing cash positions amounted to 17,034 thousand euros, representing 0.3% of total net loans to customers. However, considering positions secured by collateral or similar guarantees, which at 16,243 thousand euros make up approximately 95% of total net non-performing loans, 791 thousand euros of net non-performing loans are not secured by collateral, representing 5% of total net non-performing loans and an entirely marginal fraction of total net loans to customers (0.01%). In 2018, the NPL portfolio contracted considerably owing to the closure of several significant positions due to repayment or enforcement of security interests, in addition to the closure of several “ex indemnity” positions that had been classified among non-performing loans.

3.2 Write-offs

The Banking Group has not adopted any write-off policy.

3.3 Acquired or originated impaired financial assets

The Banking Group’s portfolio does not include acquired or originated impaired financial assets.

4. Financial assets subject to commercial renegotiations and forbore exposures

A forbearance measure is an amendment of the original contractual conditions or refinancing granted to a customer in a situation of financial distress in respect of a credit position, which would not have been granted if the customer had not been in such a situation and/or that, conversely, would have resulted in default by the customer had they not been granted.

The Bank takes an individual measurement approach to each exposure. The Bank considers an exposure forbore when one of the following conditions has been met:

- a) the amended contract has been fully or partially past due by more than 30 days at least once in the three months prior to the contractual amendment or would have been fully or partially past due by more than 30 days without the amendment;
- b) at or around the same time as an additional loan is granted, the customer repays the principal or pays the interest on another contract fully or partially past due by 30 days at least once in the three months prior to the refinancing;
- c) the Bank approves the use of contractual clauses (“embedded clauses”) in which the customer is past due by 30 days or the debtor would have been past due by 30 days without the exercise of such clauses.

This assessment is performed by a specific specialised unit of the Lending Department.

At 31 December 2018 outstanding forbore exposures were mostly classified as performing (98.7%), with the remainder classified as non-performing (4.3%). All were secured by collateral (primarily pledges) or similar security interest.

In support of the effectiveness and quality of the forbearance measures granted, it should be emphasised that in 2018, due to the consolidation of the mass revision of the entire portfolio of outstanding loans, launched in 2017, in accordance with the changed regulatory environment, it was possible to achieve a net reduction in exposures subject to forbearance measures (86 million euros at 31 December 2018, compared with 104 million euros as at 31 December 2017), due to the elimination of various positions as a result of repayment in full.

Exposures subject to forbearance measures at 31 December 2018 almost all had a level of seniority of less than 24 months and mostly (approximately 73%) consisted of exposures in amortisation and, to a lesser extent, committed on balance sheet exposures.

As for the impact on the net present value of the contractual cash flows of the forbearance measures granted over a period of 24 months, given the nature of the renegotiation operations subject to forbearance measures, represented essentially by the renegotiation of the committed on-balance sheet exposure in amortising loans with a final variable rate, the impact of such exposures on net present value is believed not to be material.

⁶ “Similar guarantees” refer to authorisation to redeem insurance policies.

Quantitative Information

A. Credit quality

A.1 Credit exposures to non-performing and performing loans: balances, adjustments, performance, and income breakdown

For the purposes of quantitative information about credit quality, credit exposures include the entire financial asset portfolio, regardless of the portfolio of allocation for accounting purposes, with the exception of equities and units of UCITS.

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

PORTFOLIOS/QUALITY	BAD LOANS	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE EXPOSURES	PERFORMING PAST-DUE EXPOSURES	OTHER PERFORMING EXPOSURES	TOTAL
1. Financial assets at amortised cost	21,473	10,555	4,793	22,962	6,036,132	6,095,915
2. Financial assets at fair value through other comprehensive income	-	-	-	-	1,978,314	1,978,314
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	20,690	20,690
5. HFS financial assets	-	-	-	-	-	-
Total at 31.12.2018	21,473	10,555	4,793	22,962	8,035,136	8,094,919
Total at 31.12.2017	23,892	39,232	9,326	41,949	7,660,670	7,775,069

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

PORTFOLIOS/QUALITY	NON-PERFORMING				PERFORMING			
	GROSS EXPOSURE	TOTAL ADJUSTMENTS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS*	GROSS EXPOSURE	TOTAL ADJUSTMENTS	NET EXPOSURE	TOTAL (NET EXPOSURE)
1. Financial assets at amortised cost	51,945	15,124	36,821	-	6,069,309	10,215	6,059,094	6,095,915
2. Financial assets at fair value through other comprehensive income	-	-	-	-	1,981,551	3,237	1,978,314	1,978,314
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	20,690	20,690
5. HFS financial assets	-	-	-	-	-	-	-	-
Total at 31.12.2018	51,945	15,124	36,821	-	8,050,860	13,452	8,058,098	8,094,919
Total at 31.12.2017	89,010	16,560	72,450	-	7,707,839	5,220	7,702,619	7,775,069

(*) Value to be indicated for disclosure purposes.

PORTFOLIOS/QUALITY	ASSETS WITH OBVIOUSLY POOR CREDIT QUALITY		
	CUMULATIVE CAPITAL LOSSES	NET EXPOSURE	OTHER ASSETS NET EXPOSURE
1. HFT financial assets	-	-	33,887
2. Hedging derivatives	-	-	-
Total at 31.12.2018	-	-	33,887
Total at 31.12.2017	-	-	49,015

A.1.3 Breakdown of financial assets by maturity brackets (book value)

PORTFOLIOS/RISK STAGES	STAGE 1			STAGE 2			STAGE 3		
	OVER 1 DAY, UP TO 30 DAYS	OVER 30 DAYS, UP TO 90 DAYS	OVER 90 DAYS	OVER 1 DAY, UP TO 30 DAYS	OVER 30 DAYS, UP TO 90 DAYS	OVER 90 DAYS	OVER 1 DAY, UP TO 30 DAYS	OVER 30 DAYS, UP TO 90 DAYS	OVER 90 DAYS
1. Financial assets at amortised cost	10,752	-	1	2,400	7,188	2,621	852	49	26,912
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total at 31.12.2018	10,752	-	1	2,400	7,188	2,621	852	49	26,912

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: changes in total adjustments and total provisions

CAUSES/RISK STAGES	TOTAL ADJUSTMENTS										TOTAL PROVISIONS FOR COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED						
	ASSETS ALLOCATED TO STAGE 1				ASSETS ALLOCATED TO STAGE 2				ASSETS ALLOCATED TO STAGE 3				STAGE 1	STAGE 2	STAGE 3	TOTAL	
	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	OF WHICH: INDIVIDUAL WRITE-DOWNS	OF WHICH: COLLECTIVE WRITE-DOWNS	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	OF WHICH: INDIVIDUAL WRITE-DOWNS	OF WHICH: COLLECTIVE WRITE-DOWNS	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	OF WHICH: INDIVIDUAL WRITE-DOWNS	OF WHICH: COLLECTIVE WRITE-DOWNS					OF WHICH: ACQUIRED OR ORIGINATED IMPAIRED FINANCIAL ASSETS
Total adjustment at year-start	3,443	-	-	3,443	1,778	-	-	1,778	16,560	-	16,560	-	-	444	17	-	22,242
Increases from acquired or originated financial assets	2,398	1,287	-	3,685	68	39	-	107	857	-	857	-	-	15	2	-	4,666
Cancellations other than write-offs	-112	-1,066	-	-1,178	-	-11	-	-11	-	-	-	-	-	-	-	-	-1,189
Net adjustments/reversals for credit risk (+/-)	2,075	931	-	3,006	-119	28	-	-91	-574	-	-574	-	-	-121	-14	-	2,206
Contractual changes without cancellations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the assessment methods	62	1,922	-	1,984	621	108	-	729	-	-	-	-	-	-290	33	-	2,456
Write-offs not directly recognised through profit and loss	-	-	-	-	-	-	-	-	-1,719	-	-1,719	-	-	-	-	-	-1,719
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total adjustments at year-start	7,866	3,074	-	10,940	2,348	164	-	2,512	15,124	-	15,124	-	-	48	38	-	28,662
Recovery from collection of written off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs directly recognised through profit and loss	-	-	-	-	-	-	-	-	7	-	7	-	-	-	-	-	7

Pursuant to IFRS 7, paragraph 35H, letter b) (iii), it is reported that the final total adjustments to Stage 2 trade receivables amounted to approximately 11 thousand euros and did not change considerably from their initial levels.

The increase of adjustments in stage 1 and stage 2 was largely attributable to the lower creditworthiness of Italian government bonds as a result of the new criteria for calculating forward-looking probabilities of default (PD) on the basis of market data adopted following the transition to IFRS 9.

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the different credit risk stages (gross and nominal values)

PORTFOLIOS/RISK STAGES	GROSS AMOUNTS/NOMINAL VALUE					
	TRANSFERS BETWEEN STAGE 1 AND STAGE 2		TRANSFERS BETWEEN STAGE 2 AND STAGE 3		TRANSFERS BETWEEN STAGE 1 AND STAGE 3	
	FROM STAGE 1 TO STAGE 2	FROM STAGE 2 TO STAGE 1	FROM STAGE 2 TO STAGE 3	FROM STAGE 3 TO STAGE 2	FROM STAGE 1 TO STAGE 3	FROM STAGE 3 TO STAGE 1
1. Financial assets at amortised cost	60,259	170,867	1,925	-	4,943	-
2. Financial assets at fair value through other comprehensive income	-	2,557	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	5,834	-	50	-	47	-
Total at 31.12.2018	66,093	173,424	1,975	-	4,990	-

A.1.6 Cash and off-balance sheet loans with banks: gross and net amounts

TYPES OF EXPOSURES/VALUES	GROSS EXPOSURE		TOTAL VALUE ADJUSTMENTS AND TOTAL PROVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS ^(*)
	NON-PERFORMING	PERFORMING			
A. Cash exposure					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past-due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	592,819	686	592,133	-
- of which: forborne exposures	X	-	-	-	-
Total A	-	592,819	686	592,133	-
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	258	-	258	-
Total B	-	258	-	258	-
Total (A + B)	-	593,077	686	592,391	-

(*) Value to be indicated for disclosure purposes.

Cash exposures with banks include all cash financial assets claimed from banks, regardless of the portfolio of allocation for accounting purposes: financial assets at amortised cost, financial assets measured at fair value through other comprehensive income, financial assets designated at fair value and other financial assets mandatorily valued at fair value.

Off-balance sheet exposures include all financial transactions other than cash transactions, such as financial derivatives, guarantees issued and commitments, that entail the assumption of credit risk, determined on the basis of the measurement criteria established by the Bank of Italy.

A.1.7 Cash and off-balance sheet exposure with customers: gross and net amounts

TYPES OF EXPOSURES/VALUES	GROSS EXPOSURE		TOTAL VALUE ADJUSTMENTS AND TOTAL PROVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS ^(*)
	DETERIORATE	NON DETERIORATE			
A. Cash exposure					
a) Bad loans	35,022	X	13,549	21,473	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	11,849	X	1,294	10,555	-
- of which: forborne exposures	3,032	X	595	2,437	-
c) Non-performing past-due exposures	5,074	X	281	4,793	-
- of which: forborne exposures	657	X	14	643	-
d) Performing past-due exposures	X	23,186	224	22,962	-
- of which: forborne exposures	X	2,204	41	2,163	-
e) Other performing exposures	X	7,488,933	12,542	7,476,391	-
- of which: forborne exposures	X	84,567	352	84,215	-
Total A	51,945	7,512,119	27,890	7,536,174	-
B. Off-balance sheet credit exposures					
a) Non-performing	31	X	-	31	-
b) Performing	X	275,152	86	275,066	-
Total B	31	275,152	86	275,097	-
Total (A + B)	51,976	7,787,271	27,976	7,811,271	-

(*) Value to be indicated for disclosure purposes.

Cash exposures with customers include all cash financial assets claimed from customers, regardless of the portfolio of allocation for accounting purposes: financial assets at amortised cost, financial assets measured at fair value through other comprehensive income, financial assets designated at fair value and other financial assets mandatorily valued at fair value. Off-balance sheet exposures include all financial transactions other than cash transactions, such as financial derivatives, guarantees issued and commitments, that entail the assumption of credit risk, determined on the basis of the measurement criteria established by the Bank of Italy.

All non-performing off-balance sheet exposures refer to positions entirely secured by pledges.

Bad loans

Gross bad loans amounted to 35,022 thousand euros and included 13,549 thousand euros of value adjustments; therefore, net bad loans recognised totalled 21,473 thousand euros. Of this amount, 19,787 thousand euros (92.1%) related to positions attributable to former Banca del Gottardo Italia's customers, fully covered by cash collateral deposits granted by BSI S.A., now EFG Bank AG, as part of the indemnity guarantee.

Therefore, net bad loans to remaining ordinary customers amounted to 1,680 thousand euros, equal to about 7.8% of total net bad loans and 0.03% of total net loans to customers. Considering bad loans secured by mortgages, which amounted to 1,625 thousand euros, the residual net bad loans amount to 55 thousand euros.

Moreover, it should be noted that bad loans also include the exposure relating to the Alitalia bond allocated to the HTC portfolio and deemed almost entirely no longer recoverable due to the airline's serious state of crisis. In the Financial Statements at 31 December 2018, the net exposure amounted to 6 thousand euros.

The item (see table A.1.9) decreased by 3,830 thousand euros gross, due to gross collections and write-offs of 4,755 thousand euros, offset by increases of 925 thousand euros.

The most significant items in terms of non-performing loan inflows are represented by a gross increase of 789 thousand euro related primarily to interest on positions secured by indemnities, and 122 thousand euro for transfers from other categories of impaired exposures relating to about 20 marginal amount positions which are all at the Bank's risk. The residual amount of 14 thousand euros can, instead, be related to a single position at the Bank's risk resulting from a non-impaired class.

The reductions, on the other hand, include cancellations of 1,270 thousand euros and 3,485 thousand euros received, the most significant amounts of which are all secured by pledges or indemnities.

Unlikely to pay

At 31 December 2018 gross unlikely-to-pay loans amounted to 11,849 thousand euros (in sharp decline compared to 28,573 thousand euros in 2017), subject to impairment losses of 1,294 thousand euros, resulting in a net balance of 10,555 thousand euros.

In particular, attention should be drawn to the decline (in gross terms) of 34,601 thousand euros, due to collections of 28,986 thousand euros, attributable to several counterparties with significant exposures secured by collateral or similar security interests (73%) and a position secured by an indemnity (of 5,165 thousand euros), which were definitively recovered, and positions of 5,106 thousand euros reclassified from UTP to performing status.

The increases of 6,028 thousand euros refer for 1,113 thousand euros to increases in positions already classified as non-performing and for 4,915 thousand euros to new positions from performing categories, broken down as follows: exposures secured by collateral or similar security interests of 3,487 thousand euros (71%), exposures secured by personal guarantees of 890 thousand euros and unsecured exposures of 538 thousand euros (the latter referring to just over one thousand positions).

Non-performing past-due exposures

At 31 December 2018 non-performing past-due exposures amounted to 5,074 thousand euros, subject to impairment losses of 281 thousand euros, yielding a net balance of 4,793 thousand euros. The net aggregate mainly included:

- > exposures, largely secured by pledges or, to a marginal extent, by assignment of policies, amounting to 4,618 thousand euros;
- > other unsecured exposures with an average balance per position of approximately 2,500 euros.

Performing past-due exposures

Performing past-due exposures include also positions past due or expired by more than 90 days, for which the outstanding amount does not exceed the materiality threshold of 5% of the overall loan granted, in compliance with the provisions set forth in Bank of Italy Circular Letter No. 272.

In almost all cases, these are positions guaranteed by pledges of securities found to be expired at the reporting date and currently being repaid.

At year-end, this aggregate stood at 23,186 thousand euros, broken down as follows:

- > 13,558 thousand euros for positions that were already settled in the first 50 days of operations of the current year.
- > 2,592 thousand euros for sixteen positions currently subject to recovery procedures;
- > 6,548 thousand euros of positions secured by collateral - almost exclusively consisting of pledges of financial instruments, and to a lesser extent, a mandate to collect insurance policy premiums or mortgages - regarding outstanding balances in excess of the approved credit limits due to interest charges or extended positions subject to repayment plans;
- > 388 marginal positions totalling 488 thousand euros, with an average amount past due of approximately 500 euros each, subject to debt recovery procedures or written off when deemed uncollectible.

A.1.9 Cash credit exposure with customers: changes in gross non-performing exposures

CAUSES/CATEGORIES	BAD LOANS	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE EXPOSURES
A. Gross exposure at year-start	38,852	40,423	9,735
<i>of which: exposures transferred but non written off</i>	-	-	-
B. Increases	925	6,028	5,198
B.1 Inflows from performing exposures	14	4,915	4,783
B.2 Inflows from acquired or originated impaired financial assets	-	-	-
B.3 Transfers from other categories of non-performing exposures	122	23	-
B.4 Contractual changes without cancellations	-	-	-
B.5 Other increases	789	1,090	415
<i>- of which: business combinations</i>	-	-	-
C. Decreases	4,755	34,602	9,859
C.1 Outflows to performing exposures	-	5,106	6,636
C.2 Write-offs	1,270	14	28
C.3 Repayments received	3,485	28,986	2,990
C.4 Gains on disposals	-	-	-
C.5 Losses on disposals	-	-	-
C.6 Transfer to other categories of non-performing exposures	-	56	166
C.7 Contractual changes without cancellations	-	-	-
C.8 Other decreases	-	440	39
D. Gross exposure at year-end	35,022	11,849	5,074
<i>- of which: exposures transferred but non written off</i>	-	-	-

With regard to decreases, collections were primarily represented by the following:

- > bad loans of 3,485 thousand euros relating to two positions covered by indemnities issued by the seller, then BSI S.A., currently EFG Bank AG, closed by enforcing the indemnity agreement;

- > unlikely to pay positions of 28,986 thousand euros, of which approximately 11 million euros attributable to a single position secured by a pledge, repaid in full, and 5.2 million euros attributable to a position secured by an indemnity recovered through enforcement and collection of the indemnity; they also include two positions of significant amounts (approximately 8 million euros) secured by a pledge and recovered through repayment and two positions totalling approximately 3.4 million euros, recovered through enforcement against the pledged assets;
- > non-performing past-due loans of 2,990 thousand euros, of which over 1 million euros attributable to a single position secured by a pledge recovered through repayment.

A.1.9-bis Cash credit exposures with customers: changes in gross forborne exposures, broken down by credit quality

CAUSES/QUALITY	NON-PERFORMING EXPOSURES WITH FORBEARANCE MEASURES	PERFORMING FORBORNE EXPOSURES
A. Gross exposure at year-start	7,836	104,880
- of which: exposures transferred but non written off	-	-
B. Increases	4,081	35,361
B.1 Inflows from performing non-forborne exposures	2,795	32,468
B.2 Inflows from performing forborne exposures	689	X
B.3 Inflows from non-performing exposures with forbearance measures	X	1,070
B.4 Other increases	597	1,823
C. Decreases	8,236	53,754
C.1 Outflows for performing non-forborne exposures	X	28,179
C.2 Outflows to forborne performing exposures	1,070	X
C.3 Outflows to non-performing exposures with forbearance measures	X	689
C.4 Write-offs	-	-
C.5 Repayments received	6,694	24,547
C.6 Gains on disposals	-	-
C.7 Losses on disposals	-	-
C.8 Other decreases	472	339
D. Gross exposure at year-end	3,681	86,487
- of which: exposures transferred but non written off	-	-

Forborne exposures

Forborne exposures consist largely of performing positions of 86,487 thousand euros gross, fully secured by collateral or similar security interests, the result of the consolidation in 2018 of the portfolio review and enhancement process. A residual share consists of non-performing forborne exposures of 3,681 thousand euros gross (accounting for 4% of total performing and non-performing forborne exposures), almost all of which were fully secured by pledges.

In particular, total non-performing on-balance sheet forborne positions declined by 4,155 thousand euros overall (in gross terms) due to the net effect of inflows (4,081 thousand euros) and outflows (8,236 thousand euros).

The increases in the portfolio are attributable to the reclassification of 2,795 thousand euros of positions previously classified as performing positions to non-performing forborne status, the reclassification of positions already considered forborne to non-performing status for 689 thousand euros, and other increases in the exposure to positions already classified to non-performing forborne status for 597 thousand euros.

The decrease in the portfolio was due to the reclassification of 1,070 thousand euros to performing forborne status and the repayment or enforcement of security interests for positions totalling 6,694 thousand euros. The highest amount among Repayment received is an outflow against the full recovery of a position classified amongst unlikely to pay, subject to forbearance in the form of turnaround agreements (pursuant to Article 67, paragraph 3, of the Bankruptcy Law) and associated with the portfolio guaranteed by the seller EFG Bank AG (indemnity granted by BSI S.A.), thus with no risk for Banca Generali.

Performing on-balance sheet forborne exposures declined by 18,393 thousand euros overall due to the combination of new forbearance measures for performing exposures (32,468 thousand euros), outflows following the cure period of non-performing forborne positions (1,070 thousand euros) and changes in positions previously classified to performing forborne status (1823 thousand euros). The decreases were primarily due to the conclusion of forbearance measures of 28,179 thousand euros and repayments of 24,547 thousand euros.

A.1.11 Cash exposure with customers: changes in total adjustments

CAUSES/CATEGORIES	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST-DUE EXPOSURES	
	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES
A. Total adjustments at year-start	14,960	-	1,191	42	409	5
- of which: exposures transferred but non written off	-	-	-	-	-	-
B. Increases	333	-	889	584	251	14
B.1 Adjustments to acquired or originated impaired financial assets	-	X	-	X	-	X
B.2 Other adjustments	250	-	802	584	251	14
B.3 Losses on disposals	-	-	-	-	-	-
B.4 Transfers from other categories of non-performing exposures	83	-	87	-	-	-
B.5 Contractual changes without cancellations	-	X	-	X	-	X
B.6 Other increases	-	-	-	-	-	-
C. Decreases	1,744	-	786	31	379	5
C.1 Reversal of adjustments	36	-	117	29	192	-
C.2 Reversal of collections	29	-	594	2	45	5
C.3 Gains on disposals	-	-	-	-	-	-
C.4 Write-offs	1,679	-	19	-	28	-
C.5 Transfer to other categories of non-performing exposures	-	-	56	-	114	-
C.6 Contractual changes without cancellations	-	X	-	X	-	X
C.7 Other decreases	-	-	-	-	-	-
D. Total adjustment at year-end	13,549	-	1,294	595	281	14
- of which: exposures transferred but non written off	-	-	-	-	-	-

The most significant component of reversals due to collection (item C.2) of 668 thousand euros was represented by unlikely to pay positions of 594 thousand euros, of which 348 thousand euros relating to a position still considered UTP at the end of 2018, which had already been reduced due to partial repayment during the year and was repaid in full in early 2019, and 98 thousand euros relating to a position repaid in full in 2018.

Besides the exposures included in the previous tables, other non-performing positions are recognised in the Financial Statements for a net amount of 1,150 thousand euros, attributable to operating receivables not involving loans, mostly relating to disputes and pre-dispute positions against former Financial Advisors (terminated or expired contracts).

OPERATING RECEIVABLES UNDER DISPUTE	31.12.2018		
	GROSS	WRITE-DOWNS	NET
Receivables related to FA litigation	1,769	-622	1,147
Advances to FAs	79	-79	-
Write-downs of receivables from FAs	1,848	-701	1,147
Write-downs of operating receivables	358	-355	3
Write-downs of operating receivables	358	-355	3
Total write-downs	2,206	-1,056	1,150

A.2 Financial assets, commitments to disburse funds and financial guarantees issued broken down by rating classes

Banca Generali has always regarded lending as instrumental to its ability to attract and manage its customers' assets. Accordingly, the Bank has not traditionally used an internal rating system to assess its customers' creditworthiness. The bank therefore uses ratings published by the main rating companies (Moody's, S&P and Fitch) in making decisions regarding its trading activities.

A.2.1 Financial assets, commitments to disburse funds and financial guarantees issued broken down by rating classes (gross values)

EXPOSURES	EXTERNAL RATING CLASSES						WITHOUT RATING	TOTAL
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	< B-		
A. Financial assets at amortised cost	2,518	38,668	3,516,705	57,069	-	2,557	2,503,737	6,121,254
- Stage 1	2,518	38,668	3,506,812	57,069	-	-	2,298,969	5,904,036
- Stage 2	-	-	9,893	-	-	2,557	152,823	165,273
- Stage 3	-	-	-	-	-	-	51,945	51,945
B. Financial assets at fair value through other comprehensive income	13,022	85,606	1,845,050	35,916	-	-	1,957	1,981,551
- Stage 1	13,022	85,606	1,834,133	35,916	-	-	-	1,968,677
- Stage 2	-	-	10,917	-	-	-	1,957	12,874
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B)	15,540	124,274	5,361,755	92,985	-	2,557	2,505,694	8,102,805
- of which: acquired or originated impaired financial assets	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	90,830	90,830
- Stage 2	-	-	-	-	-	-	14,809	14,809
- Stage 3	-	-	-	-	-	-	31	31
Total C	-	-	-	-	-	-	105,670	105,670
Total (A + B + C)	15,540	124,274	5,361,755	92,985	-	2,557	2,611,364	8,208,475

Financial assets measured at amortised cost without rating include trade receivables and advances to Financial Advisors totalling 100,967 thousand euros.

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.2 Cash and off-balance sheet credit exposures with customers

	GROSS EXPOSURE	NET EXPOSURE	PERSONAL GUARANTEES (2)													TOTAL (1) + (2)	
			COLLATERALISED GUARANTEES (1)						OTHER DERIVATIVES								
			BUILDINGS - MORTGAGES	BUILDINGS - FINANCE LEASE	SECURITIES	OTHER COLLATERALISED GUARANTEES	CLN	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES	PUBLIC ADMINISTRATION BODIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES		
1. Guaranteed cash credit exposures:	1,950,837	1,939,643	413,423	-	1,285,315	224,905	-	-	-	-	-	-	-	-	2	4,489	1,928,134
1.1 Totally guaranteed	1,895,386	1,885,174	409,407	-	1,256,779	214,892	-	-	-	-	-	-	-	-	-	4,096	1,885,174
- of which: non-performing	35,376	32,071	14,896	-	7,517	9,658	-	-	-	-	-	-	-	-	-	-	32,071
1.2 Partially guaranteed	55,451	54,469	4,016	-	28,536	10,013	-	-	-	-	-	-	-	-	2	393	42,960
- of which: non-performing	1,062	411	-	-	-	35	-	-	-	-	-	-	-	-	-	373	408
2. Guaranteed off-balance sheet credit exposures:	546,120	546,039	10	-	358,030	177,180	-	-	-	-	-	-	-	-	-	1,409	536,629
2.1 Totally guaranteed	504,328	504,252	10	-	337,975	165,062	-	-	-	-	-	-	-	-	-	1,204	504,251
- of which: non-performing	1,082	1,082	-	-	637	445	-	-	-	-	-	-	-	-	-	-	1,082
2.2 Partially guaranteed	41,792	41,787	-	-	20,055	12,118	-	-	-	-	-	-	-	-	-	205	32,378
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

All assets held as security (whether financial or non-financial) may only be liquidated in the event of default by the primary debtor, subject to formal notification of the guarantor. Accordingly, the Bank cannot sell or reuse as collateral such assets unless the debtor defaults.

B. Breakdown and concentration of credit exposures

B.1 Sector breakdown of cash and off-balance sheet credit exposure with customers

EXPOSURES/COUNTERPARTY	NET EXPOSURE	TOTAL ADJUSTMENTS
A. Cash exposures		
1. Public administration bodies	5,163,119	9,035
A.1 Bad loans	-	-
- of which: forborne exposures	-	-
A.2 Unlikely to pay	-	-
- of which: forborne exposures	-	-
A.3 Non-performing past-due exposures	-	-
- of which: forborne exposures	-	-
A.4 Performing exposures	5,163,119	9,035
- of which: forborne exposures	-	-
2. Financial companies	453,976	443
A.1 Bad loans	5,085	90
- of which: forborne exposures	-	-
A.2 Unlikely to pay	1,627	44
- of which: forborne exposures	-	-
A.3 Non-performing past-due exposures	7	10
- of which: forborne exposures	-	-
A.4 Performing exposures	447,257	299
- of which: forborne exposures	-	-
3. Financial companies (of which insurance companies)	47,066	7
A.1 Bad loans	-	-
- of which: forborne exposures	-	-
A.2 Unlikely to pay	-	-
- of which: forborne exposures	-	-
A.3 Non-performing past-due exposures	-	-
- of which: forborne exposures	-	-
A.4 Performing exposures	47,066	7
- of which: forborne exposures	-	-
4. Non-financial companies	399,530	15,469
A.1 Bad loans	14,376	12,530
- of which: forborne exposures	-	-
A.2 Unlikely to pay	4,527	612
- of which: forborne exposures	536	457
A.3 Non-performing past-due exposures	677	11
- of which: forborne exposures	453	4
A.4 Performing exposures	379,950	2,316
- of which: forborne exposures	25,457	192
5. Households	1,472,483	2,936
A.1 Bad loans	2,012	929
- of which: forborne exposures	-	-
A.2 Unlikely to pay	4,401	639
- of which: forborne exposures	1,896	143
A.3 Non-performing past-due exposures	4,109	255
- of which: forborne exposures	190	10
A.4 Performing exposures	1,461,961	1,113
- of which: forborne exposures	60,920	201
Total A - Cash credit exposures	7,536,174	27,890

EXPOSURES/COUNTERPARTY	NET EXPOSURE	TOTAL ADJUSTMENTS
B. Off-balance sheet exposures		
1. Public administration bodies	173,365	-
B.1 Non-performing exposures	-	-
B.2 Performing exposures	173,365	-
2. Financial companies	458	-
B.1 Non-performing exposures	-	-
B.2 Performing exposures	458	-
3. Financial companies (of which insurance companies)	3,847	-
B.1 Non-performing exposures	-	-
B.2 Performing exposures	3,847	-
4. Non-financial companies	59,646	58
B.1 Non-performing exposures	31	-
B.2 Performing exposures	59,615	58
5. Households	37,781	28
B.1 Non-performing exposures	-	-
B.2 Performing exposures	37,781	28
Total B - Off-balance sheet exposures	275,097	86

	NET EXPOSURE	TOTAL ADJUSTMENTS
Public administration bodies	5,336,484	9,035
Financial companies	454,434	443
Financial companies (of which insurance companies)	50,913	7
Non-financial companies	459,176	15,527
Households	1,510,264	2,964
Overall total (A + B) at 31.12.2018	7,811,271	27,976
Overall total (A + B) at 31.12.2017	7,586,139	21,286

B.2 Geographical breakdown of cash and off-balance-sheet exposure to customers

EXPOSURES/ GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS
A. Cash credit exposures										
A.1 Bad loans	21,473	12,920	-	629	-	-	-	-	-	-
A.2 Unlikely to pay	10,555	1,294	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	4,793	273	-	8	-	-	-	-	-	-
A.4 Other performing exposures	7,293,945	11,165	149,740	1,556	45,327	38	6,703	4	3,638	3
Total A	7,330,766	25,652	149,740	2,193	45,327	38	6,703	4	3,638	3
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	31	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	274,901	86	165	-	-	-	-	-	-	-
Total B	274,932	86	165	-	-	-	-	-	-	-
Total at 31.12.2018	7,605,698	25,738	149,905	2,193	45,327	38	6,703	4	3,638	3
Total at 31.12.2017	7,404,566	18,745	159,219	2,486	17,235	42	1,479	-	3,640	13

B.3 Geographical breakdown of cash and off-balance-sheet exposure to banks

EXPOSURES/ GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS	NET EXPOSURE	TOTAL VALUE ADJUST- MENTS
A. Cash credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	445,753	518	119,412	149	4,376	3	17,581	12	5,011	4
Total A	445,753	518	119,412	149	4,376	3	17,581	12	5,011	4
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	258	-	-	-	-	-	-	-
Total B	-	-	258	-	-	-	-	-	-	-
Total at 31.12.2018	445,753	518	119,670	149	4,376	3	17,581	12	5,011	4
Total at 31.12.2017	381,954	374	42,481	94	14,107	-	7,539	17	4,996	9

B.4 Large exposures

The Regulation (EU) No. 575/2013 (CRR) and the Directive No. 2013/36/EU (CRD IV), published on the *Official Journal of the European Union* on 27 June 2013, enacted the new rules defined by the Basel Committee on banking supervision. On 17 December 2013, the Bank of Italy applied the above provisions by issuing Circular Letter No. 285 “New Prudential Supervisory Provisions Concerning Banks” - further amended in various years (latest update, No. 25, dated 23 October 2018) - and Circular Letter No. 286 “Instructions for the Compilation of Prudential Reports for Banks and Securities Brokerage Companies”. Also the latter was subject to several amendments during the years (latest update, No. 11, on 16 January 2018). In detail, according to the new rules, exposure values of a bank to a counterparty or to a group of connected counterparties must be defined as a “large exposure” if it is equal to or above 10% of the bank’s eligible capital base. The EU Regulation CRR No. 575/2013 defines the “eligible capital” as the sum of Tier 1 capital and Tier 2 capital that is equal to or less than one third of Tier 1 capital.

The exposure value of an asset item shall be its accounting value and not its weighted value. Therefore, the positions which fall within the meaning of “Large Exposure” are recognised at both book value and weighted value.

BIG RISKS	31.12.2018	31.12.2017
a) Carrying amount	7,140,549	6,569,823
b) Weighted amount	257,743	209,257
c) Number	6	9

C. Securitisation

Financial statements at 31 December 2018 do not include exposures resulting from securitisation.

E. Transfer Operations

E.1 Prudential consolidation - Transferred financial assets fully recognised and related financial liabilities: book value

	TRANSFERRED FINANCIAL ASSETS FULLY RECOGNISED				RELATED FINANCIAL LIABILITIES		
	BOOK VALUE	OF WHICH: SECURITIZED	OF WHICH: REVERSE REPURCHASE AGREEMENTS	OF WHICH: NON- PERFORMING	BOOK VALUE	OF WHICH: SECURITIZED	OF WHICH: REVERSE REPURCHASE AGREEMENTS
A. HFT financial assets							
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value							
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	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	130,909	-	130,909	-	130,542	-	130,542
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost							
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
Total at 31.12.2018	130,909	-	130,909	-	130,542	-	130,542
Total at 31.12.2017	236,252	-	236,252	-	230,224	-	230,224

Section 2 – Market Risks

The Bank's exposure to market risk is mainly due to the trading of financial instruments on its own account. Market risk is represented by the possibility to suffer losses due to variations in the value of a security or a portfolio of securities associated with unexpected variations in market conditions (share prices, interest rates, exchange rates, the prices of goods and the volatility of risk factors).

The Bank monitors market risks with reference both to the banking book and the trading book. Specifically as regards monitoring this risk the Risk and Capital Adequacy Department applies the regulatory method to the trading book whilst the rate risk on the banking book follows the regulations specified in annex C of circular 285/2013 and subsequent Bank of Italy updates.

With regard to market risk management, the Bank has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group's risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority. The Finance Department conducts first-tier management and monitoring of Banca Generali's exposure to market risk in accordance with predefined operating limits detailed in the Parent Company's Regulation of limits and escalation process.

Second-tier checks are a responsibility of the Risk and Capital Adequacy Department, as is the monitoring of operating limits with the objective of maintaining a level of risk that is consistent with the strategies and risk appetite defined by the Board of Directors.

The Internal Audit Department conducts independent controls (third-tier checks) on transactions undertaken by the Departments/Functions involved in the management of market risk in accordance with the Parent Company's Internal Rules and Procedures.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the credit risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

The own securities portfolio is mainly invested in Italian government securities, securities issued by domestic and international banks and, to a lesser extent, in securities of corporate issuers.

The portfolio's exposure to the equities market is limited compared to the bond component and derivatives transactions are absolutely marginal. Exposure to non-OECD issuers and entities is limited.

The main objective of exchange rate operations is to contain open positions in foreign currencies. Regarding the rate activity, the main objective is to align balance sheet assets and liabilities.

Banca Generali holds marginal amounts of securities denominated in foreign currencies.

2.1 Interest Rate and Price Risk – Regulatory Trading Book

Qualitative Information

A. General Aspects

The main activities of the Bank that increase its exposure to interest rate risk relating to its trading book include:

- > management of the government bond book;
- > management of the portfolio of financial and corporate bonds;
- > dealings in derivatives, both plain vanilla typical of regulated markets and OTC derivatives.

As the majority of financial products and services are distributed by the sales network, the objectives assigned to the Finance Department in relation to the trading book are aimed at the minimisation of risks.

Management of the trading book is therefore based on the following strategies:

- > supporting the activities of the sales network in relation to placing repurchase agreements for customers;
- > supporting secondary market trading for the financial instruments placed with customers, such as certificates and structured bonds.

B. Management Processes and Interest Rate and Price Risk Measurement Techniques

Market risks are measured for management purposes according to a daily sensitivity analysis, prudentially monitored at the level of the Bank's entire proprietary portfolio with the aim of identifying interest rate and spread risk. These are supplemented by the monitoring of deterministic measurements (level measurements such as the notional and Mark to Market values) defined in the Bank's "Regulation of limits and escalation process".

In detail, the model adopted by the Risk and Capital Adequacy Department to conduct the sensitivity analysis is based on the Fundamental Review of Trading Book rules and has been developed to calculate sensitivity:

- > on interest-rate risk: the possibility of calculating sensitivity according to a full-evaluation approach, based on shocks to the base risk-free curve in foreign currency;
- > on country risk: the possibility of calculating sensitivity according to a full-evaluation approach, based on shocks to loan/sector curves.

The sensitivities of the two components described above are calculated as a parallel shock of +100 bps on all nodes of the curve, with regard to both the interest-rate risk and country risk portions.

The following table shows the sensitivity of the entire proprietary portfolio as measured at 31 December 2018, broken down into interest-rate risk and country risk.

(€ THOUSAND)	PORTFOLIO
Interest-rate risk sensitivity	-114,366.0
Country risk sensitivity	-167,826.0

Quantitative Information

1. Regulatory trading book: breakdown by time-to-maturity (repricing date) of cash financial assets and liabilities and financial derivatives

TYPE/TIME-TO-MATURITY	REPAYABLE ON DEMAND	UP TO 3 MONTHS	OVER 3 MONTHS, UP TO 6 MONTHS	OVER 6 MONTHS, UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS, UP TO 10 YEARS	OVER 10 YEARS	UNSPECIFIED MATURITY	TOTAL
1. Cash assets	-	2,911	14,109	16,514	-	-	-	-	33,534
1.1 Debt securities	-	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	2,911	14,109	16,514	-	-	-	-	33,534
1.2 Other assets	-	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-	-
2.1 Repurchase agreement liabilities	-	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-	-
3. Financial derivatives	-	268,751	105,208	10,444	20,880	10,077	-	-	415,360
3.1 With underlying securities	-	218,545	97,368	-	20,880	10,077	-	-	346,870
- Options	-	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-	-
+ long positions	-	45,161	97,368	-	20,680	10,077	-	-	173,286
+ short positions	-	173,384	-	-	200	-	-	-	173,584
3.2 Without underlying securities	-	50,206	7,840	10,444	-	-	-	-	68,490
- Options	-	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-	-
+ long positions	-	25,103	3,920	5,222	-	-	-	-	34,245
+ short positions	-	25,103	3,920	5,222	-	-	-	-	34,245

2. Regulatory trading book: breakdown of exposures in equity securities and stock indices for the main countries on the market of listing

TYPE OF TRANSACTION/INDEX	LISTED			NON-LISTED
	ITALY	USA	OTHER	
A. Equity securities				
- long positions	-	1	-	-
- short positions	-	-	-	-
B. Equity security purchases/sales to be settled				
- long positions	-	-	-	-
- short positions	-	-	-	-
C. Other derivatives on equity securities				
- long positions	-	-	-	-
- short positions	-	-	-	-
D. Stock index derivatives				
- long positions	-	-	-	-
- short positions	-	-	-	-

Price risk consists of the risk that the fair value or future cash flows of a given financial instrument may fluctuate as a result of changes in market prices (other than changes triggered by **interest-rate risk** or **exchange-rate risk**), regardless of whether such changes are the result of factors specific to the instrument or issuer in question, or are due to factors that influence all similar financial instruments traded on the market.

“Price risk” arises mainly as a result of the trading of shares, stock-index and/or stock futures, stock-index and/or stock options, warrants, covered warrants, option rights, etc. and in relation to UCITS units held in the portfolio. However, the Group’s exposure to this risk is moderate given the limited weight of such securities in its portfolio of financial assets held for trading.

3. Regulatory trading book: internal models and other methods of sensitivity analysis

Sensitivity analysis was also employed to assess the market risks originating in the trading book.

This sort of analysis quantifies the change in the value of a financial portfolio as a result of variation in the primarily risk factors, which for Banca Generali Group are interest-rate and price risk.

In calculating interest-rate risk, the analysis assumed a parallel, uniform shift of +100/-100 basis points in the rate curve.

The next stage involves establishing the potential effects on the profit and loss account both in terms of the point change in the fair value of the portfolio under analysis on the reporting date and the change in the net interest income for the current year.

In calculating the price risk associated with equities, a 10% change in market prices was considered. On this basis, the point impact of such a change on the current equities portfolio was then determined.

On the whole, a change in market prices of +10%/-10% would result in the recognition through profit and loss of capital gains/losses of +90.3/-90.3 thousand euros, gross of the tax effect, on the portfolio of equity securities held for trading.

A change in interest rates of +100/-100 basis points would have an overall effect on the fair value of the portfolio of debt securities held for trading of -562.5/+538.4 thousand euros, gross of the tax effect.

(€ THOUSAND)	HTS
FV equity delta (+10%)	90.3
FV equity delta (-10%)	-90.3
FV bonds delta (+1%)	-562.5
FV bonds delta (-1%)	538.4

2.2 Interest Rate and Price Risk – Banking Book

Qualitative Information

A. General Aspect, Management Processes and Interest Rate Risk Measurement Techniques

The interest rate risk to which the banking book is exposed consists of the risk of incurring losses due to potential fluctuations in interest rates.

This risk is generated by the gaps between the maturities and time required to reset the interest rate on the Bank’s assets and liabilities. Where such gaps are present, fluctuations in interest rates result in variations of net income, and therefore projected profit, as well as variations in the market value of the assets and liabilities, and, in turn, the value of net equity.

With regard to the management of the interest rate risk of the banking book, the Bank has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group’s risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

The Finance Department and Lending Department conduct first-tier controls on the management of interest rate risk.

The Risk and Capital Adequacy Department is responsible for second-tier controls with the aim of conducting specific independent measurement, control and monitoring of the interest rate risk to which the banking book is exposed.

The Internal Audit Department is responsible for third-tier controls of loans and inflows transactions.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the management and control system for interest rate risk in the banking book and for deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Most of the interest rate risk in the Bank's banking book arises from:

- > trading on the interbank deposits market;
- > customer lending activities and
- > investment operations of the debt securities portfolio held as treasury investment, which can cause a mismatch in the repricing dates and currencies of asset and liability items, with a negative impact on the Group's objectives in terms of net interest income.

The price risk associated with the banking book is limited to the equity investments classified to the portfolio of financial assets mandatorily measured at fair value.

Financial instruments mainly refer to equities and UCITS units listed on regulated markets, except for SIF Tyndaris Sicav (closed-end fund linked to the real-estate market), the Algebris NPL fund, the Tenax Italian Credit Funds, and the BNP Paribas Bond Italia fund.

B. Fair Value and Cash Flow Hedging

The Bank does not currently engage in fair value or cash flow hedging.

Quantitative Information

1. Banking book: broken down by time-to-maturity (according to repricing date) of financial assets and liabilities

TYPE/TIME-TO-MATURITY	REPAYABLE ON DEMAND	UP TO 3 MONTHS	OVER 3 MONTHS, UP TO 6 MONTHS	OVER 6 MONTHS, UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS, UP TO 10 YEARS	OVER 10 YEARS	UNSPECI- FIED MATURITY	TOTAL
1. Cash assets	1,364,705	1,275,650	1,698,571	571,696	1,991,413	996,121	196,762	-	8,094,918
1.1 Debt securities									
- with early repayment option	-	30,622	-	-	23,098	12,001	-	-	65,721
- other	-	920,314	1,659,850	491,136	1,637,149	836,300	-	-	5,544,749
1.2 Loans to banks	220,332	100,164	-	-	-	-	-	-	320,496
1.3 Loans to customers									
- current accounts	979,048	8	5,433	1,375	42	-	-	-	985,906
- other loans	165,325	224,542	33,288	79,185	331,124	147,820	196,762	-	1,178,046
- with early repayment option	16,794	24,559	30,972	79,183	329,784	147,820	196,762	-	825,874
- other	148,531	199,983	2,316	2	1,340	-	-	-	352,172
2. Cash liabilities	8,484,301	130,541	25,932	-	-	43,282	-	-	8,684,056
2.1 Due to customers									
- current accounts	8,228,280	-	25,932	-	-	-	-	-	8,254,212
- Other debts	127,296	130,541	-	-	-	43,282	-	-	301,119
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	127,296	130,541	-	-	-	43,282	-	-	301,119
2.2 Due to banks									
- current accounts	107,081	-	-	-	-	-	-	-	107,081
- Other debts	21,644	-	-	-	-	-	-	-	21,644
2.3 Debt securities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
2.4 Other liabilities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-	-
3.1 With underlying securities									
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
3.2 Without underlying securities									
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-

2. Banking book: internal models and other methods of sensitivity analysis

The sensitivity analysis was conducted only for the interest rate risk component also for the banking book, with regard to the portfolio of financial assets at fair value through other comprehensive income, the portfolio of financial assets measured at amortised cost, and the portfolio of loans to customers and banks.

As regards the price risk, a change of +100/-100 basis points would yield a change in the valuation reserves on debt securities in the HTCS category of -23.8/+22.8 million euros, gross of the tax effect.

The fair value delta component associated with the government bonds in the HTCS portfolio would amount to -21.1/+20.2 million euros as a result of the hypothesised shift in the rate curve, or about 90% of the fair value delta of the entire HTCS bond portfolio.

To provide a complete information, the following table shows the effect of a similar price shock in the fair value of portfolios recognised at amortised cost.

(€ THOUSAND)	HTCS	HTC	LOANS (*)	TOTAL
FV bonds delta (+1%)	-23,807	-89,996	-12,721	-126,524
- of which government bonds	-21,130	-85,673	-	-106,803
FV bonds delta (-1%)	22,786	86,137	12,721	121,644
- of which government bonds	20,224	81,998	-	102,222

(*) Loans to banks and Loans to customers.

The same criteria were also applied to a sensitivity analysis of net interest income of all financial statement items. It resulted in a potential impact on the Profit and Loss Account of +28.6 million euros, gross of the tax effect in case of increase of interest rates by 1%, and -28.5 million euros in case of decrease by the same amount.

(€ THOUSAND)	ASSETS	LIABILITIES	NET
Net interest income delta (+1%)	41,308	-12,675	28,633
Net interest income delta (-1%)	-31,585	3,031	-28,554

2.3 Exchange Rate Risk

Qualitative Information

A. General Aspect, Management Processes and Exchange Rate Risk Measurement Techniques

Exchange-rate risk is the possibility of incurring losses due to adverse fluctuations in the value of foreign currencies on all positions held by the Bank, regardless of the portfolio to which they have been allocated.

With regard to exchange risk management, the Group has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group's risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

The Finance Department performs first-tier controls of exchange-rate risk management.

The Risk and Capital Adequacy Department is responsible for second-tier controls with the aim of conducting specific independent measurement, control and monitoring of the exchange rate risk.

The Internal Audit Department is responsible for third-tier controls of loans and inflows in foreign currency.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the exchange rate risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Most of the exchange-rate risk arises from:

- > trading of securities and other financial assets in foreign currency;
- > interest to be collected and/or paid, reimbursements, fees or dividends in foreign currency;
- > bank transfers in foreign currency to customers (Institutional and Retail customers);
- > currency trading on behalf of customers.

The main objective of exchange rate operations is to contain open positions in foreign currencies and limited to currency account currencies.

Exchange rate risk is mitigated through funding activities in the same currency as that of lending transactions.

Quantitative Information

1. Breakdown by currency of denomination for assets, liabilities, and derivatives

ITEMS	CURRENCY								TOTAL CURRENCIES
	US DOLLAR	JAPANESE YEN	SWISS FRANC	POUND STERLING	ICELAND KRONA	CANADIAN DOLLAR	AUSTRALIAN DOLLAR	OTHER CURRENCIES	
A. Financial assets	68,389	2,273	13,148	7,070	1,202	2,100	2,014	2,544	98,740
A.1 Debt securities	13,019	-	-	-	-	-	-	-	13,019
A.2 Equity securities	1	-	-	-	-	-	-	-	1
A.3 Loans to banks	55,369	2,273	10,886	7,070	1,202	2,100	2,014	2,544	83,458
A.4 Loans to customers	-	-	2,262	-	-	-	-	-	2,262
A.5 Other financial assets	-	-	-	-	-	-	-	-	-
B. Other assets	-	-	-	-	-	-	-	-	-
C. Financial liabilities	65,401	2,251	12,288	6,807	1,170	2,377	1,818	2,065	94,177
C.1 Due to banks	-	-	-	-	-	-	-	-	-
C.2 Due to customers	65,401	2,251	12,288	6,807	1,170	2,377	1,818	2,065	94,177
C.3 Debt securities	-	-	-	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-	-	-	-
E. Financial derivatives	-221	-48	-1,582	-30	-	-	8	-71	-1,944
Options	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
Other derivatives	-221	-48	-1,582	-30	-	-	8	-71	-1,944
- long positions	12,669	45	7	398	-	81	81	2,870	16,151
- short positions	12,890	93	1,589	428	-	81	73	2,941	18,095
Total assets	81,058	2,318	13,155	7,468	1,202	2,181	2,095	5,414	114,891
Total liabilities	78,291	2,344	13,877	7,235	1,170	2,458	1,891	5,006	112,272
Excess	2,767	-26	-722	233	32	-277	204	408	2,619

2. Internal models and other methods of sensitivity analysis

The sensitivity analysis discussed in the foregoing paragraph has been also conducted on assets and liabilities denominated in currencies other than the euro, regardless of the portfolio to which they have been allocated.

On the whole, a change in market prices of +10%/-10% would result in a change of the value of equity securities of +/-100 euros, whereas a shock of +/-100 bps in rates would have an effect on the fair value of bonds and securities other than equities in foreign currency of -168/+161 thousand euros, gross of the tax effect.

(€ THOUSAND)	ASSETS
FV equity delta (+10%)	0.1
FV equity delta (-10%)	-0.1
FV non-equity delta (+1%)	-168
FV non-equity delta (-1%)	161

By contrast, an interest rate movement of +100/-100 basis points would have an effect of -68/+68 thousand euros on the flow of interest on assets and liabilities denominated in currencies other than the euro.

(€ THOUSAND)	TOTAL ITEMS
Net interest income delta (+1%)	-68
Net interest income delta (-1%)	68

Section 3 – Derivatives and hedging policies

3.1 Trading derivatives

A. Financial derivatives

A.1 Trading derivatives: notional amounts at year-end

TYPES OF DERIVATIVES/ UNDERLYING ASSETS	31.12.2018				31.12.2017			
	OVER THE COUNTER				OVER THE COUNTER			
	CENTRAL COUNTER- PARTIES	WITHOUT CENTRAL COUNTERPARTIES		ORGANISED MARKETS	CENTRAL COUNTER- PARTIES	WITHOUT CENTRAL COUNTERPARTIES		ORGANISED MARKETS
		WITH NETTING ARRANGE- MENTS	WITHOUT NETTING ARRANGE- MENTS			WITH NETTING ARRANGE- MENTS	WITHOUT NETTING ARRANGE- MENTS	
1. Debt securities and interest rates	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and equity indices	-	-	-	-	-	-	15,948	-
a) Options	-	-	-	-	-	-	15,948	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	13,506	-	-	-	9,208	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	13,506	-	-	-	9,208	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	13,506	-	-	-	25,156	-

A.2 HFT financial derivatives: positive and negative gross fair value - breakdown by products

TYPE OF DERIVATIVES	31.12.2018				31.12.2017			
	OVER THE COUNTER				OVER THE COUNTER			
	WITHOUT CENTRAL COUNTERPARTIES			ORGANISED MARKETS	WITHOUT CENTRAL COUNTERPARTIES			ORGANISED MARKETS
	CENTRAL COUNTERPARTIES	WITH NETTING ARRANGEMENTS	WITHOUT NETTING ARRANGEMENTS		CENTRAL COUNTERPARTIES	WITH NETTING ARRANGEMENTS	WITHOUT NETTING ARRANGEMENTS	
1. Positive fair value								
a) Options	-	-	111	-	-	-	605	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	388	-	-	-	81	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	499	-	-	-	686	-
1. Negative fair value								
a) Options	-	-	-	-	-	-	128	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	384	-	-	-	78	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	384	-	-	-	206	-

A.3 OTC financial derivatives - Regulatory Trading Book: notional values, positive and negative gross fair value by counterparties

UNDERLYING ASSETS	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES
Contracts other than netting arrangements				
1) Debt securities and interest rates				
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
2) Equity securities and equity indices				
- Notional value	X	-	-	-
- Positive fair value	X	-	111	-
- Negative fair value	X	-	-	-
3) Currencies and gold				
- Notional value	X	6,753	-	6,753
- Positive fair value	X	258	-	130
- Negative fair value	X	129	-	255
4) Goods				
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
4) Other values				
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
Contracts within the scope of offsetting agreements				
1) Debt securities and interest rates				
- Notional value	-	-	-	-
- Positive fair value	-	-	-	-
- Negative fair value	-	-	-	-
2) Equity securities and equity indices				
- Notional value	-	-	-	-
- Positive fair value	-	-	-	-
- Negative fair value	-	-	-	-
3) Currencies and gold				
- Notional value	-	-	-	-
- Positive fair value	-	-	-	-
- Negative fair value	-	-	-	-
4) Goods				
- Notional value	-	-	-	-
- Positive fair value	-	-	-	-
- Negative fair value	-	-	-	-
4) Other values				
- Notional value	-	-	-	-
- Positive fair value	-	-	-	-
- Negative fair value	-	-	-	-

A.4 Time-to-maturity of OTC financial derivatives: notional values

UNDERLYING/RESIDUAL LIFE	UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS	TOTAL
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	13,506	-	-	13,506
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total at 31.12.2018	13,506	-	-	13,506
Total at 31.12.2017	20,831	4,325	-	25,156

3.3 Other information on derivatives (held for trading and for hedging)**A. Financial and credit derivatives****A.1 OTC financial and credit derivatives: net fair value by counterparties**

	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES
A. Financial derivatives				
1) Debt securities and interest rates	-	-	-	-
- Notional value	-	-	-	-
- Positive fair value	-	-	-	-
- Negative fair value	-	-	-	-
2) Equity securities and equity indices	-	-	111	-
- Notional value	-	-	-	-
- Positive fair value	-	-	111	-
- Negative fair value	-	-	-	-
3) Currencies and gold	-	7,140	-	7,138
- Notional value	-	6,753	-	6,753
- Positive fair value	-	258	-	130
- Negative fair value	-	129	-	255
4) Goods	-	-	-	-
- Notional value	-	-	-	-
- Positive fair value	-	-	-	-
- Negative fair value	-	-	-	-
5) Other	-	-	-	-
- Notional value	-	-	-	-
- Positive fair value	-	-	-	-
- Negative fair value	-	-	-	-
B Credit derivatives				
1) Purchase and protection	-	-	-	-
- Notional value	-	-	-	-
- Positive fair value	-	-	-	-
- Negative fair value	-	-	-	-
2) Sale and protection	-	-	-	-
- Notional value	-	-	-	-
- Positive fair value	-	-	-	-
- Negative fair value	-	-	-	-

Section 4 – Liquidity Risk

Qualitative Information

A. General Aspect, Management Processes and Liquidity Risk Measurement Techniques

Exposure to liquidity risk derives from funding and lending transactions in the course of the Bank's normal business, as well as from the presence of unlisted financial instruments in its proprietary portfolios. Such risk takes the form of default on payment obligations, which may be caused by an inability to raise funds (funding liquidity risk) or the existence of limits on the divestment of assets (market liquidity risk). Liquidity risk also includes the risk that an entity may be forced to meet its own payment obligations at non-market costs, that is to say while incurring a high cost of funding or (and in some cases concurrently) sustaining capital losses when divesting assets.

The Bank's liquidity risk governance model is based on "centralised" management for all Group companies. As the Parent Company, the Bank:

- > is responsible for the liquidity policy;
- > manages liquidity risk.

The structure of the liquidity risk management system is intended to ensure sound and prudent management of liquidity and liquidity risk and purses the following goals:

- > ensuring that the Bank remains solvent in both the normal course of business and crisis conditions;
- > complying with instructions from the supervisory authority and the guidelines on banking supervision issued by the various international authorities, while also taking account of the specificity of the Bank's business;
- > maintaining a liquidity profile that is consistent with the risk tolerance statements issued by its governing bodies.

In particular, the liquidity risk management and monitoring policy implemented by the Group at the consolidated level is in turn divided into:

- > managing **operating liquidity** risk, i.e., events that affect the Group's liquidity position on the short-term time horizon, with the primary objective of maintaining the Group's capacity to meet its ordinary and extraordinary payment obligations, while minimising the related costs;
- > managing **structural liquidity** risk, i.e., all events that affect the Group's liquidity position, including in the medium/long term, with the primary objective of maintaining an adequate relationship between liabilities and assets on the various time horizons. In particular, the management of structural liquidity allows:
 - pressure on current and prospective sources of liquidity to be avoided;
 - the cost of funding to be optimised.

With regard to liquidity risk management, the Bank has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group's risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority. The Finance Department is responsible for first-tier controls and managing treasury and proprietary investment cash flows with the aim of ensuring thorough diversification of sources of financing and monitoring cash flows and daily liquidity. Liquidity needs are primarily managed through recourse to the money market (interbank deposits and repurchase agreements) and, secondly, where present, through extraordinary measures provided by the ECB. The Group also holds a portfolio of highly liquid, listed financial instruments in order to react to possible crisis scenarios involving a sudden interruption of funding flows.

The Risk and Capital Adequacy Department is responsible for second-tier controls. Liquidity risk is managed within appropriate short-term and structural (beyond one year) limits, monitored by the Department, assuming that financial markets will continue to function normally and in conditions of particular stress, aimed at ensuring that the risk level expressed is consistent with the strategies and risk appetite established by the Board of Directors.

The Internal Audit Department is responsible for third-tier controls of loans and inflows transactions.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the liquidity risk management and control system and for deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

The Group also implemented a Contingency Funding Plan aimed at anticipating and handling liquidity crises at both the systemic and idiosyncratic level.

The Bank uses a maturity ladder to apply the guidelines set out in the Prudential Supervisory provisions governing the measurement of net financial position. Through the maturity ladder the bank assesses the matching of expected cash flows, by balancing assets and liabilities whose maturity falls within each maturity range; the balances and therefore the mismatches between expected inflows and outflows within each maturity range allows, through the construction of cumulative mismatches, the calculation of the net balance of funding requirement (or surplus) over the holding period considered.

Commission Implementing Regulation (EU) No. 2016/322, which contains the Implementing Technical Standards for the liquidity coverage ratio, was published in the *Official Journal of the European Union* on 10 March 2016. With effect from 30 September 2016, the Bank is required to report on a monthly basis according to the new reporting framework for this ratio. The LCR, calculated according to the provisions applicable on a consolidated basis as at 31 December 2018, amounted to 393%, far in excess of the current mandatory minimum level, thanks to high quality liquid assets (“HQLAs”) of approximately 5.2 billion euros, primarily Italian government bonds, offsetting the estimated net cash outflows in the following 30 days.

During the year the structural regulatory indicator, the net stable funding ratio, also remained consistently above the established limits, amounting to 197% as at 31 December 2018, due to long-term stable funding in excess of the on-balance sheet assets requiring such long-term stable funding.

Quantitative Information

1. Breakdown of financial assets and liabilities by remaining contractual maturity

ITEM/TIME-TO-MATURITY	ON DEMAND	OVER 1 DAY UP TO 7 DAYS	OVER 7 DAYS UP TO 15 DAYS	OVER 15 DAYS UP TO 1 MONTH	OVER 1 MONTH UP TO 3 MONTHS	OVER 3 MONTHS UP TO 6 MONTHS	OVER 6 MONTHS UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	UNSPECIFIED MATURITY	TOTAL
A. Cash assets											
A.1 Government securities	-	-	835	-	8,269	315,773	954,984	2,566,063	1,377,500	-	5,223,424
A.2 Other debt securities	-	-	156	3,202	6,034	18,353	32,070	372,360	73,406	-	505,581
A.3 UCITS units	32,822	-	-	-	-	-	-	-	-	-	32,822
A.4 Loans											
- to banks	220,513	17,467	-	-	-	-	-	-	-	82,714	320,694
- to customers	1,137,880	199,940	6,349	55	20,253	41,071	85,493	336,451	344,648	-	2,172,140
Total	1,391,215	217,407	7,340	3,257	34,556	375,197	1,072,547	3,274,874	1,795,554	82,714	8,254,661
B. Cash liabilities											
B.1 Deposits and current accounts											
- from banks	108,850	-	-	-	-	-	-	-	-	-	108,850
- from customers	8,228,273	-	-	-	-	26,032	-	-	-	-	8,254,305
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	169,512	130,542	-	-	-	-	-	-	43,028	-	343,082
Total	8,506,635	130,542	-	-	-	26,032	-	-	43,028	-	8,706,237
C. Off-balance sheet transactions											
C.1 Financial derivatives with capital swap											
- long positions	-	20,942	-	349	4,015	53,920	5,222	20,068	110,000	-	214,516
- short positions	-	194,123	-	349	4,015	3,920	5,222	68	-	-	207,697
C.2 Financial derivatives without capital swap											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds											
- long positions	83,803	-	-	-	-	48	501	38	286	-	84,676
- short positions	84,676	-	-	-	-	-	-	-	-	-	84,676
C.5 Financial guarantees issued	3,571	-	50	20	503	506	33,418	16,958	13,067	-	68,093
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with capital swap											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without capital swap											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
Total	172,050	215,065	50	718	8,533	58,394	44,363	37,132	123,353	-	659,658

Section 5 – Operating Risks

Qualitative Information

A. General Aspect, Management Processes and Operating Risk Measurement Techniques

The Bank's exposure to operating risks is closely linked to the type and volume of business conducted, as well as the operating procedures implemented. In detail, the operations undertaken (primarily management of third-party assets and the distribution of the Group's own and third-party investment products), the use of information technology systems, the definition of operating procedures, interaction with parties protected by the law, the marketing structure adopted (chiefly financial advisors) and the direct involvement of all employees in operations structurally expose the Group to operating risk, which is defined as the possibility of sustaining financial losses deriving from the inadequacy or improper functioning of procedures, human resources, internal systems or external events. This type of risk includes, *inter alia*, losses due to fraud, human error; interruptions of operation, unavailability of systems, breach of contract, natural disasters and legal risk.

With regard to operating risk management, the Bank has formally defined a single risk management policy, which specifies the general principles, the corporate bodies and functions involved in the risk management, the Group's risk management guidelines on its business model, the risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

The functions dealing with Organisation and IT guarantee the efficient functioning of application procedures and information systems that support organisational processes. It also evaluates the physical and logical security conditions within the Bank and, if necessary, implements measures to guarantee a higher general level of security.

The Risk and Capital Adequacy Department carries out risk assessment and scoring activities and Loss Data Collection processes, it monitors the action plans adopted to mitigate material risks, and controls KRIs (Key Risk Indicators).

The Internal Auditing function supervises the regular conduct of the Bank's operations and processes, and assesses the efficacy and efficiency of the overall internal control system established to monitor activities exposed to risk.

The Risk Committee is a collegial body responsible for a shared vision of the global performance of the operating risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Moreover, Banca Generali has insurance coverage for operating risks deriving from acts of third parties or caused to third parties and adequate clauses covering damages caused by providers of infrastructure and services and has approved a Business Continuity Plan.

Quantitative Information

The impact of operating losses in 2018 is broken down below by event type:

EVENT TYPE	%
ET 01 – Internal fraud	39%
ET 02 – External fraud	13%
ET 03 – Employment and workplace safety	8%
ET 04 – Customers, products and business practices	28%
ET 05 – Damages to property, plant and equipment	0%
ET 06 – Interruptions of operation and unavailability of systems	0%
ET 07 – Process execution, delivery and management	12%

Percentage breakdown of frequency by event type:

EVENT TYPE	%
ET 01 – Internal fraud	32%
ET 02 – External fraud	24%
ET 03 – Employment and workplace safety	5%
ET 04 – Customers, products and business practices	7%
ET 05 – Damages to property, plant and equipment	0%
ET 06 – Interruptions of operation and unavailability of systems	1%
ET 07 – Process execution, delivery and management	31%

The event type recording the most impact is "ET01 Internal fraud" (about 39%) which includes losses due to fraud, misappropriation or evasion of laws, regulations or company directives by internal staff, including Financial Advisors, in the performance of their duties and which also involves the Bank in that it is liable for the actions of its employees. The Bank carefully examines the individual disputes and complaints and, where necessary, makes an appropriate provision for the risk of legal disputes and continually monitors any developments, adjusting the amount set aside as circumstances change.

The second source of risk can be related to Event Type "ET 04 – Customers, products and business practices" (about 28%) arising from breaches of professional obligations towards customers by the Bank or its advisors either involuntarily or due to negligence, or due to the nature or configuration of the service/product provided.

Losses included under "ET – 02 External fraud" (about 13%) are related to cases of fraud, misappropriation or infringement of laws by persons outside the Bank, the majority of which can be related to the IT risk. A similar weight (about 12%) is attached to losses due to "ET 07 – Execution, delivery and management of processes" resulting from problems with completing transactions and managing processes linked to activities carried out by the Bank and from relations with commercial counterparts and suppliers.

Losses due to "ET 03 – Employment and workplace safety" (about 8%) depend on actions not conforming to employment and workplace health and safety laws or agreements, payment of compensation for personal injury or episodes of discrimination or failure to apply equal opportunity conditions.

Residual losses are covered by event types "damage to tangible assets" due to damage or destruction of tangible assets caused by natural disasters or other events and "interruption of operations and system malfunction" as a result of operations being halted or system malfunctions.

PART F – INFORMATION ON NET EQUITY

Section 1 – Net equity

A. Qualitative Information

The Bank's capital management strategy mainly aims to ensure that its capital and ratios are consistent with its risk profile and regulatory requirements.

The Bank is subject to the capital adequacy requirements established by the Basel Committee in accordance with the rules defined by the EU and applied by the Bank of Italy.

Such rules envisage the specific concept of "Own Funds", which is separate from the net equity stated in the financial statements. Own funds are calculated as the sum of positive and negative items, which are included in the calculation based on the quality of capital attributed to them.

Compliance with minimum capital requirements is monitored by the Risk Management Service, whereas the Regulatory Reporting function is responsible for calculating and disclosing own funds and capital requirements on a regular basis, as well as safeguarding the related databases (historical regulatory archive).

The Parent Company's compliance with capital adequacy ratios is monitored throughout the year and on a quarterly basis, and the necessary measures are taken to ensure control over the balance sheet items.

Additional analyses and control of the capital adequacy is also carried out any time the Company carries out extraordinary transactions (e.g., acquisitions, transfers, etc.). In these cases, information concerning the transaction is used to estimate its impact on the capital ratios, and any actions that may be necessary to comply with the requirements of the supervisory authorities are planned.

Compliance with capital adequacy is also guaranteed by the adoption of ECB's recommendations issued on 7 January 2019 on dividend distribution policies (Recommendation ECB/2019/1) and ECB's letter dated 9 January 2019 concerning variable remuneration policies, both aimed at observing minimum capital adequacy requirements in the medium-/long-term and detecting the potential effects of any adverse market situation.

B. Quantitative Information

At 31 December 2018, net equity, including net profit for the year, amounted to 632.6 million euros compared to 614.1 million euros at the end of the previous year.

	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
1. Share capital	116,852	116,852	-	0.0%
2. Share premium reserve	57,889	58,219	-330	-0.6%
3. Reserves	303,040	223,969	79,071	35.3%
4. (Treasury shares)	-22,724	-13,271	-9,453	71.2%
5. Valuation reserves	-11,505	21,846	-33,351	-152.7%
6. Equity instruments	-	-	-	n.a.
7. Minority interests	-	-	-	n.a.
8. Net profit (loss) for the year	189,058	206,449	-17,391	-8.4%
Total net equity	632,610	614,064	18,546	3.0%

The change in net equity was primarily influenced by the distribution of the 2017 dividend of 145.5 million euros - approved by the session of the General Shareholders' Meeting held on 12 April 2018 that also approved the Financial Statements - the buy-back of treasury shares, the change in the reserves for shared-based payments (IFRS 2), the negative change in fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (HTCS) and other reserves included in other comprehensive income, and net profit.

In 2018, with reference to the achievement of the performance objectives and other commitments set out in the Remuneration Policy, 121,129 treasury shares, with a value of 3,388 thousand euros, were allotted to company managers and network managers.

On the basis of the resolution passed by the Shareholders' Meeting on 12 April 2018 and the subsequent authorisation granted by the Supervisory Authority on 14 June 2018, Banca Generali repurchased 577,644 treasury shares in service of the Banking Group's Remuneration Policy.

In particular, the repurchased shares will be used to cover the commitments under remuneration plans for key personnel in 2018, the second cycle of the loyalty plan for 2018 and the new Long-Term Incentive Plan for the three-year period 2018-2020, in addition to all other commitments as provided for by the Remuneration Policies.

At 31 December 2018, the Parent Company, Banca Generali, thus held 929,090 treasury shares, with a value of 22,724 thousand euros.

	31.12.2018	31.12.2017
Net equity at period-start	614,064	522,232
Merger of BG Fiduciaria	10,814	-
IFRS 9 and IFRS 15 FTA	-2,826	-
Dividend paid	-145,474	-124,674
Purchase and sale of treasury shares	-12,841	-10,338
Stock option plans: capital increases	-	3,092
Matured IFRS 2 reserves (from stock option plans and remuneration policies)	4,384	2,819
Matured IFRS 2 reserve on LTIP	1,100	1,796
Change in valuation reserves	-25,669	12,688
Net profit for the year	189,058	206,449
Net equity at period-end	632,610	614,064
Change	18,546	91,832

B.1 Breakdown of net equity

ITEMS/VALUES	31.12.2018	31.12.2017	CHANGE
1. Share capital	116,852	116,852	-
2. Share premium reserve	57,889	58,219	-330
3. Reserves	303,040	223,969	79,071
- retained earnings	284,056	207,412	76,644
a) legal reserve	23,370	23,329	41
b) statutory reserve	-	-	-
c) treasury shares	-	-	-
d) other	260,686	184,083	76,603
- other	18,984	16,557	2,427
4. Equity instruments	-	-	-
5. (Treasury shares)	-22,724	-13,271	-9,453
6. Valuation reserves	-11,505	21,846	-33,351
- Equity securities at fair value through other comprehensive income	-	445	-445
- Equity security hedges at fair value through OCI	-	-	-
- Financial assets (other than equity securities) at fair value through OCI	-9,657	23,110	-32,767
- Property and equipment	-	-	-
- Intangible assets	-	-	-
- Hedges of foreign investments	-	-	-
- Cash-flow hedges	-	-	-
- Hedging instruments	-	-	-
- Exchange differences	-	-	-
- Non-current assets available for sale and disposal groups	-	-	-
- Financial liabilities at fair value through profit or loss (change in the own creditworthiness)	-	-	-
- Actuarial gains (losses) from defined benefit plans	-1,848	-1,709	-139
- Share of valuation reserves of investee companies valued at equity	-	-	-
- Special revaluation laws	-	-	-
7. Net profit (loss) for the year	189,058	206,449	-17,391
Total net equity	632,610	614,064	18,546

B.2 Breakdown of valuation reserves of financial assets at fair value through OCI

Valuation reserves of financial assets at fair value through OCI measure the unrealised capital gains and losses, net of the associated tax effect, on the assets allocated to that portfolio and recognised at fair value.

The change in these reserves contributes to determining the overall company performance in relation to other comprehensive income (OCI), without passing through the Profit and Loss Account.

However, when gains or losses are realised or an impairment loss is recognised, the cumulative amount of the reserve is reclassified to the Profit and Loss Account in the year of reference.

Valuation reserves of financial assets at fair value through OCI varied significantly compared to the end of the previous year, primarily due to the performance of reserves for government bonds, as a result of the greater volatility of the spread on Italian securities.

The aggregate had an overall negative balance of 9.7 million euros, down by 33.2 million euros compared to year-end 2017.

This trend was mainly influenced by the portfolio of Italian government bonds, for which net reserves amounted to -6.2 million euros compared to 19.9 million euros at year-end 2017.

ASSETS/VALUES	31.12.2018		31.12.2017	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	2,288	-11,945	21,845	-1,515
2. Equity securities	-	-	445	-
3. UCITS units	-	-	3,016	-236
Total at 31.12.2018	2,288	-11,945	25,306	-1,751

B.3 Valuation reserves of financial assets at fair value through OCI: year changes

In detail, the reduction in valuation reserves on the portfolio of financial assets measured at fair value through other comprehensive income was attributable to the following factors:

- > an increase in net valuation capital losses totalling 21.7 million euros;
- > the 16.1 million euros reduction of pre-existing net positive reserves due to re-absorption through profit or loss upon realisation;
- > the positive net tax effect associated with the above changes and resulting from increases in DTLs and re-absorption of DTAs (12.1 million euros).

	31.12.2018				
	DEBT SECURITIES		EQUITY SECURITIES	UCITS UNITS	TOTAL
	CORPORATE	GOVERNMENT			
1. Amount at year-start	480	19,850	445	2,780	23,555
Adjustment of opening balances	230	-4,599	-445	-2,780	-7,594
1. Amount at year-start	710	15,251	-	-	15,961
2. Increases	2,515	11,287	-	-	13,802
2.1 Fair value increases	63	1	-	-	64
2.2 Adjustments due to credit risk	352	856	X	-	1,208
2.3 Transfer to Profit and Loss Account of negative reserves: due to disposal	3	-	X	-	3
2.4 Transfer to other net equity components (equity securities)	-	-	-	-	-
2.5 Other changes	2,097	10,430	-	-	12,527
3. Decreases	6,702	32,718	-	-	39,420
3.1 Fair value decreases	6,188	16,776	-	-	22,964
3.2 Reversals for credit risk	-	-	-	-	-
3.3 Transfer to Profit and Loss Account of positive reserves: due to disposal	401	15,667	X	-	16,068
3.4 Transfer to other net equity components (equity securities)	-	-	-	-	-
3.5 Other changes	113	275	-	-	388
4. Amount at period-end	-3,477	-6,180	-	-	-9,657

B.4 Reserves relating to defined benefit plans: annual changes

	31.12.2018		
	RESERVE	DTAS	NET RESERVE
1. Amount at year-start	-2,357	648	-1,709
2. Increases	-120	33	-87
Decreases of actuarial losses	-	-	-
Other increases	-120	33	-87
- of which: business combinations	-120	33	-87
3. Decreases	-71	19	-52
Increases of actuarial losses	-71	19	-52
Other decreases	-	-	-
4. Amount at year-end	-2,548	700	-1,848

Section 2 – Own funds and regulatory banking ratios

In accordance with Circular No. 262 of 22 December 2005, fifth update of 22 December 2017, for the details of own funds and regulatory capital ratios, reference is made to the information regarding own funds and capital adequacy provided in the “Pillar 3” public disclosure provided at the consolidated level, available from Banca Generali’s corporate website at the address www.bancagenerali.com.

PART G – BUSINESS COMBINATIONS OF COMPANIES OR BUSINESS UNITS

This section includes both transactions within the scope of IFRS 3 and business combinations between entities under common control.

The results of impairment testing of the Bank's goodwill are also stated in the interest of consistency of presentation.

Section 1 – Transactions undertaken during the year

Merger of BG Fiduciaria Sim S.p.A.

The merger of the subsidiary BG Fiduciaria Sim S.p.A. into the Parent Company, Banca Generali, became effective 1 January 2018.

The plan for the merger, drafted pursuant to the combined provisions of Articles 2501-*ter* and 2505 of the Italian Civil Code, was outlined and disclosed to the market on 22 June 2017, and then approved by the Board of Directors on 12 October 2017. The Board of Directors of BG Fiduciaria Sim passed the same decision on 10 October 2017. The merger received prior approval by the Bank of Italy.

The merger should be viewed in the context of the constant growth and development of the Banking Group, which in recent years has invested significantly in product innovation and its service model. Specifically, the merger stemmed from the need to:

- 1) rationalise the range of trust services, focusing them within the trust company Generfid S.p.A.;
- 2) offer customers of BG Fiduciaria access to the innovative wrappers of managed products and the wealth management services dedicated to private banking customers, available through the integrated technology platform BGPA;
- 3) streamline administrative and operational processes through the integration of the resources devoted to portfolio management.

The merger took place in simplified form pursuant to Article 2505 of the Italian Civil Code, inasmuch as the merged company, BG Fiduciaria Sim, was fully owned by the merging company, Banca Generali, and therefore it was not necessary to increase Banca Generali's share capital.

The business combination between entities under common control, outside the scope of IFRS 3, was accounted for in accordance with the principle of continuity of values of the acquiree's transferred assets and liabilities and, therefore, it did not have any effects on the Consolidated Financial Statements for 2018.

In detail, the transaction was recognised on the basis of the carrying amount of the assets and liabilities of the merged subsidiary, based on the book values indicated in the Bank's 2017 financial statements, including the goodwill that Banca Generali recognised upon acquisition of the equity investment in 2005. The surplus arising between this amount and the carrying amount of the equity investment held by the Parent Company was therefore recognised in the merging company's net equity.

In detail, at the effective date of the merger, the equity investment in BG Fiduciaria Sim amounted to **11,779** thousand euros, the latter's net equity was **18,304** thousand euros and the goodwill recognised by Banca Generali in the Consolidated Financial Statements totalled **4,289** thousand euros.

Accordingly, Banca Generali recognised a merger surplus in the amount of **10,901** thousand euros, allocated as an increase to net equity.

The IAS 19 negative valuation reserve of BG Fiduciaria, amounting to **-87** thousand euros, was fully recognised in the merging company's accounting records. Banca Generali thus reported an increase in net equity of **10,814** thousand euros.

In order to facilitate the analysis of the effects of the aforementioned transaction and allow a comparison with the Bank's Financial Statements at 31 December 2017, a restated profit and loss account and balance sheet at 2017 year-end have been drawn up to account for the effects of the business combination.

The following accounts thus present the aggregated balance sheets and profit and loss accounts of Banca Generali and BG Fiduciaria Sim at 31 December 2017, along with the eliminations of intercompany items of the two companies.

ASSETS	BANCA GENERALI	BG FIDUCIARIA SIM	ELIMINATIONS AND ADJUSTMENTS	BANCA GENERALI (PRO-FORMA)
HFT financial assets	49,814	-	-	49,814
AFS financial assets	4,612,724	4	-	4,612,728
HTM financial assets	979,784	-	-	979,784
Loans to banks	860,464	15,510	7,464	883,438
Loans to customers	1,923,453	3,743	-560	1,926,636
Equity investments	16,224	-	-11,779	4,445
Property, equipment and intangible assets	94,025	-	4,289	98,314
Tax receivables	45,363	325	-	45,688
Other assets	348,822	1,632	-29	350,425
Total assets	8,930,673	21,214	-615	8,951,272

NET EQUITY AND LIABILITIES	BANCA GENERALI	BG FIDUCIARIA SIM	ELIMINATIONS AND ADJUSTMENTS	BANCA GENERALI (PRO-FORMA)
Due to banks	682,526	565	-560	682,531
Due to customers	7,276,405	-	7,464	7,283,869
Financial liabilities held for trading and hedging	206	-	-	206
Tax payables	22,280	3	-	22,283
Other liabilities	182,114	1,669	-29	183,754
Special purpose provisions	153,078	674	-	153,752
Valuation reserves	21,846	-87	-	21,759
Reserves	223,969	12,243	-12,243	223,969
Merger reserve	-	-	10,901	10,901
Share premium reserve	58,219	-	-	58,219
Share capital	116,852	5,200	-5,200	116,852
Treasury shares (-)	-13,271	-	-	-13,271
Net profit (loss) for the year	206,449	948	-948	206,449
Total liabilities and net equity	8,930,673	21,214	-615	8,951,272

On 1 January 2018, Banca Generali acquired BG Fiduciaria's customer relationships for total AUM amounting to 669 million euros, including 31.2 million euros liquidity regarding portfolio management technical accounts, of which 8.3 million euros already held in deposits with Banca Generali. New net inflows recognised by Banca Generali for the balances acquired from the depository bank amounted to 22.9 million euros.

Section 2 – Transactions after the close of the period

No business combination transactions were undertaken after 31 December 2018 and until the date of approval of the draft Financial Statements.

However, 2018 saw the launch of some corporate transactions that are to be finalised in 2019.

On **22 October 2018**, Banca Generali formally defined a binding offer - accepted by the parties involved - aimed at acquiring 100% of the Nextam Partners S.p.A. financial group. Nextam Partners S.p.A. is an investment boutique, which has been offering asset and wealth management and advisory services to private-banking and institutional clients in Italy since 2001.

The deal is part of Banca Generali's wider private-banking growth strategy launched with a view to strengthening the Bank's range of services and its distinctive asset management and advisory expertise.

Nextam Partners Group (80% owned by its three founding partners - independent managers with extensive experience in the industry - and 20% owned by other Italian and foreign shareholders) includes Nextam Partners SGR, Nextam Partners Sim, with offices in Milan and Florence, and the London-based Nextam Partners Ltd. Nextam Partners has a portfolio of approximately 2,500 clients, on behalf of whom the Group manages about 5.5 billion euros assets under advisory, in addition to 1.3 billion euros assets under management.

The deal will be subject to the appropriate conditions customarily applied to transactions of this kind.

In **December 2018**, a binding offer was made by Banca Generali - and accepted by the parties involved - for the acquisition of 90.1% of **Valeur Fiduciaria S.A.**, a Lugano-based asset management and advisory boutique that has been operating since 2009 in the private banking sector and manages CHF 1,326 million in assets. The deal will also be subject to the appropriate conditions customarily applied to transactions of this kind.

Section 3 – Retrospective Adjustments

No retrospective adjustments to business combinations carried out by the Banking Group in previous years were undertaken in 2018 pursuant to paragraphs 61 and B7 of IFRS 3.

The latter provision also requires that the amount of goodwill during the year be reconciled, including an indication of any impairment of goodwill recognised.

Banca Generali's goodwill totalled 66.1 million euros at 31 December 2018, broken down as follows:

	31.12.2018	31.12.2017	CHANGE	
			AMOUNT	%
Prime Consult and INA Sim	2,991	2,991	-	-
Banca del Gottardo Italia	31,352	31,352	-	-
Credit Suisse Italy	27,432	27,432	-	-
BG Fiduciaria	4,290	-	4,290	n.a.
Total	66,065	61,775	4,290	6.9%

Impairment test

In accordance with IAS 36, goodwill is no longer amortised, but is reviewed at least annually for impairment.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs), which may be no larger than the operating segment identified for management reporting, pursuant to IFRS 8.

To determine the amount of impairment, the carrying amount of the CGU is compared with its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

It should be noted that the extensive reorganisation of the sales networks approved by the Board of Directors of 8 November 2017 also led to a review of the operating segments identified by the corporate management for purposes of management reporting.

In detail effective as of 1 January 2018, the networks of non-employed Financial Advisors have been revised according to specialisation and reorganised into two macro-divisions on the basis of the total AUM managed by each Financial Advisor, with the introduction of the new Wealth Management network, which brings together Financial Advisors in the highest asset bracket (i.e., with AUM of more than 50 million euros).

Moreover, as of 1 January 2018, the subsidiary BG Fiduciaria was merged into Banca Generali and therefore the relevant goodwill has been included in the Bank's CGUs.

IAS 36, paragraph 87 envisages that *“If an entity reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganised units.”*

Consequently, to conduct impairment testing according to IAS 36, the CGUs were redefined and goodwill was reallocated to each with the aim of providing an accurate representation reflecting the changes made.

The full amount of goodwill (66.0 million euros) was definitively allocated to the two new CGUs, Wealth Management and Private Banking, on the basis of the AUM (assets under management) weighted according to profitability for each Financial Advisor included in the two new CGUs.

Definitions of CGUs

The new **Wealth Management CGU (“WM CGU”)** consists of the assets attributable to the network of Financial Advisors identified within Banca Generali's sales network as managing total client assets of more than 50 million euros and the respective clients, assigned to the new *Wealth Management and Private Relationship Manager Commercial Development and Support Department*.

It therefore includes:

- > a portion of the goodwill arising on the operations of the companies Banca BSI Italia S.p.A. and Banca del Gottardo Italia S.p.A., merged into the Parent Company Banca Generali in 2010;
- > a portion of the goodwill arising from the Bank's acquisition at the end of 2014 of the Italian Affluent and Upper Affluent private banking operations of Credit Suisse Italy S.p.A.;
- > a portion of goodwill referring to the mergers of subsidiary Prime Consult Sim S.p.A. and INA Sim S.p.A. carried out in 2002;
- > a portion of the goodwill related to the merger of BG Fiduciaria into the parent company Banca Generali carried out effective 1 January 2018.

At 31 December 2018, the goodwill allocated to the new CGU Wealth Management amounted to 14.3 million euros.

The new **Private Banking Management CGU ("PB CGU")** consists of the assets attributable to the network of Financial Advisors identified within Banca Generali's sales network as managing total client assets of less than 50 million euros, the assets attributable to Relationship Managers and the respective clients, assigned to the new *Private Banking and Financial Planner Commercial Development and Support Department*.

It therefore includes:

- > a portion of the goodwill arising on the operations of the companies Banca BSI Italia S.p.A. and Banca del Gottardo Italia S.p.A., merged into the parent company Banca Generali in 2010;
- > a portion of the goodwill arising from the Bank's acquisition at the end of 2014 of the Italian Affluent and Upper Affluent private banking operations of Credit Suisse Italy S.p.A.;
- > a portion of goodwill referring to the mergers of subsidiary Prime Consult Sim S.p.A. and INA Sim S.p.A. carried out in 2002;
- > a portion of the goodwill related to the merger of BG Fiduciaria into the parent company Banca Generali carried out effective 1 January 2018.

At 31 December 2018, the goodwill allocated to the new CGU Private Banking amounted to 51.7 million euros.

The value analyses of the above-mentioned CGUs carried out by the Bank as at 31 December 2018, as part of the impairment test, are supported by a fairness opinion issued by a leading consulting company and submitted for approval to the Board of Directors of Banca Generali on 7 February 2019.

Approach to determining the values of the CGUs

To determine the recoverable amount, both market assessments (to arrive at fair value) and basic methodologies (to arrive at value in use) were considered.

Value in use was calculated by employing an analytical method (used as the main method), whereas fair value was calculated by employing an empirical method (used as the control method).

In detail, the analytical method employed was the Dividend Discount Model (DDM), specifically the Excess Capital variant of said model, on the basis of which the value of an asset is a function of:

- a) current value of future cash flows generated within a specific time period and available for distribution to shareholders (dividends);
- b) the perpetual capitalisation of the expected normalised dividend from the final year of the financial plan of reference, on the basis of a payout consistent with ordinary profitability.

The control method employed was the comparable market multiples method.

Impairment tests carried out on the CGU specified did not indicate goodwill impairment.

The value according to the analytical method exceeds the carrying amounts of the CGUs, inclusive of intangible assets, goodwill and capital allocated, as shown in the following table.

	FIGURATIVE CAPITAL	GOODWILL	OTHER INTANG. ASSETS	CARRYING AMOUNT
PB CGU	167.2	51.7	5.2	224.2
WM CGU	65.6	14.3	7.2	87.2
Total	232.8	66.0	12.4	311.4

	CGU VALUE		CARRYING AMOUNT
	MIN	MAX	
PB CGU	975.3	1,106.0	224.2
WM CGU	256.2	289.5	87.2

The analyses performed for each CGU are detailed below.

Wealth Management CGU (“WM CGU”)

In light of economic-financial forecasts based on the 2019-2021 Economic and Financial Plan, the CGU’s mean portfolio of assets under management (AUM) is expected to expand by 8.7% over the three years in question (CAGR), whilst the long-term growth rate expected following the planning period, and used to determine the Terminal Value (perpetual yield), was estimated at 1.5%.

The cost of capital employed to discount cash flows, determined according to the Capital Asset Pricing Model (CAPM), was estimated at 8.13%.

The cost of capital was established applying the Capital Asset Pricing Model, on the basis of the following assumptions:

- a) risk free rate of 2.60%, equivalent to the annual gross return on 10-year BTPs (Italian government bonds), over the last 12 months;
- b) market risk premium of 5.5%, established on the basis of the difference in long-term yields between equity securities and bonds on international financial markets;
- c) a value of 1.01 assigned to the Beta coefficient measuring the extent to which the performance of any given stock is likely to depart from market trends, and determined on the basis of a sample of comparable companies, duly weighted for their respective market capitalisation values.

The foregoing assumptions are substantially in line with the estimates and variables used during the previous financial year.

The tests performed on the CGU did not detect any goodwill impairment.

Compared to the WM CGU’s carrying amount of 87.2 million euros, the value obtained by applying the analytical method described above amounted to a minimum of 256.2 million euros and a maximum of 289.5 million euros.

In accordance with the requirements of IAS 36, paragraph 134(f), a sensitivity analysis was conducted as a function of the parameters “cost of capital” (Ke) and “long-term growth rate”, using a range of variation of 7.9%-8.4% and 1.25%-1.75%, respectively.

The test performed using the control method also confirmed that the carrying amount remained applicable.

Private Banking CGU (“PB CGU”)

In light of economic-financial forecasts based on the 2019-2021 Economic and Financial Plan, the CGU’s mean portfolio of assets under management (AUM) is expected to expand by 8.8% over the three years in question (CAGR), whilst the long-term growth rate expected following the planning period, and used to determine the Terminal Value (perpetual yield), was estimated at 1.5%.

The cost of capital employed to discount cash flows, determined according to the Capital Asset Pricing Model (CAPM), was estimated at 8.13%.

The cost of capital was established applying the Capital Asset Pricing Model, on the basis of the following assumptions:

- a) risk free rate of 2.60%, equivalent to the annual gross return on 10-year BTPs (Italian government bonds), over the last 12 months;
- b) market risk premium of 5.5%, established on the basis of the difference in long-term yields between equity securities and bonds on international financial markets;
- c) a value of 1.01 assigned to the Beta coefficient measuring the extent to which the performance of any given stock is likely to depart from market trends, and determined on the basis of a sample of comparable companies, duly weighted for their respective market capitalisation values.

The foregoing assumptions are substantially in line with the estimates and variables used during the previous financial year.

The tests performed on the CGU did not detect any goodwill impairment.

Compared to the PB CGU’s carrying amount of 224.2 million euros, the value obtained by applying the analytical method described above amounted to a minimum of 975.3 million euros and a maximum of 1,106.0 million euros.

In accordance with the requirements of IAS 36, paragraph 134(f), a sensitivity analysis was conducted as a function of the parameters “cost of capital” (Ke) and “long-term growth rate”, using a range of variation of 7.9%-8.4% and 1.25%-1.75%, respectively.

The test performed using the control method also confirmed that the carrying amount remained applicable.

Finally, it should be noted that the impairment test conducted at the level of the consolidated financial statements also includes a test of the value of the goodwill and intangible assets recognised in the separate financial statements.

PART H – RELATED PARTY TRANSACTIONS

Procedural aspects

Banca Generali's Board of Directors approved the "Related Party Transaction Procedure", effective as of 1 January 2011, in compliance with the provisions of Article 2391-*bis* of the Italian Civil Code, and Article 4 of the Regulations adopted with Consob Resolution No. 17221 of 12 March 2010, as subsequently amended.

On 12 December 2011, the Bank of Italy also updated the Prudential Supervisory Instructions for Banks (Bank of Italy Circular No. 263/2006), issuing new Provisions regulating risk-taking and conflicts of interest on the part of banks and banking groups, towards Associated Undertakings (Title V, Chapter 5).

The Procedure was last updated to bring it in line with Article 150 of TUF and the provisions introduced by the Bank of Italy on 2 July 2013 with the 15th amendment of Circular No. 263 of 27 December 2006 concerning "New Prudential Supervisory Provisions for Banks" on Transactions of Greater Importance.

The new Procedure for Related Party and Connected Party Transaction and Transactions of Greater Importance, in force as from 1 July 2014 and most recently updated 15 May 2017, is intended to implement Consob and Bank of Italy regulations, by adopting, at group level, rules on Transactions with Related Parties and Connected Parties and Transactions of Greater Importance, governing the related investigation, approval, reporting and disclosure activities.

The related party perimeter

Based on Consob Regulations, the Provisions issued by the Supervisory Body, and the Procedure, the following parties are considered as Banca Generali's related parties:

- > subsidiaries of the Banking Group;
- > the ultimate parent Assicurazioni Generali S.p.A., its subsidiaries (companies subject to common control), including the direct parent Generali Italia S.p.A., and pension funds established for the benefit of Generali Group employees;
- > Key management personnel of the Bank and the parent company Assicurazioni Generali (key managers), close relatives of the above personnel and the related relevant subsidiaries (entities in which one of these persons exercises control, joint control or significant influence or holds, directly or indirectly, a significant shareholding of no less than 20% of the voting rights).

Under IAS 24, whose revised version is in force since 1 January 2011, the associate companies of the banking Group and the insurance group Generali Group are also considered related parties.

With specific regard to **key managers**, the following persons have been designated as such:

- > the Directors and the members of the Board of Statutory Auditors of the Banking Group's companies;
- > the members of the Top Management, as defined in the Remuneration Policies of the Banking Group⁷, namely the General Manager and the two Deputy General Managers;
- > representatives of the parent company Assicurazioni Generali S.p.A. identified as Key Management Personnel in the corresponding procedure regarding transactions with related parties adopted by that Insurance Group.

Significance thresholds of Related Party transactions

The procedure lays down specific provisions on decision-making authority, obligation to provide justification and documentation to be prepared depending on the type of transaction.

More specifically:

- > **Highly Significant Transactions** - that is, transactions exceeding the threshold of 5% of at least one of the significance indicators of the countervalue of the transaction, as provided by Consob Resolution No. 17221, reduced to 2.5% for transactions carried out with the Parent Company that is listed on regulated markets or with undertakings thereto related which are in turn related to the Company - must be approved by the Board of Directors, upon the binding favourable opinion of the Internal Control Committee;
- > **Moderately Significant Transactions** - falling short of the threshold defining Highly Significant RP Transactions; they must be approved by the relevant corporate officers as established pursuant to the system of delegated powers in force from time to time, only after hearing the non-binding opinion of the Internal Control Committee in such regard. The aforesaid transactions must be presented with a full and in-depth information about the reasons underlying each and every transaction in question, as well as the advisability of proceeding with the latter in light of the substantive propriety of the related terms and conditions;
- > **Low Value transactions**, whose value, defined pursuant to the Bank of Italy's Provisions, cannot exceed the amount of **250,000 euros** for banks with Own Funds below 1 million euros, and are excluded from the scope of application of the regulation on approval and disclosure transparency.

In addition to transactions for modest amounts, in accordance with Consob Regulation, there are additional circumstances which are not subject to the specific approval procedures:

- > **share-based remuneration plans** approved by the General Shareholders' Meeting within the meaning of Article 114-*bis* of the TUF, and related implementing transactions;

⁷ Banking Group's Remuneration and Incentivisation Policies approved by the General Shareholders' Meeting on 12 April 2018.

- > **resolutions on the remuneration of directors** entrusted with specific tasks other than those determined on an overall basis pursuant to Article 2389, third paragraph, of the Italian Civil Code and **resolutions regarding the remuneration of Key Management Personnel**, provided that the Company has adopted a remuneration policy with certain characteristics;
- > **ordinary transactions** that are part of the ordinary operations and any and all related financial activities, and effected at arm's-length or standard terms or conditions. Pursuant to the Bank of Italy's provisions, all transactions that exceed the Highly Significant threshold, even if carried out on an arms' length basis or standard conditions, should be considered as non-ordinary transactions;
- > **transactions with or between Subsidiaries and Associates**, provided that none of the Company's other related parties holds any interest in the Subsidiaries or Associates in question.

On the basis of the indicator consisting of the consolidated Own funds, the threshold of transactions of greater importance currently stands at around **26.9 million** euros, reduced to **13.4 million** euros for transactions with the parent company Assicurazioni Generali and the latter's related entities.

Moreover, the provisions issued by the Bank of Italy impose, for the first time, prudential restrictions, based on Own funds, on risk assets in respect of Connected Parties. The limits vary according to the different types of Connected Parties, in proportion with the level of involvement in the relationship and the potential impact of the resulting risks on sound and prudent management. In light of the greater risks associated with conflicts of interest in bank-industry relations, more stringent limits are envisaged for risk assets carried out with entities qualifying as non-financial related parties. Exposure in respect of the Generali Group's connected parties, on the other hand, is capped at **7.5%** of consolidated Own funds.

Even if the aforesaid consolidated cap is not exceeded, Banca Generali's exposure in respect of any given set of associated undertakings may in no event exceed **20%** of the sum total of their respective Capital for Regulatory Purposes.

1. Disclosure of remuneration of directors and executives

As required by IAS 24, the total remuneration recorded in the Profit and Loss account for the year is disclosed below, broken down by personnel category and type.

	2018				2017	CHANGE
	DIRECTORS	AUDITORS	OTHER KEY MANAGEMENT PERSONNEL	TOTAL		
Short-term benefits (current remuneration and social security charges) ⁽¹⁾	800	222	1,934	2,956	2,694	262
Post-employment benefits ⁽²⁾	-	-	242	242	125	117
Other long-term benefits ⁽³⁾	-	-	269	269	72	197
Severance indemnities	-	-	-	-	-	-
Share-based payments ⁽⁴⁾	-	-	1,232	1,232	1,828	-596
Total at 31.12.2018	800	222	3,678	4,700	4,719	-19
Total at 31.12.2017	657	171	3,891	4,719	-	-

(1) Includes current remuneration and social security charges payable by the company and short-term benefits.

(2) Includes the company's pension fund contribution and allocation to the provision for post-retirement benefits provided for by the law and company regulations.

(3) Includes 40% of the bonus with access gate.

(4) Includes the estimated cost for share-based payment plans, determined based on IFRS 2 criteria and recognised in the financial statements.

The table provides the total expenses recognised in the profit and loss account presented in the annual financial statements on the basis of the application of the IASs/IFRSs. It therefore also includes the social security charges for which the Company is liable, the allocation to the provision for post-employment benefits, the expenses associated with share-based payment plan determined in accordance with IFRS 2, and the estimate of the variable remuneration accrued during the year on the basis of the Remuneration and Incentivisation Policy for the Key Personnel of the Banking Group.

It should also be noted that the amounts are net of recoverable remuneration associated with services rendered to other companies.

In further detail, the item "Other long-term benefits" includes the estimate of the 40% share of variable remuneration for the year in excess of 75,000 euros payable on a deferred basis over the next two years, contingent upon specific access gate conditions being met, in accordance with the aforementioned Remuneration Policy.

The item "Short-term benefits" includes the fixed remuneration and the 60% share of variable remuneration accrued in the reporting year and payable in the following one.

Beginning in 2015, a 25% portion of the variable remuneration - both current and deferred - will be paid in Banca Generali shares.

Therefore, the item “Share-based payments” accounts for the costs associated with IFRS 2 accrued in the year and regarding:

- > the Long-Term Incentive Plans (LTIPs) introduced by the parent company Assicurazioni Generali, for a total amount of 0.7 million euros;
- > the new LTI Plan based on Banca Generali S.p.A.’s shares implemented in 2018 for a total of 0.4 million euro;
- > the share-based payments envisaged in the new Remuneration Policy mentioned above and discussed in greater detail in Part I of these Notes and Comments (0.1 million euros).

For detailed information concerning Remuneration Policies, the reader is therefore referred to the specific document concerning Remuneration Policies instituted by Consob Resolution No. 18049 of 23 December 2011.

2. Disclosure of Related Party Transactions

As part of its normal business operations, Banca Generali carries out numerous financial and commercial transactions with related parties included in the scope of consolidation of the Generali Group.

Banca Generali is a direct subsidiary of Generali Italia S.p.A., the holding of all the Insurance Group’s operations in Italy. However, the company engaging in management and coordination activities pursuant to Article 2497 of the Italian Civil Code continues to be the ultimate Parent Company, Assicurazioni Generali S.p.A. This is the reason why reference is made to the latter when speaking of the “Parent Company” of Banca Generali, in compliance with IAS 24.

In the banking area, such relationships include current accounts, the custody and administration of securities, stock brokerage and commercial portfolio collection.

As regard the distribution and sale of financial services, a number of agreements were established regarding the Financial Advisors network’s placement of asset-management and insurance products, as well as banking products and services.

To a lesser extent, advisory and wealth management activities are also carried out, with reference to underlying assets of insurance products placed by the companies of the Insurance Group.

Finally, as part of its normal operations, the Bank also maintains relationships pertaining to outsourcing, IT and administration, insurance and leasing relationships, as well as other minor relationships with Generali Group companies.

Transactions with related parties outside the Generali Group are mostly confined to direct and indirect inflows activities and loans to Key Management Personnel (and their relatives) of the Bank and its Parent Company. These transactions are carried out at arm’s length. Banca Generali’s direct investments in activities on which such related parties exercise significant influence or control are absolutely not material.

2.1 Extraordinary and non-recurring transactions

Unusual, atypical or extraordinary transactions

There were no atypical and/or unusual transactions to be reported in 2018, nor were such transactions undertaken with parties other than related parties such as intra-group entities or third parties.

Pursuant to Consob Notices Nos. 98015375 of 27 February 1998 and 1025564 of 6 April 2001, atypical and unusual transactions are defined as all transactions that due to their significance/materiality, the nature of the counterparties, the subject matter of the transaction (including in relation to ordinary operations), the transfer pricing method and timing of occurrence (near the end of the period) may give rise to doubts as to the accuracy/completeness of the information presented in the financial statements, conflicts of interest, the safeguarding of company assets and the protection of minority shareholders.

Highly Significant Transactions

In 2018, the Banking Group (Banca Generali) undertook the following transactions qualifying as “Highly Significant”.

- > During the session of 20 March 2018, the Board of Directors approved the redefinition of the intra-group agreements on the brand and policy distribution. Since these transactions qualified as Highly Significant, the Audit and Risk Committee was duly involved in the negotiations and produced its own binding opinion, as required by the above Procedure. The relevant Information Document was also prepared in accordance with Article 5 of the “Regulations containing provisions relating to transactions with related parties” adopted by Consob with Resolution No. 17221 of 12 March 2010 and subsequently amended by Consob with Resolution No. 17389 of 23 June 2010;
- > during the session of 31 July 2018, the Board of Directors approved the new lease agreement with Generali Italia S.p.A. for the real-estate premises located at Piazza Tre Torri 1 (Citylife), Milan, Italy, and granted the Chief Executive Officer all powers appropriate to executing the deeds required to finalise the agreements. Since these transactions qualified as Highly Significant, the Audit and Risk Committee was duly involved in the negotiations and produced its own binding opinion, as required by the above Procedure. The relevant Information Document was also prepared in accordance with Article 5 of the “Regulations containing provisions relating to transactions with related parties” adopted by Consob with Resolution No. 17221 of 12 March 2010 and subsequently amended by Consob with Resolution No. 17389 of 23 June 2010.

Intra-group Highly Significant Transactions of the Bank

With respect to Intra-group Highly Significant Transactions of the Bank - which, pursuant to the Procedure on Related Party Transactions, are exempt from the escalated decision-making process and the obligation to publish a market disclosure document, unless there are significant interests in the subsidiary by other related parties - no transaction was made in the reporting year.

Other significant transactions

In 2018, some transactions were approved qualifying as "low value" transactions, which are subject to the prior non-binding opinion of the Audit and Risk Committee; in this regard, the reader is referred to the dedicated section of the Report on Operations.

2.2 Ordinary or recurring transactions

The developments of ordinary transactions with related parties during 2018 are presented in the following sections.

Transactions with Assicurazioni Generali Group**Balance Sheet data**

	SUBSIDIARIES BANKING GROUP	PARENT COMPANY ASS. GENERALI	SUBSIDIARIES GENERALI GROUP	31.12.2018	31.12.2017	WEIGHT % 2018
Financial assets measured at fair value through profit or loss:	-	903	-	903	242	1.0%
a) HFT financial assets	-	-	-	-	242	-
c) other financial assets mandatorily measured at fair value	-	903	-	903	-	1.6%
Financial assets at fair value through other comprehensive income	-	-	246	246	940	-
Financial assets at amortised cost:	23,130	-	29,419	52,549	47,610	0.9%
b) Loans to customers	23,130	-	29,419	52,549	47,610	0.9%
Equity investments	4,445	-	-	4,445	16,224	100.0%
Other assets	27	-	91	118	282	-
Total assets	27,602	903	29,756	58,261	65,298	0.6%
Financial liabilities at amortised cost:	40,483	87,798	439,195	567,476	584,356	6.5%
b) Due to customers	40,483	87,798	439,195	567,476	584,356	6.6%
Other liabilities	1,413	-	11,513	12,926	5,864	9.2%
Tax liabilities (AG tax consolidation)	-	6,893	-	6,893	2,592	48.6%
Total liabilities	41,896	94,691	450,708	587,295	592,812	6.1%
Guarantees issued	-	1,847	858	2,705	2,931	2.8%

The total exposure to the Parent Company, **Assicurazioni Generali**, of companies subject to its control, including the direct parent, Generali Italia S.p.A., and its associate companies, amounted to 30.7 million euros, compared to the 21.7 million euros recognised at the end of 2017, equal to 0.3% of Banca Generali's total balance sheet assets.

By contrast, the total debt position reached 545.4 million euros, accounting for 5.6% of liabilities, up by 42.3 million euros (8.4%) compared to the previous year.

As part of assets, **financial assets mandatorily measured at fair value through other comprehensive income (OCI FV)** claimed from the parent company refer to shares of Assicurazioni Generali held in the corresponding portfolio of Banca Generali. As part of the **financial assets measured at fair value through other comprehensive income (HTCS)** portfolio, shareholdings in subsidiaries of the Generali insurance group refer to the shares held in the consortia of the GBS Group (Generali Business Solutions).

Exposures to Generali Group companies recognised as **loans to customers** amounted to 29.4 million euros and refer to the following transactions:

COMPANY	TYPE OF RELATIONSHIP	TYPE OF TRANSACTION	31.12.2018		31.12.2017	
			AMOUNT	REVENUES	AMOUNT	REVENUES
Genertellife	Subsidiaries of the AG Group	Operating loans	27,475	-	18,914	-
Other companies of the Generali Group	Subsidiaries of the AG Group	Operating loans	1,940	-	1,361	-
Other exposures with Group companies	Subsidiaries of the AG Group	Temporary current account exposures	4	1,382	17	1,472
			29,419	1,382	20,292	1,472

Operating loans are comprised of transitional items including fees accrued over the last quarter for the distribution of insurance and financial products of Group companies.

Amounts due to customers attributable to Generali Group's related parties amounted to approximately 527.0 million euros at the end of the year and included amounts due to the parent company Assicurazioni Generali S.p.A. for 87.8 million euros and amounts due to Generali Italia S.p.A. for 89.5 million euros.

Amounts due to customers also included the **subordinated loan** with Generali Beteiligungs GmbH, taken up at the end of 2014 to acquire the Credit Suisse Italia S.p.A.'s business unit and amounting to 43.3 million euros, gross of accrued interest.

Finally, a total of 2.7 million euros in personal guarantees was issued for Generali Group companies, of which 1.8 million euros on behalf of Assicurazioni Generali S.p.A.

Amounts payable from the Parent Company and classified as **tax liabilities** consisted of Banca Generali S.p.A.'s net tax debt resulting from the balance between tax prepayments, withholdings and credits and the IRES tax calculated at the end of the half year.

Profit and Loss Account data

At 31 December 2018, the profit and loss components recognised in the Financial Statements with regard to transactions with companies of the Generali Group amounted to 214.4 million euros, or 99.1% of operating profit before taxation.

	SUBSIDIARIES BANKING GROUP	PARENT COMPANY ASS. GENERALI	SUBSIDIARIES GENERALI GROUP	2018	2017	WEIGHT % 2018
Interest income	223	57	1,325	1,605	1,511	2.4%
Interest expense	-	-	-1,677	-1,677	-1,662	26.0%
Net interest income	223	57	-352	-72	-151	-0.1%
Fee income	98,517	1	232,036	330,554	326,897	59.6%
Net fees	98,517	1	232,036	330,554	326,897	144.5%
Dividends	-	39	-	39	49	1.7%
Operating income	98,740	97	231,684	330,521	326,795	105.6%
Staff expenses	179	-	173	352	527	-0.4%
General and administrative expenses	-1,358	-119	-17,444	-18,921	-16,556	11.8%
Other net operating income	128	-	23	151	276	0.3%
Net operating expenses	-1,051	-119	-17,248	-18,418	-15,753	9.7%
Operating result	97,689	-22	214,436	312,103	311,042	n.a.
Dividends and income from equity investments	148,724	-	-	148,724	201,770	100.0%
Operating profit	246,413	-22	214,436	460,827	512,812	n.a.
Net profit (loss) for the year	246,413	-22	214,436	460,827	512,812	n.a.

Overall **net interest income** accrued in dealings with members of the insurance Group is negative and amounted to 0.3 million euros.

By convention, interest income also includes the negative interest expense applied to the deposits of Generali Group companies starting in June 2016, calculated according to the average one-month Euribor for the month prior to the month of calculation.

Interest expense amounted to 1.7 million euros, equal to 26.0% of the total amount recognised in the Profit and Loss Account and mostly refer to the subordinated loan of Generali Beteiligungs GmbH, whereas the interest income from other companies of the Generali Group was absolutely negligible due to the persistence of negative short-term interest rates.

Fee income paid back by companies of the insurance Group amounted to 232 million euros, equal to 41.9% of the aggregate amount and was broken down as follows:

	BANKING GROUP	GENERALI GROUP	2018	BANKING GROUP	GENERALI GROUP	2017	CHANGE	
							ABSOLUTE	%
Fees for the placement of UCITS	98,469	1,976	100,445	107,407	2,381	109,788	-9,343	-8.5%
Distribution of insurance products	-	223,307	223,307	-	209,360	209,360	13,947	6.7%
Distribution of asset managed products	48	1,193	1,241	2,404	1,104	3,508	-2,267	-64.6%
Advisory fees	-	5,319	5,319	-	3,704	3,704	1,615	43.6%
Other banking fees	-	242	242	-	537	537	-295	-54.9%
	98,517	232,037	330,554	109,811	217,086	326,897	3,657	1.1%

The most significant component consists of fees on the **distribution of insurance products** by **Genertellife**, reaching 223.3 million euros, up by 6.7% compared to the same period of the previous year.

Fees on the placement of units of UCITS of the Insurance Group were largely related to the income on the distribution of GI Focus funds, promoted by Generali Insurance Asset Management SGR S.p.A.

Furthermore, Banca Generali advises on, or directly manages through portfolio management, a portion of the underlying assets of the Group's insurance products. In this regard, in 2018 fee income for advisory service rendered to Alleanza Assicurazioni S.p.A. and Generali Italia S.p.A. amounted to 5.3 million euros.

The other bank fees refer both to SDD collection activity on behalf of Group companies and current account keeping fees.

It should also be noted that Banca Generali renders trading and order receipt services to Italian and international UCITS administered by management companies that belong to the banking and insurance Group. Such fees are generally charged directly against the assets of the UCITS, which are considered entities beyond the scope of IAS 24.

The Bank also directly collects from customers - through the correspondent bank - underwriting fees for the Sicavs promoted by the group (LUX IM Sicav, BG Selection Sicav, Generali Investments Sicav).

	BANKING GROUP	GENERALI GROUP	2018	BANKING GROUP	GENERALI GROUP	2017	CHANGE	
							ABSOLUTE	%
Sicav underwriting fees	3,546	60	3,606	4,896	32	4,928	-1,322	-26.8%
Trading fees on funds and Sicavs	3,327	2,587	5,914	1,802	3,632	5,434	480	8.8%
	6,873	2,647	9,520	6,698	3,664	10,362	-842	-8.1%

Net operating expenses recognised by the Bank in relation to transactions with related parties of the Generali Group amounted to 17.4 million euros, equal to 9.1% of the aggregate total and refer to outsourced services in the insurance, leasing, administrative and IT sectors.

	BANKING GROUP	GENERALI GROUP	2018	BANKING GROUP	GENERALI GROUP	2017	CHANGE	
							ABSOLUTE	%
Insurance services	-	2,578	2,578	-	2,408	2,408	170	7.1%
Property services	-	5,768	5,768	-	5,627	5,627	141	2.5%
Administration, IT and logistics services	1,230	9,194	10,424	589	7,656	8,245	2,179	26.4%
Staff services	-179	-173	-352	-332	-195	-527	175	-33.2%
Total administrative expenses	1,051	17,367	18,418	257	15,496	15,753	2,665	16.9%

Administrative expenses incurred in relation to Generali Italia S.p.A. amounted to 4.5 million euros, of which 2.2 million euros refer to insurance services and the remainder to rentals for property leases.

The cost of property services relating to the lease of offices, branch network and the bank's operating outlet premises totalled 5.8 million euros and referred to Generali Italia S.p.A. (2.3 million euros), as well as to the fund Mascagni (1.5 million euros), the Tiepolo (1.6 million euros) and the fund Schubert (268 thousand euros).

Expenses relating to IT, administration and logistics related chiefly to services rendered by Generali Business Solutions S.r.l. (GBS) on the basis of current outsourcing agreements.

Transactions with other related parties

Exposure in respect of **Key Managers** of the Bank and its parent company Assicurazioni Generali mainly referred to residential mortgages subject to the same terms and conditions applied to similar mortgages held by other Executives of the Banking and Insurance Group.

Amounts due to such parties consist of the balances of correspondent accounts with Banca Generali and are regulated on the basis of conditions applicable to employees of the Banking and Insurance Group.

Equity investments include the interest acquired by the Banking Group in 2015 in the UK-based firm IOCA Entertainment Ltd.

	KEY MANAGEMENT PERSONNEL	ENTITIES UNDER CONTROL OR SIGNIFICANT INFLUENCE
Loans to customers	3,188	-
Due to customers	3,748	-
Equity investments	-	2,200
Guarantees issued	45	-

Transactions with the Banking Group's companies

Within the Banking Group, the exposure to subsidiaries amounted to 27.6 million euros and chiefly consisted of operating receivables associated with the placement of financial products.

Net inflows from Group companies amounted to 40.5 million euros and consist solely of the balances of current account deposits.

The profit and loss components recognised in the Financial Statements with regard to transactions with companies of the Banking Group amounted to 246.4 million euros and primarily consist of:

- > negative interest expense applied to the deposits of the Luxembourg-based subsidiary BGFML (223 thousand euros);
- > fee income given back to the Group's product companies in connection with the distribution of financial products and services by such companies (98.5 million euros);
- > dividends distributed by the Luxembourg-based subsidiary BGFML (148.7 million euros).

With respect to aggregate operating expenses, the services rendered by the Parent Company to members of the Banking Group are highly limited and refer essentially to the exchange of staff and the outsourcing of major administrative services.

Direction and Coordination

Pursuant to Article 2497-bis of the Italian Civil Code, Banca Generali is subject to Assicurazioni Generali S.p.A.'s "management and coordination" activities.

A summary of the main items of this company's latest Financial Statements is reported hereunder.

2017 Highlights of Assicurazioni Generali

The highlights of the Parent Company Assicurazioni Generali S.p.A shown above were taken from the company's Financial Statements for the year ended 31 December 2017. These are available together with the Independent Auditors' Report as provided for by the law. Consequently, these figures of the Parent Company are not subject to audit performed by the auditing firm engaged by Banca Generali.

(€ MILLION)	2017
Net profit	1,404.5
Aggregate dividend	1,330.0
<i>Increase</i>	6.49%
Total net premiums	2,516.5
Total gross premiums	3,369.4
Total gross premiums from direct business	627.6
<i>Increase on equivalent terms ^(a)</i>	
Total gross premiums from indirect business	2,741.8
<i>Increase on equivalent terms ^(a)</i>	
Acquisition and administration costs	466.5
<i>Expense ratio ^(b)</i>	18.54%
Life business	
Life net premiums	1,344.8
Life gross premiums	1,708.3
<i>Increase on equivalent terms ^(a)</i>	
Life gross premiums from direct business	225.2
<i>Increase on equivalent terms ^(a)</i>	
Life gross premiums from indirect business	1,483.2
<i>Increase on equivalent terms ^(a)</i>	
Life acquisition and administration costs	213.8
<i>Expense ratio ^(b)</i>	15.90%
Non-life business	
Non-life net premiums	1,171.8
Non-life gross premiums	1,661.1
<i>Increase on equivalent terms ^(a)</i>	
Non-life gross premiums from direct business	402.5
<i>Increase on equivalent terms ^(a)</i>	
Non-life gross premiums from indirect business	1,258.6
<i>Increase on equivalent terms ^(a)</i>	
Non-life acquisition and administration costs	252.7
<i>Expense ratio ^(b)</i>	21.6%
<i>Loss ratio ^(c)</i>	70.3%
<i>Combined ratio ^(d)</i>	91.9%
Current financial result	2,450.0
Technical provisions	12,676.5
<i>Life segment technical provisions</i>	11,236.6
<i>Non-life segment technical provisions</i>	1,440.0
Investments	40,644.8
Capital and reserves	13,421.0

(a) At constant exchange rates.

(b) Ratio of administrative expense to total premiums.

(c) Ratio of accrued claims to accrued premiums.

(d) Total (b) + (c).

PART I – PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

At 31 December 2018, Banca Generali activated the following payment agreements based on own equity instruments:

- > the plans launched with respect to the Banca Generali Group's Remuneration and Incentivisation Policy, in effect from time to time, which calls for a part of the variable remuneration of Key Personnel to be paid by assigning Banca Generali's own financial instruments;
- > the plans launched in service of the Framework Loyalty Programme 2017-2026, approved by the General Shareholders' Meeting on 20 April 2017 and now in its second annual cycle (2018-2026), which calls for a maximum of 50% of the indemnity accrued to be paid using own financial instruments;
- > the new Long-Term Incentive plan based on shares of Banca Generali for the Banking Group's top management, approved by the General Shareholders' Meeting on 12 April 2018.

Qualitative Information

1. Share-based payment plans linked to the variable portion of remuneration based on performance objectives

The Remuneration and Incentivisation Policy for the Key Personnel of the Banca Generali Group - adopted in compliance with the Supervisory Provisions⁸ currently in force - requires a portion of the variable component of remuneration, both current and deferred, to be paid by assigning Banca Generali's own financial instruments, based on the rules annually submitted for approval to the General Shareholders' Meeting.

In detail, for Key Personnel, including the main Network Managers, 25% of the variable remuneration linked to short-term objectives will be paid in Banca Generali shares, subject to a retention mechanism until the end of the year of assignment⁹. If the bonus accrued falls above the threshold of 75 thousand euros, the following assignment and retention mechanism applies:

- > 60% of the bonus is paid up-front during the year after that of reference, 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period until the end of the year of assignment;
- > 20% paid up-front, deferred for one year: 75% in cash, and 25% in Banca Generali shares, subject to a retention period until the end of the year of assignment;
- > the remaining 20% is deferred by two years: 75% in cash, and 25% in Banca Generali shares, subject to a retention period until the end of the year of assignment.

In calculating the number of shares to be assigned, a method is applied where:

- > the numerator is the portion of variable remuneration subject to payment in shares accrued in relation to the achievement of objectives set for the year in question and,
- > the denominator is equal to the average price of Banca Generali shares during the three months prior to the meeting of the Board of Directors that approves the draft Separate and Consolidated Financial Statements for the year prior to that in which the cycle in question begins.

The payment in shares is executed after the Board of Directors verifies the earnings results for the year in question and is conditional not only upon the achievement of the pre-set objectives¹⁰, but also to the satisfaction of access gates established by the Banking Group (TCR - Total Capital Ratio, LCR - Liquidity Coverage Ratio) for the year in which the remuneration is accrued and the following two-year period of deferral.

The Banking Group's Remuneration Policies for the reference year together with the authorisation to buy own shares to be used to service them are submitted annually to the General Shareholders' Meeting that approves the previous year's financial statements. The resolution authorising the buy-back of own shares is also subject to authorisation by the Bank of Italy.

These plan categories also include any other compensation paid in the form of shares related to:

- > ordinary sales incentives and new-recruit plan for Financial Advisors other than the main network managers and employed sales personnel;
- > agreements entered into in view or upon the early termination of the work or agency relationship, with regard to the beneficiaries falling within the category of Key Personnel.

⁸ Bank of Italy Circular No. 285/2013, "Supervisory Provisions for Banks", Title IV, Chapter 2, Remuneration and Incentivisation Policies and Procedures.

⁹ During the retention period voting and dividend rights are unrestricted, without prejudice to the fact that no dividends are payable on assigned shares.

¹⁰ Provided for by the Management by Objectives (MBO) mechanism or by specific incentive/recruitment plans.

Measurement of fair value and accounting treatment

Pursuant to IFRS 2 - *Share-based Payments*, the mechanisms used to pay variable remuneration - discussed in the previous section - are considered as equity-settled share-based payment transactions.

The accounting treatment set forth for these transactions requires an entity to reflect in its profit and loss, under the most appropriate items (staff expenses, fee expense), the estimated expense associated with services received and paid in shares, and allocate a specific equity reserve as offsetting entry.

As the agreements relating to share-based payments based on the above-mentioned plans do not call for an exercise price, they can be considered similar to a stock grant and recognised in compliance with the rules set forth for this category of transactions.

The overall expense regarding said agreements is therefore determined based on the number of shares expected to be assigned, multiplied by the fair value of the Banca Generali stock at the date of assignment.

The fair value of Banca Generali stock at the assignment date is measured based on the market price reported at the date of the General Shareholders' Meeting that is called annually to approve the Remuneration Policy for the year of reference, adjusted to account for the estimate of expected dividends, that will not be received by the beneficiaries during the deferral period.

The recognition through the equity reserve of the value of the plans - determined as described above - is measured pro-rata temporis, based on the vesting conditions, i.e., the period between assignment and final maturity of the right to receive the shares, likewise taking into account the probability that exercise conditions will not be realised for all recipients.

Since the plans are generally organised into different tranches with differentiated vesting periods, each plan is valued separately. In detail, if the share assignment is effected in three tranches, with a first tranche (60%) paid up-front after the approval of the Financial Statements for the year of reference, and two annual tranches (40%) to be deferred and subject to both the continuation of service and the satisfaction of access gates established on an annual basis, the vesting period for the tranche paid up-front lasts from 1 January to 31 December of the year of reference of the remuneration (12 months), whereas for the two deferred tranches the vesting period is extended up to 31 December of the first subsequent year (24 months) and of the second subsequent year (36 months)¹¹.

However, the number of shares actually granted to beneficiaries may change based on the assessment of satisfaction of the individual objectives.

The IFRS 2 expense relating to any beneficiaries belonging to the Banking Group's companies other than the Banca Generali parent company is recognised directly by those companies. However, when the own shares bought back are actually assigned to them, the Bank charges back to the companies involved an amount corresponding to the fair value of the relevant plans¹².

1.1 Information on the share-based payment plans in connection to the Remuneration Policies

At 31 December 2018, there are three active cycles of share-based plans in connection to the Remuneration Policies relating to 2016, 2017 and 2018.

The main features of the share-based plan, linked to 2016 Remuneration Policies and approved by the General Shareholders' Meeting on **21 April 2016**, are as follows:

- > for the purpose of determining the number of shares to be assigned, the price of reference of Banca Generali stock, calculated as the average official market price during the period 12 December 2015 to 9 March 2016, was determined to be **25.26 euros**;
- > the fair value of Banca Generali stock at the assignment date was equal to the market price (approximately **26 euros**) reported on 21 April 2016, subsequently adjusted to account for the loss of dividends expected in the deferral period.

In that cycle, the shares to be assigned to Key Personnel totalled **72,973**, of which **59,377** were granted to Network Managers, **11,695** to employees, and **1,721** referred to the subsidiary BGFML, for a total fair value amounting to approximately **1.7 million euros**.

In 2016, a plan for new recruits was also implemented. This plan is subject to long-term deferral and envisages the assignment of ten annual variable instalments to be paid from 2016 to 2025, conditional upon the maintenance of the net inflows contributed at 30 November 2016. Each annual instalment of this plan is also subject to deferral and payment in shares according to the Remuneration Policy from time to time in force, until the year 2028. The shares to be assigned under this plan have been quantified as **18,373**, including **2,847** already assigned.

¹¹ Since 2018, IFRS2-related charges regarding ordinary incentives accrued by Financial Advisors and linked to objectives of net inflows or acquisition of new customers, where paid in shares, are expensed over the longer time period of 5 years.

¹² They include, in particular, the bonuses paid in shares to Key Personnel and some managers of the subsidiary BGFML.

The main features of the share-based plan, linked to 2017 Remuneration Polices and approved by the General Shareholders' Meeting on **20 April 2017**, are as follows:

- > for the purpose of determining the number of shares to be assigned, the price of reference of Banca Generali stock, calculated as the average official market price during the period 12 December 2016 to 9 March 2017, was determined to be **23.73 euros**;
- > the fair value of Banca Generali stock at the assignment date was equal to the market price (approximately **25.4 euros**) reported on 20 April 2017, subsequently adjusted to account for the loss of dividends expected in the deferral period.

In that cycle, the shares to be assigned to Key Personnel totalled **146,436**, of which **98,454** were awarded to Network Managers, **30,973** referred to ordinary incentives and entry bonuses paid to Financial Advisors falling within Key Personnel on the basis of the fee volume accrued, **16,311** to employees, and **4,297** referred to the subsidiary BGFML, for a total fair value amounting to approximately **3.3 million euros**.

In 2017, a settlement agreement was also reached with a former Area Manager which, based on the current Remuneration Policy, provided for the granting of a portion of the indemnity, estimated in the amount of **17,591** Banca Generali shares and a total fair value of an additional **0.4 million euros**.

The main features of the share-based plan, linked to 2017 Remuneration Polices and approved by the General Shareholders' Meeting on **12 April 2018**, are as follows:

- > for the purpose of determining the number of shares to be assigned, the price of reference of Banca Generali stock, calculated as the average official market price during the period 28 December 2017 to 1 March 2018, was determined to be **28.57 euros**;
- > the fair value of Banca Generali stock at the assignment date was equal to the market price (approximately **27.00 euros**) reported on 12 April 2018, subsequently adjusted to account for the loss of dividends expected in the deferral period.

In respect of the assessment of the achievement by Key Personnel of the objectives set for 2018, it was estimated that the portion of variable remuneration subject to share-based payment amounted to approximately **118 thousand shares**, for a total plan fair value of **2.7 million euros**.

In 2018, a settlement agreement was also reached with a former Employee which, based on the current Remuneration Policy, provided for the granting of a portion of the indemnity, amounting to **2,975** of Banca Generali shares.

In the reporting period, on the basis of the achievement of the performance objectives set out in the 2015, 2016 and 2017 Remuneration Policy, **121,129** treasury shares were granted to company managers and network managers, of which **18,895** assigned to employees and **102,234** to area managers and Financial Advisors.¹³

In particular, the shares assigned for 2015 and 2016 related, respectively, to the first and second tranche deferred by one year (20%), whereas the shares assigned for 2017 related to the upfront amount (60%).

(THOUSAND OF SHARES)	DATE OF SHARE-HOLDERS' MEETING	BANK OF ITALY'S AUTHORIZATION	PRICE ASS.	WEIGHTED AVERAGE FV	TOTAL SHARES ACCRUED/ IN THE PROCESS OF ACCRUING	SHARES VESTED	SHARES ASSIGNED IN 2018	SHARES TO BE ASSIGNED	PLAN'S FAIR VALUE (€ MILLION)
Year 2015	23.04.2015	03.06.2015	23.94	29.43	61.9	61.9	11.5	-	2.0
Year 2016	21.04.2016	06.06.2016	25.28	23.20	90.0	76.5	15.3	28.0	2.1
Year 2017	20.04.2017	03.07.2017	23.73	22.53	164.0	129.7	94.4	68.7	3.7
FY 2018 - estimated	12.04.2018	11.06.2018	28.57	23.54	118.5	72.4	-	118.5	2.7
Total (*)					434.4	340.4	121.1	215.2	10.5

(*) Including leaving-incentive agreements.

2. Framework Loyalty Programme for the Sales Network 2017-2026

The *Framework Loyalty Programme for the Sales Network 2017-2026* was approved by the Board of Directors on 21 March 2017 and ratified by the General Shareholders' Meeting on 20 April 2017.

The Framework Loyalty Programme is divided into eight annual separate plans, all set to expire on 31 December 2026 and of decreasing lengths, to be activated following prior authorisation by the General Shareholders' Meeting of Banca Generali.

The indemnities accrued over the term of the Programme will be, in any event, paid out in one tranche, within 60 days from the General Shareholders' Meeting called to approve the 2026 Financial Statements.

¹³ Including former area managers.

For each plan, a portion of the accrued indemnity may be paid out in Banca Generali shares (up to a maximum of 50%), following an assessment of the potential effects at the level of capital ratios and floating capital, by the Corporate Bodies (Board of Directors and General Shareholders' Meeting).

Participation in each of the plans envisaged by the Programme is reserved for Financial Advisors and Relationship Managers who have at least five years of company seniority by 31 December of the financial year before the reference year for each Plan.

To be eligible to access the benefits of the plans activated it is necessary:

- > to achieve at the end of the reference year a minimum volume of total AUM and qualified AUM increasing over time and with non-negative net inflows (vesting condition);
- > to be regularly employed and not in a notice period on the disbursement date, except when the termination of employment is caused by death or permanent incapacity, retirement or withdrawal from the relationship by Banca Generali not for cause (condition of service);
- > in the event of death, the indemnities accrued are understood to be permanently acquired but are payable to the heirs under the same conditions specified for the other beneficiaries.

Finally, the accrued indemnity is commensurate for each individual plan with a rate for verified AUM and is differentiated according to the type of person (Financial Advisor/RM) and service seniority until a cap is reached.

Recognition of the indemnities on the disbursement date is also subject to the banking group's access gates being exceeded as defined in the Remuneration Policies applicable from time to time and the rules of propriety.

The number of Banca Generali shares due is determined in the same way as for the share-based payment Plans connected with the Remuneration Policies, namely based on the average price of Banca Generali shares during the three months prior to the meeting of the Board of Directors that approves the draft Separate and Consolidated Financial Statements for the year prior to that in which the annual plan of reference begins.

Measurement of fair value and accounting treatment

Without prejudice to the accounting framework already analysed in point 1.2 above, set out below are the specific details of the share-based payment plans that can be activated as part of the Loyalty Programme.

The fair value of the Banca Generali share for plan valuation purposes is determined starting from the market stock price reported on the date of the General Shareholders' Meeting that approves its activation, adjusted to take account of the estimate of expected dividends that the Bank will distribute along all the time horizon, decreasing for each successive plan, running up to the date the shares are actually assigned.

The impact on the profit and loss account is measured pro rata temporis based on the vesting period, which decreases for each successive plan, i.e., the period between assignment and final maturity of the right to receive the shares, taking into account the probability that vesting conditions will not be realised for all recipients.

2.1 Information on the share-based payment plans linked to the Framework Loyalty Programme

For the two annual plans launched up to now, 50% of the indemnity accrued can be paid out in shares.

The accrued indemnity value was determined based on the AUM of the plan's potential beneficiaries at 31 December 2017 and 31 December 2018, respectively, whilst the number of financial instruments to be assigned was determined based on the same reference value as the Banca Generali stock applied for the Remuneration Policies in force in the respective years.

Overall, the total number of shares, either assigned or in the process of accruing, amounted to about 360.5 thousand (334 thousand net of the estimated turnover), for a total value of 4.6 million euros, of which 0.7 million euros already recognised through profit and loss.

(THOUSAND OF SHARES)	MAXIMUM NO. OF SHARES	NO. OF SHARES NET OF THE ESTIMATED TURNOVER	PLAN'S FAIR VALUE (€ MILLION)
2017-2026 Plan - estimate	207.5	190.9	2.4
2018-2026 Plan - estimate	153.1	143.1	2.2
	360.6	334.1	4.7

3. Long-Term Incentive Plan

On **12 April 2018**, the General Shareholders' Meeting of Banca Generali approved a new long-term incentive plan for the Banking Group's top management based exclusively on Banca Generali S.p.A. shares (LTI Plan 2018).

The new plan presents characteristics similar to those of the plans that the parent company Assicurazioni Generali activates yearly and are based on the assignment of its own shares. However, this plan is mainly aimed at increasing the value of Banca Generali shares, by strengthening the link between the remuneration of beneficiaries and performance of the Banking Group, without prejudice to the consistency required with the expected results set forth in the Insurance Group's strategic plan.

In light of the above, the new incentivisation plan calls for:

1. assignment of Banca Generali shares acquired on the market to the beneficiaries instead of Assicurazioni Generali shares directly assigned by the latter;
2. increased weight of the Banking Group's objectives, equal to 80%.

The key characteristics of the plan are as follows:

- > the maximum number of the shares to be granted is determined at the beginning of the period of reference using a multiplier of the beneficiary's current remuneration¹⁴ and is divided into three notional instalments, respectively referring to each of the three years of the plan;
- > each year, once it has been determined that the access gate¹⁵ conditions of the Banking Group and of the Insurance Group have been met, Banca Generali's Board of Directors assesses the attainment of the targets set for the three-year period and determines the exact number of shares that can potentially be allotted for the year in question;
- > at the end of the three-year period, after having assessed that the access gate conditions have been met, the total number of shares accrued are paid in one tranche through the free granting to the beneficiaries of own ordinary shares, repurchased on the market (stock granting), provided that the beneficiary's work relationship with one of the Banking Group companies is still in force (service condition);
- > 50% of the shares assigned vest immediately upon assignment, whereas the remaining 50% do not vest for an additional two years¹⁶;
- > the plan does not include dividend equivalent mechanisms, in accordance with the law and common practice in the banking sector.

The targets triggering accrual of the incentive are broken down into:

- > two Banking Group targets (ROE and EVA), weighting for 80% on the overall bonus;
- > two Insurance Group targets (Operating ROE and rTSR – relative Total Shareholders' Return compared to a Peer Group), weighting for the remaining 20%.

Performance levels are expressed as percent satisfaction of the target levels linked to each of the four indicators.

The actual percentage of accrual of the shares that can be potentially allotted is therefore calculated individually for each target basket (indicator and relevant weighting) using the linear interpolation between the levels of the indicators and the performances actually achieved.

Measurement of fair value and accounting treatment

Without prejudice to the accounting framework already analysed in point 1.2 above, set out below are the specific details of the share-based payment plans that can be activated as part of the LTI BG.

The number of shares due must be valued separately for each plan year and for each of the four weighted baskets linked to the objectives of the Banking Group and the Insurance Group.

More specifically:

- > the two plan components linked to the banking Group's objectives are to be valued based on the achievement level of the performance conditions (ROE and EVA);
- > the valuation of the plan component linked to the Insurance Group's relevant TSR, which is categorised as a "market condition", is, instead, carried out by the insurance Parent Company¹⁷ only at the start of the plan and determines an achievement percentage for the objective set;
- > the valuation of the plan component linked to the Insurance Group's Operating ROE is reported annually by the insurance Parent Company.

In this case as well, the fair value of the Banca Generali share for plan valuation purposes is determined starting from the market stock price reported on the date of the General Shareholders' Meeting that approves its activation, adjusted to take account of the estimate of expected dividends that the Bank will distribute along all the time horizon, running up to the date the shares are actually assigned.

¹⁴ The potential maximum bonus to be paid in shares corresponds to 175% of the gross annual remuneration of the plan participants for Top Managers and to 87.5% for other beneficiaries.

¹⁵ The access gate conditions consist of:

- > two indicators representing the specific access thresholds for the Banking Group tied to the Total Capital Ratio and Liquidity Capital Ratio, on which the right to assignment of the shares (100%) is contingent;
- > an indicator representing an access threshold for the Generali Group linked to the Regulatory Solvency Ratio, on which the right to the assignment of the part of the shares tied to the satisfaction of the Generali Group Objectives (20%) is contingent.

¹⁶ Subject to the requirement that the Chief Executive Officer retain an adequate number of the shares assigned until the end of the term in office in progress on the vesting date.

¹⁷ Through Montecarlo simulations.

The total cost of the plan is equal to the sum of the cost calculated on the basis of the fair value of the Banca Generali share determined according to the above methods, multiplied by the number of shares that may potentially be granted, for each tranche and for each basket, in respect of the performance condition, the likelihood that the service condition will be met and the achievement of the minimum eligibility threshold.

That cost is allocated over a three-year vesting period starting from the year in which the plan is approved and until the end of the last year of the reference three-year period, with a balancing entry to a specific equity reserve.

3.1 Information on the share-based payment plans linked to the LTI BG

Overall, the total number of shares, either assigned or in the process of accruing, amounted to about 90 thousand, for a total value of 1.7 million euros, of which 0.6 million euros already recognised in the income statement.

Quantitative Information

The value of own shares assigned during the year was 3,388 thousand euros, against IFRS 2 reserves totalling 3,058 thousand euros, with a negative net effect on the share premium reserve of about 330 thousand euros.

New provisions have also been made to the reserve totalling 3,363 thousand euros.

At 31 December 2018, total IFRS 2 reserves allocated therefore amount to 4.9 million euros, of which:

- > 3.6 million euros in relation to the Remuneration Policies;
- > 0.7 million euros in relation to the Loyalty Programme;
- > 0.6 million euros in relation to the LTI BG.

Trieste, 8 March 2019

The Board of Directors

Independent Auditors' Report on the Financial Statements



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Independent auditor's Report

pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

To the shareholders of Banca Generali S.p.A.

Report on the financial statements

Opinion

We have audited the financial statements of Banca Generali S.p.A. (the Company), which comprise the balance sheet as at December 31, 2018, the profit and loss account, the statement of other comprehensive income, statement of changes in net equity, the cash flow statement for the year then ended and notes and comments to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 as well and article 43 of 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 Company in accordance with the ethical and independence requirements applicable in Italy to the audit of 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.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Pescara, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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Page1 of 6



Key audit matters	Audit responses
<p><i>VALUATION OF GOODWILL</i></p> <p>Notes: Part B) Information on the balance sheet assets - Section 9; Part G) Business combinations of entities or branches - Section 3.</p> <p>The entity recorded in the financial statements goodwill/intangible at indefinite life for Euro 66,1 million.</p> <p>We focused on this area due to the significance of its amount and the significant judgement and complexity of the evaluation process; the recoverable amount of goodwill is based on the realisation of the assumptions of the plan, discount rates and expected future growth rates and other subjective assumptions.</p>	<p>Our main audit procedures performed, also with the support of our specialists, in response to the key audit matter regarding the valuation of goodwill, included the following:</p> <ul style="list-style-type: none"> ▪ we challenged the reasonableness of the key underlying assumptions of the plan; ▪ we assessed and challenged the adequacy of the impairment model adopted; ▪ we assessed the key underlying assumptions for the impairment model, in particular the ones related to cash flow projections, discount rates, long term growth rates. ▪ we verified the clerical accuracy of the impairment model adopted. ▪ we performed sensitivity analysis of the control model of impairment when key assumptions change; ▪ we verified the disclosures provided.
<p><i>VALUATION OF THE PROVISIONS REGARDING THE INDEMNITY OF THE NETWORK AND LEGAL DISPUTES</i></p> <p>Notes: Part B) Information on the balance sheet liabilities - Section 10.</p> <p>Provisions for liabilities and contingencies at December 31, 2018 show a balance of Euro 159,7 million. The item includes Provisions for termination indemnity of Financial Advisors, which are equal to Euro 81,6 million, Provisions for network incentives, which are equal to Euro 46,1 million, Provisions for legal disputes are equal to Euro 14,3 million and Provisions for staff expenses are equal to Euro 14,8 million.</p> <p>We focused on these items due to the significance of their amount, the complexity of the algorithms of actuarial statistical calculation adopted and significant judgement in the evaluation process, based on various assumptions and factors.</p>	<p>Our main audit procedures performed in response to the key audit matter regarding the valuation of the provisions regarding the indemnity to the network and legal disputes included the following:</p> <ul style="list-style-type: none"> ▪ we analysed the methodology used by the Group to estimate the provisions; ▪ we performed test of details on the completeness and accuracy of data used to determine the provisions for risks and charges; ▪ we performed an actuarial review of the approach and assumptions adopted for the evaluations at December 31,2018; ▪ we obtained an external confirmation from legal experts of the Group on their evaluation about the existing disputes' development and the chance of losing; ▪ we verified the disclosures provided.



Key audit matters

Audit responses

VALUATION OF THE ASSETS RECORDED IN RELATION TO INCREMENTAL COSTS OF OBTAINING A CONTRACT AND COSTS TO FULFIL THE CONTRACTS WITH CUSTOMERS

Notes: Part A) Accounting policies - Section 4; Part B) Information on the consolidated balance sheet assets - Section 12.

Prepayments at December 31, 2018 show a balance of Euro 173,2 million. The item includes prepayments for the new supplementary fees for sales network represented by incremental fees of obtaining new customers for Euro 123,6 million while prepayments for ordinary incentives qualified as costs to fulfil the contracts are equal to Euro 26,3 million.

At the end of 2018 the Group modified the amortisation period of incremental costs and costs of obtaining a contract, moving from a period based on the payback criteria to a period aligned to the average life of contractual relationships with customers, determined on a five years period.

This intervention had a particular effect on recognition measures of incentives for sales. The variation, that represents a change in accounting estimates related to the amortisation period of incentives, has been applied prospectively in compliance with IAS 8 and determined a gross incremental profit on income statement of Euro 20,1 million and Euro 13,5 million net of fiscal effect.

We focused on these items due to the significance of their amount and significant judgement in the evaluation process, based on various assumptions and factors, as well as in consideration of the change of amortisation criteria.

Our main audit procedures performed in response to the key audit matter regarding the valuation of assets recorded in relation to incremental costs of obtaining a contract and costs to fulfil the contracts, included the following:

- we obtained an understanding of the methodology adopted by the Group on the management process to incentive the network;
- we obtained a comprehension of the results of the assessment performed by the Group, also with the support of an external specialist;
- we obtained a comprehension of underlying assumptions to the strategic decision to modify the evaluation criteria, also conducting discussion with the Management and analysis of relevant documentation;
- we obtained and verified the meetings' minutes of the Board Of Directors regarding the discussions and deliberations on this matter;
- we verified, also with the support of our specialists, the correct application of accounting standards;
- we performed substantive procedures on the completeness and accuracy of information used to determine accrued income;
- we verified the disclosures provided.



Key audit matters	Audit responses
<p>FIRST TIME APPLICATION OF INTERNATIONAL ACCOUNTING STANDARD IFRS 9 "FINANCIAL INSTRUMENTS"</p> <p>Disclosure on the effects from the first time application of IFRS 9 included in the "IFRS 9 and IFRS 15 Transition Report", attached to the financial statements.</p> <p>Beginning from January 1 2018, date of first time application of IFRS 9 "financial instruments", balance sheet amounts existing at the end of the prior period have been subject to reclassification and measurement processes, required by the new accounting standard, based on the management of these financial assets (Business Model) and the characteristics of the cash flows characteristics of the contract of the financial instrument; furthermore, regarding the evaluation of financial assets that are not measured at fair value through profit and loss, the assessment of a new methodology to measure the value adjustments (impairment) under the expected losses model (Expected Credit Losses).</p> <p>As required by IAS 8 and by the provisions provided for in the 5th update of Circular 262 of December 22, 2005, the Company provided disclosure on the effects produced by the application of the new accounting standard on the Group net equity, showing a decrease of evaluation reserves for Euro 7,6 million and the recognition of a positive reserve of earnings for FTA for Euro 2 million, with a net total effect, included the fiscal effect, negative for Euro 5,6 million.</p> <p>For purposes of audit activities, the effects of the introduction of this new accounting standard are considered significant with respect to the complexity of the first application.</p>	<p>Our main audit procedures performed in response to the key audit matter regarding the application of IFRS 9, included the following:</p> <ul style="list-style-type: none"> ▪ we analysed the procedures and processes related to classification and measurement of financial assets, specifically regarding the business model definition for the management; of financial instruments and the policy related to the characteristics of cash flows of financial instruments (SPPI test); ▪ we analysed the procedures and processes related to the impairment model of receivables, specifically regarding the comprehension of the significant increase in credit risk for the movement from stage 1 to stage 2 and understanding the models adopted to measure the expected losses ("Expected Credit Losses", "ECL") and methodologies for the assessment of parameters of the impairment model (PD, LGD, EAD); ▪ we verified the matching procedures and the data included in the schemes of reconciliation between balances as of December 31 ,2017 closing as for the last approved financial statements and the opening balances as of January 1 2018 as for the first financial statements prepared in accordance with IFRS 9; ▪ we analysed the matching procedures between items included in the management systems and the information included in the reconciliation schemes; ▪ we verified the disclosures provided.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree NO. 38/05, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 and article 43 of Legislative Decree NO. 136/15 and, within the terms provided by the law, for such internal control as management determines 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, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 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 ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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.
- Obtained 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 Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded 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 Company'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 Company to cease to continue as a going concern.
- Evaluated 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 have communicated with those charged with governance, as properly identified in accordance with ISA Italia, 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 have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated 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 described those matters in the auditor's report.



Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Banca Generali S.p.A. on April 23, 2015 to perform the audits of the financial statements of each fiscal year starting from December 31, 2015 to December 31, 2023.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Banca Generali S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Banca Generali S.p.A. as at December 31, 2018, including their consistency with the financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the financial statements of Banca Generali S.p.A. as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the financial statements of Banca Generali S.p.A. as at December 31, 2018 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 25, 2019

BDO Italia S.p.A.
(signed in the original)
Rosanna Vicari
Partner

Board of Statutory Auditors' Report

pursuant to Article 153 of Legislative Decree 58/98 and Article 2429 Paragraphs 2 and 3, of the Italian Civil Code

Shareholders,

We have reviewed the Annual Integrated Report for the year ended 31 December 2018, which consists of:

- > the Draft Separate and Consolidated Financial Statements of “Banca Generali S.p.A.” for the year ended 31 December 2018, including the Notes and Comments and detailed accounting statements;
 - > the consolidated Report on Operations, integrated with non-financial information;
- documents prepared by Directors and duly forwarded to the Board of Statutory Auditors.

During the year, the oversight activity was conducted by the Board of Statutory Auditors, in compliance with the law and, specifically, of Article 149 of Legislative Decree No. 58/1998, and in accordance with the code of conduct recommended by the *Roll of Certified Public Accountants and Commercial Experts*, taking also account of *Consob* and *Bank of Italy* provisions included in the Corporate Governance Code, as well as in accordance with Article 19 of Legislative Decree No. 39/10.

The Board of Statutory Auditors herewith reports to the General Shareholders' Meeting on the oversight activities it conducted in the course of the year ended 31 December 2018. The Board of Auditors carried out the following activities:

- > it participated in 17 meetings of the Board of Directors, verifying that the resolutions adopted and implemented were in compliance with the law and the Articles of Association and ensuring that they were neither imprudent nor gave rise to conflicts of interest not adequately addressed and managed;
- > it participated in 17 meetings of the Internal Audit and Risk Committee;
- > it participated in 8 meetings of the Remuneration Committee;
- > it participated in 11 meetings of the Nomination Committee;
- > it participated in 5 meetings of the Supervisory Board, in light of the Board of Directors' Resolution passed on 12 April 2018 which entrusted the Supervisory Board's functions to the Board of Statutory Auditors;
- > it participated in 20 regular meetings held to conduct its audits;
- > it participated in 1 induction meeting;
- > it requested and obtained from the Chief Executive Officer and General Manager and the Manager in charge of preparing the company's financial reports or other Company Managers information concerning the Highly Significant Transactions carried out by the Company, and acknowledged that such transactions were not considered clearly imprudent or risky, in potential conflict of interest, in contrast with resolutions adopted by the Shareholders' Meeting or such as to compromise the integrity of the company's assets;
- > it exchanged information with the Chairmen of the Boards of Statutory Auditors of the subsidiary Generfid S.p.A., as well as the Board of Statutory Auditors of the Parent Company, Assicurazioni Generali S.p.A.;
- > it verified the instructions given by the Company to its subsidiaries, pursuant to Article 114, paragraph 2, of Legislative Decree No. 58/98, as well as the supervisory instructions issued by the Bank of Italy, and deemed that they were adequate;
- > it issued legal opinions, including those relating to the main subjects listed below:
 - remuneration and incentivisation policies;
 - ICAAP and ILAAP process;
- > it verified that its members possessed the independence requisites, as well as its own adequacy in terms of powers, functioning and composition, taking into account the scale, complexity and activities of the Bank. Moreover, it verified that the independent auditors possessed the independence requisites and found that the procedures adopted by the Board of Directors to ascertain its own internal independence compliance were adequate;
- > It monitored the periodical self-assessment process of the Board of Directors and Board Committees, with the following outcome:
 - the Board was found to be adequate in terms of number of members and to be balanced in composition between Independent and Non-independent directors, taking account of the size of the Board and its Committees, and in view of the management of possible conflicts of interest;
 - the current remuneration systems were found to be adequate and consistent with the Corporate Governance Committee's recommendation regarding the remuneration of executive directors and remuneration policies were found to be adequate to the pursuit of the objective of the sustainability of the enterprise's activity in the medium-to-long term;
- > it systematically monitored the functioning of the Internal Control and Risk Management System, stating its observations on the interim and annual reports concerning the activities performed and the programmes to be implemented by different control functions. It also checked the implementation status of the activity plans and ensuing results. The system envisages line checks, risk management and compliance checks, controls against money laundering, and internal audit activity. Business operations and information flows amongst the various parties involved, including the Board of Statutory Auditors, were efficiently coordinated during the year. In the year under review, Internal Audit assessed

that the internal control and risk management systems were efficiently implemented, and put forward certain recommendations and suggestions aimed at improving risk management and control, without highlighting any significant shortcomings. The Head of the Internal Audit function reports directly to the Board of Directors, while second-tier control functions (the Compliance and Anti Money Laundering Department and the Risk and Capital Adequacy Department) - previously under the direct responsibility of the Board of Directors - were assigned to report directly to the Chief Executive Officer as of 10 May 2017, while continuing to report “functionally” to the Board of Directors, to which they have direct access and with which they communicate without restrictions or intermediation. Overall, the Internal Control System was deemed adequate as a whole to the current governance system;

- > information useful to discharging its supervisory duties was obtained through participation in sessions of the Internal Audit and Risk Committee, Remuneration Committee and Nomination, Governance and Sustainability Committee. The Board of Statutory Auditors received the various periodic reports in the course of the regular functioning of the above internal committees and deemed them to be adequate and consistent;
- > it monitored complaints by investors, without discovering any shortcomings in internal procedures or the Company’s organisational layout;
- > it verified the general compliance of the Bank with the requirements for correspondence with and notices to the Supervisory Bodies, as well as compliance with industry regulations and the Articles of Associations;
- > it assessed and verified the adequacy of the organisational structure with reference to issues falling within the remit of the Board of Statutory Auditors;
- > it evaluated and verified the appropriateness of the administrative and accounting system, as well as its reliability in accurately representing operations through the information received by the Manager in charge of preparing the company’s financial reports and the Independent Auditors, and information directly obtained from the heads of the respective functions, as well as data arising from examination of company records. With reference to the application of Law 262/2005 and the provisions of letter a), paragraph 1, Article 19 of Legislative Decree 39/10, the Board of Statutory Auditors also monitored the processes and activities carried out by the Bank, within the framework of the Financial Accounting Risk Governance activity, aimed at continuously assessing the adequacy of administrative and accounting procedures and the ensuing financial reports;
- > it checked that the Bank adopted regulations, processes and structures suitable for monitoring and overseeing banking-related risks (market risks, credit risks, liquidity risks, exchange rate risks, operating risks, compliance and money laundering risks), as described in the Report on Operations and Notes and Comments;
- > it evaluated the appropriateness of the internal capital adequacy assessment process (ICAAP);
- > it evaluated the appropriateness of the internal liquidity adequacy assessment process (ILAAP);
- > it verified, in concert with the Independent Auditors, that the foreign subsidiary and Italian subsidiary adopted a suitable administrative and accounting system such as to regularly report to the Company’s management and Independent Auditors the economic and financial data required to draw up the Consolidated Financial Statements.

We hereby acknowledge that the Company discharged its obligations relating to the prevention of money laundering, with particular regard to Legislative Decree No. 231/2007, as further amended and extended, and the provisions of the Bank of Italy and the company’s Financial Information Unit, including staff training, through the Anti-Money Laundering Service, within the Compliance and Anti Money Laundering Department.

In addition, the Company complied with data protection obligations, adopting the privacy principles laid down in the GDPR (General Data Protection Regulation) and designating an internal Group Data Protection Officer.

In addition, we acknowledge that during the year the Supervisory Board, whose functions are carried out by the Board of Statutory Auditors effective 1 April 2014, monitored the operation and compliance of the Organisational and Management Model, and verified that it has been properly updated and is suitable for preventing over time the commission of the crimes mentioned in the legislation. The work performed showed no irregularities that could be related to the crimes contemplated under the provisions of Legislative Decree No. 231/01.

We acknowledge that the company adopted, *inter alia*, the following main codes, policies and procedures, which were duly updated during the year, where needed:

- > Internal dealing, setting up the Internal Dealing Register;
- > Insider information, with the introduction of the Insider Register;
- > Related party and connected party transactions and transactions of greater importance;
- > Transactions with parties that have powers of management, administration and control over the bank;
- > Internal policies governing control mechanisms for risk assets and conflicts of interest involving connected parties;
- > Order execution and transmission policy;
- > Conflict of interest policy;
- > Internal rules;
- > Contingency funding plan;
- > Single risk management policy;
- > Risk Appetite Framework;
- > Fair value policy;
- > Group policy on service outsourcing;
- > Equity investment management policy;
- > Policy of enhancement of third-party financial instruments;

- > Inducement policy;
- > Policy for the classification of customers;
- > Investment portfolio management process;
- > Compliance policy;
- > Compliance rules;
- > Internal Audit policy;
- > Internal Audit regulations;
- > Internal control system policy;
- > Internal code of conduct;
- > Policy for managing customer complaints;
- > IT security policy;
- > Succession policy;
- > Commercial policy;
- > Framework – Guidelines for the management of credit risk mitigation (CRM) techniques;
- > Manager in Charge of the Internal Control System Policy;
- > Internal Fraud Policy;
- > Strategic Guidance Policy on Information and Communications Technology (ICT);
- > Whistleblowing procedure;
- > Policy on provisioning for risks due to the management of litigation;
- > Policy on the internal transfer rate system;
- > Lending rules;
- > Finance rules;
- > Group rules;
- > Data Protection Policy.

The Company has also adopted the new edition of the Corporate Governance Code for Listed Companies. The Company has not appointed a lead independent director for the reasons described in the Corporate Governance and Ownership Structure Report.

We acknowledge that in 2018, the Bank operated in strict compliance with the “Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance”, which lays down specific operating rules governing fact-finding procedures, decision-making powers, record-keeping and disclosure obligations; these transactions and relevant information are given in the Directors’ Report on Operations and Notes and Comments.

We also acknowledge that in 2018 the company’s intra-group transactions were of a financial and commercial nature, and regarded the supply of services, as described in the Directors’ Report on Operations and Notes and Comments.

We acknowledge that Banca Generali complies with the Assicurazioni Generali S.p.A.’s tax consolidation scheme.

We acknowledge that the Company is subject to management and coordination by “Assicurazioni Generali S.p.A.” and that all related statutory obligations have been duly discharged.

We acknowledge that the Directors’ Report on Operations and Notes and Comments contain the information regarding the possession of own shares and parent company shares, in respect of which the respective restricted reserves were set aside. The Notes and Comments describe the new prudential regulatory provisions for banks concerning capital requirements. The Bank complies with applicable capital requirements (Common Equity Tier 1, Tier 1, Total Capital Ratio) set forth in the supervisory provisions; detailed information on capital regulatory requirements and capital ratios is given in the Directors’ Report on Operations and Notes and Comments. In order to determine its capital for regulatory purposes, Banca Generali exercised the option to neutralise the capital gains and losses deriving from fair-value measurement of AFS financial assets belonging to the Euro Area government bond segment, as allowed under Bank of Italy’s Order of 18 May 2010. This option was envisaged also in the Basel 3 new prudential supervisory regime introduced as of 1 January 2014 until the new IFRS 9 became effective in 2018.

We acknowledge that the Company drew up the Remuneration Report on the Banking Group’s remuneration and incentivisation policies, as well as the report on their implementation.

We acknowledge that Part I) of the Notes and Comments provide information on the share-based payment plans.

There were no atypical and/or unusual transactions to be reported in 2018, nor were such transactions undertaken with parties other than related parties such as intra-group entities or third parties. “Atypical and unusual transactions” are defined as all transactions that due to their significance/materiality, the nature of the counterparties, the subject matter of the transaction (including in relation to ordinary operations), the transfer pricing method and/or timing of occurrence (near the end of the reporting period) may give rise to doubts as to the accuracy/completeness of the information presented in the financial statements, conflicts of interest, the safeguarding of company assets and the protection of minority shareholders. “Highly significant” transactions were undertaken with related parties in 2018 in accordance with the approved procedure. In addition, as thoroughly described in the Directors’ Report on Operations, other related party transactions

qualifying as “moderately significant” transactions were carried out, besides ordinary or recurring transactions effected at arm’s length, the effects of which are analysed in the dedicated section of Notes and Comments.

With reference to social corporate responsibility, the Directors’ Report on Operations provides a summary of the 2018 results achieved in the various areas of the Banking Group’s social responsibility, restated according to the GAV (Global Added Value) method.

With regard to the consolidated non-financial report, in accordance with the guidance provided by Assonime, the Board of Statutory Auditors provided high-level oversight of non-financial reporting systems and processes within the framework of its monitoring of sound management practices.

Within the framework of the activities performed by the Board of Statutory Auditors in its capacity as Internal Control and Audit Committee – it bears remarking that all members of the Board of Statutory Auditors are proficient in accounting and/or auditing, as well as in financial services and the banking sector, and are also independent of the entity at which they serve in a control function – during the sessions of the Board of Directors held in 2018 the Board of Statutory Auditors provided information on the findings of the statutory audit and the periodic meetings held with the independent auditors.

Pursuant to Article 19 of Legislative Decree No. 39/2010, the Board of Statutory Auditors also informed the Board of Directors of the findings of the statutory audit and submitted the additional report pursuant to Article 11 of Regulation (EU) No 537/2014 issued by the independent auditors today, in addition to constantly monitoring the financial reporting process and the effectiveness of the internal control and risk management systems.

By resolution of the Shareholders’ Meeting of 23 April 2015, the auditing firm BDO Italia S.p.A. was granted the assignment to audit the half-yearly report, the separate and consolidated annual financial statements until the approval of the 2023 Financial Statements. The Board of Statutory Auditors reviewed the plan of audit activities in 2018 and periodically exchanged information with the Independent Auditors, who never reported any facts, circumstances or irregularities that would need to be disclosed to the Board of Statutory Auditors. In 2018, the Independent Auditors verified regular bookkeeping practices and correct assessment of operations in the accounting entries, and that the Financial Statements for the year ended 31 December 2018 reflected the accounting books and records. The Independent Auditors issued today clean reports on the separate and consolidated Financial Statements for the year ended 31 December 2018. The Independent Auditors also issued their report on the Consolidated Non-Financial Report pursuant to Article 3, paragraph 10, of Legislative Decree No. 254/2016 and Article 5 of Consob Regulation No. 20267.

The Independent Auditors have also issued the statement confirming their independence and the absence of the causes of incompatibility contemplated in Articles 10 and 17 of Legislative Decree No. 39/2010.

During the year, the independent auditors were paid a total of 155,500 euros for statutory auditing.

The following additional assignments were also granted to the independent auditors, BDO Italia S.p.A.:

- > the assignment to conduct a limited examination of the consolidated non-financial report of Banca Generali S.p.A. and its subsidiaries in respect of the year ended 31 December 2018 for the purposes of the issuance of the attestation required by Decree No. 254/2016, for a total of 14,000 euros;
- > the assignment to conduct a gap analysis of the Group’s non-financial information in respect of the requirements of Legislative Decree No. 254/2016 and the International <IR> (Integrated Reporting) Framework, in order to permit the Banca Generali Group to develop an adequate 2018 Annual Integrated Report, for a total of 44,000 euros;
- > the assignment to conduct a limited, voluntary audit of the quarterly financial statements to determine interim profit for the purposes of calculating Common Equity Tier 1 capital (regulatory capital) pursuant to Article 26, paragraph 2, of Regulation (EU) No 575/2013 and Bank of Italy Circular No. 285 of 17 December 2013, for a total of 14,500 euros;
- > the assignment to audit the half-yearly reporting package of Banca Generali S.p.A. at 30 June 2018, prepared for the purposes of consolidation by the Parent Company, Assicurazioni Generali S.p.A., for a total of 8,000 euros;
- > the assignment to audit the reporting package of Banca Generali S.p.A. at 31 December 2018, prepared for the purposes of consolidation by Assicurazioni Generali S.p.A., for a total of 12,000 euros;
- > the assignment to produce the certification required by Article 26(2) of Regulation (EU) No 575/2013 of 26 June 2013 in order to support the application to include separate and consolidated profit for the year ended 31 December 2018 in Common Equity Tier 1 capital, for a total of 30,000 euros;
- > the assignment to produce the certification of the figures reported with regard to the second series of targeted longer-term refinancing operations (“TLTRO II”), for a total of 30,000 euros;
- > the assignment to audit the IFRS 9 and IFRS 15 statements of reconciliation at 1 January 2018, prepared for mandatory disclosure purposes in accordance with IFRS 1 – First-time Adoption of International Financial Reporting Standards, for a fee of 15,000 euros.

The Manager in charge of preparing the company’s financial reports and the Chief Executive Officer and General Manager issued the statement and attestation of compliance required under applicable regulations in the field of accounting and financial statements disclosure.

The Board of Statutory Auditors nonetheless controlled the general criteria used in preparing the financial statements, as well as their compliance with the law and specific regulations regarding the preparation of financial statements of banking institutions.

The Financial Statements were prepared in compliance with Legislative Decree No. 38/2005 and in accordance with the accounting standards issued by IASB and related IFRIC interpretations. Moreover, they were based on “Instructions for the preparation of company’s financial statements and the consolidated financial statements of banks and financial institutions that are parent companies of banking groups” issued by the Bank of Italy. The Notes and Comments explain the accounting criteria adopted and provide the necessary information as required by current laws, including information on credit risk, market risk, liquidity risk and operating risk. The Directors’ Report on Operations provides information on operations, highlighting developments underway and the potential outlook, and the banking Group’s development and reorganisation process in the reporting year. In their Report, Directors illustrate the main risks and uncertainties to which the Company is exposed.

The Chief Financial Officer illustrated to the Board of Statutory Auditors the accounting treatment applied to goodwill and the impairment process performed on intangible assets, and agreed on the related recognition.

In carrying out our supervisory activity, as described above, no other significant facts emerged that need to be reported to relevant Supervisory Bodies or that are worthy of mention in this report.

The Board of Statutory Auditors acknowledges that the Consolidated Financial Statements of the Banca Generali Group were prepared in compliance with Legislative Decree No. 38/2005 and in accordance with the accounting standards issued by IASB and IFRIC interpretations. Moreover, they were based on “Instructions for the preparation of company’s financial statements and the consolidated financial statements of banks and financial institutions that are parent companies of banking groups” issued by the Bank of Italy. Following the merger of the subsidiary BG Fiduciaria Sim S.p.A. into the Bank with effect from 1 January 2018, the scope of consolidation has changed with respect to the previous year and now includes the parent company, Banca Generali S.p.A., and the subsidiaries BG Fund Management Luxembourg S.A (former GFM) and Generfid S.p.A. The performances of the subsidiaries are discussed in the Directors’ Report on Operations.

We acknowledge that no complaints were received pursuant to Article 2408 of the Italian Civil Code.

We acknowledge that during the year no complaints were received.

Lastly, the Board of Statutory Auditors has no proposal to submit to the General Shareholders’ Meeting pursuant to Article 153, paragraph 2, of TUF.

We thank you for the trust you placed in us. We inform you that we deem that the 2018 Financial Statements, as presented to you by the Board of Directors, may be approved by you and we express a favourable opinion regarding the allocation of the profits, as proposed by the Board of Directors.

Milan, 25 March 2019

The Board of Statutory Auditors
Massimo Cremona - Chairman
Mario Anaclerio - Acting Auditor
Flavia Daunia Minutillo - Acting Auditor





07

ATTESTATION

pursuant to Article 154, paragraph 5, of Legislative Decree No. 58/98

Board of Directors
8 March 2019



Attestation

pursuant to Article 154, paragraph 5, of Legislative Decree No. 58/98



Attestation to the Annual Integrated Report pursuant to the provisions of art. 154-bis, paragraph 5, of Legislative Decree 58 of 24 February 1998 and art. 81-ter of CONSOB Regulation 11971 of 14 May 1999, as amended

1. The undersigned Gian Maria Mossa, in his capacity as Chief Executive Officer, and Tommaso Di Russo, in his capacity as Manager in charge of the Financial Reports of Banca Generali S.p.A., taking into account the provisions set out in article 154-bis, paragraphs 3 and 4, of the Legislative Decree dated 24 February 1998, Nr. 58, hereby declare that the administrative and accounting procedures for preparing the Annual Integrated Report for the year 2018:
 - are appropriate in light of the features of the company, and
 - have been actually applied.

2. The appropriateness of administrative and accounting procedures for preparing the Annual Integrated Report at 31 December 2018 was assessed using a process established by Banca Generali S.p.A. based on the *Internal Control – Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission*, which is generally accepted as a reference framework worldwide.

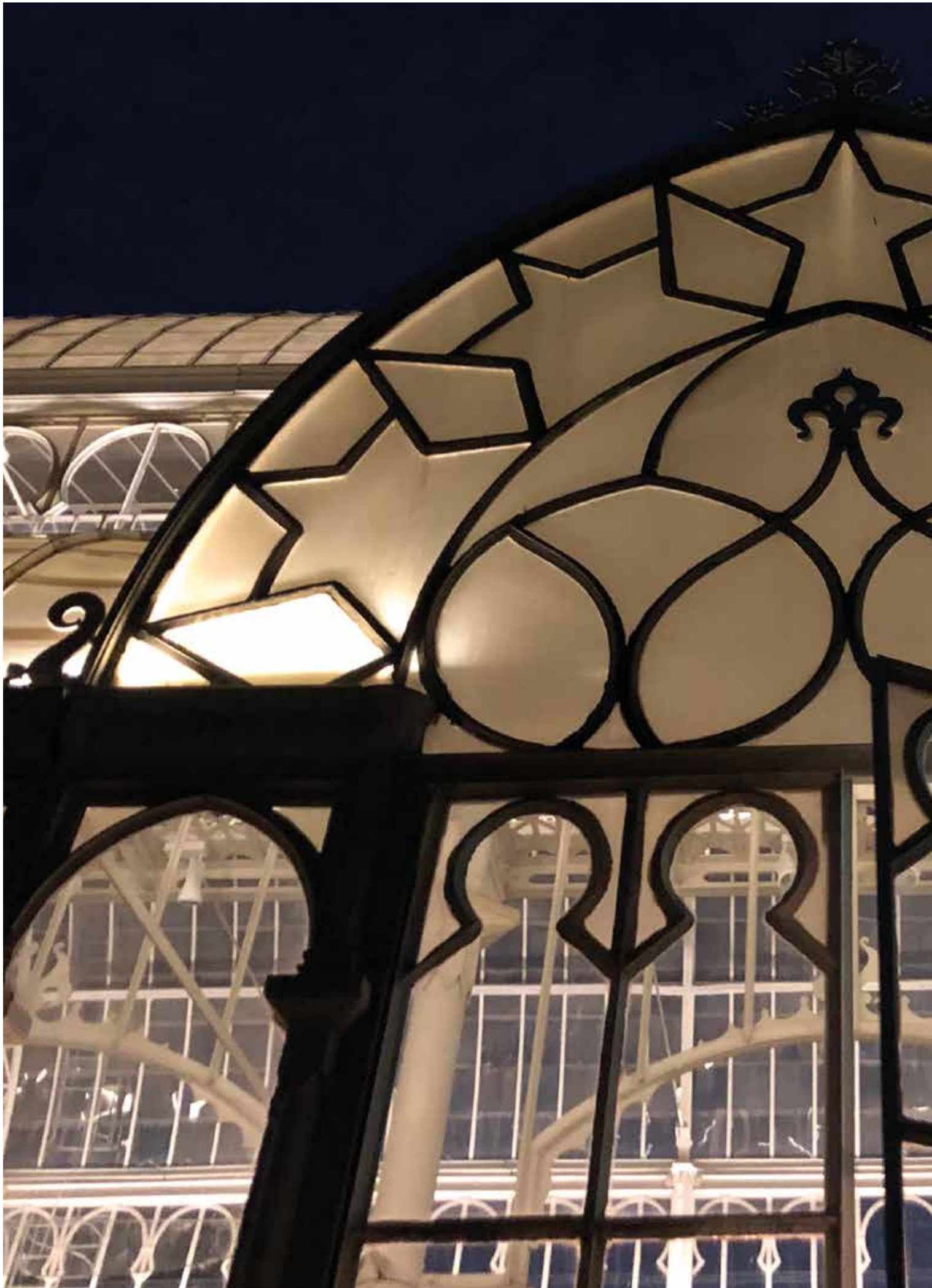
3. The undersigned further declare that:
 - 3.1 the Annual Integrated Report at 31 December 2018:
 - a) was prepared in compliance with the applicable international accounting standards recognized in the European Community pursuant to Regulation (EC) Nr. 1606/2002 of the European Parliament and Council of 19 July 2002, as well as the provisions of the Italian Civil Code, and of Legislative Decree Nr. 38 of 28 February 2005, and of Legislative Decree Nr. 254/2016 and further applicable provisions, regulations and circular letters issued by the Supervisory Board;
 - b) reflects the accounting books and records;
 - c) provides a true and fair view of the asset, liabilities, profit or loss and financial position of the issuer and all its consolidated companies.
 - 3.2 The Directors' report on operations includes a reliable analysis of the business trends, operating result and financial situation of the issuer and all the companies included in the scope of consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

Trieste, 08 March 2019

Gian Maria Mossa
Chief Executive Officer

BANCA GENERALI S.p.A.

Tommaso Di Russo
Manager in Charge of
the Company's Financial Reports
BANCA GENERALI S.p.A.





08

Annexes

Board of Directors
8 March 2019



Annex 1

Disclosure of fees for auditing and non-auditing services pursuant to Article 149-duodecies of Consob Regulation No. 11971 of 14 May 1999 as updated through changes implemented by Resolution No. 20710 of 21 November 2018

The following table shows a breakdown of the fees paid by the Banca Generali Group to the independent auditors BDO Italia S.p.A. engaged to audit the financial statements in accordance with Legislative Decree No. 58/98, as well as to the Italian and foreign entities in the network to which the auditing firm belongs.

The fees approved by the General Shareholders' Meeting of Banca Generali on 23 April 2015 for auditing of the financial statements and bookkeeping services amounted to 190 thousand euros (net of the VAT, out-of-pocket expenses and Consob contribution). In 2018, the following assignments were also awarded to the independent auditors: i) certification of the figures reported with regard to the second series of targeted longer-term refinancing operations ("TLTRO II") for a fee of 30 thousand euros; ii) auditing of the IFRS 9 and IFRS 15 statements of reconciliation at 1 January 2018 prepared for mandatory disclosure purposes pursuant to IFRS 1 - *First-time Adoption of International Financial Reporting Standards* for a fee of 15 thousand euros; iii) certification required pursuant to Article 26, paragraph 2, of Regulation (EU) No 575/2013 of 26 June 2013 in support of the application to include separate and consolidated profit for the year ended 31 December 2018 in Common Equity Tier 1 capital for a fee of 30 thousand euros; iv) limited examination of the consolidated non-financial statement for a fee of 14 thousand euros; and v) gap analysis on the consolidated non-financial statement for a fee of 44 thousand euros.

With reference to the figures indicated in the table, the amount of 222 thousand euros refers for 112 thousand euros to the auditing carried out in 2018 in relation with 2017 financial statements and for 110 thousand euros for the activities carried out until 31 December 2018, consisting in accounting audits, auditing of the quarterly, half-yearly and nine-month reports and for auditing of the 2018 financial statements (net of VAT, out-of-pocket expenses and Consob contributions).

The sum of 45 thousand euros reported under the item "Attestation" includes 30 thousand euros for TLTRO II attestation and 15 thousand euros for the IFRS 9 and IFRS 15 statements of reconciliation at 1 January 2018 prepared for mandatory disclosure purposes in accordance with IFRS 1 - *First-time Adoption of International Financial Reporting Standards*. The amount of 46 thousand euros indicated in the "Other services" item refers to the activity carried out until 31 December 2018 relating to the engagement to provide support with the 2018 Annual Integrated Report and the related attestation.

The fees approved by the Board of Directors of BG Fund Management Luxembourg S.A. of 20 April 2018 for auditing of the financial statements and bookkeeping services for 2018 amounted to 84 thousand euros (net of VAT, out-of-pocket expenses).

(€ THOUSAND)	BDO ITALIA S.P.A.	BDO AUDIT S.A.
Parent Company	313	-
Audit	222	-
Certification	45	-
Other services	46	-
Subsidiaries	-	84
Audit	-	84
Certification	-	-
Other services	-	-
Total	313	84

Notes

1. Amounts net of VAT, out-of-pocket expenses and Consob contribution.

Annex 2

IFRS 9 and IFRS 15 Transition Report

Transition to IFRS 9

Regulations

The new IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation No. 2067/2016 replaces, with effect from 1 January 2018, IAS 39, which until 31 December 2017 governed the classification and measurement of financial instruments.

IFRS 9 is divided into three areas: the classification and measurement of financial instruments, impairment and hedge accounting.

To date, the hedge accounting area is however not material for Banca Generali.

With regard, firstly, to the **classification and measurement** of financial instruments, IFRS 9 requires that their classification be guided by two drivers:

- > the characteristics of the related **contractual cash flows**; and
- > **the business model** within which the assets are purchased and held.

According to IFRS 9, financial assets are to be classified into three business models, instead of the previous four accounting categories, on the basis of the two above drivers:

- > **Hold to collect (HTC), i.e., financial assets held for the collection of cash flows, measured at amortised cost;**
- > **Hold to collect and sell (HTCS), i.e., financial assets held for collecting cash flows and selling financial assets, measured at fair value through other comprehensive income;**
- > **Other financial assets measured at fair value through profit and loss (FVPL) and hold to sell (HTS),** and therefore not falling within the two previous categories as they do not fulfil the necessary requirements.

Financial assets may be classified to the first two categories (measured at amortised cost or at fair value through equity) only if it may be shown that they give rise to cash flows that are solely payment of principal and interest (**SPPI test**).

Equity instruments are always classified to the third category and measured at fair value through profit or loss unless the entity elects (irrevocably, upon initial recognition), in the case of shares not held for trading, to recognise changes in value through an equity reserve, which will never be transferred to profit and loss, even if the financial instrument is disposed of (financial assets designated as at fair value through other comprehensive income not subject to recycling).

With respect to **impairment**, a model is introduced for financial assets measured at amortised cost and fair value through equity: it is based on the concept of **expected credit loss** that supersedes that of **incurred loss**, which instead recognises only credit losses already incurred at the reporting date, although not yet manifest.

The introduction of the new impairment rules entails:

- > the allocation of performing financial assets to **two different credit risk stages** (“staging”), corresponding to impairment losses based, respectively, on expected losses over the **following twelve months** (“stage 1”), or for the entire residual duration (“**lifetime**”) of the financial asset (“stage 2”), on the basis of the occurrence of a significant increase in credit risk (“SICR”) determined by comparing the probability of default at initial recognition and at the reporting date;
- > the allocation of non-performing financial assets to “**stage 3**”, also subject to impairment based on expected lifetime losses;
- > the inclusion in the calculation of expected credit losses (“ECLs”) of forward-looking information regarding the development of the macroeconomic scenario, among other subjects.

IFRS 9 adoption project

In light of the aforementioned changes introduced by IFRS 9, and of the impacts thereof on its organisation, reporting and business, in June 2016 the Parent Company, Banca Generali, launched a specific project aimed at exploring the various areas of influence of the Standard, defining its qualitative and quantitative impacts and identifying and implementing the measures at the level of application (in coordination with the IT services outsourcer) and organisation required for consistent, organic and effective adoption within the Group.

Under the supervision of the CFO Area, the project involved the Administration, Finance, Loans and Risk Management functions, with the active participation of other areas of the Bank (Compliance, Internal Audit, Compliance with Legislative Decree 262, Planning and Control). Thematic working groups were then formed for the two parts of the project: "Classification & Measurement" and "Impairment".

Turning to an analysis of the progress of the IFRS 9 project, the following is a brief account of the activities completed and currently underway in respect of the main areas of the impact of the Standard, as identified above.

Classification and measurement

In order to comply with IFRS 9 - which introduces a model according to which the classification of financial assets is driven by both the contractual characteristics of the instruments' cash flows and the business model according to which they are held - the methods of testing the contractual characteristics of the cash flows (the "SPPI Test") were defined and the business models adopted by the various units through which the Bank and Group operate were formalised.

The **SPPI testing** method to be used for financial assets was defined and an analysis of the composition of current security and loan portfolios was conducted in order to determine the proper classification of each at the time of transition to the new Standard.

In the case of debt instruments, a detailed examination of the characteristics of the cash flows of instruments classified as at amortised cost and financial assets available for sale according to IAS 39 was carried out in order to identify which assets do not pass the SPPI test and thus must be designated at fair value through profit or loss according to IFRS 9.

On the basis of the analyses conducted, it was determined that only an insignificant share of the Group's total portfolio is represented by debt instruments that do not pass the SPPI test, mainly consisting of UCITS and insurance policies.

In this regard, it should be noted that based on in-depth analysis and clarifications provided by the IFRS Interpretation Committee, UCITS units (open-ended and closed-ended funds) were classified among assets mandatorily measured at fair value through profit and loss.

In the case of the loan portfolio, the project involved performing analyses that take account of the substantial standardisation of the contractual forms used for lending. Based on such analyses, no significant impacts have been identified in the phase of transition to the new standard.

With regard to the second element of classification of financial assets, the **reference business models** were defined at the level of the proprietary securities portfolio and loan portfolio.

The following sub-portfolios attributable to the various business models provided for in IFRS 9 have been identified within the framework of the overall operational management of the **proprietary securities portfolio**:

- > Core Banking Book: it includes financial instruments traded in accordance with the hold-to-collect-and-sell (HTCS) and hold-to-collect (HTC) business models;
- > Treasury Book: it includes financial instruments traded in accordance with a hold-to-collect-and-sell (HTCS) business model;
- > Trading Book: it includes financial instruments traded in accordance with a hold-to-sell (HTS) business model.

In particular, the core banking book is the structural part of the investment portfolio aimed at optimising net interest income and building a reserve of a value suitable to be used to optimise the various risk profiles, and in particular to manage liquidity risk.

This portfolio includes a static approach, applied under the HTC model, and a more dynamic approach, with the typical characteristics of the HTCS model.

The transitional rules for the adoption of IFRS 9 require that the business model for a portfolio or a sub-portfolio be assessed on the basis of conditions upon first-time application of IFRS 9 and not when the financial assets were originated. The resulting classification must be applied retrospectively.

The analyses conducted to allocate the securities portfolio held as at 31 December 2017 to the various business models reflected both historical experience and the current and prospective management strategies for financial investments.

On the basis of the analyses conducted, it was determined that the portfolio of debt securities measured at amortised cost pursuant to IAS 39 - classified among investments held to maturity (HTM) and loans to banks and customers (Loans) - is generally subject to limited trading, in accordance with the management strategy of an HTC business model, except for a limited portion of corporate securities no longer subject to the Bank's investment policies.

Some adjustments were made to debt securities classified as available-for-sale (AFS) in accordance with IAS 39 to reflect, in accordance with the new Standard, the underlying business model at the date of first-time adoption of IFRS 9.

These adjustments primarily affected a portfolio of medium-to-long-term government bonds included in the core banking book and held as structural investments, which upon FTA were therefore included in the HTC segment of the core banking book, and hence measured at amortised cost.

In the case of the “Hold to Collect” segment identified within the securities portfolio, thresholds were set for considering sales to be permissible where not significant (individually and in the aggregate) or infrequent; the parameters for identifying sales consistent with this business model as attributable to an increase in credit risk were also established.

In further detail, within the HTC segment sales are permitted:

- > in the event of an increase in credit risk, which occurs for securities when there is a downgrade of a predetermined number of notches with respect to the rating upon origination. In this case, the approach adopted requires that the number of notches be set depending on the rating upon origination, in accordance with the method used to identify “signification deterioration”, and the consequent stage transfer;
- > when frequent, but not significant in terms of value, or when occasional, even if significant in terms of value. Frequency and significance thresholds were therefore set to determine these aspects:
 - frequency is defined as the percent ration of the number of positions sold (ISIN or relationships) during the assessment period to the total positions in portfolio during the assessment period;
 - significance is defined as the percent ration of the nominal value of sales to the total average nominal value of the instruments in portfolio during the period considered.

When both the frequency and significance thresholds are exceeded concurrently, a further assessment is conducted to confirm the consistency of the HTC business model (for example, to assess whether sales are undertaken near maturity).

For equities, instruments (classified as available-for-sale pursuant to IAS 39) have been identified for classification upon FTA at fair value through other comprehensive income (without recycling to profit or loss).

The current approach to managing loans to retail and corporate counterparties may essentially be considered a “Hold to Collect” business model.

Impairment

The main activities performed by Banca Generali with respect to impairment (for which specific projects have been developed for the lending and securities portfolios) are detailed below:

- > definition of the criteria for tracking the credit quality evolution of the positions in the portfolio of financial assets measured at amortised cost and designated at fair value through equity;
- > definition of the parameters for identifying a significant increase in credit risk for the purposes of properly allocating performing exposures to stage 1 or stage 2 (stage assignment). Taking into account the alignment of the definitions of accounting and regulatory default - already in place - no changes have been made to the rules for classifying “non-performing” or “impaired” exposures compared to the classification rules adopted for exposures within stage 3;
- > use of forward looking PD and LGD models, to calculate the expected credit loss (ECL) over 12 months (stage 1 exposures) and lifetime (stage 2 exposures), which consider the possible macro-economic scenarios by including the so-called satellite models.

With regard to the tracking of credit quality, in accordance with the provisions of the Standard and the Supervisory Authority’s instructions as to how to apply the Standard in the case of less significant institutions, a detailed analysis was conducted for each relationship, whether in the form of a security or a loan.

To identify whether there has been a “significant deterioration” of credit quality since initial recognition and there is thus a need for classification to stage 2 and, vice versa, whether the conditions have been met for reclassification from stage 2 to stage 1, it has been decided to make a comparison, at each reporting date, between the credit quality of the financial instrument at the time of measurement and at the time of initial disbursement or purchase (stage assignment).

In view of the above, the factors that will be decisive when determining transitions between the various stages are as follows:

- > a change in rating class with respect to the moment of initial recognition of the financial asset. In other words, this is an assessment according to a “relative” criterion;
- > the presence of a position past due by at least 30 days. Where such positions exist, in other words, the credit risk of the exposure is presumed to have increased significantly and the position is thus reclassified to stage 2;
- > the presence of forbearance measures, which entail the classification of the exposure as among those whose credit risk has significantly increased with respect to initial recognition.

Some particular considerations apply to the staging of securities. In the case of this type of exposure - as opposed to loans - purchase transactions following an initial purchase of securities with the same ISIN may be a customary part of ordinary management of such positions (resulting in the need to establish an approach to identify sales and redemptions to determine the residual balances of individual transactions with which to associate a credit quality/rating upon origination to be compared with that as at the reporting date). The “first-in-first-out” (“FIFO”) method has thus been deemed to contribute to more transparent management of the portfolio, including from the standpoint of front-office personnel, thus also permitting assessments of creditworthiness to be updated constantly on the basis of new purchases.

Finally, Banca Generali has adopted the low credit risk exemption provided for in IFRS 9 for certain financial assets, namely debt instruments issued by governments and public administrations. Accordingly, exposures that are rated investment grade or above as at the reporting date will be deemed low credit risk exposures and thus classified to stage 1.

As stated above, the inclusion of forward-looking factors, and of macroeconomic scenarios in particular, is relevant for estimating expected losses.

From a methodological standpoint, the approach taken by Banca Generali to calculating expected credit loss (ECL) involves subjecting lifetime PD curves to various macroeconomic scenarios, where the weighted average probability of occurrence of the individual scenarios represents the values to be used to calculate expected losses.

In the interest of completeness, it should be observed that exposures classified to stage 3 (i.e., as mentioned above, those currently classified as non-performing financial assets) have not been subject to any particular considerations, since the measurement policies adopted in application of IAS 39 (primarily involving analytical measurement of each non-performing position) are already deemed to be IFRS 9-compliant.

Impacts on IT and organisational systems

Banca Generali actively co-operated (with the role of “pilot bank”) with its IT outsourcer, the CSE consortium, which implemented the new procedures needed to bring its IT systems into compliance with the requirements of the new standard.

IFRS 9 Policy

On 20 March 2018, the IFRS 9 adoption project was completed with the approval by the Banca Generali’s Board of Directors of the IFRS 9 Policy, an all-inclusive document that brings the rules set out in the Standard together into a single policy text.

In order to enact the IFRS 9 guidelines in a manner consistent with Banca Generali’s business and operations, this document analyses the Standard’s following areas:

- > classification and measurement of loans and debt securities;
- > impairment of loans and debt securities;
- > stage assignment of loans and debt securities.

The effects of IFRS 9 First Time Adoption (FTA)

Reconciliation of accounting statements published in the 2017 Annual Report and IFRS9-compliant accounting statements at 1 January 2018 (Circular No. 262/2015, 5th update)

In accordance with paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 “First-Time Adoption of International Financial Reporting Standards” - without prejudice to the retrospective application of the new IFRS 9 measurement and presentation rules - the comparative figures have not been restated uniformly in the financial statements of first-time adoption of the new Standard.

FTA date for the new standard is thus 1 January 2018.

The adjustments to accounting figures as a result of the application of the new standard to previous years have thus been presented solely with reference to that date, without any retrospective adjustment of the comparison figures for the previous year, which correspond to the figures in the official annual report at 31 December 2017.

To reconcile comparison figures at 31 December 2017 to the new accounting statement layouts introduced with the 5th update to Circular No. 262/2005, effective as of 1 January 2018, the necessary layout adjustments were made without any change in the accounting values.

It should be noted, in particular, that the items of the balance sheet and corresponding reclassified presentation have been grouped together by virtue of uniformity of accounting treatment - at fair value through profit or loss, at fair value through other comprehensive income or at amortised cost - according to the following scheme:

RECLASSIFIED BALANCE SHEET – IFRS 9

20. Financial assets at fair value through profit or loss
30. Financial assets at fair value through other comprehensive income
40. Financial assets measured at amortised cost

RECLASSIFIED BALANCE SHEET – IAS 39

20. HFT financial assets
40. AFS financial assets
50. HTM financial assets
60. Loans to banks
70. Loans to customers

Accordingly, investments in the previous portfolio of financial assets held to maturity have been reclassified to loans to banks or loans to customers, depending on the nature of the issuer.

The previous items regarding loans to banks and loans to customers were all included in item "10. Financial liabilities measured at amortised cost".

Reconciliation between the Balance Sheet at 31 December 2017 and the Balance Sheet at 1 January 2018

According to the instructions provided along with the 5th update to Circular, banks that make use of the exemption from the obligation to restate comparative figures must nonetheless include in their first financial statements prepared according to the new Circular 262 a statement of reconciliation that emphasizes the method used and provides a reconciliation between the figures from the most recent approved financial statements and the first financial statements prepared according to the new rules. The form and content of this disclosure are left to the discretion of the competent company bodies.

To this regard, the following are the statements of reconciliation of assets and liabilities as at 31 December 2017 and as at 1 January 2018 due to the first-time application of IFRS 9 indicating, respectively:

- the effects of reclassifications made according to the new classification criteria presented based on the previous IAS 39-compliant figures and thus on like-for-like total assets and total liabilities
- the effects in terms of measurement and valuation ensuing from the new rules introduced by the standard to determine IFRS 9-compliant opening balances.

Statement of reconciliation of the balance sheet at 1 January 2018 – IAS 39 values

ASSETS (€ THOUSAND)	31.12.2017	FORMER AFS UCITS AND EQUITY SECURITIES	FROM LOANS TO HTCS	FROM AFS TO HTC	UNIT-LINKED POLICIES	GUARANTEES & COMMIT- MENTS	01.01.2018 FTA	CHANGE
Financial assets at fair value through profit or loss	49,814	47,621	3,049	-	16,657	-	117,141	67,327
Financial assets at fair value through other comprehensive income	4,612,728	-47,621	25,276	-1,613,483	-	-	2,976,900	-1,635,828
Financial assets measured at amortised cost:	3,285,472	-	-28,325	1,613,483	-16,657	-	4,853,973	1,568,501
a) Loans to banks (*)	377,463	-	-18,201	17,585	-	-	376,847	-616
b) Loans to customers	2,908,009	-	-10,124	1,595,898	-16,657	-	4,477,126	1,569,117
Equity investments	1,820	-	-	-	-	-	1,820	-
Property, equipment and intangible assets	98,380	-	-	-	-	-	98,380	-
Tax receivables	45,735	-	-	-	-	-	45,735	-
Other assets	897,062	-	-	-	-	-	897,062	-
Total assets	8,991,011	-	-	-	-	-	8,991,011	-

(*) ECB demand deposits have not been reclassified.

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2017	FORMER AFS UCITS AND EQUITY SECURITIES	FROM LOANS TO HTCS	FROM AFS TO HTC	UNIT-LINKED POLICIES	GUARANTEES & COMMIT- MENTS	01.01.2018 FTA	CHANGE
Financial liabilities measured at amortised cost:	7,879,779	-	-	-	-	-	7,879,779	-
a) Due to banks	682,531	-	-	-	-	-	682,531	-
b) Due to customers	7,197,248	-	-	-	-	-	7,197,248	-
Financial liabilities held for trading and hedging	206	-	-	-	-	-	206	-
Tax liabilities	35,564	-	-	-	-	-	35,564	-
Other liabilities	185,218	-	-	-	-	-461	184,757	-461
Special purpose provisions	154,174	-	-	-	-	461	154,635	461
Valuation reserves	21,646	-	-	-	-	-	21,646	-
Reserves	348,519	-	-	-	-	-	348,519	-
Share premium reserve	58,219	-	-	-	-	-	58,219	-
Share capital	116,852	-	-	-	-	-	116,852	-
Treasury shares (-)	-13,271	-	-	-	-	-	-13,271	-
Net profit (loss) for the period	204,105	-	-	-	-	-	204,105	-
Total liabilities and net equity	8,991,011	-	-	-	-	-	8,991,011	-

The application of new classification and measurement rules to financial assets led, in particular, to:

- > the classification of part of the bonds available for sale according to IAS 39, 1,613 million euros of which were allocated to HTC financial assets measured at amortised cost; this amount mainly refers to a government bond portfolio for a total amount of 1,575 million euros;
- > the classification of a bond portfolio classified among loans to banks and customers among HTCS financial assets measured at fair value through other comprehensive income for 25 million euros, due to the change of the business model, and about 3 million euros as a result of the failed SPPI test;
- > the classification of a portfolio of unit-linked policies covering contractual obligations towards financial advisors, for 17 million euros from loans to customers to assets mandatorily measured at fair value through profit and loss, as they cannot pass the SPPI test;
- > the classification of UCITS units and equity securities for 47.6 million euros classified, pursuant to IAS 39, among financial assets available for sale to assets mandatorily measured at fair value through profit and loss.

Equity securities representing equity investments in entities (non-controlling interests) or capital contributions of various kinds (8.1 million¹⁸ euros overall), classified under IAS 39 among available-for-sale financial instruments, have been irrevocably classified, on an elective basis, as at fair value through equity (without recycling to profit or loss). The equity securities reclassified from the AFS portfolio to assets mandatorily measured at fair value through profit or loss therefore amount to 1.4 million euros.

With respect to financial liabilities, provisions for credit risk associated with loan commitments and financial guarantees issued that under the previous version of Bank of Italy Circular No. 262 were allocated to Other liabilities have been included among provisions for liabilities and contingencies according to the new rules.

Statement of reconciliation of the balance sheet at 1 January 2018 - IFRS 9 effects

Statements of reconciliation between the balance sheet at 31 December 2017 (IAS 39), reclassified according to the new IFRS 9 classification rules, as discussed above, and the balance sheet as at 1 January 2018 (IFRS 9) are set out below. In the following statements, the figures at 31 December 2017 (under IAS 39) have been modified due to the application of the new measurement and impairment rules to determine IFRS 9-compliant opening balances.

ASSETS (€ THOUSAND)	01.01.2018 IAS 39	UCITS AND EQUITY SECURITIES	C&M			IMPAIRMENT		01.01.2018 IFRS 9	CHANGE,
			FORMER AFS	FORMER LOANS	POLICIES	HTC & COMMIT- MENTS	HTCS		
Financial assets at fair value through profit or loss	117,141	-	-	56	1,582	-	-	118,779	1,638
Financial assets at fair value through other comprehensive income	2,976,900	-	-	489	-	-	-	2,977,389	489
Financial assets measured at amortised cost:	4,853,973	-	-8,962	-	-	-683	-	4,844,328	-9,645
a) Loans to banks (*)	376,847	-	-255	-	-	267	-	376,860	12
b) Loans to customers	4,477,126	-	-8,707	-	-	-951	-	4,467,468	-9,658
Equity investments	1,820	-	-	-	-	-	-	1,820	-
Property, equipment and intangible assets	98,380	-	-	-	-	-	-	98,380	-
Tax receivables	45,735	-112	-645	-	359	805	652	46,794	1,059
Other assets	897,062	-	-	-	-	-	-	897,062	-
Total assets	8,991,011	-112	-9,607	545	1,941	122	652	8,984,553	-6,458

(*) ECB demand deposits have not been reclassified.

¹⁸ In particular, these are the equity investments in CSE, Tosetti Value Sim, GBS and other minor interests, and the capital contributions to the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) and film production ventures.

NET EQUITY AND LIABILITIES(€ THOUSAND)	01.01.2018 IAS 39	C&M				IMPAIRMENT		01.01.2018 IFRS 9	CHANGE
		UCITS AND EQUITY SECURITIES	FORMER AFS	FORMER LOANS	POLICIES	HTC & COMMITMENTS	HTCS		
Financial liabilities measured at amortised cost:	7,879,779	-	-	-	189	-	-	7,879,968	189
a) Due to banks	682,531	-	-	-	-	-	-	682,531	-
b) Due to customers	7,197,248	-	-	-	189	-	-	7,197,437	189
Financial liabilities held for trading and hedging	206	-	-	-	-	-	-	206	-
Tax liabilities	35,564	-96	-3,527	175	509	573	652	33,851	-1,713
Other liabilities	184,757	-	-	-	-	-	-	184,757	-
Special purpose provisions	154,635	-	-	-	928	-258	-	-	-
Valuation reserves	21,646	-3,225	-6,081	333	-	-	1,377	14,051	-7,595
Reserves	348,519	3,208	-	36	316	-193	-1,377	350,509	1,990
Share premium reserve	58,219	-	-	-	-	-	-	58,219	-
Share capital	116,852	-	-	-	-	-	-	116,852	-
Treasury shares (-)	-13,271	-	-	-	-	-	-	-13,271	-
Net profit (loss) for the period	204,105	-	-	-	-	-	-	204,105	-
Total liabilities and net equity	8,991,011	-112	-9,607	545	1,941	122	652	8,984,553	-6,458

The effects of the first-time adoption of IFRS 9 on the Banca Generali Group's **consolidated net equity** at 1 January 2018 primarily derive from:

- > the different metric for measuring financial assets reclassified to the new accounting classes, resulting in an overall negative impact on net equity, net of taxes, of **5.4 million euros**;
- > the application of the new impairment rules for financial instruments, according to the expected credit loss model, resulting in a limited negative effect on net equity of **0.2 million euros**.

The effects of the application of the new classification and measurement (C&M) rules are chiefly due to the adjustment of the carrying amount of the portfolio of debt securities as a result of the modification of the business model and, solely to a minor extent, to failing the SPPI test.

The effects in question may be attributed to the following factors:

- > classification of a portfolio of debt securities at fair value through other comprehensive income to the HTC segment, with the resulting redetermination of the carrying amount upon origination and the derecognition of net positive AFS reserves of **6.1 million euros** (-9.0 million euros gross of the tax effect);
- > classification of a portfolio of debt securities at amortised cost to an HTCS segment, with the resulting redetermination of the carrying amount at fair value and recognition of the increase in fair value since origination in the OCI reserve, in the amount of approximately **0.4 million euros** (+0.5 million euros gross of the tax effect);
- > classification of a portfolio of unit-linked policies (due to failing the SPPI test) previously measured at amortised cost among financial assets at fair value through profit or loss, with the cumulative fair value change taken to a specific FTA gains reserve, in the amount of **0.3 million euros**.

It should also be noted that the reclassification of units of UCITS from the AFS portfolio entailed the derecognition of the specific net positive AFS reserve, with a balancing entry to the FTA gains reserve, in the amount of approximately 3.2 million euros, with no net effect on net equity.

The transition to the new rules on collective impairment resulted in a net negative impact on net equity of 0.4 million euros, affecting the loans and guarantees segment, and a positive impact of 0.2 million euros in respect of the securities portfolio.

	IAS 39	IFRS 9	GROSS EFFECT	FTA RESERVE	OCI RESERVE	NET EFFECT
Collective reserves for HTC securities	3,583	3,365	218	231	-	231
<i>Of which: government bonds</i>	-	1,824	-1,824	-1,237	-	-1,237
<i>Of which: banks</i>	495	99	396	287	-	287
<i>Of which: customers</i>	3,088	1,442	1,646	1,182	-	1,182
Collective reserves for HTC securities	-	-2,030	-2,030	-1,377	1,377	-
<i>Of which: government bonds</i>	-	-1,877	-1,877	-1,274	1,274	-
<i>Of which: other</i>	-	-152	-152	-103	103	-
Total collective reserves for securities	3,583	1,335	-1,812	-1,146	1,377	231
<i>Of which: banks</i>	-	129	-129	-87	-	-87
<i>Of which: customers</i>	1,638	2,411	-773	-524	-	-524
<i>Of which: commitments and guarantees</i>	461	204	258	187	-	187
Collective reserves for loans	2,100	2,743	-644	-425	-	-425
Total collective reserves for performing loans	5,683	4,079	-2,455	-1,570	1,377	-193

In respect of cash balance sheet exposures and guarantees, the adoption of the new expected credit loss model, inclusive of the forward-looking component, in lieu of the previous incurred credit loss model (IAS 39), essentially resulted in an increase in impairment losses on performing exposures due to:

- > the expansion of the scope of application of impairment to include exposures to banks and, to a lesser extent, operating loans;
- > the allocation of a part of the performing portfolio to stage 2, on the basis of the established stage allocation criteria, with the resulting need to calculate the expected loss for the lifetime of the financial assets; and
- > the inclusion in the calculation of expected losses of forward-looking parameters deriving from future macroeconomic scenarios.

The limited impact of the application of the new impairment rules to the debt securities portfolio is fundamentally due to the following reasons:

- > since 2008 Banca Generali has always recognised a collective reserve for performing loans and a collective reserve covering contingent losses in the portfolio of securities measured at amortised cost (HTM and Loans), with the exception of government bonds and the portfolio of AFS assets;
- > with regard to this latter portfolio, already measured at fair value through other comprehensive income - the negative equity reserve allocated during FTA was fully neutralised by the symmetrical adjustment to the positive equity reserve through other comprehensive income, resulting in a nil impact on net equity;
- > finally, during the transition to IFRS 9, the method for calculating impairment was modified from PD based on historical series of default rates surveyed globally by issuer rating class and residual maturity of the security to a new forward-looking method based on market price trends from which the credit-risk component has been isolated. The method for calculating the new PD was provided by a specialist firm, Prometeia.

Accordingly, the allocation of collective reserves on government bonds resulted in a negative impact on net equity of 1.2 million euros, net of the tax effect, which was entirely set off against the lesser impairment losses on corporate and bank securities, previously classified as held-to-maturity assets and loans to banks and customers, in the amount of 1.4 million euros.

The negative FTA equity reserve for the HTCS portfolio amounted to 1.4 million euros, against which a symmetrical positive fair value measurement equity reserve was recognised.

Statement of reconciliation of the balance sheet effects

IAS 39 net equity - 31.12.2017	736,070
CLASSIFICATION AND MEASUREMENT	
Adjustment of the carrying amounts of financial assets due to the adoption of the new business models	-8,472
Adjustment of financial assets to fair value due to failing the SPPI test	521
Reclassification of valuation reserves to profit reserves:	-
Net change in valuation reserves due to application of new classification and measurement rules	-3,225
Net change in profit reserves (FTA reserve) due to the application of new classification and measurement rules	3,225
IMPAIRMENT	
Application of the new (ECL) impairment model to loans at amortised cost:	-901
Application of the new impairment (ECL) model to guarantees granted and commitments	258
Application of the new (ECL) impairment model to debt securities at amortised cost	218
Reclassification from valuation reserves to profit reserves:	-
Net change in valuation reserves due to impairment of financial assets at fair value through other comprehensive income	1,377
Net change in profit reserves (FTA reserve) due to impairment of financial assets at fair value through other comprehensive income	-1,377
Tax effect	2,772
Total IFRS 9 transition effects 01.01.2018	-5,604
IFRS 9-compliant net equity 01.01.2018	730,466

On the whole, consolidated net equity shows a decline in valuation reserves of 7.6 million euros and the recognition of a positive FTA profit reserve of 2.0 million euros, resulting in an overall net negative effect, inclusive of the tax effect, of 5.6 million euros.

In particular, total reclassifications to valuation reserves and profit reserves (FTA reserve) due to the application of the new classification and measurement rules and the effect of the application of the new impairment model amounted to 1.8 million euros.

Impacts on Own funds and capital requirements

The accounting effects described above also had consequences for regulatory capital and capital ratios. More specifically:

- > the FTA profit reserves in net equity and the change in fair value measurement reserves increase or reduce CET 1 capital, respectively;
- > the reduction of the portfolio of financial assets designated at fair value through other comprehensive income reduces the regulatory reserve to be allocated for the prudent valuation of financial instruments at fair value, with a positive impact on CET 1 capital;
- > the tax effect gives rise to DTAs, which, however, do not exceed the minimum levels established by the rules for deduction from CET 1 and thus are weighted at 250% for the purposes of RWAs;
- > RWAs fall due to the derecognition of AFS reserves as a result of the adjustment of carrying amounts to the new IFRS 9 accounting portfolios and the increase in impairment.

With reference to the adoption of IFRS 9, the Banking Group did not opt to apply the phase-in regime set forth in the Regulation (EU) No. 217/2395 which allows banks, whose opening balance sheet at the date of IFRS 9 first-time adoption reports a decline in CET 1 due to the increase in expected credit loss provisions (net of tax effects), to include in their CET 1 a portion of the said increased provisions for a phase-in period of five years.

Due to the initial application of IFRS 9, the CET 1 ratio, recalculated as at 1 January 2018, would thus stand at 19.11%, showing a modest decline of 23 bps on the previous situation.

Likewise, the Total Capital ratio would be 20.78%, with a 24 bps reduction.

Impacts on prudential ratios are shown in detail in the following table:

EFFECTS ON EQUITY (€ THOUSAND)	COMMON EQUITY TIER 1	TOTAL CAPITAL	TOTAL RWAS	CET 1 RATIO	TOTAL
Figures at 31.12.2017 – IAS 39 (on a phase-in basis)	475,232	518,602	2,563,242	18.54%	20.23%
Figures at 31.12.2017 – IAS 39 (on a fully loaded basis)	495,675	538,675	2,563,242	19.34%	21.02%
Figures at 01.01.2018 – IFRS 9 final (on a fully loaded basis)	491,698	534,698	2,573,175	19.11%	20.78%
FTA impact (on a fully loaded basis) in terms of % change	-0.80%	-0.74%	0.39%	-0.23%	-0.24%

Transition to IFRS 15

The new accounting standards, effective 1 January 2018, presents a single model for the accounting treatment of revenue on the sale of goods and services not falling within the scope of application of the standards concerning financial instruments (IFRS 9), insurance contracts (IFRS 4) and leases (IAS 17 and IFRS 16).

According to the standard, an entity recognises revenues in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, according to the following five steps:

- > identification of the contract, defined as an agreement between two or more parties that creates enforceable rights and obligations;
- > identification of the individual performance obligations in the contract;
- > determination of the transaction price, i.e., the amount to which an entity expects to be entitled in exchange for the transfer of goods and services;
- > allocation of the transaction price to each performance obligation on the basis of its standalone selling price;
- > recognition of revenues allocated to the individual obligation, when the performance obligation is satisfied, i.e., when control is passed to the client; recognition takes into account the fact that some services can be rendered either at a point in time or over time over time.

The new Standard also includes a section devoted to the accounting treatment of **costs of obtaining a contract** (paragraphs 91-104), which, when certain conditions are met, must be recognised as assets, amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates and tested for impairment.

In detail, the Standard distinguishes between:

- > **incremental costs of obtaining a contract**, i.e., costs that the entity incurs to obtain the contract with the customer, and that it would not have incurred if the contract had not been successfully obtained. They must be recognised as an asset if the entity expects to recover those costs;
- > **costs incurred to fulfil a contract are recognised as an asset if and only if** all of the following criteria are met:
 - a) the costs relate directly to a specifically identifiable contract;
 - b) the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future;
 - c) the costs are expected to be recovered.

In the second half of 2017, the Banking Group carried out a specific assessment project with the support of a major accounting consultancy firm, in which it was concluded that the Bank's accounting policies were essentially compliant with the new IFRS 15 framework.

Given the significance of the fees paid to the sales network, during the project particular attention was devoted to analysing the acquisition costs for contracts with customers.

In particular, it should be noted that a significant share of the incremental costs of obtaining contracts relating to recruitment programmes for new Financial Advisors - part of the supplementary fee system - had already been capitalised in accordance with IAS 18, based on the provisions set forth in paragraph 14 b) iii) *Investment Management Fees*, included in the Appendix to the Standard itself.

In addition to the above, additional types of **incremental costs** relating to incentives paid to the **management for recruitment activity** have been identified. These costs, which previously were not capitalised, may be regarded as closely correlated with the process of acquiring new customers.

The amortisation period for such cases has been defined on the basis of the time required to recover (pay back) the costs incurred and the time to transfer the services governed by the investment contracts to customers, i.e., five years for asset management and two years for administration and custody solutions.

As a result, prepayments of **4.1 million euros** were recognised as at 1 January 2018 in respect of the costs incurred and taken to profit or loss in previous years but not yet accrued within the framework of the new Standard.

These prepayments were recognised through a specific retained earnings reserve for an amount of **2.8 million euros**, net of the tax effect.

Ordinary incentives paid annually to the sales network, based on the achievement of net inflows targets, have also been recognised as **costs to fulfil a contract**.

These incentives, which relate in operational terms to the bank's organic growth through the existing sales network, remunerate both inflows gathered through the acquisition of new contracts with customers and incremental inflows gathered thanks to the strengthening of relationships already in place with existing customers.

The costs related to the aforesaid incentives have thus been classified as costs of obtaining a contract and costs to fulfil a contract, which, where certain conditions are met, must be recognised as assets and amortised on a systematic basis over a period that is consistent with the transfer to the customer of the goods or services to which the asset relates.

Upon first-time adoption of the Standard, in accordance with the accounting policies previously applied to recruitment costs, the Bank decided to identify the said period as the interval within which the costs of obtaining the contracts are expected to be recovered on the basis of the greater revenues generated by the contracts (“payback” or “break-even period”).

For ordinary incentives, the amortization period was thus determined, based on estimated payback, as a little over 12 months and thus the practical expedient, envisaged by IFRS15, of not capitalizing them was applied.

For FTA purposes it was therefore deemed that incentives paid in previous years had now outlived their usefulness and no adjustments were made to the opening balance of profits carried forward.

Transition to IFRS 15 thus had a positive effect of 0.76% on own funds and of 0.11% on Total Capital Ratio.

Overall effects of the transition to IFRS 9 and IFRS 15

The overall effect arising from the first time application of IFRS 9 and IFRS 15 at 1 January 2018 are summarized here below.

ASSETS (€ THOUSAND)	31.12.2017	TOTAL IFRS 9	TOTAL IFRS 15	01.01.2018 FTA
Financial assets at fair value through profit or loss	49,814	68,965	-	118,779
Financial assets at fair value through other comprehensive income	4,612,728	-1,635,338	-	2,977,390
Financial assets measured at amortised cost:	3,285,472	1,558,856	-	4,844,328
a) Loans to banks ^(*)	377,463	-603	-	376,860
b) Loans to customers	2,908,009	1,559,459	-	4,467,468
Equity investments	1,820	-	-	1,820
Property, equipment and intangible assets	98,380	-	-	98,380
Tax receivables	45,735	1,059	-	46,794
Other assets	897,062	-	4,095	901,157
Total assets	8,991,011	-6,458	4,095	8,988,648

(*) ECB demand deposits have not been reclassified.

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2017	TOTAL IFRS 9	TOTAL IFRS 15	01.01.2018 FTA
Financial liabilities measured at amortised cost:	7,879,779	189	-	7,879,968
a) Due to banks	682,531	-	-	682,531
b) Due to customers	7,197,248	189	-	7,197,437
Financial liabilities held for trading and hedging	206	-	-	206
Tax liabilities	35,564	-1,713	1,317	35,168
Other liabilities	185,218	-461	-	184,757
Special purpose provisions	154,174	1,131	-	155,305
Valuation reserves	21,646	-7,595	-	14,051
Reserves	348,519	1,990	2,779	353,287
Share premium reserve	58,219	-	-	58,219
Share capital	116,852	-	-	116,852
Treasury shares (-)	-13,271	-	-	-13,271
Net profit (loss) for the period	204,105	-	-	204,105
Total liabilities and net equity	8,991,011	-6,458	4,095	8,988,648

On the whole, following the transition to the two new accounting standards, IFRS 9 and IFRS 15, the transitional (phase-in) CET 1 ratio recalculated as at 1 January 2018 would have amounted to 19.22%, an increase of 68 bps compared with the ratio reported at 31 December 2017 and a modest decline of 12 bps compared with the fully loaded ratio at that same date, taking account of the end of the transitional rules for neutralising valuation reserves for government bonds, also with effect from 1 January 2018.

Similarly, the Total Capital Ratio would stand at 20.89%, up by 66 bps compared with the ratio reported at 31 December 2017 and down by a modest 13 bps compared with the fully loaded situation as at that same date.

Impacts on prudential ratios are shown in detail in the following table:

(€ THOUSAND)	31.12.2017 REPORTED PHASE IN	31.12.2017 REPORTED FULLY LOADED	01.01.2018 FTA PHASE IN	CHANGE (PHASE-IN)		01.01.2018 PROVISIONAL FTA	CHANGE IN PROVISIONAL FTA
				AMOUNT	%		
Common Equity Tier 1 capital (CET 1)	475,232	495,675	494,565	19,333	4.07%	499,841	-5,276
Additional Tier 1 (AT1) capital	-	-	-	-	n.a.	-	-
Tier 2 capital (T2)	43,370	43,000	43,000	-370	-0.85%	43,000	-
Total own funds	518,602	538,675	537,565	18,963	3.66%	542,841	24,239
Credit and counterparty risk	131,410	131,410	132,219	809	0.62%	131,460	758
Market risk	1,735	1,735	1,735	-	-	1,735	-
Operating risk	71,914	71,914	71,914	-	-	71,914	-
Total absorbed capital	205,059	205,059	205,868	809	0.39%	205,110	50
Excess over absorbed capital	313,543	333,616	331,697	18,155	5.79%	337,731	-6,034
Non-committed capital	60.46%	61.93%	61.70%	1.24%	2.06%	62.22%	-0.51%
Risk-weighted assets	2,563,242	2,563,242	2,573,350	10,108	0.39%	2,563,871	0.37%
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	18.54%	19.34%	19.22%	0.68%	3.66%	19.50%	-0.28%
Total own funds/Risk-weighted assets (Total Capital Ratio)	20.23%	21.02%	20.89%	0.66%	-3.15%	21.2%	-0.28%

Overall, the adjustment made as a result of the FTA of the two new standards compared to the previously reported provisional estimate had a negative effect on consolidated net equity of about 7.1 million euros and generated a limited reduction of Total Capital Ratio of 28 bps at the reference date of 1 January 2018.

The effects of FTA adjustment on net equity at 31 March 2018 amounted to 13.1 million euros, with a negative effect on Total Capital Ratio of about 51 bps.

Consolidated financial statements at 1 January 2018

ASSETS (€ THOUSAND)	01.01.2018 FTA
10. Cash and deposits	563,497
20. Financial assets measured at fair value through profit or loss:	118,778
a) HFT financial assets	40,106
b) Financial assets designated at fair value	-
c) Assets mandatorily measured at fair value	78,672
30. Financial assets measured at fair value through other comprehensive income	2,977,389
40. Financial assets measured at amortised cost:	4,844,327
a) Loans to banks	376,860
b) Loans to customers	4,467,467
70. Equity investments	1,820
90. Property and equipment	6,570
100. Intangible assets	91,810
- goodwill	66,065
110. Tax receivables:	46,794
a) Current	776
b) Prepaid	46,018
<i>b1) as per Law No. 214/2011</i>	8,107
130 Other assets	337,659
Total Assets	8,988,647

NET EQUITY AND LIABILITIES (€ THOUSAND)	01.01.2018 FTA
10. Financial liabilities measured at amortised cost:	7,879,968
a) Due to banks	682,531
b) Due to customers	7,197,437
20. HFT financial liabilities	206
60. Tax liabilities:	35,167
a) Current	21,024
b) Deferred	14,143
80. Other liabilities	184,756
90. Employee termination indemnities	4,859
100. Provisions for liabilities and contingencies:	150,446
a) Commitments and guarantees issued	204
c) Other provisions	150,242
120. Valuation reserves	14,051
150. Reserves	353,288
160. Share premium reserve	58,219
170. Share capital	116,852
180. Treasury shares (-)	-13,271
200. Net profit (loss) for the period (+/-)	204,105
Total Net equity and Liabilities	8,988,647

Banca Generali S.p.A.

Registered office
Via Machiavelli 4 - 34132 Trieste

Share capital
Authorised 119,378,836 euro
Subscribed and paid 116,851,637 euro

Tax code, VAT No. and Trieste
register of companies
00833240328

Company managed and coordinated
by Assicurazioni Generali S.p.A.
Bank which is a member of the Interbank Deposit
Protection Fund
Registration with the bank register
of the Bank of Italy under No. 5358
Parent Company of the Banca Generali Banking Group
registered in the banking group register
ABI code 03075.9

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