



BANCA GENERALI S.P.A.

INTERIM REPORT

at 31.03.2018

*These financial statements have been translated from those issued in Italy,
from the Italian into the English language, solely for the convenience
of international readers. The Italian version remains the definitive version.*



INTERIM REPORT at 31.03.2018

Board of Directors – 23 April 2018

BANCA GENERALI S.P.A. ADMINISTRATION AND CONTROL BODIES

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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GROUP ECONOMIC AND FINANCIAL HIGHLIGHTS

GROUP ECONOMIC AND FINANCIAL HIGHLIGHTS

Consolidated figures

(€ MILLION)	31.03.2018	31.03.2017	CHANGE %
Net interest income	13.2	15.7	-15.9
Net fees ^(c)	85.6	103.4	-17.2
Net income (loss) from trading activities and dividends	15.2	3.4	352.9
Net banking income	114.1	122.5	-6.9
Staff expenses	-21.1	-20.7	2.0
Other net general and administrative expenses	-25.0	-24.7	1.4
Amortisation and depreciation	-2.0	-1.7	18.7
Other operating income and expenses	1.7	0.2	647.7
Net operating expenses	-46.5	-46.9	-0.8
Operating result	67.6	75.6	-10.7
Provisions	-4.8	-6.0	-20.7
Adjustments	0.2	-3.2	-106.1
Profit before taxation	62.9	66.4	-5.3
Net profit	49.0	56.2	-12.8

PERFORMANCE INDICATORS	31.03.2018	31.03.2017	CHANGE %
Cost/Income ratio ^(c)	39.0%	36.9%	5.7
EBTDA ^(c)	69.6	77.3	-10.0
ROE ^{(a) (c)}	7.7%	10.1%	-23.7
ROA ^(b)	0.09%	0.12%	-25.5
EPS – earnings per share (euros)	0.421	0.484	-13.1

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

(b) Net return on assets calculated on the average of Assoreti's non-annualised quarterly AUM.

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



Net inflows

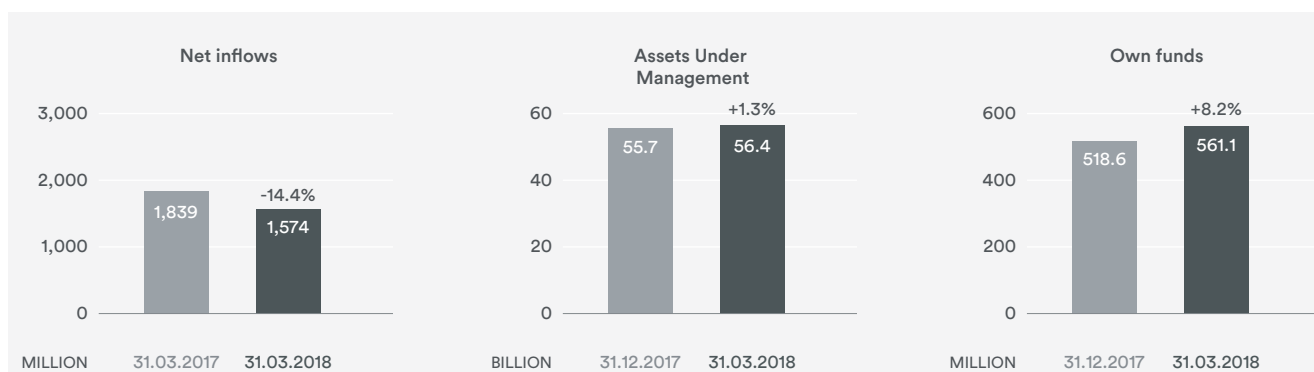
(€ MILLION)(ASSORETI DATA)	31.03.2018	31.03.2017	CHANGE %
Mutual funds and Sicavs	301	431	-30.2
Asset management	204	648	-68.5
Insurance / Pension funds	507	480	5.6
Securities / Current accounts	562	280	100.7
Total	1,574	1,839	-14.4

Assets Under Management & Custody (AUM/C)

(€ BILLION)(ASSORETI DATA)	31.03.2018	31.12.2017	CHANGE %
Mutual funds and Sicavs	13.6	13.6	-0.3
Asset management	7.1	7.1	0.6
Insurance / Pension funds	22.5	22.2	1.3
Securities / Current accounts	13.2	12.8	3.5
Total	56.4	55.7	1.3

Net equity

(€ MILLION)	31.03.2018	31.12.2017	CHANGE %
Net equity	792.4	736.1	7.6
Own funds	561.1	518.6	8.2
Excess capital	357.4	313.5	14.0
Total Capital Ratio	22.0%	20.2%	8.9





CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

ASSETS (€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	114,157	49,814	64,343	129.2%
Financial assets at fair value through other comprehensive income	4,376,203	4,612,728	-236,525	-5.1%
Financial assets at amortised cost	4,396,399	3,831,104	565,295	14.8%
a) Loans to banks	1,093,245	923,095	170,150	18.4%
b) Loans to customers	3,303,154	2,908,009	395,145	13.6%
Equity investments	1,736	1,820	-84	-4.6%
Property, equipment and intangible assets	96,778	98,380	-1,602	-1.6%
Tax receivables	46,394	45,735	659	1.4%
Other assets	291,632	351,430	-59,798	-17.0%
Total assets	9,323,299	8,991,011	332,288	3.7%

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
Financial liabilities at amortised cost	8,186,641	7,879,779	306,862	3.9%
a) Due to banks	505,127	682,531	-177,404	-26.0%
b) Due to customers	7,681,514	7,197,248	484,266	6.7%
Financial liabilities held for trading and hedging	290	206	84	40.8%
Tax payables	42,557	35,564	6,993	19.7%
Other liabilities	143,151	185,218	-42,067	-22.7%
Special purpose provisions	158,307	154,174	4,133	2.7%
Valuation reserves	24,153	21,646	2,507	11.6%
Reserves	557,352	348,519	208,833	59.9%
Share premium reserve	58,170	58,219	-49	-0.1%
Share capital	116,852	116,852	-	-
Treasury shares (-)	-13,221	-13,271	50	-0.4%
Net profit (loss) for the period (+/-)	49,047	204,105	-155,058	-76.0%
Total liabilities and net equity	9,323,299	8,991,011	332,288	3.7%

Consolidated Profit and Loss Account

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Net interest income	13,243	15,738	-2,495	-15.9%
Net fees	85,631	103,428	-17,797	-17.2%
Net income (loss) from trading activities and dividends	15,227	3,362	11,865	n.a.
Net banking income	114,101	122,528	-8,427	-6.9%
Staff expenses	-21,136	-20,727	-409	2.0%
Other general and administrative expenses	-25,021	-24,682	-339	1.4%
Net adjustments of property, equipment and intangible assets	-2,046	-1,723	-323	18.7%
Other operating expenses/income	1,660	222	1,438	n.a.
Net operating expenses	-46,543	-46,910	367	-0.8%
Operating result	67,558	75,618	-8,060	-10.7%
Net adjustments for non-performing loans	192	-3,158	3,350	-106.1%
Net provisions	-4,783	-6,031	1,248	-20.7%
Gains (losses) from equity investments	-88	-33	-55	n.a.
Operating profit before taxation	62,879	66,396	-3,517	-5.3%
Income taxes for the period	-13,832	-10,174	-3,658	36.0%
Net profit	49,047	56,222	-7,175	-12.8%

Statement of Comprehensive Income

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Net profit (loss)	49,047	56,222	-7,175	-12.8%
Other components of income, net of taxes:				
with transfer to Profit and Loss Account:				
Exchange gains and losses	4	-1	5	n.a.
Financial assets at fair value through other comprehensive income	2,245	-24,946	27,191	-109.0%
without transfer to Profit and Loss Account:				
Actuarial gains (losses) from defined benefit plans	-31	-98	67	-68.4%
Total other components of income, net of taxes	2,218	-25,045	27,263	-108.9%
Comprehensive income	51,265	31,177	20,088	64.4%



INTERIM REPORT

at 31.03.2018

Board of Directors
23 April 2018

1. SUMMARY OF OPERATIONS FOR THE FIRST QUARTER OF 2018

Banca Generali Group closed the first quarter of 2018 with consolidated net profit of 49.0 million euros and total net inflows of over 1.5 billion euros, bringing the total volume of the assets entrusted by customers to the Banking Group for management to 56.4 billion euros (+12.7% compared to the same period of the previous year).

Assets growth was mainly driven by net inflows for the quarter, of which 0.8 billion euros generated by managed solutions, 0.2 billion euros by traditional insurance policies and 0.6 billion euros by AUC. With regard to managed solutions, net inflows of approximately 0.5 billion euros were generated by the innovative financial (BG Solution) and insurance (BG Stile Libero) wrapper solutions created by the Bank, which are increasingly appreciated by customers and Financial Advisors thanks to their operational flexibility and wide range of opportunities for investment diversification.

The return of volatility, within a scenario of increasingly complex markets, spurred renewed interest in solutions that place a greater emphasis on protection, such as traditional insurance policies, which attracted net inflows of 236 million euros during the quarter, whereas prudence steered inflows towards AUC solutions (562 million euros inflows YTD).

Net operating income amounted to 114.1 million euros, driven by the robust structural growth of **management fees**, which climbed to 158.1 million euros (+16.9% compared to the first quarter of 2017), fuelled by the constant rise in average AUM.

Conversely, market performance resulted in a decline in the most volatile components of the profit and loss account, i.e., **performance fees**, which fell sharply by 35.2 million euros (-82.2%), only partly offset by the greater contribution from trading (+11.9 million euros).

Net interest income declined by 2.5 million euros (-15.9%), owing in part to the conservative profile of the banking book adopted in late 2017. As a result, the balance of cash on deposit with the **ECB** also remained consistently high throughout the quarter, amounting to 758 million euros at the end of March. The cash generated by the proprietary portfolio was reinvested in March, with 250 million euros allocated to the HTC portfolio in March 2018, offering a yield of 1.73% and a maturity of around 7.7 years.

Net operating expenses amounted to 46.5 million euros, down slightly on the same period of the previous year, despite the significant business expansion and non-recurring components associated with the numerous ongoing projects.

With reference to capital, Banca Generali confirmed the soundness of its regulatory aggregates. On a phased-in basis, CET1 ratio stood at 20.3% and Total Capital Ratio at 22.0%. With reference to regulatory capital requirements, excess capital on a phase-in basis amounted to 357.4 million euros, accounting for 63.7% of total consolidated Own Funds.

Capital ratios far exceeded the specific requirements set by the Bank of Italy for the Group (a CET1 ratio of 7% and a Total Capital Ratio of 10.4%, as the minimum required by the SREP – Supervisory Review and Evaluation Process).

The total value of AUM managed by the Group on behalf of its customers — which is the figure used for communications to Assoreti — amounted to 56.4 billion euros at 31 March 2018. In addition, managed assets also included 1.0 billion euros in deposits of assets under administration of companies of the Generali Group and 2.8 billion euros in funds and Sicavs distributed directly by management firms, for an overall total of 60.3 billion euros.

Significant corporate events

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

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

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

Following the preliminary agreements signed in September 2017, on 9 March 2018 the Board of Directors of Banca Generali approved the final agreements with Denmark's Saxo Bank to set up an exclusive partnership for the provision of online trading and digital services to Italian clients. The terms of the agreements — already approved by the competent bodies of Saxo Bank — provide for the incorporation of a new company, **BG SAXO SIM**, in which the Bank will hold an interest of just under 20%.

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

Saxo Bank is globally recognized as one of the best fintech banks in Europe and Asia, will provide the partnership with its multi-assets platform that enhances the range of digital services — not only trading but also dynamic hedging services — with a particular expertise in FX.

BG SAXO SIM is expected to make its debut in the second half of the year, after it has obtained, *inter alia*, the necessary authorizations from the competent authorities.

Agreements with Generali Italia governing the distribution of the Generali Group's insurance products by the Bank were also renewed in March.

The new commercial agreement, which has a term of ten years (with automatic renewal for an additional ten years), envisages:

- > a renewed joint commitment to develop, under the **brand BG Vita**, new pension, guaranteed investment, protected investment and multi-line products;
- > guarantees of **exclusive distribution** by the Bank of the Generali Group's insurance solutions, and Generali Italia's commitment to not provide its products to a Bank's group of competitors identified by mutual agreement.

2. MACROECONOMIC CONTEXT

The growth trend that had begun in 2017 continued throughout the first quarter of 2018. Economic data were encouraging in January, surprising analysts on the upside. As a result, growth estimates were revised upwards and expectations grew very optimistic. In February and March, leading indicators (PMIs) remained high and solidly in positive territory, although declining compared with previous months.

Events belied the extremely positive expectations and the markets proved vulnerable to the greater volatility that ensued. Stock markets pulled back from the gains they had posted in January, closing the quarter in negative territory. On bond markets, spreads on corporate and high-yield bonds widened, resulting in losses on these asset classes. The markets were also weighed down by political tensions, particularly relating to the policy pursued by the U.S. government and the normalisation of monetary policy by the U.S. Federal Reserve.

In the **United States**, initial indications for the first quarter point to more rapid growth than expected. Supported by the robust performance in the first few months of the year and the impact of the increase in federal spending authorised by the U.S. Congress, growth expectations for both the current year and 2019 were revised upwards. Consumer spending and the job market both remained solid; the unemployment rate fell to 4.1% and consumer spending growth exceeded 2.5%. Investment spending also remained sustained, outpacing 2017, as did government spending. The Federal Reserve continued the process of normalising monetary policy, raising its reference rate by an additional 25 bps and mooting the possibility of a steeper rate increase trajectory than forecast by the market.

In the **Eurozone**, the first quarter also saw robust economic growth, and the area's economy is expected to expand by 2.3% in all of 2018. Fundamentals remained solid: the unemployment rate continued to fall, while salaries and disposable income were on the rise, supporting consumer spending. Foreign trade continued to offer a positive contribution, and the adverse impact of the strengthening of the euro was mitigated by global growth. Public spending and investments were on the rise, and the ECB's monetary policy remained expansionary, lending support to the economy. In fact, despite having prepared the markets for a gradual normalisation of monetary policy, the ECB kept a cautious tone, stressing that it does not wish to apply monetary tightening prematurely and continuing to undertake purchases of 30 billion euros a month, a policy that will remain in place until at least September.

In **China**, economic data were positive, PMIs were in positive territory and demand remained robust, along with import and export figures. Inflationary pressure was modest and did not generate any concerns for the country's central bank, which continued to take a neutral stance. Chinese authorities set a growth target of 6.5% for this year — a level that appears feasible in the light of current economic trends. Overall, emerging markets achieved solid growth, benefiting from the robust performance of the global economy.

Stock markets were a reflection of the scenario described above, with a bull market phase in January, in which all major indices reached new highs, followed by a bear market in February and March.

The MSCI World index ended the first quarter down -1.74%, the S&P500 by -1.22%, the DJ Eurostoxx by -2.99% and the Topix by -5.57%. Returns in euro were further penalised by the rising exchange rate.

The MSCI emerging market index in dollars rose by 1.07%, whereas in euros it lost 1.62%. The strongest performances were seen in South America (MSCI Latin America in euros +4.39%) and Eastern Europe (MSCI Eastern Europe in euros +1.28%), whereas China and India posted negative returns (MSCI China in euros -0.78% and MSCI India in euros -9.60%).

Overall, the sectors of the European market that performed the most robustly were automotive, energy and financial services, while banks, telecommunications and food were below average.

Bond yields on the markets of reference (Treasuries and Bunds) registered divergent performances, driven by the different monetary policies in place (tightening in the U.S. and expansionary in the Eurozone). In the United States, short-term yields continued to trend upwards, propelled by the rate increase being implemented by the Federal Reserve. The yield on two-year government bonds thus rose from 1.88% at the beginning of the year to 2.27% (+0.39%). The increase in yields was considerable on the longer maturities as well, which were also affected by the rising growth rate and inflation expectations. The U.S. ten-year rate climbed from 2.41% to 2.75% (+0.33%).

In the Eurozone, the ECB left rates unchanged. As a result, short-term yields did not show significant change. The two-year German rate ended the quarter at -0.64% from -0.66% at the beginning of the year. Ten-year rates climbed in January following the upwards revision of growth estimates and expectations of a more rapid normalisation of rates by the ECB than expected, then fell once again in February and March in keeping with weaker economic data. The ten-year German rate began the year at 0.42%, rose to 0.76% in January and then fell to 0.5% in February and March, near where it started the year.

Spreads between member states of the European Monetary Union and Germany narrowed overall. In particular, the spread on the Italian ten-year rate fell from 159 bps at the beginning of the period to 129 bps at the end (-30 bps).

On **currency markets**, the dollar remained weak against the euro, despite the further widening of the spread between U.S. and Eurozone short-term rates. The euro benefited from the greater-than-expected growth in the Eurozone, which resulted in expectations of a faster gradual normalisation of monetary policies by the ECB, whereas expectations of an increasing deficit had an adverse impact on the dollar. The euro/dollar exchange rate rose from 1.1993 at the beginning of the year to 1.2321, marking a depreciation of the U.S. currency of -2.73%. Compared with the other major currencies, the euro appreciated against the Swiss franc, Canadian dollar and Australian dollar, whereas it weakened against the yen, British pound and Norwegian krone.

Overall, **commodities** remained essentially flat: the CRB Commodities index in dollars ended the quarter up 0.77%. The price of **oil** (WTI) rose from 60.42 dollars at the beginning of the year to 64.94 dollars, an increase of 7.48%. Gold remained essentially unchanged, rising from 1309.30 dollars to 1322.80 dollars (+1.03%). In contrast, the industrial metals index declined considerably, falling -6.55%.

Outlook for 2018

Various international economic research organisations have recently predicted that in 2018 the global economy will continue to expand at rates at least as high as those of 2017, owing in part to the growth of emerging economies. Investments, consumer spending, international trade and financial conditions will remain expansive and continue to support the global economy. In addition, expansionary fiscal policy is expected to lend further impetus to growth.

Major risks to global growth forecasts include a swifter rise in inflation and interest rates in advanced economies, a correction of financial markets in response to high valuations and contained risk premiums and, finally, the risk of protectionist policies and geopolitical tensions.

3. BANCA GENERALI'S COMPETITIVE POSITIONING

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

3.1 The asset management market

The Italian asset management industry closed the first two months of 2018 with net inflows of 5.5 billion euros, despite significant outflows from money-market and bond funds.

Assets under management amounted to 1,139 billion euros (net of assets invested in collective management solutions), of which 1,009 billion euros, or 88%, was invested in Italian and foreign funds and 130 billion euros in retail portfolio management solutions. Long-term funds accounted for almost all open-ended funds (97% in February 2018). Within this category, bond funds continued to represent the main class (40.3% of the total, for assets of 406.7 billion euros), despite the outflows of 2.9 billion euros in the first two months of the year. They were followed by flexible funds, at 24.3% of total assets, or 245.1 billion euros, making them the asset class that yielded the greatest net inflows in 2018 at approximately 5.7 billion euros, and, finally, by equity funds, which drew year-to-date net inflows of 1.8 billion euros, bringing assets to 222 billion euros.

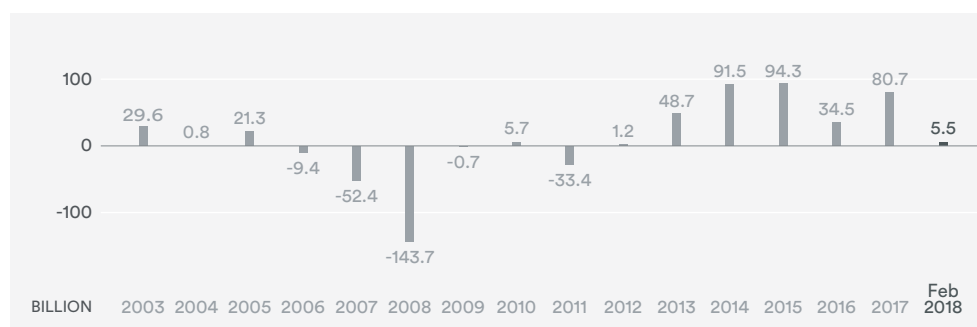
Money-market funds represented a residual share of open-ended funds (3% in February 2018), with year-to-date net outflows of -2.1 billion euros, resulting in a decline in invested assets to approximately 30.2 billion euros.

Evolution of net inflows and assets under management

(€ MILLION)	NET INFLOWS		ASSETS	
	FEB 2018	FEB 2017	FEB 2018	FEB 2017
Italian funds	2,143	2,286	259,245	245,683
Foreign funds	3,387	7,540	750,167	673,990
Total open-ended funds	5,530	9,826	1,009,412	919,673
GP retail	-79	1,456	130,225	126,809
Total	5,451	11,282	1,139,637	1,046,482

Source: Assogestioni data

The UCITS market in Italy (€ billion)



Source: Assogestioni data

3.2 The Assoreti market

Net inflows amounted to 5.9 billion euros in the first two months of 2018, marking an increase of 191 million euros, or 3.2% compared to the same period of the previous year. Net inflows from asset management products stood at 1.85 billion euros (31.3% of total net inflows), marking a decline of 1.46 billion euros on the previous year. Mutual funds and Sicavs contributed net inflows of 1.5 billion euros, net of the strong outflows from funds-of-funds (approximately 0.5 billion euros), whereas discretionary mandates generated net inflows of 365 million euros. Net inflows from insurance products declined by 19.8% compared to February 2017, falling to 1.31 billion euros (multi-line policies remained the main component, accounting for approximately 40% of overall net inflows from insurance products). There was a sharp increase in AUC, which exceeded 2.7 billion euros, or approximately 1.97 billion euros more than in the same period of the previous

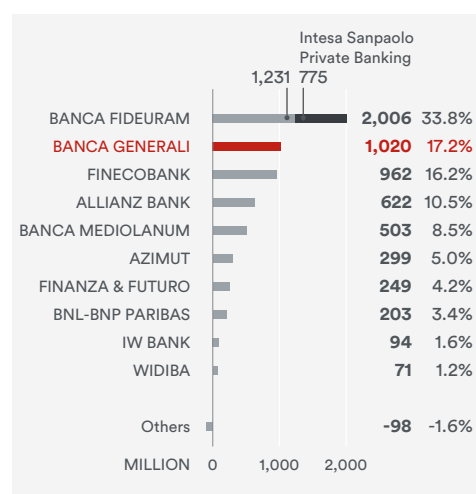
year, with growth of nearly 250%. Net inflows into money-market products accounted for approximately 79% of total net inflows into AUC category and nearly 37% of all year-to-date net inflows. Net inflows into securities amounted to approximately 0.6 billion euros.

(€ MILLION)	ASSORETI MARKET		
	FEB 2018	FEB 2017	CHANGE
Asset management	1,855	3,316	-1,461
Insurance products	1,311	1,633	-322
Assets under administration and custody	2,766	792	1,974
Total	5,932	5,741	191

Source: Assoreti data

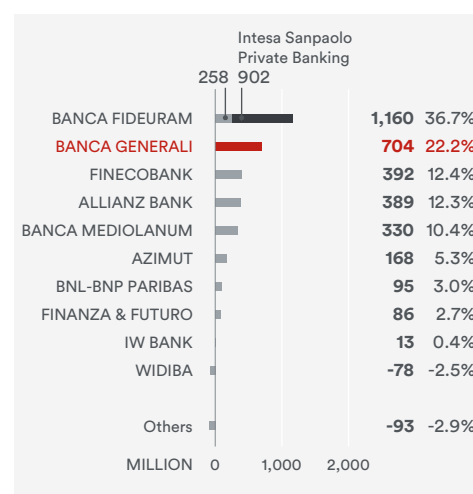
Total net inflows Assoreti – 5.93 billion euros – and market share (%)

February 2018 (€ million and market share in %)
Source: Assoreti



Net inflows from AUM and insurance products Assoreti – 3.2 billion euros – and market share (%)

February 2018 (€ million and market share in %)
Source: Assoreti



3.3 Banca Generali

In the first quarter of 2018, Banca Generali reported net inflows of 1.57 billion euros. Renewed market volatility restored the focus on the notion of risk, favouring solutions suited to protection, such as traditional insurance policies, which recorded net inflows of 236 million euros YTD (135 million euros in March alone). In 2018, net inflows generated by managed and insurance solutions totalled more than 1 billion euros, accounting for 64% of total net inflows. In detail, net inflows from asset management products for the reporting quarter were almost evenly split between managed and insurance solutions. Net inflows from wrapper products — included in net inflows from managed and insurance solutions — amounted to 475 million euros in the first quarter of 2018, of which 204 million euros referring to discretionary mandates and 271 million euros to BG Stile Libero.

In contrast to the same period of the previous year, demand for funds and Sicavs became the main component of net inflows from managed products, despite declining compared to the first quarter of 2017.

Insurance products drew total net inflows of 507 million euros, of which 271 million euros directly generated by BG Stile Libero, slightly increasing compared to 2017.

The AUC contributed significantly, roughly doubling the volumes of 2017. In response to increasingly complex markets, prudence steered net inflows towards AUC solutions, which drew year-to-date inflows of 562 million euros (246 million euros in March alone). This figure also reflects the strong ability to win new clients, as well as expectations surrounding the launch of the new Luxembourg Sicav, LUX IM, operational as of 30 March, which offers a distinctive approach to content and to risk mitigation.

Attention should also be drawn to the further rise in Assets under Advisory, which amounted to 400 million euros in the first quarter of 2018, bringing the total value to 1.7 billion euros (140 million euros in March).

The increase in volatility further strengthened the relationships between Banca Generali's Financial Advisors and households, based on increasingly thorough planning that takes careful account of the many variables impacting the markets. Banca Generali's innovative new investment instru-

ments and the new Sicav can best rise to these new challenges, ensuring new opportunities for AUC diversification and protection.

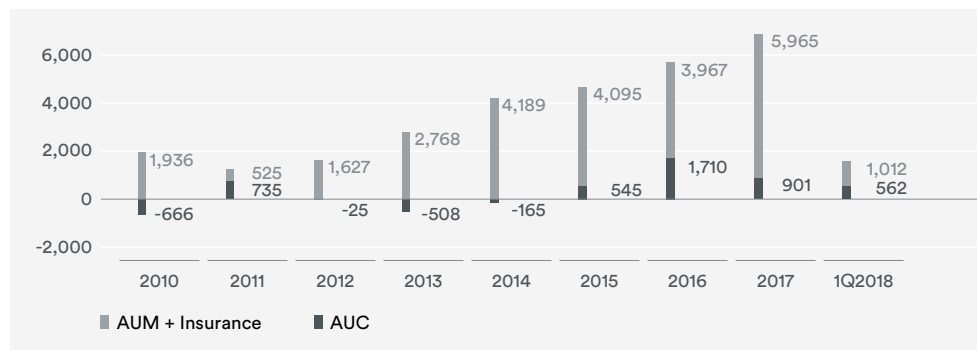
With regard to life new business, the Bank contributed 820 million euros in the reporting quarter, with a decline in absolute terms of 31 million euros compared to the previous year

Net inflows of Banca Generali

(€ MILLION)	BG GROUP		CHANGE	
	31.03.2018	31.03.2017	AMOUNT	%
Funds and Sicavs	301	431	-130	-30%
GPF/GPM	204	648	-444	-69%
Total assets under management	505	1,079	-574	-53%
Total insurance products	507	480	27	6%
Total assets under administration and custody	562	280	282	101%
Total assets placed by the network	1,574	1,839	-265	-14%

The following chart shows how Banca Generali has consistently succeeded in attracting increasing levels of net inflows in recent years, focusing on managed solutions. In the first quarter of 2018, despite the severe market volatility, net inflows from managed products accounted for approximately 64% of total net inflows, proof of the flexibility of the investment solutions offered to households to protect their investments.

Banca Generali's net inflows evolution 2010-1Q2018
(€ million)



Supported by the net inflows registered in the first quarter of 2018, assets under management also posted positive, rising numbers. At 31 March 2018, Banca Generali's AUM amounted to 56.4 billion euros, with insurance solutions remaining the main component of its asset mix (nearly 40% of AUM were invested in insurance products, compared with 42% in the same period of 2017). The managed component continued to grow, rising to nearly 37% of the total (two percentage points more than in the first quarter of 2017).

Mention should be made of the robust expansion of discretionary mandates, with BG Solution up by 91.2% to just over 5 billion euros (approximately 70% of total discretionary mandates). BG Next also showed robust growth, with an increase in assets from 18 million euros in the first quarter of 2017 to 166 million euros at the end of the first three months of 2018. With reference to insurance solutions, BG Stile Libero continued to record an increase in AUM, reaching 13% of the Bank's total assets, and increasing by nearly 20% compared with the first quarter of 2017 to over 7.4 billion euros.

Overall, Banca Generali's AUM grew by 13% compared to the first quarter of 2017.

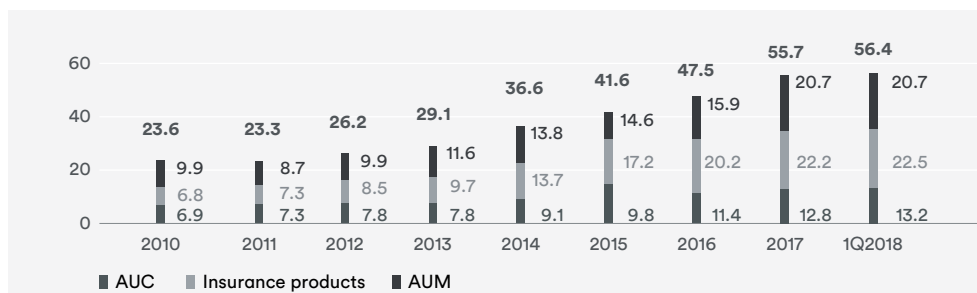
The following table presents an overview of Banca Generali's AUM performance, updated through March 2018 and broken down by macro-aggregates with reference to the Assoreti market, i.e., the market related to the Financial Advisor operating area. The table shows a strong growth of the managed component, which reported a year-on-year increase of 19% thanks to the contribution of discretionary mandates and funds. Insurance solutions (+8%) and administration and custody solutions (+11%) also contributed to the growth of the portfolios under management.

Banca Generali's AUM

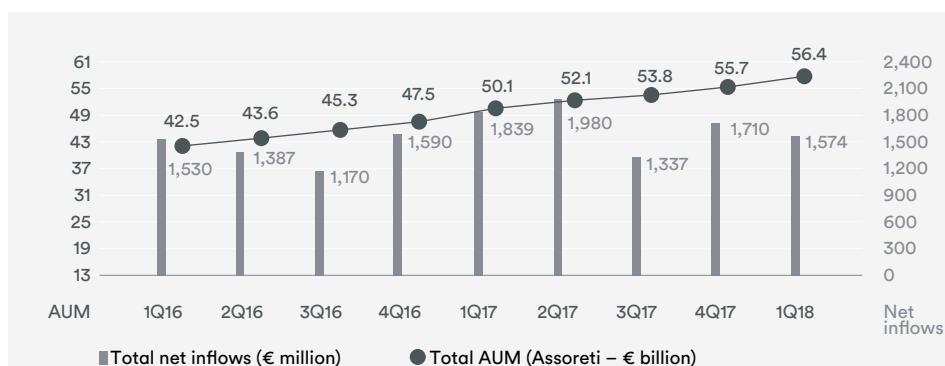
(€ MILLION)	BG GROUP		CHANGE	
	31.03.2018	31.03.2017	AMOUNT	%
Total assets under management	20,714	17,374	3,340	19%
Funds and Sicavs	13,571	11,927	1,644	14%
GPF/GPM	7,143	5,448	1,696	31%
Total insurance products	22,462	20,815	1,647	8%
Total assets under administration and custody	13,239	11,879	1,360	11%
Total AUM placed by the network	56,415	50,068	6,347	13%

The following tables illustrate the quarterly evolution of Banca Generali's net inflows and AUM, and provide a breakdown of net inflows by macro-components.

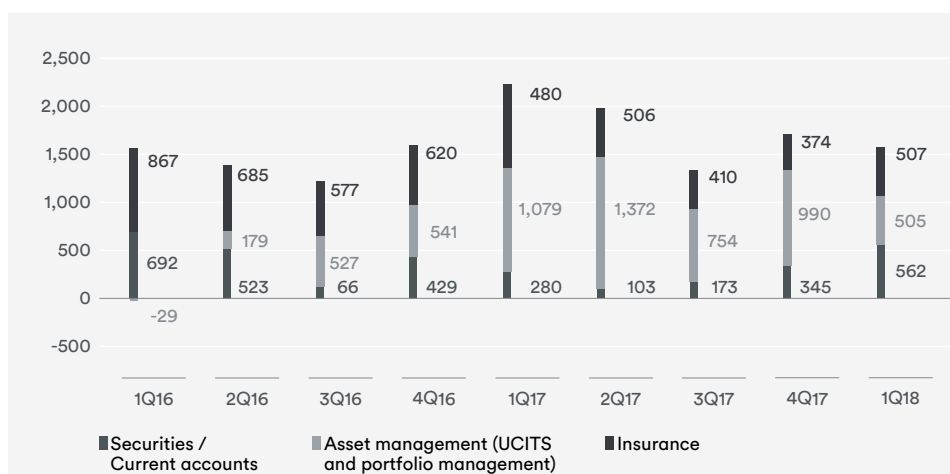
Banca Generali's total assets 2010-1Q2018
(€ billion)



Evolution of AUM and net inflows



Breakdown of quarterly net inflows
(€ million)



4. OPERATING RESULT

The Group's net profit at the end of the first quarter of 2018 was 49.0 million euros, slightly down compared to the same period of the previous year.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Net interest income	13,243	15,738	-2,495	-15.9%
Net fees	85,631	103,428	-17,797	-17.2%
Net income (loss) from trading activities and dividends	15,227	3,362	11,865	n.a.
Net banking income	114,101	122,528	-8,427	-6.9%
Staff expenses	-21,136	-20,727	-409	2.0%
Other general and administrative expenses	-25,021	-24,682	-339	1.4%
Net adjustments of property, equipment and intangible assets	-2,046	-1,723	-323	18.7%
Other operating expenses/income	1,660	222	1,438	n.a.
Net operating expenses	-46,543	-46,910	367	-0.8%
Operating result	67,558	75,618	-8,060	-10.7%
Net adjustments for non-performing loans	192	-3,158	3,350	-106.1%
Net provisions	-4,783	-6,031	1,248	-20.7%
Gains (losses) from equity investments	-88	-33	-55	166.7%
Operating profit before taxation	62,879	66,396	-3,517	-5.3%
Income taxes for the period	-13,832	-10,174	-3,658	36.0%
Net profit	49,047	56,222	-7,175	-12.8%

Net operating income, restated¹, amounted to 114.1 million euros, with a decrease of 8.4 million euros (-6.9%) compared to the year, determined by the following factors:

- > the significant increase in **management fee income** (+22.9 million euros), which represents the central component of the Banking Group's business model, closely tied to the quality and growth of assets under management;
- > the decrease in the most volatile components of the profit and loss account, namely **performance fees**, which fell by 35.2 million euros as a result of increased market volatility, only partly offset by the greater contribution provided by net income from trading activities (+11.9 million euros), chiefly generated by profit-taking on performing exposures on Italian government bonds;
- > the decrease in net interest income (-2.5 million euros) due to the implementation of a more prudent structure of the treasury portfolio, aimed at mitigating the risks of a market correction following a possible deterioration of the international political and financial situation.

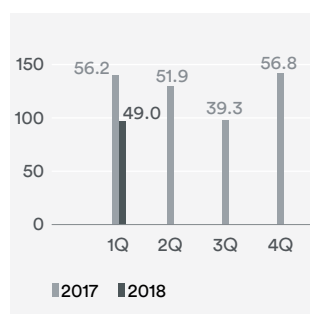
Net operating expenses amounted to 46.5 million euros, down slightly on the same period of the previous year, despite the significant business expansion and non-recurring components associated with the numerous ongoing projects.

The **cost/income ratio**, which measures the ratio of operating expenses (gross of adjustments to property, equipment and intangible assets) to net operating income, amounted to an excellent 39.0% (39.3% net of performance fees and some extraordinary components), confirming the Bank's ability to maximise its operating leverage.

Provisions and net adjustments amounted to 4.6 million euros, declining by 4.6 million euros on the same period of 2017, and consisted largely to long-term provisions in connection with the beginning of the new annual cycle of the Framework Loyalty Programme and provisions for termination indemnity for the Financial Advisors network.

Operating profit before taxation thus stood at 62.9 million euros, slightly declining by 3.5 million euros compared to the first quarter of 2017. The tax burden for the reporting period increased significantly to an overall tax rate of 22.0%, due to the increased weight of profit generated in Italy.

Quarterly net result
(€ million)



¹ To ensure a better understanding of operating performance, in the reclassified consolidated Profit and Loss Account the provisions for incentive fees and recruitment have been reclassified within the net fee aggregate. As a result, net provisions were restated net of these items for an amount of 9.1 million euros for 2018 and 12.1 million euros for 2017. The item Other general and administrative expenses, net of recoveries of taxes paid by customers, which was previously classified under other operating income and expenses, has been restated within the aggregate of operating expenses.

Quarterly evolution of the Profit and Loss Account

(€ THOUSAND)	1Q18	4Q17	3Q17	2Q17	1Q17
Net interest income	13,243	14,327	15,514	15,842	15,738
Net fees	85,631	97,469	78,657	90,944	103,428
Net income (loss) from trading activities and dividends	15,227	4,016	4,688	6,025	3,362
Net banking income	114,101	115,812	98,859	112,811	122,528
Staff expenses	-21,136	-21,506	-19,459	-23,133	-20,727
Other general and administrative expenses	-25,021	-26,099	-25,120	-21,740	-24,682
Net adjustments of property, equipment and intangible assets	-2,046	-2,315	-2,037	-2,069	-1,723
Other operating expenses/income	1,660	1,236	677	620	222
Net operating expenses	-46,543	-48,684	-45,939	-46,322	-46,910
Operating result	67,558	67,128	52,920	66,489	75,618
Net adjustments for non-performing loans	192	563	-2,840	-6	-3,158
Net provisions	-4,783	-4,093	-3,051	-4,804	-6,031
Gains (losses) from equity investments	-88	-70	-19	-44	-33
Operating profit before taxation	62,879	63,528	47,010	61,635	66,396
Income taxes for the period	-13,832	-6,777	-7,739	-9,774	-10,174
Net profit	49,047	56,751	39,271	51,861	56,222

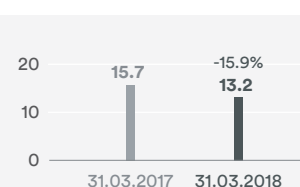
4.1 Net interest income

Net interest income amounted to 13.2 million euros, down by 2.5 million euros on the first quarter of 2017 (-15.9%). The decrease resulted from the ongoing situation of low interest rates, which persisted despite a modest expansion of business volumes and was attributable to the constant decline in profitability of loans.

Quarterly net interest (€ million)



Net interest (€ million)



In the first quarter of 2018, interest rate performance in the Euro Area continued to be influenced by the unconventional Quantitative Easing policy launched by the ECB in 2015 and further expanded in the previous year.

During its most recent meeting on 8 March last, the ECB's Governing Council announced that the ECB would keep its reference rates at around the current levels for an extended period of time and far beyond the duration of its net asset purchasing programme². The Council also confirmed that the current financial asset purchasing programme would continue at a monthly rate of 30 billion euros until September 2018, or beyond, where necessary, and in any event until there is a lasting adjustment in price performance in keeping with its inflation target.

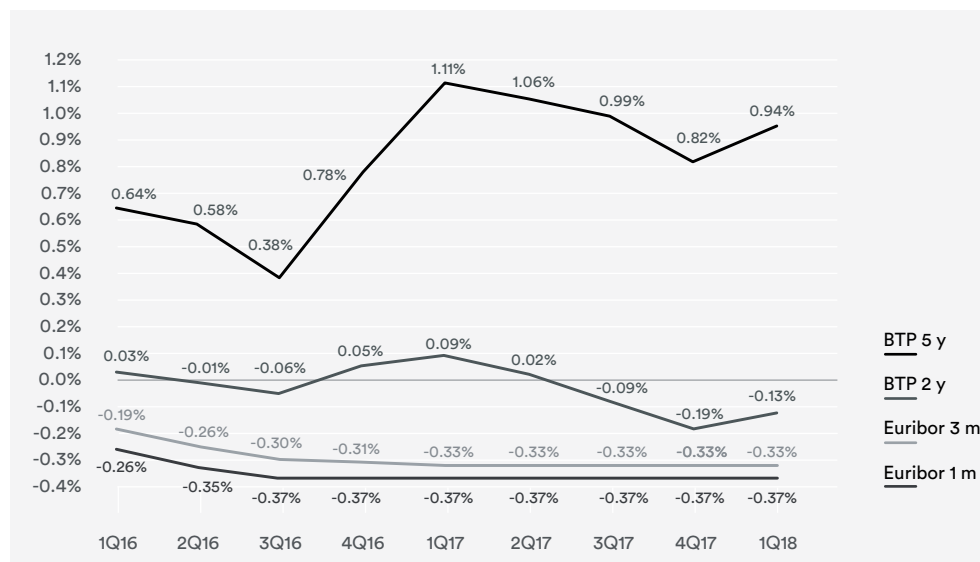
The ECB's cautious approach to the gradual normalisation of monetary policy expected by the markets thus averted expectations of a rapid rise in interest rates.

Therefore, the interest-rate curve on the interbank market did not show significant signs of recovery on the whole, consolidating an anomalous situation of positive funding rates but negative lending rates that have now exceeded the 12-month maturity. As a result, in March 2017 short-term interbank rates stood at a monthly average of -0.371% for the one-month Euribor and of -0.328% for the three-month Euribor.

² In this regard, it should be recalled that in order to stimulate a recovery of inflation in June 2016 the ECB decided, among other measures, to reduce the interest rate applied to its primary refinancing operations to the all-time low of 0%, in addition to increase the negative interest rates applied to deposit operations with the ECB to the exceptional level of -0.40%.

With regard to Italian government bonds, interest rate performance was not significantly impacted by the political election of March 2018, also thanks to the ECB's support measures. Yields on Italian government bonds with average residual maturities of two years stood at around -0.24% in March 2018, those with residual maturities of five years at 0.62%, and yields in excess of 1% continued to be seen only for maturities of more than six years.

Interest rate evolution (quarterly average)



Within this environment, interest income declined by 2.0 million euros compared with the previous year (-12.1%), due to the modest increase in average non-interbank loan volumes and the reduction in average interest rates on the debt securities portfolio.

The decrease in rates on the debt securities portfolio was due to general rate performance, as well as to the policy of reducing the residual duration of the investments in portfolio.

The total average profitability of the portfolio in the first quarter of 2018 therefore stood at just over 0.60%.

Interest on loans to customers, most of which are benchmarked on the Euribor, gave minor signs of a recovery (+4.9%), chiefly relating to the increase in loan volume.

Symmetrically, the cost of net inflows stopped decreasing. However, the performance of the cost of net inflows appeared largely marked by the growth of negative interest income on interbank deposits.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	58	17	41	241.2%
Financial assets at fair value through other comprehensive income	2,767	5,115	-2,348	-45.9%
Financial assets at amortised cost	5,854	5,553	301	5.4%
Total financial assets	8,679	10,685	-2,006	-18.8%
Loans to banks	136	32	104	326.1%
Loans to customers	5,275	5,029	246	4.9%
Other assets	623	983	-360	-36.6%
Total interest income	14,713	16,729	-2,016	-12.1%
Due to banks	125	151	-26	-17.2%
Due to customers	172	126	46	36.5%
Subordinated loan	408	413	-5	-1.2%
Other liabilities	765	301	464	154.2%
Total interest expense	1,470	991	479	48.3%
Net interest income	13,243	15,738	-2,495	-15.9%

The negative interest income paid to counterparties on loans and negative interest expense paid by counterparties on the Bank's funding operations amounted to 765 thousand euros and 623 thousand euros, respectively.

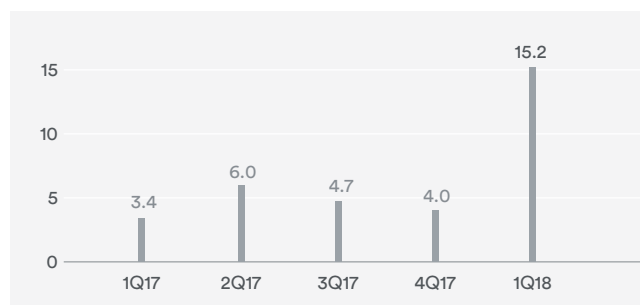
The expenses incurred primarily relate to balances held with the Central Bank (760 thousand euros), whereas the income accrued relates to repurchase agreements at negative rates (277 thousand euros) and funding from institutional clients belonging to the Generali Group (322 thousand euros).

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Banks	98	431	-333	-77.3%
Customers	525	552	-27	-4.9%
Total negative interest expense	623	983	-360	-36.6%
Banks	760	301	459	152.5%
Customers	5	-	5	n.a.
Total negative interest income	765	301	464	154.2%
Net interest income	-142	682	-824	-120.9%

4.2 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 the first quarter of 2018, the item showed a positive contribution of 15.2 million euros, up sharply compared to the previous year, chiefly due to profit-taking on some performing exposures on Italian government bonds classified as financial assets at fair value through other comprehensive income.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Dividends and income on UCITS	124	236	-112	-47.5%
Trading of financial assets and equity derivatives	24	46	-22	-48.3%
Trading of financial assets and derivatives on debt securities and interest rates	172	538	-366	-68.0%
Trading of UCITS units	-1	-108	107	-99.1%
Securities transactions	195	476	-281	-59.1%
Currency and currency derivative transactions	991	964	27	2.8%
Net income (loss) from trading activities	1,186	1,440	-254	-17.7%
Equity securities and UCITS	1,045	-	1,045	n.a.
Debt securities	98	-	98	n.a.
Net income (loss) of assets mandatorily measured at fair value through profit and loss	1,143	-	1,143	n.a.
Debt securities	12,774	3	12,771	n.a.
Equity securities and UCITS (formerly AFS)	-	1,683	-1,683	n.a.
Gains (losses) from disposal	12,774	1,686	11,088	n.a.
Net result of financial operations	15,227	3,362	11,865	n.a.

Trading also yielded net income overall — although declining compared to the previous year — thanks to the contribution of monetary operations and to the performance of trading on own account as market maker and with institutional customers.

Net income (loss) on assets mandatorily measured at fair value through profit or loss includes realised gains and losses and unrealised gains and losses on UCITS units, structured debt instruments and equity instruments for which the option for designation at fair value through equity exclusively was not exercised, not included in the trading portfolio.

With regard to such assets, net realised gains on the said mandatory measurement amounted to 1.1 million euros in the first quarter of 2018, primarily in connection with a portfolio of closed-end UCITS.

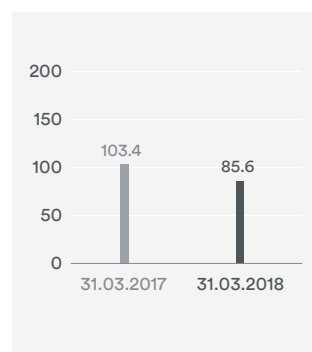
(€ THOUSAND)	TRANSFER OF RESERVES	GAINS	LOSSES	CAPITAL GAINS	CAPITAL LOSSES	31.03.2018	31.03.2017	CHANGE
Debt securities at FV through other comprehensive income	11,055	1,757	-38	x	x	12,774	-	12,774
Debt securities at amortised cost	x	-	-	x	x	-	3	-3
Debt securities mandatorily measured at fair value through profit and loss	x	-	-	115	-17	98	-	98
UCITS units	x	-	-734	2,131	-87	1,310	-	1,310
Equity securities	x	-	-	29	-294	-265	1,683	-1,948
Total	11,055	1,757	-772	2,275	-398	13,917	1,686	12,231

4.3 Net fees

Net fees amounted to 85.6 million euros, down 17.2% compared to the first quarter of the previous year, exclusively due to the decline in the non-recurring component consisting of performance fees, which were impacted by financial markets' greater volatility and uncertainty in the reporting period.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Collective and individual portfolio management fees	91,650	115,291	-23,641	-20.5%
Fees for the placement of securities and UCITS	24,846	17,948	6,898	38.4%
Fees for distribution of third-party financial products	54,258	50,324	3,934	7.8%
Fees for trading and securities custody	6,337	5,561	776	14.0%
Investment advisory fees	3,429	1,435	1,994	139.0%
Fees for other banking and financial services	1,845	1,848	-3	-0.2%
Total fee income	182,365	192,407	-10,042	-5.2%
Fees for off-premises offer	85,929	79,125	6,804	8.6%
<i>of which: advances on incentive fees and recruitment</i>	<i>9,161</i>	<i>12,149</i>	<i>-2,988</i>	<i>-24.6%</i>
Fees for dealing in securities and custody	2,513	1,605	908	56.6%
Fees for portfolio management	7,545	7,598	-53	-0.7%
Fees for other banking services	747	651	96	14.7%
Total fee expense	96,734	88,979	7,755	8.7%
Net fees	85,631	103,428	-17,797	-17.2%

Net fees
(€ million)



Quarterly net fees (€ million)

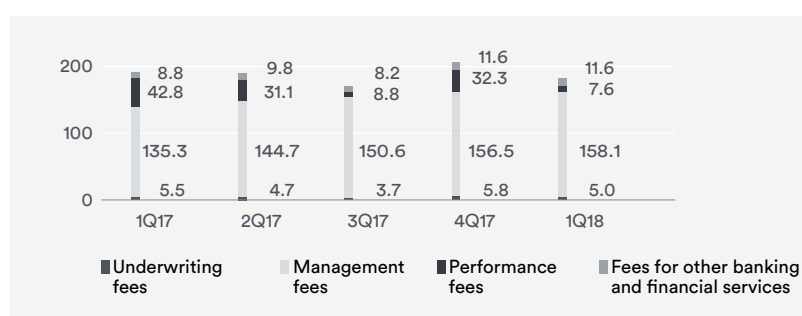


Fee income amounted to 182.4 million euros, slightly down by 5.2% due to the combined effect of the robust growth in management fees (+16.9%), in line with increased average AUM invested in asset management and insurance products compared to the same period of 2017 (+15.9%), offset by the aforementioned decline in performance fees calculated on the income generated by the Sicavs promoted by the Group. Net of this component, the aggregate rose by 16.9% compared to the first quarter of 2017.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Underwriting fees	4,980	5,475	-495	-9.0%
Management fees	158,140	135,251	22,889	16.9%
Performance fees	7,634	42,837	-35,203	-82.2%
Fees for other services	11,611	8,844	2,767	31.3%
Total	182,365	192,407	-10,042	-5.2%

The excellent result achieved by the innovative solutions offered by the Banking Group was also borne out by the increase in **fees for other banking and financial services** (+31.3%) thanks to higher revenues arising from advanced advisory services. In this regard, it should be noted that Assets under Advisory performed well in the first quarter of 2018, exceeding 400 million euros, bringing the total value to 1.7 billion euros.

Fee income structure (€ million)



Fee income from the solicitation of investment and asset management of households reached 170.7 million euros, with a 15.9% increase compared to the same period of the previous year, net of the aforementioned non-recurring component.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
1. Collective portfolio management	71,047	102,001	-30,954	-30.3%
2. Individual portfolio management	20,602	13,290	7,312	55.0%
Asset management fees	91,649	115,291	-23,642	-20.5%
1. Placement of UCITS	23,243	17,689	5,554	31.4%
of which: placement of UCITS promoted by the Group	901	1,661	-760	-45.8%
2. Placement of bonds and equity securities	1,604	259	1,345	519.3%
3. Distribution of third-party asset management products (GPM/GPF, pension funds)	223	193	30	15.5%
4. Distribution of third-party insurance products	53,904	50,029	3,875	7.7%
5. Distribution of other third-party financial products	131	102	29	28.4%
Fees for the placement and distribution of financial services	79,105	68,272	10,833	15.9%
Asset management fee income	170,754	183,563	-12,809	-7.0%

Fee income from distribution of insurance products continued to report constant progress, growing +7.7% compared to the same period of 2017 and accounting for nearly a third of total fees generated by the aggregate, thanks to the significant increase in average AUM relating to the segment (+8.8%).

Net inflows from insurance products for the reporting quarter were 0.5 billion euros, evenly gathered from the multi-line policy **BG Stile Libero**, which exceeded 7.4 billion euros overall, and the traditional life policies, which received renewed attention despite a scenario marked by increased uncertainty. The revenues generated by the distribution of the subsidiary Genertellife's products reached 53.8 million euros.

With reference to the successful "innovative financial wrappers", mention should also be made of the multi-line discretionary **portfolio management BG Solution**, which reported a 55.0% increase in revenues compared to the first quarter of 2017, thereby accounting for 12% of the aggregate's total compared to the slightly higher figure of 7% recorded in the previous year.

Sicavs promoted by the Banking Group — net of the effect of non-recurring performance components — yielded an increase in management fees of 7.1% compared to the same period of the previous year, due to the more dynamic performance of institutional classes than their retail counterparts.

Lastly, fees for the **placement of UCITS** amounted to 23.2 million euros, an increase of 31.4% on 2017, thanks to very positive demand for *à-la-carte* funds and Sicavs, which attracted net inflows of over 0.4 billion euros in the first quarter under review.

Fees for other services offered to customers include trading, order collection, custody and administration fees, advisory fees and fees charged to customers for account-keeping expenses and other banking services. The aggregate amounted to 11.6 million euros.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Dealing in securities and currencies	2,424	4,072	-1,648	-40.5%
Order collection and securities custody fees	3,914	1,489	2,425	162.9%
Investment advisory fees	3,429	1,435	1,994	139.0%
Collection and payment services	603	616	-13	-2.1%
Fee income and account-keeping expenses	481	511	-30	-5.9%
Other services	760	721	39	5.4%
Total fee income from other services	11,611	8,844	2,767	31.3%

Fees for the intermediation and custody of customers' financial assets amounted to 6.3 million euros, up by 0.8 million euros compared to 2017, essentially offset by the proportional rise in the corresponding fee expense.

Fee expense, including fee provisions, amounted to 96.7 million euros, up moderately compared to the previous year (+8.7%), mostly due to the increase in fees paid to the Financial Advisor network for off-premises offers (+8.6%).

Fee expense and other costs for off-premises offers paid to the Financial Advisors network amounted to 85.9 million euros, up by 6.8 million euros compared to the same period of 2017.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Underwriting fees	3,445	4,342	-897	-20.7%
Management fees	51,118	42,413	8,705	20.5%
Fees for other services (trading, advisory, current accounts)	2,338	1,331	1,007	75.7%
Ancillary charges (FIRR, Enasarco)	3,827	3,704	123	3.3%
Other expenses for maintaining the network	3,379	3,467	-88	-2.5%
Total ordinary fees	64,107	55,257	8,850	16.0%
Incentive fees	21,822	23,836	-2,014	-8.4%
<i>of which: advances on incentive fees and recruitment</i>	<i>9,161</i>	<i>12,149</i>	<i>-2,988</i>	<i>-24.6%</i>
Total	85,929	79,093	6,836	8.6%

The increase in ordinary fees (+16.0%) was primarily driven by the rise in management fees (+8.7 million euros), correlated with the greater average AUM managed by the network than in the previous year.

Other expenses for maintaining the network referred to social-security charges (Enasarco and FIRR) and additional fees disbursed in relation to maintenance of the local network structure.

Incentive fees, which amounted to 21.8 million euros, regarded the organic increase in net inflows achieved thanks to both the efforts of the existing sales network and to the recruitment and induction of new professionals. Overall, they represent costs incurred to develop a network of high standing Financial Advisors. The increase in the aggregate for the first quarter of 2018 was primarily driven by higher costs associated with the organic growth, partially offset by a decline in costs resulting from the induction of new Financial Advisors.

Lastly, **fee expense for other services** increased by 9.7% due to the aforementioned expansion in trading activities (+56.6%).

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Fees for portfolio management	-7,545	-7,598	53	-0.7%
Fees for securities trading and custody	-2,513	-1,605	-908	56.6%
Collection and payment services	-565	-527	-38	7.2%
Other services	-182	-124	-58	46.8%
Total fee expense for other services	-10,805	-9,854	-951	9.7%

Within this aggregate, **fees for portfolio management** amounted to 7.6 million euros and referred essentially to administration and third-party management fees incurred by the Group's management company for the management of the Sicavs under administration.

4.4 Operating expenses

Operating expenses, including staff expenses, other general and administrative expenses, amortisation and depreciation and other operating income and expenses, amounted to 46.5 million euros, slightly decreasing compared to the same period of the previous year (-0.8%).

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Staff expenses	21,136	20,727	409	2.0%
Other general and administrative expenses (net of duty recovery)	25,021	24,682	339	1.4%
Net adjustments of property, equipment and intangible assets	2,046	1,723	323	18.7%
Other income and expenses (net of duty recovery)	-1,660	-222	-1,438	n.a.
Operating expenses	46,543	46,910	-367	-0.8%

Operating expenses
(€ million)



Staff expenses, including full-time employees, interim staff and directors, reached 21.1 million euros, up by 2.0% compared to the previous year.

Group's employees totalled 881, 9 more compared to the same period of the previous year, whereas the average headcount increased by over 16.

	31.03.2018	31.03.2017	CHANGE		AVERAGE	
			AMOUNT	%	2018	2017
Managers	49	48	1	2.1%	48.5	47.5
3 rd and 4 th level executives	148	147	1	0.7%	148.5	149.0
Other employees	684	677	7	1.0%	680.0	664.0
Total	881	872	9	1.0%	877.0	860.5

The evolution of staff expenses in the first quarter of 2018 was mainly influenced by the 5.8% growth in the recurrent remuneration component, partially offset by a decline in the variable incentive component (-17.4%) due to lower costs associated with the recruitment plans for new Relationship Managers.

Costs for share-based payments, calculated in accordance with IFRS 2, referred mainly to incentivisation plans reserved for key managers of the Generali Group (LTIP – Long Term Incentive Plan). In this regard, it bears recalling that as of 2018 the new plans implemented year after year will be more closely linked to the targets set by the Banking Group than to those set by the Insurance Group. Therefore, the plans will not be based on the shares of the Parent Company, Assicurazioni Generali, but on the assignment of Banca Generali shares.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
1) Employees	20,773	20,396	377	1.8%
Salaries and social security charges	14,764	13,944	820	5.9%
Provision for termination indemnity and supplementary pension funds	1,174	1,124	50	4.4%
Costs related to payment agreements based on own financial instruments (IFRS2)	520	277	243	87.7%
Short-term productivity bonuses (MBO, CIA, incl. sales)	2,677	3,631	-954	-26.3%
Other long-term incentives (MBO)	345	378	-33	-8.7%
Other employee benefits	1,293	1,042	251	24.1%
2) Other staff	20	28	-8	-28.6%
3) Directors and Auditors	343	303	40	13.2%
Total	21,136	20,727	409	2.0%

Other general and administrative expenses, net of recoveries of taxes paid by customers (stamp duty, substitute tax), amounted to 25.0 million euros, slightly up compared to the previous year (+1.4%), exclusively attributable to the increase in the estimated ordinary contributions due to the Single Resolution Fund in 2018 (+0.6 million euros).

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Administration	3,082	3,590	-508	-14.2%
Advertising	908	996	-88	-8.8%
Advisory	975	1,358	-383	-28.2%
Auditing	94	116	-22	-19.0%
Insurance	798	793	5	0.6%
Other general costs (insurance; T&E)	307	327	-20	-6.1%
Operations	9,134	8,988	146	1.6%
Rent and usage of premises	4,698	4,365	333	7.6%
Outsourced services	1,365	1,407	-42	-3.0%
Post and telephone	711	631	80	12.7%
Print material and contracts	300	292	8	2.7%
Other indirect staff expenses	494	550	-56	-10.2%
Other operating expenses	1,566	1,743	-177	-10.2%
Information system and equipment	9,910	9,777	133	1.4%
Outsourced IT services	7,239	7,112	127	1.8%
Fees for financial databases and other IT services	1,593	1,623	-30	-1.8%
Software maintenance and servicing	865	824	41	5.0%
Other expenses (equipment rental, maintenance, etc.)	213	218	-5	-2.3%
Taxes and duties	12,525	10,594	1,931	18.2%
<i>of which virtual stamp duty and other taxes borne by customers</i>	<i>12,524</i>	<i>10,498</i>	<i>2,026</i>	<i>19.3%</i>
Contributions to the Italian National Resolution and Interbank Deposit Protection Funds and ECB	2,650	2,002	648	32.4%
Total other general and administrative expenses	37,301	34,951	2,350	6.7%
Recovery of stamp duty from customers (item 220)	-12,280	-10,269	-2,011	19.6%
Total other general and administrative expenses, net of stamp duties recovered	25,021	24,682	339	1.4%

4.5 Net provisions

Net provision not related to fees amounted to 4.8 million euros, down by 1.2 million compared to the same period of 2017, mainly regarding provisions in connection with the beginning of the new annual cycle of the Financial Advisor Network Loyalty Plan.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Provision for staff liabilities and contingencies	-550	-	-550	n.a.
Restructuring provisions – Voluntary redundancy plan	-	-	-	n.a.
Provisions for legal disputes	182	-12	194	n.a.
Provision for contractual indemnities to the sales network	4,831	6,043	-1,212	-20.1%
Other provisions for liabilities and contingencies	320	-	320	n.a.
Total	4,783	6,031	-1,248	-20.7%

4.6 Adjustments

Net adjustments for non-performing loans were 0.2 million euros, down 3.4 million euros compared to the same period of the previous year, which had been significantly impacted by losses generated by the Alitalia bond known as “Dolce Vita”, allocated to the HTM portfolio following the airline’s default.

(€ THOUSAND)	ADJUSTMENTS	REVERSALS	31.03.2018	31.03.2017	CHANGE
Specific adjustments/reversals	-60	265	205	-2,452	2,657
Equity securities	-	-	-	-11	11
Debt securities	-	-	-	-2,467	2,467
Non-performing loans of the banking portfolio	-35	247	212	26	186
Operating loans to customers	-25	18	-7	-	-7
Contribution to the Interbank Deposit Protection Fund (FITD)	-	-	-	-	-
Portfolio adjustments/reversals	-442	429	-13	-706	693
Debt securities	-442	429	-13	-706	693
Performing loans to customers and banks	-	-	-	-	-
Total	-502	694	192	-3,158	3,350

4.7 Consolidated net result, taxes and earnings per share

Income taxes for the reporting period on a current and deferred basis were estimated at 13.8 million euros, up 3.7 million euros compared to estimated taxes at the end of the same period of the previous year.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Current taxes for the period	-16,166	-13,664	-2,502	18.3%
Prior years' taxes	39	3	36	n.a.
Changes of prepaid taxation (+/-)	246	3,626	-3,380	-93.2%
Changes of deferred taxation (+/-)	2,049	-139	2,188	n.a.
Total	-13,832	-10,174	-3,658	36.0%

The estimated total tax rate was 22.0%, sharply increasing compared to the end of the previous year, chiefly due to the decline in the share of profits earned outside of Italy.

The first quarter of 2018 thus closed with basic net earnings per share of 0.42 euros.

	31.03.2018	31.03.2017
Net profit for the period (€ thousand)	49,047	56,222
Earnings attributable to ordinary shares (€ thousand)	49,047	56,222
Average number of outstanding shares	116,482	116,067
EPS - Earnings per Share (euros)	0.42	0.48
Average number of outstanding shares with diluted share capital	116,482	116,614
EPS - Diluted earnings per share (euros)	0.42	0.48

4.8 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.

In the first quarter of 2018, the latter component provided a positive overall contribution of 2.2 million euros, against a symmetrical net negative change of -24.9 million euros recorded at the end of the same period of the previous year.

In detail, AFS portfolio valuation reserves increased, as a result of the following factors:

- > an increase in net valuation capital gains totalling 14.7 million euros;
- > the reduction of pre-existing net positive reserves due to re-absorption through profit or loss upon realisation (11.1 million euros);
- > the negative net tax effect associated with the above changes and resulting from offsetting DTAs and DTLs (-1.1 million euros).

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Net profit	49,047	56,222	-7,175	-12.8%
Other income, net of taxes:				
with transfer to Profit and Loss Account:				
Exchange gains and losses	4	-1	5	n.a.
Financial assets at fair value through other comprehensive income	2,245	-24,946	27,191	-109.0%
without transfer to Profit and Loss Account:				
Actuarial gains (losses) from defined benefit plans	-31	-98	67	-68.4%
Total other income, net of taxes	2,218	-25,045	27,263	-108.9%
Comprehensive income	51,265	31,177	20,088	64.4%

5. BALANCE SHEET AND NET EQUITY AGGREGATES

At the end of the first quarter of 2018, total consolidated assets amounted to 9.3 billion euros, increasing by over 0.3 billion euros (+3.7%) compared to the end of 2017.

Total net inflows amounted to 8.2 billion euros (+3.9%), driven by the significant net inflows from customers (+6.7%), which offset the decline in interbank net inflows.

Core loans thus totalled 8.9 billion euros, up 4.6%.

ASSETS (€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	114,157	49,814	64,343	129.2%
Financial assets at fair value through other comprehensive income	4,376,203	4,612,728	-236,525	-5.1%
Financial assets at amortised cost	4,396,399	3,831,104	565,295	14.8%
a) Loans to banks (*)	1,093,245	923,095	170,150	18.4%
b) Loans to customers	3,303,154	2,908,009	395,145	13.6%
Equity investments	1,736	1,820	-84	-4.6%
Property, equipment and intangible assets	96,778	98,380	-1,602	-1.6%
Tax receivables	46,394	45,735	659	1.4%
Other assets	291,632	351,430	-59,798	-17.0%
Total assets	9,323,299	8,991,011	332,288	3.7%

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
Financial liabilities at amortised cost	8,186,641	7,879,779	306,862	3.9%
a) Due to banks	505,127	682,531	-177,404	-26.0%
b) Due to customers	7,681,514	7,197,248	484,266	6.7%
Financial liabilities held for trading and hedging	290	206	84	40.8%
Tax payables	42,557	35,564	6,993	19.7%
Other liabilities	143,151	185,218	-42,067	-22.7%
Special purpose provisions	158,307	154,174	4,133	2.7%
Valuation reserves	24,153	21,646	2,507	11.6%
Reserves	557,352	348,519	208,833	59.9%
Share premium reserve	58,170	58,219	-49	-0.1%
Share capital	116,852	116,852	-	-
Treasury shares (-)	-13,221	-13,271	50	-0.4%
Net profit (loss) for the period (+/-)	49,047	204,105	-155,058	-76.0%
Total net equity and liabilities	9,323,299	8,991,011	332,288	3.7%

Quarterly evolution of consolidated Balance Sheet

ASSETS

(€ THOUSAND)	31.03.2018	31.12.2017	30.09.2017	30.06.2017	31.03.2017	31.12.2016
Financial assets at fair value through profit or loss	114,157	49,814	49,670	46,189	42,301	38,560
Financial assets at fair value through other comprehensive income	4,376,203	4,612,728	4,595,225	4,750,650	4,654,312	4,409,318
Financial assets at amortised cost	4,396,399	3,831,104	3,306,838	3,623,434	3,433,062	3,507,289
a) Loans to banks	1,093,245	923,095	406,974	740,320	539,010	938,593
b) Loans to customers	3,303,154	2,908,009	2,899,864	2,883,114	2,894,052	2,568,696
Equity investments	1,736	1,820	1,879	1,898	1,954	1,988
Property, equipment and intangible assets	96,778	98,380	94,436	95,820	97,383	97,813
Tax receivables	46,394	45,735	52,551	50,975	52,707	44,538
Other assets	291,632	351,430	288,272	305,317	287,552	257,229
Total assets	9,323,299	8,991,011	8,388,871	8,874,283	8,569,271	8,356,735

NET EQUITY AND LIABILITIES

(€ THOUSAND)	31.03.2018	31.12.2017	30.09.2017	30.06.2017	31.03.2017	31.12.2016
Financial liabilities at amortised cost	8,186,641	7,879,779	7,381,076	7,545,634	7,564,740	7,450,911
a) Due to banks	505,127	682,531	792,737	946,895	1,034,603	802,709
b) Due to customers	7,681,514	7,197,248	6,588,339	6,598,739	6,530,137	6,648,202
Financial liabilities held for trading and hedging	290	206	988	1,013	1,097	1,169
Tax payables	42,557	35,564	41,066	32,324	20,826	17,118
Other liabilities	143,151	185,218	133,097	516,464	165,865	118,853
Special purpose provisions	158,307	154,174	165,521	152,473	136,129	122,163
Valuation reserves	24,153	21,646	11,253	-955	-16,066	8,979
Reserves	557,352	348,519	346,597	345,626	470,576	314,353
Share premium reserve	58,170	58,219	58,504	58,363	56,171	53,803
Share capital	116,852	116,852	116,852	116,839	116,644	116,425
Treasury shares (-)	-13,221	-13,271	-13,437	-1,581	-2,933	-2,933
Net profit (loss) for the period (+/-)	49,047	204,105	147,354	108,083	56,222	155,894
Total net equity and liabilities	9,323,299	8,991,011	8,388,871	8,874,283	8,569,271	8,356,735

5.1 Direct net inflows from customers

Total direct inflows from customers amounted to 7.7 billion euros, up by 6.7% compared to 31 December 2017.

(€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
1. Current accounts and demand deposits	7,303,073	6,903,451	399,622	5.8%
3. Financing	242,611	83,845	158,766	189.4%
Repurchase agreements	198,925	40,567	158,358	390.4%
Subordinated loans	43,686	43,278	408	0.9%
4. Other debts	135,830	209,952	-74,122	-35.3%
Operating debts to sales network	116,228	119,371	-3,143	-2.6%
Other (money orders, amounts at the disposal of customers)	19,602	90,581	-70,979	-78.4%
Total due to customers	7,681,514	7,197,248	484,266	6.7%

The growth in net inflows from customers (external to the Insurance Group) continued to be driven solely by on-demand current account balances, which reported a net increase of 286 million euros to 6,738 million euros. In the reporting quarter, net inflows in the form of repurchase agreements were also relaunched, increasing by 158.4 million euros.

Captive net inflows from the companies within the Assicurazioni Generali Group rose by 113.2 million euros partly due the temporary treasury balances of some Italian subsidiaries, reaching 609.1 million euros at the end of the reporting period, accounting for 7.9% of total net inflows. The aggregate includes 43.7 million euros for the Tier-2 subordinated loan issued by the subsidiary Generali Beteiligungs GmbH in 2014.

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Net inflows from Parent Company	4,775	6,247	-1,472	-23.6%
Net inflows from other subsidiaries of the Generali Group	604,314	489,596	114,718	23.4%
Net inflows from funds promoted by the Generali Group	-	-	-	n.a.
Total net inflows from Generali Group	609,089	495,843	113,246	22.8%
Net inflows from other parties	7,072,425	6,701,405	371,020	5.5%
<i>of which: current accounts</i>	<i>6,737,683</i>	<i>6,451,682</i>	<i>286,001</i>	<i>4.4%</i>
Total net inflows from customers	7,681,514	7,197,248	484,266	6.7%

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

5.2 Core loans

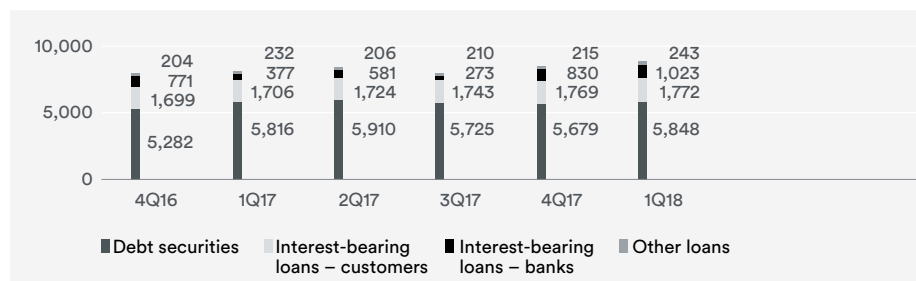
Core loans totalled 8,887 million euros overall, up 393.1 million euros compared to 31 December 2017, mainly as a consequence of the increase in both investments in financial asset portfolios, which grew by 180.6 million euros (+3.1%), and interbank loans.

Interbank loans rose by 193.2 million euros, chiefly due to the growth in demand deposits with the ECB, which stood at 758.1 million euros. The temporary growth of this item was aimed at mitigating the Bank's risk exposure against a backdrop of increasing volatility in the financial markets associated with the uncertainty posed by the Italian and international political scenario and the expectations on the Central Banks' future stance.

(€ THOUSAND)	31.03.2018	31.12.2017	CHANGE		01.01.2018 FTA
			AMOUNT	%	
Financial assets at fair value through profit or loss	114,157	49,814	64,343	129.2%	117,196
Financial assets at fair value through other comprehensive income	4,376,203	4,612,728	-236,525	-5.1%	4,426,185
Financial assets at amortised cost	1,426,657	1,073,896	352,761	32.8%	1,213,135
Financial assets	5,917,017	5,736,438	180,579	3.1%	5,756,516
Loans to and deposits with banks (*)	1,023,240	829,992	193,248	23.3%	829,863
Loans to customers	1,772,433	1,768,965	3,468	0.2%	1,768,191
Operating loans and other loans	174,069	158,251	15,818	10.0%	141,594
Total interest-bearing financial assets and loans	8,886,759	8,493,646	393,113	4.6%	8,496,164

(*) ECB demand deposits included.

Evolution of loans (€ million)



Overall, financial assets accounted for 66.6% of the core loan aggregate's total, slightly decreasing compared to 67.5% at the end of 2017. The exposure to financial instruments other than debt securities was extremely limited.

(€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
Government securities	5,420,798	5,316,611	104,187	2.0%
Other public institutions	8,053	8,283	-230	-2.8%
Securities issued by banks	228,728	186,293	42,435	22.8%
Securities issued by other issuers	190,701	168,038	22,663	13.5%
Equity securities and other securities	68,737	57,213	11,524	20.1%
Total financial assets	5,917,017	5,736,438	180,579	3.1%

Adoption of IFRS 9

Following the adoption of IFRS 9, the accounting classification of investments in financial assets was adjusted to comply with the new Standard and the new instructions issued by the Bank of Italy in the fifth update to Circular No. 262/2005 regarding schemes and rules for preparing bank financial statements.

Within the framework of IFRS 9, the portfolio of financial assets at fair value through other comprehensive income corresponds to the held-to-collect-and-sell portfolio (HTCS)³, held as treasury investments or for sale.

Therefore, it is no longer possible to measure UCITS units previously allocated to the AFS portfolio at fair value through equity. Accordingly, with effect from 1 January 2018, such instruments have been reclassified to the new portfolio of financial assets mandatorily measured at fair value through profit or loss. Some investments in equity instruments previously classified to the AFS portfolio, for which the option for designation at fair value through equity exclusively (i.e., without transfer to the Profit or Loss Account of gains and losses at the time of sale) was not exercised, were also reclassified to this portfolio.

The portfolio of financial assets at amortised cost corresponds to the IFRS 9 portfolio held-to-collect (HTC) and consists solely of debt instruments with the same characteristics as those of the HTCS portfolio but held for long-term investment purposes. Accordingly, the debt instruments previously classified to the portfolio of investments held to maturity (HTM) and among loans to banks and customers (L&R Loans & receivables) were generally reclassified to this portfolio.

Upon first-time application of the Standard, this asset class included a portfolio of Italian government bonds of approximately 166 million euros, previously classified as AFS, for which this new business model was deemed more appropriate. Symmetrically, a limited portfolio of corporate bonds amounting to approximately 28 million euros was reclassified from the previous portfolio of securities designated at amortised cost (loans and receivables) to the new HTCS portfolio (25 million euros) and to the portfolio of financial assets mandatorily measured at fair value (3 million euros).

Finally, the portfolio of financial assets at fair value through profit or loss includes the pre-existing trading portfolio and the new portfolio of assets mandatorily measured at fair value through profit or loss, consisting of residual investments that cannot be allocated to any of the other portfolios (HTC, HTCS or trading).

The increase in financial assets was concentrated in the held-to-collect (HTC) portfolio, i.e., assets measured at amortised cost and held for investment purposes, which included not only new purchases of government bonds but also the reclassification of the portfolio of former AFS government bonds discussed above.

Net of the reclassifications undertaken in connection with the first-time application of IFRS 9, the HTCS portfolio shows a slight decrease, despite extensive rebalancing of the portfolio in favour of shorter-term maturities.

Sovereign debt exposure increased by 104 million euros accounting for 91.7% of total investments in financial instruments, essentially stable compared to the end of the previous year (92.7%).

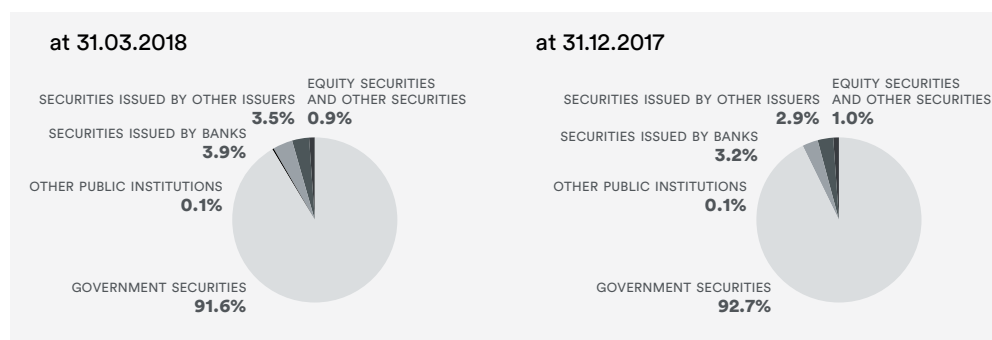
Such exposure mostly included bonds of the Italian Republic, with the only exception of Spanish and US Treasury bonds for an overall amount of 43 million euros.

³ The financial instruments must pass the SPPI test (solely payment of principal and interest), meaning that they present cash flows consisting solely of the repayment of principal and the payment of interest consistent with a basic lending arrangement in which remuneration of the time value of money and credit risk represent the most significant elements. When this test is failed — regardless of the business model underlying the purchase of the financial instrument (HTCS or HTC) — the instrument concerned must be classified among financial assets at fair value through profit or loss.

(€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
Exposure to the sovereign risk by portfolio:				
Financial assets at fair value through other comprehensive income	4,179,882	4,465,316	-285,434	-6.4%
Financial assets at amortised cost	1,248,969	859,578	389,391	45.3%
Total	5,428,851	5,324,894	103,957	2.0%

The overall geographical breakdown of the portfolio of debt securities thus showed a high concentration of investments relating to Italian securities (96%).

Breakdown of financial assets portfolio

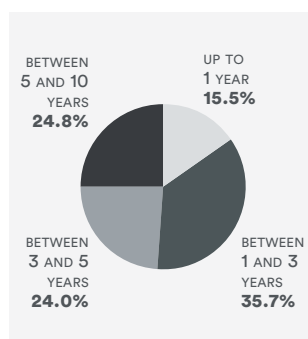


In a context where financial markets were increasingly volatile, the Banking Group adopted a policy aimed at narrowing the maturities of its portfolio issues.

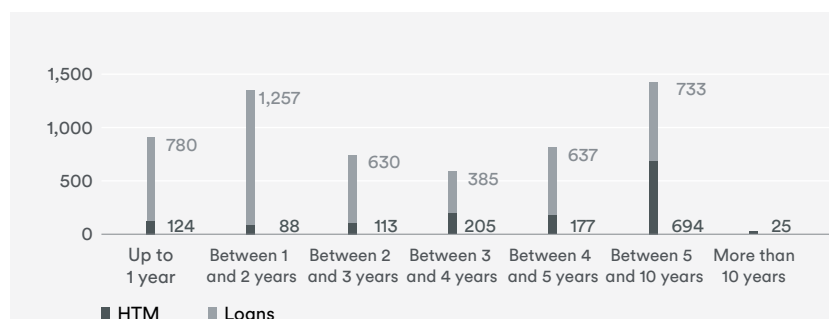
At the end of March 2018, the share of financial assets with a maturity of more than 5 years dropped to 24.8% from 30.6% in 2017, whilst the share of assets having a residual life of 1-3 years rose to 28.5% from 35.7%.

The portfolio of debt securities had an overall average residual life of about 3.4 years (4.4 years at the end of the first quarter 2017) and 44% of it was made up of variable rate issues, and for the remainder, of fixed-rate issues and zero coupons.

Breakdown of bonds portfolio by maturity



Bonds portfolio maturity (€ million)



Loans to customers amounted to 1,772.4 million euros, virtually unchanged compared to the end of 2017 (+0.2%) due to a slight expansion of the mortgage and personal loan sector (+2.2%), which was, however, partially offset by repayments recorded on current account overdraft facilities. In detail, the mortgage segment reported new disbursements amounting to 45 million euros.

(€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
Current accounts	880,149	895,369	-15,220	-1.7%
Mortgages and personal loans	888,506	869,793	18,713	2.2%
Other financing and loans not in current accounts	3,778	3,803	-25	-0.7%
Total loans	1,772,433	1,768,965	3,468	0.2%

Within **operating loans**, growth was reported by both financial advances provided to the Financial Advisors network for fees currently accruing and by daily margin due to the shift from indirect to direct participation to Compensazione e Garanzia for the bonds segment, effective at the end of 2017.

Conversely, trade receivables accrued for the placement and distribution of financial and insurance products declined slightly.

(€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
Operating loans to product companies	107,653	112,333	-4,680	-4.2%
Sums advanced to Financial Advisors	44,283	34,376	9,907	28.8%
Stock exchange interest-bearing daily margin	14,272	3,562	10,710	n.a.
Charges to be debited and other loans	7,581	7,629	-48	-0.6%
Operating loans and other loans	173,789	157,900	15,889	10.1%

Net non-performing loans amounted to 52.8 million euros, equal to 2.1% of total loans to customers, down by 20.6 million euros compared to the end of the previous year.

Unlikely to pay exposures decreased by 15.8 million euros, mainly due to two significant exposures classified among unlikely to pay following the general review of loans positions carried out in 2017 and fully repaid with no charge incurred by the Bank (15.4 million euros). The decline in bad loans was attributable to the final acquisition of the indemnity guarantee following the settlement of an insolvency procedure.

(€ THOUSAND)	GROSS EXPOSURE	ADJUSTMENTS	NET EXPOSURE 2018	NET EXPOSURE 2017	CHANGE		SECURED EXPOSURE SUBJECT TO INDEMNITY	EXPOSURE NET OF INDEMNITY
					AMOUNT	%		
Bad loans	39,060	-16,453	22,607	24,899	-2,292	-9.2%	19,722	2,885
Financing	33,569	-11,901	21,668	23,892	-2,224	-9.3%	19,722	1,946
Debt securities	2,642	-2,642	-	-	-	-	-	-
Operating loans	2,849	-1,910	939	1,007	-68	-6.8%	-	939
Unlikely to pay	24,436	-1,040	23,396	39,232	-15,836	-40.4%	5,255	18,141
Past-due exposures - over 90 days	7,174	-338	6,836	9,326	-2,490	-26.7%	-	6,836
Total non-performing loans	70,670	-17,831	52,839	73,457	-20,618	-28.1%	24,977	27,862
Performing debt securities	1,359,441	-2,509	1,356,932	981,144				
Performing loans	1,895,795	-2,412	1,893,383	1,853,408				
Total loans to customers	3,325,906	-20,243	3,303,154	2,908,009				

Within the segment of **loans to customers**, exposures were mostly revocable account credit facilities secured by financial collaterals mainly in the form of pledges of financial instruments and/or similar products (mandate to policy redemption); with regard to bad loans, exposures were chiefly mortgages of real property (46% of net exposure).

At the end of the reporting period, non-performing loans included 24.9 million euros referring to exposures originating in the portfolio of Banca del Gottardo Italia, fully covered by the loan indemnity granted by BSI S.A.⁴ upon the sale of the said company and mainly secured to that end by cash collateral payments by the counterparty.

Net of this portfolio, which accounted for over 47% of net non-performing exposures, the weight of non-performing exposures to total loans to customers decreased to 0.84% (27.8 million euros). However, unsecured positions representing an actual risk for the Bank, including the operating loan component, amounted to just over 2 million euros, or about 0.06% of total loans to customers.

Forborne positions at the end of the reporting quarter stood at about 111.9 million euros, of which 7.4 million euros were non-performing exposures.

At 31 March 2018, the **interbank position**, net of the securities portfolio and operating loans, showed a net credit balance of 518.1 million euros, up compared to a net exposure of 147.5 million euros at the end of the previous year.

This situation was mainly due to the combined effect of the ongoing significant loan position with the ECB (758.1 million euros) and the end of leveraged net inflows in the form of repurchase agreements at negative rates on the interbank market (189.7 million euros).

Interbank net inflows also include the TLTRO2 financing disbursed on 29 June 2016, with a maturity of four years, set to come due on 24 June 2020, with an option for early repayment at the end of the second year.

⁴ 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.

This loan accrues an interest equal to that of the main refinancing operations applicable from time to time, which is currently 0% but could however have been reduced to the interest rate on overnight deposits with the ECB (currently a negative -0.40%) if at the end of January 2018 the loans disbursed by Banca Generali to households for credit purposes other than home purchases and to non-financial companies residing in the Euro Area had exceeded a given benchmark level⁵.

(€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
1. Repayable on demand	879,834	696,364	183,470	26.3%
Demand deposits with ECB and Bank of Italy(*)	758,056	545,632	212,424	38.9%
Demand deposits with credit institutions	-	-	-	n.a.
Transfer accounts	121,778	150,732	-28,954	-19.2%
2. Time deposits	143,406	133,628	9,778	7.3%
Mandatory reserve	69,264	67,617	1,647	2.4%
Term deposits	73,442	65,938	7,504	11.4%
Collateral margins	700	73	627	858.9%
Total loans to banks	1,023,240	829,992	193,248	23.3%
1. Due to Central Banks	400,000	400,000	-	0.0%
TLTRO	400,000	400,000	-	0.0%
2. Due to banks	105,127	282,531	-177,404	-62.8%
Transfer accounts	85,322	57,472	27,850	48.5%
Term deposits	-	3,796	-3,796	-100.0%
Repurchase agreements	-	189,657	-189,657	-100.0%
Collateral margins	-	9,532	-9,532	-100.0%
Other debts	19,805	22,074	-2,269	-10.3%
Total due to banks	505,127	682,531	-177,404	-26.0%
Net interbank position	518,113	147,461	370,652	251.4%

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

5.3 Provisions

Total special purpose provisions totalled 158.3 million euros overall, up 4.1 million euros compared to the previous year (+2.7%) chiefly due to the provisions in connection with the beginning of the new annual cycle of the Financial Advisor Network Loyalty Plan.

(€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
Provision for termination indemnity	4,843	4,859	-16	-0.3%
Provisions for guarantees issued and commitments	202	-	202	n.a.
Other provisions for liabilities and contingencies	153,262	149,315	3,947	2.6%
Provisions for staff expenses	13,718	15,404	-1,686	-10.9%
Restructuring provisions – Redundancy incentives plan	1,089	1,089	-	-
Provisions for legal disputes	17,568	17,747	-179	-1.0%
Provisions for contractual indemnities to the sales network	66,110	61,459	4,651	7.6%
Provisions for sales network incentives	52,917	52,076	841	1.6%
Other provisions for liabilities and contingencies	1,860	1,540	320	20.8%
Total provisions	158,307	154,174	4,133	2.7%

Provisions for long-term contractual indemnities include, *inter alia*, 6.8 million euros referring to the provision for the annual cycles of the Framework Loyalty Programme for the sales network 2017-2026 launched in the previous year.

The Framework Loyalty Programme is divided into eight annual separate plans, all set to expire on 31 December 2026 and of decreasing lengths, which may be activated from one year to the next, with the authorisation of the Banca Generali Group's company bodies and in accordance with its remuneration policies.

For each plan, the accrued indemnity may be paid out partly in Banca Generali shares (up to a

⁵ For Banca Generali, equal to the amount of such target loans at 31 January 2016, plus 2.5%.

maximum of 50%) of the indemnity accrued, 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) and the Regulator.

In this regard, it should be noted that the Board of Directors of 20 March 2018 approved the launch of the second plan 2018-2026 on the basis of the same provisions set forth for the first plan of 2017. This resolution was subsequently ratified by the General Shareholders' Meeting on 12 April 2018.

The other provision aggregate includes a prudential allocation to cover the tax dispute concerning tax period 2014, for which the tax assessment proceedings launched on 27 March 2017 by the Friuli-Venezia Giulia Regional Department of the Italian Revenue Service were still underway.

The minutes of the closing of the first part of the tax investigation were filed on 22 December 2017, highlighting a few issues, none of which pertained to Transfer Pricing. The second phase of the tax inspection, focusing on the appropriateness of the Banking Group's transfer pricing policies, is expected to be completed by the end of the first half of 2018.

5.4 Net equity and regulatory aggregates

At 31 March 2018, consolidated net equity, including net profit for the period, stood at 792.4 million euros, gross of the 2017 dividend payout resolved upon by the General Shareholders' Meeting on 12 April 2018 for a total amount of 145.5 million euros.

(€ THOUSAND)	31.03.2018	31.12.2017	CHANGE	
			AMOUNT	%
Share capital	116,852	116,852	-	-
Share premium reserve	58,170	58,219	-49	-0.1%
Reserves	557,352	348,519	208,833	59.9%
(Treasury shares)	-13,221	-13,271	50	-0.4%
Valuation reserves	24,153	21,646	2,507	11.6%
Net profit (loss) for the period	49,047	204,105	-155,058	-76.0%
Group net equity	792,353	736,070	56,283	7.6%

The increase in net equity during the reporting quarter was attributable to the change in the reserves for share-based payments (IFRS 2), the change in fair value valuation reserves for the portfolio of HTCS financial assets and other reserves included in other comprehensive income, in addition to the net profit for the period.

Following the entry into force, effective 1 January 2018, of the new accounting standards IFRS 9 and IFRS 15, at the reporting date net equity reserves for the first-time adoption (FTA) were also recognised for an amount of about 4 million euros.

(€ THOUSAND)	31.03.2018	31.12.2017	31.03.2017
Net equity at period-start	736,070	646,521	646,521
Dividend paid	-	-124,674	-
IFRS 9 and IFRS 15	4,149	-	-
Purchase and sale of treasury shares	1	-10,338	-
Issue of new shares (stock options)	-	3,057	2,350
Matured IFRS 2 reserves on own financial instruments	580	2,937	320
Matured IFRS 2 reserves on LTIP	288	1,796	246
Change in valuation reserves (net of FTA)	2,218	12,667	-25,045
Consolidated net profit	49,047	204,105	56,222
Net equity at period-end	792,353	736,070	680,614
Change	56,283	89,549	34,093

Fair value valuation reserves for the portfolio of financial assets at fair value with impact on comprehensive income (HTCS) showed a net increase of 2.2 million euros, primarily owing to the portfolio of Italian government bonds, for which net reserves amounted to 25.1 million euros, compared to 19.8 million euros at the end of 2017.

During first-time application of IFRS 9, net valuation reserves of 0.3 million euros were recognised due to the combined effect of the reversal through a specific retained earnings reserve in equity of previous positive reserves for UCITS and equity instruments reclassified to the portfolio of financial assets mandatorily measured at fair value (-3.2 million euros), and the recognition of positive reserves for corporate and government bonds due to the application of the new business models (+1.4 million euros). The residual valuation reserve was also adjusted by a positive 2.1 million euros to neutralise the effect of the new collective impairment due to expected losses on the HTCS portfolio.

(€ THOUSAND)	31.03.2018				
	EQUITY SECURITIES	UCITS UNITS	DEBT SECURITIES		TOTAL
			CORPORATE	GOVERNMENT	
1. Amount at period-start	445	2,780	480	19,850	23,555
Adjustment of opening balances	-445	-2,780	464	3,050	289
1. Amount at period-start	-	-	944	22,900	23,844
2. Increases	-	-	476	16,745	17,221
2.1 Fair value increases	-	-	325	16,606	16,931
2.2 Adjustments for credit risk	-	-	100	-	100
2.3 Transfer to Profit and Loss Account of negative reserves due to disposal	-	-	3	-	3
2.3 Other changes	-	-	48	139	187
3. Decreases	-	-	479	14,497	14,976
3.1 Fair value decreases	-	-	416	1,819	2,235
3.2 Reversals for credit risk	-	-	-	432	432
3.3 Transfer to Profit and Loss Account of positive reserves due to disposal	-	-	16	11,042	11,058
3.4 Other changes	-	-	47	1,204	1,251
4. Amount at period-end	-	-	941	25,148	26,089

Consolidated own funds, calculated in accordance with the Basel 3 phase-in rules, amounted to 561.1 million euros, up by 42.5 million euros compared to the end of the previous year, chiefly owing to the portion of retained earnings for the reporting period (13.1 million euros) and the increase in the valuation reserves for HTCS financial assets, due to the end as of 1 January 2018 of the phase-in period envisaged by the CRR Regulation and the Italian provision for neutralising Eurozone government bond reserves (+22.8 million euros) and the effect of IFRS 9 and IFRS 15 FTA.

(€ THOUSAND)	31.03.2018		31.12.2017	CHANGE	
	FULLY LOADED	PHASE IN	PHASE IN	AMOUNT	%
Common Equity Tier 1 capital (CET1)	518,065	518,136	475,232	42,904	9.0%
Additional Tier 1 capital (AT1)	-	-	-	-	n.a.
Tier 2 capital (T2)	43,000	43,000	43,370	-370	-0.9%
Total own funds	561,065	561,136	518,602	42,534	8.2%
Credit and counterparty risk	130,911	130,911	131,410	-499	-0.4%
Market risk	901	901	1,735	-835	-48.1%
Operating risk	71,914	71,914	71,914	-	-
Total absorbed capital	203,726	203,726	205,059	-1,333	-0.7%
Excess over absorbed capital	357,339	357,410	313,543	43,867	14.0%
Risk-weighted assets	2,546,574	2,546,574	2,563,242	-16,668	-0.7%
Tier 1 /Risk-weighted assets (Tier 1 capital ratio)	20.3%	20.3%	18.5%	1.8%	9.7%
Total own funds/Risk-weighted assets (Total Capital Ratio)	22.0%	22.0%	20.2%	1.8%	8.9%

At the end of the reporting period, the aggregate capital for regulatory purposes recorded 357.4 million euros in excess of the amount required to cover credit, market, and operating risks. CET1 ratio reached 20.3%, compared to a minimum requirement of 7%, and Total Capital Ratio (TCR) reached 22.0%, compared to the SREP minimum requirement of 10.4%.

With reference to the adoption of IFRS 9, at the reporting date the Banking Group did not opt to apply the phase-in regime set forth in the Regulation (EU) No. 2017/2395 which allows banks, whose opening balance sheet at the date of IFRS 9 first-time adoption reports a decline in CET1 due to the increase in expected credit loss provisions (net of tax effects), to include in their CET1 a portion of the said increased provisions under for a phase-in period of five years.

Absorbed capital for credit and counterparty risk decreased slightly compared to the previous year (-0.5 million euros), mostly due to the reduction in past-due weighted exposures, partly offset by the increase in weighted exposures to securitisations and supervised intermediaries.

The decline in absorbed capital for market risk was essentially attributable to the reclassification of several trading book exposures to the portfolio of assets mandatorily measured at fair value through profit or loss (banking book) following the adoption of IFRS 9.

The leverage ratio at the end of the quarter reached 5.6%, in line with that at the end of the previous year.

Reconciliation statement between parent company Banca Generali's net equity and consolidated net equity

(€ THOUSAND)	31.03.2018		
	CAPITAL AND RESERVES	NET PROFIT	NET EQUITY
Net equity of Banca Generali	632,069	74,642	706,711
Differences between net equity and book value of companies consolidated using the line-by-line method	111,611	-	111,611
- Profit carried forward of consolidated companies	111,432	-	111,432
- Other changes	179	-	179
Dividends from consolidated companies	-	-58,724	-58,724
Consolidated companies' result for the period	-	33,217	33,217
Result of associates valued at equity	-265	-88	-353
Valuation reserves - consolidated companies	-109	-	-109
Net equity of the Banca Generali Group	743,306	49,047	792,353

6. PERFORMANCE OF GROUP COMPANIES

6.1 Banca Generali performance

Banca Generali closed the first quarter of 2018 with net profit of 74.6 million euros, up compared to 72.2 million euros at the end of the same period of the previous year, driven primarily by the increase in net fees and the net income from trading activities.

In detail, reclassified net operating income⁶, net of the dividends distributed by the Banking Group's investees (58.7 million euros), amounted to 76 million euros, up by 22.8 million euros (+42.8%) on the same period of the previous year, primarily due to the significant rise in net fees (+13.4 million euros) and the contribution of the net income from trading activities (+11.9 million euros).

(€ THOUSAND)	31.03.2018	31.03.2017	CHANGE	
			AMOUNT	%
Interest income	14,713	16,741	-2,028	-12.1%
Interest expense	-1,470	-984	-486	49.4%
Net interest income	13,243	15,757	-2,514	-16.0%
Fee income	136,947	115,536	21,411	18.5%
Fee expense (*)	-89,382	-81,420	-7,962	9.8%
Net fees	47,565	34,116	13,449	39.4%
Dividends	124	236	-112	-47.5%
Net income (loss) from trading activities	15,103	3,126	11,977	383.1%
Net operating income	76,035	53,235	22,800	42.8%
Staff expenses	-19,865	-19,166	-699	3.6%
Other general and administrative expenses	-24,625	-23,875	-750	3.1%
Net adjustments of property, equipment and intangible assets	-2,037	-1,713	-324	18.9%
Other operating expenses/income	1,577	263	1,314	499.6%
Net operating expenses	-44,950	-44,491	-459	1.0%
Operating result	31,085	8,744	22,341	255.5%
Net adjustments for non-performing loans	192	-3,158	3,350	-106.1%
Net provisions	-4,783	-6,022	1,239	-20.6%
Dividends and income from equity investments	58,724	76,000	-17,276	-22.7%
Gains (losses) from the disposal of equity investments	-	-	-	-
Operating profit before taxation	85,218	75,564	9,654	12.8%
Income taxes for the period on current operations	-10,576	-3,366	-7,210	214.2%
Net profit	74,642	72,198	2,444	3.4%

(*) Gross of provisions

The increase in net fees (+39.4%), which amounted to 47.6 million euros at the end of the reporting period, was primarily to be attributed to the increase in asset management fees (+17.7%), driven by the success of innovative financial wrapper solutions in the insurance business (+7.8%) and discretionary accounts (+83.8%), in addition to the placement of UCITS with retail customers (+10.6%).

Net operating expenses amounted to 45.0 million euros, showing a more moderate increase (+1.0%).

The cost/income ratio, which measures the ratio of operating expenses (gross of adjustments to property, equipment, intangible assets) to net operating income and dividends, amounted to 56.4%.

Provisions and net adjustments amounted to 4.6 million euros, downs compared to the same period of 2017 (-4.6 million euros), chiefly as a result of lower adjustments.

The figure for the first quarter of 2017 had been in fact impacted by the Alitalia bond known as "Dolce Vita", which had been almost fully written off for 2.5 million euros; the bond had been deemed no longer recoverable due to the airline's serious state of crisis, which had resulted in a

⁶ 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 9.1 million euros for 2018 and 12.1 million euros for 2017. The item other administrative expenses, net of recoveries of taxes paid by customers, which was previously classified under other operating income and expenses, has been restated within the aggregate of operating expenses.

court declaration of the company's insolvency and the commencement of the extraordinary administration procedure.

Operating profit before taxation amounted to 85.2 million euros, up 9.7 million euros compared to the same period of 2017.

The expected tax burden was 10.6 million euros, with an overall tax rate at 12.0%, up due to the lower weight of dividends, subject to a more favourable tax regime.

On 1 January 2018, the merger of the subsidiary **BG Fiduciaria SIM** became effective.

As this business combination qualifies as a transaction between entities under common control, it has been accounted for in accordance with the principle of the continuity of the values of the transferred assets and liabilities on the basis of the book values indicated in Banca Generali's 2017 Financial Statements. In detail, at the effective date of the merger, the equity investment in BG Fiduciaria SIM amounted to **11,779** thousand euros, the latter's net equity was **18,304** thousand euros and the goodwill recognised by Banca Generali in the consolidated financial statements totalled **4,289** thousand euros.

Own funds, calculated in accordance with the Basel 3 phase-in rules, amounted to 475.5 million euros, up by 74.6 million euros compared to the end of the previous year. The increase was attributable to the merger surplus booked following the merger of the subsidiary BG Fiduciaria, the full recognition of the securities valuation reserves starting on 1 January 2018 and the effects of IFRS 9 and IFRS 15 FTA, in addition to the retained earnings for the period.

At the end of the reporting period, the aggregate capital for regulatory purposes recorded 307.6 million euros in excess of the amount required to cover credit, market, and operating risks. CET1 ratio reached 20.6% compared to a minimum requirement of 7% and Total capital Ratio (TCR) reached 22.7%.

Total AUM managed by the Group on behalf of its customers — which is the figure used for communications to Assoreti — amounted to 56.4 billion euros at 31 March 2018, up 1.3% compared to the end of the previous year. Net inflows amounted to 1,574 million euros, compared to 1,839 million euros at the end of the same period of 2017 (-14.4%).

6.2 Performance of BG Fund Management Luxembourg S.A.

BG Fund Management Luxembourg S.A. (hereinafter BGFML) is a company under Luxembourg law specialising in the administration and management of the Sicavs promoted by the Banking Group: BG Sicav, BG Selection Sicav and a new Sicav called BG Alternative, reserved for institutional investors and launched in the third quarter of 2016.

BGFML ended the first quarter of 2018 with net profit of 33.2 million euros, down 26.4 million euros compared to the same period of the previous year, chiefly due to the decrease in performance fees (-35.2 million euros).

Net banking income amounted to 37.8 million euros (-30.1 million euros). Total operating expenses amounted to 1.3 million euros (1.1 million euros of which consisted of staff expenses), in line with the same period of the previous year.

The Company's net equity amounted to 87.5 million euros, net of a dividend payout of 58.7 million euros, as payment in advance for 2018 and total payment for 2017.

Overall, assets under management at 31 March 2018 amounted to 14,780 million euros, compared to 14,967 million euros at 31 December 2017, down by 187 million euros.

6.3 Performance of Generfid S.p.A.

Generfid, a company specialising in custodian capacity of assets, ended the first quarter of 2018 with a slight net profit and net equity amounting to about 0.8 million euros.

Net banking income amounted to about 0.3 million euros and virtually covered operating costs.

Assets under management amounted to 1,265 million euros (1,300 million euros at year-end 2017).

7. BASIS OF PREPARATION

The Interim Report for the first quarter of 2018 was prepared in accordance with the provisions set forth in Article 154-ter, paragraph 5, of Italian Legislative Decree No. 58/98.

In this regard, it should be noted that, as part of the process of transposing Directive No. 2013/50/EU (Transparency 2), on 16 February 2016 Italian legislators enacted Legislative Decree No. 25, which thoroughly amends the aforementioned statute by:

- > eliminating the requirement to publish an interim report;
- > allowing issuers to continue to disclose to the market — entirely on a voluntary basis — "additional periodic financial information" on the annual and half year reports, in compliance with the principles and application criteria set out by Consob.

With resolution No. 19770 dated 26 October 2016, Consob updated the Rules for Issuers adding the new Article 82-ter, which requires listed issuers which have Italy as member state of origin to:

- a) publish the intention to disclose additional periodic financial information, specifying the relevant items of information, in a way that the decisions made are clear and stable over time;
- b) specify the terms for the approval and the publishing of the additional periodic financial information by the competent body;
- c) guarantee the coherence and correctness of the additional periodic financial information made available to the public and the comparability of the information items with the corresponding data contained in the financial report previously made available to the public;
- d) ensure rapid, non-discriminatory access which can, with reasonable certainty, guarantee the effective circulation of information throughout the European Union.

In accordance with the development of the legal framework and in line with its stakeholders' needs, Banca Generali decided to continue to provide its quarterly financial disclosures to the public by drawing up the Interim Report.

The Interim Report provides:

- a) a general description of the balance sheet situation and profit and loss performance of the issuer and its subsidiaries during the period of reference;
- b) an illustration of the significant events and transactions that occurred during the period of reference and their impact on the balance sheet of the issuer and its subsidiaries.

This document contains the following quantitative data on the balance sheet and profit and loss performance:

- > the consolidated condensed balance sheet at the end of the reporting quarter compared with the figures at the end of the previous year;
- > the consolidated condensed profit and loss account for the first three months of the year, compared with data for the same period of the previous year;
- > the statement of comprehensive income for the first three months of the year, compared with data for the same period of the previous year.

The Consolidated Balance Sheet is presented in a format that summarises the primary asset and liability items. The Consolidated Profit and Loss Account is presented in a condensed, reclassified format and states the intermediate profit margins that make up net profit.

The Report also includes explanatory notes that refer to the accounting standards employed and other specific explanatory notes pertaining to transactions undertaken during the quarter.

The amounts included in the Financial Statements and Notes are expressed in thousands of euros, unless otherwise indicated.

The consolidated financial position illustrated in the Interim Report has been prepared according to the IAS/IFRS issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with EC Regulation No. 1606 of 19 July 2002.

The Interim Report is subject to a limited audit by the independent auditors for the purposes of determining net profit for the period to be included in Common Equity Tier 1 capital, as required by Article 26, paragraph 2, of the Regulation (EU) No. 575/2013.

7.1 Accounting standards

The accounting standards and measurement criteria used are the same as those used to prepare the Consolidated Financial Statements at 31 December 2017, with the exception of the two new international accounting standards, entered into effect on 1 January 2018:

- > IFRS 9 – *Financial Instruments*, superseding IAS 39;
- > IFRS 15 – *Revenue from Contracts with Customers*, superseding IAS 18.

It should be noted that, following the completion of the endorsement procedure, as of 1 January 2017, several amendments to the IASs/IFRSs and IFRICs were adopted and new IFRICs were issued.

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED IN PREVIOUS YEARS AND EFFECTIVE AS OF 2018	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRS 9 – <i>Financial Instruments</i>	2016/2067	29.11.2016	01.01.2018
Amendments to IFRS 4: Applying IFRS 9 – <i>Financial Instruments</i> with IFRS 4 – <i>Insurance Contracts</i> (issued on 12 September 2016)	2017/1988	09.11.2017	01.01.2018
IFRS 15 – <i>Revenue from Contracts with Customers</i>	2016/1905	29.10.2016	01.01.2018
Clarifications to IFRS 15 – <i>Revenues from Contracts with Customers</i> (issued on 12 April 2016)	2017/1987	09.11.2017	01.01.2018
INTERNATIONAL ACCOUNTING STANDARDS ENDORSED IN 2018 AND EFFECTIVE AS OF 2018			
IFRIC 22 – <i>Foreign Currency Transactions and Advance Consideration</i> (issued on 8 December 2016)	2018/519	28.03.2018	01.01.2018
Amendments to IAS 40: <i>Transfers of Investment Property</i> (issued on 8 December 2016)	2018/800	14.03.2018	01.01.2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)	2018/289	26.02.2018	01.01.2018
Annual Improvements to IFRS Standards 2014- 2016 Cycle (issued on 8 December 2016)	2018/182	07.02.2018	01.01.2018
INTERNATIONAL ACCOUNTING STANDARDS ENDORSED BUT NOT EFFECTIVE YET			
IFRS 16 – <i>Leases</i> (issued on 13 January 2016)	2017/1986	09.11.2017	01.01.2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017)	2018/489	22.03.2018	01.01.2019

The date of entry into force of some of the already endorsed standards has been postponed until subsequent years. The early application option has not been exercised for those standards.

The effect of the first-time adoption as of 1 January 2018 of IFRS 9 and IFRS 15 are briefly outlined here below.

The other standards and interpretations that entered into force in 2018 did not have a significant impact on the Group's balance sheet and profit and loss account.

First-time application of IFRS 9

As is common knowledge, the new IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation No. 2067/2016 replaces, with effect from 1 January 2018, IAS 39, which until 31 December 2017 governed the classification and measurement of financial instruments.

IFRS 9 is divided into three areas: the classification and measurement of financial instruments, impairment and hedge accounting.

The hedge accounting area is however not material for Banca Generali.

With regard, firstly, to the **classification and measurement** of financial instruments, IFRS 9 requires that the classification of financial instruments be guided by two drivers:

- > the characteristics of the related **contractual cash flows**; and
- > the **business model** within which the assets are purchased and held.

According to IFRS 9, financial assets are to be classified into three business models, instead of the current four accounting categories, on the basis of the two above drivers:

- > **Held to collect (HTC)**, i.e., financial assets held for the collection of cash flows, measured at amortised cost;
- > **Held to collect and sell (HTCS)**, i.e., financial assets held for collecting cash flows and selling financial assets, measured at fair value through other comprehensive income;
- > other financial assets at fair value through profit and loss (FVPL) and held to sell (**HTS**), and therefore not falling within the two previous categories as they do not fulfil the necessary requirements;
- > financial assets may be classified to the first two categories (measured at amortised cost or at fair value in equity) only if it may be shown that they give rise to cash flows that are **solely payment of principal and interest (SPPI test)**.

Equity instruments are always classified to the third category and measured at fair value through profit or loss unless the entity elects (irrevocably, upon initial recognition), in the case of shares not held for trading, to recognise changes in value through an equity reserve, which will never be transferred to profit and loss, even if the financial instrument is disposed of (financial assets designated as at fair value through other comprehensive income not subject to recycling).

With respect to **impairment**, a model is introduced for financial assets measured at amortised cost and fair value through equity: it is based on the concept of **expected credit loss** that supersedes the current **incurred loss**, which instead recognises only credit losses already incurred at the reporting date.

The introduction of the new impairment rules entails:

- > the allocation of performing financial assets to **two credit risk stages** (“staging”), corresponding to impairment losses based, respectively, on expected losses over the **following twelve months** (“stage 1”), or for the entire residual duration (“**lifetime**”) of the financial asset (“stage 2”), on the basis of the occurrence of a significant increase in credit risk (“SICR”) determined by comparing the probability of default at initial recognition and at the reporting date;
- > the allocation of non-performing financial assets to “**stage 3**”, also subject to impairment based on expected lifetime losses;
- > the inclusion in the calculation of expected credit losses (“ECLs”) of **forward-looking** information regarding the development of the macroeconomic scenario, among other subjects.

In light of the aforementioned changes introduced by IFRS 9, and of the impacts thereof on its organisation, reporting and business, in September 2016 the Parent Company, Banca Generali, launched a specific project aimed at exploring the various areas of influence of the Standard, defining its qualitative and quantitative impacts and identifying and implementing the measures at the level of application (in coordination with the IT services outsourcer) and organisation required for consistent, organic and effective adoption within the Group.

It should be noted that, as part of the Bank’s internal regulations, an IFRS 9 Compliance Policy was established and approved by the competent levels of the Bank’s governance structure.

On the above basis, the following is an estimate of the expected impact of the first-time application of IFRS 9 on the Banca Generali Group’s **consolidated net equity** as at 1 January 2018. These estimated effects, which extend to both the amount and composition of net equity, are primarily due to:

- > the obligation to recalculate impairment losses on financial assets in portfolio according to the expected credit loss model, inclusive of the aforementioned forward-looking components, instead of the previous incurred credit loss model (IAS 39). In the case of performing exposures in particular, the increase in impairment losses may be attributed to:
 - (i) the allocation of a part of the performing portfolio to stage 2, on the basis of the established stage allocation criteria, with the resulting need to calculate the expected loss for the lifetime of the financial assets; and
 - (ii) the inclusion in the calculation of expected losses of forward-looking parameters deriving from future macroeconomic scenarios;
- > the need to reclassify some financial assets in portfolio on the basis of the combined results of the two classification drivers contemplated in the Standard: the business model within which these instruments are managed and the contractual characteristics of their cash flows (SPPI test).

The impact of the adjustment of value adjustments on net equity has been estimated at a net positive amount of **0.6 million euros**, net of the tax effect.

The limited positive effect is formally attributable to three causes:

- > since 2008 Banca Generali has always recognised a collective reserve for performing loans and receivables and a collective reserve covering contingent losses in the portfolio of securities measured at amortised cost, with the exception of government bonds and the portfolio of AFS assets;
- > with regard to this latter portfolio, already designated at fair value through other comprehensive income — the reserve allocated during FTA was fully neutralised by the symmetrical adjustment to the positive fair value reserve in equity, resulting in a nil FTA impact;
- > finally, during the transition to IFRS 9, the method for calculating impairment was modified from PD based on historical series of default rates surveyed globally by issuer rating class and residual maturity of the security to a new forward-looking method based on market price trends from which the credit-risk component has been isolated. The method for calculating the new PD was provided by a specialist firm, Prometeia.

The reclassification of financial assets has a net positive impact on net equity of **1.4 million euros**, net of the tax effect, due to the reclassification of certain securities, on the basis of the business model adopted by the Bank, primarily to the HTC and HTCS portfolios.

Reclassified financial statements - comparative view

In accordance with paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 “First-Time Adoption of International Financial Reporting Standards” — without prejudice to the retrospective application of the new IFRS 9 measurement and presentation rules — the comparative figures have not been restated uniformly in the financial statements of first-time adoption of the new Standard.

Consequently, the comparative balance sheet figures as at 31 December 2017 coincide with the official figures of the financial statement at 31 December 2017 prepared in accordance with IAS 39. The items of the balance sheet and corresponding reclassified presentation have been grouped together by virtue of uniformity of accounting treatment — at fair value through profit or loss, at fair value through other comprehensive income or at amortised cost — according to the following scheme:

RECLASSIFIED BALANCE SHEET – IFRS 9	RECLASSIFIED BALANCE SHEET – IAS 39
20. Financial assets at fair value through profit or loss	20. HFT financial assets
30. Financial assets at fair value through other comprehensive income	40. AFS financial assets
40. Financial assets at amortised cost	50. HTM financial assets 60. Loans to banks 70. Loans to customers

Accordingly, investments in the previous portfolio of financial assets held to maturity have been reclassified to loans to banks or loans to customers, depending on the nature of the issuer. In accordance with the aforementioned rules for the transition to IFRS 9, no reclassifications have been undertaken to reflect the effects of FTA.

FTA – Statement of reconciliation of the balance sheet

The following is a statement of reconciliation of assets and liabilities as at 31 December 2017 and as at 1 January 2018 due to the first-time application of IFRS 9 and IFRS 15. In detail, the effects of IFRS 9 have been broken down into effects due to the application of the new impairment criterion and effects due to the classification and measurement (C&M) of financial assets on the basis of the SPPI test and the adoption of the new business models.

ASSETS (€ THOUSAND)	31.12.2017	IFRS 9		IFRS 15	01.01.2018 FTA	CHANGE
		C&M	IMPAIRMENT			
Financial assets at fair value through profit or loss	49,814	67,382	-	-	117,196	67,382
Financial assets at fair value through other comprehensive income	4,612,728	-186,543	-	-	4,426,185	-186,543
Financial assets measured at amortised cost	3,831,104	121,254	426	-	3,952,783	121,679
a) Loans to banks	923,095	-18,201	294	-	905,188	-17,907
b) Loans to customers	2,908,009	139,454	132	-	3,047,595	139,586
Equity investments	1,820	-	-	-	1,820	-
Property, equipment and intangible assets	98,380	-	-	-	98,380	-
Tax receivables	45,735	-610	1,545	-	46,670	935
Other assets	351,430	-	-	3,218	354,648	3,218
Total assets	8,991,011	1,483	1,970	3,218	8,997,683	6,672

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2017	IFRS 9		IFRS 15	01.01.2018 FTA	CHANGE
		C&M	IMPAIRMENT			
Financial liabilities at amortised cost	7,879,779	-	-	-	7,879,779	-
a) Due to banks	682,531	-	-	-	682,531	-
b) Due to customers	7,197,248	-	-	-	7,197,248	-
Financial liabilities held for trading and hedging	206	-	-	-	206	-
Tax payables	35,564	79	1,667	1,035	38,345	2,781
Other liabilities	185,218	-	-461	-	184,757	-461
Special purpose provisions	154,174	-	202	-	154,376	202
Valuation reserves	21,646	-1,841	2,131	-	21,935	289
Reserves	348,519	3,245	-1,568	2,184	352,379	3,860
Share premium reserve	58,219	-	-	-	58,219	-
Share capital	116,852	-	-	-	116,852	-
Treasury shares (-)	-13,271	-	-	-	-13,271	-
Net profit (loss) for the period	204,105	-	-	-	204,105	-
Total liabilities and net equity	8,991,011	1,483	1,970	3,218	8,997,683	6,672

First time application IFRS 15

The new accounting standards, effective 1 January 2018, presents a single model for the accounting treatment of revenue on the sale of goods and services not falling within the scope of application of the standards concerning financial instruments (IFRS 9), insurance contracts (IFRS 4) and leases (IAS 17 and IFRS 16).

In the second half of 2017, the Banking Group carried out a specific assessment project with the support of a major accounting consultancy firm, in which it was concluded that the Bank's accounting policies were essentially compliant with the new IFRS 15 framework.

Given the significance of the fees paid to the sales network, during the project particular attention was devoted to analysing the acquisition costs for contracts with customers.

In particular, a significant share of the incremental costs of obtaining contracts relating to recruitment programmes for new Financial Advisors — considered a part of what is known as the “*supplementary fee system*” — is already capitalised also in accordance with IAS 18.

In addition to the above, at present additional types of **incremental costs** relating to incentives paid to the management for recruitment activity have been identified. These costs, which previously were not capitalised, may be regarded as closely correlated with the process of acquiring new customers.

The amortisation period for such cases has been defined on the basis of the time required to recover (pay back) the costs incurred and the time to transfer the services governed by the investment contracts to customers, i.e., five years for asset management and two years for administration and custody solutions.

As a result, prepayments of 3.2 million euros were recognised as at 1 January 2018 in respect of the costs incurred and taken to profit or loss in previous years but not yet accrued within the framework of the new Standard.

These prepayments were recognised through a specific retained earnings reserve for an amount of 2.2 million euros, net of the tax effect.

However, analysis of the effects of first-time adoption of IFRS 15 is still ongoing and will be formally concluded in the first half of the year.

Measurement

The preparation of the Interim Report requires the use of estimates and assumptions that could influence the amounts reported in the Balance Sheet and Profit and Loss Account and the disclosure of contingent assets and liabilities therein.

The estimates and assumptions used are based on the information available on operations and subjective judgements, which may be based on historical trends.

Given their nature, the estimates and assumptions used may vary from year to year, meaning that the actual amounts reported herein may differ materially due to changes in the subjective judgements used.

The main areas for which management is required to use subjective judgements include:

- > the quantification of allocations for staff incentives and provisions for liabilities and contingencies;
- > the quantification of incentives for the distribution network currently being accrued;
- > the determination of the fair value of financial instruments and derivatives used for reporting purposes;
- > the determination of value adjustments and reversals of non-performing loans;
- > estimates and assumptions used to determine current and deferred taxation.

7.2 Consolidated companies and business combinations

The companies consolidated by the Group in accordance with IFRS 10 include the Parent Company, Banca Generali S.p.A., and the following subsidiaries:

COMPANY NAME	REGISTERED OFFICE	TYPE OF CONTROL	SHAREHOLDING RELATIONSHIP		% OF VOTES IN ORDINARY SHAREHOLDERS' MEETING
			INVESTOR	% HELD	
A. Companies in consolidated accounts					
A.1 Recognised using the line-by-line method					
- BG Fund Management Luxembourg S.A.	Luxembourg	1	Banca Generali	100.00%	100.00%
- Generfid S.p.A.	Milan	1	Banca Generali	100.00%	100.00%

Legend: type of control:

(1) Control pursuant to Article 2359, paragraph 1(1), of the Italian Civil Code (majority of voting rights at General Shareholders' Meeting).

The consolidated accounts include the separate accounts of the Parent Company and its subsidiaries at 31 March 2018, reclassified and adjusted where necessary to take account of consolidation requirements. The most important 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.

Trieste, 23 April 2018

The Board of Directors

**DECLARATION PURSUANT TO ARTICLE
154-*BIS*, PARAGRAPH 2, OF LEGISLATIVE
DECREE NO. 58 OF 24 FEBRUARY 1998**

DECLARATION PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 2, OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

The undersigned, Tommaso Di Russo, Chief Financial Officer & Strategy and Manager in charge of preparing the Company's Financial Reports of Banca Generali S.p.A., with registered office in Trieste, Via Machiavelli 4, registered with the Trieste Company Register under No. 103698 — to the best of his knowledge as Manager in charge of preparing the Company's Financial Reports — does hereby

declares that

for the intents and purposes of Article 154-bis, paragraph 2, of Legislative Decree No. 58 of 24 February 1998, the Interim Report at 31 March 2018 corresponds to the Company's books, records and accounting documents.

Trieste, 23 April 2018

Signed by:
Tommaso Di Russo
Manager in charge of preparing
the Company's Financial Reports
Banca Generali S.p.A.

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, VAT No. and Trieste
register of companies
00833240328

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

Company managed and coordinated
by Assicurazioni Generali S.p.A.

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