





**BANCA GENERALI S.P.A.**

**INTERIM REPORT**  
as of 30.09.2018

*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

## as of 30.09.2018

Board of Directors – 6 November 2018

### **BANCA GENERALI S.P.A.**

#### **ADMINISTRATION AND CONTROL BODIES**

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

# CONTENTS

<b>GROUP ECONOMIC AND FINANCIAL HIGHLIGHTS</b>	<b>5</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>9</b>
Consolidated Balance Sheet	10
Consolidated Profit and Loss Account	11
Statement of Consolidated Comprehensive Income	11
<b>INTERIM REPORT</b>	<b>13</b>
1. Summary of Operations for the First Nine Months of the Year	15
2. Macroeconomic Context	17
3. Banca Generali's Competitive Positioning	19
4. Profit and Loss Results	22
5. Performance of the Main Balance Sheet Aggregates	34
6. Performance of Group Companies	43
7. Basis of Preparation	45
<b>DECLARATION PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 2, OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998</b>	<b>49</b>



# GROUP ECONOMIC AND FINANCIAL HIGHLIGHTS

## GROUP ECONOMIC AND FINANCIAL HIGHLIGHTS

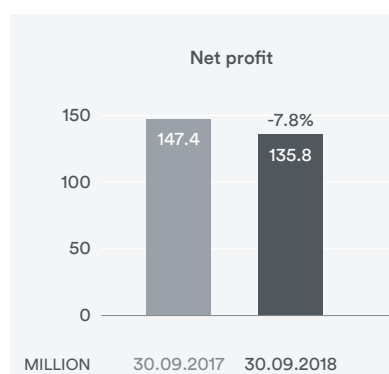
### Consolidated figures

(€ MILLION)	30.09.2018	30.09.2017	CHANGE %
Net interest income	44.2	47.1	-6.1
Net income (loss) from trading activities and dividends	22.1	14.1	56.8
Net fees <sup>(c)</sup>	265.5	273.0	-2.7
<b>Net banking income</b>	<b>331.8</b>	<b>334.2</b>	<b>-0.7</b>
Staff expenses	-62.8	-63.3	-0.9
Other net general and administrative expenses	-113.5	-106.5	6.6
Amortisation and depreciation	-6.3	-5.8	7.3
Other operating income and expenses	39.2	36.5	7.4
<b>Net operating expenses</b>	<b>-143.3</b>	<b>-139.2</b>	<b>3.0</b>
<b>Operating result</b>	<b>188.5</b>	<b>195.0</b>	<b>-3.3</b>
Provisions	-14.6	-13.9	5.1
Adjustments	-6.1	-6.0	1.0
<b>Profit before taxation</b>	<b>167.7</b>	<b>175.0</b>	<b>-4.2</b>
<b>Net profit</b>	<b>135.8</b>	<b>147.4</b>	<b>-7.8</b>
<b>PERFORMANCE INDICATORS</b>			
	30.09.2018	30.09.2017	CHANGE %
Cost income ratio <sup>(c)</sup>	41.3%	39.9%	3.5
EBTDA <sup>(c)</sup>	194.7	200.9	-3.0
ROE <sup>(a) (c)</sup>	25.3%	29.2%	-13.2
ROA <sup>(b)</sup>	0.24%	0.29%	-17.9
EPS - Earning per share (euro)	1.17	1.26	-7.5

(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**

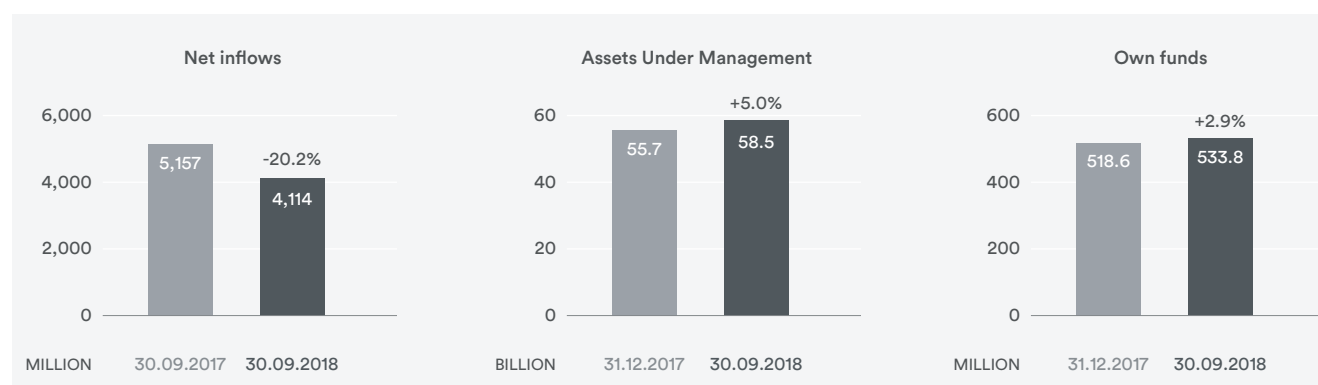
(€ MILLION) (ASSORETI DATA)	30.09.2018	30.09.2017	CHANGE %
Funds and Sicavs	632	1,337	-52.7
Financial wrappers	130	1,868	-93.0
Insurance wrappers	895	1,235	-27.5
<b>Asset management</b>	<b>1,657</b>	<b>4,440</b>	<b>-62.7</b>
Traditional life insurance policies	358	161	122.4
Securities / Current accounts	2,099	556	277.5
<b>Total</b>	<b>4,114</b>	<b>5,157</b>	<b>-20.2</b>

**Assets Under Management & Custody (AUM/C)**

(€ BILLION) (ASSORETI DATA)	30.09.2018	31.12.2017	CHANGE %
Funds and Sicavs	14.0	13.6	3.0
Financial wrappers	6.9	7.1	-2.6
Insurance wrappers	7.9	7.3	9.0
<b>Asset management</b>	<b>28.9</b>	<b>28.0</b>	<b>3.2</b>
Traditional life insurance policies	15.3	14.9	2.7
AUC	14.3	12.8	11.7
<b>Total</b>	<b>58.5</b>	<b>55.7</b>	<b>5.0</b>

**Net equity**

(€ MILLION)	30.09.2018	31.12.2017	CHANGE %
Net equity	677.1	736.1	-8.0
Own funds	533.8	518.6	2.9
Excess capital	315.7	313.5	0.7
<b>Total Capital Ratio</b>	<b>19.6%</b>	<b>20.2%</b>	<b>-3.3</b>





**CONSOLIDATED FINANCIAL  
STATEMENTS**

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Balance Sheet

ASSETS (€ THOUSAND)	30.09.2018	31.12.2017	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	98,128	49,814	48,314	97.0%
Financial assets at fair value through other comprehensive income	2,129,338	4,612,728	-2,483,390	-53.8%
Financial assets at amortised cost	6,495,179	3,831,104	2,664,075	69.5%
a) Loans to banks (*)	912,269	923,095	-10,826	-1.2%
b) Loans to customers	5,582,910	2,908,009	2,674,901	92.0%
Equity investments	1,688	1,820	-132	-7.3%
Property, equipment and intangible assets	93,603	98,380	-4,777	-4.9%
Tax receivables	57,226	45,735	11,491	25.1%
Other assets	304,856	351,430	-46,574	-13.3%
<b>Total assets</b>	<b>9,180,018</b>	<b>8,991,011</b>	<b>189,007</b>	<b>2.1%</b>

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	30.09.2018	31.12.2017	CHANGE	
			AMOUNT	%
Financial liabilities at amortised cost	8,201,383	7,879,779	321,604	4.1%
a) Due to banks	72,348	682,531	-610,183	-89.4%
b) Due to customers	8,129,035	7,197,248	931,787	12.9%
Financial liabilities held for trading and hedging	925	206	719	349.0%
Tax liabilities	25,123	35,564	-10,441	-29.4%
Other liabilities	114,659	185,218	-70,559	-38.1%
Special purpose provisions	160,820	154,174	6,646	4.3%
Valuation reserves	-23,388	21,646	-45,034	-208.0%
Reserves	412,683	348,519	64,164	18.4%
Share premium reserve	57,893	58,219	-326	-0.6%
Share capital	116,852	116,852	-	-
Treasury shares (-)	-22,779	-13,271	-9,508	71.6%
Net profit (loss) for the period (+/-)	135,847	204,105	-68,258	-33.4%
<b>Total net equity and liabilities</b>	<b>9,180,018</b>	<b>8,991,011</b>	<b>189,007</b>	<b>2.1%</b>

## Consolidated Profit and Loss Account

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Net interest income	44,236	47,094	-2,858	-6.1%
Net income (loss) from trading activities and dividends	22,063	14,075	7,988	56.8%
<b>Net financial income</b>	<b>66,299</b>	<b>61,169</b>	<b>5,130</b>	<b>8.4%</b>
Fee income	566,659	554,218	12,441	2.2%
Fee expense	-301,127	-281,189	-19,938	7.1%
<b>Net fees</b>	<b>265,532</b>	<b>273,029</b>	<b>-7,497</b>	<b>-2.7%</b>
<b>Net banking income</b>	<b>331,831</b>	<b>334,198</b>	<b>-2,367</b>	<b>-0.7%</b>
Staff expenses	-62,768	-63,319	551	-0.9%
Other general and administrative expenses	-113,494	-106,516	-6,978	6.6%
Net adjustments of property, equipment and intangible assets	-6,253	-5,829	-424	7.3%
Other operating expenses/income	39,178	36,493	2,685	7.4%
<b>Net operating expenses</b>	<b>-143,337</b>	<b>-139,171</b>	<b>-4,166</b>	<b>3.0%</b>
<b>Operating result</b>	<b>188,494</b>	<b>195,027</b>	<b>-6,533</b>	<b>-3.3%</b>
Net adjustments for non-performing loans	-6,062	-6,004	-58	1.0%
Net provisions for liabilities and contingencies	-14,598	-13,886	-712	5.1%
Gains (losses) from equity investments	-166	-96	-70	72.9%
<b>Operating profit before taxation</b>	<b>167,668</b>	<b>175,041</b>	<b>-7,373</b>	<b>-4.2%</b>
Income taxes for the period	-31,821	-27,687	-4,134	14.9%
<b>Net profit</b>	<b>135,847</b>	<b>147,354</b>	<b>-11,507</b>	<b>-7.8%</b>

## Statement of Consolidated Comprehensive Income

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
<b>Net profit</b>	<b>135,847</b>	<b>147,354</b>	<b>-11,507</b>	<b>-7.8%</b>
<b>Other income, net of income taxes:</b>				
<b>With transfer to Profit and Loss Account</b>				
Exchange differences	-8	-14	6	-42.9%
Financial assets at fair value through other comprehensive income	-37,280	2,360	-39,640	n.a.
<b>Without transfer to Profit and Loss Account:</b>				
Actuarial gains (losses) from defined benefit plans	-151	-71	-80	112.7%
<b>Total other income net of income taxes</b>	<b>-37,439</b>	<b>2,275</b>	<b>-39,714</b>	<b>n.a.</b>
<b>Consolidated comprehensive income</b>	<b>98,408</b>	<b>149,629</b>	<b>-51,221</b>	<b>-34.2%</b>



**INTERIM REPORT**  
**as of 30.09.2018**

Board of Directors  
6 November 2018





# 1. SUMMARY OF OPERATIONS FOR THE FIRST NINE MONTHS OF THE YEAR

The Banca Generali Group closed the first nine months of 2018 with consolidated net profit of 135.8 million euros and total net inflows of over 4.1 billion euros, bringing the total volume of the assets entrusted by customers to the Banking Group for management to 58.5 billion euros (+8.6% compared to the same period of the previous year).

Assets growth was driven by net inflows, of which 1.7 billion euros managed solutions, 2.1 billion euros AUC and 0.4 billion euros traditional insurance policies.

The high volatility of stock and bond markets over the past quarter led to a very conservative net inflows mix, driving flows towards deposits (over 1 billion euros YTD) and AUC in general. The increase in AUC net inflows also reflects the acquisition of new clients, who currently prefer to await the most appropriate moment for planning decisions.

With regard to managed solutions, net inflows of approximately 1.0 billion euros were generated by the Bank's innovative financial (BG Solution) and insurance (BG Stile Libero) wrapper solutions, which are increasingly appreciated by customers and Financial Advisors thanks to their operational flexibility and wide range of opportunities for investment diversification.

Among managed products, new sub-funds of the Luxembourg-based Sicav LUX IM to be launched in mid-October.

Assets under Advisory amounted to over 2.3 billion euros.

Net banking income totalled 331.8 million euros, driven by the robust structural growth of **management fees**, which climbed to 478.7 million euros (+11.2% compared to the same period of 2017), fuelled by the constant rise in average AUM.

Similarly, net financial income – the sum of net interest income and net income from trading activities and dividends – grew by 8.4% following the banking book de-risking strategy launched at the end of the previous year and successfully implemented also in 2018. As a result, net income from trading activities and dividends amounted to 22.1 million euros, up 8.0 million euros compared to the same period of the previous year. **Net interest income** declined slightly by 2.8 million euros (-6.1%), partly due to the extremely low interest rates, and partly to the conservative profile of the banking book adopted in the last months of 2017. As a result, the balance of deposits with the ECB also remained consistently high and amounted to 621 million euros at the end of September.

However, net interest income's quarterly performance continued to improve considerably in the third quarter, thanks to the natural turnover of investments, marking an increase of 9.2% on the second quarter of 2018.

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 46.2 million euros (-55.8%).

**Net operating expenses** amounted to 143.3 million euros, up slightly on the same period of the previous year (+3.0%), despite the significant business expansion and the increase in non-recurring components such as the higher contributions to the resolution and deposit protection funds.

With reference to capital, Banca Generali confirmed the **soundness of its regulatory aggregates**. On a phased-in basis, CET 1 ratio stood at 18.0% and Total Capital Ratio at 19.6%. Excess capital on a phase-in basis amounted to 315.7 million euros, accounting for nearly 60% of total consolidated Own Funds.

Capital ratios were well above the specific requirements set by the Bank of Italy for the Group (i.e., CET 1 ratio at 6.5% and Total Capital Ratio at 10.2%, as the minimum required by the SREP – Supervisory Review and Evaluation Process).

The total value of AUM managed by the Group on behalf of its customers – which is the figure used for communications to Assoreti – amounted to 58.5 billion euros at 30 September 2018. In addition, managed assets also included 0.9 billion euros in AUC of the Generali Group and 3.4 billion euros in funds and Sicavs distributed directly by management firms, for an overall total of 62.8 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 transaction did not require an increase in the capital of Banca Generali, as the Bank already held 100% of the merged company.

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

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

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

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

BG Saxo Sim is expected to make its debut in December, after it has obtained, *inter alia*, the necessary authorisations from the competent authorities, a process currently underway.

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

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

Nextam Partners Group (80% owned by its three founding partners – independent managers with extensive experience in the industry – and 20% owned by other Italian and foreign shareholders) includes Nextam Partners SGR, Nextam Partners Sim, with offices in Milan and Florence, and the London-based Nextam Partners Ltd. Nextam Partners has a portfolio of approximately 2,500 clients, on behalf of whom the Group manages about 5.5 billion euros assets under advisory, in addition to 1.3 billion euros assets under management.

The deal will be subject to the appropriate conditions customarily applied to transactions of this kind.

## 2. MACROECONOMIC CONTEXT

In the third quarter of 2018, the world economy continued to expand, with global growth for the year expected to amount to nearly 3.7%, despite political tensions, normalisation of monetary policies and crises in several emerging countries.

In the **United States**, growth continued to prove robust, driven by strong consumption. It is expected to amount to +3.7% quarter on quarter. The job market continued to provide support to the economy, with job creation proceeding at an average rate of 200,000 new jobs a month and the unemployment rate falling below 4%. Fiscal policy continued to contribute positively, as did investment spending. The U.S. Federal Reserve continued down the path towards the normalisation of interest rates, bringing the FED Funds Rate to 2%-2.25% in September, and signalling a gradual increase in rates over the coming year in excess of the amount priced in by the market.

In the **Euro Area**, the economy continued to grow, albeit at lower rates than expected at the beginning of the year. PMIs remained in positive territory, but at lower values than in the first half of the year, particularly as regards the manufacturing component. The main drivers of growth were consumption and investments, whereas foreign trade had a negative impact tied to slowing international trade flows, which have been reducing export growth. The job market remained solid and the unemployment rate has been constantly falling, now nearing 8%. Monetary policy was still expansionary, although the ECB began the normalisation process, paring back its bond purchasing programme (quantitative easing) from 30 billion to 15 billion euros a month.

In **China**, economic growth slowed compared with the previous year and is expected to reach 6.5%-6.6% in 2018. The manufacturing PMI, while remaining in positive territory in September, fell to 52 points, its lowest level of the last seven months. The trade war with the United States still has not had a significant impact on export growth, but it is likely that the adverse effects will begin to be felt in the coming months. Within this scenario, the Chinese central bank continues to maintain an expansionary monetary policy in support of the economy.

In the third quarter, **equity markets** reflected the various growth trends, with a bull market for US shares, lateral movement on the European market and losses on the Chinese stock exchange. The S&P 500 grew by 7.20% and the NASDAQ 7.14% in US dollars. The DJ Euro Stoxx index posted gains of 0.36%, whereas the MSCI China index in U.S. dollars declined by 8.45%. The MSCI emerging market index in U.S. dollars dropped by 2.02%, but there were pronounced differences between the various geographical areas, with losses concentrated in the Chinese and Indian markets, and a good performance in Eastern Europe (MSCI Eastern Europe in U.S. dollars +4.91%) and a rally in Latin America following the losses recorded at the beginning of the year (MSCI Latin America in U.S. dollars +4.01%).

Overall, the sectors of the European market that registered the strongest performances were insurance, energy and pharmaceuticals, whereas the worst performances were seen in banking, automotive, telecommunications and retail.

**Bond yields** in the United States and Euro Area reflected the different monetary policy stances adopted by the Federal Reserve and the ECB. Whereas the Federal Reserve has now reached an advanced stage of the process of normalising its balance sheet and interest rates, the ECB will maintain an expansionary policy until at least summer 2019. This led the United States to show an increase in short-term yields, with two-year government bond rates rising from 2.53% to 2.82% (+0.29%). Higher yields were also seen for maturities at the longer end of the curve, with ten-year rates rising from 2.86% to 3.06% (+0.20%), driven by strong economic growth and higher inflation.

In the Eurozone, the ECB left **interest rates** unchanged. As a result, short-term yields did not show significant change. Two-year German rates rose from -0.68% at the end of June to -0.55% at the end of September. Despite the approaching monetary policy change by the ECB and the end of quantitative easing in December 2018, ten-year rates did not undergo particular changes, rising from 0.31% to 0.40% due to the situation of political uncertainty in Italy and slowing macroeconomic data in the Eurozone.

**Spreads** between the interest rates on government bonds issued by the various member states of the European Monetary Union remained stable overall, with the exception of Italy, which showed an increase in the spread between its ten-year bonds and German Bunds from 236 to 280 bps, due to the new economic policy decided by the government, which calls for a significant increase in the deficit with respect to the previous estimates.

On **currency markets**, the U.S. dollar appreciated against the euro, driven in part by a very wide spread between short-term U.S. and Eurozone rates. The euro/dollar exchange rate went from 1.1684 to 1.1604, marking an appreciation of the U.S. currency of approximately 0.68%. However, over the course of the quarter the euro increased by 2% against the yen and by 0.46% against the pound sterling.

During the reporting period, the **commodities** index in U.S. dollars declined by 2.60% due to the drop in the price of WTI oil of more than one percentage point and the bear market in precious metals: silver and gold lost 10% and 5% of their value, respectively.

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## Outlook for 2018

The various international economic research institutions estimate that growth for 2018-2019 will be consistent with 2017, when global growth stood at 3.7%. However, they emphasise that growth has become less uniform in the various countries and some major economies may have now reached the peak of their cycles (euro area, Japan, the UK and China).

They also stress that the risks to global growth have increased as a result of protectionist policies, capital outflows from the more fragile emerging economies and geopolitical uncertainties. Finally, monetary policies – extremely expansionary in previous years – will provide less support in coming years, and financial market conditions could change rapidly in the event of political uncertainty and international trade tensions.

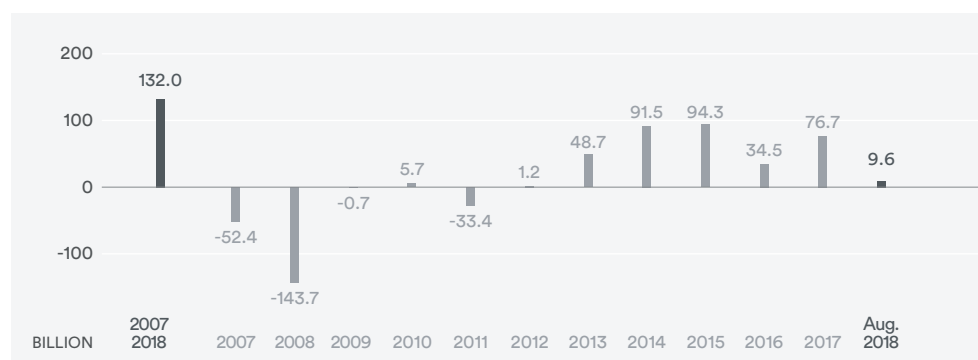
### 3. BANCA GENERALI'S COMPETITIVE POSITIONING

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

#### 3.1 The asset management market

During the first eight months of 2018, the asset management market generated total net inflows of 9.6 billion euros, thus posting a positive result although declining compared to the trend that began in 2013. In the funds segment, foreign funds accounted for over 87% of total net inflows. The role played by networks of Financial Advisors authorised to make off-premises offers was and still remains very important: within the open UCITS segment, the FA networks raised 9.8 billion euros from January to August 2018, accounting for more than the industry total.

The UCITS market in Italy since 2007 (€ billion)



Source: Assogestioni data updated August 2018

#### Evolution of Net Inflows and Assets under Management

(€ MILLION)	NET INFLOWS		ASSETS	
	31.08.2018	31.08.2017	31.08.2018	31.08.2017
Italian funds	1,221	10,247	253,347	250,914
Foreign funds	8,356	44,548	744,182	721,352
<b>Total open-ended funds</b>	<b>9,577</b>	<b>54,795</b>	<b>997,529</b>	<b>972,266</b>
GP retail	-1,098	4,361	128,152	129,088
<b>Total</b>	<b>8,479</b>	<b>59,156</b>	<b>1,125,681</b>	<b>1,101,354</b>

Source: Assogestioni data updated August 2018

#### 3.2 The Assoreti market

In the first eight months of 2018, Assoreti market's net inflows (which relate to the distribution activity of FA networks) declined compared to the figure reported in 2017 (-20%). Approximately 54% of net resources invested (12.2 billion euros) regarded asset management and insurance products, whereas the remainder was invested in AUC.

(€ MILLION)	ASSORETI MARKET		
	31.08.2018	31.08.2017	CHANGE
Total assets under management	5,710	16,704	-10,994
Total insurance products	6,535	7,777	-1,242
Total assets under custody	10,482	4,016	6,466
<b>Total</b>	<b>22,727</b>	<b>28,497</b>	<b>-5,771</b>

Source: Assoreti data updated August 2018

In the asset management market, the first eight months of 2018 saw the positive performance of the UCITS segment for approximately 5,169 million euros and net inflows of 541 million euros generated by discretionary mandates. The insurance sector continued to attract a significant share of investments with net inflows of 6,535 million euros, of which 4,344 million euros related to unit-linked and multi-line policies.

Net inflows generated by AUC amounted to 10,482 million euros, thanks to the significant influx of cash.

### 3.3 Banca Generali

Against this background, Banca Generali continues to be one of the market leaders in terms of net inflows through Financial Advisors, with 3,804 million euros at the end of August 2018 (latest available figure for Assoreti comparison), with a market share of 16.7%. Financial Advisors' per-capita net inflows were 1.92 million euros, 90% above the market average (1.01 million euros).

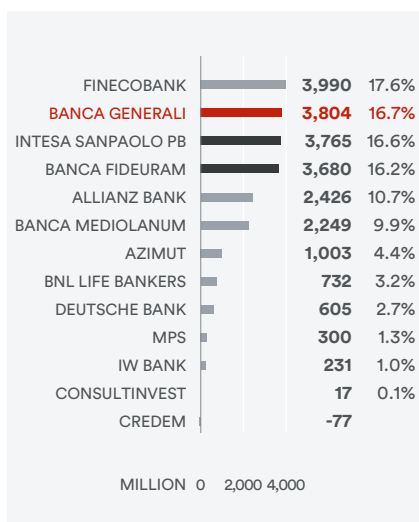
Banca Generali was among the top players in the industry in terms of net inflows into asset management and insurance products, with a 16.6% share of the market and net inflows into asset management and insurance products of 1.03 million euros per capita, significantly above the market average of 0.5 million euros.

With specific reference to the September figures, the Bank's net inflows further increased to 4,114 million euros. This result reflected the households' high demand for financial advice, in a context where increasingly greater importance is attached to the control of risk and volatility and the diversification potential. In this context, the Bank is increasingly seen as a beacon for households in search of a secure, reliable and highly professional partner capable of protecting their assets and providing personalised investment solutions. The figure appears even more significant if it is considered that it is entirely derived from direct inflows from Banca Generali's Financial Advisors and Private Bankers.

#### Net inflows of Banca Generali

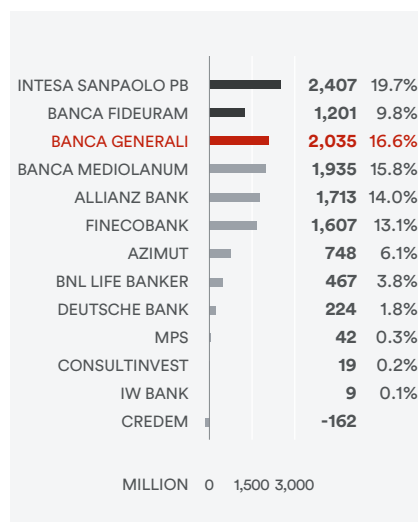
(€ MILLION)	BG GROUP		Y/Y CHANGES VS 30.09.2017	
	30.09.2018	30.09.2017	AMOUNT	%
Funds and Sicavs	632	1,337	-705	-53%
Financial wrappers	130	1,868	-1,738	-93%
Insurance wrappers	895	1,235	-340	-28%
<b>Total assets under management</b>	<b>1,657</b>	<b>4,440</b>	<b>-2,783</b>	<b>-63%</b>
<b>Total Traditional life insurance policy</b>	<b>358</b>	<b>161</b>	<b>197</b>	<b>122%</b>
<b>Total assets under custody</b>	<b>2,099</b>	<b>556</b>	<b>1,543</b>	<b>278%</b>
<b>Total net inflows placed by the network</b>	<b>4,114</b>	<b>5,157</b>	<b>-1,043</b>	<b>-20%</b>

Total Net Inflows Assoreti – 22.7 billion euros and market share



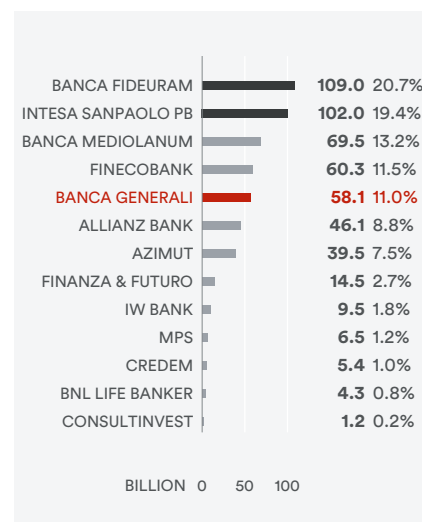
August 2018 (€ million and %)  
Source: Assoreti

Net Inflows from AUM and Insurance products Assoreti – 12.2 billion euros and market share



August 2018 (€ million and %)  
Source: Assoreti

Assoreti Total AUM – 526 billion euros and market share



June 2018 (€ billion and %)  
Source: Assoreti

In terms of Assets Under Management, in June 2018 Banca Generali was once again one of the five top competitors in the Assoreti market (distribution activity carried out through Financial Advisors), with 58.1 billion euros AUM and a market share of 11.0%.

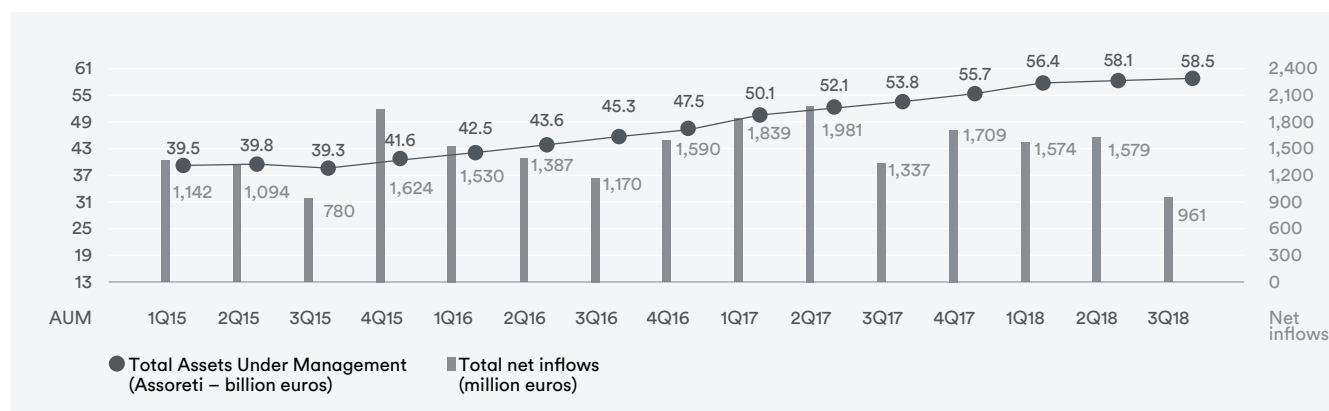
With reference to Banca Generali's assets under management - as illustrated in the table below -, the portfolio increased by 5.0% in the first nine months of 2018 compared to the figure at December 2017.

AUM in asset management products rose by 3.2%. Assets in funds and Sicavs grew by 3.0%, whereas traditional life insurance policies increased by 2.7%. AUC rose by 11.7%, driven chiefly by net inflows from new clients and deposits on current accounts in highly volatile markets contexts.

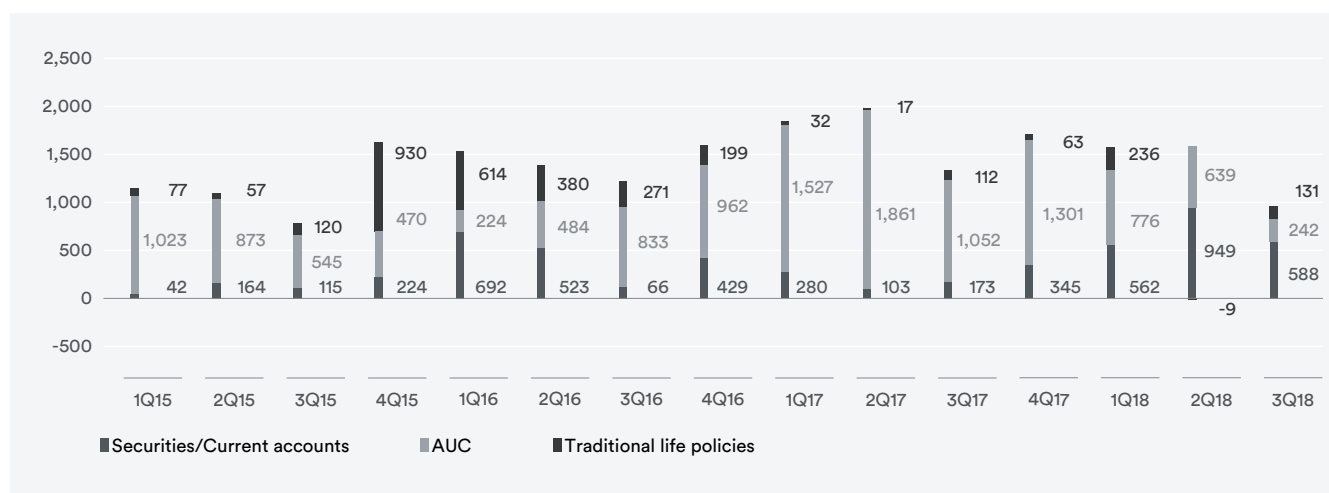
### Banca Generali's Assets Under Management

(€ MILLION)	BG GROUP		CHANGES VS 31.12.2017	
	30.09.2018	31.12.2017	AMOUNT	%
Funds and Sicavs	14,025	13,611	414	3.0%
Financial wrappers	6,919	7,102	-182	-2.6%
Insurance wrappers	7,940	7,282	658	9.0%
<b>Total assets under management</b>	<b>28,885</b>	<b>27,995</b>	<b>890</b>	<b>3.2%</b>
<b>Total Traditional life insurance policy</b>	<b>15,291</b>	<b>14,897</b>	<b>395</b>	<b>2.7%</b>
<b>Total assets under custody</b>	<b>14,291</b>	<b>12,793</b>	<b>1,498</b>	<b>11.7%</b>
<b>Total AUM placed by the network</b>	<b>58,467</b>	<b>55,684</b>	<b>2,783</b>	<b>5.0%</b>

### Evolution of AUM and Net inflows



### Breakdown of quarterly Net inflows (€ million)



## 4. PROFIT AND LOSS RESULTS

The Group's net profit at the end of the first nine months of 2018 was 135.8 million euros, slightly down compared to the same period of the previous year.

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Net interest income	44,236	47,094	-2,858	-6.1%
Net income (loss) from trading activities and dividends	22,063	14,075	7,988	56.8%
<b>Net financial income</b>	<b>66,299</b>	<b>61,169</b>	<b>5,130</b>	<b>8.4%</b>
Fee income	566,659	554,218	12,441	2.2%
Fee expense	-301,127	-281,189	-19,938	7.1%
<b>Net fees</b>	<b>265,532</b>	<b>273,029</b>	<b>-7,497</b>	<b>-2.7%</b>
<b>Net banking income</b>	<b>331,831</b>	<b>334,198</b>	<b>-2,367</b>	<b>-0.7%</b>
Staff expenses	-62,768	-63,319	551	-0.9%
Other general and administrative expenses	-113,494	-106,516	-6,978	6.6%
Net adjustments of property, equipment and intangible assets	-6,253	-5,829	-424	7.3%
Other operating expenses/income	39,178	36,493	2,685	7.4%
<b>Net operating expenses</b>	<b>-143,337</b>	<b>-139,171</b>	<b>-4,166</b>	<b>3.0%</b>
<b>Operating result</b>	<b>188,494</b>	<b>195,027</b>	<b>-6,533</b>	<b>-3.3%</b>
Net adjustments for non-performing loans	-6,062	-6,004	-58	1.0%
Net provisions for liabilities and contingencies	-14,598	-13,886	-712	5.1%
Gains (losses) from equity investments	-166	-96	-70	72.9%
<b>Operating profit before taxation</b>	<b>167,668</b>	<b>175,041</b>	<b>-7,373</b>	<b>-4.2%</b>
Income taxes for the period	-31,821	-27,687	-4,134	14.9%
<b>Net profit</b>	<b>135,847</b>	<b>147,354</b>	<b>-11,507</b>	<b>-7.8%</b>

Reclassified net banking income<sup>1</sup> amounted to 331.8 million euros, with a slight decrease of 2.4 million euros (-0.7%) compared to the previous year, determined by the combined effect of the following factors:

- > the significant increase in **management fee income** (+48.1 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 46.2 million euros as a result of increased market volatility;
- > the increase in **net financial income** - the sum of net interest income and net income from trading activities and dividends - up by 5.1 million euros (+8.4%) following the banking book de-risking strategy launched at the end of 2017 and successfully implemented also in the first half of 2018.

Within this latter aggregate, net income from trading activities and dividends increased by 8.0 million euros overall, partially offset by a modest 2.8 million euros decline in **net interest income** (-6.1%) attributable to both low interest rates and the banking book prudent profile adopted as of late 2017.

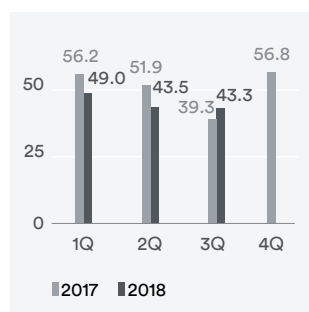
**Net operating expenses** amounted to 143.3 million euros, in line with the same period of the previous year, despite the significant business expansion and the increase in non-recurring components associated with the numerous ongoing projects.

The **cost/income ratio**, which measures the ratio of operating expenses (gross of adjustments to property, equipment and intangible assets) to net banking income, amounted to an excellent 41.3% (44.0% net of performance fees and some extraordinary components), confirming the Bank's ability to maximise its operating leverage.

<sup>1</sup> To ensure a better understanding of operating performance, in the Profit and Loss Account the provisions for sales incentives and recruitment plans have been reclassified within the net fee aggregate. As a result, the aggregate of net provisions was restated net of these items for an amount of 22.2 million euros for 2018 and 50.1 million euros for 2017. In this regard, it should be noted that, effective the first half of 2018, allocations for accruing short-term incentives amounting to 19.2 million euros have been reclassified among fees payable and fee expense in the financial statements



### Quarterly net profit (€ million)



**Provisions and net adjustments** amounted to 20.7 million euros, essentially unchanged compared to the same period of 2017. They consist chiefly of long-term provisions for Financial Advisor network's contractual indemnities, including provisions in service of the second annual cycle of the Framework Loyalty Programme and the manager incentive indemnity, recently introduced by the Bank's Board of Directors.

**Operating profit before taxation** thus stood at 167.7 million euros, declining by 7.4 million euros compared to the same period of 2017. The tax burden for the reporting period increased slightly to an overall tax rate of 19.0%, due to the increased weight of profit generated in Italy.

Net profit in the third quarter amounted to 43.3 million euros, up sharply on the third quarter of 2017 (+10.2%), despite the extremely volatile financial market scenario.

Net banking income stood at 108.4 million euros, compared with 98.9 million euros in the third quarter of the previous year, due to the positive performance of management fee income (+10.2 million euros), which completely offset the decline in performance fees (-5.2 million euros).

Net operating expenses reported instead a moderate growth (49.7 million euros, +8.2%).

Net profit amounted to 43.3 million euros (39.3 million euros in Q3 2017), following 2.5 million euros adjustments as a result of the application of the new IFRS 9 in a scenario marked by the Italian government bonds' exceptional volatility.

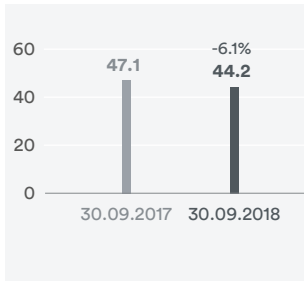
### Quarterly evolution of the Profit and Loss Account

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

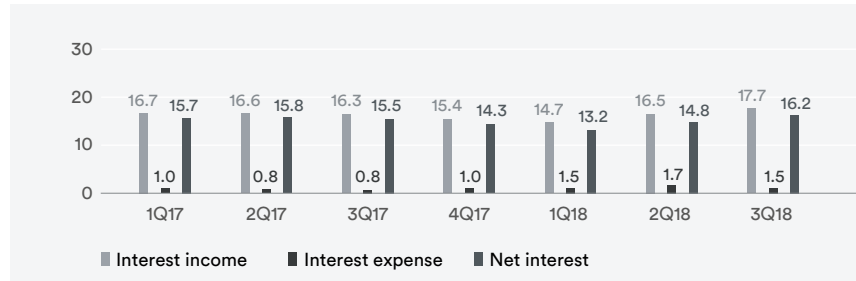
## 4.1 Net interest income

**Net interest income** amounted to 44.2 million euros, down by 2.9 million euros on the same period of 2017 (-6.1%), decreasing despite a modest expansion of business volumes, as a result of the constant decline in loans profitability due to the persistently low interest rates.

Net interest (€ million)



Quarterly net interest (€ million)



In the first nine months of 2018, interest rate performance in the Euro Area continued to be essentially influenced by the unconventional Quantitative Easing policy launched by the ECB in 2015. During its most recent meeting on 25 October 2018, the ECB's Governing Council announced that no increases in interest rates are expected at least until summer 2019<sup>2</sup>. The Council also confirmed that the current financial asset purchasing programme would continue at a monthly rate of 30 billion euros until September 2018, to then decrease to 15 billion euros until December 2018. Maturing securities will continue to be reinvested until deemed necessary.

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 September 2018 short-term interbank rates stood at a monthly average of -0.371% for the one-month Euribor and of -0.319% for the three-month Euribor.

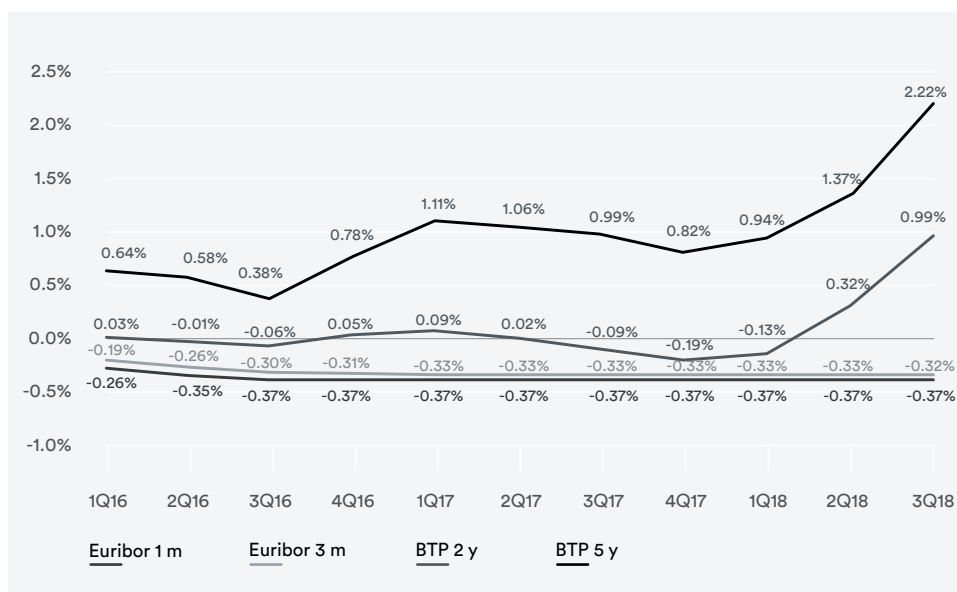
By contrast, in May the Italian government bond market began to be influenced by the situation of political uncertainty that arose when the new government was formed and by the expectations of rising interest rates driven by the strong U.S. economic recovery and the gradual scaling-back by the ECB of its financial asset purchasing programme.

Yields on Italian government bonds with average residual maturities of two years thus climbed from -0.22% in April to 0.94% in June, to average around 1.04% in September 2018. Bonds with residual maturities of five years rose from 0.78% in April to 2.04% in June, reaching a 2.27% average yield in September.

However, the new economic policy announced by the government at the end of September, which calls for a significant increase in the deficit compared with previous estimates, has rekindled turbulence on financial markets, driving the spread between the ten-year BTP and German Bund consistently over 300 bps in October, with a knock-on effect on the yield curve for Italian government bonds.

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

### Interest rate evolution (quarterly average)



Within this scenario, interest income declined by 0.7 million euros compared to the previous year (-1.5%), falling constantly from the level seen at the end of the first half of the year, due to the impact of the aforementioned increases in bond market interest rates on the securities in the Bank's investment portfolio.

The weighted average yield of the HTC portfolio climbed back to 1.2%.

Interest on loans to customers, most of which are benchmarked on the Euribor, gave minor signs of a recovery, chiefly attributable to the modest increase in loan volume compared to the same period of 2017.

Symmetrically, the cost of net inflows also stopped increasing. However, the performance of the cost of net inflows was largely characterised by the increase in negative interest income on deposits with ECB.

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Financial assets at fair value through profit or loss	128	97	31	32.0%
Financial assets at fair value through other comprehensive income	3,499	14,262	-10,763	-75.5%
Financial assets at amortised cost	27,251	17,158	10,093	58.8%
<b>Total financial assets</b>	<b>30,878</b>	<b>31,517</b>	<b>-639</b>	<b>-2.0%</b>
Loans to banks	417	84	333	396.4%
Loans to customers	16,054	15,450	604	3.9%
Other assets	1,582	2,609	-1,027	-39.4%
<b>Total interest income</b>	<b>48,931</b>	<b>49,660</b>	<b>-729</b>	<b>-1.5%</b>
Due to banks	370	464	-94	-20.3%
Due to customers	588	439	149	33.9%
Subordinated loan	1,245	1,262	-17	-1.3%
Other liabilities	2,492	401	2,091	521.4%
<b>Total interest expense</b>	<b>4,695</b>	<b>2,566</b>	<b>2,129</b>	<b>83.0%</b>
<b>Net interest income</b>	<b>44,236</b>	<b>47,094</b>	<b>-2,858</b>	<b>-6.1%</b>

The negative interest income paid to counterparties on loans and negative interest expense paid by counterparties on the Bank's funding operations amounted to 2,492 thousand euros and 1,582 thousand euros, respectively.

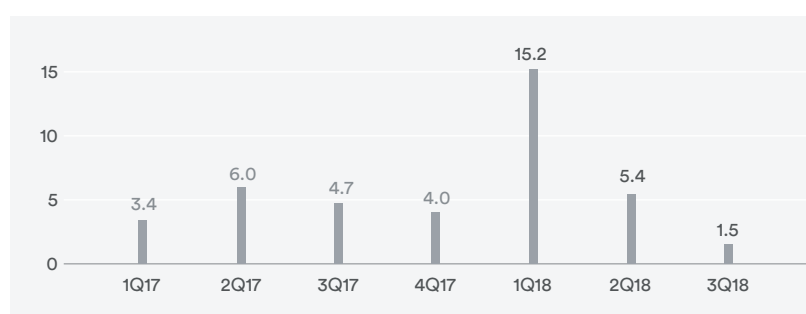
The expenses incurred primarily related to balances held with the Central Bank (2,382 thousand euros), whereas the income accrued relates to repurchase agreements at negative rates (439 thousand euros) and net inflows from institutional clients belonging to the Generali Group (1,042 thousand euros).

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Banks	101	1,424	-1,323	-92.9%
Customers (of which 439 repurchase agreements)	1,481	1,185	296	25.0%
<b>Total negative interest expense</b>	<b>1,582</b>	<b>2,609</b>	<b>-1,027</b>	<b>-39.4%</b>
Banks (of which 2,382 ECB)	2,440	391	2,049	524.0%
Customers	52	10	42	420.0%
<b>Total negative interest income</b>	<b>2,492</b>	<b>401</b>	<b>2,091</b>	<b>521.4%</b>
<b>Net interest income</b>	<b>-910</b>	<b>2,208</b>	<b>-3,118</b>	<b>-141.2%</b>

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

### Net result of financial operations (€ million)



At the end of the first nine months of 2018, the item showed a positive contribution of 22.1 million euros, up on the previous year's figure, primarily due to the capital gains earned on the banking book de-risking process that began at the end of the previous year.

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
<b>Dividends and income on UCITS</b>	<b>1,540</b>	<b>1,770</b>	<b>-230</b>	<b>-13.0%</b>
Trading of financial assets and equity derivatives	-3	211	-214	-101.4%
Trading of financial assets and derivatives on debt securities and interest rates	389	1,143	-754	-66.0%
Trading of UCITS units	-74	84	-158	-188.1%
Securities transactions	312	1,438	-1,126	-78.3%
Currency and currency derivative transactions	3,526	2,371	1,155	48.7%
<b>Net income (loss) from trading activities</b>	<b>3,838</b>	<b>3,809</b>	<b>29</b>	<b>0.8%</b>
Equity securities and UCITS at fair value (*)	876	2,291	-1,415	-61.8%
Debt securities at fair value	25	-	25	n.a.
<b>Net income (loss) of assets mandatorily measured at fair value through profit and loss</b>	<b>901</b>	<b>2,291</b>	<b>-1,390</b>	<b>-60.7%</b>
Debt securities	15,784	6,205	9,579	154.4%
<b>Gains (losses) from disposal on HTC and HTCS debt securities</b>	<b>15,784</b>	<b>6,205</b>	<b>9,579</b>	<b>154.4%</b>
<b>Net result of financial operations</b>	<b>22,063</b>	<b>14,075</b>	<b>7,988</b>	<b>56.8%</b>

(\*) Classified as AFS in 2017.

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

Excluding the trading portfolio, the growth of net gains on the disposal of debt instruments – primarily government bonds – included in the HTC and HTCS portfolios (+8.6 million euros), was driven by the aforementioned banking book de-risking process. With regard to the other assets previously classified to the AFS portfolio, the rising profits on UCITS, chiefly tied to fair value accounting treatment through profit and loss starting in 2018, did not offset the capital gains realised in the previous year on the disposal of certain equity investments no longer regarded as strategic (1.4 million euros).

(€ THOUSAND)	TRANSFER OF RESERVES	GAINS	LOSSES	CAPITAL GAINS	CAPITAL LOSSES	30.09.2018	30.09.2017	CHANGE
Debt securities at FV through other comprehensive income	14,959	3,568	-5,281	x	x	13,246	5,282	7,964
Debt securities at amortised cost	x	2,537	-	x	x	2,537	924	1,613
Financial assets mandatorily measured at FV:	x	112	-1,361	3,111	-960	902	2,290	-1,388
Debt securities at fair value	x	96	-	-	-71	25	-	25
UCITS units	x	16	-1,361	3,111	-72	1,694	-2	1,696
Equity securities	x	-	-	-	-817	-817	2,292	-3,109
<b>Total</b>	<b>14,959</b>	<b>6,217</b>	<b>-6,642</b>	<b>3,111</b>	<b>-960</b>	<b>16,685</b>	<b>8,496</b>	<b>8,189</b>

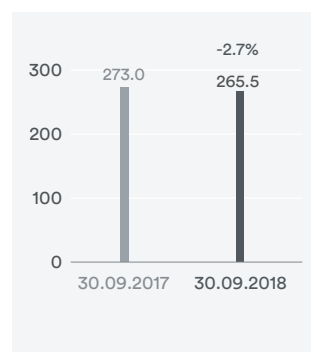
### 4.3 Net fees

Net fees amounted to 265.5 million euros, slightly down by 2.7% compared to the same period 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 first nine months of the year.

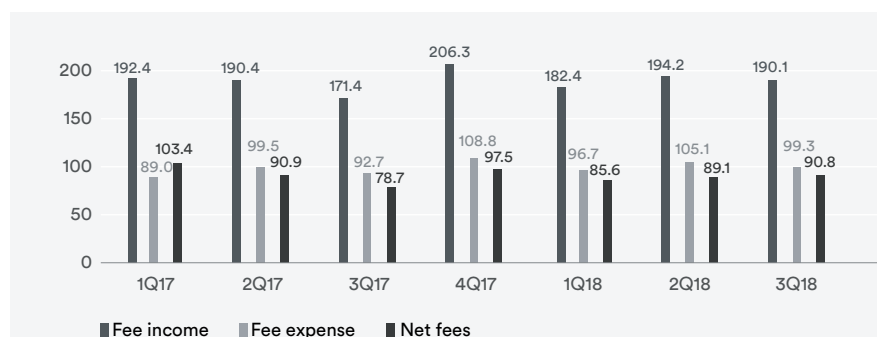
(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Collective and individual portfolio management fees	286,020	313,868	-27,848	-8.9%
Fees for the placement of securities and UCITS	76,483	57,407	19,076	33.2%
Fees for distribution of third-party financial products	167,935	156,072	11,863	7.6%
Fees for trading and securities custody	17,417	15,395	2,022	13.1%
Investment advisory fees	11,669	5,422	6,247	115.2%
Fees for other banking and financial services	7,135	6,054	1,081	17.9%
<b>Total fee income</b>	<b>566,659</b>	<b>554,218</b>	<b>12,441</b>	<b>2.2%</b>
Fees for off-premises offer (*)	269,779	250,554	19,225	7.7%
Fees for trading and securities custody	5,616	4,548	1,068	23.5%
Fees for portfolio management	22,062	23,893	-1,831	-7.7%
Fees for other banking services	3,670	2,194	1,476	67.3%
<b>Total fee expense</b>	<b>301,127</b>	<b>281,189</b>	<b>19,938</b>	<b>7.1%</b>
<b>Net fees</b>	<b>265,532</b>	<b>273,029</b>	<b>-7,497</b>	<b>-2.7%</b>

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

Net fees  
(€ million)



Quarterly net fees  
(€ million)



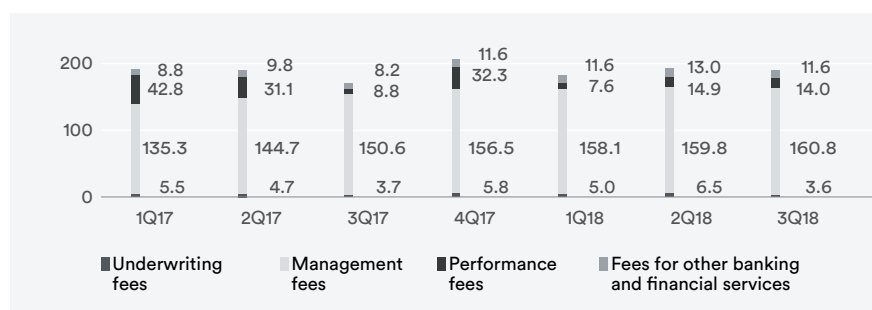
## Fee income

Fee income amounted to 566.7 million euros, up by 2.2% due to the robust growth in management fees (+11.2%), in line with increased average AUM invested in asset management and insurance products compared to the same period of 2017 (+11.9%), 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 12.4% compared to the same period of 2017.

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Underwriting fees	15,151	13,927	1,224	8.8%
Management fees	478,722	430,610	48,112	11.2%
Performance fees	36,565	82,810	-46,245	-55.8%
Fees for other services	36,221	26,871	9,350	34.8%
<b>Total</b>	<b>566,659</b>	<b>554,218</b>	<b>12,441</b>	<b>2.2%</b>

The excellent result achieved by the innovative solutions offered by the Banking Group was also borne out by the increase in **fees for other services** (+34.8%) thanks to higher revenues arising from advanced advisory services (+6.2 million euros in the reporting period). In this regard, it should be noted that **Assets under Advisory** grew significantly in the first nine months of 2018, bringing the total value of Assets under Advisory to 2.3 billion euros.

## Breakdown of fee income (€ million)



**Fee income from the solicitation of investment and asset management** of households reached 530.4 million euros, with an 11.1% increase compared to the same period of the previous year, net of the aforementioned non-recurring component.

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
1. Collective portfolio management	224,217	265,863	-41,646	-15.7%
2. Individual portfolio management	61,803	48,005	13,798	28.7%
<b>Portfolio management fees</b>	<b>286,020</b>	<b>313,868</b>	<b>-27,848</b>	<b>-8.9%</b>
1. Placement of UCITS	70,611	56,502	14,109	25.0%
<i>of which:</i>				
<i>underwriting of UCITS promoted by the Group</i>	3,096	4,169	-1,073	-25.7%
2. Placement of bonds and equity securities	5,872	904	4,968	549.6%
3. Distribution of third-party asset management products (GPM/GPF, pension funds)	580	599	-19	-3.2%
4. Distribution of third-party insurance products	166,890	155,110	11,780	7.6%
5. Distribution of other third-party financial products	465	364	101	27.7%
<b>Fees for the placement and distribution of financial services</b>	<b>244,418</b>	<b>213,479</b>	<b>30,939</b>	<b>14.5%</b>
<b>Asset management fee income</b>	<b>530,438</b>	<b>527,347</b>	<b>3,091</b>	<b>0.6%</b>

Fee income from **distribution of insurance products** continued to report constant progress, growing +7.6% compared to the same period of 2017, thanks to the significant increase in average AUM relating to the segment (+7%).

At 30 September 2018, net inflows from insurance products amounted to 1.2 billion euros, mainly thanks to the contribution of the multi-line policy **BG Stile Libero** in the second quarter of the year, which gathered 0.9 billion euros, bringing its total to over 7.9 billion euros (+9%).

The revenues generated by the distribution of the subsidiary **Genertellife's** products reached 166.4 million euros.

With reference to the successful innovative financial wrappers, mention should also be made of the multi-line **portfolio management BG Solution**, which reported a 28.7% increase in revenues compared to the same period of 2017.

**Sicavs** promoted by the Banking Group – net of the effect of non-recurring performance components – yielded a 2.4% increase in management fees compared to the same period of the previous year, due to the more dynamic performance of institutional classes than their retail counterparts. As regards the business performance of the Sicavs promoted by the Group, mention should be made of the innovative Luxembourg-based Sicav **Lux IM**, launched in April 2018 and reporting an increase in AUM of over 2 billion euros compared to the end of the previous year (+54%).

Lastly, fees for the **placement of UCITS** amounted to 70.6 million euros, with an increase of 25.0% on the same period of 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 nine months of 2018.

In addition, the placement of **Certificates** also reported a strong performance, generating fees for almost 5.0 million euros compared to 0.7 million euros for the same period of 2017.

**Fee income for other services** amounted to 36.2 million euros, up by 34.8%, due to the expansion of customer order execution and collection and payment services, in addition to the aforementioned rise in Assets under Advisory.

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Fees for trading and securities custody	17,418	15,395	2,023	13.1%
Investment advisory fees	11,669	5,422	6,247	115.2%
Fees for collection and payment services	3,245	2,089	1,156	55.3%
Fee income and account-keeping expenses	1,534	1,601	-67	-4.2%
Fees for other services	2,355	2,364	-9	-0.4%
<b>Total fee income for other services</b>	<b>36,221</b>	<b>26,871</b>	<b>9,350</b>	<b>34.8%</b>

## Fee expense

Fee expense, including fee provisions, amounted to 301.1 million euros, up moderately compared to the previous year (+7.1%), mostly due to the increase in fees paid to the Financial Advisor network for off-premises offers (+7.7%).

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Ordinary payout	188,908	166,536	22,372	13.4%
Extraordinary payout	80,871	84,018	-3,147	-3.7%
Fee expense for off-premises offer	269,779	250,554	19,225	7.7%
Fees for portfolio management	22,062	23,893	-1,831	-7.7%
Fee expense for other services	9,286	6,742	2,544	37.7%
<b>Total</b>	<b>301,127</b>	<b>281,189</b>	<b>19,938</b>	<b>7.1%</b>

Fee expense for off-premises offers paid or allocated to the Financial Advisors network amounted to 269.8 million euros, up by 19.2 million euros compared to the same period of 2017, mostly attributable to the increase of ordinary fees (+13.4%).

Incentive fees, which amounted to 80.9 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 slight decline in this item in the first nine months of 2018 (-3.7%) is essentially due to the lower incentive fees tied to the slowing growth of net inflows of assets under management.

Fees for portfolio management amounted to 22.1 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.

Fee expense for other services grew by 37.7%, essentially reflecting the symmetric increase in fee income for trading, collection and payment services.

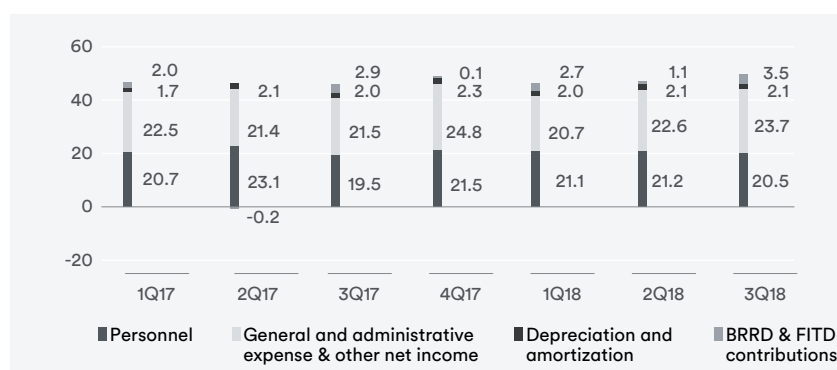
(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Fees for securities trading and custody	-5,616	-4,548	-1,068	23.5%
Fees for collection and payment services	-3,004	-1,782	-1,222	68.6%
Fees for other services	-666	-412	-254	61.7%
<b>Total fee expense for other services</b>	<b>-9,286</b>	<b>-6,742</b>	<b>-2,544</b>	<b>37.7%</b>

## 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 143.3 million euros, slightly increasing compared to the same period of the previous year (+3.0%), mostly attributable to the higher contributions to the resolution and deposit protection funds.

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Staff expenses	62,768	63,319	-551	-0.9%
General and administrative expenses (net of duty recovery) and other net income	67,030	65,372	1,658	2.5%
BRRD and FITD contributions	7,286	4,651	2,635	56.7%
Net adjustments of property, equipment and intangible assets	6,253	5,829	424	7.3%
<b>Operating expenses</b>	<b>143,337</b>	<b>139,171</b>	<b>4,166</b>	<b>3.0%</b>

### Breakdown of operating costs (€ million)



The increase in **expenses related to the contributions to the Italian National Resolution and Interbank Deposit Protection Funds** in 2018 (+2.6 million euros) was due to both the rise in ordinary contributions to the Interbank Deposit Protection Fund and Single Resolution Fund, respectively attributable to the increase in protected assets and the volume of the Group's banking assets (+1.6 million euros), and to the additional contribution requested by the National Resolution Fund managed by the Bank of Italy to cover the interventions undertaken in 2015 (+1.0 million euros).

**Staff expenses**, including full-time employees, interim staff and directors, reached 62.8 million euros, essentially in line with the previous year (-0.9%).

Group's employees totalled 887 at the end of the reporting period, with average headcount increasing by 12.

	30.09.2018	30.09.2017	CHANGE		AVERAGE	
			AMOUNT	%	2018	2017
Managers	49	48	1	2.1%	48.5	47.5
3 <sup>rd</sup> and 4 <sup>th</sup> level executives	151	150	1	0.7%	150.0	150.5
Other employees	687	689	-2	-0.3%	681.5	670.0
<b>Total</b>	<b>887</b>	<b>887</b>	<b>-</b>	<b>-</b>	<b>880.0</b>	<b>868.0</b>

The performance of staff expenses in the first nine months of 2018 was chiefly influenced by the decline in the variable incentive component (-18.7%), mainly due to lower costs associated with the recruitment plans for new Relationship Managers and only partially offset by a slight increase in the remuneration recurrent component (2.7%) and other employee benefits.



(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
<b>1) Employees</b>	<b>61,605</b>	<b>62,326</b>	<b>-721</b>	<b>-1.2%</b>
Salaries and social security charges	43,412	42,410	1,002	2.4%
Provision for termination indemnity and supplementary pension funds	3,602	3,358	244	7.3%
Costs related to payment agreements based on own financial instruments	1,717	1,529	188	12.3%
Short-term productivity bonuses (MBO, CIA, sales incentives)	7,890	10,757	-2,867	-26.7%
Other long-term incentives (MBO)	1,230	1,051	179	17.0%
Other employee benefits	3,754	3,221	533	16.5%
<b>2) Other staff</b>	<b>120</b>	<b>110</b>	<b>10</b>	<b>9.1%</b>
<b>3) Directors and Auditors</b>	<b>1,043</b>	<b>883</b>	<b>160</b>	<b>18.1%</b>
<b>Total</b>	<b>62,768</b>	<b>63,319</b>	<b>-551</b>	<b>-0.9%</b>

**Other general and administrative expenses**, and other net income, amounted to 67.0 million euros, reporting a moderate growth compared to the previous year (+2.5%).

The increase in the item was mainly due to the operations segment, the growth of which was influenced by both the moving and facility management costs (0.5 million euros) associated with the Bank's new offices in the Hadid Tower, in the Citylife complex, and the increased costs generated by the expansion of the local network structure over the past two years.

The increased costs of IT systems were influenced by the greater recurring expenses tied to the development projects that entered into production in the previous year.

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
<b>Administration</b>	<b>10,072</b>	<b>10,222</b>	<b>-150</b>	<b>-1.5%</b>
Advertising	2,563	2,850	-287	-10.1%
Advisory	3,788	4,027	-239	-5.9%
Auditing	304	307	-3	-1.0%
Insurance	2,289	2,204	85	3.9%
Other general costs (insurance; T&E)	1,128	834	294	35.3%
<b>Operations</b>	<b>28,068</b>	<b>26,433</b>	<b>1,635</b>	<b>6.2%</b>
Rent and usage of premises	14,541	13,635	906	6.6%
Outsourced services	3,971	4,126	-155	-3.8%
Post and telephone	1,967	1,782	185	10.4%
Print material and contracts	1,020	918	102	11.1%
Other indirect staff expenses	1,628	1,608	20	1.2%
Other operating expenses	4,941	4,364	577	13.2%
<b>Information system and equipment</b>	<b>30,040</b>	<b>29,193</b>	<b>847</b>	<b>2.9%</b>
Outsourced IT services	21,702	21,549	153	0.7%
Fees for financial databases and other IT services	5,376	4,988	388	7.8%
Software maintenance and servicing	2,386	2,084	302	14.5%
Other expenses (equipment rental, maintenance, etc.)	576	572	4	0.7%
<b>Taxes and duties</b>	<b>938</b>	<b>1,043</b>	<b>-105</b>	<b>-10.1%</b>
of which: virtual stamp duty and other duties borne by customers	37,518	35,497	2,021	5.7%
(minus) Recovery of stamp duty from customers	-37,090	-34,974	-2,116	6.1%
Other taxes and duties	510	520	-10	-1.9%
<b>General and administrative expenses, net of tax recovery</b>	<b>69,118</b>	<b>66,891</b>	<b>2,227</b>	<b>3.3%</b>
<b>Other net income and expenses</b>	<b>-2,088</b>	<b>-1,519</b>	<b>-569</b>	<b>37.5%</b>
<b>General and administrative expenses and other net income</b>	<b>67,030</b>	<b>65,372</b>	<b>1,658</b>	<b>2.5%</b>

## 4.5 Net provisions

**Net provisions** not related to fees amounted to 14.6 million euros, up by 0.7 million euros on the same period of 2017, and refer primarily to provisions for contractual indemnities for the sales network, the increase in which was completely offset by a decrease in provisions for legal disputes and other provisions.

Provisions for contractual indemnities refer not only to the second annual cycle of the Framework Loyalty Programme for the Financial Advisors Network, following the provision recognised in the first quarter, but also the charge relating to the inception of the new manager incentive indemnity mechanism, approved by the Board of Directors in June 2018 and intended to ensure fair treatment of all network managers in the event of dismissal from their additional roles.

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Provision for staff liabilities and contingencies	-211	1,248	-1,459	-116.9%
Provisions for legal disputes	971	3,327	-2,356	-70.8%
Provision for contractual indemnities to the sales network	11,674	8,717	2,957	33.9%
Other provisions for liabilities and contingencies	2,203	594	1,609	270.9%
Guarantees and commitments	-39	-	-39	n.a.
<b>Total</b>	<b>14,598</b>	<b>13,886</b>	<b>712</b>	<b>5.1%</b>

## 4.6 Adjustments

**Net adjustments for non-performing loans** were 6.1 million euros, essentially in line with 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 HTC portfolio following the airline’s default.

(€ THOUSAND)	ADJUSTMENTS	REVERSALS	30.09.2018	30.09.2017	CHANGE
<b>Specific adjustments/reversals</b>	<b>-1,072</b>	<b>958</b>	<b>-114</b>	<b>-7,702</b>	<b>7,588</b>
Equity securities	-	-	-	-418	418
Debt securities	-	6	6	-2,642	2,648
Non-performing loans of the banking book	-1,008	923	-85	-1,145	1,060
Operating loans to customers	-64	29	-35	-170	135
Contribution to the Interbank Deposit Protection Fund (FITD)	-	-	-	-3,327	3,327
<b>Portfolio adjustments/reversals</b>	<b>-6,002</b>	<b>54</b>	<b>-5,948</b>	<b>1,698</b>	<b>-7,646</b>
Debt securities	-5,893	-	-5,893	1,359	-7,252
Performing loans to customers and banks	-109	54	-55	339	-394
<b>Total</b>	<b>-7,074</b>	<b>1,012</b>	<b>-6,062</b>	<b>-6,004</b>	<b>-58</b>

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

## 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 31.8 million euros, up 4.1 million euros compared to estimated taxes at the end of the same period of the previous year.

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Current taxes for the period	-33,658	-39,991	6,333	-15.8%
Prior years' taxes	34	339	-305	-90.0%
Changes of prepaid taxation (+/-)	-111	12,383	-12,494	-100.9%
Changes of deferred taxation (+/-)	1,914	-418	2,332	n.a.
<b>Total</b>	<b>-31,821</b>	<b>-27,687</b>	<b>-4,134</b>	<b>14.9%</b>

The estimated total tax rate was 19.0%, up compared to the figure estimated at end of the same period of 2017, chiefly due to the increase in the share of profit generated by the Parent Company in Italy.

The first nine months of 2018 thus closed with basic net earnings per share of 1.17 euros.

	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Net profit for the period (€ thousand)	135,847	147,354	-11,507	-7.8%
Earnings attributable to ordinary shares (€ thousand)	135,847	147,354	-11,507	-7.8%
Average number of outstanding shares (thousand)	116,164	116,539	-375	-0.3%
<b>EPS – Earnings per share (euros)</b>	<b>1.17</b>	<b>1.26</b>	<b>-0.09</b>	<b>-7.5%</b>
Average number of outstanding shares with diluted share capital (thousand)	116,164	116,711	-547	-0.5%
<b>EPS – Diluted earnings per share (euros)</b>	<b>1.17</b>	<b>1.26</b>	<b>-0.09</b>	<b>-7.4%</b>

## 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.

At the end of the third quarter of 2018, the latter component provided a negative overall contribution of 37.4 million euros, against a net positive change of 2.3 million euros recorded at the end of the same period of the previous year.

In detail, the increase in valuation reserves on the portfolio of financial assets at fair value with a counterentry in the other comprehensive income (OCI) was attributable to the following factors:

- > the increase in net valuation capital losses totalling 40.0 million euros;
- > the reduction of pre-existing net positive reserves due to re-absorption through profit or loss upon realisation (15.0 million euros);
- > the positive net tax effect associated with the above changes and resulting from increases in DTLs and reabsorption of DTAs (17.6 million euros).

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
<b>Net profit</b>	<b>135,847</b>	<b>147,354</b>	<b>-11,507</b>	<b>-7.8%</b>
<b>Other income, net of income taxes:</b>				
<b>With transfer to Profit and Loss Account</b>				
Exchange differences	-8	-14	6	-42.9%
Financial assets at fair value through other comprehensive income	-37,280	2,360	-39,640	n.a.
<b>Without transfer to Profit and Loss Account:</b>				
Actuarial gains (losses) from defined benefit plans	-151	-71	-80	112.7%
<b>Total other income, net of taxes</b>	<b>-37,439</b>	<b>2,275</b>	<b>-39,714</b>	<b>n.a.</b>
<b>Consolidated comprehensive income</b>	<b>98,408</b>	<b>149,629</b>	<b>-51,221</b>	<b>-34.2%</b>

## 5. PERFORMANCE OF THE MAIN BALANCE SHEET AGGREGATES

At the end of the first nine months of 2018, total consolidated assets amounted to 9.2 billion euros, increasing by approximately 0.2 billion euros (+2.1%) compared to the end of 2017.

Total net inflows amounted to 8.2 billion euros (+4.1%), driven by the significant net inflows from customers (+12.9%), which offset the decline in interbank net inflows and the early repayment of the TLTRO.

Core loans thus totalled 8.7 billion euros, up 2.7%.

ASSETS (€ THOUSAND)	30.09.2018	31.12.2017	CHANGE		01.01.2018 FTA
			AMOUNT	%	
Financial assets at fair value through profit or loss	98,128	49,814	48,314	97.0%	118,778
Financial assets at fair value through other comprehensive income	2,129,338	4,612,728	-2,483,390	-53.8%	2,977,389
Financial assets at amortised cost	6,495,179	3,831,104	2,664,075	69.5%	5,389,959
a) Loans to banks (*)	912,269	923,095	-10,826	-1.2%	922,492
b) Loans to customers	5,582,910	2,908,009	2,674,901	92.0%	4,467,467
Equity investments	1,688	1,820	-132	-7.3%	1,820
Property, equipment and intangible assets	93,603	98,380	-4,777	-4.9%	98,381
Tax receivables	57,226	45,735	11,491	25.1%	46,794
Other assets	304,856	351,430	-46,574	-13.3%	355,526
<b>Total assets</b>	<b>9,180,018</b>	<b>8,991,011</b>	<b>189,007</b>	<b>2.1%</b>	<b>8,988,647</b>

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	30.09.2018	31.12.2017	CHANGE		01.01.2018 FTA
			AMOUNT	%	
Financial liabilities at amortised cost	8,201,383	7,879,779	321,604	4.1%	7,879,968
a) Due to banks	72,348	682,531	-610,183	-89.4%	682,531
b) Due to customers	8,129,035	7,197,248	931,787	12.9%	7,197,437
Financial liabilities held for trading and hedging	925	206	719	349.0%	206
Tax liabilities	25,123	35,564	-10,441	-29.4%	35,168
Other liabilities	114,659	185,218	-70,559	-38.1%	184,757
Special purpose provisions	160,820	154,174	6,646	4.3%	155,305
Valuation reserves	-23,388	21,646	-45,034	-208.0%	14,051
Reserves	412,683	348,519	64,164	18.4%	353,287
Share premium reserve	57,893	58,219	-326	-0.6%	58,219
Share capital	116,852	116,852	-	-	116,852
Treasury shares (-)	-22,779	-13,271	-9,508	71.6%	-13,271
Net profit (loss) for the period (+/-)	135,847	204,105	-68,258	-33.4%	204,105
<b>Total net equity and liabilities</b>	<b>9,180,018</b>	<b>8,991,011</b>	<b>189,007</b>	<b>2.1%</b>	<b>8,988,647</b>

## Quarterly evolution of Consolidated Balance Sheet

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

(\*) Balance sheet aggregates have been restated to comply with final IFRS 9 FTA.

## 5.1 Direct inflows from customers

Total direct inflows from customers amounted to 8.1 billion euros, up by 12.9% compared to 31 December 2017.

(€ THOUSAND)	30.09.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
1. Current accounts and demand deposits	7,891,112	6,903,451	987,661	14.3%	6,903,451
2. Term deposits	20,000	-	20,000	n.a.	-
3. Financing	94,257	83,845	10,412	12.4%	83,845
Repurchase agreements	49,733	40,567	9,166	22.6%	40,567
Subordinated loans	44,524	43,278	1,246	2.9%	43,278
4. Other debts	123,666	210,141	-86,475	-41.1%	209,952
Operating debts to sales network	105,443	119,560	-14,117	-11.7%	119,371
Other (money orders, amounts at the disposal of customers)	18,223	90,581	-72,358	-79.9%	90,581
<b>Total due to customers</b>	<b>8,129,035</b>	<b>7,197,437</b>	<b>931,598</b>	<b>12.9%</b>	<b>7,197,248</b>

The growth in inflows from customers (external to the Insurance Group) continued to be driven mostly by demand current account balances, which reported a net increase of 1,003 million euros to 7,455 million euros.

Net inflows in the form of repurchase agreements rose by 9.2 million euros.

The third quarter saw the relaunch of net inflows through term deposits as well.

Captive inflows from the companies within the Assicurazioni Generali Group decreased by 14.3 million euros to 481.5 million euros at the end of the quarter, thus accounting for 5.9% of total inflows.

The aggregate includes 44.5 million euros for the Tier-2 subordinated loan issued by the subsidiary Generali Beteiligungs GmbH in 2014.

(€ THOUSAND)	30.09.2018	31.12.2017	CHANGE	
			AMOUNT	%
Inflows from Parent Company	29,024	6,247	22,777	364.6%
Inflows from other subsidiaries of the Generali Group	452,520	489,596	-37,076	-7.6%
<b>Total inflows from Generali Group</b>	<b>481,544</b>	<b>495,843</b>	<b>-14,299</b>	<b>-2.9%</b>
Inflows from other parties	7,647,491	6,701,405	946,086	14.1%
<i>of which: current accounts</i>	7,454,653	6,451,682	1,002,971	15.5%
<b>Total inflows from customers</b>	<b>8,129,035</b>	<b>7,197,248</b>	<b>931,787</b>	<b>12.9%</b>

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 8,723 million euros overall, up 236.5 million euros compared to 1 January 2018, mainly as a consequence of the increase in investments in financial asset portfolios, which grew by 183.6 million euros (+3.2%).

Demand deposits with the ECB remained at high levels at 621.5 million euros, down compared with 30 June 2018, due in part to the early repayment of the ECB TLTRO2 at the end of September. The temporary growth of this item was aimed at mitigating the Bank's risk exposure against a backdrop of increasingly high volatility in the financial markets associated with the uncertainty posed by the Italian and international political scenario and the expectations on the central banks' future stance.

(€ THOUSAND)	30.09.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
Financial assets at fair value through profit or loss	98,128	118,778	-20,650	-17.4%	49,814
Financial assets at fair value through other comprehensive income	2,129,338	2,977,389	-848,051	-28.5%	4,612,728
Financial assets at amortised cost	3,702,574	2,650,309	1,052,265	39.7%	1,073,896
<b>Financial assets</b>	<b>5,930,040</b>	<b>5,746,476</b>	<b>183,564</b>	<b>3.2%</b>	<b>5,736,438</b>
Loans to and deposits with banks (*)	832,204	829,864	2,340	0.3%	829,992
Loans to customers	1,808,222	1,768,192	40,030	2.3%	1,768,965
Operating loans and other loans	152,179	141,594	10,585	7.5%	158,251
<b>Total interest-bearing financial assets and loans</b>	<b>8,722,645</b>	<b>8,486,126</b>	<b>236,519</b>	<b>2.8%</b>	<b>8,493,646</b>

(\*) ECB demand deposits included.

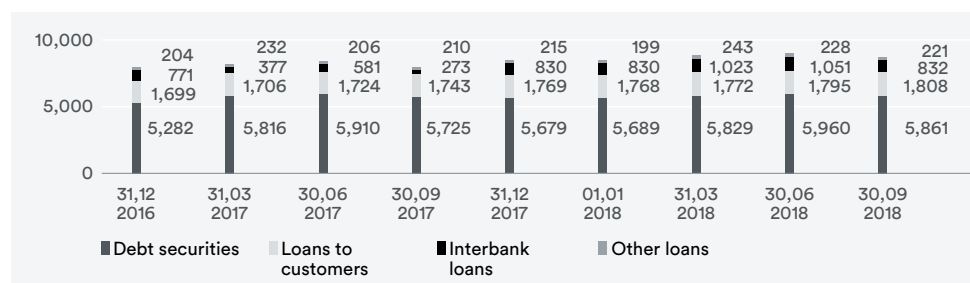
In 2018, the Banking Group began a process of revising its investment policies with the aim of shifting the core banking book towards the less volatile component of financial assets at amortised cost (HTC) with a reduction of financial assets designated at fair value through other comprehensive income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

On the basis of the guidelines on the adoption of the new risk framework and the new industrial plan currently being developed, the increase in financial assets was concentrated in the held-to-collect (HTC) portfolio, i.e., assets measured at amortised cost and held for investment purposes, which grew by 1,052 million euros, mainly driven by the government bond purchases.

The portfolio of financial assets designated at fair value through other comprehensive income was rebalanced symmetrically, resulting in a decline of 848 million euros.

Overall, financial assets accounted for 68.0% of the core loan aggregate's total, slightly increasing compared to 67.7% at the beginning of 2018. The exposure to financial instruments other than debt securities was extremely limited.

#### Quarterly evolution of loans (€ million)



(€ THOUSAND)	30.09.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
Government securities	5,405,072	5,306,058	99,014	1.9%	5,316,611
Other public institutions	12,864	8,283	4,581	55.3%	8,283
Securities issued by banks	253,164	186,689	66,475	35.6%	186,293
Securities issued by other issuers	189,634	169,994	19,640	11.6%	168,038
Equity securities and other securities	69,306	75,452	-6,146	-8.1%	57,213
<b>Total financial assets</b>	<b>5,930,040</b>	<b>5,746,476</b>	<b>183,564</b>	<b>3.2%</b>	<b>5,736,438</b>

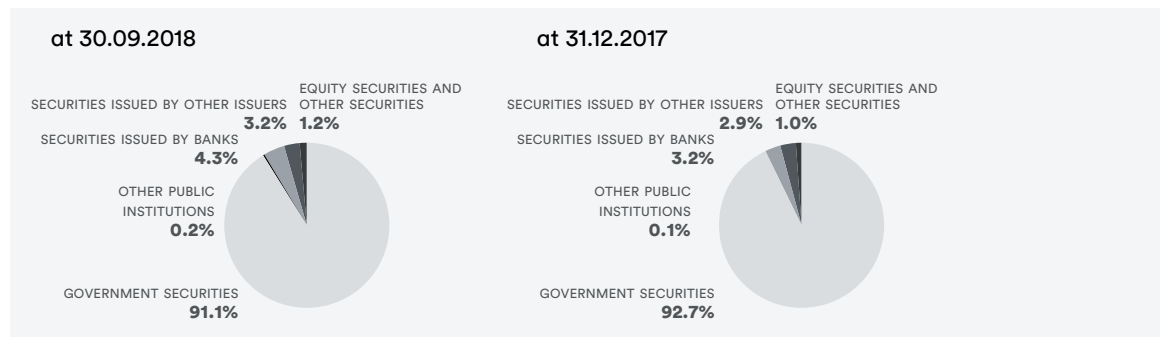
Sovereign debt exposure increased by 103.6 million euros accounting for 91.1% of total investments in financial instruments, essentially stable compared to the end of the previous year (92.7%).

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

(€ THOUSAND)	30.09.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
<b>Exposure to the sovereign risk by portfolio:</b>					
Financial assets at fair value through profit or loss	71	-	71	n.a.	-
Financial assets at fair value through other comprehensive income	1,918,475	2,890,047	-971,572	-33.6%	4,465,316
Financial assets at amortised cost	3,499,390	2,424,294	1,075,096	44.3%	859,578
<b>Total</b>	<b>5,417,936</b>	<b>5,314,341</b>	<b>103,595</b>	<b>1.9%</b>	<b>5,324,894</b>

The overall geographical breakdown of the portfolio of debt securities thus showed a high concentration of investments relating to Italian securities (95.8%).

**Breakdown of financial assets**



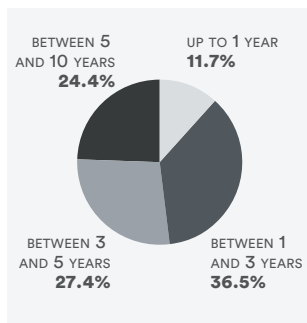
In a context marked by increasingly volatile financial markets, the Banking Group adopted a policy aimed at narrowing the maturities of its portfolio issues.

At the end of September, the share of financial assets with a maturity of more than 5 years dropped to 24.4% from 30.6% at the end of 2017, whilst the share of assets having a residual life of 1-3 years rose from 28.5% to 36.5%.

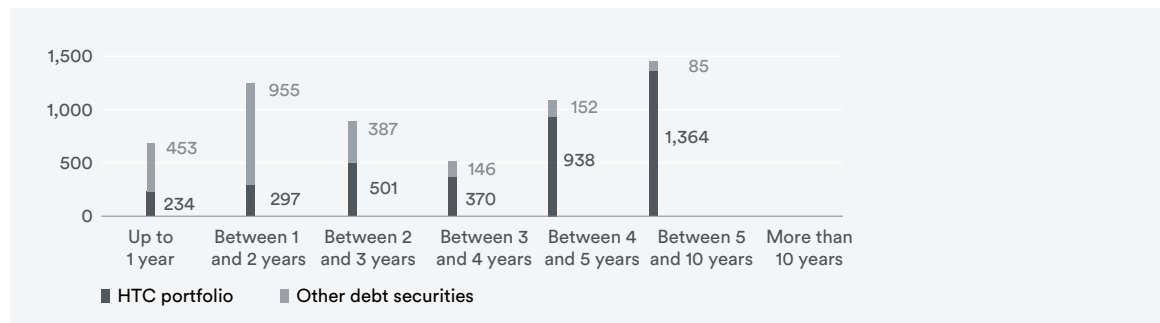
The portfolio of debt securities had an overall average residual life of about 3.4 years (3.9 years at the end of the first quarter of 2017). In particular, the average maturity of the HTC portfolio is 4.6 years, whereas the average maturity of the HTCS portfolio is 1.7 years.

Moreover, 40.5% of the portfolio was made up of variable-rate issues, and for the remainder, of fixed-rate issues and zero coupons (55.7% at the end of the third quarter of 2017).

**Breakdown of bonds portfolio by maturity**



**Bonds portfolio maturity**  
(€ million)



**Loans** to customers reached 1,808 million euros, up slightly compared to the beginning of 2018 (+2.3%) due to the moderate expansion of overdraft facilities, partly offset by mortgages. Within the framework of the increase in overdraft facilities, mention should be made of the positive response from private-banking clients to the new Lombard lending facility.

(€ THOUSAND)	30.09.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
Current accounts	952,853	894,596	58,257	6.5%	895,369
Mortgages and personal loans	853,205	869,793	-16,588	-1.9%	869,793
Other financing and loans not in current accounts	2,164	3,803	-1,639	-43.1%	3,803
<b>Loans to customers</b>	<b>1,808,222</b>	<b>1,768,192</b>	<b>40,030</b>	<b>2.3%</b>	<b>1,768,965</b>
Operating loans to management companies	116,617	112,333	4,284	3.8%	112,333
Sums advanced to Financial Advisors	19,938	17,719	2,219	12.5%	34,376
Stock exchange interest-bearing daily margin	7,838	3,562	4,276	120.0%	3,562
Charges to be debited and other loans	7,028	7,629	-601	-7.9%	7,629
<b>Operating loans and other loans</b>	<b>151,421</b>	<b>141,243</b>	<b>10,178</b>	<b>7.2%</b>	<b>157,900</b>

Net non-performing exposures on loans to customers amounted to 15.8 million euros, or 0.88% of total loans to customers reported in the table above.



The aggregate includes all the exposures originating in the portfolio of Banca del Gottardo Italia, fully covered by the loan indemnity granted by BSI S.A.<sup>3</sup> upon the sale of the said company and chiefly secured to that end by cash collateral payments by the counterparty.

Moreover, non-performing exposures with customers 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.

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

#### Cash loans to customers – non-performing exposures

(€ THOUSAND)	BAD LOANS	UNLIKELY TO PAY	NON PERFORMING PAST-DUE EXPOSURES	TOTAL NON-PERFORMING LOANS AT 30.09.2018	TOTAL NON-PERFORMING LOANS AT 31.12.2017	DELTA	CHANGE %
Gross exposure	32,215	18,827	1,979	53,021	86,368	-33,347	-39%
Adjustments	10,854	1,228	246	12,328	13,918	-1,590	-11%
<b>Net exposure</b>	<b>21,361</b>	<b>17,599</b>	<b>1,733</b>	<b>40,693</b>	<b>72,450</b>	<b>-31,757</b>	<b>-44%</b>
Gross exposure	28,002	5,256	-	33,258	37,223	-3,965	-11%
Adjustments	8,399	-	-	8,399	9,990	-1,591	-16%
<b>Exposure guaranteed by net indemnity</b>	<b>19,603</b>	<b>5,256</b>	<b>-</b>	<b>24,859</b>	<b>27,233</b>	<b>-2,374</b>	<b>-9%</b>
Gross exposure	4,213	13,571	1,979	19,763	49,145	-29,382	-60%
Adjustments	2,455	1,228	246	3,929	3,928	1	-
<b>Exposure net of indemnity</b>	<b>1,758</b>	<b>12,343</b>	<b>1,733</b>	<b>15,834</b>	<b>45,217</b>	<b>-29,383</b>	<b>-65%</b>
<b>Net guaranteed exposure</b>	<b>1,686</b>	<b>11,758</b>	<b>1,585</b>	<b>15,029</b>	<b>44,311</b>	<b>-29,282</b>	<b>-66%</b>
<b>Net exposure not guaranteed</b>	<b>72</b>	<b>585</b>	<b>148</b>	<b>805</b>	<b>906</b>	<b>-101</b>	<b>-11%</b>

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

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

At 30 September 2018, the **interbank position**, net of the securities portfolio and operating loans, showed a net credit balance of 759.9 million euros, up compared to a net exposure of 147.3 million euros at year-start.

This situation was mainly due to the combined effect of the ongoing significant loan position with the ECB (621.5 million euros), the end of leveraged net inflows in the form of repurchase agreements at negative rates on the interbank market (-189.7 million euros), and lastly, the full early repayment of the TLTRO2 (-400 million euros) granted on 29 June 2016 and with a four-year term.

(€ THOUSAND)	30.09.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
<b>1. Repayable on demand</b>	<b>737,901</b>	<b>696,236</b>	<b>41,665</b>	<b>6.0%</b>	<b>696,364</b>
Demand deposits with ECB and Bank of Italy (*)	621,474	545,632	75,842	13.9%	545,632
Transfer accounts	116,427	150,604	-34,177	-22.7%	150,732
<b>2. Time deposits</b>	<b>94,303</b>	<b>133,628</b>	<b>-39,325</b>	<b>-29.4%</b>	<b>133,628</b>
Mandatory reserve	78,038	67,617	10,421	15.4%	67,617
Term deposits	13,988	65,938	-51,950	-78.8%	65,938
Collateral margins	2,277	73	2,204	n.a.	73
<b>Total loans to banks</b>	<b>832,204</b>	<b>829,864</b>	<b>2,340</b>	<b>0.3%</b>	<b>829,992</b>
<b>1. Due to Central Banks</b>	<b>-</b>	<b>400,000</b>	<b>-400,000</b>	<b>-100.0%</b>	<b>400,000</b>
TLTRO	-	400,000	-400,000	-100.0%	400,000
<b>2. Due to banks</b>	<b>72,348</b>	<b>282,531</b>	<b>-210,183</b>	<b>-74.4%</b>	<b>282,531</b>
Transfer accounts	52,311	57,472	-5,161	-9.0%	57,472
Term deposits	-	3,796	-3,796	-100.0%	3,796
Repurchase agreements	-	189,657	-189,657	-100.0%	189,657
Collateral margins	-	9,532	-9,532	-100.0%	9,532
Other debts	20,037	22,074	-2,037	-9.2%	22,074
<b>Total due to banks</b>	<b>72,348</b>	<b>682,531</b>	<b>-610,183</b>	<b>-89.4%</b>	<b>682,531</b>
<b>Net interbank position</b>	<b>759,856</b>	<b>147,333</b>	<b>612,523</b>	<b>415.7%</b>	<b>147,461</b>

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

<sup>3</sup> 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.

### 5.3 Provisions

Total special purpose provisions totalled 160.8 million euros overall, up 5.5 million euros compared to the previous year (+3.6%) chiefly due to the provisions in connection with the beginning of the new annual cycle of the Framework Loyalty Programme for the Financial Advisors Network.

(€ THOUSAND)	30.09.2018	01.01.2018 FTA	CHANGE		31.12.2017
			AMOUNT	%	
Provision for termination indemnity	4,947	4,859	88	1.8%	4,859
Provisions for guarantees issued and commitments	164	204	-40	n.a.	-
<b>Other provisions for liabilities and contingencies</b>	<b>155,709</b>	<b>150,242</b>	<b>5,467</b>	<b>3.6%</b>	<b>149,315</b>
Provisions for staff expenses	13,116	15,404	-2,288	-14.9%	15,404
Restructuring provision - Redundancy incentives plan	673	1,089	-416	-38.2%	1,089
Provisions for legal disputes	13,394	17,747	-4,353	-24.5%	17,747
Provisions for contractual indemnities to the sales network	73,162	62,251	10,911	17.5%	61,459
Provisions for sales network incentives	51,621	52,211	-590	-1.1%	52,076
Other provisions for liabilities and contingencies	3,743	1,540	2,203	143.1%	1,540
<b>Total provisions</b>	<b>160,820</b>	<b>155,305</b>	<b>5,515</b>	<b>3.6%</b>	<b>154,174</b>

Provisions for long-term contractual indemnities included 6.8 million euros referring to the provision for the annual cycles of the Framework Loyalty Programme for the Financial Advisors 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.

In this regard, it should be noted that the Board of Directors of 20 March 2018 approved the launch of the second plan 2018-2026 on the basis of the same provisions set forth for the first plan of 2017 (assignment of Banca Generali shares for an amount equal to 50% of the indemnity accrued). This resolution was subsequently ratified by the General Shareholders' Meeting on 12 April 2018.

#### Tax dispute

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

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

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

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

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

### 5.4 Net equity and regulatory aggregates

At 30 September 2018, consolidated net equity, including net profit for the period, amounted to 677.1 million euros compared to 736.1 million euros at the end of the previous year.

(€ THOUSAND)	30.09.2018	31.12.2017	CHANGE		01.01.2018 FTA
			AMOUNT	%	
Share capital	116,852	116,852	-	-	116,852
Share premium reserve	57,893	58,219	-326	-0.6%	58,219
Reserves	412,683	348,519	64,164	18.4%	353,287
(Treasury shares)	-22,779	-13,271	-9,508	71.6%	-13,271
Valuation reserves	-23,388	21,646	-45,034	-208.0%	14,051
Net profit (loss) for the period	135,847	204,105	-68,258	-33.4%	204,105

(€ THOUSAND)	30.09.2018	31.12.2017	AMOUNT	CHANGE		01.01.2018 FTA
					%	
<b>Group net equity</b>	<b>677,108</b>	<b>736,070</b>	<b>-58,962</b>		<b>-8.0%</b>	<b>733,243</b>

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

(€ THOUSAND)	30.09.2018	31.12.2017
<b>Net equity at period-start</b>	<b>736,070</b>	<b>646,521</b>
IFRS 9 and IFRS 15 FTA	-2,827	-
Dividend paid	-145,474	-124,674
Purchase and sale of treasury shares	-12,841	-10,338
Issue of new shares (stock options)	-	3,056
Matured IFRS 2 reserves on own financial instruments	2,908	2,937
Matured IFRS 2 reserves on LTIP	864	1,796
Change in valuation reserves (net of FTA)	-37,439	12,667
Consolidated net profit	135,847	204,105
<b>Net equity at period-end</b>	<b>677,108</b>	<b>736,070</b>
<b>Change</b>	<b>-58,962</b>	<b>89,549</b>

During the first half of the year, on the basis of the achievement of the performance objectives set out in the 2015, 2016 and 2017 Remuneration Policy, 118,869 treasury shares, with a value of 3,333 thousand euros, were awarded to managers and network managers.

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

In particular, the repurchased shares will be used to cover the commitments under remuneration plans for key personnel in 2018, the second cycle of the retention plan for 2018 and the new Long-Term Incentive Plan for the three-year period 2018-2020.

At 30 September 2018, the Parent Company, Banca Generali, thus held 931,350 treasury shares, with a value of 22,779 thousand euros.

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

Fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (HTCS) showed a net decrease of 37.3 million euros, primarily owing to the portfolio of Italian government bonds, for which net reserves amounted to -19.7 million euros compared to 15.2 million euros at the date of transition to IFRS 9 (1 January 2018).

(€ THOUSAND)	30.09.2018				
	EQUITY SECURITIES	UCITS UNITS	DEBT SECURITIES		TOTAL
			CORPORATE	GOVERNMENT	
<b>1. Amount at period-start</b>	<b>445</b>	<b>2,780</b>	<b>480</b>	<b>19,850</b>	<b>23,555</b>
<b>Adjustment of opening balances</b>	<b>-445</b>	<b>-2,780</b>	<b>230</b>	<b>-4,600</b>	<b>-7,595</b>
<b>1. Amount at period-start</b>	<b>-</b>	<b>-</b>	<b>710</b>	<b>15,250</b>	<b>15,960</b>
<b>2. Increases</b>	<b>-</b>	<b>-</b>	<b>1,451</b>	<b>17,693</b>	<b>19,144</b>
2.1 Fair value increases	-	-	9	-	9
2.2 Adjustments for credit risk	-	-	246	864	1,110
2.3 Transfer to Profit and Loss Account of negative reserves due to disposal	-	-	3	-	3
2.3 Other changes	-	-	1,193	16,829	18,022
<b>3. Decreases</b>	<b>-</b>	<b>-</b>	<b>3,801</b>	<b>52,623</b>	<b>56,424</b>
3.1 Fair value decreases	-	-	3,321	37,785	41,106
3.2 Reversals for credit risk	-	-	-	-	-
3.3 Transfer to Profit and Loss Account of positive reserves due to disposal	-	-	401	14,560	14,961
3.4 Other changes	-	-	79	278	357
<b>4. Amount at period-end</b>	<b>-</b>	<b>-</b>	<b>-1,640</b>	<b>-19,680</b>	<b>-21,320</b>

**Consolidated own funds**, calculated in accordance with the phase-in Basel 3 rules, amounted to 533.8 million euros, up by 15.2 million euros compared to the end of the previous year, chiefly owing to:

- > the impact of negative valuation reserves for government bonds classified as financial assets in the HTCS category (-19.7 million euros), which, following the phase-in period defined by the CRR and the Italian national rule for neutralising such reserves, are now fully included when determining CET 1 capital, with effect from 1 January 2018;
- > the overall effects of the FTA of IFRS 9 and IFRS 15 in terms of both income reserves and valuation reserves (-2.8 million euros) and regulatory adjustments (+1.6 million euros due to the lesser impact of prudent valuation);
- > the purchases of treasury shares for a total amount of 12.8 million euros.

(€ THOUSAND)	30.09.2018		31.12.2017	CHANGE		01.01.2018
	FULLY LOADED	PHASE IN	PHASE IN	AMOUNT	%	FTA - PHASE IN
Common Equity Tier 1 capital (CET 1)	490,760	490,830	475,232	15,598	3.3%	494,564
Tier 2 capital (T2)	43,000	43,000	43,370	-370	-0.9%	43,000
<b>Total own funds</b>	<b>533,760</b>	<b>533,830</b>	<b>518,602</b>	<b>15,228</b>	<b>2.9%</b>	<b>537,564</b>
Credit and counterparty risk	145,363	145,363	131,410	13,953	10.6%	132,219
Market risk	896	896	1,735	-839	-48.4%	1,735
Operating risk	71,914	71,914	71,914	-	-	71,914
<b>Total absorbed capital</b>	<b>218,173</b>	<b>218,173</b>	<b>205,059</b>	<b>13,114</b>	<b>6.4%</b>	<b>205,868</b>
Excess over absorbed capital	315,587	315,657	313,543	2,114	0.7%	331,696
Non-committed capital	59.13%	59.13%	60.46%	0.59	-2.2%	61.70%
Risk-weighted assets	2,727,161	2,727,161	2,563,242	163,919	6.4%	2,573,350
Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	18.00%	18.00%	18.54%	-0.54%	-2.93%	19.22%
<b>Total own funds/Risk-weighted assets (Total Capital Ratio)</b>	<b>19.57%</b>	<b>19.57%</b>	<b>20.23%</b>	<b>-0.66%</b>	<b>-3.25%</b>	<b>20.89%</b>

At the end of the reporting period, the aggregate capital for regulatory purposes recorded 315.7 million euros in excess of the amount required to cover credit, market, and operating risks. CET 1 ratio reached 18.0%, compared to a minimum requirement of 6.5%, and Total Capital Ratio (TCR) reached 19.6%, compared to the SREP minimum requirement of 10.2%.

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

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

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

Therefore, with reference to the adoption of IFRS 9, the Banking Group did not opt to apply the phase-in regime set forth in the Regulation (EU) No. 2017/2395 which allows banks, whose opening balance sheet at the date of IFRS 9 first-time adoption reports a decline in CET 1 due to the increase in expected credit loss provisions (net of tax effects), to include in their CET 1 a portion of the said increased provisions for a phase-in period of five years.

The leverage ratio at the end of the quarter reached 5.32%, 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)	30.09.2018		
	SHARE CAPITAL AND RESERVES	NET PROFIT	NET EQUITY
<b>Net equity of Banca Generali</b>	<b>430,037</b>	<b>147,651</b>	<b>577,688</b>
Differences between net equity and book value of companies consolidated using the line-by-line method	72,887	-	72,887
Profit carried forward of consolidated companies	72,708	-	72,708
Other changes	179	-	179
<b>Dividends from consolidated companies</b>	<b>38,724</b>	<b>-123,724</b>	<b>-85,000</b>
<b>Consolidated companies' result for the period</b>	<b>-</b>	<b>112,044</b>	<b>112,044</b>
<b>Result of associates valued at equity</b>	<b>-266</b>	<b>-124</b>	<b>-390</b>
<b>Valuation reserves - consolidated companies</b>	<b>-121</b>	<b>-</b>	<b>-121</b>
<b>Consolidation adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net equity of the Banking Group</b>	<b>541,261</b>	<b>135,847</b>	<b>677,108</b>

## 6. PERFORMANCE OF GROUP COMPANIES

### 6.1 Banca Generali performance

Banca Generali closed the third quarter of 2018 with net profit of 147.7 million euros, down compared to 154.6 million euros reported at the end of the same period of the previous year, chiefly due to the lower contribution of dividends distributed both in advance and at the end of the previous period by the Luxembourg subsidiary BG Fund Management Luxembourg S.A., decreasing from 151.8 million euros to 123.7 million euros.

Reclassified net banking income<sup>4</sup>, net of the dividends distributed by the Banking Group's investees, amounted to 203.4 million euros, up by 35.6 million euros (+21%) on the same period of the previous year, owing to the significant growth in net fees (+30.5 million euros) and in net income from trading activities (+8.2 million euros).

(€ THOUSAND)	30.09.2018	30.09.2017	CHANGE	
			AMOUNT	%
Interest income	48,931	49,693	-762	-2%
Interest expense	-4,695	-2,553	-2,142	84%
<b>Net interest income</b>	<b>44,236</b>	<b>47,140</b>	<b>-2,904</b>	<b>-6%</b>
Fee income	416,885	364,019	52,866	15%
Fee expense	-279,761	-257,374	-22,387	9%
<b>Net fees</b>	<b>137,124</b>	<b>106,645</b>	<b>30,479</b>	<b>29%</b>
Dividends	1,539	1,770	-231	-13%
Net income (loss) from trading activities	20,524	12,301	8,223	67%
<b>Net banking income</b>	<b>203,423</b>	<b>167,856</b>	<b>35,567</b>	<b>21%</b>
Staff expenses	-58,877	-58,656	-221	-
Other general and administrative expenses	-111,949	-103,735	-8,214	8%
Net adjustments of property, equipment and intangible assets	-6,209	-5,804	-405	7%
Other operating expenses/income	38,987	35,679	3,308	9%
<b>Net operating expenses</b>	<b>-138,048</b>	<b>-132,516</b>	<b>-5,532</b>	<b>4%</b>
<b>Operating result</b>	<b>65,375</b>	<b>35,340</b>	<b>30,035</b>	<b>85%</b>
Net adjustments for non-performing loans	-6,062	-6,004	-58	1%
Net provisions	-14,596	-13,370	-1,226	9%
Dividends and income from equity investments	123,724	151,770	-28,046	-18%
Gains (losses) from equity investments	-42	-	-42	n.a.
<b>Operating profit before taxation</b>	<b>168,399</b>	<b>167,736</b>	<b>663</b>	<b>-</b>
Income taxes for the period	-20,748	-13,175	-7,573	57%
<b>Net profit</b>	<b>147,651</b>	<b>154,561</b>	<b>-6,910</b>	<b>-4.5%</b>

The increase in net fees (+29%), which amounted to 137.1 million euros at the end of the reporting period, was primarily attributable to the rise in asset management fees (+13.1%), driven by the success of innovative financial wrapper solutions in the insurance business (+7.6%) and portfolio management (+47.0%), in addition to the placement of securities and UCITS with customers (+10.7%).

Net operating expenses amounted to 138 million euros, showing a more moderate increase (+4.0%). The cost/income ratio, which measures the ratio of operating expenses (gross of adjustments to property, equipment and intangible assets) to net banking income and dividends, amounted to 64.8%.

Net provisions and net adjustments amounted to 20.7 million euros, up compared to the same period of 2017 (+1.3 million euros), mainly due to the increased weight of net provisions for contractual indemnities for the sales network and higher collective portfolio adjustments.

The increase in the latter item was largely attributable to the lower creditworthiness of Italian government bonds as a result of the new criteria for calculating forward-looking probabilities of default (PD) on the basis of market data adopted following the transition to IFRS 9.

<sup>4</sup> In order to ensure a better understanding of operating performance, in the Profit and Loss Account the provisions for sales incentives and recruitment plans have been reclassified within the net fee aggregate. As a result, the aggregate of net provisions was restated net of these items for an amount of 22.2 million euros for 2018 and 50.1 million euros for 2017. In this regard, it should be noted that, effective the first half of 2018, allocations for accruing short-term incentives amounting to 19.2 million euros have been reclassified among fees payable and fee expense in the financial statements.

Operating profit before taxation thus was 168.4 million euros, in line with the same period of 2017. The expected tax burden was 20.8 million euros, with an overall tax rate at 12.3%, up as a result of the lower weight of dividends.

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 Consolidated 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 426.5 million euros, up by 25.7 million euros compared to the end of the previous year.

At the end of the reporting period, the aggregate capital for regulatory purposes recorded 246.8 million euros in excess of the amount required to cover credit, market, and operating risks. CET 1 ratio reached 17.1% compared to a minimum requirement of 6.4% and Total capital ratio (TCR) reached 19%.

Total AUM managed by the Bank on behalf of its customers – which is the figure used for communications to Assoreti – amounted to 58.5 billion euros at 30 September 2018, up 5.0% compared to the end of the previous year. Net inflows amounted to 4.1 billion euros, compared to 5.2 billion euros at the end of the same period of 2017 (-20.2%).

## 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 the Sicav called BG Alternative, reserved for institutional investors and launched in the third quarter of 2016.

BGFML ended the third quarter of 2018 with net profit of 112.1 million euros, down 32 million euros compared to the same period of the previous year, chiefly due to the decrease in performance fees (-46.1 million euros).

Net banking income amounted to 127.6 million euros (-34.8 million euros). Total operating expenses were stable at 4.5 million euros (3.3 million euros of which consisted of staff expenses).

The Company's net equity amounted to 101.3 million euros, net of a dividend payout of 123.7 million euros, as payment in advance for 2018 and total payment for 2017.

Overall, assets under management at 30 September 2018 amounted to 15,300 million euros, compared to 14,967 million euros at 31 December 2017, up by 333 million euros.

## 6.3 Performance of Generfid S.p.A.

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

Net banking income amounted to about 0.8 million euros and virtually covers operating expenses. Assets under management amounted to 1,282 million euros (1,300 million euros at the end of 2017).

## 7. BASIS OF PREPARATION

The Interim Report for the first nine months 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" beside 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 situation 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 nine months of the year, compared with data for the same period of the previous year;
- > the statement of comprehensive income for the first nine 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 on transactions undertaken during the quarter.

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

The consolidated financial position illustrated in the Interim Report has been prepared according to the IASs/IFRSs 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 auditing firm for the purposes of determining the 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.

Please refer, in this regard, to the IFRS 9 and IFRS 15 Transition Report published together with the Half-year Financial Report at 30 June 2018 and available on the Bank's corporate website.

It should be noted that, following the completion of the endorsement procedure, as of 1 January 2018, further amendments to the IASs/IFRSs, and IFRICs were adopted and new IFRICs were issued.

INTERNATIONAL ACCOUNTING STANDARDS ENDORSED IN PREVIOUS YEARS AND EFFECTIVE AS OF 2018	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRS 9 – <i>Financial Instruments</i>	2016/2067	29.11.2016	01.01.2018
Amendments to IFRS 4: <i>Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts</i> (issued on 12 September 2016)	2017/1988	09.11.2017	01.01.2018
IFRS 15 – <i>Revenue from Contracts with Customers</i>	2016/1905	29.10.2016	01.01.2018
Clarifications to IFRS 15 – <i>Revenues 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: <i>Classification and Measurement of Share-based Payment Transactions</i> (issued on 20 June 2016)	2018/289	26.02.2018	01.01.2018
Annual Improvements to IFRS Standards 2014- 2016 Cycle (issued on 8 December 2016)	2018/182	07.02.2018	01.01.2018
INTERNATIONAL ACCOUNTING STANDARDS ENDORSED BUT NOT EFFECTIVE YET			
IFRS 16 – <i>Leases</i> (issued on 13 January 2016)	2017/1986	09.11.2017	01.01.2019
Amendments to IFRS 9: <i>Prepayment Features with Negative Compensation</i> (issued on 12 October 2017)	2018/489	22.03.2018	01.01.2019
IFRIC 23 – <i>Uncertainty over Income Tax Treatments</i> (issued on 7 June 2017)	2018/1595	24.10.2018	01.01.2019

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

The 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.

## Comparative statements

Results for the first nine months of 2018 must be interpreted taking account of the effects of the first-time adoption of the IFRS 9 and IFRS 15 as of 1 January 2018.

As disclosed in the IFRS 9 and IFRS 15 Transition Report appended to this Consolidated Interim Report, the adoption of the above standards resulted in changes to the accounting policies governing the classification and measurement of financial instruments, and thus in the adoption of a new presentation of the financial statements and changes in the contents of some line items.

For the purposes of comparison of the profit and loss account with the figures for the first nine months of 2017, it should be noted that the values of the items in the interim and annual 2017 financial statements impacted by the application of IFRS 9 have not been restated. Rather, the items in question have merely been presented according to the new presentation, since there are no specific provisions of IFRS 9 and IFRS 15 requiring mandatory restatement on a like-for-like basis of the comparative figures in the year of first-time application of the new standards.

The comparison of balance sheet figures in the comments to the report on operations is instead uniform, since the reclassified balance sheet and related detailed tables also present the comparative figures at 1 January 2018, which therefore include the effects of the first-time application of IFRS 9 and IFRS 15.

## 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 30 September 2018, reclassified and adjusted where necessary to take account of consolidation requirements. The most significant intra-Group transactions, influencing both the Balance Sheet and Profit and Loss Account, were eliminated. Unreconciled amounts were recognised in other assets/liabilities and other revenues/expenses, respectively.

Trieste, 6 November 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, Second Paragraph of Legislative Decree No. 58 of 24 February 1998**

The undersigned Dr. Tommaso DI RUSSO, *Chief Financial Officer* and Manager in charge of preparing the financial reports of Banca Generali S.p.A., with headquarters in Trieste, via Machiavelli No 4, recorded in the Register of Companies of Trieste to n. 103698, for the intent and purpose of article 154-bis, second paragraph, of Legislative Decree 24 February 1998, No 58, to its knowledge in the position they hold,

**declares**

that the Interim Report on Operations as of 30 September 2018 corresponds to document results, books and accounts records.

Trieste, 06 November 2018

Dr. Tommaso Di Russo  
*Manager charged with preparing  
the company's financial reports*  
BANCA GENERALI S.p.A.

# Banca Generali S.p.A.

Registered office  
Via Machiavelli 4  
I - 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.



**BANCA GENERALI S.P.A.**

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