



ANNUAL INTEGRATED REPORT 2019

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

ANNUAL INTEGRATED REPORT

at 31 December 2019

BOARD OF DIRECTORS
9 MARCH 2020

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 - 9 March 2020

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 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	

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Letter to Stakeholders

Dear Stakeholders,

2019 was an exciting year for the Bank, in terms of the numerous initiatives launched, as well as the growth and the results achieved. During the year, the first steps were taken under the 2019-2021 Strategic Plan, with faster progress in many key areas and confirmation of the main objectives.

Despite a very positive overall performance, the market scenario was not entirely linear throughout the year: in fact, in early January and February 2019, it was extremely volatile, in continuity with the end of the previous year. This very uncertainty and complexity, which emerged in the winter of 2018, convinced us to seek out an approach increasingly close to investors' sensitivities, in terms of both wealth protection in an environment of heightened risk aversion and setting new challenges clearly indicative of the long-term sustainable growth that is a core component of the Bank's vision and mission.

With this in mind, the Three-Year Strategic Plan was approved and presented to the financial community, with the aim of consolidating Banca Generali's strategic leadership in Italy in the networks sector, and in private banking in particular; increasing service quality for Customers and laying the foundation for international growth, starting with Switzerland. The common thread that ties these projects together is sustainability, in its key forms, such as a focus on human capital, through a system of values and a shared long-term vision.

It was therefore a very important result for Banca Generali to find that the involvement of its people — assessed every two years — has risen to a degree of absolute excellence, as confirmed by the levels of participation and engagement: 96% and 82%, respectively. Many initiatives were launched: the Strategy Road for sharing Strategy, the introduction of smart working and the launch of various diversity and inclusion activities. These initiatives came in addition to the Bank's commitment to pursuing excellence in governance, with an openness to dialogue, confirmed not only by the strong female presence and majority of independent Directors within the Board of Directors, but also by the focus on issues relating to transparency in corporate management.

The commitment to sustainable growth also entails promoting social and cultural development. Efforts in this direction included various projects in the arts, such as support and assistance for universities in conducting joint research and studies relating to savings and the relevant applied technologies. Innovation is a fundamental driver of Banca Generali's strategy. The BG Training & Innovation Hub — a space for brainstorming on the future developments of private banking, stimulating dialogue and conducting research into the subjects of financial services and advice — was also inaugurated in early 2020.

Drawing on a company culture increasingly imbued with the values of sustainability, and supported by our Group's solid roots (Generali Assicurazioni), the next step on which the Bank has embarked is raising awareness amongst households of these distinctive sustainability features. This was the impetus to be the first in Italy to develop an exclusive model capable of pairing investment diversification objectives with a sustainability-oriented approach that concretely contributes to the 17 Sustainable Development Goals (SDGs) set by the United Nations in its 2030 Agenda. Since the launch of the platform in early 2019, the focus on ESG (environmental, social and governance) investments amongst customers has intensified rapidly, allowing the targets set for the end of the plan to be reached two years in advance.

Social development, support for the growth of local communities and society, but also creation of value for all stakeholders within the Bank's orbit: it is from this perspective that we report the Company's results. Assets under management and assets under custody rose to 69 billion euros, increasing by 11.5 billion in the twelve months. Benefiting from the Bank's business expansion and the gradual market recovery seen during the year, profits reached 272 million euros, the highest level in the Bank's history. Propelled by this performance, the proposed remuneration for shareholders has reached a new all-time high of 185 eurocents per share, of which 30 eurocents to be drawn on the following year, in further pursuit of financial sustainability.

I would like to express my heartfelt thanks to the top management, employees and professionals in the network for the invaluable work done and dedication shown in striving to continue to uphold our Bank as a beacon of ethics, professionalism and ability to achieve ambitious goals in the Italian financial service market. I would also like to express my deep gratitude to the colleagues on the Board of Directors, who have successfully facilitated dialogue and offered competent, resolute decision-making guidance for the management, with tangible results for all stakeholders.



Giancarlo Fancel
Chairman

“The focus on sustainability enabled the Bank to successfully bring households closer to the adherence to the UN 2030 Agenda, thus contributing to improve global development, people's wellbeing and environmental protection.”

Highlights 2019

NET AUM AND
INSURANCE INFLOWS

2,799

€ MILLION

TOTAL AUM

69.0

€ BILLION

NET INFLOWS

5,130

€ MILLION

ASSORETI AUM

66.8

€ BILLION

OWN FUNDS

570.9

€ MILLION

NET EQUITY

917.7

€ MILLION

TOTAL CAPITAL RATIO

16.1%

TIER 1

16.1%

SMART WORKING

27.9%

OF EMPLOYEES

NO. OF FINANCIAL ADVISORS

2,040

OF WHOM 18% WOMEN



NET OPERATING INCOME

578.0

€ MILLION

NET OPERATING EXPENSES

221.1

€ MILLION

OPERATING RESULT

356.8

€ MILLION

NET PROFIT
BEFORE TAXATION

325.3

€ MILLION

NET PROFIT

272.1

€ MILLION

GROSS GLOBAL ADDED VALUE
DISTRIBUTED

890.8

€ MILLION

NO. OF EMPLOYEES
AND % OF WOMEN

950

OF WHOM 49% WOMEN

EMPLOYEE
TRAINING HOURS

48,021

HOURS

NETWORK TRAINING HOURS

122,696

CO2 EMISSIONS (SCOPE 1, 2, 3)
(SCOPE 1, 276 t / SCOPE 2, 935 t)

-53% / -16%

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 in the Consolidated Non-financial Statement section), the information provided for in the said Decree will be included in the aforementioned Annual Integrated 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 2019

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 and 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 website in the Corporate Governance section dedicated to the Shareholders' Meeting. The 2019 Remuneration Report is available at: 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 Banking 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, Charter 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 Bank’s economic, social and environmental impact and because they can influence the decisions of its internal and external stakeholders.

Banca Generali conducted an analysis to confirm the validity of the material and significant topics identified in the previous year and verify whether there were any new emerging topics. This 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 the characteristics of the sector of reference;
- › analysis of articles, statistics, findings of watchdogs and public documents on the standards and international frameworks adopted in sustainability reporting;
- › 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 **19 main topics in 6 macro-areas**: Community, Governance, Social Responsibility, Economic Responsibility, Product Responsibility and Environmental Responsibility.

MACRO-AREA	MATERIAL ASPECTS	DESCRIPTION
■ Community	Engagement and development of communities	Constant engagement of the local communities and area in management of the company (for example, through information campaigns and interactive consultation processes involving the various groups of stakeholders).
	Customer financial culture	Interest by customers (both current and prospective) in gaining a deeper understanding of financial products, the underlying concepts and the associated risks and opportunities.
■ Governance	Corporate governance and internal organisation (management of delegated powers, functioning of committees)	The set of company tools, rules, relationships, processes and systems for sound, efficient management of the company.
	Medium-to-long-term ESG strategy	Integration of environmental, social and economic considerations into the strategy, processes and products to create value for internal and external stakeholders from a long-term perspective.
	Prevention of corruption	Commitment to fight active and passive corruption by providing specific training on the subject and by applying policies, procedures and mechanisms for reporting potential irregularities or illegal behaviour.
	Prudence and transparency in business management	Commitment by the top management to integrated, fair and responsible management of the business and commercial conduct.
	Data and cyber security	Development and adoption of an adequate set of tools and technologies to protect IT systems to ensure availability, confidentiality and integrity.
■ Social responsibility	Attraction of talent and development of human capital	Development of a model that is able to increasingly attract talented young people and top industry professionals, while also offering training and development programmes to hone employees’ skills and build the professional expertise required by each role.
	Human rights	Respect for the fundamental rights and freedoms that allow individuals to express and develop themselves to their fullest potential, within a framework of freedom and the possibility of self-realisation, unfettered by proscribed restrictive limitations.
	Diversity and inclusion	Development of an inclusive approach that encourages respect for and the value of diversity by building on the wealth of multicultural perspectives, experiences and traits offered by individuals.
	Management of working relationships, responsible remuneration and incentives	Management of relationships with employees (including in terms of remuneration, incentives and employment relations), with a focus on factors such as fairness, transparency, integrity and mutual respect for the roles performed by employee and employer.

	Financial Advisors' training and education	Investment in continuous training and development of the skills of Financial Advisors, from both a professional and human perspective, to ensure the constantly increasing quality and efficiency of the service offered.
■ Economic responsibility	Responsible investments (ESG investing)	Development of investment strategies, services and products that integrate environmental, social and corporate governance (ESG) topics to improve the risk/return profiles of customers' portfolios and further raise awareness among and educate the various types of customers regarding sustainability issues.
	Relationship with business partners	Adoption of strategies, in managing relationships with business partners, that ensure a high level of service and promote responsible behaviour, including by implementing specific tools (e.g., the Code of Ethics for suppliers of the Generali Group).
	Protection of Group solidity and profitability	Ability to maintain a solid performance over time and develop robust organisational resilience to protect the financial stability and profitability of the business.
■ Product responsibility	Responsible management of the customer portfolio	Management of the portfolio with a focus on return on investment for the customer and on protection against all potential risks that may, directly or indirectly, compromise value over time.
	Quality of customer relationships and brand reputation	Ability to fully meet each customer's investment needs by identifying bespoke solutions capable of optimising the customer experience and loyalty.
	Innovation and digitalisation in the development of products and services	Ability to innovate with regard to the range of products and services, including by leveraging new digital technologies.
■ Environmental responsibility	Energy consumption and atmospheric emissions	Adoption of energy efficiency and conservation policies to cut greenhouse gas emissions generated by the company's activities.

In addition, the Bank has performed four additional types of analyses to select truly material topics:

- › benchmark analyses to identify the degree of relevance that Banca Generali's main competitors and comparables attach to the topics in question;
- › comparison and assessment of the topics identified with the main international frameworks and guidelines, with a particular focus on the six Principles for Responsible Banking (PRBs) and eleven recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD);
- › critical review of the numerous responses received to the Engagement Survey administered to employees, initiatives involving dialogue with Financial Advisors, opportunities to interface with investors and, in general, all stakeholder feedback and interaction activities;
- › semantic analysis (see the details in the inset) conducted on an extensive corpus of documents (more than 200 items, including peer reports, internal documents, industry reports, position papers, Italian and international regulations, etc.) through the use of the digital platform RE2N.

The semantic analysis conducted in 2019

In the context of a materiality analysis, the term "semantic analysis" refers to a set of automated text analysis techniques that can be used to formulate a topic tree based on the number of occurrences in the documentation considered (i.e. the number of times a given concept is detected by the semantic engine) and the logical correlations existing between the concepts surveyed.

In particular, Banca Generali conducted a semantic analysis to map out the industry's material topics on the basis of a wide range of information sources and to compare them with the material topics previously identified.

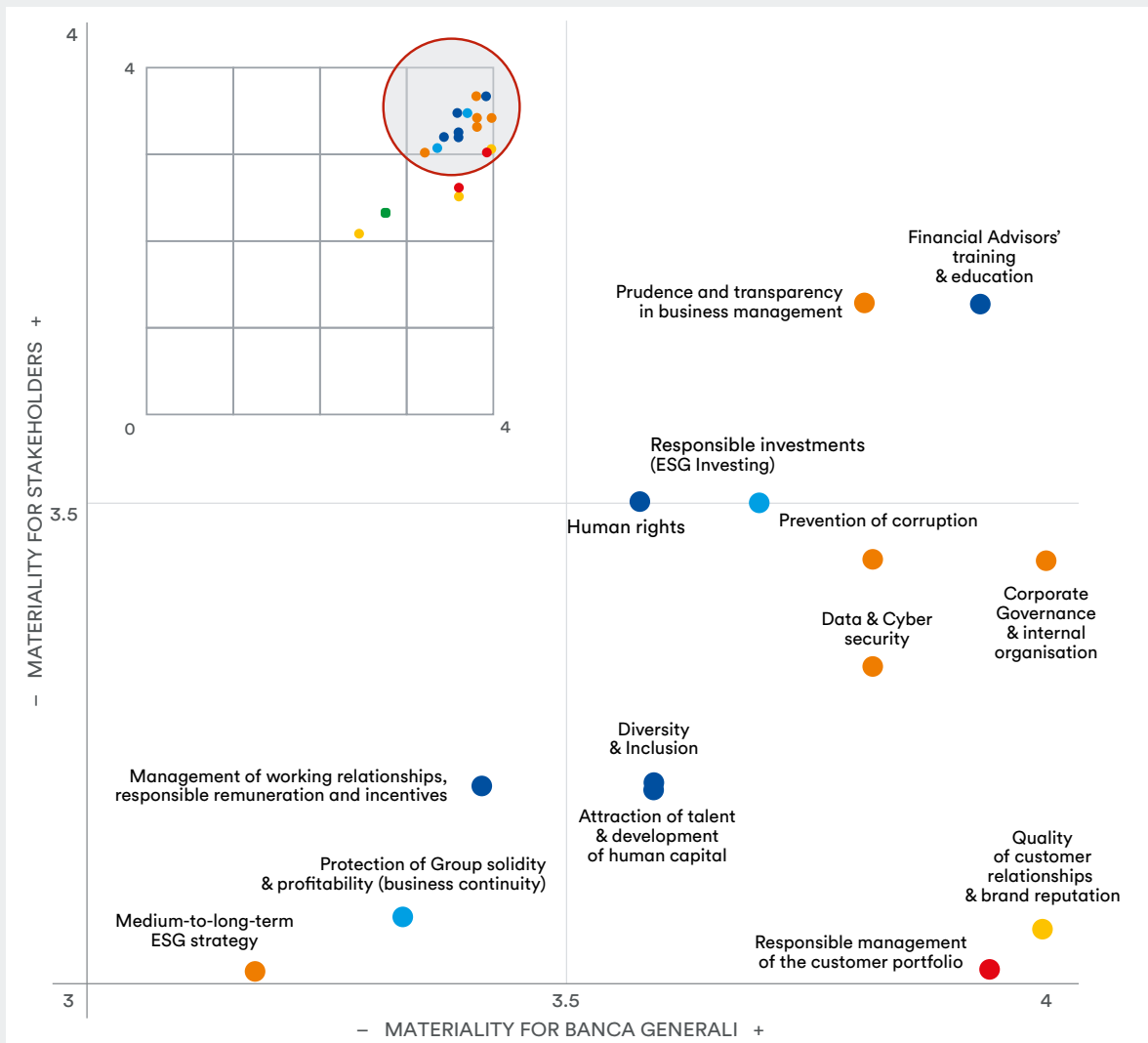
To conduct this analysis, Banca Generali used the digital platform provided by RE2N, a company specialising in developing digital solutions and tools designed to facilitate stakeholder engagement, management of sustainable innovation processes and measurement of the impacts generated by organisations.

The process was divided into four main stages:

- › creation of specific taxonomies (based on both Italian and English words) to allow the semantic analysis engine to understand the concepts within the domain of sustainability and the banking sector;
- › analysis using the semantic analysis engine of a broad corpus of documents including documentation drawn from Italian and international, public and non-public, and internal and external sources to the Bank;
- › following identification of the material topics for the sector and the correlations between them, a comparison of these topics with the issues previously identified (during both the materiality analysis conducted in 2018 and the other activities performed in 2019 to update the matrix);
- › weighting of the outputs obtained and comparison with the results of the other analyses conducted.

The findings of these investigations were compared with one another and then subjected to a weighting method based on the literature and standard practice (AA1000 SES, AA1000 APS, GRI Standards, etc.). In the case of the consolidated topics — those already reported in the 2018 Annual Integrated Report (some of which, however, have been renamed and merged to better adapt them to the concepts identified) — this made it possible to determine their final positioning within Banca Generali’s new materiality matrix. In addition, the activities performed also brought to light several new issues (emerging topics), the effective level of relevance to the Bank and its stakeholders will be analysed in 2020.

In the following materiality matrix, the material topics are shown as dots on the plane defined by the two axes that represent, respectively, the significant economic, environmental and social aspects for Banca Generali (horizontal axis) and for its stakeholders (vertical axis). 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.



Legend

- Governance
- Economic responsibility
- Social responsibility
- Product responsibility
- Community
- Environmental responsibility

In line with the previous year, the activities conducted in 2019 to update the Bank's materiality matrix showed that many of the topics deemed most relevant to both Banca Generali and its stakeholders fall within the Governance, Product Responsibility and Social Responsibility macro-areas. In addition, they confirmed the high level of importance attached to aspects such as responsible investments, the need for constantly increasing integration of environmental and social criteria in formulating the Bank's strategy and promoting the principles of diversity and inclusivity amongst employees.

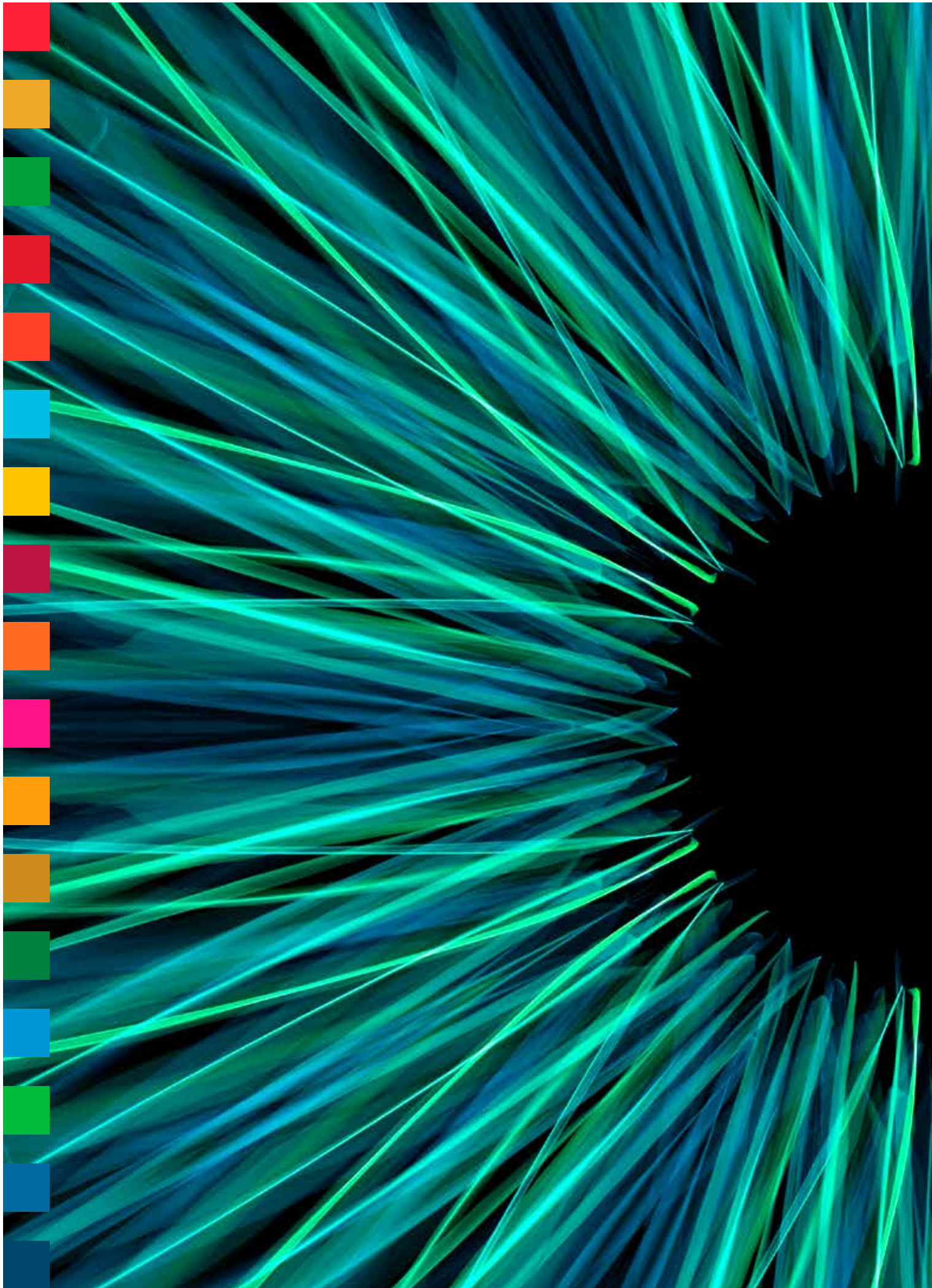
For each of the material topics identified by Banca Generali, the **following table** describes: the topic-specific GRI Standards of reference; the main risks associated with the topic concerned; the scope within which the actual and potential impacts occur¹; and the main policies adopted by Banca Generali to prevent or limit the negative impacts associated with the topics.

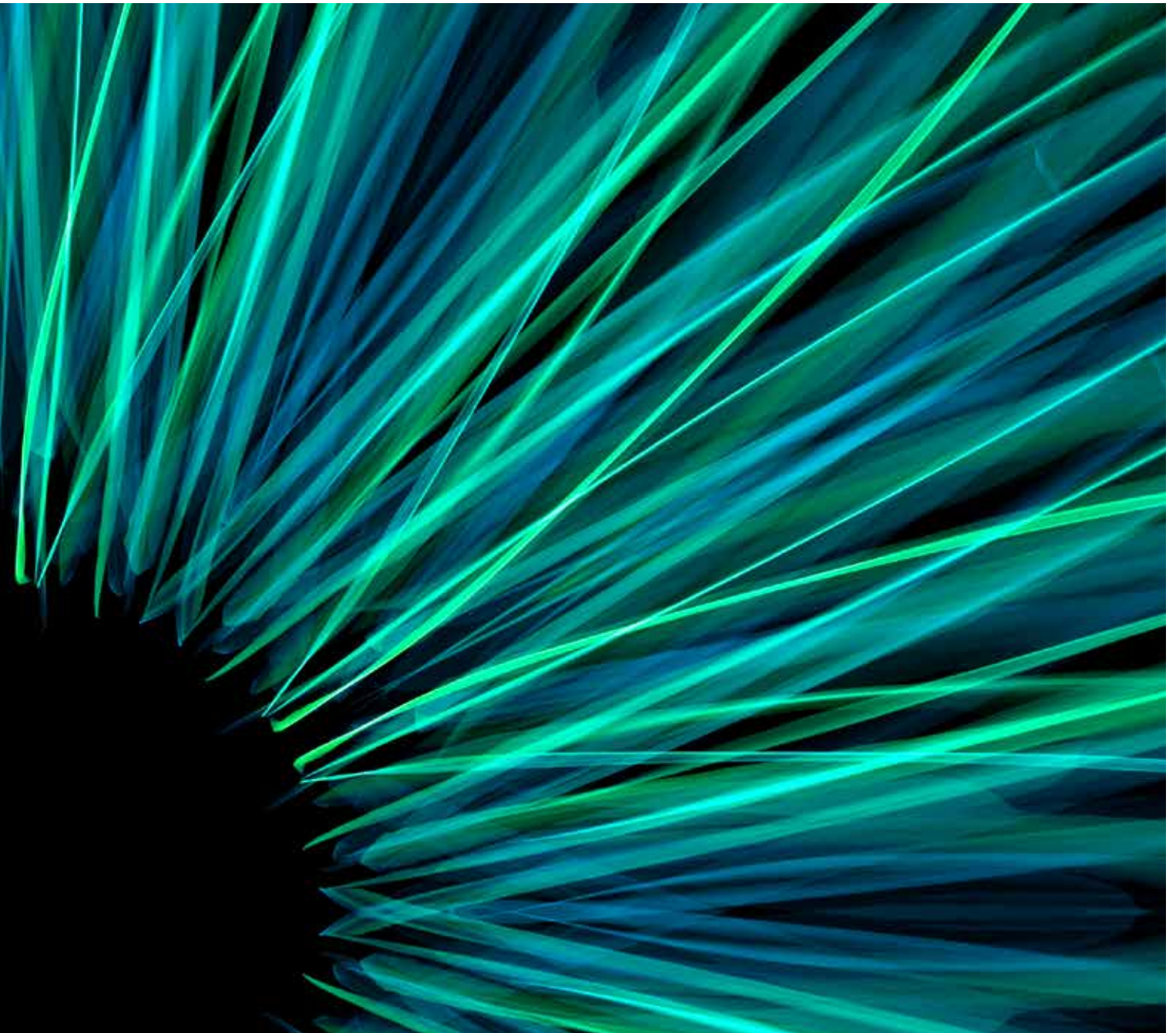
AREA	MATERIAL ISSUES	GRI STANDARD OF REFERENCE	ASSOCIATED RISKS	SCOPE OF IMPACTS		POLICIES AND CONTROL TOOLS
				IMPACTS INTERNAL TO BG	IMPACTS EXTERNAL TO BG	
Governance	Prudence and transparency in business management	<ul style="list-style-type: none"> > GRI 102-11 > GRI 103-2 > GRI 103-3 	<ul style="list-style-type: 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"> > Generali Group's Code of Ethics > Organisational and Management Model pursuant to Legislative Decree No. 231 > The Ten Principles of the UN Global Compact (Generali Group) > Generali Group's Charter of Sustainability Commitments > Banca Generali's Internal Code of Conduct > Code of Ethics for the Generali Group's suppliers > IT Security Policy > 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
	Medium/long-term ESG strategy	<ul style="list-style-type: none"> > GRI 102-16 > GRI 102-26 > GRI 103-2 > GRI 103-3 	<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"> > Generali Group's Code of Ethics > The European Social Charter of the Generali Group > The Ten Principles of the UN Global Compact (Generali Group) > Generali Group'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 102-18 > GRI 103-2 > GRI 103-3 	<ul style="list-style-type: none"> > Strategic risk 	All the Group		<ul style="list-style-type: none"> > Generali Group's Code of Ethics > Internal Audit Model > Organisational and Management Model pursuant to Legislative Decree No. 231
	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 the loss of the trust of clients and investors > 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"> > Generali Group's Code of Ethics > Organisational and Management Model pursuant to Legislative Decree No. 231 > The Ten Principles of the UN Global Compact (Generali Group) > Banca Generali's Internal Code of Conduct > Code of Ethics for the Generali Group's suppliers > Internal Policies Governing Controls of Risk Assets and Conflicts of Interest > Internal Liquidity Adequacy Assessment Process > Internal Fraud Policy

¹ Source: GRI Standard 103-1 requires to report, for each material topic, the topic Boundary describing "where the impacts occur".

AREA	MATERIAL ISSUES	GRI STANDARD OF REFERENCE	ASSOCIATED RISKS	SCOPE OF IMPACTS		POLICIES AND CONTROL TOOLS
				IMPACTS INTERNAL TO BG	IMPACTS EXTERNAL TO BG	
Governance (cont.)	Data and cyber security	> GRI 418-1	> Operating risk, in terms of the release of sensitive information and data > Reputational risk, in terms of the loss of the trust of clients and investors > Operating risk, in terms of IT risk	All the Group	> Suppliers; > Organisations and institutions; > Customers	> Generali Group's Code of Ethics > Generali Group's Charter of Sustainability Commitments > Banca Generali's Internal Code of Conduct > Code of Ethics for the Generali Group's suppliers > IT Security Policy (Intranet) > Data Protection Policy
Product responsibility	Customer relationship quality and brand reputation	> GRI 102-2 > GRI 102-15 > GRI 103-2 > GRI 103-3	> Reputational risk, in terms of the loss of clients and competitiveness	All the Group	> Suppliers > Customers > Organisations and institutions	> Generali Group's Code of Ethics > Generali Group's Charter of Sustainability Commitments > Commercial Policy (Intranet) > Customer Relations Charter > Internal disputes and complaints policy > Disputes and complaints organisational procedure
	Sustainable customer portfolio management	> GRI 103-2 > GRI 103-3	> 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	> Suppliers > Customers	> Generali Group's Code of Ethics > Generali Group's Charter of Sustainability Commitments > Banca Generali's Internal Code of Conduct > Commercial Policy (Intranet) > IT Security Policy (Intranet) > Customer Relations Charter > Data Protection Policy
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	> Generali Group's Code of Ethics > The Ten Principles of the UN Global Compact (Generali Group) > Generali Group's Charter of Sustainability Commitments > Banca Generali'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 Group solidity and profitability (business continuity)	> 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	> Generali Group's Code of Ethics > Banca Generali's Internal Code of Conduct > Commercial policy > Investment Policy > Code of Ethics for the Generali Group's suppliers > The Ten Principles of the UN Global Compact (Generali Group)
Social responsibility	Human rights	> GRI 103-2 > GRI 103-3 > 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	> Generali Group's Code of Ethics > The European Social Charter of the Generali Group > The Ten Principles of the UN Global Compact (Generali Group) > Generali Group's Charter of Sustainability Commitments > Banca Generali's Internal Code of Conduct > Code of Ethics for the Generali Group's suppliers
	Diversity & Inclusion	> GRI 103-2 > GRI 103-3 > GRI 405-1 > GRI 406-1	> Reputational risk, in terms of the loss of the trust of employees	All the Group	> Community > Investors > Customers > Suppliers > Organisations and institutions	> Generali Group's Code of Ethics > The European Social Charter of the Generali Group > The Ten Principles of the UN Global Compact (Generali Group) > Generali Group's Charter of Sustainability Commitments > Banca Generali's Internal Code of Conduct > Code of Ethics for the Generali Group's suppliers > Diversity Policy for Members of Company Bodies

AREA	MATERIAL ISSUES	GRI STANDARD OF REFERENCE	ASSOCIATED RISKS	SCOPE OF IMPACTS		POLICIES AND CONTROL TOOLS
				IMPACTS INTERNAL TO BG	IMPACTS EXTERNAL TO BG	
Social responsibility (cont.)	Employment contract management, responsible remuneration and incentives	<ul style="list-style-type: none"> > GRI 102-41 > GRI 103-2 > GRI 103-3 > GRI 405-2 	<ul style="list-style-type: none"> > Reputational risk, in terms of the loss of the trust of employees; > Strategic risk, in terms of the loss of competitiveness 	All the Group	<ul style="list-style-type: none"> > Community > Investors > Customers > Suppliers > Organisations and institutions 	<ul style="list-style-type: none"> > Generali Group's Code of Ethics > The European Social Charter of the Generali Group > Generali Group's Charter of Sustainability Commitments > Banca Generali's Internal Code of Conduct > Code of Ethics for the Generali Group's suppliers > Remuneration Report > Remuneration policies > Diversity Policy for Members of Company Bodies
	Attraction of talent and development of human capital	<ul style="list-style-type: none"> > GRI 102-8 > GRI 103-2 > GRI 103-3 > GRI 102-41 > GRI 401-1 > GRI 401-2 > GRI 403-2 > GRI 404-1 > GRI 404-3 	<ul style="list-style-type: none"> > Operating risk, in terms of: Turnover increase > Lack of interaction Organisational imbalance > Increase in work-related accidents and stress > Reputational risk 	All the Group	<ul style="list-style-type: none"> > Investors > Organisations and institutions 	<ul style="list-style-type: none"> > Generali Group's Code of Ethics > The European Social Charter of the Generali Group > Generali Group's Charter of Sustainability Commitments > Banca Generali'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"
	Financial Advisors' training and education	<ul style="list-style-type: none"> > GRI 103-2 > GRI 103-3 > GRI 404-1 	<ul style="list-style-type: none"> > Reputational and strategic risk, in terms of loss of clients and competitiveness > Operating risk 	All the Group	<ul style="list-style-type: none"> > Customers 	<ul style="list-style-type: none"> > Generali Group's Code of Ethics > The European Social Charter of the Generali Group > Banca Generali's Internal Code of Conduct > Financial advisor procedure/manual > Sales Policies



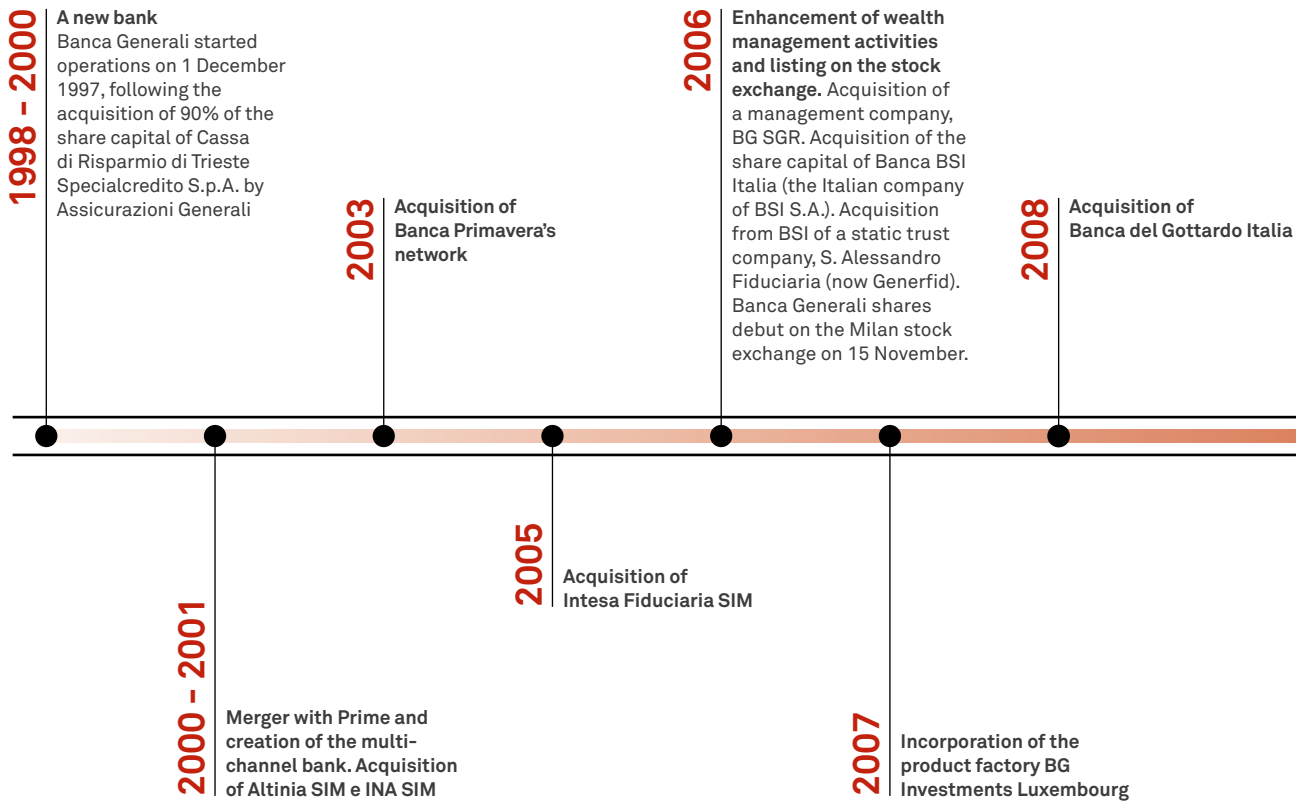


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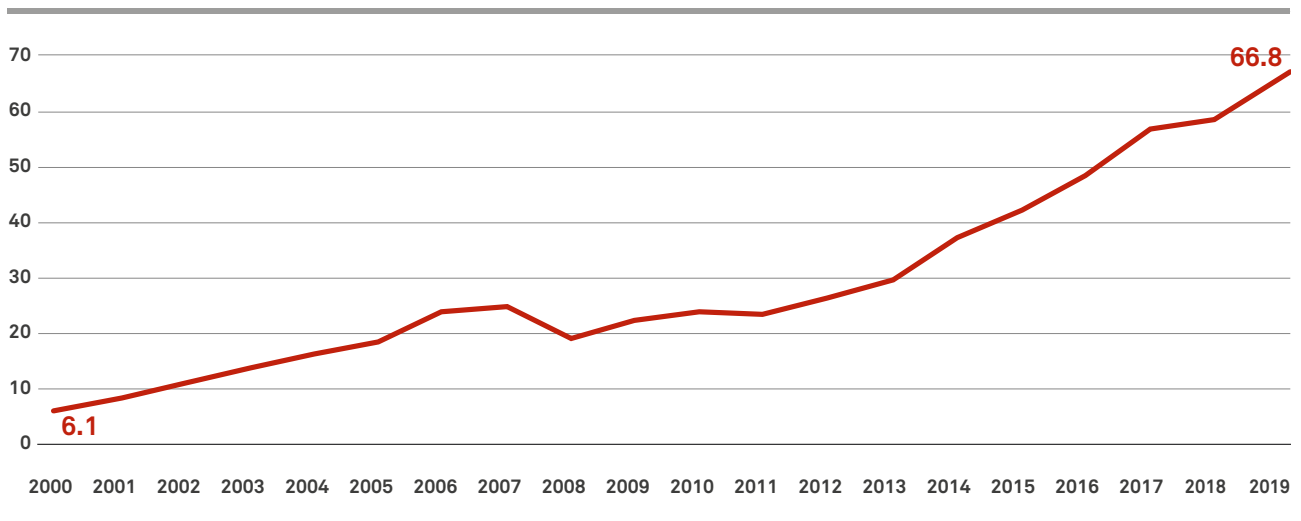
**IDENTITY AND
GOVERNANCE**

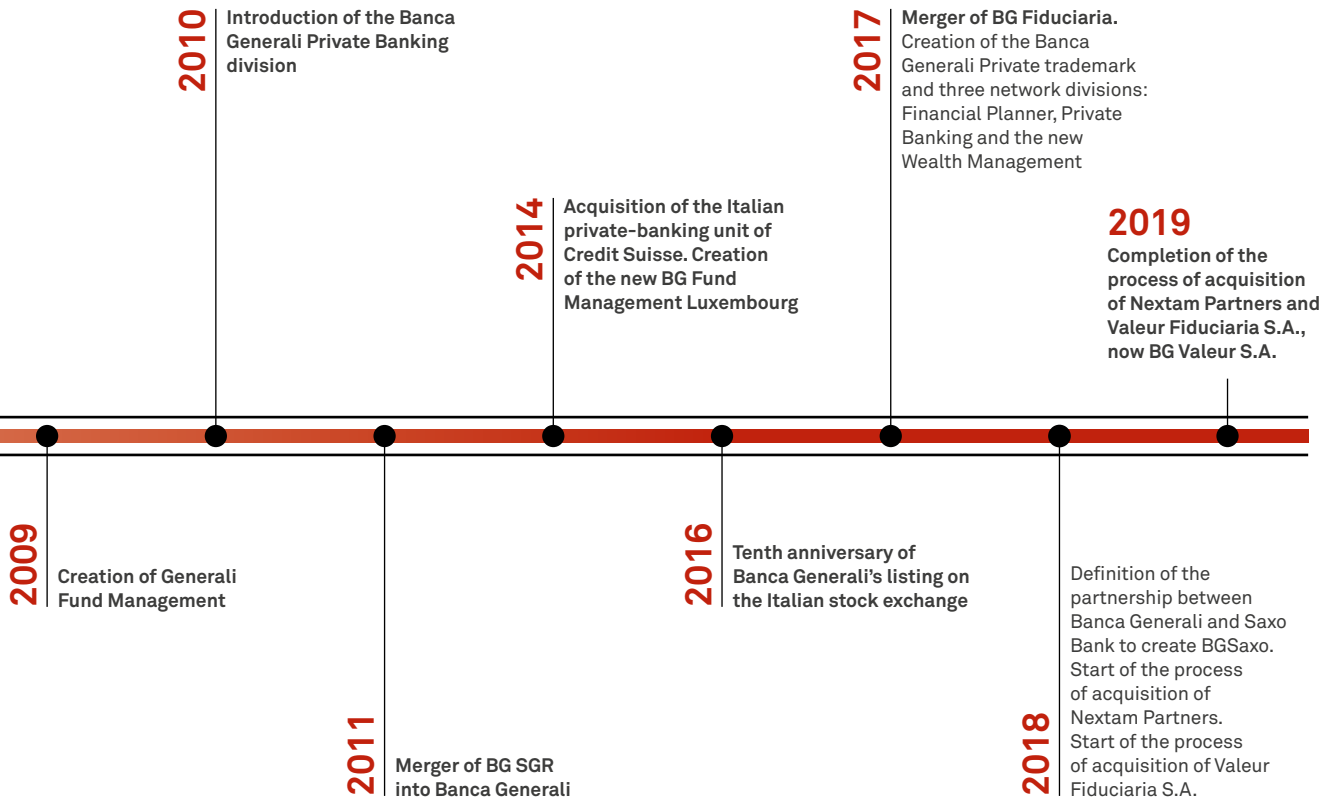
Banca Generali History

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: 2000-2019 TREND (€ BILLION)





Recognitions received

- Best Financial Advisor Network for Customer Satisfaction (2016, 2017, 2018, 2019, 2020) - Deutsche Institut für Qualität und Finanzen
- Best Private Bank in Italy (2016-2017-2019) - Financial Times Group
- 2019 Best Italian Bank for ESG Strategy - Milano Finanza Global Awards
- Team of the Year in Private Banking - Finance Community Awards 2019
- Best financial communication - Areté award 2019
- Best Distribution Network - Italian Certificate Awards 2019
- Award for the best ESG offering for private banking clients - Private Banking Awards 2019
- Top Job 2020: among Italy's Top Employers - Deutsche Institut für Qualität und Finanzen
- In the shortlist of the 3 best listed financial companies - 2019 Oscar for Financial Reporting
- In the shortlist of the 11 best asset management companies in 2020 - Deutsche Institut für Qualität und Finanzen

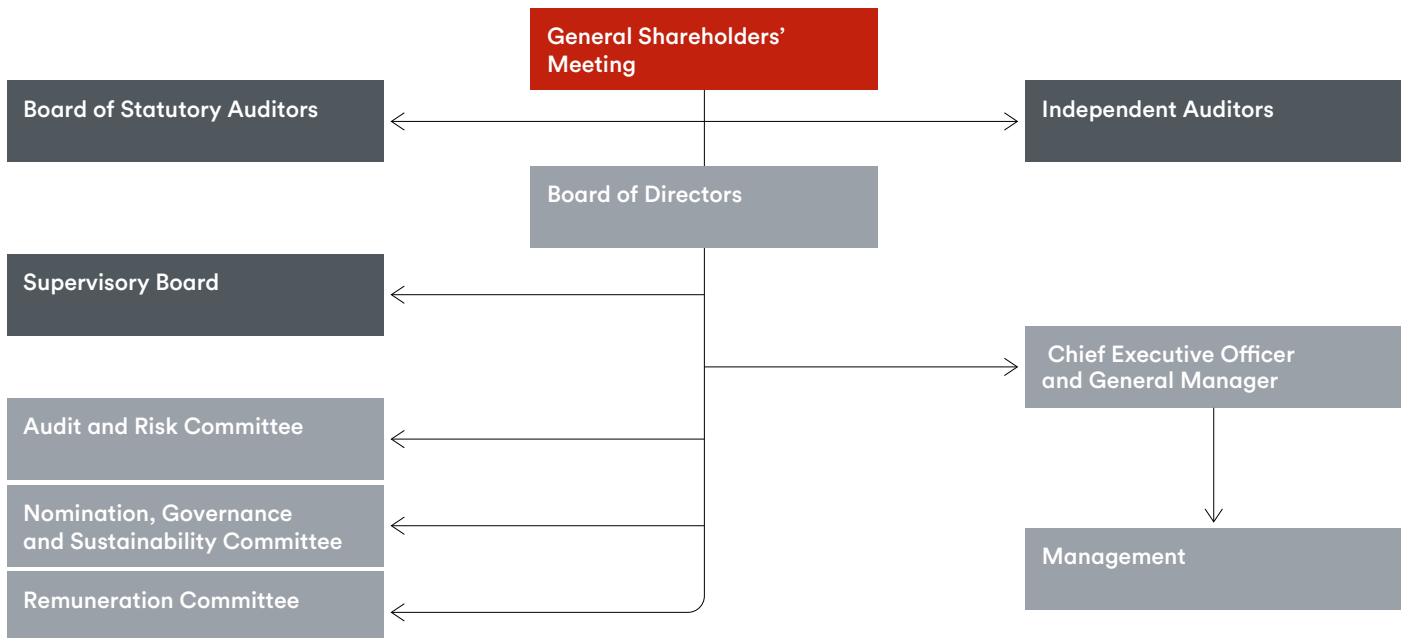


Corporate Governance and Organisational Structure

Within 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 the General Shareholders' Meeting.



Board of Directors

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 the Bank 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:

GOVERNANCE STRUCTURE BY GENDER	31.12.2019			31.12.2018		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
Banca Generali BoD	4	5	9	4	5	9
Generfid BoD	4	3	7	4	3	7
BGFML BoD	2	4	6	2	4	6
Nextam S.p.A. BoD (*)	2	5	7	-	-	-
Nextam Sim (*) BoD	2	5	7	-	-	-
Nextam SGR (*) BoD	2	5	7	-	-	-
Nextam Ltd (*) BoD	-	4	4	-	-	-
BG Valeur (*) BoD	3	4	7	-	-	-
Total	19	35	54	10	12	22
%	35%	65%	100%	45%	55%	100%

(*) Company acquired in 2019.

GOVERNANCE STRUCTURE BY AGE	31.12.2019				31.12.2018			
	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL
Banca Generali BoD	-	4	5	9	-	4	5	9
Generfid BoD	-	1	6	7	-	1	6	7
BG FML BoD	-	-	6	6	-	-	6	6
Nextam S.p.A. BoD (*)	-	2	5	7	-	-	-	-
Nextam Sim (*) BoD	-	2	5	7	-	-	-	-
Nextam SGR (*) BoD	-	2	5	7	-	-	-	-
Nextam Ltd (*) BoD	-	-	4	4	-	-	-	-
BG Valeur (*) BoD	-	4	3	7	-	-	-	-
Total	-	15	39	54	-	5	17	22
%	-	28%	72%	100%	-	23%	77%	100%

(*) Company acquired in 2019.

In detail, the Board of Directors of Banca Generali S.p.A., which has the central role in the governance system, is made up as follows:

ROLE WITHIN THE BOD	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	Non-executive and non-independent Directors
	Giovanni Brugnoli Anna Gervasoni Massimo Lapucci Annalisa Pescatori Vittorio Emanuele Terzi	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.

NAME	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	P	
Anna Gervasoni		X	P
Massimo Lapucci	P		X
Annalisa Pescatori	X		X
Vittorio Emanuele Terzi		X	X

P: Chairman

X: member

Sustainability

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

- › 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;
- › examines the general outline of the Sustainability Report and 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;
- › examines the Internal Regulations which are found to impact all stakeholders, also working in concert with the Audit and Risk Committee in the cases in which the said Regulations regard the internal control and risk management system, and expresses observations thereof to the Board of Directors;
- › 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. The remaining 49.83% is the free float. No shares bearing special rights of control have been issued.

Organisational structure

In 2019, 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. The organisational revision carried out in 2019, following that of the previous year², focused on specific organisational refinements designed to consolidate certain offices, rationalise the total number operating units and revisit the operating model in certain areas, with the goal of increasing its reactivity and productivity and, in continuity with 2018, on measures intended to increase the sustainability of the lines of action set out in the Strategic Plan.

² In 2018, reorganisation activities focussed on making the strategic growth plan's action lines sustainable, by providing the Bank with new processes and tools that, on the one hand, increasing the security of company information and assets and, on the other, structurally safeguarding the Bank's IT and operating outsourcers.

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

l'Amministratore Delegato coordina la Direzione Generale, che comprende le seguenti strutture:

- › General Counsel Area: it includes the structures of the Legal Department, those of the Corporate Affairs and Relations with Authorities Department, as well as those of the Governance, Sustainability and Strategic Operations Service;
- › Human Resources Department: it oversees the Human Resources Administration structure and the Human Resources Management and Development structure;
- › Marketing and External Relations Department: it is dedicated to managing promotional initiatives, and to promoting and protecting the Bank's image both within the Organisation and with the public;
- › CFO Area (Chief Financial Officer) & Strategy: it 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 Bank with the national and international financial community; The Chief Financial Officer also holds the role of Manager in charge of financial information;
- › COO (Chief Operating Officer) & Innovation Area: the COO, also acting as Chief Information Security Officer (CISO), oversees the Bank's operational and organisational structures (Projects Governance; Outsourcing and Data Management; Systems, Technology and IT Security Management; Internal Processes and Regulations);
- › Deputy General Manager Wealth Management, Markets and Products: he is tasked with synergistically increasing the suitability of the Bank's products and services, which represent the Department's primary focus; he aims at constantly improving the level of commercial services provided. The Deputy General Manager Wealth Management, Markets and Products coordinates the Wealth Management Area, the Asset Management Area and the Products, Loans, Network Development and Training functions;
- › Deputy General Manager Commercial Network, Alternative and Support Channels: he facilitates 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), providing them with commercial and operational support, 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, and the Contact Center Service.

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.”

VALUES

Banca Generali Values are in line with those of the Generali Group.

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.



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



Behaviours

Behaviours describe how we want to go about our activity every day and are what differentiate us from others. They represent our commitment, as a group and as individuals, and how we want to measure how we achieve our results.



OWNERSHIP

working proactively and passionately to achieve an excellent performance



SIMPLIFICATION

simplifying, adapting quickly and making smart decisions



HUMAN TOUCH

collaborating with others, showing empathy and team spirit

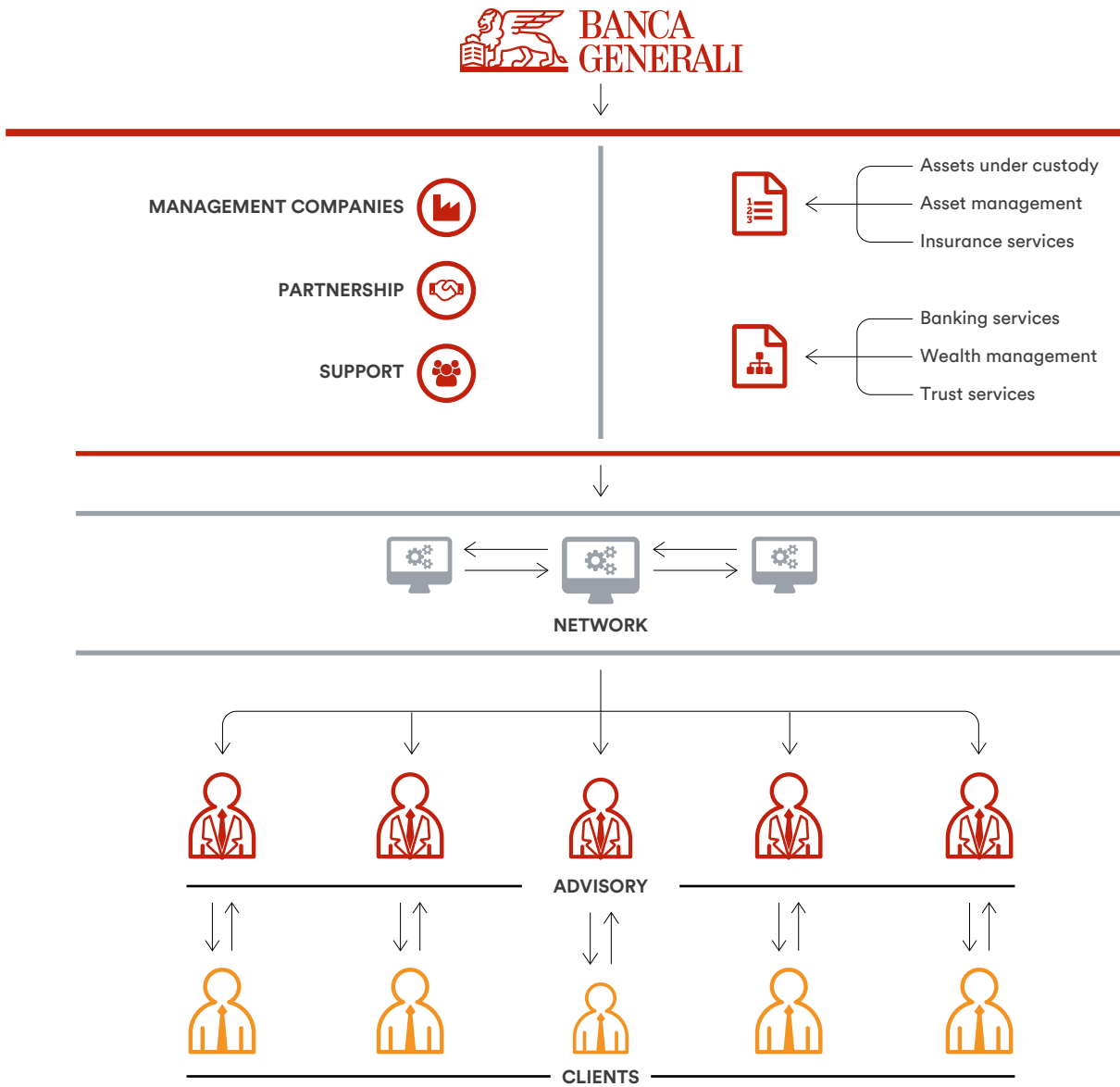


INNOVATION

embracing differences to create innovation

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 tools made available by the Bank.



Banca Generali offers:

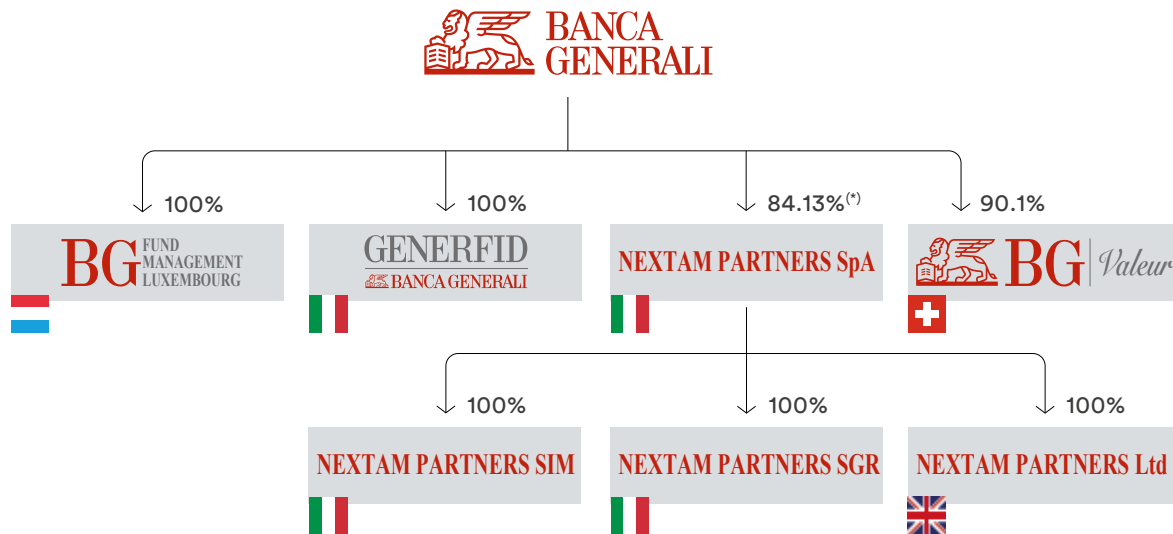
- › **Banking services:** the Bank provides its clients with a range of bespoke banking accounts and services that make doing day-to-day business simple and efficient: a line of innovative options that ensure the utmost security in online and mobile payments and banking;
- › **Assets under Custody:** 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. In 2019 the Bank's offer in the Assets under Custody segment further strengthened with the launch of BG Saxo SIM, a joint venture between Banca Generali and the Danish company Saxo Bank. Through BG Saxo SIM, Banca Generali is able to offer to its Financial Advisors and clients one of the best performing and comprehensive trading platforms on the market;
- › **Asset management:** Banca Generali offers a wide range of mutual funds, as part of an open architecture that benefits from expert selection of the best solutions that thousands of in-

ternational asset managers have to offer. The Bank also offers a cutting-edge range of managed wrappers and third-party management services that make it possible to construct bespoke solutions, while always prioritising risk protection. In 2019 Banca Generali worked on enhancing its ESG range and developing products dedicated to investment in private markets;

- › **Insurance investments:** in the field of insurance investments, and in particular in the use of asset management to protect and personalise investments, Banca Generali relies on the synergies and expertise offered by the Generali Group, complemented by its own experience and striving for innovation;
- › **Wealth management and trust services:** the Bank offers a wide array of wealth advisory solutions that extend the conversation with households 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:

- › **Commercial networks:** the relationship with clients occurs through a Financial Advisor network (made up of Financial Planners, Private Bankers, Wealth Managers and Relationship Managers), able to best meet the different needs of Financial Advisors and Clients;
- › **Managing Companies:** in addition to offering banking services, the Group includes BG Fund Management Luxembourg S.A., a company responsible for offering in-house funds, and Società Fiduciaria Generfid S.p.A. In 2019, beside the launch of BG Saxo SIM, a joint venture with the Danish Saxo Bank, the Banking Group completed the acquisition of Nextam Partners, an investment boutique recognized in the private-banking segment in Italy, and Valeur Fiduciaria, a boutique financial advisory and asset management firm based in Switzerland;
- › **Partnerships:** 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.



(*) 15.87% of treasury share held by Nextam Partners S.p.A.

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 a 2018 characterised by a severe decline, in 2019 financial markets returned to positive territory and even reached new highs, propelled by the change of monetary policy orientation. In the United States, the Federal Reserve switched to rate-cutting, whereas in Europe the ECB resumed its quantitative easing programme indefinitely, further driving rates down into negative territory. As a consequence, a significant share of the bond market began to offer negative yields once more, with positive returns only achievable by taking increasing risks.

After the longest economic expansion of the post-War period, the economy is showing signs of slowing. On the one hand, the geopolitical scenario is characterised by the strategic confrontation between the United States and China, with the ensuing tensions in global trade. On the other, national policies in the West continue to be shaped by the clash between populism and the establishment. After leadership changes within their respective institutions, Europe and Great Britain remain involved in Brexit negotiations. 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 volatility of the BTP-Bund spread in the past, 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 long-standing 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 (Markets in Financial Instruments Directive, an EU directive aimed at harmonising the rules governing the activities of brokers and financial markets) will bring greater transparency to the sector, shifting the focus to value of service weighed against the costs borne by the Client. In addition, national and supranational regulators are promoting new regulatory development to improve the link between private investment and real economy, opening up new product opportunities both with regards to liquid solutions and private markets. 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. As regard customers, risk aversion proves to be strong, as also confirmed by the ongoing increase in deposits driven by the market volatility and negative interest rates. At the same time, the focus on the digital customer experience and ESG issues is increasing, with an ever greater attention from all media. Yet the underlying trend that led and will continue to lead the development of the industry is the 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, there is 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 Strategic Plan presented to the financial community on the 2018 Investor Day combined the 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;
- › a strong drive towards internationalisation.

Banca Generali's ambitions

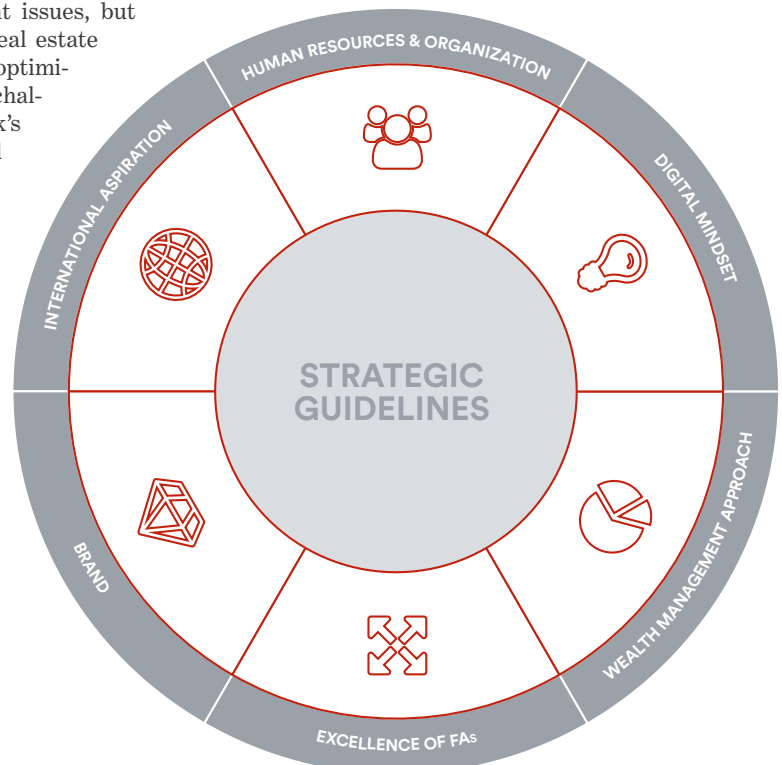
Banca Generali's 2019-2021 Strategic Plan is based on the following ambitions:

- › consolidating its position of leadership in supporting the best Financial Advisors in managing their clients and growing their portfolios;
- › remaining the 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 Bank's 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**: with a view to standing out for the quality of its Financial Advisors, Banca Generali intends to identify and implement the commercial best practices drawn from the most successful cases and applied on a general basis; the bank also intends to increasingly spread 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"), within the framework of its financial offerings, Banca Generali intends: to further develop its ESG range, making it into one of the distinctive aspects of its commercial proposition; to create a new private markets investment line to offer return and diversification opportunities to customers with an adequate investment profile; to continue to develop the Lux IM line (the Group's Luxembourg Sicav); and to complete the integration of Nextam Partners, a company acquired to enhance the in-house asset management range. In insurance, promotion efforts will focus on recurring-premium products, innovative cover and a new private insurance solution for the highest net worth customers, whereas in assets under administration the goal is to capture significant opportunities for growth and differentiation by emphasising a new service model based on combining professionalism, platforms and partnerships. In credit, the objective is to expand Lombard lending, while maintaining extremely high asset quality. Finally, in non-financial services, in addition to the traditional focus on real-estate and succession, there are plans to develop a range of corporate services designed to forge closer relationships with entrepreneurs. In accordance with the initiatives mentioned, the Bank intends to further promote the spread of the advanced advisory contract;
- › at the level of **platforms**: in support of its advanced advisory contract, Banca Generali has launched a robo-for-advisory service in partnership with UBS, to support its advisors in monitoring portfolio quality and identifying commercial opportunities. Banca Generali also intends to promote a new advanced trading range with BG Saxo SIM and to continue to innovate and improve digital touchpoints in direct relationships between the Bank and its customers;
- › at the level of **international expansion**: Banca Generali intends to launch investment and advisory services to Italian clients with assets under custody in Switzerland under partnership agreements with leading local banking players; in addition, with the recent acquisition of Valeur, a trust management company known for its management and distribution skills on the Swiss market, the Group intends to develop a local network of bankers and an international Client base.

2019-2021 financial targets

The results achieved by Banca Generali in 2019 are in line with the objectives presented to the financial community for the 2019-2021 three-year period. These targets 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 between 76 billion euros and 80 billion euros, assets under custody in Switzerland between 3.1 billion euros and 4.4 billion euros by 2021 and assets under advisory exceeding 5.5 billion euros;
- › a recurring net banking income³ equal to or exceeding 63 bps due to the development of new sources of recurring revenues, offsetting possible pressure on asset management margins;
- › an increase in core operating expenses⁴ 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, and in any case within the limit of 100% of consolidated net profit.



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

³ 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.

⁴ 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

In light of the growing importance of sustainability issues at the national and international level, Banca Generali continues to prove its commitment by constantly considering the interests of its stakeholders and the economic, environmental and social impacts of its activities when formulating its company strategy and designing its policies. In fact, stakeholders are increasingly vocal in demanding that companies adopt a socially responsible approach to business and contribute positively to society in a broad sense in the short, medium and long term.

In this context, Banca Generali has defined a strategic development and sustainability project that not only covers the area closely linked to ESG investments, but has also led to the launch of a “re-thinking” process of the whole Organisation based on the active engagement of all corporate Functions. In 2018 this transformation had already enabled a shift in reflection on sustainability issues from the management level to the board level through the formation of the Nomination, Governance and Sustainability Committee within the Board of Directors. In addition, at the beginning of that same year, all responsibility for sustainability was concentrated within the General Counsel Area, the heart of the organisation and a fundamental bridge between the various internal offices. This was a key step towards enabling ever greater integration of the principles of social responsibility at all decision-making levels by developing an adequate governance system.

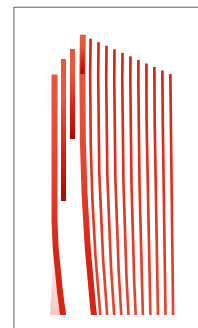
In 2019, Banca Generali’s approach to sustainability continued to be characterised by strong emphasis on realising the potential of its people. This goal is pursued not only by drawing on a solid training programme, but also through productive revision and transparency in remuneration, incentive and performance management systems. The centrality of these issues has also significantly influenced the Bank’s commercial approach, its wealth advisory service and its product and service offer. In order to develop products and services able to meet the threefold purpose of excellence in customer service, innovation and sustainable growth, in 2019 Banca Generali complemented its traditional financial allocation methodology with a new sustainability-related approach based on the United Nations 2030 Agenda’s 17 Sustainable Development Goals (SDGs), to which clients can actively contribute through the selection of specific investment solutions.

This tool is now included in Banca Generali’s proprietary investment portfolio construction platform (BGPP – Banca Generali Personal Portfolio), protected by recent registration filings for both the SGBi trademark and the icons and graphical interfaces used within the platform.

Banca Generali is also committed to minimising its direct environmental impacts by reducing consumption: building on the efforts made in 2018 (exemplary, in this regard, was the transfer of over 400 employees to the Zaha Hadid Tower in Milan, a building designed with efficiency, environmental compatibility and ergonomic criteria in mind), in 2020 Banca Generali will remain committed to achieving the greenhouse gas reduction and electricity, water and power consumption reduction goals and targets set by its Environment and Climate Policy. The policies and actions aimed at achieving the sustainable development goals become more effective the more the Bank is able to promote and disseminate them — both internally and externally — through the activities performed by the Events and Communication Function. 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 collaboration forged ahead with SDA Bocconi’s Sustainability Lab investigating millennials’ propensity to make ESG investments.

Thanks to its constant and concrete commitment in these areas, Banca Generali has already received a rating of EE/Strong on a scale of EEE to F awarded by the independent rating agency Standard Ethics, in addition to obtaining the best possible rating in the governance area (score badge of 1 on a scale of 1 to 10, where 1 is the lowest level of risk) in the ISS assessment.

In order to obtain a rating that presumably will be delivered in the first half of 2020, the Bank concluded a series of meetings and exchanges of information with the rating and research agency Vigeo-Eiris.



It should also be noted that Banca Generali recently also engaged in dialogue with the agency Sustainalytics.

Finally, in order to improve Banca Generali's position on these issues, the Bank continues to participate constantly in the numerous surveys promoted periodically by the various national and European authorities.

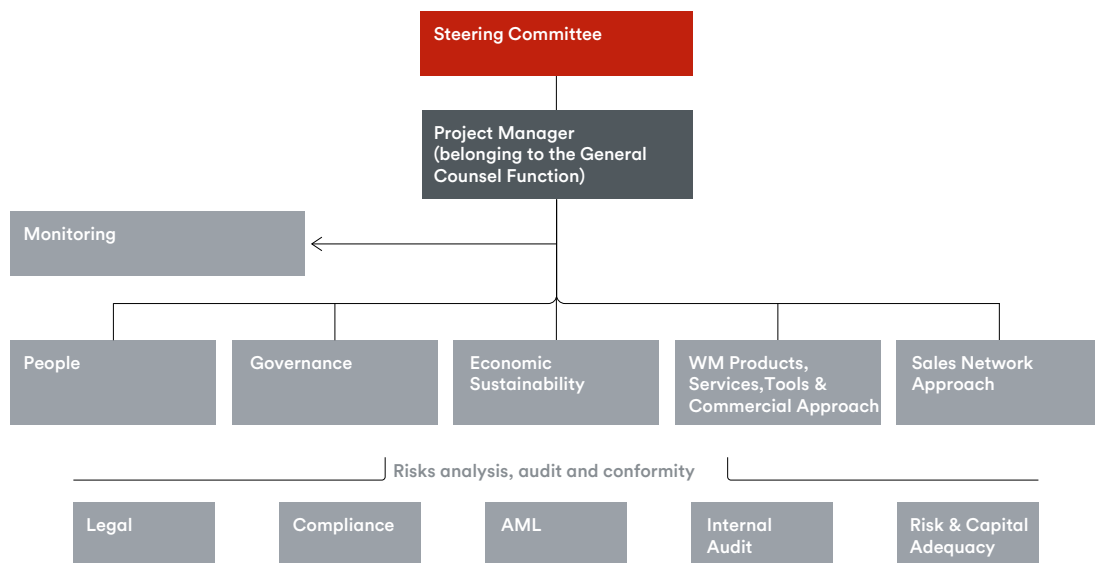
In May 2019 the Bank also became a member of Forum per la Finanza Sostenibile (FFS), the most authoritative Italian network in promoting the knowledge and practice of sustainable finance, with the goal of spreading the integration of environmental, social and governance criteria into financial products and processes. The FFS, which each year organises Socially Responsible Investment Week (SRI Week), is a member of Eurosif, the pan-European association that supports the growth of socially responsible investments in the financial markets of the European Union and that is in turn a member of the Global Sustainable Investment Alliance (GSIA), an organisation that acts on a global scale, bringing together sustainable finance networks on all continents.

Sustainability project

The increasing strategic importance that the Bank has attributed to the theme of sustainability in recent years and an increasing desire to make it a fundamental element of its competitive positioning translated into the design of the ambitious Sustainability Project, launched in February 2019 and extended throughout nearly the entire reporting year. Since sustainability has now become a fundamental growth driver for all Banca Generali's activities, the implementation of the project must meet two fundamental needs:

- › on the one hand, to develop an overall roadmap of initiatives fully integrated with the Group's strategic goals and the numerous initiatives already launched in previous years;
- › on the other, to formulate a monitoring model structured to measure the efficacy of the activities implemented on an ongoing basis.

The Project, coordinated by a working group reporting to the General Counsel function, has entailed not only the active involvement of all functions with direct ties to the five "Focal Areas" (*People; Governance; Economic Sustainability; Wealth Management Products, Services, Tools and Commercial Approach; and Sales Network Approach*) where sustainability is most critical within Banca Generali, but also ongoing analysis of the risks and opportunities associated with the project from many different perspectives (*Legal, Compliance, AML, Internal Audit and Risk & Capacity Adequacy*). The implementation of such a broad, varied system has made it possible not only to develop the project in accordance with the Group's mission, vision and strategic plan, projects already in progress and the management systems in place at the Bank, but also



to structure a solid governance system, starting from the active involvement of the company's top management.

The project has made it possible to complete a structured, thorough map of the sustainability activities already launched by Banca Generali through an analysis of the internal documentation and the conduct of interviews with the representatives of the various company functions. At the same time, a desk analysis was conducted to obtain a detailed, complete picture of the Italian financial sector, including the Bank's position with respect to its main competitors and comparables with regard to the social and environmental issues of greatest interest and "sustainability best practices" in relation to the relevant standards.

This analysis led to the formulation of a dashboard of challenging objectives of a long-term nature for the entire organisation and the preparation of a set of 14 KPIs to monitor and report the results achieved to the top management. The 14 KPIs identified are constantly monitored through a digital dashboard, which is regularly updated by Banca Generali's Data Management Service on the basis of data provided by the structures identified as data owners for the various Focal Areas and that is made available to the top management and the Nomination, Governance and Sustainability Committee within the Board in order to constantly verify Banca Generali's positioning with regard to the ESG areas of priority interest to the Bank. In particular, the dashboard contributes with half-yearly frequency to the preparation of the Sustainability Initiatives Report, intended to provide an account of the state of progress of all efforts in all relevant areas.

On the whole, the execution of the Sustainability Project has enabled Banca Generali to:

- › lay the foundation for achieving a leading position in the private banking market in relation to sustainability issues, in line with what has been established in its new vision ("*Being the No. 1 Private Bank, Unique by Value of Service, Innovation and Sustainability*");
- › develop new sustainability policies and actions, coordinating them with those promoted by the Generali Group;
- › obtain a better positioning in terms of internal and external reputation;
- › acquire a greater capacity to prevent, limit and manage the risks tied to the performance of its commercial activities;
- › improve its technical and commercial performances;
- › strengthen corporate culture from a sustainability perspective;
- › stimulate the Bank's propensity for succeeding in identifying the stakeholders' new needs and any new business opportunities.

Finally, with regard to the latter two points, a series of specific initiatives were carried out to raise awareness among the Bank's main stakeholders (employees, investors and Financial Advisors from the commercial network) regarding the main emerging trends in the sustainability arena, with the goal, among others, of driving constant, constructive dialogue with them regarding these issues. These activities included:

- › for employees, the creation of three information and training video pills intended for all the Banking Group's workers and sponsorship of the "Milan Summer School on the Wellbeing and Sustainability of Cities" (31 August – 7 September 2019), in which six Banca Generali employees participated and by virtue of which the Bank was awarded the status of Collaborator with Asvis, the main promoter of the initiative (which also included a brief speech by the head of the Sustainability Project regarding the Bank's vision concerning these issues) together with the Municipality of Milan and all major universities in Milan;
- › for investors, participation in the third edition of Italian Sustainability Day, an event organised by Borsa Italiana to foster dialogue between companies and investors regarding matters of sustainability, innovation and economic growth. The meetings, in which a team composed of Banca Generali's Chief Financial Officer, Investor Relator and General Counsel participated, touched upon numerous non-financial issues relevant to the organisation and allowed the Bank to interface with various financial intermediaries active in the sustainability sector;
- › finally, for the network, initial training activity preliminary to the use of the new ESG portfolio creation tool was completed. This initiative concerned the organisation of 20 days of classroom training, for a total of over 500 Financial Advisors involved, and the preparation of a series of follow-up videos made available to the entire network on the "BG Lab" portal in the form of smart training and operating tutorials, with a participation rate of over 50% of the network.



Initiatives in protection of intellectual property

In November Banca Generali filed an application to register the “SBGi” trademark in class 36 (banking and financial services) in Italy. The filing of the trademark will enable Banca Generali to maintain a competitive advantage by anticipating the possible consequences for the market of the draft regulation on disclosures relating to sustainable investments and sustainability risks (the “Disclosure Regulation”).

An application for the registration of the industrial models of the icons and graphical interfaces employed in BG Personal Portfolio has also been filed.

In addition, the formalities for the filing of the source code with the SIAE (the Italian Authors’ and Publishers’ Society) as an unpublished work were initiated.

Risks and Uncertainties

In a macroeconomic and financial context characterized by increased global risks (which arise from the geopolitical tensions in Middle East and North Africa, potential repercussions of protectionist measures on firms' investment and the concerns associated with the operating impacts generated by the finalisation of the Brexit deeds), the control of banks' risks (in terms of management and monitoring), capital adequacy and liquidity has become all the more stringent, as has done the 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: 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.

The banking book subject to credit risk, with regard to the part classified as HTCS, consists primarily in debt security exposures towards central administrations and, to a lesser extent, loans to private-banking clients and clients subject to agreements, in the form of revocable and/or fixed-term credit.

With regard to institutional borrowers, credit risk management is based on the allocation of appropriate credit lines, which are monitored by the Risk and Capital Adequacy Department and established with the objective of maintaining a portfolio's risk profile that is consistent with the strategies and risk appetite approved by the Board of Directors.

The credit risk associated with business with private-banking customers is primarily managed by monitoring the performance of the overall portfolio and individual positions and by setting operating and process limits in the Risk Appetite Framework. More specifically:

- › Loans to customers: the portfolio in question consists primarily in debt securities measured at amortised cost and loans to private-banking customers (current accounts, unsecured loans and mortgage loans) and other residual forms ("operating receivables"). The portfolio is characterised by a low overall incidence of non-performing exposures compared to the banking industry at large;
- › Non-performing: the portfolio of NPLs to private-banking clients is mostly secured by pledges of securities and bank guarantees and has a high coverage level in the residual cases in which the collateral is insufficient;
- › Performing loans: the portfolio of loans to private-banking customers and customers subject to agreements is approximately 80% composed of exposures to natural persons, whereas the remainder is composed of exposures to Companies, in both cases with high creditworthiness. Credit is primarily provided in the form of revocable facilities and Lombard loans, which together account for around 66% of the actually and potentially used exposure. In accordance with the Bank's lending policies and risk appetite, credit is mostly secured by pledges of highly liquid financial instruments and products.

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 or volatility of interest rates. In light of the Bank's significant position in government securities (about 90% of the portfolio owned), Banca Generali is particularly sensitive to the spread/country risk, which is constantly monitored using sensitivity analyses.

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). In

accordance with its company strategies, in 2019 the Group intensified its scouting activity to take advantage of market opportunities in view of sound portfolio diversification in a low-return environment. 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: the exposure across the various legal entities in the Group is closely linked to the type and volume of activities, as well as the operating procedures adopted. 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.

In this area, the Risk and Capital Adequacy Department is responsible for:

- › identifying and assessing the operating risks inherent in company processes through the Risk Self-Assessment, which seeks to estimate the effects of potential operating risk events on the income statement. Identifying and monitoring action plans to mitigate risk events of a significant nature;
- › identifying operating loss events that have already been recognised through a Loss Data Collection process and then analysing them;
- › overseeing the Key Risk Indicators (KRIs) that it has defined and that are useful in monitoring the areas of greatest risk to report in advance a deterioration of the Bank's risk level, thereby enabling the prompt implementation of possible mitigating action.

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 covering 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.

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.

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 characterised 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.

Strategic risk: 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.

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 financial and insurance 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 Banca Generali 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.

Banca Generali has launched a process designed to identify in advance possible situations of risk relating to its main business operations, in particular during the new product development or partner selection phase, in which to conduct an analysis of potential reputational risks relating to the specific operations in order to permit the informed assumption and, insofar as possible, mitigation of the type of risk concerned by implementing safeguards that minimise their impact on the Bank's image.

When assessing its risk Risk Appetite Framework, the Bank also takes account of reputational risk, through which it formulates its commitment to monitoring and containing this risk. To this end, it monitors specific indicators in order to identify any possible critical events that should occur and that could harm Banca Generali's reputation.

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

The commitment to preventing and combating fraud is also to be regarded as a factor mitigating operating and reputational risk, thereby ensuring the sustainability of the business.

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.

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.

Cyber-risk: the risk of incurring financial losses due to accidental or malicious events affecting the IT system (hardware, software, databases, etc.).

All organisations, regardless of their sector of activity, use at least one PC, server, database, e-mail system and mobile device (laptops, tablets and smartphones): each of these is a point of entry through which threats may enter the company and cause damage.

The main threats that may potentially damage and/or render inoperative the company IT system are as follows:

- › human error creating an opportunity for viruses and malware;
- › an accidental event that compromises the IT system;
- › malicious action by third parties (e.g., theft of information and data by internal or external persons, hacking attacks, ransomware, etc.).

These threats may cause various types of damages, such as direct and material damages to electronic and IT systems, damages due to business disruption, compensation claims from third parties, reputational damages and loss of customers and suppliers and emerging costs of professional services.

In collaboration with its IT suppliers, Banca Generali uses various tools to manage and monitor this risk:

- › information and training to create a company culture surrounding IT risks;
- › technical adaptations to prevent damages from occurring (constant threat observation, filters, data encryption, periodic updating and monitoring of systems, etc.);
- › technical adaptations to decrease the extent of damages, where they nonetheless occur (back-ups, redundant systems and compartmentalisation, etc.);
- › drafting, maintenance and verification of the Business Continuity Plan for efficient management of emergencies.

Other potential risks of a non-financial nature: transition risk: transition risks are those relating to the circumstances of the transition to a low carbon emissions economy, based primarily on technological progress and the formulation of active policies by governments. In particular, transition risks occur when the introduction of decisive mitigation policies, significant technological innovations or rapid shifts in public preferences quickly give rise to a different valuation of financial assets by markets and financial intermediaries.

As part of its strategy for fighting climate change, the European Union has published a Roadmap for achieving climate neutrality by 2050, which is in addition to the emissions reduction targets set for 2030. Achieving this ambitious goal requires the mobilisation of both private and public capital to reach the level of investments needed for innovation and the transition to a low-carbon economy.

As the banking sector is deeply affected by the ongoing development of the regulatory system at the Italian and international level, Banca Generali dedicates considerable attention to monitoring current regulatory developments and is implementing a structured system for the identification and management of the related risks, including on the basis of existing frameworks. In particular, in view of the status of its Parent Company, Assicurazioni Generali, as signatory to the Principles of Responsible Investing (PRI), Banca Generali is committed to implementing the Recommendations of the TCFD (Task Force on Climate-Related Financial Disclosure) at all levels contemplated by the guidelines (Governance, Strategy, Metrics and Targets and Risk Management).

Internal Control and Risk Management System

Banca Generali S.p.A.'s Internal Control System 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.

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 Banca Generali Banking Group has implemented an internal control system in line 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 regularly updated by Banca Generali'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:

- › 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 these structures, or by back-office company areas and units; to the extent possible, line checks are incorporated into IT procedures;
- › Risks and compliance checks (so called "second-tier checks"), performed by functions not involved in production and broken down as follows:
 - › 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 each type of risk;
 - › 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;
 - › 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;
- › 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 in order 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.

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 Bank and the financial markets;
- › foster an informed attitude in risk management;
- › provide assurance and adequate protection of client information;
- › promote 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 controls, thus representing a fundamental condition for the integrated Internal Control System.

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 Letter 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 Banca Generali Banking 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.

In order to prevent conduct contrary to the principles of propriety, legality and transparency in the handling of operations by personnel, and to avoid 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 Banking Group has adopted and implemented an Organisational and Management Model, pursuant to Legislative Decree No. 231/01, as amended.

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 organisational framework that is designed to prevent unlawful conducts, and in particular those envisaged by the legislation in question.

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, so as to ensure that all human resources are duly trained. The Model is updated whenever there are regulatory and/or organisational changes and is submitted to the Board of Directors for analysis and approval.

The Internal Control System maintains a constantly evolving approach to counter and prevent fraud, money laundering offences, usury or funding of terrorism. In addition, the security of customer information is under constant analysis and alignment with industry regulations and guidelines, as well as best practices.

In the period, no breaches to customer data have been reported, as 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.

NFI procedures project

In order to regulate and ensure a more robust overall reporting process (including from a non-financial perspective), in 2019 the Parent Company, Banca Generali, in line with the existing financial reporting procedures (pursuant to Law No. 262/2005), prepared and published a series of internal organisational procedures designed to ensure the accuracy and reliability of the non-financial information disclosed in the Annual Integrated Report.

The project, which lasted six months, was divided into three phases:

1. identification of the main non-financial quantitative KPIs, published in the 2018 Annual Integrated Report;
2. mapping of the processes relating to the preparation of the main non-financial information;
3. identification of the main risks tied to the individual processes and, therefore, identification of more points of control to mitigate them.

The quantitative information presented in this Report has been prepared according to the procedures adopted by Banca Generali. These procedures will be constantly updated, both to reflect new KPIs and in the event of amendments to applicable legislation or the non-financial reporting standards adopted by the Banking Group (GRI Standards).

Internal audit activity

Banca Generali's Internal Audit 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 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, including:

- › 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 Supervisory Review and Evaluation Process (SREP) and "Guidelines on common procedures and methodologies for the supervisory review and evaluation process" EBA 2014;
- › CoSo Report, ERM (Enterprise Risk Management) model and CobiT-Pam methodology.

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

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 2019 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 detail, the Bank 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. Great attention is also paid to the fight against corruption: the Group 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.

The Internal Code of Conduct is an integral part of the Organisational and Management Model, which 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.

Banca Generali has 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”);
- › Anti-Money Laundering Directive;
- › Tax due diligence;
- › Whistleblowing.

The above-mentioned policies and procedures are communicated to all the employees and the members of the individual Boards of Directors of the Banca Generali Group⁵, as well as to the Financial Advisors.

Regarding anti-corruption training, a special course was run again during the year relating to Legislative Decree No. 231/01, which also covered the crime of corruption.

This training⁶ was delivered only to employees based in Italy, in addition to the Financial Advisors of the distribution network, in particular:

TRAINING ACTIVITIES ON ANTI-CORRUPTION ISSUES ⁷	NUMBER	%
Managers	50	100.00
Executives	267	100.00
Employees	556	96.70
Financial Advisors	1,902	96.60

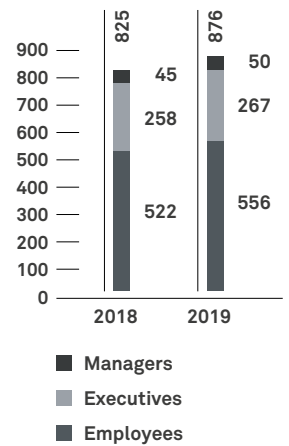
It should also be noted that no cases of corruption were reported during the reporting year.

⁵ The information presented does not include the Group companies acquired in 2019 (Nextam and Valeur), which will be considered from the upcoming Annual Integrated Report, since the first fully covered year will be 2020.

⁶ The data presented do not include the Group companies acquired in 2019 (Nextam and Valeur), which will be considered from the upcoming Annual Integrated Report, since the first fully covered year will be 2020.

⁷ Relationship Managers have been classified among employees, in light of their employment relationship. To calculate the percentage of Financial Advisors who received training on Law No. 231, RMs (71) have been excluded from the total number of Financial Advisors (2,040).

ANTICORRUPTION TRAINING



IN 2019, **1,902** FINANCIAL ADVISORS HAD TRAINING ON ANTILAUNDERING.





02

**THE VALUE CREATION
AND MANAGEMENT MODEL**

The Banca Generali Group

Summary of operations

The Group closed 2019 with consolidated net profit of 272.1 million euros (+51.1%, the best result in the Bank's history) and total assets reaching a new all-time high at 69.0 billion euros, thanks to the contribution of robust net inflows (5.1 billion euros), the positive effect of market performance (+4.2 billion euros) and the assets under management (2.2 billion euros) resulting from the acquisition of the Nextam Partners Group and the Swiss company BG Valeur S.A.

Despite the heightened risk aversion in the first half of 2019, managed solutions grew significantly in the second part of the year to 34.0 billion euros (+25% YTD; +16% net of the consolidation of Nextam and Valeur).

Among managed products, in particular, mention should be made of the excellent results achieved by the new sub-funds of the Luxembourg-based Sicav **Lux IM**, launched in April 2018, which reached an AUM volume of 10.7 billion euros (including data referring to institutional investors), marking an increase of nearly 67% on the end of the 2018.

The strong improvement in the number of new customers, thanks to the strengthened positioning within the private banking segment, drove an increase in deposits (9.0 billion euros; +26% for the year), which remain the customers' first choice while awaiting better investment opportunities. Enhanced advisory activities and the development of new products and services (trading, illiquid solution, structured products) also led to an increase in AUC solutions (9.5 billion euros; +25%).

The persistently extremely prudent customer attitude resulted in an increase in traditional life policies as well (16.5 billion euros; +7% for the year).

In addition, **Assets under Advisory (BGPA)** amounted to over 4.7 billion euros, with an improvement exceeding 2.5 billion euros in the year under review.

Net banking income stood at 578.0 million euros (up 28.6% compared to 2018), thanks to the healthy trend of net interest income and recurring fees (management, underwriting and banking fees). The result was also driven by the variable revenue components linked to financial market trends and the good performance generated for the Bank's customers (net performance: +7.2%; performance of managed products: +11%).

Net financial income was 88.2 million euros, up 4.9% compared to 2018. The result was attributable to the increase in net interest income, which amounted to 74 million euros (+23.4%), and a sharp decline in the variable component of trading income. Net interest income benefited from both higher average interest-bearing assets in the period, and in particular of the improved yield offered by the banking book (82 bps, +9 bps). At the end of the year, the Bank's treasury portfolio totalled 7.8 billion euros (+37.7%), with an increasingly prudent approach as confirmed by an overall duration of 1.6 years and maturity of 3.5 years.

Operating expenses were 221.1 million euros (+12.5% compared to 2018), mainly due to the effect of some one-off items (9.1 million euros) and the consolidation of Nextam and Valeur (6.9 million euros⁸). Net of these items, core expenses' organic growth was 4.8% and included a variable component of staff expenses, which increased due to the Bank's positive result for the year. One-off costs, which are therefore not replicable in 2020, were mainly due to the acceleration of the three-year plan's strategic projects, M&A costs and the relocation of the administrative offices.

With reference to **capital**, Banca Generali confirmed the soundness of its regulatory aggregates. CET1 ratio stood at 14.7% and Total Capital ratio was 16.1%.

On a related note, the transition to IFRS 16 entailed an adverse impact on the TCR ratio of around 98 bps, attributable to the recognition of the new RWAs associated with the rights of use, whereas the acquisition of the Nextam group and Valeur yielded a further impact of 115 bps, mainly owing to the deduction from consolidated own funds of the goodwill and other intangible assets recognised upon acquisition.

⁸ Net of the amortisation of intangible assets recognised upon acquisition (0.3 million euros).

Despite the impact of said factors, capital ratios were well above the specific requirements set by the Bank of Italy for the Banca Generali Group (i.e., CET1 ratio at 7.75% and Total Capital Ratio at 11.84%, as the minimum required by the SREP – Supervisory Review and Evaluation Process).

The total value of **AUM** managed by the Banking Group on behalf of its customers — which is the figure used for communications to Assoreti — amounted to 66.8 billion euros at 31 December 2019. This result must be increased by the 2.2 billion euro contribution generated by the consolidation of the newly acquired Nextam Partners and Valeur, for a total amount of **69 billion euros**.

In addition, managed assets also included 0.9 billion euros in AUC of the Generali Group companies and 3.9 billion euros in funds and Sicavs distributed directly by management firms, for an overall total of **73.8 billion euros**.

Significant corporate events

On 25 July 2019, Banca Generali closed the acquisition of a 100% interest in Nextam Partners S.p.A., the parent company of the group of the same name of brokerage firms that also includes the following fully-owned subsidiaries:

- › Nextam Partners SGR S.p.A., which engages in individual portfolio management and collective management of Italian UCITS and the AIFs of the Luxembourg Sicav promoted by the Group, in addition to outsourced management of third-party products;
- › Nextam Partners Sim S.p.A., which primarily provides advice and order receipt, transmission and execution services;
- › Nextam Partners LTD, based in London, which provides advice and manages the sub-funds of the Luxembourg Sicav promoted by the group.

Nextam Partners is a prestigious financial group that has been assisting private-banking and institutional clients in Italy with their asset, wealth management and advisory needs 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. Through this transaction, Banca Generali acquires new professionals, expanding the Bank's HNWI client base and accelerating the development of new operating opportunities.

On 15 October 2019, Banca Generali finalised the acquisition of a 90.1% interest in Valeur S.A., a company under Swiss law based in Lugano which specialises in asset management and private banking services. The remaining 9.9% continues to be held by the Sellers — who are also members of Valeur's new governance structure — without prejudice to Banca Generali's option to acquire the minority interest.

The deal is part of Banca Generali's wider private-banking internationalisation and growth strategy launched with a view to strengthening the range of services offered, now complemented by Valeur Fiduciaria's distinctive wealth management expertise (a sector the company has been operating in since 2009).

On 31 October 2019, the acquisition of a 19.9% interest in BG Saxo Sim was finalised, therefore completing the joint venture agreement entered into in 2018 with Saxo Bank A/S.

Group Economic and Financial Highlights

GROUP ECONOMIC AND FINANCIAL HIGHLIGHTS

(€ MILLION)	31.12.2019	31.12.2018	CHANGE %
Net interest income	74.0	60.0	23.4
Net income (loss) from trading activities and dividends	14.2	24.1	-41.2
Net fees (c)	489.8	365.3	34.1
Net banking income	578.0	449.4	28.6
Staff expenses	-97.2	-84.2	15.4
Other net general and administrative expenses	-162.7	-162.5	0.1
Amortisation and depreciation	-30.0	-9.3	222.1
Other operating income and expenses	68.7	59.4	15.6
Net operating expenses	-221.1	-196.6	12.5
Operating result	356.8	252.8	41.1
Provisions	-24.3	-25.4	-4.2
Adjustments	-5.4	-7.3	-26.1
Profit before taxation	325.3	219.8	48.0
Net profit	272.1	180.1	51.1

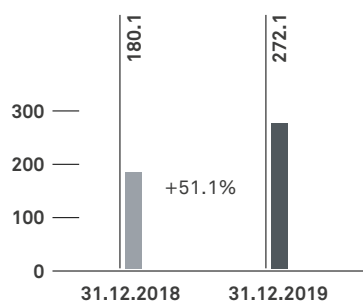
PERFORMANCE INDICATORS

	31.12.2019	31.12.2018	CHANGE %
Cost/Income ratio	33.1%	41.7%	-20.6
Operating Costs/Total Assets (AUM)	0.32%	0.34%	-6.6
EBTDA	386.8	262.1	47.6
ROE ^(a)	32.9%	24.5%	34.5
ROA ^(b)	0.43%	0.31%	38.0
EPS - Earning per share (euros)	2.35	1.56	51.2

(a) Ratio of net result to the arithmetic average of net equity, including net profit, at the end of the year and the end of the previous year.

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

NET PROFIT (€ million)



NET INFLOWS

(€ MILLION) (ASSORETI DATA)	31.12.2019	31.12.2018	CHANGE %
Funds and Sicavs	1,642	786	108.9
Financial wrappers	-322	-78	-312.8
Insurance wrappers	544	1,040	-47.7
Asset management	1,864	1,748	6.6
Insurance/Pension funds	935	480	94.8
Securities/Current accounts	2,331	2,792	-16.5
Total	5,130	5,020	2.2

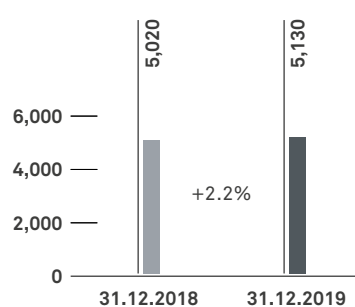
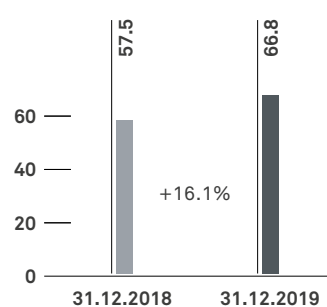
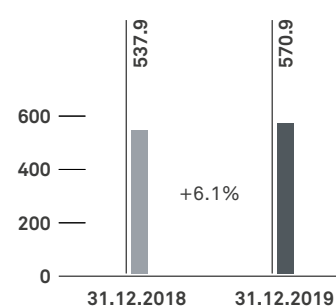
ASSETS UNDER MANAGEMENT & CUSTODY (AUM/C)

(€ BILLION) (ASSORETI DATA)	31.12.2019	31.12.2018	CHANGE %
Funds and Sicavs	16.5	13.2	24.7
Financial wrappers	6.7	6.4	3.5
Insurance wrappers	8.7	7.7	12.6
Asset management	31.8	27.3	16.3
Traditional life insurance policies	16.5	15.4	7.4
AUC	18.5	14.8	25.0
Total	66.8	57.5	16.1

NET EQUITY

(€ MILLION)	31.12.2019	31.12.2018	CHANGE %
Net equity	917.7	734.9	24.9
Own funds	570.9	537.9	6.1
Excess capital ^(c)	150.9	249.1	-39.4
Total Capital Ratio	16.1%	19.0%	-15.3

(c) With respect to the mandatory requirements defined by SREP.

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

Macroeconomic Context and Competitive Positioning

Although economic growth was revised downwards on 2018 in both the United States (from 2.9% to 2.2%) and Europe (from 1.9% to 1.1%), both stock and bond markets delivered excellent performances in 2019.

The main factors that generated these positive returns are therefore to be identified as the expansionary monetary policy implemented by central banks and the gradual easing of global geopolitical tensions, such as the trade war between China and the United States and Brexit.

Indicators of manufacturing output (Purchasing Manager Index) declined in both the United States and Europe, reaching lows in August and then showing signs of stabilising in the fourth quarter. In particular, the Federal Reserve was more accommodating than expected at the end of 2018, removing the indication of further gradual rate increases in favour of an expansionary approach.

During the year, the U.S. central bank cut interest rates by 25 bps three times, lowering the Fed Funds Rate from 2.5% to 1.75%. In Europe, faced with inflation between 1% and 1.5%, the ECB further reduced its main deposit rate. Before leaving the helm to Christine Lagarde, ECB President Mario Draghi announced a further QE programme at a rate of 20 billion euros a month, starting in November, to stimulate growth and recovery of inflation.

From a geopolitical perspective, the most significant event was the turning point in the tariff negotiations between China and the United States. The trade conflict between the world's two largest economies, which began in 2018 and triggered a lengthy series of negotiations between the two countries, reached its first epilogue in December. The two superpowers announced that they had reached an initial general agreement on "Phase One" of the trade peace.

The agreement calls for a significant reduction of existing US tariffs and an end to the upcoming tariffs on 160 billion dollars of consumer goods that had been set to enter into effect on 15 December. In exchange, China would be willing to purchase increased quantities of US agricultural products, up to 50 billion dollars a year (twice the current level), strengthen intellectual property protections and open its financial services market.

Other positive news for the markets came from the United Kingdom, where Britain's conservative party triumphed in the elections, securing a majority. Prime Minister Boris Johnson's new government will thus be able to finalise Brexit by 31 January 2020, nearly four years after the 2016 referendum.

Overall, emerging economies saw their growth rates decline from 4.7% to 4.1%, weighed down above all by China's performance. Chinese gross domestic product growth fell to 6.1% from 6.6% in 2018 and is expected to decline further in 2020 (to 5.9%).

The expansionary stances of central banks and the prospects of an initial tariff agreement between China and the United States supported stock market returns, despite the weak macroeconomic data published in various geographical areas. Stock Exchanges closed the year with positive results, particularly for advanced countries which overperformed emerging countries. The S&P 500 index in euros rose by approximately 31%, the MSCI World index in euros by 27% and the Topix in euros by about 11%.

In Europe, the benchmark index DJ Stoxx 600 increased by 23%; the Italian market index progressed by 28%, overperforming the other European markets. Since the beginning of the year, emerging market stock exchanges also reported a positive performance, however varying by reference area: +17% overall (the MSCI Emerging Markets index in euros), +8% in India, +23% in China, and +29% in Eastern Europe. The sectors of the European market that delivered the strongest performances were technology (including financial services technology) and industry, whereas the energy and banking sectors were below average. The banking sector in particular suffered from largely negative interest rates on the main European bond curves.

As a consequence of monetary policy decisions, bond yields on the major markets (Treasuries and Bunds) performed similarly. US ten-year yields fell from 2.69% to 1.92%, whereas German ten-year yields from 0.25% at the beginning of the year to the current -0.19%. Spreads between member states of the European Monetary Union narrowed overall. The most significant appreciation was shown by Italian and Greek government bonds. The BTP-Bund spread fell from 249 bps to 159 bps. Corporate bond spreads narrowed during the year. In particular, at the global level spreads on high-yield bonds fell by 122 bps and those on investment grade bonds by 57 bps. Subordinated debt issuance also delivered an excellent performance, benefiting from stronger bank financial statements at the European level.

On currency markets, the dollar appreciated by approximately 2% against the euro, due primarily to greater growth in the United States than in Europe, in addition to a yield gap that significantly favoured the U.S. curve. The strength of the dollar also caused emerging countries to underperform developed countries, owing to the significant share of their public debt denominated in U.S. dollars. In the year, the euro went from 1.145 dollars per euro to approximately 1.123, while the yen strengthened, going from 125 to 121.

Finally, early in the year commodities prices rallied across the board from the lows reached in 2018. By contrast, in the second half of 2019 returns began to diverge significantly between sectors: energy and industry showed essentially lateral movement, while tending towards weakness, whereas precious metals (and gold in particular) grew sharply. During the period considered, the price of WTI rose from 45 to 61 dollars a barrel. The agriculture/livestock sector showed lateral movement with low volatility.

Competitive Positioning

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

The asset management market

In December 2019, the Italian asset management industry recorded a total of 1,195 billion euros of assets under management (+11.6% compared to the figure at December of the previous year).

All product types showed an increase in volumes on the previous year; this result was due in particular to positive market performances. Italian funds also showed an increase in volumes, despite net inflows negative for approximately -11 billion euros.

The table reported below shows that net inflows from the Italian asset management industry (Assogestioni market) were positive for approximately +4.7 billion euros at the end of December 2019.

Net inflows from retail discretionary mandates was positive for about +0.9 billion euros.

Net inflows from fund was positive for 3.8 billion euros, broken down as follows: -11.1 billion euros generated by flexible funds (compared to +8.6 billion euros in 2018); +13.6 billion euros by bond funds (compared to -25.0 billion euros in 2018); +4.7 billion euros by balanced funds (compared to +9.9 billion euros in 2018); -3.4 billion euros by equity funds (compared to +4.1 billion euros in 2018); and -0.1 billion euros by money-market and other funds (compared to +2.5 billion euros in 2018).

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			
	12.2019	12.2018	12.2016	12.2015	12.2019	12.2018	12.2016	12.2015
Italian funds	-11,362	-3,440	15,779	5,274	245,671	239,101	259,094	242,246
Foreign funds	15,151	3,511	60,942	29,219	817,480	711,285	754,237	658,072
Total funds	3,789	71	76,721	34,493	1,063,151	950,386	1,013,331	900,318
GP Retail	919	-4,319	3,965	-154	132,338	120,755	130,152	124,712
Total	4,708	-4,248	80,686	34,339	1,195,489	1,071,141	1,143,483	1,025,030

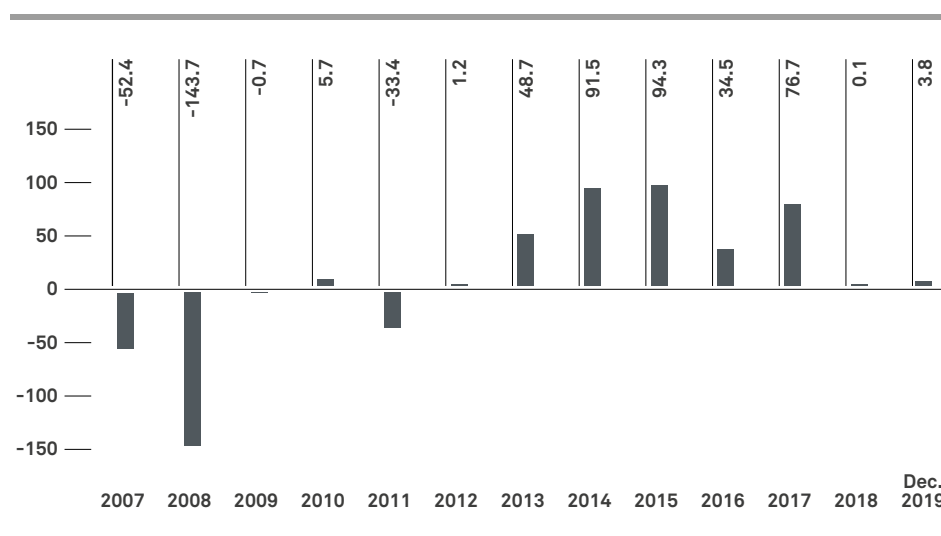
Source: Assogestioni.

In 2019 markets registered positive performances, due in part to the recovery of the losses recorded in late 2018, but in an environment of the low interest rates and political and economic uncertainty that characterised the Italian economy.

Albeit to a less pronounced degree than in 2018, the financial assets of Italian households were therefore concentrated in the most liquid segments (assets under custody); in the current scenario, the topic of capital protection (life insurance and pension funds) plays an increasingly central role, to the detriment of bonds, shares, discretionary mandates and equity investments.

In mutual fund offerings, management companies continued to propose forms of investment in a range of sectors, with a focus on technology, in pursuit of positive returns in a low interest rate scenario. These offerings were complemented by ESG funds, “responsible investment” funds that pursue the typical investments of financial management, while taking account of environmental, social and governance aspects.

THE UCITS* MARKET IN ITALY (€ billion)



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

The Assoreti market

At December 2019, total net inflows generated by the Financial Advisor networks authorised to make off-premises offer neared 35 billion euros, up +16.4% compared to the figure at December 2018.

Assets under management and insurance products recorded 20.3 billion euros (+52% compared to 2018), accounting for 58% of total net inflows (44% in 2018). Net inflows of AUC amounted to 14.7 billion euros, down by about 2.0 billion euros (-12.0% compared to the previous year).

(€ MILLION)	31.12.2019	31.12.2018	CHANGE
Total assets under management	7,458	4,047	3,411
Total insurance products	12,818	9,304	3,514
Total assets under administration and custody	14,662	16,653	-1,991
Total	34,938	30,004	4,934

Source: Assoreti

In the asset management market, direct net investments made in UCITS units increased: net inflows from collective asset management stood at approximately 4.8 billion euros (4.2 billion euros at the end of 2018; +13.7%). Net inflows were concentrated in international UCITS, with net volumes of 5.0 billion euros, whereas the annual balance of Italian funds was a positive -0.2 billion euros.

Contrary to 2018, net inflows generated by individual discretionary mandates was positive for 2.7 billion euros overall (-0.1 billion euros at December 2018). In this aggregate, within discretionary mandates, GPF net inflows amounted to 2.8 billion euros, whereas GPM net investment volumes amounted to -0.1 billion euros.

With regard to insurance and pension products, net premiums paid during the year amounted to approximately 12.8 billion euros (+37.8% compared to 2018). Of this total, 3.4 billion euros was invested in unit-linked products, 3.5 billion euros in multi-line policies and 4.9 billion euros in traditional life products. Index-linked products were negative for -0.6 million euros, whereas pension funds amounted to 0.6 billion euros and individual pension plans to 0.4 billion euros.

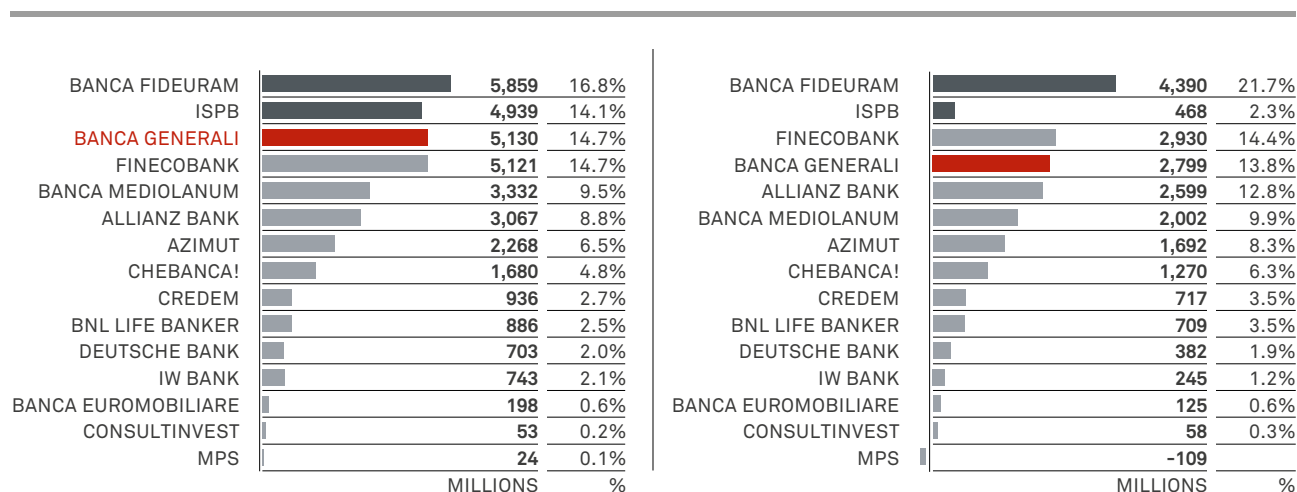
Banca Generali

Banca Generali's net inflows amounted to 5.1 billion euros in December 2019, in line with the same month of 2018), thus confirming its role as a market leader. The Bank's market share is 14.7%, as highlighted by the comparison with the market of reference (Assoreti) given here below.

The net inflow performance achieved in December 2019 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 wealth 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.

TOTAL NET INFLOWS ASSORETI –
34.9 € BILLION – AND MARKET SHARE %
(December 2019, € million)
Source: Assoreti

NET INFLOWS FROM AUM AND INSURANCE PRODUCTS
ASSORETI – 20.3 € BILLION – AND MARKET SHARE %
(December 2019, € million)
Source: Assoreti



Despite the growth of the most liquid components driven by the marked economic and political uncertainties, insurance and asset management products — the core focus of Financial Advisor networks — together accounted for approximately 20.3 billion euros. The market share was 13.8%, at the top of the Financial Advisor networks market.

In 2019, the Bank also increased the number of its Financial Advisors (2,040 at December 2019 compared to 1,985 at December 2018) continuing to prove highly attractive to talented Financial Advisors interested in joining a company offering an innovative product line and sound solidity thanks to the overall balance of its assets.

NET INFLOWS OF BANCA GENERALI

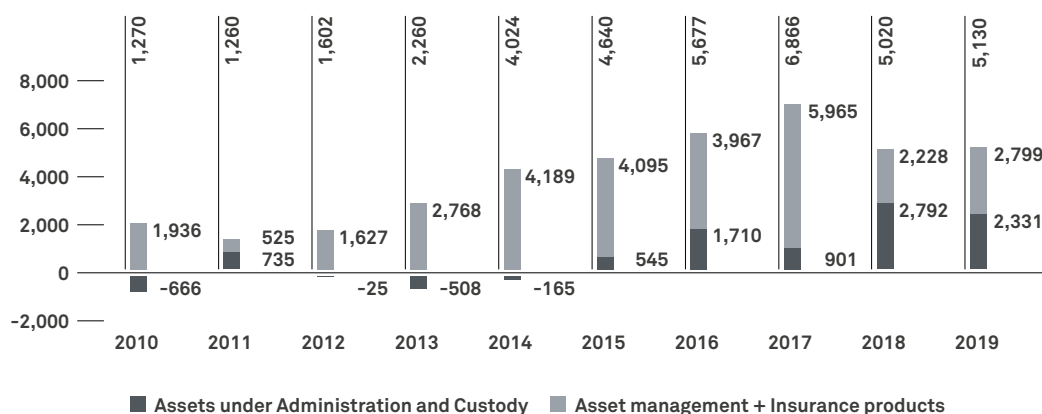
(€ MILLION)	BG GROUP		Y/Y CHANGES VS 31.12.2018	
	31.12.2019	31.12.2018	AMOUNT	%
BG Group Funds and Sicavs	1,059	-130	1,189	+915%
Funds and Sicavs	583	916	-333	-36%
Financial wrappers	-322	-78	-244	-313%
Insurance wrappers	544	1,040	-496	-48%
Total assets under management	1,864	1,748	116	+7%
Total traditional life insurance policy	935	480	455	+95%
Total assets under administration and custody	2,331	2,792	-461	-17%
Total assets placed by the network	5,130	5,020	110	+2%

At 31 December 2019, Banca Generali's net inflows from assets under management were positive for approximately 1.9 billion euros, up compared to the previous year (+7%; +0.1 billion euros). A decline was reported by financial wrappers (-0.2 billion euros), third-party funds and Sicavs (-0.3 billion euros) and insurance wrappers (-0.5 billion euros), whereas Banca Generali Group's funds and Sicavs proved very solid (+1.2 billion euros).

Traditional life insurance policies gathered 0.9 billion euros overall, up 95% over the previous year.

AUC products, which in 2018 had represented a solution to financial markets' high volatility, declined by 17% in 2019.

BANCA GENERALI'S NET INFLOWS EVOLUTION 2010-2019 (€ million)



ASSORETI TOTAL AUM – 620 BILLION EUROS – AND MARKET SHARE %
 (December 2019; € billion)

Source: Assoreti

Company	AUM (€ billion)	Market Share (%)	Additional Info
BANCA FIDEURAM	121.8	19.7%	
ISPB	111.9	18.0%	
BANCA MEDIOLANUM	76.8	12.4%	
FINECOBANK	70.7	11.4%	
BANCA GENERALI	66.8	10.8%	13.2% without ISPB
ALLIANZ BANK	51.8	8.4%	
AZIMUT	43.6	7.0%	
CREDEM	23.3	3.8%	
DEUTSCHE BANK	14.9	2.4%	
BANCA EUROMOBILIARE	10.2	1.6%	
IW BANK	10.1	1.6%	
MPS	6.7	1.1%	
BNL LIFE BANKER	5.6	0.9%	
CHEBANCA!	4.3	0.7%	
CONSULTINVEST	1.3	0.2%	
	BILLION	%	

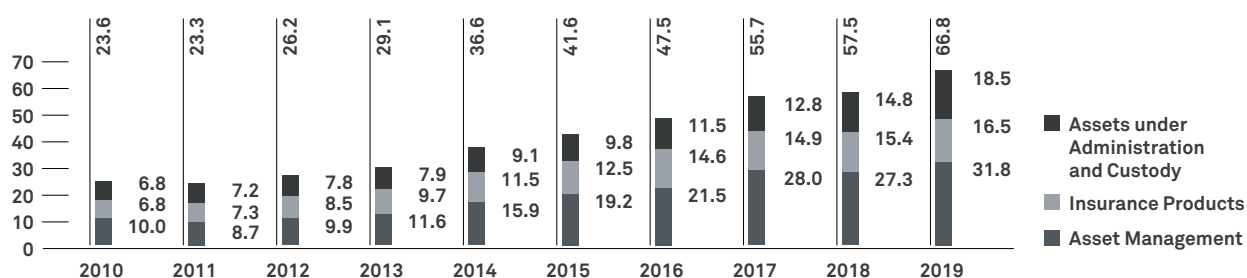
In 2019, the Bank reported a positive performance also in terms of assets under management, confirming its fifth place in the rankings of the largest companies on the Financial Advisor network market, with a 10.8% market share (market share was 13.2% if the contribution of Intesa Sanpaolo Private Banking is excluded on a like-for-like basis, and 14.0% if the networks not included in the 2018 Assoreti market are excluded, namely Banca Euromobiliare, Che Banca! and the Credem's business unit).

BANCA GENERALI'S AUM

(€ MILLION)	BG GROUP		CHANGES VS 31.12.2018	
	31.12.2019	31.12.2018	AMOUNT	%
BG Group Funds and Sicavs	7,173	5,532	1,641	+30%
Third-party funds and Sicavs	9,304	7,687	1,617	+21%
Financial wrappers	6,654	6,426	228	+4%
Insurance wrappers	8,665	7,693	972	+13%
Total assets under management	31,797	27,338	4,459	+16%
Total traditional life insurance policy	16,541	15,405	1,135	+7%
Total assets under administration and custody	18,482	14,791	3,691	+25%
Total AUM placed by the network	66,819	57,534	9,285	+16%

In 2019, Banca Generali achieved positive results also in terms of asset under management growth, with a +16% increase compared to December 2018. The ratio of managed products to total assets remained virtually unchanged (48%), whereas the ratio of traditional life insurance policies declined (25% compared to 27% for 2018). AUC increased (+25%), accounting for 28% of total assets (26% for 2018).

BANCA GENERALI'S TOTAL ASSETS EVOLUTION 2010-2019 (€ billion)



The Group's Operating Results

Upon first-time application of the new IFRS 16 – *Leases*, which lays down a single model for accounting for lease contracts and eliminates the distinction between operating and finance leases, Banca Generali opted to recognise the effect associated with the retroactive recalculation of net equity values at 1 January 2019, without restating the previous comparative years (modified retrospective approach). The items of the profit and loss account and balance sheet from the comparative period therefore may not be consistent with those presented in the profit and loss account for the period ended 31 December 2018 and the balance sheet at that same date. However, where possible, the information needed to understand the impact of the application of the new Standard has been provided. A more detailed examination of the effects of the first-time adoption of the Standard is provided in Part A – Accounting Policies of the Notes and Comments to the Consolidated Financial Statements.

Two business combinations were undertaken in 2019: the acquisition of the Nextam Partners group on 25 July 2019 and the acquisition of the Swiss asset manager Valeur Fiduciaria SA on 15 October 2019. The contribution of these acquisitions is therefore reflected in the consolidated income statement for the year for five and three months, respectively, and therefore does not, on the whole, have a material impact on the Banking Group's main income statement items (accounting for 0.3% of consolidated results). An analysis of the most significant impacts on the various items of the income statement is nonetheless provided below.

In addition, a discussion of the impacts of the acquisition of the new companies on the line items of the Banca Generali Group is also included in Part G – Business combinations of the notes to the consolidated financial statements.

Consolidated net profit amounted to 272.1 million euros in 2019, marking the best result in the Bank's history.

(€ THOUSAND)			CHANGE	
	2019	2018	AMOUNT	%
Net interest income	74,015	59,972	14,043	23.4%
Net income (loss) from trading activities and dividends	14,173	24,119	-9,946	-41.2%
Net financial income	88,188	84,091	4,097	4.9%
Fee income	881,014	741,666	139,348	18.8%
Fee expense	-391,204	-376,344	-14,860	3.9%
Net fees	489,810	365,322	124,488	34.1%
Net banking income	577,998	449,413	128,585	28.6%
Staff expenses	-97,219	-84,227	-12,992	15.4%
Other general and administrative expenses	-162,681	-162,494	-187	0.1%
Net adjustments of property, equipment and intangible assets	-29,955	-9,301	-20,654	222.1%
Other operating expenses/income	68,706	59,437	9,269	15.6%
Net operating expenses	-221,149	-196,585	-24,564	12.5%
Operating result	356,849	252,828	104,021	41.1%
Net adjustments for non-performing loans	-5,387	-7,286	1,899	-26.1%
Net provisions for liabilities and contingencies	-24,281	-25,351	1,070	-4.2%
Gains (losses) from equity investments	-1,867	-431	-1,436	n.a.
Operating profit before taxation	325,314	219,760	105,554	48.0%
Income taxes for the year	-53,192	-39,634	-13,558	34.2%
Net profit attributable to minority interests	-17	-	-17	n.a.
Net profit	272,139	180,126	92,013	51.1%

Reclassified net banking income⁹ amounted to 578.0 million euros, with an increase of 128.6 million euros (+28.6%) compared to 2018, as a result of the following factors:

- › the growth of **recurring fees**, driven by both **management fees** (which reached a new quarterly high of 169 million euros in a market environment that remained characteri-

⁹ In order to ensure a better understanding of operating performance, in the reclassified consolidated Profit and Loss Account the provisions for sales incentives 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 13.3 million euros for 2019 and 22.7 million euros for 2018.

sed by a strong propensity for liquidity and defensive investments and by a structural tendency towards narrow margins) and by the strong impetus provided by **banking and entry fees** (+26.3%), favoured by the various product and service diversification initiatives;

- › the boost provided by the most volatile components of the income statement, represented by the increase of 108.8 million euros in **performance fees**, also corresponding to an excellent performance generated for clients (net performance of +7.2% and of +11% on managed products);
- › the **growth of net interest income**, which gross of the additional interest expense recognised pursuant to IFRS 16 on financial lease liabilities (3.5 million euros), rose by 29.2% on 2018. This result offset the lesser contribution of the **net income (loss) from trading activities and dividends** (-9.9 million euros), which in early 2018 had benefited from a de-risking measure targeting the Bank's own portfolio.

The growth indicated is largely the result of the organic development of the Banking Group's business. The effect of the new acquisitions on this item amounted to 8.0 million euros, slightly more than 1.4% of consolidated net banking income.

Operating expenses amounted to 221.1 million euros, increasing compared to the previous year (+12.5%). The change was mainly due to the effect of **one-off expenses** incurred in the year (9.1 million euros) and the effects of the acquisition of the Nextam Group and Valeur (6.9 million¹⁰ euros). Net of these items, core expenses' organic growth was 4.8% and included a variable component of staff expenses, which increased due to the Bank's positive result for the year.

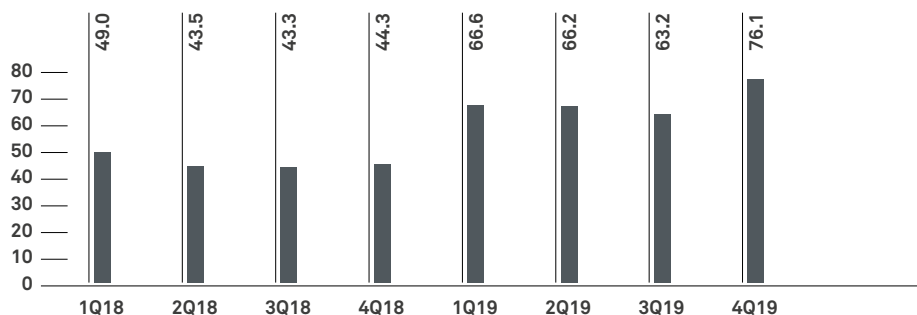
One-off components, which are therefore not replicable in 2020, were mainly due to the acceleration of the three-year plan's strategic projects, M&A costs and the relocation of the administrative offices and were partially offset by the application of the new IFRS 16, which contributed 1.4 million euros in terms of operating expenses.

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 33.1%, whereas the adjusted cost/income ratio¹¹ stood at 38.8% (42.3% at year-end 2018), thus confirming the Bank's excellent operating efficiency.

Provisions and net adjustments amounted to 29.7 million euros, down 3.0 million euros compared to 2018 due to the partial recovery of collective adjustments to financial instruments, driven by the easing of tensions surrounding the Italian government bond portfolio, and the lower impact of provisions for contractual indemnities for the sales network. However, the above effects were partially offset by the impairment loss on the Tyndaris convertible bond and greater provisions for liabilities and contingencies.

Operating profit before taxation was 325.3 million euros, up by 105.6 million euros compared to 2018. The tax burden for the reporting year instead declined, with an overall tax rate of 16.4%, due to the increased weight of profit generated abroad.

QUARTERLY NET PROFIT (€ million)



¹⁰ Net of the amortisation of intangible assets recognised upon acquisition (0.3 million euros).

¹¹ Cost/income ratio net of performance fees, charges in support of the banking system (8.3 million euros), operating expenses for the acquisitions performed (6.9 million euros), the costs of strategic projects and the costs for the relocation of the administrative offices (9.1 million euros).

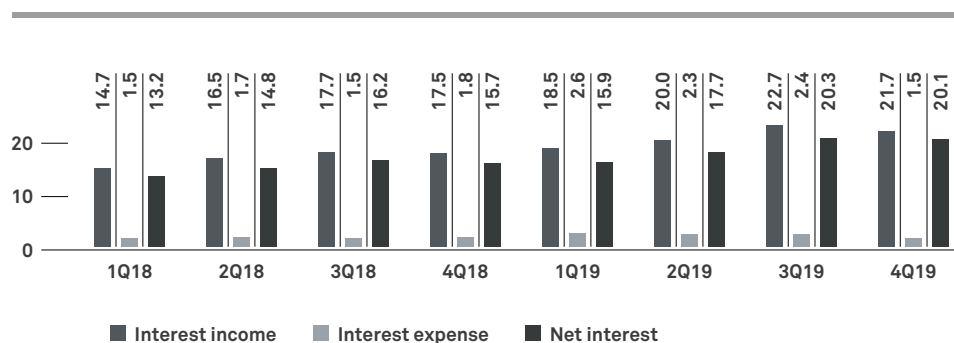
QUARTERLY EVOLUTION OF THE PROFIT AND LOSS ACCOUNT

(€ THOUSAND)	4Q19	3Q19	2Q19	1Q19	4Q18	3Q18	2Q18	1Q18
Net interest	20,149	20,284	17,708	15,874	15,736	16,177	14,816	13,243
Net income (loss) from trading activities and dividends	4,866	3,261	2,051	3,995	2,056	1,481	5,355	15,227
Net financial income	25,015	23,545	19,759	19,869	17,792	17,658	20,171	28,470
Fee income	247,901	208,644	216,495	207,974	175,007	190,056	194,238	182,365
Fee expense	-103,304	-96,505	-97,134	-94,261	-75,217	-99,267	-105,126	-96,734
Net fees	144,597	112,139	119,361	113,713	99,790	90,789	89,112	85,631
Net banking income	169,612	135,684	139,120	133,582	117,582	108,447	109,283	114,101
Staff expenses	-29,600	-22,608	-23,221	-21,790	-21,459	-20,459	-21,173	-21,136
Other general and administrative expenses	-52,381	-38,878	-36,246	-35,176	-49,000	-39,279	-36,914	-37,301
Net adjustments of property, equipment and intangible assets	-8,803	-7,360	-7,000	-6,792	-3,048	-2,094	-2,113	-2,046
Other operating expenses/income	25,334	14,009	15,641	13,722	20,259	12,113	13,125	13,940
Net operating expenses	-65,450	-54,837	-50,826	-50,036	-53,248	-49,719	-47,075	-46,543
Operating result	104,162	80,847	88,294	83,546	64,334	58,728	62,208	67,558
Net adjustments for non-performing loans	-3,119	-1,125	-5,132	3,989	-1,224	-2,456	-3,798	192
Net provisions	-11,308	-3,637	-3,215	-6,121	-10,753	-3,987	-5,828	-4,783
Gains (losses) from equity investments	-1,628	-154	-26	-59	-265	-25	-53	-88
Operating profit before taxation	88,107	75,931	79,921	81,355	52,092	52,260	52,529	62,879
Income taxes for the year	-12,015	-12,701	-13,745	-14,731	-7,813	-8,979	-9,010	-13,832
Net profit attributable to minority interests	-17	-	-	-	-	-	-	-
Net profit	76,109	63,230	66,176	66,624	44,279	43,281	43,519	49,047

Net interest income

Net interest income amounted to 74.0 million euros, up 14.0 million euros compared to 2018 (+23.4%), despite the effects of the first application of IFRS 16 which entailed the recognition of greater interest expense (3.5 million euros) on financial liabilities associated with lease contracts. Net of such items, net interest income would have increased by 29.2%.

NET INTEREST (€ million)



In 2019, interest rate performance in the Euro Area continued to be influenced by the accommodative Quantitative Easing policy carried out by the ECB. In detail, on 1 November 2019, the said purchase programme was restarted at a monthly pace of 20 billion euros and it was also decided to further raise the negative interest rates applied to deposits held with the ECB to the exceptional level of -0.50%¹², while introducing a tiering system based on the banks' reserve holdings

¹² 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 increasing the negative interest rates applied to the ECB's deposit facilities to the exceptional level of -0.40%.

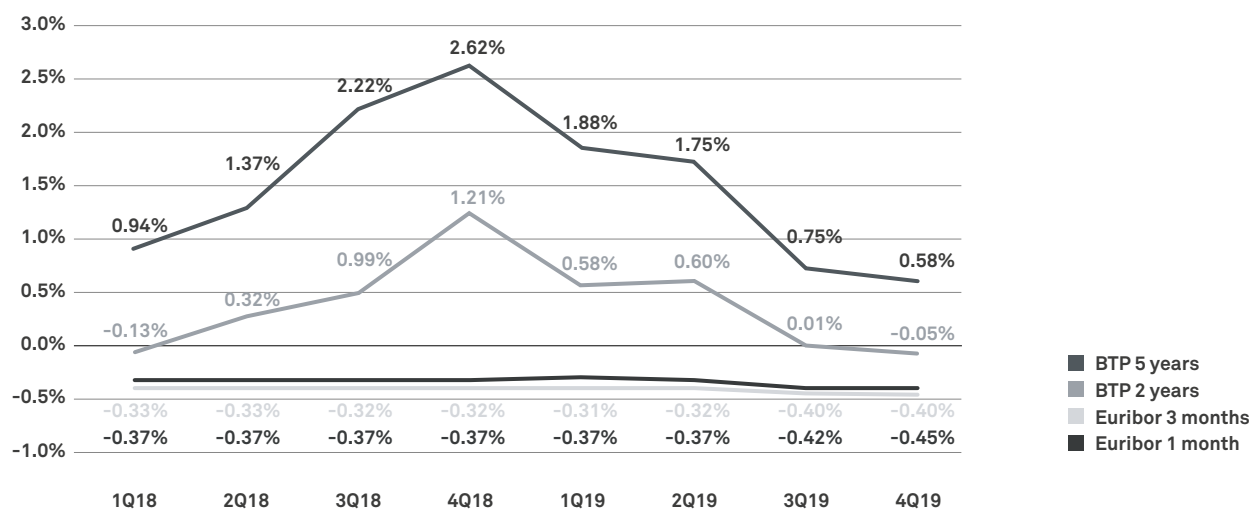
in excess of minimum reserve requirements. The Governing Council also confirmed it intends to continue to reinvest the securities purchased under the APP ended in 2018 for an extended period of time, and new series of TLTROs have been implemented.

On 23 January last, the ECB Governing Council confirmed again that the ECB's accommodative policy will continue, with no time limits, until the inflation outlook robustly converges to a level sufficiently close to, but below, 2%.

Therefore, the interest-rate curve on the interbank market reached again all-time lows, 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 2019 short-term interbank rates stood at a monthly average of -0.453% for the one-month Euribor and of -0.395% for the three-month Euribor.

The Italian government bond market continued to show considerable volatility, with the resulting effect on the Italian government bond yield curve. However, the Bund-BTP spread went on to fall from the average values of over 250 bps reached in the first half of 2019 to approximately 160 bps at the end of December. The yields on Italian government bonds with an average residual life of two years thus declined from the 0.75% recorded in December 2018 to the -0.199% observed in September 2019 and then 0% in December of that same year. Issues with residual lives of between 4.5 and 6.5 years declined from an average yield of 2.21% in December 2018 to a low of 0.395% reached in September 2019 and then 0.715% at the end of the year.

INTEREST RATE EVOLUTION (quarterly average)



Within this environment, interest income increased by 16.4 million euros on 2018 (+24.8%), driven by both the expansion of the average volumes in the Bank's investment portfolio (+19.4%) and the increase in its profitability (+16.4 million euros, an increase of +38.6%). The average yield on the bond portfolio thus amounted to 82 bps (+9 bps compared with the previous year), whereas the weighted average yield of the HTC portfolio alone reached 1.23%.

Despite a moderate increase in the average volume of loans on the corresponding period of 2018, interest on loans to customers (mostly indexed on the Euribor) declined slightly.

By contrast, interest expense increased by 2.4 million euros (+37.2%), essentially due to the aforementioned impact of the transition to IFRS 16.

Net of this component, the item benefited from a significant reduction in ECB charges due to the decrease in the average balances of free deposits and the early repayment of the Tier 2 subordinated loan in the fourth quarter of the year.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	573	144	429	297.9%
Financial assets at fair value through other comprehensive income *	3,143	4,525	-1,383	-30.6%
Financial assets at amortised cost *	55,122	37,779	17,343	45.9%
Total financial assets	58,838	42,448	16,390	38.6%
Loans to banks	667	568	99	17.5%
Loans to customers	20,774	21,186	-412	-1.9%
Negative interest expense on financial liabilities	2,582	2,217	365	16.5%
Total interest income	82,862	66,419	16,443	24.8%
Due to banks	672	511	161	31.5%
Due to customers	1,689	812	877	108.0%
Repurchase agreements - customers	43	-	43	n.a.
Subordinated loan	1,425	1,667	-242	-14.5%
IFRS 16-related financial liabilities	3,480	-	3,480	n.a.
Negative interest income on financial assets	1,538	3,457	-1,919	-55.5%
Total interest expense	8,847	6,447	2,400	37.2%
Net interest income	74,015	59,972	14,043	23.4%

* Including hedging differentials.

The negative interest income paid to counterparties on loans and negative interest expense paid by counterparties on the Bank's funding operations amounted to 1.5 million euros and 2.6 million euros, respectively.

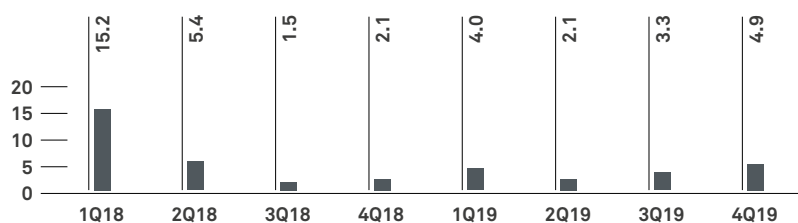
The expenses incurred primarily related to balances held with the Central Bank (1.4 million euros), whereas the income accrued related chiefly to account deposit net inflows from both institutional and non-institutional clients, for specific agreements and for particularly high deposit amounts (2.5 million euros).

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Banks	7	101	-94	-93.1%
Customers	2,575	2,116	459	21.7%
Total income for negative interest expense	2,582	2,217	365	16.5%
Banks	1,494	3,398	-1,904	-56.0%
Customers	44	59	-15	-25.4%
Total expense for negative interest income	1,538	3,457	-1,919	-55.5%
Net negative interest income and expense	1,044	-1,240	2,284	-184.2%

Net income from trading activities and dividends

Net income from trading activities and dividends is composed of the net income on financial assets and liabilities held for trading 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.

NET RESULT OF FINANCIAL OPERATIONS (€ million)



At the end of 2019, the item yielded a positive contribution of 14.2 million euros, down by 9.9 million euros compared to the previous year. In 2018, it had however benefited from the capital gains realised on an extensive banking book de-risking action.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Dividends and income on UCITS	2,890	2,308	582	25.2%
Trading of financial assets and equity derivatives	54	20	34	170.0%
Trading of financial assets and derivatives on debt securities and interest rates	603	436	167	38.3%
Trading of UCITS units	-1	-75	74	-98.7%
Securities transactions	656	381	275	72.2%
Currency and currency derivative transactions	4,949	4,910	39	0.8%
Net income (loss) from trading activities	5,605	5,291	314	5.9%
Equity securities and UCITS	1,262	536	726	135.4%
Debt securities	-2,324	-121	-2,203	n.a.
Financial Advisors' policies	882	63	819	n.a.
Net income (loss) on assets mandatorily measured at fair value through profit and loss	-180	478	-658	-137.7%
Net income (loss) from hedging	18	-	18	n.a.
Gains (losses) from disposal on HTC and HTCS debt securities	5,840	16,042	-10,202	-63.6%
Net result of financial operations	14,173	24,119	-9,946	-41.2%

Net income from trading activities amounted to 5.6 million euros (+5.9%), thanks to the contribution of monetary operations and to the performance of trading on own account as market maker on securities placed.

Outside the trading book, the net profit on **assets mandatorily measured at fair value** through profit or loss decreased by -0.7 million euros. This decrease was related to the write-off of the entire residual value of the capital contributions made to the Voluntary Scheme of the Interbank Deposit Protection Fund for the subscription of the Carige subordinated bond and the previous Berenice securitisation (-2.3 million euros), only partially offset by the positive performance of investments in UCITS and other equity securities (+1.2 million euros) and the revaluation of unit-linked policies covering obligations to Financial Advisors.

Treasury management of debt securities allocated to the HTCS and HTC portfolio contributed instead 5.8 million euros, down sharply compared to 16.0 million euros for the previous year.

(€ THOUSAND)	TRANSFER OF RESERVES	GAINS	LOSSES	CAPITAL GAINS	CAPITAL LOSSES	31.12.2019	31.12.2018	CHANGE
Debt securities at fair value through other comprehensive income	-5,010	10,587	-52	X	X	5,525	13,436	-7,911
Debt securities at amortised cost	X	315	-	X	X	315	2,606	-2,291
Financial assets mandatorily measured at fair value:	X	1,443	-3,265	4,315	-2,673	-180	478	-658
Debt securities and FITD contribution	X	-	-	14	-2,338	-2,324	-121	-2,203
UCITS units	X	1,422	-3,265	3,162	-296	1,023	1,368	-345
Equity securities	X	-	-	239	-	239	-832	1,071
Financial Advisors' policies	X	21	-	900	-39	882	63	819
Total	-5,010	12,345	-3,317	4,315	-2,673	5,660	16,520	-10,860

Finally, in June a new fair value hedging transaction entered into with market counterparties was undertaken on the HTC and HTCS portfolios based on asset swaps with BTP as their underlying.

Fee income

Fee income amounted to 881.0 million euros, increasing by 18.8% compared to 2018. This increase was attributable to the strong growth of fees (with regard to both their recurring component, which reported a +4.3%, and their non-recurring component), mainly tied to the excellent results achieved by the Sicavs promoted by the Group within the favourable context of market growth recorded in 2019 (+108.8 million euros).

The contribution of new acquisitions was 9.5 million euros, of which 3.9 million euros related to non-recurring performance fees.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Underwriting fees	29,959	21,602	8,357	38.7%
Management fees	645,790	633,508	12,282	1.9%
Performance fees	147,384	38,614	108,770	281.7%
Fees for other services	57,882	47,942	9,940	20.7%
Total	881,015	741,666	139,349	18.8%

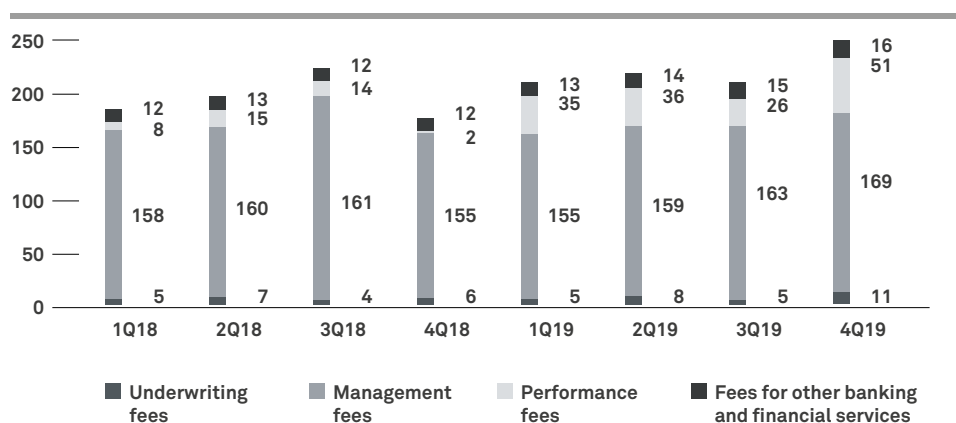
With regard to the **performance fees** aggregate, worth of mention is the result of the new **Lux IM Sicav**, which accounted for over 52% of the aggregate total and features an innovative daily High-Water Mark on a 12-month time horizon, which ensures a better alignment between the actual performance achieved by the customer and the manager's return. As a result, in addition to the sharp growth of performance fees, the creation of value for customers was also at excellent levels (net performance at +7.2%; +11% on managed products).

The **management fee** aggregate grew slightly compared to the previous year (+1.9%), showing a considerable absorption of both the cyclical effects of the sharp market correction that occurred in late 2018, which had a particularly acute impact on individual portfolio management schemes, as well as of the structural effects generated by the transition to the more competitive fee structure adopted by the new Lux IM sub-funds with regard to the Sicavs promoted by the Group.

The increase in fees was also borne out by the significant growth in **underwriting fees** (+38.7%) and **fees for other banking and financial services** (+20.7%) that benefited, respectively, from the positive performance of certificate placement (+7.2 million euros, or a 103.3% increase) and higher revenues arising from advisory services (+10.6 million euros in the reporting period; of which 2.3 million euros referring to new acquisitions).

In this regard, it should be noted that **Assets under Advisory** grew significantly in 2019, bringing the total value of AUM to 4.7 billion euros compared to 2.2 billion euros in 2018 (an over 2.5 billion euro improvement).

BREAKDOWN OF FEE INCOME (€ million)



Fee income from the solicitation of investment and asset management of households reached 821.5 million euros, with a 3.2% increase compared to the previous year, net of the aforementioned non-recurring component.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
1. Collective portfolio management	383,131	284,380	98,751	34.7%
2. Portfolio management under mandate by third parties	324	-	324	n.a.
3. Individual portfolio management	80,739	80,653	86	0.1%
Portfolio management fees	464,194	365,033	99,161	27.2%
1. Placement of UCITS	102,592	94,609	7,983	8.4%
<i>of which: underwriting of UCITS promoted by the Group</i>	5,801	4,192	1,609	38.4%
2. Placement of bonds and equity securities	15,584	8,422	7,162	85.0%
3. Distribution of third-party asset management products (GPM/GPF, pension funds)	856	792	64	8.1%
4. Distribution of third-party insurance products	237,664	224,208	13,456	6.0%
5. Distribution of other third-party financial products	615	660	-45	-6.8%
Fees for the placement and distribution of financial services	357,311	328,691	28,620	8.7%
Asset management fee income	821,505	693,724	127,781	18.4%

Fee income from **distribution of insurance products** continued to report constant progress (+6.0% on 2018), owing to the stable increase in average AUM in this segment (+6.7%), which however showed a more defensive approach in customer investments. Net inflows from insurance solutions in 2019 were thus concentrated in traditional LOB1 insurance products, accounting for 0.9 billion euros of the total of over 1.5 billion euros.

Sicavs promoted by the Banking Group — net of the effect of non-recurring performance components — reported a decline in management fees of 3.7% compared to the previous year, due to the weight of institutional classes compared to their retail counterparts and the more competitive fee structure of the new Lux IM sub-funds.

Notably, the innovative formula adopted by the new **Lux IM** sub-funds drove AUM volumes amounting to 10.7 billion euros (including data referring to institutional investors): since inception of the new sub-funds, the cumulative net inflows into the Sicav from customers within the Assoreti scope alone, net of the portion referring to financial and insurance wrappers, reached nearly 2.9 billion euros.

Fees for the **placement of UCITS** amounted to 102.6 million euros, with an 8.4% increase compared to 2018 that showed the constant demand by customers for à-la-carte funds and Sicavs. Worth of mention are also the excellent results of the placement of **Certificates**, which generated fees for over 14.2 million euros compared to 7 million euros reported in 2018.

Thanks to the above-mentioned expansion of advanced advisory services, **fee income for other services**, of both a banking and financial nature, stood at 59.5 million euros.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Fees for trading and custody	23,837	22,931	906	4.0%
Investment advisory fees	25,983	15,395	10,588	68.8%
<i>of which on AG Group's unit-linked policies</i>	5,941	5,319	622	11.7%
Fees for collection and payment services	4,329	4,318	11	0.3%
Fee income and account-keeping expenses	2,021	2,166	-145	-6.7%
Fees for other services	3,339	3,132	207	6.6%
Total fee income for other services	59,509	47,942	11,567	24.1%

Fee expense

Fee expense, including fee provisions¹³, amounted to 391.2 million euros, with a limited impact generated by new acquisitions (1.3 million euros). The +3.9% increase compared to 2018 was essentially in line with the recurring fee income performance. The Bank's total payout ratio to total fee income (net of performance fees) was thus 53.3%, slightly up compared to the previous year (53.5%).

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Fees for off-premises offer	350,833	335,595	15,238	4.5%
Other fees	40,371	40,749	-378	-0.9%
<i>Fees for portfolio management</i>	28,283	28,977	-694	-2.4%
<i>Fees for dealing in securities and custody</i>	5,688	6,898	-1,210	-17.5%
<i>Fees for collection and payment services</i>	4,397	3,991	406	10.2%
<i>Fees for other services</i>	2,003	883	1,120	126.8%
Total fee expense	391,204	376,344	14,860	3.9%

Fee expense for off-premises offer paid to the Financial Advisors network amounted to 350.8 million euros, up by 15.2 million euros compared to 2018 (+4.5%). The performance of the aggregate showed essentially stable incentive fees, despite an increase in the ordinary payout mainly attributable to the provision of services, such as advisory services and the placement of certificates (+11.7 million euros) and partly to the non-recurring effect of greater contractual indemnities paid out during the year (+1.8 million euros).

The ratio of the payout to the network to total fee income (net of performance fees) was 47.8%, with no material increases compared to the previous year.

Fees for portfolio management amounted to 28.3 million euros and mostly referred to administration and third-party management fees incurred by the Group's management company for the management of the Sicavs under administration.

¹³ To ensure a better understanding of operating performance, in the reclassified consolidated Profit and Loss Account the provisions for fees related to sales incentives 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 13.3 million euros for 2019 and 22.7 million euros for 2018.

Fee expense for other services, of both a banking and financial nature, totalled 12.0 million euros, slightly increasing (+2.7%) as a result of the decline in fees for collection and offset by higher fees for the new Robo4advisory services.

Operating expenses

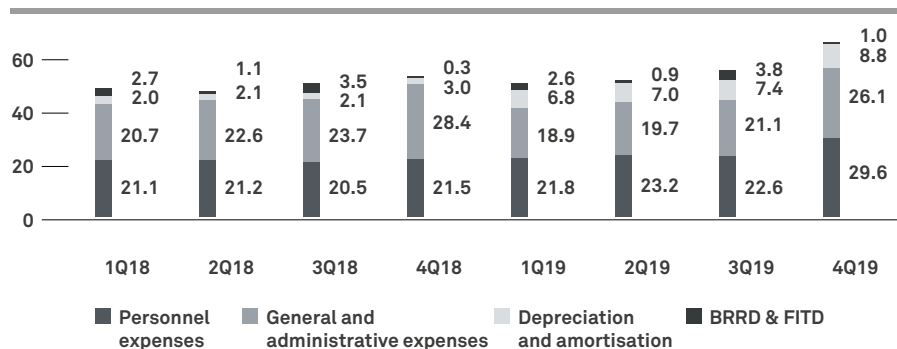
Operating expenses amounted to 221.1 million euros, increasing by 12.5% compared to 2018.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Staff expenses	97,219	84,227	12,992	15.4%
General and administrative expenses (net of duty recovery) and other net income	85,668	95,442	-9,774	-10.2%
BRRD and FITD contributions	8,307	7,615	692	9.1%
Net adjustments of property, equipment and intangible assets	29,955	9,301	20,654	222.1%
Operating expenses	221,149	196,585	24,564	12.5%

The change was mainly due to the effect of **one-off costs** incurred in the year (9.1 million euros) and the effects of the acquisition of the Nextam Group and Valeur (6.9 million¹⁴). Net of these items, **core** expenses' organic growth was 4.8% and included a variable component of staff expenses, which increased due to the Bank's good results for the year.

One-off components, which are therefore not replicable in 2020, were mainly due to the acceleration of the three-year plan's strategic projects, M&A costs and the relocation of the administrative offices and were partially offset by the application of the new IFRS 16, which contributed 1.4 million euros in terms of operating expenses.

BREAKDOWN OF OPERATING EXPENSES (€ million)



It bears also recalling that the first-time adoption of IFRS 16 entailed the recognition of greater amortisation of right-of-use assets associated to operating lease agreements for real estate, motor vehicles and other company equipment of 18.5 million euros, offset by a decrease in lease payments, rental fees and other income of 19.9 million euros.

The contribution to the aggregate generated by the acquisitions of the Nextam Group and Valeur was slightly above 3.3% of the consolidated value.

Staff expenses, including full-time employees, interim staff and directors, reached 97.2 million euros, increasing by 13.0 million euros compared to the previous year (+15.4%). The increase was also attributable to the consolidation of the Nextam Group and Valeur, which contributed 5.2 million euros (of which 1.9 million euros related to the variable component accrued at the end of the year).

¹⁴ Net of the amortisation of intangible assets recognised upon acquisition (0.3 million euros).

Net of the aforementioned item, the aggregate grew by 9.3% due to the increase in the average workforce, and in particular in the ordinary component of remuneration, and, with regard to variable expenses, to the Bank's positive results.

The increase in other benefits was primarily due to the adjustment of the actuarial assessments relating to the long-term healthcare plans for executives.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
1) Employees	95,618	82,743	12,875	15.6%
Ordinary remuneration	70,920	63,538	7,382	11.6%
Variable remuneration and incentives	17,884	13,685	4,199	30.7%
Other employee benefits	6,814	5,520	1,294	23.4%
2) Other staff	227	173	54	31.2%
3) Directors and Auditors	1,374	1,311	63	4.8%
Total	97,219	84,227	12,992	15.4%

The Group had an employee headcount of 950 at the end of 2019, up by 82 compared to the previous year, mainly as a result of the arrival of the 63 new employees from the Nextam Group and Valeur. Accordingly, average headcount also increased, up by 43 employees compared to 2018.

(€ THOUSAND)	2019	2018	CHANGE		WEIGHTED AVERAGE *		CHANGE AMOUNT
			AMOUNT	%	2019	2018	
Managers	68	52	16	30.8%	58	49	9
3 rd and 4 th level executives	177	153	24	15.7%	161	150	11
Other employees	705	663	42	6.3%	674	651	23
Total	950	868	82	9.4%	893	850	43

* Quarterly weighted average, with part-time employees considered at 50% by convention.

Other general and administrative expenses and other net income amounted to 85.7 million euros, with a 9.8 million euro decrease compared to the previous year (-10.2%).

However, the item was directly affected by the aforementioned first-time application of IFRS 16, which entailed the restatement of a significant portion of rental and lease payments (19.9 million euros).

This impact was partially offset by greater expenses arising from the consolidation of the Nextam Partners Group and Valeur (1.5 million euros) and by some non-recurring components associated with the acceleration of extraordinary strategic projects, the integration of the companies recently acquired by the Banking Group and the relocation of the administrative offices (9.1 million euros). Net of these effects, administrative expenses declined by 0.4%.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Adjustments/reversals of property and equipment	1,672	1,559	113	7.2%
Adjustments/reversals of rights-of-use acquired through leases	18,473	-	18,473	n.a.
Adjustments/reversals of intangible assets	9,810	7,742	2,068	26.7%
Total	29,955	9,301	20,654	222.1%

The **charges relating to the Resolution and Deposit Protection Funds** amounted to 8.3 million euros and include both the ordinary contributions to the Single Resolution Fund (2.6 million euros) pursuant to the BRRD directive and the ordinary contributions to the Interbank Deposit Protection Fund – FITD (0.7 million euros). This figure grew compared to the previous year (3.7 million euros) due to the need for gradually restoring the funds used during the last banking crisis.

In 2019 the Italian National Resolution Fund, managed by the Bank of Italy, once again called up a further instalment of additional contributions to cover the previous expenses incurred for rescuing four banks in 2015 (0.9 million euros).

Net provisions

Net provisions not related to fees amounted to 24.3 million euros, a decrease of 1.1 million euros, primarily owing to the decline in provisions for contractual obligations towards the sales network, which in the previous year had reflected the impact of the inception of the new managerial development indemnity mechanism (-4.5 million euros).

Net of this item, net provisions refer, on the one end, to termination indemnities and the different types of sales network's contractual indemnities (-2.3 million euros) and, on the other, to provisions related to the launch of the third cycle (2019-2026) of the Framework Loyalty Programme for the Financial Advisor Network (+1.0 million euros).

With regard to provisions relating to personnel, the “rejuvenation” provision – designed to facilitate the voluntary departure of employees nearest retirement – was refinanced in the amount of 1.6 million euros. Amongst other provisions for risks and charges, a specific provision was set aside for the restructuring charges referring to the Nextam group (1.3 million euros), and coverage of the charges relating to the tax audit of financial year 2014 was increased (1.5 million euros).

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Provision for staff liabilities and contingencies	967	300	667	222.3%
Restructuring provisions – Voluntary redundancy plan	1,672	697	975	139.9%
Provisions for legal disputes	2,469	2,542	-73	-2.9%
Provision for contractual indemnities to the sales network	14,739	20,566	-5,827	-28.3%
Other provisions for liabilities and contingencies	4,412	1,364	3,048	223.5%
Guarantees and commitments	22	-118	140	-118.6%
Total	24,281	25,351	-1,070	-4.2%

Adjustments

Net adjustments for non-performing loans amounted to 5.4 million euros, improving by 1.9 million euros compared to 2018.

Reversals refer for 3.4 million euros to the re-absorption through profit or loss of collective reserves, allocated during the previous year, for performing debt securities held in the HTC and HTCS portfolios. The 10.6 million euro positive change compared to 2018 (which had instead recorded adjustments totalling 7.2 million euros) was due to the significant decrease of market parameters used for measuring the probability of default (PD), based on IFRS 9, following the easing of tensions on the market of Italian government bonds.

In the reporting year, the 14 million euro subordinated bond issued by Tyndaris Services Ltd and expiring at the end of 2021 was subjected to analytical impairment in the amount of 8.5 million euros. The impairment was due to the current economic difficulties of the owners of Tyndaris Group and the need for the latter to dispose of its asset management operations.

The increase in collective adjustments to performing loans to banks and customers (+1.0 million euros) was due to a more conservative approach to determining risk parameters

that is closer to the new definition of default provided for in Commission Delegated Regulation(EU) No 171/2018 and the related EBA Guidelines (Bank of Italy Communication of 26 June 2019).

(€ THOUSAND)	VALUE ADJUST- MENTS	REVER- SALS ADJUST- MENTS	2019	2018	CHANGE
Specific adjustments/reversals	-9,304	983	-8,321	-580	-7,741
Debt securities	-8,561	-	-8,561	6	-8,567
Non-performing loans of the banking book	-605	969	364	-165	529
Operating loans to customers	-138	14	-124	-421	297
Portfolio adjustments/reversals	-488	3,422	2,934	-6,706	9,640
Debt securities	-	3,422	3,422	-7,172	10,594
Performing loans to customers and banks	-488	-	-488	466	-954
Total	-9,792	4,405	-5,387	-7,286	1,899

Income taxes

Income taxes for the year on a current and deferred basis were estimated at 53.2 million euros, up 13.6 million euros compared to estimated taxes at the end of the previous year.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Current taxes for the year	-53,417	-44,052	-9,365	21.3%
Prior years' taxes	1,021	2,051	-1,030	-50.2%
Changes of prepaid taxation (+/-)	-1,177	1,058	-2,235	-211.2%
Changes of deferred taxation (+/-)	381	1,309	-928	-70.9%
Total	-53,192	-39,634	-13,558	34.2%

The estimated total tax rate was 16.4%, down compared to the end of the previous year, chiefly due to the increase in the share of profits generated abroad.

Earnings per share

At year-end 2019, basic net earnings per share was 2.35 euros.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Net profit for the year (€ thousand)	272,139	180,126	92,013	51.1%
Earnings attributable to ordinary shares (€ thousand)	272,139	180,126	92,013	51.1%
Average number of outstanding shares (thousand)	115,719	115,784	-66	-0.1%
EPS - Earning per share (euros)	2.35	1.56	0.80	51.2%

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 2019, the latter component provided a positive overall contribution of 15.5 million euros, against a net negative change of 25.6 million euros recorded at the end of 2018.

In detail, HTCS portfolio valuation reserves grew, as a result of the following factors:

- › an increase in net valuation capital gains totalling 18.0 million euros, net of 2.2 million euros referring to reversal of collective reserves;
- › the reduction of pre-existing net negative reserves due to re-absorption through profit or loss upon realisation (5.0 million euros);
- › the negative net tax effect associated with the above changes and resulting from increases in DTAs and re-absorption of DTLs (-7.5 million euros).

(€ THOUSAND)	2019	2018	CHANGE
			AMOUNT
Net profit	272,122	180,126	91,996
Other income, net of taxes:			
with transfer to Profit and Loss Account:			
Exchange differences	3	-18	21
Financial assets at fair value through other comprehensive income	15,526	-25,617	41,143
without transfer to Profit and Loss Account:			
Actuarial gains (losses) from defined benefit plans	82	-52	134
Total other income, net of taxes	15,611	-25,687	41,298
Comprehensive income	287,733	154,439	133,294
Consolidated comprehensive income attributable to minority interests	-8	-	-8
Comprehensive income attributable to the Group	287,741	154,439	133,302

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 is distributed to the various stakeholders with which Banca Generali comes into contact in the course of its day-to-day operations, including shareholders, suppliers, Financial Advisors, employees, 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 set of 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 the value added, calculated by restating the items of the 2019¹⁵ consolidated profit and loss account on the basis of the guidelines issued by the Italian Banking Association and the GRI (Global Reporting Initiative).

The economic value generated is equal to the difference between total revenues and total costs for the purchase of goods and services, less the portion of costs incurred for the benefit of the various categories of stakeholders. Therefore, the economic value generated includes charges in support of the banking system (inclusive of contributions to the National Resolution and Interbank Deposit Protection Funds) for a total of 8.3 million euros, and charges incurred for the bail-outs implemented by the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) amounting to 2.3 million euros and recognised upon distribution of value added, according to the view that they are a form of taxation.

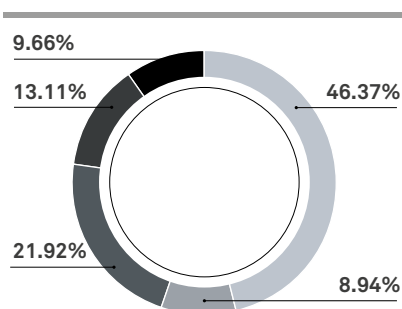
During the distribution process, the net provisions for incentives and indemnities for the network, recoveries of expenses and indemnities charged to Financial Advisors and net provisions for staff were classified in the respective stakeholders categories.

¹⁵ Effective financial year 2019, the Banking Group adopted a new outline for determining and distributing its value added, based on the aggregates of economic value generated and distributed.

In 2019, the economic value generated by the Group's overall operations reached 986.0 million euros, up 18.6% compared to the previous year.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Economic value generated	986,040	831,217	154,823	18.6%
Economic value distributed	890,833	785,155	105,678	13.5%
Employees, collaborators and Financial Advisors	457,259	435,581	21,678	5.0%
Suppliers	88,138	96,694	-8,556	-8.8%
Shareholders and third parties	216,159	144,900	71,259	49.2%
Government, entities, institutions and communities	129,277	107,980	21,297	19.7%
Economic value retained	95,207	46,062	49,145	106.7%

BREAKDOWN OF VALUE ADDED



Human resources	46.37%
Suppliers	8.94%
Shareholders	21.92%
State, entities, institutions & community	13.11%
Value added held	9.66%

This value was distributed to stakeholders as follows:

- > **employees and collaborators**, including **Financial Advisors**, benefited from approximately **46.4%** of economic value generated, in the total amount of approximately 457.3 million euros (up by 5.0% on the previous year); in detail, employees benefited from 98.2 million euros (+18.1% on 2018) and Financial Advisors from 359.1 million euros (+1.9% on the previous year), inclusive of net provisions for incentives, recruitment plans and other contractual indemnities amounting to 28.1 million euros;
- > **shareholders** received **21.9%** of the economic value generated, due in part to the distribution of dividends for 216.2 million euros overall, equal to a payout of over 79% of consolidated net profit (144.9 million euros in 2018);
- > **suppliers** benefited from 8.9% of the economic value generated (down from 11.6% in 2018), or approximately 88.1 million euros.
- > the **government, institutions and communities** received approximately **13.1%** of the economic value generated, amounting to nearly 128 million euros. This value is in line with the previous year (12.8%) and also includes charges in support of the banking system and stamp duty on current accounts and financial instruments.

In detail, with reference to the economic value distributed to institutions and communities, in 2019 Banca Generali continued to promote numerous cultural and educational initiatives, such as the FAI (Italian Environmental Fund) Spring Days, the Milan Art Week and the tenth edition of "A Champion for a Friend", the event dedicated to children, for a total amount of over 1.0 million euros¹⁶.

Accordingly, the business system also retained — in the form of retained earnings, depreciation and amortisation, residual provisions for risks and changes in deferred tax assets and liabilities — the total amount of 95.2 million euros, or 9.7% of the economic value generated (up sharply from 5.5% in 2018). 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.

(€ THOUSAND)	2019	2018
Employees and collaborators	46.37%	52.40%
Suppliers	8.94%	11.63%
Shareholders	21.92%	17.43%
Government, entities, institutions and communities	13.11%	12.99%
Economic value retained	9.66%	5.54%
Total	100.00%	100.00%

¹⁶ As a result of the accounting system fine-tuning process, the item "Economic value distributed to communities" now includes, in addition to charitable gifts, the main charges of any type incurred to organise or support initiatives intended for the community in general. For this reason, the figures taken from the Annual Integrated Report 2018 have been restated in order to make them comparable.

The following table shows in particular the process of creation of the Group's economic value and its distribution among stakeholders.

STATEMENT OF DETERMINATION OF THE GLOBAL VALUE ADDED

ITEMS (IN € THOUSAND)	2019	2018	CHANGE	%
10. Interest income and similar revenues	82,861	66,419	16,442	24.8%
20. Interest expense and similar charges	-8,846	-6,447	-2,399	37.2%
40. Fee income	881,014	741,666	139,348	18.8%
50. Fee expense (net of expenses related to Financial Advisor network) ⁽¹⁾	-40,371	-40,749	378	-0.9%
70. Dividends and similar income	2,891	2,308	583	25.3%
80. Net income (loss) from trading activities	5,606	5,291	315	6.0%
90. Net income (loss) from hedging	18	-	18	n.a.
100. Gains (losses) on disposal or repurchase of:	5,839	16,042	-10,203	-63.6%
a) financial assets at amortised cost	315	2,606	-2,291	-87.9%
b) financial assets at fair value through other comprehensive income	5,524	13,436	-7,912	-58.9%
110. Net income (loss) from other financial assets and liabilities at fair value through profit and loss ⁽⁷⁾	2,157	622	1,535	n.a.
b) financial assets and liabilities mandatorily measured at fair value ⁽⁷⁾	2,157	622	1,535	n.a.
130. Net adjustments/reversals due to credit risk relating to:	-5,387	-7,286	1,899	-26.1%
a) financial assets at amortised cost	-5,591	-5,001	-590	11.8%
b) financial assets at fair value through other comprehensive income ⁽⁷⁾	204	-2,285	2,489	n.a.
230. Other operating expenses/income ⁽⁴⁾	60,520	53,633	6,887	12.8%
280. Gains (losses) on disposal of investments	-262	-282	20	-7.1%
A. TOTAL ECONOMIC VALUE GENERATED	986,040	831,217	154,823	18.6%
190.b Other general and administrative expenses ⁽²⁾	-88,138	-96,694	8,556	-8.8%
ECONOMIC VALUE DISTRIBUTED TO SUPPLIERS	-88,138	-96,694	8,556	-8.8%
190.a Staff expenses	-98,199	-83,174	-15,025	18.1%
50. Fee expense – expenses and provision for external networks (cost of Financial Advisors) ⁽¹⁾	-359,060	-352,407	-6,653	1.9%
ECONOMIC VALUE DISTRIBUTED TO EMPLOYEES AND COLLABORATORS	-457,259	-435,581	-21,678	5.0%
ECONOMIC VALUE DISTRIBUTED TO THIRD PARTIES	17	-	17	n.a.
Profit distributed to Shareholders	-216,176	-144,900	-71,276	49.2%
ECONOMIC VALUE DISTRIBUTED TO SHAREHOLDERS	-216,176	-144,900	-71,276	49.2%
190.b Other general and administrative expense: indirect taxation ⁽⁶⁾	-64,918	-56,849	-8,069	14.2%
190.b Other general and administrative expense for charges for the Italian National Resolution Fund and the Interbank Deposit Protection Fund ⁽⁶⁾	-10,645	-7,759	-2,886	37.2%
300. Income taxes for the year on operating activities (portion related to current taxes)	-52,396	-42,036	-10,360	24.6%
ECONOMIC VALUE DISTRIBUTED TO CENTRAL AND LOCAL ADMINISTRATIONS	-127,959	-106,644	-21,315	20.0%
190.b Other general and administrative expense: charitable gifts ⁽⁶⁾	-1,318	-1,336	18	-1.3%
ECONOMIC VALUE DISTRIBUTED TO COMMUNITIES AND THE ENVIRONMENT	-1,318	-1,336	18	-1.3%
B. TOTAL ECONOMIC VALUE DISTRIBUTED	-890,833	-785,155	-105,678	13.5%
200. Net provisions for liabilities and contingencies ⁽³⁾	-6,888	-3,788	-3,100	81.8%
a) commitments and guarantees issued	-22	118	-140	n.a.
b) other net provisions ⁽³⁾	-6,866	-3,906	-2,960	75.8%
210. Net adjustments/reversals of property and equipment	-20,145	-1,559	-18,586	n.a.
220. Net adjustments/reversals of intangible assets	-9,810	-7,742	-2,068	26.7%
250. Gains (losses) from equity investments (portion of valuational component)	-1,605	-149	-1,456	n.a.
300. Income taxes for the year on operating activities (change in deferred tax assets and liabilities)	-796	2,402	-3,198	n.a.
Profit allocated to reserves	-55,963	-35,226	-20,737	58.9%
C. TOTAL ECONOMIC VALUE RETAINED	-95,207	-46,062	-49,145	106.7%

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 value added.

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 31 December 2019, total consolidated assets amounted to nearly 11.8 billion euros, up by over 2.0 billion euros (+20.8%) compared to 2018.

This figure reflects an increase in overall net inflows (generated through the expansion of customer current account deposits) by over 1.8 million euros (+21.1%), which brought the aggregate's total to 10.5 billion euros.

Core loans totalled 11.0 billion euros, up 19.5% compared to the previous year.

ASSETS (€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	64,998	90,640	-25,642	-28.3%
Financial assets at fair value through other comprehensive income	2,778,836	1,987,315	791,521	39.8%
Financial assets at amortised cost	8,206,525	7,166,172	1,040,353	14.5%
a) Loans to banks *	1,130,690	1,434,533	-303,843	-21.2%
b) Loans to customers	7,075,835	5,731,639	1,344,196	23.5%
Equity investments	2,061	1,661	400	24.1%
Property, equipment and intangible assets	298,354	101,834	196,520	193.0%
Tax receivables	51,168	52,799	-1,631	-3.1%
Other assets	363,634	335,473	28,161	8.4%
Total assets	11,765,576	9,735,894	2,029,682	20.8%

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Financial liabilities at amortised cost	10,503,986	8,675,596	1,828,390	21.1%
a) Due to banks	94,807	128,725	-33,918	-26.3%
b) Due to customers	10,409,179	8,546,871	1,862,308	21.8%
Financial liabilities held for trading and hedging	8,685	384	8,301	n.a.
Tax liabilities	13,618	18,018	-4,400	-24.4%
Other liabilities	147,097	142,176	4,921	3.5%
Special purpose provisions	174,522	164,845	9,677	5.9%
Valuation reserves	3,813	-11,636	15,449	-132.8%
Equity instruments	50,000	-	50,000	n.a.
Reserves	454,465	414,368	40,097	9.7%
Share premium reserve	57,729	57,889	-160	-0.3%
Share capital	116,852	116,852	-	-
Treasury shares (-)	-37,356	-22,724	-14,632	64.4%
Net equity attributable to minority interests	26	-	26	n.a.
Net profit (loss) for the year (+/-)	272,139	180,126	92,013	51.1%
Total net equity and liabilities	11,765,576	9,735,894	2,029,682	20.8%

The assets and liabilities of the Nextam Partners Group and Valeur Fiduciaria S.A. — both acquired in 2019 — have been included in the consolidated balance sheet as at 31 December 2019, but not in the Group's comparative balance sheet as at 31 December 2018. In addition, the total consolidated assets attributable to the acquisition do not have a material impact on the Banking Group's total assets (less than 0.1%).

A discussion of the impacts of the acquisitions on the Group's balance sheet and net equity aggregates is included in Part G - Business combinations of the Notes to the consolidated financial statements.

QUARTERLY EVOLUTION OF CONSOLIDATED BALANCE SHEET

ASSETS (€ THOUSAND)	31.12.2019	30.09.2019	30.06.2019	31.03.2019 RESTATED	01.01.2019 FTA	31.12.2018	30.09.2018	30.06.2018	31.03.2018 RESTATED	01.01.2018 FTA
Financial assets at fair value through profit or loss	64,998	75,912	78,309	103,924	90,640	90,640	98,128	104,355	115,739	118,778
Financial assets at fair value through other comprehensive income	2,778,836	3,221,993	2,435,849	2,224,602	1,987,315	1,987,315	2,129,338	2,379,521	2,917,725	2,977,389
Financial assets at amortised cost	8,206,525	7,782,394	7,652,682	7,057,490	7,166,172	7,166,172	6,495,179	6,550,780	5,834,313	5,389,959
a) Loans to banks	1,130,690	1,329,225	1,138,080	849,522	1,434,533	1,434,533	912,269	1,133,932	1,111,505	922,492
b) Loans to customers	7,075,835	6,453,169	6,514,602	6,207,968	5,731,639	5,731,639	5,582,910	5,416,848	4,722,808	4,467,467
Equity investments	2,061	1,587	1,610	1,629	1,661	1,661	1,688	1,716	1,736	1,820
Property, equipment and intangible assets	298,354	272,476	232,368	235,350	240,549	101,834	93,603	95,318	96,778	98,381
Tax receivables	51,168	44,806	44,019	48,842	52,799	52,799	57,226	54,734	46,605	46,794
Other assets	363,634	392,787	418,060	356,542	332,569	335,473	304,856	328,518	291,632	355,526
Total assets	11,765,576	11,791,955	10,862,897	10,028,379	9,871,705	9,735,894	9,180,018	9,514,942	9,304,528	8,988,647
NET EQUITY AND LIABILITIES (€ THOUSAND)										
Financial liabilities at amortised cost	10,503,986	10,568,557	9,767,443	8,879,340	8,811,407	8,675,596	8,201,383	8,521,256	8,186,830	7,879,968
a) Due to banks	94,807	94,205	100,087	100,287	128,725	128,725	72,348	497,996	505,127	682,531
b) Due to customers	10,409,179	10,474,352	9,667,356	8,779,053	8,682,682	8,546,871	8,129,035	8,023,260	7,681,703	7,197,437
Financial liabilities held for trading and hedging	8,685	15,484	3,490	506	384	384	925	518	290	206
Tax liabilities	13,618	20,106	27,826	22,586	18,018	18,018	25,123	37,049	36,307	35,168
Other liabilities	147,097	238,696	175,500	154,919	142,176	142,176	114,659	147,761	143,151	184,757
Special purpose provisions	174,522	157,634	153,924	162,741	164,845	164,845	160,820	158,926	159,234	155,305
Valuation reserves	3,813	6,766	-1,698	-5,974	-11,636	-11,636	-23,388	-19,350	10,200	14,051
Equity instruments	50,000	-	-	-	-	-	-	-	-	-
Reserves	454,465	451,610	449,846	595,619	414,368	414,368	412,683	411,409	557,668	353,287
Share premium reserve	57,729	57,591	57,591	57,819	57,889	57,889	57,893	57,893	58,170	58,219
Share capital	116,852	116,852	116,852	116,852	116,852	116,852	116,852	116,852	116,852	116,852
Treasury shares (-)	-37,356	-37,371	-20,677	-22,653	-22,724	-22,724	-22,779	-9,938	-13,221	-13,271
Net equity attributable to minority interests	26	-	-	-	-	-	-	-	-	-
Net profit (loss) for the year (+/-)	272,139	196,030	132,800	66,624	180,126	180,126	135,847	92,566	49,047	204,105
Total net equity and liabilities	11,765,576	11,791,955	10,862,897	10,028,379	9,871,705	9,735,894	9,180,018	9,514,942	9,304,528	8,988,647

Direct Inflows from Customers

Total direct inflows from customers amounted to 10.4 billion euros, up by 1,862 million euros (+21.8%) compared to the previous year, chiefly attributable to the net inflows from retail customers. This item also includes the accounting effect of the recognition of the financial liability relating to operating lease contracts (+158 million euros) according to the new accounting model introduced by IFRS 16 with effect from 1 January 2019.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
1. Current accounts and demand deposits	9,982,548	8,187,790	1,794,758	21.9%
2. Term deposits	-	25,939	-25,939	-100.0%
3. Financing	116,218	173,824	-57,606	-33.1%
Repurchase agreements	116,218	130,542	-14,324	-11.0%
Subordinated loans	-	43,282	-43,282	-100.0%
4. Other debts	310,413	159,318	151,095	94.8%
IFRS 16-related lease liabilities	158,064	-	158,064	n.a.
Operating debts to sales network	110,455	108,896	1,559	1.4%
Other debts (money orders, amounts at the disposal of customers)	41,894	50,422	-8,528	-16.9%
Total due to customers	10,409,179	8,546,871	1,862,308	21.8%

The growth in inflows from customers (external to the Assicurazioni Generali Group) continued to be driven by demand current account deposits, which reported a net increase of 1,920 million euros to 9,628 million euros.

By contrast, captive inflows from the companies within the Assicurazioni Generali Group, net of financial liabilities attributable to the introduction of IFRS 16 (+74.5 million euros), showed a 32.2% decrease and totalled 429.9 million euros (accounting for 4.1% of total inflows).

In the fourth quarter of 2019, the Tier-2 subordinated loan issued by the subsidiary Generali Beteiligungs GmbH in October 2014 was repaid in advance at the end of its fifth year for a total amount of 43 million euros.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Inflows from Parent Company	27,499	87,798	-60,299	-68.7%
Inflows from other subsidiaries of the Generali Group	327,856	436,349	-108,493	-24.9%
IFRS 16-related lease financial liabilities	74,499	-	74,499	n.a.
Total inflows from Generali Group	429,854	524,147	-94,293	-18.0%
Inflows from other parties	9,979,325	8,022,724	1,956,601	24.4%
<i>of which: current accounts</i>	9,627,779	7,707,735	1,920,044	24.9%
Total inflows from customers	10,409,179	8,546,871	1,862,308	21.8%

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

Core loans

Core loans totalled 11.1 billion euros overall, with a net increase of 1,806 million euros compared to 2018 (+19.5%).

In 2019, the Bank's investment activity gained significant momentum, focusing on both supporting the sharp increase in net inflows and absorbing the surplus liquidity held at the end of 2018.

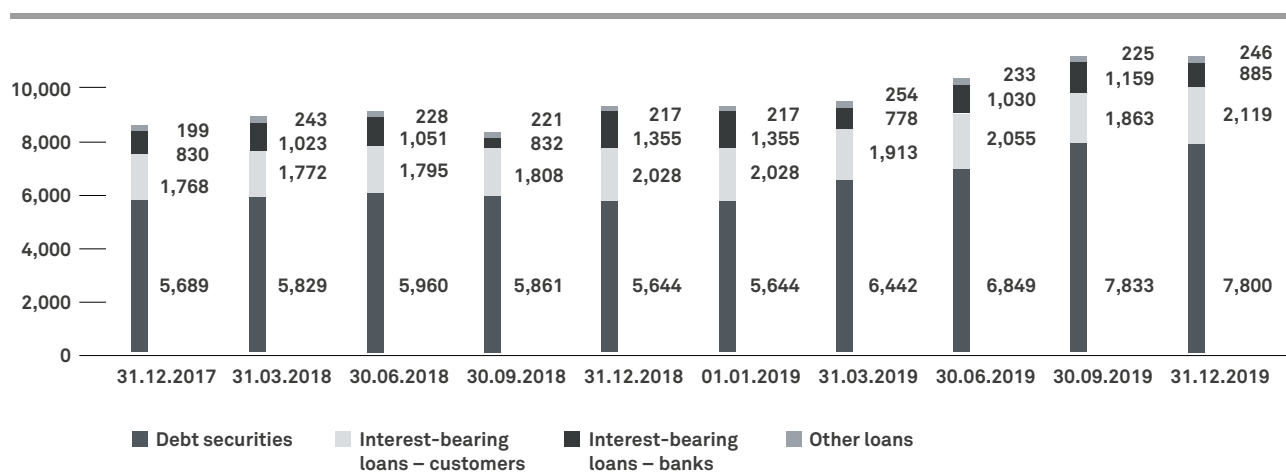
Investments in financial asset portfolios increased markedly by 2,150 million euros (+37.7%). By contrast, loans to banks showed a substantial reabsorption of the surplus liquidity observed at the end of the previous year, with a decline in free deposits with the ECB (-488 million euros).

In addition, the performance of loans to customers was influenced by short-term repurchase agreements entered into on the MIC market managed by CC&G and classified among loans to customers in the total amount of 206 million euros (199 million euros at the end of 2018).

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	64,998	90,640	-25,642	-28.3%
Financial assets at fair value through other comprehensive income	2,778,836	1,987,315	791,521	39.8%
Financial assets at amortised cost	5,013,479	3,629,126	1,384,353	38.1%
Financial assets	7,857,313	5,707,081	2,150,232	37.7%
Loans to and deposits with banks *	885,168	1,354,804	-469,636	-34.7%
Loans to customers	2,118,873	2,028,164	90,709	4.5%
Operating loans and other loans	189,005	154,078	34,927	22.7%
Total interest-bearing financial assets and loans	11,050,359	9,244,127	1,806,232	19.5%

* ECB demand deposits included.

QUARTERLY EVOLUTION OF LOANS (€ million)



Overall, investments in financial assets accounted for 71.1% of the core loan aggregate's total, sharply increasing compared to 61.7% at the end of 2018, mainly driven by the marked expansion of investments in corporate and financial debt securities.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Government securities	6,727,904	5,150,100	1,577,804	30.6%
Other public institutions	47,110	13,019	34,091	261.9%
Securities issued by banks	527,970	271,636	256,334	94.4%
Securities issued by other issuers	497,097	209,103	287,994	137.7%
Equity securities and other securities	57,232	63,223	-5,991	-9.5%
Total financial assets	7,857,313	5,707,081	2,150,232	37.7%

On the basis of the guidelines established in the new risk framework and 2019-2021 Business Plan, investments in financial assets continued to drive the held-to-collect portfolio, which refers to financial assets measured at amortised cost and held for investment purposes. This figure rose by 1,384 million euros, largely attributable to government bond purchases, reaching 5.0 billion euros.

However, significant rebalancing was undertaken on the portfolio of financial assets at fair value through other comprehensive income (HTCS), which increased by 792 million euros, more than 31% of which is allocated to financial and corporate securities.

However, the overall portfolio remains focused on sovereign debt, which expanded by 1,611 million euros and continued to account for 86.3% of total investments in financial instruments. This figure declined slightly on the end of the previous year (90.5%).

The government bond portfolio was further diversified away from Italy risk through significant investments in Spanish and Portuguese bonds with short-term maturities, all of which are held within the HTCS portfolio (1,364 million euros).

As at 31 December 2019, the exposure to non-Italian government bonds (consisting, in addition to the aforementioned Spanish and Portuguese government bonds, of a limited exposure to Romania amounting to -20 million euros), supranational securities and US Treasuries totalled 1,399 million euros, or 20.7% of the total exposure.

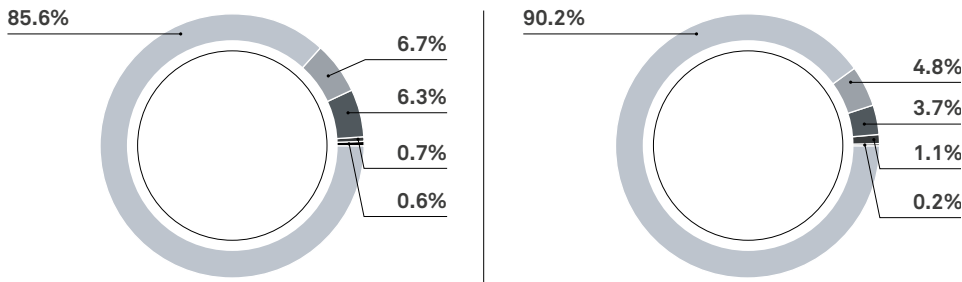
(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Exposure to the sovereign risk by portfolio:				
Financial assets at fair value through profit or loss	52	-	52	n.a.
Financial assets at fair value through other comprehensive income	2,278,815	1,736,525	542,290	31.2%
Financial assets at amortised cost	4,496,147	3,426,594	1,069,553	31.2%
Total	6,775,014	5,163,119	1,611,895	31.2%

The overall geographical breakdown of the portfolio of debt securities thus showed a lower concentration of investments relating to Italian securities, which decreased from 95% at year-end 2018 to 76.6% at the end of 2019.

BREAKDOWN OF FINANCIAL ASSETS PORTFOLIO

at 31.12.2019

at 31.12.2018



- Government securities
- Securities issued by banks
- Securities issued by other issuers
- Equity securities and other securities
- Other public institutions

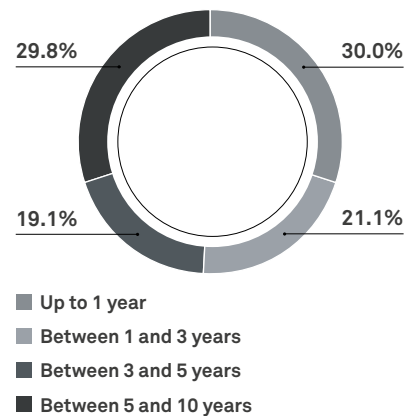
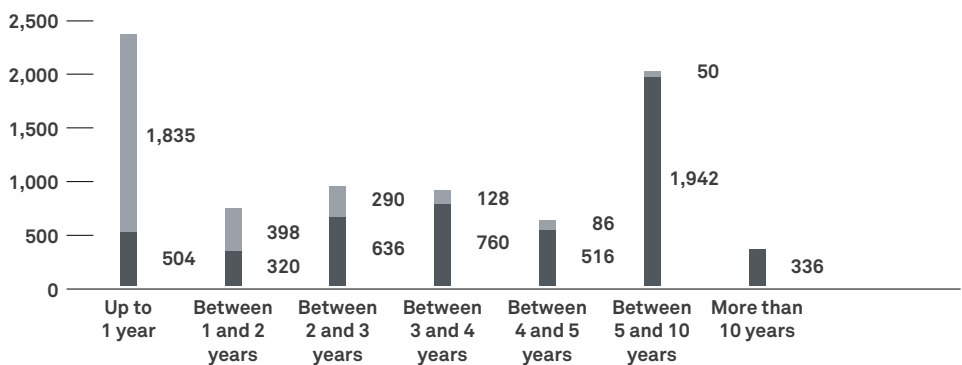
At the end of 2019, the share of financial assets with a maturity of more than 3 years declined slightly to 48.9% compared to the end of 2018 (51.1%).

The portfolio of debt securities had an overall average residual life of about 3.5 years. In particular, the average maturity of the HTC portfolio was 4.6 years, whereas the average maturity of the HTCS portfolio was 1.3 years.

39.8% of the portfolio was made up of variable-rate issues, and for the remainder, of fixed-rate issues and zero coupons (40.8% at the end of 2018).

BREAKDOWN OF BONDS PORTFOLIO BY MATURITY AT 31.12.2019

BONDS PORTFOLIO MATURITY (€ million)



Customer **loans to customers** reached 2,119 million euros and, net of short-term repurchase agreements on the multilateral facility e-MID, guaranteed by CC&G, grew by 85 million euros (+4.6%) on 2018, due above all to the expansion of current account facilities tied to the new Lombard loan product.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Current accounts	1,112,437	985,907	126,530	12.8%
Mortgages and personal loans	798,111	840,147	-42,036	-5.0%
Other financing and loans not in current accounts	2,256	2,173	83	3.8%
Reverse repurchase agreement with customers and deposits on the MIC	206,069	199,937	6,132	3.1%
Loans	2,118,873	2,028,164	90,709	4.5%
Operating loans to management companies	141,906	117,126	24,780	21.2%
Sums advanced to Financial Advisors	18,415	19,395	-980	-5.1%
Stock exchange interest-bearing daily margin	14,091	13,088	1,003	7.7%
Charges to be debited and other loans	14,187	4,172	10,015	240.1%
Operating loans and other loans	188,599	153,781	34,818	22.6%

With regard to **operating receivables** and other transactions (+22.6%), there was an increase in trade receivables accrued on the placement and distribution of financial and insurance products and fees to be debited to customers in respect of year-end payments.

Net **non-performing exposures** on loans to customers amounted to 26.9 million euros, or 1.3% 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.¹⁷ 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 6.6 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 approximately 0.4 million euros, or around 0.02% of total loans to customers.

(€ THOUSAND)	31.12.2019				31.12.2018				DELTA	CHANGE %
	BAD LOANS	UNLIKELY TO PAY	NON PERFORMING PAST-DUE EXPOSURES	TOTAL	BAD LOANS	UNLIKELY TO PAY	NON PERFORMING PAST-DUE EXPOSURES	TOTAL		
Gross exposure	32,407	4,566	2,142	39,115	32,380	11,849	5,074	49,303	-10,188	-21%
Adjustments	10,835	945	424	12,204	10,913	1,294	281	12,488	-284	-2%
Total net exposure	21,572	3,621	1,718	26,911	21,467	10,555	4,793	36,815	-9,904	-27%
Gross exposure	28,694	-	-	28,694	28,214	-	-	28,214	480	2%
Adjustments	8,455	-	-	8,455	8,427	-	-	8,427	28	-
Exposure guaranteed by net indemnity	20,239	-	-	20,239	19,787	-	-	19,787	452	2%
Gross exposure	3,713	4,566	2,142	10,421	4,166	11,849	5,074	21,089	-10,668	-51%
Adjustments	2,380	945	424	3,749	2,486	1,294	281	4,061	-312	-8%
Exposure net of indemnity	1,333	3,621	1,718	6,672	1,680	10,555	4,793	17,028	-10,356	-61%
Net guaranteed exposure	1,299	3,455	1,504	6,258	1,625	9,926	4,691	16,242	-9,984	-61%
Net exposure not guaranteed	34	166	214	414	55	629	102	786	-372	-47%

¹⁷ 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 2019, the **interbank position**, net of the securities portfolio and operating loans, showed a net credit balance of 790 million euros, sharply down compared to a net exposure of 1,226 million euros at the end of the previous year. This situation was essentially due to the significant reduction in the credit position with the ECB (-488 million euros) and in the repurchase agreements and demand deposits with credit institutions (-166 million euros), partly offset by the launch of new repurchase agreements for investment purposes, with securitisation notes (Brixia) as their underlying, for an amount of 153 million euros.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
1. Repayable on demand	599,103	1,253,295	-654,192	-52.2%
Demand deposits with ECB and Bank of Italy *	503,443	991,874	-488,431	-49.2%
Demand deposits with credit institutions	67	29,918	-29,851	-99.8%
Transfer accounts	95,593	231,503	-135,910	-58.7%
2. Time deposits	286,065	101,509	184,556	181.8%
Mandatory reserve	101,063	82,714	18,349	22.2%
Term deposits	22,395	17,611	4,784	27.2%
Repurchase agreements	152,969	-	152,969	n.a.
Collateral margins	9,638	1,184	8,454	714.0%
Total loans to banks	885,168	1,354,804	-469,636	-34.7%
1. Due to Central Banks	-	-	-	n.a.
TLTRO	-	-	-	n.a.
2. Due to banks	94,807	128,725	-33,918	-26.3%
Transfer accounts	72,790	108,850	-36,060	-33.1%
Collateral margins	1,690	-	1,690	n.a.
Other debts	20,327	19,875	452	2.3%
Total due to banks	94,807	128,725	-33,918	-26.3%
Net interbank position	790,361	1,226,079	-435,718	-35.5%

* Reclassified from Item 10 — Demand loans to Central Banks.

Provisions

Specific provisions totalled 174.5 million euros overall (up by 9.7 million euros or 5.9% on the previous year), of which 3.8 million euros attributable to the supplementary pension plans for employees of the recently acquired BG Valeur. Net of this item, the increase in the aggregate was led by provisions for contractual indemnities for the sales network (+16.3 million euros), largely offset by the decline in the balance of provisions for incentives for the sales network, owing primarily to the reduction of commitments in respect of network development plans.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Provision for termination indemnity	5,153	4,831	322	6.7%
Provisions for guarantees issued and commitments	108	86	22	25.6%
Provisions for pensions and similar obligations	3,854	-	3,854	n.a.
Other provisions for liabilities and contingencies	165,407	159,928	5,479	3.4%
Provisions for staff expenses	14,867	13,762	1,105	8.0%
Restructuring provision – Redundancy incentives plan	1,741	1,369	372	27.2%
Provisions for legal disputes	12,899	14,287	-1,388	-9.7%
Provisions for contractual indemnities to the sales network	97,879	81,595	16,284	20.0%
Provisions for sales network incentives	31,034	46,131	-15,097	-32.7%
Other provisions for liabilities and contingencies	6,987	2,784	4,203	151.0%
Total provisions	174,522	164,845	9,677	5.9%

Contractual indemnities refer, in the amount of 63.4 million euros, to the provisions for year-end indemnities for Financial Advisors pursuant to Article 1751 of the Italian Civil Code (calculated on an actuarial basis) and, in the amount of 22.3 million euros, to other indemnities relating to the termination of the agency relationship or managerial position (managerial development indemnity, portfolio development indemnity, pension bonus).

The aggregate included a 12.1 million euros provision for the service of the annual cycles of the 2017-2026 *Framework Loyalty Programme for the Sales Network*, which saw the launch of the third annual cycle (2019-2026) in 2019. The said 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. The provisions relating to the three cycles that have been launched thus far refer to 50% of the accrued indemnity to be paid in cash, whereas the portion payable in Banca Generali shares has been retained pursuant to IFRS 2.

Provisions for other risks and charges also include amounts set aside to cover the tax dispute of 2.6 million euros. On this subject, it should be noted that contacts with the Italian Revenue Agency regarding the tax dispute pertaining to 2014 resumed in the second half of the year (without, however, yet reaching any settlement of the dispute).

Finally, pension provisions refer to the supplementary pension plan for the employees of the recently acquired BG Valeur. Under local pension legislation (LLP), they cover the mandatory supplementary benefits upon satisfaction of pension requirements or occurrence of an adverse event (death or disability). These obligations are covered by dedicated assets managed by Swiss Life Collective Foundation BGV.

Net equity and regulatory aggregates

At 31 December 2019, the Banking Group's consolidated net equity, including net profit for the year, was 917.7 million euros.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Share capital	116,852	116,852	-	-
Share premium reserve	57,729	57,889	-160	-0.3%
Reserves	454,465	414,368	40,097	9.7%
(Treasury shares)	-37,356	-22,724	-14,632	64.4%
Valuation reserves	3,813	-11,636	15,449	-132.8%
Equity instruments	50,000	-	50,000	n.a.
Net profit (loss) for the year	272,139	180,126	92,013	51.1%
Group net equity	917,642	734,875	182,767	24.9%
Net equity attributable to minority interests	26	-	26	n.a.
Consolidated net equity	917,668	734,875	182,793	24.9%

The 182.8 million euro increase in net equity in 2019 was primarily influenced by the distribution of the 2018 dividend (144.9 million euros), the repurchase of treasury shares, the change in the reserves for share-based payments (IFRS 2), the overall positive 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 consolidated net profit, as showed in the following table.

It should also be noted that on 23 December Banca Generali finalised the issue of an Additional Tier 1 Perpetual bond of 50 million euros, which under IAS 32 is considered an equity instrument and meets the requirements under regulatory capital rules for being included among Additional Tier 1 instruments in the Issuer's financial statements. The issue was fully subscribed in private placement by two German insurance companies of the Generali Group. The bonds are perpetual and callable, at the issuer's sole discretion, from the sixth year from issue, and they yield — subject to authorisation from the competent supervisory authority and under the conditions established in applicable legislation — a non-cumulative half-yearly coupon at a fixed rate of 4.5% per annum for the first five years.

(IN € THOUSAND)	31.12.2019	31.12.2018
Net equity at year-start	734,875	736,070
IFRS 9 and IFRS 15 FTA	-	-2,827
Dividend paid	-144,900	-145,474
Purchase and sale of treasury shares	-17,786	-12,841
Matured IFRS 2 reserves on own financial instruments	7,207	4,408
Matured IFRS 2 reserves on the AG Group's IFRS 2-related plans	653	1,100
Change in valuation reserves	15,611	-25,687
Issue of A11 subordinated loan	50,000	-
Consolidated net profit	272,122	180,126
Other effects at consolidated level	-114	-
Net equity at year-end	917,668	734,875
Change	182,793	-1,195

As regards the change in treasury shares, a total of 667,419 Banca Generali shares were repurchased in the reporting year (following the authorisation of the Supervisory Authority) for a total value of 17,786 thousand euros, intended solely for the service of the Banking Group's Remuneration Policies. 128,930 treasury shares, with a value of 3,153 thousand euros¹⁸, were instead allotted to employees and Financial Advisors falling within the Banking Group's Key Personnel, as well as to network managers.

Fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (OCI) showed a net increase of 15.5 million euros, primarily owing to the uptrend in the prices of debt securities on financial markets.

(€ THOUSAND)	31.12.2019		31.12.2018		CHANGE
	POSITIVE RESERVE	NEGATIVE RESERVE	NET RESERVE	NET RESERVE	
OCI reserves - HTCS debt securities	6,852	-682	6,170	-9,657	15,827
OCI reserves - equity securities	-	-300	-300	-	-300
Exchange differences	-	-128	-128	-131	3
Actuarial gains (losses) from defined benefit plans	-	-1,929	-1,929	-1,848	-81
Total	6,852	-3,039	3,813	-11,636	15,449

Consolidated own funds amounted to 570.9 million euros, an increase of 33.0 million euros on the previous year. This was primarily due to the retained earnings attributable to the year (+56.0 million euros) and the positive performance of valuation reserves for HTCS financial assets (+15.5 million euros), which offset the effects of the share repurchase programme (-17.8 million euros) and the impact of the acquisition of the Nextam Group and Valeur in terms of greater deductions for goodwill and intangibles (-30.4 million euros), net of related DTLs.

¹⁸ In this regard, see section "Purchase of Treasury Shares and Parent Company Shares".

OWN FUNDS (IN € THOUSAND)	31.12.2019
Own funds at 31.12.2018	537,915
Purchase and sale of treasury shares	-17,786
Change in reserves for share-based payments (IFRS 2)	7,860
Estimated regulatory provisions for retained earnings	55,963
Change in OCI reserves on HTCS	15,529
Change in IAS 19 OCI reserves	-151
Change in goodwill and intangible assets, net of related DTLs	-34,629
Negative prudential filters (prudent valuation)	-767
AT1 equity instruments	50,000
Other effects	5
Total changes in TIER 1 capital	76,024
Tier 2 subordinated loans (regulatory amortisation)	-43,000
Total changes in TIER 2 capital	-43,000
Own funds at 31.12.2019	570,939
Change	33,024

Under the new dividend policy, approved by the BoD on 8 March 2019, retained earnings were quantified on the basis of the proposal approved by the BoD on that same date for a total payout of 216.2 million euros for 2019. This proposal corresponds to a payout ratio of over 79%, very near the upper limit of the guidance confirmed during the presentation of the Three-Year Plan.

At the end of the year, the aggregate capital for regulatory purposes recorded 150.9 million euros in excess of the SREP minimum requirements for 2019. CET1 ratio reached 14.7%, compared to a minimum requirement of 7.75%, and Total Capital Ratio (TCR) reached 16.1%, compared to the SREP minimum requirement of 11.84%.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE		01.01.2019
	FULLY LOADED	PHASE IN	AMOUNT	%	FTA-PHASE IN
Common Equity Tier 1 capital (CET1)	520,939	494,915	26,024	5.26%	494,845
Additional Tier 1 capital (AT1)	50,000	-	50,000	n.a.	-
Tier 2 capital (T2)	-	43,000	-43,000	-100.00%	43,000
Total own funds	570,939	537,915	33,024	6.14%	537,845
Credit and counterparty risk	198,294	152,708	45,587	29.85%	163,582
Market risk	294	575	-281	-48.95%	575
Operating risk	85,192	73,274	11,918	16.26%	73,274
Total absorbed capital (Pillar I)	283,780	226,557	57,223	25.26%	237,431
Total SREP minimum requirements (Pillar II)	419,994	288,860	131,134	45.40%	351,397
Excess over SREP minimum requirements	150,945	249,055	-98,110	-39.39%	186,448
Risk-weighted assets	3,547,248	2,831,965	715,283	25.26%	2,967,884
CET1/Risk-weighted assets	14.7%	17.5%	-2.8%	-16.0%	16.7%
Tier 1/Risk-weighted assets	16.1%	17.5%	-1.4%	-7.9%	16.7%
Total own funds/Risk-weighted assets (Total Capital Ratio)	16.1%	19.0%	-2.9%	-15.3%	18.1%

Capital absorbed by credit risk grew significantly on the previous year (+45.6 million euros), primarily due to the increase in exposures to supervised intermediaries and undertakings (+30.6 million euros) and other exposures (+12.5 million euros). However, the increase in this latter item was largely due to the effects of the adoption of the new international accounting standard IFRS 16 on leases with effect from 1 January 2019. In fact, it entailed the recognition of new tangible assets (consisting of rights of use - RoUs) amounting to approximately 154 million euros and a resulting effect on the relevant capital requirement of approximately 12.3 million euros.

The acquisition of the Nextam Group and Valeur entailed a decline in the Total Capital Ratio of approximately 118 bps, whereas the effect of the introduction of IFRS 16 (on an equivalent scope) was 98 bps, for an overall impact of the two factors of 216 bps.

With reference to the adoption of IFRS9, 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 IFRS9 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 reached 4.83%, slightly down compared to that at the end of the previous year (4.95%).

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

(€ THOUSAND)	31.12.2019		
	SHARE CAPITAL AND RESERVES	NET PROFIT	NET EQUITY
Net equity of Banca Generali	543,239	248,358	791,597
Differences between net equity and book value of companies consolidated using the line-by-line method	102,041	-	102,041
- Profit carried forward of consolidated companies	81,028	-	81,028
- Goodwill	20,854	-	20,854
- Other changes	159	-	159
Dividends from consolidated companies	21,613	-212,613	-191,000
Consolidated companies' result for the year	-	236,162	236,162
Net profit attributable to minority interests	-	-17	-17
Result of associates valued at equity	-408	453	45
Valuation reserves - consolidated companies	-128	-	-128
Goodwill	-20,854	-	-20,854
Consolidation adjustments	-	-204	-204
Net equity of the Banking Group	645,503	272,139	917,642

Cash flows

In 2019, operating activities used a total of 329 million euros in cash flows. Cash inflows were generated by operations (234.6 million euros) and by the significant increase in net inflows from customers (+1,686 million euros). Such liquidity was fully absorbed by investments in financial assets (-2,106 million euros) and, to a lesser extent, by the expansion of loans to customers (-88.2 million euros).

Dividends paid (-144.9 million euros) and outlays for new investments and business combinations (-44.2 million euros) subsequently added to total net cash outflows generated by operating activities.

Cash and cash equivalents at year-end amounted to 525.5 million euros, down 487.5 million euros compared to the previous year, in line with the decline in demand deposits with ECB.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE
Liquidity generated by operations	234,634	157,258	77,376
Financial assets	-2,105,806	-52,002	-2,053,804
Loans to banks	-16,050	-78,720	62,670
Loans to customers	-88,192	-269,814	181,622
Other operating assets	-10,063	104,745	-114,808
Total assets	-2,220,111	-295,791	-1,924,320
Amounts due to banks	-34,278	-551,413	517,135
Amounts due to customers	1,685,845	1,359,898	325,947
Other operating liabilities	5,278	-49,208	54,486
Total liabilities	1,656,845	759,278	897,567
Liquidity generated by/used for operating activities	-328,632	620,745	-949,377
Investments	-17,465	-13,036	-4,429
Purchase of business units and equity investments	-26,707	-	-26,707
Liquidity generated by/used for investing activities	-44,172	-13,036	-31,136
Dividends paid	-144,900	-145,474	574
Issue/purchase of treasury shares	-17,785	-12,841	-4,945
Liquidity generated by/used for financing activities	-162,685	-158,315	-4,371
Net liquidity generated/used	-535,489	449,394	-984,883
Cash and cash equivalents	525,400	1,012,891	-487,491

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").

Following the reorganisation of the sales networks approved by the Board of Directors of 8 November 2017, the corporate management identified the relevant operating segments 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 **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. In addition, the acquisitions finalised in 2019 of Nextam Partners and Valeur Fiduciaria, operating in the private banking and investment banking segment, were fully allocated to the Wealth Management CGU.

The **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 income from trading and 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").

In this regard, it should be noted 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 net 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 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.

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

For the purpose of a better understanding the economic data reported below, it should be noted that 60 Financial Advisors moved from the Private Banking CGU to the WM CGU in 2019, thus contributing about 3.6 billion euros to the increase in this CGU's assets. 13 Financial Advisors with assets managed of 0.5 billion euros moved instead from the Wealth Management CGU to the Private Banking CGU.

BANCA GENERALI GROUP PROFIT AND LOSS ACCOUNT BY BUSINESS SEGMENT	31.12.2019				31.12.2018			
	PB CGU	WM CGU	CORPORATE CENTRE	TOTAL	PB CGU	WM CGU	CORPORATE CENTRE	TOTAL
NET INTEREST INCOME	10,247	5,192	58,577	74,015	5,479	2,451	52,043	59,972
Fee income	539,860	250,090	91,065	881,014	505,167	173,960	62,539	741,666
of which: underwriting	21,956	5,916	910	28,781	17,323	3,100	485	20,908
of which: management	416,321	198,125	31,868	646,313	446,800	158,386	29,015	634,202
of which: performance	70,958	31,117	45,361	147,436	24,198	6,373	8,044	38,614
of which: other	30,626	14,932	12,926	58,484	16,846	6,101	24,995	47,942
Fee expense	-252,465	-126,199	-12,540	-391,204	-256,302	-106,542	-13,500	-376,344
of which: incentives	-8,216	-5,113	-	-13,329	-14,990	-7,738	-	-22,728
NET FEES	287,395	123,890	78,525	489,810	248,865	67,418	49,039	365,321
Net income (loss) from trading activities	-	-21	11,302	11,282	-	-	21,811	21,811
Dividends	-	-	2,891	2,891	-	-	2,308	2,308
NET BANKING INCOME	297,642	129,061	151,295	577,998	254,344	69,869	125,201	449,413
Staff expenses	-	-	-	-97,219	-	-	-	-84,227
Other general and administrative expenses	-	-	-	-162,681	-	-	-	-162,494
Net adjustments/reversal of property, equipment and intangible assets	-	-	-	-29,955	-	-	-	-9,301
Other operating expenses/income	-	-	-	68,706	-	-	-	59,437
Net operating expenses	-	-	-	-221,149	-	-	-	-196,585
Operating result	-	-	-	356,849	-	-	-	252,828
Adjustments of other assets	-	-	-	-5,387	-	-	-	-7,286
Net provisions	-	-	-	-24,281	-	-	-	-25,351
Gains (losses) from equity investments	-	-	-	-1,867	-	-	-	-431
Operating profit before taxation	-	-	-	325,314	-	-	-	219,760
Income taxes on operating activities	-	-	-	-53,192	-	-	-	-39,634
Net profit (loss)	-	-	-	272,122	-	-	-	180,126
Net profit for the year attributable to minority interests	-	-	-	17	-	-	-	-
Net profit	-	-	-	272,139	-	-	-	180,126
(€ MILLION)								
Assets under management	43,428	25,235	5,091	73,754	41,023	16,055	4,271	61,349
Net inflows	3,151	2,349	-370	5,130	3,967	1,334	-281	5,020
No. of FAs/RMs	1,707	333	n.a.	2,040	1,720	265	n.a.	1,985

PB CGU

PB CGU	31.12.2019	31.12.2018	CHANGE
Net interest income	10,247	5,479	87.01%
Net fees	287,395	248,866	15.48%
Net income (loss) from trading activities and dividends	-	-	-
Net banking income	297,642	254,345	17.02%
AUM	43,428	41,023	5.86%
Net inflows	3,151	3,967	-20.57%
Financial Advisors	1,707	1,720	-0.76%
AUM/FA	25.44	23.85	6.67%
Inflows/FA	1.85	2.31	-19.97%

At 31 December 2019, this CGU's AUM amounted to 43.4 billion euros, up compared to the previous year by about 2.4 billion euros (+5.9%) despite the net contribution arising from the change in the CGU's Financial Advisors, which had a negative impact of about 3.1 billion euros. In 2019, net inflows (3.2 billion euros) and the 2.3 billion euro positive market effect enabled the PB CGU's Financial Advisors to increase their average portfolio to approximately 25.4 million euros (+6.7%) at year-end 2019.

In 2019, this CGU's net banking income amounted to 297.6 million euros, up 17% compared to 2018 (254.5 million euros). This result was attributed to the following factors:

- › an increase in net interest income (+87.0%), chiefly due to the effect of increased liquidity volumes and the decline in the curve of the interest rates applied within the model based on the internal reference rate, which therefore resulted in a lower share of notional interests attributed to the Corporate Centre CGU;
- › an increase in net fees (+15.5%), which benefited from the significant growth reported by performance fees compared to the previous year; this result was also achieved thanks to the expansion of underwriting fees (+27%) and other fees (mainly associated with financial advisory services rendered against payment) that allowed to offset the decline in management fees, whose reduction was mainly due to the transfer of Financial Advisors and their assets from the PB CGU to the WM CGU.

The CGU's contribution to consolidated net banking income was 51%, down compared to 2018 (57%), whereas the ratio of net fees to average AUM was 0.70% (0.61% in 2018).

WM CGU

WM CGU	31.12.2019	31.12.2018	CHANGE
Net interest income	5,192	2,451	111.85%
Net fees	123,890	67,417	83.77%
Net income (loss) from trading activities and dividends	-21	-	-
Net banking income	129,061	69,867	84.72%
AUM	25,235	16,055	57.18%
Net inflows	2,349	1,334	76.06%
Financial Advisors	333	265	25.66%
AUM/FA	75.78	60.59	25.08%
Inflows/FA	7.05	5.03	40.11%

At 31 December 2019, WM CGU's AUM amounted to 25.2 billion euros, up 9.2 billion euros compared to 2018 (+57.2%). The CGU's result was driven by several positive factors: net inflows amounting to over 2.3 billion euros, sharply increasing compared to 2018 (1.3 billion euros); the contribution of about 3.1 billion euros following the change in the CGU's Financial Advisors; and a market effect of approximately 1.5 billion euros. In addition to these factors, the increase in assets was also attributable to the contribution of about 2.2 billion euros generated by the acquisitions finalised in 2019 of Nextam Partners and Valeur Fiduciaria, operating in the private banking and investment banking segment.

In 2019, the CGU's net banking income was 129.1 million euros (69.9 million euros in 2018), up 85%. The reasons of this performance are the same as those already illustrated for the PB CGU, in addition to the extraordinary contributions related to the acquisitions finalised in 2019 and the transfer of Financial Advisors from the PB CGU to the WM CGU, which led to a growth of over 25% in management fees. The CGU's contribution to total net banking income was 22% (16% in 2018), whereas the ratio of net fees to average AUM was 0.59% (0.41% in 2018).

CORPORATE CENTER CGU

CORPORATE CENTER	31.12.2019	31.12.2018	CHANGE
Net interest income	58,577	52,043	12.56%
Net fees	78,525	49,038	60.13%
Net income (loss) from trading activities and dividends	14,193	24,119	-41.16%
Net banking income	151,295	125,200	20.84%
AUM	5,091	4,271	19.19%
Net inflows	n.a.	n.a.	n.a.
Financial Advisors	n.a.	n.a.	n.a.

At 31 December 2019, the Corporate Centre CGU's AUM amounted to 5.1 billion euros. In 2019, net banking income in the Corporate channel reached 151.3 million euros (125.2 million euros in 2018), with an annual increase of 20.8% due to:

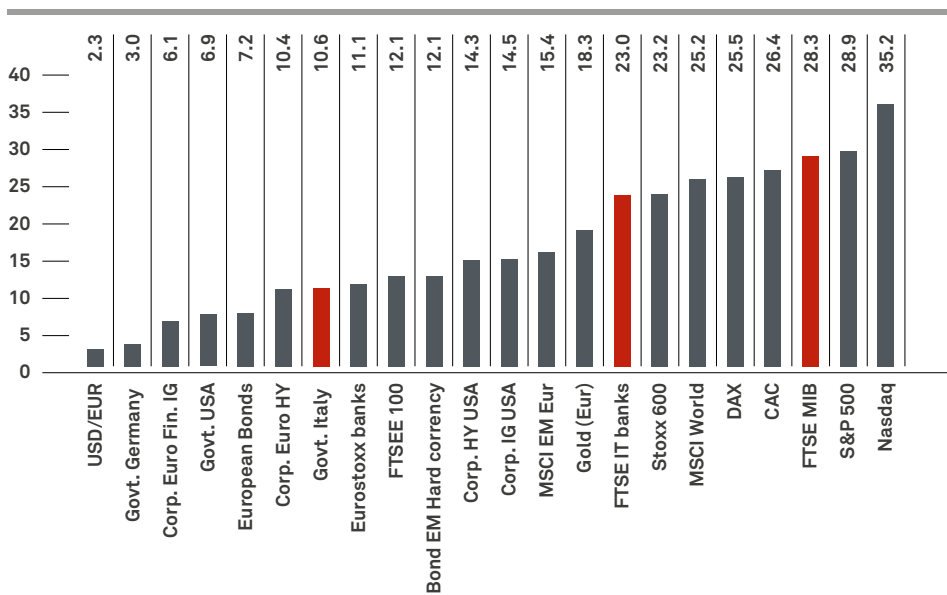
- > an overall decrease in net financial income, due to the improvement in the net interest income component (+12.6%), which however did not offset the decline in gains and losses reported in the previous year (-41%);
- > an increase in net fees, mainly as a result of the higher contribution of performance fees (45.4 million euros in 2019 compared to 8.0 million euros in 2018) and the increase in management fees (31.9 million euros), due to the expansion of assets under management relating to the UCITS underlying the policies placed by Generali Group companies. The contribution to consolidated net banking income was 26% (28% in 2018).

Banca Generali Stock Performance

International financial markets rallied progressively throughout 2019, in many cases reaching and exceeding all-time records. Caution prevailed early in the year as a result of the significant financial market correction in the fourth quarter of 2018 driven a series of negative information regarding the trade war between the United States and China and the concurrent economic slowdown that seemed to be taking shape in the Eurozone and the United States.

The turnabout in the Federal Reserve's policy and the prospect of a trade agreement being reached then drove a significant rally on global equity markets, as may be seen from the performance of the MSCI World Index, up 27% during the year. In many countries, and in the Eurozone in particular, the continuation of expansionary monetary policy by central banks also facilitated new lows for bond yields, including peripheral countries (such as Italy, which in September reached an all-time low for the BTP of 0.82%). Although the final months of the year saw a turnaround relating to signs of an economic recovery, bonds with negative rates continued to account for around 20% of total global bonds.

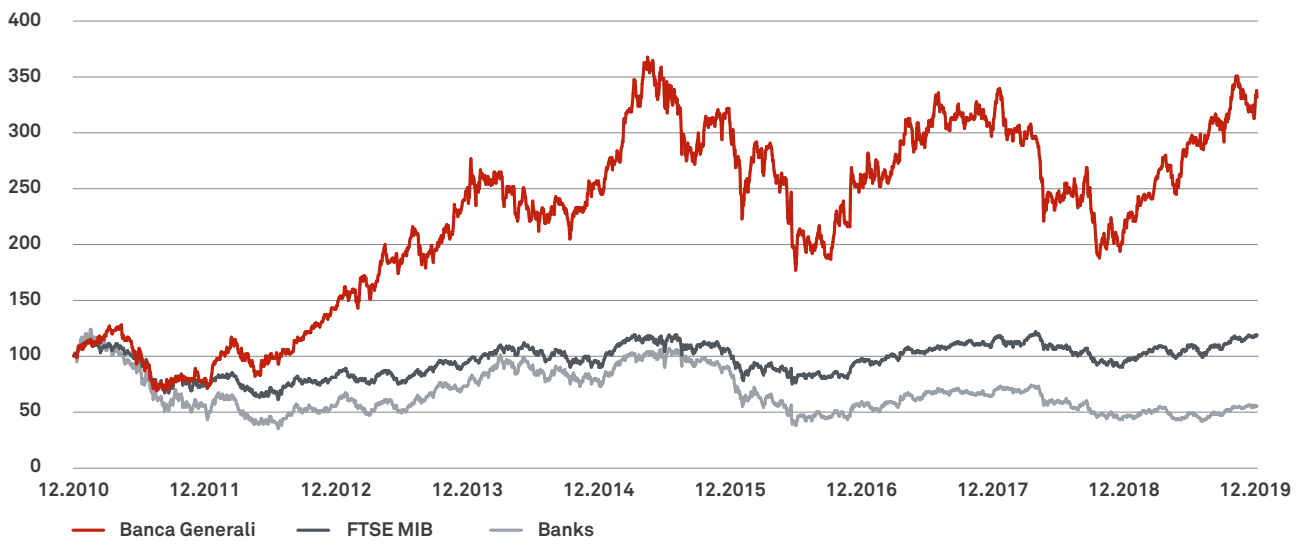
PERFORMANCE OF THE WORLD'S MAIN ASSET CLASSES IN 2019 (%)



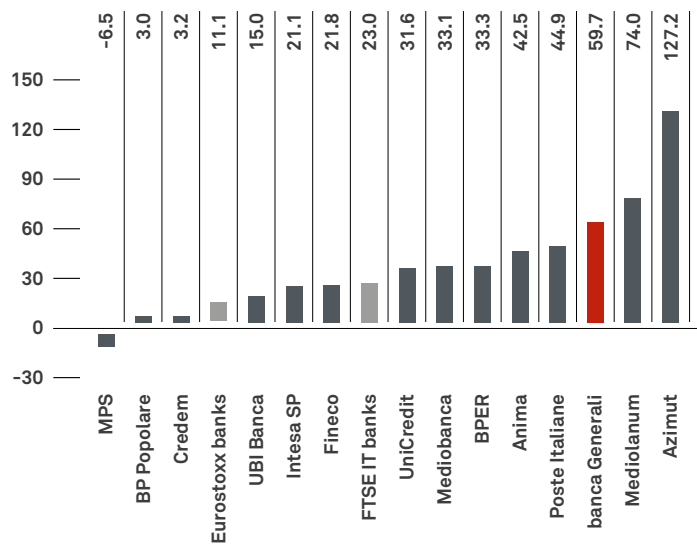
Within this environment, Banca Generali shares traded at 28.96 euros on 31 December 2019 (up by 60% on the beginning of the year), delivering one of the best performances of Italy's financial sector and sharply outperforming the FTSE MIB index (+28.3%) and banking indices for Italy (+23%) and Europe (+11.1%). This positive performance was supported by the market environment, favourable to the sector in general, and was further reinforced, in particular, by the positive feedback to the Investor Day that Banca Generali organised to present its 2019-2021 Three-Year Plan.

During the year, Banca Generali temporarily left the FTSE MIB index when it was revised in June, following the IPO by electronic payments giant Nexi, which has a far larger capitalisation and free float. However, the shares soon returned to the index of Italy's 40 largest companies in December, due to the sharp appreciation in share price and increase in trading volume. The dynamics relating to inclusion in the relevant indices drove temporary volatility relating to the shares, which soon subsided.

RELATIVE PERFORMANCE OF BANCA GENERALI STOCK



PERFORMANCE OF THE MAIN FINANCIAL STOCKS ON THE ITALIAN MARKET IN 2019 (%)



MARKET PRICES OF BANCA GENERALI SHARE - SUMMARY

	2015	2016	2017	2018	2019
Maximum (euro)	33,360	28,300	30,500	30,840	31,860
Minimum (euro)	22,230	16,020	22,790	17,030	18,240
Average (euro)	28,110	21,680	26,860	23,529	25,409
Year-end (euro)	29,180	22,660	27,740	18,130	28,960
Capitalisation (€ million)	3,388	2,638	3,241	2,119	3,384

The Bank's shares amounted to 116,851,637, of which 50.1% held by the parent company Assicurazioni Generali. Over the years, the number of the Bank's treasury shares rose, reaching 1,468,174 at the end of 2019 and accounting for 1.26% of share capital. These shares are intended for the service of long-term remuneration plans for the Bank's key personnel, thus confirming their link to the stock performance.

At the end of the year, the Bank's capitalisation was 3,384 million euros.

AUTHORISED SHARE CAPITAL

	2015	2016	2017	2018	2019
No. shares issued	116,092,599	116,424,502	116,851,637	116,851,637	116,851,637
No. of outstanding shares at year-end *	115,995,422	116,298,373	116,379,062	115,922,547	115,384,058
Treasury shares	97,177	126,129	472,575	929,090	1,467,579

* 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 Result

Banca Generali closed 2019 with net profit of 248.4 million euros, up compared to 189.1 million euros reported at the end of the previous year. This result was mainly attributable to the higher contribution of dividends distributed both in advance and at the end of the previous year by the Luxembourg subsidiary, which rose from 148.7 million euros to 212.6 million euros.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Net interest income	74,278	60,195	14,083	23.4%
Net income (loss) from trading activities	11,302	21,811	-10,509	-48.2%
Dividends	215,504	151,032	64,472	42.7%
<i>of which: dividends from equity investments</i>	<i>212,613</i>	<i>148,724</i>	<i>63,889</i>	<i>43.0%</i>
Net financial income	301,084	233,038	68,046	29.2%
Fee income	581,992	554,158	27,834	5.0%
Fee expense	-363,135	-348,114	-15,021	4.3%
Net fees	218,857	206,044	12,813	6.2%
Net operating income	519,941	439,082	80,859	18.4%
Staff expenses	-86,485	-79,330	-7,155	9.0%
Other general and administrative expenses	-159,406	-160,328	922	-0.6%
Net adjustments of property, equipment and intangible assets	-28,833	-9,223	-19,610	212.6%
Other operating expenses/income	68,069	59,040	9,029	15.3%
Net operating expenses	-206,655	-189,841	-16,814	8.9%
Operating result	313,286	249,241	64,045	25.7%
Net adjustments for non-performing loans	-5,387	-7,276	1,889	-26.0%
Net provisions	-24,274	-25,342	1,068	-4.2%
Dividends and income (losses) from equity investments	-2,059	-	-2,059	-
Gains (losses) from disposal of equity investments	-262	-282	20	-7.1%
Operating profit before taxation	281,304	216,341	64,963	30.0%
Income taxes for the year on current operations	-32,946	-27,283	-5,663	20.8%
Net profit	248,358	189,058	59,300	31.4%

Reclassified net banking income¹⁹, net of the dividends distributed by the Banking Group's investees, increased by nearly 17.0 million euros (+5.8%) on the previous year, primarily due to the rise in net fees (+12.8 million euros) and net interest income (+14.1 million euros), partly offset by the decrease in net income from trading activities and dividends (-10.5 million euros), which in the first half of 2018 had benefited from a de-risking measure targeting the Bank's own portfolio.

Net interest income amounted to 74.3 million euros, with a 23.4% increase compared to 2018, which was however affected by the first-time adoption of IFRS 16. In 2019, the application of the new Standard entailed the recognition of greater interest expense of 3.4 million euros on financial liabilities associated with lease contracts. Net of such items, net interest income would have increased by 29.1%.

¹⁹ In order to ensure a better understanding of operating performance, in the reclassified Profit and Loss Account the provisions for sales incentives 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 13.3 million euros for 2019 and 22.7 million euros for 2018.

Net fees amounted to 218.9 million euros, increasing by 6.2% compared to the previous year. Fee income for placement and asset management increased during the year (+18.8 million euros), partially offset by the increase in distribution fee expense (+14.4 million euros). In the other banking and financial services segment, advisory fees rose (+8.3 million euros), driven by the advanced advisory service.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Fees for portfolio management	75,392	79,452	-4,060	-5.1%
Fees for placement of securities and UCITS	211,013	201,500	9,513	4.7%
Fees for distribution of third-party financial products	239,103	225,708	13,395	5.9%
Fees for trading, receipt of orders, and custody of securities and currencies	23,649	22,931	718	3.1%
Consultancy	23,699	15,395	8,304	53.9%
Fees for collection and payment services	4,329	4,318	11	0.3%
Fees for other banking services	4,807	4,854	-47	-1.0%
Total fee income	581,992	554,158	27,834	5.0%
Fees for off-premises offer	349,970	335,595	14,375	4.3%
Fees for collection and payment services	4,397	3,991	406	10.2%
Fees for trading and securities custody	5,644	6,898	-1,254	-18.2%
Fees for portfolio management	1,157	746	411	55.1%
Fees for other banking services	1,967	884	1,083	122.5%
Total fee expense	363,135	348,114	15,021	4.3%
Net fees	218,857	206,044	12,813	6.2%

Fee income from the solicitation of investment and asset management of households reached 525.5 million euros, rising 3.7% compared to the previous year.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
1. Individual portfolio management	75,392	79,452	-4,060	-5.1%
Portfolio management fees	75,392	79,452	-4,060	-5.1%
1. Placement of Banking Group's UCITS units	99,092	102,661	-3,569	-3.5%
2. Placement of UCITS units	96,692	90,417	6,275	6.9%
3. Bond placement	15,229	8,422	6,807	80.8%
4. Distribution of portfolio management services	834	792	42	5.3%
5. Distribution of insurance products	237,633	224,208	13,425	6.0%
6. Distribution of other third-party financial services	636	708	-72	-10.2%
Fees for the placement and distribution of third party products	450,116	427,208	22,908	5.4%
Total	525,508	506,660	18,848	3.7%

In 2019, fees on the distribution of insurance products rose steadily to 237.6 million euros (+6.0% compared to 2018) and fees on **the placement of UCITS** not promoted by the Banking Group grew constantly to 96.7 million euros (+6.9% compared to 2018) due to very positive demand for à la carte funds and Sicavs.

Worth of mention are also the excellent results of the placement of Certificates, which generated fees for about 13.9 million euros compared to 7 million euros reported in 2018.

Underwriting and management fees on the **placement of Banking Group's Sicav** and the **result of the individual portfolio management schemes** instead declined by 3.5% and 5.1%, respectively.

Fee expense, including fee provisions, amounted to 363.1 million euros, up 4.3% compared to the previous year, mostly due to the increase in fees paid to the Financial Advisor network for off-premises offers.

The Bank's total **payout ratio** to total fee income was 62.4%, down slightly compared to 62.8% for 2018. The payout ratio for off-premises offers alone, calculated on the basis of total income fee (net of performance fees) amounted to 60.1%, essentially in line with the previous year.

The aggregate of **operating expenses** amounted to 206.7 million euros, with an overall increase of approximately 16.8 million euros compared to the previous year (+8.9%).

The change in this aggregate was mainly attributable to the effect of **non-recurring expenses** incurred in the year (9.1 million euros) and the aforementioned first-adoption of IFRS 16.

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Staff expenses	-86,485	-79,330	-7,155	9.0%
Other general and administrative expenses (net of tax recovery)	-88,153	-97,596	9,443	-9.7%
BRRD and FITD contributions	-8,307	-7,615	-692	9.1%
Net adjustments of property, equipment and intangible assets	-28,833	-9,223	-19,610	212.6%
Other income and expenses (net of tax recovery)	5,123	3,923	1,200	30.6%
Operating expenses	-206,655	-189,841	-16,814	8.9%

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 57.9%, compared to 62.2% reported at year-end 2018.

Staff expenses, including full-time employees, interim staff and directors, totalled 86.5 million euros, marking a 7.2 million euros compared to the previous year, attributable both to the increase in the ordinary component of remuneration following the workforce expansion (+18 staff compared to 2018) and to the higher variable component linked to the Bank's positive result for the year.

Other general and administrative expenses, net of recoveries of taxes paid by clients, amounted to 88.2 million euros, declining compared to the previous year (-9.4 million euros; -9.7%) as a result of the aforementioned first-adoption of IFRS 16.

This aggregate was however impacted by several non-recurring components associated with the acceleration of extraordinary strategic projects, the integration of the companies acquired by the Banking Group and the relocation of the administrative offices.

Net provisions not related to fees amounted to 24.3 million euros, a decrease of nearly 1.1 million euros compared to 2018, chiefly as a result of the decline in provisions for contractual obligations towards the sales network, which in the previous year reflected the impact of the inception of the new managerial development indemnity mechanism.

Net adjustments for non-performing loans were 5.4 million euros, with a 1.9 million euro decrease compared to 2018 that was largely attributable to the re-absorption through profit or loss of collective reserves (allocated during the previous year) for performing debt securities held in the HTC and HTCS portfolios, following the easing of tensions on the market of Italian government bonds.

Current and deferred **taxes for the year** were estimated at 32.9 million euros, up by 5.7 million euros on the expected amount reported at the end of the previous year.

The Bank's overall tax rate declined slightly by 12.6% (estimated at 11.7% at the end of 2018) mainly due to the higher weight of dividends from equity investments (+63.9 million euros).

(€ THOUSAND)	2019	2018	CHANGE	
			AMOUNT	%
Current taxes for the period	-33,095	-31,688	-1,407	4.4%
Prior years' taxes	1,006	2,018	-1,012	-50.1%
Deferred tax receivables and payables	-857	2,387	-3,244	-135.9%
Total	-32,946	-27,283	-5,663	20.8%

Balance sheet and net equity aggregates

At the end of 2019, total assets amounted to 11.7 billion euros, increasing by 2.0 billion euros compared to the end of 2018 (+21.0%).

2019 was marked by a remarkable increase in overall net inflows, which reached 10.6 billion euros (+21.3%), driven by the significant net inflows from customers (+22.1%), which largely offset the decline in interbank net inflows.

The volume of core loans at the end of the year was about 11.0 billion euros (+19.8%).

ASSETS (€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	64,997	90,640	-25,643	-28.29%
Financial assets at fair value through other comprehensive income	2,778,836	1,987,315	791,521	39.83%
Financial assets at amortised cost	8,134,941	7,087,789	1,047,152	14.77%
a) Loans to banks *	1,119,687	1,391,802	-272,115	-19.55%
b) Loans to customers	7,015,254	5,695,987	1,319,267	23.16%
Equity investments	37,463	4,445	33,018	n.a.
Property, equipment and intangible assets	259,008	101,435	157,573	155.34%
Tax receivables	49,299	52,756	-3,457	-6.55%
Other assets	360,510	334,553	25,957	7.76%
Total assets	11,685,054	9,658,933	2,026,121	20.98%

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Financial liabilities at amortised cost	10,565,184	8,706,397	1,858,787	21.35%
a) Due to banks	94,767	128,725	-33,958	-26.38%
b) Due to customers	10,470,417	8,577,672	1,892,745	22.07%
Financial liabilities held for trading and hedging	8,685	384	8,301	n.a.
Tax liabilities	9,569	14,175	-4,606	-32.49%
Other liabilities	190,178	140,874	49,304	35.00%
Special purpose provisions	169,841	164,493	5,348	3.25%
Valuation reserves	3,999	-11,505	15,504	-134.76%
Reserves	352,015	303,040	48,975	16.16%
Share premium reserve	57,729	57,889	-160	-0.28%
Share capital	116,852	116,852	-	-
Treasury shares (-)	-37,356	-22,724	-14,632	64.39%
Net profit (loss) for the year	248,358	189,058	59,300	31.37%
Total net equity and liabilities	11,685,054	9,658,933	2,026,121	20.98%

Direct inflows from customers amounted to 10.5 billion euros, with an increase of 1.9 billion euros compared to 31 December 2018 attributable to the sharp rise in net inflows from retail customers.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
1. Current accounts and demand deposits	10,056,493	8,228,273	1,828,220	22.2%
2. Term deposits	-	25,939	-25,939	-100.0%
3. Financing	116,218	173,824	-57,606	-33.1%
Repurchase agreements	116,218	130,542	-14,324	-11.0%
Subordinated loans	-	43,282	-43,282	-100.0%
4. Other debts	297,706	149,636	148,070	99.0%
Operating debts to sales network	102,122	99,213	2,909	2.9%
IFRS 16-related lease liabilities	153,690	-	153,690	n.a.
Other (money orders, amounts at the disposal of customers)	41,894	50,423	-8,529	-16.9%
Total due to customers	10,470,417	8,577,672	1,892,745	22.1%

Captive inflows from the companies within the Insurance Group showed an 11.3% decrease (net of financial liabilities attributable to the adoption of IFRS 16), totalling 503.2 million euros (accounting for 4.8% of total net inflows).

Moreover, the month of November saw the repayment of the Tier-2 subordinated loan issued by the subsidiary Generali Beteiligungs GmbH in 2014, which amounted to 43.3 million euros at the end of 2018.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Inflows from subsidiaries	73,945	40,260	33,685	83.7%
Inflows from Parent Company	27,499	87,798	-60,299	-68.7%
Inflows from other subsidiaries	327,282	439,197	-111,915	-25.5%
IFRS 16-related lease financial liabilities	74,499	-	74,499	n.a.
Total inflows from Generali Group	503,225	567,255	-64,030	-11.3%
Inflows from other parties	9,967,192	8,010,417	1,956,775	24.4%
of which: current accounts	9,627,780	7,704,315	1,923,465	25.0%
Total inflows from customers	10,470,417	8,577,672	1,892,745	22.1%

The growth in inflows from customers (external to the Insurance Group) continued to be driven mostly by demand current account deposits, which reported a net increase of 1,923 million euros to 9,628 million euros.

Net inflows in the form of repurchase agreements amounted to 116.2 million euros (-11.0% compared to 2018).

Core loans totalled approximately 11.0 billion euros overall and increased by 1,813 million euros (+19.8%) compared to 31 December 2018.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	64,997	90,640	-25,643	-28.3%
Financial assets at fair value through other comprehensive income	2,778,836	1,987,315	791,521	39.8%
Financial assets at amortised cost	8,134,941	7,087,789	1,047,152	14.8%
a) Loans to banks	1,119,687	1,391,802	-272,115	-19.6%
Deposits and financing *	874,165	1,312,073	-437,908	-33.4%
Debt securities	245,116	79,432	165,684	208.6%
Other operating loans	406	297	109	36.7%
b) Loans to customers	7,015,254	5,695,987	1,319,267	23.2%
Financing	2,120,071	2,028,163	91,908	4.5%
Debt securities	4,768,362	3,549,694	1,218,668	34.3%
Other operating loans	126,821	118,130	8,691	7.4%
Total interest-bearing financial assets and loans	10,978,774	9,165,744	1,813,030	19.8%

* ECB demand deposits included.

In 2019, the Bank's investment activity gained significant momentum, focusing on both supporting the sharp increase in net inflows and absorbing the surplus liquidity held at the end of 2018. Investments in financial asset portfolios increased markedly by 2,150 million euros (+37.7%).

Demand deposits with the ECB stood at 503.4 million euros and, albeit remaining at high levels, declined by 49.2% compared to the previous year (991.9 million euros).

The rise in loans to customers was mainly attributable to on current account overdraft facilities.

Loans to customers amounted to 2,120 million euros, increasing by 4.5% compared to the end of 2018. This result was mostly due to the expansion of loans in the form of overdraft facilities (+126.5 million euros) and repurchase agreements (+6.1 million euros), partly offset by the decline of mortgages.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Current accounts	1,112,435	985,906	126,529	12.8%
Mortgages and personal loans	799,311	840,147	-40,836	-4.9%
Other financing and loans not in current accounts	2,256	2,173	83	3.8%
Short-term term deposits on the new MIC	-	-	-	n.a.
Reverse repurchase agreements	206,069	199,937	6,132	3.1%
Total loans	2,120,071	2,028,163	91,908	4.53%
Operating loans to management companies	81,533	81,475	58	0.1%
Sums advanced to Financial Advisors	18,415	19,395	-980	-5.1%
Stock exchange interest-bearing daily margin	14,091	13,088	1,003	7.7%
Changes to be debited and other loans	12,782	4,172	8,610	206.4%
Operating loans and other loans	126,821	118,130	8,691	7.4%

Net non-performing exposures on loans to customers amounted to 26.9 million euros, or 1.84% 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.²⁰ upon the sale of the said company and chiefly secured by cash collateral payments by the counterparty.

²⁰ 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.

Net of this aggregate, non-performing exposures on loans to customers amounted to 6.7 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 approximately 0.4 million euros, or around 0.02% of total loans to customers.

At 31 December 2019, the **interbank position** (net of the securities portfolio and operating loans) showed a net credit balance of 779.4 million euros, sharply down compared to a net credit imbalance of 1,183.3 million euros at the end of the 2018. This situation was mainly due to the significant decline in demand deposits with the ECB (503.4 million euros at the end of 2019 compared to 991.9 million euros for 2018).

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
1. Repayable on demand	588,262	1,210,726	-622,464	-51.4%
Demand deposits with ECB and Bank of Italy *	503,443	991,874	-488,431	-49.2%
Demand deposits with credit institutions	-	29,918	-29,918	-100.0%
Transfer accounts	84,819	188,934	-104,115	-55.1%
2. Time deposits	285,903	101,347	184,556	182.1%
Mandatory reserve	101,063	82,714	18,349	22.2%
Term deposits	22,233	17,449	4,784	27.4%
Repurchase agreements	152,969	-	152,969	n.a.
Collateral margins	9,638	1,184	8,454	714.0%
Total loans to banks	874,165	1,312,073	-437,908	-33.4%
1. Due to Central Banks	-	-	-	n.a.
2. Due to banks	94,767	128,725	-33,958	-26.4%
Transfer accounts	72,750	108,850	-36,100	-33.2%
Collateral margins	1,690	-	1,690	n.a.
Other debts	20,327	19,875	452	2.3%
Total due to banks	94,767	128,725	-33,958	-26.4%
Net interbank position	779,398	1,183,348	-403,950	-34.1%

* Reclassified from Item 10 — Demand loans to Central Banks.

Net equity and regulatory aggregates

At 31 December 2019, Banca Generali's net equity, including net profit for the year, amounted to 791.6 million euros compared to 632.6 million euros at the end of the previous year (+25.1%).

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Share capital	116,852	116,852	-	-
Share premium reserve	57,729	57,889	-160	-0.3%
Reserves	352,015	303,040	48,975	16.2%
(Treasury shares)	-37,356	-22,724	-14,632	64.4%
Valuation reserves	3,999	-11,505	15,504	-134.8%
Equity instruments	50,000	-	50,000	n.a.
Net profit (loss) for the year	248,358	189,058	59,300	31.4%
Total net equity	791,597	632,610	158,987	25.1%

The increase in net equity for 2019, which amounted to approximately 159.0 million euros, was primarily influenced by the distribution of the 2018 dividend (144.9 million euros), the repurchase of treasury shares, the change in the reserves for shared-based payments (IFRS 2), the overall positive 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 net profit, as showed in the following table.

It should be noted that on 23 December Banca Generali finalised the issue of an Additional Tier 1 Perpetual bond of 50 million euros, which under IAS 32 is considered an equity instrument and meets the requirements under regulatory capital rules for being included among Additional Tier 1 instruments in the Issuer's financial statements. The issue was fully subscribed in private placement by two German insurance companies of the Assicurazioni Generali Group. The bonds are perpetual and callable, at the issuer's sole discretion (from the sixth year from issue and subject to authorisation from the competent supervisory authority and under the conditions established in applicable legislation) and offer a non-cumulative half-yearly coupon at a fixed rate of 4.5% per annum for the first five years.

	31.12.2019
Net equity at year-start	632,610
Dividend paid	-144,899
Repurchase and sale of treasury shares	-17,644
Matured IFRS 2 reserve for remuneration policies	7,018
Matured IFRS 2 reserves on LTIP	650
Change in valuation reserves	15,504
Issue of AT1 equity instruments	50,000
Net profit for the year	248,358
Net equity at year-end	791,597
Change	158,987

Fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (HTCS) showed a net increase of 15.5 million euros, primarily owing to the uptrend in the prices of debt securities on financial markets.

Own funds, calculated in accordance with the Basel 3 rules, amounted to 475.6 million euros, up by 41.8 million euros compared to the end of 2018, chiefly due to the portion of retained earnings.

At year-end, the aggregate capital for regulatory purposes recorded 152.2 million euros in excess of the regulatory requirements set by SREP. Total Capital Ratio (TCR) was 15.4%, down compared to 17.9% for the previous year.

In this regard, it should be noted that the decline reported by the two ratios was partly attributable to the transition to IFRS 16, which negatively impacted TCR by 105 bps as a result of the recognition of the new RWAs associated with the rights of use, whereas the new equity investments in the Nextam group and Valeur yielded a further impact of 24 bps.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
	FULL APPLICATION	PHASE IN	AMOUNT	%
Total Common Equity Tier 1 capital (CET1)	425,558	390,794	34,764	8.9%
Total Additional Tier 1 (AT1) Capital	50,000	-	50,000	n.a.
Total Tier 2 capital	-	43,000	-43,000	-100.0%
Total own funds	475,558	433,794	41,764	9.63%
Credit risk	193,728	147,391	46,337	31.4%
Market risk	294	575	-281	-49.0%
Operating risk	52,344	45,643	6,701	14.7%
Total own funds absorbed (Pillar I)	246,366	193,609	52,757	27.2%
Total SREP minimum requirements (Pillar II)	323,356	238,986	84,369	35.3%
Excess over SREP minimum requirements	152,202	194,808	-42,606	-21.9%
Risk-weighted assets	3,079,579	2,420,115	659,463	27.2%
CET1/Risk-weighted assets	13.8%	16.1%	-2.3%	-14.4%
Tier 1/Risk-weighted assets	15.4%	16.1%	-0.7%	-4.4%
Own funds/Risk-weighted assets (Total Capital Ratio)	15.4%	17.9%	-2.5%	-13.8%

31.12.2019

Own funds at year-start	433,794
Repurchase of treasury shares	-17,644
Retained earnings	32,182
IFRS 2 reserves	7,669
Change in OCI reserves	15,527
Change in IAS 19 reserves	-93
Change in goodwill and other intangible, net of DTLs	-4,019
Negative prudential filters	-767
Deduction DTAs and significant investments	1,908
Issue of AT1 equity instruments	50,000
Total changes in TIER 1 capital	84,764
Tier 2 subordinated loans	-43,000
Total change in TIER 2 capital	-43,000
Own funds at year-end	475,558
Change	41,764

Treasury shares

At 31 December 2019, the Parent Company, Banca Generali, held 1,467,579 treasury shares (with a value of 37,356 thousand euros, equal to 1.26% of share capital), intended solely for the service of Remuneration Policies for the Banking Group's Key Personnel.

The third quarter of the year saw the completion of the plan to repurchase treasury shares, which was passed by Shareholders' Meeting on 18 April 2019, authorised by the Supervisory Authority on 21 June 2019 and launched by the Bank on 25 June 2019. As part of the plan, a total of 667,419 treasury shares were repurchased for an overall value of 17,786 thousand euros for the service of the Banking Group's Remuneration Policies. In particular, the repurchased shares will be used to cover the commitments under remuneration plans for key personnel in 2019, the third cycle of the Framework Loyalty Programme for Financial Advisors and employed Relationship Managers for 2019, the second cycle of the LTI (Long-Term Incentive) Plan for the three-year period 2019-2021, and all other commitments as provided for by the Remuneration Policies.

In 2019, with reference to the achievement of the performance objectives and other commitments set out in the Remuneration Policy, 128,930 treasury shares, with a value of 3,153 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	929,090	22,723,715	24.46
Allotments	-128,930	-3,153,458	24.46
Purchases	667,419	17,785,870	26.65
Amount at year-end	1,467,579	37,356,127	25.45

Pursuant to Article 2357-ter of the Italian Civil Code, as per Legislative Decree No. 139/2015, and without prejudice 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 2019, Banca Generali held 61,854 shares in the Parent Company, Assicurazioni Generali, broken down as follows:

- > 45,955 shares, originally acquired for the service of stock-option and with no restrictions;
- > 15,899 shares repurchased, in the capacity of fund charged with the repurchase of fractions of Assicurazioni Generali shares from free capital increases and with no restrictions.

In the reporting year, the Parent Company shares remained virtually unchanged. At 31 December 2019, they were measured at fair value in the amount of 1,141.4 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 Banca Generali Group (BG Sicav and BG Selection Sicav) and the Sicav called BG Alternative, reserved for institutional investors and launched in the third quarter of 2016.

BGFML ended 2019 with net profit of 235.4 million euros, up 95.5 million euros compared to 2018. This performance was mainly attributable to the increase in performance fees (+103.9 million euros), offset by a decline in management fees (-7.2 million euros).

Net banking income amounted to 261.4 million euros (+103.5 million euros). Total operating expenses were stable at 6.2 million euros overall (4.6 million euros of which consisted of staff expenses).

The company's net equity amounted to 127.1 million euros, net of a dividend payout of 212.6 million euros, as payment in advance for 2020 and total payment for 2019.

Overall, assets under management at 31 December 2019 amounted to 16,933 million euros, up 2,822 million euros compared to 14,111 million euros at 31 December 2018.

Performance of Generfid S.p.A.

Generfid, a company specialising in custodian capacity of assets, ended 2019 with a slight net profit and net equity amounting to about 0.9 million euros.

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

Assets under management totalled 1,240 million euros (1,261 million euros for 2018).

Performance of Nextam Partners Group

The Nextam Partners Group, which became part of the Banca Generali Group on 25 July 2019, has been offering asset and wealth management and advisory services to private-banking and institutional clients in Italy since 2001. The Group currently includes the following companies:

- › Nextam Partners S.p.A., which, before the acquisition, was the Parent Company of the Sim Group;
- › Nextam Partners SGR S.p.A., which engages in both individual portfolio management and collective management of Italian UCITS and the AIFs of the Luxembourg Sicav promoted by the group, in addition to outsourced management of third-party products;
- › Nextam Partners Sim S.p.A., which primarily provides advice and order receipt, transmission and execution services;
- › Nextam Partners LTD, based in London, which provides advice and manages the sub-funds of the Luxembourg Sicav promoted by the Group.

The Nextam Partners Group ended 2019 with net profit of 86 thousand euros. This result showed an increase compared to the net loss of 802 thousand euros reported in the previous year and was mainly attributable to the performance fee income (+3.5 million euros).

Net banking income amounted to 9.2 million euros (+1.2 million euros). Total operating expenses were 8.7 million euros, unchanged compared to 2018, of which 5.1 million euros consisted of staff expenses.

The operating profit recognised by the Banca Generali Group refers to the last five months of 2019 and amounted to 831 thousand euros. The contribution in terms of net banking income was 5.6 million euros, whereas that of operating expenses was 4.2 million euros (of which 2.8 million euros consisted of staff expenses). The Nextam Partners Group's net equity totalled 5.5 million euros at 31 December 2019.

Overall, the Nextam Partners Group's assets under management amounted to 1,042.4 million euros at 31 December 2019.

Performance of BG Valeur S.A.

BG Valeur S.A., which became part of the Banca Generali Group on 15 October 2019, is a private banking boutique based in Lugano, Switzerland.

The company, previously known as Valeur Fiduciaria SA, ended 2019 with net loss of 646 thousand CHF (580 thousand euros), calculated based on local GAAP. Revenues from asset management and advisory services amounted to approximately 11.2 million CHF (-9% compared to the previous year), whereas operating expenses totalled 11.2 million CHF (of which 8.2 million CHF consisted of staff expenses), in line with the previous year.

The BG Valeur S.A.'s net equity recognised in its statutory financial statements totalled 301 thousand CHF at 31 December 2019.

The net result attributable to the Banca Generali Group, determined on the basis of IAS/IFRS and referring to the last three months of 2019, was a slight net loss of 114 thousand euros. The contribution in terms of net banking income was 2.5 million euros, whereas that of operating expenses was 2.7 million euros (of which 2.4 million euros consisted of staff expenses).

At 31 December 2019, assets under management totalled 1,170.1 million euros.

Related party transactions

The Banca Generali's Board of Directors approved the 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, which is intended to implement Consob and Bank of Italy regulations, by adopting, at the Banking 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 by the Board of Directors 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 transactions falling within the remittance of the Board of Directors and all highly significant transactions without exception is made available to all Directors in compliance with Article 2381 of the Italian Civil Code, and 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 Article 2429, paragraph 2, of the Italian Civil Code and 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 2019, 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 2019, the Banking Group undertook the following transactions qualifying as "highly significant".

1. Meeting of 13 December 2019: the BoD approved the issue of the Additional Tier 1 instruments.

Since it qualified as a highly significant transaction, the Audit and Risks Committee issued a binding opinion according to the terms set out in the relevant Procedure.

The transaction was classified as an ordinary highly significant transaction and was thus exempt from the production of an information document in accordance with the cited Procedure.

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

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:

1. meeting of 7 February 2019: approval of the signing of a real-estate lease agreement at market conditions with Assicurazioni Generali Group companies (Generali Real Estate SGR S.p.A.);
2. meeting of 8 May 2019: approval of the increase of secured account credit facilities according to the economic conditions set out in the Assieme credit facility for Executives of the Generali Group for an Assicurazioni Generali Group executive;
3. meeting of 30 July 2019: approval of the granting of secured current account credit facilities according to the economic conditions set out in the Assieme credit facility for Executives of the Generali Group for two Assicurazioni Generali executives;
4. on 31 October 2019: approval of the renewal of the line of credit granted to the Chief Executive Officer, 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);
5. on 31 October 2019: approval of the renewal of the line of credit granted to the Chairman, jointly with his spouse, within the framework of the credit facility for Executives of the Generali Group; 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);
6. meeting of 31 October 2019: acknowledgement of the transaction between BG Valeur S.A. (a direct subsidiary of Banca Generali and member of the Banking Group of the same name) and Assicurazioni Generali per persone SA concerning a commercial lease contract for a property. In this context, Banca Generali, as the Parent Company, issued a commitment letter guaranteeing that the property would be leased by BG Valeur S.A. The commitment was required because the property in question was not at the full disposal of Generali Assicurazioni per persone S.A., which would have had to purchase it from the third party external to the Insurance Group;
7. meeting of 13 December 2019: approval of the increase of the line of credit for Genagricola S.p.A.

Ordinary or recurring transactions

Transactions of an ordinary or recurring nature carried out in 2019 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 2018.

The developments of ordinary transactions with related parties are presented in the specific section of the Notes and Comments of the Separate and Consolidated Financial Statements for the year ended 31 December 2019, along with other information on related party transactions.

Products and Marketing

The increasingly uncertain scenario, dominated by negative rates, geopolitical risks and a growing number of global trends with an increasingly significant effect on the investment industry, formed the backdrop to the entire Banca Generali's product development plan. In particular, heightened trade tensions, lower returns, intensified regulatory pressure, the increasingly central role of technology and the changing nature of customers' needs, more and more oriented towards sustainability, drove a remodelling of the product and service range, by enhancing expansion, value proposition and innovation, while introducing a new commercial approach with a focus on sustainability.

The Banca Generali Group's products

In keeping with its longstanding pursuit of innovation, Banca Generali has succeeded in positioning itself as a market pioneer in the area of sustainability, in line with its mission "*Being the No. 1 private bank, unique by value of service, innovation and sustainability.*" Through the partnership formed with MainStreet Partners²¹, Banca Generali has developed a proprietary platform capable of measuring each product's impact on the individual UN Sustainable Development Goals and integrating the outputs of this analysis into the traditional financial metrics used to construct portfolios (see the section "New product development" on the following page).

In keeping with its positioning, Banca Generali's entire product range continues to be designed to be accessible to retail customers in Italy. However, the range also includes more sophisticated solutions (often featuring high entry requirements, complex instruments and less-than-daily liquidity) dedicated to professional clients.

2019 has undoubtedly been the year that saw the new Lux IM Sicav — whose name refers, on the one hand, to the Luxembourg-based asset management company that created the strategies and, on the other, to the light of innovation that distinguishes this project — strengthen its path through a significant increase of the number of strategies.

This robust growth was driven by the expansion of the range to include new strategies enriching the opportunities in the already wide array of Twin Mix and Pac custom-tailored solutions and services. Specifically, not only were new strategies of a highly innovative nature in terms of management, theme and geographical positions introduced, but the catalogue was also expanded to include solutions supported by industrial advisory with strong ESG expertise. Finally, in addition to adding to the various components of the sustainability aspect, work also focused on simplifying, in terms of positioning, the Lux IM range, which was divided into sub-funds according to a more traditional approach based on asset class.

In addition, the evolution of the financial markets in recent years has prompted Banca Generali to make some considerations in relation with BG Selection Sicav, the fund-of-fund platform of BG Fund Management Luxembourg (BGFML) with a track record of over ten years and a distinctive level of coverage in terms of strategies. In addition to the usual monitoring to ensure continuity in terms of consistency of performance and alignment with internal investment guidelines, BGFML will promote mergers designed to rationalise the platform's level of efficiency, with benefits for customers.

With the aim of improving its services, in 2019 the Bank forged ahead the expansion and adjustment of the UCITS 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 funds managed by leading asset managers with strong track records in ESG investments and innovative offering aimed, in particular, at providing solutions suitable to manage the context characterised by negative rates and covering underrepresented new generation trends.

In portfolio management, another important development in 2019 related to the launch of new asset management lines focused on sustainability and the development of family office solutions with asymmetrical risk-return profiles and a direct link to the real economy (BG Next).

²¹ An independent operator with strong ESG experience, supported by a track record of over 11 years and assets under management in advisory of more than 600 million euros.

In 2019, Banca Generali's insurance products continued to achieve significant results, with the inclusion of new both traditional and multi-line policies. After a first half of the year dedicated to continuing the promotional initiatives that had begun in 2018 — BG Stile Libero 2.0 Promotion and BG Stile Libero Private Insurance 2.0 Promotion —, in the second half of the year the focus was on updating the multi-line range by launching BG Stile Libero 50 Plus, which offers the opportunity to increase investment in separate management up to 50% and enjoy access to a broad, diversified investment universe (approximately 1,000 UCITS of over 50 asset managers). 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 particular, good new business results were achieved by the policies BG Custody Promotion and BG CedolaPiù.

In line with the current market environment of an established low-interest rate structure and customers beginning to show measured, gradual interest in illiquid instruments, during the year Banca Generali continued its efforts to strengthen its presence in the private credit market. In particular, the focus remained on specific segments such as healthcare receivables, export financing and loans to Italian SMEs backed by a guarantee from Fondo Centrale di Garanzia, a public guarantee institution. The offering took the form of the distribution of issues packaged with the aid of securitisation technology, i.e. unique illiquid solutions that, above all, are capable of offering Italian SMEs an alternative source of financing to the banking channel, while also providing investors with an interesting investment opportunity.

Several bond placements were also held during the year through the underwriting syndicate coordinated by Banca IMI. Naturally, a sustainability dimension was also added to the assets under custody range, as borne out by the placement of the Société Générale structured bond tied to the Solactive Sustainable Development Goals Impact (Solsdg Index), in which 100% of the invested capital is dedicated to the 17 SDGs.

Finally, the BG Certificate Hub platform was created in the first quarter of 2019. This new open-architecture service seeks to increase the diversification and protection of private-banking customers' portfolios through certificate offerings. New partnerships with the major issuers made it possible to guarantee top-quality service by offering increasingly efficient investment solutions in terms of both structure and pricing.

Development of new products

Sustainability

In furtherance of its longstanding process of innovation, through its partnership with MainStreet Partners Banca Generali developed a proprietary platform capable of providing an in-depth analysis of the level of sustainability of individual products, including with regard to environmental, social and governance exposure, and to calculate the impact of the investment on the individual SDGs, determining its positive contribution in tangible terms through the use of specific metrics. This tool, which is supported by an infrastructure based on a wide, diversified range by asset class, ESG investment processes, coverage of individual SDGs, management mandates delegated to third-party partners and discretionary mandates with specialised advisory service, can be used to form a link between the investment made and its positive contribution in terms of sustainability and to provide a simple, intuitive way of conveying this to the end investor.

Specifically, the platform makes it possible to:

- › identify each product's level of sustainability by a comprehensive rating on a scale of 0 to 5;
- › identify the most impacted at the level of the individual instrument in environmental, social and governance terms;
- › align the SDGs promoted with the individual investment;
- › to provide a clear indication of the level of contributions achieved by individual sustainable UCITS using specific metrics.

The output generated is the product of the proprietary methodology adopted by the partner MainStreet, which is based on:

- › the assignment of an ESG rating following a specific analysis of: the company, management team, strategy and portfolio;

- › the measurement of alignment with the SDGs in operating, product and behavioural terms;
- › tangible measurement of the contribution through specific metrics that can be used to calculate the sustainability delta between the UCITS and the benchmark.

By expanding Banca Generali's commercial approach, the platform can therefore raise awareness of sustainable investments among customers and offer concrete value. A smart, user-friendly system allows bankers to create portfolios aligned with one or more of the 17 SDGs that impact the most the customer's sensibilities.

At 31 December 2019, the platform already offered outstanding solidity and depth, as shown not only by the large number of UCITS that make up its investment universe (around 200), but also, and above all, by the 10% share of total AUM in asset management schemes represented by ESG AUM – a goal that had been set for the end of 2021.

Lux IM

Simplification, innovation and sustainability were, without a doubt, the main components driving the expansion of the range on the new Lux IM platform. In further detail:

- › **Simplification** - the positioning of the range was revised in the direction of a more traditional segmentation by asset class as follows:
 - **Equity** → Geographical Areas and Themes
 - **Bond** → Short Term, Credit, Flexible and Specialised
 - **Multi asset** → Global and Specialised
 - **Non-directional alternative** → Quantitative and Discretionary
- › **Innovation** – the range was expanded to include strategies designed to take alternative approaches to covering specific asset classes (e.g. European equities with fundamental analysis) and/or to seek returns on specific market segments through the aid of complex strategies (e.g. Variable Rate and Hybrid). There was no lack of solutions taking a themed approach both under delegated management and through the innovative industrial advisory approach that makes it possible to explore specific trends and sectors, with assistance from operators offering particular expertise. On this latter point in particular, Banca Generali offered an interpretation of themed investment based on a highly distinctive approach stemming from the observation that, in today's environment, successful innovation processes feature open models. Such industrial partnerships in fact make it possible to draw on outside industrial financial and portfolio construction expertise, thus adding a new strategic dimension to traditional bottom-up (valuation analysis and stock selection) and top-down (portfolio cyclical position analysis) approaches. This structure provides managers with improved strategic visibility that is capable of leveraging innovative new ideas, technologies and business models, thus yielding a crucial contribution to the creation of value for the Bank's customers. There are currently four sub-funds in the range that take advantage of industrial advisory, all focused on different theme areas, where it is believed that innovation processes will gain momentum in the medium and long term. Blockchain, Health Care, Lifestyle and Renewable energies.
- › **Sustainability** – the process of integrating ESG criteria into the range continued in 2019, leading to the creation of a broad, diversified, solid and extensive dedicated line, featuring a range of different ESG strategies offering a high sustainability rate and MainStreet assessment. The range now offers 11 strategies based on the use of various ESG management styles (e.g., best in class, best effort, engagement and themed), prepared using specific models, typically of a proprietary nature. Further six strategies have been added to the five launched in 2018. In particular:
 - three have been reconditioned on the basis of specific analyses that found they offer a high level of sustainability: these are the two multi-asset strategies, one of which is based on a themed approach (Millennials), and an equity strategy focused on long-term secular trends;
 - three new strategies under delegated management by partner asset managers that integrate ESG criteria through specific proprietary models, the first with a European focus, the second on next-generation trends and the third based on industrial advisory focused on the search for value in the renewable energy sector.

In accordance with its highly innovative profile focused on customers' needs, the platform has been further enriched by custom-tailored services such as TWIN MIX and PAC. More specifically:

- › using the TWIN MIX service, customers may invest the cash balances of their current accounts in low-volatility multi-asset products and plan gradual investment in solutions with strong growth potential, achieving the desired allocation mix over a customisable period;

- › through the PAC service, customers can make customised gradual investment plans, reduce the volatility of their portfolios, stabilise returns in the medium/long term and reduce market timing risk.

At 31 December 2019, Lux IM had 63 sub-funds, of which 16 managed by BG Fund Management Luxembourg and 47 under mandate entrusted to leading international investment houses.

Moreover, 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 complex and delicate market environment remains one of the main factors that drove the management company to study new merger solutions to be released in the coming months, with the goal of maintaining the level of efficiency offered by the platform (which now has a track record of over ten years), while standing out over time for its consistent performance compared to its peers.

At 31 December 2019, BG Selection Sicav had 40 sub-funds, of which 15 managed by BG Fund Management Luxembourg and 25 under mandate entrusted to leading international investment houses.

Open architecture

Throughout 2019 as well, the topic of sustainability informed the strategy for expanding Banca Generali's product catalogue, which now includes approximately 200 highly specialised and qualified ESG UCITS (e.g., impact and thematic investing, bond funds specialised in selecting green bonds, etc.) distributed in all formats. In particular, the bottom-up approach — which will also continue in 2020 — 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 focus on new generation themes and trends;
- › Engagement — Dialogue with companies to improve ESG practices.

At 31 December 2019, Banca Generali's multi-manager retail platform included over 60 asset managers with more than 5,800 UCITS overall.

Portfolio management

In 2019, the expanded range, increasingly centred on the private-banking segment, saw the launch of:

- › two ESG discretionary management lines (GPM and GPF) with financial advisory provided by Mainstreet, featuring an active management style and seeking to outperform the return offered by the benchmark, while also promoting best practices from an environmental, social and governance perspective. Both lines take a balanced, flexible approach with an equity exposure in the 20%-50% range;
- › the new family office family, which includes four new investment lines in BG Solution and BG Solution Top Client and one new investment line in BG Next. The new lines seek to combine return and protection through “convex” solutions, i.e. solutions that seek to capture a portion of bull markets, while limiting participation in bear markets as much as possible;

- › the new investment line 3Y Credit Value within the BG Next range, available to professional customers or well-informed investors ("WIIIs"). The launch of this line is another step in the development of alternative solutions that offer customers the opportunity to invest in instruments with a direct link to the real economy, and in particular to loans to Italian and European SMEs.

Alongside the expansion of the management lines, the current range was updated to reflect the sharp narrowing of the BTP/Bund spread, which limited the potential offered by the BG Target Multi Global Portfolio 2030. In light of these considerations, and in view of preservation, it was decided to temporarily suspend subscriptions of this management line during the year.

Insurance products

In order to enhance new business at the beginning of the year, a new distribution window was launched for the traditional Line I policy — BG Custody Promotion — that in response to the needs for wealth protection expressed by Banca Generali's customers was improved to offer advantages such as exemption from load fees and a reduction of the 18-month exit penalty. The duration of placement was extended until the ceiling was reached, after which the standard version was offered.

The promotional initiative launched in 2018 involving all the main versions of the BG Stile Libero range continued throughout the first half of the year:

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

The constant innovation efforts undertaken during the year resulted, in September, in further renewal of the product through the launch of BG Stile Libero 50 Plus, the new version that offers the possibility of investing up to 50% of the investment in segregated accounts. The investment brackets were revised to ensure customers enjoy greater flexibility in the financial component through decreasing pricing on the basis of the investment, yet independent of the instruments selected. Lastly, 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, were confirmed.

The constant revision of the investment universe for the entire BG Stile Libero family continued with updates to offerings of third-party partners, which currently present an extremely broad and diversified selection (approximately 1,100 UCITS of over 54 asset managers).

BG Cedola*Più*, the LOB I policy that pays dividends equal to the return of the segregated account Ri.Alto BG, and placed on an exclusive basis to our best clients, also performed well.

Assets under custody

Bond placement activity was particularly intense in 2019. In particular, six bonds were issued, four of which through the underwriting syndicate coordinated by Banca IMI with tier-one issuers such as Mediobanca, Cassa Depositi e Prestiti, Toyota and Goldman Sachs. The sustainability issue also extended to assets under custody, as shown by the placement on the primary market of the Positive Impact Finance bond issued by Société Générale, tied to the Solactive Sustainable Development Goals Impact (SOLSDG) Index, with a duration of three years, in USD (100% of subscribed capital is invested in projects relating to the 17 SDGs, whereas the universe of shares that may be selected is composed of companies with a minimum of 10% of their turnover tied to one or more ESGs). Moreover, the following bonds were placed in 2019:

- › Goldman Sachs denominated in USD – with a fixed annual coupon and a maturity of five years;
- › Mediobanca denominated in EUR – with a duration of five years and at fixed and variable rate;
- › Cassa Depositi e Prestiti – with a maturity of seven years at a mixed rate;
- › Toyota – with a maturity of seven years and increasing annual coupons.

In further efforts to meet private-banking customers' new needs, the new banking products launched during the year included:

› **BG Extra – RTO BG Saxo**

June 2019 saw the launch of the new trading account BG Extra linked to the BG Saxo platform. This account offers Banca Generali customers an easy-to-use, cutting-edge tool that provides access to advanced trading services. Moreover, equities and bonds were offered, whereas further features (CFDs, options and forex) will be released in 2020 to round out the offerings.

› **Wearable payments**

The partnership struck with Nexi in December 2018 on the tokenisation platform to enable Apple Pay, Google Pay and Samsung Pay wallets for the Mobile Payment service was also extended in June 2019 to wearable devices through Garmin Pay and Fitbit Pay.

The Mobile Payments and Wearable Payments service allows Banca Generali customers with a payment card issued or managed by Nexi to pay using their smartphones and smartwatches via physical POS terminals in contactless mode (in-store payments) and/or via virtual POS terminals (e-commerce) in online mode.

› **BG Corporate Web**

To expand the offerings tailored to business customers, the remote banking service “BG Corporate Web” was introduced, allowing companies and VAT-registered workers to independently manage collection and payment services for all banking relationships with Banca Generali and other credit institutions.

In current account services, several payment services in the range (and in particular outgoing and incoming international credit transfers) were rationalised to feature simpler, more advantageous pricing for customers.

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 with a new bonus determination mechanism aimed at rewarding, in addition to the new transfers, the assets already included in portfolios, whereas mortgage lending saw the renewal of the referral agreement with the Intesa Sanpaolo Group and the related promotions for customers.

Securitisations

In 2019 the Bank continued its efforts to increase its presence in the private credit market by releasing new illiquid solutions for professional customers only, characterised by high-quality collateral and packaged using securitisation technology. Specifically, three initiatives were launched:

- › securitisation of the healthcare receivables of SMEs that have supplied goods and services to Italy's National Health Service through the vehicle Astrea Quattro 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. The loans are five-year mortgage loans with a one-year pre-amortisation period (interest payments only) and four years of amortisation and are guaranteed by the Fondo Centrale di Garanzia for percentages ranging from 50% to 80% of the amount of the loan (depending on the rating assigned to each SME by the guarantee fund). The transaction, designated “Credimi Futuro”, is being developed through the vehicle Lumen Spr S.r.

Certificates

The new platform BG Certificate Hub was launched in 2019. This première service is devoted to certificates offered in an open architecture to increase portfolio diversification and protection. The solutions distributed, ranging from protected to conditionally protected capital, are organised in fortnightly showcases and accompanied by a high-quality pre-post placement service. During the year, the range of solutions available was expanded to offer increasingly diversified products and increase the number of issuers on the distribution platform in order to improve diversification of risk and offer more competitive pricing; The launch was accompanied by specific local training activities to improve knowledge of the selected investment solutions.

Marketing activities



In 2019, Banca Generali consolidated its transparent and proactive communication strategy designed to strengthen its private banking position through sustainable growth focused on an increasingly broad and flexible range of advisory and household wealth protection services, with Financial Advisors always playing a key role in relations with customers.

Brand strategy

Numerous initiatives to support the Bank's vision and mission were launched in line with its private-banking positioning objectives.



For the first year, Banca Generali was main partner to **Milano Art Week**, the week of special art gatherings and events held in Milan, including free admittance to the 20th-Century Art Museum. The main initiatives in the programme supported by the Bank included the show *Hana To Yama* by **Linda Fregni Nagler** and the event *Things that death cannot destroy* at the Triennale di Milano.

In other art-related endeavours, the project "**BG Art Talent**" continued. This initiative, curated in collaboration with the director of the Walker Art Center of Minneapolis, Vincenzo De Bellis, aims to showcase the best emerging Italian artists at the international level. In 2019 two new works by Enrico David and Francesca Arena were added to the Bank's permanent collection and displayed at the office on Piazza Sant'Alessandro in Milan.



The "Ricette di innovazione" event cycle continued to contribute in 2019 to reinforcing the image of a bank focused on a sustainable future and to showcase talent in tomorrow's challenges to manage and improve relations with clients. In particular, this year the CEO participated in several events organised at **Politecnico di Milano** and **Università Cattolica del Sacro Cuore**, which further strengthened the privileged channel that Banca Generali has established with Italy's most prestigious universities.

Dialogue with universities (**CeTIF-UCSC**, **SDA Bocconi**, **Politecnico di Milano** and **LIUC di Castellanza**) was also intensified through a series of new partnerships and initiatives focusing on young people as a future source of ideas and projects, in order to build an increasingly informed and responsible new society.



The Bank's values were also disseminated through the renewed **partnership with FAI (Fondo Ambiente Italiano - Italian Environment Fund)** in the Spring Days, and the tenth edition of **Banca Generali - A Champion for a Friend**, the event dedicated to children. Financial education briefs were organised in each stage 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 initiatives also include the renewed support to **Dynamo Camp** through the Dynamo Bike Challenge sponsorship.

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 2019, Banca Generali issued a total of **56 press releases** — 28 in Italian and 28 in English — which covered monthly net inflows results and accompanied the annual and quarterly financial reports.

A press release was organised during the launch of the **new platform for the selection of ESG investments**, developed on an exclusive basis with Mainstreet, attracting considerable attention and coverage in all major press outlets.

In total, during 2019 Banca Generali appeared in **more than 9,000 press** and Web articles.

Finally, the number of the Bank's followers on social networks is constantly growing (Facebook, LinkedIn, YouTube, Instagram and Twitter).

Communications with customers and the network

Transparency, accuracy and timeliness are the principles that guide the Bank's dialogue with its customers, which is 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 Financial Advisors and customers, in terms of results, its services and investment solutions, with a focus on sustainability and its impact on the offerings and commercial support services.

Clients were provided access to the new mobile banking app, which offered improved usability and implemented the services available.

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

Internal communications

In terms of internal communications, 2019 saw the launch of **BG InSite**, the employee portal designed to provide access to dedicated information and services. It also serves as a hub for managing all aspects of company life, offering a dynamic and complete information communication process, while also promoting community development and interaction between employees. Initiatives for circulating projects and results throughout the Group are designed to improve engagement, enabled by easier interaction with all employees and supported by the flexibility of the platform used.

Ambassadors

Collaboration with our endorsers, **Daide Oldani** and **Federica Brignone**, continued, with their participation in many exclusive local events. In particular, the Michelin-starred chef took part in the event "Ricette di Innovazione" held in Padua and the ski champion brought the photography show "**Traiettorie Liquide**" to Turin, Bologna and Rome in defence of the environment and clean seas.



Organisation and ICT

Sales network services

In 2019 Banca Generali implemented a number of initiatives for further development of the range of services available to Financial Advisors to both improve existing services and introduce new services.

One of the main new developments in 2019 related to the release to the entire network of the services of the **Robo for Advisory (RO4AD)** platform, an integrated, automated advanced advisory platform that through the partnership with UBS is capable of constantly monitoring and analysing customer portfolios and identifying custom investment solutions based on various risk and quality factors, while also supporting Financial Advisors in relationship management, thereby improving customer service levels.

Also closely connected to RO4AD was the implementation of the **new Advanced Advisory contract**, not only featuring a revised structure and expanded content relating to financial assets held by Banca Generali, but also adding new non-financial services, such as corporate asset analysis and a revised pricing structure that offers greater flexibility of choice to customers and Financial Advisors alike.

With regard to **the range of apps and platforms that were made available to the network**, the following initiatives were implemented:

- › **BG Products** → new showcases were made available and integration with the Certificate Hub platform was undertaken;
- › **BG Editor** → additional support measures were performed for the preparation of presentations and documents useful in relations with clients;
- › **BGPP** → the emphasis was on the analysis function, dialogue and optimisation of portfolio sustainability from an ESG perspective.

In 2019, work continued on the Quiclic portal, devoted to the network and based on Pega technology, with the release of new functions through the development of a single dashboard for monitoring the applications submitted and their stage of progress. In particular, by accessing the portal sales network can use:

- › the **digital onboarding** platform for registering clients and opening accounts, available for all types of clients (individuals, sole proprietorships and notaries);
- › the electronic **succession** management process, offering the ability to create new applications and gather the documentation online, involving the introduction of automation to the process to increase operating efficiency in its management, thus reducing processing times;
- › the **Smart Mail function**, as a trouble-ticketing platform that enables the distribution network to have more efficient, direct contact with internal offices to receive support or report problems and malfunctions.

The **integrated portal for handling electronic credit line applications** underwent further development with a view to increase, on the one hand, the efficiency of internal process by integrating new functions into the application and increasing the degree of automation, and on the other, to reduce operating risks. Among the interventions implemented, mention should also be made of contract automation, workflow outsourcing for Lombard lending and the first testing of robotic processing tools at Banca Generali.

Finally, mention should be made of the update to the **Polaris** platform dedicated to the management of real-estate needs, with a new graphical interface and forms devoted to the various sale, purchase or leasing services. A tool for assessing the network's level of satisfaction with the various partners involved was also integrated into the system.

Customer services

Digital contact channels with clients continued to be expanded and enhanced in 2019. More specifically, it must be pointed out that:

- › the **home banking app** underwent significant revisions and updates, such as integration of new transaction functions, the release of the voice assistant service and implementation of new "PSD2-compliant" authentication methods;
- › the new CBI (Webcontoc) platform was released for **corporate clients**;

- › the aforementioned platform for the **digital onboarding** of new clients in **B2C** and **B2B2C** mode was released.

During the year, Banca Generali continued to develop the new advanced online trading platform in collaboration with Saxo Bank²² (the “**Mermaid project**”), and in particular **cash securities** transactions. In addition, functions for managing the related administrative events, such as registration, liquidity management, taxation, corporate actions and securities transfer, were also released. **B2B2C** mode was also released for a pilot group of Financial Advisors, whereas work also continues on **derivative instruments**.

In view of the increasing need for geographical diversification in the custody of their financial assets expressed by Italian customers, Banca Generali also decided to expand its borders in terms of the advisory services offered, extending the service to also include assets held with participating international partner intermediaries, through the advisory service **BG International Advisory**, as discussed in detail below in the section “Banca Generali and its Customers–Customer relations”.

Finally, among the financial solutions offered to clients, mention should be made of:

- › the constant push to offer certificates with an increase in the weekly showcases and solutions offered;
- › the constant increase in the offering of funds and Sicavs, both “à la carte” and as part of wrapper products (the BG Stile Libero policies and BG Solution portfolio management service);
- › the formation of two specific working groups to permit marketing of closed-end real-estate funds (partnership with GRE) and closed-end funds linked to the real economy (partnership with 8A+).

Internal support processes for company business

Operations

In 2019 as well measures were taken to simplify work processes with the aim of improving service quality, recoup efficiency margins and mitigate the related operating risks. This was also the context (in addition to the positive effects on the distribution network mentioned above) for the aforementioned initiatives relating to the **integrated electronic credit line application portfolio, digital client onboarding** and increase in the range of financial products accessible through **Digital Collaboration**.

The organisational measures taken in 2018 (outsourcing of low value-added activities and formation of a unit dedicated to managing operating support requests from the network) were complemented by the release of the aforementioned **Smart Mail** trouble-ticketing platform.

In addition, mention should be made of an intercompany working group between Banca Generali and GTL for the Company’s transition to the **new IT system SVG**.

Administration

The main initiatives requested by Regulators and proposed to the Parent Company were:

- › **automation of Banca Generali’s pricing policy**, implemented through the integration the Galileo platform (provided by Sintea) into the IT system of Consorzio Servizi Bancari (CES). This operation, implemented to adopt a Regulators’ specific requirement, enables prices from various providers (Bloomberg, Telekurs, CED, Borsa Italiana, etc.) to be received and assessed for use for the various asset classes. The outputs of the project’s first phase were delivered in the test environment in mid-December and will be used to produce the first relevant report for 2020 according to the new automated methods.
- › **analysis of the impact of the IBOR transition reform** designed to revise all IBOR reference parameters (including the LIBOR, EONIA and Euribor) and, in some cases, replace them with new, more transparent indices in terms of quotation methods and risk-free status. Further details are provided in the Finance section;
- › adoption of a **single VAT number for the entire Assicurazioni Generali Group** with effect from 1 January 2020;
- › **implementation of new management reporting tools**.

²² For further information, see section “Banca Generali and its Clients – Customers relations”.

Loans

Initiatives in support of loan growth, process efficiency and reduced operational risk continued in 2019.

Lombard Plus — currently available to Relationship Managers only but to be extended to the rest of the network as well over the coming year — was launched as part of efforts to expand lending. The Trade Finance project continued, with completion scheduled for 2020.

With reference to projects for process efficiency and operational risk reduction, releases relating to the following areas of operation should be noted:

- › releases into production relating to **Phase 1 of automatic credit line renewal, monitoring of outsourced and internally managed positions and rationalisation of the internal classification of non-performing clients;**
- › releases into the test environment (with completion in 2020) relating to **control and monitoring of guarantees, “marking” of relationships** for control and resulting sterilisation of funding arising from Lombard Plus loans;
- › releases into **Phase 2 of automatic credit line renewal** and the **client global risk sheet**.

In addition, work was completed on automated production of pledge contracts and letters, automatic checks when applying for credit product policies and automatic drafting of loan approvals through the introduction of robotics.

Series of projects relating to credit risk mitigation

In accordance with European prudential regulations (Regulation (EU) No 575/2013), Banca Generali currently avails itself of credit risk mitigation instruments (guarantees) in measuring risk weighted assets (RWAs) relating to the portfolio of credit lines for private-banking and corporate clients. However, among admissible instruments for risk mitigation are also UCITS units acquired under pledge, of which the Bank currently makes just minimal use (limiting itself to BGFML UCITS).

The goal of the project is thus to ensure greater consistency between management and reporting risk mitigation techniques by assessing and acquiring, in line with applicable legislation, the admissible amount for prudential purposes through the use of the look-through process provided by an external infoprovider (Morningstar), allowing to expand the scope of guaranteed UCITS eligible to mitigate credit risk with the resulting reduction of RWAs and a positive impact on capital ratios (Total Capital Ratio).

In addition to identifying the external partner for the provision of the look-through service, the analysis of the technical and architectural solutions available was completed and the details of the business requirements are swiftly being agreed for implementation of the project in 2020.

Asset management

The initiatives implemented within the Asset Management segment included:

- › the launch of new management lines and new asset allocation strategies to enable adjustments/rationalisations of the product offer;
- › the study and launch of new forms of collaboration with Generali Luxembourg to create a new Luxembourg insurance policy with asset management provided by Banca Generali;
- › the planning of the **Nextam** project, to be launched in 2020.

Finance

The main projects in the Finance Department regarded:

- › the completion of the measures resulting from the entry into force of the **MiFID 2 Directive**, implementing a fine-tuning of the transaction reporting process;

- › the retirement of the TOMS procedure and the gradual implementation of the new Master Finance platform to different business areas²³;
- › with reference to the aforementioned Mermaid Project, the performance of the activities for assigning Banca Generali the role of executing broker for orders that transit through the BG Saxo platform intended for bond markets and the AIM market;
- › the replacement of the asset management platform (SOFIA) used by GIAM and BG FM LUX with Simcorp and Trading Screen, following a decision taken by the Parent Company;
- › integration into Smart Order Routing of best execution logic for the bond segment.

In 2019, an assessment was also performed on the Bank's products, contracts, models and IT systems to identify the impact of the transition of IBOR market rates for the adoption of alternative rates and the determination of revisions for the existing parameters, so as to strengthen the integrity and representativeness of the main benchmarks.

Legal compliance

In 2019, 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:

- › completion of the measures resulting from the entry into force of the MiFID 2 Directive;
- › Launch of the automated electronic quarterly reporting process regarding Consob Communication No. 9 on the new reporting obligation for settlement internalisers;
- › implementation of the IT and organisational measures required to update the regulatory provisions of the new EU Directive on digital payment services (PSD2), including implementation of strong customer authentication solutions aimed at raising the level of security for customers;
- › activation of processes to report to the Supervisory Authority any anomalies relating to the activity of the network and keeping of the single roll of Financial Advisors (OCF).

²³ In particular, the following areas were developed:

- connection with Bloomberg B-Pipe for the receipt of prices, curves, rating and data for reports;
- connection with Bloomberg for the closing of market deals involving cash financial instruments;
- connection with Bloomberg for the closing of OTC derivatives (IRSs and currency swaps);
- connection with MTS for the closing of repos;
- development of integrations with the CSE IT system for forex transactions (spots and forwards) and management of liquidity in foreign currency accounts.

Business Outlook

In 2020, the macroeconomic scenario is likely to be characterised by the unknowns surrounding the impact of the Chinese virus pandemic, in addition to an expected slowdown of global growth, already forecast due to the slowdown of developed economies caused by ongoing tariff negotiations, the volatility driven by the US November elections, as well as persistent geopolitical tensions.

In particular, the IMF and the OECD have revised their economic estimates for global growth sharply downwards, requesting and urging a coordinated intervention by central banks to pass measures supporting the economy and the sense of confidence. In Italy as well, following the recent outbreak of the virus, analysts forecast a negative impact that, based on the crisis persistence and severity, may lead to a GDP decrease in the range of 0.3%-0.9%. In addition, a risk of political instability remains on the backdrop, with possible additional consequences for Italy's economy and the performance of local financial markets.

This macroeconomic scenario is overlaid with some dynamics in the financial intermediation sector that are very likely to increase its complexity and the related risks. The favourable market environment that accompanied the Bank in its growth in recent years might thus be subject to **changes due to the following aspects (among others):**

- › the complexity of a market characterised by low returns (with the resulting drive to take more risks);
- › volatility and persistent negative rates;
- › regulatory discontinuity (including the entry into force of the MiFID II Directive);
- › the reinforcement of the traditional banking system;
- › the increasing relevance of technology as a factor for success in the business;
- › the evolution of customers in terms of digital literacy and awareness of ESG issues;
- › an increase in competitive intensity in asset management and the trading sector.

In this context — which is certainly complex but not devoid of excellent growth opportunities — choices focusing on service and product innovation, implementation of stronger financial planning and advisory skills, the higher quality of the Bank's network and the emphasis on internationalisation could prove the winning elements for ensuring that Banca Generali enjoys **sustainable growth** and works to gain further market shares in the investment sector.

The structural increase in Italian households' demand for advisory services to manage their financial and non-financial wealth offers the Bank positive growth prospects. Higher demand for advice is driven by financial markets' increasing complexity, extraordinarily low/negative interest rates and demographic dynamics. Demand is mainly concentrated with Italian households in the private banking target group, which represent 25% of total financial wealth and have significant investment planning needs, including in the real-estate, corporate and family-related areas.

In a scenario marked by a general restructuring and consolidation of the traditional banking system, in recent years Banca Generali has been able to successfully capture the demand for financial advisory services, embarking in a growth path that has led the Bank to become Italy's fourth advisory network and third private bank. This result stemmed from the strategic repositioning launched in 2013, which allowed Banca Generali to enter the private banking sector with a distinctive holistic model, based on advisory services and revolving around a network of excellent Financial Advisors who stand out in the Italian Banks-Networks system.

Since 2013, Banca Generali has more than doubled its share on the private banking market and overall financial wealth, reaching 6.2% on the AIPB market (3% in 2013) and 1.6% of total wealth (0.7% in 2013).

Besides these significant results, Banca Generali continues to see further valuable growth opportunities, both in absolute terms and in terms of market share, thanks to the quality of its Financial Advisors, the ongoing research and innovation in its range of distinctive solutions and the development of the opportunities offered by digital channels.

This will continue to require increasing investments to train the network, complete the range of products and services offered, and, finally, develop technological tools in support of more sophisticated and informed investment decisions. In 2020, and in line with its Industrial Plan, the Banking Group will 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 continuity with the projects launched as part of the 2019-2021 Strategic Plan, the main mea-

asures to be taken in 2020 will concern:

- › **improvement of the quality of the Financial Advisor network** through both professional training for the existing network and the recruitment of high-profile, experienced professionals on the market; in particular, the **BG Training & Innovation Hub** has been launched, a new internal centre devoted to professional growth and the acquisition of new skills for the benefit of the Bank's people;
- › **product innovation**, mainly aimed at further developing the Lux IM solutions and introducing very distinctive insurance wrappers and private insurance solutions. The Group's commercial offering will also be increasingly focused on sustainability, including through collaboration with the Generali Group and the launch of a new unit-linked product (Genera Sviluppo Sostenibile), specialised in ESG investments and managed by Banca Generali. Particular attention will also be placed on investments supporting the real economy, with the launch of two alternative investment funds (FIA and Eltif), which seek to bring retail customers towards investments in the private markets sector;
- › **development of new lines of business** through the growth of AUC solutions, leveraging the partnership with Saxo Bank in online trading and the expansion of lending, primarily in the technical form of the Lombard loan;
- › **reinforcement of the Bank's management capacities** by completing the integration of the Nextam Group;
- › **international expansion in Switzerland** through the partnerships formed with various Swiss institutions to assist Italian customers with assets held in Switzerland and the launch of a private banking activity for customers residing in Switzerland, through the development of BG Valeur;
- › promotion of the **advanced advisory service** covering all of the customer's wealth-related needs, in addition to advice on securities. Thanks to several exclusive partnerships, the Bank can provide advice concerning **Real Estate, Wealth Planning and Generational Transfer, Corporate Finance and Family Office issues**;
- › **digital innovation**, which will allow Banca Generali (including through the development of specific apps in support of financial advisory activity, the gradual extension of digital collaboration and the partnership formed with UBS in Robo Advisory) to **improve and accelerate the Bank-Customer-Financial Advisor relationship**;
- › **enhancement of the communication of a solid, innovative brand**, including through the new social channels;
- › the continuation of the project aimed at **thoroughly revisiting the Bank-Customer-Financial Advisor relationship** to make all modes of contact and interaction with customers simpler, more seamless and increasingly efficient.

The Banca Generali Group is therefore committed towards achieving the targets set by the 2019–2021 Strategic Plan and is confident that it will achieve them, albeit in a more challenging and complex context than originally forecast.

Proposal for the Distribution of Profits²⁴

Shareholders,

We invite you to approve the Financial Statements as at 31 December 2019, 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	248,357,895
allocation per each of the 116,851,637 ordinary shares issued of	
› a dividend of 1.55 euros, to be paid in May 2019	181,120,037
› a dividend of 0.30 euros per share, to be paid in January 2020	35,055,491
for a total value of	216,175,528
allocation to the legal reserve	-
allocation to the restricted reserve pursuant to Article 6(1)(a) of Legislative Decree 38/2005	1,499,862
allocation to retained earnings	30,682,504

If approved by the Shareholders' Meeting, dividends will be paid as follows:

- › **dividend of 1.55 euros per share** (gross of legal withholdings) as of 20 May 2020, with ex-date 18 May and record date 19 May;
- › **dividend of 0.30 euros per share** (gross of legal withholdings) as of 20 January 2021, with ex-date 18 January and record date 19 January;

It should be noted that any treasury shares the Bank may hold at the record date and outstanding shares for which limits on the distribution of dividends apply under the applicable Remuneration Policies will not be included in any distribution. The dividends associated with such shares will therefore be allocated to retained earnings.

The dividend policy for the three-year period 2019-2021, approved by Banca Generali's Board of Directors on 8 March 2019, envisages a target payout ratio in the range of 70%-80% of consolidated net profit. It also establishes a quantitative floor of 1.25 euros per share, in line with the risk profile defined by the Risk Appetite Framework (RAF) and with the overall capital adequacy constantly assessed through the ICAAP process.

It should however be noted that the distribution of dividends, as set out in the Plan, will be contingent upon the maintenance over time of a Total Capital Ratio that exceeds the tolerance thresholds defined from time to time in the RAF, and in any event up to the limit of 100% of the consolidated net profit.

With regard to the foregoing, it bears underlining that the overall dividend proposed, amounting to 216.2 million euros, is equal to a payout ratio of 79%, thus in the high-end but within the limits of such the guidance.

The possibility to distribute dividends in two tranches will also be adopted in the following financial years and will be introduced in the Dividend Policy, so as to establish a more flexible tool for distributing dividends over time.

²⁴ Following the European Central Bank's Recommendation of 27 March 2020 on dividend distribution in the context generated by the COVID-19 epidemic, Banca Generali's Board of Directors, in its meeting held on 1 April 2020, amended the Proposal on the allocation of net profit resulting from the Financial Statements for the year ended 31 December 2019, previously approved on 9 March 2020 and reported in this section.

In detail, the text of the new proposal, in compliance with the above-mentioned Recommendation, envisages the distribution of a dividend of 1.55 euros per share between 15 October and 31 December 2020 and a dividend of 0.30 euro per share between 15 January and 31 March 2021, subject to the Board of Directors' prior verification: (i) that the conditions indicated in Recommendation ECB/2020/19 are met; (ii) of compliance with the supervisory regulations and guidelines applicable from time to time; and (iii) that Total Capital Ratio at the company and consolidated level continues to exceed the SREP minimum requirements, plus a 1.2% buffer, thus equal to 9.2% and 13.0%, respectively.

The new proposal has not entailed any changes to this Annual Integrated Report, with specific reference also to the capital for regulatory purposes and prudential capital ratios.

The text of the Proposal for allocation of net profit approved by the Board of Directors on 1 April 2020 is available on Banca Generali's corporate website.

The proposed dividend provides shareholder remuneration consistent with the Group's sustainable profitability, while also ensuring that the Bank and the Banking 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 currently in force, a portion of net profit for the year corresponding to the capital gains recognised in the Profit and Loss Account, net of the related tax charges and other than those associated with HFT financial instruments and exchange and hedging transactions, based on the application of the fair value criterion, must be allocated to a restricted reserve. This reserve is reduced based on the amount of capital gains realised, also through amortisation, or no longer material due to impairment.

At 31 December 2019, the amount to be allocated to the restricted reserve was 1,499,862 euros.

Trieste, 9 March 2020

The Board of Directors





03

**CONSOLIDATED NON-FINANCIAL
STATEMENT**

Statement of Methods

For the eleventh consecutive year, Banca Generali has decided to report its performances relating to topics of a strictly non-financial nature, in further confirmation of the fact that, for Banca Generali, sustainability is an important strategic lever capable of creating value over time.

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), 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 the benefits of the Banking Group’s stakeholders and the financial community, more specifically.

In line with the decision to implement an increasingly integrated reporting process, for 2019 non-financial information — previously included in the Sustainability Report — is being presented together with financial information in this Annual Integrated Report. In fact, the Bank believes that adopting this reporting approach will allow it to further consolidate the process of creating internal awareness of sustainability topics and communicating its strategy for creating value in the short, medium and long term, for the benefit of the Bank’s internal and external shareholders, in an increasingly effective and transparent manner.

Report Scope and Reporting Process

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

The information presented hereinafter refers to financial year 2019 and is compared with 2018 results, where possible. Figures come from direct surveys, with the exception of certain estimates — duly highlighted in the document — that have been made but that do not affect the specific figure.

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 reporting scope includes Banca Generali S.p.A., BG Fund Management Luxembourg S.A., Generfid S.p.A. and the newly acquired Nextam Partners S.p.A. and Valeur Fiduciaria S.A., with the exception of the environmental data, which regards exclusively the Milan headquarters in Piazza Tre Torri and the Trieste offices in Corso Cavour.

All changes compared to this reporting scope are duly highlighted in the Report.



Dialogue with Stakeholders

Banca Generali liaises with numerous different stakeholders, both as regards type, and the requirements and needs expressed.

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

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

COMMUNITY

EMPLOYEES

FINANCIAL COMMUNITY

FINANCIAL ADVISORS

CLIENTS

CONTRACTUAL PARTNER

EMPLOYEES AND THEIR FAMILIES

CHANNELS FOR DIALOGUE

Engagement survey (every two years)
 Dedicated portal
 Monthly newsletter
 Individual performance evaluation interviews and joint determination of development goals
 Roundtables with unions and workers' representatives
 Annual meeting with all employees
 Events and initiatives
 Internal meetings and cascading initiatives
 Outdoor training sessions

FINANCIAL ADVISORS AND THEIR FAMILIES

CHANNELS FOR DIALOGUE

Dedicated portal
 ConvenDedicated conventions
 Eurisko survey on the level of satisfaction
 Website and mobile apps
 Media
 Training
 Local events
 Social media

SUPPLIERS, STRATEGIC PARTNERS

CHANNELS FOR DIALOGUE

Meetings with Bank and Networks
 Working groups on common projects
 Participation in local meetings
 Media
 Events



Banca Generali and the environmental issues



Direct (Scope 1) **Indirect (Scope 2 and 3)**
 276 tCO2eq 1,127 tCO2eq



100% electricity
 from renewable sources



90% white paper
 green and certified



+4% unsorted waste
 collected vs 2018 (in weight)

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 full alignment between the activities implemented and the environmental concerns, while taking on an active role in shaping a sustainable future.

Environmental Policy

The Generali Group's Code of Conduct, adopted by the Bank's Board of Directors on 29 September 2010, 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 its direct environmental impacts (i.e., impact arising from its operational activities) and the indirect impacts (i.e., those associated with other areas of 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 and is based on the principles expressed by the United Nations Global Compact for environmental protection. In particular, these principles aimed to:

- > adopt a prudential approach towards environmental challenges by means of systemic management designed to ensure compliance with legislation and the prevention of environmental risks;
- > promote environmental responsibility with all stakeholders through specific active engagement programmes focused on continuous improvement and the creation of shared value;
- > encourage the development and dissemination of environmentally-friendly technologies that can support efficient management of resources (materials, energy and water) and protect biodiversity, and represent effective measures for mitigating and adapting to climate change.

In order to implement the Policy, the Generali Group has identified some areas of intervention, for which specific indicators and related targets have been identified. These areas include:

- > 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 addition, on 21 February 2018, the Assicurazioni Generali's Board of Directors approved the Climate Change Strategy. This provides for specific investment and underwriting actions and identifies ongoing stakeholder engagement and dialogue as the means for advancing the transition to a low environmental impact company. The operating implications of the strategy were detailed in a technical note that the Group published on its corporate website (www.generali.com) in November 2018.

The Environmental Management System (EMS), based on the ISO 14001 standard, is the tool that Banca Generali uses to manage its environmental impacts, in line with the provisions set forth in the Group's Policy for the Environment and Climate. In particular, the image here aside shows the objectives that the Bank has set for the period 2013-2020 with regard to reducing its impacts.

2020 TARGET

-20% total GHG emissions



-25%
 PER CAPITA
 ELECTRICAL
 POWER
 consumption



-25%
 NATURAL GAS
 AND DIESEL OIL
 consumption



-15%
 PAPER
 consumption



-15%
 WATER
 consumption

95%
 of ecological
 paper

Environmental impacts

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

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 minimizing 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 the “new ways of working” concept, i.e., the option of working remotely (generally from home).

Indirect environmental impacts

Banca Generali is aware it can encourage its stakeholders to adopt an environmentally friendly behaviour through the adoption of appropriate measures. In particular, the main areas of activity in which the Bank is committed to exerting 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 line with the Generali Group's provisions, 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 existing or potential customers, 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.

The reporting scope for environmental impacts does not include:

- › the various bank branches, excluded due to the marginal extent of their consumption;
- › the Financial Advisor offices (operations offices), since these are local logistics facilities over which the Bank does not exercise complete financial and operational control and to which it applies various management models and cost allocation/apportionment models.

Emissions

In accordance with the Parent Company's strategies, Banca Generali has also decided to quantify and report GHG emissions by including in the reporting scope only properties used as headquarters that fall within the Generali Group's Environmental Management System. In fact, the Bank has complete financial and operational oversight over these properties, which it exercises also through the Generali Group's Facility Management function.

In 2019, the analysis system included the Bank's two main sites, namely the Milan headquarters (Generali Hadid Tower, located in Piazza Tre Torri 1) and the Trieste offices (Via Corso Cavour 5/a). Overall, these facilities host 675 employees, accounting for 71% of the Banca Generali Group's workforce. At both head offices, facility management service is provided by GBS, a Generali Group company responsible for, among other aspects, the operation and scheduled maintenance of technological and special installations and management of utilities and waste.

2019 performance

1,404 tCO₂eq

Total GHG emissions

(-29% vs 2013)

Consumption information has been surveyed by GBS and then allocated to Banca Generali according to the percent occupation of the buildings (81.3% for the Trieste office and 16.6% for the Hadid Generali Tower). In fact, of the 43 total useable above-ground floors in the innovative Hadid Generali Tower, only six are occupied by Banca Generali personnel, in addition to one used as a branch.

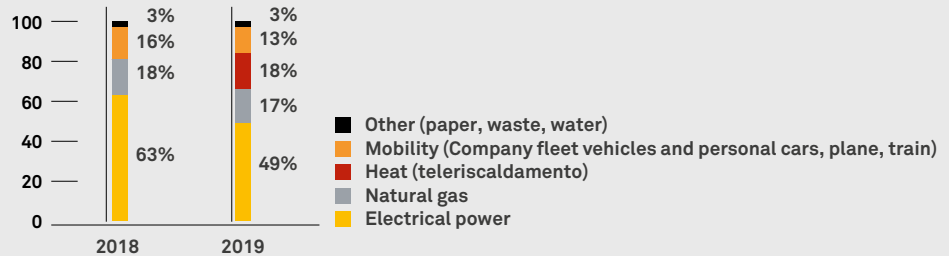
GHG (GREENHOUSE GAS) EMISSIONS*

(TCO ₂ EQ)	2019	2018	2013	CHANGE %	
				2019/2018	2019/2013
SCOPE 1					
Direct emissions produced by heating fuels and the kilometres travelled by the fleet of company cars	276	265	593	4%	-53%
SCOPE 2					
Indirect emissions caused by power consumption associated with the use of electrical power and district heating	935	793	1,114	18%	-16%
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)	192**	206**	272**	-7%	-29%
Total	1,404	1,264	1,979	11%	-29%

* The calculation of emissions does includes the following gases: Carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O).

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

2018-2019 GHG EMISSION BREAKDOWN (%)



Consumption

2019 performance

13,468 GJ
total energy
consumption

(10,543 GJ in 2018)
(+7.6% vs 2013)

19.95 GJ
per-capita
energy consumption

Electrical power and natural gas consumption, and heat from district heating

In 2019, Banca Generali consumed a total of 13,468 GJ of energy. Energy consumption chiefly consists of electrical power consumption: the two offices involved in the Environmental Management System reported an overall consumption of 2,089,832 kWh (+16% compared to 2013), with a per-capita consumption of 3,096 kWh (+3% compared to 2013). All the electrical power consumed is derived from renewable sources.

Thanks to its double-skin façade and cold beam climate control system²⁴, in particular, the Generali Hadid Tower boasts an excellent energy performance, and has been designed to attain the highest level in the building energy classification system (LEED Platinum certification). On the office floors, a system of environmental sensors detects light intensity and, interacting with presence sensors, regulates lighting levels according to usage needs, balancing the use of artificial and natural light.

The Generali Hadid Tower is also connected to a district heating network that supplies hot water for space heating and sanitary applications. With regard to the district heating system, in 2019 Banca Generali consumed 622,348 kWh, with a per-capita consumption of 1,748 kWh.

Overall gas consumption amounted to 108,067 Sm³ (-38% compared to 2013), with a per-capita consumption of 339 Sm³.

At the site of Trieste, natural gas is used both for heating and for air-conditioning in the summer season (using again a chilled beams system). At this site, the Group Facility Management function continued to replace the external windows in 2019. This function 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.

ASPECT	TYPE OF SOURCE	CONVERSION FACTOR
Natural gas	Non-renewable	0.000206166 tCO ₂ e/kWh
Electrical power	Renewable	0.000325 tCO ₂ e/kWh

2019 PERFORMANCE

TYPE	2019 CONSUMPTION (GJ)	2018 CONSUMPTION (GJ)	2013 CONSUMPTION (GJ)	% CHANGE 2019-2018	% CHANGE 2019-2013	2019 PER-CAPITA CONSUMPTION (GJ)	2018 PER-CAPITA CONSUMPTION (GJ)
Electrical power	7,523	7,361	6,510	2.20%	15.57%	11.15	11.15
Natural gas	3,705	3,182	6,015	16.42%	-38.41%	11.61	4.82
Heat (district heating)	2,240	n.a.	n.a.	n.a.	n.a.	6.29	n.a.

Paper

Paper is the material most used in the banking sector. To reduce its consumption, Banca Generali has introduced the following measures:

- › 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 Banca Generali 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;
- › activation, for clients who use Home Banking, of the Doc@online function, which can be used for the digital transmission of all communications from the Bank (e.g., account statements, term sheets, accounting documents, information memoranda, etc.).

In the offices included in the EMS, individual printers, photocopiers and faxes have been replaced with multi-function machines to be shared within each office or floor. The same measure was implemented in more than 50 Financial Advisor offices (30 at 31 December 2018).

Where possible, Banca Generali buys material with a lower unit weight than normal in order to contain the weight of the paper consumed. Almost 90% of the white paper consumed in 2019 consisted of certified green paper, originating in forests managed in accordance with environmental, social and economic standards established by recognised national and international schemes. In addition, Banca Generali promotes the purchase of low environmental-impact stationery and toner cartridges (e.g., 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).

2019 performance

267 q
paper consumption
(344 q in 2018)
(-33.4% vs 2013)

-0.12 q
per-capita paper
consumption vs 2018

²⁴ It is a device installed on the ceiling that moves air without the need for a noisy fan.

2019 PERFORMANCE

2019 PAPER CONSUMPTION (QUINTALS)	2018 PAPER CONSUMPTION (QUINTALS)	2013 PAPER CONSUMPTION (QUINTALS)	% CHANGE 2019-2018	% CHANGE 2019-2013	2019 PER-CAPITA PAPER CONSUMPTION (QUINTALS)	2018 PER-CAPITA PAPER CONSUMPTION (QUINTALS)
267	344	402	-22.28%	-33.42%	0.40	0.52

Water

2019 performance

8,412 m³
water consumption(7,108 m³ in 2018)
(-7.2% vs 2013)**12.5 m³**
per-capita
water consumption

Banca Generali considers water to be an important resource and is committed to using it sparingly in all the Group's offices. Water is used primarily for the purposes of hygiene and sanitation and to supply the heating and air-conditioning systems. At the Milan office, aquifer water is used, drawn from deep below ground, which has the considerable advantage of being naturally purified by its passage through the permeable layers of the terrain. In this case, the water is pressurised and used directly for the hydrant network for cleaning, toilets and humidifiers. At the Trieste offices, almost all the water that is consumed comes from municipal or state mains. Photocells or timer controls have been installed at both sites to reduce water consumption to a minimum and allow water flow to be controlled effectively.

2019 PERFORMANCE

2019 WATER CONSUMPTION (M3)	2018 WATER CONSUMPTION (M3)	2013 WATER CONSUMPTION (M3)	% CHANGE 2019-2018	% CHANGE 2019-2013	2019 PER-CAPITA WATER CONSUMPTION (M3)	2018 PER-CAPITA WATER CONSUMPTION (M3)
8,412	7,108	9,063	18.35%*	-7.18%	12.46	10.77

* The increase was attributed to the change of the Milan offices. Due to the characteristics of the Generali Hadid Tower, water consumption is not comparable for the purpose of performance improvement measurement.

Waste

2019 performance

251.5 q
of waste generated

(52.7 q in 2018)

37 kg
waste generated
per-capita

Banca Generali conducted a number of campaigns to raise awareness amongst its employees of the issue of proper waste management and sorting. Each corporate site has separate waste containers for paper and cardboard (which represent the highest portion of waste generated by the Bank), plastic, glass and aluminium.

A high level of care is also taken in the correct disposal of waste that is most hazardous or harmful for the environment, such as IT products and toner cartridges. In detail, IT waste made up of obsolete electronic equipment is returned to the suppliers or sent to specialised plants handling the disposal and recycling of reusable parts. Similarly, 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 using specialist firms. Banca Generali tracks the hazardous waste it generates in specific registers, as required by applicable legislation.

In 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.

Banca Generali also focuses closely on the three Rs (reduce, reuse and recycle) for long-term assets, above all in logistics processes involving the closing, transfer or restyling of branches or offices.

In such cases, it proceeds by considering the following management methods (reported in decreasing order of priority):

1. potential reuse of the asset in the new location or at other properties, considering the cost-effectiveness of recovery and the aesthetic/functional result;
2. involvement, through network management, of local communities (e.g., non-profit organisations, associations, entities, etc.) for the recovery of assets no longer of interest to the Bank;
3. disposal of assets in public dumps to begin the industrial recycling process for the asset disposed of.

2019 PERFORMANCE

WASTE GENERATED IN 2019 (QUINTALS)	WASTE GENERATED IN 2018 (QUINTALS)	WASTE GENERATED IN 2013 (QUINTALS)	% CHANGE 2019-2018	% CHANGE 2019-2013	PER-CAPITA WASTE GENERATED IN 2019 (QUINTALS)	PER-CAPITA WASTE GENERATED IN 2018 (QUINTALS)
251.46	52.69	282.41	377%*	-10.96%	0.37	0.08

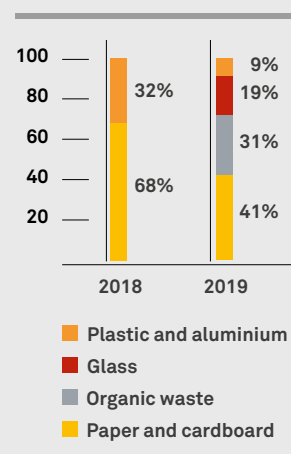
* The change compared to 2018 is attributable to the different impact generated by the new Milan Headquarters (Generali Hadid Tower) compared to the previous site. For example, the new office includes an internal canteen area for employees that generated over 35 quintals of organic waste in 2019.

BREAKDOWN OF 2019 WASTE COLLECTED (%)

TYPE OF WASTE COLLECTION	2019 BREAKDOWN (%)	2018 BREAKDOWN (%)
Separate collection	46%	50%
Unsorted collection	54%	50%

BREAKDOWN OF 2019 SEPARATE WASTE COLLECTION (%)

MATERIAL	2019 BREAKDOWN (%)	2018 BREAKDOWN (%)
Paper and cardboard	41%	68%
Wet waste	31%	-
Glass	19%	-
Plastics and aluminium	9%	32%

**Mobility**

Banca Generali is committed to reducing GHG emissions through sustainable mobility management as well, reducing employees' travels and encouraging video conferencing. At all site included in the EMS, video conference calls may also be made from individual workstations thanks to the availability of dedicated tools (e.g., 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, above all the least polluting ones (e.g., 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, for the benefit of its employees, the cost of annual season tickets for public transport (buses, trams, metro and trains). Banca Generali also encourages bicycle use for getting to work, also through the building of reserved bicycle parking for the Bank's employees.

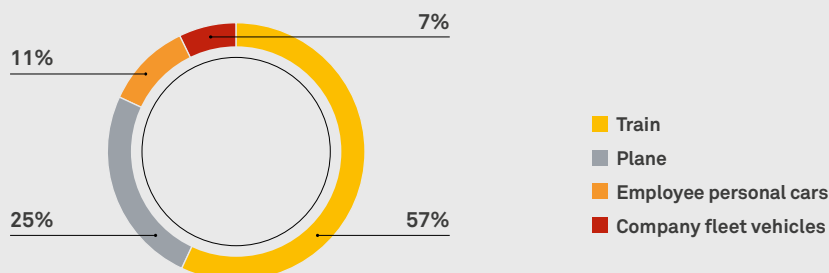
2019 PERFORMANCE*

KM TRAVELLED BY CAR, TRAIN AND PLANE BY EMPLOYEES IN 2019	KM TRAVELLED BY CAR, TRAIN AND PLANE BY EMPLOYEES IN 2018	KM TRAVELLED BY CAR, TRAIN AND PLANE BY EMPLOYEES IN 2013	% CHANGE 2019-2018	% CHANGE 2019-2013	PER-CAPITA KM TRAVELLED BY CAR, TRAIN AND PLANE BY EMPLOYEES IN 2019	PER-CAPITA KM TRAVELLED BY CAR, TRAIN AND PLANE BY EMPLOYEES IN 2018
2,969,322	2,698,496	2,718,096	10.04%	9.24%	3,126	3,109

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

BREAKDOWN OF TOTAL KM TRAVELLED IN 2019 (%)

MEANS OF TRANSPORT	2019 BREAKDOWN (%)	2018 BREAKDOWN (%)
Train	57%	54%
Plane	25%	29%
Personal cars	11%	11%
Company fleet vehicles	7%	6%



Emission and conversion factors

ASPECT	TYPE OF SOURCE (RENEWABLE/NON-RENEWABLE)	CONVERSION FACTORS
Natural gas	Non-renewable	0.03428
Electrical power	Renewable	0.0036
Heat (district heating)	Renewable	0.0036

ASPECT	SCOPE	EMISSION FACTORS	MEASURE-MENT UNIT	SOURCE
Natural gas	Scope 1	0.000206166	tCO ₂ e/kWh	GaBI - v. 02/2019
Electrical power - location based	Scope 2	0.000325	tCO ₂ e/kWh	GaBI - v. 02/2019
Heat (district heating)	Scope 2	0.00041	tCO ₂ e/kWh	A2A
Water (from municipal sources)	Scope 3	0.000663083	tCO ₂ e/m ³	VfU - 2018 v. 3
Water (from aquifers)	Scope 3	0.000293311	tCO ₂ e/m ³	VfU - 2018 v. 3
Waste (burned)	Scope 3	-0.1017108	tCO ₂ e/t	GaBI - v. 02/2019
Waste (toner cartridges)	Scope 3	2.315863	tCO ₂ e/t	VfU - 2018 v. 3
Waste (disposed)	Scope 3	0.812830	tCO ₂ e/t	GaBI - v. 02/2019
Mobility - Company fleet vehicles	Scope 1	0.0001771	kg CO ₂ e/pkm	DEFRA Regulation No. 11/2019
Mobility - Personal cars	Scope 3	0.0001771	kg CO ₂ e/pkm	DEFRA Regulation No. 11/2019
Mobility - Traditional train	Scope 3	0.04115	kg CO ₂ e/pkm	DEFRA Regulation No. 11/2019
Mobility - High-speed train	Scope 3	0.00597	kg CO ₂ e/pkm	DEFRA Regulation No. 11/2019
Mobility - Plane (short distance)	Scope 3	0.13483	kg CO ₂ e/pkm	DEFRA Regulation No. 11/2019
Mobility - Plane (medium distance)	Scope 3	0.0837	kg CO ₂ e/pkm	DEFRA Regulation No. 11/2019
Mobility - Plane (long distance)	Scope 3	0.10342	kg CO ₂ e/pkm	DEFRA Regulation No. 11/2019

Banca Generali and its People



49%  51%
950 employees

 48,021 total training hours

4,715 days of smart working



Average employee age

 44 years

People are one of the five pillars of the 2019-2021 Strategic Plan launched by Banca Generali and one of the key elements on which the Banking Group bases its pursuit of its strategic objectives.

Accordingly, in 2019 close attention continued to be devoted to investments in the development, growth and management of individuals, by spreading a company culture founded on shared values, leveraging diversity and inclusion.

In order to achieve these goals, in coordination with the Generali Group, in February 2019 a new People Strategy was launched that takes account of the Bank's mission and values, the new strategic plan designed for growth and sustainable development, and the Bank's organisation, while also continuing to pursue the ultimate goal of creating value over time for all of our various stakeholders and developing the Human Capital.

The four pillars of the People Strategy (Culture, New Skill Development, Leadership and Talent and Organisation) are also challenges that Banca Generali has set for itself and will undertake in the coming years for **sustainable growth**. In particular, in 2019 there was a specific focus on creating a **common culture** through initiatives such as the **Strategy Road**, designed for sharing strategic objectives, and **workshops on behaviour** (Ownership, Simplification, Innovation and Human Touch), which served to pool the means that the Bank intends to use to achieve its objectives.

The introduction of the **new Intranet**, which provides access to tools supporting company life, also offered a common interactive platform that increasingly allowed users to keep informed and to have a clear, common view of the company strategy.

In addition, considerable investments were made in **improving competencies**, and in particular in **management and technical training** to hone new professional skills in support of the achievement of business objectives: training hours rose by 23% on 2018.

In order to identify internal talent and realise the potential of human resources, a **new performance management system** was introduced along with an assessment of potential based on the use of tools (such as the Development Centre) that made it possible to cultivate top personnel by placing them in development programmes not only within the Banking Group but also, more broadly, within the Generali Group.

To further leverage the Bank's human capital and pursue self-empowerment, in 2019 new impetus was given to job rotation by introducing the **Job Posting** tool, which allows all employees to apply for vacant positions, not only within the Banca Generali Group, but throughout the Generali Group, thus broadening their development horizons to an international level.

In addition, a series of initiatives were carried out in 2019 in search of new ways of collaborating and working together, while simplifying the organisation.

The following were introduced:

- › specific **interfunctional projects** requested by the top management, which involved the participation of people from various areas of the Bank with differing seniority levels and professional backgrounds, thereby facilitating inclusion and the development of new ideas, as well as promoting networking and participation;
- › **micro-internships**, designed to integrate different functions of the Bank's value chain.

In 2019, the growing focus on the topics of **work-life balance** continued through the extension of **smart working** (following on the pilot phase launched in 2018) to the Trieste office to cover

51% of the eligible population (defined as employees assigned to company functions that in the relevant organisational analyses were found to be compatible with remote work), as well as laying the foundation for a paradigm shift in **welfare**.

In 2019, there was also a focus on policies relating to the issues of **diversity** and **inclusion**, essential to the sustainability of the Banking Group. In particular, the emphasis was on exploring issues relating to gender disparity, with support for initiatives focusing on women, and to age disparity, with specific initiatives for the under-30 population.

In addition, it should be underlined that the attention that the Bank draws on the development of its Human Capital is confirmed by the fact that **people represent one of the five areas where the Banking Group assesses its sustainability level**, focusing on the concepts of **long-term sustainability** (measured on the basis of average seniority, percentage of under-30 personnel and gender mix) and **sustainable work-life balance** (measured on the basis of initiatives aimed at facilitating the balance between personal and professional life).

Efforts to maximise human capital also involved the introduction of the Generali Group's **share plan** (We Share), an employee share ownership plan designed to foster participation in the Parent Company's objectives and create a sense of belonging, which saw a significant participation rate within the Banking Group (68%).

The issue of **social responsibility** also comes to the fore in the Bank's willingness to allow its personnel to participate in volunteer activities such as "**The Human Safety Net**" (THSN), an initiative sponsored by the Generali Group that sees employees involved in volunteering (with a focus on children, families facing adversity, etc.) during the working day.

Passion, professional competence, reliability, commitment and a sense of belonging are thus the distinctive traits of the individuals who make up the Banca Generali Group's team – characteristics that emerged clearly from the findings of the **engagement survey** conducted in June 2019 and which represented an important stepping stone for the Banking Group's growth. The excellent results achieved (a response rate of 96% and an engagement index of 82%) bear witness to the strong commitment of the Banking Group's employees and the right direction in which the initiatives of the People Strategy began to move in the year just ended.

The areas of improvement indicated by the results of the survey will stimulate the creation of new initiatives that will complement the People Strategy in the coming years, starting in 2020.

2019 People Strategy



The 2019 People Strategy was created to support Banca Generali's Strategic Plan, drawing inspiration from the Generali Group's priorities, and is divided into four main areas.

- › **Culture:** creating a **common culture** based on leveraging **diversity and inclusion** by establishing common objectives, values, behaviours and constant dialogue with top management. Banca Generali holds a profound conviction that a shared strategy and approach to implementing it are among the key elements for achieving the goals set in the Strategic Plan. In addition, leveraging gender, age and cultural diversity and including different professional skills become fundamental to the **sustainable growth** of the Banking Group.
- › **Competencies:** developing new competencies to implement the Strategic Plan by supporting individuals in a process of **upskilling and reskilling**, with a particular focus on **digital and technical competencies**. Specific training and development initiatives are undertaken to support the upskilling of personnel from those areas of the organisation most affected by digital issues, and full-fledged reskilling processes are implemented to support employees interested in internal mobility and new jobs in different functions within the Banking Group.
- › **Leadership & Talent:** supporting the **growth** of managers and identifying initiatives aimed at attracting, motivating and retaining **talent**. Through specific initiatives (management training, mentoring and the under-30 project), the goal is to provide constant monitoring, in view of ongoing improvement, of management and leadership coverage in the medium term in support of the sustainability of the Strategic Plan. Also fundamental in this regard is the preparation of succession plans, which ensure that the Banking Group remains **sustainable over time** from the standpoint of filling management positions.
- › **Organisation:** implementing **new ways of doing work and collaborating** by introducing tools and initiatives that increase flexibility of interaction, exchange of knowledge and personal enrichment. In this respect, it becomes fundamental to identify initiatives

that permit the Banking Group to create new ideas and develop new projects outside the organisational relationship between the various functions. This year, the creation of **transversal interfunctional project teams** made it possible not only to develop new ideas, but also to reward staff for their contributions. Finally, all the innovative approaches to work investigated take account of the fundamental balance between professional and private life, ensuring that all employees are able to contribute effectively to achieving company objectives.

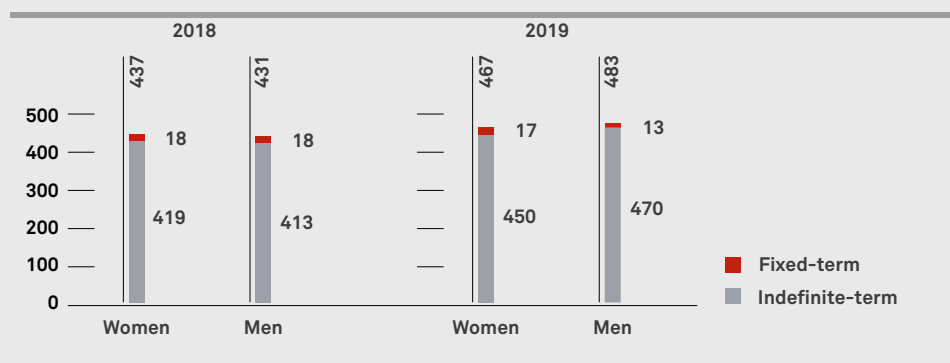
Number and Type of Human Resources

EMPLOYEES BY TYPE OF CONTRACT AND GENDER

	31.12.2019			31.12.2018		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
Indefinite-term contract	450	470	920	419	413	832
Fixed-term contract	17	13	30	18	18	36
Total employees	467	483	950	437	431	868

There was a net increase in workforce of 82 resources compared to 2018, as follows:

- > an increase of 88 resources under indefinite-term contract (of which 63 attributable to M&As);
- > a decrease of 6 resources under fixed-term contracts to replace employees on maternity leave and various other types of leave and as a support during peak workloads linked with special activities and projects.



This movement, which indicates a trend toward reinforcing and strengthening the permanent workforce, also includes the change of 11 contracts from fixed- to indefinite-term, in order to both cover new positions and to replace staff who have left previously.

The Group's workforce under indefinite-term contract rose from 96% in 2018 to 97% in 2019.

EMPLOYEES BY TYPE OF CONTRACT AND GEOGRAPHICAL AREA

	31.12.2019			31.12.2018		
	ITALY	ABROAD	TOTAL	ITALY	ABROAD	TOTAL
Indefinite-term contract	862	58	920	808	24	832
Fixed-term contract	29	1	30	35	1	36
Total employees	891	59	950	843	25	868

94% of the Banking Group's employees worked within the Italian territory (compared to 97% in 2018). The remaining 6% was based in Luxembourg, Switzerland and United Kingdom.

EMPLOYEES BY TYPE OF EMPLOYMENT AND GENDER

	31.12.2019			31.12.2018		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
Full-time	413	478	891	384	429	813
Part-time	54	5	59	53	2	55
Total employees	467	483	950	437	431	868

Part-time employees accounted for 6% of the total (unchanged compared to 2018). Those choosing to work part-time are mainly women for better work-life balance purposes: in 2019, women represented 92% of part-time employees (96% in 2018).

Most of the activities were carried out by employees. Sometimes the Bank uses temporary staff to deal with work peaks or specific projects. At year-end 2019, 8 resources were under temporary contract or freelancers (against only 1 resource under temporary contract in 2018), of which 3 abroad.

ITALY 2019 TURNOVER

2019	WOMEN				MEN				TOTAL
	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL WOMEN	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL MEN	
Headcount	22	338	91	451	24	286	130	440	891
No. of hirings	20	24	-	44	24	29	5	58	102
No. of terminations	20	18	3	41	14	21	7	42	83
Percentage of hirings	91%	7%	0%	10%	100%	10%	4%	13%	11%
Turnover rate	91%	5%	3%	9%	58%	7%	5%	10%	9%

ITALY 2018 TURNOVER

2018	WOMEN				MEN				TOTAL
	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL WOMEN	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL MEN	
Headcount	25	321	84	430	24	269	120	413	843
No. of hirings	20	13	1	34	19	22	4	45	79
No. 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%

2019 TURNOVER ABROAD (LUXEMBOURG ONLY)

2019	WOMEN				MEN				TOTAL
	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL WOMEN	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL MEN	
Headcount	1	10	5	16	4	26	13	43	59
No. of hirings	1	-	-	1	1	1	-	2	3
No. of terminations	-	-	-	-	1	2	-	3	3
Percentage of hirings	100%	-	-	6%	25%	4%	-	5%	5%
Turnover rate	-	-	-	-	25%	8%	-	7%	5%

2018 TURNOVER ABROAD (LUXEMBOURG ONLY)

2018	WOMEN				MEN				TOTAL
	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL WOMEN	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL MEN	
Headcount	1	3	3	7	3	12	3	18	25
No. of hirings	-	-	-	-	1	1	-	2	2
No. of terminations	-	-	-	-	-	1	-	1	1
Percentage of hirings	-	-	-	-	33%	8%	-	11%	8%
Turnover rate	-	-	-	-	-	8%	-	6%	4%

In 2019, the rate of hirings was 11% (9% in 2018). The highest rate of hirings was reported for personnel aged between 30 and 50 (51%), followed by personnel aged under 30 (44%), confirming Bank's growth focused on sustainability over time thanks to investments in the younger generations.

In 2019, 43% of hirings were women (unchanged compared to 2018); of these, 53% of women were aged between 30 and 50.

With regard to terminations, 48% of them related to women (34% in 2018). 49% of the women who left employment were under 30.

In 2019, 50% of terminations referred to the expiry of fixed-term contracts (67% in 2018). 33% of terminations was attributable to resignations, 3% referred to the transfer of sales personnel into the sales network, while the remaining 14% to consensual terminations 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 M&As occurred in 2019, following which 69 resources joined the Banking Group's workforce, of which 33 abroad. Moreover, the above-mentioned figures do not include, for the Companies acquired, post-acquisition hirings and terminations, so as to ensure consistency and completeness of the illustrated figures.

In 2019, Group Companies continued to encourage access to the job market by young people through the launch of internships with a total of 235 training hours provided. At 31 December 2019, there were 19 interns (7 women and 12 men), of which one abroad.

Training and development of human capital

Training

Due to the strategic growth that has been an integral part of the Banca Generali Group's history in recent years, the Bank finds itself in a constantly evolving environment that has required constant investment in training, updating and developing its people — a fundamental asset for facing future challenges.

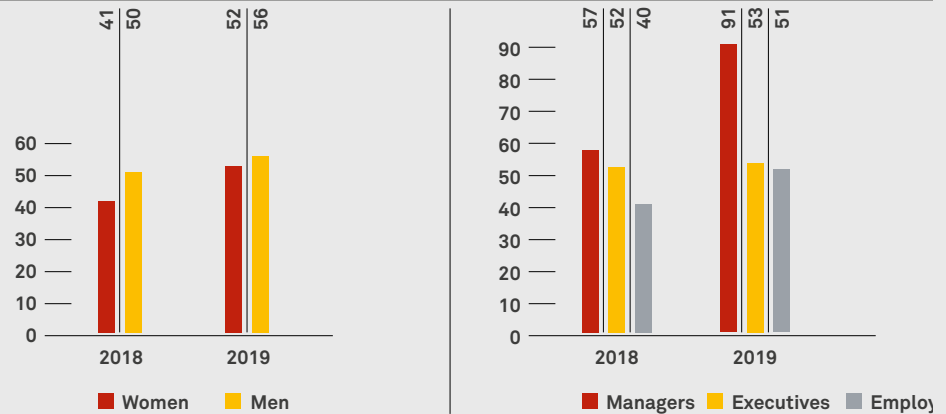
The emphasis on internationalisation, the expansion of the products offered to clients and a première advisory service require management behaviour that may be expressed daily through shared, established values, a high level of technical acumen and specialist expertise.

In this context, training plays an increasingly fundamental role in support of management and the entire company population. By creating development programmes for managerial, technical and professional skills, a concerted effort is made to spread and increase specialist knowledge, establish a single management model founded on core values, strengthen the culture of innovation and allow all Group employees to play their roles as well as possible.

In line with the investments that the Banca Generali Group made starting from 2017, a total of 48,021 training hours were provided in 2019, with an uptrend compared to previous years (23% increase compared to 39,182 hours provided in 2018).

**48,021 hours
of training
provided**
(+23% vs 2018)

In 2019, 54 hours of training were provided to each employee on average (+20% on 2018), exceeding the target level of 45 hours of training per capita set at the beginning of the year.



These figures bear further witness to the focus by the bank and its top management on issues relating to development and continuous, ongoing updates of employees’ technical and managerial skills, stimulating individuals’ desire to grow to keep pace with a fast-moving and increasingly competitive marketplace.

In 2019 the entire Banca Generali Group population enjoyed access to a dedicated training and development catalogue, “Development Linked to Performance” based on the organisation’s strategic needs. The catalogue encapsulates most of the training activities available during the year (managerial/behaviour training; technical business and technical non-business training; legal and safety training) and is expanded according to the ad hoc needs identified for the various areas of the organisation or defined roles, with strategic projects emerging over the course of the year. This catalogue is also designed to expand the skillsets of all individuals to constantly improve company performance and translate the key concepts of the Bank’s strategy into concrete, incisive actions.

The main activities in a 2019 featuring a wealth of training initiatives are discussed below.

1. TRAINING AIMED AT DEVELOPING MANAGERIAL AND BEHAVIOURAL SKILLS

To support people in the major strategic changes and build a unique managerial style/ approach.

Outdoor training activities	Off-site events dedicated to specific Departments to strengthen integration, confidence and cohesion in teams, encouraging the sharing of new ideas. 2019 was focused on innovation and cross-functional integration, for a more streamlined and faster target achievement.
Specific training activities	Training for management and the entire workforce on developing soft skills, i.e. all those personal and interpersonal qualities that are key for employees productivity, the level of engagement and cooperation between colleagues. Over 40 training meetings were organised at the two main offices (Milan and Trieste), dedicated to the following themes: Negotiation Skills, Assertiveness and Conflicts; Effective Communication; Public Speaking; Self Empowerment; Entrepreneurship).
Managerial Acceleration Program (MAP)	A programme targeted to the Group People Managers and aimed at developing and strengthening leadership, starting with the guidelines provided in the GEM – Generali Empowerment Manifesto, which illustrates the managerial behaviours from which each Generali manager should draw inspiration in his/her day-to-day working activity.

2. TRAINING AIMED AT DEVELOPING TECHNICAL (BUSINESS AND NON-BUSINESS) SKILLS

To continue to ensure a widespread technical leadership within the Organisation and competitive on the market.

MiFID certification programme	A mapping, training and certification process dedicated to Banca Generali's population of Information Givers, designed to meet the competency and knowledge requirements established by MiFID 2.
Training activities on banking/ financial themes	Focus on the loans theme and financial and banking skills for various Bank structures. Training activities were organised also in order to support a better Bank's product knowledge.
GATE	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.
BG ON AIR	Webinars dedicated to the staff of branches and organised with the participation of internal colleagues, who supported, thanks to their expertise, the dissemination of projects, tools, processes and new methods, to name but a few, in order to increasingly familiarise the colleagues with the Bank's strategic projects. The project was launched in November 2019, with three webinars organised up to now and further 12 planned for early 2020.
Security Awareness Program	Programme sponsored at Generali Group level to create a culture that reduces IT risks for both employees and the Organisation, while safeguarding personal data and tools inside and outside the Company.
Language training	The internationalisation of the Group is supported by constant improvement of language skills through one-to-one programmes and a platform with individual and group English lessons, accompanied by smart lessons, which are always available to maintain English proficiency (newspaper articles, videos, interviews, etc.).
IT and digital training	Training aimed at creating a digital-oriented company culture, with regards to both tools and the working activity, in line with an increasingly present and sophisticated technology.
Agile approach training	Training sessions on design thinking, agile thinking and development of the Lean Six Sigma Method designed to introduce and develop agile methods within the organisation in order to stimulate a responsive, streamlined and collaborative mindset that facilitates management and implementation of more or less strategic projects and a day-to-day operating approach based on innovation and dynamism – now more in demand than ever before.

3. REGULATORY/SAFETY TRAINING

To make the Bank sustainable in the long-term and protect its employees and the Organisation.

Regulatory training	Always delivered in accordance with legal guidance and updates to the legislation. In 2019, it focused on Anti-Money Laundering, Transparency and Market Abuse issues. Special attention is paid to the fact that the front-office personnel and the personnel working in contact with customers are constantly up-to-date. All mandatory courses for new hires (under both indefinite- and fixed-term contracts) are Web-based and thus provided on an ongoing basis through the dedicated e-learning platform.
Training on General Employee Safety	Classroom and e-learning courses dedicated to the entire workforce, including Managers, to strengthen themes related to Workers' Health and Safety.
GDPR Regulation	A significant attention was dedicated to training on data protection in compliance with the new European Regulation on data processing (GDPR 2018) entered into force on 25 May 2018. The entire workforce of the Banca Generali Group was involved through an interactive e-learning course.

AVERAGE TRAINING HOURS BY GENDER AND TYPE OF EMPLOYMENT

AVERAGE TRAINING HOURS	31.12.2019 (H.)	31.12.2018 (H.)
Total training hours provided to employees	48,021	39,182
Total headcount	887*	868
Average training hours by employee	54	45
Total training hours provided to women	22,947	17,805
Total women	441*	437
Average training hours by woman	52	41
Total training hours provided to men	25,074	21,376
Total men	446*	431
Average training hours by man	56	50
Total training hours provided to Managers	5,252**	2,984
Total Managers	58*	52
Average training hours by Manager	91**	57
Total training hours provided to Executives	14,770	14,209
Total Executives	281*	272
Average training hours by Executive	53	52
Total training hours provided to Employees	27,999	21,988
Total Employees	548*	544
Average training hours by Employee	51	40

* The average training hours are calculated on an annual basis on the total Company headcount. Banca Generali, Generfid and BGFML (Companies acquired during the year were not taken into account).

** The high number of hours dedicated to Managers also includes 1,400 hours related to the participation in events with the sales network organised in 2019.

As already emphasised, the Banca Generali Group's employees were involved in many other activities in 2019, in view not only of skill development, but also of engagement, fostering a positive working environment, creating more fellowship within teams, facilitating relationships of trust within the organisation and stimulating greater motivation amongst employees.

The main activities organised are detailed below:

- › **Interfunctional Projects:** to create increasingly transversal relationships, pool the experience and knowledge of employees from various areas of the organisation, ensure innovation arising from diverse mindsets and based on multiple perspectives and thus achieve shared results inclusively. Interfunctional projects were implemented in various issues in 2019 (*Cartero* and *Financial Planner* projects).
- › **Under 30 Project:** particular attention was dedicated to the Banca Generali Group's under-30 population in order to facilitate dialogue, collaboration and inclusion among populations with a different way of approaching work. The goal of the project is to shed further light on the digital native population, their needs and their way of approaching work, involving them in brainstorming innovative, disruptive ideas and solutions. Employees participated actively in dedicated offsite events, at which they had the opportunity to design and formulate new solutions relating to the Bank's core processes/tools.
- › **Micro-internships:** 40 micro-internships began in 2019. To strengthen the value chain within the Bank's processes, employees were given the opportunity to get a hands-on look at the mechanisms and professional characteristics of functions related to their activity. The key objectives of the micro-internships are: eliminating the barriers between the various functions to foster a broader interfunctional perspective, improve the teams' knowledge of one another and the different activities in the various business areas, gather new suggestions to improve the efficacy of processes and activities and encourage dialogue between employees as the various areas of the organisation.
- › **Strategy Road:** in May and June 2019, 13 sessions were held for the presentation and alignment of strategic guidelines, involving the entire company population. Top management's presence at these sessions was important, allowing them to present the Banca Generali Group's Strategic Plan, whereas each area of the organisation was tasked with explaining the impact on the plan within it.
- › **Meetings with top management:** the Lunch with Top Management programme continued in 2019, allowing 24 employees to meet with the Chief Executive Officer and two Deputy Ge-

neral Managers, facilitating direct dialogue and discussion with top management on the strategic objectives and most innovative projects on which the Bank is working in an informal setting in which management was able to solicit suggestions and proposals.

- › **Open Day:** the first Open Day at the Milan and Trieste head offices was held in 2019, opening these locations to visits by employees' family members. This initiative for staff and their families, developed in collaboration with the business unit and Generali Group, was designed to further improve relations between the Company and its employees and increase engagement within the Banking Group.

In this process of transformation and growth, all the Bank's employees are increasingly called on to play an active role in expressing their talents, promoting change and creating an agile, streamlined environment for innovation.

Procedure for Evaluating Human Resources

The solidity of a company's success is based on constant development of the people that comprise it. The Banca Generali Group has a long track record of performance management, which has always been a key element of the relationship of trust between staff and their managers.

In 2019 the process was revised and revamped from the standpoint of logic, approach and tools, drawing inspiration from the steps taken by the Generali Group. The new **Group Performance Management (GPM)** process was therefore introduced, increasingly oriented towards setting individual goals, developing competencies and ensuring constant feedback.

GPM seeks to involve and motivate all Banca Generali Group employees to achieve important objectives, promoting constant professional development and a culture of excellent performance. Through this process the Banca Generali Group formulates, obtains and returns feedback on each employee's contribution in terms of results and behaviour. The initiative also seeks to ensure that all employees receive structured feedback on their performances and are able to formulate individual professional development plans through transparent, open dialogue. The new process is supported by a user-friendly IT platform that is made available to both employees and managers.

The new procedure consists of four different phases:

- › **Performance Appraisal** > is the phase of assessment of overall performance based on performance in 2018. In 2019 this phase was managed using traditional offline tools for the final year.
- › **Feedback Dialogue** > is a structured meeting between employees and their superiors during which the focus is on the results achieved and individual strengths and areas of improvement. In addition to Feedback Dialogue, the importance of the constant feedback provided over the year bears emphasising: in fact, it ensures that employees are constantly moving in the right direction to achieve the objectives that have been set and are able to monitor their personal and professional growth.
- › **Individual Development Plan** > the Individual Development Plan is a formal document in which specific development actions are formulated to improve each employee's abilities and skills in view of his or her current position, the goals to be achieved in the medium term and future professional development.
- › **Goal Setting** > the goals for the following year are set during this phase, introduced for the first time in 2019. There may be two dimensions to these goals: WHAT (goals relating to the technical nature of the role) and HOW (relating to the new Group key behaviour: Ownership, Human Touch, Innovation, Simplification).

The introduction of the new process was accompanied by two different types of training:

- › In classroom, dedicated to supporting superiors in their roles, with regard to both the aspect of formulating personalised development plans and of setting individual goals in line with strategic and team objectives;
- › Through webinars available online for all personnel, engaged in constructing their own Individual Development Plans and with an active role to play in identifying the goals to be achieved.

In 2019, the Banca Generali Group's people confirmed their focus on this opportunity for meeting, dialogue and discussion, dedicating themselves fully to the activity, according to the phases described above.

From the supporting numerical data, it may be seen that 99% of the population involved received a performance assessment and 2,080 goals were identified and entered into the system for the employees involved in the process.



The GPM will continue to be rolled out in 2020 in terms of tools (all phases will be managed online), approach (the focus will also be on training for both staff and managers) and the population to be involved (the subsidiaries will also adopt GPM, on a specific, case-by-case basis).

% OF EMPLOYEES WHO UNDERWENT A PERFORMANCE ASSESSMENT

In 2019
99%
of employees
underwent a performance
assessment

	31.12.2019*		31.12.2018	
	WOMEN (%)	MEN (%)	WOMEN (%)	MEN (%)
Managers	83.3%	94.4%	28.6%	42.1%
Executives	100.0%	98.7%	80.0%	87.8%
Employees	99.7%	100.0%	87.0%	89.1%
Total	99.2%	99.0%	83.5%	84.5%

* In 2019 the method for calculating the percentage of employees who received a performance evaluation differed from that used in 2018, ensuring that it was aligned with the methodologies relating to the evaluation process. In particular, the percentage is calculated on the employees of Banca Generali and Generfid actually involved in the skills assessment process: employees with indefinite-term contract as of 28 February 2019 and employed for at least six months. Maternity leaves and long absences are not accounted for.

In addition to increasing the level of engagement, the new GPM process also made it possible to complete the talent management and succession planning processes, since they support the identification of the managers of tomorrow and the creation of growth processes that ensure a solid, sustainable pipeline.

Talent development and growth is also promoted and supported through participation in **Development Centre** projects organised at the local level and the level of the Generali Group, allowing the Banking Group's people to look towards broader, more international and more complex roles. Through an external firm, the employees participating in the Development Centre received structured feedback on their resulting profiles, identifying their strengths and areas of improvement. The tool is useful to the Bank in working in the management pipeline, discovering new talent and supporting constant personal growth.

Engagement Survey

The third edition of the Generali Global Engagement Survey ("GGES19") was held in 2019 with the collaboration of the consulting firm Willis Towers Watson, which supported its deployment in each Generali Group country, while ensuring that respondents remained anonymous in view of proper management of the data obtained. The Survey is a valuable tool for soliciting active feedback and an important source for formulating improvement plans and practical actions to be taken.

The Survey was completed by 855 Group employees, **equal to 96% of the population involved (response rate)**. This important result was also made possible by the active contributions of employee ambassadors who, after receiving training on the importance of participating in the Survey, supported all managers in their part of the organisation with the transfer of information.

The response rate was further reinforced by the 525 free comments left by employees (representing 61% of respondents): responses grew by 9% on 2017. This quantitatively and qualitatively significant data added value for reading and comprehending the resulting findings.

The **Engagement Index** for 2019 was **82%** (+1% on 2017), signalling the increasing involvement and attachment to the Company of Group employees and their willingness to go the extra mile to achieve important results together.

The analysis of the findings concluded that the Banking Group's distinctive strengths were its clear vision of company strategy and objectives, combined with a widespread commitment among employees, all according to a deeply rooted, distinctive customer-centric approach. Over the next two years, work will continue to be done on efficiency and empowerment, without neglecting employee work-life balance.

Importantly, the process of cascading the results throughout the organisational structure was designed to ensure that responses remained anonymous. The results were reported in 49 me-

855 colleagues
answered
the survey

(96% response rate)

2019 Engagement
Index: **82%**

etings held to provide the entire population with feedback regarding the findings of GGES19, solicit any additional contributions, impressions and/or reactions useful in best interpreting the data and, finally, to adapt them into a useful action to implement within the team, within the various parts of the organisation.

The meetings were held both in person and by video conference in order to also reach front office populations more distant from the head offices. At the BU and Banca Generali Group level, significant effort was devoted to analysing and formulating actions in support of the areas of improvement identified. These actions were also formulated through the two dedicated workshops held, during which employees identified detailed actions and innovation solutions in support of the areas of improvement that emerged from the Survey.

Activities will be defined by cross-functional teams tasked with designing, fostering and implementing actions as early as 2020, involving all the Bank's workforce.

Diversity & Inclusion

Diversity & Inclusion (D&I) are two key elements of the Banking Group company culture and strategy. To Banca Generali, "diversity" means understanding, recognising and making the most of differences (gender, age, culture, sexual orientation, religion, etc.); "inclusion" means being committed to attracting and developing everybody's talent, regardless of all aspects of diversity, encouraging all those who are a part of the Group to realise their fullest potential.



In its policies, Banca Generali has always been attentive to diversity and inclusion, recognised as factors for unity and dialogue within the organisation: managing diversity is therefore an indispensable necessity to the Company's success, in an increasingly complex, globalised and interconnected world.

In support of the development of a culture of diversity and inclusion, training programmes and company policies have been designed to promote these issues and encourage an inclusive culture that supports individuals in realising their potential, through their experience and cultural strength, regardless of the aspects in which their diversity is expressed.

Specifically, three dimensions characterise the activities:

Work-life balance improvement:

- › flexible hours and smart working;
- › maternity/parenthood support measures;
- › disability support measures.

Attention to the theme age/generations:

- › cross-functional projects aimed at knowledge sharing;
- › mentoring programmes to foster intergenerational exchange;
- › project dedicated to under-30 employees to enhance the younger generations.

Ongoing commitment towards gender issues:

- › women empowerment training to support the development of female leadership;
- › selections and hiring governed by inclusive, fair policies;
- › training programmes dedicated to managers on the subject of "unconscious bias";
- › attention to the gender pay gap.

Diversity is an asset for creating new ideas and processes, for best seizing and managing market discontinuities and challenges.

In March 2019, two "*Be bold for inclusion*" sessions were held to examine the issue of diversity and inclusion within the organisation with different company audiences. The sessions focused on creating greater awareness amongst participants of D&I issues and helping them understand how these topics are fundamental to the organisation's success.

The set of diversity and inclusion principles also underlies the selection and hiring processes, in which 25% of candidates on the short list (whether internal or external) must be women to increase the female presence in the management team.

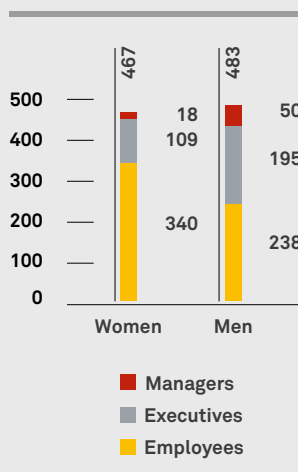
In reflecting the diversity of the Company's workforce, total equality between male and female employees, particularly at top management level, is preserved and promoted. The Group guarantees equal treatment for men and women, both during the selection processes and in terms of remuneration.

The gender balance is also achieved through the numerous forms of work-life balance support that will be illustrated below.

In order to meet and attract talented young people capable to supporting its employer branding, for some years Banca Generali 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.

Since 2018, there has been an increased participation also 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.

With regard to the Parent company, Banca Generali S.p.A., as a company with a workforce of over 100 employees and in accordance with Article 46 of Legislative Decree No. 198 of 11 April 2006, the “Biennial Report on Equal Opportunity” is drawn up on the situation concerning female and male personnel. The next Report will be prepared by 30 April 2020, and will refer to 2019 and 2018. This document, which must be sent by the legal deadlines to the Regional Councillors for Parity of Lombardy and Friuli-Venezia Giulia, as well as to company union representatives, contains information regarding personnel, classification, hiring/termination, training, professional promotion, dismissals, early retirement, retirement and remuneration effectively paid (Article 46 of Legislative Decree No. 198 of 11 April 2006).



EMPLOYEES BY PROFESSIONAL POSITION AND GENDER

	31.12.2019			31.12.2018		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
Managers	18	50	68	14	38	52
Executives	109	195	304	100	172	272
Employees	340	238	578	323	221	544
Total	467	483	950	437	431	868
Percentage	49%	51%	100%	50%	50%	100%

The percentage of women who serve in positions of responsibility (managers and executives) was 34%, in line with the previous year. 73% of women falls within the “employee” category, slightly down compared to 2018.

EMPLOYEES BY PROFESSIONAL POSITION AND AGE

	31.12.2019				31.12.2018			
	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL
Managers	-	32	36	68	-	24	28	52
Executives	1	188	115	304	-	168	104	272
Employees	50	462	66	578	53	435	56	544
Total	51	682	217	950	53	627	188	868
Percentage	5%	70%	25%	100%	6%	72%	22%	100%

At year-end workforce’s average age was 44. In detail, managers’ average age was 52, that of executives was 48, whereas that of employees was 41. This figure, together with figures relating to the percentage of under-30 employees (5% of the total) and woman managers (26%) are broadly in line with the targets set by Banca Generali for 2019.



PROTECTED CLASSES BY PROFESSIONAL POSITION AND GENDER

	31.12.2019			31.12.2018		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
Managers	1	-	1	1	-	1
Executives	2	2	4	2	1	3
Employees	23	19	42	24	20	44
Total	26	21	47	27	21	48
Percentage	55%	45%	100%	56%	44%	100%

The “protected categories” include all 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 2019 and 2018 (4 staff in 2019, all women, and 4 staff in 2018, including 3 women) who, despite being included on the disabled list, were not counted since they were not part of the statutory reports.

Banca Generali Group will continue to focus 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.

According to this approach, any confirmed episodes of discrimination could give rise to disciplinary charges and penalties. However, in 2019 there were no such events or circumstances to report.

Compensation & Benefit

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.

We SHARE

In line with the “Generali2021” strategy, the General Shareholders’ Meeting of the Generali Group convened in May 2019 approved the motion to approve, for 2019 only, the “We SHARE” Plan.

The Plan, which has a duration of three years and consists of offering employees options to purchase Assicurazioni Generali shares at advantageous conditions associated with the creation of long-term share value and stability of the Generali Group’s financial situation, recognises the fundamental role of the Group’s people in achieving its strategic objectives, through a culture of ownership, to realise the ambition of becoming a life partner to its customers.

Within this context, and as part of coordination with the Generali Group, Banca Generali has taken advantage of the opportunity to include its employees in the scope of the Plan. In fact, for Banca Generali this initiative represents a concrete indication:

- › to promote a culture of ownership and empowerment in accordance with its strategic plan;
- › to foster the loyalty of its employees in keeping with its remuneration policies.

The Plan provides for the inclusion of all the Banking Group’s employees, except for key management personnel and key personnel.

We SHARE was launched by the Generali Group in October 2019 in 31 countries, for about 60,000 employees, achieving extraordinary success.

In particular, with reference to the Banking Group, the rate of participation was approximately 68%, proof of a high engagement level among employees and a tangible sign of the commitment towards the Generali Group’s strategy.

Lion Coins

“Lion Coins” were introduced in 2019. This form of non-monetary award provides managers throughout the Bank with access to coins that they can deliver virtually to their subordinates or other colleagues for having “performed a given task excellently”, “achieved a specific objective” or “making the difference in a given project”.

The idea of the coins is to be able to recognise employees for their value, commitment and willingness by awarding them coins that can then be used for training and development tools or to purchase gadgets and prizes.

In 2019, 261 employees received a total of 7,235 Lion Coins. After receiving them, the employees applied for 83 prizes, of which 43 referring to matters relating to training, development and updates to technical skills (e.g., the English Language Course in the UK, CIPP/E Certified Information Privacy Professional/Europe, mentoring courses, etc.).

Remuneration

RATIO OF REMUNERATION OF WOMEN TO THAT OF MEN*

	31.12.2019		31.12.2018	
	ITALY**	LUXEMBOURG**	ITALY	LUXEMBOURG
Managers	0.85	1.67	0.84	1.29
Executives	0.77	1.07	0.76	1.44
Employees	0.96	0.90	0.95	0.80

* 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.

** The companies acquired during the year were not taken into account since it would not be possible to compare the related figures on an annual basis with those of the previous year.

In Italy, the total remuneration of women managers is still lower than that of men because there are more men in key management positions, 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.

For further information, reference is made to the 2019 Remuneration Report.

Benefits & Welfare

All employees of the companies Banca Generali, Generfid and BGFML — regardless of their classification and contract type — enjoy a series of benefits, the cost of which is normally fully borne by the company, relating to the following aspects of welfare that, owing to their completeness and widespread adoption, place the Group at the top not only of the financial industry, but of other sectors as well:

- › **healthcare:** this provides reimbursements for various cases of health expenses (large procedures, hospitalisation, dental expenses, specialist examinations and treatments, oncology expenses, etc.) incurred by employees or their dependent family members and, in certain situations, by other family members;
- › **supplementary pensions:** through a contribution provided by the company, employees can create a private pension position (also made possible by the Generali Group’s pension funds) designed to supplement their government pensions in the future. This mechanism also makes it possible for employees to meet major personal needs (such as purchase of a first home

or extraordinary healthcare expenses) by applying for specific advances, including during the contribution phase;

- › **economic indemnity for death, permanent total disability and dread disease:** this is an extremely important social protection mechanism through which the company, in the most serious cases that may affect its employees and thus their families, provides significant sums calculated according to the employee's age, gross annual remuneration and family composition;
- › **professional accident policy:** this mechanism, which is designed to cover cases of death and permanent total disability, also represents a fundamental tool for protecting both employees and their families;
- › **welfare option for the company bonus:** thanks to the opportunities offered by recent legislation, since 2016 (for middle managers and white-collar employees of Banca Generali S.p.A. and Generfid S.p.A.) it has been possible to “convert” the company cash bonus into welfare, thereby maximising the purchasing power of the bonus, in the following cases: “reimbursement” for children's school/university expenses, daycare, care for family members who are severely ill or over 75, or purchase of goods and services in the areas of culture, sports and recreation generally at special conditions. In 2019 this opportunity benefited from a fundamental conceptual and operational upgrade through the introduction of the **Welfare Portal** (by Generali Welion). The Portal, designed like an e-commerce site, provides employees with access to an extremely wide range of wellbeing and wellness goods and services, while ensuring considerable ease of use and support service based on both FAQs and a dedicated chat line.
- › **“Pure” welfare:** Banca Generali and Generfid employees receive annual one-off amounts (differing for executives and other personnel) to be used through the Welfare Portal for the reimbursement and/or purchase of the services mentioned above.

All employees employed under an indefinite-term contract — and with at least one year's seniority for BG FML staff — also have access to preferential-rate loans and financing.

With regard to the Group companies Nextam Partners and Valeur, which recently joined the Banking Group, the most appropriate assessments will be carried out so as to harmonise benefits, also in light of the local and national specific conditions.

Work-life balance

The central role played by people in the 2019-2021 Strategic Plan has naturally driven the implementation of initiatives dedicated to work-life balance: in this area, smart working (for which a pilot project had already begun in 2018) was the project that grew the most.

Due to the flexibility that it provides in choosing which days to work remotely and which to work on site, smart working was particularly appreciated by all Banca Generali employees because it allows activities to be managed as effectively as possible, while also increasing engagement and productivity. Transfer of responsibility to colleagues and delegation also increased considerably, as a consequence of remote collaboration.

In addition, thanks to the process innovations managed during the year, primarily focused on digitalisation and dematerialisation, the number of activities that may be managed remotely increased significantly. As a result, the possibility of working from home was also expanded to other colleagues: in 2019, smart-workers increased by 185, bringing the total number at the end of 2019 to 265 employees (54% of whom women) at the Milan and Trieste offices.

This method of remote collaboration was welcomed with great enthusiasm by the entire company population involved in the project: in fact, the average overall participation rate in 2019 was 51% of possible participants, who performed 4,715 days of smart-working (beating the target set for financial year 2019 in this case as well). Of these, 58% was worked by women. The majority of days was worked by personnel in the 30-to-50 age bracket.

It should also be noted that, under the union agreements signed in 2019, in early 2020 testing will be extended to approximately 180 additional employees, also including the Rome office.

Again in the work-life balance area, benefits linked to reduced 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 may request to their full-time contract to part-time (for an overall period until the child's seventh birthday).



In 2019

**265 employees
(54% women)**

worked in smart mode
for a total of

4,715 days

In further pursuit of job flexibility, Banca Generali 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 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 all non front-office Functions and the ongoing search for shared solutions at trade union level with regards to working hours.

Banca Generali employees can also benefit, for the use of childcare facilities both within the Company and those with which the latter entered into special agreements, of the favourable terms applied to Generali Group staff, including discounted rates, as well as the payment by the Company of annual subscription fees.

Lastly, Banca Generali is 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.

Industrial and trade union relations

Banca Generali 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 2019, the rate of membership (employees registered with unions vs the total workforce in Italy) was 33%, compared to 36% at the end of 2018.

94% 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, Nextam Partners LTD and BG Valeur SA, to whom the local legislation applies.

The national collective labour agreement (CCNL Credito) provides for a series of annual or six-monthly trade union meetings, during which the Company can meet with the trade union 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);
- › qualitative and quantitative information on human resources (data/information about performance appraisals, rewards and training).

In 2019 this session was held in December, allowing considerable follow-up on the efforts at the level of business, sales and the People Strategy, in addition to identification and emphasis of the constant challenges that await the Group next year.

In June 2019, the supplementary company contract for employees (white-collar workers and middle managers) of Banca Generali and Generfid (Italy area) was confirmed in terms of its contents of both an economic and legal nature and is set to expire on 30 June 2020, subject to automatic annual extension unless cancelled in advance. In large part, the contract contains the welfare benefits mentioned above (company bonus, healthcare and supplementary pension), which, however, benefited from significant implementations and improvements such as:

- › in the area of **economic welfare**, as previously mentioned, 2019 was the year of the **Welfare Portal**, which — adequately presented to several hundred employees during specific **Welfare Days** in Milan and Trieste — provides extremely simple, transparent and swift access to the basket of welfare goods and services provided for by law, with the resulting immediate advantage for employees in terms of reduction of the tax and contribution burden. The activation of this portal also manages pure welfare amounts disbursed on a one-off basis from 2018 for executives and from 2019 for middle managers and white-collar workers;
- › in the area of **supplementary pensions**, employees were also given greater **flexibility in choosing their contributions**, including with regard to future termination indemnity accruals;
- › in **healthcare**, the **limits of liability for oncology expenses** were recently **increased**;
- › the **indemnity for death, permanent total disability and dread disease is now paid on according to a higher calculation base.**

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, and saw the participation of more than 600 employees.

Legal disputes

There were two disputes running in 2019 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.

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, pursuant to the guidelines and coordination of the Risk Prevention and Workplace Safety service — the Generali's Health & Safety team — and 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 in the immediate vicinity reserved for differently abled people or employees with significantly reduced motor ability — also temporary or on the indication of the competent company's physician —, both at the office in Trieste and the new headquarters in Milan.

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 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 2019, personnel eligible for health supervision (exposed personnel) underwent medical examinations according to the protocol established in current legislation for the associated risk group. In total, 351 medical examinations were carried out (191 men and 160 women), involving 16 different offices throughout Italy. This figure also includes examinations performed by the company physician, both when specifically requested by the employee and upon changing assignments or returning from a period of absence for illness or injury of more than 60 days, in accordance with the law.

The results showed clearly that most staff were fit to work without any limitations and/or special precautions.

Specific safeguards — based on prescriptions by the company physician following a health check-up — are always provided to employees by the Company, which in turn ensures that the organisational prescriptions certified by the company physician are observed.

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 2019, employees were again offered the opportunity to receive a flu shot free of charge.

The Banca Generali Group is constantly committed to updates and new training on issues relating to the protection of health and safety in the workplace in order to keep risk factors to a minimum. Training programmes (as previously indicated) dedicated to safety issues continued throughout 2019, through classroom training and/or e-learning modules, available online. 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).

With reference to the scope of consolidation before extraordinary transactions, during 2019, a total of 12 incidents occurred (during commuting, all in Italy), none of which caused death, serious or permanent injury, or an occupational illness to the members of staff involved. These accidents related to 5 women and 7 men; in 2018, accidents related to 2 men and 2 women (all during commuting).

The rate of accident-related absenteeism in 2019, calculated as a frequency index (No. of accidents/total hours worked*1,000,000) was 8.21 (2.96 in 2018); whilst the rate of days lost, calculated as a gravity index (No. of days lost due to accident and occupational disease/total workable hours)*1,000 was 0.05 (0.04 in 2018).

Banca Generali and its Suppliers



1,767 suppliers



93% of the procurement value towards Italian suppliers



102 million euros in purchases



32 new suppliers qualified



In 2019, the Banca Generali Group²⁵ engaged in dealings with 1,767 suppliers, generating a total value of 102,264 million euros, broken down into 95.1 million euros (93% of the total) referring to Italian suppliers and 7.2 million euros (7% of the total) to foreign suppliers.

The standard term of payment that Banca Generali offers its suppliers is 60 days upon receipt of invoice, accepting exceptions where the relevant conditions are met.

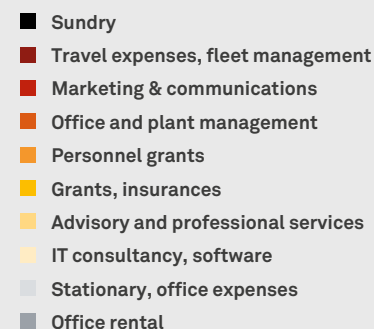
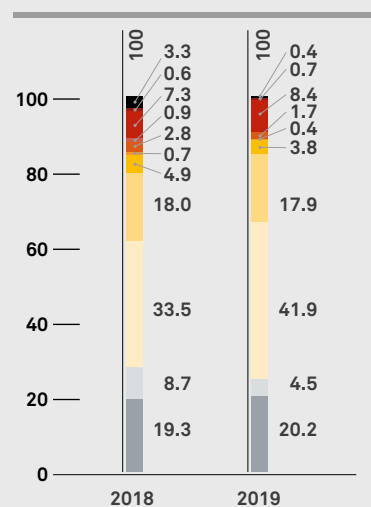
Pursuant to the so-called “Growth” Decree (Law No. 58 of 28 June 2019) and, in particular, Article 7-ter of Decree No. 231/2002 on combating late payment in commercial transactions, it should be noted that the analyses on transactions carried out by Banca Generali in 2019 showed that suppliers’ average payment time is 50 days. Any late bank transfer payment does not exceed 7 calendar days on average, also in light of the fact that the Bank sets up the payment flows on a weekly basis.

BREAKDOWN OF SUPPLIERS BY TYPE OF SUPPLY AND % VALUE OF THE SUPPLY

	2019 ²⁶	2018 RESTATED NET OF VAT	2018
No. of suppliers	1,767	1,529	1,529
Expenditure/suppliers (€ thousand)	102,264	87,331	100,190
Office rental	20.2%	19.3%	19.7%
Stationery, office expenses	4.5%	8.7%	9.4%
IT consultancy, software	41.9%	33.5%	32.9%
Advisory and professional services	17.9%	18.0%	18.7%
Grants, insurance	3.8%	4.9%	4.3%
Personnel grants	0.4%	0.7%	0.3%
Office and plant management	1.7%	2.8%	2.9%
Hardware, infrastructure costs	-	0.9%	0.5%
Marketing & communications	8.4%	7.3%	7.7%
Travel expenses, fleet management	0.7%	0.6%	0.5%
Sundry	0.4%	3.3%	3%

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, the Bank 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.



²⁵ 2019 figures also include the values relating to the newly acquired companies during the year (Nextam Partners, and Valeur Fiduciaria).

²⁶ Figures are reported net of VAT.

In line with the criteria defined by the Generali Group, Banca Generali asks contractual partners to align themselves with its management policies when carrying out their own activity and to ensure that they are observed at all levels of the supply chain. In 2019, there were no reports of significant changes in terms of organisation, structure and ownership within the supply chain.

The procurement process, which was revised in 2018 and is governed by specific rules and procedures, provides the guidelines for proper purchasing management, and specifically for supplier selection and supply contract award procedures. A special procedure is envisaged for related party transactions and transactions involving a potential conflict of interest.

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. In order to mitigate risks, regular checks and audits are performed to record and automatically update any changes that may affect the outcome of the qualification and evaluation of the supplier concerned.

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.

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.

In 2019, 32 new suppliers were identified (making up 9% of total new suppliers) as meeting the criteria established by the Generali Group and therefore were included in the ‘List of Qualified Generali Suppliers’ in addition to those already found ‘compliant’ last year. To ensure that the qualification process was completed correctly, suppliers were asked to commit to acting in accordance with the Group’s policies on ethics, integrity, fairness, transparency and impartiality, as well as on environmental and social matters.

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 Internal Code of Conduct 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.

Moreover, 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). Lastly, 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.

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



299,090 Customers



AUM 66.8 billion euros



Over 500 events organised



20% of customers with at least 4 products



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 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 as follows:

- › **asset management products**, which allow Banca Generali to offer its customers a full range of investment solutions based on the open-architecture model and featuring flexibility and personalisation, as well as to meet the different needs and requirements, in terms of financial planning objectives, risk tolerance and asset allocation;
- › the **insurance** product range offer, which is concentrated on Life and Pension Insurance, meeting protection and planning goals for generational transfer;
- › **banking services and AUC**, which 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).

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.

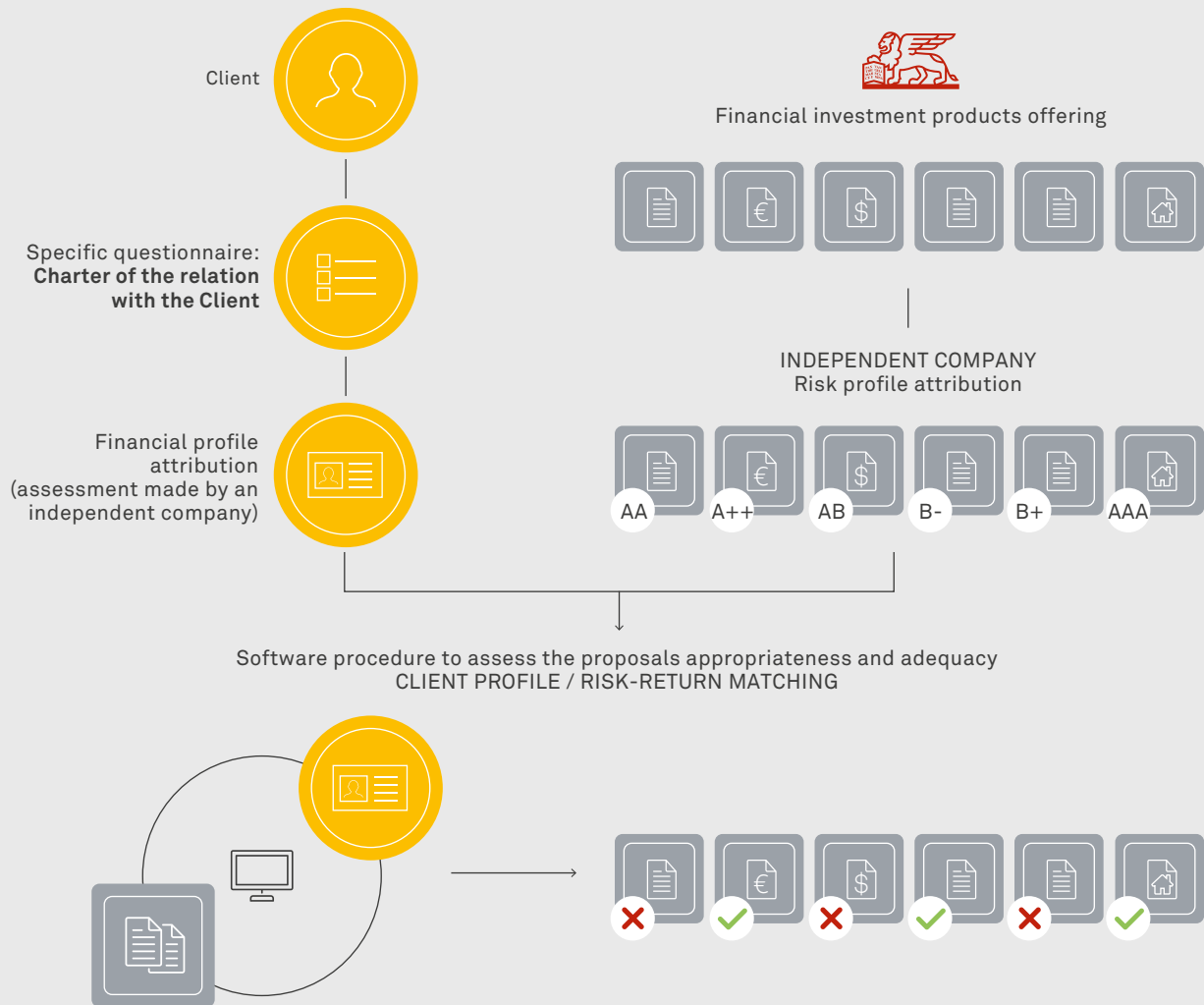
The following factors are particularly important for purposes of identifying customer features and investment needs:

- › 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).

In order to evaluate the suitability of the products distributed to meet the relevant investment needs, a direct knowledge of customers is essential, and in particular their knowledge and experience of products, their financial situation and their investment objectives. This information serves to give every customer a financial profile, which allows to check the investor's capacity to understand the nature and features of the product and assess its adequacy and appropriateness, 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": it 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": it aims at checking 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.

KNOWING THE CLIENT AND UNDERSTANDING PROPOSALS



Knowing the customers

Knowledge of individual customers is based on the direct relationship they build with the Financial Advisors, as well as on trend analysis and indicators transversal to all clients.

In 2019, the Bank reported an increase in the total assets under management (+16%) and the number of customers served (approximately +3.2%). 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

	2019	2018	CHANGE %
No. of customers	299,090	289,956	3.2%
AUM (€ billion)	66.8	57.5	16.2%

Breaking customers down by gender, 54% were men and 43% were women. There was a slight decrease among Generation X customers (35-50 years of age), whereas an increase was reported by those over 70, who represent the customers with high levels of income and assets. Customers classified as Baby Boomers (50-70 years) remained essentially stable.

BREAKDOWN OF CUSTOMERS BY GENDER

	% 2019	% 2018
Women	43%	43%
Men	53%	54%
Other *	4%	3%
Overall total	100%	100%

* The category "Other" includes all the clients that cannot be classified by gender (i.e., legal entities, clients with trustee mandates, etc.).

BREAKDOWN OF CUSTOMERS BY AGE BRACKET

	% 2019	% 2018
Up to 35 years	9%	9%
35-60	22%	23%
50-60	24%	24%
60-70	18%	18%
Over 70	23%	22%
Other *	4%	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.).

The geographical distribution of customers shows strong concentration in Northern Italy (about 62% of the total).

BREAKDOWN OF CUSTOMERS BY GEOGRAPHICAL AREA

	% 2019	% 2018
Overseas	1%	1%
Centre	19%	19%
Islands	3%	4%
North-east	31%	31%
North-west	31%	31%
South	15%	15%
Overall total	100%	100%

Customers relations

In line with the provisions set forth in 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 environmental protection and respect for fundamental human rights and labour;
- › processing personal data in a manner respectful of data protection rights, while ensuring they are inaccessible to third parties, except for fully justified 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 to the Bank's strategic vision.

Creating value through innovation

Innovation is 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.

As mentioned above in the paragraph "The organisation and ICT – Customer services", in response to the increasing need from customers for geographical diversity in asset custody, in the second half of 2019 Banca Generali decided to launch the innovative new advanced advisory service "**BG International Advisory**" with the following distinctive characteristics:

- › assets custody with Cornèr Banca S.A., a Swiss bank that is authorised under the freedom to provide services in Italy and can boast a significant history and reputation;
- › provision of investment advice by Banca Generali concerning assets held with partner intermediaries, in addition to order receipt and transmission services;
- › complete integration into the BGPA advisory platform of information and analysis regarding assets held with partner intermediaries.



Capable of meeting constantly evolving needs in a synergistic manner, **BG Personal Advisory** allows customers to make the most of their wealth — financial investments and real-estate, family and business assets — monitoring it constantly over time and taking action at any time through measures and strategies suited to their specific, constantly evolving needs.

In 2019, the advanced advisory service "BG Personal Advisory" was further expanded and enhanced through the launch of the service "Robo for Advisory" (RO4AD), a fully integrated, automated system that monitors customer portfolios and identifications custom investment solutions on the basis of various risk and quality factors.

In particular, the RO4AD platform offers the following distinctive characteristics:

- › it can be tailored to suit the individual customer and Financial Advisor, according to their specific needs;
- › it offers risk controls capable of "capturing" changes in the various market variables;
- › it is designed to improve relationships and communication with customers;
- › it is highly integrated into the BGPA advisory platform to permit a high level of simplification of daily operations by the Financial Advisor.

In 2019, Banca Generali also developed an innovative, intuitive approach to sustainability capable of providing its customers with the opportunity to make investments that, in addition to the traditional financial evaluation metrics, incorporate an impact assessment relating to the 17 UN Sustainable Development Goals (SDGs)²⁷.

Creating value through protection

Protecting its customers' investments is a key priority for Banca Generali, which it pursues through:

- › an integrated system of insurance cover incorporated into BG Stile Libero, protecting the assets of the investor and his or her immediate family in the event of death (by age), accident, capital losses, etc.;
- › the Family Protection tool, available from the BGPA platform, which allows Financial Advisors to analyse their customers' total wealth (financial and non-financial assets), while identifying any criticalities in terms of generational transfer.

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 relationship model focused on involvement and transparency and a "digital revolution" that is identifying new needs and ways to access to services.

²⁷ For further information, see section "Products and Marketing – Sustainability".

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.

The key elements of Banca Generali's customer-oriented digital turning point in 2019 are reported below.

New Mobile Banking app > After presenting the Group's digital revolution, founded on the values of sustainable growth, on Investor Day, Banca Generali launched its new Mobile Banking app, distinguished by its advanced technology, simplicity, intuitive approach and strong graphical impact.

Customers can now log in using cutting-edge recognition systems (digital finger scan or face ID), check their holdings and activity in just a few seconds, make payments and credit transfers, add credit to mobile telephone accounts and place trades. Customers may also view Nexi credit card and prepaid card activity directly from the app, in addition to enjoying access to a voice assistant to check their positions and order credit transfers.

Finally, the new app is also perfectly integrated with the new BG Saxo trading platform, ensuring direct access to BG Saxo Trader GO and BG Saxo Investor.

Trading platform (BG Saxo) > With the launch of the trading platform BG Saxo, Banca Generali has provided its customers with an advanced, easy-to-use tool that can be used to place trades on global markets from a single account and from any device, with the ability to choose the platform best suited to the user's financial needs and knowledge directly from Home Banking or Mobile Banking. In further detail:

- > BG Saxo Investor: with its simple, intuitive interface that customers can use to choose among investment themes or securities in the spotlight, it allows users to familiarise themselves with major market trends and learn more about the solutions showcased by Banca Generali and Saxo Bank.
- > BG Saxo Trader GO: a complete and advanced platform with high execution performance, integrated analysis tools, dynamic graphs and operating indicators, along with the ability to manage orders and work from graphs at just a few clicks.

Digital onboarding > The new digital onboarding process has been developed to allow customers to open a new account through a 100% digital approach by completing the onboarding process and getting started with trading in just a few minutes.

Digital Collaboration > True to its sustainability values, in 2019 Banca Generali continued its technological development efforts to enhance the commercial offerings available to its Financial Advisors and customers, while also providing incentives for virtuous, environmentally friendly behaviour.

Related initiatives included the following:

- > the Digital Collaboration user experience has been further simplified by adding a single module for all after-sales transactions involving funds and Sicavs, which allows a single proposal to be sent by the advisor and a single confirmation to be given by the customer, even when multiple orders are present;
- > the ability to confirm credit transfers has also been extended to foreign countries within the SEPA area;
- > the ability to confirm post-sales transactions involving insurance products has also been extended to legal entities;
- > the types of transactions managed through Digital Collaboration have been expanded to include the ability to activate the service Doc@online, contributing to a reduced environmental impact of the printing of banking documentation.

Thanks to an increasingly rich portfolio of transactions available, 2019 saw further growth trends in Customer Digital Collaboration operations: slightly less than 4 billion euros investments were confirmed digitally and, on average, more than 17,000 transactions were dematerialised every month, thus reducing environmental impacts and paper wastage.

The telephone support service provided by the Banca Generali Contact Centre complements the Internet channel; the service, which is intended above all to allow customers to access information about the Bank's operations and to execute transactions on their accounts, in 2019 saw operators manage over 195,000 calls, up 30% compared to 150,000 in 2018.

The annual increase in the number of calls, and the subsequent higher number of dropped calls, was attributable both to the introduction, in the first half of the year, of the new voice assistant service and to the implementation, in the second half of the year, of the new European Directive

PSD2 on the new token-based authentication methods to access the bank's online services, which led to numerous requests for customer assistance and support.

In 2019, the Network Support service, aimed at offering support to Financial Advisors, was also subject to a similar monitoring process; in the reporting year, the service managed over 174,000 calls, ensuring to all Financial Advisors a percentage of dropped calls of nearly 10% and average response times of 120 seconds, in addition to an average answer time of 36 seconds and a percentage of dropped calls of 3% for Wealth Management advisors in particular.

Digitalisation of tools for Financial Advisors > in 2019 the innovation and digitalisation activity continued with a view to supporting Financial Advisors, in particular:

- > the account opening portal for Financial Advisors, designed to provide the network with a user-friendly platform capable of optimising and simplifying the process of registering customers and opening accounts due to full process automation. While following the same steps required by traditional contracts (identifying information, MiFID questionnaire, choice of account type, etc.), the process offers a series of advantages such as a shorter wait time to open an account, use of digital signatures and the ability to monitor customer requests constantly through a specific dashboard;
- > the innovative digital platform BG Certificate Dashboard, launched in 2019 and dedicated to certificates placed in public offers and private placements and listed on the secondary market. The application is available within the app BG Products and, in the post-sales phase, offers detailed information regarding all certificates available, personalised watchlists, reports and intraday information on certificate prices.

Creating value through education

In collaboration with its network, Banca Generali organises numerous social, cultural and sporting initiatives at the local level. In 2019, more than 500 events were organised, which were attended by approximately 11,000 customers.

About 30% of these initiatives focused on economic-financial issues. An example are the “**Aperitivi finanziari**” and “**Wealth Management**” events: these are meetings organised in partnership with leading asset management firms and intended to illustrate to existing and prospect customers the evolution of macroeconomic scenarios, financial markets' situation and the development of new investment solutions.

In addition, in 2019 there were **41 events dedicated to the theme of sustainable**, responsible development, with a focus on the role that Financial Advisors and customers can play due to the new ESG investment solutions developed by Banca Generali.

Finally, the Bank held a series of events dedicated to families and its youngest customers. For example, the initiative **Private Counselling – with young people to conquer the future** resulted in the development of a training and counselling programme implemented in collaboration with SDA Bocconi and designed to provide young university students with the tools to understand the most important aspects of managing household wealth. Another initiative organised in this area was the project “**A Champion for a Friend**”, consisting of a series of events promoting financial education among families and the youngest members of society through an approach based on sport and play.

Security and data protection

Banca Generali considers safeguarding its information assets as fundamental to protecting its business and its relation of trust with its customers. The preventative measures adopted to prevent the loss or alteration of information include:

- > **adoption of policies** on data protection, IT security and strategic direction on the matter of information communication technology (ICT);
- > **the use of specific systems and tools** such as firewalls and antimalware and antivirus programmes, etc.;
- > **the provision of specific training courses** for employees;
- > **the periodic revision of the safeguards** adopted in accordance with industry legislation (for example, periodic updates to the record of processing);
- > **the constant assessment of the risks** associated with the new personal data processing methods introduced by the Company.

To ensure compliance with the applicable data protection laws in force, Banca Generali adopted the principles set forth by the **Data Protection Regulation (GDPR)**, which became effective on 25 May 2018. In detail, the **Data Protection Regulation** has replaced and supplemented the

regulatory provisions already contained in the Bank's internal regulations and applied to all the Banking Group companies. A **Data Protection Officer (DPO)** has been appointed within the Company and tasked with overseeing the processing and protection of personal data. In addition, the Compliance Function, which serves as a second-tier check, is also involved in monitoring and assessing the risk of non-compliance in this regard.

Following the training initiatives on the processing of personal data that Banca Generali organised in 2018 in light of the new regulatory provisions introduced during the year, in 2019 the Bank continued to provide its employees with initiatives aimed at raising awareness and circulating best practices. It should be noted that no confirmed complaints regarding breaches of data protection were received during the reporting period²⁸.

In addition, with effect from 2019, Banca Generali implemented a framework for constantly monitoring the potential risk of fraud against the Banking Group and its customers in order to ensure the efficacy of the system for preventing and managing this phenomenon and pursuing the following aspects of social responsibility:

- › protecting the solidity and profitability of the Banking Group and the brand's reputation;
- › transparency in management of the business and the adequacy of the governance structures and internal control system;
- › protecting customers' assets and data against possible internal and/or external fraud (cyber-attacks);
- › responsible remuneration and incentives for employees.

Dialogue with customers

Customer satisfaction

Regular monitoring of customer satisfaction is a key factor in Banca Generali's strategic vision and is implemented through the use of specific indicators.

If the 2019 data are compared with those from the previous year, it may be seen that the retention rate has remained unchanged. Due to the departure of customers with more than 13 years' seniority, the average duration of contractual relationships declined by approximately one year. Customers' perception of the financial services offered by the Bank has improved: whereas the number of single-product customers has gradually declined (-1% on 2018), the number of customers with at least four products increased slightly (+1%).

CUSTOMER SATISFACTION

	NO. PRODUCTS	2019	2018
Customer retention rate		95%	95%
Average duration of the agreement*		11 years and 1 month	12 years and 3 months
Cross selling	1	39.5%	40.4%
	2-3	40.4%	40.6%
	4+	20.1%	19.0%

* The figures refer to persons who have been Banca Generali customers for at least one year.

To obtain more information regarding customer satisfaction levels and solicit suggestions for further improving the Bank's range of products and services, in 2019 Banca Generali conducted a survey that actively involved a sample of over 800 customers. The results of this survey, performed with support from an authoritative consulting firm, confirmed the absolute excellence of the commercial range offered and the high level of confidence shown in the Bank.

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

²⁸ The figures presented do not include the Group companies acquired in 2019 (Nextam and Valeur), which will be considered with effect from the next Annual Integrated Report, since the first fully covered year will be 2020.

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 received are managed in compliance with applicable laws and regulations. In addition to becoming a member of Conciliatore Bancario Finanziario, which offers out-of-court dispute resolution procedures, the Bank adopted an internal disputes and complaints policy and an organisational procedure aimed at identifying the activities involved in handling complaints, from recording them in a dedicated database to sending the letter of response.

Complaints are logged based on the category to which they belong. In particular, it can be noted that:

- › 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;
- › 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 services 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;
- › 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. The Company avails of the service of leading expert firms to manage, in particular, 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.

Complaints must always be managed according to a relevant approach by conducting appropriate inquiries to determine whether the complaint is grounded and responding promptly and thoroughly to customers regarding such inquiries.

At quarterly intervals, the Board of Directors is given an overall report on the Bank's litigation and complaints status. At this juncture, 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.

Banca Generali and the Distribution Network



2,040 Financial Advisors



32.8 million euros managed on average by each Financial Advisor



122,696 total training hours



2.5 million euros per-capita net inflows

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.

Therefore, the Bank dedicates the utmost attention to the selection of its distribution network's Financial Advisors and to their subsequent personal and professional development. 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 the development of customised solutions. Over the years, Banca Generali's distribution network evolved through both the aggregation of various networks of Financial Advisors and private banks, and the gradual recruitment of highly skilled professionals on the financial services distribution market, drawn by the Bank's business model.

Composition

The Banca Generali's distribution network is entirely based in Italy and consists of two categories of collaborators:

- > the Private Bankers (PBs), the Financial Planners (FPs) and the Wealth Advisors (WAs); they collaborate with the Company as freelance professionals;
- > the Relationship Managers (RMs), who are company employees.

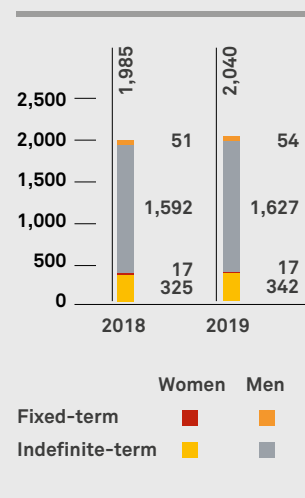
FINANCIAL ADVISORS BY GENDER

	31.12.2019			31.12.2018		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
FPs-PBs FPA-WMs	342	1,627	1,969	325	1,592	1,917
RMs	17	54	71	17	51	68
Total Financial Advisors	359	1,681	2,040	342	1,643	1,985

At system level (Assoreti), the number of Financial Advisors operating in the main Companies surveyed increased by about 0.3%²⁹ in 2019, from 22,330 Financial Advisors recorded at the end of 2018 to 23,249 at the end of 2019. In detail, Banca Generali owns one of the most important Financial Advisor distribution networks in Italy: at 31 December 2019, the Generali network included 2,040 Financial Advisors and Relationship Managers, with an increase of 55 compared to the same period of 2018 (+2.8%). This improvement was mainly due to the recruiting activity performed in 2019, which led to the hiring of 86 new professionals with sound experience in the sector.

This increase allowed Banca Generali to confirm its fifth place within the Assoreti market with a market share of 8.9%.

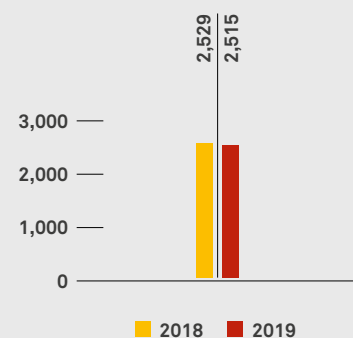
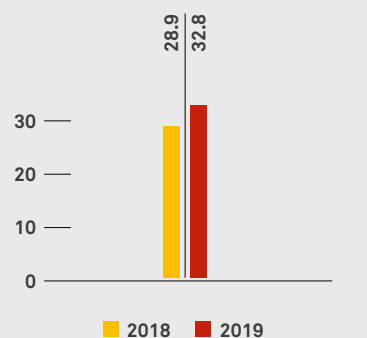
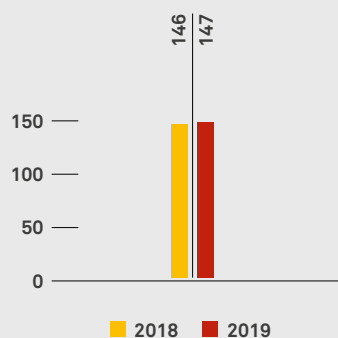
²⁹ The increase percentage does not take into account the number of financial advisors working for Chebanca!, e Banca Euromobiliare who was included in the Assoreti's scope in 2019.



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.

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.

CUSTOMERS' ASSETS	2019	2018	CHANGE %
Average no. of customers per FA	147	146	0.7%
Average assets per FA (€ million)	32.8	28.9	13.0%
Average net inflows per FA (€ million)	2,515	2,529	-0.6%

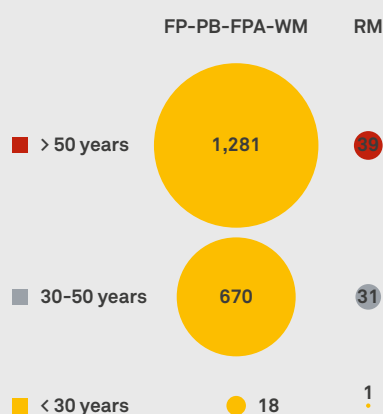


In 2019, Banca Generali's per-capita net inflows amounted to 2.5 million euros, 66% above the industry's average. Per-capita net inflows of managed and insurance products (approximately 1.4 million euros) exceeded market average (0.88 million euros) by 56%. The per-capita average asset figure stood at the top of the market as well, with a value 22% higher than average figure reported (32.8 million euros as against a market average of 26.9 million euros).

Banca Generali's network was broadly distributed throughout Italy and was supported by 211 local structures (Bank branches and FA offices). In accordance with the distribution of Italian population's wealth, Financial Advisors were more concentrated in the regions of the Centre-North than in the Centre-South.

The female presence in Banca Generali's commercial network increased steadily (both in absolute and percentage terms) and accounted for 18% of total. Overall, the number of women choosing financial advisory as a professional field has sharply increased in recent years, with a significant part of them coming from the traditional banking world.

FINANCIAL ADVISORS BY AGE



	31.12.2019				31.12.2018			
	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL	<30 YEARS	30-50 YEARS	>50 YEARS	TOTAL
FPs-PBs-FPAs-WMs	18	670	1,281	1,969	16	738	1,163	1,917
RMs	1	31	39	71	1	29	38	68
Total Financial Advisors	19	701	1,320	2,040	17	767	1,201	1,985
Percentage	1%	34%	65%	100%	1%	39%	60%	100%

	AVERAGE AGE (YEARS)					AVERAGE LENGTH OF SERVICE* (YEARS)			
	RMS	TOTAL	%WOMEN	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
FPS-PBS-FPAS-WMS	71	2,040	18%	53.6	51.4	53.2	12.3	9.7	11.9

* Length of service also contemplates service rendered to companies acquired by 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 in terms of high retention rate and low turnover rate.

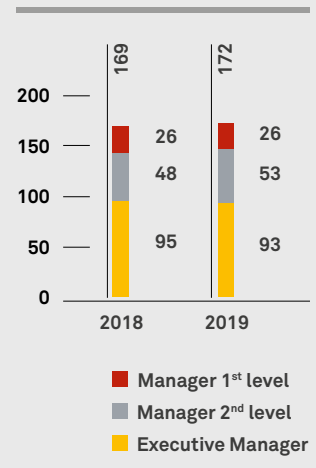
Network’s organisational structure

Banca Generali’s network management structure represents one of its distribution network’s strengths and reflects the merit-based career development offered. 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 2019 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 customer relationships.

DISTRIBUTION NETWORK’S ORGANISATIONAL STRUCTURE

	2019	2018
1st level Managers	26	26
2nd level Managers	53	48
Executive managers	93	95
Financial Advisors	1,868	1,816



Multi-channel nature of the service

Banca Generali has 46 bank branches which ensure customers enjoy direct access to key 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 165 offices that are home to the network’s administrative, training and informational activity and represent another possible point of reference for clients.

Financial Advisors generally engage in typical “off-premises” activity directly at the customers’ residence. Lastly, the multi-channel approach is also complemented by online and call-centre services.

	BRANCHES	OFFICES	TOTAL
Total	46	165	211

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, as well as on the quality of the products and services offered. To this end, a scrupulous, thorough application of the MiFID II rules involving the completion of informational questionnaires and the systematic, automated assessment of the proposed solutions provides the guidelines for the brokerage and advisory services rendered by the network.

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 wealth (financial and real-estate). Following the release of the platform to the sales network in 2017, this sophisticated advisory model was further developed throughout 2019. In detail, it 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 2019, Assets under Advisory managed through BG Personal Advisory amounted to 4,721 million euros, almost doubled compared to 2018.

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, 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 new customers or developing existing customers. The disbursement of incentives is contingent upon the satisfaction 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 over time.

MANAGERIAL TRAINING: it 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	An 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. The programme includes three days of theoretical training, alternated with practical work, and a one-day operating follow-up, to be held after a few months in order to consolidate learning acquired and applied in the field and share best and worst practices.
Leadership programmes	A programme aimed at female Financial Advisors to consolidate their professional and personal effectiveness. It has been enriched by adding a one-day communication workshop to develop communication and customer relation skills, though the use of innovative tools and interpretation approaches for existing and prospect customers.
Development programmes	Individual business coaching programmes tailored to specific management positions, intended to guide the professionals concerned as they develop and implement growth plans for their teams, with a particular emphasis on the skills and behaviours required to fill the positions in question.
Road to MIFID II – The Relationship with the Customer – Train the Trainer	A training programme aimed at guiding all Financial Advisors in managing the relationship with the customer in the best way before the statement arrives. The programme was expanded to include a hands-on "Train the Trainer" day, dedicated to managers and intended to provide a structured approach and tools for reflecting on operations to support their teams in managing objections from their current and prospective clients.
Self-Efficacy	Course designed to support certain management positions in their professional activity and provide the basic competences for effective management of their role in Performance & People Management terms by sharing a common language and culture.
BG Private Counselling: with young people for a successful future	A premiere programme created in collaboration with SDA Bocconi University and dedicated to the children and grandchildren of top clients. By helping young people understand the most important aspects of managing family wealth, the programme, divided into four half-day sessions, seeks to provide top wealth advisors with a distinctive advantage over their competitors, strengthen the bond of trust with clients and forge new business opportunities in terms of generational transfer.
Training Needs Focus Groups	These specific focus groups have been designed to explore the network's training needs and requirements in the area of relationships with clients.

COMMERCIAL TRAINING: it is 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.

Assets under custody as the gateway to growth	A multiple-day training programme divided into two levels of depth, designed to guide Financial Advisors in honing their skills in the area of asset under custody instruments and deepen their knowledge of theory through an analysis of real-world business cases.
BG Saxo	In a market environment of constant growth in online trading platforms, this training course seeks to illustrate the BG Saxo trading platform, which combines Banca Generali's strengths of customer-centricity with the best-in-class technology on the market offered by Saxo Bank.
Welcome Program	A two-day induction session for Financial Advisors who recently joined Banca Generali.
Robo 4 Advisory	Classroom sessions dedicated to the innovative advanced advisory service Robo 4 Advisory, which allows for constant monitoring of portfolios. The service combines advanced risk monitoring with a constant focus on market opportunities, making the Financial Advisor an even more central figure from the client's perspective.
Certificates training	Classroom sessions developed in collaboration with several external partners and teachers, designed to hone Financial Advisors' knowledge of certificates, with regard to both their main characteristics and the various ways of including them in client portfolios for diversification purposes.
The value of sustainability	In accordance with the new corporate Vision, a programme was launched to increase Financial Advisors' knowledge of and sensitivity towards topics relating to sustainability and sustainable investments. The programme involves smart training and hands-on tutorials designed not only to ensure that the entire network is equally prepared with regard to the various existing approaches to sustainable investments, but also to educate Financial Advisors on how to use the products and instruments at their disposal to meet clients' needs in this area. A group of selected Financial Advisors also had the opportunity to participate in one-day classroom follow-up sessions focusing on methods of communicating with clients on the subject of sustainable investments. The project involved more than 50% of the network in smart training and hands-on tutorials, in addition to the participation of more than 500 Financial Advisors in classroom sessions. The programme is set to continue in 2020 in light of the positive response from the network and high level of appreciation expressed.
Family Protection & Planning	A training programme designed to build Financial Advisors' asset-planning skills and support them in providing comprehensive, holistic advice.

The **mandatory training** provided in 2019 included professional refresher courses for all Financial Advisors on **MiFID II** compliance. This year as well, the training was structured in collaboration with the Cattolica del Sacro Cuore University 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.

In addition, as established by the **Italian insurance supervisory authority (IVASS)**, professional refresher training was completed for the entire network on subjects such as insurance products, the new regulatory scenario and asset protection. This was achieved through not only classroom training sessions, but also the provision of e-learning courses via the digital channel **BG Lab**. To permit real-time follow-ups and updates on all developments in commercial and legal matters, it was decided to further expand the range of online courses by developing **live webinars, tutorials and short training videos**.

To fill any gaps in the knowledge of anti-money laundering legislation and the processes adopted by the intermediary, four classroom sessions on Legislative Decree 231 were held in 2019 in collaboration with the Anti-Money Laundering Service. Of the 104 Financial Advisors (from the FP+PB Divisions and WMs) invited to participate in the training programme by the **Network Control Unit**, 64 members actually participated in the programme (60% attendance), which was addressed above all to Financial Advisors with the following characteristics:

- › a significant number of clients found to be at “high” money-laundering risk on the basis of the use of the Gianos application;
- › one or more significant clients that, despite not being reported by the Financial Advisors in question, were indicated as potentially critical by another office.

In further collaboration with the Anti-Money Laundering Service, in 2019 a new training programme was also created on the main risks relating to money-laundering and financing for terrorism, in addition to the preventive safeguards implemented by the Bank (with particular regard to the roles and responsibilities of Financial Advisors). This programme, dedicated to the entire network and provided in the form of three-hour live webinars, was run by authoritative teachers who focused primarily on examining real-world cases. A total of ten editions of live webinars were provided overall, for a total of 252 Financial Advisors trained of the 320 invited (80% attendance). All management areas were involved in 2019 and the webinars will be circulated to the entire network over a period of three years.

AVERAGE TRAINING HOURS	31.12.2019 (H.)	31.12.2018 (H.)
Total training hours provided to Financial Advisors	122,696	124,932
Total FAs	2,040	1,985
Average training hours by FAs	60.15	62.94
Total training hours provided to female FAs	23,136	21,689
Total female FAs	359	342
Average training hours by female FAs	64.45	63.42
Total training hours provided to male FAs	99,560	103,243
Total male FAs	1,681	1,643
Average training hours by male FAs	59.23	62.84
Total training hours provided to FAs (PBs-FPs/WMs)	118,660	119,059
Total FAs	1,969	1,917
Average training hours by FAs	60.26	62.11
Total training hours provided to RMs	4,036	5,873
Total RMs	71	68
Average training hours by RM	56.85	86.37

Total training hours in 2019 amounted to 122,696, in line with the positive level achieved in 2018. Average training hours by Financial Advisor were more than 60, provided both through classroom session and online activities.

The main change in 2019 in the area of training related to the topic of assets under custody and was developed to support the network in making effective use of the new BG Saxo securities trading platform. To ensure adequate training on these subjects, in February the entire network took part in an assessment designed by lecturers at Università Cattolica del Sacro Cuore. The survey, administered online and completed by 98% of Banca Generali's Financial Advisors, led to the development of two distinct training programmes: a two-day Professional “base” course and a one-day “advanced” course. In 2020 follow-up training will be organised for both training modules on assets under custody.

Dialogue with sales networks

For this purpose, Banca Generali has been creating for some years now opportunities for discussion with its sales network, either through the Financial Advisors, who interface daily with customers, or the managers, who represent the entire pool of Financial Advisors and their needs.

Monthly meetings, during which the management presents an overview of ongoing activities and projects, are the main opportunity for the Bank to meet with its managers. In addition, during these meetings managers act as ambassadors representing the proposals and suggestions made by Financial Advisors, who are best placed to succeed in identifying clients' real needs.

Since the experience possessed by Financial Advisors is absolutely indispensable to the realisation of all the Bank's projects, they are periodically involved in various themed focus groups designed to seek their opinions and allow them to take an active part in implementing the various initiatives. In 2019 the launch of the new BG Saxo trading platform was the project that more than any other required the active involvement of the network in the implementation and extensive testing phase. Another area of development in which Financial Advisors' contributions were fundamental was the creation of new tools to expedite the process of fully digitalising operations, above all with regard to opening current accounts for private-banking and corporate clients. Finally, there were important developments with regard to advanced advisory services, which also saw revision of the service with regard to accounts held abroad, on the one hand, and the introduction of new technologies in support of the advisory services offered by the network, on the other.

Litigation Management

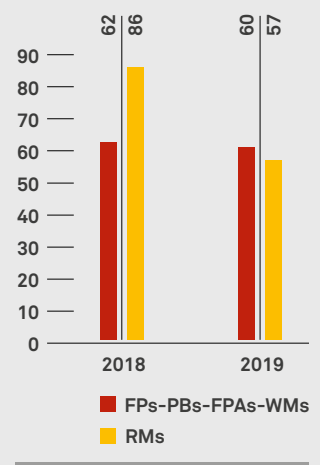
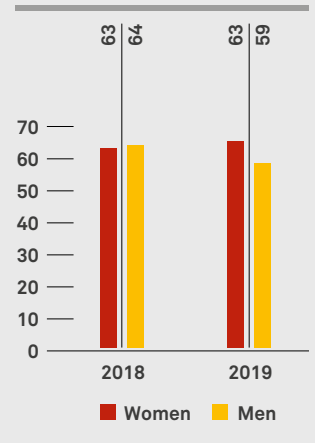
With reference to the agency relationship of Banca Generali's Financial Advisors authorised to make off-premises offers, in 2019 there were 46 disputes underway (57 in 2018), each involving legal proceedings. Disputes pertained exclusively to agency contracts that have been terminated and mainly entailed 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 describes all the activities that follow receipt of a claim, whether made against the Company, requiring Company action or 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.

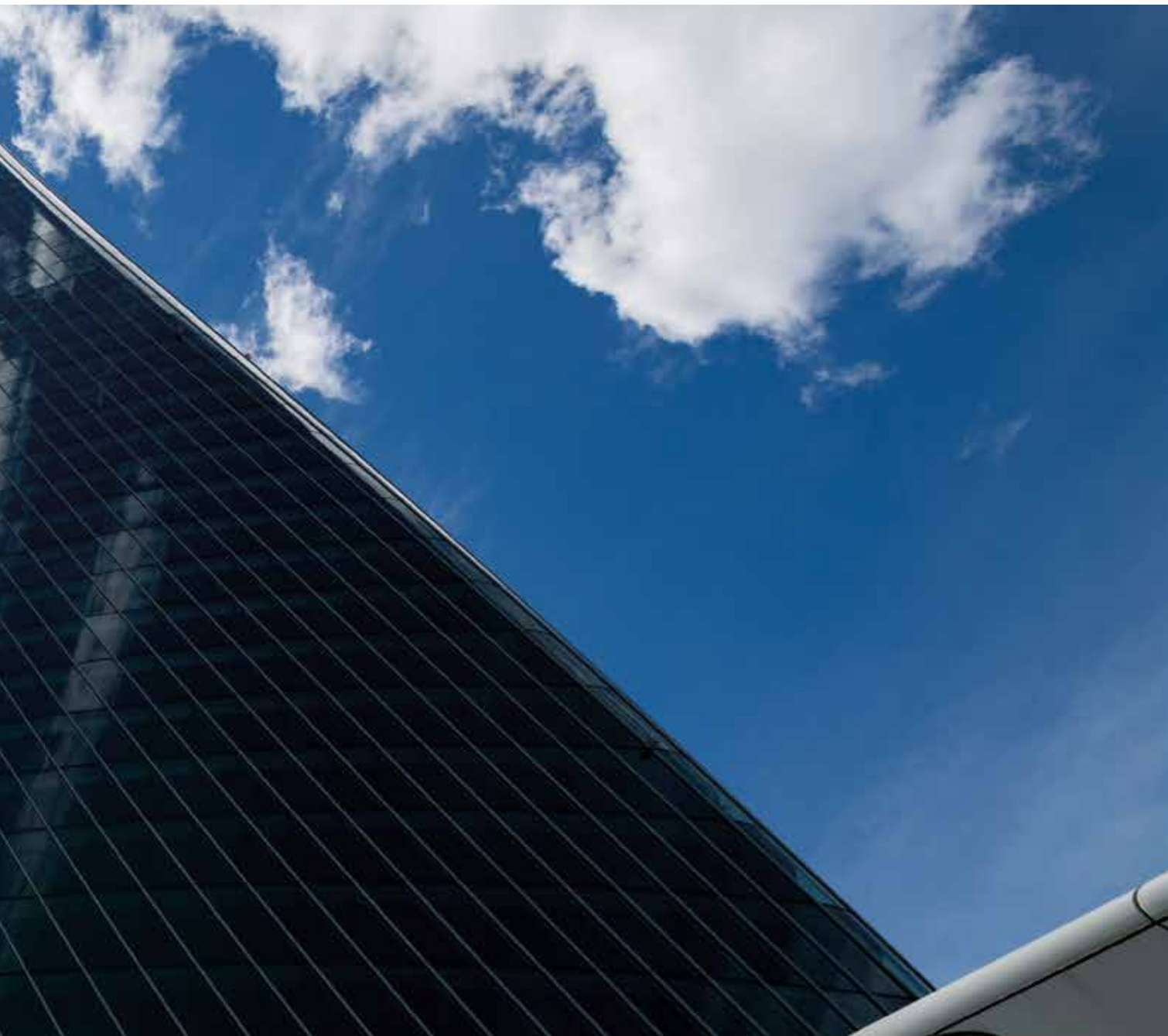
The Company uses leading expert firms for the judicial management of such disputes and to provide an objective assessment of the complaints and the Bank's position. If it appears that the content of the complaints made by former agents cannot be opposed, the option of a settlement agreement is always 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. In this occasion, 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.

AVERAGE HOURS OF TRAINING FOR NETWORK







04

ANNEXES

GRI Guideline Table

GRI STANDARD TITLE	GRI DISCLOSURE NUMBER	GRI DISCLOSURE TITLE	PAGE/COMMENTS
GRI 102: General Disclosures 2019 - Organizational profile	102-1	Name of the organisation	Cover
	102-2	Activities, brands, products, and services	106-111
	102-3	Location of headquarters	Back cover
	102-4	Location of operations	27; 124
	102-5	Ownership and legal form	Header; 20-21
	102-6	Markets served	106; 154-155
	102-7	Scale of the organisation	Highlight; Financial statements
	102-8	Information on employees and other workers	135-136
	102-9	Supply chain	151-152
	102-10	Significant changes to the organization and its supply chain	151-152
	102-11	Precautionary Principle or approach	40-42
GRI 102: General Disclosures 2019 - Strategy	102-14	Statement from senior decision-maker	5
	102-15	Key impacts, risks, and opportunities	35-39
GRI 102: General Disclosures 2019 - Ethics and integrity	102-16	Values, principles, standards, and norms of behavior	24-25; 155-156
GRI 102: General Disclosures 2019 - Governance	102-18	Governance structure	20-22
	102-26	Role of highest governance body in setting purpose, values, and strategy	20-22
GRI 102: General Disclosures 2019 - Stakeholder engagement	102-40	List of stakeholder groups	125
	102-41	Collective bargaining agreements	148-149
	102-42	Identifying and selecting stakeholders	The main stakeholders and the procedures followed to involve them are identified taking into account a number of major considerations: <ul style="list-style-type: none"> › 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.
	102-43	Approach to stakeholder engagement	125; 142-143; 155-158; 167
	102-44	Key topics and concerns raised	125
GRI 102: General Disclosures 2019 - Reporting practice	102-45	Entities included in the consolidated financial statements	27
	102-46	Defining report content and topic Boundarie	124
	102-47	List of material topics	12
	102-48	Restatements of information	124
	102-49	Changes in reporting	124
	102-50	Reporting period	124
	102-51	Date of most recent report	March 2019
	102-52	Reporting cycle	Annual
	102-53	Contact point for questions regarding the report	Back cover
	102-54	Claims of reporting in accordance with the GRI Standards	124
	102-55	GRI content index	GRI Guideline Table
	102-56	External assurance	350
GRI 103: Management Approach 2019	103-1	Explanation of the material topic and its Boundary	13-15
	103-2	The management approach and its components	126; 133-136; 137; 141; 143-144; 148; 149-150; 151-152; 153; 163-164
	103-3	Evaluation of the management approach	126; 133-136; 137; 141; 143-144; 148; 149-150; 151-152; 153; 163-164

GRI STANDARD TITLE	GRI DISCLOSURE NUMBER	GRI DISCLOSURE TITLE	PAGE/COMMENTS
GRI 201: Economic Performance 2019	201-1	Direct economic value generated and distributed	69-71
GRI 204-1: Procurement Practices 2019	204-1	Proportion of spending on local suppliers	151
GRI 205: Anti-corruption 2019	205-2	Communication and training about anti-corruption policies and procedures	43
	205-3	Confirmed incidents of corruption and actions taken	43
GRI 302: Energy 2019	302-1	Energy consumption within the organization	128-130
GRI 305: Emissions 2019	305-1	Direct (Scope 1) GHG emissions	127-128
	305-2	Energy indirect (Scope 2) GHG emissions	127-128
	305-3	Other indirect (Scope 3) GHG emissions	127-128
	305-5	Reduction of GHG emissions	127-128
GRI 401: Employment 2019	401-1	New employee hires and employee turnover	136-137
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	146-148
GRI 403: Occupational Health and Safety 2019	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	149-150
GRI 404: Training and Education 2019	404-1	Average hours of training per year per employee	137-138; 166-167
	404-3	Percentage of employees receiving regular performance and career development reviews	142
GRI 405: Diversity and Equal Opportunity 2019	405-1	Diversity of governance bodies and employees	21; 143-145; 161-163
	405-2	Ratio of basic salary and remuneration of women to men	146
GRI 406: Non-discrimination 2019	406-1	Incidents of discrimination and corrective actions taken	145
GRI 412: Human Rights Assessment 2019	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 2019	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 2019	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	45; 159





05

**CONSOLIDATED FINANCIAL
STATEMENTS OF BANCA GENERALI S.P.A.
as of 31.12.2019**

Board of Directors
9 March 2020

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

ASSETS

(€ THOUSAND)	31.12.2019	31.12.2018
10. Cash and deposits	525,400	1,012,891
20. Financial assets at fair value through profit or loss:	64,998	90,640
a) HFT financial assets	18,298	33,887
c) other financial assets mandatorily measured at fair value	46,700	56,753
30. Financial assets at fair value through other comprehensive income	2,778,836	1,987,315
40. Financial assets at amortised cost:	7,703,082	6,174,298
a) loans to banks	627,247	442,659
b) loans to customers	7,075,835	5,731,639
50. Hedging derivatives	4,727	-
70. Equity investments	2,061	1,661
90. Property and equipment	164,219	6,724
100. Intangible assets	134,135	95,110
of which:		
- goodwill	86,919	66,065
110. Tax receivables:	51,168	52,799
a) current	3,673	81
b) prepaid	47,495	52,718
130. Other assets	336,950	314,456
Total assets	11,765,576	9,735,894

NET EQUITY AND LIABILITIES

(€ THOUSAND)	31.12.2019	31.12.2018
10. Financial liabilities at amortised cost:	10,503,986	8,675,596
a) due to banks	94,807	128,725
b) due to customers	10,409,179	8,546,871
20. HFT financial liabilities	1,204	384
40. Hedging derivatives	7,481	-
60. Tax liabilities:	13,618	18,018
a) current	1,690	11,734
b) deferred	11,928	6,284
80. Other liabilities	147,097	142,176
90. Employee termination indemnities	5,153	4,831
100. Provisions for liabilities and contingencies:	169,369	160,014
a) commitments and guarantees issued	108	86
b) pensions and similar obligations	3,854	-
c) other provisions	165,407	159,928
120. Valuation reserves	3,813	-11,636
140. Equity instruments	50,000	-
150. Reserves	454,465	414,368
160. Share premium reserve	57,729	57,889
170. Share capital	116,852	116,852
180. Treasury shares (-)	-37,356	-22,724
190. Net equity attributable to minority interests (+/-)	26	-
200. Net profit (loss) for the year (+/-)	272,139	180,126
Total net equity and liabilities	11,765,576	9,735,894

CONSOLIDATED PROFIT AND LOSS ACCOUNT

ITEMS

(€ THOUSAND)	2019	2018
10. Interest income and similar revenues	82,861	66,419
20. Interest expense and similar charges	-8,846	-6,447
30. Net interest income	74,015	59,972
40. Fee income	881,014	741,666
50. Fee expense	-377,875	-353,616
60. Net fees	503,139	388,050
70. Dividends and similar income	2,891	2,308
80. Net income (loss) from trading activities	5,606	5,291
90. Net income (loss) from hedging	18	-
100. Gain (loss) on disposal or repurchase of:	5,839	16,042
a) financial assets at amortised cost	315	2,606
b) financial assets at fair value through other comprehensive income	5,524	13,436
110. Net income (loss) from financial assets and liabilities at fair value through profit and loss:	-181	478
b) other financial assets mandatorily measured at fair value	-181	478
120. Net banking income	591,327	472,141
130. Net adjustments/reversals due to credit risk relating to:	-5,387	-7,286
a) financial assets at amortised cost	-5,591	-5,001
b) financial assets at fair value through other comprehensive income	204	-2,285
150. Net income (loss) from trading activities	585,940	464,855
190. General and administrative expenses:	-259,900	-246,721
a) staff expenses	-97,219	-84,227
b) other general and administrative expense	-162,681	-162,494
200. Net provisions for liabilities and contingencies:	-37,610	-48,079
a) commitments and guarantees issued	-22	118
b) other net provisions	-37,588	-48,197
210. Net adjustments/reversals of property and equipment	-20,145	-1,559
220. Net adjustments/reversals of intangible assets	-9,810	-7,742
230. Other operating expenses/income	68,706	59,437
240. Operating expenses	-258,759	-244,664
250. Gains (losses) from equity investments	-1,605	-149
280. Gains (losses) on disposal of investments	-262	-282
290. Profit from operating activities before income taxes	325,314	219,760
300. Income taxes for the year on operating activities	-53,192	-39,634
310. Net profit from operating activities after income taxes	272,122	180,126
330. Net profit for the year	272,122	180,126
340. Net profit (loss) for the year attributable to minority interests	-17	-
350. Net profit (loss) for the year attributable to the Parent Company	272,139	180,126

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

ITEMS

(€ THOUSAND)	2019	2018
10. Net profit for the year	272,122	180,126
Other income net of income taxes, without transfer to Profit and Loss Account		
20. Equity securities at fair value through other comprehensive income	-300	-
70. Defined benefit plans	82	-52
Other income net of income taxes, with transfer to Profit and Loss Account		
110. Exchange differences	3	-18
140. Financial assets (other than equity securities) at fair value through other comprehensive income	15,826	-25,617
170. Total other income net of income taxes	15,611	-25,687
180. Comprehensive income	287,733	154,439
190. Consolidated comprehensive income attributable to minority interests	-8	-
200. Consolidated comprehensive income attributable to the Parent Company	287,741	154,439

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ITEMS

(€ THOUSAND)	SHARE CAPITAL		RESERVES					EQUITY INSTRUMENTS	INTERIM DIVIDENDS	TREASURY SHARES	NET PROFIT (LOSS) FOR THE YEAR	NET EQUITY	GROUP NET EQUITY	NET EQUITY ATTRIBUTABLE TO MINORITY INTERESTS
	A) ORDINARY SHARES	B) OTHER	SHARE PREMIUM RESERVE	A) RETAINED EARNINGS	B) OTHER	VALUATION RESERVES								
Net equity at 31.12.2018	116,852	-	57,889	395,222	19,146	-11,636	-	-	-22,724	180,126	734,875	734,875	-	
Change in opening balances	-	-	-	-9	-	-	-	-	-	-	-9	-9	-	
Amount at 01.01.2019	116,852	-	57,889	395,213	19,146	-11,636	-	-	-22,724	180,126	734,866	734,866	-	
Allocation of net profit for the previous year:	-	-	-	35,226	-	-	-	-	-	-180,126	-144,900	-144,900	-	
- Reserves	-	-	-	35,226	-	-	-	-	-	-35,226	-	-	-	
- Dividends and other allocations	-	-	-	-	-	-	-	-	-	-144,900	-144,900	-144,900	-	
Change in reserves	27	-	-	20	653	-153	-	-	1	-	548	514	34	
Transactions on net equity:	-	-	-160	-	4,214	-	50,000	-	-14,633	-	39,421	39,421	-	
- Issue of new shares	-	-	-160	-	-2,993	-	-	-	3,153	-	-	-	-	
- Purchase of treasury shares	-	-	-	-	-	-	-	-	-17,786	-	-17,786	-17,786	-	
- Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	
- Change in equity instruments	-	-	-	-	-	-	50,000	-	-	-	50,000	50,000	-	
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	
- Stock options	-	-	-	-	7,207	-	-	-	-	-	7,207	7,207	-	
- Change in ownership interests	-	-	-	-	-	-	-	-	-	-	-	-	-	
- Comprehensive income	-	-	-	-	-	15,611	-	-	-	272,122	287,733	287,741	-8	
Net equity at 31.12.2019	116,879	-	57,729	430,459	24,013	3,822	50,000	-	-37,356	272,122	917,668	917,642	26	
Group net equity	116,852	-	57,729	430,452	24,013	3,813	50,000	-	-37,356	272,139	917,642	-	-	
Net equity attributable to minority interests	27	-	-	7	-	9	-	-	-	-17	26	-	-	

(€ THOUSAND)	SHARE CAPITAL		RESERVES					EQUITY INSTRUMENTS	INTERIM DIVIDENDS	TREASURY SHARES	NET PROFIT (LOSS) FOR THE YEAR	NET EQUITY	GROUP NET EQUITY	NET EQUITY ATTRIBUTABLE TO MINORITY INTERESTS
	A) ORDINARY SHARES	B) OTHER	SHARE PREMIUM RESERVE	A) RETAINED EARNINGS	B) OTHER	VALUATION RESERVES								
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	-	
Amount 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	-	
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	-	-	
Net equity attributable to minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	

CONSOLIDATED CASH FLOW STATEMENT

INDIRECT METHOD

(€ THOUSAND)	2019	2018
A. OPERATING ACTIVITIES		
1. Operations	234,634	157,258
Net profit (loss) for the year	272,122	180,126
Gain/loss on HFT financial assets and other assets and liabilities at fair value through profit or loss	402	-1,300
Gain/loss on hedging assets	-18	-
Net adjustments/reversals due to credit risk	5,387	7,286
Net adjustments/reversals of property, equipment and intangible assets	29,955	9,301
Net provisions for liabilities and contingencies and other costs/revenues	5,539	9,568
Taxes, duties and tax credits not paid	-12,997	-10,026
Adjustments/Reversals of discontinued operations	-	-
Other adjustments	-65,756	-37,697
2. Liquidity generated by/used for financial assets (+/-)	-2,220,111	-295,791
HFT financial assets	17,686	5,790
Financial assets at fair value	-	-
Other financial assets mandatorily measured at fair value	8,774	23,986
Financial assets at fair value through other comprehensive income	-756,231	947,451
Financial assets at amortised cost:	-1,480,277	-1,327,680
Loans to banks	-181,070	-65,877
Loans to customers	-1,299,208	-1,261,803
Other assets	-10,063	54,661
3. Liquidity generated by/used for financial liabilities (+/-)	1,656,845	759,278
Financial liabilities at amortised cost:	1,651,567	808,485
Due to banks	-34,278	-551,413
Due to customers	1,685,845	1,359,898
Securities issued	-	-
HFT financial liabilities	-384	-206
Financial liabilities at fair value	-	-
Other liabilities	5,662	-49,001
Net liquidity generated by/used for operating activities	-328,632	620,745

(€ THOUSAND)	2019	2018
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	-46,174	-13,036
Purchase of equity investments	-2,002	-
Purchase of property and equipment	-3,175	-1,995
Purchase of intangible assets	-14,290	-11,041
Purchase of business units and equity investments in subsidiaries	-26,707	-
Net liquidity generated by/used for investing activities	-46,174	-13,036
C. FUNDING ACTIVITIES		
Issue/purchase of treasury shares	-17,785	-12,841
Issue/purchase of equity instruments	50,000	-
Distribution of dividends and other	-144,900	-145,474
Net liquidity generated by/used for funding activities	-112,685	-158,315
NET LIQUIDITY GENERATED/USED IN THE YEAR	-487,491	449,394
Reconciliation		
Cash and cash equivalents at year-start	1,012,891	563,497
Total liquidity generated/used in the year	-487,491	449,394
Cash and cash equivalents – effects of exchange rate fluctuations	-	-
Cash and cash equivalents at year-end	525,400	1,012,891

Legend:
 (+) Liquidity generated
 (-) Liquidity used

Notes and Comments

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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 2019 (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 2019, 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 2019

	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

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED IN 2019 AND EFFECTIVE AS OF 2019

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)	2019/412	15.03.2019	01.01.2019
Amendments to IAS 19: <i>Plan Amendment, Curtailment or Settlement</i> (issued on 7 February 2018)	2019/402	14.03.2019	01.01.2019
Amendments to IAS 28: <i>Long-term Interests in Associates and Joint Ventures</i> (issued on 12 October 2017)	2019/237	11.02.2019	01.01.2019

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED BUT NOT YET EFFECTIVE

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	2019/2075	06.12.2019	01.01.2020
Amendments to IAS 1 and IAS 8: <i>Definition of Material</i> (issued on 31 October 2018)	2019/2104	10.12.2019	01.01.2020

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 effect of the first-time adoption as of 1 January 2019 of IFRS 16 is briefly outlined in the following Section 5 “Other Aspects”.

The other standards and interpretations that entered into force in 2019 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 and the figures in the Notes and Comments are denominated in thousands of euros. Unless otherwise specified, the figures reported in the Directors' Report on Operations are denominated 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 2018.

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 Banking Group's situation.

The measurement criteria 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.

Content of the Financial Statements and the Notes and Comments

The Consolidated Financial Statements at 31 December 2019 were prepared based on the "Instructions for Preparing the Financial Statements and Consolidated Financial Statements of Banks and Parent Holding Companies of Banking Groups," which were issued by the Bank of Italy with order dated 22 December 2005 in the exercise of the powers established in Article 43 of Legislative Decree No. 36/2015. Such instructions were issued in Circular No. 262/05, as further updated.

These Instructions set forth binding rules governing the presentation and preparation of financial statements and the minimum content of the notes and comments.

In detail, the 6th update published on 30 November 2018 and entered into force on 1 January 2019 endorses the new provisions introduced by IFRS 16 – *Leases*.

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 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 linked to the acquisition of own funds and their remuneration.

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, reversals, 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 financial 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, and
- > 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 Law (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 the previous year, the information required by the above Decree were therefore included in the Annual Financial Report, which was renamed "Annual Integrated Report".

The Consolidated Non-Financial Statement is therefore 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	OPERATING OFFICE	TYPE OF CONTROL	SHAREHOLDING RELATIONSHIP		IN ORDINARY SHAREHOLDERS' MEETING
				INVESTOR	% OF OWNERSHIP INTEREST	
Banca Generali S.p.A.	Trieste	Trieste, Milan		Parent Company		
BG Fund Management Luxembourg S.A.	Luxembourg	Luxembourg	1	Banca Generali	100.00%	100.00%
Generfid S.p.A.	Milan	Milan	1	Banca Generali	100.00%	100.00%
Nextam Partners S.p.A.	Milan	Milan	1	Banca Generali	100.00%	100.00%
Nextam Partners SGR S.p.A.	Milan	Milan, Florence	1	Nextam Partners S.p.A.	100.00%	100.00%
Nextam Partners Sim S.p.A.	Milan	Milan	1	Nextam Partners S.p.A.	100.00%	100.00%
Nextam Partners Ltd	London	London	1	Nextam Partners S.p.A.	100.00%	100.00%
BG Valeur S.A.	Lugano	Lugano	1	Banca Generali	90.10%	90.10%

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 consolidation area changed compared to the previous year as a result of:

- > the acquisition, finalised on 25 July 2019, of a 100% interest in Nextam Partners S.p.A., the parent company of the group of the same name of brokerage firms;
- > the acquisition, finalised on 15 October 2019, of a 90.1% majority interest in the Swiss trust management company Valeur S.A. (currently BG Valeur S.A.).

Following the closing of the transactions, Banca Generali also acquired indirect control of the subsidiaries Nextam Partners SGR, Nextam Partners Sim, and the UK subsidiary Nextam Partners Ltd.

The Nextam Partners Group has been included in the Banking Group's scope of consolidation since 30 September 2019, and therefore contributed to the consolidated financial statements for five months of the year.

Valeur S.A. has been included in the Banking Group's scope of consolidation for the first time with effect from these Consolidated Financial Statements as at and for the year ended 31 December 2019, which therefore include the company's financial position figures as at that date and its financial performance in the last three months of the year.

A summary of the accounting effects generated by the two business combination transactions is included in Part G – Business Combinations of the Notes and Comments to the Consolidated Financial Statements.

The consolidated accounts include the separate accounts of the Parent Company and its subsidiaries at 31 December 2019, reclassified and adjusted where necessary to take account of IASs/IFRSs adopted by the Parent Company and the 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 (SPEs) 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.

Equity investments in associates are valued using the equity method.

As of 31 December 2019, the Banking Group's scope of consolidation included just one equity investment in an associate company, namely:

- > IOCA Entertainment Ltd., a company under the UK law, in which Banca Generali acquired a 35% interest in 2015.

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.

Equity investments in joint arrangements are valued using the equity method.

Banca Generali – Saxo Bank A/S joint venture

As at 31 December 2019, the scope of the Banking Group included a single equity investment in a company subject to joint control:

- > BG Saxo Sim S.p.A., an investment firm formed as part of the joint venture with Saxo Bank, in which Banca Generali acquired a 19.9% stake on 31 October 2019 for 1,995 thousand euros, plus additional costs.

The process for creating the joint venture began on 9 March 2018, when 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 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 makes 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 also provides outsourced services to the new brokerage firm (Sim), specifically various back-office activities relating to customer order receipt and execution services. Saxo Bank instead provides the new Sim with its multi-assets platform that enhances the range of trading and dynamic hedging services, with a particular expertise in FX.

Under the terms of the agreements, the new venture is to be conducted through a newly formed company, BG Saxo Sim, of which Banca Generali is a co-owner with a 19.9% stake. After being authorised by Consob and entered into the Register of Securities Brokerage Firms on 28 December 2018, the new brokerage firm became operational in 2019.

After an initial test phase, in June 2019 the company officially began to operate with the Banca Generali's customers who decided to open the new account BG Extra, associated with the contract that such customers had entered into with BG Saxo Sim for own account trading services, execution of orders on account of customers and order receipt and transmission.

The process of establishing the joint venture was concluded on 31 October 2019, when, at the end of a long authorisation procedure, Banca Generali was allowed to acquire the aforementioned 19.9% stake from Saxo Bank A/S for 1,995 thousand euros, plus the additional costs associated with the transfer.

CFD trading is currently in the launch phase with the aim of completing the company's range of trading services.

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. Significant non-controlling interests subsidiaries

As at 31 December 2019, all the Group's equity investments were in wholly owned subsidiaries, with the exception of BG Valeur S.A., in which the previous shareholders retain a non-controlling interest of 9.9%. Accordingly, there are no significant non-controlling interests in subsidiaries.

3.1 Non-controlling interests, potential voting rights and dividends distributed to third parties

COMPANY NAME	NON-CONTROLLING INTERESTS %	POTENTIAL VOTING RIGHTS %	DIVIDENDS DISTRIBUTED TO THIRD PARTIES
BG Valeur S.A.	9.9%	9.9%	-

4. Significant restrictions

As of 31 December 2019, 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.

5. Other information

None of the financial statements of the subsidiaries used in preparing the Consolidated Financial Statements have a different reporting date than the consolidated financial statements.

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 220 "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 equity 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.

Section 4 – Events Occurred After the Consolidated Balance Sheet Date

The draft Consolidated Financial Statements of Banca Generali were approved by the Board of Directors on 9 March 2020, when the Board also authorised its disclosure pursuant to IAS 10.

No events occurred after 31 December 2019 and until the publication was authorised that would significantly impact the Banking Group's financial performance and financial position reported in these Consolidated Financial Statements.

Covid-19 epidemic

A serious viral pulmonary syndrome designated "Covid-19", caused by a novel coronavirus of animal origin (SARS-CoV-2), began to spread from Wuhan, the capital city of China's Hubei Province, in early 2020. The Chinese authorities reported the spread of the new virus to the World Health Organization (WHO) on 31 December 2019, but the full extent of the virus' severity only began to become clear after 23 January 2020, when the Chinese authorities implemented drastic, far-reaching quarantine measures for the many population centres in the affected province.

On 30 January 2020, the WHO declared the coronavirus epidemic an international public health emergency with a very high risk in China and a high risk at the global level.

At present, the future course of the epidemic is highly uncertain, in terms of both its spread through-out the world and duration. While in China the considerable efforts by the central government appear to have yielded initial results, the epidemic has spread to many other countries around the world — including Italy first and foremost in terms of number of cases and mortality rate — and is expanding in both Europe and the USA.

In Italy, the virus has spread rapidly since the first case of local transmission was identified in the Municipality of Codogno, on 21 February 2020, and has elicited numerous measures by the government, including strict containment of the municipalities affected by the initial outbreak, culminating in their isolation (21-23 February 2020), then gradually extended to the regions and provinces of Italy most severely affected (Prime Minister's Decree of 25 February 2020 and Prime Minister's Decree of 1 March 2020) and the entire country (Prime Minister's Decree of 4 March 2020).

Finally, on 8 March 2020 further government action also established significant limits on the movement of individuals, public or private events of all kinds and the operation of commercial businesses in the regions and provinces of Northern Italy most severely affected (Prime Minister's Decree of 8 March 2020). These measures were then extended to the entire Italian territory (Prime Minister's Decree of 9 March 2020).

As at 8 March, confirmed cases worldwide exceeded 105,000, with 3,100 deaths, whereas in Italy confirmed cases were nearly 7,500, with over 250 deaths.

Thus far, the effects of the crisis have been particularly severe, not only for the Chinese economy, but also for numerous sectors of the economy at the international level (tourism and transport, above all air transport) and could result in a significant slowdown of economic activity in 2020 in all countries that may subsequently be affected by the epidemic.

In addition, the crisis has triggered a sharp decline in global stock exchanges, which up to now have posted losses of nearly 20% from the peak reached in January, suggesting a future bear market scenario. In this environment, the pre-existing weakness of the Italian economy has fuelled renewed tensions on its government bond market, driving up spreads.

In 2020, the Generali Group, and with it Banca Generali, have adopted a series of broad, effective initiatives designed to contain the spread of the epidemic within their sites, immediately suspending employee travel, enhancing hygiene and sanitation measures within their offices and extending eligibility for smart-working.

From an operational standpoint, due in part to the widespread adoption of smart-working, the Banking Group has adopted an organisation and infrastructure capable of ensuring full business continuity.

In accordance with the accounting standard IAS 10, the epidemic qualifies as an event after the reporting date that does not entail adjustments to the financial statements, since the epidemic only began to spread and show its full effects after the reporting date 31 December 2019.

However, as at 9 March 2020 it is not possible to predict the future course of the phenomenon nor to arrive at a reliable assessment of its potential impact on the Banking Group's capital and financial position, and financial performance. Accordingly, it is possible that if the crisis triggered by the epidemic were to continue for a protracted period in 2020, it might result in impacts on the economic results for the year that has just begun.

Section 5 – Other Aspects

Accounting standards that have been endorsed and will enter into effect this year

Introduction of IFRS 16

IFRS 16 was issued by IASB on 13 January 2016 with the aim of improving the accounting treatment of leasing contracts, replacing the previous standards and interpretations (IAS 17 – *Leases*, 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 lessees 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 leases;
- > 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 5,000 dollars/euros);
- > 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 the right of use (RoU) 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 item, offset by an increase in the amortisation and interest expense recognised in respect of the financial liabilities booked.

IFRS 16 implementation project

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 properties 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.

In 2018, the Banking Group started to carry 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.

In the first half of the year, the Tagetik IFRS16 application was also acquired and implemented to recognise, measure and present rights of use and associated lease liabilities.

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 have not been restated on a like-for-like basis in the financial statements in which the new Standard was applied upon first-time adoption.

In particular, at the date of first-time adoption, the Banking Group, for contracts in which it acts as the lessee:

- > measured **the lease 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 first-time adoption;
- > recognised **the asset consisting of the right of use** (RoU) at the amount of the lease liability, adjusted by the amount of prepayments relating to the lease recognised in the balance sheet immediately prior to the date of first-time adoption;
- > conducted an impairment test on the assets recognised on the basis of IAS 36.

In view of the Bank's consolidated practice of entering into and retaining property lease contracts for an extended period, when determining the term of such contracts, as necessary to determine the present value of the future lease payments, account has generally been taken of the initial term of the contract and the subsequent period of automatic renewal, without considering the break option for the lessee, unless cancellation of the contract is already certain.

Lease payments have been discounted on the basis of the Bank's estimated marginal financing rate according to the free-risk swap rate curve, plus a spread equal to the Insurance Group's credit spread, based on the quoted prices of CDSs referring to the parent company, Assicurazioni Generali.

In particular, at 1 January 2019 the discount rate applicable to each contract was determined on the basis of the adjusted swap rate applicable to a maturity equal to the residual term of the contract.

As of 1 January 2019, weighted average discount rate used was 2.54%.

The adoption of the new Standard resulted in an increase in both property and equipment and amounts due to customers, as a consequence of the recognition of the aforementioned rights of use and associated liabilities.

In particular, the new accounting Standard entailed the recognition at 1 January 2019 of new intangible assets, consisting of rights of use, in the amount of approximately **136 million euros**, net of lease prepayments, already recognised in the 2018 Financial Statements. Financial liabilities associated with the aforementioned lease transactions were recognised in a symmetrical manner.

On the basis of the method implemented upon first-time adoption, no financial effects on retained earnings were recognised.

Given that for prudential purposes, rights of use (RoUs) are subject to the same weighting applied to items of property and equipment, the impact on the requirement for credit risk upon FTA amounted to 10.9 million euros and resulted in an effect on prudential ratios at 1 January 2019 of at least **87 bps** at the level of the consolidated TCR and of **80 bps** at the level of consolidated CET1.

FTA – Statement of reconciliation of the balance sheet

The following is a statement of reconciliation of assets and liabilities as at 31 December 2018 and as at 1 January 2019 due to the first-time adoption of IFRS 16.

ASSETS (€ THOUSAND)	31.12.2018	FTA IFRS16	01.01.2019
Financial assets at fair value through profit or loss	90,640	-	90,640
Financial assets at fair value through other comprehensive income	1,987,315	-	1,987,315
Financial assets at amortised cost:	7,166,172	-	7,166,172
a) loans to banks (*)	1,434,533	-	1,434,533
b) loans to customers	5,731,639	-	5,731,639
Equity investments	1,661	-	1,661
Property, equipment and intangible assets	101,834	138,715	240,549
Tax receivables	52,799	-	52,799
Other assets	335,473	-2,904	332,569
Total assets	9,735,894	135,811	9,871,705

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2018	FTA IFRS16	01.01.2019
Financial liabilities at amortised cost:	8,675,596	135,811	8,811,407
a) due to banks	128,725	-	128,725
b) due to customers	8,546,871	135,811	8,682,682
Financial liabilities held for trading and hedging	384	-	384
Tax liabilities	18,018	-	18,018
Other liabilities	142,176	-	142,176
HFS liabilities	-	-	-
Special purpose provisions	164,845	-	164,845
Valuation reserves	-11,636	-	-11,636
Reserves	414,368	-	414,368
Share premium reserve	57,889	-	57,889
Share capital	116,852	-	116,852
Treasury shares (-)	-22,724	-	-22,724
Net equity attributable to minority interests	-	-	-
Total net equity and liabilities	9,735,894	135,811	9,871,705

Breakdown of rights of use at 1 January 2019

	NO.	AMOUNT (000/€)	AVERAGE WEIGHTED LIFE (YEARS)
Rights of use of the head offices	4	47,342	11.65
Rights of use of the commercial network offices	202	90,583	6.57
Rights of use of company cars and guest residences	52	636	1.78
Rights of use of ATMs and other equipment	11	154	9.06
Total	269	138,715	

The highest-value contract refers to the lease of the administrative offices in the Hadid Tower within the Citylife complex in Milan, which is associated with an RoU asset of 41.1 million euros, equal to nearly 30% of the total value of the contract, in view of the estimated term of the contract of 13 years (initial period of nine years and four-year automatic extension). The other contracts relating to administrative offices refer to the properties in Trieste, on Piazza S. Alessandro in Milan, and in Luxembourg.

Finally, following the acquisition of the Nextam Partners Group and Valeur Fiduciaria S.A., the Banking Group assumed the lease rights and obligations to which these companies had been parties.

As at the acquisition date, the Nextam Partners Group in particular contributed RoUs in a total net amount of 1.5 million euros and lease liabilities of like amount. The rights of use refer primarily to the leases of the Milan and Florence offices. The acquisition of Valeur resulted in the recognition at the consolidated level of rights of use in the amount of 0.7 million euros and lease liabilities of like amount, relating primarily to the Lugano, Locarno and Chiasso offices.

References to information on the lease transactions reported in these Consolidated Financial Statements at 31 December are given in Part M to the Notes and Comments.

Introduction of IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation IFRIC 23 – *Uncertainty over Income Tax Treatments*, adopted by Regulation No. 1595/2018 of 23 October 2018 and entered into force on 1 January 2019, clarifies how to apply the recognition and measurement criteria set out in IAS 12 – *Income Taxes* in the event of uncertainty over the treatments for determining income taxes.

In particular, the interpretation clarifies whether an entity is to consider uncertain tax treatments separately or collectively (according to the approach that best predicts the resolution of the uncertainty), the assumptions made by the entity regarding the outcome of control of uncertain tax treatments by the tax authorities and how taxable profit (tax loss) and the other values for tax purposes are to be figured. If the entity concludes that it is unlikely that the tax authority will accept the uncertain tax treatment, it must disclose the effect of this uncertainty in figuring its taxable profit (tax loss) and other values for tax purposes using either the most likely amount method or expected value method.

Accounting standards endorsed that will enter into effect after 31 December 2019

There are no international accounting standards and related interpretations endorsed but not effective yet as of 31 December 2019 that could have a material impact on the Banking Group's operations.

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.

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 net inflow targets;
- > determining the fair value of cash financial instruments and derivatives to be used in financial statement, 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.

Additional information regarding the estimation procedures used for specific cases is provided in Part A, Section 2, of the Notes and Comments on the Accounting Policies adopted by the Banca Generali Group.

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, except the aforementioned business combinations, which are described in greater detail in Part G of these Notes and Comments.

In addition, no atypical and unusual transactions were undertaken, i.e., 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 (Consob Communication No. DEM/6064293 of 28 July 2006).

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.

Formation of the Assicurazioni Generali VAT Group

On 23 September 2019, as Representative of the Group's Italian subsidiaries, Assicurazioni Generali exercised the option to adopt the Group's VAT rules (set out in Articles 70-*bis* et seqq. of Presidential Decree No. 633/72) with effect from 1 January 2020. Accordingly, with effect from that date all companies included in the VAT Group will use only the VAT registration number assigned by the Italian Agency of Revenue to the Group: 01333550323.

Relations between the individual participants and the Group's Representative (Assicurazioni Generali S.p.A.) will be governed by a specific contract. In particular, obligations to document and register VAT input and/or output transactions will continue to be discharged by the individual participants, whereas the additional obligations relating to "management" of the tax will be discharged solely by the Group Representative, in its capacity as single VAT-liable entity.

Indeed, by express provision of law, the Group VAT Representative will be required to file periodic VAT returns and make the related payments, submit the periodic VAT filings (LIPE), file the annual VAT return and submit the other information required by the relevant legislation (e.g., *Esterometro* and Intrastat statistics).

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 compliance with Article 1, paragraph 125-*bis*, of Law No. 124/2017 (Annual market and competition law), as most recently amended by Article 35 of Decree-Law No. 34/2019 (Growth Decree), companies are required to disclose annually, in the notes to their financial statements, the amount of government grants received, where grants are understood to refer to "subventions, subsidies, benefits, grants or aid, in cash or in kind, not of a general nature and not of the nature of consideration, remuneration or compensation, actually disbursed to them by public administrations."

The obligation applies solely to grants in excess of the threshold of 10,000 euros per disbursing authority, whether of a monetary nature, on a cash basis, or of a non-monetary nature.

Paragraph 125-*quinquies* of the statute also establishes that in the case of State aid and *de minimis* aid included in the National State Aid Registry the registration and publication of the individual aid in the transparency section must take account of the publication obligations incumbent on the beneficiary companies, provided that the existence of aid subject to mandatory publication in the National State Aid Registry is disclosed in the notes to the financial statements.

For further details on the grants listed on the website of the National State Aid Registry for companies, reference should be made to the following link www.rna.gov.it/sites/PortaleRNA/it_IT/home.

In light of the foregoing, it should be noted that in 2019 Banca Generali received the following grants:

BENEFICIARY	TYPE OF GRANT	GRANTOR AUTHORITY	AMOUNTS RECEIVED (€ THOUSAND)
Banca Generali	Personnel training	FBA Banks and Insurers' Fund (*)	160
Banca Generali	Cinematographic tax credit	MIBACT (**)	300

(*) This sum refers to aid for personnel training applied for 2017 and paid in October 2019. 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 September 2018, for which no disbursements were made in 2019.

(**) This refers to the tax credit for external investors in the cinematographic industry governed by Article 15 of the Ministerial Decree of 15 March 2018, applicable to up to 40% of the capital contributions made to joint ventures with labour contributions formed for Italian cinematographic production recognised by the Ministry for Cultural Heritage, Activities and Tourism. It should be noted that the tax credits accrued in respect of productions in 2017, 2018 and 2019 had yet to be used as at 31 December 2019.

Audit

The Annual Integrated Report 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 2019, 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.

In this regard, it should be noted that the accounting standards adopted for preparing this Consolidated 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 2018 Annual Report, mainly as a result of the entry into force of the new IFRS 16 – *Leases* as of 1 January 2019.

The accounting principles adopted following the application of the new Standard are described in Section 15 “Other Information – Leases (IFRS 16)”, whereas the effects of the first adoption are presented in detail in the previous Section 5 of the Notes and Comments “Accounting Policies”.

In light of the above, the main aspects of the accounting standards adopted by the Banca Generali Group are reported here below with an analysis of the main consolidated 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 residual control, 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, 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 securities 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 residual control, 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 fees 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. 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 expected 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:

- 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 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;
- 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 in the financial statements 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 residual control, 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 financial statement 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 foreign currency investment 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 associates and joint ventures.

Entities subject to significant influence (associates) are those entities in which the Bank holds at least 20% or more of the voting rights (including “potential” rights), or in which — although holding a lower voting power, in light of specific legal ties, such as Shareholders’ agreements — it has the power to participate in the financial and management policy-making process or can exercise governance rights that are not limited to capital interests.

Companies subject to joint control (joint ventures) are entities over which control is shared, on a contractual basis, by the Bank and another entity or other entities external to the Group, or for which decisions regarding important activities require the unanimous consent of all parties that share control.

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

In the consolidated financial statements, equity investments in joint ventures and associates are valued using the equity method.

When there is indication of a possible impairment 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 equity 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. Property and equipment also include rights of use (“RoUs”) acquired in lease transactions within the scope of application of IFRS 16 and relating to the use, as lessee, of assets in this category (real estate, motor vehicles, equipment, etc.). For a more detailed analysis of the accounting criteria adopted by the Bank in respect of IFRS 16, see the dedicated paragraph below in Section 15 “Other information”.

Recognition

Property and equipment are initially recognised at cost, which includes the purchase price, as well as all directly related ancillary 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 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.

The application of the accounting standard IFRS 3 in accounting for acquisition transactions may entail the recognition, in the purchase price allocation (PPA) process, of new intangible assets and goodwill.

Goodwill represents the positive difference between the purchase cost and the fair value of the acquiree's assets and liabilities.

Intangible assets with an indefinite useful life also include the value of the trademarks recognised following the acquisition of the Nextam Partners Group and BG Valeur S.A.

The other intangible assets also include the value of the contractual relationships with customers identified within the framework of the acquisitions of Banca del Gottardo Italia (2008), the Credit Suisse Italy business unit (2014), the Nextam Partners Group and BG Valeur S.A. (both in 2019).

Customer relationships are intangible assets within the scope of application of IAS 38, from which it is probable that future economic benefits will flow to the acquirer. The value of such relationships has been determined, as at the acquisition date, on the basis of an estimate of the profitability of assets under management (AUM) associated with the customers acquired, measured separately for each asset class.

The useful lives of such assets, determined on the basis of the expected turnover rates for assets under management (AUM), have been estimated as follows:

- > Banca del Gottardo Italia: 10 years
- > Credit Suisse Italy: 15 years
- > Nextam Partners Group: 16 years
- > BG Valeur S.A.: 10 years.

The remaining intangible assets are application software intended for long-term use, including the expenses of modifying the legacy system and the 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 three-year period.

With reference to contractual relations with customers, acquired as a result of the above-mentioned business combinations, the useful lives have been estimated at 10 years for Banca del Gottardo Italia and BG Valeur S.A., at 15 years for Credit Suisse Italy and at 16 years for the Nextam Partners Group.

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 "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 held for sale or a group of assets recognised as held 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 mainly 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, as subsequently amended, subsequently 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 off-balance 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 IAS/IFRS*”, 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 IFRS:

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 off-balance 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 or financial 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 is 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.

Framework Loyalty Programme for the Sales Network

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.

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's scope, 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 third plan under the Programme, covering the period 2019-2026, was activated in 2019. All three 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 forecast 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 the 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 written off 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.

Equity instruments

Equity instruments are instruments that represent an equity interest in the Bank pursuant to IAS 32.

The classification of an instrument issued as an equity investment requires the absence of contractual obligations to make payments in the form of repayment of principal, payment of interest or other forms of return.

In particular, instruments that present the following characteristics are classified as equity investments:

- > duration is unlimited or equal to the company's duration;
- > the issuer has full discretion over paying coupons or repaying principal, including prematurely.

This category also includes Additional Tier 1 instruments compliant with the provisions of Regulation (EU) No. 575/2013 (CRR) on the prudential requirements for credit institutions and investment firms that, in addition to presenting the characteristics described above, in any event:

- > allow the issuer to retain full discretion over whether to recognise a reversal of nominal value (write-up) following a capital event that has resulted in a decline in nominal value (write-down);
- > do not incorporate must-pay clauses for the issuer as a result of authentic events within the parties' control.

Equity instruments other than ordinary or savings shares are classified to item "140. Equity instruments" in the amount received, inclusive of the transaction costs that are directly attributable to the transaction concerned.

Any coupons paid, net of the related taxes, are deducted from the item "150. Reserves".

Any differences between the amount paid to discharge or repurchase these instruments and their carrying amount are recognised in item "150. Reserves".

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.

Leases (IFRS 16)

As lessee

At the inception of a contract, the Group must assess whether it is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset in exchange for consideration for a period of time.

In addition to lease contracts, recognised as such, the definition of “lease contract” also includes rental, loans for use and all other contracts that may contain a lease.

For each contract that is, or contains, a lease, the Group allocates the agreed consideration to the following, on the basis of the individual prices of each transaction:

- > the lease components (pure lease payment);
- > the components relating to other services to be recognised according to other standards (e.g., condominium fees, non-deductible VAT, late payment interest, duty stamps, insurance expenses, vehicle maintenance costs, etc.).

The Group settles the lease components separately from the other service components, unless it is not readily feasible to do so.

The Group recognises a right of use and related lease liability for all lease contracts in which it is the lessee, except for:

- > short-term contracts (i.e., lease contracts with a term of 12 months or less); and
- > leases of low-value assets (assets with a value of less than 5,000 euros when new).

The Group accounts for payments relating to the latter as operating expenses on a straight-line basis over the term of the contract, unless another method is more representative.

Lease liabilities

Lease liabilities are initially recognised at the present value of the lease payments that are not paid at the commencement date of the lease, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the lessee's incremental borrowing rate.

Since most lease contracts entered into by the Group do not include an implicit interest rate, the discount rate to be applied to future lease payments is generally based on the risk-free rate for the currency in which the contracts are denominated, applicable by maturity, commensurate to the term of the contract concerned, plus a specific credit spread applicable to the lessee.

In particular, the risk-free rate curve (swap curve) is used, with the addition of a spread representative of the Insurance Group's credit risk, calculated periodically on the basis of the quoted prices of credit default swaps (CDSs) referring to the parent company, Assicurazioni Generali.

The lease payments accounted for in the value of the lease liability include:

- > fixed payments, including lease payments contractually structured as variable but essentially fixed (in-substance fixed payments), less any incentives received from the lessor;
- > variable lease payments that depend on an index or a rate (e.g., inflation), initially measured using the index or rate as at the commencement date of the contract;
- > amounts expected to be payable by the lessee under residual value guarantees, where provided for by contract;
- > the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option;
- > payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease, and exercise of the option is deemed reasonably certain.

After initial recognition of the lease liability at amortised cost, the carrying amount of the liability is increased by the interest on the lease (according to the effective interest method) and decreased to reflect the payments made under the lease contract.

The Group remeasures the balance of the lease liability (and applies an adjustment to the corresponding value of the right of use, where significant) if either:

- > there is a change in the lease term or there is a change in the assessment of an option right, in which case the lease liability is remeasured by discounting the lease payments at the revised discount rate;
- > there is a change in future lease payments resulting from a change in an index or a rate or there is a change in the amounts expected to be payable under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments at the initial discount rate (unless the change in lease payments results from a change in floating interest rates, in which case a revised discount rate is used);
- > a lease contract has been modified and the modification does not qualify for recognition as a separate contract, in which case the lease liability is remeasured by discounting the revised lease payments at the revised interest rate.

Rights of use

The Group recognises rights of use and the related lease liabilities at the commencement date of the contract.

Right-of-use assets are initially measured at cost, including:

- > the initial measurement of the lease liability;
- > the lease payments made at or before the commencement date of the contract;
- > initial direct costs incurred to obtain the contract (legal, notarial, real-estate agency, etc.).

A provision for risks is recognised and measured according to IAS 37 when the Group is obligated to bear the costs of returning an asset in a condition required by the terms of the contract. This cost is included in the value of the right of use.

The right of use is then recognised net of amortisation and any impairment losses.

The right of use is amortised on a straight-line basis over the period from the commencement date of the contract to the sooner of the end of the lease term and of the residual useful life of the underlying asset.

If the lease contract transfers ownership of the relevant asset or the cost of the right of use reflects the Group's intention to exercise the purchase option, the right of use is amortised over the useful life of the asset.

The Group applies IAS 36 – *Impairment of Assets* to identify the presence of any impairment losses.

Variable lease payments that do not depend on an index or a rate are not included in the value of the lease liability or the value of the right of use. The related payments are recognised on an accrual basis and are included in the item “Other operating costs” of the profit and loss account.

As lessor

The Group does not act as lessor in lease transactions.

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 have their counterentry in 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 share-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 plans' characteristics are similar to those of the plans 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 adoption 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

Productivity bonuses to be paid to salaried employees during the following year are generally 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 expenses 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.

Expenses functionally related to staff

In accordance with IAS 19, under item 190 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 190 b) Other general and administrative expenses. Such expenses 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 fees 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 fees on securities trading are recognised when the service is rendered. Portfolio management, advisory and mutual fund management fees are recognised according to the length of the service. Fees 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.

Recognition of the costs of obtaining and fulfilling a contract

Beginning from the end of 2018, the amortisation period for acquisition and fulfilment costs for 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 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 had been previously accounted for according to the practical expedient of taking them in full to the profit and loss account for the year.

The modification, which qualifies as a change in accounting estimate in respect of the amortisation period for incentives, was applied prospectively in accordance with IAS 8.

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 case, 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 case, 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 (DGSD)

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 deposits¹**.

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 Nos. 180/2015 and 181/2015 were enacted, introducing the National Resolution Fund into the Italian legal system and assigning the Bank of Italy the role of National Resolution Authority.

In particular, Articles 78 et seq. of Legislative Decree No. 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 No. 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.

¹ 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%.

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 160 b “General and administrative expense — other general and administrative expense” of the profit and loss account in the separate financial statements and sub-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, it should be 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 Lending 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

Level 2 of the fair value hierarchy includes all financial instruments whose fair value, despite not being directly observable on the market, may be estimated using valuation models based on:

- > inputs directly observable on the market (e.g., executable prices, interest rates or yield curves observable within various buckets, volatilities, credit spreads, etc.);
- > inputs indirectly observable on the market or based on observable market data and supported by strong evidence of correlation with observable market data (market-corroborated inputs).

With regard to bond securities (including government bonds and securitisations), the price sources to be used, where available, to determine fair value in the absence of an active market are as follows:

- > Bloomberg Generic Number (BGN), which represents Bloomberg's market consensus price and is calculated using both the prices contributed to Bloomberg;
- > Bloomberg Valuation Service (BVAL), which provides a valuation of bonds based on a three-stage pricing process: 1) observation of market data; 2) analysis of observed prices for similar instruments; and 3) valuation based on non-arbitrage models (for comparable yield curve models). The BVAL is considered a Level 2 price source when there is evidence that it is based on directly observable market data. In all other cases, it will be considered a Level 3 price source;
- > other consensus prices provided by Bloomberg, Telekurs or other Information Providers;
- > contributors' executable prices that do not meet the significance requirements;
- > valuation models developed by Banca Generali, implemented on front-office systems or provided by third-party providers, based on observable significant inputs, which have been validated by the Risk and Capital Adequacy Department.

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.

As regard derivative instruments, valuation models are used that have been developed by Banca Generali, implemented on front-office systems or provided by third-party providers, based on observable significant inputs, which have been validated by the Risk and Capital Adequacy Department.

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, 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

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 debt recoverability takes preeminence.

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	31.12.2019				
	L1	L2	L3	AT COST	TOTAL
1. Financial assets at fair value through profit or loss:					
a) HFT financial assets	1,974	16,324	-	-	18,298
b) financial assets at fair value	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	6,163	40,537	-	-	46,700
2. Financial assets at fair value through other comprehensive income	2,742,474	24,003	122	12,237	2,778,836
3. Hedging derivatives	-	4,727	-	-	4,727
4. Property and equipment	-	-	-	-	-
5. Intangible assets	-	-	-	-	-
Total	2,750,611	85,591	122	12,237	2,848,561
1. HFT financial liabilities	-	1,204	-	-	1,204
2. Financial liabilities at fair value	-	-	-	-	-
3. Hedging derivatives	-	7,481	-	-	7,481
Total	-	8,685	-	-	8,685

ASSETS/LIABILITIES AT FAIR VALUE	31.12.2018				
	L1	L2	L3	AT COST	TOTAL
1. Financial assets at fair value through profit or loss:					
a) HFT financial assets	958	32,929	-	-	33,887
b) financial assets at fair value	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	903	53,512	2,338	-	56,753
2. Financial assets 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 at fair value	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-
Total	-	384	-	-	384

At the reporting date, Banca Generali's portfolios at fair value, i.e., the portfolio of financial assets measured at fair value through profit or loss, the portfolio of financial assets measured at fair value through other comprehensive income (HTCS), hedging derivatives and HFT financial liabilities comprised 96.6% of financial assets eligible for allocation to class L1, with an unchanged ratio compared to the previous year. This category remained chiefly focused on sovereign debt: Italian government bonds (898 million euros) declined compared to the previous year (-825.5 million euros; -47.9%), offset by the new acquisition in 2019 of Spanish and Portuguese government bonds (1,366.5 million euros), whereas the remainder referred to US securities (8 million euros). It also includes other debt securities (472.1 million euros) chiefly referring to credit sector (248.2 million euros), listed equities listed and the equity investment on the Sicav Lux IM (6.2 million euros overall).

The financial assets allocated to the L2 class, on the other hand, consist primarily of UCITS not listed on regulated markets (20.2 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 financial assets mandatorily measured at fair value. In addition, the L2 portfolio includes bonds of Italian and foreign banks (34.6 million euros), hedging derivatives and 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 Year changes in financial assets measured at fair value on a recurring basis (level L3)

	FINANCIAL ASSETS 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 AT FAIR VALUE	OF WHICH: C) OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE	
1. Amount at year-start	2,338	-	-	2,338	9,001
2. Increases	6,018	6,018	-	-	3,750
2.1 Purchases	6,010	6,010	-	-	3,750
2.2 Gains through:	8	8	-	-	-
2.2.1 Profit and loss	8	8	-	-	-
- of which: capital gains	-	-	-	-	-
2.2.2 Net equity	X	X	X	X	-
2.3 Transfers from other levels	-	-	-	-	-
2.4 Other increases	-	-	-	-	-
3. Decreases	8,356	6,018	-	2,338	392
3.1 Disposals	6,018	6,018	-	-	-
3.2 Redemptions	-	-	-	-	92
3.3 Losses through:	2,338	-	-	2,338	300
3.3.1 Profit and loss	2,338	-	-	2,338	-
- of which: capital losses	2,338	-	-	2,338	-
3.3.2 Net equity	X	X	X	X	300
3.4 Transfers to other levels	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-
4. Amount at year-end	-	-	-	-	12,359

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, aimed at 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, and for the intervention targeting Banca Carige. These amounts, which had amounted to 2,338 thousand euros at 31 December 2018, were fully written down in the reporting year.

By contrast, L3 financial assets in the portfolio of Financial assets at fair value through other comprehensive income, for a total amount of 12,359 thousand euros, consist of:

- > the investment in the private-equity special purpose entity Athena Private Equity (0.1 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 strategic service arrangements (CSE, GBS, Caricese, SWIFT, etc.) or commercial partnerships (Tosetti Value), for a total of 11.5 million euros. In 2019, in particular, the CSE equity investment was increased by approximately 3.7 million euros;
 - b) the contributions to film production ventures with Tyco Film S.r.l., Fabula Pictures S.r.l., Eskimo S.r.l., Zocotoco S.r.l. and Palomar S.p.A., for a total amount of 0.8 thousand 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	31.12.2019			
	BV	L1	L2	L3
1. Financial assets at amortised cost	7,703,082	5,059,495	1,979,079	819,780
2. Property and equipment held as investments	-	-	-	-
3. Non-current assets available for sale and disposal groups	-	-	-	-
Total	7,703,082	5,059,495	1,979,079	819,780
1. Financial liabilities at amortised cost	10,503,986	-	10,503,986	-
2. Liabilities associated to assets held for sale	-	-	-	-
Total	10,503,986	-	10,503,986	-

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

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 SHEET – ASSETS²

Section 1 – Cash and deposits – Item 10

1.1 Breakdown of cash and deposits

ITEMS/VALUES	31.12.2019	31.12.2018
a) Cash	21,957	21,017
b) Demand deposits with Central Banks	503,443	991,874
Total	525,400	1,012,891

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 – Held-for-trading financial assets – Item 20

2.1 HFT financial assets: categories

ITEMS/VALUES	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	1,974	15,106	-	958	32,429	-
1.1 Structured securities	-	15,054	-	-	29,557	-
1.2 Other debt securities	1,974	52	-	958	2,872	-
2. Equity securities	-	-	-	1	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	1,974	15,106	-	959	32,429	-
B. Derivatives						
1. Financial	-	1,218	-	-	499	-
1.1 Trading	-	1,218	-	-	499	-
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	-	1,218	-	-	499	-
Total (A + B)	1,974	16,324	-	959	32,928	-

² 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	31.12.2019	31.12.2018
A. Cash assets		
1. Debt securities	17,080	33,387
a) Central Banks	-	-
b) Public administration bodies	52	-
c) Banks	17,028	32,383
d) Other financial companies	-	1,004
of which:		
- insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	-	1
a) Banks	-	-
b) Other financial companies	-	-
of which:		
- insurance companies	-	-
c) Non-financial companies	-	1
d) Other issuers	-	-
3. UCITS units	-	-
4. Loans	-	-
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	17,080	33,388
B. Derivatives		
a) Central counterparties	-	-
b) Other	1,218	499
Total B	1,218	499
Total (A + B)	18,298	33,887

2.5 Other financial assets mandatorily measured at fair value: categories

ITEMS/VALUES	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	3,045	-	-	3,031	2,338
1.1 Structured securities	-	3,045	-	-	3,031	-
1.2 Other debt securities	-	-	-	-	-	2,338
2. Equity securities	1,141	-	-	903	-	-
3. UCITS units	5,022	20,158	-	-	32,822	-
4. Financing	-	17,334	-	-	17,659	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	17,334	-	-	17,659	-
Total	6,163	40,537	-	903	53,512	2,338

2.6 Other financial assets mandatorily measured at fair value: debtors/issuers

ITEMS/VALUES	31.12.2019	31.12.2018
1. Equity securities	1,141	903
<i>of which:</i>		
- banks	-	-
- other financial companies	1,141	903
- other non-financial companies	-	-
2. Debt securities	3,045	5,369
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	3,045	3,031
d) Other financial companies	-	-
<i>of which:</i>		
- insurance companies	-	-
e) Non-financial companies	-	2,338
3. UCITS units	25,180	32,822
4. Financing	17,334	17,659
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	17,334	17,659
<i>of which:</i>		
- insurance companies	17,334	17,659
e) Non-financial companies	-	-
f) Households	-	-
Total	46,700	56,753

1. The UCITS portfolio included 12,824 thousand euros related to an interest of about 8% in Tyndaris European Real Estate Finance S.A. (TEREF), 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.

2. The residual UCITS portfolio is comprised for 3,174 thousand euros of the investment in the Luxembourg vehicle Algebris, for 2,801 thousand euros of the units of the Tenax Italian Credit Fund, managed by the Irish firm Tenax Capital Ltd., for 1,357 thousand euros of the closed alternative real-estate investment fund managed by Milano Investment Partners SGR S.p.A., and for the remainder of investments in the Lux IM Sicav.

3. Equity securities include all equity shares of the parent company, Assicurazioni Generali (1,141 thousand euros).

4. Capital contributions 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, and for the intervention targeting Banca Carige, amounting to 2,338 thousand euros at 31 December 2018, were written off at the end of the year.

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	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	2,742,474	24,003	-	1,966,451	11,863	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	2,742,474	24,003	-	1,966,451	11,863	-
2. Equity securities	-	-	12,359	-	-	9,001
3. Financing	-	-	-	-	-	-
Total	2,742,474	24,003	12,359	1,966,451	11,863	9,001

3.2 Financial assets measured at fair value through other comprehensive income: debtors/issuers

VOCI/VALORI	31.12.2019	31.12.2018
1. Debt securities	2,766,477	1,978,314
a) Central Banks	-	-
b) Public administration bodies	2,278,815	1,736,525
c) Banks	262,781	156,790
d) Other financial companies	179,219	72,033
<i>of which:</i>		
- insurance companies	-	-
e) Non-financial companies	45,662	12,966
2. Equity securities	12,359	9,001
a) Banks	-	-
b) Other issuers	12,359	9,001
- other financial companies	2,231	2,323
<i>of which:</i>		
- insurance companies	-	-
- non-financial companies	10,121	6,671
- other	7	7
3. Financing	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
<i>of which:</i>		
- insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	2,778,836	1,987,315

1. Item “Debt securities” includes assets sold but not written off, which refer to own securities used in repurchase agreements amounting to 85,767 thousand euros.

2. The equity securities portfolio included for 11,481 thousand euros referring to “minor equity investments”, which are largely related to service agreements concluded by the Group (CSE, GBS Tosetti Value Sim, Caricese, SWIFT, etc.). In the absence of reliable estimates of fair value, those interests are measured at purchase cost.

In the first half of 2019, Banca Generali increased its equity interest in CSE from 7% to 10% through an investment of 3,750 thousand euros.

3. Capital contributions relating to film partnership contracts, with no expiry date, for a total amount of 755 thousand euros at 31 December 2019 are also classified in this portfolio.

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	2,746,664	-	20,878	-	971	94	-	-
Financing	-	-	-	-	-	-	-	-
Total at 31 December 2019	2,746,664	-	20,878	-	971	94	-	-
Total at 31 December 2018	1,968,677	-	12,875	-	3,074	164	-	-
<i>of which</i>								
- <i>acquired or originated impaired financial assets</i>	X	X	-	-	X	-	-	-

In respect of the model for measuring expected credit losses (ECLs) provided for in IFRS 9, as at 31 December 2019 collective reserves of 1,065 thousand euros had been recognised for the debt securities portfolio, of which 684 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	31.12.2019 - BOOK VALUE			31.12.2018 - 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	123,458	-	-	82,714	-	-
1. Terms deposits	22,395	-	-	-	-	-
2. Mandatory reserve	101,063	-	-	82,714	-	-
3. Repurchase agreements	-	-	-	-	-	-
4. Other	-	-	-	-	-	-
B. Loans to banks	503,789	-	-	359,945	-	-
1. Loans	258,673	-	-	280,513	-	-
1.1 Current accounts and demand deposits	95,660	-	-	261,421	-	-
1.2 Term deposits	-	-	-	17,611	-	-
1.3 Other loans:	163,013	-	-	1,481	-	-
- repurchase agreements	152,969	-	-	-	-	-
- lease loans	-	-	-	-	-	-
- other	10,044	-	-	1,481	-	-
2. Debt securities	245,116	-	-	79,432	-	-
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	245,116	-	-	79,432	-	-
Total	627,247	-	-	442,659	-	-

TYPE OF TRANSACTIONS/VALUES	31.12.2019				31.12.2018			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
A. Loans to Central Banks	123,458	-	123,458	-	82,714	-	82,714	-
B. Loans to banks	503,789	171,450	334,728	-	359,945	59,655	300,384	-
1. Loans	258,673	-	258,673	-	280,513	-	280,513	-
2. Debt securities	245,116	171,450	76,055	-	79,432	59,655	19,871	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	245,116	171,450	76,055	-	79,432	59,655	19,871	-
Total	627,247	171,450	458,186	-	442,659	59,655	383,098	-

4.2 Financial assets measured at amortised cost: categories of loans to customers

TYPE OF TRANSACTIONS/VALUES	31.12.2019 - BOOK VALUE			31.12.2018 - 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	2,280,561	26,911	-	2,145,129	36,815	-
1.1 Current accounts	1,104,152	8,285	-	968,638	17,269	-
1.2 Repurchase agreements	206,069	-	-	199,937	-	-
1.3 Mortgages	751,400	18,614	-	818,689	19,065	-
1.4 Credit cards, personal loans and loans on wages	15	6	-	-	6	-
1.5 Lease loans	-	-	-	-	-	-
1.6 Factoring	-	-	-	-	-	-
1.7 Other loans	218,925	6	-	157,865	475	-
2. Debt securities	4,761,624	6,739	-	3,549,689	6	-
2.1 Structured securities	-	6,739	-	13,206	-	-
2.2 Other debt securities	4,761,624	-	-	3,536,483	6	-
Total	7,042,185	33,650	-	5,694,818	36,821	-

TYPE OF TRANSACTIONS/VALUES	31.12.2019				31.12.2018			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1. Loans	2,307,472	-	1,497,605	813,041	2,181,944	-	1,321,145	860,723
2. Debt securities	4,768,363	4,888,045	23,288	6,739	3,549,695	3,449,750	20,883	14,300
2.1 Structured securities	6,739	-	-	6,739	13,206	-	-	14,300
2.2 Other debt securities	4,761,624	4,888,045	23,288	-	3,536,489	3,449,750	20,883	-
Total	7,075,835	4,888,045	1,520,893	819,780	5,731,639	3,449,750	1,342,028	875,023

1. Item 2.1 "Structured securities" refers to a convertible bond issued on 16 December 2015 by Tyndaris LLP, an English fund management company, for an amount of 14.0 million euros and with maturity on 31 December 2021. In 2019, following the economic difficulties of the owners of Tyndaris Group and the need for the latter to dispose of its asset management operations, a process of restructuring the exposure was launched and is expected to be concluded in the first half of 2020, within the framework of which the Bank has already waived the right to collect the residual interest coupons. The security was therefore subjected to analytical impairment for an amount of 8.6 million euros.

2. The item "Debt securities" includes encumbered assets used as collateral for ECB refinancing operations totalling 219,386 thousand euros and securities held in deposit with Cassa di Compensazione e Garanzia amounting to 14,962 thousand euros. This item also includes own securities used in repurchase agreements amounting to 29,712 thousand euros.

3. Item 1.7 "Other loans" includes operating receivables relating to the placement and distribution of financial and insurance products in the amount of 141,906 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	31.12.2019	31.12.2018
Other grants and pooled funding	30,332	4,567
Stock exchange interest-bearing daily margin	14,091	13,088
Sums advanced to Financial Advisors	18,415	19,395
Operating loans	141,906	117,126
Interest-bearing caution deposits	1,017	995
Amounts to be collected	13,170	3,169
Total	218,931	158,340

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 was due to the Bank's normal operations and therefore is not attributable to contractual amendments or changes in the time required for the right to the consideration to become unconditional.

The increase due to business combinations in the reporting year amounted to approximately 6.5 million euros.

Sums advanced to Financial Advisors enrolled with the Register of Financial Advisors include non-performing positions for a net amount of 1,213 thousand euros, largely attributable to advances to former Financial Advisors who have left service due to a dispute or pre-dispute.

4.3 Financial assets measured at amortised cost: loans to customers – debtors/issuers

TYPE OF TRANSACTIONS/VALUES	31.12.2019			31.12.2018		
	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	4,761,624	6,739	-	3,549,689	6	-
a) Public administration bodies	4,496,147	-	-	3,426,594	-	-
b) Other financial companies	176,905	-	-	61,653	-	-
of which:						
- insurance companies	-	-	-	-	-	-
c) Non-financial companies	88,572	6,739	-	61,442	6	-
2. Loans	2,280,561	26,911	-	2,145,129	36,815	-
a) Public administration bodies	-	-	-	-	-	-
b) Other financial companies	410,347	5,405	-	377,368	6,719	-
of which:						
- insurance companies	23,473	-	-	29,444	-	-
c) Non-financial companies	263,495	15,516	-	305,543	19,573	-
d) Households	1,606,719	5,990	-	1,462,218	10,523	-
Total	7,042,185	33,650	-	5,694,818	36,821	-

4.4 Financial assets measured at amortised cost: gross value and total value adjustments

	GROSS VALUE				TOTAL ADJUSTMENTS			
	STAGE 1	OF WHICH: LOW CREDIT RISK INSTRUMENTS	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3	OVERALL PARTIAL WRITE-OFFS
Debt securities	4,939,648	-	71,766	17,936	3,713	961	11,197	-
Financing	2,591,106	-	74,149	39,115	1,832	731	12,204	-
Total at 31 December 2019	7,530,754	-	145,915	57,051	5,545	1,692	23,401	-
Total at 31 December 2018	5,946,768	-	200,923	51,945	7,866	2,348	15,124	-
of which:								
- acquired or originated impaired financial assets	X	X	-	-	X	-	-	-

In respect of the model for assessing expected credit losses (ECLs) provided for in IFRS 9, at 31 December 2019 performing loans at amortised cost, classified to Stage 1 and Stage 2, are recognised net of the collective reserves for a total of 7,237 thousand euros, of which:

- > 4,674 thousand euros relating to the debt securities portfolio;
- > 2,563 thousand euros relating to other loans.

Within this item, total value adjustments of exposures to banks amounted to 552 thousand euros, of which 419 thousand euros on debt securities and 133 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 3,111 thousand euros.

The item relating to non-performing “Debt securities” (Stage 3) refers to the Alitalia bond and the Tyndaris structured security. The Alitalia bond known as “Dolce Vita”, amounting to 2,642 thousand euros, was almost fully written down in the previous years 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. At 31 December 2018, the bond was still recognised for about 6 thousand euros, which was fully written off in 2019. The Tyndaris security was instead written down by 8,555 thousand euros in 2019.

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 5 – Hedging derivatives – Item 50

5.1 Breakdown of hedging by type of hedge and hierarchy levels

TYPE OF TRANSACTIONS/VALUES	31.12.2019				31.12.2018			
	FAIR VALUE			NOTIONAL VALUE	FAIR VALUE			NOTIONAL VALUE
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	-	4,727	-	401,000	-	-	-	-
1) Fair value	-	4,727	-	401,000	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	4,727	-	401,000	-	-	-	-

5.2 Breakdown of hedging derivatives by portfolios hedged and type of hedge

HEDGING TRANSACTIONS/TYPE	FAIR VALUE						CASH FLOWS			FOREIGN INVESTMENTS
	SPECIFIC						GENERAL	SPECIFIC	GENERAL	
	DEBT SECURITIES AND INTEREST RATES	EQUITY SECURITIES AND STOCK INDICES	CURRENCIES AND GOLD	CREDIT	GOODS	OTHER				
1. Financial assets measured at fair value through other comprehensive income	236	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	4,491	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	4,727	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	-	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

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						
1. BG Saxo Sim S.p.A.	Milan	Milan	Associate	Banca Generali	19.9%	19.9%
B. Companies subject to significant influence						
1. IOCA Entertainment Limited	United Kingdom - London	United Kingdom - London	Associate	Banca Generali	35%	35%

At 31 December 2019, two equity investments were reported:

- > IOCA Entertainment Ltd., a company under the UK law, in which Banca Generali acquired a 35% interest, in the form of 3,500 shares with a nominal 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, an e-commerce/social-networking start-up is engaged in the commercial development of an app for smartphones and tablets, named "dringle". The share of the loss attributable to Banca Generali as at 31 December 2019 was approximately 91 thousand euros;
- > BG Saxo Sim S.p.A., an investment firm formed as part of the joint venture with Saxo Bank, in which Banca Generali acquired a 19.9% stake on 31 October 2019 for 1,995 thousand euros, plus additional costs. Banca Generali and Saxo Bank entered into an agreement to set up an exclusive partnership specialising in online trading and digital services. The deal aims to offer Italian customers exclusive access to an innovative advanced trading platform based on Saxo Bank's technology and managed by BG Saxo Sim. The new platform will expand the range of offerings available to Banca Generali's Financial Advisors, granting access to tailor-made transactions and innovative dynamic hedging solutions that may be offered to both private and corporate customers. The share of the loss attributable to Banca Generali as at 31 December 2019 was approximately 69 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 OPERATIONS NET OF TAXES	PROFIT (LOSS) FROM OPERATING ACTIVITIES NET OF TAXES	NET PROFIT (LOSS) FOR THE YEAR (1)	OTHER INCOME COMPO-NENTS NET OF TAXES (2)	COMPREHEN-SIVE INCOME (3) = (1) + (2)
A. Subsidiaries under common control									
1. BG Saxo Sim S.p.A.	1,933	4,582	612	16	-949	-	-949	-	-949
B. Companies subject to significant influence									
1. IOCA Entertainment Limited	128	380	15	-	-208	-	-208	-	-208
Total	2,061	4,962	627	16	-1,157	-	-1,157	-	-1,157

7.5 Equity investments: year changes

	31.12.2019	31.12.2018
A. Amount at year-start	1,661	1,820
B. Increases	2,005	-
B.1 Purchases	2,002	-
B.2 Reversals	-	-
B.3 Revaluations	3	-
B.4 Other changes	-	-
C. Decreases	1,605	159
C.1 Sales	-	-
C.2 Adjustments	1,605	149
C.3 Write-downs	-	10
C.4 Other changes	-	-
D. Amount at year-end	2,061	1,661
E. Total revaluations	-	-
F. Total adjustments	1,605	159

Impairment tests of equity investments

In accordance with IASs/IFRSs, equity investments have been tested for impairment in order to verify whether there is objective evidence that the carrying amounts of the assets concerned may not be fully recoverable.

The impairment testing process for equity investments in associates and joint ventures involves verifying whether there are any impairment indicators and determining the amount of the impairment loss, if any.

The impairment indicators used for such unlisted equity investments are:

- > qualitative indicators, such as an operating loss or a significant deviation from budget objectives, the announcement of restructuring plans or the commencement of insolvency procedures;
- > quantitative indicators represented by a carrying amount of the equity investment in the individual financial statements that is significantly higher, for an extended period, than the carrying amount of the investee's net assets and goodwill in the consolidated financial statements.

Where there are impairment indicators, the recoverable amount is determined as the greater of the fair value net of costs to sell and value in use, and if this is lower than the carrying amount an impairment loss is recognised.

Impairment testing of equity investments in associates indicated a need to adjust the carrying amount of the equity investment in IOCA Ltd due to the losses reported over the years and its limited future economic prospects, in an amount of 1.5 million euros, in addition to the Banking Group's share of the loss for the year.

7.7 Commitments attributable to equity investments in joint ventures

In accordance with Article 23 and paragraphs B18-B20 of IFRS 12, there are no commitments by the Banking Group in the joint venture BG Saxo Sim S.p.A. to be reported in these financial statements, nor are there contingent liabilities relating to its equity investments in the said company.

Section 9 – Property and equipment – Item 90

9.1 Breakdown of operating property and equipment: assets valued at cost

ASSETS/VALUES	31.12.2019	31.12.2018
1. Owned assets	8,225	6,724
a) Land	-	-
b) Buildings	-	-
c) Furniture	6,841	5,464
d) Electronic equipment	361	264
e) Other	1,023	996
2. Rights of use acquired through leases	155,994	-
a) Land	-	-
b) Buildings	155,091	-
c) Furniture	-	-
d) Electronic equipment	-	-
e) Other	903	-
Total	164,219	6,724
<i>of which:</i>		
- <i>obtained through the enforcement of guarantees received</i>	-	-

9.6 Operating property and equipment: year changes

	RIGHTS OF USE ACQUIRED THROUGH LEASES- BUILDINGS	RIGHTS OF USE ACQUIRED THROUGH LEASES-OTHER	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
A. Gross amount at year-start	-	-	23,394	5,480	8,773	37,647
A.1 Total net impairment	-	-	17,930	5,216	7,777	30,923
A.2 Net amount at year-start	-	-	5,464	264	996	6,724
B. Increases	173,199	1,276	2,584	280	374	177,713
B.1 Purchases	34,970	602	2,584	280	374	38,810
of which:						
- business combinations	2,177	44	127	173	-	2,521
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	138,229	674	-	-	-	138,903
of which:						
- adjustment for IFRS 16 FTA	138,041	674	-	-	-	138,715
C. Decreases	18,108	373	1,207	183	347	20,218
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	18,108	365	1,160	183	329	20,145
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	-	8	47	-	18	73
D. Net amount at year-end	155,091	903	6,841	361	1,023	164,219
D.1 Total net impairment	18,108	365	19,065	6,141	7,731	51,410
D.2 Gross amount at year-end	173,199	1,268	25,906	6,502	8,754	215,629
E. Valued at cost	155,091	903	6,841	361	1,023	164,219

Section 10 – Intangible assets – Item 100

10.1 Breakdown of intangible assets by categories

ASSETS/VALUES	31.12.2019			31.12.2018		
	DEFINITE LIFE	INDEFINITE LIFE	TOTAL	DEFINITE LIFE	INDEFINITE LIFE	TOTAL
A.1 Goodwill	-	86,919	86,919	-	66,065	66,065
A1.1 Attributable to the Group	-	86,919	86,919	-	66,065	66,065
A1.2 Attributable to minority interests	-	-	-	-	-	-
A.2 Other intangible assets	47,216	-	47,216	29,045	-	29,045
A.2.1 Assets valued at cost:	47,216	-	47,216	29,045	-	29,045
a) Internally generated intangible assets	-	-	-	-	-	-
b) Other assets	47,216	-	47,216	29,045	-	29,045
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-	-
b) Other assets	-	-	-	-	-	-
Total	47,216	86,919	134,135	29,045	66,065	95,110

10.2 Intangible assets: year changes

	OTHER INTANGIBLE ASSETS					TOTAL
	GOODWILL	INTERNALLY GENERATED		OTHER		
		DEFINITE LIFE	INDEFINITE LIFE	DEFINITE LIFE	INDEFINITE LIFE	
A. Amount at year-start	66,065	-	-	69,654	-	135,719
A.1 Total net impairment	-	-	-	40,609	-	40,609
A.2 Net amount at year-start	66,065	-	-	29,045	-	95,110
B. Increases	20,854	-	-	27,980	-	48,834
B.1 Purchases	20,854	-	-	27,980	-	48,834
of which:						
- business combinations	20,854	-	-	13,929	-	34,783
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	-	-	-	9,809	-	9,809
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	9,809	-	9,809
- Amortisation	-	-	-	9,809	-	9,809
- 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	86,919	-	-	47,216	-	134,135
D.1 Total net adjustments	-	-	-	50,418	-	50,418
E. Gross amount at year-end	86,919	-	-	97,634	-	184,553
F. Valued at cost	86,919	-	-	47,216	-	134,135

10.3 Other information

Breakdown of consolidated goodwill

(€ THOUSAND)	31.12.2019	31.12.2018
Prime Consult Sim and 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
Nextam S.p.A. Group	12,202	-
BG Valeur S.A.	8,652	-
Total	86,919	66,065

Breakdown of intangible assets – other assets

	31.12.2019	31.12.2018
Charges associated with the implementation of legacy CSE procedures	13,837	10,713
Customer relationships (former Credit Suisse Italy)	11,328	12,480
Customer relationships (former Nextam S.p.A. Group)	9,545	-
Transactions with customers (former BG Valeur S.A.)	3,084	-
Trademarks (Nextam S.p.A. Group, BG Valeur S.A.)	730	-
Other software costs	223	7
Other intangible assets	519	102
Advance payments on intangible assets	7,950	5,743
Total	47,216	29,045

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.

The consideration for the acquisition of the Nextam Partners Group has been accounted for as follows: 9.8 million euros among the intangible assets, attributable to the contractual relationships with customers of the Nextam Group and amortised over a total period of 19 years; 0.3 million euros attributable to the value of the Nextam trademark, considered an asset with an indefinite useful life; and 12.2 million euros attributable to goodwill.

The consideration for the acquisition of Valeur Fiduciaria S.A. (now BG Valeur S.A.) has been allocated as follows: 3.2 million euros to the intangible assets attributable to contractual relationships with customers and amortised over a total period of ten years; 0.4 million euros to the value of the Valeur trademark, considered an asset with an indefinite useful life; and 8.7 million euros to goodwill.

Impairment testing of goodwill

During the preparation of the 2019 Financial Statements, goodwill was tested for impairment and the carrying value was determined to be accurate. In this regard, reference should be made to Part G, Section 3, of the Notes and Comments to the Consolidated Financial Statements.

Section 11 – Tax assets and liabilities – Item 110 (Assets) and Item 60 (Liabilities)

Breakdown of item 110 (Assets): tax assets

TYPE OF TRANSACTIONS/VALUES	31.12.2019	31.12.2018
Current taxation	3,673	81
Sums due for taxes to be refunded	176	78
IRES arising on National Tax Consolidation scheme	2,903	-
IRES and foreign direct taxes	56	-
IRES surtax	193	-
IRAP	345	3
Deferred tax assets	47,495	52,718
With impact on Profit and Loss Account	46,669	46,581
IRES	39,044	38,970
IRAP	7,625	7,611
With impact on Net Equity	826	6,137
IRES	779	5,318
IRAP	47	819
Total	51,168	52,799

1. 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.

2. 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.

3. Sums due for taxes to be refunded refer 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. The portion of this account receivable that refers to the national tax consolidation scheme is classified under this item.

Breakdown of item 60 (Liabilities): tax liabilities

TYPE OF TRANSACTIONS/VALUES	31.12.2019	31.12.2018
Current taxation	1,690	11,734
IRES arising on National Tax Consolidation scheme	-	6,893
IRES and other income taxes	105	4,543
IRAP	1,585	298
Deferred tax liabilities	11,928	6,284
With impact on Profit and Loss Account	8,650	5,200
IRES	7,976	4,565
IRAP	674	635
With impact on Net Equity	3,278	1,084
IRES	2,808	927
IRAP	470	157
Total	13,618	18,018

11.1 Breakdown of deferred tax assets

	31.12.2019	PURSUANT TO LAW NO. 214/2011	31.12.2018	PURSUANT TO LAW NO. 214/2011
With impact on Profit and Loss Account	46,669	8,107	46,581	8,107
Provisions for liabilities and contingencies	34,962	-	36,313	-
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
Alitalia analytical impairment reserve (IRAP only)	123	-	123	-
Analytical impairment of debt securities previously HTM (IRAP)	912	-	981	-
Reserves for collective impairment on loans to customers and banks	697	-	681	-
Revaluation of funds covered by Financial Advisors' policies	561	-	366	-
Other operating expenses	11	-	10	-
Group companies' tax losses	324	-	-	-
BVG pension funds	972	-	-	-
With impact on Net Equity	826	-	6,137	-
Measurement at fair value of HTCS financial assets	355	-	5,660	-
Actuarial losses IAS 19	471	-	477	-
Total	47,495	8,107	52,718	8,107

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 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.

However, the 2019 Budget Law (Law No. 145 of 30 December 2018) and the 2020 Budget Law (Law No. 160 of 30 December 2019) 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 detail, the 2019 Budget Law provided for:

- > the remodulation of the deductibility of part of the goodwill and other intangible assets not deducted as at 31 December 2017 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 No. 83/2015 at 10% as at 31 December 2026.

The 2020 Budget Law further amended this legal framework by introducing:

- > the deferral until 2022 and the three subsequent years of the deduction of the portion of adjustments to loans not deducted as at 31 December 2015 that accrued in 2019 (originally set at 12%);
- > the deferral until 2025 and the four subsequent years of the deduction of the portion of goodwill and other intangible assets, which gave rise to the recognition of deferred tax assets eligible for conversion into tax credits pursuant to Article 2, paragraphs 55-56-ter, of Legislative Decree No. 225/2010 (of which Law No. 214/2011) (originally set at 5%).

Accordingly, no DTAs eligible for conversion into tax credits were recovered in 2018 and 2019.

By way of partial exception to the full deduction scheme for adjustments to loans classified as loans to customers in the accounts, the 2018 Budget 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 912 thousand euros as at 31 December 2019. Within this framework, the 2020 Budget Law postponed until 2028 the deduction of the 2019 share of the effect of the first-time adoption of IFRS 9 (originally set at 10%).

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.

Tax losses carryforward amounted to 324 thousand euros and referred to net losses reported by Nextam Group companies and BG Valeur S.A.

11.2 Breakdown of deferred tax liabilities

	31.12.2019	31.12.2018
With impact on Profit and Loss Account	8,650	5,200
Residual value of capital contribution to FITD	-	752
Off-balance sheet goodwill deduction	3,474	2,984
Other intangible assets (trademarks and customer relationships)	3,773	-
Revaluation of equity securities and policies for covering funds	788	539
IFRS 15 FTA – Prepayments for recruitment incentives	416	772
Provision for post-employment benefits (IAS19)	154	153
Other	45	-
With impact on Net Equity	3,278	1,084
Measurement at fair value of HTCS financial assets	3,247	1,084
Actuarial losses (IAS 19)	31	-
Total	11,928	6,284

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).

The DTLs on intangible assets refer to the fair value of the customer relationships and trademarks recognised in the Consolidated Financial Statements following the business combination of the Nextam Partners Group and BG Valeur S.A. For a more detailed description, refer to Part G, Section 1, of these Notes and Comments.

11.3 Change in deferred tax assets (offsetting entry to the Profit and Loss Account)

	31.12.2019	31.12.2018
1. Amount at year-start	46,581	43,672
2. Increases	14,181	18,686
2.1 Deferred tax assets for the year:	12,885	16,753
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) reversals	-	-
d) other	12,885	16,753
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	1,296	1,933
of which:		
- adjustment for IFRS 9 FTA	-	1,817
- business combinations	1,278	-
3. Decreases	14,093	15,777
3.1 deferred tax assets eliminated in the year	14,093	15,777
a) transfers	13,847	15,399
b) write-downs for non-recoverability	246	378
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	46,669	46,581

Tax losses carryforward amounted to 324 thousand euros and referred to net losses reported by Nextam Group companies and BG Valeur S.A.

11.4 Change in deferred tax assets pursuant to Law No. 214/2011

	31.12.2019	31.12.2018
1. Amount at year-start	8,107	8,107
2. Increases	-	-
3. Decreases	-	-
3.1 Transfers	-	-
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)

	31.12.2019	31.12.2018
1. Amount at year-start	5,200	2,731
2. Increases	4,604	5,010
2.1 Deferred tax liabilities recognised in the year	782	1,233
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	782	1,233
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	3,822	3,777
<i>of which:</i>		
- <i>business combinations</i>	3,818	3,777
- <i>adjustment for IFRS 9-IFRS 15 FTA</i>	-	3,777
3. Decreases	1,154	2,541
3.1 Deferred tax liabilities eliminated in the year	1,154	2,541
a) transfers	1,138	2,514
b) change in accounting criteria	-	-
c) other	16	27
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Amount at year-end	8,650	5,200

11.6 Changes in deferred tax assets (offsetting entry to the Net Equity)

	31.12.2019	31.12.2018
1. Amount at year-start	6,137	1,287
2. Increases	223	7,402
2.1 Deferred tax assets for the year:	197	7,383
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	197	7,383
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	26	19
<i>of which:</i>		
- <i>business combinations</i>	16	-
3. Decreases	5,534	2,552
3.1 Deferred tax assets eliminated in the year:	-	1
a) transfers	-	1
b) write-downs for non-recoverability	-	-
c) change in accounting criteria	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	5,534	2,551
<i>of which:</i>		
- <i>adjustment for IFRS 9 FTA</i>	-	756
4. Amount at year-end	826	6,137

The item 3.3 “Other decreases” refers 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)

	31.12.2019	31.12.2018
1. Amount at year-start	1,084	11,809
2. Increases	6,116	409
2.1 Deferred tax liabilities recognised in the year:	6,085	409
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	6,085	409
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	31	-
3. Decreases	3,922	11,134
3.1 Deferred tax liabilities eliminated in the year:	23	5,166
a) transfers	23	5,166
b) change in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	3,899	5,968
<i>of which:</i>		
- <i>adjustment for IFRS 9 FTA</i>	-	4,173
4. Amount at year-end	3,278	1,084

The item 3.3 “Other decreases” refers to the reduction in deferred tax liabilities following the re-absorption of deductible temporary differences as a result of higher value adjustments of assets in the HTCS portfolio.

Section 13 – Other assets – Item 130

13.1 Breakdown of other assets

	31.12.2019	31.12.2018
Fiscal items	60,083	61,602
Advances paid to fiscal authorities – current account withholdings	443	829
Advances paid to fiscal authorities – stamp duty	44,164	43,305
Advances of substitute tax on capital gains	11,369	15,127
Excess payment of substitute tax for tax shield	634	634
Other advances paid to and sums due from fiscal authorities	1,013	914
Fiscal Authorities/VAT	161	115
Sums due from fiscal authorities for other taxes to be refunded	2,299	678
Leasehold improvements	6,685	6,558
Operating loans not related to financial transactions	151	155
Sundry advances to suppliers and employees	3,255	1,540
Cheques under processing	8,775	7,312
C/a cheques drawn on third parties under processing	-	-
Our c/a cheques under processing c/o service	-	-
Money orders and other amounts receivable	8,775	7,312
Other amounts to be debited under processing	41,134	30,774
Amounts to be settled in the clearing house (debits)	1,144	6,095
Clearing accounts for securities and funds procedure	36,659	22,187
Other amounts to be debited under processing	3,331	2,492
Amounts receivable for legal disputes related to non-credit transactions	51	446
Trade receivables from customers and banks that cannot be traced back to specific items	38,342	32,407
Other amounts	178,474	173,662
Prepayments for the new supplementary fees for sales network	102,256	123,585
Prepayments of exclusive portfolio management fees	180	333
Prepayments for ordinary incentives	49,801	26,346
Prepayments of segregated asset management fees	9,619	14,611
Other accrued income and deferred charges that cannot be traced back to specific items	13,278	8,644
Term deposit to guarantee the consideration related to Nextam (escrow account)	3,000	-
Sundry amounts	340	143
Total	336,950	314,456

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 set out in IFRS 15, paragraphs 91-104.

Prepayments for the supplementary fees for sales network refer to incremental fee expense 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 up-front 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.

	31.12.2018	AMORTISATION	OF WHICH RELATIVE TO THE PREVIOUS YEAR	INCREASES	OTHER CHANGES	31.12.2019
Supplementary fees	123,585	-46,388	-40,235	25,059	-	102,256
Ordinary incentives	26,346	-14,697	-6,955	38,704	-552	49,801
Up-front fees on segregated accounts	14,611	-4,852	-4,852	-	-140	9,619
Total network incentives	164,542	-65,937	-52,042	63,763	-692	161,676
Entry bonus on BG Solution portfolio management	2,414	-1,088	-731	4,766	-	6,092
Bonus on JPM funds	1,031	-589	-572	90	-	532
Total other acquisition costs	3,445	-1,677	-1 303	4,856	-	6,624
Total	167,987	-67,614	-53,345	68,619	-692	168,300

Other unallocated prepaid expenses of 6,834 thousand euros consist primarily of prepaid expenses not accrued during the year and refer in particular to lease prepayments, insurance premiums and other general and administrative expenses.

PART B – INFORMATION ON THE CONSOLIDATED 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	31.12.2019 BOOK VALUE	31.12.2018 BOOK VALUE
1. Due to Central Banks	-	-
2. Due to banks	94,807	128,725
2.1 Current accounts and demand deposits	72,790	108,850
2.2 Term deposits	-	-
2.3 Financing:	-	-
2.3.1 Repurchase agreements	-	-
2.3.2 Other	-	-
2.4 Liabilities for repurchase commitments of own equity instruments	-	-
2.5 Lease debts	-	-
2.6 Other debts	22,017	19,875
Total	94,807	128,725
Fair value – L1	-	-
Fair value – L2	94,807	128,725
Fair value – L3	-	-
Total – Fair value	94,807	128,725

The item “Other debts” almost 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	31.12.2019 BOOK VALUE	31.12.2018 BOOK VALUE
1. Current accounts and demand deposits	9,982,548	8,187,790
2. Term deposits	-	25,939
3. Financing	116,218	173,824
3.1 Repurchase agreements	116,218	130,542
3.2 Other	-	43,282
4. Liabilities for repurchase commitments of own equity instruments	-	-
5. Lease debts	158,064	-
6. Other debts	152,349	159,318
Total	10,409,179	8,546,871
Fair value – L1	-	-
Fair value – L2	10,409,179	8,503,589
Fair value – L3	-	44,210
Total – Fair value	10,409,179	8,547,799

1. Item 6 “Other debts” refers for 20,307 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.

2. At 31 December 2018, the item 3.2 “Financing – Other” referred to the subordinated loan from the German company Generali Beteiligungs GmbH, fully repaid in November 2019.

3. Item 5 “Lease liabilities/debts” includes the liability relating to lease payments determined on the basis of the new IFRS 16 – *Leases*, which entered into force on 1 January 2019.

1.4 Subordinated debts – detail

TYPE OF TRANSACTIONS/VALUES	31.12.2019	31.12.2018
Due to customers: subordinated debts	-	43,282
Generali Beteiligungs GmbH subordinated loan	-	43,282

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, had a ten-year term and is repayable on maturity in one instalment. Provision was 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 was 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 was reparametrised to the 3-month Euribor, plus the same spread identified when the original fixed rate was determined. The loan was subordinated in the event of a default by the Bank.

1.6 Lease debts

Lease debts recognised in the Consolidated Financial Statements at 31 December 2019 amounted to 158,064 thousand euros.

The following table shows the maturity of these lease debts in accordance with paragraphs 53(g) and 58 of IFRS 16 – *Leases*:

RESIDUAL LEASE DEBTS – YEAR	AMOUNT
2019	158,064
2020	141,174
2021	123,878
2022	107,863
2023	92,698
2024	78,106
2025	64,820
2026	51,934
2027	40,714
2028	30,594
2029	21,905
2030	14,332
2031	9,000
2032	5,199
2033	1,329
2034	811
2035	276
2036	-

Section 2 – Financial liabilities held for trading – Item 20

2.1 HFT financial liabilities: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2019					31.12.2018				
	NV	FV				NV	FV			
		L1	L2	L3	FV (*)		L1	L2	L3	FV (*)
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	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial	-	-	1,204	-	-	-	-	384	-	-
1.1 Trading	X	-	1,204	-	X	X	-	384	-	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	-	1,204	-	X	X	-	384	-	X
Total (A + B)	X	-	1,204	-	X	X	-	384	-	X

(*) FV*: fair value measured without taking account of the issuer's creditworthiness changes compared to issue date.

HFT financial liabilities consist for 1,204 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 4 – Hedging derivatives – Item 40

4.1 Breakdown of hedging derivatives by type of hedge and hierarchy levels

	31.12.2019				31.12.2018			
	FAIR VALUE			NOTIONAL VALUE	FAIR VALUE			NOTIONAL VALUE
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	7,481	-	270,000	-	-	-	-
1) Fair value	-	7,481	-	270,000	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	7,481	-	270,000	-	-	-	-

4.2 Breakdown of hedging derivatives by portfolios hedged and type of hedge

HEDGING TRANSACTIONS/TYPE	FAIR VALUE – SPECIFIC						CASH FLOWS			
	DEBT SECURITIES AND INTEREST RATES	EQUITY SECURITIES AND STOCK INDICES	CURRENCIES AND GOLD	CREDIT	GOODS	OTHER	GENERAL	SPECIFIC	GENERAL	FOREIGN INVESTMENTS
1. Financial assets at fair value through other comprehensive income	3,701	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	3,780	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	7,481	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	-	X	-	-	-	-	-	-	-	X
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

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

	31.12.2019	31.12.2018
Trade payables	21,802	29,722
Due to suppliers	21,260	29,083
Due for payments on behalf of third parties	542	639
Due to staff and social security institutions	25,110	20,088
Due to staff for accrued holidays etc.	4,970	3,074
Due to staff for productivity bonuses to be paid out	12,729	10,001
Contributions to be paid to social security institutions	3,107	2,711
Contributions to Financial Advisors to be paid to Enasarco	4,304	4,302
Tax authorities	21,029	18,026
Withholding taxes to be paid to tax authorities on behalf of employees and contract workers	5,179	4,876
Withholding taxes to be paid to tax authorities on behalf of customers	3,176	2,485
Notes to be paid into collection services	11,221	10,284
VAT payables	1,449	279
Tax payables – other (stamp duty and substitute tax on medium-/long-term loans)	4	102
Amounts to be debited under processing	67,307	68,756
Bank transfers, cheques and other sums payable	2,134	11,677
Amounts to be settled in the clearing house (credits)	17,977	29,033
Liabilities from reclassification of portfolio subject to collection (SBF)	4,526	3,724
Other amounts to be debited under processing	42,670	24,322
Sundry items	11,849	5,584
Accrued expenses and deferred income that cannot be traced back to specific items	1,804	1,867
Sums made available to customers	1,189	1,182
Sundry items	1,854	1,606
Amounts to be credited	1,227	929
Liabilities for deferred consideration (earn out) related to the acquisition of the Nextam Group	5,775	-
Total	147,097	142,176

Pursuant to paragraphs 116 a) and 116 b) of IFRS 15, it is reported that the item deferred income includes liabilities associated with contracts within the scope of application of IFRS 15 and relating to three-year up-front fees received in connection with the distribution of certain classes of international UCITS.

Opening balance at 1 January 2019	1,573
Increases	117
Decreases due to the transfer to profit and loss	-887
<i>of which:</i>	
- relating to prior years	-868
Closing balance at 31 December 2019	803

Section 9 – Provisions for termination indemnity – Item 90

9.1 Provisions for termination indemnity: year changes

	31.12.2019	31.12.2018
A. Amount at year-start	4,831	4,859
Change in the opening balance	-	-
B. Increases	591	142
B.1 Provisions for the year	132	71
B.2 Other increases	459	71
<i>of which:</i>		
- <i>business combinations</i>	436	-
C. Decreases	269	170
C.1 Amounts paid	257	170
C.2 Other decreases	12	-
<i>of which:</i>		
- <i>business combinations</i>	-	-
D. Amount at year-end	5,153	4,831

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):

	31.12.2019	31.12.2018
Discount rate (*)	0.53%	1.44%
Annual inflation rate	1.10%	2.00%
Salary increase rate	1.80%	2.00%
Average duration (years)	10	10

(*) Rate applied to Banca Generali.

	31.12.2019	31.12.2018
1. Provisions:	132	71
- current service cost	44	14
- interest cost	69	57
2. Actuarial gains and losses	19	71
- based on financial assumptions	369	-79
- based on actuarial demographic assumptions	-350	150
Total provisions for the year	132	142
Actuarial value	5.153	4.831
Value calculated re. Article 2120 of the Italian Civil Code	4.766	4.520

Section 10 – Provisions for liabilities and contingencies – Item 100

10.1 Breakdown of provisions for liabilities and contingencies

ITEMS/COMPONENTS	31.12.2019	31.12.2018
1. Provisions for credit risk relating to commitments and financial guarantees issued	108	86
2. Provisions for other commitments and other guarantees issued	-	-
3. Company provisions for pensions	3,854	-
4. Other provisions for liabilities and contingencies	165,407	159,928
4.1 Legal and tax disputes	12,899	14,287
4.2 Staff	16,608	15,131
4.3 Other	135,900	130,510
Total	169,369	160,014

Breakdown of other provisions for liabilities and contingencies

	31.12.2019	31.12.2018
Provision for staff expenses	16,608	15,131
Provision for restructuring plan	1,741	1,369
Provision for staff expenses – other	14,867	13,762
Provision for legal disputes	12,899	14,287
Provision for risks related to legal disputes connected with sales network's embezzlements	7,317	6,784
Provision for risks related to legal disputes with sales network	910	980
Provision for risks related to legal disputes with staff	15	-
Provision for other legal disputes	4,657	6,523
Provision for termination indemnity of Financial Advisors	97,879	81,595
Provision for termination indemnity of sales network	63,424	55,117
Provision for portfolio overfee indemnities	3,850	3,530
Provision for managerial development indemnity	9,344	7,057
Provision for pension bonuses	9,163	8,601
Provisions for Framework Loyalty Programme	12,098	7,290
Provisions for risks related to network incentives	31,034	46,131
Provision for network development plans	21,739	32,603
Provision for deferred bonus	547	1,212
Provisions for managers with access gate	2,053	3,972
Provision for sales incentives	2,540	4,713
Provision for travel incentives	3,300	3,251
Provision for other fee plans	855	380
Other provisions for liabilities and contingencies	6,987	2,784
Total	165,407	159,928

10.2 Provisions for liabilities and contingencies: year changes

ITEMS/COMPONENTS	PROVISIONS FOR CREDIT RISK RELATING TO COMMITMENTS AND FINANCIAL GUARANTEES ISSUED	PROVISIONS FOR PENSIONS	OTHER PROVISIONS FOR RISK AND CHARGES	TOTAL
A. Amount at year-start	86	-	159,928	160,014
B. Increases	22	4,041	51,144	55,207
B.1 Provisions for the year	22	85	49,043	49,150
B.4 Other changes	-	3,956	2,101	6,057
<i>of which:</i>				
- <i>business combinations</i>	-	3,956	-	3,956
C. Decreases	-	187	45,665	45,852
C.1 Use in the year	-	-	38,269	38,269
C.4 Other changes	-	187	7,396	7,583
D. Amount at year-end	108	3,854	165,407	169,369

Other provisions for liabilities and contingencies – details of movements

	31.12.2018	OTHER CHANGES	USES	SURPLUS	PROVISIONS	31.12.2019
Provision for staff expenses	15,131	-676	-4,545	-688	7,386	16,608
Provision for restructuring plan	1,369	-543	-757	-	1,672	1,741
Provision for staff expenses – other	13,762	-133	-3,788	-688	5,714	14,867
Provisions for legal disputes	14,287	-	-3,857	-1,398	3,867	12,899
Provision for risks related to legal disputes connected with sales network's embezzlements	6,784	-	-280	-518	1,331	7,317
Provision for risks related to legal disputes with sales network	980	-	-	-100	30	910
Provision for risks related to legal disputes with staff	-	-	-	-	15	15
Provision for other legal disputes	6,523	-	-3,577	-780	2,491	4,657
Provision for termination indemnity of Financial Advisors	81,595	2,838	-1,293	-1,474	16,213	97,879
Provision for termination indemnity of sales network	55,117	2,841	-887	-1,110	7,463	63,424
Provision for portfolio overfee indemnities	3,530	-	-54	-75	449	3,850
Provision for managerial development indemnity	7,057	-	-244	-107	2,638	9,344
Provision for pension bonuses	8,601	-3	-108	-182	855	9,163
Provisions for Framework Loyalty Programme	7,290	-	-	-	4,808	12,098
Provisions for risks related to network incentives	46,131	-	-28,426	-3,836	17,165	31,034
Provision for network development plans	32,603	-	-19,748	-3,746	12,630	21,739
Provision for deferred bonus	1,212	-	-655	-90	80	547
Provisions for managers with access gate	3,972	-	-2,219	-	300	2,053
Provision for sales incentives	4,713	-	-2,173	-	-	2,540
Provision for fees – travel incentives	3,251	-	-3,251	-	3,300	3,300
Provision for fee plans	380	-	-380	-	855	855
Other provisions for liabilities and contingencies	2,784	-61	-148	-	4,412	6,987
Total	159,928	2,101	-38,269	-7,396	49,043	165,407

10.3 Provisions for credit risk relating to commitments and financial guarantees issued

	PROVISIONS FOR CREDIT RISK RELATING TO COMMITMENTS AND FINANCIAL GUARANTEES ISSUED			
	STAGE 1	STAGE 2	STAGE 3	TOTAL
1. Commitments to disburse funds	-	-	-	-
2. Financial guarantees issued	102	6	-	108
Total	102	6	-	108

10.5 Defined-benefit company pension funds

10.5.1 Characteristics of the funds and related risks

The item “Pension funds” refers to the supplementary pension plan for employees of the recently acquired BG Valeur, which under local pension legislation (LLP) provides mandatory supplementary benefits upon meeting pension requirements or an adverse event (death or disability).

Pension obligations are covered by segregated assets, managed under a contractual relationship between the company and Swiss Life Collection Foundation BGV.

In turn, the Foundation fully reinsures all disability, death and longevity risks, including investment risk, with the insurer Swiss Life S.A. which invests the capital, guaranteeing the repayment of 100% of capital plus interest at a guaranteed rate. In 2019, the guaranteed rate was 1.00% for the mandatory cover and 0.25% for the optional cover.

Contributions to the plan are paid by employees and the employer, with regard to both pension entitlement and coverage of the death and disability risk benefits. The cumulative balance of the pension account is based on the pension contributions made by the employee and employer and the interest accrued. The amount of the pension payable upon retirement is calculated by applying an annuity conversion rate established by the law and plan rules to the cumulative balance of each participant’s pension account.

Although the Swiss supplementary pension system operates as a defined-contribution plan pursuant to local legislation, under IAS 19 – *Employee Benefits* it is accounted for as a defined-benefit pension plan, due to the presence of the guaranteed return on investment, fixed rate of conversion of the pension amount into a life annuity and the obligation for the participants to intervene if the plan is underfunded.

The liability and cost relating to this plan are calculated on the basis of actuarial assumptions applying the Projected Unit Credit Method. This method calls for future outlays to be projected on the basis of historical statistical and demographic curve analyses and discounting of the cash flows in question at a market interest rate. The contributions paid in each year are considered separate units, recognised and measured individually to determine the final obligation.

The rate used for discounting is determined by reference to the yields on “high quality corporate bonds” and in particular yields observed on the Swiss market for maturities between 15 and 20 years.

The present value of the obligation at the reporting date is also stated net of the fair value of the assets in service of the plan.

Actuarial gains and losses on defined-benefit plans are taken to the statement of other comprehensive income (OCI).

10.5.2 Year changes in net defined-benefit liabilities (assets) and reimbursement rights

The following table shows the changes in liabilities and assets associated with the defined benefit plan in 2019:

	LIABILITIES OF THE DBO PENSION FUND	ASSETS IN SERVICE OF THE PLAN (FAIR VALUE)	PROVISIONS FOR PENSIONS
Amount at year-start	-	-	-
Current service cost	-84	-	-84
Interest (expense)/income	-3	2	-1
Other increases	-11,544	7,588	-3,956
<i>of which:</i>			
- <i>business combinations</i>	-11,544	7,588	-3,956
Return on assets, net of interests	-	7	7
Actuarial gains (losses) arising from changes in financial assumptions	119	-	119
Ordinary contributions paid by employer	-	61	61
Ordinary contributions withheld from employees	-61	61	-
Contributions charged to plan beneficiaries	-380	380	-
Indemnities paid	122	-122	-
Amount at year-end	-11,831	7,977	-3,854

10.5.3 Fair value of the assets in service of the plan

The assets in service of the plan consist solely in the value of the insurance policy covering the plan.

10.5.4 Description of the main actuarial assumptions

The following table presents the main actuarial assumptions and reference rates used:

	31.12.2019
Discount rate	0.25%
Salary increase rate	0.50%
Men' retirement age	65 years
Women' retirement age	64 years
Demographic tables used	BVG 2015 GT
Average duration (years)	11.1

10.5.5 Amount, timing and uncertainty of cash flows

The sensitivity analysis was conducted on the DBO value presented in Table 10.5.2 above.

The results presented below express the percent change in the defined benefit obligation resulting from a +/- 50 bps change in the discounting rate or the salary increase rate or a change in life expectancy of +/-1 year:

SENSITIVITY ANALYSIS	CHANGE %
Sensitivity analysis on discount rate	
Discount rate +0.50%	-9.0%
Discount rate -0.50%	10.50%
Sensitivity analysis on salary increase rate	
Salary increase rate +0.50%	0.70%
Salary increase rate -0.50%	-0.70%
Sensitivity analysis on mortality assumptions	
Life expectancy + 1 year	1.70%
Life expectancy - 1 year	-1.80%

The average duration of the defined benefit obligation was 11.1 years.

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 (RMs), 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.

On 13 December 2019, the Board of Directors extended the voluntary redundancy plan until 31 December 2020, with a ceiling on resources of approximately 1.6 million euros, in order to facilitate the early departure of a certain number of personnel eligible for the so-called “quota 100” early retirement programme or who otherwise qualified for access to early retirement or were nearing eligibility for an old age pension.

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 the 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.

The expenses associated with obligations extant at period-end relating to Financial Advisors are valued using the statistical-actuarial method, with the advice of independent professionals.

The following are the main actuarial assumptions:

TERMINATION INDEMNITY	31.12.2019	31.12.2018
Discount rate ³	1.8%	2.5%
Turnover rate (professionals)	1.96%	1.30%
Average duration (years)	13 years	13 years
IAS 37 DBOs/Indemnity provision at the measurement date	60.36%	59.54%

The ratio of Deferred Benefit Obligations (DBOs) 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 the increased basic fees as a result of the rise 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 already left service.

The DBO already accrued by Financial Advisors formerly employed by Credit Suisse, totalling 2.9 million euros, is still based on the payment criteria established by the previous employer and was recognised under provisions for risks. 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) 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.

³ The discount rate used as at 31 December 2019 was determined on the basis of an average EURIRS curve for 2019, increased linearly by the spread between the EURIRS rate and 10-year BTP.
The rate represented is the rate that corresponds to the average duration of the relevant liabilities, 13 years.

Within the framework of provisions for contractual indemnities, on 21 March 2017 the Board of Directors granted its final approval for a **Framework Loyalty Programme for the Sales Network** 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 Program is divided into eight 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.

The individual plans of the Framework Loyalty Program for the Sales Network will all expire on 31 December 2026, after decreasing lengths, and each will allow part of the bonus to be paid in cash and part in shares of Banca Generali (max 50%), after having assessed their effects at the level of capital ratios and free float. 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. 2019 saw the launch of the third annual cycle (2019-2026).

Provisions for contractual indemnities refer also to the charge relating to the inception of the new managerial development indemnity mechanism, approved by the Board of Directors in June 2018 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;
- > 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

Other provisions for liabilities and contingencies include provisions for operating risks.

Tax dispute

On this subject, it should be noted that contacts with the Italian Revenue Agency regarding the tax dispute pertaining to 2014 resumed in the second half of the year, however without yet reaching any settlement of the dispute.

Section 13 – Group net equity – Items 120, 130, 140, 150, 160, 170 and 180

13.1 Breakdown of 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	-1,467,579	-1,467,579	-37,356
Total		115,384,058	115,384,058	79,496

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 (-)	-929,090	-
A.2 Outstanding shares: at year-start	115,922,547	-
B. Increases	128,930	-
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	128,930	-
B.3 Other changes	-	-
C. Decreases	-667,419	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-667,419	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: at year-end	115,384,058	-
D.1 Treasury shares (+)	1,467,579	-
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

	31.12.2018	PROFIT ALLOCATION – DIVIDEND DISTRIBUTION	REPURCHASE/ SALE OF TREASURY SHARES	STOCK OPTION PLANS AND OTHER IFRS 2-RELATED PAYMENTS	ISSUE OF NEW SHARES	STOCK GRANT PLANS	OTHER CHANGES	31.12.2019
Legal reserve	23,370	-	-	-	-	-	-	23,370
Restricted reserve for shares of the Parent Company	717	-	-	-	-	-	424	1,141
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 (IFRS 2) – plans ended	507	-	-	-	-	-	-	507
IFRS 2 reserves – LTIP cycles underway ⁽¹⁾	2,745	-	-	-	-	607	-1,479	1,873
IFRS 2 reserves – LTIP cycles ended ⁽¹⁾	7,180	-	-	-	-	-	1,479	8,659
IFRS 2 reserves – LTI plans based on BG shares	579	-	-	1,530	-	-	-	2,109
IFRS 2 reserve – 2019-2021 share plan	-	-	-	-	-	46	-	46
IFRS 2 reserve – Key personnel remuneration	3,606	-	-	4,739	-2,851	-	-	5,494
IFRS 2 reserve – Group key personnel remuneration	155	-	-	44	-	-	-	199
IFRS 2 reserve – Framework Loyalty Programme	656	-	-	749	-	-	-	1,405
Reserve from net profit (loss) carried forward – Parent Company	240,447	42,015	-	-	-	-	-424	282,038
Reserve from profit (loss) carried forward — consolidated	111,174	-8,925	-	-	-	-	-	102,249
Equity reserve from the transfer of the funds business unit	3,710	-	-	-	-	-	-	3,710
Restricted reserve pursuant to Article 6, para. 1(a), of Leg. Decree No. 38/2005	-	2,143	-	-	-	-	-	2,143
Total	414,368	35,233	-	7,062	-2,851	653	-	454,465

(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.

13.5 Breakdown of equity instruments: year changes

On 23 December, Banca Generali finalised the issue of an Additional Tier 1 Perpetual bond of 50 million euros that under IAS 32 is considered an equity instrument and meets the requirements under regulatory capital rules in force for being recognised as Additional Tier 1 instrument in the Issuer's financial statements.

The issue was fully subscribed in private placement by two German insurance companies of the Generali Group. The bonds are perpetual and callable, at the issuer's sole discretion, from the sixth year from issue, and they yield — subject to authorisation from the competent supervisory authority and under the conditions established in applicable legislation — a non-cumulative half-yearly coupon at a fixed rate of 4.5% per annum for the first five years.

(€ THOUSAND)	31.12.2019	31.12.2018
Amount at year-start	-	-
Issue-related increases	50,000	-
Decreases for reimbursements	-	-
Amount at year-end	50,000	-

Section 14 – Net equity attributable to minority interests – Item 190

14.1 Breakdown of Item 190 – Net equity attributable to minority interests

(€ THOUSAND)	31.12.2019	31.12.2018
Other equity investments		
1. BG Valeur S.A.	26	-
Total	26	-

PART B – INFORMATION ON THE BALANCE SHEET

Other information

1. Commitments and financial guarantees issued

TRANSACTIONS	NOMINAL VALUE OF COMMITMENTS AND FINANCIAL GUARANTEES ISSUED			31.12.2019	31.12.2018
	STAGE 1	STAGE 2	STAGE 3		
1. Commitments to disburse funds	847	-	-	847	11
a) Central Banks	-	-	-	-	-
b) Public administration bodies	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	649	-	-	649	-
f) Households	198	-	-	198	11
2. Financial guarantees issued	100,986	2,059	-	103,045	105,659
a) Central Banks	-	-	-	-	-
b) Public administration bodies	-	-	-	-	-
c) Banks	3,006	-	-	3,006	1,044
d) Other financial companies	3,921	-	-	3,921	7,243
e) Non-financial companies	53,177	31	-	53,208	59,643
f) Households	40,882	2,028	-	42,910	37,729
Total	101,833	2,059	-	103,892	105,670

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

TRANSACTIONS	NOMINAL VALUE	
	31.12.2019	31.12.2018
1. Other guarantees issued	35	-
<i>of which: non-performing credit exposures</i>	35	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	11	-
f) Households	24	-
2. Other commitments	28,761	173,386
<i>of which: non-performing credit exposures</i>	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	28,485	173,386
d) Other financial companies	-	-
e) Non-financial companies	250	-
f) Households	26	-
Total	28,796	173,386

Loan commitments include commitments subject to certain or uncertain use towards banks and refer to financial commitments for securities to be received and deposits to be made.

3. Assets pledged as collateral for own liabilities and commitments

PORTFOLIO	31.12.2019				31.12.2018			
	REPURCHASE AGREEMENTS	ECB	CC&G	TOTAL	REPURCHASE AGREEMENTS	ECB	CC&G	TOTAL
1. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	85,767	-	-	85,767	130,909	-	15,096	146,005
3. Financial assets at amortised cost	29,712	219,386	14,962	264,060	-	218,974	199,524	418,498
4. Property and equipment	-	-	-	-	-	-	-	-
of which:								
- assets constituting inventories	-	-	-	-	-	-	-	-
Total	115,479	219,386	14,962	349,827	130,909	218,974	214,620	564,503

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 and for ordinary operations.

5. Trading of financial instruments on behalf of third parties

TYPE OF SERVICE	31.12.2019	31.12.2018
1. Execution of orders on behalf of customers	24,184,043	31,388,245
a) Purchases	12,606,366	16,869,201
1. Settled	12,550,764	16,800,942
2. To be settled	55,602	68,259
b) Sales	11,577,677	14,519,044
1. Settled	11,510,410	14,479,100
2. To be settled	67,267	39,944
2. Portfolio management	21,816,322	18,045,345
a) Individual	6,472,922	5,859,410
b) Collective	15,343,400	12,185,935
3. Custody and administration of securities	29,760,557	22,291,640
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	10,927,742	8,305,363
1. Securities issued by companies included in the consolidation area	13,862	16,126
2. Other	10,913,880	8,289,237
c) Third-party securities deposited with third parties	10,975,347	8,251,513
d) Portfolio securities deposited with third parties	7,857,468	5,734,764
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) asset management. The figure referring to individual management does not include 899 million euros of liquidity.

The figure referring to collective management does not include 1,915 million euros of funds included in Group individual discretionary accounts GPM/GPF.

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 arrangements 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 31.12.2019 (F=C-D-E)	NET AMOUNT AT 31.12.2018
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS AS COLLATERAL (E)		
1. Derivatives	3,668	-	3,668	2,670	-	998	-
2. Repurchase agreements	359,038	-	359,038	359,038	-	-	-
3. Securities loans	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31 December 2019	362,706	-	362,706	361,708	-	998	X
Total at 31 December 2018	199,937	-	199,937	199,937	-	X	-

7. Financial liabilities offset in the financial statements or falling within the scope of master netting arrangements 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 31.12.2019 (F=C-D-E)	NET AMOUNT AT 31.12.2018
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS AS COLLATERAL (E)		
1. Derivatives	7,481	-	7,481	2,670	-	4,811	-
2. Repurchase agreements	116,218	-	116,218	116,218	-	-	-
3. Securities loans	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total at 31 December 2019	123,699	-	123,699	118,888	-	4,811	X
Total at 31 December 2018	230,224	-	230,224	230,224	-	X	-

IFRS 7 requires a detailed disclosure on financial instruments that have been offset in the Balance Sheet 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 arrangements 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.

With reference to financial instruments that can be potentially set off under certain conditions, Banca Generali entered into bilateral netting arrangements that enable offsetting of credit and debt positions related to financial and credit derivatives in case of default of the counterparty, as well as into transactions such as Securities Financing Transactions (SFTs). In detail, ISDA (International Swaps and Derivatives Association) agreements and GMRA (Global Market Purchase Agreements) are in place.

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.

Banca Generali has entered into International Swap and Derivatives Association (ISDA) master netting arrangements as its main technique for mitigating the credit risk and the related impacts on fair value associated with OTC derivatives contracts with institutional counterparties. These arrangements reduce the capital absorbed by such derivatives contracts, in accordance with the conditions established in supervisory regulations. The ISDA master netting arrangements entered into with the main institutional counterparties to OTC derivatives have been appropriately reported to the Bank of Italy.

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	2019	2018
1. Financial assets at fair value through profit or loss	573	-	-	573	144
1.1 HFT financial assets	124	-	-	124	66
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	449	-	-	449	78
2. Financial assets at fair value through other comprehensive income	2,635	-	X	2,635	4,525
3. Financial assets at amortised cost	54,653	21,441	-	76,094	59,533
3.1 Loans to banks	2,217	667	X	2,884	1,953
3.2 Loans to customers	52,436	20,774	X	73,210	57,580
4. Hedging derivatives	X	X	977	977	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	2,582	2,217
Total	57,861	21,441	-	82,861	66,419
<i>of which:</i>					
- interest income on impaired financial assets	-	462	-	462	465
- interest income on finance leases	-	-	-	-	-

By convention, interest on “Financial liabilities” includes the negative interest expense accrued on funding transactions and mainly refers to negative interest applied to account deposit of both institutional and non-institutional clients, for specific agreements and for particularly high deposit amounts (2.5 million euros).

1.2 Interest income and similar revenues: further information

1.2.1 Interest income on financial assets in foreign currencies

	2019	2018
Interest income on financial assets in foreign currencies	728	688
Total	728	688

Breakdown of negative interest expense

	2019	2018
Interest income on bank deposits and current accounts	7	14
Repurchase agreements with banks	-	87
Repurchase agreements with customers	109	566
Interest income on customer deposit and current accounts	2,466	1,550
Total interest income on financial liabilities	2,582	2,217

1.3 Breakdown of interest expense and similar charges

ITEMS/TECHNICAL TYPES	DEBTS	SECURITIES	OTHER TRANSACTIONS	2019	2018
1. Financial liabilities at amortised cost	7,308	X	X	7,308	2,990
1.1. Due to central banks	-	X	X	-	-
1.2 Due to banks	671	X	X	671	511
1.3 Due to customers	6,637	X	X	6,637	2,479
1.4 Securities issued	X	-	X	-	-
2. HFT financial liabilities	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and funds	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	1,538	3,457
Total	7,308	-	-	8,846	6,447
<i>of which:</i>					
- interest expense relating to lease debts	3,480	-	-	3,480	-

The Item 1.3 “Financial liabilities at amortised cost – Due to customers” includes 3.5 million euros interest accrued on lease payment debts/liabilities calculated in accordance with the provisions of the new IFRS 16 in force as of 1 January 2019.

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 Interest expense and similar charges: further information

1.4.1 Interest expense on liabilities in foreign currencies

	2019	2018
Interest expense on financial liabilities in foreign currencies	643	389
Total	643	389

Breakdown of negative interest income

	2019	2018
Interest expense on deposits with the ECB	1,444	3,321
Interest expense on deposits with banks	10	77
Repurchase agreements with banks	40	-
Repurchase agreements with customers	20	7
Interest expense on customer deposits	24	52
Total	1,538	3,457

1.5 Hedging differentials

ITEMS	2019	2018
A. Hedging gains	7,750	-
B. Hedging losses	6,773	-
C. Total (A - B)	977	-

Section 2 – Fees – Items 40 and 50

2.1 Breakdown of fee income

TYPE OF SERVICE/VALUES	2019	2018
a) Guarantees issued	583	586
b) Credit derivatives	-	-
c) Management, brokerage and consultancy services:	871,325	732,049
1. Trading of financial instruments	16,600	13,824
2. Currency trading	-	-
3. Portfolio management:	464,194	365,033
3.1 individual	80,739	80,653
3.2 collective	383,455	284,380
4. Custody and administration of securities	347	456
5. Depository bank	-	-
6. Placement of securities	118,177	103,031
7. Order receiving and collection	6,891	8,650
8. Consultancy activities	25,984	15,395
8.1 Investment advice	25,984	15,395
8.2 Advice on financial structure	-	-
9. Distribution of third-party services	239,132	225,660
9.1. Portfolio management	856	792
9.1.1 individual	-	28
9.1.2 collective	856	764
9.2 Insurance products	237,664	224,208
9.3 Other products	612	660
d) Collection and payment services	4,329	4,318
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	2,021	2,166
j) Other services	2,756	2,547
of which:		
- all-inclusive fees on credit lines	1,858	1,759
Total	881,014	741,666

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:

(€ THOUSAND)	2019	2018
Underwriting fees	29,935	21,603
Management fees	645,814	633,508
Performance fees	147,384	38,614
Fees for other services	57,881	47,941
Total	881,014	741,666

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	2019	2018
Individual portfolio management	-273	78,474	2,538	-	80,739	80,653
Collective portfolio management	5,801	238,611	144,099	-	388,511	288,572
Placement of UCITS	4,713	93,707	747	-	99,167	90,417
Placement of securities	15,584	-	-	-	15,584	8,422
Distribution of third-party services	4,110	235,022	-	-	239,132	225,661
Other services and banking products	-	-	-	57,881	57,881	47,941
Total fee income	29,935	645,814	147,384	57,881	881,014	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 end 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 868 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	2019	2018
a) Guarantees received	-	13
b) Credit derivatives	-	-
c) Management and brokerage services:	371,475	348,742
1. Trading of financial instruments	3,738	5,262
2. Currency trading	-	-
3. Portfolio management:	28,283	28,977
3.1 Own portfolio	28,283	28,977
3.2 Third-party portfolio	-	-
4. Custody and administration of securities	1,950	1,636
5. Placement of financial instruments	-	-
6. Off-premises offer of financial instruments, products and services	337,504	312,867
d) Collection and payment services	4,397	3,991
e) Other services	2,003	870
Total	377,875	353,616

Fee expense for off-premises offer includes the costs incurred to obtain or fulfil contracts with customers of 67,614 thousand euros, of which 53,345 thousand euros relating to previous years.

Section 3 – Dividends and similar income – Item 70

3.1 Breakdown of dividends and similar income

ITEMS/INCOME	2019		2018	
	DIVIDENDS	SIMILAR INCOME	DIVIDENDS	SIMILAR INCOME
A. HFT financial assets	-	-	38	-
B. Other financial assets mandatorily measured at fair value	56	1,456	52	1,394
C. Financial assets at fair value through other comprehensive income	1,379	-	824	-
D. Equity investments	-	-	-	-
Total	1,435	1,456	914	1,394

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 2019	NET RESULT 2018
1. HFT financial liabilities	501	356	-	199	658	462
1.1 Debt securities	501	210	-	108	603	436
1.2 Equity securities	-	136	-	80	56	101
1.3 UCITS units	-	10	-	11	-1	-75
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 differences	X	X	X	X	4,940	4,909
3. Derivatives	-	-	-	2	8	-80
3.1 Financial:	-	-	-	2	8	-80
- on debt securities and interest rates	-	-	-	-	-	-
- interest rate swaps	-	-	-	-	-	-
- government bond forwards	-	-	-	-	-	-
- on equity securities and stock indices	-	-	-	2	-2	-81
- options	-	-	-	-	-	-54
- futures	-	-	-	2	-2	-27
- On currency and gold ⁽¹⁾	X	X	X	X	10	1
- Other	-	-	-	-	-	-
3.2 Credit	-	-	-	-	-	-
of which:						
- natural hedging related to the fair value option	X	X	X	X	-	-
Total	501	356	-	201	5,606	5,291

(1) It includes currency options and currency outrights.

Section 5 – Net income from hedging – Item 90

5.1 Breakdown of net income from hedging

INCOME COMPONENTS/VALUES	2019	2018
A. Income from:		
A.1 Fair-value hedge derivatives	4,663	-
A.2 Hedged financial assets (fair value)	4,066	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash-flow hedge derivatives	-	-
A.5 Assets and liabilities denominated in foreign currencies	-	-
Total income from hedging (A)	8,729	-
B. Charges from:		
B.1 Fair-value hedge derivatives	4,168	-
B.2 Hedged financial assets (fair value)	4,543	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedge derivatives	-	-
B.5 Assets and liabilities denominated in foreign currencies	-	-
Total charges from hedging (B)	8,711	-
C. Net income from hedging (A - B)	18	-

of which: result hedging of net positions

Section 6 – Gain (loss) from transfer/repurchase – Item 100

6.1 Breakdown of gains (losses) on disposal/repurchase

ITEMS/INCOME COMPONENTS	2019			2018		
	GAINS	LOSSES	NET RESULT	GAINS	LOSSES	NET RESULT
Financial assets						
1. Financial assets at amortised cost	315	-	315	2,606	-	2,606
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	315	-	315	2,606	-	2,606
2. Financial assets at fair value through other comprehensive income	10,603	5,079	5,524	19,824	6,388	13,436
2.1 Debt securities	10,603	5,079	5,524	19,824	6,388	13,436
2.2 Loans	-	-	-	-	-	-
Total assets	10,918	5,079	5,839	22,430	6,388	16,042
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	71	-5,081	-5,010
Total	71	-5,081	-5,010

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: breakdown of other financial assets mandatorily measured at fair value

TRANSACTIONS/INCOME COMPONENTS	2019					2018				
	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	4,315	1,442	2,673	3,265	-181	3,186	152	1,104	1,756	478
1.1 Debt securities	14	-	2,338	-	-2,324	-	96	217	-	-121
1.2 Equity securities	239	-	-	-	239	-	-	832	-	-832
1.3 UCITS units	3,162	1,421	296	3,265	1,022	3,164	15	55	1,756	1,368
1.4 Loans	900	21	39	-	882	22	41	-	-	63
2. Financial assets in foreign currencies: exchange differences	X	X	X	X	-	X	X	X	X	-
Total	4,315	1,442	2,673	3,265	-181	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			2019	2018
	STAGE 1 AND STAGE 2	STAGE 3		STAGE 1 AND STAGE 2	STAGE 3			
		WRITE-OFF	OTHER					
A. Loans to banks	240	-	-	65	-	-175	-172	
- Loans	-	-	-	65	-	65	-69	
- Debt securities	240	-	-	-	-	-240	-103	
<i>of which:</i>								
- <i>acquired or originated impaired loans</i>	-	-	-	-	-	-	-	
B. Loans to customers	553	54	9,250	3,457	984	-5,416	-4,829	
- Loans	553	54	689	-	984	-312	-51	
- Debt securities	-	-	8,561	3,457	-	-5,104	-4,778	
<i>of which:</i>								
- <i>acquired or originated impaired loans</i>	-	-	-	-	-	-	-	
Total	793	54	9,250	3,522	984	-5,591	-5,001	

Specific adjustments to loans to customers classified under “Stage 3” amounted to 689 thousand euros and included 52 thousand euros for bad loans, 268 thousand euros for positions past due by more than 90 days, 264 thousand euros for unlikely-to-pay positions, and, for the remainder, other operating loans and loans to sales network.

These write-downs were offset through reversals relating to positions past due at the end of the previous year (101 thousand euros) and reclassified out of the non-performing category, to bad loans (233 thousand euros), to unlikely-to-pay exposures (634 thousand euros) and, for the remainder, to operating loans and loans to sales network.

Reserves covering expected losses on loans classified to Stage 1 and Stage 2 presented net adjustments of 488 thousand euros.

Portfolio adjustments/reversal on debt securities classified under “Stage 1” and “Stage 2” — including adjustments of loans to banks for 240 thousand euros and net reversals of loans to customers amounting to 3,457 thousand euros — referred to the adjustment of the collective reserve allocated to account for potential impairment of the corporate bond portfolio. Upon transition to IFRS 9 on 1 January 2018, 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 8,561 thousand euros analytical impairment on debt securities was almost entirely attributable to the Tyndaris security (8,555 thousand euros).

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		2019	2018
	STAGE 1 AND STAGE 2	STAGE 3		STAGE 1 AND STAGE 2	STAGE 3		
		WRITE-OFF	OTHER				
A. Debt securities	-	-	-	204	-	204	-2,285
B. Loans	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
<i>of which:</i>							
- <i>acquired or originated impaired financial assets</i>	-	-	-	-	-	-	-
Total	-	-	-	204	-	204	-2,285

Portfolio reversals on debt securities classified under “Stage 1” and “Stage 2” amounted to 204 thousand euros and refer to the adjustments of the collective reserve allocated to account for potential impairment of the bond portfolio.

Section 12 – General and administrative expense – Item 190

Breakdown of general and administrative expenses

	2019	2018
190 a) Staff expenses	97,219	84,227
190 b) Other general and administrative expenses	162,681	162,494
Total	259,900	246,721

12.1 Breakdown of staff expenses

TYPE OF EXPENSES/SECTORS	2019	2018
1) Employees	95,618	82,743
a) Wages and salaries	52,455	47,154
b) Social security charges	12,855	11,490
c) Termination indemnity	691	662
d) Retirement benefit plans	-	-
e) Provision for termination indemnity	120	88
f) Provision for pensions and similar obligations:	85	-
- defined contribution	-	-
- defined benefit	85	-
g) Amounts paid to supplementary external pension funds:	4,714	4,144
- defined contribution	4,714	4,144
- defined benefit	-	-
h) Costs related to payment agreements based on own equity instruments	2,755	2,183
i) Other employee benefits	21,943	17,022
2) Other staff	197	173
3) Directors and Auditors	1,374	1,311
4) Retired personnel	30	-
Total	97,219	84,227

12.2 Average number of employees by category (*)

	2019	2018
Employees	893	850
a) Managers	58	49
b) Executives	284	266
c) Employees at other levels	551	535
Other employees	2	1
Total	895	851

(*) Quarterly weighted average, with part-time employees considered at 50% by convention.

12.2.1 Breakdown of personnel

	2019	2018
Employees	950	868
a) Managers	68	52
b) Total executives	304	272
of which:		
- 3 rd and 4 th level	177	153
c) Employees at other levels	578	544
Other employees	6	-2
Total	956	866

12.3 Defined-benefit company pension funds: costs and income

Costs incurred in 2019 for defined-benefit company pension funds amounted to 85 thousand euros, broken down as follows:

Current service cost	84
Interest expense	1

12.4 Other employee benefits

	2019	2018
Short-term productivity bonuses	12,148	9,588
Long-term benefits	4,160	2,169
Charges for Relationship Manager recruitment plans	1,229	743
Charges for deferred variable remuneration (managers' MBO)	1,752	1,171
Charges for post-employment medical care plans	1,179	255
Other benefits	5,635	5,265
Charges for staff supplementary pensions	3,050	2,650
Amounts replacing cafeteria indemnities	1,035	947
Training expenses	793	816
Contributions to employees	273	315
Transfer incentives and other indemnities	271	315
Other expenses	213	222
Total	21,943	17,022

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 2019 plan for measures.

12.5 Breakdown of other general and administrative expenses

	2019	2018
Administration	22,568	18,823
Advertising	4,747	4,149
Audit fees	12,360	8,762
Corporate boards and auditing firms	534	548
Insurance	3,158	3,214
Entertainment expenses	565	924
Membership contributions	929	958
Charity	275	268
Operations	22,845	38,288
Rent and usage of premises and management of property	4,424	19,937
Outsourced administrative services	5,887	5,451
Post and telephone	2,116	2,528
Print material	1,334	1,444
Other expenses for sales network management	2,743	2,965
Other expenses and purchases	3,996	3,654
Other indirect staff expenses	2,345	2,309
Information system and equipment	44,043	40,919
Expenses related to outsourced IT services	30,155	28,528
Fees for IT services and databases	7,930	7,247
Software maintenance and servicing	4,960	4,261
Fees for equipment hired and software used	191	160
Other maintenance	807	723
Indirect taxation	64,918	56,849
Stamp duty on financial instruments	64,086	55,619
Substitute tax on medium/long-term financing	423	563
Other indirect taxes to be paid by the Bank	409	667
Contributions to the Italian National Resolution Fund and the Interbank Protection Fund	8,307	7,615
Total	162,681	162,494

The following table shows data referring to IFRS 16 with regard to costs for short-term leases of <12 months (lease payments for car parking slot rental), low-value leases of <5 thousand euros (lease payments for photocopiers, faxes) and variable lease payments not included in the valuation of lease liabilities (VAT, lease payment for ancillary service).

2019

Lease costs <5,000 euros	192
Lease costs <12 months	252
Costs for variable lease payments not included in the valuation of lease liabilities	-

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

	2019			2018		
	PROVISIONS	SURPLUS	NET	PROVISIONS	SURPLUS	NET
Provisions for commitments and financial guarantees issued	22	-	22	-	-118	-118
Total	22	-	22	-	-118	-118

13.3 Breakdown of net provisions to other provisions for liabilities and contingencies

	2019			2018		
	PROVISIONS	SURPLUS	NET	PROVISIONS	SURPLUS	NET
Provision for staff expenses	3,163	-524	2,639	1,655	-655	1,000
Provision for restructuring plan	1,672	-	1,672	697	-	697
Provision for staff expenses – Other ⁽¹⁾	1,491	-524	967	958	-655	303
Provisions for legal disputes	3,867	-1,398	2,469	5,476	-2,937	2,539
Provision for risks related to legal disputes with subscribers	1,331	-518	813	1,875	-1,146	729
Provision for risks related to legal disputes with Financial Advisors	30	-100	-70	465	-	465
Provision for risks related to legal disputes with staff	15	-	15	-	-	-
Provision for risks related to legal disputes with other parties	2,491	-780	1,711	3,136	-1,791	1,345
Provisions for termination indemnity – Financial Advisors	16,213	-1,474	14,739	22,231	-1,664	20,567
Provision for risks related to termination indemnity – Financial Advisors	7,463	-1,110	6,353	11,041	-1,122	9,919
Provision for manager incentive indemnity	2,638	-107	2,531	7,057	-	7,057
Provision for portfolio overfee indemnities	449	-75	374	59	-472	-413
Provision for pension bonuses	855	-182	673	293	-70	223
Provision for Framework Loyalty Programme	4,808	-	4,808	3,781	-	3,781
Provisions for network incentives	17,165	-3,836	13,329	28,546	-5,819	22,727
Provision for network development plans	12,630	-3,746	8,884	24,428	-5,764	18,664
Provision for deferred bonus	80	-90	-10	187	-	187
Provision for managers with access gate	300	-	300	300	-	300
Provision for incentive travels	3,300	-	3,300	3,251	-51	3,200
Provision for fee plans	855	-	855	380	-4	376
Other provisions for liabilities and contingencies	4,412	-	4,412	1,364	-	1,364
Total	44,820	-7,232	37,588	59,272	-11,075	48,197

(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 2019	NET RESULT 2018
A. Property and equipment					
1. Operating:	20,145	-	-	20,145	1,559
- owned	1,672	-	-	1,672	1,559
- rights of use acquired through leases	18,473	-	-	18,473	-
2. Held as investments	-	-	-	-	-
- owned	-	-	-	-	-
- rights of use acquired through leases	-	-	-	-	-
3. Inventories	-	-	-	-	-
Total	20,145	-	-	20,145	1,559

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 2019	NET RESULT 2018
A. Intangible assets					
A.1 Owned	9,810	-	-	9,810	7,742
- generated in-house	-	-	-	-	-
- other	9,810	-	-	9,810	7,742
A.2 Rights of use acquired through leases	-	-	-	-	-
Total	9,810	-	-	9,810	7,742

Breakdown of value adjustments of intangible fixed assets – amortisation

	2019	2018
Charges associated with the implementation of legacy CSE procedures	8,126	5,977
Customer relationships	1,484	1,152
Other intangible fixed assets	200	613
Total	9,810	7,742

Section 16 – Other operating income and expenses – Item 230

16.1 Breakdown of other operating expenses

	2019	2018
Adjustments of leasehold improvements	2,387	2,074
Write-downs of other assets	34	-
Indemnities and compensation for litigation and claims	145	517
Charges from accounting adjustments with customers	2,156	1,154
Charges for card compensation and guarantees	1	14
Costs associated with tax disputes, penalties and fines	30	9
Other contingent liabilities and non-existent assets	1,485	810
Other operating expenses	2	133
Consolidation adjustments	-32	-
Total	6,208	4,711

16.2 Breakdown of other operating income

	2019	2018
Recovery of taxes from customers	63,158	55,351
Recovery of expenses from customers	733	570
Fees for outsourced services	117	56
Charge-back of portfolio development indemnity to incoming Financial Advisors	3,874	1,922
Indemnities for Financial Advisors' termination without notice	666	562
Other recoveries of repayments and costs from Financial Advisors	1,972	1,269
Contingent assets related to provisions for staff expenses	1,819	1,823
Contributions to provision for employment in the banking sector (FOC) and the fund for staff training (FBA)	233	226
Tax credit related to movie production	300	-
Other contingent assets and non-existent liabilities	999	2,020
Insurance compensation and indemnities	813	134
Other income	230	215
Total	74,914	64,148
Total other net income	68,706	59,437

Section 17 – Gains (losses) of equity investments – Item 250

17.1 Breakdown of gains (losses) of equity investments

INCOME COMPONENTS/SECTORS	2019	2018
1) Companies subject to joint control		
A. Gains	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Reversals	-	-
4. Other gains	-	-
B. Charges	-69	-
1. Write-downs	-69	-
2. Adjustments for impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net result	-69	-
2) Companies subject to significant influence		
A. Gains	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Reversals	-	-
4. Other gains	-	-
B. Charges	-1,536	-149
1. Write-downs	-	-149
2. Adjustments for impairment	-1,536	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net result	-1,536	-149
Total	-1,605	-149

Adjustments for impairment of equity investments in companies subject to significant influence amounted to 1,536 thousand euros referred to the associate IOCA Entertainment Ltd.

Write-downs of equity investments in companies subject to joint control amounted to 69 thousand euros and related to the measurement using the equity method of BG Saxo Sim.

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

20.1 Breakdown of gains (losses) on disposal of investments

INCOME COMPONENTS/SECTORS	2019	2018
A. Buildings	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
B. Other assets	-262	-282
- Gains on disposal	-	-
- Losses on disposal	-262	-282
Net result	-262	-282

Section 21 – Income tax for the year from current operations – Item 300

21.1 Breakdown of income tax for the year from current operations

INCOME COMPONENTS/SECTORS	2019	2018
1. Current taxation (-)	-53,417	-44,052
2. Change in prior years' current taxes (+/-)	1,020	2,052
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. 214/2011 (+)	-	-
4. Changes of prepaid taxation (+/-)	-1,176	1,058
5. Changes of deferred taxation (+/-)	381	1,308
6. Taxes for the year (-)	-53,192	-39,634

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% introduced by the “2016 Stability Law” with effect from 1 January 2017 for tax periods after that in progress at 31 December 2016 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.

With effect from financial year 2019, the 2020 Budget Law introduces a new general incentive for the capitalisation of undertakings with characteristics essentially analogous to those of the previous “ACE” economic growth aid programme, repealed by the 2019 Budget Law. The new percent rate for calculating the notional return on new own capital has been fixed at 1.3%.

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.

	2019	2018
Current taxation	-53,417	-44,052
IRES and foreign income taxes	-42,521	-34,999
IRAP	-10,896	-9,053
Prepaid and deferred taxation	-795	2,366
IRES and foreign income taxes	-881	1,454
IRAP	86	912
Prior years' taxes	1,020	2,052
IRES and foreign income taxes	1,193	1,344
IRAP	-173	708
Income taxes	-53,192	-39,634
Theoretical tax rate	27.5%	27.5%
Profit (loss) before taxation	325,314	219,760
Theoretical taxation	-89,461	-60,434
Non-taxable income (+)		
Dividends	375	229
ACE	874	900
Other decreases (including tax credit related to movie production)	183	48
Non-deductible charges (-)		
Double taxation on Group's dividends	-2,923	-2,045
Impairment of equity securities PEX	-425	-234
Other non-deductible costs	-2,390	-1,585
Other effects (+/-)		
IRAP	-10,810	-8,141
Prior years' taxes	1,020	2,052
Rate change of companies under foreign law	50,430	29,525
Not related deferred tax assets and liabilities	16	92
Other consolidation adjustments	-81	-41
Actual tax expense	-53,192	-39,634
Total actual tax rate	16.4%	18.0%
Actual tax rate (IRES)	13.0%	14.7%
Actual tax rate (IRAP)	3.4%	3.4%

Section 23 – Net profit (loss) for the year attributable to minority interests – Item 340

23.1 Breakdown of Item 340 “Net profit (loss) for the year attributable to minority interests”

	2019	2018
Other equity investments		
1. BG Valeur S.A.	-17	-
Total	-17	-

Section 25 – Earnings per Share

25.1 Average number of ordinary shares with diluted capital

	2019	2018
Net profit for the year (€ thousand)	272,139	180,126
Earnings attributable to ordinary shares (€ thousand)	272,139	180,126
Average number of outstanding shares (thousand)	115,719	115,784
EPS – Earning per share (euros)	2.35	1.56
Average number of outstanding shares with diluted capital (thousand)	115,719	115,784
EPS – Diluted earnings per share (euros)	2.35	1.56

PART D – CONSOLIDATED COMPREHENSIVE INCOME**Analytical Consolidated Statement of Comprehensive Income**

ITEMS	2019	2018
10. Net profit (loss) for the year	272,122	180,126
Other income, without transfer to Profit and Loss Account	-218	-52
20. Equity securities at fair value through other comprehensive income:	-300	-
a) fair value changes	-300	-
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	106	-71
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	-24	19
Other income, with transfer to Profit and Loss Account	15,829	-25,635
110. Hedges of foreign investments:	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-	-
120. Exchange differences:	3	-18
a) value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	3	-18
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:	23,325	-37,755
a) fair value changes	20,488	-22,899
b) transfer to Profit and Loss Account	2,837	-14,856
- adjustments due to credit risk	-2,173	1,208
- gains (losses) on disposal	5,010	-16,064
c) other changes	-	-

ITEMS	2019	2018
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	-7,499	12,138
190. Total other income components	15,611	-25,687
200. Comprehensive income (Items 10+190)	287,733	154,439
210. Consolidated comprehensive income attributable to minority interests	-8	-
200. Consolidated comprehensive income attributable to the Parent Company	287,741	154,439

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 (6th update).

Quantitative Information

A. Credit quality

A.1 Credit exposures to non-performing and performing loans: balances, adjustments, performance and in-come 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	28,311	3,621	1,718	7,512	7,661,920	7,703,082
2. Financial assets at fair value through other comprehensive income	-	-	-	-	2,766,477	2,766,477
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	20,379	20,379
5. HFS financial assets	-	-	-	-	-	-
Total at 31.12.2019	28,311	3,621	1,718	7,512	10,448,776	10,489,938
Total at 31.12.2018	21,473	10,555	4,793	22,962	8,113,519	8,173,302

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	57,052	23,402	33,650	-	7,685,223	15,791	7,669,432	7,703,082
2. Financial assets at fair value through other comprehensive income	-	-	-	-	2,767,542	1,065	2,766,477	2,766,477
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	20,379	20,379
5. HFS financial assets	-	-	-	-	-	-	-	-
Total at 31.12.2019	57,052	23,402	33,650	-	10,452,765	16,856	10,456,288	10,489,938
Total at 31.12.2018	51,945	15,124	36,821	-	8,129,243	13,452	8,136,481	8,173,302

PORTFOLIOS/QUALITY	ASSETS WITH CLEARLY POOR CREDIT QUALITY		OTHER ASSETS
	CUMULATIVE CAPITAL LOSSES	NET EXPOSURE	NET EXPOSURE
1. HFT financial assets	-	-	18,298
2. Hedging derivatives	-	-	4,727
Total at 31.12.2019	-	-	23,025
Total at 31.12.2018	-	-	33,887

(*) Value to be indicated for disclosure purposes.

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;

- > secondtier 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:
 - Risk and Capital Adequacy Department: it 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 the 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;
- > thirddtier 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 Board, 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 role of 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 thus valued at amortised cost, and liquidity invested on the money market through interbank deposits.

With regard to customer loans in the traditional form of current account credit lines and loans, this activity, in Banca Generali, is an ancillary 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 creditworthiness. 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 Lending 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, developed by the Group consortium company, to manage the creditworthiness of its counterparties in quantitative terms. In this regard, a consortium project to re-estimate rating models is in progress.

As mentioned above, the NPL portfolio at the end of 2019 declined compared to the end of 2018 due to the closure of UTP positions through repayment (approximately 5 million euros) and the reclassification of past-due positions as performing (approximately 1 million euros), in addition to the effect of the new credit granting and monitoring policies.

The improvement in the quality of the portfolio is also a result of the thorough revision of credit processes that began in 2017 and became operational in 2018 with the update of the credit granting and extension policy, the release of the Quiclic

Credit Platform and the full use of the Lombard loan, which over the years has resulted in the conversion of over 37% of credit to Lombard loans. Banca Generali has also adopted a predictive credit risk management model designed to mitigate economic risk for the Bank by anticipating the launch of the most useful measures, culminating in recovery of the most serious types of non-performing positions. All this has been made possible by constant monitoring of credit positions for potential decline in creditworthiness through an extensive system of triggers identified in advance by the Bank, followed by confirmation or rejection of the “management classification”, which thus accompanies the administrative classification and allows the loan portfolio to be segmented more effectively by associating intervention measures with each position to maintain or withdraw commitments.

Together with a greater focus on credit quality, all this has ensured a closer focus on and reduction in non-performing loans by volume and as a percentage of the whole, making it possible to align credit activity with the new supervisory guidelines, along with quality and competitiveness objectives for the range of credit offerings.

In 2020, the Bank planned to enhance the measures launched in 2019 through the completion of the definitive working plan for the revision and validation of new credit policies and systems to ensure a further improvement in the quality of the portfolio by aligning credit activity with credit risk monitoring best practices, while also ensuring effective support to the Network for customer relations through additional initiatives for further expansion of the credit range.

In 2020, the Bank also planned the conclusion of the IT development initiative in support of the monitoring of the loan portfolio with a specific focus on compliance with the limits set in the Risk Appetite Framework, which call for a thorough assessment of the financial instruments used as collateral.

The exposure to credit risk associated with the loan portfolio is mostly Italian, given the dominant presence of investments in government bonds (approximately 90%) and investment grade bank bonds. 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 managed assets, 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 upon the disbursement of the loan and its market value is then periodically monitored.

Banca Generali also benefits from an additional master guarantee, known as an indemnity, provided by BSI S.A., 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 2019, the guarantee covers positions other than bad loans of approximately 32 thousand euros and bad loan positions of approximately 20 million euros, net of value adjustments (see paragraph 3. Non-performing past due exposures).

Finally, as for credit card issuance, in 2019 the Bank continued to follow a very conservative policy, aimed almost exclusively at natural persons.

In 2019, the early-warning IT system and the electronic credit line applications were fully implemented, thus ensuring a more streamlined and by-the-book lending process, reducing processing times and limiting anomalies in loan approval and disbursement.

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 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 avail 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.

Cash net non-performing loans (hereinafter also referred as "NPLs") totalled 33,650 thousand euros, of which:

- > bad loans of 28,311 thousand euros, of which:
 - financing amounting to 21,572 thousand euros, including 20,239 thousand euros (93.8%) covered by indemnities, 1,300 thousand euros (6.0%) secured by mortgages and 34 thousand euros (0.2%) not secured;
 - debt securities of 6,739 thousand euros, measured at amortised cost;
- > unlikely-to-pay loans of 3,621 thousand euros, of which just 166 thousand euros (4.6%) actually at risk, and the remaining 3,455 thousand euros (95.4%) secured by collateral or similar guarantees⁴;
- > non-performing past-due loans of 1,718 thousand euros, of which 1,504 thousand euros (87.5%) secured by collateral or similar guarantees, and 214 thousand euros (12.5%) not secured.

Net non-performing loans in the form of financing may be broken down as follows:

- > about 75.2% (20,239 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 further adjustments were made to these positions with respect to the impairment already carried out by Banca del Gottardo Italia;
- > about 24.8% (6,672 thousand euros) of exposures for which the Bank is at risk, mostly 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 6,672 thousand euros, representing 0.3% of total net loans to customers. However, considering positions secured by collateral or similar guarantees, which at 6,259 thousand euros make up approximately 94% of total net non-performing loans, a total of 413 thousand euros of net non-performing loans are not secured by collateral, representing 6% of total net non-performing loans and an entirely marginal fraction of total net loans to customers (0.02%).

In 2019, the portfolio of NPLs sharply declined as a result the closure of several UTP positions due to repayment or enforcement and the reclassification to performing positions of previously past-due exposures.

⁴ "Similar guarantees" refer to authorisation to redeem insurance policies.

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 as regards the portfolio portion of loans to customers.

In this regard, at 31 December 2019, outstanding forbore exposures in the portfolio of loans to customers were mostly classified as performing positions (93.2%), with the remainder classified as non-performing (6.8%). Nearly 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 2019, due to the consolidation of the 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 (44 million euros at 31 December 2019, compared with 86 million euros as at 31 December 2018), due to the elimination of various positions as a result of repayment in full.

Exposures subject to forbearance measures at 31 December 2019 mostly consisted (approximately 81%) of exposures in amortisation and, to a lesser extent, uncommitted cash 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 transactions subject to forbearance measures, represented essentially by the renegotiation of the uncommitted cash 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

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 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	3,684	-	-	1,032	1,800	995	-	-	33,650
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total at 31.12.2019	3,684	-	-	1,032	1,800	995	-	-	33,650
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 MEASURED 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
Total adjustment at year-start	7,866	3,074	- 10,940	2,348	164	- 2,512	15,124	- 15,124	-	-	48	38	- 28,662		
Increases from acquired or originated financial assets	2,033	563	- 2,596	1,260	-	- 1,260	21	- 21	-	-	17	1	- 3,895		
Cancellations other than write-offs	-636	-3,916	- -4,552	-524	-	- -524	-	-	-	-	-5	-28	- -5,109		
Net adjustments/reversals for credit risk (+/-)	-3,719	1,250	- -2,469	-1,392	-70	- -1,462	8,319	- 8,319	-	-	42	-5	- 4,425		
Contractual changes without cancellations	-	-	-	-	-	-	-	-	-	-	-	-	-		
Changes in the assessment methods	-	-	-	-	-	-	-21	- -21	-	-	-	-	- -21		
Write-offs not directly recognised through profit and loss	-	-	-	-	-	-	-36	- -36	-	-	-	-	- -36		
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total adjustments at year-end	5,544	971	- 6,515	1,692	94	- 1,786	23,407	- 23,407	-	-	102	6	- 31,816		
Recovery from collection of written off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-		
Write-offs directly recognised through profit and loss	-	-	-	-	-	-	15	- 15	-	-	-	-	- 15		

Pursuant to IFRS 7, paragraph 35H, letter b) (iii), it is reported that the final total adjustments to Stage 2 trade receivables amounted to 1,786 thousand euros, marking a decrease of about 726 thousand euros compared to their initial levels. Total final adjustments on the securities portfolio amounted to 16,936 thousand euros, up approximately 2,922 thousand euros compared to year-start due to the increase in analytical impairment, which more than offset the reversals on the collective write-off.

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	12,415	44,789	16,063	9	1,203	824
2. Financial assets at fair value through other comprehensive income	4,974	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	35	3,816	-	-	24	20
Total at 31.12.2019	17,424	48,605	16,063	9	1,227	844
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 ADJUSTMENTS AND TOTAL PROVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS (*)
	NON-PERFORMING	PERFORMING			
A. Cash exposures					
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	910,844	742	910,102	-
- of which: forborne exposures	X	-	-	-	-
Total A	-	910,844	742	910,102	-
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	31,605	-	31,605	-
Total B	-	31,605	-	31,605	-
Total (A + B)	-	942,449	742	941,707	-

(*) 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 at fair value through other comprehensive income, financial assets designated at fair value and other financial assets mandatorily measured 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 ADJUSTMENTS AND TOTAL PROVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS (*)
	NON-PERFORMING	PERFORMING			
A. Cash exposures					
a) Bad loans	50,343	X	22,032	28,311	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	4,566	X	945	3,621	-
- of which: forborne exposures	3,045	X	156	2,889	-
c) Non-performing past-due exposures	2,142	X	424	1,718	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X	7,630	118	7,512	-
- of which: forborne exposures	X	930	31	899	-
e) Other performing exposures	X	9,563,197	7,445	9,555,752	-
- of which: forborne exposures	X	40,538	426	40,112	-
Total A	57,051	9,570,827	30,964	9,596,914	-
B. Off-balance sheet credit exposures					
a) Non performing	31	X	-	31	X
b) Performing	X	99,600	108	99,492	-
Total B	31	99,600	108	99,523	-
Total (A + B)	57,082	9,670,427	31,072	9,696,437	-

(*) 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 at fair value through other comprehensive income, financial assets designated at fair value and other financial assets mandatorily measured 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 50,343 thousand euros and included 22,032 thousand euros of value adjustments; therefore, net bad loans recognised totalled 28,311 thousand euros. Of this amount, 20,239 thousand euros (93.8% of the net bad loans alone) 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 ordinary customers amounted to 1,333 thousand euros, equal to about 6.2% of total net bad loans and 0.03% of total net loans to customers. Considering bad loans secured by mortgages, which amounted to 1,300 thousand euros, the residual net bad loans amount to 34 thousand euros.

The portfolio of non-performing positions also includes the exposure in debt instruments, amounting to 17,936 thousand euros gross and to 6,738 thousand euros net, allocated to the HTC portfolio and deemed almost entirely irrecoverable.

The aggregate (see table A.1.7) grew by 15,321 thousand euros gross due to new reclassifications from the performing category and other increases totalling 15,906, offset by collections and gross derecognitions of 585 thousand euros.

The most significant components of the increases were reclassifications from performing exposures of 15,297 thousand euros gross and interest accrued on positions secured by indemnities of 609 thousand euros.

The reductions, on the other hand, include cancellations of 37 thousand euros and 548 thousand euros of collections, whose amounts on the most significant positions are all secured by mortgages.

Unlikely to pay

At 31 December 2019, gross unlikely-to-pay loans amounted to 4,566 thousand euros, subject to impairment losses of 945 thousand euros, resulting in a net balance of 3,621 thousand euros.

The aggregate (see table A.1.7) decreased by 7,283 thousand euros compared to 31 December 2018 as a result of:

- > a decline of 9,231 thousand euros, due to collections of 8,800 thousand euros, attributable to several counterparties with significant exposures secured by collateral or similar security interests which were definitively recovered, and for the remainder, to UTP positions reclassified to performing status;
- > the increases of 1,948 thousand euros refer to positions reclassified from other non-performing categories of 1,785 thousand euros, broken down into exposures secured by collateral or similar security interests of 1,134 thousand euros and, for the remainder, unsecured exposures of non-material amounts.

Non-performing past-due exposures

Non-performing past-due exposures amounted to 2,142 thousand euros, subject to impairment losses of 424 thousand euros, yielding a net balance of 1,718 thousand euros. The net aggregate mainly included:

- > exposures, largely secured by pledges or, to a marginal extent, by assignment of policies, amounting to 1,504 thousand euros;
- > other unsecured exposures with an average balance per position of approximately 250 euros.

The aggregate (see table A.1.7) decreased by 2,932 thousand euros compared to 31 December 2018 as a result of:

- > increases of 2,610 thousand euros, primarily attributable to new reclassifications from performing positions of 1,961 thousand euros and, to a residual extent, to increases in already non-performing positions of 649 thousand euros;
- > decreases of 5,542 thousand euros, primarily attributable to collections on past-due positions with full repayment of the exposure of 3,782 thousand 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 No. 272.

In almost all cases, these are positions guaranteed by pledges found to be expired at the reporting date and currently being repaid.

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	35,022	11,849	5,074
- of which: exposures transferred but non written off	-	-	-
B. Increases	15,906	1,948	2,610
B.1 Inflows from performing exposures	15,297	1,785	1,961
B.2 Inflows from acquired or originated impaired financial assets	-	-	-
B.3 Transfers from other categories of non-performing exposures	-	11	-
B.4 Contractual changes without cancellations	-	-	-
B.5 Other increases	609	152	649
- of which: exposures transferred but non written off	-	-	-
C. Decreases	585	9,231	5,542
C.1 Outflows to performing exposures	-	327	1,573
C.2 Write-offs	37	-	14
C.3 Repayments received	548	8,800	3,782
C.4 Gains on disposals	-	-	-
C.5 Losses on disposals	-	-	-
C.6 Transfer to other categories of non-performing exposures	-	-	11
C.7 Contractual changes without cancellations	-	-	-
C.8 Other decreases	-	104	162
D. Gross exposure at year-end	50,343	4,566	2,142
- of which: exposures transferred but non written off	-	-	-

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 FORBORNE EXPOSURES	PERFORMING FORBORNE EXPOSURES
A. Gross exposure at year-start	3,681	86,487
- of which: exposures transferred but non written off	-	-
B. Increases	1,996	8,580
B.1 Inflows from performing non-forborne exposures	1,117	7,479
B.2 Inflows from performing forborne exposures	-	X
B.3 Inflows from non-performing forborne exposures	X	-
B.4 Other increases	879	1,101
C. Decreases	2,632	53,599
C.1 Outflows to performing non-forborne exposures	X	5,936
C.2 Outflows to performing forborne exposures	-	X
C.3 Outflows to non-performing forborne exposures	X	-
C.4 Write-offs	-	-
C.5 Repayments received	2,091	47,663
C.6 Gains on disposals	-	-
C.7 Losses on disposals	-	-
C.8 Other decreases	541	-
D. Gross exposure at year-end	3,045	41,468
- of which: exposures transferred but non written off	-	-

Forborne exposures

Forborne exposures consisted mostly of performing positions, for a gross amount of 41,468 thousand euros, almost entirely secured by collateral or similar security interests, whose decline compared to 2018 (86,487 thousand euros) was due to the reclassification of some significant position following the closure of the forborne lines of credit or the lapse of the probation. A residual share consists of non-performing forborne exposures of 3,045 thousand euros gross (accounting for 6.8% of total performing and non-performing forborne exposures), almost all of which were fully secured by pledges.

The non-performing cash forborne positions aggregate declined by 636 thousand euros overall (in gross terms) due to the balance of new reclassifications from performing status of 1,117 thousand euros and increases in positions already classified as non-performing forborne of 879 thousand euros, offset by collections of 2,091 thousand euros referring to positions eliminated from the non-performing forborne category due to repayment in full of the exposure and closure of the relationships, in addition to collections due to lesser drawdowns.

The main component of performing forborne positions is collections of 47,663 thousand euros, attributed to positions repaid in full with the closure of the forborne lines of credit, positions eliminated from forborne status due to the lapse of the probation period and, to a marginal extent, lesser drawdowns. The new reclassifications of 7,479 thousand euros all refer to performing positions for which a new line of credit has been granted (new finance or restructuring of the existing debt position) according to forbearance measures.

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	13,549	-	1,294	595	281	14
- of which: exposures transferred but non written off	-	-	-	-	-	-
B. Increases	199	-	300	45	279	-
B.1 Adjustments to acquired or originated impaired financial assets	-	X	-	X	-	X
B.2 Other adjustments	199	-	279	35	279	-
B.3 Losses on disposals	-	-	-	-	-	-
B.4 Transfers from other categories of non-performing exposures	-	-	21	10	-	-
B.5 Contractual changes without cancellations	-	X	-	X	-	X
B.6 Other increases	-	-	-	-	-	-
C. Decreases	271	-	649	484	136	14
C.1 Reversal of adjustments	21	-	102	39	30	4
C.2 Reversal of collections	213	-	547	445	67	-
C.3 Gains on disposals	-	-	-	-	-	-
C.4 Write-offs	37	-	-	-	14	-
C.5 Transfer to other categories of non-performing exposures	-	-	-	-	21	10
C.6 Contractual changes without cancellations	-	X	-	X	-	X
C.7 Other decreases	-	-	-	-	4	-
D. Total adjustments at year-end	13,477	-	945	156	424	-
- of which: exposures transferred but non written off	-	-	-	-	-	-

Reversals of collections (item C.2) amounted to 827 thousand euros and mainly referred to unlikely-to-pay positions totalling 547 thousand euros, of which approximately 445 thousand euros regarding a position settled in the first months of 2019, following its full payment.

Besides the exposures included in the previous tables, other non-performing positions are recognised in the Financial Statements for a net amount of 1,216 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	31.12.2019		
	GROSS	WRITE-DOWNS	NET
Receivables related to FA litigation	1,920	-707	1,213
Advances to FAs	79	-79	-
Write-downs of receivables from FAs	1,999	-786	1,213
Write-downs of operating receivables	406	-388	3
Write-downs of operating receivables	406	-388	3
Total write-downs	2,405	-1,189	1,216

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	2,519	65,573	4,809,133	108,863	-	-	2,747,632	7,733,720
- Stage 1	2,519	65,573	4,767,741	103,813	-	-	2,591,108	7,530,754
- Stage 2	-	-	41,392	5,050	-	-	99,473	145,915
- Stage 3	-	-	-	-	-	-	57,051	57,051
B. Financial assets at fair value through other comprehensive income	18,175	197,263	2,496,397	53,868	-	-	1,839	2,767,542
- Stage 1	18,175	186,198	2,488,423	53,868	-	-	-	2,746,664
- Stage 2	-	11,065	7,974	-	-	-	1,839	20,878
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B)	20,694	262,836	7,305,530	162,731	-	-	2,749,471	10,501,262
- of which: acquired or originate impaired financial assets	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees issued								
- Stage 1	-	-	1,596	-	-	-	100,237	101,833
- Stage 2	-	-	-	-	-	-	2,059	2,059
- Stage 3	-	-	-	-	-	-	-	-
Total C	-	-	1,596	-	-	-	102,296	103,892
Total (A + B + C)	20,694	262,836	7,307,126	162,731	-	-	2,851,767	10,605,154

Financial assets at amortised cost without rating include trade receivables and advances to Financial Advisors totalling 160,582 thousand euros.

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.1 Prudential consolidation – Guaranteed cash and off-balance sheet credit exposures with banks

	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:	152,986	152,968	-	-	152,968	-	-	-	-	-	-	-	-	-	-	-	152,968
1.1 Totally guaranteed	152,986	152,968	-	-	152,968	-	-	-	-	-	-	-	-	-	-	-	152,968
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Totally guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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						
							OTHER DERIVATIVES										
							CLN	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES	PUBLIC ADMINISTRATION BODIES	BANKS	OTHER FINANCIAL COMPANIES		OTHER ENTITIES	
1. Guaranteed cash credit exposures:	2,057,247	2,053,319	409,616	-	1,418,138	206,756	-	-	-	-	-	-	-	-	279	7,113	2,041,902
1.1 Totally guaranteed	2,013,862	2,010,086	405,090	-	1,401,461	196,805	-	-	-	-	-	-	-	-	267	6,643	2,010,266
- of which: non-performing	27,521	25,929	14,984	-	3,272	7,625	-	-	-	-	-	-	-	-	-	48	25,929
1.2 Partially guaranteed	43,385	43,233	4,526	-	16,677	9,951	-	-	-	-	-	-	-	-	12	470	31,636
- of which: non-performing	178	93	-	-	-	89	-	-	-	-	-	-	-	-	-	-	89
2. Guaranteed off-balance sheet credit exposures:	596,891	596,786	194	-	420,620	168,866	-	-	-	-	-	-	-	-	-	428	590,108
2.1 Totally guaranteed	567,478	567,376	194	-	401,998	164,958	-	-	-	-	-	-	-	-	-	226	567,376
- of which: non-performing	54	54	-	-	35	19	-	-	-	-	-	-	-	-	-	-	54
2.2 Partially guaranteed	29,413	29,410	-	-	18,622	3,908	-	-	-	-	-	-	-	-	-	202	22,732
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

All assets held as guarantee (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	6,775,012	3,804
A.1 Bad loans	-	-
- of which: <i>forborne exposures</i>	-	-
A.2 Unlikely to pay	-	-
- of which: <i>forborne exposures</i>	-	-
A.3 Non-performing past-due exposures	-	-
- of which: <i>forborne exposures</i>	-	-
A.4 Performing exposures	6,775,012	3,804
- of which: <i>forborne exposures</i>	-	-
2. Financial companies	748,403	783
A.1 Bad loans	5,223	76
- of which: <i>forborne exposures</i>	-	-
A.2 Unlikely to pay	146	30
- of which: <i>forborne exposures</i>	-	-
A.3 Non-performing past-due exposures	38	56
- of which: <i>forborne exposures</i>	-	-
A.4 Performing exposures	742,996	621
- of which: <i>forborne exposures</i>	-	-
3. Financial companies (of which insurance companies)	40,807	-
A.1 Bad loans	-	-
- of which: <i>forborne exposures</i>	-	-
A.2 Unlikely to pay	-	-
- of which: <i>forborne exposures</i>	-	-
A.3 Non-performing past-due exposures	-	-
- of which: <i>forborne exposures</i>	-	-
A.4 Performing exposures	40,807	-
- of which: <i>forborne exposures</i>	-	-
4. Non-financial companies	419,984	22,786
A.1 Bad loans	21,140	21,028
- of which: <i>forborne exposures</i>	-	-
A.2 Unlikely to pay	312	118
- of which: <i>forborne exposures</i>	300	4
A.3 Non-performing past-due exposures	803	25
- of which: <i>forborne exposures</i>	-	-
A.4 Performing exposures	397,729	1,615
- of which: <i>forborne exposures</i>	18,526	197
5. Households	1,612,709	3,591
A.1 Bad loans	1,948	931
- of which: <i>forborne exposures</i>	-	-
A.2 Unlikely to pay	3,164	798
- of which: <i>forborne exposures</i>	2,589	152
A.3 Non-performing past-due exposures	878	341
- of which: <i>forborne exposures</i>	-	-
A.4 Performing exposures	1,606,719	1,521
- of which: <i>forborne exposures</i>	22,485	261
Total A - Cash exposures	9,596,915	30,964

EXPOSURES/COUNTERPARTY	NET EXPOSURE	TOTAL ADJUSTMENTS
B. Off-balance sheet exposures		
1. Public administration bodies	-	-
B.1 Non-performing exposures	-	-
B.2 Performing exposures	-	-
2. Financial companies	731	1
B.1 Non-performing exposures	-	-
B.2 Performing exposures	731	1
3. Financial companies (of which insurance companies)	2,596	-
B.1 Non-performing exposures	-	-
B.2 Performing exposures	2,596	-
4. Non-financial companies	53,160	79
B.1 Non-performing exposures	31	-
B.2 Performing exposures	53,129	79
5. Households	43,037	28
B.1 Non-performing exposures	-	-
B.2 Performing exposures	43,037	28
Total B - Off-balance sheet exposures	99,524	108
	NET EXPOSURE	TOTAL ADJUSTMENTS
Public administration bodies	6,775,012	3,804
Financial companies	749,134	784
Financial companies (of which insurance companies)	43,403	-
Non-financial companies	473,144	22,865
Households	1,655,746	3,619
Overall total (A + B) 31.12.2019	9,696,439	31,072
Overall total (A + B) 31.12.2018	7,846,923	28,009

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 ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
A. Cash exposures										
A.1 Bad loans	21,572	12,813	6,739	9,220	-	-	-	-	-	-
A.2 Unlikely to pay	3,621	945	-	1	-	-	-	-	-	-
A.3 Non-performing past-due exposures	1,717	420	1	5	-	-	3	2	-	-
A.4 Other performing exposures	7,895,757	6,783	1,602,324	731	48,397	35	12,346	7	4,442	3
Total A	7,922,667	20,961	1,609,064	9,957	48,397	35	12,349	9	4,442	3
B. Off-balance sheet exposures										
B.1 Non-performing exposures	31	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	99,433	108	60	-	-	-	-	-	-	-
Total B	99,464	108	60	-	-	-	-	-	-	-
Total at 31.12.2019	8,022,131	21,069	1,609,124	9,957	48,397	35	12,349	9	4,442	3
Total at 31.12.2018	7,581,810	25,771	209,445	2,193	45,327	38	6,703	4	3,638	3

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 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	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	675,999	632	207,110	92	4,404	13	17,565	5	5,024	2
Total A	675,999	632	207,110	92	4,404	13	17,565	5	5,024	2
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	29,274	-	2,331	-	-	-	-	-	-	-
Total B	29,274	-	2,331	-	-	-	-	-	-	-
Total at 31.12.2019	705,273	632	209,441	92	4,404	13	17,565	5	5,024	2
Total at 31.12.2018	405,818	518	202,337	149	4,376	3	17,581	12	5,011	4

B.4 Large exposures

Regulation (EU) No. 575/2013 (CRR) and 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 No. 285 “New Prudential Supervisory Provisions Concerning Banks” — further amended in various years (latest update, No. 25, dated 23 October 2018) — and Circular 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	31.12.2019	31.12.2018
a) Amount of the exposure	8,147,888	7,093,959
b) Weighted amount	253,366	235,236
c) Number	8	5

C. Securitisation

The Financial statements at 31 December 2019 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: SECURITISED	OF WHICH: REVERSE REPURCHASE AGREEMENTS	OF WHICH: NON- PERFORMING	BOOK VALUE	OF WHICH: SECURITISED	OF WHICH: REVERSE REPURCHASE AGREEMENTS	
A. Debt securities	-	-	-	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. Equity securities	-	-	-	-	-	-	-	-
D. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-
1. Debt securities	85,767	-	85,767	-	85,784	-	85,784	-
2. Equity securities	-	-	-	X	-	-	-	-
3. Loans	-	-	-	-	-	-	-	-
E. Financial assets at amortised cost	-	-	-	-	-	-	-	-
1. Debt securities	29,712	-	29,712	-	30,434	-	30,434	-
2. Equity securities	-	-	-	-	-	-	-	-
Total at 31.12.2019	115,479	-	115,479	-	116,218	-	116,218	-
Total at 31.12.2018	130,909	-	130,909	-	130,542	-	130,542	-

1.2 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 No. 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 roles of 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 Eurozone governments, and 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. Exposure to non-OECD issuers and entities is limited.

The exposure in derivatives is attributable to the inception of interest rate derivatives to cover the risk of changes in the fair value of the banking book due to the fluctuation of the interest rate curve.

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 portfolio of financial and corporate bonds;
- > residual transactions in UCITS and equity instruments.

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 structured bonds.

The 2020-2022 Strategic Plan does not envisage any significant development strategies for the trading book. Accordingly, it should be noted that at the reporting date the Bank's trading of financial instruments on its own account had a limited and residual exposure with a low-risk profile. The Bank has no risk appetite for a trading book exceeding 40 million euros (equal to 0.3% of total assets forecast for 2020).

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 interest-rate risk sensitivity of the entire proprietary portfolio at 31 December 2019:

(€ THOUSAND)	PORTFOLIO
Interest-rate risk sensitivity	-123,130.4

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	52	1,978	-	15,104	-	-	-	-	17,134
1.1 Debt securities									
- with early repayment option	52	-	-	-	-	-	-	-	52
- other	-	1,978	-	15,104	-	-	-	-	17,082
1.2 Other assets	-	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-	-
2.1 Repurchase agreement liabilities	-	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-	-
3. Financial derivatives	-	71,482	748	66,284	-	-	-	-	138,514
3.1 With underlying securities									
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	71,482	748	66,284	-	-	-	-	138,514
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	35,741	374	33,142	-	-	-	-	69,257
+ short positions	-	35,741	374	33,142	-	-	-	-	69,257

2. Regulatory trading book: breakdown of exposures in equity securities and stock indices for the main countries on the market of listing

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 114.1/-114.1 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 -123.3/+123.3 thousand euros, gross of the tax effect.

(€ THOUSAND)	HTS
FV equity delta (+10%)	114.1
FV equity delta (-10%)	-114.1
FV bonds delta (+1%)	-123.3
FV bonds delta (-1%)	+123.3

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 roles of 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 net 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 of inflows, 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 at fair value classified as 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 investment in the private equity fund Milano Investment Partners SGR.

B. Fair Value and Cash Flow Hedging

The Bank currently uses fair value hedging strategies to contain the interest rate risk on the banking book. These strategies are formulated according to the Bank's Risk Appetite and are designed to keep portfolio's duration within the established limits by using hedging derivative instruments such as interest rate swaps.

In particular, by establishing hedging relationships, the Bank seeks to stabilise the fair value of the bond in respect of changes in interest rates and to decrease the duration of the hedged bond.

All derivative instruments are designated as hedges against the specific risk hedged, as identified for each hedging relationship.

There are currently no cash flow hedging transactions generated by the Bank's operations.

Quantitative Information

1. Banking book: broken down by time-to-maturity (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 YEAR, UP TO 10 YEARS	OVER 10 YEARS	UNSPECIFIED MATURITY	TOTAL
1. Cash assets	2,156,018	2,378,006	2,100,036	1,235,291	1,358,839	950,541	311,209	-	10,489,940
1.1 Debt securities									
- with early repayment option	-	37,827	5,561	5,786	25,177	44,952	13,833	-	133,136
- other	-	2,010,079	2,030,340	1,076,219	1,332,377	904,104	296,746	-	7,649,865
1.2 Loans to banks	105,585	123,579	-	152,968	-	-	-	-	382,132
1.3 Loans to customers									
- current accounts	1,112,180	4	84	161	8	-	-	-	1,112,437
- other loans	938,253	206,517	64,051	157	1,277	1,485	630	-	1,212,370
- with early repayment option	781,231	423	61,787	151	5	1,485	630	-	845,712
- other	157,022	206,094	2,264	6	1,272	-	-	-	366,658
2. Cash liabilities	10,367,460	116,218	-	-	-	-	-	-	10,483,678
2.1 Due to customers									
- current accounts	9,982,548	-	-	-	-	-	-	-	9,982,548
- other payables	290,105	116,218	-	-	-	-	-	-	406,323
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	290,105	116,218	-	-	-	-	-	-	406,323
2.2 Due to banks									
- current accounts	67,277	-	-	-	-	-	-	-	67,277
- other payables	27,530	-	-	-	-	-	-	-	27,530
2.3 Debt securities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
2.4 Other liabilities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
3. Financial derivatives	-	50,000	850,000	25,000	221,000	61,000	135,000	-	1,342,000
3.1 With underlying security									
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
3.2 Without underlying security									
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	25,000	425,000	25,000	196,000	-	-	-	671,000
+ short positions	-	25,000	425,000	-	25,000	61,000	135,000	-	671,000
4. Other off-balance sheet transactions	-	56,970	-	-	-	-	-	-	56,970
+ long positions	-	28,485	-	-	-	-	-	-	28,485
+ short positions	-	28,485	-	-	-	-	-	-	28,485

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 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 -19.5/+19.1 million euros, gross of the tax effect.

The fair value delta component associated with the government bonds in the HTCS portfolio would amount to -14.6/+14.3 million euros as a result of the hypothesised shift in the rate curve, or about 75% 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%)	-19,470	-103,660	-15,852	-138,982
- of which: government bonds	-14,562	-103,612	-	-118,174
FV bonds delta (- 1%)	19,140	98,074	15,867	133,081
- of which: government bonds	14,294	98,026	-	112,320

(*) Loans to banks and Loans to customers.

The same criteria were also applied to a sensitivity analysis of net interest income of the entire banking book. It resulted in a potential impact on the Profit and Loss Account of +48.8 million euros, gross of the tax effect in case of increase of interest rates by 1%, and -32.2 million euros in case of decrease by the same amount.

(€ THOUSAND)	ASSETS	LIABILITIES	NET
Net interest income delta (+1%)	57,574	-8,728	48,846
Net interest income delta (-1%)	-40,801	8,622	-32,179

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 role of 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.

The exchange rate risk associated with BG Valeur, which was consolidated in the fourth quarter of 2019, is due to the fact that most of its revenues are in a different currency than its administrative costs (CHF). The subsidiary's open positions in the Swiss franc account for 0.02% of total consolidated assets and therefore are not a material exposure at the Group level.

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	66,197	2,267	16,771	9,389	1,822	2,296	1,784	3,113	103,639
A.1 Debt securities	15,254	-	1,898	1,177	52	-	-	-	18,381
A.2 Equity securities	-	-	-	-	-	-	-	-	-
A.3 Loans to banks	50,943	2,267	10,020	8,203	1,770	2,296	1,784	3,113	80,396
A.4 Loans to customers	-	-	4,853	9	-	-	-	-	4,862
A.5 Other financial assets	-	-	-	-	-	-	-	-	-
B. Other assets	-	-	-	-	-	-	-	-	-
C. Financial liabilities	67,682	2,357	14,032	8,528	1,786	2,286	1,513	1,669	99,853
C.1 Due to banks	-	-	-	6	-	-	-	2	8
C.2 Due to customers	67,682	2,357	14,032	8,522	1,786	2,286	1,513	1,667	99,845
C.3 Debt securities	-	-	-	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-	-	-	-
E. Financial derivatives	248	-128	-180	-101	-	-	-	56	-105
Options	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
Other derivatives	248	-128	-180	-101	-	-	-	56	-105
- long positions	7,854	-	123	393	-	68	98	26,040	34,576
- short positions	7,606	128	303	494	-	68	98	25,984	34,681
Total assets	74,051	2,267	16,894	9,782	1,822	2,364	1,882	29,153	138,215
Total liabilities	75,288	2,485	14,335	9,022	1,786	2,354	1,611	27,653	134,534
Excess	-1,237	-218	2,559	760	36	10	271	1,500	3,681

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.

As there are no equity instruments denominated in currencies other than the euro, a change in market prices would result in no change of their value, whereas a shock of +100/-100 bps in rates would have an effect on the fair value of bonds and securities other than equities in foreign currency of -414/+516 thousand euros, gross of the tax effect.

(€ THOUSAND)	ASSETS
FV equity delta (+10%)	-
FV equity delta (-10%)	-
FV non-equity delta (+1%)	-414
FV non-equity delta (-1%)	516

By contrast, an interest rate movement of +100/-100 basis points would have an effect of -136/+162 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%)	-136
Net interest income delta (-1%)	+162

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	31.12.2019				31.12.2018			
	OVER THE COUNTER				OVER THE COUNTER			
	WITHOUT CENTRAL COUNTERPARTIES				WITHOUT CENTRAL COUNTERPARTIES			
	CENTRAL COUNTER- PARTIES	WITH NETTING ARRANGE- MENTS	WITHOUT NETTING ARRANGE- MENTS	ORGANISED MARKETS	CENTRAL COUNTER- PARTIES	WITH NETTING ARRANGE- MENTS	WITHOUT NETTING ARRANGE- MENTS	ORGANISED MARKETS
1. Debt securities and interest rates	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	54,358	-	-	-	13,506	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	54,358	-	-	-	13,506	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	54,358	-	-	-	13,506	-
Average values	-	-	33,932	-	-	-	19,341	-

A.2 HFT financial derivatives: positive and negative gross fair value – breakdown by products

TYPE OF DERIVATIVES	31.12.2019				31.12.2018			
	OVER THE COUNTER				OVER THE COUNTER			
	WITHOUT CENTRAL COUNTERPARTIES				WITHOUT CENTRAL COUNTERPARTIES			
	CENTRAL COUNTER- PARTIES	WITH NETTING ARRANGE- MENTS	WITHOUT NETTING ARRANGE- MENTS	ORGANISED MARKETS	CENTRAL COUNTER- PARTIES	WITH NETTING ARRANGE- MENTS	WITHOUT NETTING ARRANGE- MENTS	ORGANISED MARKETS
1. Positive fair value	-	-	-	-	-	-	111	-
a) Options	-	-	-	-	-	-	111	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	1,218	-	-	-	388	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	1,218	-	-	-	499	-
1. Negative fair value	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	1,204	-	-	-	384	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	1,204	-	-	-	384	-

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 stock indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	27,277	-	27,080
- positive fair value	X	1,063	-	155
- negative fair value	X	154	-	1,050
4) Goods				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other values				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts within the scope of netting arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and stock 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	-	-	-	-
5) 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	54,358	-	-	54,358
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total at 31.12.2019	54,358	-	-	54,358
Total at 31.12.2018	13,506	-	-	13,506

3.2 Hedging instruments**Quantitative Information****A. Hedging financial derivatives****A.1 Hedging financial derivatives: notional amounts at year-end**

TYPES OF DERIVATIVES	31.12.2019				31.12.2018			
	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	-	541,000	130,000	-	-	-	-	
a) Options	-	-	-	-	-	-	-	
b) Swap	-	541,000	130,000	-	-	-	-	
c) Forward	-	-	-	-	-	-	-	
d) Futures	-	-	-	-	-	-	-	
e) Other	-	-	-	-	-	-	-	
2. Equity securities and stock indices	-	-	-	-	-	-	-	
a) Options	-	-	-	-	-	-	-	
b) Swap	-	-	-	-	-	-	-	
c) Forward	-	-	-	-	-	-	-	
d) Futures	-	-	-	-	-	-	-	
e) Other	-	-	-	-	-	-	-	
3. Currencies and gold	-	-	-	-	-	-	-	
a) Options	-	-	-	-	-	-	-	
b) Swap	-	-	-	-	-	-	-	
c) Forward	-	-	-	-	-	-	-	
d) Futures	-	-	-	-	-	-	-	
e) Other	-	-	-	-	-	-	-	
4. Goods	-	-	-	-	-	-	-	
5. Other	-	-	-	-	-	-	-	
Total	-	541,000	130,000	-	-	-	-	

A.2 Hedging financial derivatives: positive and negative gross fair value – breakdown by products

TYPE OF DERIVATIVES	31.12.2019 - POSITIVE AND NEGATIVE FAIR VALUE				31.12.2018 - POSITIVE AND NEGATIVE FAIR VALUE				CHANGE IN VALUE USED TO MEASURE THE HEDGE INEFFECTIVENESS	
	OVER THE COUNTER				OVER THE COUNTER					
	CENTRAL COUNTERPARTIES	WITHOUT CENTRAL COUNTERPARTIES			CENTRAL COUNTERPARTIES	WITHOUT CENTRAL COUNTERPARTIES				
		WITH NETTING ARRANGEMENTS	WITHOUT NETTING ARRANGEMENTS	ORGANISED MARKETS		WITH NETTING ARRANGEMENTS	WITHOUT NETTING ARRANGEMENTS	ORGANISED MARKETS		
								31.12.2019	31.12.2018	
1. Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	
b) Interest rate swap	-	3,668	1,059	-	-	-	-	-	-	
c) Cross currency swap	-	-	-	-	-	-	-	-	-	
d) Equity swap	-	-	-	-	-	-	-	-	-	
e) Forward	-	-	-	-	-	-	-	-	-	
f) Futures	-	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	-	
Total	-	3,668	1,059	-	-	-	-	-	-	
1. Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	
b) Interest rate swap	-	7,480	-	-	-	-	-	-	-	
c) Cross currency swap	-	-	-	-	-	-	-	-	-	
d) Equity swap	-	-	-	-	-	-	-	-	-	
e) Forward	-	-	-	-	-	-	-	-	-	
f) Futures	-	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	-	
Total	-	7,480	-	-	-	-	-	-	-	

A.3 OTC 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	-	130,000	-	-
- positive fair value	-	1,058	-	-
- negative fair value	-	-	-	-
2) Equity securities and stock 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	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
Contracts within the scope of netting agreements				
1) Debt securities and interest rates				
- notional value	-	421,000	120,000	-
- positive fair value	-	3,486	182	-
- negative fair value	-	5,091	2,390	-
2) Equity securities and stock 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	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Time-to-maturity of OTC hedging 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	-	245,000	426,000	671,000
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
31.12.2019	-	245,000	426,000	671,000
31.12.2018	-	-	-	-

D. Hedged instruments**D.1 Fair value hedging**

	SPECIFIC HEDGES - NET POSITIONS: CARRYING		SPECIFIC HEDGES			GENERIC HEDGES: CARRYING AMOUNT
	SPECIFIC HEDGES: CARRYING AMOUNT	AMOUNT OF ASSETS AND LIABILITIES (BEFORE NETTING)	CUMULATIVE FAIR VALUE CHANGES OF THE HEDGED INSTRUMENT	TERMINATION OF HEDGING POSITION: RESIDUAL CUMULATIVE FAIR VALUE CHANGES	CHANGE IN VALUE USED TO MEASURE THE HEDGE INEFFECTIVENESS	
A. ASSETS						
1. Financial assets at fair value through other comprehensive income – hedging of:						
1.1 Debt securities and interest-rates	459,617	-	227	-	-	X
1.2 Equity securities and stock indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
2. Financial assets at amortised cost – hedging of:						
1.1 Debt securities and interest rates	217,306	-	-704	-	-	X
1.2 Equity securities and stock indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
Total at 31.12.2019	676,923	-	-477	-	-	-
Total at 31.12.2018	-	-	-	-	-	-
B. LIABILITIES						
1. Financial liabilities at amortised cost – hedging of:						
1.1 Debt securities and interest rates	-	-	-	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total at 31.12.2019	-	-	-	-	-	-
Total at 31.12.2018	-	-	-	-	-	-

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	-	551,000	120,000	-
- positive fair value	-	4,544	182	-
- negative fair value	-	5,091	2,390	-
2) Equity securities and stock indices	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold	-	28,494	-	28,285
- notional value	-	27,277	-	27,080
- positive fair value	-	1,063	-	155
- negative fair value	-	154	-	1,050
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 Aspects, 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 pursues 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;
- > ensuring liquidity levels capable of allowing the Group to fulfil its contractual commitments at any times, maximising the cost of funding with respect to current and forecast market conditions.

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.

Both risk profiles are measured on a going concern basis and in stress scenarios and are analysed from a current and a prospective standpoint.

With regard to liquidity risk management, the Bank has formally defined a policy, which specifies the general principles, the roles of 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 has also implemented a Contingency Funding Plan that sets out a framework for monitoring and managing unexpected liquidity stress events, which may be systemic or specific to the Bank, in order to ensure protection of the Group's assets in situation of liquidity drain through the preparation of crisis management strategies and procedures for procuring sources of funding in the event of an emergency.

The liquidity risk is monitored using a maturity ladder designed on the basis of 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 this ratio on a monthly basis according to the new reporting framework.

The LCR, calculated according to the provisions applicable on a consolidated basis as at 31 December 2019, amounted to 441%, far in excess of the current mandatory minimum level, thanks to high quality liquid assets (“HQLAs”) of approximately 7 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 216% as at 31 December 2019, due to long-term stable funding in excess of the on-balance sheet assets requiring such long-term stable funding.

As a participant in payment, settlement and netting systems, the Group is exposed to intraday liquidity risk due to a mismatch in the timing of daily payment inflows and outflows, which may in turn give rise to potentially large temporary imbalances than expected at the end of the day.

Intraday liquidity management is the responsibility of the Treasury and Portfolio Management Service and seeks to ensure that available liquidity is constantly sufficient to cover cash outflows. The Risk and Capital Adequacy Department is responsible for ex-post second-tier controls.

Structural liquidity risk is also measured by adopting Additional Liquidity Monitoring Metrics (pursuant to Article 415(3) (b) of Regulation (EU) No. 575/2013), involving an analysis of the concentration of borrowings by counterparty and product type. These analyses enable a more complete vision of the liquidity risk profile, providing the level of diversification of sources of funding in the wholesale and retail markets in order to emphasise excessive dependency on individual product types, which could be subject to severe outflows during a liquidity crisis.

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	-	-	4,501	152,100	103,266	737,566	1,200,032	2,500,732	2,150,000	-	6,848,197
A.2 Other debt securities	-	-	2,151	10,458	47,489	62,082	77,247	613,124	218,739	52	1,031,342
A.3 UCITS units	25,180	-	-	-	-	-	-	-	-	-	25,180
A.4 Loans											
- to banks	105,671	22,254	-	54	-	-	153,215	-	-	101,063	382,257
- to customers	1,274,270	206,072	6,428	13	26,794	110,923	69,112	314,014	325,329	-	2,332,955
Total	1,405,121	228,326	13,080	162,625	177,549	910,571	1,499,606	3,427,870	2,694,068	101,115	10,619,931
B. Cash liabilities											
B.1 Deposits and current accounts											
- from banks	72,790	-	-	-	-	-	-	-	-	-	72,790
- from customers	9,982,548	-	-	-	-	-	-	-	-	-	9,982,548
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	332,430	116,218	-	-	-	-	-	-	-	-	448,648
Total	10,387,768	116,218	-	-	-	-	-	-	-	-	10,503,986
C. Off-balance sheet transactions											
C.1 Financial derivatives with capital swap											
- long positions	-	22,020	-	-	13,721	374	33,142	-	-	-	69,257
- short positions	-	22,020	-	-	13,721	374	33,142	-	-	-	69,257
C.2 Financial derivatives without capital swap											
- long positions	-	-	-	-	307	1,163	1,919	-	-	-	3,389
- short positions	-	-	-	-	163	84	578	-	-	-	825
C.3 Deposits and loans receivable											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds											
- long positions	73,999	28,485	-	-	-	20	-	1,600	237	-	104,341
- short positions	75,856	28,485	-	-	-	-	-	-	-	-	104,341
C.5 Financial guarantees issued	29,417	-	50	-	1,595	2,062	2,839	20,157	8,049	-	64,169
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	179,272	101,010	50	-	29,507	4,077	71,620	21,757	8,286	-	415,579

1.5 Operating risks

Qualitative Information

A. General Aspect, Management Processes and Operating Risk Measurement Techniques

The 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 role of 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 Management 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 activities and Loss Data Collection processes, it monitors the action plans adopted to mitigate material risks, and has defined and controls KRIs (Key Risk Indicators) instrumental to monitor riskier areas.

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 2019 is broken down below by event type:

EVENT TYPE	% ACTUAL GROSS LOSS AND PROVISIONS	% LOSS INCLUDING FUNDS TRANSFERRED ALREADY RECOGNISED ON PREVIOUS POSITIONS AND NOT USED
ET 01 – Internal fraud	50.6%	45.2%
ET 02 – External fraud	5.7%	5.5%
ET 03 – Employment and workplace safety	0.6%	1.9%
ET 04 – Customers, products and business practices	25.3%	30.8%
ET 05 – Damages due to external events	-	-
ET 06 – Interruption of operations and IT system malfunctions	1.7%	1.2%
ET 07 – Process execution, delivery and management	16.1%	15.4%

Percentage breakdown of frequency by event type:

EVENT TYPE	%
ET 01 – Internal fraud	11%
ET 02 – External fraud	20%
ET 03 – Employment and workplace safety	3%
ET 04 – Customers, products and business practices	15%
ET 05 – Damages due to external events	-
ET 06 – Interruption of operations and IT system malfunctions	7%
ET 07 – Process execution, delivery and management	45%

The event type recording the most impact is "ET01 – Internal fraud", 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" 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.

A significant impact was also reported by losses due to "ET 07 – Process execution, delivery and management" resulting from deficiencies in completing transactions and managing processes linked to activities carried out by the Bank and from relations with commercial counterparts and suppliers, which showed the highest frequency ratio.

The frequency of losses included under "ET – 02 External fraud" relating to cases of fraud, misappropriation or infringement of laws by persons outside the Bank is mostly attributable to counterfeit of payment instruments and IT risk. Residual losses include the event type "Employment and workplace safety" due to actions not in compliance with the law or agreements relating to employment and occupational health and safety, and the event type "Interruption of operations and IT system malfunctions", whereas there were no losses due to damage to or destruction of property and equipment as a result of natural disasters.

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 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 17 January 2020 on dividend distribution policies (Recommendation ECB/2020/1) and ECB's Letter dated 21 January 2020 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 2019, consolidated net equity, including net profit for the year, amounted to 917.7 million euros compared to 734.9 million euros at the end of the previous year.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
1. Share capital	116,852	116,852	-	-
2. Share premium reserve	57,729	57,889	-160	-0.3%
3. Reserves	454,465	414,368	40,097	9.7%
4. (Treasury shares)	-37,356	-22,724	-14,632	64.4%
5. Valuation reserves	3,813	-11,636	15,449	-132.8%
6. Equity instruments	50,000	-	50,000	n.a.
7. Net equity attributable to minority interests	26	-	26	n.a.
8. Net profit (loss) for the year	272,139	180,126	92,013	51.1%
Total equity	917,668	734,875	182,793	24.9%

The increase in net equity for 2019, which amounted to approximately 182.8 million euros, was primarily influenced by the distribution of the 2018 dividend (144.9 million euros), the buy-back of treasury shares, the change in the reserves for shared-based payments (IFRS 2), the overall positive 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 consolidated net profit, as showed in the following table.

It should also be noted that on 23 December Banca Generali finalised the issue of an Additional Tier 1 Perpetual bond of 50 million euros, which under IAS 32 is considered an equity instrument and meets the requirements under regulatory capital rules for being included among Additional Tier 1 instruments in the Issuer's financial statements.

The issue was fully subscribed in private placement by two German insurance companies of the Generali Group. The bonds are perpetual and callable, at the issuer's sole discretion, from the sixth year from issue, and they yield — subject to authorisation from the competent supervisory authority and under the conditions established in applicable legislation — a non-cumulative half-yearly coupon at a fixed rate of 4.5% per annum for the first five years.

In 2019, on the basis of the achievement of the performance objectives set out in the Remuneration Policy, 128,930 treasury shares, with a value of 3,153 thousand euros, were allotted to the Banking Group's employees and Financial Advisors falling within Key Personnel.

On 18 April 2019, the General Shareholders' Meeting authorised the buy-back of a maximum of 667,419 treasury shares in service of remuneration plans for Key Personnel for 2019, the second cycle of the Framework Loyalty Programme for 2018 and the new Long Term Incentive Plan for the three-year period 2019-2021.

The plan for the buy-back of treasury shares, authorised by the Supervisory Authority on 21 June 2019, was launched on 25 June 2019 and completed in September 2019.

At 31 December 2019, the Parent Company, Banca Generali, thus held 1,467,579 treasury shares, with a value of 37,356 thousand euros.

Fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (HTCS) showed a net increase of 15.5 million euros, primarily owing to the uptrend in the prices of debt securities on financial markets.

	31.12.2019	31.12.2018
Net equity at year-start	734,875	736,070
Dividend paid	-144,900	-145,474
IFRS 9 and IFRS 15 FTA	-	-2,827
Purchase and sale of treasury shares	-17,786	-12,841
Matured IFRS 2 reserves (from stock option plans and remuneration policies)	7,207	4,408
Matured IFRS 2 reserves on the AG Group's IFRS 2-related plans	653	1,100
Change in valuation reserves	15,611	-25,687
Issue of AT1 subordinated loan	50,000	-
Consolidated net profit	272,122	180,126
Other effects	-114	-
Net equity at year-end	917,668	734,875
Change	182,793	-1,195

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
					31.12.2019	31.12.2018	
1. Share capital	116,879	-	-	-	116,879	116,852	27
2. Share premium reserve	57,729	-	-	-	57,729	57,889	-160
3. Reserves	454,472	-	-	-	454,472	414,368	40,104
4. Equity instruments	50,000	-	-	-	50,000	-	50,000
5. (Treasury shares)	-37,356	-	-	-	-37,356	-22,724	-14,632
6. Valuation reserves	3,822	-	-	-	3,822	-11,636	15,458
Equity securities at fair value through other comprehensive income	-300	-	-	-	-300	-	-300
Equity security hedges at fair value through OCI	-	-	-	-	-	-	-
Financial assets (other than equity securities) at fair value through OCI	6,170	-	-	-	6,170	-9,657	15,827
Property and equipment	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-	-	-
Cash-flow hedges	-	-	-	-	-	-	-
Hedging instruments (non-designated items)	-	-	-	-	-	-	-
Exchange differences	-128	-	-	-	-128	-131	3
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	-1,920	-	-	-	-1,920	-1,848	-72
Share of valuation reserves of equity investments valued at equity	-	-	-	-	-	-	-
Special revaluation laws	-	-	-	-	-	-	-
7. Net profit (loss) for the year (+/-) attributable to the Group and minority interests	272,122	-	-	-	272,122	180,126	91,996
Total net equity	917,668	-	-	-	917,668	734,875	182,793

B.2 Breakdown of valuation reserves of financial assets at fair value through OCI

Valuation reserves of financial assets at fair value through other comprehensive income (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 OCI, without passing through Profit and Loss.

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 positive increase in debt securities reserves.

The aggregate had an overall positive balance of 5.9 million euros, up by 15.5 million euros compared to year-end 2018.

This increase was mainly driven by the portfolios of Italian government bonds and corporate debt securities, for which net reserves amounted, respectively, to 3.9 million euros and 2.2 million euros compared to -9.7 million euros and at year-end 2018.

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	6,852	-682	-	-	-	-	-	-	6,852	-682
2. Equity securities	-	-300	-	-	-	-	-	-	-	-300
Total at 31.12.2019	6,852	-982	-	-	-	-	-	-	6,852	-982
Total at 31.12.2018	2,288	-11,945	-	-	-	-	-	-	2,288	-11,945

B.3 Valuation reserves of financial assets at fair value through OCI: year changes

Valuation reserves on the HTCS portfolio showed a net increase of 15.5 million euros in 2019, as a result of the following factors:

- > an increase in net valuation capital gains totalling 18.0 million euros;
- > the reduction of pre-existing net negative reserves due to re-absorption through profit or loss upon realisation (+5.0 million euros);
- > the negative net tax effect (DTAs) associated with the above changes (-7.5 million euros).

31.12.2019

	DEBT SECURITIES		EQUITY SECURITIES	UCITS UNITS	TOTAL
	CORPORATE	GOVERNMENT			
1. Amount at year-start	-3,477	-6,180	-	-	-9,657
2. Increases	8,845	18,034	-	-	26,879
2.1 Fair value increases	8,540	12,560	-	-	21,100
2.2 Adjustments due to credit risk	-	-	X	-	-
2.3 Transfer to Profit and Loss Account of negative reserves: due to disposal	265	4,816	X	-	5,081
2.4 Transfer to other net equity components (equity securities)	-	-	-	-	-
2.5 Other changes	40	658	-	-	698
3. Decreases	3,135	7,917	300	-	11,352
3.1 Fair value decreases	195	416	300	-	911
3.2 Reversals for credit risk	124	2,048	-	-	2,172
3.3 Transfer to Profit and Loss Account of positive reserves: due to disposal	71	1	X	-	72
3.4 Transfer to other net equity components (equity securities)	-	-	-	-	-
3.5 Other changes	2,745	5,452	-	-	8,197
4. Amount at year-end	2,233	3,937	-300	-	5,870

B.4 Valuation reserves relating to defined benefit plans: year changes

	31.12.2019		
	RESERVES	DTAS	NET RESERVE
1. Amount at year-start	-2,548	700	-1,848
2. Increases	128	-31	97
- decreases of actuarial losses	128	-31	97
- other increases	-	-	-
3. Decreases	-194	25	-169
- increases of actuarial losses	-22	7	-15
- other decreases	-172	18	-154
<i>of which:</i>			
- <i>business combinations</i>	-172	18	-154
4. Amount at year-end	-2,614	694	-1,920

Section 2 – Own funds and banking capital ratios

In accordance with Circular No. 262 of 22 December 2005, 6th update of 30 November 2018, 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 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

In 2019, two business combination transactions were undertaken:

- > the acquisition of the Nextam Partners Group, finalised on 25 July 2019; and
- > the acquisition of the Swiss asset management company Valeur Fiduciaria S.A. (now BG Valeur S.A.), finalised on 15 October 2019.

1.1 Acquisition of Nextam Partners Group

On 25 July 2019, Banca Generali closed the acquisition of a 100% interest in Nextam Partners S.p.A., the parent company of the group of the same name of brokerage firms that also includes the following fully-owned subsidiaries:

- > Nextam Partners SGR S.p.A., which engages in individual portfolio management and collective management of Italian UCITS and the AIFs of the Luxembourg Sicav promoted by the group, in addition to outsourced management of third-party products;
- > Nextam Partners Sim S.p.A., which primarily provides advice and order receipt, transmission and execution services;
- > Nextam Partners Ltd., based in London, which provides advice and manages the sub-funds of the Luxembourg Sicav promoted by the group.

Following the completion of the acquisition, the Banca Generali Banking Group expanded its scope to include the four new entities of the Nextam Group, whereas the pre-existing brokerage firm group was dissolved.

On 12 October 2018, Banca Generali confirmed the transaction making a binding purchase offer, transformed into a preliminary purchase agreement entered into between the parties on 18 February 2019. Finally, Banca Generali was authorised to acquire control of Nextam Partners S.p.A. by order of the Bank of Italy of 26 June 2019.

The Nextam Partners S.p.A. Group, which was 80% owned by its three independent founder-managers with extensive experience in the industry and the remaining 20% by other Italian and international shareholders, is a prestigious financial boutique that has been providing private-banking and institutional customers in Italy with asset and wealth management and advisory services since 2001.

As at the acquisition date, the Nextam Partners Group had approximately 2,500 customers, with assets under management (AUM) of 1.1 billion euros and assets under advisory (AUA) of over 4.0 billion euros.

The group is primarily focused on portfolio management, with AUM of 0.8 billion euros, and on collective management, with two Italian funds and a Luxembourg Sicav.

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.

Through this transaction, Banca Generali has also acquired new professionals — above all the acquiree's main partners, as witnessed by the results and recognition they have achieved in the past 18 years — and expanded its high net worth (NHW) customer base, in addition to expedited the process of developing new business opportunities.

The total cost agreed with the shareholders for the acquisition of the Nextam Group includes base consideration of **18.3 million euros**, paid in full as at the closing date, and two variable components (earn-outs) of a total maximum amount of 6.0 million euros, the accrual of which is contingent on the acquiree's performance parameters and the continuing service of the Nextam Group's main partners within the Banking Group.

In particular, a variable component of 3.0 million euros, already paid into an escrow account on the closing date, is to be released to the sellers by January 2023, upon verification of continuing service and maintenance of the acquiree's AUM values.

A second component of a maximum of 3.0 million euros will accrue in the March 2021 – March 2024 period on the basis of annual and overall economic performance (target fee) relating to contractual relationships that are already existing or subsequently developed by the acquired Group.

The total consideration for the acquisition of the Group, inclusive of the fixed and variable components, has therefore been estimated at **24.1 million euros**.

The acquisition of the Nextam Group falls within the scope of IFRS 3 and was accounted for using the purchase method.

In particular, IFRS 3 requires that the difference between the acquisition cost and the acquiree's consolidated assets and liabilities imbalance, pursuant to IASs/IFRSs, be attributed according to the purchase price allocation (PPA) procedure as follows:

- i) to the highest/lowest values of recognised assets/liabilities,
- ii) to the fair value of contingent liabilities,
- iii) to the identified "intangible" assets,
- iv) the remaining part to goodwill.

In this regard, the consolidated assets and liabilities of the Nextam Group not classifiable as intangible assets were essentially recognised at their previous carrying amounts, since no significant divergences from fair value at the closing date of the transaction were identified.

In particular, the acquiree's consolidated assets and liabilities imbalance amounted to **4.6 million euros** at closing, inclusive of negative valuation reserves of 0.1 million euros and a loss for the current period of 0.7 million euros.

In the purchase price allocation for the group, the consideration paid by Banca Generali, net of the group's net assets at the acquisition date, totalling **19.4 million euros**, was therefore allocated as follows:

- > **9.8 million euros** to the value of the intangible assets relating to the contractual relationships with the Nextam Group's customers, amortised over a total period of **16 years**;
- > **0.3 million euros** to the value of the Nextam trademark, considered an asset with an indefinite useful life;
- > **-2.9 million euros** to the provision for deferred taxes in respect of the theoretical tax benefit (TAB) associated with the aforementioned intangible assets;
- > the residual amount of **12.2 million euros** to the goodwill attributable to the Nextam Group.

(€ THOUSAND)	NP GROUP
% held	100.0%
Acquisition cost	24,095
IAS/IFRS net equity (gross of valuation reserves)	4,762
Group net assets	4,762
Actuarial gains and losses	-154
Difference to be allocated	19,333
Customer relationships	9,800
Trademark	330
DTLs	-2,998
Total	7,132
Goodwill	12,202

In accordance with IFRS 3, the PPA must be concluded within one year from the acquisition date. Accordingly, the figures presented remain subject to variation.

The fairness of the price for the acquisition of the Nextam Group was confirmed by a fairness opinion commissioned by Banca Generali from PWC Advisory S.p.A.

Finally, on 22 January 2020 several of the former selling shareholders of the Nextam Group exercised a call option provided for in the sale agreement for the group to repurchase a minority interest of 18.8% in the subsidiary Nextam Partners Sim S.p.A. This transaction is subject to review by the supervisory authorities and will be implemented as soon as the authorisation procedure is completed.

1.2 Acquisition of BG Valeur S.A.

On 15 October 2019, Banca Generali finalised the acquisition of a 90.1% interest in the Lugano-based BG Valeur S.A., a company under Swiss law.

The transaction was approved by Banca Generali's Board of Directors on 6 November 2018; it was subject to a binding offer in December 2018, transformed into a preliminary share purchase agreement executed on 18 March 2019.

The acquisition of the company, which is an unsupervised financial intermediary, was disclosed beforehand to the Bank of Italy and then closed through the conveyance of the transferred shares.

A 9.9% minority interest of the share capital has been held by the Sellers — who continue to work within the company and are also members of Valeur's new governance structure — without prejudice to Banca Generali's option to acquire the minority interest.

The company, previously known as “Valeur Fiduciaria S.A.”, was founded in 2009 by the two selling shareholders, drawing on their considerable experience in private banking and investment banking, and provides trust asset management and administration services.

As at the acquisition date, the company had 26 employees, with two representative offices in Locarno and Chiasso, and managed assets of CHF 1,351 million (1.2 billion euros).

It also renders advisory services to Valeur Asset Management S.A., a Luxembourg management company controlled by the same selling shareholders.

The deal is part of Banca Generali’s wider private-banking internationalisation and growth strategy launched with a view to strengthening the range of services offered, now complemented by the new company’s distinctive wealth management expertise.

The total cost agreed for the acquisition with the shareholders of Valeur consists of base consideration of **9.0 million euros** (CHF 9.6 million), paid in full on the closing date and divided into two components:

- > base consideration of **5.4 million euros**; and
- > conditional consideration of **3.6 million euros**, deposited with Banca Generali, which will be definitively released for the benefit of the selling shareholders at the end of the third and fifth anniversaries of closing, respectively, subject to the conditions of maintenance of the assets acquired and continuing service within the Banking Group.

The acquisition agreement also includes a shareholders’ agreement granting options to Banca Generali (a call option, to be exercised between the third and fifth year) and to the sellers (put options, to be exercised after the fifth anniversary of the acquisition), as well as for the acquisition of the residual minority interest in return for consideration equal to the greater of the acquisition price paid by the Bank, plus the interest accrued and fair value determined by an independent expert.

The acquisition of BG Valeur S.A. falls within the scope of IFRS 3 and was accounted for using the purchase method.

In particular, IFRS 3 requires that the difference between the acquisition cost and the consolidated assets and liabilities imbalance of the company acquired, pursuant to IASs/IFRSs, be attributed according to the purchase price allocation (PPA) procedure as follows:

- i) to the highest/lowest values of recognized assets/liabilities,
- ii) to the fair value of contingent liabilities,
- iii) to the identified “intangible” assets,
- iv) the remaining part to goodwill.

As at the acquisition date, the company’s net assets, determined in accordance with the applicable accounting standards, amounted to **CHF 0.3 million**, net of a loss for the current period of **CHF 0.6 million**.

The company’s consolidated assets and liabilities other than intangible assets have essentially been assumed on the basis of their previous accounting balances, with the significant exception of leases, for which IFRS 16 has been applied, and the supplementary pension plan for the company’s employees, which under local pension legislation (LLP) provides for mandatory supplementary pensions upon meeting pension requirements or an unfavourable event (death or disability). This plan, which under the local legislation qualifies as a defined contribution plan, is considered a defined benefit plan for the purposes of IAS 19.

Following the aforementioned adjustments, the company had assets and liabilities imbalance, pursuant to IAS/IFRS, of CHF 2.5 million, equal to **2.3 million euros**, as at the closing date.

In the purchase price allocation for the company, the consideration paid by Banca Generali, increased by the company’s net liabilities calculated on the basis of international standards, totalling **11.3 million euros**, was therefore allocated as follows:

- > **3.2 million euros** to the value of the intangible assets relating to the contractual relationships with the Valeur’s customers, amortised over a total period of **10 years**;
- > **0.4 million euros** to the value of the Valeur trademark, considered an asset with an indefinite useful life;
- > **-0.9 million euros** to the provision for deferred taxes in respect of the theoretical tax benefit (TAB) associated with the aforementioned intangible assets;
- > the residual amount of **8.6 million euros** to the goodwill.

(€ THOUSAND)	BG VALEUR
% held	90.9%
Acquisition cost	8,980
IAS/IFRS net equity	-2,331
Third-party net assets	33
Group net assets	-2,364
Actuarial gains and losses	-
Difference to be allocated	11,344
Customer relationships	3,161
Trademark	400
DTLs	-869
Total	2,692
Goodwill	8,652

In accordance with IFRS 3, the PPA must be concluded within one year from the acquisition date. Accordingly, the figures presented remain subject to variation.

The fairness of the price for the acquisition of BG Valeur S.A. was confirmed by a fairness opinion commissioned by Banca Generali from KPMG Advisory S.p.A.

Impact on the balance sheet items of the acquisition of the Nextam Partners Group and Valeur S.A.

ASSETS (€ THOUSAND)	31.12.2019 BG GROUP	31.12.2019 NP GROUP	31.12.2019 VALEUR	31.12.2019 NP GROUP	31.12.2019 VALEUR	31.12.2019 AMORT. AND DEPREC. NP	31.12.2019 AMORT. AND DEPREC. VL	31.12.2019 INTRAGROUP	31.12.2019 TOTAL ADJUST- MENTS	31.12.2019 CONSOLI- DATED
Financial assets at fair value through profit or loss	64,997	-	1	-	-	-	-	-	-	64,998
Financial assets at fair value through other comprehensive income	2,778,836	-	-	-	-	-	-	-	-	2,778,836
Financial assets measured at amortised cost	8,199,205	7,162	3,049	-	-	-	-	-2,891	-2,891	8,206,525
a) Loans to banks (*)	1,128,632	2,862	526	-	-	-	-	-1,330	-1,330	1,130,690
b) Loans to customers	7,070,573	4,300	2,523	-	-	-	-	-1,561	-1,561	7,075,835
Equity investments	35,136	-	-	-24,095	-8,980	-	-	-	-33,075	2,061
Goodwill	66,065	-	-	12,202	8,652	-	-	-	20,854	86,919
Property, equipment and intangible assets	195,572	1,786	718	10,130	3,561	-255	-77	-	13,359	211,435
Tax receivables	49,362	690	1,116	-	-	-	-	-	-	51,168
Other assets	361,068	2,687	133	-	-	-	-	-254	-254	363,634
Total assets	11,750,241	12,325	5,017	-1,763	3,233	-255	-77	-3,145	-2,007	11,765,576

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2019 BG GROUP	31.12.2019 NP GROUP	31.12.2019 VALEUR	31.12.2019 NP GROUP	31.12.2019 VALEUR	31.12.2019 AMORT. AND DEPREC. NP	31.12.2019 AMORT. AND DEPREC. VL	31.12.2019 INTRA- GROUP	31.12.2019 TOTAL ADJUST- MENTS	31.12.2019 CONSOLI- DATED
Financial liabilities at amortised cost	10,502,676	3,677	647	-	-	-	-	-3,014	-3,014	10,503,986
a) Due to banks	94,767	1,856	-	-	-	-	-	-1,816	-1,816	94,807
b) Due to customers	10,407,909	1,821	647	-	-	-	-	-1,198	-1,198	10,409,179
Financial liabilities held for trading and hedging	8,685	-	-	-	-	-	-	-	-	8,685
Tax liabilities	9,491	93	260	2,999	869	-75	-19	-	3,774	13,618
Other liabilities	141,990	2,632	2,606	-	-	-	-	-131	-131	147,097
Special purpose provisions	170,211	457	3,854	-	-	-	-	-	-	174,522
Valuation reserves	3,871	-146	98	-	-10	-	-	-	-10	3,813
Equity instruments	50,000	-	-	-	-	-	-	-	-	50,000
Reserves	454,449	-3,927	-2,610	3,946	2,607	-	-	-	6,553	454,465
Share premium reserve	57,729	9,200	-	-9,200	-	-	-	-	-9,200	57,729
Share capital	116,852	473	276	-473	-276	-	-	-	-749	116,852
Treasury shares (-)	-37,356	-965	-	965	-	-	-	-	965	-37,356
Net equity attributable to minority interests	-	-	-	-	32	-	-6	-	26	26
Net profit (loss) for the year (+/-)	271,643	831	-114	-	11	-180	-52	-	-221	272,139
Total net equity and liabilities	11,750,241	12,325	5,017	-1,763	3,233	-255	-77	-3,145	-2,007	11,765,576

Section 2 – Transactions after the close of the period

No business combination transactions were undertaken after 31 December 2019 and until the date of approval of the Consolidated Financial Statements.

However, a thorough reorganisation of the Nextam Partners Group was launched in 2020.

In particular, on **28 February 2020** the Boards of Directors of Banca Generali and the subsidiaries Nextam Partners S.p.A. and Nextam Partners SGR approved a company reorganisation project involving:

- > the **contribution** by Nextam Partners SGR of the business unit responsible for managing Italian UCITS (the “UCITS Unit”) to the independent asset management company 8a+ Investimenti SGR (“8a+ SGR”), with an equity investment of 19.5% taken in the latter company;
- > the subsequent **merger** of Nextam Partners S.p.A. (“NP SPA”) and Nextam Partners SGR (“NP SGR”) into the parent company Banca Generali.

The contribution of the UCITS Unit and subsequent merger transactions are two closely related phases within the framework of the broader reorganisation of the Nextam Partners Group, which will presumably be completed by the end of June 2020, once the required authorisations have been obtained.

In particular, the contribution of the UCITS Unit is a preliminary step to the full reorganisation and is intended to achieve the twofold objectives of:

- > preventing Banca Generali from being assigned assets and legal relationships relating to the provision of collective management service following the merger of NP SGR;
- > integrating the businesses of NP SGR and 8a+ SGR and forming a partnership with the latter to develop operational and industrial synergies in the asset management sector;

2.1 The contribution of the UCITS Unit

The transaction will entail the substantial transfer to 8a+ Investimenti SGR of all assets of NP SGR attributable to the provision of collective asset management service and is intended to form a partnership between the Banca Generali Group and 8a+ SGR, instrumental to the development of operational and industrial synergies in the asset management sector.

In particular, the business unit to be contributed will comprise:

- > the management mandates of NP SGR relating to the Italian open-ended (reserved) AIF “**Nextam Partners Hedge**” and the two Italian open-ended UCITS “**Nextam Partners Bilanciato**” (Balanced) and “**Nextam Part-**

ners **Obbligazionario Misto**” (Mixed Bond), with total assets under management of **93.3 million euros** at the end of 2019;

- > the related distribution agreements, including that in force with Banca Generali;
- > contracts for the supply of goods and services and all legal relationships associated with such contractual positions, including an advisory contract entered into with Banca Generali;
- > cash and equivalents.

In return for the contribution, 8a+ SGR will undertake a capital increase, without options, through the issue of new shares accounting for 19.5% of the company's post-transaction capital.

The exchange ratio between the new shares issued and the economic value of the unit contributed with respect to the economic value of the receiving company were determined by applying the Excess of Capital variant of the Dividend Discount Model (DDM) with effect from the financial position situations of 8a+ and the UCITS unit and their projected financial performance during the 2020-2022 period.

The control method used was an analysis based on market multiples, and in particular the goodwill/AUM ratio for a panel of listed companies with comparable businesses.

On the basis of this assessment, supported by a major consulting firm, the value of the UCITS Unit was determined to be 912 thousand euros.

Following the contribution, relations between Banca Generali and 8a+ SGR will be governed by shareholders' agreements and other agreements that currently do not constitute a situation of significant influence over the receiving company.

Following the completion of the contribution transaction and as a consequence of the subsequent merger of NP SGR, Banca Generali will become the owner of a significant equity interest in 8a+ SGR amounting to 912 thousand euros, which will be recognised in the portfolio of Financial assets at fair value through other comprehensive income (without transfer to Profit or Loss Account).

2.2 The merger of Nextam Partners S.p.A. and Nextam Partners SGR

As mentioned above, the merger of the subsidiaries Nextam Partners S.p.A. and Nextam Partners SGR will occur after the contribution of the UCITS Unit has been completed.

The merger will take place in simplified form pursuant to Article 2505 of the Italian Civil Code, inasmuch as the merged companies are fully owned — directly (NP S.p.A.) or indirectly (NP SGR) — by the merging company, and therefore it will not be necessary to increase Banca Generali's share capital.

Since this business combination qualifies as a transaction between entities under common control, it will be 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 2019 Consolidated Financial Statements, and therefore it will not have any effects on the Consolidated Financial Statements for 2020.

Section 2 in Part G of the Notes and Comments of the Company's Financial Statements provides further details on this transaction.

Section 3 – Retrospective Adjustments

No retrospective adjustments to business combinations carried out by the Banking Group in previous years were undertaken in 2019 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.

At 31 December 2019, the Banking Group's goodwill totalled 86.9 million euros, with an increase of 20.9 million euros due to the acquisitions of the Nextam Partners Group and BG Valeur, as shown in the following table.

(€ THOUSAND)	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
Prime Consult and INA Sim	2,991	2,991	-	-
BG Fiduciaria Sim S.p.A.	4,289	4,289	-	-
Banca Del Gottardo Italia	31,352	31,352	-	-
Credit Suisse Italy	27,433	27,433	-	-
Nextam Group	12,202	-	12,202	n.a.
BG Valeur S.A.	8,652	-	8,652	n.a.
Total	86,919	66,065	20,854	31.6%

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.

In this regard, it bears recalling that following the extensive reorganisation of the sales networks approved by the Board of Directors of 8 November 2017, a review of the operating segments identified by the corporate management for management reporting purposes was also performed.

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:

- > 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 Private Banking network, which includes all other Financial Advisors.

Consequently, to conduct impairment testing according to IAS 36, in the previous year the CGUs had been redefined and goodwill had been reallocated to each with the aim of providing an accurate representation reflecting the changes made.

In the previous year, the reallocation to the two new CGUs had also involved the goodwill of the subsidiary BG Fiduciaria, merged into Banca Generali as of 1 January 2018.

The 4.3 million euro goodwill, previously recognised at the consolidated level, had thus been reported at the level of the separate financial statements.

Finally, in 2019, following the acquisitions of the Nextam Partners Group and Valeur Fiduciaria, the customary PPA (purchase price allocation) procedures were performed, giving rise to allocation to goodwill of a total amount of 20.9 million euros (of which 12.2 million euros for the Nextam Group and 8.7 million euros for Valeur Fiduciaria) and intangible assets (customers relationships and trademark) of 13.4 million euros, of which 9.9 million euros for the Nextam Group and 3.5 million euros for Valeur Fiduciaria S.A.

With regard to the acquisitions of Nextam Partners and Valeur Fiduciaria, goodwill amounting to 20.9 million euros and the related intangible assets of 13.4 million euros were both allocated to the Wealth Management CGU.

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 Sims Prime Consult 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;
- > the goodwill and other intangible assets referring to the acquisition of Nextam Partners Group, acquired on 25 July 2019;
- > the goodwill and other intangible assets referring to the acquisition of Valeur Fiduciaria, acquired on 15 October 2019.

At 31 December 2019, the goodwill allocated to the new CGU Wealth Management amounted to 35.2 million euros, in addition to intangible assets totalling 19.9 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 Sims Prime Consult 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 2019, the goodwill allocated to the new CGU Wealth Management amounted to 51.7 million euros, in addition to intangible assets totalling 4.8 million euros.

The value analysis of the aforementioned CGUs carried out by the Bank as at 31 December 2019, as part of the impairment test, are supported by a fairness opinion issued by a major consulting firm and submitted for approval to Banca Generali's Board of Directors on 10 February 2020.

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.

The earnings and cash flow projections for the CGUs were based on the 2020-2022 Plan's forecast data.

The expected long-term growth rate after the explicit forecasting period employed to calculate the terminal value (perpetual yield) was set at **1.3%**, in line with the last estimates on expected inflation.

The cost of capital used to discount cash flows was **7.46%** both for the PB CGU and the WM CGU. This ratio was established applying the Capital Asset Pricing Model, on the basis of the following assumptions:

- a) risk free rate of **1.91%**, equivalent to the annual gross return on 10-year BTPs (Italian government bonds), over the last 12 months;
- b) market risk premium of **5.6%**, established on the basis of the difference in long-term yields between equity securities and bonds on international financial markets;
- c) a value of **1.00** 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 carrying amount of the PB and WM CGUs was calculated on the basis of the figurative capital, equal to 11.84% of RWAs, in line with the capital ratio required to Banca Generali by the Supervisory Authority following the SREP with a view to reaching the fully loaded ratio.

The foregoing assumptions are substantially in line with the estimates and variables used during the previous financial year.

The analyses performed for each CGU are detailed below.

Wealth Management CGU ("WM CGU")

In light of economic-financial forecasts based on the 2019-2022 Economic and Financial Plan, the CGU's mean portfolio of assets under management (AUM) is expected to expand by **14.7%** over the three years in question (CAGR), whilst the growth rate of the CGU's net result is estimated at 11.2% per annum.

Compared to the WM CGU's carrying amount of **130.6** million euros, the value obtained by applying the analytical method described above amounted to a minimum of **714.8** million euros and a maximum of **966.0** million euros.

Therefore, the tests performed on the CGU did not detect any goodwill impairment.

Private Banking CGU ("PB CGU")

In light of economic-financial forecasts based on the 2020-2022 Economic and Financial Plan, the CGU's mean portfolio of assets under management (AUM) is expected to expand by 7.3% over the three years in question (CAGR), whilst the CGU's net result is expected to decrease by 7.3% per annum.

Compared to the PB CGU's carrying amount of **206.5** million euros, the value obtained by applying the analytical method described above amounted to a minimum of **1,024.9** million euros and a maximum of **1,180.1** million euros. Therefore, the tests performed on the CGU did not detect any goodwill impairment.

	FIGURATIVE CAPITAL	GOODWILL	OTHER INTANGIBLE ASSETS	CARRYING AMOUNT
PB CGU	150.0	51.7	4.8	206.5
WM CGU	75.5	35.2	19.9	130.6
Total	225.5	86.9	24.7	337.1

	CGU VALUE		CARRYING AMOUNT
	MIN	MAX	
PB CGU	1,024.9	1,180.1	206.5
WM CGU	714.8	966	130.6

In accordance with the requirements of IAS 36, paragraph 134(f), a sensitivity analysis was conducted on both PB and WM CGUs as a function of the parameters "cost of capital" (K_e) and "long-term growth rate", using a range of variation of 7.2%-7.7% and 1.05%-1.55%, 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 Banca Generali S.p.A.'s 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 authority, 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 Group⁵, namely the Chief Executive Officer, the General Manager and the two Deputy General Managers⁶;
- > 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.

Significant 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.

⁵ Banking Group's Remuneration and Incentivisation Policies approved by the General Shareholders' Meeting on 18 April 2019.

⁶ Chief Executive Officer/General Manager, Deputy General Manager Wealth Management Markets and Products, Deputy General Manager Commercial Networks, Alternative and Support Channels.

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;
- > **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 **28.5 million euros**, reduced to **14.3 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 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.

	2019				2018	CHANGES
	DIRECTORS	AUDITORS	OTHER KEY MANAGEMENT PERSONNEL	TOTAL		
Short-term benefits (current remuneration and social security charges) ⁽¹⁾	1,102	299	2,051	3,038	3,169	-131
Post-employment benefits ⁽²⁾	-	-	249	249	242	7
Other long-term benefits ⁽³⁾	-	-	191	191	269	-78
Severance indemnities	-	-	-	-	-	-
Share-based payments ⁽⁴⁾	-	-	1,621	1,621	1,232	389
Total	1,102	299	4,112	5,099	4,912	187
Total 2018	1,013	222	3,677	4,912		

(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 Plans based on Banca Generali S.p.A.'s shares implemented in 2018 and 2019 for a total of 1.1 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. 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 of IT and administration services, 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 2019, 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 2019, the Banking Group (Banca Generali) undertook the following transactions qualifying as “Highly Significant”.

1. Meeting of 13 December 2019: the Board of Directors approved the issue of the Additional Tier 1 instruments.

Since it qualified as a highly significant transaction, the Audit and Risks Committee issued a binding opinion according to the terms set out in the relevant Procedure.

The transaction was classified as an ordinary highly significant transaction and was thus exempt from the production of an information document in accordance with the cited Procedure.

Other significant transactions

In 2019, 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 2019 are presented in the following sections.

Transactions with Assicurazioni Generali Group**Balance Sheet data**

(€ THOUSAND)	SUBSIDIARIES AND ASSOCIATES OF THE INSURANCE GROUP	ASSOCIATES SUBJECT TO JOINT CONTROL OR SIGNIFICANT INFLUENCE	31.12.2019	31.12.2018	WEIGHT % 2019
Financial assets at fair value through profit or loss:	1,141	-	1,141	903	1.8%
c) other financial assets mandatorily measured at fair value	1,141	-	1,141	903	2.4%
Financial assets at fair value through other comprehensive income	246	-	246	246	-
Financial assets at amortised cost:	23,778	-	23,778	29,456	0.3%
b) loans to customers	23,778	-	23,778	29,456	0.3%
Equity investments	-	2,061	2,061	-	100.0%
Property, equipment and intangible assets	73,480	-	73,480	-	24.6%
Tax assets (AG tax consolidation)	2,903	-	2,903	-	5.7%
Other assets	86	-	86	105	-
Total assets	101,634	2,061	103,695	30,710	0.9%
Financial liabilities at amortised cost:	429,854	4,014	433,868	527,763	4.1%
b) due to customers	429,854	4,014	433,868	527,763	4.2%
Tax liabilities (AG tax consolidation)	-	-	-	6,893	-
Other liabilities	5,071	-	5,071	11,541	3.4%
Equity instruments	50,000	-	50,000	-	100.0%
Total liabilities	484,925	4,014	488,939	546,197	4.2%
Guarantees issued	2,649	-	2,649	2,705	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 101.6 million euros, compared to the 30.7 million euros recognised at the end of 2018, equal to 0.9% of Banca Generali Group's total balance sheet assets.

The increase was mainly due to the recognition among property and equipment of the net value of rights of use (RoUs) of 73.5 million euros (relating primarily to the lease payments for the Milan and Trieste administrative offices and the commercial network offices), following the introduction of the new IFRS 16 with effect from 1 January 2019.

By contrast, the total debt position reached 484.9 million euros, accounting for 4.1% of liabilities, down by 61.3 million euros (-11.2%) compared to the end of the previous year.

Following the introduction of IFRS 16 with effect from 1 January 2019, amounts due to customers increased by 74.5 million euros due to the recognition of the corresponding lease liabilities.

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).

The item “Associates subject to joint control or significant influence” includes the share of interest that the Banking Group acquired in 2015 in IOCA Entertainment Ltd, a company under the UK law, almost fully written off in 2019, in addition to the equity investment in BG Saxo Sim S.p.A., acquired on 31 October 2019, for a 19.9% interest in the company's share capital.

With regard to the equity investment in IOCA Entertainment Ltd, at the end of 2019 the share of the loss for the year attributable to Banca Generali amounted to approximately 91 thousand euros, whereas the exchange differences on the equity investment in foreign currency amounted to 128 thousand euros.

At 31 December 2019, the share of loss of BG Saxo Sim S.p.A. amounted to 69 thousand euros.

Exposures to Generali Group companies recognised as **loans to customers** amounted to 23.8 million euros and refer to the following transactions:

COMPANY	RELATIONSHIP	TYPES OF TRANSACTION	31.12.2019		31.12.2018	
			AMOUNT	REVENUES	AMOUNT	REVENUES
Genertellife	Subsidiary of the AG Group	Operating loans	21,196	-	27,512	-
Other companies of the Generali Group	Subsidiary of the AG Group	Operating loans	2,538	-	1,940	-
Other exposures with Group companies	Subsidiary of the AG Group	Temporary current account exposures	44	1,470	4	1,383
			23,778	1,470	29,456	1,383

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 receivable from the Parent Company and classified as **tax assets** consisted of Banca Generali S.p.A.'s net tax assets resulting from the balance between tax prepayments, withholdings and credits and the IRES tax calculated at the end of the year.

Amounts due to customers attributable to Generali Group's related parties amounted to 429.8 million euros compared to 527.8 million euros for the previous year and included amounts due to the parent company Assicurazioni Generali S.p.A. for 27.5 million euros, and amounts due to Generali Italia S.p.A. for 117.9 million euros (of which 41.7 million euros relating to lease liabilities arising from the lease contracts for the administrative offices and the commercial network offices).

The subordinated loan issued by Generali Beteiligungs GmbH, taken up at the end of 2014 to acquire the Credit Suisse Italia S.p.A.'s business unit and classified among amounts due to customers as of 31 December 2018, was fully paid at the end of 2019.

It should also be noted that on 23 December Banca Generali finalised the issue of an Additional Tier 1 Perpetual bond of 50 million euros, which under IAS 32 is considered an **equity instrument** and meets the requirements under regulatory capital rules for being included among Additional Tier 1 instruments in the Issuer's financial statements. The issue was fully subscribed in private placement by two German insurance companies of the Generali Group.

Finally, a total of 2.7 million euros in personal guarantees was issued for Generali Group companies, of which 1.6 million euros on behalf of Assicurazioni Generali S.p.A.

Profit and Loss Account data

At 31 December 2019, the profit and loss components recognised in the Financial Statements with regard to transactions with companies of the Generali Group amounted to 222.2 million euros, or 60.0% of operating profit before taxation.

(€ THOUSAND)	SUBSIDIARIES AND ASSOCIATES OF THE INSURANCE GROUP	ASSOCIATES SUBJECT TO JOINT CONTROL OR SIGNIFICANT INFLUENCE	2019	2018	INC. % 2019
Interest income	1,470	-	1,470	1,383	1.8%
Interest expense	-2,954	-	-2,954	-1,678	33.4%
Net interest income	-1,484	-	-1,484	-295	-2.0%
Fee income	245,575	136	245,711	232,037	27.9%
Fee expense	-1,883	-	-1,883	-2,030	0.5%
Net fees	243,692	136	243,828	230,007	48.5%
Dividends	56	-	56	39	1.9%
Operating income	242,264	136	242,400	229,751	41.0%
Staff expenses	180	-	180	173	-0.2%
General and administrative expenses	-13,512	-	-13,512	-17,649	8.3%
Net adjustments of property, equipment and intangible assets	-6,810	-	-6,810	-	22.7%
Other operating income and expenses	73	-	73	73	0.1%
Net operating expenses	-20,069	-	-20,069	-17,403	9.1%
Operating result	222,195	136	222,331	212,348	60.1%
Operating profit	222,195	136	222,331	212,348	68.3%
Net profit (loss) for the year	222,195	136	222,331	212,348	68.3%

Overall **net interest income** accrued in dealings with members of the Insurance Group was negative at 1.5 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 2.9 million euros, equal to 33.4% of the total amount recognised in the Profit and Loss Account and mainly refers to the subordinated loan of Generali Beteiligungs GmbH for 1.4 million euros and to interests accrued on the IFRS 16 lease liabilities for 1.5 million euros, 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 245.6 million euros, equal to 27.9% of the aggregate amount and was broken down as follows:

	2019	2018	CHANGE	
			ABSOLUTE	%
Asset management fees	2,587	3,169	-582	-18.4%
Fees for distribution of insurance products	236,855	223,307	13,548	6.1%
Advisory fees	5,941	5,319	622	11.7%
Other banking fees	192	242	-50	-20.7%
Total	245,575	232,037	13,538	5.8%

The most significant component consists of **fees for the distribution** of insurance products paid back by Genertellife, reaching 236.8 million euros, up by 6.1% compared to 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 2019 fee income for advisory service rendered to Alleanza Assicurazioni S.p.A. and Generali Italia S.p.A. amounted to 5.9 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 UCITS 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).

	2019	2018	CHANGE	
			ABSOLUTE	%
Sicav underwriting fees	22	60	-38	-63.3%
Trading fees on UCITS and Sicavs	1,008	2,587	-1,579	-61.0%
Total fees	1,030	2,647	-1,617	-61.1%

The **net operating expenses** reported by the Banca Generali Group in relation to transactions with related parties of the Generali Group amounted to 20.1 million euros and refer for 9.1% to outsourced services in the insurance, leasing, administrative and IT areas.

	2019	2018	CHANGE	
			ABSOLUTE	%
Insurance services	2,395	2,578	-183	-7.1%
Property services	1,158	5,822	-4,664	-80.1%
Administration, IT and logistics services	9,886	9,176	710	7.7%
Staff services	-180	-173	-7	4.0%
Amortisation of RoUs (IFRS 16)	6,810	-	6,810	n.a.
Total operating expenses	20,069	17,403	2,666	15.3%

Real-estate services decreased sharply due to the change in the accounting treatment of lease and rental payments following the introduction of IFRS 16 and relate solely to additional costs of leases and rentals of motor vehicles and ATMs (former condominium fees, VAT and sundry additional expenses).

The administrative expense paid to Generali Italia S.p.A. amounted to 2.5 million euros and chiefly referred to insurance services.

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.

The 6.8 million euro value adjustments of tangible assets refers to the amortisation of the IFRS 16-related right of use.

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.

(€ THOUSAND)	KEY MANAGEMENT PERSONNEL
Loans to customers	3,752
Due to customers	4,889
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.

2018 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 2018. 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)	2018
Net profit	1,473.0
Aggregate dividend	1,413.0
<i>Increase</i>	6.20%
Total net premiums	2,343.6
Total gross premiums	3,311.6
Total gross premiums from direct business	658.2
<i>Increase on equivalent terms ^(a)</i>	
Total gross premiums from indirect business	2,652.6
<i>Increase on equivalent terms ^(a)</i>	
Acquisition and administration costs	434.6
<i>Expense ratio ^(b)</i>	18.54%
Life business	
Life net premiums	1,209.1
Life gross premiums	1,630.9
<i>Increase on equivalent terms ^(a)</i>	
Life gross premiums from direct business	205.7
<i>Increase on equivalent terms ^(a)</i>	
Life gross premiums from indirect business	1,425.2
<i>Increase on equivalent terms ^(a)</i>	
Life acquisition and administration costs	204.8
<i>Expense ratio ^(b)</i>	16.90%
Non-life business	
Non-life net premiums	1,134.5
Non-life gross premiums	1,679.8
<i>Increase on equivalent terms ^(a)</i>	
Non-life gross premiums from direct business	452.5
<i>Increase on equivalent terms ^(a)</i>	
Non-life gross premiums from indirect business	1,227.5
<i>Increase on equivalent terms ^(a)</i>	
Non-life acquisition and administration costs	229.8
<i>Expense ratio ^(b)</i>	20.3%
<i>Loss ratio ^(c)</i>	72.2%
<i>Combined ratio ^(d)</i>	92.4%
Current financial result	2,422.2
Technical provisions	9,145.7
Life segment technical provisions	6,979.4
Non-life segment technical provisions	2,166.3
Investments	41,010.3
Capital and reserves	13,503.5

(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 2019, 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 third annual cycle (2019-2026), which calls for a maximum of 50% of the indemnity accrued to be paid using own financial instruments;
- > the new LTI (Long Term Incentive) plans for the Banking Group's top management, based on Banca Generali shares, launched in 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 Provisions⁷ 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 assignment⁸.

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 objectives⁹, 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 back treasury 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 treasury 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 recruitment 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 employment or agency relationship, with regard to the beneficiaries falling within the category of Key Personnel.

⁷ Bank of Italy Circular No. 285/2013, "Supervisory Provisions for Banks", Part I, Title IV, Chapter 2, Remuneration and Incentivisation Policies and Procedures.

⁸ During the retention period, voting and dividend rights are unrestricted, without prejudice to the fact that no dividends are payable on assigned shares.

⁹ Provided for by the Management by Objectives (MBO) mechanism or by specific incentive/recruitment plans.

1.1 Measurement of fair value and accounting treatment

The mechanisms to recognise variable remuneration — discussed in the previous section — are considered as equity-settled share-based payment transactions, falling within the scope of application of IFRS 2 – *Share-based Payments*.

The accounting treatment set forth for these transactions requires an entity to reflect in its accounts, under the most appropriate items (staff expenses, fee expense), the estimated expense associated with services received, determined on the basis of the fair value of the rights granted (stock options/stock grants), 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)¹⁰.

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 plans¹¹.

1.2 Information on the share-based payment plans in connection to the Remuneration Policies

At 31 December 2019, there were three active cycles of share-based plans in connection to the Remuneration Policies relating to 2017, 2018 and 2019, whereas the cycle relating to 2016 has been essentially completed, with the exception of one ten-year recruitment plan still in place.

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 granted 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 **3.7 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**.

¹⁰ Since 2018, IFRS 2-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. In addition, share grants relating to various recruitment plans for Financial Advisors who are included among Key Personnel only after the plan is concluded may be covered by previous provisions for risks and charges.

¹¹ 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 **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 that cycle, the shares to be assigned to Key Personnel totalled **138,375**, of which **42,903** were granted to Network Managers, **80,254** referred to ordinary incentives and entry bonuses paid to Financial Advisors falling within Key Personnel on the basis of the fee volume accrued, **13,205** to employees, and **1,417** referred to the subsidiary BGFML, for a total fair value amounting to approximately **3.2 million euros**.

In 2019, 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.

The main features of the share-based plan, linked to 2019 Remuneration Policies and approved by the General Shareholders' Meeting on **18 April 2019**, 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 10 December 2018 to 8 March 2019, was determined to be **20.25 euros**;
- > the fair value of Banca Generali stock at the assignment date was equal to the market price (approximately **24.23 euros**) reported on 18 April 2019, 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 2019, it was estimated that the portion of variable remuneration subject to share-based payment amounted to approximately **216 thousand** shares, for a total plan fair value of **4.7 million euros**.

With reference to 2016 Remuneration Policies, a recruitment plan is still in place which is subject to long-term deferral and envisages the assignment of ten annual variable instalments to be paid from 2016 to 2025, also conditional upon deferral and payment in shares according to the Remuneration Policy in force from time to time. Accordingly, the plan's last instalment shall be paid in 2028. The granting of the bonus is also subject to the maintenance of the net inflow targets initially achieved, in addition to the continuation of service.

The shares to be assigned under this plan currently amount to **18,302**, including **4,706** shares already assigned.

In the reporting period, on the basis of the achievement of the performance objectives set out in the 2016, 2017 and 2018 Remuneration Policy, **128,930** treasury shares were granted to company managers and network managers, of which **20,882** assigned to employees or former employees, and **108,048** to area managers and Financial Advisors.¹²

In particular, the shares assigned for 2016 and 2017 related, respectively, to the first and second tranches deferred by one year (20%), whereas the shares assigned for 2018 related to the upfront amount (60%); a residual amount of shares were granted under previous years' plans with different deferral mechanisms (plans for former employees and Financial Advisors).

(THOUSANDS OF SHARES)	DATE OF SHARE-HOLDERS' MEETING	BANK OF ITALY'S AUTHORISATION	ASSIGNMENT PRICE	WEIGHTED AVERAGE FV	TOTAL SHARES ACCRUED/ACCRUING	SHARES VESTED	SHARES ASSIGNED IN 2019	SHARES TO BE ASSIGNED	PLAN'S FAIR VALUE (€ MILLION)
Year 2016	21.04.2016	06.06.2016	25.28	23.20	91.1	77.5	15.5	13.6	2.1
Year 2017	20.04.2017	03.07.2017	23.73	22.53	162.5	133.6	30.5	30.8	3.7
Year 2018	12.04.2018	11.06.2018	28.57	23.54	137.8	115.3	82.9	57.3	3.2
Year 2019	18.04.2019	21.06.2019	20.25	21.73	216.2	16.9	0.0	216.2	4.7
Total					607.6	343.3	128.9	317.9	13.7

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.

¹² Including former area managers.

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.

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.

2.1 Measurement of fair value and accounting treatment

Without prejudice to the accounting framework already analysed in point 1.1 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 plans' 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 the year of reference and final maturity of the right to receive the shares, taking into account the probability that the vesting conditions for the year will not be realised for all recipients.

2.2 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 end of the year of reference, 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, in service of the three plans amounted to about 658 thousand (581 thousand net of the estimated turnover), for a total value of 8.2 million euros, of which 1.4 million euros already recognised through profit and loss.

	MAXIMUM NO. OF SHARES (THOUSANDS OF SHARES)	NO. OF SHARES NET OF THE ESTIMATED TURNOVER	PLAN'S FAIR VALUE (€ MILLION)	IFRS 2 RESERVE
2017-2026 Plan	205	183	2.4	0.6
2018-2026 Plan	164	144	2.4	0.4
2019-2026 Plan	290	254	3.3	0.3
Total	658	581	8.2	1.4

3. Long Term Incentive (LTI) plans

Since 2018, Banca Generali has been launching, each year, long-term incentive plans for the Banking Group's top management based exclusively on Banca Generali S.p.A. shares.

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 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 plans call 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 follows¹³:

- > 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 gate 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 at the beginning of the three-year period and determines the exact number of shares that can potentially be allotted for the instalment 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 years¹⁵;
- > the plan does not include dividend equivalent mechanisms, in accordance with the law and common practice in the banking sector;
- > the plan envisage the customary malus and claw-back clauses.

The level of achievement of objectives, expressed in percent terms, is determined separately for each basket, consisting in an indicator and the weight assigned to it, using the linear interpolation method on the basis of the reference levels set at the outset of the plan (minimum, target and maximum)¹⁶.

The following table shows the performance indicators defined for the plans activated up to now.

	WEIGHT	ACCESS GATE	OBJECTIVES	
			2018 LTI	2019 LTI
Banking Group's KPIs	80%	Total Capital Ratio (TCR) Liquidity Coverage Ratio (LCR)	1. ROE, 2. EVA	1. Recurring net, 2. Profit, 3. EVA
Insurance Group's KPIs	20%	Regulatory solvency ratio	1. Operating ROE, 2. rTSR	1. Medium net ROE, 2. EPS growth, 3. rTSR

- a) tROE (tangible – Return on equity): the ratio of net profit and average net equity, net of net profit for the year of the OCI component and intangible assets.
- b) Recurring income: net profit less the following extraordinary components: gains/losses on the Securities Portfolio, Performance Fees, extraordinary component of the contributions to the FITB/BRRD bank rescue funds and the income and costs related to the extraordinary transactions completed during that period.
- c) EVA – Embedded value added: an indicator that expresses the value creation as the difference between Recurring Net Profit (as defined above) and the cost of capital (ke * average absorbed capital).
- d) Net ROE (return on equity): ratio of consolidated net result and IFRS consolidated net equity of the Generali Group (excluding item "Other Comprehensive Income").
- e) Earnings Per Share Growth: the percentage change (compound average) of the EPS of Generali stock with reference to the net result normalised by gains/losses on disposal
- f) rTSR: relative Total Shareholder Return, compared to a peer group of competitors included in the STOXX Euro Insurance index.

¹³ Further information on the LTI plans' terms and conditions are included in the Remuneration Policy, approved annually by the Shareholders' Meeting of Banca Generali (Section 2 – Banking Group's Remuneration and Incentivisation Policies).

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 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.

¹⁶ In particular, the maximum performance level is associated with a percentage of 175%.

3.1 Measurement of fair value and accounting treatment

Without prejudice to the accounting framework already analysed in point 1.1 above, set out below are the specific details of the share-based payment plans that can be activated as part of the LTI plans launched by Banca Generali.

The number of shares due shall be valued separately for each plan year and for each of the weighted baskets linked to the objectives of the Banking Group and the Insurance Group.

In particular, baskets tied to the performance indicator formed by the Insurance Group's rTSR contain a market condition, whereas the other baskets are based on achievement of performance conditions.

Market conditions are assessed solely at the assignment date on the basis of a statistical model that estimates the probable future positioning of the rTSR for Generali shares compared to a peer group identified by the STOXX Euro Insurance Index for each plan year. The fair value of the rights associated with this plan component is thus determined by multiplying the fair value of a Banca Generali share at the assignment date by the level of achievement of the objective associated with the resulting positioning.

Baskets associated with the achievement of performance conditions are assessed on the basis of the fair value of a Banca Generali share and the number of shares potentially assignable.

In this case as well, the fair value of the Banca Generali share used 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.

The total cost of the LTI plans is therefore equal to the sum of the cost calculated for each basket on the basis of the fair value of rights assigned, determined according to the above methods, multiplied by the number of shares that may potentially be granted in respect of the level of achievement of the performance condition, the market 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.

3.2 Information on the share-based payment plans linked to the BG LTI

Overall, the total number of shares, either assigned or in the process of accruing, amounted to about 241 thousand, for a total value of 4.7 million euros, of which 2.1 million euros already recognised through profit or loss (1.5 million euros for 2019).

(THOUSANDS OF SHARES)	MAXIMUM NO. OF SHARES (THOUSANDS OF SHARES)	PLAN'S FAIR VALUE (€ MILLION)	IFRS 2 RESERVE
2018–2020 Plan	90	1.9	1.2
2019–2021 Plan	151	2.8	0.9
Total	241	4.7	2.1

Quantitative Information

The value of treasury shares assigned during the year was 3.2 million euros, against IFRS 2 reserves totalling 3.0 million euros, with a negative net effect on the share premium reserve of about 0.2 million euros.

New provisions have also been made to the reserve totalling 7.2 million euros.

At 31 December 2019, total IFRS 2 reserves allocated therefore amounted to 9.2 million euros, of which:

- > 5.7 million euros in relation to the Remuneration Policies;
- > 1.4 million euros in relation to the Loyalty Programme;
- > 2.1 million euros in relation to the BG LTI.

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").

Following the reorganisation of the sales networks approved by the Board of Directors of 8 November 2017, the corporate management identified the relevant operating segments for purposes of management reporting. 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 **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. In addition, the acquisitions finalised in 2019 of Nextam Partners and Valeur Fiduciaria, operating in the private banking and investment banking segment, were fully allocated to the Wealth Management CGU.

The **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.

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

For the purpose of a better understanding of the economic data reported below, it should be noted that 60 Financial Advisors moved from the Private Banking CGU to the WM CGU in 2019, thus contributing about 3.6 billion euros to the increase in the CGU's assets. 13 Financial Advisors with AUM of 0.5 billion euros moved instead from the Wealth Management CGU to the Private Banking CGU.

BANCA GENERALI GROUP PROFIT AND LOSS ACCOUNT BY BUSINESS SEGMENT (€ THOUSAND)	2019				2018			
	PB CGU	WM CGU	CORPORATE CENTER	TOTAL	PB CGU	WM CGU	CORPORATE CENTER	TOTAL
Net interest income	10,247	5,192	58,577	74,015	5,479	2,451	52,043	59,972
Fee income	539,860	250,090	91,065	881,014	505,169	173,959	62,539	741,666
of which:								
- underwriting	21,956	5,916	910	28,781	17,323	3,100	485	20,908
- management	416,321	198,125	31,868	646,313	446,802	158,386	29,015	634,202
- performance	70,958	31,117	45,361	147,436	24,198	6,373	8,044	38,614
- other	30,626	14,932	12,926	58,484	16,846	6,101	24,995	47,942
Fee expense	-252,465	-126,199	-12,540	-391,204	-256,302	-106,542	-13,500	-376,344
of which:								
- incentives	-8,216	-5,113	-	-13,329	-14,990	-7,738	-	-22,728
Net fees	287,395	123,890	78,525	489,810	248,866	67,418	49,038	365,322
Net income (loss) from trading activities	-	-21	11,302	11,282	-	-	21,811	21,811
Dividends	-	-	2,891	2,891	-	-	2,308	2,308
Net banking income	297,642	129,061	151,295	577,998	254,345	69,868	125,200	449,413
Staff expenses	-	-	-	-97,219	-	-	-	-84,227
Other general and administrative expenses	-	-	-	-162,681	-	-	-	-162,494
Adjustments of property, equipment and intangible assets	-	-	-	-29,955	-	-	-	-9,301
Other operating expenses/income	-	-	-	68,706	-	-	-	59,437
Net operating expenses	-	-	-	-221,149	-	-	-	-196,585
Operating result	-	-	-	356,849	-	-	-	252,828
Adjustments of other assets	-	-	-	-5,387	-	-	-	-7,286
Net provisions	-	-	-	-24,281	-	-	-	-25,351
Gains (losses) from investments and equity investments	-	-	-	-1,867	-	-	-	-431
Operating profit before taxation	-	-	-	325,314	-	-	-	219,760
Income taxes – current operations	-	-	-	-53,192	-	-	-	-39,634
Net profit	-	-	-	272,122	-	-	-	180,126
Profit (loss) for the year attributable to minority interests	-	-	-	-17	-	-	-	-
Net profit	-	-	-	272,139	-	-	-	180,126

(€ MILLION)	31.12.2019				31.12.2018			
	PB CGU	WM CGU	CORPORATE CENTER	TOTAL	PB CGU	WM CGU	CORPORATE CENTER	TOTAL
Assets Under Management	43,428	25,235	5,091	73,754	41,023	16,055	4,271	61,349
Net inflows	3,151	2,349	-370	5,130	3,967	1,334	-281	5,020
No. of FAs/RMs	1,707	333	n.a.	2,040	1,720	265	n.a.	1,985

Interest income includes negative interest income classified under Item 20 of the Profit and Loss Account (Interest expense).

Interest expense includes negative interest expense classified under Item 10 of the Profit and Loss Account (Interest income).

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)	31.12.2019		TOTAL
	PB CGU	WM CGU	
Goodwill	51,748	35,171	86,919
Intangible assets (customer relationships and trademarks)	4,758	19,929	24,687

In accordance with the requirements of IFRS 8.33, it bears recalling 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 subsidiary Genertellife for which reference is made to Part H of these Notes and Comments.

PART M – INFORMATION ON LEASES

Section 1 – Lessee

Qualitative Information

With regard to qualitative information required pursuant to paragraphs 59 and 60 of IFRS 16, reference should be made to Part A, namely Part A.1 – General, Section 5 – Other Aspects and Part A.2 – Main Financial Statements Aggregates, Section 15 – Other information, of these Notes and Comments.

Quantitative Information

As regards quantitative information, reference should be made to the details given in these Notes and Comments, and in particular:

- > Rights of use acquired through leases in Part B, Section 9 – Property and equipment – Item 90, Table 9.1 Breakdown of operating property and equipment: assets valued at cost and Table 9.6 Operating property and equipment: year changes;
- > Lease liabilities/debts in Part B, Section 1 – Financial liabilities measured at amortised cost – Item 10, Table 1.6 Lease debts;
- > Interest expense on lease liabilities/debts in Part C, Section 1 – Interests – Items 10 and 20, Table 1.3 Breakdown of interest expense and similar charges;
- > Other costs associated with rights of use acquired through leases in Part C, Section 12 – General and administrative expenses – Item 190 b), Table 12.5 Breakdown of other general and administrative expenses;
- > Amortisation charges of rights of use acquired through leases in Part C, Section 14 – Net adjustments/reversals of property and equipment – Item 210, Table 14.1 Breakdown of net adjustments of property and equipment.

Trieste, 9 March 2020

The Board of Directors

Independent Auditors' Report on the Consolidated 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 consolidated financial statements

Opinion

We have audited the consolidated financial statements of Banca Generali Group (the Group), which comprise the balance sheet as at December 31, 2019, 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 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, 2019 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, Potenza, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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Iscritta al Registro dei Revisori Legali al n. 167911 con D.M. del 15/03/2013 G.U. n. 26 del 02/04/2013

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Key audit matters

Audit responses

VALUATION OF GOODWILL

Notes: Part A) Accounting policies; Part B) Information on the consolidated balance sheet Assets - Section 10; Part G) Business combinations of entities or branches - Section 3.

The Group recorded among intangibles in the financial statements, goodwill for Euro 86,9 million. This goodwill, as required by IAS 36 "Impairment of assets", are not depreciated but tested for impairment ("Impairment test"), at least annually, by means of comparison of the carrying value with recoverable amounts of each CGU represented by the value in use.

The impairment test performed by the Bank confirmed the recoverability of goodwill registered in the consolidated financial statements.

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.

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:

- 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.

VALUATION OF THE PROVISIONS REGARDING THE INDEMNITY OF THE NETWORK AND LEGAL DISPUTES

Notes: Part A) Accounting policies; Part B) Information on the balance sheet Liabilities - Section 10.

Provisions for liabilities and contingencies at December 31, 2019 show a balance of Euro 169,4 million. In the section, Provisions for termination indemnity of Financial Advisors are equal to Euro 97,9 million, Provisions for network incentives are equal to Euro 31 million, Provisions for legal disputes are equal to Euro 12,9 million and Provisions for staff expenses are equal to Euro 16,6 million.

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.

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:

- 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, also with the support of external specialists, of the approach and assumptions adopted for the evaluations at December 31, 2019 specifically regarding the termination indemnity of Financial Advisors;
- 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.



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.

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, 2019, 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, 2019 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, 2019 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 26, 2020

BDO Italia S.p.A.

Rosanna Vicari
Partner
(signed in the original)

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 to article 5 of CONSOB Regulation adopted with resolution no. 20267/January 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. 20267/2018 of January 18, 2018, we have been engaged to perform a limited assurance engagement on the Consolidated Non-Financial Statement of Banca Generali S.p.A. and subsidiaries (the "Group") as of December 31, 2019 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on 9 March 2020 (hereinafter the "NFS").

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 'core option' ("GRI Standards") that have been identified as the reference standard for the reporting process.

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.

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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, 2019 has not been prepared, in all material respects, in accordance with the requirements of article 3 and 4 of the Decree and the GRI Standards.

Milan, 26 March 2020

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 31.12.2019

BOARD OF DIRECTORS
9 MARCH 2020

Economic and Financial Highlights

ECONOMIC AND FINANCIAL HIGHLIGHTS

(€ MILLION)	31.12.2019	31.12.2018	CHANGE %
Net interest income	74.3	60.2	23.4
Net fees	218.9	206.0	6.2
Dividends and net income (loss) from trading activities	14.2	24.1	-41.2
Net banking income	307.3	290.4	5.8
Staff expenses	-86.5	-79.3	9.0
Other net general and administrative expenses	-159.4	-160.3	-0.6
Amortisation and depreciation	-28.8	-9.2	212.6
Other operating income and expenses	68.1	59.0	15.3
Net operating expenses	-206.7	-189.8	8.9
Operating result	100.7	100.5	0.2
Provisions	-24.3	-25.3	-4.2
Dividends and income from equity investments	212.6	148.7	43.0
Adjustments	-5.4	-7.3	-26.0
Profit before taxation	281.3	216.3	30.0
Net profit	248.4	189.1	31.4

PERFORMANCE INDICATORS

	31.12.2019	31.12.2018	CHANGE %
Cost/income ratio	57.9%	62.2%	-7.0
EBITDA	129.5	109.7	18.0
ROE ^(a)	34.9%	30.3%	15.0
EPS – Earning per share (euros)	2.146	1.633	31.4

NET INFLOWS

(€ MILLION) (ASSORETI DATA)	31.12.2019	31.12.2018	CHANGE %
Mutual Funds and Sicavs	1,642	786	108.9
Portfolio management	-322	-78	-312.8
Insurance/Pension funds	1,479	1,520	-2.7
Securities/Current accounts	2,331	2,792	-16.5
Total	5,130	5,020	2.2

(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.

ASSETS UNDER MANAGEMENT & CUSTODY (AUM/C)

(€ BILLION) (ASSORETI DATA)	31.12.2019	31.12.2018	CHANGE %
Mutual Funds and Sicavs	16.5	13.2	24.7
Portfolio management	6.7	6.4	3.5
Insurance/Pension funds	25.2	23.1	9.1
Securities/Current accounts	18.5	14.8	25.0
Total	66.8	57.5	16.1

NET EQUITY

(€ MILLION)	31.12.2019	31.12.2018	CHANGE %
Net equity	791.6	632.6	25.1
Own funds	475.6	433.8	9.6
Excess capital	152.2	194.8	-21.9
Total Capital Ratio	15.4%	17.9%	-13.8

Accounting statements

BALANCE SHEET

ASSETS

(EURO)	31.12.2019	31.12.2018
10. Cash and deposits	525,395,846	1,012,890,014
20. Financial assets at fair value through profit or loss:	64,996,677	90,640,392
a) HFT financial assets	18,298,453	33,887,440
c) other financial assets mandatorily measured at fair value	46,698,224	56,752,952
30. Financial assets at fair value through other comprehensive income	2,778,836,317	1,987,314,692
40. Financial assets at amortised cost:	7,631,497,543	6,095,915,212
a) loans to banks	616,243,595	399,927,936
b) loans to customers	7,015,253,948	5,695,987,276
50. Hedging derivatives	4,727,087	-
70. Equity investments	37,463,437	4,445,258
80. Property and equipment	159,309,595	6,333,321
90. Intangible assets	99,698,707	95,102,084
<i>of which:</i>		
- goodwill	66,064,683	66,064,683
100. Tax receivables:	49,298,583	52,755,760
a) current	3,171,392	75,529
b) prepaid	46,127,191	52,680,231
120. Other assets	333,830,704	313,536,744
Total assets	11,685,054,496	9,658,933,477

NET EQUITY AND LIABILITIES

(EURO)	31.12.2019	31.12.2018
10. Financial liabilities at amortised cost:	10,565,184,070	8,706,397,459
a) due to banks	94,766,641	128,725,238
b) due to customers	10,470,417,429	8,577,672,221
20. HFT financial liabilities	1,203,977	384,030
40. Hedging derivatives	7,480,844	-
60. Tax liabilities:	9,569,260	14,175,318
a) current	1,490,483	7,890,858
b) deferred	8,078,777	6,284,460
80. Other liabilities	140,178,939	140,874,161
90. Employee termination indemnities	4,681,101	4,817,910
100. Provisions for liabilities and contingencies:	165,159,587	159,675,155
a) commitments and guarantees issued	107,702	85,620
c) other provisions	165,051,885	159,589,535
110. Valuation reserves	3,998,890	-11,504,968
130. Equity instruments	50,000,000	-
140. Reserves	352,015,427	303,039,654
150. Share premium reserve	57,728,952	57,889,178
160. Share capital	116,851,637	116,851,637
170. Treasury shares (-)	-37,356,083	-22,723,670
180. Net profit for the year	248,357,895	189,057,613
Total net equity and liabilities	11,685,054,496	9,658,933,477

PROFIT AND LOSS ACCOUNT

ITEMS

(EURO)	2019	2018
10. Interest income and similar revenues	82,987,961	66,642,135
20. Interest expense and similar charges	-8,710,161	-6,446,829
30. Net interest income	74,277,800	60,195,306
40. Fee income	581,991,820	554,158,256
50. Fee expense	-349,805,632	-325,386,034
60. Net fees	232,186,188	228,772,222
70. Dividends and similar income	215,503,593	151,031,902
80. Net income (loss) from trading activities	5,625,489	5,291,180
90. Net income (loss) from hedging	17,618	-
100. Gain (loss) on disposal or repurchase of:	5,839,978	16,042,027
a) financial assets at amortised cost	314,734	2,605,899
b) financial assets at fair value through other comprehensive income	5,525,244	13,436,128
110.		
Net income (loss) from financial assets and liabilities at fair value through profit and loss	-180,897	478,140
b) other financial assets mandatorily measured at fair value	-180,897	478,140
120. Net banking income	533,269,769	461,810,777
130. Net adjustments/reversals due to credit risk:	-5,387,350	-7,276,309
a) financial assets at amortised cost	-5,591,088	-4,991,167
b) financial assets at fair value through other comprehensive income	203,738	-2,285,142
150. Net income (loss) from trading activities	527,882,419	454,534,468
160. General and administrative expenses:	-245,890,259	-239,659,135
a) staff expenses	-86,484,686	-79,330,286
b) other general and administrative expense	-159,405,573	-160,328,849
170. Net provisions for liabilities and contingencies:	-37,603,540	-48,070,422
a) commitments and guarantees issued	-22,081	118,023
b) other net provisions	-37,581,459	-48,188,445
180. Net adjustments/reversals of property and equipment	-19,406,400	-1,485,108
190. Net adjustments/reversals of intangible assets	-9,426,558	-7,737,629
200. Other operating expenses/income	68,068,989	59,040,533
210. Operating expenses	-244,257,768	-237,911,761
220. Gains (losses) from equity investments	-2,058,518	-
250. Gains (losses) on disposal of investments	-262,322	-282,176
260. Profit from operating activities before income taxes	281,303,811	216,340,531
270. Income taxes for the year on operating activities	-32,945,916	-27,282,918
280. Net profit from operating activities after income taxes	248,357,895	189,057,613
300. Net profit for the year	248,357,895	189,057,613

STATEMENT OF OTHER COMPREHENSIVE INCOME

ITEMS

(EURO)	2019	2018
10. Net profit for the year	248,357,895	189,057,613
Other income net of income taxes, without transfer to Profit and Loss Account		
20. Equity securities at fair value through other comprehensive income	-300,000	-
70. Defined benefit plans	-23,028	-51,653
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	15,826,885	-25,617,505
170. Total other income net of income taxes	15,503,857	-25,669,158
180. Comprehensive income (Items 10 + 170)	263,861,752	163,388,455

STATEMENT OF CHANGES IN EQUITY

ITEMS

(EURO)	SHARE CAPITAL		SHARE PREMIUM RESERVE	RESERVES		VALUATION RESERVES	EQUITY INSTRUMENTS	TREASURY SHARES	NET PROFIT (LOSS)	NET EQUITY
	A) ORDINARY SHARES	B) OTHER		A) RETAINED EARNINGS	B) OTHER					
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
Change in opening balances	-	-	-	-	-	-	-	-	-	-
Amount at 01.01.2019	116,851,637	-	57,889,178	284,056,361	18,983,293	-11,504,968	-	-22,723,670	189,057,613	632,609,444
Allocation of net profit for the previous year:	-	-	-	44,158,109	-	-	-	-	-189,057,613	-144,899,504
- Reserves	-	-	-	44,158,109	-	-	-	-	-44,158,109	-
- Dividends and other allocations	-	-	-	-	-	-	-	-	-144,899,504	-144,899,504
Change in reserves	-	-	-	-	651,040	-	-	-	-	651,040
Transactions on net equity:	-	-	-160,226	-	4,166,624	-	50,000,000	-14,632,413	-	39,373,985
- Issue of new shares	-	-	-160,226	-	-2,851,564	-	-	3,153,456	-	141,666
- Purchase of treasury shares	-	-	-	-	-	-	-	-17,785,869	-	-17,785,869
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	-
- Change in equity instruments	-	-	-	-	-	-	50,000,000	-	-	50,000,000
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	-
- Stock options	-	-	-	-	7,018,188	-	-	-	-	7,018,188
Comprehensive income	-	-	-	-	-	15,503,858	-	-	248,357,895	263,861,753
Net equity at 31.12.2019	116,851,637	-	57,728,952	328,214,470	23,800,957	3,998,890	50,000,000	-37,356,083	248,357,895	791,596,718

(EURO)	SHARE CAPITAL		SHARE PREMIUM RESERVE	RESERVES		VALUATION RESERVES	EQUITY INSTRUMENTS	TREASURY SHARES	NET PROFIT (LOSS)	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
Amount 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

CASH FLOW STATEMENT

INDIRECT METHOD

(EURO)	2019	2018
A. OPERATING ACTIVITIES		
1. Operations	87,331,713	-30,922,368
Net profit (loss) for the year	248,357,895	189,057,613
Gain/loss on HFT financial assets and other assets and liabilities at fair value through profit or loss	1,620,134	-1,301,150
Gain/loss on hedging assets	-17,618	-
Net adjustments/reversals due to credit risk	5,387,350	7,276,309
Net adjustments/reversals of property, equipment and intangible assets	28,832,958	9,222,737
Net provisions for liabilities and contingencies and other costs/revenues	5,484,432	9,642,597
Taxes, duties and tax credits not paid	-9,337,965	-591,887
Net adjustments/reversals of discontinued operations	-	-
Other adjustments	-192,995,473	-244,228,587
2. Liquidity generated by/used for financial assets (+/-)	-2,264,076,871	-264,670,397
HFT financial assets	16,467,885	5,789,870
Financial assets at fair value	-	-
Other financial assets mandatorily measured at fair value	8,775,817	23,986,823
Financial assets at fair value through other comprehensive income	-749,639,765	947,451,820
Financial assets at amortised cost:	-1,525,090,575	-1,284,299,643
Loans to banks	-216,054,199	-20,756,281
Loans to customers	-1,309,036,375	-1,263,543,363
Other assets	-14,590,234	42,400,732
3. Liquidity generated by/used for financial liabilities (+/-)	1,635,036,172	767,205,359
Financial liabilities at amortised cost:	1,651,709,824	798,345,752
Due to banks	-33,994,203	-556,194,792
Due to customers	1,685,704,027	1,354,540,544
Securities issued	-	-
HFT financial liabilities	-384,030	-206,274
Financial liabilities at fair value	-	-
Other liabilities	-16,289,622	-30,934,119
Net liquidity generated by/used for operating activities	-541,708,986	471,612,594

(EURO)	2019	2018
B. INVESTING ACTIVITIES		
1. Liquidity generated by	212,613,000	148,724,000
Disposal of equity investments	-	-
Dividends received	212,613,000	148,724,000
Disposal of property and equipment	-	-
Disposal of intangible assets	-	-
Disposal of business units	-	-
2. Liquidity used for	-45,854,475	-12,626,264
Purchase of equity investments	-28,710,106	-
Purchase of property and equipment	-3,121,188	-1,596,947
Purchase of intangible assets	-14,023,181	-11,029,317
Disposal of business units	-	-
Net liquidity generated by/used for investing activities	166,758,525	136,097,736
C. FUNDING ACTIVITIES		
Issue/purchase of treasury shares	-17,644,203	-12,840,555
Issue/purchase of equity instruments	50,000,000	-
Distribution of dividends and other	-144,899,504	-145,473,828
Net liquidity generated by/used for funding activities	-112,543,707	-158,314,383
NET LIQUIDITY GENERATED/USED IN THE YEAR	-487,494,168	449,395,947
+ Liquidity generated (-) Liquidity used		
Reconciliation		
Cash and cash equivalents at year-start	1,012,890,014	563,494,067
Total liquidity generated/used in the year	-487,494,168	449,395,947
Cash and cash equivalents – effects of exchange rate fluctuations	-	-
Cash and cash equivalents at year-end	525,395,846	1,012,890,014

Legend:
 (+) Liquidity generated
 (-) Liquidity used

Notes and Comments

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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 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 IASs/IFRSs in force at 31 December 2019 (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 2019, 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 2019

	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

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED IN 2019 AND EFFECTIVE AS OF 2019

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)	2019/412	15.03.2019	01.01.2019
Amendments to IAS 19: <i>Plan Amendment, Curtailment or Settlement</i> (issued on 7 February 2018)	2019/402	14.03.2019	01.01.2019
Amendments to IAS 28: <i>Long-term Interests in Associates and Joint Ventures</i> (issued on 12 October 2017)	2019/237	11.02.2019	01.01.2019

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED BUT NOT EFFECTIVE YET

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	2019/2075	06.12.2019	01.01.2020
Amendments to IAS 1 and IAS 8: <i>Definition of Material</i> (issued on 31 October 2018)	2019/2104	10.12.2019	01.01.2020

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 effect of the first-time adoption as of 1 January 2019 of IFRS 16 is briefly outlined in the following Section 4 “Other Aspects”.

The other standards and interpretations that entered into force in 2019 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 Bank'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. 136/2015 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 2018.

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 criteria 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.

Content of the Financial Statements and the Notes and Comments

The Financial Statements at 31 December 2019 were prepared based on the "Instructions for Preparing the Financial Statements and Consolidated Financial Statements of Banks and Parent Holding Companies of Banking Groups," which were issued by the Bank of Italy with order dated 22 December 2005 in the exercise of the powers established in Article 43 of Legislative Decree No. 36/2015. Such instructions were issued in Circular No. 262/05, as further updated.

These Instructions set forth binding rules governing the presentation and preparation of financial statements and the minimum content of the notes and comments.

In detail, the 6th update published on 30 November 2018 and entered into force on 1 January 2019 endorses the new provisions introduced by IFRS 16 – *Leases*.

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 linked to the acquisition of own funds and their remuneration.

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 financial 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 were approved by the Board of Directors on 9 March 2020, when the Board also authorised its disclosure pursuant to IAS 10.

No events occurred after 31 December 2019 and until the publication was authorised that would significantly impact the Bank's financial performance and financial position reported in these Financial Statements.

Covid-19 epidemic

A serious viral pulmonary syndrome designated "Covid-19", caused by a novel coronavirus of animal origin (SARS-CoV-2), began to spread from Wuhan, the capital city of China's Hubei Province, in early 2020. The Chinese authorities reported the spread of the new virus to the World Health Organization (WHO) on 31 December 2019, but the full extent of the virus' severity only began to become clear after 23 January 2020, when the Chinese authorities implemented drastic, far-reaching quarantine measures for the many population centres in the affected province.

On 30 January 2020, the WHO declared the coronavirus epidemic an international public health emergency with a very high risk in China and a high risk at the global level.

At present, the future course of the epidemic is highly uncertain, in terms of both its spread through-out the world and duration. While in China the considerable efforts by the central government appear to have yielded initial results, the epidemic has spread to many other countries around the world — including Italy first and foremost in terms of number of cases and mortality rate — and is expanding in both Europe and the USA.

In Italy, the virus has spread rapidly since the first case of local transmission was identified in the Municipality of Codogno, on 21 February 2020, and has elicited numerous measures by the government, including strict containment of the municipalities affected by the initial outbreak, culminating in their isolation (21-23 February 2020), then gradually extended to the regions and provinces of Italy most severely affected (Prime Minister's Decree of 25 February 2020 and Prime Minister's Decree of 1 March 2020) and the entire country (Prime Minister's Decree of 4 March 2020).

Finally, on 8 March 2020 further government action also established significant limits on the movement of individuals, public or private events of all kinds and the operation of commercial businesses in the regions and provinces of Northern Italy most severely affected (Prime Minister's Decree of 8 March 2020). These measures were then extended to the entire Italian territory (Prime Minister's Decree of 9 March 2020).

As at 8 March, confirmed cases worldwide exceeded 105,000, with 3,100 deaths, whereas in Italy confirmed cases were nearly 7,500, with over 250 deaths.

Thus far, the effects of the crisis have been particularly severe, not only for the Chinese economy, but also for numerous sectors of the economy at the international level (tourism and transport, above all air transport) and could result in a significant slowdown of economic activity in 2020 in all countries that may subsequently be affected by the epidemic.

In addition, the crisis has triggered a sharp decline in global stock exchanges, which up to now have posted losses of nearly 20% from the peak reached in January, suggesting a future bear market scenario. In this environment, the pre-existing weakness of the Italian economy has fuelled renewed tensions on its government bond market, driving up spreads.

In 2020, the Generali Group, and with it Banca Generali, have adopted a series of broad, effective initiatives designed to contain the spread of the epidemic within their sites, immediately suspending employee travel, enhancing hygiene and sanitation measures within their offices and extending eligibility for smart-working.

From an operational standpoint, due in part to the widespread adoption of smart-working, the Banking Group has adopted an organisation and infrastructure capable of ensuring full business continuity.

In accordance with the accounting standard IAS 10, the epidemic qualifies as an event after the reporting date that does not entail adjustments to the financial statements, since the epidemic only began to spread and show its full effects after the reporting date 31 December 2019.

However, as at 9 March 2020 it is not possible to predict the future course of the phenomenon nor to arrive at a reliable assessment of its potential impact on the Banking Group's capital and financial position, and financial performance. Accordingly, it is possible that if the crisis triggered by the epidemic were to continue for a protracted period in 2020, it might result in impacts on the economic results for the year that has just begun.

Section 4 – Other Aspects

Accounting standards that have been endorsed and will enter into effect this year

Introduction of IFRS 16

IFRS 16 was issued by IASB on 13 January 2016 with the aim of improving the accounting treatment of lease contracts, replacing the previous standards and interpretations (IAS 17 – *Leases*, 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 lessees 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 leases;
- > 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 5,000 dollars/euros);
- > 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 the right of use (RoU) 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 item, offset by an increase in the amortisation and interest expense recognised in respect of the financial liabilities booked.

IFRS 16 implementation project

With regard to the scope of application, Banca Generali 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 Bank's entire logistical structure — divided into head offices, bank branches and Financial Advisor offices — is based on leased properties 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 Bank'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.

In 2018, the Bank started to carry 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.

In the first half of the year, the Tagetik IFRS16 application was also acquired and implemented to recognise, measure and present rights of use and associated lease liabilities.

First-time adoption

On the basis of paragraphs C7 to C13 of the Appendix to IFRS 16, the Bank 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 have not been restated on a like-for-like basis in the financial statements in which the new Standard was applied upon first-time adoption.

In particular, at the date of first-time adoption, the Bank, for contracts in which it acts as the lessee:

- > measured **the lease 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 first-time adoption;
- > recognised **the asset consisting of the right of use (RoU)** at the amount of the lease liability, adjusted by the amount of prepayments relating to the lease recognised in the balance sheet immediately prior to the date of first-time adoption;
- > conducted an impairment test on the assets recognised on the basis of IAS 36.

In view of the Bank's consolidated practice of entering into and retaining property lease contracts for an extended period, when determining the term of such contracts, as necessary to determine the present value of the future lease payments, account has generally been taken of the initial term of the contract and the subsequent period of automatic renewal, without considering the break option for the lessee, unless cancellation of the contract is already certain.

Lease payments have been discounted on the basis of the Bank's estimated marginal financing rate according to the free-risk swap rate curve, plus a spread equal to the Insurance Group's credit spread, based on the quoted prices of CDSs referring to the parent company, Assicurazioni Generali.

In particular, at 1 January 2019 the discount rate applicable to each contract was determined on the basis of the adjusted swap rate applicable to a maturity equal to the residual term of the contract.

As of 1 January 2019, weighted average discount rate used was 2.54%.

The adoption of the new Standard resulted in an increase in both property and equipment and amounts due to customers, as a consequence of the recognition of the aforementioned rights of use and associated liabilities.

In particular, the new accounting Standard entailed the recognition at 1 January 2019 of new intangible assets, consisting of rights of use, in the amount of approximately 133 million euros, net of lease prepayments, already recognised in the 2018 Financial Statements. Financial liabilities associated with the aforementioned lease transactions were recognised in a symmetrical manner.

On the basis of the method implemented upon first-time adoption, no financial effects on retained earnings were recognised.

Given that for prudential purposes, rights of use (RoUs) are subject to the same weighting applied to items of property and equipment, the impact on the requirement for credit risk upon FTA amounted to 10.7 million euros and resulted in an effect on prudential ratios at 1 January 2019 of at least 94 bps at the level of the TCR and of 84 bps at the level of CET1.

FTA – Statement of reconciliation of the balance sheet

The following is a statement of reconciliation of assets and liabilities as at 31 December 2018 and as at 1 January 2019 due to the first-time adoption of IFRS 16.

ASSETS (€ THOUSAND)	31.12.2018	IFRS 16 FTA	01.01.2019
Financial assets at fair value through profit or loss	90,640	-	90,640
Financial assets at fair value through other comprehensive income	1,987,315	-	1,987,315
Financial assets at amortised cost	7,087,789	-	7,087,789
a) loans to banks (*)	1,391,802	-	1,391,802
b) loans to customers	5,695,987	-	5,695,987
Equity investments	4,445	-	4,445
Property, equipment and intangible assets	101,435	136,140	237,575
Tax receivables	52,756	-	52,756
Other assets	334,553	-2,904	331,649
Total assets	9,658,933	133,236	9,792,169

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2018	IFRS 16 FTA	01.01.2019
Financial liabilities at amortised cost	8,706,397	133,236	8,839,633
a) due to banks	128,725	-	128,725
b) due to customers	8,577,672	133,236	8,710,908
Financial liabilities held for trading and hedging	384	-	384
Tax liabilities	14,175	-	14,175
Other liabilities	140,874	-	140,874
Special purpose provisions	164,493	-	164,493
Valuation reserves	-11,505	-	-11,505
Reserves	303,040	-	303,040
Share premium reserve	57,889	-	57,889
Share capital	116,852	-	116,852
Treasury shares (-)	-22,724	-	-22,724
Net profit (loss) for the year (+/-)	189,058	-	189,058
Total net equity and liabilities	9,658,933	133,236	9,792,169

Breakdown of rights of use at 1 January 2019

	NO.	AMOUNT (000/€)	AVERAGE WEIGHTED LIFE (YEARS)
Rights of use of the head offices	3	44,844	11.90
Rights of use of the commercial network offices	202	90,583	6.57
Rights of use of company cars and guest residences	48	559	1.80
Rights of use of ATMs and other equipment	11	154	9.06
Total	264	136,140	-

The highest-value contract refers to the lease of the administrative offices in the Hadid Tower within the Citylife complex in Milan, which at the date of FTA is associated with an RoU asset of 41.1 million euros, equal to nearly 30% of the total value of the contract, in view of the estimated term of the contract of 13 years (initial period of nine years and four-year automatic extension).

The other contracts relating to administrative offices refer to the properties in Trieste, on Piazza S. Alessandro in Milan, and in Luxembourg.

References to information on the lease transactions reported in these Financial Statements at 31 December 2019 are given in Part M to the Notes and Comments.

Introduction of IFRIC 23 – *Uncertainty over Income Tax Treatments*

The interpretation IFRIC 23 – *Uncertainty over Income Tax Treatments*, adopted by Regulation No. 1595/2018 of 23 October 2018 and entered into force on 1 January 2019, clarifies how to apply the recognition and measurement criteria set out in IAS 12 – *Income Taxes* in the event of uncertainty over the treatments for determining income taxes.

In particular, the interpretation clarifies whether an entity is to consider uncertain tax treatments separately or collectively (according to the approach that best predicts the resolution of the uncertainty), the assumptions made by the entity regarding the outcome of control of uncertain tax treatments by the tax authorities and how taxable profit (tax loss) and the other values for tax purposes are to be figured. If the entity concludes that it is unlikely that the tax authority will accept the uncertain tax treatment, it must disclose the effect of this uncertainty in figuring its taxable profit (tax loss) and other values for tax purposes using either the most likely amount method or expected value method.

Accounting standards endorsed that will enter into effect after 31 December 2019

There are no international accounting standards and related interpretations endorsed but not effective yet as of 31 December 2019 that could have a material impact on the Bank's operations.

Use of estimates and assumptions in the preparation of the Financial Statements

The preparation of the Financial Statements 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 net inflow targets;
- > determining the fair value of cash financial instruments and derivatives to be used in financial statement, 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.

Additional information regarding the estimation procedures used for specific cases is provided in Part A, Section 2, of the Notes and Comments on the Accounting Policies adopted by Banca Generali.

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, except the business combinations, which are described in greater detail in Part G of these Notes and Comments.

In addition, no atypical and unusual transactions were undertaken, i.e., 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 (Consob Communication No. DEM/6064293 of 28 July 2006).

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.

Formation of the Assicurazioni Generali VAT Group

On 23 September 2019, as Representative of the Group's Italian subsidiaries, Assicurazioni Generali exercised the option to adopt the Group's VAT rules (set out in Articles 70-*bis* et seqq. of Presidential Decree No. 633/72) with effect from 1 January 2020.

Accordingly, with effect from that date all companies included in the VAT Group will use only the VAT registration number assigned by the Italian Agency of Revenue to the Group: 01333550323.

Relations between the individual participants and the Group's Representative (Assicurazioni Generali S.p.A.) will be governed by a specific contract. In particular, obligations to document and register VAT input and/or output transactions will continue to be discharged by the individual participants, whereas the additional obligations relating to "management" of the tax will be discharged solely by the Group Representative, in its capacity as single VAT-liable entity.

Indeed, by express provision of law, the Group VAT Representative will be required to file periodic VAT returns and make the related payments, submit the periodic VAT filings (LIPE), file the annual VAT return and submit the other information required by the relevant legislation (e.g., *Esterometro* and Intrastat statistics).

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 compliance with Article 1, paragraph 125-*bis*, of Law No. 124/2017 (Annual market and competition law), as most recently amended by Article 35 of Decree-Law No. 34/2019 (Growth Decree), companies are required to disclose annually, in the notes to their financial statements, the amount of government grants received, where grants are understood to refer to "subventions, subsidies, benefits, grants or aid, in cash or in kind, not of a general nature and not of the nature of consideration, remuneration or compensation, actually disbursed to them by public administrations."

The obligation applies solely to grants in excess of the threshold of 10,000 euros per disbursing authority, whether of a monetary nature, on a cash basis, or of a non-monetary nature.

Paragraph 125-*quinquies* of the statute also establishes that in the case of State aid and *de minimis* aid included in the National State Aid Registry the registration and publication of the individual aid in the transparency section must take account of the publication obligations incumbent on the beneficiary companies, provided that the existence of aid subject to mandatory publication in the National State Aid Registry is disclosed in the notes to the financial statements.

For further details of the grants received, refer to the website of the National State Aid Registry for companies, which may be consulted at the link www.rna.gov.it/sites/PortaleRNA/it_IT/home.

In light of the foregoing, it should be noted that in 2019 Banca Generali received the following grants:

BENEFICIARY	TYPE OF GRANT	GRANTOR AUTHORITY	AMOUNTS RECEIVED (€ THOUSAND)
Banca Generali	Personnel training	FBA Banks and Insurers' Fund (*)	160
Banca Generali	Cinematographic tax credit	MIBACT (**)	300

(*) This sum refers to aid for personnel training applied for 2017 and paid in October 2019. 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 September 2018, for which no disbursements were made in 2019.

(**) This refers to the tax credit for external investors in the cinematographic industry governed by Article 15 of the Ministerial Decree of 15 March 2018, applicable to up to 40% of the capital contributions made to joint ventures with labour contributions formed for Italian cinematographic production recognised by the Ministry for Cultural Heritage, Activities and Tourism. It should be noted that the tax credits accrued in respect of productions in 2017, 2018 and 2019 had yet to be used as at 31 December 2019.

Audit

The Financial Statements were 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

Accounting Standards

This section sets out the accounting policies adopted for the preparation of the Financial Statements as of 31 December 2019, 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.

In this regard, 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 2018 Annual Report, mainly as a result of the entry into force of the new IFRS 16 – *Leases* as of 1 January 2019.

The accounting principles adopted following the application of the new Standard are described in Section 15 “Other information – Leases (IFRS 16)”, whereas the effects of the first adoption are presented in detail in the previous Section 4 of the Notes and Comments “Accounting Policies”.

In light of the above, the main aspects of the accounting standards adopted by Banca Generali are reported here below with an analysis of the main consolidated 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 residual control, 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, 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 securities 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 residual control, 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 fees 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. 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 expected 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:

- 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 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;
- 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 residual control, 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 financial statement 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 foreign currency investment 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, associates and joint ventures.

Entities subject to significant influence (associates) are those entities in which the Bank holds at least 20% or more of the voting rights (including "potential" rights), or in which — although holding a lower voting power, in light of specific legal ties, such as Shareholders' agreements — it has the power to participate in the financial and management policy-making process or can exercise governance rights that are not limited to capital interests.

Companies subject to joint control (joint ventures) are entities over which control is shared, on a contractual basis, by the Bank and another entity or other entities external to the Group, or for which decisions regarding important activities require the unanimous consent of all parties that share control.

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 impairment 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 equity 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. Property and equipment also include rights of use ("RoUs") acquired in lease transactions within the scope of application of IFRS 16 and relating to the use, as lessee, of assets in this category (real estate, motor vehicles, equipment, etc.). For a more detailed analysis of the accounting criteria adopted by the Bank in respect of IFRS 16, see the dedicated paragraph below in Section 15 "Other information".

Recognition

Property and equipment are initially recognised at cost, which includes the purchase price, as well as all directly related ancillary 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 over a ten-year horizon, based on the historic percentage of decline of assets under management (AUM), 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 three-year period.

With reference to contractual relations with customers, acquired as a result of the above-mentioned business combination of Banca del Gottardo Italia, the useful lives have been 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 held for sale or a group of assets recognised as held 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 mainly 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, as subsequently amended, subsequently 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 98/2011 (known as the “Summer Manoeuvre”) introduced the new paragraphs 10-*bis* and 10-*ter* to Article 10 of Legislative Decree 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 off-balance 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 IAS/IFRS*”, 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 IFRS:

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 off-balance 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 or financial 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:

- > the total amount paid to Enasarco each year by the Bank until the date of termination;
- > 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 is 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.

Framework Loyalty Programme for the Sales Network

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.

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's scope, 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 third plan under the Programme, covering the period 2019-2026, was activated in 2019. All 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 forecast 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 written off 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.

Equity instruments

Equity instruments are instruments that represent an equity interest in the Bank pursuant to IAS 32.

The classification of an instrument issued as an equity investment requires the absence of contractual obligations to make payments in the form of repayment of principal, payment of interest or other forms of return.

In particular, instruments that present the following characteristics are classified as equity investments:

- > duration is unlimited or equal to the company's duration;
- > the issuer has full discretion over paying coupons or repaying principal, including prematurely.

This category also includes Additional Tier 1 instruments compliant with the provisions of Regulation (EU) No. 575/2013 (CRR) on the prudential requirements for credit institutions and investment firms that, in addition to presenting the characteristics described above, in any event:

- > allow the issuer to retain full discretion over whether to recognise a reversal of nominal value (write-up) following a capital event that has resulted in a decline in nominal value (write-down);
- > do not incorporate must-pay clauses for the issuer as a result of authentic events within the parties' control.

Equity instruments other than ordinary or savings shares are classified to item "130. Equity instruments" in the amount received, inclusive of the transaction costs that are directly attributable to the transaction concerned.

Any coupons paid, net of the related taxes, are deducted from the item "140. Reserves".

Any differences between the amount paid to discharge or repurchase these instruments and their carrying amount are recognised in item "140. Reserves".

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.

Leases (IFRS 16)

As lessee

At the inception of a contract, the Bank must assess whether it is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset in exchange for consideration for a period of time.

In addition to lease contracts, recognised as such, the definition of "lease contract" also includes rental, loans for use and all other contracts that may contain a lease.

For each contract that is, or contains, a lease, the Bank allocates the agreed consideration to the following, on the basis of the individual prices of each transaction:

- > the lease components (pure lease payment);
- > the components relating to other services to be recognised according to other standards (e.g., condominium fees, non-deductible VAT, late payment interest, duty stamps, insurance expenses, vehicle maintenance costs, etc.).

The Bank settles the lease components separately from the other service components, unless it is not readily feasible to do so.

The Bank recognises a right of use and related lease liability for all lease contracts in which it is the lessee, except for:

- > short-term contracts (i.e., lease contracts with a term of 12 months or less); and

- > leases of low-value assets (assets with a value of less than 5,000 euros when new).

The Bank accounts for payments relating to the latter as operating expenses on a straight-line basis over the term of the contract, unless another method is more representative.

Lease liabilities

Lease liabilities are initially recognised at the present value of the lease payments that are not paid at the commencement date of the lease, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the lessee's incremental borrowing rate.

Since most lease contracts entered into by the Bank do not include an implicit interest rate, the discount rate to be applied to future lease payments is generally based on the risk-free rate for the currency in which the contracts are denominated, applicable by maturity, commensurate to the term of the contract concerned, plus a specific credit spread applicable to the lessee.

In particular, the risk-free rate curve (swap curve) is used, with the addition of a spread representative of the Insurance Group's credit risk, calculated periodically on the basis of the quoted prices of credit default swaps (CDSs) referring to the parent company, Assicurazioni Generali.

The lease payments accounted for in the value of the lease liability include:

- > fixed payments, including lease payments contractually structured as variable but essentially fixed (in-substance fixed payments), less any incentives received from the lessor;
- > variable lease payments that depend on an index or a rate (e.g., inflation), initially measured using the index or rate as at the commencement date of the contract;
- > amounts expected to be payable by the lessee under residual value guarantees, where provided for by contract;
- > the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option;
- > payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease, and exercise of the option is deemed reasonably certain.

After initial recognition of the lease liability at amortised cost, the carrying amount of the liability is increased by the interest on the lease (according to the effective interest method) and decreased to reflect the payments made under the lease contract.

The Bank remeasures the balance of the lease liabilities (and applies an adjustment to the corresponding value of the right of use, where significant, if either:

- > there is a change in the lease term or there is a change in the assessment of an option right, in which case the lease liability is remeasured by discounting the lease payments at the revised discount rate;
- > there is a change in future lease payments resulting from a change in an index or a rate or there is a change in the amounts expected to be payable under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments at the initial discount rate (unless the change in lease payments results from a change in floating interest rates, in which case a revised discount rate is used);
- > a lease contract has been modified and the modification does not qualify for recognition as a separate contract, in which case the lease liability is remeasured by discounting the revised lease payments at the revised interest rate.

Rights of use

The Bank recognises rights of use and the related lease liabilities at the commencement date of the contract.

Right-of-use assets are initially measured at cost, including:

- > the initial measurement of the lease liability;
- > the lease payments made at or before the commencement date of the contract;
- > initial direct costs incurred to obtain the contract (legal, notarial, real-estate agency, etc.).

A provision for risks is recognised and measured according to IAS 37 when the Bank is obligated to bear the costs of returning an asset in a condition required by the terms of the contract. This cost is included in the value of the right of use.

The right of use is then recognised net of amortisation and any impairment losses.

The right of use is amortised on a straight-line basis over the period from the commencement date of the contract to the sooner of the end of the lease term and of the residual useful life of the underlying asset.

If the lease contract transfers ownership of the relevant asset or the cost of the right of use reflects the Bank's intention to exercise the purchase option, the right of use is amortised over the useful life of the asset.

The Bank applies IAS 36 – *Impairment of Assets* to identify the presence of any impairment losses.

Variable lease payments that do not depend on an index or a rate are not included in the value of the lease liability or the value of the right of use. The related payments are recognised on an accrual basis and are included in the item “Other operating costs” of the profit and loss account.

As lessor

The Bank does not act as lessor in lease transactions.

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 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 have their counterentry in 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 share-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 ("BG LTI 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 plans' characteristics are similar to those of the plans 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 adoption 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

Productivity bonuses to be paid to salaried employees during the following year are generally 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 expenses 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.

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 expenses 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 fees 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 fees on securities trading are recognised when the service is rendered. Portfolio management, advisory and mutual fund management fees are recognised according to the length of the service. Fees 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.

Recognition of the costs of obtaining and fulfilling a contract

Beginning from 2018, the amortisation period for acquisition and fulfilment costs for 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 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 had been previously accounted for according to the practical expedient of taking them in full to the profit and loss account for the year.

The modification, which qualifies as a change in accounting estimate in respect of the amortisation period for incentives, was applied prospectively in accordance with IAS 8.

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 case, 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 case, 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 (DGSD)

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 deposits¹**.

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 Nos. 180/2015 and 181/2015 were enacted, introducing the National Resolution Fund into the Italian legal system and assigning the Bank of Italy the role of National Resolution Authority.

In particular, Articles 78 et seqq. of Legislative Decree No. 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 No. 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.

¹ 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%.

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 160 b “General and administrative expenses — other general and administrative expenses” of the profit and loss account in the separate financial statements and sub-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, it should be 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 Lending 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

Level 2 of the fair value hierarchy includes all financial instruments whose fair value, despite not being directly observable on the market, may be estimated using valuation models based on:

- > inputs directly observable on the market (e.g., executable prices, interest rates or yield curves observable within various buckets, volatilities, credit spreads, etc.);
- > inputs indirectly observable on the market or based on observable market data and supported by strong evidence of correlation with observable market data (market-corroborated inputs).

With regard to bond securities (including government bonds and securitisations), the price sources to be used, where available, to determine fair value in the absence of an active market are as follows:

- > Bloomberg Generic Number (BGN), which represents Bloomberg's market consensus price and is calculated using both the prices contributed to Bloomberg;
- > Bloomberg Valuation Service (BVAL), which provides a valuation of bonds based on a three-stage pricing process: 1) observation of market data; 2) analysis of observed prices for similar instruments; and 3) valuation based on non-arbitrage models (for comparable yield curve models). The BVAL is considered a Level 2 price source when there is evidence that it is based on directly observable market data. In all other cases, it will be considered a Level 3 price source;
 - other consensus prices provided by Bloomberg, Telekurs or other Information Providers;
 - contributors' executable prices that do not meet the significance requirements;
 - valuation models developed by Banca Generali, implemented on front-office systems or provided by third-party providers, based on observable significant inputs, which have been validated by the Risk and Capital Adequacy Department.

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.

As regard derivative instruments, valuation models are used that have been developed by Banca Generali, implemented on front-office systems or provided by third-party providers, based on observable significant inputs, which have been validated by the Risk and Capital Adequacy Department.

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, 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

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 debt recoverability 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	31.12.2019				TOTAL
	L1	L2	L3	AT COST	
1. Financial assets at fair value through profit or loss:					
a) HFT financial assets	1,974	16,324	-	-	18,298
b) financial assets designated at fair value	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	6,163	40,535	-	-	46,698
2. Financial assets at fair value through other comprehensive income	2,742,474	24,003	122	12,237	2,778,836
3. Hedging derivatives	-	4,727	-	-	4,727
4. Property and equipment	-	-	-	-	-
5. Intangible assets	-	-	-	-	-
Total	2,750,611	85,589	122	12,237	2,848,559
1. HFT financial liabilities	-	1,204	-	-	1,204
2. Financial liabilities designated at fair value	-	-	-	-	-
3. Hedging derivatives	-	7,481	-	-	7,481
Total	-	8,685	-	-	8,685
ASSETS/LIABILITIES AT FAIR VALUE	31.12.2018				TOTAL
	L1	L2	L3	AT COST	
1. Financial assets at fair value through profit or loss:					
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 at fair value through other comprehensive income	1,966,450	11,863	214	8,787	1,987,314
3. Hedging derivatives	-	-	-	-	-
4. Property and equipment	-	-	-	-	-
5. Intangible assets	-	-	-	-	-
Total	1,968,311	98,304	2,552	8,787	2,077,954
1. HFT financial liabilities	-	384	-	-	384
2. Financial liabilities designated at fair value	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-
Total	-	384	-	-	384

At the reporting date, Banca Generali's portfolios at fair value, i.e., the portfolio of financial assets measured at fair value through profit or loss, the portfolio of financial assets measured at fair value through other comprehensive income (HTCS), hedging derivatives and HFT financial liabilities comprised 96.6% of financial assets eligible for allocation to class L1, with an unchanged ratio compared to the previous year. This category remained chiefly focused on sovereign debt: Italian government bonds (898 million euros) declined compared to the previous year (-825.5 million euros; -47.9%), offset by the new acquisition in 2019 of Spanish and Portuguese government bonds (1,366.5 million euros), whereas the remainder referred to US securities (8 million euros). It also includes other debt securities (472.1 million euros) chiefly referring to credit sector (248.2 million euros), listed equities listed and the equity investment on the Sicav Lux IM (6.2 million euros overall).

The financial assets allocated to the L2 class, on the other hand, consist primarily of UCITS not listed on regulated markets (20.2 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 financial assets mandatorily measured at fair value. In addition, the L2 portfolio includes bonds of Italian and foreign banks (34.6 million euros), hedging derivatives and 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 AT FAIR VALUE THROUGH PROFIT OR LOSS				
	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	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
1. Amount at year-start	2,338	-	-	2,338	9,001
2. Increases	6,018	6,018	-	-	3,750
2.1 Purchases	6,010	6,010	-	-	3,750
2.2 Gains through:	8	8	-	-	-
2.2.1 Profit and loss	8	8	-	-	-
- of which: capital gains	-	-	-	-	-
2.2.2 Net equity	-	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-
2.4 Other increases	-	-	-	-	-
3. Decreases	8,356	6,018	-	2,338	392
3.1 Disposals	6,018	6,018	-	-	-
3.2 Redemptions	-	-	-	-	92
3.3 Losses through:	2,338	-	-	2,338	300
3.3.1 Profit and loss	2,338	-	-	2,338	-
- of which: capital losses	2,338	-	-	2,338	-
3.3.2 Net equity	-	-	-	-	300
3.4 Transfers to other levels	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-
4. Amount at year-end	-	-	-	-	12,359

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, aimed at 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, and for the intervention targeting Banca Carige. These amounts, which had amounted to 2,338 thousand euros at 31 December 2018, were fully written down in the reporting year.

By contrast, L3 financial assets in the portfolio of Financial assets at fair value through other comprehensive income, for a total amount of 12,359 thousand euros, consist of:

- > the investment in the private-equity special purpose entity Athena Private Equity (0.1 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 strategic service arrangements (CSE, GBS, Caricese, SWIFT, etc.) or commercial partnerships (Tosetti Value), for a total of 11.5 million euros. In 2019, in particular, the CSE equity investment was increased by approximately 3.7 million euros;
 - b) the contributions to film production ventures with Tyco Film S.r.l., Fabula Pictures S.r.l., Eskimo S.r.l., Zocotoco S.r.l. and Palomar S.p.A., for a total amount of 0.8 thousand 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	31.12.2019			
	BV	L1	L2	L3
1. Financial assets at amortised cost	7,631,498	5,059,494	1,906,295	820,980
2. Property and equipment held as investments	-	-	-	-
3. Non-current assets available for sale and disposal groups	-	-	-	-
Total	7,631,498	5,059,494	1,906,295	820,980
1. Financial liabilities at amortised cost	10,565,184	-	10,565,184	-
2. Liabilities associated to assets held for sale	-	-	-	-
Total	10,565,184	-	10,565,184	-

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

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 SHEET – ASSETS²

Section 1 – Cash and deposits – Item 10

1.1 Breakdown of cash and deposits

	31.12.2019	31.12.2018
a) Cash	21,952	21,016
b) Demand deposits with Central Banks	503,443	991,874
Total	525,395	1,012,890

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 – Held-for-trading financial assets – Item 20

2.1 HFT financial assets: categories

ITEMS/VALUES	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	1,974	15,106	-	958	32,429	-
1.1 Structured securities	-	15,054	-	-	29,557	-
1.2 Other debt securities	1,974	52	-	958	2,872	-
2. Equity securities	-	-	-	1	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	1,974	15,106	-	959	32,429	-
B. Derivatives						
1. Financial	-	1,218	-	-	499	-
1.1 Trading	-	1,218	-	-	499	-
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	-	1,218	-	-	499	-
Total (A + B)	1,974	16,324	-	959	32,928	-

² 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	31.12.2019	31.12.2018
A. Cash assets		
1. Debt securities	17,080	33,387
a) Central Banks	-	-
b) Public administration bodies	52	-
c) Banks	17,028	32,383
d) Other financial companies	-	1,004
of which:		
- insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	-	1
a) Banks	-	-
b) Other financial companies	-	-
of which:		
- insurance companies	-	-
c) Non-financial companies	-	1
d) Other issuers	-	-
3. UCITS units	-	-
4. Loans	-	-
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	17,080	33,388
B. Derivatives		
a) Central counterparties	-	-
b) Other	1,218	499
Total B	1,218	499
Total (A + B)	18,298	33,887

2.5 Other financial assets mandatorily measured at fair value: categories

ITEMS/VALUES	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	3,045	-	-	3,031	2,338
1.1 Structured securities	-	3,045	-	-	3,031	-
1.2 Other debt securities	-	-	-	-	-	2,338
2. Equity securities	1,141	-	-	903	-	-
3. UCITS units	5,022	20,156	-	-	32,822	-
4. Financing	-	17,334	-	-	17,659	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	17,334	-	-	17,659	-
Total	6,163	40,535	-	903	53,512	2,338

2.6 Other financial assets mandatorily measured at fair value: debtors/issuers

ITEMS/VALUES	31.12.2019	31.12.2018
1. Equity securities	1,141	903
<i>of which:</i>		
- banks	-	-
- other financial companies	1,141	903
- other non-financial companies	-	-
2. Debt securities	3,045	5,369
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	3,045	3,031
d) Other financial companies	-	-
<i>of which:</i>		
- insurance companies	-	-
e) Non-financial companies	-	2,338
3. UCITS units	25,178	32,822
4. Loans	17,334	17,659
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	17,334	17,659
<i>of which:</i>		
- insurance companies	17,334	17,659
e) Non-financial companies	-	-
f) Households	-	-
Total	46,698	56,753

The UCITS portfolio included 12,824 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 3,174 thousand euros of the investment in the Luxembourg vehicle Algebris, for 2,801 thousand euros of the units of the Tenax Italian Credit Fund, managed by the Irish firm Tenax Capital Ltd., for 1,357 thousand euros of the closed alternative real-estate investment fund managed by Milano Investment Partners SGR S.p.A., and for the remainder of investments in the Lux IM Sicav.

Equity securities include all equity shares of the parent company, Assicurazioni Generali (1,141 thousand euros).

Capital contributions 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, and for the intervention targeting Banca Carige, amounting to 2,338 thousand euros at 31 December 2018, were written off at the end of the year.

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	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	2,742,474	24,003	-	1,966,450	11,863	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	2,742,474	24,003	-	1,966,450	11,863	-
2. Equity securities	-	-	12,359	-	-	9,001
3. Financing	-	-	-	-	-	-
Total	2,742,474	24,003	12,359	1,966,450	11,863	9,001

3.2 Financial assets measured at fair value through other comprehensive income: debtors/issuers

ITEMS/VALUES	31.12.2019	31.12.2018
1. Debt securities	2,766,477	1,978,313
a) Central Banks	-	-
b) Public administration bodies	2,278,815	1,736,525
c) Banks	262,781	156,790
d) Other financial companies	179,219	72,033
<i>of which:</i>		
- insurance companies	-	-
e) Non-financial companies	45,662	12,965
2. Equity securities	12,359	9,001
a) Banks	-	-
b) Other issuers	12,359	9,001
- other financial companies	2,231	2,323
<i>of which:</i>		
- insurance companies	-	-
- non-financial companies	10,121	6,671
- other	7	7
3. Financing	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
<i>of which:</i>		
- insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	2,778,836	1,987,314

Item “Debt securities” includes assets sold but not written off, which refer to own securities used in repurchase agreements amounting to 85,767 thousand euros.

The equity securities portfolio included 11,481 thousand euros referring to “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 the first half of 2019, Banca Generali increased its equity interest in CSE from 7% to 10% through an investment of 3,750 thousand euros.

Capital contributions relating to film partnership contracts, with no expiry date, for a total amount of 755 thousand euros at 31 December 2019 are also classified in this portfolio.

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	2,746,664	-	20,878	-	971	94	-	-
Financing	-	-	-	-	-	-	-	-
Total at 31.12.2019	2,746,664	-	20,878	-	971	94	-	-
Total at 31.12.2018	1,968,676	-	12,875	-	3,074	164	-	-
<i>of which:</i>								
- <i>acquired or originated impaired financial assets</i>	X	X	-	-	X	-	-	-

In respect of the model for measuring expected credit losses (ECLs) provided for in IFRS 9, as at 31 December 2019 collective reserves of 1,065 thousand euros had been recognised for the debt securities portfolio, of which 684 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	31.12.2019 - BOOK VALUE			31.12.2018 - 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	101,063	-	-	82,714	-	-
1. Terms deposits	-	-	-	-	-	-
2. Mandatory reserve	101,063	-	-	82,714	-	-
3. Repurchase agreements	-	-	-	-	-	-
4. Other	-	-	-	-	-	-
B. Loans to banks	515,181	-	-	317,214	-	-
1. Loans	270,065	-	-	237,782	-	-
1.1 Current accounts and demand deposits	84,819	-	-	218,852	-	-
1.2 Term deposits	22,233	-	-	17,449	-	-
1.3 Other loans:	163,013	-	-	1,481	-	-
- repurchase agreements	152,969	-	-	-	-	-
- lease loans	-	-	-	-	-	-
- other	10,044	-	-	1,481	-	-
2. Debt securities	245,116	-	-	79,432	-	-
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	245,116	-	-	79,432	-	-
Total	616,244	-	-	399,928	-	-

TYPE OF TRANSACTIONS/VALUES	31.12.2019				31.12.2018			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
A. Loans to Central Banks	101,063	-	101,063	-	82,714	-	82,714	-
B. Loans to banks	515,181	171,450	346,120	-	317,214	59,655	257,653	-
1. Loans	270,065	-	270,065	-	237,782	-	237,782	-
2. Debt securities	245,116	171,450	76,055	-	79,432	59,655	19,871	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	245,116	171,450	76,055	-	79,432	59,655	19,871	-
Total	616,244	171,450	447,183	-	399,928	59,655	340,367	-

4.2 Financial assets measured at amortised cost: categories of loans to customers

TYPE OF TRANSACTIONS/VALUES	31.12.2019 - BOOK VALUE			31.12.2018 - 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	2,219,981	26,911	-	2,109,479	36,815	-
1.1 Current accounts	1,104,150	8,285	-	968,637	17,269	-
1.2 Repurchase agreements	206,069	-	-	199,937	-	-
1.3 Mortgages	752,600	18,614	-	818,689	19,065	-
1.4 Credit cards, personal loans and loans on wages	15	6	-	-	6	-
1.5 Lease loans	-	-	-	-	-	-
1.6 Factoring	-	-	-	-	-	-
1.7 Other loans	157,147	6	-	122,216	475	-
2. Debt securities	4,761,623	6,739	-	3,549,688	6	-
2.1 Structured securities	-	6,739	-	13,206	-	-
2.2 Other debt securities	4,761,623	-	-	3,536,482	6	-
Total	6,981,604	33,650	-	5,659,167	36,821	-

TYPE OF TRANSACTIONS/VALUES	31.12.2019				31.12.2018			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1. Loans	2,246,892	-	1,435,824	814,241	2,146,294	-	1,285,508	860,708
2. Debt securities	4,768,362	4,888,044	23,288	6,739	3,549,694	3,449,750	20,883	14,300
2.1 Structured securities	6,739	-	-	6,739	13,206	-	-	14,300
2.2 Other debt securities	4,761,623	4,888,044	23,288	-	3,536,488	3,449,750	20,883	-
Total	7,015,254	4,888,044	1,459,112	820,980	5,695,988	3,449,750	1,306,391	875,008

Item 2.1 “Structured securities” refers to a convertible bond issued on 16 December 2015 by Tyndaris LLP, an English fund management company, for an amount of 14.0 million euros and with maturity on 31 December 2021. In 2019, following the economic difficulties of the owners of Tyndaris Group and the need for the latter to dispose of its asset management operations, a process of restructuring the exposure was launched and is expected to be concluded in the first half of 2020, within the framework of which the Bank has already waived the right to collect the residual interest coupons. The security was therefore subjected to analytical impairment for an amount of 8.6 million euros.

The item “Debt securities” includes encumbered assets used as collateral for ECB refinancing operations totalling 219,386 thousand euros and securities held in deposit with Cassa di Compensazione e Garanzia amounting to 14,962 thousand euros. This item also includes own securities used in repurchase agreements amounting to 29,712 thousand euros.

Item 1.7 “Other loans” includes operating receivables relating to the placement and distribution of financial and insurance products in the amount of 81,533 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	31.12.2019	31.12.2018
Other grants and pooled funding	30,693	4,567
Stock exchange interest-bearing daily margin	14,091	13,088
Sums advanced to Financial Advisors	18,415	19,395
Operating loans	81,533	81,475
Interest-bearing caution deposits	1,011	995
Amounts to be collected	11,410	3,171
Total	157,153	122,691

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 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 enrolled with the Register of Financial Advisors include non-performing positions for a net amount of 1,213 thousand euros, largely attributable to advances to former Financial Advisors who have left service due to a dispute or pre-dispute.

4.3 Financial assets measured at amortised cost: loans to customers – debtors/issuers

TYPE OF TRANSACTIONS/VALUES	31.12.2019			31.12.2018		
	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	4,761,623	6,739	-	3,549,688	6	-
a) Public administration bodies	4,496,146	-	-	3,426,593	-	-
b) Other financial companies	176,905	-	-	61,653	-	-
of which:						
- insurance companies	-	-	-	-	-	-
c) Non-financial companies	88,572	6,739	-	61,442	6	-
2. Loans	2,219,981	26,911	-	2,109,479	36,815	-
a) Public administration bodies	-	-	-	-	-	-
b) Other financial companies	354,534	5,405	-	341,975	6,719	-
of which:						
- insurance companies	23,410	-	-	29,407	-	-
c) Non-financial companies	263,491	15,516	-	305,543	19,573	-
d) Households	1,601,956	5,990	-	1,461,961	10,523	-
Total	6,981,604	33,650	-	5,659,167	36,821	-

4.4 Financial assets measured at amortised cost: gross value and total value 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	4,939,647	-	71,766	17,936	3,713	961	11,197	-
Financing	2,519,523	-	74,149	39,115	1,832	731	12,204	-
Total at 31.12.2019	7,459,170	-	145,915	57,051	5,545	1,692	23,401	-
Total at 31.12.2018	5,904,036	-	165,273	51,945	7,866	2,348	15,124	-
of which:								
- acquired or originated impaired financial assets	X	X	-	-	X	-	-	-

In respect of the model for assessing expected credit losses (ECLs) provided for in IFRS 9, at 31 December 2019 performing loans at amortised cost, classified to Stage 1 and Stage 2, are recognised net of the collective reserves for a total of 7,237 thousand euros, of which:

- > 4,674 thousand euros relating to the debt securities portfolio;
- > 2,563 thousand euros relating to other loans.

Within this item, total value adjustments of exposures to banks amounted to 552 thousand euros, of which 419 thousand euros on debt securities and 133 thousand euros on other loans.

The provision for expected losses on debt securities refers instead to the government bond portfolio in the amount of 3,111 thousand euros.

By contrast, the provision for expected losses on debt securities refers to the government bond portfolio in the amount of 3,111 thousand euros.

The item relating to non-performing “Debt securities” (Stage 3) refers to the Alitalia bond and the Tyndaris structured security. The Alitalia bond known as “Dolce Vita”, amounting to 2,642 thousand euros, was almost fully written down in the previous years 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. At 31 December 2018, the bond was still recognised for about 6 thousand euros, which was fully written off in 2019. The Tyndaris security was instead written down by 8,555 thousand euros in 2019.

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 5 – Hedging derivatives – Item 50

5.1 Breakdown of hedging by type of hedge and hierarchy levels

TYPE OF TRANSACTIONS/VALUES	31.12.2019				31.12.2018			
	FAIR VALUE			NOTIONAL VALUE	FAIR VALUE			NOTIONAL VALUE
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives	-	4,727	-	401,000	-	-	-	-
1) Fair value	-	4,727	-	401,000	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	4,727	-	401,000	-	-	-	-

5.2 Breakdown of hedging derivatives by portfolios hedged and type of hedge

HEDGING TRANSACTIONS/TYPE	FAIR VALUE						CASH FLOWS			
	SPECIFIC									
	DEBT SECURITIES AND INTEREST RATES	EQUITY SECURITIES AND STOCK INDICES	CURRENCIES AND GOLD	CREDIT	GOODS	OTHER	GENERAL	SPECIFIC	GENERAL	FOREIGN INVESTMENTS
1. Financial assets measured at fair value through other comprehensive income	236	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	4,491	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	4,727	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	-	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 7 – Equity investments – Item 70

7.1 Equity investments: disclosure on type of relations

COMPANY NAME	REGISTERED OFFICE	OPERATING OFFICE	% HELD	% OF VOTING RIGHTS
A. Wholly controlled subsidiaries				
1. BG Fund Management Luxembourg S.A.	Luxembourg	Luxembourg	100%	100%
2. Generfid S.p.A.	Milan	Milan	100%	100%
3. Nextam Partners S.p.A.	Milan	Milan	100%	100%
4. BG Valeur S.A.	Lugano	Lugano	90.1%	90.1%
B. Subsidiaries under common control				
1. BG Saxo Sim S.p.A.	Milan	Milan	19.9%	19.9%
C. Companies subject to significant influence				
1. IOCA Entertainment Limited	United Kingdom - London	United Kingdom - London	35%	35%

Significant equity investments – accounting information

	31.12.2019	31.12.2018	CHANGE
Generfid S.p.A.	245	245	-
BG Fund Management Luxembourg S.A.	2,000	2,000	-
Nextam Partners S.p.A.	24,095	-	24,095
BG Valeur S.A.	8,980	-	8,980
Total	35,320	2,245	33,075

On 25 July 2019, a 100% interest was acquired in Nextam Partners S.p.A., the parent company of the group of securities brokerage firms of the same name.

Following the closing of the transactions, Banca Generali also acquired indirect control of the subsidiaries Nextam Partners SGR, Nextam Partners Sim, and the UK subsidiary Nextam Partners Ltd.

On 15 October 2019, Banca Generali acquired a 90.1% majority interest in Valeur S.A. (now BG Valeur S.A.), a trust company under Swiss law.

A summary of the accounting effects generated by the two business combination transactions is included in Part G – Business Combinations of the Notes and Comments to the Financial Statements.

Subsidiaries under common control – accounting information

	31.12.2019	31.12.2018	CHANGE
BG Saxo Sim S.p.A.	2,002	-	2,002
Total	2,002	-	2,002

Companies subject to significant influence – accounting information

	31.12.2019	31.12.2018	CHANGE
IOCA Entertainment Limited	141	2,200	-2,059
Total	141	2,200	-2,059

At 31 December 2019, two equity investments were reported:

- > IOCA Entertainment Ltd., a company under the UK law, in which Banca Generali acquired a 35% interest, in the form of 3,500 shares with a nominal 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, an e-commerce/social networking start-up is engaged in the commercial development of an app for smartphones and tablets, named "dringle";

- > BG Saxo Sim S.p.A., an investment firm formed as part of the joint venture with Saxo Bank, in which Banca Generali acquired a 19.9% equity interest on 31 October 2019 for 1,995 thousand euros, plus ancillary charges. Banca Generali and Saxo Bank entered into an agreement to set up an exclusive partnership specialising in online trading and digital services. The deal aims to offer Italian customers exclusive access to an innovative advanced trading platform based on Saxo Bank's technology and managed by BG Saxo Sim. The new platform will allow for an expansion of the range available to Banca Generali's Financial Advisors, granting access to tailor-made transactions and innovative dynamic hedging solutions that can be offered to both private-banking and corporate customers.

7.5 Equity investments: year changes

	31.12.2019	31.12.2018
A. Amount at year-start	4,445	16,224
B. Increases	35,077	-
B.1 Purchases	35,077	-
<i>of which:</i>		
- <i>business combinations</i>	33,075	-
B.2 Reversals	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	2,059	11,779
C.1 Sales	-	11,779
<i>of which:</i>		
- <i>business combinations</i>	-	11,779
C.2 Adjustments	2,059	-
C.3 Write-downs	-	-
C.4 Other changes	-	-
D. Amount at year-end	37,463	4,445
E. Total revaluations	-	-
F. Total adjustments	-	-

Impairment tests of equity investments

In accordance with IASs/IFRSs, equity investments have been tested for impairment in order to verify whether there is objective evidence that the carrying amounts of the assets concerned may not be fully recoverable.

The impairment testing process for equity investments in associates and joint ventures involves verifying whether there are any impairment indicators and determining the amount of the impairment loss, if any.

The impairment indicators used for such unlisted equity investments are:

- > qualitative indicators, such as an operating loss or a significant deviation from budget objectives, the announcement of restructuring plans or the commencement of insolvency procedures;
- > quantitative indicators represented by a carrying amount of the equity investment in the individual financial statements that is significantly higher, for an extended period, than the carrying amount of the investee's net assets and goodwill in the consolidated financial statements.

Where there are impairment indicators, the recoverable amount is determined as the greater of the fair value net of costs to sell and value in use, and if this is lower than the carrying amount an impairment loss is recognised.

Impairment testing of equity investments in associates indicated a need to adjust the carrying amount of the equity investment in IOCA Ltd due to the losses reported over the years and its limited future economic prospects, in an amount of 2.1 million euros.

The controlling interests recognised in the separate financial statements of Banca Generali have been tested for impairment, where the requirements have been met, by adopting uniform assessments at the parent company and consolidated level with regard to the goodwill implicit therein in respect of the relevant CGUs.

In fact, controlling interests are normally included in larger CGUs the scope of which may be transversal to the activities that they perform.

In this regard, reference should be made to Part G, Section 3, of the Notes and Comments to the Consolidated Financial Statements.

In detail, the equity investment in Nextam Partners S.p.A., along with the whole Nextam Partners Group, falls within the Wealth Management CGU and will be merged into Banca Generali in 2020.

The controlling interest in BG Valeur S.A. is also attributable to the Wealth Management CGU and has been tested for impairment to assess whether the carrying amounts at parent company level are recoverable, both on an individual basis and in respect of the relevant CGU. Following the procedure, values were determined to be accurate.

Section 8 – Property and equipment – Item 80

8.1 Operating property and equipment: assets valued at cost

ASSETS/VALUES	31.12.2019	31.12.2018
1. Owned assets	7,676	6,333
a) Land	-	-
b) Buildings	-	-
c) Furniture	6,507	5,159
d) Electronic equipment	146	178
e) Other	1,023	996
2. Rights of use acquired through leases	151,634	-
a) Land	-	-
b) Buildings	150,886	-
c) Furniture	-	-
d) Electronic equipment	-	-
e) Other	748	-
Total	159,310	6,333
<i>of which:</i>		
- <i>obtained through the enforcement of guarantees received</i>	-	-

Following the entry into force of the new standard IFRS 16 – Leases on 1 January 2019, right-of-use assets on leased assets (administrative offices, commercial network offices, company vehicles and ATMs) have been recognised under property and equipment. Upon first-time application of the Standard, the value of these assets amounted to 136,140 thousand euros.

8.6 Operating property and equipment: year changes

	RIGHTS OF USE ACQUIRED THROUGH LEASES - BUILDINGS	RIGHTS OF USE ACQUIRED THROUGH LEASES - OTHER	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
A. Gross amount at year-start	-	-	23,000	4,888	8,773	36,661
A.1 Total net impairment	-	-	17,841	4,710	7,777	30,328
A.2 Net amount at year-start	-	-	5,159	178	996	6,333
B. Increases	168,477	1,055	2,452	98	374	172,456
B.1 Purchases	32,788	458	2,452	98	374	36,170
of which:						
- business combinations	-	-	-	-	-	-
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	135,689	597	-	-	-	136,286
of which:						
- business combinations	-	-	-	-	-	-
- adjustment for IFRS 16 FTA	135,543	597	-	-	-	136,140
C. Decreases	17,591	307	1,104	130	347	19,479
C.1 Sales	-	-	-	-	-	-
of which:						
- business combinations	-	-	-	-	-	-
C.2 Depreciation	17,591	299	1,057	130	329	19,406
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	-	8	47	-	18	73
D. Net amount at year-end	150,886	748	6,507	146	1,023	159,310
D.1 Total net impairment	17,591	299	18,207	4,804	7,711	48,612
D.2 Gross amount at year-end	168,477	1,047	24,714	4,950	8,734	207,922
E. Valued at cost	150,886	748	6,507	146	1,023	159,310

Section 9 – Intangible assets – Item 90

9.1 Breakdown of intangible assets by categories

ASSETS/VALUES	31.12.2019		31.12.2018	
	DEFINITE LIFE	INDEFINITE LIFE	DEFINITE LIFE	INDEFINITE LIFE
A.1 Goodwill	-	66,065	-	66,065
A.2 Other intangible assets	33,634	-	29,037	-
A.2.1 Assets valued at cost:	33,634	-	29,037	-
a) internally generated intangible assets	-	-	-	-
b) other assets	33,634	-	29,037	-
A.2.2 Assets valued at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	33,634	66,065	29,037	66,065

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	66,065	-	-	69,642	-	135,707
A.1 Total net impairment	-	-	-	40,605	-	40,605
A.2 Net amount at year-start	66,065	-	-	29,037	-	95,102
B. Increases	-	-	-	14,024	-	14,024
B.1 Purchases	-	-	-	14,024	-	14,024
<i>of which:</i>						
- <i>business combinations</i>	-	-	-	-	-	-
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	-	-	-	9,427	-	9,427
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	9,427	-	9,427
- Amortisation	-	-	-	9,427	-	9,427
- 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	-	-	33,634	-	99,699
D.1 Total net adjustments	-	-	-	50,032	-	50,032
E. Gross amount at year-end	66,065	-	-	83,666	-	149,731
F. Valued at cost	66,065	-	-	33,634	-	99,699

9.3 Intangible assets: other information

Breakdown of goodwill

(€ THOUSAND)	31.12.2019	31.12.2018
Merger of Consult Sim and INA Sim	2,991	2,991
Merger of Banca del Gottardo	31,352	31,352
Credit Suisse Italy's business unit	27,432	27,432
BG Fiduciaria Sim S.p.A.	4,290	4,290
Total	66,065	66,065

Breakdown of intangible assets - other assets

(€ THOUSAND)	31.12.2019	31.12.2018
Charges associated with the implementation of legacy CSE procedures	13,837	10,713
Transactions with customers (former Credit Suisse Italy)	11,328	12,480
Other intangible assets	519	101
Advance payments on intangible assets	7,950	5,743
Total	33,634	29,037

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.

Impairment testing of goodwill

During the preparation of the 2019 Financial Statements, goodwill was tested for impairment and the carrying values were determined to be accurate. In this regard, reference should be made to Part G, Section 3, of the Notes and Comments to the Consolidated Financial Statements.

Section 10 – Tax assets and liabilities – Item 100 (Assets) and Item 60 (Liabilities)

Breakdown of item 100 (Assets): tax assets

TYPE OF TRANSACTIONS/VALUES	31.12.2019	31.12.2018
Current taxation	3,171	76
Sums due for taxes to be refunded	75	76
IRES arising on National Tax Consolidation scheme	2,903	-
IRES surtax	193	-
IRAP	-	-
Deferred tax assets	46,127	52,680
With impact on Profit and Loss Account	45,318	46,543
IRES	37,694	38,932
IRAP	7,624	7,611
With impact on Net Equity	809	6,137
IRES	762	5,318
IRAP	47	819
Total	49,298	52,756

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.

Breakdown of item 60 (Liabilities): tax liabilities

TYPE OF TRANSACTIONS/VALUES	31.12.2019	31.12.2018
Current taxation	1,490	7,891
IRES arising on National Tax Consolidation scheme	-	6,893
IRES	-	695
IRAP	1,490	303
Deferred tax liabilities	8,079	6,284
With impact on Profit and Loss Account	4,832	5,200
IRES	4,158	4,565
IRAP	674	635
With impact on Net Equity	3,247	1,084
IRES	2,777	927
IRAP	470	157
Total	9,569	14,175

10.1 Breakdown of deferred tax assets

TYPE OF TRANSACTIONS/VALUES	31.12.2019	PURSUANT TO LAW NO. 214/2011	31.12.2018	PURSUANT TO LAW NO. 214/2011
With impact on Profit and Loss Account	45,318	8,107	46,543	8,107
Provisions for liabilities and contingencies	34,907	-	36,275	-
Write-downs of loans to customers before 2015	2,735	2,735	2,735	2,735
Redeemed goodwill (pursuant to Article 15, para. 10, of Legislative Decree No. 185/2008)	3,024	3,024	3,024	3,024
Redeemed goodwill of former BG SGR (Article 176, para. 2-ter, of TUIR)	969	969	969	969
Consolidated goodwill of BG Fiduciaria (Article 15, para. 10-ter, of Legislative Decree No. 185/2008)	1,379	1,379	1,379	1,379
Analytical impairment of debt securities previously HTM (IRAP)	123	-	123	-
Reserves for collective impairment on loans to customers and banks	912	-	981	-
Write-downs of items for disputed positions in other assets	697	-	681	-
Revaluation of funds covered by Financial Advisors' policies	561	-	366	-
Other operating expenses	11	-	10	-
With impact on Net Equity	809	-	6,137	-
Measurement at fair value of HTCS financial assets	355	-	5,660	-
Actuarial losses IAS 19	454	-	477	-
Total	46,127	8,107	52,680	8,107

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 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.

However, the 2019 Budget Law (Law No. 145 of 30 December 2018) and the 2020 Budget Law (Law No. 160 of 30 December 2019) 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 detail, the 2019 Budget Law provided for:

- > the remodulation of the deductibility of part of the goodwill and other intangible assets not deducted as at 31 December 2017 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 No. 83/2015 at 10% as at 31 December 2026.

The 2020 Budget Law further amended this legal framework by introducing:

- > the deferral until 2022 and the three subsequent years of the deduction of the portion of adjustments to loans not deducted as at 31 December 2015 that accrued in 2019 (originally set at 12%);
- > the deferral until 2025 and the four subsequent years of the deduction of the portion of goodwill and other intangible assets, which gave rise to the recognition of deferred tax assets eligible for conversion into tax credits pursuant to Article 2, paragraphs 55-56-ter, of Legislative Decree No. 225/2010 (of which Law No. 214/2011) (originally set at 5%).

Accordingly, no DTAs eligible for conversion into tax credits were recovered in 2018 and 2019.

By way of partial exception to the full deduction scheme for adjustments to loans classified as loans to customers in the accounts, the 2018 Budget 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 912 thousand euros as at 31 December 2019. Within this framework, the 2020 Budget Law postponed until 2028 the deduction of the 2019 share of the effect of the first-time adoption of IFRS 9 (originally set at 10%).

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 light 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	31.12.2019	31.12.2018
With impact on Profit and Loss Account	4,832	5,200
Residual value of capital contribution to FITD	-	752
Goodwill, excluding off-balance sheet transactions	3,474	2,984
Provision for post-employment benefits (IAS19)	154	153
Revaluation of equity securities and policies for covering funds	788	539
IFRS 15 FTA – Prepayments for recruitment incentives	416	772
With impact on Net Equity	3,247	1,084
Measurement at fair value of HTCS financial assets	3,247	1,084
Total	8,079	6,284

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)

	31.12.2019	31.12.2018
1. Amount at year-start	46,543	43,604
2. Increases	12,846	18,702
2.1 Deferred tax assets for the year:	12,846	16,753
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) reversals	-	-
d) other	12,846	16,753
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	1,949
of which:		
- adjustment of losses used within the National Tax Consolidation scheme	-	-
- business combinations	-	43
- adjustment for IFRS 9 FTA	-	1,817
3. Decreases	14,071	15,763
3.1 deferred tax assets eliminated in the year	14,071	15,763
a) transfers	13,825	15,385
b) write-downs for non-recoverability	246	378
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	-	-
of which:		
- adjustment of losses used within the National Tax Consolidation scheme	-	-
- business combinations	-	-
4. Amount at year-end	45,318	46,543

10.3-bis Change in deferred tax assets pursuant to Law No. 214/2011

	31.12.2019	31.12.2018
1. Amount at year-start	8,107	8,107
2. Increases	-	-
3. Decreases	-	-
3.1 Transfers	-	-
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)

	31.12.2019	31.12.2018
1. Amount at year-start	5,200	2,728
2. Increases	786	5,013
2.1 Deferred tax liabilities recognised in the year:	782	1,233
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	782	1,233
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	4	3,780
<i>of which:</i>		
- <i>business combinations</i>	-	3
- <i>adjustment for IFRS 9-IFRS 15 FTA</i>	-	3,777
3. Decreases	1,154	2,541
3.1 Deferred tax liabilities eliminated in the year:	1,154	2,541
a) transfers	1,138	2,514
b) change in accounting criteria	-	-
c) other	16	27
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Amount at year-end	4,832	5,200

10.5 Changes in deferred tax assets (offsetting entry to the Net Equity)

	31.12.2019	31.12.2018
1. Amount at year-start	6,137	1,256
2. Increases	206	7,433
2.1 Deferred tax assets for the year:	197	7,383
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	197	7,383
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	9	50
<i>of which:</i>		
- <i>business combinations</i>	-	31
3. Decreases	5,534	2,552
3.1 deferred tax assets eliminated in the year:	-	1
a) transfers	-	1
b) write-downs for non-recoverability	-	-
c) change in accounting criteria	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	5,534	2,551
<i>of which adjustment for IFRS 9 FTA</i>	-	756
4. Amount at year-end	809	6,137

The item 3.3 “Other decreases” refers 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)

	31.12.2019	31.12.2018
1. Amount at year-start	1,084	11,809
2. Increases	6,085	409
2.1 Deferred tax liabilities recognised in the year:	6,085	409
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	6,085	409
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	3,922	11,134
3.1 Deferred tax liabilities eliminated in the year:	23	5,166
a) transfers	23	5,166
b) change in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	3,899	5,968
<i>of which:</i>		
- <i>adjustment for IFRS 9 FTA</i>	-	4,173
4. Amount at year-end	3,247	1,084

The item 3.3 “Other decreases” refers to the reduction in deferred tax liabilities following the re-absorption of deductible temporary differences as a result of higher value adjustments of assets in the HTCS portfolio.

Section 12 – Other assets - Item 120

12.1 Breakdown of other assets

	31.12.2019	31.12.2018
Fiscal items	57,948	61,214
Advances paid to fiscal authorities – current account withholdings	443	829
Advances paid to fiscal authorities – stamp duty	44,143	43,305
Advances of substitute tax on capital gains	11,369	15,127
Excess payment of substitute tax for tax shield	634	634
Other advances paid to and sums due from fiscal authorities	916	914
Fiscal Authorities/VAT	-	-
Sums due from fiscal authorities for other taxes to be refunded	443	405
Leasehold improvements	6,662	6,558
Operating loans not related to financial transactions	361	60
Sundry advances to suppliers and employees	3,091	1,540
Cheques under processing	8,775	7,312
C/a cheques drawn on third parties under processing	-	-
Our c/a cheques under processing c/o service	-	-
Money orders and other amounts receivable	8,775	7,312
Other amounts to be debited under processing	41,149	30,774
Amounts to be settled in the clearing house (debits)	1,144	6,095
Clearing accounts for securities and funds procedure	36,659	22,187
Other amounts to be debited under processing	3,346	2,492
Amounts receivable for legal disputes related to non-credit transactions	51	446
Trade receivables from customers and banks that cannot be traced back to specific items	38,342	32,407
Other amounts	177,452	173,226
Prepayments for the new supplementary fees for sales network	102,256	123,585
Prepayments of segregated asset management fees	9,619	14,611
Prepayments for ordinary incentives	49,801	26,346
Other accrued income and deferred charges that cannot be traced back to specific items	12,533	8,585
Term deposit to guarantee the consideration related to Nextam (escrow account)	3,000	-
Sundry amounts	243	99
Total	333,831	313,537

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 incurred to acquire or fulfil contracts with customers set out in IFRS 15, paragraphs 91-104.

Prepayments for the supplementary fees for sales network refer to incremental fee expense 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 up-front 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.

	31.12.2018	AMORTISATION	OF WHICH RELATED TO PRIOR YEARS	INCREASES	OTHER CHANGES	31.12.2019
Supplementary fees	123,585	-46,388	-40,235	25,059	-	102,256
Ordinary incentives	26,346	-14,697	-6,955	38,704	-552	49,801
Up-front fees on segregated accounts	14,611	-4,852	-4,852	-	-140	9,619
Total network incentives	164,542	-65,937	-52,042	63,763	-692	161,676
Entry bonus on BG Solution portfolio management	2,414	-1,088	-731	4,766	-	6,092
Bonus on JPM funds	1,031	-589	-572	90	-	532
Total other acquisition costs	3,445	-1,677	-1,303	4,856	-	6,624
Total	167,987	-67,614	-53,345	68,619	-692	168,300

Other unallocated prepaid expenses of 5,909 thousand euros consist primarily of prepaid expenses not accrued during the year and refer in particular to lease prepayments, insurance premiums and other general and administrative expenses.

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	31.12.2019 BOOK VALUE	31.12.2018 BOOK VALUE
1. Due to Central Banks	-	-
2. Due to banks	94,767	128,725
2.1 Current accounts and demand deposits	72,750	108,850
2.2 Term deposits	-	-
2.3 Financing:		
2.3.1 Repurchase agreements	-	-
2.3.2 Other	-	-
2.4 Liabilities for repurchase commitments of own equity instruments	-	-
2.5 Lease liabilities/debts	-	-
2.6 Other debts	22,017	19,875
Total	94,767	128,725
Fair value - L1	-	-
Fair value - L2	94,767	128,725
Fair value - L3	-	-
Total - Fair value	94,767	128,725

The item “Other debts” almost 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	31.12.2019 BOOK VALUE	31.12.2018 BOOK VALUE
1. Current accounts and demand deposits	10,056,493	8,228,273
2. Term deposits	-	25,939
3. Financing	116,218	173,824
3.1 Repurchase agreements	116,218	130,542
3.2 Other	-	43,282
4. Liabilities for repurchase commitments of own equity instruments	-	-
5. Lease debts	153,690	-
6. Other debts	144,016	149,636
Total	10,470,417	8,577,672
Fair value - L1	-	-
Fair value - L2	10,470,417	8,534,390
Fair value - L3	-	44,210
Total - Fair value	10,470,417	8,578,600

Item 6 “Other debts” refers for 20,307 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.

At 31 December 2018, the item 3.2 “Financing - Other” referred to the subordinated loan from the German company Generali, fully repaid in November 2019.

Item 5 “Lease debts” includes the liability relating to lease payments determined on the basis of the new IFRS 16 - Leases, which entered into force on 1 January 2019.

1.4 Subordinated debts – detail

TYPE OF TRANSACTIONS/VALUES	31.12.2019	31.12.2018
Due to customers: subordinated debts	-	43,282
Generali Beteiligungs GmbH subordinated loan	-	43,282

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, had a ten-year term and is repayable on maturity in one instalment. Provision was 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 was 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 was reparametrised to the 3-month Euribor, plus the same spread identified when the original fixed rate was determined. The loan was subordinated in the event of a default by the Bank.

1.6 Lease debts

Lease debts recognised in the Consolidated Financial Statements at 31 December 2019 amounted to 153,690 thousand euros.

The following table shows the maturity of these lease debts in accordance with paragraphs 53(g) and 58 of IFRS 16 – *Leases*:

RESIDUAL LEASE DEBTS – YEAR	AMOUNT
2019	153,690
2020	137,660
2021	121,185
2022	105,974
2023	91,439
2024	77,305
2025	64,333
2026	51,770
2027	40,714
2028	30,594
2029	21,905
2030	14,332
2031	9,000
2032	5,199
2033	1,329
2034	811
2035	276
2036	-

Section 2 – Financial liabilities held for trading – Item 20

2.1 HFT financial liabilities: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2019					31.12.2018				
	FV				FV (*)	FV				FV (*)
	VN	L1	L2	L3		VN	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	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial	-	-	1,204	-	-	-	-	384	-	-
1.1 Trading	X	-	1,204	-	X	X	-	384	-	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	-	1,204	-	X	X	-	384	-	X
Total (A + B)	X	-	1,204	-	X	X	-	384	-	X

(*) FV measured without taking account of issuer's credit merit changes compared to issue date.

HFT financial liabilities consist for 1,204 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 4 – Hedging derivatives – Item 40

4.1 Breakdown of hedging derivatives by type of hedge and hierarchy levels

	31.12.2019 FAIR VALUE				NOTIONAL VALUE	31.12.2018 FAIR VALUE				NOTIONAL VALUE
	L1	L2	L3			L1	L2	L3		
A) Financial derivatives	-	7,481	-	270,000	-	-	-	-	-	
1) Fair value	-	7,481	-	270,000	-	-	-	-	-	
2) Cash flows	-	-	-	-	-	-	-	-	-	
3) Foreign investments	-	-	-	-	-	-	-	-	-	
B. Credit derivatives	-	-	-	-	-	-	-	-	-	
1) Fair value	-	-	-	-	-	-	-	-	-	
2) Cash flows	-	-	-	-	-	-	-	-	-	
Total	-	7,481	-	270,000	-	-	-	-	-	

4.2 Breakdown of hedging derivatives by portfolios hedged and type of hedge

HEDGING TRANSACTIONS/TYPE	FAIR VALUE						CASH FLOWS			
	SPECIFIC						GENERAL	SPECIFIC	GENERAL	FOREIGN INVESTMENTS
	DEBT SECURITIES AND INTEREST RATES	EQUITY SECURITIES AND STOCK INDICES	CURRENCIES AND GOLD	CREDIT	GOODS	OTHER				
1. Financial assets at fair value through other comprehensive income	3,701	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	3,780	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X		X		X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	7,481	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	-	X	-	-	-	-	-	-	-	X
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

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

	31.12.2019	31.12.2018
Trade payables	21,174	29,994
Due to suppliers	20,632	29,355
Due for payments on behalf of third parties	542	639
Due to staff and social security institutions	20,449	19,126
Due to staff for accrued holidays etc.	3,493	3,108
Due to staff for productivity bonuses	10,094	9,258
Contributions to be paid to social security institutions	2,571	2,458
Contributions to Financial Advisors to be paid to Enasarco	4,291	4,302
Tax authorities	20,688	17,909
Withholding taxes to be paid to tax authorities on behalf of employees and contract workers	5,024	4,861
Withholding taxes on investment return payable to tax authorities	3,072	2,485
Notes to be paid into collection services	11,221	10,284
VAT and other tax payables	1,371	279
Amounts to be debited under processing	67,272	68,756
Bank transfers, cheques and other sums payable	2,134	11,677
Amounts to be settled in the clearing house (credits)	17,977	29,033
Liabilities from reclassification of portfolio subject to collection (SBF)	4,526	3,724
Other amounts to be debited under processing	42,635	24,322
Sundry items	10,596	5,089
Amounts to be credited	1,227	929
Sundry items	1,327	1,115
Accrued expenses and deferred income	1,078	1,863
Sums made available to customers	1,189	1,182
Liabilities for deferred consideration (earn out) related to the acquisition of the Nextam Group	5,775	-
Total	140,179	140,874

Pursuant to paragraphs 116 a) and 116 b) of IFRS 15, it is reported that the item deferred income includes liabilities associated with contracts within the scope of application of IFRS 15 and relating to three-year up-front fees received in connection with the distribution of certain classes of international UCITS.

Opening balance at 1 January 2019	1,573
Increases	117
Decreases due to the transfer to profit and loss	-887
<i>of which:</i>	
- relating to prior years	-868
Closing balance at 31 December 2019	803

Section 9 – Provisions for termination indemnity – Item 90

9.1 Provisions for termination indemnity: year changes

	31.12.2019	31.12.2018
A. Amount at year-start	4,818	4,345
Change in the opening balance	-	-
B. Increases	100	641
B.1 Provisions for the year	68	65
B.2 Other changes	32	576
of which:		
- business combinations	-	505
C. Decreases	237	168
C.1 Amounts paid	237	168
C.2 Other changes	-	-
of which:		
- business combinations	-	-
D. Amount at year-end	4,681	4,818

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 table shows the main actuarial assumptions and the breakdown of the provisions for the period and actuarial gains/(losses):

	31.12.2019	31.12.2018
Discount rate	0.53%	1.44%
Annual inflation rate	1.10%	2.00%
Salary increase rate	1.80%	2.00%
Average duration (years)	10	10

	31.12.2019	31.12.2018
1. Provisions:	68	65
- current service cost	-	8
- interest cost	68	57
2. Actuarial gains and losses:	32	71
- based on financial assumptions	366	-79
- based on actuarial demographic assumptions	-334	150
Total provisions for the year	100	136
Actuarial value	4,681	4,818
Value calculated re. Article 2120 of the Italian Civil Code	4,384	4,507

Section 10 – Provisions for liabilities and contingencies – Item 100

10.1 Breakdown of provisions for liabilities and contingencies

ITEMS/VALUES	31.12.2019	31.12.2018
1. Provisions for credit risk relating to commitments and financial guarantees issued	108	85
2. Provisions for other commitments and other guarantees issued	-	-
3. Company provisions for pensions	-	-
4. Other provisions for liabilities and contingencies	165,052	159,590
4.1 Legal and tax disputes	12,885	14,264
4.2 Staff	16,267	14,816
4.3 Other	135,900	130,510
Total	165,160	159,675

Other provisions for liabilities and contingencies: detail

	31.12.2019	31.12.2018
Provision for staff expenses	16,267	14,816
Provision for restructuring plan	1,741	1,369
Provision for staff expenses - other	14,526	13,447
Provisions for legal disputes	12,885	14,264
Provision for risks connected with sales network's embezzlements	7,317	6,784
Provision for risks related to legal disputes with sales network	910	980
Provision for risks related to legal disputes with staff	15	-
Provision for other legal disputes	4,643	6,500
Provisions for termination indemnity for Financial Advisors	97,879	81,595
Provision for termination indemnity	63,424	55,117
Provision for manager incentive indemnity	9,344	7,057
Provision for portfolio overfee indemnities	3,850	3,530
Provision for pension bonuses	9,163	8,601
Provisions risks for the Framework Loyalty Programme	12,098	7,290
Provisions for network incentives	31,034	46,131
Provision for network development plans	21,739	32,603
Provision for deferred bonus	547	1,212
Provisions for managers with access gate	2,053	3,972
Provision for sales incentives	2,540	4,713
Provision for fees – travel incentives	3,300	3,251
Provision for fee plans	855	380
Other provisions for liabilities and contingencies	6,987	2,784
Total	165,052	159,590

10.2 Provisions for liabilities and contingencies: year changes

	PROVISIONS FOR CREDIT RISK RELATING TO COMMITMENTS AND FINANCIAL GUARANTEES ISSUED	PROVISIONS FOR PENSIONS	OTHER PROVISIONS FOR LIABILITIES AND CONTINGENCIES	TOTAL
A. Amount at year-start	85	-	159,590	159,675
B. Increases	23	-	51,032	51,055
B.1 Provisions for the year	23	-	48,742	48,765
B.4 Other changes	-	-	2,290	2,290
C. Decreases	-	-	45,570	45,570
C.1 Use in the year	-	-	38,174	38,174
C.3 Other changes	-	-	7,396	7,396
D. Amount at year-end	108	-	165,052	165,160

Other provisions for liabilities and contingencies — details of movements

	31.12.2018	USES	SURPLUS	OTHER CHANGES	PROVISIONS	31.12.2019
Provision for staff expenses	14,816	-4,459	-688	-487	7,085	16,267
Provision for restructuring plan	1,369	-757	-	-543	1,672	1,741
Provision for staff expenses - other	13,447	-3,702	-688	56	5,413	14,526
Provisions for legal disputes	14,264	-3,848	-1,398	-	3,867	12,885
Provision for risks connected with sales network's embezzlements	6,784	-280	-518	-	1,331	7,317
Provision for risks related to legal disputes with sales network	980	-	-100	-	30	910
Provision for risks related to legal disputes with staff	-	-	-	-	15	15
Provision for other legal disputes	6,500	-3,568	-780	-	2,491	4,643
Provisions for termination indemnity for Financial Advisors	81,595	-1,293	-1,474	2,838	16,213	97,879
Provision for termination indemnity of sales network	55,117	-887	-1,110	2,841	7,463	63,424
Provision for manager incentive indemnity	7,057	-244	-107	-	2,638	9,344
Provision for portfolio overfee indemnities	3,530	-54	-75	-	449	3,850
Provision for pension bonuses	8,601	-108	-182	-3	855	9,163
Provisions risks for the Framework Loyalty Programme	7,290	-	-	-	4,808	12,098
Provisions for network incentives	46,131	-28,426	-3,836	-	17,165	31,034
Provision for network development plans	32,603	-19,748	-3,746	-	12,630	21,739
Provision for deferred bonus	1,212	-655	-90	-	80	547
Provision for managers with access gate	3,972	-2,219	-	-	300	2,053
Provision for sales incentives	4,713	-2,173	-	-	-	2,540
Provision for travel incentives	3,251	-3,251	-	-	3,300	3,300
Provision for fee plans	380	-380	-	-	855	855
Other provisions for liabilities and contingencies	2,784	-148	-	-61	4,412	6,987
Total	159,590	-38,174	-7,396	2,290	48,742	165,052

10.3 Provisions for credit risk relating to commitments and financial guarantees issued

	PROVISIONS FOR CREDIT RISK RELATING TO COMMITMENTS AND FINANCIAL GUARANTEES ISSUED			TOTAL
	STAGE 1	STAGE 2	STAGE 3	
1. Commitments to disburse funds	-	-	-	-
2. Financial guarantees issued	102	6	-	108
Total	102	6	-	108

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 Relationship Managers (RM) recruitment plans, 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 executives, 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.

On 13 December 2019, the Board of Directors extended the voluntary redundancy plan until 31 December 2020, with a ceiling on resources of approximately 1.6 million euros, in order to facilitate the early departure of a certain number of personnel eligible for the so-called "quota 100" early retirement programme or who otherwise qualified for access to early retirement or were nearing eligibility for an old age pension.

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 the 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.

The expenses associated with obligations extant at year-end relating to Financial Advisors are valued using the statistical-actuarial method, with the advice of independent professionals.

The following are the main actuarial assumptions:

TERMINATION INDEMNITY	31.12.2019	31.12.2018
Discount rate ³	1.8%	2.5%
Turnover rate (professionals)	1.96%	1.30%
Average duration (years)	13 years	13 years
DBO IAS 37/Indemnity provision at the measurement date	60.36%	59.54%

³ The discount rate used as at 31 December 2019 was determined on the basis of an average EURIRS curve for 2019, increased linearly by the spread between the EURIRS rate and 10-year BTP.
The rate represented is the rate that corresponds to the average duration of the relevant liabilities, 13 years.

The ratio of Deferred Benefit Obligations (DBOs) 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 parameters, both statistical and statutory.

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 2.9 million euros, is still based on the payment criteria established by the previous employer and was recognised under provisions for risks. 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) 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**” was 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.

Within the framework of provisions for contractual indemnities, on 21 March 2017 the Board of Directors granted its final approval for a **Framework Loyalty Programme for the Sales Network** 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 Program is divided into eight 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.

The individual plans of the Framework Loyalty Program for the Sales Network will all expire on 31 December 2026, after decreasing lengths, and each will allow part of the bonus to be paid in cash and part in shares of Banca Generali (max 50%), after having assessed their effects at the level of capital ratios and free float. 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.

2019 saw the launch of the third annual cycle (2019-2026).

Provisions for contractual indemnities refer also to the charge relating to the inception of the new managerial development indemnity mechanism, approved by the Board of Directors in June 2018 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;
- > 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

Other provisions for liabilities and contingencies include provisions for operating risks.

Tax dispute

On this subject, it should be noted that contacts with the Italian Revenue Agency regarding the tax dispute pertaining to 2014 resumed in the second half of the year, however without yet reaching any settlement of the dispute.

Section 12 – Company net equity - Items 110, 130, 140, 150, 160, 170 and 180

12.1 Breakdown of 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	-1,467,579	-1,467,579	-37,356
		115,384,058	115,384,058	79,496

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 (-)	-929,090	-
A.2 Outstanding shares: at period-start	115,922,547	-
B. Increases	128,930	-
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	128,930	-
B.3 Other changes	-	-
C. Decreases	-667,419	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-667,419	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: at year-end	115,384,058	-
D.1 Treasury shares (+)	1,467,579	-
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 was fully paid up.

12.4 Income reserves: further information

	31.12.2018	PROFIT ALLOCATION DIVIDEND DISTRIBUTION	PURCHASE/ DISPOSAL OF TREASURY SHARES	ISSUE OF NEW SHARES	STOCK OPTION PLANS AND OTHER IFRS 2-RELATED CHARGES	STOCK GRANT LTIP PLANS	OTHER CHANGES	31.12.2019
Legal reserve	23,370	-	-	-	-	-	-	23,370
Restricted reserve for shares of the Parent Company	717	-	-	-	-	-	424	1,141
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 (IFRS 2)	-	-	-	-	-	-	-	-
Share-based payments reserve (IFRS 2) – plans ended	507	-	-	-	-	-	-	507
IFRS 2 reserves – LTI plans based on BG shares	579	-	-	-	1,530	-	-	2,109
IFRS 2 reserves – LTIP cycles underway	2,745	-	-	-	-	607	-1,479	1,873
IFRS 2 reserves – LTIP cycles ended	7,180	-	-	-	-	-	1,479	8,659
IFRS 2 reserve – Key personnel remuneration	3,606	-	-	-2,851	4,739	-	-	5,494
IFRS 2 reserve – 2019-2021 share plan	-	-	-	-	-	44	-	44
IFRS 2 reserve - Framework Loyalty Programme	656	-	-	-	749	-	-	1,405
Unrestricted reserve pursuant to Article 6, para. 1(a), Leg. Decree No. 38/2005	-	2,143	-	-	-	-	-	2,143
Reserve from profit (loss) carried forward	240,447	42,015	-	-	-	-	-424	282,038
Equity reserve from the transfer of the funds business unit	3,710	-	-	-	-	-	-	3,710
Total	303,039	44,158	-	-2,851	7,018	651	-	352,015

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.

	31.12.2019	POSSIBLE DRAW-DOWNS ⁽¹⁾	RESTRICTED PORTION	UNRESTRICTED PORTION	DISTRIBUTABLE PORTION	DRAW-DOWNS 2019-2018	
						DIVIDENDS	LOSSES
Share capital	116,852		116,852	-	-	-	-
Treasury shares	-37,356		-37,356	-	-	-	-
Share premium	57,729	A, B, C ⁽³⁾	-	57,729	-	-	-
Equity instruments	50,000		50,000	-			
Reserves	352,015		3,284	348,731	314,436	-	-
Legal reserve	23,370	B ⁽⁴⁾	-	23,370	-	-	-
Restricted reserve for shares of the Parent Company	1,141	B	1,141	-	-	-	-
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 (IFRS 2)	-	A ⁽⁵⁾	-	-	-	-	-
Share-based payments reserve (IFRS 2) – plans ended	507	A, B, C	-	507	507	-	-
IFRS 2 reserves – LTIP cycles based on BG shares	2,109	A, B	-	2,109	-	-	-
IFRS 2 reserves – LTIP cycles underway ⁽⁶⁾	1,873	A ⁽⁵⁾	-	1,873	-	-	-
IFRS 2 reserves – LTIP cycles ended ⁽⁶⁾	8,659	A, B, C	-	8,659	8,659	-	-
IFRS 2 reserve – Key personnel remuneration	5,494	A ⁽⁵⁾	-	5,494	-	-	-
IFRS 2 reserve – 2019-2021 share plan	44	A ⁽⁵⁾	-	44	-	-	-
IFRS 2 reserve - Framework Loyalty Programme	1,405	A ⁽⁵⁾	-	1,405	-	-	-
Restricted reserve Re. Article 6 c. 1(a) of Legislative Decree No. 38/2005	2,143		2,143	-	-		
Reserve from profit (loss) carried forward	282,038	A, B, C	-	282,038	282,038	-	-
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⁾	3,999		3,999	-	-	-	-
Reserve from valuation of actuarial gains and losses	-1,871		-1,871	-	-	-	-
Reserve from valuation of HTCS financial assets	5,870		5,870	-	-	-	-
Net profit (loss) for the year	248,358	A, B, C	1,500	246,858	246,858	X	X
Net equity for accounting purposes	791,597		138,279	653,318	561,294	-	-

Pursuant to Article 2427, paragraph 1- 27-septies, 2019 net profit will be allocated as follows:

- 1,500 thousand euros to the restricted reserve pursuant to Article 6, paragraph 1, of Legislative Decree No. 38/2005;
- 30,683 thousand euros to retained earnings;
- 216,176 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 Code).

(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.

12.5 Breakdown of equity instruments: year changes

On 23 December, Banca Generali finalised the issue of an Additional Tier 1 Perpetual bond of 50 million euros that under IAS 32 is considered an equity instrument and meets the requirements under regulatory capital rules in force for being recognised as Additional Tier 1 instrument in the Issuer's financial statements.

The issue was fully subscribed in private placement by two German insurance companies of the Generali Group. The bonds are perpetual and callable, at the issuer's sole discretion, from the sixth year from issue, and they yield — subject to authorisation from the competent supervisory authority and under the conditions established in applicable legislation — a non-cumulative half-yearly coupon at a fixed rate of 4.5% per annum for the first five years.

(€ THOUSAND)	31.12.2019	31.12.2018
Amount at year-start	-	-
Issue-related increases	50,000	-
Decreases for reimbursements	-	-
Amount at year-end	50,000	-

PART B – INFORMATION ON THE BALANCE SHEET – OTHER INFORMATION

1. Commitments and financial guarantees issued (other than those designated at fair value)

TRANSACTIONS	NOMINAL VALUE OF COMMITMENTS AND FINANCIAL GUARANTEES ISSUED			31.12.2019	31.12.2018
	STAGE 1	STAGE 2	STAGE 3		
1. Commitments to disburse funds	847	-	-	847	11
a) Central Banks	-	-	-	-	-
b) Public administration bodies	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	649	-	-	649	-
f) Households	198	-	-	198	11
2. Financial guarantees issued	100,986	2,059	-	103,045	105,659
a) Central Banks	-	-	-	-	-
b) Public administration bodies	-	-	-	-	-
c) Banks	3,006	-	-	3,006	1,044
d) Other financial companies	3,921	-	-	3,921	7,243
e) Non-financial companies	53,177	31	-	53,208	59,643
f) Households	40,882	2,028	-	42,910	37,729
Total	101,833	2,059	-	103,892	105,670

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

TRANSACTIONS	NOMINAL VALUE	
	31.12.2019	31.12.2018
1. Other guarantees issued	35	-
<i>of which:</i>		
- <i>non-performing</i>	35	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	11	-
f) Households	24	-
2. Other commitments	28,485	173,386
<i>of which:</i>		
- <i>non-performing</i>		
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	28,485	173,386
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	28,520	173,386

Loan commitments include commitments subject to certain or uncertain use towards banks and refer to financial commitments for securities to be received and deposits to be made.

3. Assets pledged as collateral for own liabilities and commitments

PORTFOLIO	31.12.2019				31.12.2018			
	REPURCHASE AGREEMENTS	ECB	CC&G	TOTAL	REPURCHASE AGREEMENTS	ECB	CC&G	TOTAL
1. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	85,767	-	-	85,767	130,909	-	15,096	146,005
3. Financial assets at amortised cost	29,712	219,386	14,962	264,060	-	218,974	199,524	418,498
4. Property and equipment	-	-	-	-	-	-	-	-
of which:								
- assets constituting inventories	-	-	-	-	-	-	-	-
Total	115,479	219,386	14,962	349,827	130,909	218,974	214,620	564,503

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.

4. Trading of financial instruments on behalf of third parties

TYPE OF SERVICE	31.12.2019	31.12.2018
1. Execution of orders on behalf of customers	23,482,612	31,388,245
a) Purchases	12,225,287	16,869,201
1. Settled	12,169,685	16,800,942
2. To be settled	55,602	68,259
b) Sales	11,257,325	14,519,044
1. Settled	11,190,058	14,479,100
2. To be settled	67,267	39,944
2. Individual portfolio management	5,997,882	5,859,410
3. Custody and administration of securities (excluding portfolio management)	29,666,165	22,291,640
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	10,927,742	8,305,363
1. Securities issued by the bank that prepares the financial statements	13,862	16,126
2. Other	10,913,880	8,289,237
c) Third-party securities deposited with third parties	10,880,955	8,251,513
d) Portfolio securities deposited with third parties	7,857,468	5,734,764
4. Other transactions	-	-

Securities under custody and administration are recognised at nominal value.

5. Financial assets offset in the financial statements or falling in the scope of master netting arrangements 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 31.12.2019 (F=C-D-E)	NET AMOUNT AT 31.12.2018
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS AS COLLATERAL (E)		
1. Derivatives	3,668	-	3,668	2,670	-	998	-
2. Repurchase agreements	359,038	-	359,038	359,038	-	-	-
3. Securities loans	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31.12.2019	362,706	-	362,706	361,708	-	998	X
Total at 31.12.2018	199,937	-	199,937	199,937	-	X	-

6. Financial liabilities offset in the financial statements or falling within the scope of master netting arrangements 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 31.12.2019 (F=C-D-E)	NET AMOUNT AT 31.12.2018
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS AS COLLATERAL (E)		
1. Derivatives	7,481	-	7,481	2,670	-	4,811	-
2. Repurchase agreements	116,218	-	116,218	116,218	-	-	-
3. Securities loans	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31.12.2019	123,699	-	123,699	118,888	-	4,811	X
Total at 31.12.2018	130,542	-	130,542	130,542	-	X	-

IFRS 7 requires a detailed disclosure on financial instruments that have been offset in the Balance Sheet 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 arrangements 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, it should be noted that, as far as repurchase agreements (REPO) are concerned, Banca Generali currently 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.

With reference to financial instruments that can be potentially set off under certain conditions, Banca Generali entered into bilateral netting arrangements that enable offsetting of credit and debt positions related to financial and credit derivatives in case of default of the counterparty, as well as into transactions such as Securities Financing Transactions (SFTs). In detail, ISDA (International Swaps and Derivatives Association) agreements and GMRA (Global Market Purchase Agreements) are in place. As regard REPOs with banks, Banca Generali has in place master netting arrangements that enable offsetting of credit and debt positions 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.

Banca Generali has entered into International Swap and Derivatives Association (ISDA) master netting arrangements as its main technique for mitigating the credit risk and the related impacts on fair value associated with OTC derivatives contracts with institutional counterparties. These arrangements reduce the capital absorbed by such derivatives contracts, in accordance with the conditions established in supervisory regulations. The ISDA master netting arrangements entered into with the main institutional counterparties to OTC derivatives have been appropriately reported to the Bank of Italy.

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	2019	2018
1. Financial assets at fair value through profit or loss	573	-	-	573	144
1.1 HFT financial assets	124	-	-	124	66
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	449	-	-	449	78
2. Financial assets at fair value through other comprehensive income	2,635	-	X	2,635	4,525
3. Financial assets at amortised cost	54,653	21,441	X	76,094	59,533
3.1 Loans to banks	2,217	667	X	2,884	1,953
3.2 Loans to customers	52,436	20,774	X	73,210	57,580
4. Hedging derivatives	X	X	977	977	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	2,709	2,440
Total	57,861	21,441	977	82,988	66,642
<i>of which:</i>					
- interest income on impaired financial assets	-	462	-	462	465
- interest income on finance leases	-	-	-	-	-

By convention, interest on “Financial liabilities” includes the negative interest expense accrued on funding transactions and mainly refers to negative interest applied to account deposit of both institutional and non-institutional clients, for specific agreements and for particularly high deposit amounts (2.5 million euros).

1.2 Interest income and similar revenues: further information

1.2.1 Interest income on financial assets in foreign currencies

	2019	2018
Interest income on financial assets in foreign currencies	728	688
Total	728	688

Breakdown of negative interest expenses

	2019	2018
Interest income on bank deposits and current accounts	7	14
Repurchase agreements with banks	-	87
Repurchase agreements with customers	109	566
Interest income on customer deposit and current accounts	2,593	1,773
Total	2,709	2,440

1.3 Breakdown of interest expense and similar charges

ITEMS/TECHNICAL TYPES	DEBTS	SECURITIES	OTHER TRANSACTIONS	2019	2018
1. Financial liabilities at amortised cost	7,076	-	-	7,076	2,990
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	634	X	X	634	511
1.3 Due to customers	6,442	X	X	6,442	2,479
1.4 Securities issued	X	-	X	-	-
2. HFT financial liabilities	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and funds	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	1,634	3,457
Total	7,076	-	-	8,710	6,447
<i>of which:</i>					
- <i>interest expense relating to lease debts</i>	3,412	-	-	3,412	-

The Item 1.3 “Financial liabilities at amortised cost – Due to customers” includes 3.4 million euros interest accrued on lease debts calculated in accordance with the provisions of the new IFRS 16 in force as of 1 January 2019.

By convention, interest on “Other assets” 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

1.4.1 Interest expense on liabilities in foreign currencies

	2019	2018
Interest expense on liabilities in foreign currencies	643	389
Interest expense on finance lease transactions	-	-
Total	643	389

Breakdown of negative interest income

	2019	2018
Interest expense on deposits with the ECB	1,444	3,321
Interest expense on deposits with banks	106	77
Repurchase agreements with banks	40	-
Repurchase agreements with customers	20	7
Interest expense on customer deposits	24	52
Total	1,634	3,457

1.5 Hedging differentials

ITEMS	2019	2018
A. Hedging gains	7,750	-
B. Hedging losses	6,773	-
C. Total (A - B)	977	-

Section 2 – Fees – Items 40 and 50

2.1 Breakdown of fee income

TYPE OF SERVICE/VALUES	2019	2018
a) Guarantees issued	583	586
b) Credit derivatives	-	-
c) Management, brokerage and consultancy services:	572,856	544,986
1. Trading of financial instruments	16,600	13,824
2. Currency trading	-	-
3. Individual portfolio management	75,392	79,452
4. Custody and administration of securities	347	456
5. Depository bank	-	-
6. Placement of securities	211,013	201,500
7. Order receiving and collection	6,702	8,651
8. Consultancy activities	23,699	15,395
8.1 Investment advice	23,699	15,395
8.2 Advice on financial structure	-	-
9. Distribution of third-party services	239,103	225,708
9.1. Portfolio management	834	792
9.1.1 individual	28	28
9.1.2 collective	806	764
9.2 Insurance products	237,632	224,208
9.3 Other products	637	708
d) Collection and payment services	4,329	4,318
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	2,021	2,166
j) Other services	2,203	2,102
of which:		
- all-inclusive fees on credit lines	1,858	1,759
Total	581,992	554,158

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:

(€ THOUSAND)	2019	2018
Underwriting fees	29,492	21,619
Management fees	494,991	485,041
Performance fees	1,025	1
Other fees for banking and financial services	56,484	47,497
Total fee income	581,992	554,158

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	2019	2018
Individual portfolio management	-317	74,684	1,025	-	75,392	79,452
Placement of Group's UCITS	5,801	93,290	-	-	99,091	102,661
Placement of UCITS	4,674	92,018	-	-	96,692	90,417
Placement of securities	15,230	-	-	-	15,230	8,422
Distribution of third-party services	4,104	234,999	-	-	239,103	225,708
Other services and banking products	-	-	-	56,484	56,484	47,498
Total fee income	29,492	494,991	1,025	56,484	581,992	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 end 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 868 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	2019	2018
a) Group branches	181	1,416
1. Portfolio management	-	-
2. Placement of securities	181	1,416
3. Third-party products and services	-	-
b) Off-premises offer	525,306	505,244
1. Portfolio management	75,392	79,452
2. Placement of securities	210,832	200,084
3. Third-party products and services	239,082	225,708
c) Other distribution channels	21	-
1. Portfolio management	-	-
2. Placement of securities	-	-
3. Third-party products and services	21	-
Total	525,508	506,660

2.3 Breakdown of fee expense

SERVICES/VALUES	2019	2018
a) Guarantees received	-	13
b) Credit derivatives	-	-
c) Management and brokerage services:	343,443	320,511
1. Trading of financial instruments	3,739	5,262
2. Currency trading	-	-
3. Portfolio management	1,004	746
3.1 <i>Own portfolio</i>	1,004	746
3.2 <i>Third-party portfolio</i>	-	-
4. Custody and administration of securities	1,906	1,636
5. Placement of financial instruments	-	-
6. Off-premises offer of financial instruments, products and services	336,794	312,867
d) Collection and payment services	4,397	3,991
e) Other services	1,966	871
Total	349,806	325,386

Fee expense for off-premises offer includes the costs incurred to obtain or fulfil contracts with customers of 67,614 thousand euros, of which 53,345 thousand euros relating to previous years.

Section 3 – Dividends and similar income – Item 70

3.1 Breakdown of dividends and similar income

ITEMS/INCOME	2019		2018	
	DIVIDENDS	SIMILAR INCOME	DIVIDENDS	SIMILAR INCOME
A. HFT financial assets	-	-	38	-
B. Other financial assets mandatorily measured at fair value	56	1,455	52	1,394
C. Financial assets at fair value through other comprehensive income	1,379	-	824	-
D. Equity investments	212,613	-	148,724	-
Total	214,048	1,455	149,638	1,394

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 2019	NET RESULT 2018
1. HFT financial liabilities	501	356	-	199	658	462
1.1 Debt securities	501	210	-	108	603	436
1.2 Equity securities	-	136	-	80	56	101
1.3 UCITS units	-	10	-	11	-1	-75
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 differences	X	X	X	X	4,959	4,909
4. Derivatives	-	-	-	2	8	-80
4.1 Financial	-	-	-	2	8	-80
- on debt securities and interest rates	-	-	-	-	-	-
- interest rate swaps	-	-	-	-	-	-
- government bond forwards	-	-	-	-	-	-
- on equity securities and stock indexes	-	-	-	2	-2	-81
- options	-	-	-	-	-	-54
- futures	-	-	-	2	-2	-27
- on currency and gold ⁽¹⁾	X	X	X	X	10	1
- other	-	-	-	-	-	-
4.2 Credit	-	-	-	-	-	-
of which:						
- natural hedging related to the fair value option	X	X	X	X	-	-
Total	501	356	-	201	5,625	5,291

(1) It includes currency options and currency outright.

Section 5 – Net income from hedging – Item 90

5.1 Breakdown of net income from hedging

INCOME COMPONENTS/VALUES	2019	2018
A. Income from:		
A.1 Fair-value hedge derivatives	4,663	-
A.2 Hedged financial assets (fair value)	4,066	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash-flow hedge derivatives	-	-
A.5 Assets and liabilities denominated in foreign currencies	-	-
Total income from hedging (A)	8,729	-
B. Charges from:		
B.1 Fair-value hedge derivatives	4,168	-
B.2 Hedged financial assets (fair value)	4,543	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedge derivatives	-	-
B.5 Assets and liabilities denominated in foreign currencies	-	-
Total charges from hedging (B)	8,711	-
C. Net income from hedging (A-B)	18	-
of which:		
- result hedging of net positions		

Section 6 – Gain (loss) from transfer/repurchase – Item 100

6.1 Breakdown of gains (losses) on disposal/repurchase

ITEMS/INCOME COMPONENTS	2019			2018		
	GAINS	LOSSES	NET RESULT	GAINS	LOSSES	NET RESULT
A. Financial assets						
1. Financial assets at amortised cost	315	-	315	2,606	-	2,606
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	315	-	315	2,606	-	2,606
2. Financial assets at fair value through other comprehensive income	10,603	5,078	5,525	19,824	6,388	13,436
2.1 Debt securities	10,603	5,078	5,525	19,824	6,388	13,436
2.2 Loans	-	-	-	-	-	-
Total assets	10,918	5,078	5,840	22,430	6,388	16,042
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	71	-5,081	-5,010
Total	71	-5,081	-5,010

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: breakdown of other financial assets mandatorily measured at fair value

TRANSACTIONS/INCOME COMPONENTS	2019					2018				
	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	4,315	1,442	2,673	3,265	-181	3,186	152	1,104	1,756	478
1.1 Debt securities	14	-	2,338	-	-2,324	-	96	217	-	-121
1.2 Equity securities	239	-	-	-	239	-	-	832	-	-832
1.3 UCITS units	3,162	1,421	296	3,265	1,022	3,164	15	55	1,756	1,368
1.4 Loans	900	21	39	-	882	22	41	-	-	63
2. Financial assets in foreign currencies: exchange differences	X	X	X	X	-	X	X	X	X	-
Total	4,315	1,442	2,673	3,265	-181	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		2019	2018
	STAGE 1 AND STAGE 2	STAGE 3		STAGE 1 AND STAGE 2	STAGE 3		
		WRITE-OFF	OTHER				
A. Loans to banks	240	-	-	65	-	-175	-172
- Loans	-	-	-	65	-	65	-69
- Debt securities	240	-	-	-	-	-240	-103
<i>of which:</i>							
- <i>acquired or originated impaired loans</i>	-	-	-	-	-	-	-
B. Loans to customers	553	54	9,250	3,457	984	-5,416	-4,819
- Loans	553	54	689	-	984	-312	-41
- Debt securities	-	-	8,561	3,457	-	-5,104	-4,778
<i>of which:</i>							
- <i>acquired or originated impaired loans</i>	-	-	-	-	-	-	-
Total	793	54	9,250	3,522	984	-5,591	-4,991

Specific adjustments to loans to customers classified under “Stage 3” amounted to 689 thousand euros and included 52 thousand euros for bad loans, 268 thousand euros for positions past due by more than 90 days, 264 thousand euros for unlikely-to-pay positions, and, for the remainder, other operating loans and loans to sales network.

These write-downs were offset through reversals relating to positions past due at the end of the previous year (101 thousand euros) and reclassified out of the non-performing category, to bad loans (233 thousand euros), to unlikely-to-pay exposures (634 thousand euros) and, for the remainder, to operating loans and loans to sales network.

Reserves covering expected losses on loans classified to Stage 1 and Stage 2 presented net adjustments of 488 thousand euros.

Portfolio adjustments/reversal on debt securities classified under “Stage 1” and “Stage 2” — including adjustments of loans to banks for 240 thousand euros and net reversals of loans to customers amounting to 3,457 thousand euros — referred to the adjustment of the collective reserve allocated to account for potential impairment of the corporate bond portfolio.

Upon transition to IFRS 9 on 1 January 2018, 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 8,561 thousand euros analytical impairment on debt securities was almost entirely attributable to the Tyndaris security (8,555 thousand euros).

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		2019	2018
	STAGE 1 AND STAGE 2	STAGE 3		STAGE 1 AND STAGE 2	STAGE 3		
		WRITE-OFF	OTHER				
A. Debt securities	-	-	-	204	-	204	-2,285
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
<i>of which:</i>							
- <i>acquired or originated impaired financial assets</i>	-	-	-	-	-	-	-
Total	-	-	-	204	-	204	-2,285

Portfolio reversals on debt securities classified under “Stage 1” and “Stage 2” amounted to 204 thousand euros and refer to the adjustment of the collective reserve allocated to account for potential impairment of the bond portfolio.

Section 10 – General and administrative expenses – Item 160

Breakdown of general and administrative expenses

	2019	2018
160 a) Staff expenses	86,485	79,330
160 b) Other general and administrative expenses	159,406	160,329
Total	245,891	239,659

10.1 Breakdown of staff expenses

TYPE OF EXPENSES/VALUES	2019	2018
1) Employees	86,041	78,353
a) Wages and salaries	47,474	44,421
b) Social security charges	12,176	11,177
c) Termination indemnity	645	662
d) Retirement benefit plans	-	-
e) Provision for termination indemnity	113	83
f) Provision for pensions and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) Amounts paid to supplementary external pension funds:	4,412	3,901
- defined contribution	4,412	3,901
- defined benefit	-	-
h) Costs related to payment agreements based on own equity instruments	2,755	2,170
i) Other employee benefits	18,466	15,939
2) Other staff	374	380
3) Directors and Auditors	968	980
4) Retired personnel	30	-
5) Recovery of expenses for staff seconded to other companies	-1,050	-540
6) Repayments of expenses for staff seconded to the Company	122	157
Total	86,485	79,330

10.2 Average number of employees by category ^(*)

	2019	2018
Employees	842	819
a) Managers	51	47
b) Executives	269	255
c) Employees at other levels	523	517
Other employees	-2	-3
Total	840	816

(*) Quarterly weighted average, with part-time employees considered at 50% by convention.

Breakdown of personnel

	2019	2018
Employees	855	837
a) Managers	54	49
b) Executives	271	262
<i>of which:</i>		
- 3 rd and 4 th level	147	143
- 1 st and 2 nd level	124	119
c) Employees at other levels	530	526
Other employees	-1	-5
Contract and temporary workers	5	1
Staff seconded from other companies	3	1
Staff seconded to other companies	-9	-7
Total	854	832

10.4 Other employee benefits

	2019	2018
Short-term productivity bonuses	9,433	8,858
Long-term benefits	3,929	2,026
Charges for Relationship Manager recruitment plans	1,229	743
Charges for deferred variable remuneration (managers' MBO)	1,521	1,028
Charges for post-employment medical care plans	1,179	255
Other benefits	5,104	5,055
Charges for staff supplementary pensions	2,980	2,589
Amounts replacing cafeteria indemnities	966	905
Training expenses	772	812
Contributions to employees	271	314
Transfer incentives and other indemnities	19	315
Other expenses	96	120
Total	18,466	15,939

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 2019 plan for measures.

10.5 Breakdown of other general and administrative expenses

	2019	2018
Administration	21,059	17,898
Advertising	4,395	3,847
Audit fees	11,746	8,436
Corporate boards and auditing firms	353	411
Insurance	3,127	3,210
Entertainment expenses	504	880
Membership contributions	788	853
Charity	146	261
Operations	23,154	38,804
Rent and usage of premises and management of property	4,320	19,604
Outsourced administrative services	6,664	6,491
Post and telephone	2,025	2,498
Print material	1,306	1,442
Other expenses for sales network management	2,743	2,965
Other expenses and purchases	3,907	3,632
Other indirect staff expenses	2,189	2,172
Information system and equipment	42,018	39,399
Expenses related to outsourced IT services	29,280	27,711
Fees for IT services and databases	6,903	6,608
Software maintenance and servicing	4,873	4,208
Fees for equipment hired and software used	173	149
Other maintenance	789	723
Indirect taxation	64,868	56,613
Stamp duty on financial instruments	63,873	55,385
Substitute tax on medium/long-term financing	423	563
Other indirect taxes to be paid by the Bank	572	665
Contributions to the Italian National Resolution Fund and the Interbank Protection Fund	8,307	7,615
Total	159,406	160,329

The following table shows data referring to IFRS 16 with regard to costs for short-term leases of <12 months (lease payments for car parking slot rental), low-value leases of <5 thousand euros (lease payments for photocopiers, faxes) and variable lease payments not included in the valuation of lease liabilities (VAT, lease payment for ancillary service).

2019

Lease costs <5,000 euros	172
Lease costs <12 months	185
Costs for variable lease payments not included in the valuation of lease liabilities	-

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

	2019			2018		
	PROVISIONS	SURPLUS	NET	PROVISIONS	SURPLUS	NET
Provisions for commitments and financial guarantees issued	22	-	22	-	-118	-118
Total	22	-	22	-	-118	-118

11.3 Breakdown of net provisions for liabilities and contingencies

	2019			2018		
	PROVISIONS	SURPLUS	NET	PROVISIONS	SURPLUS	NET
Provision for staff expenses	3,156	-524	2,632	1,652	-655	997
Provision for restructuring plan	1,672	-	1,672	697	-	697
Provision for staff expenses – Other(1)	1,484	-524	960	955	-655	300
Provisions for legal disputes	3,867	-1,398	2,469	5,471	-2,937	2,534
Provision for risks related to legal disputes with subscribers	1,331	-518	813	1,875	-1,146	729
Provision for risks related to legal disputes with Financial Advisors	30	-100	-70	465	-	465
Provision for risks related to legal disputes with staff	15	-	15	-	-	-
Provision for risks related to legal disputes with other parties	2,491	-780	1,711	3,131	-1,791	1,340
Provisions for termination indemnity – Financial Advisors	16,213	-1,474	14,739	22,231	-1,665	20,566
Provision for termination indemnity – Financial Advisors	7,463	-1,110	6,353	11,041	-1,122	9,919
Provision for manager incentive indemnity	2,638	-107	2,531	7,057	-	7,057
Provision for portfolio overfee indemnities	449	-75	374	59	-472	-413
Provision for pension bonuses	855	-182	673	293	-71	222
Provisions risks for the Framework Loyalty Programme	4,808	-	4,808	3,781	-	3,781
Provisions for network incentives	17,165	-3,836	13,329	28,546	-5,819	22,727
Provision for network development plans	12,630	-3,746	8,884	24,428	-5,764	18,664
Provision for deferred bonus	80	-90	-10	187	-	187
Provision for managers with access gate	300	-	300	300	-	300
Provision for incentive travels	3,300	-	3,300	3,251	-51	3,200
Provision for fee plans	855	-	855	380	-4	376
Other provisions for liabilities and contingencies	4,412	-	4,412	1,364	-	1,364
Total	44,813	-7,232	37,581	59,264	-11,076	48,188

(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 2019 (A + B - C)	NET RESULT 2018
A. Property and equipment	19,406	-	-	19,406	1,485
1. - Operating:	19,406	-	-	19,406	1,485
- owned	1,516	-	-	1,516	1,485
- rights of use acquired through leases	17,890	-	-	17,890	-
2. Held as investments	-	-	-	-	-
- owned	-	-	-	-	-
- rights of use acquired through leases	-	-	-	-	-
3. Inventories	X	-	-	-	-
Total	19,406	-	-	19,406	1,485

Section 13 – Net adjustments/reversals of intangible assets – Item 190

13.1 Breakdown of net adjustments of intangible assets

ASSETS/INCOME COMPONENTS	AMORTISATION (A)	ADJUSTMENTS FOR IMPAIRMENT (B)	REVERSALS (C)	NET RESULT 2019 (A + B - C)	NET RESULT 2018
A. Intangible assets	9,427	-	-	9,427	7,738
A.1 Owned	9,427	-	-	9,427	7,738
- generated in-house	-	-	-	-	-
- other	9,427	-	-	9,427	7,738
A.2 Rights of use acquired through leases	-	-	-	-	-
Total	9,427	-	-	9,427	7,738

Breakdown of value adjustments of intangible fixed assets – amortisation

	2019	2018
Charges associated with the implementation of legacy CSE procedures	8,126	5,977
Customer relationships	1,152	1,152
Other intangible fixed assets	149	609
Total	9,427	7,738

Section 14 – Other operating income and expenses – Item 200

14.1 Breakdown of other operating expenses

	2019	2018
Adjustments of leasehold improvements	2,385	2,074
Write-downs of other assets	34	-
Indemnities and compensation for litigation and claims	144	517
Charges from accounting adjustments with customers	2,072	1,154
Charges for card compensation and guarantees	1	14
Costs associated with tax disputes, penalties and fines	26	6
Other contingent liabilities and non-existent assets	1,375	758
Other operating expenses	2	133
Total	6,039	4,656

14.2 Breakdown of other operating income

	2019	2018
Recovery of taxes from customers	62,946	55,117
Recovery of expenses from customers	733	570
Fees for outsourced services	130	136
Charge-back of portfolio development indemnity to incoming Financial Advisors	3,874	1,922
Indemnities for Financial Advisors' termination without notice	666	562
Other recoveries of repayments and costs from Financial Advisors	1,972	1,269
Contingent assets related to staff expenses	1,441	1,816
Contributions to provision for employment in the banking sector (FOC) and the fund for staff training (FBA)	230	224
Other contingent assets and non-existent liabilities	803	1,812
Insurance compensation and indemnities	813	134
Tax credit related to movie production	300	-
Other income	200	134
Total	74,108	63,696
Total other net income	68,069	59,040

Section 15 – Gains (losses) of equity investments – Item 220

15.1 Breakdown of gains (losses) of equity investments

INCOME COMPONENTS/VALUES	2019	2018
A. Gains	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Reversals	-	-
4. Other gains	-	-
B. Charges	2,059	-
1. Write-downs	-	-
2. Adjustments for impairment	2,059	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net result	-2,059	-

Section 18 – Gains (losses) on disposal of investments – Item 250

18.1 Breakdown of gains (losses) on disposal of investments

INCOME COMPONENTS/VALUES	2019	2018
A. Buildings	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
B. Other assets	-262	-282
- Gains on disposal	-	-
- Losses on disposal	262	282
Net result	-262	-282

Section 19 – Income tax for the year from current operations – Item 270

19.1 Breakdown of income tax for the year from current operations

INCOME COMPONENTS/VALUES	2019	2018
1. Current taxation (-)	-33,095	-31,688
2. Change in prior years' current taxes (+/-)	1,006	2,018
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. 214/2011 (+)	-	-
4. Changes of prepaid taxation (+/-)	-1,225	1,079
5. Changes of deferred taxation (+/-)	368	1,308
6. Taxes for the year (-)	-32,946	-27,283

19.2 Reconciliation between theoretical and actual tax expense

The following table reconciles the total amount of taxes due for 2019, 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% introduced by the “2016 Stability Law” with effect from 1 January 2017 for tax periods after that in progress at 31 December 2016 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.

With effect from financial year 2019, the 2020 Budget Law introduces a new general incentive for the capitalisation of undertakings with characteristics essentially analogous to those of the previous “ACE” economic growth aid programme, repealed by the 2019 Budget Law. The new percent rate for calculating the notional return on new own capital has been fixed at 1.3%.

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.

	2019	2018
Current taxation	-33,095	-31,688
IRES	-22,378	-22,635
IRAP	-10,717	-9,053
Other	-	-
Prepaid and deferred taxation	-857	2,387
IRES	-924	1,470
IRAP	67	917
Prior years' taxes	1,006	2,018
IRES	1,179	1,309
IRAP	-173	709
Income taxes	-32,946	-27,283
Theoretical tax rate	27.5%	27.5%
Profit (loss) before taxation	281,304	216,341
Theoretical taxation	-77,359	-59,494
Non-taxable income (+)		
Dividends	55,920	39,083
ACE	872	897
Other decreases (including tax credit related to movie production)	181	47
Non-deductible charges (-)		
Impairment of equity securities PEX	-566	-234
Other non-deductible costs	-2,366	-1,556
Other taxes (+/-)		
IRAP	-10,650	-8,136
Prior years' taxes	1,006	2,018
Other (foreign) taxes	-	-
Change in deferred taxes without offsetting entry	16	92
Actual tax expense	-32,946	-27,283
Total actual tax rate	11.7%	12.6%
Actual tax rate (IRES)	7.9%	9.2%
Actual tax rate (IRAP)	3.8%	3.4%

Section 22 – Earnings per Share

22.1 Average number of ordinary shares with diluted capital

	2019	2018
Net profit for the year (€ thousand)	248,358	189,058
Earnings attributable to ordinary shares (€ thousand)	248,358	189,058
Average number of outstanding shares (thousand)	115,719	115,784
EPS – Earning per share (euros)	2.15	1.63
Average number of outstanding shares with diluted capital (thousand)	115,719	115,784
EPS – Diluted earnings per share (euros)	2.15	1.63

PART D – COMPREHENSIVE INCOME**Analytical Statement of Comprehensive Income**

ITEMS	2019	2018
10. Net profit (loss) for the year	248,358	189,058
Other income, without transfer to Profit and Loss Account	-323	-52
20. Equity securities at fair value through other comprehensive income:	-300	-
a) fair value changes	-300	-
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	-32	-71
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	9	19
Other income, with transfer to Profit and Loss Account	15,827	-25,618
110. Hedges of foreign investments:	-	-
a) fair value changes	-	-
b) transfer to Profit and Loss Account	-	-
c) other changes	-	-
120. Exchange differences:	-	-
a) 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	-	-
<i>of which:</i>		
<i>result of net positions</i>	-	-
140. Hedging instruments (non-designated items):	-	-
a) 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:	23,326	-37,756
a) fair value changes	20,489	-22,899
b) transfer to Profit and Loss Account	2,837	-14,857
- adjustments due to credit risk	-2,173	1,208
- gains (losses) on disposal	5,010	-16,065
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	-7,499	12,138
190. Total other income components	15,504	-25,670
200. Comprehensive income (Item 10 + 190)	263,862	163,388

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: it 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: it is responsible within the Banking Group for preventing and combating the transactions involving money laundering and financing of;
- > 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 Board, 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 role of 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 thus valued at amortised cost, and liquidity invested on the money market through interbank deposits.

With regards to customer loans in the traditional form of current account credit lines and loans, this activity, in Banca Generali, is an ancillary 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 creditworthiness. 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 Lending 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, developed by the Group consortium company, to manage the creditworthiness of its counterparties in quantitative terms. In this regard, a consortium project to re-estimate rating models is in progress.

As mentioned above, the NPL portfolio at the end of 2019 declined compared to the end of 2018 due to the closure of UTP positions through repayment (approximately 5 million euros) and the reclassification of past-due positions as performing (approximately 1 million euros), in addition to the effect of the new credit granting and monitoring policies.

The improvement in the quality of the portfolio is also a result of the thorough revision of credit processes that began in 2017 and became operational in 2018 with the update of the credit granting and extension policy, the release of the Quiclic Credit Platform and the full use of the Lombard loan, which over the years has resulted in the conversion of over 37% of credit to Lombard loans. Banca Generali has also adopted a predictive credit risk management model designed to mitigate economic risk for the Bank by anticipating the launch of the most useful measures, culminating in recovery of the most serious types of non-performing positions. All this has been made possible by constant monitoring of credit positions for potential decline in creditworthiness through an extensive system of triggers identified in advance by the Bank, followed by confirmation or rejection of the "management classification", which thus accompanies the administrative classification and allows the loan portfolio to be segmented more effectively by associating intervention measures with each position to maintain or withdraw commitments.

Together with a greater focus on credit quality, all this has ensured a closer focus on and reduction in non-performing loans by volume and as a percentage of the whole, making it possible to align credit activity with the new supervisory guidelines, along with quality and competitiveness objectives for the range of credit offerings.

In 2020, the Bank planned to enhance the measures launched in 2019 through the completion of the definitive working plan for the revision and validation of new credit policies and systems to ensure a further improvement in the quality of the portfolio by aligning credit activity with credit risk monitoring best practices, while also ensuring effective support to the Network for customer relations through additional initiatives for further expansion of the credit range.

In 2020, the Bank also planned the conclusion of the IT development initiative in support of the monitoring of the loan portfolio with a specific focus on compliance with the limits set in the Risk Appetite Framework, which call for a thorough assessment of the financial instruments used as collateral.

The exposure to credit risk associated with the loan portfolio is mostly Italian, given the dominant presence of investments in government bonds (approximately 90%) and investment grade bank bonds. 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 managed assets, 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 upon the disbursement of the loan and its market value is then periodically monitored.

Banca Generali also benefits from an additional master guarantee, known as an indemnity, provided by BSI S.A., 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 2019, the guarantee covers positions other than bad loans of approximately 32 thousand euros and bad loan positions of approximately 20 million euros, net of value adjustments (see paragraph 3. Non-performing past due exposures).

Finally, as for credit card issuance, in 2019 the Bank continued to follow a very conservative policy, aimed almost exclusively at natural persons.

In 2019, the early-warning IT system and the electronic credit line applications were fully implemented, thus ensuring a more streamlined and by-the-book lending process, reducing processing times and limiting anomalies in loan approval and disbursement.

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 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.

Cash net non-performing loans (hereinafter also referred as “NPLs”) (see table A.1.1) totalled 33,650 thousand euros, of which:

- > bad loans of 28,311 thousand euros, of which:
 - financing amounting to 21,572 thousand euros, including 20,239 thousand euros (93.8%) covered by indemnities, 1,300 thousand euros (6.0%) secured by mortgages and 34 thousand euros (0.2%) not secured;
 - debt securities of 6,739 thousand euros, measured at amortised cost;
- > unlikely-to-pay loans of 3,621 thousand euros, of which just 166 thousand euros (4.6%) actually at risk, and the remaining 3,455 thousand euros (95.4%) secured by collateral or similar guarantees¹;
- > non-performing past-due loans of 1,718 thousand euros, of which 1,504 thousand euros (87.5%) secured by collateral or similar guarantees, and 214 thousand euros not secured.

Net non-performing loans in the form of financing may be broken down as follows:

- > about 75.2% (20,239 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 24.8% (6,672 thousand euros) of exposures for which the Bank is at risk, mostly 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 6,672 thousand euros, representing 0.3% of total net loans to customers. However, considering positions secured by collateral or similar guarantees, which at 6,259 thousand euros make up approximately 94% of total net non-performing loans, a total of 413 thousand euros of net non-performing loans are not secured by collateral, representing 6% of total net non-performing loans and an entirely marginal fraction of total net loans to customers (0.02%).

In 2019, the portfolio of NPLs sharply declined as a result the closure of several UTP positions due to repayment or enforcement and the reclassification to performing positions of previously past-due exposures.

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 as regards the portfolio portion of loans to customers.

In this regard, at 31 December 2019, outstanding forbore exposures in the portfolio of loans to customers were mostly classified as performing positions (93.2%), with the remainder classified as non-performing (6.8%). Nearly 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 2019, due to the consolidation of the 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 (44 million euros at 31 December 2019, compared with 86 million euros as at 31 December 2018), due to the elimination of various positions as a result of repayment in full.

Exposures subject to forbearance measures at 31 December 2019 mostly consisted (approximately 81%) of exposures in amortisation and, to a lesser extent, uncommitted cash 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 transactions subject to forbearance measures, represented essentially by the renegotiation of the uncommitted cash exposure in amortising loans with a final variable rate, the impact of such exposures on net present value is believed not to be material.

¹ “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	28,311	3,621	1,718	7,512	7,590,336	7,631,498
2. Financial assets at fair value through other comprehensive income	-	-	-	-	2,766,478	2,766,478
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	20,379	20,379
5. HFS financial assets	-	-	-	-	-	-
Total at 31.12.2019	28,311	3,621	1,718	7,512	10,377,193	10,418,355
Total at 31.12.2018	21,473	10,555	4,793	22,962	8,035,136	8,094,919

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	57,052	23,402	33,650	-	7,605,083	7,236	7,597,847	7,631,497
2. Financial assets at fair value through other comprehensive income	-	-	-	-	2,767,543	1,065	2,766,478	2,766,478
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	20,379	20,379
5. HFS financial assets	-	-	-	-	-	-	-	-
Total at 31.12.2019	57,052	23,402	33,650	-	10,372,626	8,301	10,384,704	10,418,354
Total at 31.12.2018	51,945	15,124	36,821	-	8,050,860	13,452	8,058,098	8,094,919

PORTFOLIOS/QUALITY	ASSETS WITH CLEARLY POOR CREDIT QUALITY		OTHER ASSETS
	CUMULATIVE CAPITAL LOSSES	NET EXPOSURE	NET EXPOSURE
1. HFT financial assets	-	-	18,298
2. Hedging derivatives	-	-	4,727
Total at 31.12.2019	-	-	23,025
Total at 31.12.2018	-	-	33,887

(*) Value to be indicated for disclosure purposes.

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	3,684	-	-	1,032	1,800	995	-	-	33,650
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total at 31.12.2019	3,684	-	-	1,032	1,800	995	-	-	33,650
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			OF WHICH: ACQUIRED OR ORIGINATED IMPAIRED FINANCIAL ASSETS	STAGE 1	STAGE 2	STAGE 3	TOTAL	
	FINANCIAL ASSETS MEASURED 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	7,866	3,074	- 10,940	2,348	164	- 2,512	15,124	- 15,124	-	-	-	-	48	38	- 28,662	
Increases from acquired or originated financial assets	2,033	563	- 2,596	1,260	-	- 1,260	21	- 21	-	-	-	-	17	1	- 3,895	
Cancellations other than write-offs	-636	-3,916	- -4,552	-524	-	- -524	-	-	-	-	-	-	-5	-28	- -5,109	
Net adjustments/reversals for credit risk (+/-)	-3,719	1,250	- -2,469	-1392	-70	- -1,462	8,319	- 8,319	-	-	-	-	42	-5	- 4,425	
Contractual changes without cancellations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Changes in the assessment methods	-	-	-	-	-	-	-	-21	-	-21	-	-	-	-	-21	
Write-offs not directly recognised through profit and loss	-	-	-	-	-	-	-	-36	-	-36	-	-	-	-	-36	
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total adjustments at year-end	5,544	971	- 6,515	1,692	94	- 1,786	23,407	- 23,407	-	-	-	-	102	6	- 31,816	
Recovery from collection of written off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Write-offs directly recognised through profit and loss	-	-	-	-	-	-	-	15	-	15	-	-	-	-	15	

Pursuant to IFRS 7, paragraph 35H, letter b) (iii), it is reported that the final total adjustments to Stage 2 trade receivables amounted to 1,786 thousand euros, marking a decrease of about 726 thousand euros compared to their initial levels.

Total final adjustments on the securities portfolio amounted to 16,936 thousand euros, up approximately 2,922 thousand euros compared to year-start due to the increase in analytical impairment, which more than offset the reversals on the collective write-off.

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	12,415	44,789	16,063	9	1,203	824
2. Financial assets at fair value through other comprehensive income	4,974	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	35	3,816	-	-	24	20
Total at 31.12.2019	17,424	48,605	16,063	9	1,227	844

A.1.6 Cash and off-balance sheet credit exposures 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 exposures						
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	899,841		742	899,099	-
- of which: forborne exposures	X	-		-	-	-
Total A	-	899,841		742	899,099	-
B. Off-balance sheet credit exposures						
a) Non-performing	-	X		-	-	-
b) Performing	X	31,605		-	31,605	-
Total B	-	31,605		-	31,605	-
Total (A + B)	-	931,446		742	930,704	-

(*) 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 at fair value through other comprehensive income, financial assets designated at fair value and other financial assets mandatorily measured 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 credit exposures with customers: gross and net amounts

TYPES OF EXPOSURES/VALUES	GROSS EXPOSURE		TOTAL ADJUSTMENTS AND TOTAL PROVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS (*)
	NON- PERFORMING	PERFORMING			
A. Cash exposures					
a) Bad loans	50,343	X	22,032	28,311	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	4,566	X	945	3,621	-
- of which: forborne exposures	3,045	X	156	2,889	-
c) Non-performing past-due exposures	2,142	X	424	1,718	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X	7,630	118	7,512	-
- of which: forborne exposures	X	930	31	899	-
e) Other performing exposures	X	9,502,617	7,445	9,495,172	-
- of which: forborne exposures	X	40,538	426	40,112	-
Total A	57,051	9,510,247	30,964	9,536,334	-
B. Off-balance sheet credit exposures					
a) Non-performing	31	X	-	31	-
b) Performing	X	99,600	108	99,492	-
Total B	31	99,600	108	99,523	-
Total (A + B)	57,082	9,609,847	31,072	9,635,857	-

(*) 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 at fair value through other comprehensive income, financial assets designated at fair value and other financial assets mandatorily measured 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 50,343 thousand euros and included 22,032 thousand euros of value adjustments; therefore, net bad loans recognised totalled 28,311 thousand euros. Of this amount, 20,239 thousand euros (93.8% of the net bad loans alone) 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 ordinary customers amounted to 1,333 thousand euros, equal to about 6.2% of total net bad loans and 0.03% of total net loans to customers. Considering bad loans secured by mortgages, which amounted to 1,300 thousand euros, the residual net bad loans amount to 34 thousand euros.

The portfolio of non-performing positions also includes the exposure in debt instruments, amounting to 17,936 thousand euros gross and to 6,738 thousand euros net, allocated to the HTC portfolio and deemed almost entirely irrecoverable.

The aggregate (see table A.1.9) grew by 15,321 thousand euros gross due to new reclassifications from the performing category and other increases totalling 15,906, offset by collections and gross derecognitions of 585 thousand euros.

The most significant components of the increases were reclassifications from performing exposures of 15,297 thousand euros gross and interest accrued on positions secured by indemnities of 609 thousand euros.

The reductions, on the other hand, include cancellations of 37 thousand euros and 548 thousand euros of collections, whose amounts on the most significant positions are all secured by mortgages.

Unlikely to pay

At 31 December 2019, gross unlikely-to-pay loans amounted to 4,566 thousand euros, subject to impairment losses of 945 thousand euros, resulting in a net balance of 3,621 thousand euros.

The aggregate (see table A.1.9) decreased by 7,283 thousand euros compared to 31 December 2018 as a result of:

- > a decline of 9,231 thousand euros, due to collections of 8,800 thousand euros, attributable to several counterparties with significant exposures secured by collateral or similar security interests which were definitively recovered, and for the remainder, to UTP positions reclassified to performing status;
- > the increases of 1,948 thousand euros refer to positions reclassified from other non-performing categories of 1,785 thousand euros, broken down into exposures secured by collateral or similar security interests of 1,134 thousand euros and, for the remainder, unsecured exposures of non-material amounts.

Non-performing past-due exposures

Non-performing past-due exposures amounted to 2,142 thousand euros, subject to impairment losses of 424 thousand euros, yielding a net balance of 1,718 thousand. The net aggregate mainly included:

- > exposures, largely secured by pledges or, to a marginal extent, by assignment of policies, amounting to 1,504 thousand euros;
- > other unsecured exposures with an average balance per position of approximately 250 euros.

The aggregate (see table A.1.9) decreased by 2,932 thousand euros compared to 31 December 2018 as a result of:

- > increases of 2,610 thousand euros, primarily attributable to new reclassifications from performing positions of 1,961 thousand euros and, to a residual extent, to increases in already non-performing positions of 649 thousand euros;
- > decreases of 5,542 thousand euros, primarily attributable to collections on past-due positions with full repayment of the exposure of 3,782 thousand 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 No. 272.

In almost all cases, these are positions guaranteed by pledges found to be expired at the reporting date and currently being repaid.

A.1.9 Cash credit exposures 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	35,022	11,849	5,074
- of which: exposures transferred but non written off	-	-	-
B. Increases	15,906	1,948	2,610
B.1 Inflows from performing exposures	15,297	1,785	1,961
B.2 Inflows from acquired or originated impaired financial assets	-	-	-
B.3 Transfers from other categories of non-performing exposures	-	11	-
B.4 Contractual changes without cancellations	-	-	-
B.5 Other increases	609	152	649
- of which: business combinations	-	-	-
C. Decreases	585	9,231	5,542
C.1 Outflows to performing exposures	-	327	1,573
C.2 Write-offs	37	-	14
C.3 Repayments received	548	8,800	3,782
C.4 Gains on disposals	-	-	-
C.5 Losses on disposals	-	-	-
C.6 Transfer to other categories of non-performing exposures	-	-	11
C.7 Contractual changes without cancellations	-	-	-
C.8 Other decreases	-	104	162
D. Gross exposure at year-end	50,343	4,566	2,142
- of which: exposures transferred but non written off	-	-	-

A.1.9-bis Cash credit exposures with customers: changes in gross forborne exposures, broken down by credit quality

CAUSES/QUALITY	NON-PERFORMING FORBORNE EXPOSURES	PERFORMING FORBORNE EXPOSURES
A. Gross exposure at year-start	3,681	86,487
- of which: exposures transferred but non written off	-	-
B. Increases	1,996	8,580
B.1 Inflows from performing non-forborne exposures	1,117	7,479
B.2 Inflows from performing forborne exposures	-	X
B.3 Inflows from non-performing forborne exposures	X	-
B.4 Other increases	879	1,101
C. Decreases	2,632	53,599
C.1 Outflows to performing non-forborne exposures	X	5,936
C.2 Outflows to performing forborne exposures	-	X
C.3 Outflows to non-performing forborne exposures	X	-
C.4 Write-offs	-	-
C.5 Repayments received	2,091	47,663
C.6 Gains on disposals	-	-
C.7 Losses on disposals	-	-
C.8 Other decreases	541	-
D. Gross exposure at year-end	3,045	41,468
- of which: exposures transferred but non written off	-	-

Forborne exposures

Forborne exposures consisted mostly of performing positions, for a gross amount of 41,468 thousand euros, almost entirely secured by collateral or similar security interests, whose decline compared to 2018 (86,487 thousand euros) was due to the reclassification of some significant position following the closure of the forborne lines of credit or the lapse of the probation. A residual share consists of non-performing forborne exposures of 3,045 thousand euros gross (accounting for 6.8% of total performing and non-performing forborne exposures), almost all of which were fully secured by pledges.

The non-performing cash forborne positions aggregate declined by 636 thousand euros overall (in gross terms) due to the balance of new reclassifications from performing status of 1,117 thousand euros and increases in positions already classified as non-performing forborne of 879 thousand euros, offset by collections of 2,091 thousand euros referring to positions eliminated from the non-performing forborne category due to repayment in full of the exposure and closure of the relationships, in addition to collections due to lesser draw-downs.

The main component of performing forborne positions is collections of 47,663 thousand euros, attributed to positions repaid in full with the closure of the forborne lines of credit, positions eliminated from the forborne category due to the lapse of the probation period and, to a marginal extent, lesser draw-downs. The new reclassifications of 7,479 thousand euros all refer to performing positions for which a new line of credit has been granted (new finance or restructuring of the existing debt position) according to forbearance measures.

A.1.11 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	13,549	-	1,294	595	281	14
- of which: exposures transferred but not written off	-	-	-	-	-	-
B. Increases	199	-	300	45	279	-
B.1 Adjustments to acquired or originated impaired financial assets	-	X	-	X	-	X
B.2 Other adjustments	199	-	279	35	279	-
B.3 Losses on disposals	-	-	-	-	-	-
B.4 Transfer from other categories of non-performing exposures	-	-	21	10	-	-
B.5 Contractual changes without cancellations	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	271	-	649	484	136	14
C.1. Reversal of adjustments	21	-	102	39	30	4
C.2 Reversal of collections	213	-	547	445	67	-
C.3 Gains on disposals	-	-	-	-	-	-
C.4 Write-offs	37	-	-	-	14	-
C.5 Transfer to other categories of non-performing exposures	-	-	-	-	21	10
C.6 Contractual changes without cancellations	-	-	-	-	-	X
C.7 Other decreases	-	-	-	-	4	-
A. Total adjustments at year-end	13,477	-	945	156	424	-
- of which: exposures transferred but not written off	-	-	-	-	-	-

Reversals of collections (item C.2) amounted to 827 thousand euros and mainly referred to unlikely-to-pay positions totalling 547 thousand euros, of which approximately 445 thousand euros regarding a position settled in the first months of 2019, following its full payment.

Besides the exposures included in the previous tables, other non-performing positions are recognised in the Financial Statements for a net amount of 1,216 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	31.12.2019		
	GROSS	WRITE-DOWNS	NET
Receivables related to FA litigation	1,920	-707	1,213
Advances to FAs	79	-79	-
Write-downs of receivables from FAs	1,999	-786	1,213
Write-downs of operating receivables	358	-355	3
Write-downs of operating receivables	358	-355	3
Total write-downs	2,357	-1,141	1,216

A.2 Classification of financial assets, commitments to disburse funds and financial guarantees issued by internal and external rating

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 external 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	2,519	65,573	4,809,133	108,863	-	-	2,676,047	7,662,135
- Stage 1	2,519	65,573	4,767,741	103,813	-	-	2,519,523	7,459,169
- Stage 2	-	-	41,392	5,050	-	-	99,473	145,915
- Stage 3	-	-	-	-	-	-	57,051	57,051
B. Financial assets at fair value through other comprehensive income	18,175	197,263	2,496,397	53,868	-	-	1,839	2,767,542
- Stage 1	18,175	186,198	2,488,423	53,868	-	-	-	2,746,664
- Stage 2	-	11,065	7,974	-	-	-	1,839	20,878
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B)	20,694	262,836	7,305,530	162,731	-	-	2,677,886	10,429,677
- of which: acquired or originate impaired financial assets	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-	-	-
- Stage 1	-	-	1,596	-	-	-	100,237	101,833
- Stage 2	-	-	-	-	-	-	2,059	2,059
- Stage 3	-	-	-	-	-	-	-	-
Total C	-	-	1,596	-	-	-	102,296	103,892
Total (A + B + C)	20,694	262,836	7,307,126	162,731	-	-	2,780,182	10,533,569

Financial assets at amortised cost without rating include trade receivables and advances to Financial Advisors totalling 100,210 thousand euros.

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.1 Guaranteed cash and off-balance sheet credit exposures with banks

	GROSS EXPOSURE	NET EXPOSURE	COLLATERALISED GUARANTEES (1)										PERSONAL GUARANTEES (2)				TOTAL (1) + (2)	
			BUILDINGS – MORTGAGES	BUILDINGS – FINANCE LEASE	SECURITIES	OTHER COLLATERALISED GUARANTEES	OTHER DERIVATIVES				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:	152,986	152,968	-	-	152,968	-	-	-	-	-	-	-	-	-	-	-	-	152,968
1.1 Totally guaranteed	152,986	152,968	-	-	152,968	-	-	-	-	-	-	-	-	-	-	-	-	152,968
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Totally guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Guaranteed cash and off-balance sheet credit exposures with customers

All assets held as guarantee (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.

	GROSS EXPOSURE	NET EXPOSURE	COLLATERALISED GUARANTEES (1)										PERSONAL GUARANTEES (2)				TOTAL (1) + (2)	
			BUILDINGS – MORTGAGES	BUILDINGS – FINANCE LEASE	SECURITIES	OTHER COLLATERALISED GUARANTEES	OTHER DERIVATIVES				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:	2,057,247	2,053,319	409,616	-	1,418,138	206,756	-	-	-	-	-	-	-	-	-	279	7,113	2,041,902
1.1 Totally guaranteed	2,013,862	2,010,086	405,090	-	1,401,461	196,805	-	-	-	-	-	-	-	-	-	267	6,643	2,010,266
- of which: non-performing	27,521	25,929	14,984	-	3,272	7,625	-	-	-	-	-	-	-	-	-	-	48	25,929
1.2 Partially guaranteed	43,385	43,233	4,526	-	16,677	9,951	-	-	-	-	-	-	-	-	-	12	470	31,636
- of which: non-performing	178	93	-	-	-	89	-	-	-	-	-	-	-	-	-	-	-	89
2. Guaranteed off-balance sheet credit exposures:	596,891	596,786	194	-	420,620	168,866	-	-	-	-	-	-	-	-	-	-	428	590,108
2.1 Totally guaranteed	567,478	567,376	194	-	401,998	164,958	-	-	-	-	-	-	-	-	-	-	226	567,376
- of which: non-performing	54	54	-	-	35	19	-	-	-	-	-	-	-	-	-	-	-	54
2.2 Partially guaranteed	29,413	29,410	-	-	18,622	3,908	-	-	-	-	-	-	-	-	-	-	202	22,732
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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	6,775,012	3,804
A.1 Bad loans	-	-
- of which: <i>forborne exposures</i>	-	-
A.2 Unlikely to pay	-	-
- of which: <i>forborne exposures</i>	-	-
A.3. Non-performing past-due exposures	-	-
- of which: <i>forborne exposures</i>	-	-
A.4. Performing exposures	6,775,012	3,804
- of which: <i>forborne exposures</i>	-	-
2. Financial companies	692,653	783
A.1 Bad loans	5,223	76
- of which: <i>forborne exposures</i>	-	-
A.2 Unlikely to pay	146	30
- of which: <i>with forbearance measures</i>	-	-
A.3. Non-performing past-due exposures	38	56
- of which: <i>forborne exposures</i>	-	-
A.4. Performing exposures	687,246	621
- of which: <i>forborne exposures</i>	-	-
3. Financial companies (of which insurance companies)	40,744	-
A.1 Bad loans	-	-
- of which: <i>forborne exposures</i>	-	-
A.2 Unlikely to pay	-	-
- of which: <i>forborne exposures</i>	-	-
A.3. Non-performing past-due exposures	-	-
- of which: <i>forborne exposures</i>	-	-
A.4. Performing exposures	40,744	-
- of which: <i>forborne exposures</i>	-	-
4. Non-financial companies	419,980	22,786
A.1 Bad loans	21,140	21,028
- of which: <i>forborne exposures</i>	-	-
A.2 Unlikely to pay	312	118
- of which: <i>forborne exposures</i>	300	4
A.3. Non-performing past-due exposures	803	25
- of which: <i>forborne exposures</i>	-	-
A.4. Performing exposures	397,725	1,615
- of which: <i>forborne exposures</i>	18,526	197
5. Households	1,607,945	3,591
A.1 Bad loans	1,948	931
- of which: <i>forborne exposures</i>	-	-
A.2 Unlikely to pay	3,164	798
- of which: <i>forborne exposures</i>	2,589	152
A.3. Non-performing past-due exposures	878	341
- of which: <i>forborne exposures</i>	-	-
A.4. Performing exposures	1,601,955	1,521
- of which: <i>forborne exposures</i>	22,485	261
Total A – Cash exposures	9,536,334	30,964

EXPOSURES/COUNTERPARTY	NET EXPOSURE	TOTAL ADJUSTMENTS
B. Off-balance sheet exposures		
1. Public administration bodies	-	-
B.1 Non-performing exposures	-	-
B.2 Performing exposures	-	-
2. Financial companies	731	1
B.1 Non-performing exposures	-	-
B.2 Performing exposures	731	1
3. Financial companies (of which insurance companies)	2,596	-
B.1 Non-performing exposures	-	-
B.2 Performing exposures	2,596	-
4. Non-financial companies	53,160	79
B.1 Non-performing exposures	31	-
B.2 Performing exposures	53,129	79
5. Households	43,037	28
B.1 Non-performing exposures	-	-
B.2 Performing exposures	43,037	28
Total B – Off-balance sheet exposures	99,524	108

	NET EXPOSURE	TOTAL ADJUSTMENTS
Public administration bodies	6,775,012	3,804
Financial companies	693,384	784
Financial companies (of which insurance companies)	43,340	-
Non-financial companies	473,140	22,865
Households	1,650,982	3,619
Overall total (A + B) at 31.12.2019	9,635,858	31,072
Overall total (A + B) at 31.12.2018	7,846,923	28,009

B.2 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 credit exposures										
A.1 Bad loans	21,572	12,813	6,739	9,220	-	-	-	-	-	-
A.2 Unlikely to pay	3,621	945	-	1	-	-	-	-	-	-
A.3. Non-performing past-due exposures	1,717	420	1	5	-	-	3	2	-	-
A.4. Other performing exposures	7,813,623	6,783	1,623,882	731	48,397	35	12,342	7	4,442	3
Total A	7,840,533	20,961	1,630,622	9,957	48,397	35	12,345	9	4,442	3
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	31	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	99,433	108	60	-	-	-	-	-	-	-
Total B	99,464	108	60	-	-	-	-	-	-	-
Total at 31.12.2019	7,939,997	21,069	1,630,682	9,957	48,397	35	12,345	9	4,442	3
Total at 31.12.2018	7,581,810	25,771	209,445	2,193	45,327	38	6,703	4	3,638	3

B.3 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 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	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	666,205	632	205,900	92	4,404	13	17,565	5	5,024	2
Total A	666,205	632	205,900	92	4,404	13	17,565	5	5,024	2
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	29,274	-	2,331	-	-	-	-	-	-	-
Total B	29,274	-	2,331	-	-	-	-	-	-	-
Total at 31.12.2019	695,479	632	208,231	92	4,404	13	17,565	5	5,024	2
Total at 31.12.2018	405,818	518	202,337	149	4,376	3	17,581	12	5,011	4

B.4 Large exposures

Regulation (EU) No. 575/2013 (CRR) and 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 No. 285 “New Prudential Supervisory Provisions Concerning Banks” — further amended in various years (latest update, No. 25, dated 23 October 2018) — and Circular 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	31.12.2019	31.12.2018
a) Amount of the exposure	8,260,135	7,140,549
b) Weighted amount	304,074	257,743
c) Number	10	6

C. Securitisation

The Financial statements at 31 December 2019 do not include exposures resulting from securitisation.

E. Transfer Operations

E.1 Transferred financial assets fully recognised and related financial liabilities: book value

	TRANSFERRED FINANCIAL ASSETS FULLY RECOGNISED				RELATED FINANCIAL LIABILITIES		
	BOOK VALUE	OF WHICH: SECURITISED	OF WHICH: REVERSE REPURCHASE AGREEMENTS	OF WHICH: NON- PERFORMING	BOOK VALUE	OF WHICH: SECURITISED	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	85,767	-	85,767	-	85,784	-	85,784
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets at amortised cost							
1. Debt securities	29,712	-	29,712	-	30,434	-	30,434
2. Loans	-	-	-	-	-	-	-
Total at 31.12.2019	115,479	-	115,479	-	116,218	-	116,218
Total at 31.12.2018	130,909	-	130,909	-	130,542	-	130,542

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 No. 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 roles of 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. Exposure to non-OECD issuers and entities is limited.

The exposure in derivatives is attributable to the inception of interest rate derivatives to cover the risk of changes in the fair value of the banking book due to the fluctuation of the interest rate curve.

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 portfolio of financial and corporate bonds;
- > residual transactions in UCITS and equity instruments.

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 structured bonds.

The 2020-2022 Strategic Plan does not envisage any significant development strategies for the trading book. Accordingly, it should be noted that at the reporting date the Bank's trading of financial instruments on its own account had a limited and residual exposure with a low-risk profile. The Bank has no risk appetite for a trading book exceeding 40 million euros (equal to 0.3% of total assets forecast for 2020).

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 interest-rate risk sensitivity of the entire proprietary portfolio at 31 December 2019:

(€ THOUSAND)	PORTFOLIO
Interest-rate risk sensitivity	-123,130.4

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	UNSPECI- FIED MATURITY	TOTAL
1. Cash assets	52	1,978	-	15,104	-	-	-	-	17,134
1.1 Debt securities									
- with early repayment option	52	-	-	-	-	-	-	-	52
- other	-	1,978	-	15,104	-	-	-	-	17,082
1.2 Other assets	-	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-	-
2.1 Repurchase agreement liabilities	-	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-	-
3. Financial derivatives	-	71,482	748	66,284	-	-	-	-	138,514
3.1 With underlying security	-	-	-	-	-	-	-	-	-
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	71,482	748	66,284	-	-	-	-	138,514
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	35,741	374	33,142	-	-	-	-	69,257
+ short positions	-	35,741	374	33,142	-	-	-	-	69,257

2. Regulatory trading book: breakdown of exposures in equity securities and stock indices for the main countries on the market of listing

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 114.1/-114.1 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 -123.3/+123.3 thousand euros, gross of the tax effect.

(€ THOUSAND)	HTS
FV equity delta (+10%)	114.1
FV equity delta (-10%)	-114.1
FV bonds delta (+1%)	-123.3
FV bonds delta (-1%)	+123.3

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 roles of 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 net 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 at fair value classified as 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 investment in the private equity fund Milano Investment Partners SGR.

B. Fair Value and Cash Flow Hedging

The Bank currently uses fair value hedging strategies to contain the interest rate risk on the banking book. These strategies are formulated according to the Bank's Risk Appetite and are designed to keep portfolio's duration within the established limits by using hedging derivative instruments such as interest rate swaps.

In particular, by establishing hedging relationships, the Bank seeks to stabilise the fair value of the bond in respect of changes in interest rates and to decrease the duration of the hedged bond.

All derivative instruments are designated as hedges against the specific risk hedged, as identified for each hedging relationship.

There are currently no cash flow hedging transactions generated by the Bank's operations.

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 YEAR, UP TO 10 YEARS	OVER 10 YEARS	UNSPECI- FIED MATURITY	TOTAL
1. Cash assets	2,145,241	2,377,777	2,038,257	1,235,290	1,360,039	950,541	311,209	-	10,418,354
1.1 Debt securities									
- with early repayment option	-	37,827	5,561	5,786	25,177	44,952	13,833	-	133,136
- other	-	2,010,079	2,030,340	1,076,218	1,332,377	904,104	296,746	-	7,649,864
1.2 Loans to banks	94,810	123,350	-	152,968	-	-	-	-	371,128
1.3 Loans to customers									
- current accounts	1,112,178	4	84	161	8	-	-	-	1,112,435
- other loans	938,253	206,517	2,272	157	2,477	1,485	630	-	1,151,791
- with early repayment option	781,231	423	8	151	1,205	1,485	630	-	785,133
- other	157,022	206,094	2,264	6	1,272	-	-	-	366,658
2. Cash liabilities	10,428,659	116,218	-	-	-	-	-	-	10,544,877
2.1 Due to customers									
- current accounts	10,056,493	-	-	-	-	-	-	-	10,056,493
- other payables	277,399	116,218	-	-	-	-	-	-	393,617
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	277,399	116,218	-	-	-	-	-	-	393,617
2.2 Due to banks									
- current accounts	67,237	-	-	-	-	-	-	-	67,237
- other payables	27,530	-	-	-	-	-	-	-	27,530
2.3 Debt securities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
2.4 Other liabilities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
3. Financial derivatives	-	50,000	850,000	25,000	221,000	61,000	135,000	-	1,342,000
3.1 With underlying security									
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
3.2 Without underlying security									
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	25,000	425,000	25,000	196,000	-	-	-	671,000
+ short positions	-	25,000	425,000	-	25,000	61,000	135,000	-	671,000
4. Other off-balance sheet transactions	-	56,970	-	-	-	-	-	-	56,970
+ long positions	-	28,485	-	-	-	-	-	-	28,485
+ short positions	-	28,485	-	-	-	-	-	-	28,485

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 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 -19.5/+19.1 million euros, gross of the tax effect.

The fair value delta component associated with the government bonds in the HTCS portfolio would amount to -14.6/+14.3 million euros as a result of the hypothesised shift in the rate curve, or about 75% 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%)	-19,470	-103,660	-15,852	-138,982
- of which: government bonds	-14,562	-103,612	-	-118,174
FV bonds delta (-1%)	19,140	98,074	15,867	133,081
- of which: government bonds	14,294	98,026	-	112,320

(*) Loans to banks and Loans to customers.

The same criteria were also applied to a sensitivity analysis of net interest income of the entire banking book. It resulted in a potential impact on the Profit and Loss Account of +48.8 million euros, gross of the tax effect in case of increase of interest rates by 1%, and -32.2 million euros in case of decrease by the same amount.

(€ THOUSAND)	ASSETS	LIABILITIES	NET
Net interest income delta (+1%)	57,574	-8,728	48,846
Net interest income delta (-1%)	-40,801	8,622	-32,179

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 roles of 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	66,197	2,267	13,676	9,103	1,822	2,296	1,784	3,113	100,258
A.1. Debt securities	15,254	-	1,898	1,177	52	-	-	-	18,381
A.2. Equity securities	-	-	-	-	-	-	-	-	-
A.3. Loans to banks	50,943	2,267	9,448	7,926	1,770	2,296	1,784	3,113	79,547
A.4. Loans to customers	-	-	2,330	-	-	-	-	-	2,330
A.5. Other financial assets	-	-	-	-	-	-	-	-	-
B. Other assets	-	-	-	-	-	-	-	-	-
C. Financial liabilities	67,682	2,357	13,385	8,528	1,786	2,286	1,513	1,669	99,206
C.1. Due to banks	-	-	-	6	-	-	-	2	8
C.2. Due to customers	67,682	2,357	13,385	8,522	1,786	2,286	1,513	1,667	99,198
C.3. Debt securities	-	-	-	-	-	-	-	-	-
C.4. Other financial liabilities	-	-	-	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-	-	-	-
E. Financial derivatives	248	-128	-180	-101	-	-	-	56	-105
Options	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
Other derivatives	248	-128	-180	-101	-	-	-	56	-105
- long positions	7,854	-	123	393	-	68	98	26,040	34,576
- short positions	7,606	128	303	494	-	68	98	25,984	34,681
Total assets	74,051	2,267	13,799	9,496	1,822	2,364	1,882	29,153	134,834
Total liabilities	75,288	2,485	13,688	9,022	1,786	2,354	1,611	27,653	133,887
Excess	-1,237	-218	111	474	36	10	271	1,500	947

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.

As there are no equity instruments denominated in currencies other than the euro, a change in market prices would result in no change of their value, whereas a shock of +100/-100 bps in rates would have an effect on the fair value of bonds and securities other than equities in foreign currency of -414/+516 thousand euros, gross of the tax effect.

(€ THOUSAND)	ASSETS
FV equity delta (+10%)	-
FV equity delta (-10%)	-
FV non-equity delta (+1%)	-414
FV non-equity delta (-1%)	516

By contrast, an interest rate movement of +100/-100 basis points would have an effect of -136/+162 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%)	-136
Net interest income delta (-1%)	+162

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	31.12.2019				31.12.2018			
	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. Debt securities and interest rates	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	54,358	-	-	-	13,506	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	54,358	-	-	-	13,506	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	54,358	-	-	-	13,506	-
Average values	-	-	33,932	-	-	-	19,341	-

A.2 HFT financial derivatives: positive and negative gross fair value – breakdown by products

TYPE OF DERIVATIVES	31.12.2019				31.12.2018			
	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	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	1,218	-	-	-	388	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	1,218	-	-	-	499	-
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	1,204	-	-	-	384	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	1,204	-	-	-	384	-

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 stock indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	27,277	-	27,080
- positive fair value	X	1,063	-	155
- negative fair value	X	154	-	1,050
4) Goods				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other values				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts within the scope of netting arrangements				
1) Debt securities and interest-rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and stock 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	-	-	-	-
5) Other values				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Time-to-maturity of OTC HFT 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	54,358	-	-	54,358
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total at 31.12.2019	54,358	-	-	54,358
Total at 31.12.2018	13,506	-	-	13,506

3.2 Hedging instruments**Quantitative Information****A. Hedging financial derivatives****A.1 Hedging financial derivatives: notional amounts at year-end**

TYPE OF DERIVATIVES	31.12.2019				31.12.2018			
	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. Debt securities and interest rates	-	541,000	130,000	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	541,000	130,000	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Goods	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	541,000	130,000	-	-	-	-	-

A.2 Hedging financial derivatives: positive and negative gross fair value — breakdown by products

TYPE OF DERIVATIVES	31.12.2019 - POSITIVE AND NEGATIVE FAIR VALUE				31.12.2018 - POSITIVE AND NEGATIVE FAIR VALUE				CHANGE IN VALUE USED TO MEASURE THE HEDGE INEFFECTIVENESS	
	OVER THE COUNTER				OVER THE COUNTER					
	WITHOUT CENTRAL COUNTERPARTIES				WITHOUT CENTRAL COUNTERPARTIES					
	WITH CENTRAL COUNTERPARTIES	WITH NETTING ARRANGEMENTS	WITHOUT NETTING ARRANGEMENTS	ORGANISED MARKETS	WITH CENTRAL COUNTERPARTIES	WITH NETTING ARRANGEMENTS	WITHOUT NETTING ARRANGEMENTS	ORGANISED MARKETS	31.12.2019	31.12.2018
1. Positive fair value	-	-	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	3,668	1,059	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	3,668	1,059	-	-	-	-	-	-	-
2. Negative fair value	-	-	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	7,480	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	7,480	-	-	-	-	-	-	-	-

A.3 OTC 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	130,000	-	-
- positive fair value	X	1,058	-	-
- negative fair value	X	-	-	-
2) Equity securities and stock indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Goods				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts within the scope of netting arrangements				
1) Debt securities and interest-rates				
- notional value	-	421,000	120,000	-
- positive fair value	-	3,486	182	-
- negative fair value	-	5,091	2,390	-
2) Equity securities and stock 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	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Time-to-maturity of OTC hedging 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	-	245,000	426,000	671,000
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
31.12.2019	-	245,000	426,000	671,000
31.12.2018	-	-	-	-

D. Hedged instruments**D.1 Fair value hedging**

	SPECIFIC HEDGES - NET POSITIONS: CARRYING		SPECIFIC HEDGES			GENERIC HEDGES: CARRYING AMOUNT
	SPECIFIC HEDGES: CARRYING AMOUNT	AMOUNT OF ASSETS AND LIABILITIES (BEFORE NETTING)	CUMULATIVE FAIR VALUE CHANGES OF THE HEDGED INSTRUMENT	TERMINATION OF HEDGING POSITION: RESIDUAL CUMULATIVE FAIR VALUE CHANGES	CHANGE IN VALUE USED TO MEASURE THE HEDGE INEFFECTIVENESS	
A. ASSETS						
1. Financial assets at fair value through other comprehensive income – hedging of:						
1.1 Debt securities and interest-rates	459,617	-	227	-	-	X
1.2 Equity securities and stock indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
2. Financial assets at amortised cost – hedging of:						
2.1 Debt securities and interest-rates	217,306	-	- 704	-	-	X
2.2 Equity securities and stock indices	-	-	-	-	-	X
2.3 Currencies and gold	-	-	-	-	-	X
2.4 Loans	-	-	-	-	-	X
2.5 Other	-	-	-	-	-	X
31.12.2019	676,923	-	- 477	-	-	-
31.12.2018	-	-	-	-	-	-
B. LIABILITIES						
1. Financial liabilities at amortised cost – hedging of:						
1.1 Debt securities and interest-rates	-	-	-	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
31.12.2019	-	-	-	-	-	-
31.12.2018	-	-	-	-	-	-

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	-	551,000	120,000	-
- positive fair value	-	4,544	182	-
- negative fair value	-	5,091	2,390	-
2) Equity securities and stock indices	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold	-	28,494	-	28,285
- notional value	-	27,277	-	27,080
- positive fair value	-	1,063	-	155
- negative fair value	-	154	-	1,050
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 Aspects, 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;
- > ensuring liquidity levels capable of allowing the Group to fulfil its contractual commitments at any times, maximising the cost of funding with respect to current and forecast market conditions.

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.

Both risk profiles are measured on a going concern basis and in stress scenarios and are analysed from a current and a prospective standpoint.

With regard to liquidity risk management, the Bank has formally defined a policy, which specifies the general principles, the roles of 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 has also implemented a Contingency Funding Plan that sets out a framework for monitoring and managing unexpected liquidity stress events, which may be systemic or specific to the Bank, in order to ensure protection of the Group's assets in situation of liquidity drain through the preparation of crisis management strategies and procedures for procuring sources of funding in the event of an emergency.

The liquidity risk is monitored using a maturity ladder designed on the basis of 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 this ratio on a monthly basis according to the new reporting framework. The LCR, calculated according to the provisions applicable on a consolidated basis as at 31 December 2019, amounted to 441%, far in excess of the current mandatory minimum level, thanks to high quality liquid assets (“HQLAs”) of approximately 7 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 216% as at 31 December 2019, due to long-term stable funding in excess of the on-balance sheet assets requiring such long-term stable funding.

As a participant in payment, settlement and netting systems, the Group is exposed to intraday liquidity risk due to a mismatch in the timing of daily payment inflows and outflows, which may in turn give rise to potentially large temporary imbalances than expected at the end of the day.

Intraday liquidity management is the responsibility of the Treasury and Portfolio Management Service and seeks to ensure that available liquidity is constantly sufficient to cover cash outflows. The Risk and Capital Adequacy Department is responsible for ex-post second-tier controls.

Structural liquidity risk is also measured by adopting Additional Liquidity Monitoring Metrics (pursuant to Article 415(3) (b) of Regulation (EU) No. 575/2013), involving an analysis of the concentration of borrowings by counterparty and product type. These analyses enable a more complete vision of the liquidity risk profile, providing the level of diversification of sources of funding in the wholesale and retail markets in order to emphasise excessive dependency on individual product types, which could be subject to severe outflows during a liquidity crisis.

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	UNSPEC- IFIED MATURITY	TOTAL
A. Cash assets											
A.1 Government securities	-	-	4,501	152,100	103,266	737,566	1,200,032	2,500,731	2,150,000	-	6,848,196
A.2 Other debt securities	-	-	2,151	10,458	47,489	62,082	77,247	613,124	218,739	52	1,031,342
A.3 UCITS units	25,178	-	-	-	-	-	-	-	-	-	25,178
A.4 Loans											
- to banks	94,896	22,254	-	54	-	-	152,986	-	-	101,063	371,253
- to customers	1,274,270	206,072	6,428	13	26,794	49,144	69,112	315,214	325,329	-	2,272,376
Total	1,394,344	228,326	13,080	162,625	177,549	848,792	1,499,377	3,429,069	2,694,068	101,115	10,548,345
A. Cash liabilities											
B.1 Deposits and current accounts											
- from banks	72,750	-	-	-	-	-	-	-	-	-	72,750
- from customers	10,056,493	-	-	-	-	-	-	-	-	-	10,056,493
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	319,724	116,218	-	-	-	-	-	-	-	-	435,942
Total	10,448,967	116,218	-	-	-	-	-	-	-	-	10,565,185
C. Off-balance sheet transactions											
C.1 Financial derivatives with capital swap											
- long positions	-	22,020	-	-	13,721	374	33,142	-	-	-	69,257
- short positions	-	22,020	-	-	13,721	374	33,142	-	-	-	69,257
C.2 Financial derivatives without capital swap											
- long positions	-	-	-	-	307	1,163	1,919	-	-	-	3,389
- short positions	-	-	-	-	163	84	578	-	-	-	825
C.3 Deposits and loans receivable											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds											
- long positions	73,999	28,485	-	-	-	20	-	1,600	237	-	104,341
- short positions	75,856	28,485	-	-	-	-	-	-	-	-	104,341
C.5 Financial guarantees issued	29,417	-	50	-	1,595	2,062	2,839	20,157	8,049	-	64,169
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	179,272	101,010	50	-	29,507	4,077	71,620	21,757	8,286	-	415,579

Section 5 – Operating Risks

Qualitative Information

A. General Aspect, Management Processes and Operating Risk Measurement Techniques

The 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 Bank'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 Bank 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 roles of 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 Management 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 activities and Loss Data Collection processes, it monitors the action plans adopted to mitigate material risks, and has defined and controls KRIs (Key Risk Indicators) instrumental to monitor riskier areas.

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 2019 is broken down below by event type:

EVENT TYPE	% ACTUAL GROSS LOSS AND PROVISIONS	% LOSS INCLUDING FUNDS TRANSFERRED ALREADY RECOGNISED ON PREVIOUS POSITIONS AND NOT USED
ET 01 – Internal fraud	50.6%	45.2%
ET 02 – External fraud	5.7%	5.5%
ET 03 – Employment and workplace safety	0.6%	1.9%
ET 04 – Customers, products and business practices	25.3%	30.8%
ET 05 – Damages due to external events	-	-
ET 06 – Interruption of operations and IT system malfunctions	1.7%	1.2%
ET 07 – Process execution, delivery and management	16.1%	15.4%

Percentage breakdown of frequency by event type:

EVENT TYPE	%
ET 01 – Internal fraud	11%
ET 02 – External fraud	20%
ET 03 – Employment and workplace safety	3%
ET 04 – Customers, products and business practices	15%
ET 05 – Damages due to external events	-
ET 06 – Interruption of operations and IT system malfunctions	7%
ET 07 – Process execution, delivery and management	45%

The event type recording the most impact is "ET 01 – Internal fraud", 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" 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.

A significant impact was also reported by losses due to "ET 07 – Process execution, delivery and management" resulting from deficiencies in completing transactions and managing processes linked to activities carried out by the Bank and from relations with commercial counterparts and suppliers, which showed the highest frequency ratio.

The frequency of losses included under "ET – 02 External fraud" relating to cases of fraud, misappropriation or infringement of laws by persons outside the Bank is mostly attributable to counterfeit of payment instruments and IT risk. Residual losses include the event type "Employment and workplace safety" due to actions not in compliance with the law or agreements relating to employment and occupational health and safety, and the event type "Interruption of operations and IT system malfunctions", whereas there were no losses due to damage to or destruction of property and equipment as a result of natural disasters.

PART F – INFORMATION ON NET EQUITY

Section 1 – Net equity

A. Qualitative Information

The Bank's capital management strategy mainly aims to ensure that the 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 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 17 January 2020 on dividend distribution policies (Recommendation ECB/2020/1) and ECB's Letter dated 21 January 2020 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 2019, net equity, including net profit for the year, amounted to 791.6 million euros compared to 632.6 million euros at the end of the previous year.

	31.12.2019	31.12.2018	CHANGE	
			AMOUNT	%
1. Share capital	116,852	116,852	-	-
2. Share premium reserve	57,729	57,889	-160	-0.3%
3. Reserves	352,015	303,040	48,975	16.2%
4. (Treasury shares)	-37,356	-22,724	-14,632	64.4%
5. Valuation reserves	3,999	-11,505	15,504	-134.8%
6. Equity instruments	50,000	-	50,000	n.a.
7. Net profit (loss) for the year	248,358	189,058	59,300	31.4%
Total net equity	791,597	632,610	158,987	25.1%

The increase in net equity for 2019, which amounted to approximately 159.0 million euros, was primarily influenced by the distribution of the 2018 dividend (144.9 million euros), the repurchase of treasury shares, the change in the reserves for shared-based payments (IFRS 2), the overall positive 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 net profit, as showed in the following table.

On 23 December, Banca Generali finalised the issue of an Additional Tier 1 Perpetual bond of 50 million euros that under IAS 32 is considered an equity instrument and meets the requirements under regulatory capital rules in force for being recognised as Additional Tier 1 instrument in the Issuer's financial statements.

The issue was fully subscribed in private placement by two German insurance companies of the Generali Group. The bonds are perpetual and callable, at the issuer's sole discretion, from the sixth year from issue, and they yield — subject to authorisation from the competent supervisory authority and under the conditions established in applicable legislation — a non-cumulative half-yearly coupon at a fixed rate of 4.5% per annum for the first five years.

In 2019, on the basis of the achievement of the performance objectives set out in the Remuneration Policy, 128,930 treasury shares, with a value of 3,153 thousand euros, were allotted to the Banking Group's employees and Financial Advisors falling within Key Personnel.

On 18 April 2019, the General Shareholders' Meeting authorised the buy-back of a maximum of 667,419 treasury shares in service of remuneration plans for Key Personnel for 2019, the second cycle of the Framework Loyalty Programme for 2018 and the new Long Term Incentive Plan for the three-year period 2019-2021.

The plan for the buy-back of treasury shares, authorised by the Supervisory Authority on 21 June 2019, was launched on 25 June and completed in September.

At 31 December 2019, the Parent Company, Banca Generali, thus held 1,467,579 treasury shares, with a value of 37,356 thousand euros.

Fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (HTCS) showed a net increase of 15.5 million euros, primarily owing to the uptrend in the prices of debt securities on financial markets.

	31.12.2019	31.12.2018
Net equity at year-start	632,610	614,064
Merger of BG Fiduciaria	-	10,814
IFRS 9 and IFRS 15 FTA	-	-2,826
Dividend paid	-144,900	-145,474
Purchase and sale of treasury shares	-17,644	-12,841
Matured IFRS 2 reserves (from stock option plans and remuneration policies)	7,018	4,384
Matured IFRS 2 reserves on the AG Group's IFRS 2-related plans	651	1,100
Change in valuation reserves	15,504	-25,669
Issue of AT1 subordinated loan	50,000	-
Net profit for the year	248,358	189,058
Net equity at year-end	791,597	632,610
Change	158,987	18,546

B.1 Breakdown of net equity

ITEMS/VALUES	31.12.2019	31.12.2018	CHANGE
1. Share capital	116,852	116,852	-
2. Share premium reserve	57,729	57,889	-160
3. Reserves	352,015	303,040	48,975
- retained earnings	328,214	284,056	44,158
a) legal reserve	23,370	23,370	-
d) other	304,844	260,686	44,158
- other	23,801	18,984	4,817
4. Equity instruments	50,000	-	50,000
5. (Treasury shares)	-37,356	-22,724	-14,632
6. Valuation reserves	3,999	-11,505	15,504
Equity securities at fair value through other comprehensive income	-300	-	-300
Financial assets (other than equity securities) at fair value through OCI	6,170	-9,657	15,827
- Actuarial gains (losses) from defined benefit plans	-1,871	-1,848	-23
7. Net profit (loss) for the year	248,358	189,058	59,300
Total net equity	791,597	632,610	158,987

B.2 Breakdown of valuation reserves of financial assets at fair value through OCI

Valuation reserves of financial assets at fair value through other comprehensive income (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 positive increase in debt securities reserves.

The aggregate had an overall positive balance of 5.9 million euros, up by 15.5 million euros compared to year-end 2018. This increase was mainly driven by the portfolios of Italian government bonds and corporate debt securities, for which net reserves amounted, respectively, to 3.9 million euros and 2.2 million euros compared to -9.7 million euros and at year-end 2018.

ASSETS/VALUES (€ THOUSAND)	31.12.2019		31.12.2018	
	RESERVE POSITIVE	RESERVE NEGATIVE	RESERVE POSITIVE	RESERVE NEGATIVE
1. Debt securities	6,852	-682	2,288	-11,945
2. Equity securities	-	-300	-	-
Total	6,852	-982	2,288	-11,945

B.3 Valuation reserves of financial assets at fair value through OCI: year changes

Valuation reserves on the HTCS portfolio showed a net increase of 15.5 million euros in 2019, as a result of the following factors:

- > an increase in net valuation capital gains totalling 18.0 million euros;
- > the reduction of pre-existing net negative reserves due to re-absorption through profit or loss upon realisation (+5.0 million euros);
- > the negative net tax effect (DTAs) associated with the above changes (-7.5 million euros).

	31.12.2019				
	DEBT SECURITIES		EQUITY SECURITIES	UCITS UNITS	TOTAL
	CORPORATE	GOVERNMENT			
1. Amount at year-start	-3,477	-6,180	-	-	-9,657
2. Increases	8,845	18,034	-	-	26,879
2.1 Fair value increases	8,540	12,560	-	-	21,100
2.3 Transfer to Profit and Loss Account of negative reserves: due to disposal	265	4,816	X	-	5,081
2.5 Other changes	40	658	-	-	698
3. Decreases	3,135	7,917	300	-	11,352
3.1 Fair value decreases	195	416	300	-	911
3.2 Reversals for credit risk	124	2,048	-	-	2,172
3.3 Transfer to Profit and Loss Account of positive reserves: due to disposal	71	1	X	-	72
3.5 Other changes	2,745	5,452	-	-	8,197
4. Amount at year-end	2,233	3,937	-300	-	5,870

B.4 Valuation reserves relating to defined benefit plans: year changes

	RESERVES	DTAS	NET RESERVE
1. Amount at year-start	-2,548	700	-1,848
2. Increases	-	-	-
Decreases of actuarial losses	-	-	-
Other increases	-	-	-
3. Decreases	-32	9	-23
Increases of actuarial losses	-32	9	-23
Other decreases	-	-	-
4. Amount at year-end	-2,580	709	-1,871

Section 2 – Own funds and surveillance coefficients

In accordance with Circular No. 262 of 22 December 2005, 6th update of 30 November 2018, 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 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

In 2019, two business combination transactions were undertaken:

- > the acquisition of the Nextam Partners Group, finalised on 25 July 2019; and
- > the acquisition of the Swiss asset management company Valeur Fiduciaria S.A. (now BG Valeur S.A.), finalised on 15 October 2019.

For a more detailed illustration of operations, please refer to Part G, Section 1 of the Consolidated Notes and Comments.

Section 2 – Transactions after the close of the period

No business combination transactions were finalised after 31 December 2019 and until the date of approval of the Consolidated Financial Statements.

However, a thorough reorganisation of the Nextam Partners Group was launched in 2020.

In particular, on 28 February 2020 the Boards of Directors of Banca Generali and the subsidiaries Nextam Partners S.p.A. and Nextam Partners SGR approved a company reorganisation project involving:

- > the **contribution** by Nextam Partners SGR of the business unit responsible for managing Italian UCITS (the "UCITS Unit") to the independent asset management company 8a+ Investimenti SGR ("8a+ SGR"), with an equity investment of 19.5% taken in the latter company;
- > the subsequent merger of Nextam Partners S.p.A. ("NP SPA") and Nextam Partners SGR ("NP SGR") into the parent company Banca Generali.

The contribution of the UCITS Unit and subsequent merger transactions are two closely related phases within the framework of the broader reorganisation of the Nextam Partners Group, which will presumably be completed by the end of June 2020, once the required authorisations have been obtained.

In particular, the contribution of the UCITS Unit is a preliminary step to the full reorganisation and is intended to achieve the twofold objectives of:

- > preventing Banca Generali from being assigned assets and legal relationships relating to the provision of collective management service following the merger of NP SGR;
- > integrating the businesses of NP SGR and 8a+ SGR and forming a partnership with the latter to develop operational and industrial synergies in the asset management sector.

2.1 The contribution of the UCITS Unit

The transaction will entail the substantial transfer to 8a+ Investimenti SGR of all assets of NP SGR attributable to the provision of collective asset management service and is intended to form a partnership between the Banca Generali Group and 8a+ SGR, instrumental to the development of operational and industrial synergies in the asset management sector.

In particular, the business unit to be contributed will comprise:

- > the management mandates of NP SGR relating to the Italian open-ended (reserved) AIF "**Nextam Partners Hedge**" and the two Italian open-ended UCITS "**Nextam Partners Bilanciato**" (Balanced) and "**Nextam Partners Obbligazionario Misto**" (Mixed Bond), with total assets under management of **93.3 million euros** at the end of 2019;
- > the related distribution agreements, including that in force with Banca Generali;
- > contracts for the supply of goods and services and all legal relationships associated with such contractual positions, including an advisory contract entered into with Banca Generali;
- > cash and equivalents.

In return for the contribution, 8a+ SGR will undertake a capital increase, without options, through the issue of new shares accounting for 19.5% of the company's post-transaction capital.

The exchange ratio between the new shares issued and the economic value of the unit contributed with respect to the economic value of the receiving company were determined by applying the Excess of Capital variant of the Dividend Discount Model (DDM) with effect from the financial position situations of 8a+ and the UCITS unit and their projected financial performance during the 2020-2022 period.

The control method used was an analysis based on market multiples, and in particular the goodwill/AUM ratio for a panel of listed companies with comparable businesses.

On the basis of this assessment, supported by a major consulting firm, the value of the UCITS Unit was determined to be 912 thousand euros.

Following the contribution, relations between Banca Generali and 8a+ SGR will be governed by shareholders' agreements and other agreements that currently do not constitute a situation of significant influence over the receiving company.

Following the completion of the contribution transaction and as a consequence of the subsequent merger of NP SGR, Banca Generali will become the owner of a significant equity interest in 8a+ SGR amounting to 912 thousand euros, which will be recognised in the portfolio of Financial assets at fair value through other comprehensive income (without transfer to Profit or Loss Account).

2.2 The merger of Nextam Partners S.p.A. and Nextam Partners SGR

As mentioned above, the merger of the subsidiaries Nextam Partners S.p.A. and Nextam Partners SGR will occur after the contribution of the UCITS Unit has been completed.

The transaction is a fundamental step in the reorganisation of the Nextam Partners Group and is intended to achieve the following objectives:

- a) simplify the Banca Generali Group's corporate structure, particularly with regard to the fact that NP S.p.A. currently acts as a mere holding company;
- b) concentrate portfolio management activity — the core business of NP SGR — within the Bank's Asset Management Division, with the ensuing qualitative and quantitative improvement in the level of the service offered;
- c) maximising the cost and revenue synergies that may be achieved through the integration of Nextam Group's operating model into Banca Generali.

With regard to the second point, the migration of the current management lines of NP SGR into Banca Generali's financial wrapper solutions (BG Solution and BG Solution Top Client) will provide Nextam Partners' customers with access to the broadest possible range of investment instruments thanks to the products offered by Banca Generali to all its customers. The integration of the management of Nextam Partners SGR into the Asset Management Division will also permit qualitative and quantitative improvement of the level of service offered, due in part to the acquisition of specific know-how in stock- and bond-picking.

The integration of the business into Banca Generali will also allow an improvement in operating efficiency due to the reallocation of employees, which will strengthen the workforce and meet the new needs created by the Bank's growth, in addition to yielding cost synergies as a result of the discontinuation of a series of activities relating to the functioning of the merged company (IT costs, legal and corporate expenses, marketing, facility management expenses, etc.).

The merger will take place in simplified form pursuant to Article 2505 of the Italian Civil Code, inasmuch as the merged companies are fully owned — directly (NP S.p.A.) or indirectly (NP SGR) — by the merging company, and therefore it will not entail an increase in Banca Generali's share capital.

Banca Generali will assume the assets and liabilities of the merged companies as of the effective date of the merger, which is expected to be between 1 July 2020 and 31 December 2020, whereas the accounting and fiscal effects will apply retroactively to 1 January 2020.

The business combination between entities under common control, beyond the scope of IFRS 3, will be undertaken on a continuous values basis, according to the carrying amounts of the merged company's assets and liabilities at the consolidated level, which also include the goodwill recognised upon the acquisition of the Nextam Group, net of the portion attributable to NP Sim, the fair value of the brand and the customer relationship intangibles relating to NP SGR only, net of the associated deferred tax assets (DTAs). The transaction therefore will not have any effect on the Banking Group's consolidated financial statements in 2020.

In Banca Generali's financial statements, the merger difference will be calculated as the imbalance between the carrying amounts of the direct and indirect equity investments in the merged companies and the acquired net assets of these latter companies, increased by the carrying amounts recognised as at 31 December 2019 at the consolidated level for goodwill and intangibles relating to the brand and customer relationships, net of the associated DTAs. It bears remarking, in this regard, that the transaction results in the emergence of a "negative merger difference" or "merger deficit" since the carrying amounts of the equity investments are less than the net assets of the acquirees, plus goodwill and other intangibles (net of DTAs) recognised at the consolidated level as at 31 December 2019.

The resulting difference will therefore be accounted for as a reduction in the equity of the surviving company by recognising a negative consolidation reserve.

	NP S.P.A.	NP SGR	TOTAL
Cost of equity investment	24,095	11,307	35,402
Net equity (net of OCI reserves)	11,952	3,494	15,446
Consolidated goodwill (net of NP Sim)			11,165
Trademark			330
Customer relations			8,344
Customer relations (UCITS business contributed)			869
Associate DTL			-2,825
Total intangibles			17,883
Merger deficit (negative reserve)			2,073

Since, as mentioned above, the merger of NP SGR will enter into effect for accounting purposes from 1 January 2020, before the date of contribution of the UCITS management business unit, the carrying amount of the customer relations intangible will also include the portion relating to the transferred business unit, even though at the effective date of the transaction it will no longer be included in company assets.

BG balance sheet before and after the merger at 31 December 2019

In order to facilitate the analysis of the effects of the aforementioned merger transactions and contribution of the UCITS business unit and to allow a comparison with the Bank's Financial Statements for the year ended 31 December 2019, a restated balance sheet at year-end has been prepared to take account of the effects of the business combination.

ASSETS (€ THOUSAND)	31.12.2019 BG	31.12.2019 NP S.P.A.	31.12.2019 NP SGR	31.12.2019 ELIMINATION OF EQUITY INVESTMENT	31.12.2019 CONTRIBUTION OF BUSINESS UNIT	31.12.2019 BG PRO-FORMA
Financial assets at fair value through profit or loss	64,997	-	-	-	-	64,997
Financial assets at fair value through other comprehensive income	2,778,836	-	-	-	-	2,778,836
Financial assets at amortised cost	8,134,941	100	4,595	-	-405	8,136,205
Loans to banks	1,119,687	-	2,112	-	-	1,120,600
Loans to customers	7,015,254	100	2,483	-	-405	7,015,605
Hedging derivatives	4,727	-	-	-	-	4,727
Equity investments	37,463	12,968	-	-35,402	912	15,942
Property and equipment	159,309	-	1,564	-	-	160,873
Intangible assets – goodwill	66,065	-	-	11,164	-	77,229
Intangible assets	33,634	-	119	9,544	-869	42,428
Tax receivables	49,299	194	413	-	-	49,906
Other assets	355,783	79	1,796	-	-17	357,286
Total assets	11,685,054	13,342	8,487	-14,694	-379	11,688,429

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2019 BG	31.12.2019 NP S.P.A.	31.12.2019 NP SGR	31.12.2019 ELIMINATION OF EQUITY INVESTMENT	31.12.2019 CONTRIBUTION OF BUSINESS UNIT	31.12.2019 BG PRO-FORMA
Financial liabilities at amortised cost	10,565,384	7,348	3,225	-	-108	10,566,721
Due to banks	94,767	40	1,423	-	-	94,670
Due to customers	10,470,417	1,308	1,802	-	-108	10,471,954
Financial liabilities held for trading and hedging	8,685	-	-	-	-	8,685
Tax liabilities	9,569	-	36	2,825	-257	12,173
Other liabilities	140,179	41	1,490	-	-	141,355
Special purpose provisions	169,841	-	371	-	-14	170,198
Valuation reserves	3,999	-	-129	-	-	3,870
Equity instruments	50,000	-	-	-	-	50,000
Reserves	352,015	3,248	-255	-2,993	-	352,015
Consolidation reserve	-	-	-	-2,073	-	-2,073
Share premium reserve	57,729	9,200	2,701	-11,902	-	57,729
Share capital	116,852	473	1,102	-1,575	-	116,852
Treasury shares (-)	-37,356	-965	-	965	-	-37,356
Net profit (loss) for the year (+/-)	248,358	-4	-55	59	-	248,358
Total	11,685,054	13,342	8,487	-14,694	-379	11,688,429

Section 3 – Retrospective Adjustments

No retrospective adjustments to business combinations carried out by the Banking Group in previous years were undertaken in 2019 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.

At 31 December 2019, Banca Generali's goodwill totalled 66.1 million euros, unchanged compared to the previous year, as shown in the following table:

(€ THOUSAND)	31.12.2019	31.12.2018
Merger of Prime Consult Sim and INA Sim	2,991	2,991
Merger of Banca del Gottardo	31,352	31,352
Credit Suisse Italy's business unit	27,432	27,432
Merger of BG Fiduciaria Sim S.p.A.	4,290	4,290
Total	66,065	66,065

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.

The identification of CGUs must reflect the reporting methods used by the management of the parent company and its management characteristics. In particular, Banca Generali's management has adopted an integrated model that applies without regard to the structure of the individual legal entities whose activities are aggregated, together with the operating activities carried out directly by the Parent Company, into larger CGUs.

The CGUs identified by the Bank are therefore:

- > the Wealth Management CGU ("WM CGU"), formed by the part of the activities of Banca Generali and all the Group's product companies serving the Financial Advisors network with total customer assets of more than 50 million euros;

- > the Private Banking CGU (“PB CGU”), consisting of the part of the activities of Banca Generali and all the Group’s product companies serving the sales network formed by the other Financial Advisors and employed Relationship Managers.

The impairment testing of goodwill at the consolidated level is therefore also relevant at the parent company level. For information regarding impairment testing of goodwill, see Part G, Section 3, of the Notes and Comments to the Consolidated Financial Statements.

As described in Part G, Section 3, of the Notes and Comments to the Consolidated Financial Statements, there was not found to be any need for impairment at the CGU level in the Consolidated Financial Statements. Accordingly, on the basis of the results of the impairment testing at the consolidated level, there was not found to be any need for impairment at the parent company level.

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 on 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 authority, 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 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 Group², namely the General Manager and the two Deputy General Managers³;
- > 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.

Significant 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, with prior binding favourable opinion of the Internal Control Committee;
- > **Moderately Significant Transactions** — falling short of the threshold defining Highly Significant Related Party 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 with the prior 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.

² Banking Group's Remuneration and Incentivisation Policies approved by the General Shareholders' Meeting on 18 April 2019. Chief Executive Officer/General Manager, Deputy General Manager Wealth Management Markets and Products, Deputy General Manager Commercial Networks, Alternative and Support Channels.

³ Chief Executive Officer/General Manager, Deputy General Manager Wealth Management Markets and Products, Deputy General Manager Commercial Networks, Alternative and Support Channels.

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;
- > **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 **28.5 million** euros, reduced to **14.3 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 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.

	2019				2018	CHANGE
	DIRECTORS	STATUTORY AUDITORS	OTHER KEY MANAGEMENT PERSONNEL	TOTAL		
Short-term benefits (current remuneration and social security charges) ⁽¹⁾	744	243	2,051	3,038	2,956	82
Post-employment benefits ⁽²⁾	-	-	249	249	242	7
Other long-term benefits ⁽³⁾	-	-	191	191	269	-78
Severance indemnities	-	-	-	-	-	-
Share-based payments ⁽⁴⁾	-	-	1,621	1,621	1,232	389
Total	744	243	4,112	5,099	4,700	401
Total at 31.12.2018	800	222	3,678	4,700		

(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 annual financial statements on the basis of the application of the IAS/IFRS. 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 Plans based on Banca Generali S.p.A.’s shares implemented in 2018 and 2019 for a total of 1.1 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 of IT and administration services, 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 net 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 2019, 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 2019, the Banking Group (Banca Generali) undertook the following transactions qualifying as “Highly Significant”.

1. Meeting of 13 December 2019: the Board of Directors approved the issue of the Additional Tier 1 instruments.

Since it qualified as a highly significant transaction, the Audit and Risks Committee issued a binding opinion according to the terms set out in the relevant Procedure.

The transaction was classified as an ordinary highly significant transaction and was thus exempt from the production of an information document in accordance with the cited Procedure.

Intra-group Highly Significant Transactions within the Banking Group

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 disclo-

sure 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 2019, 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

Transactions of an ordinary or recurring nature carried out in 2019 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 2018. The developments of ordinary transactions with related parties during 2019 are presented in the following sections.

Transactions with the Assicurazioni Generali Group

Balance Sheet data

(€ THOUSAND)	SUBSIDIARIES AND ASSOCIATES OF THE BANKING GROUP	SUBSIDIARIES AND ASSOCIATES OF THE INSURANCE GROUP	ASSOCIATES SUBJECT TO JOINT CONTROL OR SIGNIFICANT INFLUENCE	31.12.2019	31.12.2018	WEIGHT % 2019
Financial assets at fair value through profit or loss:	-	1,141	-	1,141	903	1.8%
c) other financial assets mandatorily measured at fair value	-	1,141	-	1,141	903	2.4%
Financial assets at fair value through other comprehensive income	-	246	-	246	246	-
Financial assets at amortised cost:	25,905	23,678	-	49,583	52,549	0.6%
b) loans to customers	25,905	23,678	-	49,583	52,549	0.7%
Equity investments	35,320	-	2,143	37,463	4,445	100.0%
Tax assets (AG tax consolidation)	-	2,903	-	2,903	-	5.9%
Property, equipment and intangible assets	-	73,480	-	73,480	-	28.4%
Other assets	297	86	-	383	118	-
Total assets	61,522	101,534	2,143	165,199	58,261	1.4%
Financial liabilities at amortised cost:	73,946	429,280	4,014	507,240	567,476	4.8%
b) due to customers	73,946	429,280	4,014	507,240	567,476	4.8%
Other liabilities	864	5,061	-	5,925	12,926	4.2%
Tax liabilities (AG tax consolidation)	-	-	-	-	6,893	-
Equity instruments	-	50,000	-	50,000	-	100.0%
Total liabilities	74,810	484,341	4,014	563,165	587,295	4.8%
Guarantees issued	-	2,649	-	2,649	2,705	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 101.5 million euros, compared to the 30.7 million euros recognised at the end of 2018, equal to 0.9% of Banca Generali's total balance sheet assets.

The increase was mainly due to the recognition among property and equipment of the net value of rights of use (RoUs) of 73.5 million euros (relating primarily to the lease payments for the Milan and Trieste administrative offices and the commercial network offices), following the introduction of the new IFRS 16 with effect from 1 January 2019.

By contrast, the total debt position reached 484.3 million euros, accounting for 4.1% of liabilities, down by 61.1 million euros (-11.2%) compared to the end of the previous year.

Following the introduction of IFRS 16 with effect from 1 January 2019, amounts due to customers increased by 74.5 million euros due to the recognition of the corresponding lease liabilities.

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).

The increase in item Equity investments in subsidiaries was attributable to the acquisition of the Nextam Group and BG Valeur S.A. in 2019, the details of which are presented in Part B of these Notes and Comments.

The item **Associates subject to joint control or significant influence** includes the share of interest that the Banking Group acquired in 2015 in IOCA Entertainment Ltd, a company under the UK law, almost fully written off in 2019, in addition to the equity investment in BG Saxo Sim S.p.A., acquired on 31 October 2019, for a 19.9% interest in the company's share capital.

Exposures to Generali Group companies recognised as **loans to customers** amounted to 23.7 million euros and refer to the following transactions:

COMPANY	TYPE OF RELATIONSHIP	TYPES OF TRANSACTION	31.12.2019		31.12.2018	
			AMOUNT	REVENUES	AMOUNT	REVENUES
Genertellife	Subsidiary of the AG Group	Operating loans	21,133	-	27,475	-
Other companies of the Generali Group	Subsidiary of the AG Group	Operating loans	2,501	-	1,940	-
Other exposures with Group companies	Subsidiary of the AG Group	Temporary current account exposures	44	1,470	4	1,382
			23,678	1,470	29,419	1,382

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 receivable from the Parent Company and classified as **tax assets** consisted of Banca Generali S.p.A.'s net tax assets resulting from the balance between tax prepayments, withholdings and credits and the IRES tax calculated at the end of the year.

Amounts due to customers attributable to Generali Group's related parties amounted to about 429.3 million euros and included amounts due to the parent company Assicurazioni Generali S.p.A. for 27.5 million euros, and amounts due to Generali Italia S.p.A. for 117.9 million euros (of which 41.7 million euros relating to lease liabilities arising from the lease contracts for the administrative offices and the commercial network offices).

The subordinated loan issued by Generali Beteiligungs GmbH, taken up at the end of 2014 to acquire the Credit Suisse Italia S.p.A.'s business unit and classified among amounts due to customers as of 31 December 2018, was fully paid at the end of 2019.

It should also be noted that on 23 December Banca Generali finalised the issue of an Additional Tier 1 Perpetual bond of 50 million euros, which under IAS 32 is considered an **equity instrument** and meets the requirements under regulatory capital rules for being included among Additional Tier 1 instruments in the Issuer's financial statements. The issue was fully subscribed in private placement by two German insurance companies of the Generali Group.

Finally, a total of 2.7 million euros in personal guarantees was issued for Generali Group companies, of which 1.6 million euros on behalf of Assicurazioni Generali S.p.A.

Profit and Loss Account data

At 31 December 2019, the profit and loss components recognised in the Financial Statements with regard to transactions with companies of the Generali Group amounted to 224.0 million euros, or 79.6% of operating profit before taxation.

(€ THOUSAND)	SUBSIDIARIES OF THE BANKING GROUP	SUBSIDIARIES AND ASSOCIATES OF THE INSURANCE GROUP	ASSOCIATES SUBJECT TO JOINT CONTROL OR SIGNIFICANT INFLUENCE	2019	2018	WEIGHT % 2019
Interest income	128	1,470	-	1,598	1,605	1.9%
Interest expense	-	-2,953	-	-2,953	-1,677	33.9%
Net interest income	128	-1,483	-	-1,355	-72	-1.8%
Fee income	93,316	245,512	136	338,964	330,554	58.2%
Fee expense	-104	-	-	-104	-	-
Net fees	93,212	245,512	136	338,860	330,554	145.9%
Dividends	-	56	-	56	39	1.9%
Operating income	93,340	244,085	136	337,561	330,521	105.3%
Staff expenses	748	180	-	928	352	-1.1%
General and administrative expenses	-1,406	-13,468	-	-14,874	-18,921	9.3%
Net adjustments/reversals of property and equipment	-	-6,810	-	-6,810	-	23.6%
Other net operating income	130	23	-	153	151	0.2%
Net operating expenses	-528	-20,075	-	-20,603	-18,418	10.0%
Operating result	92,812	224,010	136	316,958	312,103	n.a.
Dividends and income from equity investments	212,613	-	-	212,613	148,724	n.a.
Operating profit	305,425	224,010	136	529,571	460,827	n.a.
Net profit (loss) for the year	305,425	224,010	136	529,571	460,827	n.a.
Net profit (loss) for the year attributable to the Parent Company	305,425	224,010	136	529,571	460,827	n.a.

Overall **net interest income** accrued in dealings with members of the Insurance Group was negative at 1.5 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 2.9 million euros, equal to 34% of the total amount recognised in the Profit and Loss Account and mainly refers to the subordinated loan of Generali Beteiligungs GmbH for 1.4 million euros and to interests accrued on the IFRS 16 lease liabilities for 1.5 million euros, 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 245.5 million euros, equal to 42.2% of the aggregate amount and was broken down as follows:

	SUBSIDIARIES AND ASSOCIATES OF THE BANKING GROUP	SUBSIDIARIES AND ASSOCIATES OF THE INSURANCE GROUP	ASSOCIATES SUBJECT TO JOINT CONTROL OR SIGNIFICANT INFLUENCE	2019	SUBSIDIARIES AND ASSOCIATES OF THE BANKING GROUP	SUBSIDIARIES AND ASSOCIATES OF THE INSURANCE GROUP	CHANGE		
							2018	ABSOLUTE	%
Fees for the placement of UCITS	93,291	1,753	136	95,180	98,469	1,976	100,445	-5,265	-5.2%
Fees for the distribution of insurance products	-	236,855	-	236,855	-	223,307	223,307	13,548	6.1%
Fees for the distribution of discretionary mandates	25	771	-	796	48	1,193	1,241	-445	-35.9%
Advisory fees	-	5,941	-	5,941	-	5,319	5,319	622	11.7%
Other banking fees	-	192	-	192	-	242	242	-50	-20.7%
Total	93,316	245,512	136	338,964	98,517	232,037	330,554	8,410	2.5%

The most significant component consists of **fees for the distribution** of insurance products paid back by Genertellife, reaching 236.8 million euros, up by 6.1% compared to 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 2019 fee income for advisory service rendered to Alleanza Assicurazioni S.p.A. and Generali Italia S.p.A. amounted to 5.9 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	2019	BANKING GROUP	GENERALI GROUP	2018	CHANGE	
							ABSOLUTE	%
Sicav underwriting fees	4,817	22	4,839	3,546	60	3,606	1,233	34.2%
Trading fees on UCITS and Sicavs	4,166	1,008	5,174	3,327	2,587	5,914	-740	-12.5%
	8,983	1,030	10,013	6,873	2,647	9,520	493	5.2%

The net operating expenses reported by the Bank in relation to transactions with related parties of the Generali Group amounted to 20.1 million euros, equal to 9.7% of the aggregate total and refer to outsourced services in the insurance, leasing, administrative and IT areas.

	BANKING GROUP	GENERALI GROUP	2019	BANKING GROUP	GENERALI GROUP	2018	CHANGE	
							ABSOLUTE	%
Insurance services	-	2,395	2,395	-	2,578	2,578	-183	-7.1
Property services	-	1,158	1,158	-	5,768	5,768	-4,610	-79.9
Administration, IT and logistics services	1,276	9,892	11,168	1,230	9,194	10,424	744	7.1
Staff services	-748	-180	-928	-179	-173	-352	-576	163.6
Amortisation of RoUs (IFRS 16)	-	6,810	6,810	-	-	-	6,810	n.a.
Total operating expenses	528	20,075	20,603	1,051	17,367	18,418	2,185	11.9

Real-estate services decreased sharply due to the change in the accounting treatment of lease and rental payments following the introduction of IFRS 16 and relate solely to additional costs of leases and rentals of motor vehicles and ATMs (former condominium fees, VAT and sundry additional expenses).

The administrative expense paid to Generali Italia S.p.A. amounted to 2.5 million euros and chiefly referred to insurance services.

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.

The 6.8 million euro value adjustments of tangible assets refers to the amortisation of the IFRS 16-related rights of use.

Transactions with other related parties

Exposures 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.

(€ THOUSAND)	KEY MANAGEMENT PERSONNEL
Loans to customers	3,752
Due to customers	4,889
Guarantees issued	45

Transactions with the Banking Group's companies

Within the Banking Group, the exposure to subsidiaries amounted to 61.5 million euros and consisted of 35.3 million euros for equity investments held by the parent company, 24.3 million euros for operating receivables associated with the placement of financial products, and 1.2 million euros for the unsecured loan issued to Nextam SGR set to mature in December 2020.

Net inflows from Group companies amounted to 73.9 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 305.4 million euros and primarily consist of:

- > negative interest expense applied to the deposits of the Luxembourg-based subsidiary BGFML (128 thousand euros);
- > fee income given back to the Group's management companies in connection with the placement of financial products and services by such companies (93.3 million euros);
- > dividends distributed by the Luxembourg-based subsidiary BGFML (212.6 million euros).

With respect to the aggregate of operating expenses, the services rendered by the Parent Company to the companies of the Banking Group are highly limited and refer essentially to the secondment 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.

2018 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 2018. 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)	2018
Net profit	1,473.0
Aggregate dividend	1,413.0
<i>Increase</i>	6.20%
Total net premiums	2,343.6
Total gross premiums	3,311.6
Total gross premiums from direct business	658.2
<i>Increase on equivalent terms ^(a)</i>	
Total gross premiums from indirect business	2,652.6
<i>Increase on equivalent terms ^(a)</i>	
Acquisition and administration costs	434.6
<i>Expense ratio ^(b)</i>	18.54%
Life business	
Life net premiums	1,209.1
Life gross premiums	1,630.9
<i>Increase on equivalent terms ^(a)</i>	
Life gross premiums from direct business	205.7
<i>Increase on equivalent terms ^(a)</i>	
Life gross premiums from indirect business	1,425.2
<i>Increase on equivalent terms ^(a)</i>	
Life acquisition and administration costs	204.8
<i>Expense ratio ^(b)</i>	16.90%
Non-life business	
Non-life net premiums	1,134.5
Non-life gross premiums	1,679.8
<i>Increase on equivalent terms ^(a)</i>	
Non-life gross premiums from direct business	452.5
<i>Increase on equivalent terms ^(a)</i>	
Non-life gross premiums from indirect business	1,227.5
<i>Increase on equivalent terms ^(a)</i>	
Non-life acquisition and administration costs	229.8
<i>Expense ratio ^(b)</i>	20.3%
<i>Loss ratio ^(c)</i>	72.2%
<i>Combined ratio ^(d)</i>	92.4%
Current financial result	2,422.2
Technical provisions	9,145.7
Life segment technical provisions	6,979.4
Non-life segment technical provisions	2,166.3
Investments	41,010.3
Capital and reserves	13,503.5

(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 2019, 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 third annual cycle (2019-2026), which calls for a maximum of 50% of the indemnity accrued to be paid using own financial instruments;
- > the new LTI (Long term Incentive) plans for the Banking Group's top management, based on Banca Generali shares, launched in 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 Provisions⁴ 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 assignment⁵.

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 objectives⁶, 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 back treasury 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 treasury 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 recruitment 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 employment or agency relationship, with regard to the beneficiaries falling within the category of Key Personnel.

⁴ Bank of Italy Circular No. 285/2013, "Supervisory Provisions for Banks", Part I, Title IV, Chapter 2, Remuneration and Incentivisation Policies and Procedures.

⁵ During the retention period, voting and dividend rights are unrestricted, without prejudice to the fact that no dividends are payable on assigned shares.

⁶ Provided for by the Management by Objectives (MBO) mechanism or by specific incentive/recruitment plans.

1.1 Measurement of fair value and accounting treatment

The mechanisms to recognise variable remuneration — discussed in the previous section — are considered as equity-settled share-based payment transactions, falling within the scope of application of IFRS 2 – *Share-based Payments*.

The accounting treatment set forth for these transactions requires an entity to reflect in its accounts, under the most appropriate items (staff expenses, fee expense), the estimated expense associated with services received, determined on the basis of the fair value of the rights granted (stock options/stock grants), 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)⁷.

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 plans⁸.

1.2 Information on the share-based payment plans in connection to the Remuneration Policies

At 31 December 2019, there were three active cycles of share-based plans in connection to the Remuneration Policies relating to 2017, 2018 and 2019, whereas the cycle relating to 2016 has been essentially completed, with the exception of one ten-year recruitment plan still in place.

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 granted 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 **3.7 million euros**.

⁷ Since 2018, IFRS 2-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. In addition, share grants relating to various recruitment plans for Financial Advisors who are included among Key Personnel only after the plan is concluded may be covered by previous provisions for risks and charges.

⁸ They include, in particular, the bonuses paid in shares to Key Personnel and some managers of the subsidiary BGFML.

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 that cycle, the shares to be assigned to Key Personnel totalled **138,375**, of which **42,903** were granted to Network Managers, **80,254** referred to ordinary incentives and entry bonuses paid to Financial Advisors falling within Key Personnel on the basis of the fee volume accrued, **13,205** to employees, and **1,417** referred to the subsidiary BGFML, for a total fair value amounting to approximately **3.2 million** euros.

In 2019, 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.

The main features of the share-based plan, linked to 2019 Remuneration Policies and approved by the General Shareholders' Meeting on **18 April 2019**, 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 10 December 2018 to 8 March 2019, was determined to be **20.25 euros**;
- > the fair value of Banca Generali stock at the assignment date was equal to the market price (approximately **24.23 euros**) reported on 18 April 2019, 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 2019, it was estimated that the portion of variable remuneration subject to share-based payment amounted to approximately **216 thousand** shares, for a total plan fair value of **4.7 million euros**.

With reference to 2016 Remuneration Policies, a recruitment plan is still in place which is subject to long-term deferral and envisages the assignment of ten annual variable instalments to be paid from 2016 to 2025, also conditional upon deferral and payment in shares according to the Remuneration Policy in force from time to time. Accordingly, the plan's last instalment shall be paid in 2028. The granting of the bonus is also subject to the maintenance of the net inflow targets initially achieved, in addition to the continuation of service.

The shares to be assigned under this plan currently amount to **18,302**, including **4,706** shares already assigned.

In the reporting period, on the basis of the achievement of the performance objectives set out in the 2016, 2017 and 2018 Remuneration Policy, **128,930** treasury shares were granted to company managers and network managers, of which **20,882** assigned to employees or former employees, and **108,048** to area managers and Financial Advisors.⁹

In particular, the shares assigned for 2016 and 2017 related, respectively, to the first and second tranches deferred by one year (20%), whereas the shares assigned for 2018 related to the upfront amount (60%); a residual amount of shares were granted under previous years' plans with different deferral mechanisms (plans for former employees and Financial Advisors).

(THOUSANDS OF SHARES)	DATE OF SHARE-HOLDERS' MEETING	BANK OF ITALY'S AUTHORIZATION	ASSIGNMENT PRICE	WEIGHTED AVERAGE FV	TOTAL SHARES ACCRUED/ACCRUING	SHARES VESTED	SHARES ASSIGNED IN 2019	SHARES TO BE ASSIGNED	PLAN'S FAIR VALUE (€ MILLION)
Year 2016	21.04.2016	06.06.2016	25.28	23.20	91.1	77.5	15.5	13.6	2.1
Year 2017	20.04.2017	03.07.2017	23.73	22.53	162.5	133.6	30.5	30.8	3.7
Year 2018	12.04.2018	11.06.2018	28.57	23.54	137.8	115.3	82.9	57.3	3.2
Year 2019	18.04.2019	21.06.2019	20.25	21.73	216.2	16.9	-	216.2	4.7
Total					607.6	343.3	128.9	317.9	13.7

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.

⁹ Including former area managers.

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.

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.

2.1 Measurement of fair value and accounting treatment

Without prejudice to the accounting framework already analysed in point 1.1 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 plans' 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 the year of reference and final maturity of the right to receive the shares, taking into account the probability that the vesting conditions for the year will not be realised for all recipients.

2.2 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 end of the year of reference, 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, in service of the three plans amounted to about 658 thousand (581 thousand net of the estimated turnover), for a total value of 8.2 million euros, of which 1.4 million euros already recognised through profit and loss.

	MAXIMUM NO. OF SHARES	NO. OF SHARES NET OF THE ESTIMATED TURNOVER	PLAN'S FAIR VALUE	IFRS 2 RESERVE
	(THOUSANDS OF SHARES)	(THOUSANDS OF SHARES)	(€ MILLION)	
2017-2026 Plan	205	183	2.4	0.6
2018-2026 Plan	164	144	2.4	0.4
2019-2026 Plan	290	254	3.3	0.3
Total	658	581	8.2	1.4

3. Long Term Incentive (LTI) plans

Since 2018, Banca Generali has been launching, each year, long-term incentive plans for the Banking Group's top management based exclusively on Banca Generali S.p.A. shares.

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 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 plans call 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 follows¹⁰:

- > 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 remuneration¹¹ 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 gate 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 at the beginning of the three-year period and determines the exact number of shares that can potentially be allotted for the instalment 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 years¹²;
- > the plan does not include dividend equivalent mechanisms, in accordance with the law and common practice in the banking sector;
- > the plan envisage the customary malus and claw-back clauses.

The level of achievement of objectives, expressed in percent terms, is determined separately for each basket, consisting in an indicator and the weight assigned to it, using the linear interpolation method on the basis of the reference levels set at the outset of the plan (minimum, target and maximum)¹³.

The following tables shows the performance indicators defined for the plans activated up to now.

	WEIGHT	ACCESS GATE	OBJECTIVES	
			2018 LTI	2019 LTI
Banking Group's KPIs	80%	Total Capital Ratio (TCR) Liquidity Coverage Ratio (LCR)	1. ROE, 2. EVA	1. tROE, 2. Recurring net profit, 3. EVA
Banking Group's KPIs	20%	Regulatory solvency ratio	1. Operating ROE, 2. rTSR	1. Medium net ROE, 2. EPS growth, 3. rTSR

- a) tROE (tangible – Return on equity): the ratio of net profit and average net equity, net of net profit for the year of the OCI component and intangible assets.
- b) Recurring income: net profit less the following extraordinary components: gains/losses on the Securities Portfolio, Performance Fees, extraordinary component of the contributions to the FITB/BRRD bank rescue funds and the income and costs related to the extraordinary transactions completed during that period.
- c) EVA – Embedded value added: an indicator that expresses the value creation as the difference between Recurring Net Profit (as defined above) and the cost of capital ($k_e \cdot \text{average absorbed capital}$).
- d) Net ROE (return on equity): ratio of consolidated net profit and IFRS consolidated net equity of the Generali Group (excluding item "Other Comprehensive Income").
- e) Earnings Per Share Growth: the percentage change (compound average) of the EPS of Generali stock with reference to the net result normalised by gains/losses on disposal
- f) rTSR relative Total Shareholder Return, compared to a peer group of competitors included in the STOXX Euro Insurance index.

¹⁰ Further information on the LTI plans' terms and conditions are included in the Remuneration Policy, approved annually by the Shareholders' Meeting of Banca Generali (Section 2 – Banking Group's Remuneration and Incentivisation Policies).

¹¹ 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.

¹² 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.

¹³ In particular, the maximum performance level is associated with a percentage of 175%.

3.1 Measurement of fair value and accounting treatment

Without prejudice to the accounting framework already analysed in point 1.1 above, set out below are the specific details of the share-based payment plans that can be activated as part of the LTI plans launched by Banca Generali.

The number of shares due shall be valued separately for each plan year and for each of the weighted baskets linked to the objectives of the Banking Group and the Insurance Group.

In particular, baskets tied to the performance indicator formed by the Insurance Group's rTSR contain a market condition, whereas the other baskets are based on achievement of performance conditions.

Market conditions are assessed solely at the assignment date on the basis of a statistical model that estimates the probable future positioning of the rTSR for Generali shares compared to a peer group identified by the STOXX Euro Insurance Index for each plan year. The fair value of the rights associated with this plan component is thus determined by multiplying the fair value of a Banca Generali share at the assignment date by the level of achievement of the objective associated with the resulting positioning.

Baskets associated with the achievement of performance conditions are assessed on the basis of the fair value of a Banca Generali share and the number of shares potentially assignable.

In this case as well, the fair value of the Banca Generali share used 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.

The total cost of the LTI plans is therefore equal to the sum of the cost calculated for each basket on the basis of the fair value of rights assigned, determined according to the above methods, multiplied by the number of shares that may potentially be granted in respect of the level of achievement of the performance condition, the market 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.

3.2 Information on the share-based payment plans linked to the BG LTI

Overall, the total number of shares, either assigned or in the process of accruing, amounted to about 241 thousand, for a total value of 4.7 million euros, of which 2.1 million euros already recognised through profit or loss (1.5 million euros for 2019).

	MAXIMUM NO. OF SHARES (THOUSANDS OF SHARES)	PLAN'S FAIR VALUE	IFRS 2 RESERVE (€ THOUSAND)
2018-2020 Plan	90	1.9	1.2
2019-2021 Plan	151	2.8	0.9
Total	241	4.7	2.1

Quantitative Information

The value of treasury shares assigned during the year was 3.2 million euros, against IFRS 2 reserves totalling 3.0 million euros, with a negative net effect on the share premium reserve of about 0.2 million euros.

New provisions have also been made to the reserve totalling 7.2 million euros.

At 31 December 2019, total IFRS 2 reserves allocated therefore amounted to 9.0 million euros, of which:

- > 5.5 million euros in relation to the Remuneration Policies;
- > 1.4 million euros in relation to the Loyalty Programme;
- > 2.1 million euros in relation to the BG LTI.

PART M – INFORMATION ON LEASES

Section 1 – Lessee

Qualitative Information

With regard to qualitative information required pursuant to paragraphs 59 and 60 of IFRS 16, reference should be made to Part A, namely Part A.1 – General, Section 4 – Other Aspects and Part A.2 – Main Financial Statements Aggregates, Section 15 – Other information, of these Notes and Comments.

Quantitative Information

As regards quantitative information, reference should be made to the details given in these Notes and Comments, and in particular:

- > Rights of use acquired through leases in Part B, Section 8 – Property and equipment – Item 80, Table 8.1 Operating property and equipment: assets valued at cost and Table 8.6 Operating property and equipment: year changes;
- > Lease debts in Part B, Section 1 – Financial liabilities measured at amortised cost – Item 10, Table 1.6 Lease debts;
- > Interest expense on lease liabilities/debts in Part C, Section 1 – Interests – Items 10 and 20, Table 1.3 Breakdown of interest expense and similar charges;
- > Other costs associated with rights of use acquired through leases in Part C, Section 10 – General and administrative expenses – Item 160 b), Table 10.5 Breakdown of other general and administrative expenses;
- > Amortisation charges of rights of use acquired through leases in Part C, Section 12 – Net adjustments/reversals of property and equipment – Item 180 – Table 12.1 – Breakdown of net adjustments of property and equipment.

Trieste, 9 March 2020

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, 2019, 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 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, 2019 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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Key audit matters	Audit responses
<p>VALUATION OF GOODWILL</p> <p>Notes: Part A) Accounting policies; Part B) Information on the balance sheet Assets - Section 9; Part G) Business combinations of entities or branches - Section 3.</p> <p>The Bank recorded among intangible assets in the financial statements at December 31 2019 goodwill for Euro 66,1 million. This goodwill, as required by IAS 36 “<i>Impairment of assets</i>”, are not depreciated but tested for impairment (“<i>Impairment test</i>”), at least annually, by means of comparison of the carrying value with recoverable amounts of each CGU represented by the value in use.</p> <p>The impairment test performed by the Bank confirmed the recoverability of goodwill registered in the financial statements.</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>Key audit matters</p> <p>VALUATION OF THE PROVISIONS REGARDING THE INDEMNITY OF THE NETWORK AND LEGAL DISPUTES</p> <p>Notes: Part A) Accounting policies; Part B) Information on the balance sheet Liabilities - Section 10.</p> <p>Provisions for liabilities and contingencies at December 31, 2019 show a balance equal to Euro 165,2 million.</p> <p>In the section, Provisions for termination indemnity of Financial Advisors are equal to Euro 97,9 million, Provisions for network incentives are equal to Euro 31 million, Provisions for legal disputes are equal to Euro 12,9 million and Provisions for staff expenses are equal to Euro 16,3 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>Audit responses</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 Company 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, also with the support of external specialists, of the approach and assumptions adopted for the evaluations at December 31, 2019 specifically regarding the termination indemnity of Financial Advisors; ▪ We obtained an external confirmation from legal experts of the Company on their evaluation about the existing disputes’ development and the chance of losing; ▪ 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, 2019, 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, 2019 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, 2019 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 26, 2020

BDO Italia S.p.A.

Rosanna Vicari
Partner
(signed in the original)

Report of the Board of Statutory Auditors

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 2019, which consists of:

- > the Draft Separate and Consolidated Financial Statements of “Banca Generali S.p.A.” for the year ended 31 December 2019, 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 that in the course of the year ended 31 December 2019 it carried out the following activities:

- > it participated in 14 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 11 meetings of the Internal Audit and Risk Committee;
- > it participated in 8 meetings of the Remuneration Committee;
- > it participated in 7 meetings of the Nomination, Governance and Sustainability Committee;
- > it participated in 4 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 2 induction meetings;
- > 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. and of Nextam Partners S.p.A., Nextam Partners SGR S.p.A. and Nextam Partners Sim S.p.A., with the control body of the Luxembourg-based subsidiary BG Fund Management Luxembourg S.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) were assigned to report directly to the Chief Executive Officer, 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-mentioned Board 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 subsidiaries and Italian subsidiaries 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;
- > Dividend Policy;
- > IFRS 9 Policy;
- > Transfer Pricing 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 2019, 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 2019 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 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. The Pillar 3 disclosure, prepared in accordance with Part VIII of Regulation (EU) No. 575/2013 (CRR), describes the prudential regulatory provisions for banks concerning capital requirements.

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.

During the reporting year, there were no atypical and/or unusual transactions to be reported, 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 2019 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 corporate social responsibility, the Directors’ Report on Operations provides a summary of the 2019 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 2019 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 assign-

ment 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 2019 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 2019, 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 2019. 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 2019 for the purposes of the issuance of the attestation required by Decree No. 254/2016, for a total of 30,000 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 2019 Annual Integrated Report, for a total of 45,000 euros;
- > the assignment to conduct a limited, voluntary audit of the third-quarter 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 7,250 euros;
- > the assignment to audit the half-yearly reporting package of Banca Generali S.p.A. at 30 June 2019, 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 2019, 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 2019 in Common Equity Tier 1 capital, for a total of 30,000 euros;
- > the assignment to produce the certification of the proper application of IFRS 16, for a total of 20,000 euros;
- > the assignment to provide support in defining a methodological process analysis approach instrumental to the implementation of a system to monitor non-financial KPIs, for 65,000 euros;
- > the assignment to analyse, map and describe sustainability-related organisational initiatives and projects and perform a gap analysis of an existing circumstance and its related comparable parameters (benchmark on best practices, original project, applicable regulations, etc.), for a total of 40,000 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 acquisition of the Nextam Group and the Swiss company Valeur

Fiduciaria S.A., 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), Generfid S.p.A., BG Valeur S.A. and the companies of the Nextam Group. 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 2019 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, 26 March 2020
The Board of Statutory Auditors

Massimo Cremona – Chairman
Mario Anaclerio – Acting Auditor
Flavia Daunia Minutillo – Acting Auditor

Addendum to the Report of the Board of Statutory Auditors to the General Shareholders' Meeting called to approve the Financial Statements for the year ended 31 December 2019 pursuant to Article 153 of Legislative Decree 58/98 and Article 2429, Paragraphs 2 and 3, of the Italian Civil Code

Shareholders,

After we filed our report on the Company's Financial Statements for the year ended 31 December 2019 on 26 March 2020, recommendations were issued by the European Central Bank (ECB) on 27 March 2020 and by the Bank of Italy on 27-31 March and 1 April 2020 urging significant and less significant banks to refrain from paying out dividends in order to strengthen the credit system during the Covid-19 pandemic.

The Board of Directors of Banca Generali, on today's date, resolved to amend the dividend distribution proposal regarding the 2019 net profit, in compliance with the recommendations of the supervisory authority.

The new proposal may be summarised as follows:

- > distribution of a dividend of 1.55 euros per share (gross of legal withholdings), payable from 15 October to 31 December 2020, subject to the Board of Directors' prior verification that the conditions indicated in the Recommendation ECB/2020/19 are met, of compliance with the supervisory provisions and guidelines applicable from time to time, and that Total Capital Ratio at the company and consolidated level continues to exceed the SREP minimum requirements, plus a 1.2% buffer, thus equal to 9.2% and 13.0%, respectively;
- > dividend distribution of 0.30 euro per share (gross of legal withholdings), payable from 20 January 2021 to 31 March 2021, subject to the Board of Directors' prior verification that the conditions indicated in the Recommendation ECB/2020/19 are met, of compliance with the supervisory provisions and guidelines applicable from time to time, and that Total Capital Ratio at the company and consolidated level continues to exceed the SREP minimum requirements, plus a 1.2% buffer, thus equal to 9.2% and 13.0%, respectively;
- > granting to the Board of Directors the power to verify whether the above conditions have been met, and thus to pay out the dividend to the shareholders (if the said conditions have been met) or reallocate the amounts concerned to reserves (if the said conditions have not been met).

The Financial Statements, the Notes and Comments, as well as the Directors' Report have not been amended as a consequence of this decision, except for the section regarding the distribution of dividends.

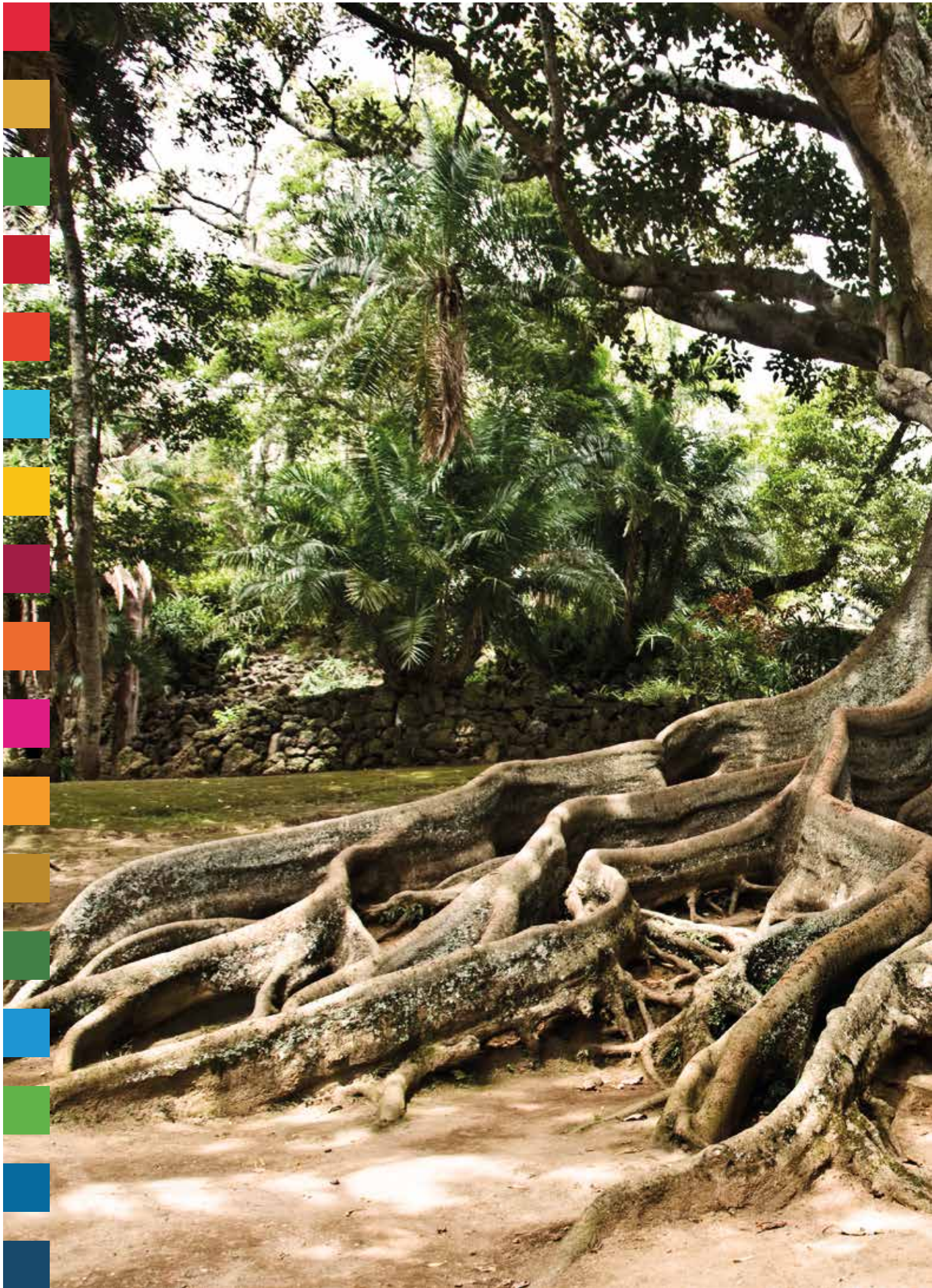
The new proposal of dividend distribution does not involve any change to Own Funds or regulatory capital ratios at 31 December 2019.

We also acknowledge that the Independent Auditors have not issued an addendum to their report on the Separate and Consolidated Financial Statements for the year ended 31 December 2019, since they remain unchanged.

In consideration of the foregoing, we confirm that you may approve the 2019 Financial Statements, as presented to you by the Board of Directors, and we express a favourable opinion regarding the new proposal for allocation of the net profit, as submitted by the Board of Directors.

Milan, 1 April 2020
The Board of Statutory Auditors

Massimo Cremona – Chairman
Mario Anaclerio – Acting Auditor
Flavia Daunia Minutillo – Acting Auditor





07

ATTESTATION

**pursuant to Article 154-*bis*, paragraph 5,
of Legislative Decree No. 58/98**

Attestation

pursuant to Article 154-bis, 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 2019:
 - 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 2019 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 2019:
 - 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, 09 March 2020

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

ANNEX 1

Disclosure of compensation for auditing pursuant to Article 149

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.

(€ THOUSAND)	BDO ITALIA S.P.A.	BDO LUX S.A.	BDO SWISS S.A.
Parent Company	346	-	-
Audit	209	-	-
Attestation services	57	-	-
Other services	80	-	-
Subsidiaries	38	87	21
Audit	38	87	21
Attestation services	-	-	-
Other services	-	-	-
Total	384	87	21

Note

1. Amounts net of VAT, out-of-pocket expenses and Consob contribution.

With reference to the figures indicated in the table, the amount of 346 thousand euros refers for 117 thousand euros to the auditing carried out in relation with 2018 financial statements and for 129 thousand euros for the activities carried out until 31 December 2019, consisting in accounting audits, auditing of the quarterly, half-yearly and nine-month reports and for auditing of the 2019 financial statements (net of VAT, out-of-pocket expenses and Consob contributions), and 20 thousand euros for the attestation on the appropriate application of IFRS 16.

The amount of 80 thousand euros indicated in the “Other services” item refers to BDO Italia’s engagement to provide support activities for monitoring non-financial KPIs and sustainability-related projects.

With regard to the companies audited by BDO Italia S.p.A., fees for auditing of the financial statements and bookkeeping services referring to 2019 amounted to 25 thousand euros (excluding VAT and out-of-pocket expenses) for Generfid, to 14 thousand euros for Nextam Partners SGR and Nextam Partners Sim, to CHF 21 thousand euros for BG Valeur S.A., audited by BDO Swiss, and 87 thousand euros for BGFML, audited by BDO Lux.

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 addition, in 2019 the Board of Directors approved fees amounting to 80 thousand euros for the attestation pursuant to Article 26, paragraph 2, of Regulation (EU) No. 575/2013, concerning the compliance of the non-financial disclosure and the attestation for the compliance of the application of the new IFRS16, and 150 thousand euros for other services regarding the support activities for monitoring non-financial KPIs, sustainability-related projects and GAP analysis of the non-financial disclosure.

The fees approved by the General Shareholders’ Meeting of Generfid S.p.A. on 2 April 2019 for the auditing of the financial statements and bookkeeping services for 2019 amounted to 20 thousand euros (VAT and out-of-pocket expenses excluded).

The fees approved by the General Shareholders’ Meeting of Nextam Partners S.p.A. on 25 July 2019 for auditing the financial statements and bookkeeping services referring to 2019 amounted to 12 thousand euros (excluding VAT and out-of-pocket expenses), whereas the fees approved by the General Shareholders’ Meeting of Nextam Partners SGR S.p.A. On 25 July 2019 for auditing the financial statements and bookkeeping services referring to 2019 amounted to 17 thousand euros (excluding VAT and out-of-pocket expenses) and 20 thousand for auditing the Nextam Partners funds.

The fees approved by the Board of Directors of BG Fund Management Luxembourg S.A. of 3 May 2019 for auditing the financial statements and bookkeeping services for 2019 amounted to 87 thousand euros (net of VAT, out-of-pocket expenses).

The fees approved by the General Shareholders’ Meeting of BG Valeur S.A. on 15 October 2019 for auditing the financial statements and bookkeeping services referring to 2019 were estimated at an annual amount in the range of CHF 39 thousand to CFH 42 thousand (excluding VAT and out-of-pocket expenses) and CFH 8 thousand for other supportig/training services.

Banca Generali S.p.A.

Registered office
Via Machiavelli 4 - 34132 Trieste

Share capital
Authorised 119,378,836 euros
Subscribed and paid 116,851,637 euros

Tax code and Trieste register
of companies 00833240328
VAT No. 01333550323

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



This brochure was printed on Favini Shiro Echo paper, a high-quality, biodegradable paper, made of 100% FSC-certified post-consumer recycled fibre.

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Thanks to the format used, paper waste has been minimised.

Consultancy and co-ordination
Sege S.r.l. / zero3zero9 S.r.l.
Design - Natale Cardone Sas
Layout - t&t
Cover photography - Beverly Joubert



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