



## CONFIDENCE EXHIBITION

---

### A grand event for a great story

*Confidence*, a new series by Michele Alassio, celebrates the tenth anniversary of the stock-exchange listing of Banca Generali, retracing the Bank's path over the decade and highlighting the spirit that drove all those who played a key role in making it a success story on the Italian financial scene.

---



**TIERPARK**  
Berlin, August 2016



**SIENESE CRETE**  
Tuscany, July 2016



**SAN MARCELLO PISTOIESE**  
Tuscany, July 2016



**CAPODICHINO AIRPORT**  
Naples, June 2016



**TENTENNANO FORTRESS**  
Tuscany, July 2016



**ISCHIA**  
June 2016



**NAZARÈ**  
Portugal, September 2016



**THE BIG OAK**  
Tuscany, July 2016



**GIAU PASS**  
Belluno, August 2016

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

**ANNUAL REPORT**  
at 31.12.2016

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.



# ANNUAL REPORT

## at 31.12.2016

Board of Directors - 10 March 2017

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

Board of Directors	<b>Giancarlo Fancel</b> <b>Giovanni Brugnoli</b> <b>Azzurra Caltagirone</b> <b>Anna Gervasoni</b> <b>Massimo Lapucci</b> <b>Giovanni Luca Perin</b> <b>Annalisa Pescatori</b> <b>Cristina Rustignoli</b> <b>Vittorio Emanuele Terzi</b>	Chairman Director 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>Paolo Tamagnini</b>	

# CONTENTS

<b>GROUP ECONOMIC AND FINANCIAL HIGHLIGHTS</b>	<b>6</b>
<b>CHAIRMAN'S LETTER</b>	<b>11</b>
<b>1. REPORT ON OPERATIONS</b>	<b>13</b>
<b>1.1 Consolidated Report on Operations</b>	<b>15</b>
1. The Banca Generali Group in 2016	17
2. Macroeconomic Context	20
3. Competitive Positioning	22
4. Operating Performance	26
5. Balance Sheet and Net Equity Aggregates	39
6. Indirect Net Inflows	49
7. Results by Line of Business	51
8. Corporate Social Responsibility	53
9. Comments on the Parent Company's Operations	61
10. Performance of Subsidiary Companies	71
11. Related Party Transactions	72
12. Banca Generali Stock Performance	76
13. Products and Marketing	78
14. Human Resources	85
15. Organisation and ICT	93
16. Auditing	96
17. Main Risks and Uncertainties	97
18. Outlook	100
19. Proposal for the Distribution of Profits	101
<b>1.2 Annual report on Corporate Governance and Company Ownership</b>	<b>103</b>
<b>2. CONSOLIDATED FINANCIAL STATEMENTS AS OF 31.12.2016</b>	<b>163</b>
Consolidated financial statements	164
Notes and comments	170
Independent Auditors' Report	306
<b>3. FINANCIAL STATEMENTS OF BANCA GENERALI S.P.A. AS OF 31.12.2016</b>	<b>309</b>
Group economic and financial highlights	310
Financial statements	312
Notes and comments	318
Independent Auditors' Report	452
Board of Statutory Auditors' Report	454
<b>4. ATTESTATION</b>	<b>458</b>
Attestation pursuant to Article 154-bis, paragraph 5, of Legislative Decree no. 58/98	
<b>5. ANNEXES</b>	<b>463</b>



**SIENESE CRETE**  
Tuscany, July 2016

Michele Alassio

---

## **GROUP ECONOMIC AND FINANCIAL HIGHLIGHTS**

## GROUP ECONOMIC AND FINANCIAL HIGHLIGHTS

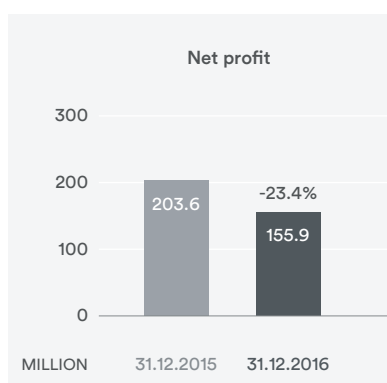
### Consolidated figures

(€ MILLION)	2016	2015	CHANGE %
Net interest income	58.7	66.2	-11.4
Net fees	309.0	370.8	-16.7
Net income (loss) from trading activities and dividends	34.7	28.9	20.1
<b>Net banking income</b>	<b>402.4</b>	<b>465.9</b>	<b>-13.6</b>
Staff expenses	-80.5	-80.9	-0.6
Other general and administrative expense	-140.1	-134.0	4.6
Amortisation and depreciation	-5.9	-5.3	11.9
Other operating income/expenses	44.5	44.7	-0.4
<b>Net operating expenses</b>	<b>-182.0</b>	<b>-175.6</b>	<b>3.7</b>
<b>Operating result</b>	<b>220.4</b>	<b>290.3</b>	<b>-24.1</b>
Provisions	-34.7	-45.6	-23.8
Adjustments	-0.8	-6.5	-88.0
<b>Profit before taxation</b>	<b>184.8</b>	<b>238.2</b>	<b>-22.4</b>
<b>Net profit</b>	<b>155.9</b>	<b>203.6</b>	<b>-23.4</b>

PERFORMANCE INDICATORS	31.12.2016	31.12.2015	CHANGE %
Cost/Income ratio	43.7%	36.5%	19.7
EBTDA	226.3	295.7	-23.4
ROE <sup>(a)</sup>	33.7%	50.3%	-33.0
ROA <sup>(b)</sup>	0.35%	0.52%	-31.7
EPS - Earnings per share (euros)	1.343	1.757	-23.5

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

(b) Return on assets calculated on the average of Assoreti quarterly AUM.





## Net inflows

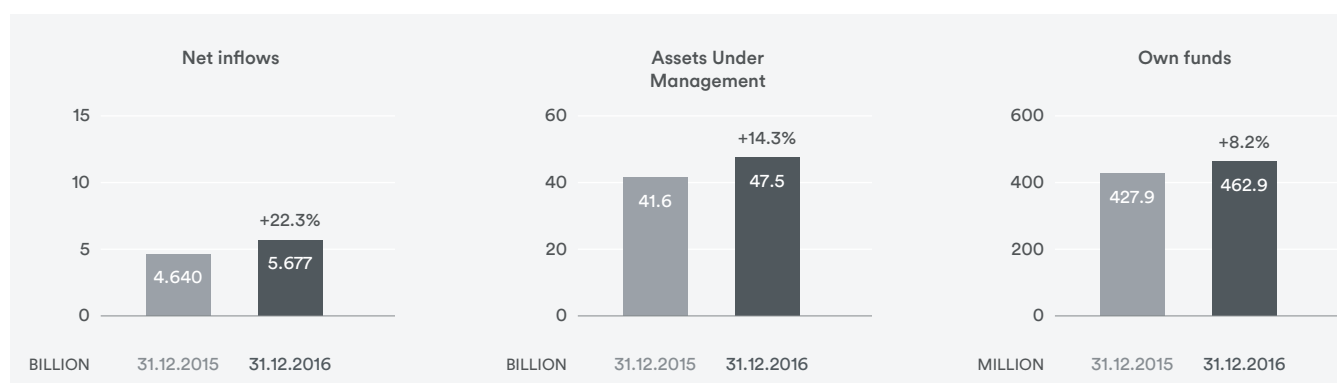
(€ MILLION) (ASSORETI DATA)	31.12.2016	31.12.2015	CHANGE %
Mutual funds and Sicavs	198	869	-77.2
Asset management	1,020	-168	707.1
Insurance / Pension funds	2,749	3,394	-19.0
Securities / Current accounts	1,710	545	213.8
<b>Total</b>	<b>5,677</b>	<b>4,640</b>	<b>22.3</b>

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

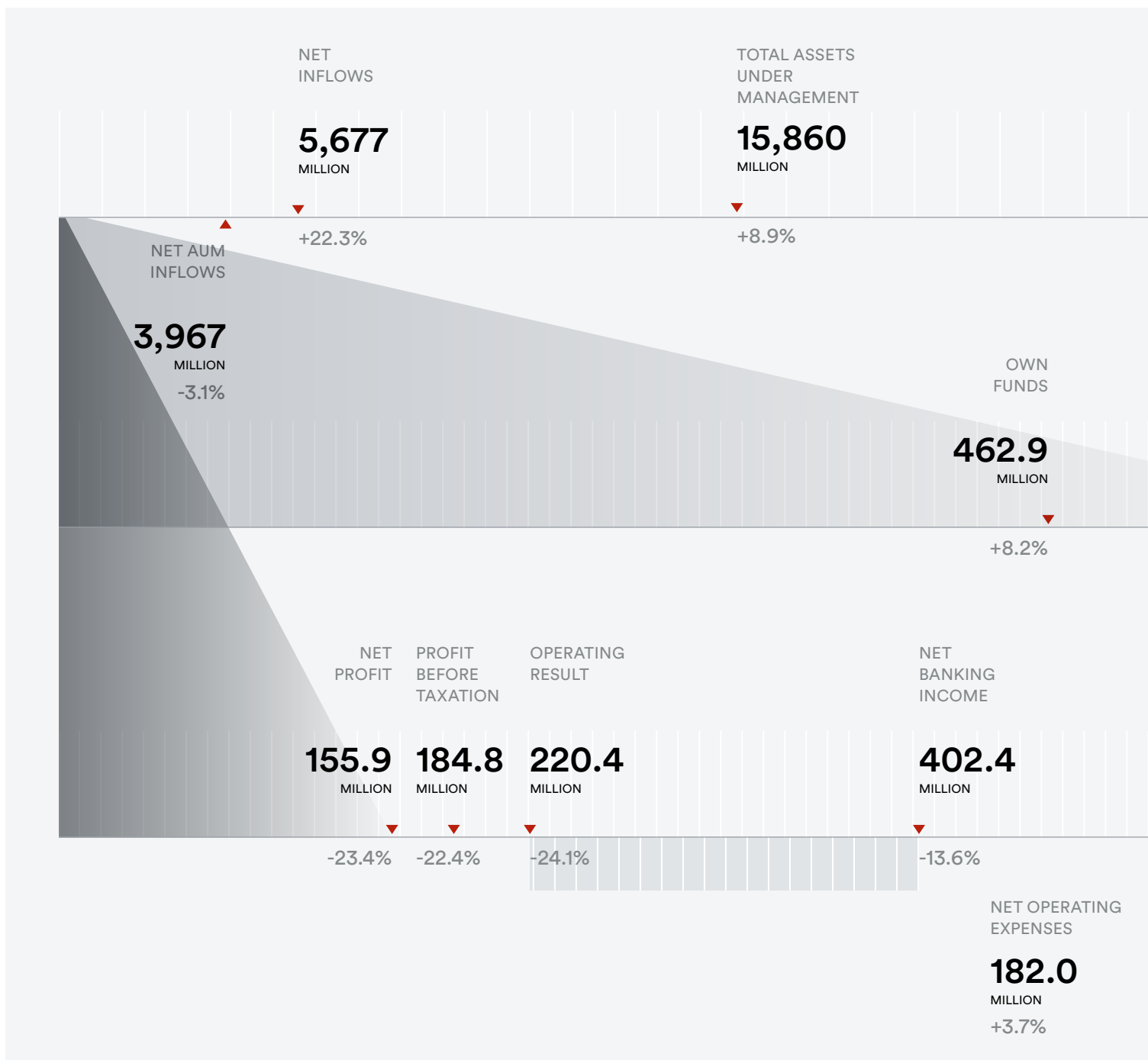
(€ BILLION) (ASSORETI DATA)	31.12.2016	31.12.2015	CHANGE %
Mutual funds and Sicavs	11.2	10.9	2.4
Asset management	4.7	3.6	28.6
Insurance / Pension funds	20.2	17.3	17.1
Securities / Current accounts	11.5	9.8	17.3
<b>Total</b>	<b>47.5</b>	<b>41.6</b>	<b>14.3</b>

## Net equity

(€ MILLION)	31.12.2016	31.12.2015	CHANGE %
Net equity	646.5	636.8	1.5
Own funds	462.9	427.9	8.2
Excess capital	261.9	212.8	23.1
Total Capital Ratio	18.4%	15.9%	15.8



# HIGHLIGHTS 2016



TOTAL  
AUM/C

**47,547**  
MILLION



+14.3%

NET  
EQUITY

**646.5**  
MILLION



+1.5%

TOTAL CAPITAL  
RATIO

**18.4%**

+15.8%

TIER 1

**16.7%**

+16.7%



**SAN MARCELLO PISTOIESE**

Tuscany, July 2016

Michele Alassio

## Chairman's Letter



Dear Shareholders,

*From a macroeconomic and geopolitical standpoint, 2016 was a complex year that included some significant events that I would not hesitate to characterise as historical in scope. However, the most important event for the Bank was the untimely passing of Chief Executive Officer Piermario Motta, who since 2005 had been the driving force behind the Company's strategic and business transformation, leading it to become one of the most prestigious and dynamic companies in the Italian financial industry. Our first thoughts and our most heartfelt gratitude go out to him. Despite his loss, the Bank has not relented from the pursuit of excellence on which it embarked under his leadership. Indeed, thanks to the commitment and dedication shown by its management – starting with Gian Maria Mossa, who took up the challenge with a sense of responsibility and determination – employees and network personnel, this process has continued with renewed vigour, allowing the Bank to reach ambitious new milestones.*

*In 2016, assets grew considerably and an even stronger strategic focus on financial planning and wealth management services further strengthened the number-one private bank listed on the Italian stock exchange. The Bank's commitment to quality and innovation put it on the front lines of the challenges posed by MiFID II and the market in which it operates.*

*Against the backdrop of a general decline in networks during the year, Banca Generali stood out for its dynamic performance, with a 22% increase in net inflows, which reached a new record of 5.7 billion euros. Managed assets and assets under administration and custody rose by 14% to 47.5 billion euros and the Bank outpaced all of its major competitors in terms of the increase in the number of its Financial Advisors, who continued to lead the market in terms of expertise, productivity and portfolio size.*

*Financial advisory plays a central role in the Bank's strategy, in the light of the constantly changing legislative scenario, which, on paper, will result in significant changes to the approach to financial instruments in Europe. The development of the new, broader service model is aimed at optimally – and even more thoroughly – satisfying the changed needs of Italian households in protecting and building their wealth. The commitment over the past two years to developing a cutting-edge advanced advisory platform and solutions is yielding very interesting results that bear out the validity of the Bank's strategic decisions. Wealth management expertise is being extended to new advisory areas: real estate, generational transfer, corporate finance, art advisory, and family office, resulting in a unique range of services that increases the Bank's potential for tomorrow.*

*The priority assigned to growth – fundamental in a sector in which size is important to increase the sustainability of results in the long term – has not distracted attention from earnings results and capital solidity. The profit for the year of 155.9 million euros was supported by a constant increase in recurring fees, which grew for the fifth consecutive year, bearing witness to the quality and sustainability of the business model, even when financial markets are less than favourable, constrained by fears of an economic slowdown in Asia and geopolitical uncertainties relating to elections.*

*Even more significant is the strengthening of the Company's capital position, compared with a scenario of increasing weakness of the banking industry as a whole. The CET1 ratio increased by 240 basis points to 16.7% and the Total Capital Ratio by 250 points to 18.4%. Banca Generali is thus one of Italy's most solid, well-capitalised companies.*

*On the basis of this result, a dividend payout of 125 million euros (1.07 euro per share), or 80% of net profit, has been proposed, continuing the Bank's traditional emphasis on compensating its shareholders with one of the most generous dividend policies on the market.*

*Its strong capital solidity, combined with clear strategic decisions, the benefits of which will become increasingly evident starting this year, further supports the expectation that the Bank's growth process will continue to gain speed in the coming years. All of this would not be possible without the commitment of the Bank's employees, Financial Advisors and management, to whom I extend my most sincere gratitude, in the hope that I will always be able to count on their dedication and enthusiasm in growing this most extraordinary company – Banca Generali.*

Giancarlo Fancel  
Chairman



**CAPODICHINO AIRPORT**

Naples, June 2016

Michele Alassio

---

**1.**  
**REPORT ON**  
**OPERATIONS**  
at 31.12.2016

Board of Directors  
10 March 2017





---

**1.1**  
**CONSOLIDATED REPORT**  
**ON OPERATIONS**



# 1. THE BANCA GENERALI GROUP IN 2016

## 1.1 The Banking Group's strategy

Banca Generali stands out in the Italian banking industry thanks to its strong focus on Financial Advisory and planning solutions, which make it the number-one private bank on the Italian stock exchange in terms of service quality and innovation.

The bank is a benchmark in the protection of investments and Financial Advisory services thanks to its comprehensive and versatile range of banking, managed assets and insurance products, as well as wealth management solutions. Its strong emphasis on providing bespoke financial advice is supported by its outstanding networks of experienced, skilled professionals.

The company's range of products also includes a wide range of third-party products, according to the open-architecture model. Its specialised approach to meeting pension and investment needs focuses on both Affluent and Private customers, under a custom-tailored model aimed at providing households with access to the quality offered by the top-end of the market.

Banca Generali was among the first Italian companies in the industry to introduce to Italy this new model, firmly established on the world's most advanced capital markets – and the United States foremost among them. This model is consistent with EU Markets in Financial Instruments Directive (MiFID), which acknowledges and promotes advisory as an investment service, demonstrating its desire to anticipate and set market development trends. Innovation and a technology-oriented approach are key aspects of the Bank's strategy and positioning, allowing it to develop cutting-edge solutions and tools for the benefit of its professionals and customers.

Within this general view, there are some key traits that identify the business approach:

- > offering professional advisory services through its Financial Advisors, identifying and meeting the customers' long-term financial needs, not just as a general approach, but also through the use of specific, cutting-edge methods and tools (e.g., the BG Personal Advisory service);
- > concentrating distribution within the role of Financial Planners/Private Bankers as an effective tool for such constant, professional and bespoke advisory service throughout Italy, while undertaking the significant investments in training and information that this requires;
- > offering a comprehensive range of investment and pension products and services provided by Group and international market leaders;
- > developing important management know-how and pursuing ongoing product innovation to benefit customers;
- > devoting ongoing attention to all of the innovations that modern technology offers to operators and customers to increase the level of efficiency, operating simplicity, transparency and extensive information;
- > fully exploiting and realising the characteristics inherent to the Generali brand, which is synonymous with reliability, solidity and expertise.

Supporting the professionalism of its staff, who are called upon to form a direct advisory relationship with quality clientele, the customer service also benefits from the cutting-edge resources provided by a multi-channel system based on online services, call centres and numerous offices and branches throughout the country. Expertise is thus perfectly combined with customisation and customer-friendliness.

Banca Generali's financial products and services cover a wide range of needs, thanks to their broad diversification: from mutual funds/Sicavs to discretionary accounts and insurance and pension products. Its range includes nearly 1,300 products and services of the Bank and over 40 management companies, banks and insurers.

From an organisational standpoint, the Banca Generali Group's distribution network is split into two divisions dedicated to different types of customers (Affluent and Private), allowing it to move beyond an undifferentiated market approach. In addition, the Group includes a management company based in Luxembourg, namely BG Fund Management Luxembourg S.A. (BGFm) and two trust companies (BG Fiduciaria and Generfid).

The characteristics set out above and developments in recent years have led the Group to rank among the top players in the Italian asset management market.



## 1.2 Committing to sustainability

For many years, Banca Generali has been committed to managing the operational and financial aspects of its business with a focus on social and environmental responsibility and the sustainability for future generations. Banca Generali's strategic directives have been devised on the basis of principles inspired by the Global Reporting Initiative (GRI). Such principles form the basis for preparation of the annual Sustainability Report:

- > pursuing sustainable growth in the long term, while reducing the risks tied to the volatility of the economic scenario in which the Bank operates;
- > realising the full potential of all those who work at the Bank, by developing their skills and providing the proper recognition of each individual's contribution to the organisation's success;
- > focusing on the social context in which it operates by participating in welfare, cultural and sports initiatives in favour of the community;
- > favouring the reduction of direct and indirect environmental impacts by taking steps to minimise the consumption of energy, paper and water, and pollutant emissions.

In addition to the 2016 GRI guidelines, and in line with the Generali Group's reporting choices, the company's development evaluation is also based on the ten principles of the Global Compact concerning the respect of human rights and labour, protection of the environment, and the fight against corruption. The principles of reference are the Sustainable Development Goals, promoted by the United Nations, which set out a universal plan of action based on 17 sustainable development objectives.

The Gross Value Added (GVA) created by the Bank in 2016 was 614.1 million euros. This amount was 13.1% in favour of human resources, 47.4% Financial Advisors, 20.3% shareholders and 13.2% the government. The business retained 6.1%.

Out of an awareness of the social responsibility inherent in its role in safeguarding and protecting household's investments, Banca Generali has redefined its mission accordingly: "Trusted professionals always by the customers' side, developing and looking after their life plans." This commitment to the community takes the form of participation in and support for a variety of projects. In education and research these include: the Private Banking Monitoring Centre with LIUC University of Castellanza, the Talent Academy with La Cattolica University of Milan, the Galileo Festival dedicated to innovation in collaboration with the University of Padua, the Student Investment Clash with Bocconi University of Milan and the start-up Redooc, which helps students in learning scientific subject matter through an innovative digital platform. In the social arena, attention should be drawn to charitable initiatives and fund-raising initiatives held both through the Financial Advisors network and directly by the Bank. Employees participate in the project "io viaggio solidale", based on an idea by the Parent Company, in which Bank staff stood out for their efforts and results.

To be able to provide Bank staff and network personnel with greater flexibility and increased opportunity in the charitable arena, a specific internal non-profit organisation, BG Society Onlus, was also created.

Last year, the focus on sustainable development for all those who interact with Banca Generali was analysed by Standard Ethics, an agency specialised in assessing companies from an ethical standpoint that assigned it a rating above the market average for Italy (EE-).

### 1.3 Summary of 2016 operations

The Banca Generali Group closed 2016 with a net profit of 155.9 million euros and total net inflows of over 5.7 billion euros, up by 22% on the previous year, bringing the total volume of the assets entrusted by customers to the Banking Group for management to over 47.5 billion euros (+14%).

In particular, the increase in net inflows was the “strongest performance ever” for the Banking Group and was achieved during a year in which the Financial Advisors market was stable overall, in contrast to the growth reported by the Group.

During a complex year of difficulties for the financial system, Banca Generali nonetheless stood out for its ability to attract new customers and generate profits, even in challenging market situations, and for its financial solidity.

Market volatility, driven by credit system uncertainties and increasingly lower bond returns, with the growing contagion of negative interest rates of most reliable stocks, generate concern among households, who are increasingly viewing Banca Generali as a solid and professional point of reference to protect and grow their investments.

Net banking income amounted to 402.4 million euros, down compared to the previous year (-13.6%), primarily as a result of market factors.

The sharp correction of financial markets early in the year resulted in a dramatic decline in performance fees, down by 60.0 million euros compared to the extraordinary peak reached in 2015, only partly offset by the increased contribution of trading activities and dividends (+5.8 million euros).

The constant decline of interest rates, which intensified as a result of the ECB's most recent actions aimed at enhancing its quantitative easing (QE) programme, also resulted in an additional – and partially foreseen – decrease in net interest income (-7.6 million euros).

Management fees nonetheless performed well within this scenario, up by 7.2%, bearing out the quality of the business model and the ability to develop recurring business, benefiting from stable margins and expanding total assets. Management fees have been steadily increasing for 20 consecutive quarters (since Q4 2011).

Net operating expenses amounted to 182.0 million euros, up moderately (+3.7%), as expected, primarily affected by charges relating to new projects for the year.

The ratio of costs to total assets further declined (0.38% compared to 0.42% for the previous year), thus confirming the tight cost discipline. The 43.7% cost/income ratio was again one of the best in the industry.

The Banca Generali Group's total assets stood at 8,357 million euros at 31 December 2016, up by 36.6% due to the acquisition of new customers. The Bank also participated in the new TLTRO financing programme held by the ECB, for a total of 400 million euros.

From the standpoint of capital solidity, Banca Generali Group improved its regulatory parameters during a very difficult year for the Italian banking system. CET1 ratio on a phase-in basis was 16.7% (+240 bps over the year), whereas Total Capital Ratio on a phase-in basis was 18.4% (+250 bps over the year). With reference to regulatory requirements, excess capital on a phase-in basis amounted to €261.9 million (+23.1%), accounting for 57% of total Basel 3-compliant own funds.

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

The total value of the Group's assets under management (AUM) – reference figure for Assoreti reports – amounted to 47.5 billion euros at 31 December 2016, placing the Group at the top of its market in terms of both net inflows, with share of 17.2%, and total assets under management, with share of 10.1%.

In addition, managed assets also included 1.1 billion euros in deposits of assets under administration of companies of the Generali Group and 1.9 billion euros in funds and Sicavs distributed directly by management companies, for an overall total of 50.5 billion euros.

To provide a better understanding of the factors that influenced the banking Group's results, before analysing the business and financial results for 2016, this report provides macroeconomic information about the world's main economic regions.

## 2. MACROECONOMIC CONTEXT

Political uncertainty was particularly high in 2016, marked first by the British Brexit referendum, then by the U.S. presidential elections and the constitutional referendum in Italy. Despite the uncertainty caused by these events, the global economic cycle remained solid, although growth rates did not always reach full potential, finding strong support in global consumption performance, while financial markets fluctuated widely, above all early in the year.

In the first few months of the year, attention focused on the consequences of the first rate increase by the Federal Reserve at the end of 2015, its potential effects on the prices of financial assets and concerns of much slower growth in China. In February the price of oil fell to 26 dollars a barrel, the lowest level of the last twelve years, and bond yields on the main markets (Treasuries and Bunds) decreased, reaching a low in the summer. Political events took centre stage starting on 23 June, when British voters opted to leave the European Union (Brexit), contrary to all projections. In November, the election of Donald Trump was welcomed by global financial markets, which reacted positively to the reflationary promises of a tax stimulus and the looser regulatory system pledged by the new U.S. President. The third significant political event occurred at the end of the year: the referendum on the constitutional reform in Italy, where after initial uncertainty due to the negative outcome, the market recovered rapidly, as witnessed by share prices.

In this context, the **U.S. economy** resumed growth at above its potential rate, driven by private consumption and net exports, although investments remained stagnant. Unemployment reached 4.6% in November and salaries rose. **European economies** proved very robust, and in particular the Euro Area did not slow as a result of the Brexit referendum, while sentiment indicators continued to improve reaching, in some countries, their highest levels of the year. In 2016, European GDP grew at a rate of 0.3% per quarter, and consensus estimates call for the same growth rate in the fourth quarter of the year. Turning to **Emerging Countries**, Chinese economy, which in early 2016 had shown signs of a slowdown, continued to grow at a rate slightly below 7% in the following quarters. The stabilisation was the result of expansionary fiscal policies, investments in infrastructure, measures in support of the real-estate industry and greater investments in state-owned enterprises. Brazil and Russia saw gradual stabilisation as oil and commodity prices recovered.

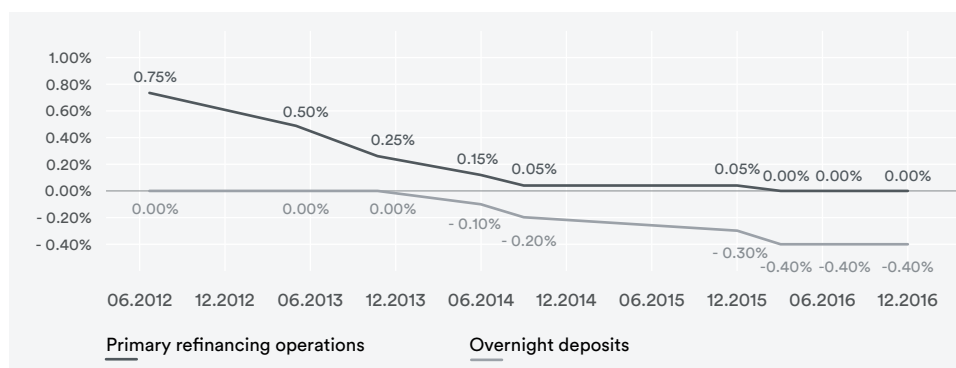
The accommodating **monetary policy** stance stabilised and supported global economies: the Federal Reserve postponed the second rate increase for the entire year, until implementing it in mid-December.

By contrast, the **ECB** maintained a highly expansionary position. In March, faced with weaker inflation numbers than projected and a downwards revision of global growth by the major international authorities, it decreased its refinancing rate to zero (-5 bps) and reduced its deposit rate by 10 bps to -0.40%. In addition, it extended the **quantitative easing** programme:

1. it increased the monthly amount of its bond purchases from 60 billion euros to 80 billion euros;
2. it planned the purchase of investment grade corporate bonds;
3. in the context of its TLTROs, it offered retail banks long-term funds (four years) at negative rates for the first time.

During the final meeting in December, it extended by nine months (until December 2017) the period in which to make purchases, despite indicating a reduction of monthly amounts to 60 billion euros starting in October 2017.

### Eurosystem official interest rates



**Bond yields** on the markets of reference (Treasuries and Bunds) continued to trend downwards until early July, to a greater extent in Europe, as a result of the highly expansionary monetary policy and the uncertainties following the Brexit vote. Yields then diverged: short-term yields (two years) in euros declined further, whereas yields in dollars increased. Long-term yields rose in all cases, but particularly in the case of bonds in dollars, due to better growth expectations. In the Euro Area, two-year yields reached an all-time low at year-end (-0.80%), down from -0.33% at the end of 2015, whereas the ten-year yields ended the period at 0.20%, down from 0.63% at the beginning of the year, after reaching an all-time low at around -0.19% in early July. In the United States, ten-year yields fell to 2.44% at the end of December 2016 from 2.27% at the end of 2015, reaching a low of 1.35% at the beginning of July, whereas two-year yields rose overall, reaching 1.18% at the end of the year, up from 1.04%, with a low of 0.55 in July. Throughout the year, spreads between countries of the European Monetary Union tended to widen and were exposed to extreme volatility. In particular Italy's spread rose from 96 points at the end of 2015 to a peak of 187 following the results of the Brexit referendum, to then end the period at 160 points.

After a negative start marked by extreme volatility, during the year **stock exchanges** rallied, closing on a positive note, with the exception of European markets, and of the Italian market in particular. The MSCI World index rose by +8.7%, the S&P500 by +13.3% and the Topix by +4.2%. In Europe, the benchmark index DJ Stoxx 600 decreased by -1.2%, whereas the Italian market index – which is particularly exposed to financial stock trends – declined by -10.2%. During the reporting year, emerging market stock exchanges reported a positive performance, however varying by reference area: +12.1% overall (MSCI Emerging Markets index), with +1.8% in India, +4.2% in China, +32.1% in Latin America and, the best result of all, +37.3% in Eastern Europe. In Europe the best-performing sectors were commodities, energy, construction and goods and services for industry, whereas telecommunications, travel, healthcare and utilities performed below average.

## Stock market trends

Price at 01.01.2015 = 100



**Foreign exchange markets** were influenced by both the monetary policies pursued by the ECB and the Federal Reserve and the prospect of growth, in particular after the U.S. presidential elections. The divergence in the area of monetary policy had faded starting in the spring, after the Federal Reserve continued to show a cautious attitude. The rate increase in December and the prospect of a reflationary policy by the new U.S. administration then drove up U.S. rates and hence the dollar. The euro/dollar exchange rate, which fluctuated between 1.10 and 1.15 in the first nine months of 2016, stood at 1.05 at the end of the year, the strongest level of the last 13 years. The euro/yen exchange rate fluctuated within a broad range, strengthening to 111 at the end of the summer and then weakening in the following months, to close the year at 123, from 131 at the end of 2015.

## Outlook

The foremost international economic research organisations have emphasised that in recent months the global economy has proved quite robust and is entering 2017 with stronger prospects of growth and signs of a recovery of inflation, although still at low levels. Consensus forecasts call for Europe to continue on its cycle of economic growth with a slight improvement in nominal growth rates and a highly expansionary monetary policy. On the basis of the Federal Reserve's most recent pronouncements, U.S. economic growth should remain solid, allowing the gradual increase of interest rates. Consensus expectations call for continuing political uncertainty regarding negotiations between the United Kingdom and European Union on the implementation of Brexit and political events in Europe, with the elections in the Netherlands, Germany and France.

### 3. COMPETITIVE POSITIONING

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

#### 3.1 The asset management market

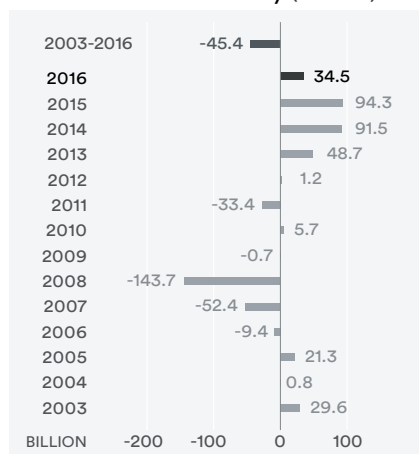
In 2016, the Italian asset management industry reached a new all-time record of 1,025 billion euros of assets under management, an increase of 6% on the end of the previous year. The figure increased by approximately 60 billion euros from the 967 billion euros recorded at the end of 2015 and by approximately 400 billion euros from the 655 billion euros recorded at the end of 2013. The greatest increases were seen in the funds component, in which assets rose from 681 billion euros (2013) to the current 900 billion euros, whereas discretionary management schemes increased from 98 billion euros (2013) to the current 125 billion euros.

Evolution of net inflows and assets under management (€ million)

	NET INFLOWS				ASSETS			
	12.2016	12.2015	12.2014	12.2013	12.2016	12.2015	12.2014	12.2013
Italian funds	5,274	26,280	32,226	10,721	242,246	234,442	206,300	167,227
Foreign funds	29,219	67,984	54,571	35,245	658,072	608,143	474,825	389,605
<b>Total funds</b>	<b>34,493</b>	<b>94,264</b>	<b>86,797</b>	<b>45,966</b>	<b>900,318</b>	<b>842,585</b>	<b>681,125</b>	<b>556,832</b>
GPM	-154	16,643	9,421	1,763	124,712	124,498	111,638	98,272
<b>Total</b>	<b>34,339</b>	<b>110,907</b>	<b>96,218</b>	<b>47,729</b>	<b>1,025,030</b>	<b>967,083</b>	<b>792,763</b>	<b>655,104</b>

Source: Assogestioni

The UCITS market in Italy (€ billion)



Source: Assogestioni data

Assets were also driven by net inflows, which amounted to 34 billion euros in 2016. Almost all product types showed an increase in assets, due to both net inflows, with the exception of discretionary management schemes, and to bull markets, despite persistent volatility.

The approximately 34 billion euros of net inflows into the Italian asset management industry (Assogestioni market) was generated by UCITS, about 85% of which consisted of international products.

The previous table shows the evolution of assets under management over the past four years in terms of product/service type and the associated net inflows.

The reporting year saw consolidation of the market trends observed in previous years, involving an increase in investments in asset management products and a decrease in assets under administration.

In this market context, with the objective of offering attractive returns to their customers, management companies have increasingly focused on investment formulas that enable dynamic exposures to a variety of asset classes. Investors' continuing interest in these new investment products is borne out by the further increase in net inflows into the flexible funds category in 2016, up by 14.6 billion euros on an annual basis, and in bond funds, which saw net inflows of 18.8 billion euros.

#### 3.2 The Assoreti market

Financial Advisor networks authorised to off-premises offers enjoyed a solidly positive year in 2016, with total net inflows of 32.9 billion euros. In 2016 as well, investors preferred asset management and insurance products, which attracted net inflows of 18.4 billion euros, accounting for over 55% of total net inflows. Assets under administration and custody also performed well, drawing total net inflows of over 14.5 billion euros. Low interest rates, reinvestment of maturing bonds and the crisis situation at traditional banks continued to favour the Financial Advisors' generation of net inflows and attraction of new customers.

(€ MILLION)	31.12.2016	31.12.2015	CHANGE
Asset management	5,580	11,976	-6,396
Insurance products	12,836	17,372	-4,536
Assets under administration and custody	14,516	4,051	10,465
<b>Total</b>	<b>32,932</b>	<b>33,399</b>	<b>-467</b>

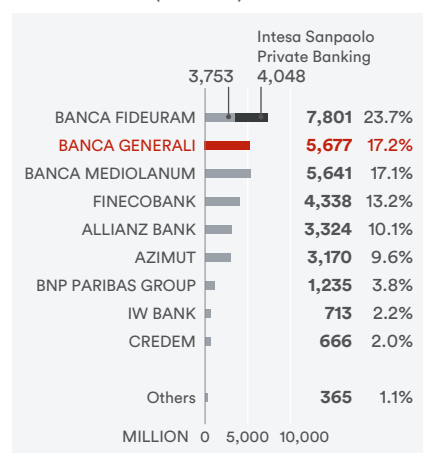


In the asset management segment, 69.7% of net inflows related to insurance products, with net inflows exceeding 12.8 billion euros. Of this total, approximately 7.7 billion euros was invested in unit-linked products and 4.6 billion euros in traditional life products. The remainder of net inflows was attributable to index-linked products, which recorded net outflows of approximately 300 million euros, and to pension products, which ended the year with net inflows of approximately 800 million euros. The remainder of assets under management was concentrated in foreign Sicavs, which generated net inflows of approximately 3.8 billion euros, and individual portfolio management, which attracted net inflows of 2.3 billion euros. The other components of assets under management showed net inflows negative at approximately 600 million euros.

### 3.3 Banca Generali

#### Total net inflows Assoreti 32.9 billion euros

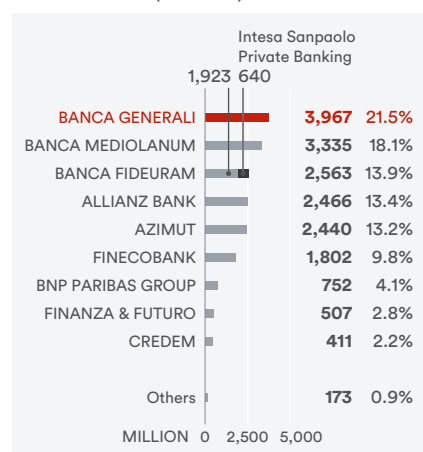
December 2016 (€ million)



Source: Assoreti

#### Net inflows from AUM and insurance products – Assoreti – 18.4 billion euros

December 2016 (€ million)



Source: Assoreti

In a very complex scenario marked by extraordinarily low interest rates and market volatility, particularly at the beginning of the year, Banca Generali remained among the market leaders due to its exceptional performance in terms of net inflows achieved through its network of Financial Advisors, which amounted to 5,677 million euros, resulting in market share of 17.2%.

The extraordinary growth of net inflows (5,677 million euros) in 2016 exceeded the already excellent results reported in previous years and the exceptional net inflow figure for 2015 (4,640 million euros), proof of the quality and versatility of the products offered by Banca Generali. The reporting year *was extraordinary in terms of both the quantity and quality of the mix of net inflows achieved*, evidence of the ability to innovate in the search for distinctive solutions offered by Banca Generali as a private banking leader for the household segment. Banca Generali remains a key partner for customers interested in a composite approach to assets and talented Financial Advisors interested in joining a company with an innovative product range and extreme solidity thanks to the overall balance of its assets.

The results achieved were also extraordinary both because they referred solely to private banking customers and because they exceeded by over 1 billion euros the excellent 2015 figure, which was already at the top of the Assoreti rankings.

This result appears even more noteworthy if one considers the various segments of the asset management and insurance market – the core areas of Financial Advisor networks – of which Banca Generali has been at the forefront for years, with net inflows from AUM and insurance products totalling 3,967 million euros. In this case as well, market share amounted to 21.5%, at the absolute top of the Financial Advisors market.

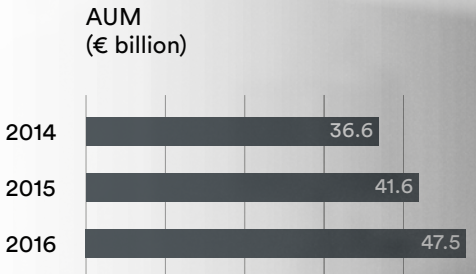
Specifically, Banca Generali's net inflows in 2016 were strongly influenced by asset management and insurance product segments. On the one hand, the diversification of risk involved the expertise of the top asset management firms, which recorded net inflows of approximately 200 million euros from direct investments in funds and Sicavs in 2016 and, on the other, the new product BG Solution, which expanded the range of wrappers of products offered by Banca Generali and generated net inflows of 1,344 million euros in just nine months. The multi-line policy BG Stile Libero was again very successful, reporting additional net inflows of 1,285 million euros in 2016 (bringing total assets to 5,611 million euros).

Also positive were the net inflows from LOB I insurance products (1,694 million euros) capable of guaranteeing protection and stability. Lastly, the strong flow of new clients was demonstrated by the 1,710 million euros increase in net inflows from administered assets, which was achieved without any commercial policy specifically dedicated to short-term deposits.

#### Net inflows of Banca Generali

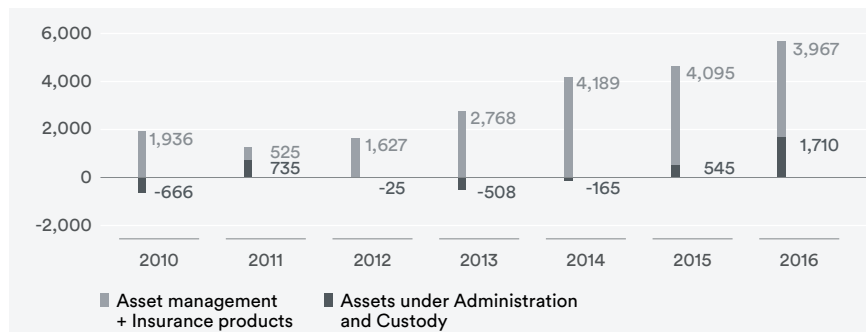
(€ MILLION)	BG GROUP		CHANGE	
	31.12.2016	31.12.2015	AMOUNT	%
Funds and Sicavs	198	869	-671	-77.2%
GPF/GPM	1,020	-168	1,188	707.1%
<b>Total assets under management</b>	<b>1,218</b>	<b>701</b>	<b>517</b>	<b>73.8%</b>
<b>Total insurance products</b>	<b>2,749</b>	<b>3,394</b>	<b>-645</b>	<b>-19.0%</b>
<b>Total assets under administration and custody</b>	<b>1,710</b>	<b>545</b>	<b>1,165</b>	<b>213.8%</b>
<b>Total assets placed by the network</b>	<b>5,677</b>	<b>4,640</b>	<b>1,037</b>	<b>22.3%</b>

... Financial year 2016 saw an acceleration in AUM growth compared to the average increase of the past ten years, with a growth of 14% compared to 8.7% ...



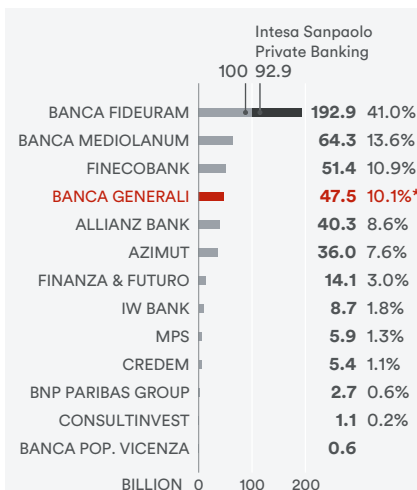
A comparison of the results for the past five years shows that the increase in net inflow volumes, a sign of the growing success of Banca Generali's range of products and solutions, has gradually reached an exponential pace, as shown in the graph below.

Banca Generali's net inflows evolution 2010-2016 (€ million)



Assoreti total AUM – 471 billion euros – and market share (%)

December 2016 (€ billion)



\* Banca Generali market share without Intesa Sanpaolo Private Banking: 12.6%

In 2016, performance was also extraordinary in terms of assets under management, reaching fourth place in the rankings of the largest companies on the Financial Advisor network market, with market share of 10.1% according to the December 2016 figures (market share was 12.6% if the contribution of Intesa Sanpaolo Private Banking is excluded on a like-for-like basis).

Banca Generali closed 2016 with total assets amounting to 47.5 (+14%), confirming an acceleration compared to the average development rate of last decade (8.7% per year). The ratio of managed products to total assets remained at 76%, with 36.1 billion euros (+13% YoY).

In 2016, the positive performance of managed assets was driven by the success achieved by the new wrapper of products BG Solution, launched in March, which reached approximately 1.6 billion euros, and by the multi-line policy BG Stile Libero, which further increased its assets in the year to 5.6 billion euros. Both these wrappers of products are highly appreciated by customers as financial planning solutions able to offer the flexibility to invest in multi-manager and multi-strategy funds and, as in the case of BG Stile Libero, also the guarantees of insurance segregated accounts, and a wide range of services and exclusive insurance coverage.

Assets under administration and custody reached 11,474 million euros, reflecting the constant acquisition of new customers, who tend to first bring liquidity and transfer their securities accounts, and then opt for accurate financial planning solutions.

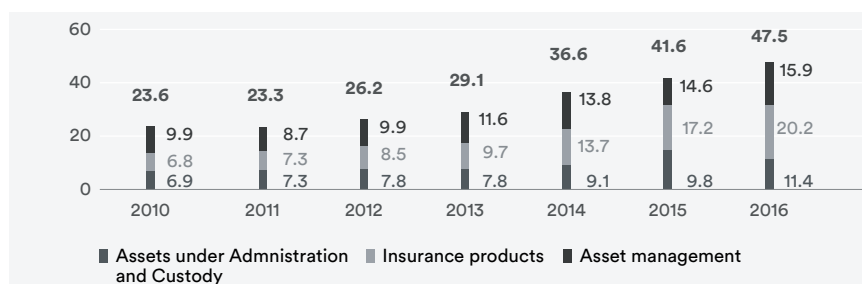
The following table summarises Banca Generali's AUM, updated through 2016, illustrating their composition by macro-aggregates with reference to the Assoreti market, i.e., the market related to the Financial Advisor operating area. Worthy of note is the further growth reported by total assets under management (+8.9%), insurance products (+17.1%) and assets under administration and custody (+17.3%). Lastly, net inflows for 2016 also contributed to the overall growth of total AUM placed by the network (+14.3%), despite a certain level of volatility shown by the market, especially during the first half of the year.

Source: Assoreti

## Banca Generali's AUM

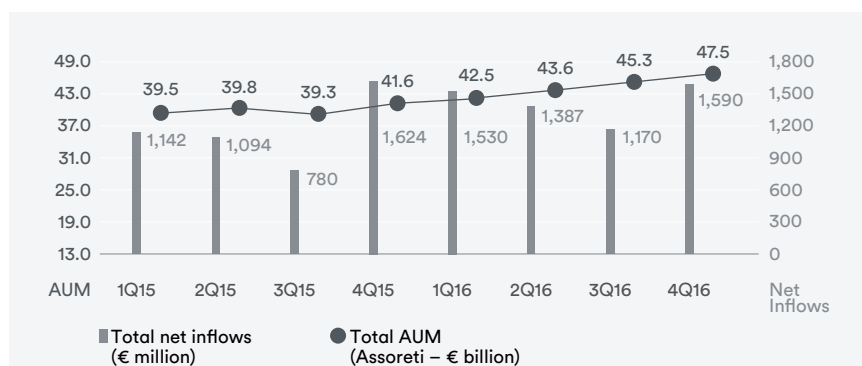
(€ MILLION)	BG GROUP		CHANGES VS 31.12.2015	
	31.12.2016	31.12.2015	AMOUNT	%
<b>Total assets under management</b>	<b>15,860</b>	<b>14,560</b>	<b>1,300</b>	<b>8.9%</b>
Funds and Sicavs	11,182	10,923	259	2.4%
GPF/GPM	4,678	3,637	1,041	28.6%
<b>Total insurance products</b>	<b>20,213</b>	<b>17,263</b>	<b>2,950</b>	<b>17.1%</b>
<b>Total assets under administration and custody</b>	<b>11,474</b>	<b>9,782</b>	<b>1,692</b>	<b>17.3%</b>
<b>Total AUM placed by the network</b>	<b>47,547</b>	<b>41,605</b>	<b>5,942</b>	<b>14.3%</b>

## Banca Generali's total assets 2010-2016 (€ billion)

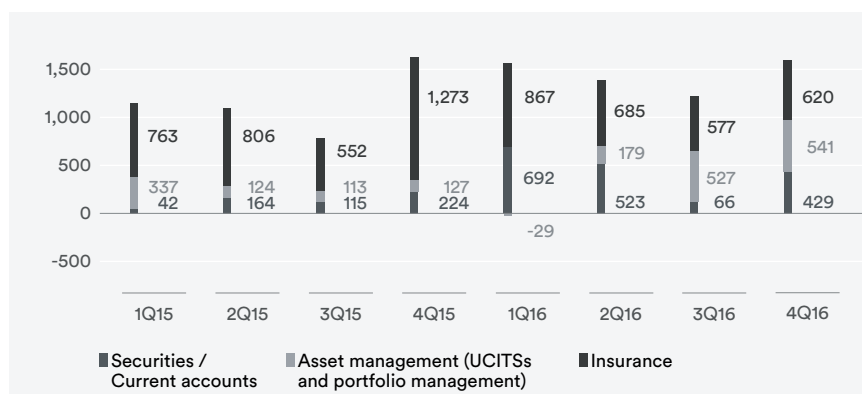


The following charts illustrate the quarterly evolution of Banca Generali's net inflows and AUM and provide a breakdown of net inflows by macro-components.

## Evolution of AUM and net inflows



## Breakdown of quarterly net inflows



## 4. OPERATING PERFORMANCE

The Group's net profit amounted to 155.9 million euros in 2016, down by 47.7 million euros compared to 2015, when market external conditions were much more favourable.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
<b>Net interest income</b>	<b>58,663</b>	<b>66,230</b>	<b>-7,567</b>	<b>-11.4%</b>
<b>Net fees</b>	<b>309,011</b>	<b>370,762</b>	<b>-61,751</b>	<b>-16.7%</b>
Dividends	1,963	3,120	-1,157	-37.1%
Net income (loss) from trading activities	32,754	25,790	6,964	27.0%
<b>Net operating income</b>	<b>402,391</b>	<b>465,902</b>	<b>-63,511</b>	<b>-13.6%</b>
Staff expenses	-80,470	-80,949	479	-0.6%
Other general and administrative expense	-140,119	-134,020	-6,099	4.6%
Net adjustments of property, equipment and intangible assets	-5,940	-5,310	-630	11.9%
Other operating expenses/income	44,545	44,720	-175	-0.4%
<b>Net operating expenses</b>	<b>-181,984</b>	<b>-175,559</b>	<b>-6,425</b>	<b>3.7%</b>
<b>Operating result</b>	<b>220,407</b>	<b>290,343</b>	<b>-69,936</b>	<b>-24.1%</b>
Net adjustments for non-performing loans	1,921	-1,121	3,042	-271.4%
Net adjustments of other assets	-2,699	-5,350	2,651	-49.6%
Net provisions	-34,740	-45,585	10,845	-23.8%
Gains (losses) from equity investments	-53	-46	-7	15.2%
<b>Operating profit before taxation</b>	<b>184,836</b>	<b>238,241</b>	<b>-53,405</b>	<b>-22.4%</b>
Income taxes for the year	-28,942	-34,682	5,740	-16.6%
Gains from non-current assets held for sale	-	-	-	n.a.
Profit attributable to minority interests	-	-	-	n.a.
<b>Net profit</b>	<b>155,894</b>	<b>203,559</b>	<b>-47,665</b>	<b>-23.4%</b>

**Net operating income** amounted to 402.4 million euros, with a decline of 63.5 million euros (-13.6%) compared to the previous year, determined by the following factors:

- > the decline in the **non-recurring component** consisting of incentive fees, down by 60.0 million euros from the extraordinary peak reached in 2015, only partly offset by the greater contribution of trading activities and dividends (+5.8 million euros), due in part to disposals of the corporate and financial portfolio in the second half of the year;
- > the further and partly expected decline in **net interest income** (-7.6 million euros), affected both by the sharp decline in returns offered by the Italian government bond market and the last effects of the end of the LTROs, which occurred in February 2015 (3.1 million euros).

However, in this scenario attention should be drawn to the significant increase in **management fee income** (+7.2%), which represents the central component of the Banking Group's business model, closely tied to the quality and growth of assets under management.

**Net operating expenses** amounted to 182.0 million euros, up (+3.7%) as a result of information and consulting costs associated with new projects for the year and higher asset volumes.

The **cost/income ratio**, which measures the ratio of operating expenses (gross of adjustments to property, equipment and intangible assets) to net operating income, amounted to 43.7%, reflecting the ongoing improvement of the Group's operating efficiency-building effort.

**Provisions and net adjustments** amounted to 35.5 million euros, down considerably compared to 2015 (-16.5 million euros) due to both non-recurring factors during the previous year (voluntary redundancy plans and effects on actuarial provisions) and factors attributable to the year, such as the decrease in net adjustments on impaired assets and collective provisions on the securities portfolio, offset by greater net provisions associated with the development of the sales network.

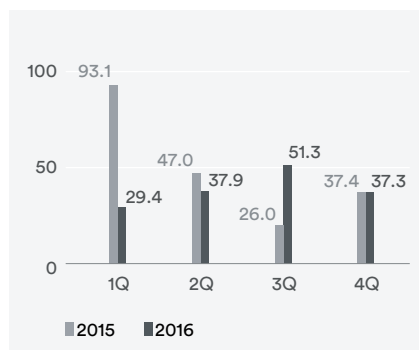
**Operating profit before taxation** thus amounted to 184.8 million euros, down by 53.4 million euros compared to 2015. The tax burden for the year decreased by 5.7 million euros, with an overall tax rate of 15.7%.

Net profit amounted to 37.3 million euros in the **fourth quarter of 2016**, stable compared to the fourth quarter of the previous year, despite the decrease in the contribution of variable fees (performance fees), which fell from 26.9 million euros in the previous year to 14.5 million euros in the reporting year.

In this scenario, there was a significant improvement in management fees, which at 130 million euros reached an all-time quarterly high, up by 9.5% on an annual basis.

### Quarterly net profit

(€ million)



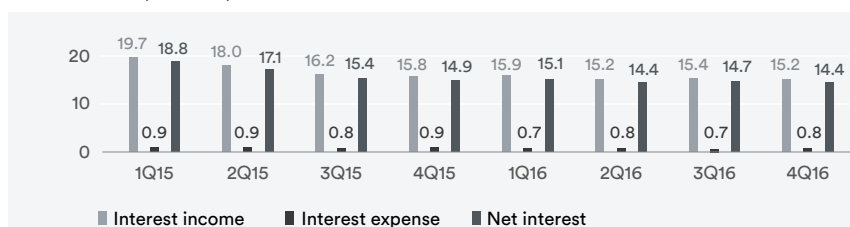
## Quarterly evolution of the Profit and Loss Account

(€ THOUSAND)	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15
<b>Net interest income</b>	<b>14,398</b>	<b>14,710</b>	<b>14,414</b>	<b>15,141</b>	<b>14,945</b>	<b>15,400</b>	<b>17,065</b>	<b>18,820</b>
<b>Net fees</b>	<b>61,349</b>	<b>94,836</b>	<b>87,554</b>	<b>65,272</b>	<b>81,431</b>	<b>55,324</b>	<b>96,965</b>	<b>137,042</b>
Dividends	299	180	1,385	99	1,946	32	1,083	59
Net income (loss) from trading activities	3,783	10,882	3,721	14,368	641	8	573	24,568
<b>Net operating income</b>	<b>79,829</b>	<b>120,608</b>	<b>107,074</b>	<b>94,880</b>	<b>98,963</b>	<b>70,764</b>	<b>115,686</b>	<b>180,489</b>
Staff expenses	-15,808	-21,221	-22,951	-20,490	-21,210	-20,815	-19,331	-19,593
Other general and administrative expense	-41,769	-34,376	-31,601	-32,373	-39,732	-31,071	-31,677	-31,540
Net adjustments of property, equipment and intangible assets	-2,397	-1,212	-1,180	-1,151	-1,915	-1,152	-1,135	-1,108
Other operating expenses/income	16,576	7,905	9,353	10,711	9,987	12,223	11,729	10,781
<b>Net operating expenses</b>	<b>-43,398</b>	<b>-48,904</b>	<b>-46,379</b>	<b>-43,303</b>	<b>-52,870</b>	<b>-40,815</b>	<b>-40,414</b>	<b>-41,460</b>
<b>Operating result</b>	<b>36,431</b>	<b>71,704</b>	<b>60,695</b>	<b>51,577</b>	<b>46,093</b>	<b>29,949</b>	<b>75,272</b>	<b>139,029</b>
Net adjustments for non-performing loans	-706	1,110	2,008	-491	1,347	-319	-637	-1,512
Net adjustments of other assets	712	-264	-2,396	-751	-2,006	-2,166	656	-1,834
Net provisions	6,975	-13,256	-17,050	-11,409	-8,143	4,286	-20,167	-21,561
Gains (losses) from equity investments	-36	22	-30	-9	-45	-	-1	-
<b>Operating profit before taxation</b>	<b>43,376</b>	<b>59,316</b>	<b>43,227</b>	<b>38,917</b>	<b>37,246</b>	<b>31,750</b>	<b>55,123</b>	<b>114,122</b>
Income taxes for the period	-6,098	-8,011	-5,327	-9,506	183	-5,747	-8,115	-21,003
<b>Net profit</b>	<b>37,278</b>	<b>51,305</b>	<b>37,900</b>	<b>29,411</b>	<b>37,429</b>	<b>26,003</b>	<b>47,008</b>	<b>93,119</b>

## 4.1 Net interest income

Net interest income was 58.7 million euros, down by 7.6 million euros compared to 2015 (-11.4%), due to the constant decline in the profitability of investments as a result of the ongoing downtrend in interest rates.

## Net interest (€ million)



However, the comparison with 2015 reflects the residual impact of the LTROs concluded in February 2015 (3.1 million euros), net of which the decline in net interest income drops to 7.1%.

In 2016, interest rate performance in the Euro Area continued to follow the downtrend that began in the previous year, as a result of the launch of unconventional monetary policy in the form of quantitative easing, and intensified in early 2016 as a result of the decline in the price of oil and other commodities and the slowing global economy.

In 2016, the inflation rate was slightly above zero in the Euro Area and negative in Italy (-0.1%). However, starting in the final months of the year, due in part to the recovery of oil prices tied to a possible agreement between the main oil-producing countries, inflation rates in the EU area rose, and expectations for 2017 and subsequent years now call for the rate to gradually approach 2%.

In order to encourage the recovery of inflation, at its meeting of 14 June 2016, the ECB decided to further intensify its intervention through a series of incisive new measures:

- > an increase of its monthly securities purchases, now also open to investment grade corporate bonds, from 60 billion euros to 80 billion euros;
- > the interest rate reduction requested by the ECB to primary refinancing operations, from the all-time low of 0.05% to 0%, together with the increase of the negative interest rates requested for deposit operations with the same from -0.30% to an exceptional -0.40%;

> the launch of four new TLTROs (Targeted-Long Term Refinancing Operations) intended for the banking industry, with a term of four years and interest rates of zero or at negative levels of up to -0.40%.

During its last meeting on 8 December 2016, the ECB's Council kept its reference rates unchanged and maintained its current monetary policies. However, in April 2017 the ECB intends to reduce its net purchases to 60 billion euros a month until the end of December 2017, and then to continue until there is an enduring adjustment in price trends, consistent with the ECB's inflation target.

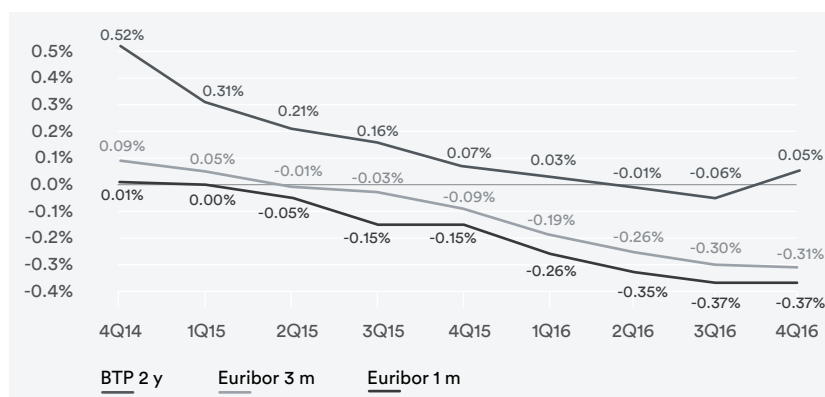
Overall, this resulted in further flattening of the entire interest-rate curve, generating an anomalous situation of positive funding rates but negative lending rates that have now exceeded the 12-month maturity on the interbank market.

The downtrend also continued on the Italian government bond market, with brief resurgences due to the constant turmoil within the Italian banking system, international political and economic uncertainties (Brexit and the U.S. elections) and, finally, the uncertainty surrounding Italy's budget law and constitutional referendum.

Short-term interbank rates thus further decreased reaching the monthly average of -0.370% for the one-month Euribor and -0.316% for the three-month Euribor in December 2016.

Yields on Italian government bonds with average residual maturities of two years stood at around zero in December, whereas yields in excess of 1% could only be seen for maturities of more than 7/8 years.

#### Interest rate evolution (quarterly average)



Within this scenario, despite an increase in average loan volumes of more than 30%, interest income decreased by 8.0 million euros (-11.4%) compared to the previous year, attributable to the sharp decline in yields.

The decline in interest income on the government securities portfolio was offset by a prudent extension of the maturities and a higher portfolio diversification; however, the overall portfolio profitability stood below the 1% threshold in 2016.

Moreover, in this new phase, interest on loans to customers, most of which are benchmarked on the Euribor, began to show signs of weakness (-12.9%).

Symmetrically, the cost of funding net inflows continued to decline (-11.3%), despite already having been at minimum levels at the end of the same period of 2015.

The negative interest income paid to banks on loans and negative interest expense paid by counterparties on the Bank's net inflows amounted to 322 thousand euros and 2,443 thousand euros, respectively, and refer primarily to deposits with the Central Bank and repurchase agreements. With effect from June, negative interest is also applied to the captive deposits held by Generali Group companies.

If negative interest expense is also considered, the total cost of net inflows at the end of 2016 was just 0.3 million euros.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
HFT financial assets	79	256	-177	-69.1%
AFS financial assets	19,267	23,032	-3,765	-16.3%
HTM financial assets	15,461	19,800	-4,339	-21.9%
Financial assets classified among loans	3,764	2,812	952	33.9%
<b>Total financial assets</b>	<b>38,571</b>	<b>45,900</b>	<b>-7,329</b>	<b>-16.0%</b>
Loans to banks	90	71	19	26.8%
Loans to customers	20,674	23,728	-3,054	-12.9%
Other assets	2,443	44	2,399	n.a.
<b>Total interest income</b>	<b>61,778</b>	<b>69,743</b>	<b>-7,965</b>	<b>-11.4%</b>
Due to ECB	-	49	-49	-100.0%
Due to banks	599	693	-94	-13.6%
Repurchase agreements - banks	-	59	-59	-100.0%
Due to customers	532	820	-288	-35.1%
Repurchase agreements - customers	-	-	-	n.a.
Subordinated loan	1,662	1,864	-202	-10.8%
Other liabilities	322	28	294	n.a.
<b>Total interest expense</b>	<b>3,115</b>	<b>3,513</b>	<b>-398</b>	<b>-11.3%</b>
<b>Net interest income</b>	<b>58,663</b>	<b>66,230</b>	<b>-7,567</b>	<b>-11.4%</b>

## 4.2 Net fees

Net fees amounted to 309 million euros, showing a limited decline of 0.7%, net of the change in performance fees.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Collective and individual portfolio management fees	331,461	395,486	-64,025	-16.2%
Fees on the placement of securities and UCITS	58,281	64,588	-6,307	-9.8%
Fees on the distribution of third-party financial products	186,216	158,202	28,014	17.7%
Fees on trading and securities custody	15,793	20,358	-4,565	-22.4%
Fees for other banking services	12,938	13,326	-388	-2.9%
<b>Total fee income</b>	<b>604,689</b>	<b>651,960</b>	<b>-47,271</b>	<b>-7.3%</b>
Fees for off-premises offer	262,924	247,229	15,695	6.3%
Fees for dealing in securities and custody	3,720	6,290	-2,570	-40.9%
Fees for portfolio management	26,298	25,272	1,026	4.1%
Fees for other banking services	2,736	2,407	329	13.7%
<b>Total fee expense</b>	<b>295,678</b>	<b>281,198</b>	<b>14,480</b>	<b>5.1%</b>
<b>Net fees</b>	<b>309,011</b>	<b>370,762</b>	<b>-61,751</b>	<b>-16.7%</b>

**Fee income** stood at 604.7 million euros, up slightly compared to the previous year (+2.4%) net of the most volatile component.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Underwriting fees	16,540	31,989	-15,449	-48.3%
Management fees	492,264	459,129	33,135	7.2%
Performance fees	67,154	127,158	-60,004	-47.2%
Fees for other banking and financial services	28,731	33,684	-4,953	-14.7%
<b>Total</b>	<b>604,689</b>	<b>651,960</b>	<b>-47,271</b>	<b>-7.3%</b>

**Performance fees** are a significant component of the fee structure but are very sensitive to market trends and thus are considered non-recurring.

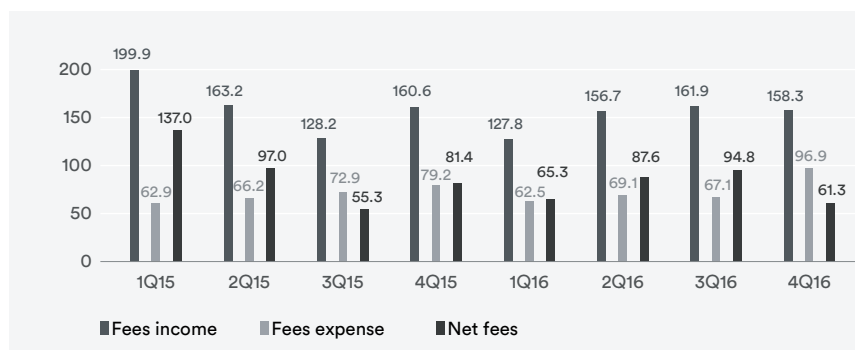
While positive overall (revenues of 67.1 million euros), the performance of this item in 2016 did not benefit from the extremely favourable market situation seen in the previous year.

In 2015, the extraordinary financial market rally that began early in the year as a result of the ECB's quantitative easing programme drove the performance fees generated by the Sicavs

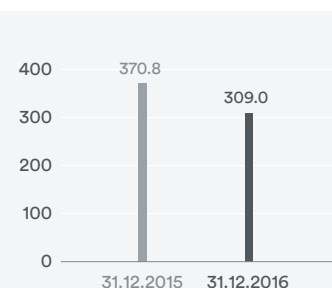
promoted by the Banking Group to an all-time high of 99.2 million euros in the first half of the year.

However, this favourable scenario did not recur in 2016, the first part of which was instead weighed down by a sharp market correction, followed by severe volatility.

#### Quarterly net fees (€ million)



#### Net fees (€ million)



Against this background, it should be noted that **management fees** showed a positive performance, improving by 33.1 million euros (+7.2%) thanks to the increase in average AUM in asset management and insurance products compared to 2015 (+13.8%), only partially offset by the above-mentioned strong market volatility.

The reduction of **underwriting fees** (-15.4 million euros) referred in particular to the Sicavs promoted by the Group, insurance products and discretionary accounts that during the previous year had been driven by the non-recurring contribution of the line switch fees deriving from the rationalisation of the management lines marketed.

#### Fee income structure (€ million)



**Fee income from the solicitation of investment and asset management** for households amounted to 576 million euros and, net of the aforementioned performance fee trend, rose compared to 2015 (+3.6%).

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
1. Collective portfolio management	291,999	356,540	-64,541	-18.1%
2. Individual portfolio management	39,462	38,946	516	1.3%
<b>Asset management fees</b>	<b>331,461</b>	<b>395,486</b>	<b>-64,025</b>	<b>-16.2%</b>
1. Placement of UCITS	57,272	61,029	-3,757	-6.2%
of which placement of UCITS promoted by the Group	5,292	10,164	-4,872	-47.9%
3. Placement of bonds and equity securities	1,009	3,559	-2,550	-71.6%
4. Distribution of third-party asset management products (GPM/GPF, pension funds)	741	720	21	2.9%
5. Distribution of third-party insurance products	185,078	157,171	27,907	17.8%
6. Distribution of other third-party financial products	397	311	86	27.7%
<b>Fees for the placement and distribution of financial services</b>	<b>244,497</b>	<b>222,790</b>	<b>21,707</b>	<b>9.7%</b>
<b>Asset management fee income</b>	<b>575,958</b>	<b>618,276</b>	<b>-42,318</b>	<b>-6.8%</b>



Within this scenario, the **distribution of insurance products** recorded growth of 17.8% compared to 2015, particularly thanks to the significant increase in average AUM relating to the segment (+21.4%).

In 2016, insurance net inflows of 2.7 billion euros were evenly split between the traditional products offered by Genertellife, which provide capital protection and a low risk profile (the products Stile Garantito and Cedola), which yielded net inflows of 1.4 billion euros, and the multi-line policy **BG Stile Libero** (+1.3 billion euros), which has generated inflows of over 5.6 billion euros since its launch in June 2014. The revenues generated by the distribution of Genertellife products thus amounted to 183.6 million euros.

The management fees on the **Sicavs** promoted by the Banking Group, net of the effect of non-recurring components, slightly declined by 2.1% compared to 2015, as a result of both slower growth of net inflows and a slight reduction of profitability due to the greater weight in the portfolio of the institutional classes.

The result of **individual portfolio management** accounts increased by 1.3% overall compared to 2015; this increase rises to 10.6% if the contribution of performance fees alone is considered.

The launch, in March 2016, of the new multi-line **BG Solution** essentially marked the conclusion of the process of revision of the product range which had started in the first half of 2015. The strong attention drawn by new solutions, which allow for strong personalisation of investment lines and service profiling advantages, has led to over 1.4 billion euros net inflows in 2016.

Finally, underwriting and management fees on the **distribution of UCITS** amounted to 57.3 million euros, down by 6.2% compared to 2015, attributable solely to sales fees and fees relating to the Sicavs promoted by the Banking Group.

**Other fees** from banking services offered to customers include trading, order collection, custody and administration fees, advisory fees and fees charged to customers for account-keeping expenses and other services. The aggregate amounted to 28.7 million euros.

Fees for the intermediation and custody of customers' financial assets amounted to 15.8 million euros, down by 4.6 million euros (-22.4%) compared to 2015, due to both the decline in the volumes of business with the Italian and foreign management companies in the banking and insurance Group (-3.0 million euros) and business with retail customers and discretionary portfolio management.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Dealing in securities and currencies	12,453	14,403	-1,950	-13.5%
Order collection and securities custody fees	3,340	5,955	-2,615	-43.9%
Collection and payment services	2,981	3,370	-389	-11.5%
Fee income and account-keeping expenses	2,392	2,577	-185	-7.2%
Consultancy	4,519	4,658	-139	-3.0%
Other services	3,046	2,721	325	11.9%
<b>Total traditional banking operations</b>	<b>28,731</b>	<b>33,684</b>	<b>-4,953</b>	<b>-14.7%</b>

**Fee expense** amounted to 295.7 million euros, up moderately on the previous year (+5.1%), due solely to the increase in fees paid to the Financial Advisor network for off-premises offers (+6.3%).

**Distribution fee expense** thus stood at 262.9 million euros, a difference of 15.7 million euros compared to 2015, primarily as a result of the following factors:

- > the increase in incentive fees (+9.8 million euros), mostly related to the development of fees tied to recruitment plans undertaken during the reporting year and previous years (+9.3 million euros), in contrast to a slight decrease in the accrued cost of the standard annual incentives;
- > a decline in front-end fees (-45.0%), associated with the similar trend reported by underwriting fees;
- > a growth in management fees (+9.5%), correlated to the rise in the network's average AUM compared to the same period of the previous year.

Finally, in 2016 a new remuneration policy was adopted for ordinary or recurring incentives, combining the two previous half-yearly incentives into a single annual incentive, based, therefore, on the total net inflows reported for the full year.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Front-end fees	12,153	22,103	-9,950	-45.0%
Management fees	159,294	145,419	13,875	9.5%
Incentive fees	65,115	55,331	9,784	17.7%
Other fees	26,362	24,376	1,986	8.1%
<b>Total</b>	<b>262,924</b>	<b>247,229</b>	<b>15,695</b>	<b>6.3%</b>

Other fees relate to social-security charges (Enasarco and FIRR) and additional fees disbursed in relation to maintenance of the network structure.

Within the fee expense aggregate, **asset management fees** amounted to 26.3 million euros (+4.1%) and referred substantially to fees for third-party assets under administration and custody regarding the Sicavs promoted by the Group.

Lastly, **fee expense from traditional banking operations** decreased by 25.8% due to the aforementioned decline in trading activities.

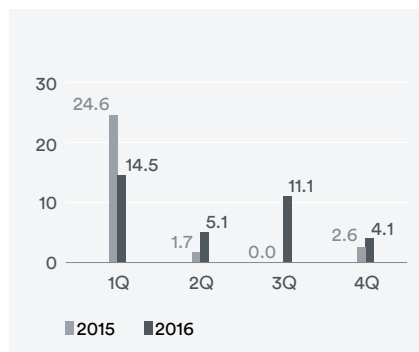
(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Fees for securities trading and custody	-3,720	-6,290	2,570	-40.9%
Collection and payment services	-2,254	-2,044	-210	10.3%
Other services	-482	-363	-119	32.8%
<b>Total fee expense</b>	<b>-6,456</b>	<b>-8,697</b>	<b>2,241</b>	<b>-25.8%</b>

### 4.3 Net income from trading activities and dividends

Net income from trading activities and dividends is composed of the result of financial asset and liability trading, gains and losses from the disposal of financial assets allocated to the AFS portfolio and other portfolios valued at amortised cost (HTM, Loans), the related dividends and any result of hedging.

At the end of 2016, the item yielded a positive contribution of 34.7 million euros, up sharply compared to the previous year.

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



(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Dividends from trading and UCITS	286	280	6	2.1%
Trading of financial assets and equity derivatives	-113	840	-953	-113.5%
Trading of financial assets and derivatives on debt securities and interest rates	-112	171	-283	-165.5%
Trading of UCITS units	-645	221	-866	-391.9%
<b>Securities transactions</b>	<b>-584</b>	<b>1,512</b>	<b>-2,096</b>	<b>-138.6%</b>
<b>Currency and currency derivative transactions</b>	<b>3,253</b>	<b>3,256</b>	<b>-3</b>	<b>-0.1%</b>
<b>Net income (loss) from trading activities</b>	<b>2,669</b>	<b>4,768</b>	<b>-2,099</b>	<b>-44.0%</b>
Net profit from hedging	-	-	-	n.a.
Dividends from AFS assets	1,677	2,840	-1,163	-41.0%
Gains and losses on equity securities and UCITS	204	1,444	-1,240	-85.9%
Gains and losses on AFS and HTM debt securities and loans	30,167	19,858	10,309	51.9%
<b>Net income (loss) from trading activities and dividends</b>	<b>34,717</b>	<b>28,910</b>	<b>5,807</b>	<b>20.1%</b>

This result is mainly attributable to the gains realised on medium/long-term government bonds allocated to the AFS assets portfolio (23.4 million euros).

The disposal of part of the investments in corporate and financial securities allocated to the Loans portfolio, chiefly in the third quarter, yielded a gain of 2.2 million euros.

(€ THOUSAND)	TRANSFER OF RESERVES	GAINS	LOSSES	2016	2015	CHANGE
AFS financial assets	18,459	11,734	-2,042	28,151	19,602	8,549
Debt securities	18,467	11,505	-2,025	27,947	18,158	9,789
Equity securities	-4	150	-	146	-200	346
UCITS units	-4	79	-17	58	1,644	-1,586
Financial assets classified among loans	-	2,204	-	2,204	3,359	-1,155
Transfer of non-performing loans	-	-	-	-	-1,659	1,659
HTM financial assets	-	22	-6	16	-	16
<b>Total</b>	<b>18,459</b>	<b>13,960</b>	<b>-2,048</b>	<b>30,371</b>	<b>21,302</b>	<b>9,069</b>

Net income from trading was positive overall (+2.4 million euros) due to the gain on currency transactions, partly offset by the poor performance of several options on the FTSE MIB and the net losses on investments in UCITS.

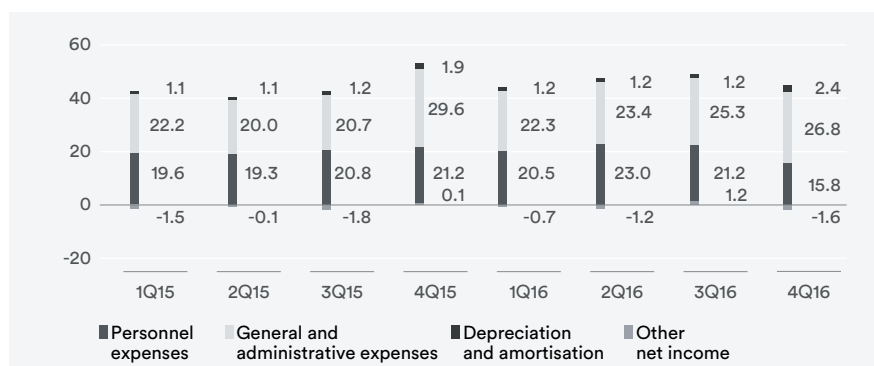
(€ THOUSAND)	CAPITAL GAINS	CAPITAL LOSSES	GAINS	LOSSES	NET RESULT 2016	NET RESULT 2015	CHANGE
<b>1. Financial assets</b>	<b>276</b>	<b>946</b>	<b>598</b>	<b>376</b>	<b>-448</b>	<b>563</b>	<b>-1,011</b>
Debt securities	112	489	297	32	-112	171	-283
Equity securities	164	28	266	93	309	171	138
UCITS units	-	429	35	251	-645	221	-866
<b>2. Derivatives</b>	<b>80</b>	<b>257</b>	<b>1,156</b>	<b>1,412</b>	<b>-433</b>	<b>663</b>	<b>-69</b>
Options on equity securities	80	257	866	1,062	-373	669	-1,042
Options on currencies and gold	-	-	286	297	-11	-6	-5
Futures	-	-	4	53	-49	-	-49
<b>3. Currency transactions</b>	<b>-</b>	<b>-</b>	<b>3,264</b>	<b>-</b>	<b>3,264</b>	<b>3,262</b>	<b>2</b>
<b>4. Total</b>	<b>356</b>	<b>1,203</b>	<b>5,018</b>	<b>1,788</b>	<b>2,383</b>	<b>4,488</b>	<b>-2,105</b>

## 4.4 Operating expenses

Operating expenses, including staff expenses, other general and administrative expense, amortisation and depreciation and other operating income and expenses, amounted to 182.0 million euros, increasing by 6.4 million euros overall compared to the same period of the previous year (+3.7%).

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Staff expenses	80,470	80,949	-479	-0.6%
Other general and administrative expense	140,119	134,020	6,099	4.6%
Net adjustments of property, equipment and intangible assets	5,940	5,310	630	11.9%
Other income and expenses	-44,545	-44,720	175	-0.4%
<b>Operating expenses</b>	<b>181,984</b>	<b>175,559</b>	<b>6,425</b>	<b>3.7%</b>

### Operating expenses (€ million)



**Staff expenses**, including employees, interim staff and directors, amounted to 80.5 million euros, down slightly compared to the previous year (-0.6%), attributable solely to the fourth quarter of the year.

At the end of the reporting year, Group's employees totalled 849, up by 12 compared to the previous year, whereas the average headcount increased by 16.

	31.12.2016	31.12.2015	CHANGE		AVERAGE	
			AMOUNT	%	2016	2015
Managers	47	44	3	6.8%	45.5	44.5
3 <sup>rd</sup> and 4 <sup>th</sup> level executives	151	140	11	7.9%	145.5	137.5
Other employees	651	653	-2	-0.3%	652.0	645.0
<b>Total</b>	<b>849</b>	<b>837</b>	<b>12</b>	<b>1.4%</b>	<b>843.0</b>	<b>827.0</b>

In 2016, there was a slight increase in the recurring component of staff expenses (+1.5 million euros) due to new hires, promotions and other benefits, offset by a decrease in the variable component, consisting of current and deferred MBO plans for management, sales incentives, individual and performance bonuses (-2.1 million euros).

The item relating to stock option/stock granting plans included 2.6 million euros attributable to incentivisation plans reserved for the Generali Group's key managers (LTIP - Long-Term Incentive Plan) based on the allotment of shares of the Parent Company, Assicurazioni Generali, whereas the remainder related to the estimated IFRS2 charges associated with the portion of variable remuneration payable in Banca Generali shares.

The item also included the early recognition of the service condition charges for the LTIPs assigned to the Chief Executive Officer following his passing at the end of March.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
<b>1) Employees</b>	<b>78,980</b>	<b>78,955</b>	<b>25</b>	<b>-</b>
Salaries and social security charges	55,426	53,951	1,475	2.7%
Provision for termination indemnity and supplementary pension funds	4,415	4,422	-7	-0.2%
Costs related to payment agreements based on own financial instruments	3,042	2,724	318	11.7%
Short-term productivity bonuses (MBO, CIA, incl. sales)	10,280	12,626	-2,346	-18.6%
Other long-term incentives (MBO)	1,027	1,095	-68	-6.2%
Other employee benefits	4,790	4,137	653	15.8%
<b>2) Other staff</b>	<b>157</b>	<b>250</b>	<b>-93</b>	<b>-37.2%</b>
<b>3) Directors and Auditors</b>	<b>1,333</b>	<b>1,744</b>	<b>-411</b>	<b>-23.6%</b>
<b>Total</b>	<b>80,470</b>	<b>80,949</b>	<b>-479</b>	<b>-0.6%</b>

**Total other general and administrative expense**, net of recoveries of taxes paid by customers (stamp duty, substitute tax on loans), amounted to 97.8 million euros, up 5.3 million euros compared to the same period of the previous year (+5.7%).

The item's performance was primarily affected by the advisory expenses and the development of IT services tied to the new projects for the year and the launch of the new wealth management services.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
<b>Administration</b>	<b>15,794</b>	<b>13,441</b>	<b>2,353</b>	<b>17.5%</b>
Advertising	4,228	3,871	357	9.2%
Advisory	6,762	5,074	1,688	33.3%
Auditing	520	593	-73	-12.3%
Insurance	3,007	2,933	74	2.5%
Other general costs (insurance; T&E)	1,277	970	307	31.6%
<b>Operations</b>	<b>34,978</b>	<b>34,524</b>	<b>454</b>	<b>1.3%</b>
Rent and usage of premises	17,970	17,018	952	5.6%
Outsourced services	4,748	5,250	-502	-9.6%
Post and telephone	2,606	2,974	-368	-12.4%
Print material and contracts	1,279	1,167	112	9.6%
Other indirect staff expenses	2,325	2,660	-335	-12.6%
Other operating expenses	6,050	5,455	595	10.9%
<b>Information system and equipment</b>	<b>37,374</b>	<b>34,807</b>	<b>2,567</b>	<b>7.4%</b>
Outsourced IT services	26,888	24,667	2,221	9.0%
Fees for financial databases and other IT services	6,842	6,586	256	3.9%
Software maintenance and servicing	2,867	2,779	88	3.2%
Other expenses (equipment rental, maintenance, etc.)	777	775	2	0.3%
<b>Taxes and duties</b>	<b>43,692</b>	<b>42,537</b>	<b>1,155</b>	<b>2.7%</b>
of which virtual stamp duty and other taxes borne by customers	43,003	41,701	1,302	3.1%
<b>Contributions to the National Resolution and Interbank Deposit Protection Funds of the regulatory authority</b>	<b>8,281</b>	<b>8,711</b>	<b>-430</b>	<b>-4.9%</b>
<b>Total other general and administrative expense</b>	<b>140,119</b>	<b>134,020</b>	<b>6,099</b>	<b>4.6%</b>
<b>Recovery of stamp duty from customers (item 220)</b>	<b>-42,295</b>	<b>-41,470</b>	<b>-825</b>	<b>2.0%</b>
<b>Total administrative expense, net of stamp duties recovered</b>	<b>97,824</b>	<b>92,550</b>	<b>5,274</b>	<b>5.7%</b>

In accordance with IFRIC 21 and the Bank of Italy's technical rules, operating expenses also include the ordinary and extraordinary contributions due to the National Resolution and Interbank Deposit Protection Funds instituted by European directives (FRU and FITD) and transposed into Italian law.

In this regard, in view of the planned sale of the good banks created as a result of the resolution of the four distressed regional banks, in its Notice of 27 December 2016 the Bank of Italy called up additional contributions equal to twice the ordinary contribution for 2016, to be allocated to the National Resolution Fund (FRN) on the basis of the transitional provisions of Article 1, paragraph 848, of Law No. 208/2015.

In its subsequent Notice of 25 January 2017, the Supervisory Authority clarified that these contributions, while not immediately due, should be regarded as a liability fully accrued in 2016 pursuant to IFRIC 21.

In addition, the ordinary contributions to the Interbank Deposit Protection Fund (FITD) increased both because they refer to all of 2016 (in 2015 such contributions did not cover the period prior to 3 July, the date of entry into force of Directive No. 2014/49/EU) and because of the inclusion in the 2016 Funding Plan of the 100 million euros of funding allocated to the Solidarity Fund instituted by the 2016 Italian Stability Law to compensate holders of subordinated bonds affected by the resolution of the aforementioned regional banks.

The 2016 Financial Statements therefore include the contributions to the above-mentioned National Resolution Fund for banking crises and Interbank Deposit Protection Fund (FITD) for a total amount of 8.3 million euros, split as follows:

(€ MILLION)	2016	2015
Ordinary FITD contribution	2.3	0.9
Ordinary contribution to the Single/National Resolution Fund	2.0	1.9
Additional contribution to the National Resolution Fund	4.0	5.8
<b>Total</b>	<b>8.3</b>	<b>8.7</b>

## 4.5 Net provisions

Net provisions amounted to 34.7 million euros, down by 10.8 million euros compared to 2015, primarily due to non-recurring factors.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Provision for staff liabilities and contingencies	2,715	-1,600	4,315	-269.7%
Restructuring provisions – Voluntary redundancy plan	-1,388	10,170	-11,558	-113.6%
Provisions for legal disputes	1,568	2,663	-1,095	-41.1%
Provision for incentive fees	23,658	19,384	4,274	22.0%
Provisions for termination indemnity and overfees	8,678	14,962	-6,284	-42.0%
Other provisions for liabilities and contingencies	-491	6	-497	n.a.
<b>Total</b>	<b>34,740</b>	<b>45,585</b>	<b>-10,845</b>	<b>-23.8%</b>

The decline in provisions was due above all to the effects of the voluntary redundancy plan, which resulted in releases of 1.3 million euros of provisions in 2016, following the recognition of 10.2 million euros of provisions in the previous year.

The implementation of this plan, originally limited in time to 2016, was delayed by a number of factors, primarily external in nature. For this reason, and also in view of the expectations created among employees, it was extended to all of 2017, while the group of potential beneficiaries was adjusted according to the documentation received.

The decline in the provisions recognised for contractual indemnities for the sales network (-6.3 million euros) was due to the “step effect”, in the first half of 2015, of the reduction of the discount rates used to measure the liability, and to the discontinuation in 2016 of the long-term indemnity plan known as the “pension bonus”.

The increase in net provisions and adjustments (+4.3 million euros) was essentially due to the results of recruiting activity in 2016.

Current and deferred incentives in the process of accruing amounted to 8.7 million euros at year-end, essentially unchanged compared to the previous year, whereas provisions for network development plans amounted to 14.9 million euros, up by 4.3 million euros compared to 2015.

## 4.6 Adjustments

At the end of 2016, net adjustments to non-performing loans amounted to -0.8 million euros, down by 5.7 million euros compared to the previous year.

(€ THOUSAND)	VALUE		2016	2015	CHANGE
	ADJUSTMENTS	REVERSALS			
<b>Specific adjustments/reversals</b>	<b>-3,591</b>	<b>1,236</b>	<b>-2,355</b>	<b>-3,557</b>	<b>1,202</b>
Equity securities	-2,865	-	-2,865	-2,845	-20
Debt securities (AFS, HTM, Loans)	-	-	-	-	-
Non-performing loans of the banking portfolio	-501	1,236	735	-516	1,251
Operating loans to customers	-220	-	-220	-196	-24
Adjustments to other financial operations (FITD)	-5	-	-5	-	-5
<b>Portfolio adjustments/reversals</b>	<b>-2,571</b>	<b>4,148</b>	<b>1,577</b>	<b>-2,914</b>	<b>4,491</b>
Debt securities (Loans, HTM)	-1,494	3,037	1,543	-3,011	4,554
Performing loans and guarantees of the banking portfolio	-1,077	1,111	34	97	-63
<b>Total</b>	<b>-6,162</b>	<b>5,384</b>	<b>-778</b>	<b>-6,471</b>	<b>5,693</b>

The 2.9 million euros of accumulated impairment losses in the portfolio of AFS equity securities refer to:

- > 0.9 million euros attributable to the additional impairment, on top of that recognised in previous years, of the equity investment in Veneto Banca, which was measured in accordance with the results of the capital increase undertaken in June, fully subscribed by the Atlante fund at the price of 0.1 euro per share;
- > 1.6 million euros for investments in entities recently listed on AIM Italia (Alternative Investment Market) and minor banking equity investments;
- > 0.3 million euros to write-downs to the indirect equity investment recognised following the action taken by Voluntary Scheme of the Interbank Deposit Protection Fund in the recapitalisation of Cassa di Risparmio di Cesena.

On this latter point, in September 2016 Banca Generali paid a contribution of 1.3 million euros to discharge its obligation to the Voluntary Scheme established within the framework of the Interbank Deposit Protection Fund and the programme authorised by the Bank of Italy to recapitalise the above bank.

On the basis of the technical clarification provided by the Bank of Italy and published by the Interbank Deposit Protection Fund on 31 October 2016, this contribution was considered a capital contribution, classified among financial assets available for sale, with an obligation to mark to fair value in the Statement of Other Comprehensive Income.

For this purpose, in January 2017 the participants in the Voluntary Scheme received an opinion drafted by KPMG Corporate Finance according to which the total value of the investment (a 95.3% equity interest in the company) was determined to be approximately 212 million euros, resulting in a capital loss of approximately 68 million euros (-25%) on the amount of the initial investment of 280 million euros.

Since the recapitalisation was undertaken under non-market circumstances as a bail-out and the sharp decline in fair value occurred almost at the same time, it was decided to recognise the Bank's share of the capital loss of 327 thousand euros in the Profit and Loss Account.

It should also be noted that impairment losses of 1.4 million euros were recognised on the joint-venture agreement to produce a film in the previous year.

The greater charges on equities were partly offset by the net reversals on non-performing loans in the banking book (0.7 million euros), mostly attributable to the positive resolution of a significant bad loan position. Consequently, the item improved considerably compared to the same period of the previous year, which was also penalised by the write-down of the Investimenti Marittimi position of 1.7 million euros.

In addition, there were net reversals on collective provisions for performing debt securities allocated to portfolios measured at amortised cost (1.5 million euros) due to the disposal of a significant portion of the Loans portfolio in the third quarter and the risk profile (rating/residual life) of the new investments undertaken.

The unlisted convertible bond issued by Tyndaris Services Ltd., assigned a speculative grade rating, was also included in the portfolio of assets subject to collective measurement in the fourth quarter.

## 4.7 Consolidated net result, taxes and earnings per share

**Taxes for the year** on a current and deferred basis were estimated at 28.9 million euros, down 5.7 million euros compared to estimated taxes at the end of the previous year.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Current taxes for the year	-27,436	-36,972	9,536	-25.8%
Prior years' taxes	1,011	996	15	1.5%
Changes of prepaid taxation (+/-)	-2,242	1,589	-3,831	-241.1%
Changes of deferred taxation (+/-)	-275	-295	20	-6.8%
<b>Total</b>	<b>-28,942</b>	<b>-34,682</b>	<b>5,740</b>	<b>-16.6%</b>

The estimated total tax rate was 15.7%, slightly up compared to the end of 2015, chiefly due to the change in the share of profit earned outside of Italy.

At year-end 2016, basic net earnings per share was 1.34 euros.

	2016	2015	CHANGE	
			AMOUNT	%
Net profit for the year (€ thousand)	155,894	203,559	-47,665	-23.4%
Earnings attributable to ordinary shares (€ thousand)	155,894	203,559	-47,665	-23.4%
Average number of outstanding shares (thousand)	116,067	115,867	201	0.2%
<b>EPS - Earnings per share (euros)</b>	<b>1.34</b>	<b>1.76</b>	<b>-0.41</b>	<b>-23.5%</b>
Average number of outstanding shares with diluted share capital (thousand)	116,614	116,418	195	0.2%
<b>EPS - Diluted earnings per share (euros)</b>	<b>1.34</b>	<b>1.75</b>	<b>-0.41</b>	<b>-23.5%</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 AFS securities.

In 2016, the latter component provided a negative overall contribution of -13.4 million euros, improving compared to the net positive change of 4.4 million euros recorded at the end of the previous year.

In particular, AFS portfolio valuation reserves declined as a result of the following factors:

- > a reduction in net valuation capital gains totalling 1.0 million euros;
- > a reduction of pre-existing net positive reserves due to re-absorption through profit or loss upon realisation (18.5 million euros);
- > the positive net tax effect associated with the above changes and due to net re-absorptions of DTLs and increases of DTAs (+6.2 million euros).

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
<b>Net profit (loss)</b>	<b>155,894</b>	<b>203,559</b>	<b>-47,665</b>	<b>-23.4%</b>
Other income, net of income taxes:				
with transfer to Profit and Loss Account:				
Exchange gains and losses	-88	-8	-80	1000.0%
AFS assets	-13,161	4,379	-17,540	-400.5%
without transfer to Profit and Loss Account:				
Actuarial gains (losses) from defined benefit plans	-196	70	-266	-380.0%
<b>Total other income, net of taxes</b>	<b>-13,445</b>	<b>4,441</b>	<b>-17,886</b>	<b>-402.7%</b>
<b>Comprehensive income</b>	<b>142,449</b>	<b>208,000</b>	<b>-65,551</b>	<b>-31.5%</b>



## 5. BALANCE SHEET AND NET EQUITY AGGREGATES

At the end of 2016, total consolidated assets amounted to 8.4 billion euros, increasing by 2.2 billion euros compared to the end of 2015 (+36.6%).

Total net inflows increased significantly in 2016 to an all-time high of over 7.4 billion euros (+44.0%).

This result was due to the sharp rise in net inflows from private banking customers (+1.8 billion euros), which benefited from significant outflows from the traditional banking system, above all in the fourth quarter of the year.

The increase in interbank net inflows was mostly due to the financing of 400 million euros disbursed by the ECB on 29 June 2016, as part of its new TLTRO 2 programme.

Core loans amounted to 8.0 billion euros (+38.8%) at year-end, with an increase in longer-term exposures in the HTM and AFS portfolios.

ASSETS (€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
HFT financial assets	38,560	28,004	10,556	37.7%
AFS financial assets	4,409,318	2,939,211	1,470,107	50.0%
HTM financial assets	731,362	423,586	307,776	72.7%
Loans to banks (*)	894,000	419,508	474,492	113.1%
Loans to customers	1,881,927	1,922,020	-40,093	-2.1%
Equity investments	1,988	2,152	-164	-7.6%
Property, equipment and intangible assets	97,813	93,114	4,699	5.0%
Tax receivables	44,538	61,992	-17,454	-28.2%
Other assets	257,229	226,430	30,799	13.6%
<b>Total assets</b>	<b>8,356,735</b>	<b>6,116,017</b>	<b>2,240,718</b>	<b>36.6%</b>

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
Due to banks	802,709	333,954	468,755	140.4%
Due to customers	6,648,202	4,839,613	1,808,589	37.4%
Financial liabilities held for trading and hedging	1,169	463	706	152.5%
Tax payables	17,118	22,575	-5,457	-24.2%
Other liabilities	118,853	163,188	-44,335	-27.2%
Special purpose provisions	122,163	119,426	2,737	2.3%
Valuation reserves	8,979	22,424	-13,445	-60.0%
Reserves	314,353	247,214	67,139	27.2%
Additional paid-in capital	53,803	50,063	3,740	7.5%
Share capital	116,425	116,093	332	0.3%
Treasury shares (-)	-2,933	-2,555	-378	14.8%
Net profit (loss) for the year	155,894	203,559	-47,665	-23.4%
<b>Total net equity and liabilities</b>	<b>8,356,735</b>	<b>6,116,017</b>	<b>2,240,718</b>	<b>36.6%</b>

## Quarterly evolution of Consolidated Balance Sheet

ASSETS								
(€ THOUSAND)	31.12.2016	30.09.2016	30.06.2016	31.03.2016	31.12.2015	30.09.2015	30.06.2015	31.03.2015
HFT financial assets	38,560	36,170	31,911	29,324	28,004	52,384	155,833	31,776
AFS financial assets	4,409,318	4,132,469	4,010,354	2,993,056	2,939,211	2,562,806	2,414,029	2,185,006
HTM financial assets	731,362	533,135	515,055	500,249	423,586	496,254	465,937	665,926
Loans to banks	894,000	422,349	766,899	1,069,753	419,508	390,855	572,539	499,196
Loans to customers	1,881,927	1,914,118	1,916,594	1,992,319	1,922,020	1,869,211	1,917,967	1,820,439
Equity investments	1,988	2,023	2,026	1,977	2,152	-	-	-
Property, equipment and intangible assets	97,813	91,270	91,651	92,012	93,114	91,635	92,338	93,084
Tax receivables	44,538	52,510	55,061	55,290	61,992	44,508	51,513	63,657
Other assets	257,229	233,789	230,798	195,807	226,430	187,657	203,625	170,395
<b>Total assets</b>	<b>8,356,735</b>	<b>7,417,833</b>	<b>7,620,349</b>	<b>6,929,787</b>	<b>6,116,017</b>	<b>5,695,310</b>	<b>5,873,781</b>	<b>5,529,479</b>
NET EQUITY AND LIABILITIES								
(€ THOUSAND)	31.12.2016	30.09.2016	30.06.2016	31.03.2016	31.12.2015	30.09.2015	30.06.2015	31.03.2015
Due to banks	802,709	999,464	942,725	433,127	333,954	333,472	234,668	225,856
Due to customers	6,648,202	5,510,261	5,720,364	5,472,099	4,839,613	4,437,476	4,667,873	4,264,524
Financial liabilities held for trading and hedging	1,169	2,265	2,826	2,095	463	1,655	2,063	3,149
Tax payables	17,118	21,982	19,160	18,619	22,575	24,993	21,881	69,985
Other liabilities	118,853	121,982	242,459	218,760	163,188	189,449	277,589	215,407
Special purpose provisions	122,163	143,393	136,811	126,256	119,426	118,125	124,970	116,803
Valuation reserves	8,979	19,736	12,385	13,981	22,424	13,791	-2,630	21,091
Reserves	314,353	314,200	312,393	451,420	247,214	244,662	244,362	357,397
Additional paid-in capital	53,803	52,555	50,708	50,446	50,063	49,553	47,101	46,433
Share capital	116,425	116,312	116,140	116,128	116,093	116,045	115,818	115,756
Treasury shares (-)	-2,933	-2,933	-2,933	-2,555	-2,555	-41	-41	-41
Net profit (loss) for the year (+/-)	155,894	118,616	67,311	29,411	203,559	166,130	140,127	93,119
<b>Total net equity and liabilities</b>	<b>8,356,735</b>	<b>7,417,833</b>	<b>7,620,349</b>	<b>6,929,787</b>	<b>6,116,017</b>	<b>5,695,310</b>	<b>5,873,781</b>	<b>5,529,479</b>

## 5.1 Direct net inflows from customers

Direct net inflows from customers amounted to 6.6 billion euros, with an increase of 1,808.6 million euros compared to 31 December 2015, attributable to the sharp rise in net inflows from retail customers.

The increase in net inflows from non-captive customers (external to the Insurance Group), consisting solely of current account balances, amounted to over 1,972 million euros, and primarily derived from the acquisition of new customers by the sales network, which performed particularly well in the fourth quarter of the year, with net inflows of nearly 800 million euros.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
1. Current accounts and demand deposits	6,466,672	4,655,750	1,810,922	38.9%
2. Term deposits	-	-	-	n.a.
3. Financing	43,282	43,283	-1	-
Repurchase agreements	-	-	-	n.a.
Subordinated loans	43,282	43,283	-1	-
Term deposits on the new MIC	-	-	-	n.a.
4. Other debts	138,248	140,580	-2,332	-1.7%
Operating debts to sales network	99,451	89,560	9,891	11.0%
Other (money orders, amounts at the disposal of customers)	38,797	51,020	-12,223	-24.0%
<b>Total due to customers (Item 20)</b>	<b>6,648,202</b>	<b>4,839,613</b>	<b>1,808,589</b>	<b>37.4%</b>

Captive net inflows from the companies within the Assicurazioni Generali Group decreased by 160.9 million euros to 751.2 million euros at the end of the year, thus accounting for 11.3% of total net inflows.

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

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
Net inflows from Parent Company	2,802	100,394	-97,592	-97.2%
Net inflows from other subsidiaries of the Generali Group	748,355	811,664	-63,309	-7.8%
<b>Total net inflows from Generali Group</b>	<b>751,157</b>	<b>912,058</b>	<b>-160,901</b>	<b>-17.6%</b>
Net inflows from other parties	5,897,045	3,927,555	1,969,490	50.1%
<b>Total net inflows from customers</b>	<b>6,648,202</b>	<b>4,839,613</b>	<b>1,808,589</b>	<b>37.4%</b>

By contrast, the non-interest-bearing debt position (-2.3 million euros) consisting 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, was virtually stable.

## 5.2 Core loans

Core loans totalled 8.0 billion euros overall and increased by 2,222.8 million euros (+38.8%) compared to 31 December 2015.

The increase in loans was primarily attributable to investments in portfolios of financial assets, which increased by 1,789 million euros (+50.3%), whereas customer financing transactions declined moderately (-19.9 million euros).

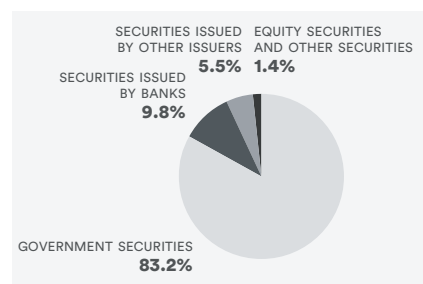
Short-term treasury loans on the interbank market reached 770.8 million euros at the end of December and consisted largely of free deposits with the Central Bank (567.3 million euros), correlated with the significant inflows at the end of December.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
HFT financial assets	38,560	28,004	10,556	37.7%
AFS financial assets	4,409,318	2,939,211	1,470,107	50.0%
HTM financial assets	731,362	423,586	307,776	72.7%
Financial assets classified among loans	166,147	165,568	579	0.3%
<b>Financial assets</b>	<b>5,345,387</b>	<b>3,556,369</b>	<b>1,789,018</b>	<b>50.3%</b>
Loans to and deposits with banks (*)	770,824	302,819	468,005	154.5%
Loans to customers	1,699,073	1,718,938	-19,865	-1.2%
Operating loans and other loans	139,883	154,203	-14,320	-9.3%
<b>Total interest-bearing financial assets and loans</b>	<b>7,955,167</b>	<b>5,732,329</b>	<b>2,222,838</b>	<b>38.8%</b>

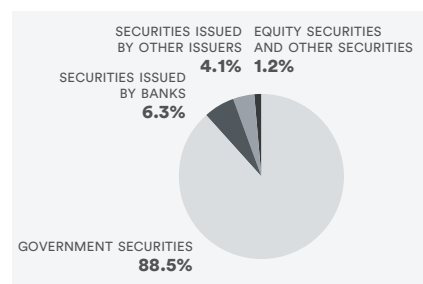
(\*) ECB demand deposits included

### Breakdown of financial assets portfolio

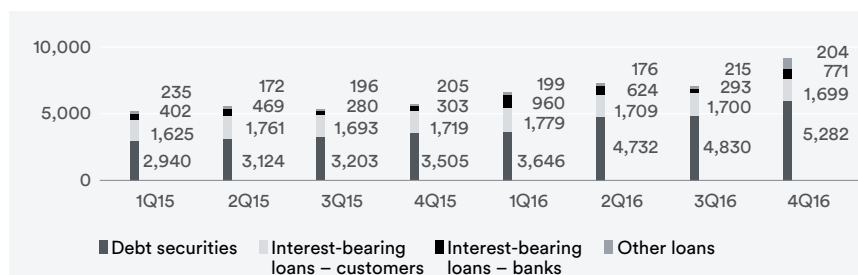
At 31.12.2015



At 31.12.2016



### Evolution of loans (€ million)



Overall, the ratio of financial assets to core loans reached 67.2%, up compared to 62.0% at year-end 2015.

To avoid negative rate contagion, which has also affected the Italian government bonds with maturities of up to three years, the Banking Group pursued a prudent policy of extending maturities and diversifying investments in the corporate segment.

In particular, the increases in the AFS (+50.0%) and HTM (+72.7%) portfolios were driven by significant purchases of government bonds with an average maturity of slightly more than 4.5 years and were partly correlated with the maturity of the TLTRO.

Consequently, sovereign debt exposure increased by 1,770.4 million euros compared to the previous year, accounting for 88.5% of total financial investments, up compared to the end of 2015.

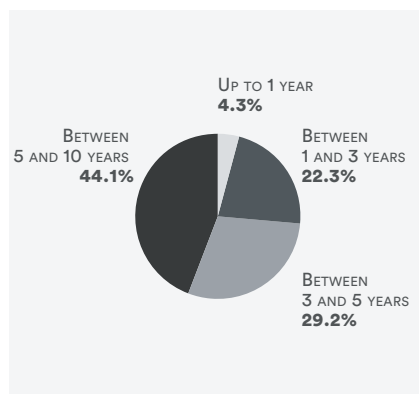
Such exposure mostly included bonds of the Italian Republic, with the only exception of a Spanish bond issue (25 million euros).

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
Exposure to the sovereign risk by portfolio:				
AFS financial assets	4,117,859	2,594,480	1,523,379	58.7%
HTM financial assets	610,833	363,835	246,998	67.9%
<b>Total</b>	<b>4,728,692</b>	<b>2,958,315</b>	<b>1,770,377</b>	<b>59.8%</b>

The overall geographical breakdown of the portfolio of debt securities thus showed a high concentration of investments relating to Italian securities (94.4%).

The portfolio of debt securities had an overall average residual life of about 4.5 years and 58.2% of it was made up of variable rate issues, and for the remainder, of fixed-rate issues and zero coupons.

### Breakdown of bonds portfolio by maturity



### Bonds portfolio maturity (€ million)



**Loans to customers** amounted to 1,699 million euros, slightly down compared to year-end 2015, chiefly due to the decline of the current account overdraft facilities, only partially offset by the slight increase in mortgage and personal loans.

The mortgage segment reported new disbursements amounting to 121 million euros.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
Current accounts	907,032	928,894	-21,862	-2.4%
Personal loans	787,294	781,665	5,629	0.7%
Other financing and loans not in current accounts	4,747	8,379	-3,632	-43.3%
<b>Total loans</b>	<b>1,699,073</b>	<b>1,718,938</b>	<b>-19,865</b>	<b>-1.16%</b>
Operating loans to product companies	99,252	106,364	-7,112	-6.7%
Sums advanced to Financial Advisors	32,544	36,294	-3,750	-10.3%
Stock exchange interest-bearing daily margin	1,940	3,383	-1,443	-42.7%
Charges to be debited and other loans	6,018	7,966	-1,948	-24.5%
<b>Operating loans and other loans</b>	<b>139,754</b>	<b>154,007</b>	<b>-14,253</b>	<b>-9.3%</b>
<b>Debt securities</b>	<b>43,100</b>	<b>49,075</b>	<b>-5,975</b>	<b>-12.2%</b>
<b>Total loans to customers</b>	<b>1,881,927</b>	<b>1,922,020</b>	<b>-40,093</b>	<b>-2.1%</b>

**Net non-performing loans** amounted to 32.9 million euros, equal to 1.75% of total loans to customers, and down compared to the previous year (-1.3 million euros).

In detail, bad loans declined by 1.7 million euros due to repayments and the closure of positions subject to indemnities. In this regard, it should be noted that one significant bad debt position was closed during the first half of the year, resulting in the collection of 1.5 million euros and a reversal of 0.6 million euros.

At the end of 2016, non-performing loans included 27.5 million euros referring to exposures originating in the portfolio of Banca del Gottardo Italia, fully covered by the loan indemnity granted by BSI S.A. upon the sale of the said company and mainly secured to that end by cash collateral payments by the counterparty. Net of that portfolio, the weight of non-performing exposures declined to 0.28%.

(€ THOUSAND)	GROSS EXPOSURE	VALUE ADJUSTMENTS	NET EXPOSURE 2016	NET EXPOSURE 2015	CHANGE		SECURED EXPOSURE SUBJECT TO INDEMNITY	RESIDUAL UNSECURED
					AMOUNT	%		
Bad loans	37,904	-13,886	24,018	25,697	-1,679	-6.5%	22,488	1,530
Financing	34,948	-11,924	23,024	24,728	-1,704	-6.9%	22,488	536
Operating loans	2,956	-1,962	994	969	25	2.6%	-	994
Unlikely to pay	6,912	-141	6,771	5,104	1,667	32.7%	5,050	1,721
Past-due exposures - over 90 days	2,495	-431	2,064	3,372	-1,308	-38.8%	-	2,064
<b>Total non-performing loans</b>	<b>47,311</b>	<b>-14,458</b>	<b>32,853</b>	<b>34,173</b>	<b>-1,320</b>	<b>-3.9%</b>	<b>27,538</b>	<b>5,315</b>
Performing loans	1,852,869	-3,795	1,849,074	1,887,847				
<b>Total loans to customers</b>	<b>1,900,180</b>	<b>-18,253</b>	<b>1,881,927</b>	<b>1,922,020</b>				

Finally, **operating receivables** saw a decrease in financial advances paid to the sales network against fees in the process of accruing, as a result of the new remuneration policies, offset by an increase, at the end of December, in trade receivables accrued or in the process of accruing in respect of the placement and distribution of financial and insurance products.

At 31 December 2016, the **interbank position**, net of the securities portfolio and operating loans, showed a moderate net debt imbalance of 31.9 million euros, in line with 31.1 million euros at the end of the previous year.

This situation was essentially due to the disbursement by the ECB, within the context of the TLTRO 2 programme (Targeted Longer-Term Refinancing Operations) launched in 2016, of financing of 400 million euros, and, to a lesser extent, the increase in net inflows in the form of repurchase agreements with negative rates.

The TLTRO2 financing, disbursed on 29 June 2016, has a term of four years, with maturity on 24 June 2020, may be repaid in advance at the end of the second year and bears interest at a rate equal to the rate for the main refinancing operations in effect at the time, currently 0%. However, that rate may be reduced to the interest rate on overnight deposits with the ECB (currently a negative -0.40%) if at the end of January 2018 the loans disbursed by Banca Generali to households for credit purposes other than home purchases and to non-financial companies residing in the euro area exceed a given benchmark level<sup>1</sup>.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
<b>1. Repayable on demand</b>	<b>675,342</b>	<b>252,439</b>	<b>422,903</b>	<b>167.5%</b>
Demand deposits with ECB and Bank of Italy (*)	567,312	89,222	478,090	535.8%
Transfer accounts	108,030	163,217	-55,187	-33.8%
<b>2. Time deposits</b>	<b>95,482</b>	<b>50,380</b>	<b>45,102</b>	<b>89.5%</b>
Mandatory reserve	56,314	49,991	6,323	12.6%
Term deposits	35,136	83	35,053	n.a.
Collateral margins	4,032	306	3,726	1217.6%
<b>Total due to banks</b>	<b>770,824</b>	<b>302,819</b>	<b>468,005</b>	<b>154.5%</b>
<b>1. Due to Central Banks</b>	<b>400,000</b>	<b>-</b>	<b>400,000</b>	<b>n.a.</b>
TLTRO	400,000	-	400,000	n.a.
<b>2. Due to banks</b>	<b>402,709</b>	<b>333,954</b>	<b>68,755</b>	<b>20.6%</b>
Transfer accounts	23,673	1,393	22,280	n.a.
Term deposits	4,748	5,261	-513	-9.8%
Repurchase agreements	351,437	303,927	47,510	15.6%
Collateral margins	268	-	268	n.a.
Other debts	22,583	23,373	-790	-3.4%
<b>Total due to banks</b>	<b>802,709</b>	<b>333,954</b>	<b>468,755</b>	<b>140.4%</b>
<b>Net interbank position</b>	<b>-31,885</b>	<b>-31,135</b>	<b>-750</b>	<b>2.4%</b>
<b>3. Debt securities</b>	<b>123,047</b>	<b>116,493</b>	<b>6,554</b>	<b>5.6%</b>
<b>4. Other operating receivables</b>	<b>129</b>	<b>196</b>	<b>-67</b>	<b>-34.2%</b>
<b>Total interbank position</b>	<b>91,291</b>	<b>85,554</b>	<b>5,737</b>	<b>6.7%</b>

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

<sup>1</sup> For Banca Generali, equal to the amount of these loans at 31 January 2016, plus 2.5%.

## 5.3 Provisions

Total provisions amounted to 122.2 million euros, up by 2.7 million euros compared to the previous year (+2.3%).

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
Provisions for termination indemnity	5,129	4,889	240	4.9%
<b>Other provisions for liabilities and contingencies</b>	<b>117,034</b>	<b>114,537</b>	<b>2,497</b>	<b>2.2%</b>
Provisions for staff expenses	12,508	10,602	1,906	18.0%
Restructuring provisions – Redundancy incentives plan	8,500	10,170	-1,670	-16.4%
Provisions for legal disputes	15,123	16,029	-906	-5.7%
Provisions for contractual indemnities to the sales network	49,165	41,424	7,741	18.7%
Provisions for sales network incentives	31,466	33,457	-1,991	-6.0%
Other provisions for liabilities and contingencies	272	2,855	-2,583	-90.5%
<b>Total provisions</b>	<b>122,163</b>	<b>119,426</b>	<b>2,737</b>	<b>2.3%</b>

The main component of this aggregate consists of provisions for contractual end-of-service indemnities for the sales network, which accounted for more than 40% of the total and are characterised by a long period of accrual and disbursement. The increase in this item was due in particular to the increase in the basic fee on which the indemnity is calculated, the increased length of service of the network and the low turnover rate.

The voluntary redundancy plan covered by the specific company restructuring provision was launched at the end of 2015 to encourage the rotation of resources through incentives for voluntary departure for groups of employees nearest to retirement age and the filling of the resulting vacant positions with professional and/or managerial profiles more suited to the specific skills now required from a business standpoint.

However, in 2016 the implementation of the plan was slowed considerably by various factors, including the consequences of the new strategic reorganisation launched in 2016 following the untimely passing of CEO Piermario Motta, the uncertainties surrounding the development of retirement legislation (with particular regard to possible eligibility for early retirement) and, most recently, the particularly long time required for the employees interested in participating to prepare the necessary documentation.

In view of continuing company and business needs and the reliance on the system by employees, the plan, which was originally limited to 2016, has been extended to all of 2017 and the potential beneficiaries have been modified accordingly.

### Tax dispute

On 30 November 2016, the disputes arising from the following tax audits were resolved through settlement procedure:

- > the audit conducted by the Italian Revenue Service – Friuli Venezia-Giulia Regional Department in 2013 concerning tax period 2010 (2013 Auditors' Report on Findings - PVC);
- > the audit conducted by the Italian Finance Police in the period August 2015 – June 2016, concerning financial transactions involving equities undertaken in the years 2010 and 2011 (2016 Auditors' Report on Findings - PVC).

In both cases, the outcome was positive for the Bank, which successfully defended its behaviour and was able to significantly reduce the amounts claimed by the revenue authority.

Overall, the settlement of the two Auditors' Reports on Findings – PVC (2013 and 2016) entailed a total cash outlay of 2.1 million euros for additional taxes, penalties and interest.

In 2013, the Bank had specifically increased its provision for tax disputes by 2.7 million euros to account for the tax risk associated with the 2013 Auditors' Report on Findings, and this amount was more than enough to cover the financial impact of both disputes.

In particular, the Auditors' Report on Findings served by the Italian Finance Police on 13 July 2016 alleged abuse of the law in connection with several transactions undertaken in 2010 and 2011, which were reclassified as repurchase agreements due to their purported circular nature. While continuing to maintain that its actions were lawful, and despite having provided the Italian Revenue Service with all of the elements needed to refute the allegation of abuse of the law, Banca Generali agreed – for the sole purpose of avoiding the uncertainty associated with litigation – to reclassify accordingly, on a notional basis, a limited number of transactions which could be considered effectively circular.

The sums definitively assessed and paid by the Bank therefore amounted to 0.3 million euros, of which 0.2 million euros of taxes and 0.1 million euros of penalties and interest.

Turning to the audit of tax period 2010, the settlement procedure, only formally launched on 16 August 2016, primarily concerned the method adopted by the Bank to measure a commercial

promotional transaction undertaken with the associate BSI S.A., as illustrated in the national transfer pricing document, and the classification of that transaction for VAT purposes as financial intermediation.

Banca Generali responded to the audit by reiterating that the VAT charge was entirely groundless, in the light of the case law of the European Court of Justice and the exemption rules applied by the Italian revenue authority in very similar cases. The adequacy of the transfer pricing method was also documented.

However, in this case as well, it was decided to resolve the dispute amicably since it was considered inadvisable to pursue long, costly litigation with an especially uncertain outcome, in view of the specific nature of the subject matter and the particular characteristics of the transaction concerned.

Overall, the settlement procedure allowed the revenue authority's claims to be reduced to 1.8 million euros, of which 1.4 million euros of additional taxes, 0.3 million euros of interest and just 0.1 million euros of penalties, compared to the 7.2 million euros that would have been due in the event of an unfavourable outcome at trial.

## 5.4 Net equity and regulatory aggregates

At 31 December 2016, consolidated net equity, including net profit for the year, amounted to 646.5 million euros compared to 636.8 million euros at the end of the previous year.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
Share capital	116,425	116,093	332	0.3%
Additional paid-in capital	53,803	50,063	3,740	7.5%
Reserves	314,353	247,214	67,139	27.2%
(Treasury shares)	-2,933	-2,555	-378	14.8%
Valuation reserves	8,979	22,424	-13,445	-60.0%
Net profit (loss) for the year	155,894	203,559	-47,665	-23.4%
<b>Group net equity</b>	<b>646,521</b>	<b>636,798</b>	<b>9,723</b>	<b>1.5%</b>

The change in net equity in the year was influenced by the distribution of the 2015 dividend of 139.2 million euros – approved by the Shareholders' Meeting that also approved the 2015 Financial Statements, held on 21 April 2016 – the change in the reserves for shared-based payments (IFRS 2), the performance of fair value valuation reserves for the portfolio of AFS financial assets and other reserves included in other comprehensive income.

	31.12.2016	31.12.2015
<b>Net equity at year-start</b>	<b>636,798</b>	<b>536,308</b>
Dividend paid	-139,237	-113,431
Purchase and sale of treasury shares	-1,466	-2,514
Stock option plans: capital increases	3,554	4,384
Maturity of IFRS2 reserves (from stock option plans and remuneration policies)	1,609	1,740
Maturity of IFRS2 reserves on LTIP	2,814	2,311
Change in valuation reserves	-13,445	4,441
Consolidated net profit	155,894	203,559
<b>Net equity at year-end</b>	<b>646,521</b>	<b>636,798</b>
<b>Change</b>	<b>9,723</b>	<b>100,490</b>

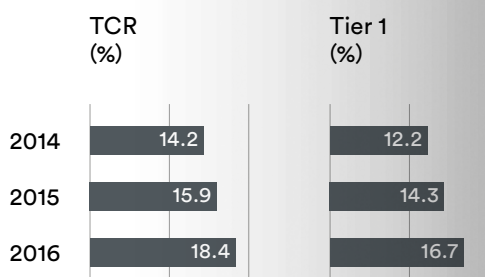
During the first half of the year, by virtue of the resolution of the Shareholders' Meeting of 21 April 2015 and the authorisation granted by the Bank of Italy on 6 June 2016, 67,051 Banca Generali shares were purchased, with a value of 1,379 thousand euros, in service of the variable components of the remuneration of key personnel of the Banking Group, payable in shares, in accordance with the 2016 Remuneration Policy.

On the basis of the achievement of the performance objectives set out in the 2015 Remuneration Policy, 38,099 treasury shares, with a value of 1,001 thousand euros, were allotted to executives and network managers.

At the end of the year, the Parent Company, Banca Generali, thus held 126,129 treasury shares, with a value of 2,933 thousand euros, intended solely for the service of remuneration plans for the Banking Group's key personnel.

The fair value valuation reserves for the AFS financial asset portfolio decreased sharply compared to the end of the previous year, due in part to the release to the Profit and Loss Account of pre-existing positive reserves relating to the securities sold, and in part to the decrease in positive reserves on government bonds at the end of the year.

... Banca Generali continues its capital strengthening policy, which has made it one of the most solid companies in our Country.



The aggregate had an overall positive balance of 10.8 million euros, down by 13.2 million euros compared to year-end 2015.

This trend was mainly influenced by the portfolio of Italian government bonds, for which net reserves amounted to 6.5 million euros compared to 21.6 million euros at year-end 2015.

(€ THOUSAND)	31.12.2016			31.12.2015	
	POSITIVE RESERVE	NEGATIVE RESERVE	NET RESERVE	NET RESERVE	CHANGE
1. Debt securities	13,243	-6,101	7,142	22,006	-14,864
2. Equity securities	2,176	-17	2,159	2,174	-15
3. UCITS units	1,672	-213	1,459	-259	1,718
<b>AFS reserves</b>	<b>17,091</b>	<b>-6,331</b>	<b>10,760</b>	<b>23,921</b>	<b>-13,161</b>
Exchange gains and losses	-	-96	-96	-8	-88
Actuarial gains (losses) from defined benefit plans	-	-1,685	-1,685	-1,489	-196
<b>Total</b>	<b>17,091</b>	<b>-8,112</b>	<b>8,979</b>	<b>22,424</b>	<b>-13,445</b>

**Consolidated own funds**, calculated in accordance with the Basel 3 phase-in rules, amounted to 462.9 million euros, up by 35.0 million euros compared to the end of the previous year, chiefly owing to the portion of retained earnings.

(€ THOUSAND)	31.12.2016		31.12.2015	CHANGE	
	FULL APPLICATION	PHASE IN	PHASE IN	AMOUNT	%
Common Equity Tier 1 capital (CET1)	427,060	419,073	384,178	34,895	9.1%
Additional Tier 1 capital (AT1)	-	-	-	-	n.a.
Tier 2 capital (T2)	43,000	43,854	43,698	156	0.4%
<b>Total own funds</b>	<b>470,060</b>	<b>462,927</b>	<b>427,876</b>	<b>35,051</b>	<b>8.2%</b>
Credit and counterparty risk	132,469	132,469	148,306	-15,837	-10.7%
Market risk	2,681	2,681	2,505	176	7.0%
Operating risk	65,863	65,863	64,254	1,609	2.5%
<b>Total absorbed capital</b>	<b>201,012</b>	<b>201,012</b>	<b>215,064</b>	<b>-14,052</b>	<b>-6.5%</b>
Excess over absorbed capital	269,048	261,915	212,812	49,103	23.1%
Non-committed capital	57.24%	56.58%	49.74%	56.58%	13.8%
Tier 1 / Risk-weighted assets (Tier 1 Capital Ratio)	17.0%	16.7%	14.3%	2.4%	16.7%
<b>Total own funds / Risk-weighted assets (Total capital ratio)</b>	<b>18.7%</b>	<b>18.4%</b>	<b>15.9%</b>	<b>2.5%</b>	<b>15.8%</b>



At year-end, the aggregate capital for regulatory purposes recorded 261.9 million euros in excess of the amount required to cover credit, market, and operating risks. CET1 ratio reached 16.7%, compared to a minimum requirement of 7%, and Total Capital Ratio (TCR) reached 18.4%, compared to the SREP minimum requirement of 10.4%.

The decrease in absorbed capital compared to the previous year (-14.1 million euros) was largely due to the implementation in the fourth quarter of the year of the new CRM (credit risk mitigation) procedures which aimed at analysing and monitoring the guarantees obtained by the Bank for the loans granted, thus allowing for an expansion of the scope of eligibility of such loans from a Basel 3 perspective.

In particular, the measure affected guarantees in the form of pledges of discretionary management portfolios and UCITS promoted by the Group, for which a rigorous analysis of the underlying assets was completed.

Consolidated own funds, calculated in accordance with Basel 3, which will become fully applicable as of 1 January 2019, were 470.1 million euros, with Total Capital Ratio at 18.7%.

It should be noted that Banca Generali exercised the option to neutralise the capital gains and losses deriving from fair-value measurement of AFS financial assets belonging to the Euro Area government bond segment for the purposes of measuring own funds, as allowed under Bank of Italy Order of 18 May 2010.

This option was also extended under the new Basel 3 prudential supervisory system, on the basis of the national discretion granted to the Bank of Italy pursuant to Article 467(2) of the CRR, until the Commission “has adopted a regulation on the basis of Regulation (EC) No. 1606/2002 endorsing the International Financial Reporting Standard replacing IAS 39” (IFRS 9).

In this regard, it should be noted that Regulation (EU) No. 2067/2106, which adopts accounting standard IFRS 9, was published on 29 November 2016 and entered into effect on 19 December 2016. However, pursuant to Article 2 of that Regulation, IFRS 9 must be applied, at the latest, by the beginning of the first financial year starting on or after 1 January 2018.

Consequently, given the interpretative uncertainty that has arisen with respect to the significance of the two different dates, until formal clarification is provided by the European authorities, in its Notice of 23 January 2017 the Bank of Italy confirmed that this discretion may continue to be exercised on a phase-in basis, solely for “less significant” banks subject to direct supervision.

The leverage ratio at the end of the quarter reached 5.0%, down compared to the end of the previous year (6.3%) due to the significant increase in total assets recognised.

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

(€ THOUSAND)	31.12.2016		
	CAPITAL AND RESERVES	NET PROFIT	NET EQUITY
<b>Net equity of Banca Generali</b>	<b>377,481</b>	<b>144,751</b>	<b>522,232</b>
<b>Differences between net equity and book value of companies consolidated using the line-by-line method</b>	<b>87,109</b>	<b>-</b>	<b>87,109</b>
Goodwill	4,289	-	4,289
Income carried forward of consolidated companies	82,828	-	82,828
Reserve for actuarial losses IAS 19	-83	-	-83
Other changes	75	-	75
<b>Dividends from consolidated companies</b>	<b>30,462</b>	<b>-130,462</b>	<b>-100,000</b>
<b>Consolidated companies' result for the year</b>	<b>-</b>	<b>141,680</b>	<b>141,680</b>
<b>Result of associates valued at equity</b>	<b>-40</b>	<b>-75</b>	<b>-115</b>
<b>Valuation reserves - consolidated companies</b>	<b>-96</b>	<b>-</b>	<b>-96</b>
<b>Consolidation adjustments</b>	<b>-4,289</b>	<b>-</b>	<b>-4,289</b>
Goodwill	-4,289	-	-4,289
<b>Net equity of the Banca Generali Group</b>	<b>490,627</b>	<b>155,894</b>	<b>646,521</b>

## 5.5 Cash flows

At the end of 2016, operating activities generated a total of 936 million euros liquidity. In particular, positive cash flows were due to the significant increase in net inflows from customers (+1,799 million euros) and, to a lesser extent, the rise of interbank net inflows, primarily attributable to participation in the new TLTRO programme launched by the ECB (400 million euros).

Liquidity generated by operations amounted to 165.6 million euros. this liquidity was only partially absorbed by the expansion of investments in financial assets (+1,491 million euros) and, to a marginal extent, by loans to customers.

The total net cash flows generated by operating activities thus drove an increase in the HTM financial asset portfolio (+308 million euros, net) and covered the significant dividends paid (-139.2 million euros) and outlays for new investments, resulting in an increase in cash and deposits at year-end of over 583 million euros, compared to the 103 million euros recorded in 2015.

(€ THOUSAND)	2016	2015	CHANGE
<b>Liquidity generated by operating activities:</b>	<b>165,622</b>	<b>173,820</b>	<b>-8,198</b>
Financial assets	-1,491,345	-758,233	-733,112
Loans to banks	10,094	-165,392	175,486
Loans to customers	32,961	-84,604	117,565
Other operating assets	-8,864	61,889	-70,753
<b>Total assets</b>	<b>-1,457,154</b>	<b>-946,340</b>	<b>-510,814</b>
Amounts due to banks (*)	470,166	-604,054	1,074,220
Amounts due to customers	1,798,691	549,611	1,249,080
Other operating assets	-41,333	1,174	-42,507
<b>Total liabilities</b>	<b>2,227,524</b>	<b>-53,269</b>	<b>2,280,793</b>
<b>Liquidity generated by/used for operating activities</b>	<b>935,992</b>	<b>-825,789</b>	<b>1,761,781</b>
HTM portfolio	-307,976	966,847	-1,274,823
Investments	-10,617	-4,636	-5,981
Purchase of business lines and equity investments	-	-2,200	2,200
<b>Liquidity generated by/used for investing activities</b>	<b>-318,593</b>	<b>960,011</b>	<b>-1,278,604</b>
Dividends paid	-139,237	-113,431	-25,806
Capital increases	2,088	1,870	218
<b>Liquidity generated by/used for financing activities</b>	<b>-137,149</b>	<b>-111,561</b>	<b>-25,588</b>
<b>Net liquidity generated/used</b>	<b>480,250</b>	<b>22,661</b>	<b>457,589</b>
<b>Cash and deposits</b>	<b>583,361</b>	<b>103,111</b>	<b>480,250</b>

(\*) Cash and deposits at 31 December 2015 were restated to include demand deposits with the ECB.

## 6. INDIRECT NET INFLOWS

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

### 6.1 Asset management and insurance products

#### Asset management products of the Banking Group

In the asset management sector, in 2016 the Banking Group wealth management activities were carried out through BG Fund Management Luxembourg and the asset management services of Banca Generali and BG Fiduciaria.

(€ MILLION)	31.12.2016	31.12.2015	CHANGES VS	
			AMOUNT	%
Funds and Sicavs	12,496	11,849	647	5.5%
GPF/GPM	4,577	3,543	1,034	29.2%
<b>Total Group's managed assets</b>	<b>17,073</b>	<b>15,392</b>	<b>1,681</b>	<b>10.9%</b>
of which UCITS attributable to the Banking Group GPF	1,395	1,213	182	15.0%
<b>Total assets managed by the Banking Group, net of discretionary accounts, included in the GPF of the Banking Group</b>	<b>15,678</b>	<b>14,179</b>	<b>1,499</b>	<b>10.6%</b>

Total assets invested in UCITS managed by the Banking Group, which were composed only of Sicavs, amounted to 12.5 billion euros, with a growth of about 646 million euros (+5.5%) compared to 2015.

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

In the course of the years, these classes of collective investment products launched several new sub-funds (49 for BG Selection, 31 for BG Sicavs, and 2 BG Alternative), which are managed either directly or – in most of the cases – through mandate granted to third parties.

The asset management portfolio of the Banking Group amounted to 4.6 billion euros, sharply up compared to the 2015 figure (29.2%).

#### Third-party asset management products

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

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

In 2016, third-party UCITS assets amounted to 5,059 billion euros, up by 16% compared to 2015 (4,361 billion euros). This was made possible thanks to the adoption of the so-called "open architecture," which affords customers access to a very wide range of investment products, including at an international level, in support of the advisory approach that characterises Banca Generali's commercial offerings.

(€ MILLION)	BG GROUP		CHANGES VS 31.12.2015	
	31.12.2016	31.12.2015	AMOUNT	%
Funds and Sicavs	5,059	4,361	698	16.0%
GPF/GPM	189	186	2	1.2%
<b>Total third-party assets managed by the Group</b>	<b>5,247</b>	<b>4,547</b>	<b>700</b>	<b>15.4%</b>

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

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

Moreover, and in confirmation of the product's multi-manager orientation, since the beginning marketing was launched for its sub-funds (currently, 38 of 49 total sub-funds), management of which is entrusted directly to some of the leading international investment companies, thereby significantly increasing the management diversification of the asset management portfolios held by the Bank's customers.

The same process had been implemented for 23 out of BG Sicav's 31 sub-funds and for the 2 new BG Alternative's sub-funds with management mandate granted to third parties. Therefore, approximately 76% of BG Fund Management Luxembourg Sicavs resorts to direct third-party management.

With reference to the UCITS sector in which the assets of Banca Generali's customers are invested, the diversification achieved through third-party products, whether directly or indirectly (management mandate on Luxembourg Sicavs), accounts for more than 80% of total investments.

### Third-party insurance products

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

At year-end 2016, assets amounted to 20.2 billion euros, up by 17% compared to the figure at December 2015. The result, less redemptions and contractual maturities, was mainly attributable to the extraordinary result of life new business in the year, relating to the multi-line policy BG Stile Libero and the more traditional policy BG Cedola Più.

(€ MILLION)	BG GROUP		CHANGES VS 31.12.2015	
	31.12.2016	31.12.2015	AMOUNT	%
Insurance products (unit-linked, traditional, multi-line policies, etc.)	20,213	17,263	2,949	17.1%
<b>Total third-party insurance products</b>	<b>20,213</b>	<b>17,263</b>	<b>2,949</b>	<b>17.1%</b>

## 6.2 Assets under administration and custody

Indirect net inflows of assets under administration and custody consist of securities deposited by retail and corporate customers for custody and administration in portfolios opened with the Parent Company, Banca Generali. At 31 December 2016, these amounted to 6,473 million euros at market value, compared to 6,627 million euros reported at the end of 2015.

This segment slightly declined compared to the previous year (-2.3%).

(€ MILLION)	BG GROUP		CHANGE	
	31.12.2016	31.12.2015	AMOUNT	%
Securities portfolios of the Generali Group's corporate customers	278	423	-145	-34.2%
Other customers' securities portfolios	6,195	6,204	-9	-0.1%
<b>Indirect net inflows of assets under administration and custody of the Banking Group (market value)</b>	<b>6,473</b>	<b>6,627</b>	<b>-154</b>	<b>-2.3%</b>

## 7. RESULTS BY LINE OF BUSINESS

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

The Banking Group identifies the following three main business areas:

- > the **Affluent Channel**, which refers to the total earnings generated for the Group by the network of Financial Advisors reporting to the Financial Planner Area, and their respective customers;
- > the **Private Channel**, which refers to the total earnings generated for the Group by the network of Private Bankers and Relationship Managers, reporting to the Private Banking Area and the Relationship Manager Area, and their respective customers;
- > the **Corporate Channel**, which refers to the total earnings generated for the Group by the financing activities of the Finance Department and the provision of banking and investment services to medium-sized and large enterprises, including those belonging to the Assicurazioni Generali Group.

The following tables show the consolidated profit and loss results of each of the identified segments, stated net of intra-segment eliminations.

PROFIT AND LOSS ACCOUNT (€ THOUSAND)	31.12.2016				31.12.2015			
	AFFLUENT CHANNEL	PRIVATE CHANNEL	CORPORATE CHANNEL	TOTAL	AFFLUENT CHANNEL	PRIVATE CHANNEL	CORPORATE CHANNEL	TOTAL
<b>Net interest income</b>	<b>25,180</b>	<b>13,809</b>	<b>19,674</b>	<b>58,663</b>	<b>28,567</b>	<b>16,454</b>	<b>21,208</b>	<b>66,230</b>
Fee income	367,941	203,440	33,308	604,689	387,365	225,258	39,338	651,960
Fee expense	-186,730	-96,828	-12,120	-295,678	-176,760	-94,097	-10,341	-281,198
<b>Net fees</b>	<b>181,211</b>	<b>106,612</b>	<b>21,188</b>	<b>309,011</b>	<b>210,605</b>	<b>131,161</b>	<b>28,996</b>	<b>370,762</b>
Net income (loss) from trading activities	-	-	32,754	32,754	-	-	25,790	25,790
Dividends	-	-	1,963	1,963	-	-	3,120	3,120
<b>Net banking income</b>	<b>206,391</b>	<b>120,421</b>	<b>75,579</b>	<b>402,391</b>	<b>239,172</b>	<b>147,615</b>	<b>79,115</b>	<b>465,903</b>
(€ MILLION)								
Assets under management	28,295	19,252	2,957	50,504	24,321	17,283	2,778	44,383
Net inflows	3,704	1,973	n.a.	5,677	2,885	1,755	n.a.	4,640
No. of FAs/RMs	1,371	470	n.a.	1,841	1,292	423	n.a.	1,715

### Affluent Channel

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE
Net interest income	25,180	28,567	-11.86%
Net fees	181,211	210,605	-13.96%
<b>Net banking income</b>	<b>206,391</b>	<b>239,172</b>	<b>-13.71%</b>
AUM	28,295	24,321	16.34%
Net Inflows	3,704	2,885	28.37%
Financial Advisors	1,371	1,292	6.11%
AUM/Financial Advisor	20.64	18.82	9.63%
Net inflows/Financial Advisor	2.70	2.23	20.97%

At 31 December 2016, the assets under management attributable to this channel amounted to 28.3 billion euros, up by approximately 3.9 billion euros (+16.34%) compared to the previous year, owing both to the positive market performance and the increase in net inflows (3,704 million euros), concentrated in asset management and insurance products. In 2016, net revenues generated by this channel reached 206.4 million euros, down by 13.7% compared to 239.2 million euros in 2015, primarily owing to:

- > a decrease in net fees (-14%) due to a reduction in performance fees compared to the previous year (-45.7%) and lower entry fees as a result of market instability (-48.4%), and an increase in management fees (+9.2%) following the growth of average assets (+12.7%) and the improvement in the asset mix, in particular in the asset management and insurance segments, driven by the two wrappers of products, BG Solution and BG Stile Libero;
- > reduction of net interest income (-11.9%) due to the decline in interest rates.

The channel's contribution to total consolidated net revenues was 51%, whereas the ratio of net fees to average AUM was 0.69%.

## Private Channel

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE
Net interest income	13,809	16,454	-16.08%
Net fees	106,612	131,161	-18.72%
<b>Net banking income</b>	<b>120,421</b>	<b>147,615</b>	<b>-18.42%</b>
AUM	19,252	17,283	11.39%
Net Inflows	1,973	1,755	12.44%
Financial Advisors	470	423	11.11%
AUM/Financial Advisor	40.96	40.86	0.25%
Net inflows/Financial Advisor	4.20	4.15	1.20%

At 31 December 2016, assets under management of the Private Channel amounted to 19.3 billion euros, up significantly compared to 2015 (+2.0 billion euros or +11.39%), with net inflows of almost 2.0 billion euros, also up compared to 2015 (+12.44%). In 2016, net revenues from the Private Channel reached 120.4 million euros, with a decrease of 18.4%. The reasons of this reduction are the same as those already illustrated for the Affluent Channel. Its contribution to total consolidated net revenues amounted to 30%, with a net fees ratio to average AUM equal to 0.60%.

## Corporate Channel

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE
Net interest income	19,674	21,208	-7.23%
Net fees	21,188	28,996	-26.93%
Net income (loss) from trading activities and dividends	34,717	28,911	20.08%
<b>Net banking income</b>	<b>75,579</b>	<b>79,115</b>	<b>-4.47%</b>
AUM	2,957	2,778	6.44%
Net Inflows	n.a.	n.a.	n.a.
Financial Advisors	n.a.	n.a.	n.a.

At 31 December 2016, the AUM in the Corporate Channel amounted to 2.9 billion euros, up 6.44% compared to the previous year. In 2016, the net revenues generated by the Corporate Channel reached 75.6 million euros (-4.5% compared to 2015), owing to the following factors:

- > a sharp reduction of net interest income (-7.2%) due to both a decrease of interest rates and the end of the LTRO, which had impacted 2015 by 3.1 million euros;
- > a sharp increase in management fees (+33.2%) thanks to the expansion of managed assets in UCITS underlying the Valore Futuro policy, offset however by a reduction of performance fees (-44.7%).

Its contribution to total consolidated net revenues amounted to 19%.

## 8. CORPORATE SOCIAL RESPONSIBILITY

### 8.1 Distribution of Global Value Added

The following is a summary of the 2016 results in the various areas of the Banking Group's social responsibility. In particular, the profit and loss figures for the year have been restated according to the GAV (Global Value Added) method. GAV represents the wealth that the Group has generated and distributed to the various classes of stakeholders in its daily operations (for example, first and foremost, Financial Advisor networks and human resources). GAV is equal to the difference between total revenues and total costs of goods and services (so-called "consumption").

A significant role is played by shareholders, who expect a return from the financial means they have committed to the business, and by the State, i.e., the central and local administrative bodies as a whole, to which a significant part of the wealth that is produced is conferred in the form of direct and indirect taxes.

Great attention has also been paid to the needs of the community and the environment through charitable initiatives, as well as social and cultural works.

Lastly, there is the Group as a "business system" that must be able to rely on adequate resources to allocate to production investments and everyday operations. This is essential to guarantee the Group's economic growth and stability and, consequently, ensure the creation of new wealth for all stakeholders.

From a methodological standpoint, Value Added is obtained by reclassifying items of the Profit and Loss Account of the Consolidated Financial Statements with the aim of highlighting the process involved in the formation of Value Added, in its various formulations, as well as its distribution.

The statements for the determination and distribution of Value Added were prepared based on the figures reported in the Consolidated Financial Statements for 2015 and 2016 and using the ABI guidelines as a reference.

#### The distribution of Value Added

In 2016, the Banca Generali Group reported **net revenues** of 741.1 million euros, down by 50.4 million euros (-6.4%) compared to 2015, whereas **consumption** decreased slightly by 3.0 million euros.

Revenue performance was primarily affected by the trend in performance fees (-60.0 million euros) and the decrease in interest income (-8.0 million euros), only partly offset by the greater net income from trading activities and dividends and the rise in recurring fees.

The reduction of consumption was primarily caused by the lower impact of provisions and adjustments, which offset a moderate increase in general and administrative expense (+5.3 million euros), partially offset.

During the process of allocating Value Added, the contributions paid to the National Resolution and Interbank Deposit Protection Funds, amounting to 8.3 million euros, were classified according to the interpretation that views them as taxes.

Similarly, the net provisions for incentives and indemnities for the network of Financial Advisors, recoveries of expenses and indemnities charged to Financial Advisors and net provisions for staff were classified as staff expenses during the allocation process.

Therefore, Gross Value Added (GVA) reached 614.1 million euros and was broken down as follows:

- > **Human Resources** (employees and other collaborators): approximately 13.1% of gross GVA, for a total of 80.4 million euros, compared to 87.9 million euros for the previous year (13.3%), which however included 10.2 million euro provisions for the restructuring plan;
- > **Financial Advisors**: 47.4% of gross GVA, for a total of 290.8 million euros, inclusive of net provisions for incentives, recruitment plans and other contractual indemnities of 32.3 million euros (up from 42.1% in 2015);
- > **Shareholders**: 20.3% of gross GVA, a slight decrease from 21.0% in 2015, due to the decline in the dividend approved from 1.20 euros to 1.07 euros;
- > **State**: approximately 13.2% of gross GVA, or 80.9 million euros, down compared to the previous year, due to the combined effect of the lesser estimated income tax burden.

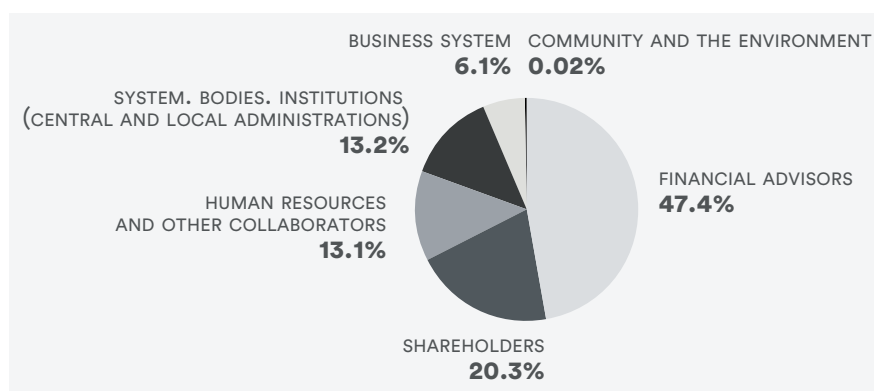
The business system retained, in the form of undistributed profits, depreciation and amortisation, an overall amount of 37.2 million euros, or 6.1% of GVA (10.5% in 2015). The amount is to be regarded as an investment that the other categories of stakeholders make each year in order to keep the company in efficient condition and foster its development.

## Breakdown and Distribution of Global Gross Value Added

ITEMS (€ THOUSAND)	2016	2015	CHANGE
A. Total net revenues	741,006	791,414	-50,408
B. Total consumption	-126,882	-129,915	3,033
C. Net result from insurance operations	-	-	-
D. Core gross value added	614,124	661,499	-47,375
<b>E. Global gross value added</b>	<b>614,146</b>	<b>661,493</b>	<b>-47,347</b>
Divided among:			-
<b>1. Shareholders</b>	<b>124,674</b>	<b>139,237</b>	<b>-14,563</b>
Private shareholders <sup>(1)</sup>	124,674	139,237	-14,563
Minority interests (+/-) for the year	-	-	-
<b>2. Human resources</b>	<b>371,274</b>	<b>366,623</b>	<b>4,651</b>
Employee expense; expense for indefinite- and fixed-term contracts	78,905	85,865	-6,960
Financial Advisor expense, including net payments on account	290,852	278,751	12,101
Expense for other collaborators	1,517	2,007	-490
<b>3. System, entities, institutions (central and local administrations)</b>	<b>80,915</b>	<b>85,931</b>	<b>-5,016</b>
Indirect and income taxation	43,692	42,538	1,154
Expense for contribution to the National Resolution and Interbank Deposit Protection Funds	8,281	8,711	-430
Income taxes for the year	28,942	34,682	-5,740
<b>4. Community and the environment</b>	<b>123</b>	<b>70</b>	<b>53</b>
Charitable gifts	123	70	53
<b>5. Business system</b>	<b>37,160</b>	<b>69,632</b>	<b>-32,472</b>
Change in reserves	31,220	64,322	-33,102
Amortisation and depreciation	5,940	5,310	630
<b>Global gross value added</b>	<b>614,146</b>	<b>661,493</b>	<b>-47,347</b>

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

## Breakdown of Total Added Value





## Statement of determination of the Global Value Added

ITEMS (€ THOUSAND)	2016	2015	CHANGE
10. Interest income and similar revenues	61,778	69,743	-7,965
40. Fee income	604,689	651,960	-47,271
70. Dividends and similar income	1,963	3,120	-1,157
80. Net income (loss) from trading activities	2,383	4,489	-2,106
100. Gain (loss) from sale or repurchase of:	30,371	21,301	9,070
a) receivables	2,204	1,700	504
b) AFS financial assets	28,151	19,601	8,550
c) HTM financial assets	16	-	16
220. Other operating expenses/income <sup>(4)</sup>	39,897	40,841	-944
240. Gains (losses) from equity investments	-75	-40	-35
<b>A. Total net revenues</b>	<b>741,006</b>	<b>791,414</b>	<b>-50,408</b>
20. Interest expense and similar charges	-3,115	-3,513	398
50. Fee expense <sup>(1)</sup>	-33,889	-34,560	671
180.b Other general and administrative expense <sup>(2)</sup>	-88,023	-82,701	-5,322
130. Net adjustments/reversals due to impairment of:	-778	-6,471	5,693
a) receivables	1,921	-1,121	3,042
b) AFS financial assets	-2,865	-2,845	-20
c) HTM financial assets	101	-2,575	2,676
d) other financial transactions	65	70	-5
190. Net provisions for liabilities and contingencies <sup>(3)</sup>	-1,077	-2,670	1,593
<b>B. Total consumption</b>	<b>-126,882</b>	<b>-129,915</b>	<b>3,033</b>
<b>C. Core gross value added</b>	<b>614,124</b>	<b>661,499</b>	<b>-47,375</b>
250. Net result of fair value measurement of tangible and intangible assets	-	-	-
270. Gains (losses) from disposal of investments	22	-6	28
<b>D. Global gross value added</b>	<b>614,146</b>	<b>661,493</b>	<b>-47,347</b>
Amortisation and depreciation	-5,940	-5,310	-630
<b>E. Net global value added</b>	<b>608,206</b>	<b>656,183</b>	<b>-47,977</b>
180.a Staff expenses <sup>(5)</sup>	-371,274	-366,623	-4,651
180.b Other general and administrative expense: indirect taxation <sup>(6)</sup>	-43,692	-42,538	-1,154
Other general and administrative expense: charges for the National Resolution and Interbank Deposit Protection Funds <sup>(6)</sup>	-8,281	-8,711	430
180.b Other general and administrative expense: charitable gifts <sup>(6)</sup>	-123	-70	-53
<b>F. Pre-tax result</b>	<b>184,836</b>	<b>238,241</b>	<b>-53,405</b>
290. Income taxes for the year on operating activities	-28,942	-34,682	5,740
330. Minority interests (+/-) for the year	-	-	-
<b>G. Net profit (loss) of the parent company for the year</b>	<b>155,894</b>	<b>203,559</b>	<b>-47,665</b>

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

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

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

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

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

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

## 8.2 Some social and environmental aspects

### 8.2.1 Employee policies

The social responsibility of the Banking Group in employee relations is mainly reflected in its selection, remuneration, management and career development policies which ban all forms of discrimination. Diversity is seen as an opportunity for growth and enrichment.

Banca Generali's workforce consists almost entirely (99%) of Italian personnel. In any event, employees of all nationalities are offered equal opportunities for professional and career growth, owing in part to policies that foster mobility within the Group. At Banca Generali Group companies, 98% of managers are local.

In general, the Banking Group complies with the provisions of constitutional laws, ordinary laws and regulations, as well as the collective and contractual provisions (at national and corporate level), and the regulations governing the employment relationship. All employees are provided with regular employment contracts and all forms of child, forced or compulsory labour is banned.

With regard to equal opportunities for the differently abled, national regulations safeguarding this category are respected and implemented.

#### Geographical distribution of employees

	2016	2015	CHANGE
Abruzzo	2	2	-
Calabria	2	2	-
Campania	11	12	-8%
Emilia-Romagna	11	9	22%
Friuli Venezia-Giulia	322	324	-1%
Lazio	21	22	-5%
Liguria	11	13	-15%
Lombardy	399	384	4%
Piedmont	20	18	11%
Puglia	4	4	-
Sicily	1	1	-
Tuscany	7	7	-
Umbria	1	1	-
Veneto	15	14	7%
<b>Italy</b>	<b>827</b>	<b>813</b>	<b>2%</b>
<b>Luxembourg</b>	<b>22</b>	<b>24</b>	<b>-8%</b>

An analysis of employees by geographical location shows continuity with the previous year, i.e., essential stability in all regions, with the exception of Lombardy, where the central offices responsible for coordinating the commercial area and business support offices are located, and which saw an increase of 15 employees.

The Group strives to valorise people, recognising the contribution that each and all can give to the organisation. The Code of Ethics of the Banca Generali Group confirms its attention and commitment towards collaborators, considered the strategic capital on which the Group bases its success, respect for human dignity, freedom and equality, and equal opportunity in the workplace and on career paths, without any kind of discrimination due to nationality, gender, race or ethnic origin, religion, political convictions, age, sexual orientation, disabilities or health conditions.

Talent and professional development policies are designed in synergy with the line managers, with a constant focus on the new strategic goals and the drive for excellent performance, with the aim of nurturing and supporting staff on their career path within the company.

The managerial support initiatives launched in 2014 were completed in 2016. These included courses for middle management entitled "Managing and Developing Human Resources in a Motivating Environment", which involved the participation of all of the Bank's human resource managers, and "Managerial Growth Workshops", which provided opportunities for further exploration of various aspects of managerial life at the company, considered from a team-coaching perspective.

In addition, in further support of personal growth, a number of individual coaching programmes were launched for managers and executives. The methods used were found effective and

met with appreciation, in conjunction with advanced training courses for employees, executives and managers, held in cooperation with the ISTUF Foundation, and the second-level master's degree programme in Asset Governance and Generational Transfer designed and run with the University of Brescia. Language offerings, particularly in English, remained robust and were made accessible to employees of various levels.

When specific professional expertise, whether already trained or to be trained, is not available in-house, the Banca Generali Banking Group, closely following the guidelines and methods implemented in the Generali Group, selects employees with potential to join its team through a structured appraisal process that ensures transparency both for candidates and line managers and impartiality when selecting profiles with greatest future potential.

In Banca Generali Group surveys are periodically conducted to assess the general working climate and other forms of dialogue with employees, as well as other activities that involve the Bank's employees and which are aimed at building a corporate culture and identity. Banking group employees, along with employees of the Generali Group, enjoy access to dedicated information channels, such as the internal employee portal (launched in 2015 and constantly expanded and improved), Bollettino.com and newsletters, which gather and circulate information about events, projects and organisational notes, in addition to the new monthly newsletter *Prima Pagina*, devoted solely to employees of the Banca Generali Group.

The first worldwide Global Survey was launched as early as in 2015 on the matter of workplace climate. The response was overall very positive for Banca Generali. Work-life balance was one of the areas for improvement highlighted. In this area, as already anticipated the previous year, the Bank took immediate action in 2016, in the form of initiatives at its main offices in Trieste and Milan, within the framework of an organic "people care" plan.

In particular, employees at the above offices enjoy access to the following services:

- > special deals with nearby childcare centres;
- > free parking for expecting mothers;
- > company laundry service: implemented differently at the two offices, to suit their various geographical and logistical needs;
- > company dining areas: company areas equipped to allow employees to enjoy meals brought from home in a welcoming, specifically organised environment.

"The Breath" panels were also installed in all bank spaces to purify the air and improve workplace aesthetics.

These new initiatives are in addition to the flexibility mechanisms already provided for several years to support the balance between work commitments and personal and family needs:

- > flexible start and end of working hours for all company activities, with the exception of front-end activities dedicated to direct, daily contact with customers;
- > authorisation of part-time work, within medium-to-large departments, following the birth or adoption of children;
- > additional paid leave for doctor's visits and diagnostic examinations that objectively cannot take place outside the individual's working hours.

## 8.2.2 Policies in support of families and young people

### Banca Generali offering for families and young people

Over time, Banca Generali has developed solutions targeted to families aimed at protecting investments and preserving family welfare.

With specific regard to savings products dedicated to children and projects for their future, several products were developed and marketed, such as:

- > the **policy BG 18 anni**, which allows a savings plan to be used to create capital intended for a child's future, from support for educational costs to the certainty of being able to contribute to the first big expenditures;
- > the account card **BG GO!**, created for a young Customer target that associates all of the main services linked to a current account with the special functions of a debit card. The reduced annual fee and the ability to use it to make online purchases make BG GO! an ideal product for the under-30 market;
- > the **BG 10+ deposit account**, which includes a free prepaid card and no management fee, is an account on which young people may put their savings, under the supervision of an adult who in practice manages the account. This product is part of a project aimed at increasing awareness on children's financial education, which Banca Generali has been developing for several years;
- > finally, also the initiative **Un Campione per Amico**, which is touring the Italian major cities with the help of four sports champions, aims to involve young people in financial education through sports and play.

In 2016, Banca Generali continued to focus on protecting families by launching the tool **Family**

**Protection** as part of the “BG Personal Advisory” platform, allowing Financial Advisors to analyse their customers’ total wealth (financial and non-financial assets) from the standpoint of generational transfer to identify any related problems in terms of asset allocation and distribution or access to real-estate assets. In addition, the **Protection Package** was also launched for customers who request that their salary/pension be deposited to their accounts or authorise direct debit payment of utilities through their accounts; it provides insurance cover for theft involving the use of ATM cards and a text message service that notifies customers of access to the website, account transactions, ATM card transactions and securities trades.

In changes relating to the product line, various solutions have been implemented over time to meet the need to protect wealth and safeguard investments.

In particular, mention should be made of **BG Stile Libero**, the multi-line policy that allows customers to invest up to 30% in an Assicurazioni Generali Group segregated account, with a guarantee of invested capital, even in the event of disinvestment before maturity. The policy offers an integrated system of insurance covers such as death cover according to age, accident cover and increased cover in the event of capital losses, allowing policyholders to protect their investments and guarantee peace of mind to their families.

In addition to BG Stile Libero, the range of insurance products developed to satisfy this need for protection also includes:

- > a temporary life insurance policy, **BG Tutela**, which, in case of the insured’s death, guarantees the payment of capital to the designated beneficiaries with an annual minimum premium of 50 euros;
- > **Assicurazione Casa** by Genertel which provides insurance coverage for the home and family activities in case of injury caused to third parties, damage to the building and its contents.

**As part of our banking services dedicated to improving households’ welfare**, in the year we continued offering current accounts with ad-hoc conditions intended for family associations whose members include people with disabilities (e.g., the non-profit organisation La Goccia, ANNFASS, L’anatroccolo) or associations supporting scientific research on rare diseases (e.g., AISM - Italian Multiple Sclerosis Association), as well as offering mortgages and loans of Intesa Sanpaolo to promote and protect customers’ residential real-estate investments.

### 8.2.3 Environmental policies

As stated in the Group’s Policy for the Environment and Climate, safeguarding the environment as a primary good is one of the values pursued by the Generali Group, which is committed to directing its decisions in such a way as to ensure compatibility between economic initiatives and environmental concerns.

The Banca Generali Group, which is part of the Generali Group, is well aware that the conduct of its business in settings that vary enormously on a social, environmental and cultural level entails a commitment to pursue a common goal of sustainable economic development with regard to the direct repercussions of its operations, as well as its areas of influence.

The Banca Generali Group is committed to a project aimed at introducing an Environmental Management System (EMS) in order to manage the most significant environmental issues and implement the Group’s Policy for the Environment and Climate, in compliance with the requirements of the ISO 14001 standard and the guidelines indicated by the Generali Group.

As part of the project to implement the System, the Group’s Policy for the Environment and Climate defined the objectives and undertakings that guide the Group’s choices and actions in order to make a positive contribution to sustainable development. The objectives that have been identified refer not only to the direct environmental impacts attributable to the Group’s insurance and financial operations, but also indirect impacts connected with the procurement, planning and distribution of insurance and financial products, as well as corporate investment activities.

In order to identify the significant impacts of the Company’s activity on the environment, an environmental analysis was conducted for the main offices at Via Ugo Bassi 6 in Milan and Corso Cavour 5/a in Trieste.

The facilities in question host 654 employees, accounting for 77% of the Banca Generali Group’s workforce.

In order to implement and energise the objectives contained in the Group’s Environmental and Climate Policy, the Banca Generali Group has also adopted the Group’s environmental improvement objectives and targets which envisage a 20% reduction in GHG emissions by 2020. The Banca Generali Group’s initial values, to which the fixed targets refer, are those recorded at 31 December 2013.

**Per-capita consumption of electric power**

	31.12.2016	31.12.2015	CHANGE
KWh	2,651.85	2,670.25	-0.69%
Share of renewable energy (%)	100	100	

In 2016, total electrical power usage was 1,734.31 GWh, essentially stable on the previous year (+0.85%), whereas per-capita usage decreased to 2,651.85 KWh per person from 2,670.25 KWh in 2015 (-0.69%).

Electrical power is chiefly used for air-conditioning and heating, lighting and the operation of machines.

**Per-capita gas consumption**

	31.12.2016	31.12.2015	CHANGE
M <sup>3</sup>	184.59	302.06	-38.89%

In 2016, the offices monitored by the Environmental Management System consumed 120,724 cubic metres of natural gas, marking a sharp decline in usage (-37.94%) compared to 2015. Considering the increase in the number of employees at the offices monitored by the Environmental Management System, the decrease in per-capita consumption was even more significant, amounting to -38.89% compared to the previous year.

The decrease in consumption was wholly attributable to the offices in Trieste, where natural gas is used both for heating and for cooling in summer (so-called "chilled beams system"). This system was carefully monitored by the Facility service and constantly calibrated by the technicians to adjust it to the changing external climatic conditions throughout the year.

Consumption at the Milan office was essentially unchanged compared to the previous year (+0.23%).

**Total paper consumption**

	31.12.2016	31.12.2015	CHANGE
Quintals	327.26	328.03	-0,23%

Paper consumption, compared to the previous year, remained on the whole substantially stable (-0.23%), with a slight improvement as regards the use of green-compatible paper standing at 93% of total paper consumption (white and printed).

In 2016, 327 quintals of paper were consumed, including both blank and pre-printed paper, i.e., paper purchased from suppliers of Group print documents and publications (contracts, advertising material, annual reports, etc.).

**Per-capita water consumption**

	31.12.2016	31.12.2015	CHANGE
M <sup>3</sup>	16.89	19.93	-15.27%

In 2016, total water consumption was 11,044 cubic metres, down by 1,792 cubic meters (-13.96%) compared to the previous year.

The percent decline was more marked at the per-capita level (-15.27%) due to the increase in the number of human resources at the properties covered by the Environmental Monitoring System.

**Waste**

(QUINTALS)	31.12.2016	31.12.2015	CHANGE
Total sorted waste	102.2	148.6	-31.27%
Total unsorted waste	45.0	124.4	-63.85%

In 2016, 147.1 quintals of waste were produced, of which 102.2 quintals (69%) were collected separately and 45.0 quintals (31%) were to be disposed of through incineration or landfill disposal. The sharp year-on-year changes in the two waste collection methods are due to extraordinary disposal operations. A total of 124 quintals of unsorted waste were disposed of in landfill by Facility Management in 2015.

Differentiated waste disposal refers to paper and cardboard, plastic and aluminium, electronics and toner cartridges, glass and wet waste. The bulk of this waste consists of paper and cardboard (78% of separated waste), followed by plastic and aluminium, representing 18%. Spent toner cartridges and hazardous waste (neon tubes, batteries, etc.) are collected by specialised firms and disposed of separately as appropriate, in accordance with applicable legislation, while keeping the compulsory registers and documentation.

---

## Greenhouse-gas emissions

In the area of greenhouse-gas (GHG) emissions caused by direct and indirect consumption of energy deriving from fossil fuels, estimates have been prepared for emissions deriving from the consumption of fuel for heating (natural gas), the electrical power purchased, water and paper consumption, volumes of special waste produced such as toner cartridges, and company mobility – where company mobility is understood as the kilometres travelled by employees on business trips by car, train and airplane.

In 2016, overall GHG emissions amounted to 1,429.4 tonnes of carbon dioxide equivalents (CO<sub>2</sub>e) obtained using special updated coefficients to convert all Kyoto Protocol gases, electricity, natural gas and water consumption, as well as converting nitrous oxide (N<sub>2</sub>O) and methane (CH<sub>4</sub>) quantities using suitable updated coefficients. Electrical power consumption accounted for 59% of such emissions, while 24% was due to thermal power and 14% to company mobility. The remainder 3% was due to paper and water consumption, as well as to waste production.

Compared to the previous year, emissions of carbon-dioxide equivalents (CO<sub>2</sub>e) decreased sharply by -20%, totalling 356.7 tonnes. The reduction was primarily due to the containment of natural gas consumption at the Trieste office and the reduced mobility of human resources.

However, compared to the target year (31 December 2013) total GHG emissions fell by 550 tonnes of carbon dioxide equivalents equal to -28%.

## 9. COMMENTS ON THE PARENT COMPANY'S OPERATIONS

Considering the Banca Generali Group's operating structure, the report on consolidated figures better meets the needs of valid representation of earnings and financial position performance than an analysis of the Bank's aggregates alone. Accordingly, these comments complete the consolidated information to which primary reference should be made.

### 9.1 Profit and Loss results

Banca Generali closed 2016 with net profit of 144.7 million euros, sharply decreasing compared to 184.3 million euros reported at the end of the same period of the previous year, chiefly due to the lower contribution of dividends, which dropped from 177.4 million euros to 130.5 million euros, distributed both in advance and at the end of the year by the Luxembourg subsidiary BG Fund Management Luxembourg S.A..

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Interest income	61,780	69,736	-7,956	-11.4%
Interest expense	-3,114	-3,514	400	-11.4%
<b>Net interest income</b>	<b>58,666</b>	<b>66,222</b>	<b>-7,556</b>	<b>-11.4%</b>
Fee income	412,639	399,742	12,897	3.2%
Fee expense	-268,334	-255,188	-13,146	5.2%
<b>Net fees</b>	<b>144,305</b>	<b>144,554</b>	<b>-249</b>	<b>-0.2%</b>
Dividends	1,963	3,120	-1,157	-37.1%
Net income (loss) from trading activities	32,754	25,787	6,967	27.0%
<b>Net operating income</b>	<b>237,688</b>	<b>239,683</b>	<b>-1,995</b>	<b>-0.8%</b>
Staff expenses	-74,483	-74,869	386	-0.5%
Other general and administrative expense	-136,532	-130,349	-6,183	4.7%
Net adjustments of property, equipment and intangible assets	-5,881	-5,260	-621	11.8%
Other operating expenses/income	43,341	43,971	-630	-1.4%
<b>Net operating expenses</b>	<b>-173,555</b>	<b>-166,507</b>	<b>-7,048</b>	<b>4.2%</b>
<b>Operating result</b>	<b>64,133</b>	<b>73,176</b>	<b>-9,043</b>	<b>-12.4%</b>
Net adjustments for non-performing loans	1,771	-1,121	2,892	-258.0%
Net adjustments of other assets	-2,699	-5,350	2,651	-49.6%
Net provisions	-34,691	-45,453	10,762	-23.7%
Dividends and income from equity investments	130,462	177,360	-46,898	-26.4%
Gains (losses) from the disposal of equity investments	22	-6	28	-466.7%
<b>Operating profit before taxation</b>	<b>158,998</b>	<b>198,606</b>	<b>-39,608</b>	<b>-19.9%</b>
Income taxes	-14,247	-14,314	67	-0.5%
<b>Net profit</b>	<b>144,751</b>	<b>184,292</b>	<b>-39,541</b>	<b>-21.5%</b>

**Net operating income**, net of the dividends distributed by the Banking Group's investees, amounted to 237.7 million euros, marking a modest decline of 2.0 million euros (-0.8%) on the previous year, primarily due to the decrease in net interest income (-7.6 million euros), largely offset by the improvement in the net income of trading activities (+7.0 million euros).

**Net interest income** stood at 58.7 million euros, down by 7.6 million euros compared to 2015 (-11.4%), due to both the constant decrease in the profitability of loans, as a result of the continuing decline in interest rates, and to the impact on the previous year of the most recent effects of the conclusion of the LTROs in February 2015 (3.1 million euros).

**Net fees** were 144.3 million euros, down slightly compared to the previous year (-0.2%).

Breaking the item down further, fee income increased remarkably during the year on placement and asset management (+17.9 million euros), largely offset by the increase in distribution fee expense (+15.2 million euros) and the decline in net trading fees (-2.0 million euros).

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Asset management	30,260	28,776	1,484	5.2%
Placement of securities and UCITS	165,145	176,876	-11,731	-6.6%
Distribution of third-party financial products	188,777	160,666	28,111	17.5%
Trading, receipt of orders, and custody of securities and currencies	15,702	20,255	-4,553	-22.5%
Consultancy	4,519	4,658	-139	-3.0%
Collection and payment services	2,982	3,370	-388	-11.5%
Other banking services	5,254	5,141	113	2.2%
<b>Total fee income</b>	<b>412,639</b>	<b>399,742</b>	<b>12,897</b>	<b>3.2%</b>
Fees for off-premises offers	261,789	246,638	15,151	6.1%
Collection and payment services	2,254	2,043	211	10.3%
Trading and securities custody	3,599	6,151	-2,552	-41.5%
Asset management	212	-	212	-
Other banking services	480	356	124	34.8%
<b>Total fee expense</b>	<b>268,334</b>	<b>255,188</b>	<b>13,146</b>	<b>5.2%</b>
<b>Net fees</b>	<b>144,305</b>	<b>144,554</b>	<b>-249</b>	<b>-0.2%</b>

Fee income from the solicitation of investment and asset management of households reached 384.2 million euros, with an increase of 4.9% compared to the previous year.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
1. Individual portfolio management	30,260	28,776	1,484	5.2%
<b>Portfolio management</b>	<b>30,260</b>	<b>28,776</b>	<b>1,484</b>	<b>5.2%</b>
1. Placement of Banking Group's UCITS units	112,156	122,450	-10,294	-8.4%
2. Placement of UCITS units	51,980	50,866	1,114	2.2%
3. Bond placement	1,009	3,560	-2,551	-71.7%
4. Distribution of portfolio management services	3,286	3,169	117	3.7%
5. Distribution of insurance products	185,078	157,171	27,907	17.8%
6. Distribution of other third-party financial services	413	326	87	26.7%
<b>Placement and distribution of third-party products</b>	<b>353,922</b>	<b>337,542</b>	<b>16,380</b>	<b>4.9%</b>
<b>Total</b>	<b>384,182</b>	<b>366,318</b>	<b>17,864</b>	<b>4.9%</b>

Fees on the distribution of **insurance products** increased sharply during the year, reaching 185.1 million euros (+17.8%), driven by the increase in average AUM managed in this segment (+21.4%).

In 2016, net inflows from insurance products amounted to 2.7 billion euros equally split between the traditional Genertellife products offering capital protection and a low risk profile (Stile Garantito and Cedola), which yielded net inflows of 1.4 billion euros, and the multi-line policy **BG Stile Libero** (+1.3 billion euros), which has recorded net inflows of over 5.6 billion euros since its launch in June 2014. The revenues generated by the distribution of **Genertellife** products thus amounted to 183.6 million euros.

The result of **individual portfolio management** increased by 5.2% overall compared to 2015, due to the success of the new **BG Solution** multi-line portfolio management products, launched in March 2016, which by year-end had already garnered net inflows of over 1.4 billion euros.

However, these results were in contrast to lower fees on the **placement of the Banking Group's UCITS units** (-8.4%), which reflected both the dramatic decline in underwriting fees (-47.9%) and the decrease in average AUM placed directly by the Financial Advisors network.

**Fee expense** amounted to 268.3 million euros, up moderately compared to the previous year (+5.2%), due solely to the increase in fees paid to the Financial Advisor network for off-premises offers (+6.1%).

The Bank's total payout ratio to total fee income was thus 65.0%, up from 63.8% in 2015.

The payout ratio for off-premises offers only, calculated on the basis of asset management fees, amounted to 68.1%, compared to 67.3% in the previous year.

**Other net fees** from banking services offered to customers include trading, order collection and custody and administration fees, in addition to fees charged to customers for account-keeping expenses and other services. The item amounted to 22.0 million euros, down by 2.9 million euros on the previous year.



(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Dealing in securities and currencies	12,360	14,300	-1,940	-13.6%
Order collection	2,898	5,468	-2,570	-47.0%
Securities under custody	444	487	-43	-8.8%
Collection and payment services	2,982	3,370	-388	-11.5%
Fee income and account-keeping expenses	2,392	2,577	-185	-7.2%
Consultancy	4,519	4,658	-139	-3.0%
Fees for other banking services	2,862	2,564	298	11.6%
<b>Total traditional banking operations</b>	<b>28,457</b>	<b>33,424</b>	<b>-4,967</b>	<b>-14.9%</b>
Fees for securities trading and custody	-2,128	-4,902	2,774	-56.6%
Securities under custody	-1,471	-1,249	-222	17.8%
Fees for portfolio management	-212	-	-212	n.a.
Collection and payment services	-2,254	-2,043	-211	10.3%
Fees for other banking services	-480	-356	-124	34.8%
<b>Total fee expense</b>	<b>-6,545</b>	<b>-8,550</b>	<b>2,005</b>	<b>-23.5%</b>
<b>Net fees</b>	<b>21,912</b>	<b>24,874</b>	<b>-2,962</b>	<b>-11.9%</b>

Fees on the intermediation and custody of customers' financial assets amounted to 15.7 million euros, down by 4.6 million euros (-22.5%) compared to 2015, due to both the decline in the volumes of business with the Italian and foreign management companies of the Banking and Insurance Group (-3.0 million euros) and business with retail customers and portfolio management.

Lastly, fee expense from traditional banking operations decreased by 23.5% due to the aforementioned decline in banking operations.

**Net income from trading activities and dividends** is composed of the result of financial asset and liability trading, gains and losses from the disposal of financial assets allocated to the AFS portfolio and other portfolios valued at amortised cost (HTM, Loans), the related dividends and any result of hedging. It was positive at 34.7 million euros, up compared to 2015.

This result is mainly attributable to the gains realised on medium/long-term government bonds allocated to the AFS assets portfolio (23.4 million euros).

The sale of part of the investments in corporate and financial securities allocated to the Loans portfolio, mostly in the third quarter, resulted in the realisation of gains of 2.0 million euros.

Furthermore, trading activities yielded a net income totalling +2.7 million euros, thanks to the results of currency trading, partly offset by the negative performance of several options on the FTSE MIB and net capital losses on investments in UCITS.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Dividends from trading and UCITS	286	88	198	225.0%
Trading of financial assets and equity derivatives	-113	840	-953	-113.5%
Trading of financial assets and derivatives on debt securities and interest rates	-112	170	-282	-165.9%
Trading of UCITS units	-645	222	-867	-390.5%
<b>Securities transactions</b>	<b>-584</b>	<b>1,320</b>	<b>-1,904</b>	<b>-144.2%</b>
<b>Currency and currency derivative transactions</b>	<b>3,253</b>	<b>3,254</b>	<b>-1</b>	<b>-</b>
<b>Net income (loss) from trading activities</b>	<b>2,669</b>	<b>4,574</b>	<b>-1,905</b>	<b>-41.6%</b>
Dividends from AFS assets	1,677	3,032	-1,355	-44.7%
Gains and losses on equity securities and UCITS	204	1,444	-1,240	-85.9%
Gains and losses on debt securities of AFS, HTM and Loans portfolios	30,167	19,857	10,310	51.9%
<b>Net income (loss) from trading activities and dividends</b>	<b>34,717</b>	<b>28,907</b>	<b>5,810</b>	<b>20.1%</b>

**Operating expenses**, including staff expenses, other general and administrative expense, amortisation and depreciation and other operating income and expenses, amounted to 173.6 million euros, increasing by 7.0 million euros overall compared to the previous year (+4.2%).

The **cost/income ratio**, which measures the ratio of operating expenses (gross of adjustments of property, equipment and intangible assets) to net operating income, amounted to 45.5%, compared to 38.7% reported at year-end 2015.

(€ THOUSAND)	2016	2015	CHANGE	
			AMOUNT	%
Staff expenses	-74,483	-74,869	386	-0.5%
Other general and administrative expense	-136,532	-130,349	-6,183	4.7%
Net adjustments of property, equipment and intangible assets	-5,881	-5,260	-621	11.8%
Other income and expenses	43,341	43,971	-630	-1.4%
<b>Operating expenses</b>	<b>-173,555</b>	<b>-166,507</b>	<b>-7,048</b>	<b>4.2%</b>

**Staff expenses**, including employees, interim staff and directors, amounted to 74.5 million euros, down slightly compared to the previous year (-0.5%), attributable solely to the fourth quarter of the year.

This decrease was the result of a slight increase in the recurring component due to new hires, promotions and other benefits, offset by a decrease in the variable remuneration component, consisting of current and deferred MBO plans for management, sales incentives, individual and performance bonuses.

Bank's employees were 811 at year-end, an increase of 15 compared to 2015 (+1.9%).

	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
Managers	44	41	3	7.3%
3 <sup>rd</sup> and 4 <sup>th</sup> level executives	138	127	11	8.7%
1 <sup>st</sup> and 2 <sup>nd</sup> level executives	106	98	8	8.2%
Other employees	523	530	-7	-1.3%
<b>Total</b>	<b>811</b>	<b>796</b>	<b>15</b>	<b>1.9%</b>

Other **general and administrative expense** amounted to 136.5 million euros, a 4.8 million euros increase (+5.4%), net of the expense for the stamp duty on current accounts and financial instruments, compared to the previous year.

**Provisions and net adjustments** amounted to 35.6 million euros, down considerably compared to 2015 (-16.3 million euros) due to both non-recurring factors during the previous year (voluntary redundancy plans and effects on actuarial provisions) and factors attributable to the year, such as the decrease in net adjustments on impaired assets and collective provisions on the securities portfolio, offset by greater net provisions associated with the development of the sales network.

Current and deferred **taxes for the year** are estimated at 14.3 million euros, in line with the expected amount reported at the end of the previous year.

The Bank's overall tax rate rose from 7.2% estimated at the end of 2015 to 9.0%, mainly due to the greater weight of dividends from equity investments (-46.9 million euros), which were 95% excluded from taxes for IRES purposes and 50% excluded for IRAP.

INCOME COMPONENTS/VALUES	2016	2015	CHANGE	
			AMOUNT	%
Current taxation	-12,871	-16,613	3,742	-22.5%
Current taxes for prior years	1,010	990	20	2.0%
Deferred tax receivables and payables	-2,386	1,309	-3,695	-282.3%
<b>Taxes for the year</b>	<b>-14,247</b>	<b>-14,314</b>	<b>67</b>	<b>-0.5%</b>

## 9.2 Balance sheet and net equity aggregates

At the end of 2016, total consolidated assets amounted to 8.3 billion euros, increasing by 2.3 billion euros compared to the end of 2015 (+37.9%).

Total net inflows increased significantly in 2016 to an all-time high of over 7.5 billion euros in 2016 (+44.5%).

This result was due to the sharp rise in net inflows from private banking clients (+1.9 billion euros), which benefited from significant outflows from the traditional banking system, above all in the fourth quarter of the year.

The increase in interbank net inflows was mostly due to the financing of 400 million euros disbursed by the ECB on 29 June 2016, as part of its new TLTRO 2 programme.

Core loans thus amounted to 7.9 billion euros (+40.3%) at year-end, with an increase in longer-term exposures in the HTM and AFS portfolios.

ASSETS (€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
HFT financial assets	38,560	28,004	10,556	37.7%
AFS financial assets	4,409,313	2,939,207	1,470,106	50.0%
HTM financial assets	731,361	423,585	307,776	72.7%
Loans to banks (*)	887,295	374,776	512,519	136.8%
Loans to customers	1,843,231	1,871,577	-28,346	-1.5%
Equity investments	16,224	16,224	-	-
Property, equipment and intangible assets	93,443	88,718	4,725	5.3%
Tax receivables	44,018	61,679	-17,661	-28.6%
Other assets	248,430	222,482	25,948	11.7%
<b>Total assets</b>	<b>8,311,875</b>	<b>6,026,252</b>	<b>2,285,623</b>	<b>37.9%</b>

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
Due to banks	802,702	333,941	468,761	140.4%
Due to customers	6,738,734	4,883,329	1,855,405	38.0%
Financial liabilities held for trading and hedging	1,169	463	706	152.5%
Tax payables	9,323	12,857	-3,534	-27.5%
Other liabilities	116,360	153,689	-37,329	-24.3%
Special purpose provisions	121,355	118,390	2,965	2.5%
Valuation reserves	9,158	22,500	-13,342	-59.3%
Reserves	201,028	153,190	47,838	31.2%
Additional paid-in capital	53,803	50,063	3,740	7.5%
Share capital	116,425	116,093	332	0.3%
Treasury shares (-)	-2,933	-2,555	-378	14.8%
Net profit (loss) for the year	144,751	184,292	-39,541	-21.5%
<b>Total net equity and liabilities</b>	<b>8,311,875</b>	<b>6,026,252</b>	<b>2,285,623</b>	<b>37.9%</b>

**Direct net inflows** from customers amounted to 6.7 billion euros, with an increase of 1,855.4 million euros compared to 31 December 2015, attributable to the sharp rise in net inflows from retail customers.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
Current accounts	6,564,049	4,706,918	1,857,131	39.5%
Subordinated loan	43,282	43,282	-	-
Other debts	131,403	133,129	-1,726	-1.3%
<b>Total due to customers (Item 20)</b>	<b>6,738,734</b>	<b>4,883,329</b>	<b>1,855,405</b>	<b>38.0%</b>

Captive net inflows from subsidiaries and the companies within the Assicurazioni Generali Group decreased by 115.0 million euros to 848.3 million euros at the end of the year, thus accounting for 12.6% of total net inflows.

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

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
Net inflows from subsidiaries	97,377	51,167	46,210	90.3%
Net inflows from Parent Company	2,802	100,394	-97,592	-97.2%
Net inflows from other subsidiary companies	748,086	811,664	-63,578	-7.8%
<b>Total net inflows from Generali Group</b>	<b>848,265</b>	<b>963,225</b>	<b>-114,960</b>	<b>-11.9%</b>
Net inflows from other parties	5,890,469	3,920,104	1,970,365	50.3%
<b>Total net inflows from customers</b>	<b>6,738,734</b>	<b>4,883,329</b>	<b>1,855,405</b>	<b>38.0%</b>

The increase in net inflows from non-captive customers (external to the Insurance and Banking Group), consisting solely of current account balances, amounted to over 1,970 million euros, and primarily derived from the acquisition of new customers by the sales network, which performed particularly well in the fourth quarter of the year, with net inflows of nearly 800 million euros.

By contrast, the non-interest-bearing debt position (-1.7 million euros) consisting 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, was virtually stable.

**Core loans** totalled 7.9 billion euros overall and increased by 2,272.6 million euros (+40.3%) compared to 31 December 2015.

The increase in loans was primarily attributable to investments in portfolios of financial assets, which increased by 1,789 million euros (+50.3%), whereas customer financing transactions declined moderately (-15.2 million euros).

Short-term treasury loans on the interbank market reached 764.1 million euros at the end of December 2016 and consisted largely of free deposits with the Central Bank (567.3 million euros), correlated with the significant inflows at the end of December 2016.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
<b>HFT financial assets</b>	<b>38,560</b>	<b>28,004</b>	<b>10,556</b>	<b>37.7%</b>
<b>AFS financial assets</b>	<b>4,409,313</b>	<b>2,939,207</b>	<b>1,470,106</b>	<b>50.0%</b>
<b>HTM financial assets</b>	<b>731,361</b>	<b>423,585</b>	<b>307,776</b>	<b>72.7%</b>
<b>Loans to banks</b>	<b>887,295</b>	<b>374,776</b>	<b>512,519</b>	<b>136.8%</b>
Financing	764,119	257,699	506,420	196.5%
Debt securities	123,047	116,493	6,554	5.6%
Operating loans	129	584	-455	-77.9%
<b>Total loans to customers</b>	<b>1,843,231</b>	<b>1,871,577</b>	<b>-28,346</b>	<b>-1.5%</b>
Financing	1,703,706	1,718,938	-15,232	-0.9%
Debt securities	43,100	49,075	-5,975	-12.2%
Operating loans and other loans	96,425	103,564	-7,139	-6.9%
<b>Total core loans</b>	<b>7,909,760</b>	<b>5,637,149</b>	<b>2,272,611</b>	<b>40.3%</b>

**Loans to customers** amounted to 1,703.7 million euros, down compared to year-end 2015, chiefly due to the decline of the current account overdraft facilities, only partially offset by the slight increase in mortgage or personal loans.

The mortgage segment reported new disbursements amounting to 121 million euros.

Account overdrafts included a line of credit of 4.6 million euros granted to the subsidiary Generfid at the end of December 2016 to finance the annual prepayment of the substitute tax on capital gains calculated and paid on the customer's behalf.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
<b>Financing</b>	<b>1,703,706</b>	<b>1,718,938</b>	<b>-15,232</b>	<b>-0.9%</b>
Current accounts	911,665	928,894	-17,229	-1.9%
Personal loans	787,294	781,665	5,629	0.7%
Other loans	4,747	8,379	-3,632	-43.3%
Debt securities	43,100	49,075	-5,975	-12.2%
<b>Other transactions</b>	<b>96,425</b>	<b>103,564</b>	<b>-7,139</b>	<b>-6.9%</b>
Operating loans to product companies	59,657	62,319	-2,662	-4.3%
Sums advanced to Financial Advisors	32,544	36,294	-3,750	-10.3%
Stock exchange interest-bearing daily margin	1,940	3,383	-1,443	-42.7%
Charges to be debited and other loans	2,284	1,568	716	45.7%
<b>Total loans to customers</b>	<b>1,843,231</b>	<b>1,871,577</b>	<b>-28,346</b>	<b>-1.5%</b>

**Net non-performing loans** amounted to 32.9 million euros, equal to 1.78% of total loans to customers, and down compared to the previous year (-1.3 million euros).

Bad loans, in particular, declined by 1.7 million euros due to repayments and the closure of positions subject to indemnities. In this regard, it should be noted that one significant bad debt position was closed during the first half of the year, resulting in the collection of 1.5 million euros and a reversal of 0.6 million euros.

At the end of 2016, non-performing loans included 27.5 million euros referring to exposures originating in the portfolio of Banca del Gottardo Italia, fully covered by the loan indemnity granted by BSI S.A. upon the sale of the said company and mainly secured to that end by cash collateral payments by the counterparty. Net of that portfolio, the weight of non-performing exposures declined to 0.29%.

(€ THOUSAND)	GROSS EXPOSURE	VALUE ADJUSTMENTS	NET EXPOSURE 2016	NET EXPOSURE 2015	CHANGE		INDEMNITY	RESIDUAL UNSECURED
					AMOUNT	%		
Bad loans	37,904	-13,886	24,018	25,698	-1,680	-6.5%	22,488	1,530
of which financing	34,948	-11,924	23,024	24,729	-1,705	-6.9%	22,488	536
of which operating loans	2,956	-1,962	994	969	25	2.6%	-	994
Unlikely to pay	6,912	-141	6,771	5,104	1,667	32.7%	5,050	1,721
Past-due exposures - over 90 days	2,495	-431	2,064	3,371	-1,307	-38.8%	-	2,064
<b>Total non-performing loans</b>	<b>47,311</b>	<b>-14,458</b>	<b>32,853</b>	<b>34,173</b>	<b>-1,320</b>	<b>-3.9%</b>	<b>27,538</b>	<b>5,315</b>
Performing loans	1,814,173	-3,795	1,810,378	1,837,404				
<b>Total loans to customers</b>	<b>1,861,484</b>	<b>-18,253</b>	<b>1,843,231</b>	<b>1,871,577</b>				

At 31 December 2016, the **interbank position**, net of the securities portfolio and operating loans, showed a moderate net credit imbalance of 84.6 million euros, up compared to 40.8 million euros reported at the end of the previous year.

This situation was essentially due to the disbursement by the ECB, within the context of the TLTRO 2 programme (Targeted Longer-Term Refinancing Operations) launched in 2016, of financing of 400 million euros, and, to a lesser extent, the increase in net inflows in the form of repurchase agreements with negative rates.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
<b>1. Repayable on demand</b>	<b>668,637</b>	<b>207,707</b>	<b>460,930</b>	<b>221.9%</b>
Demand deposit with ECB (*)	567,312	89,221	478,091	535.9%
Transfer accounts	101,325	118,486	-17,161	-14.5%
<b>2. Time deposits</b>	<b>95,482</b>	<b>50,381</b>	<b>45,101</b>	<b>89.5%</b>
Deposits with Central Banks	56,314	49,992	6,322	12.6%
Term deposits	35,136	83	35,053	n.a.
Collateral margins	4,032	306	3,726	n.a.
<b>Total due from banks</b>	<b>764,119</b>	<b>258,088</b>	<b>506,031</b>	<b>196.1%</b>
<b>1. Due to Central Banks</b>	<b>400,000</b>	<b>-</b>	<b>400,000</b>	<b>n.a.</b>
<b>2. Due to banks</b>	<b>402,702</b>	<b>333,941</b>	<b>68,761</b>	<b>20.6%</b>
Transfer accounts	23,673	1,392	22,281	n.a.
Term deposits	4,748	5,261	-513	-9.8%
Financing	351,705	303,927	47,778	15.7%
Repurchase agreements	351,437	303,927	47,510	15.6%
Collateral margins	268	-	268	n.a.
Other debts	22,576	23,361	-785	-3.4%
<b>Total due to banks</b>	<b>802,702</b>	<b>333,941</b>	<b>468,761</b>	<b>140.4%</b>
<b>Net interbank position</b>	<b>-38,583</b>	<b>-75,853</b>	<b>37,270</b>	<b>-49.1%</b>
<b>3. Debt securities</b>	<b>123,047</b>	<b>116,493</b>	<b>6,554</b>	<b>5.6%</b>
<b>4. Other operating receivables</b>	<b>129</b>	<b>195</b>	<b>-66</b>	<b>-33.8%</b>
<b>Total interbank position</b>	<b>84,593</b>	<b>40,835</b>	<b>43,758</b>	<b>107.2%</b>

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

The TLTRO2 financing, disbursed on 29 June 2016, has a term of four years, with maturity on 24 June 2020, may be repaid in advance at the end of the second year and bears interest at a rate equal to the rate for the main refinancing operations in effect at the time, currently 0%. However, that rate may be reduced to the interest rate on overnight deposits with the ECB (currently a negative -0.40%) if at the end of January 2018 the loans disbursed by Banca Generali to households for credit purposes other than home purchases and to non-financial companies residing in the euro area exceed a given benchmark level<sup>2</sup>.

<sup>2</sup> For Banca Generali, equal to the amount of such loans at 31 January 2016, plus 2.5%.

### 9.3 Net equity and regulatory aggregates

At 31 December 2016, net equity, including net profit for the year, amounted to 522.2 million euros compared to 523.6 million euros at the end of the previous year.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
1. Share capital	116,425	116,093	332	0.3%
2. Additional paid-in capital	53,803	50,063	3,740	7.5%
3. Reserves	201,028	153,190	47,838	31.2%
4. (Treasury shares)	-2,933	-2,555	-378	14.8%
5. Valuation reserves	9,158	22,500	-13,342	-59.3%
7. Net profit (loss) for the year	144,751	184,292	-39,541	-21.5%
<b>Total net equity</b>	<b>522,232</b>	<b>523,583</b>	<b>-1,351</b>	<b>-0.3%</b>

	31.12.2016
<b>Net equity at year-start</b>	<b>523,583</b>
Dividend paid	-139,237
Purchase of treasury shares	-1,467
Stock option plans: capital increases	3,584
Maturity of reserves for stock option plans and remuneration policies	1,737
Maturity of IFRS2 reserves on LTIP	2,622
Change in valuation reserves	-13,341
Net profit for the year	144,751
<b>Net equity at year-end</b>	<b>522,232</b>
<b>Change</b>	<b>-1,351</b>

The change in net equity during the year was influenced by the distribution of the 2015 dividend of 139.2 million euros – approved by the Shareholders' Meeting that also approved the 2015 Financial Statements, held on 21 April 2016, the change in the reserves for shared-based payments (IFRS 2), the performance of fair value valuation reserves for the portfolio of AFS financial assets and other reserves included in other comprehensive income.

The fair value valuation reserves for the AFS financial asset portfolio decreased sharply compared to the end of the previous year, due in part to the release to the Profit and Loss Account of pre-existing positive reserves relating to the securities sold, and in part to the decrease in positive reserves on government bonds at the end of the year.

The aggregate had an overall positive balance of 10.8 million euros, down by 13.2 million euros compared to year-end 2015.

This trend was mainly influenced by the portfolio of Italian government bonds, for which net reserves amounted to 6.5 million euros compared to 21.6 million euros at year-end 2015.

**Own funds**, calculated in accordance with the Basel 3 phase-in rules, amounted to 343.0 million euros, up by 24.0 million euros compared to the end of the previous year, chiefly due to the portion of retained earnings.

At year-end, the aggregate capital for regulatory purposes recorded 172.9 million euros in excess of the amount required to cover credit, market, and operating risks. Total Capital Ratio (TCR) was 16.1%, compared to the minimum requirement of 8% and the capital conservation buffer was 2.5%.

The decrease in absorbed capital compared to the previous year (-14.4 million euros) was largely due to the implementation in the fourth quarter of the year of the new CRM (credit risk mitigation) procedures, which aimed at analysing and monitoring the guarantees obtained by the Bank for the loans granted, thus allowing for an expansion of the scope of eligibility of such loans from a Basel 3 perspective.

In particular, the measure affected guarantees in the form of pledges of discretionary management portfolios and UCITS promoted by the Group, for which a rigorous analysis of the underlying assets was completed.

Own funds, calculated in accordance with Basel 3 rules, which will become fully applicable as of 1 January 2019, were 350 million euros, with Total Capital Ratio at 16.5%.

(€ THOUSAND)	31.12.2016		31.12.2015	CHANGE	
	FULL APPLICATION	PHASE IN	PHASE IN	AMOUNT	%
Total Common Equity Tier 1 capital (CET1)	307,050	299,175	275,233	23,942	8.70%
Total Additional Tier 1 capital (AT1)	-	-	-	-	n.a.
Total Tier 2 capital (T2)	43,000	43,788	43,698	90	0.21%
<b>Total own funds</b>	<b>350,050</b>	<b>342,963</b>	<b>318,931</b>	<b>24,032</b>	<b>7.54%</b>
Credit risk	128,242	128,242	142,727	-14,485	-10.15%
Market risk	2,681	2,681	2,505	176	7.02%
Other prudential requirements (concentration risk)	-	-	-	-	n.a.
Operating risk	39,132	39,132	39,222	-91	-0.23%
<b>Total own funds absorbed</b>	<b>170,055</b>	<b>170,055</b>	<b>184,455</b>	<b>-14,400</b>	<b>-7.81%</b>
Positive margin excess over absorbed capital	179,995	172,908	134,477	38,432	28.58%
Risk-weighted assets	2,125,686	2,125,686	2,305,685	-179,999	-7.81%
Tier 1 capital / Risk-weighted assets (Tier 1 Capital Ratio)	14.4%	14.1%	11.9%	2.1%	17.9%
<b>Own funds / Risk-weighted assets (Total capital ratio)</b>	<b>16.5%</b>	<b>16.1%</b>	<b>13.8%</b>	<b>2.3%</b>	<b>16.6%</b>

It should be noted that Banca Generali exercised the option to neutralise the capital gains and losses deriving from fair-value measurement of AFS financial assets belonging to the Euro Area government bond segment for the purposes of measuring own funds, as allowed under Bank of Italy Order of 18 May 2010.

This option was also extended under the new Basel 3 prudential supervisory system, on the basis of the national discretion granted to the Bank of Italy pursuant to Article 467(2) of the CRR, until the Commission “has adopted a regulation on the basis of Regulation (EC) No. 1606/2002 endorsing the International Financial Reporting Standard replacing IAS 39” (IFRS 9).

However, in its Notice of 23 January 2017, the Bank of Italy confirmed that such discretion would continue to be available, but solely on a phase-in basis and for “less significant” banks subject to direct supervision.

## 9.4 Cash flows

At the end of 2016, operating activities generated a total of 805 million euros in cash flows.

In particular, positive cash flows were due to the significant increase in net inflows from customers (+1,845.0 million euros) and, to a lesser extent, the rise of interbank net inflows, primarily attributable to participation in the new TLTRO programme launched by the ECB (400 million euros).

Liquidity generated by operations amounted to 25.6 million euros.

Such liquidity was only partially absorbed by the expansion of investments in financial assets (+1,500.9 million euros) and, to a marginal extent, by loans to customers.

The total net cash flows generated by operating activities thus drove an increase in the HTM financial asset portfolio (+308 million euros) and covered the significant dividends paid (-139.2 million euros) and outlays for new investments, resulting in an increase in cash and deposits at year-end of over 583 million euros, compared to the 103 million euros recorded in 2015.

(€ THOUSAND)	2016	2015
<b>Liquidity generated by operations</b>	<b>25,646</b>	<b>-24,655</b>
Cash flows generated by (+) used for (-) trading and AFS financial assets and liabilities	-1,500,885	-710,072
Cash flows generated by (+) used for (-) loans to banks	-34,591	-10,948
Cash flows generated by (+) used for (-) loans to customers	36,083	-97,780
Cash flows generated by (+) used for (-) amounts due to banks (*)	470,167	-693,275
Cash flows generated by (+) used for (-) amounts due to customers	1,844,952	528,432
Cash flows generated by (+) used for (-) other operating assets and liabilities	-35,908	5,078
<b>Liquidity generated by/used for operating activities</b>	<b>805,465</b>	<b>-1,003,219</b>
<b>Liquidity generated by/used for investing activities</b>	<b>-188,099</b>	<b>1,137,440</b>
<b>Liquidity generated by/used for financing activities</b>	<b>-137,118</b>	<b>-111,561</b>
<b>Net liquidity generated/used</b>	<b>480,248</b>	<b>22,660</b>
<b>Cash and deposits</b>	<b>583,356</b>	<b>103,108</b>

(\*) Deposits at 31 December 2015 were restated in order to include Demand deposits with ECB.

## 9.5 Purchase of treasury shares and Parent Company shares

### Treasury shares

At 31 December 2016, the share capital of the parent company Banca Generali consisted of 126,129 treasury shares for total carrying amount of 2,933 thousand euros.

During the year, treasury shares showed the following movements:

	NO. OF SHARES	DATE OF PURCHASE	VALUE	AVERAGE PRICE
<b>Amount at year-start</b>	<b>97,177</b>		<b>-2,555,193</b>	<b>26.29</b>
Allotment	-38,099	April 2016	1,001,788	26.29
Purchases	67,051	June 2016	-1,379,451	20.57
<b>Amount at year-end</b>	<b>126,129</b>		<b>-2,932,856</b>	<b>23.25</b>

In this regard, the General Shareholders' Meeting held on 21 April 2016 resolved to repurchase a maximum number of 67,051 treasury shares within an 18-month period, to be granted to key personnel and main network managers as variable remuneration, based on the 2016 Remuneration Policy.

In accordance with the above resolution and the authorisation granted by the Bank of Italy on 6 June 2016, 67,051 Banca Generali shares were purchased in June for 1,379 thousand euros.

In April 2016, on the basis of the achievement of the performance objectives set out in the 2015 Remuneration Policy, 38,099 treasury shares, with a value of 1,002 thousand euros, were allotted to managers and network managers.

It should be noted that the shares allotted were purchased under the resolution passed by the Shareholders' Meeting of 23 April 2016 and the authorisation granted by the Bank of Italy by order of 3 June 2015.

Treasury shares held by the Bank are thus all earmarked for the 2015 Remuneration Policy (deferred shares) and 2016 Remuneration Policy.

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

### Parent Company shares

At 31 December 2016, Banca Generali held the following shares in the Parent Company, Assicurazioni Generali:

- > 45,955 shares classified among AFS financial assets, originally acquired in the service of two stock-option plans for the Chief Executive Officer for 2004 and 2005. The carrying amount, equal to the fair value of the shares, was 652 thousand euros, which includes a revaluation reserve of 170 thousand euros, whereas the acquisition cost was 1,230 thousand euros;
- > 15,899 shares classified as held for trading, purchased by the merged Banca BSI Italia under the authorisation granted at the time by the General Shareholders' Meeting of the merged company Banca BSI Italia, in the capacity of fund charged with the repurchase of non-negotiable fractions of Assicurazioni Generali shares from bonus share issues. The shares are carried at fair value in the amount of 225 thousand euros.

Pursuant to Article 2359-bis of the Italian Civil Code, a restricted reserve was allocated in the amount of 708 thousand euros in relation to the ownership of Parent Company shares.

## 9.6 Other information

### Privacy obligations

Despite the repeal of Article 34, paragraph 1, of Legislative Decree No. 196/2003, in March 2016 the Company prepared its Data Security Plan. In fact, it was considered that this document represents a security measure providing protection against the risks of the destruction or loss of data, unauthorised access or improper processing, pursuant to Article 31 of Legislative Decree No. 196/2003.

The Company continued to fully comply with all obligations imposed on organisations that process personal information by the aforementioned Decree.



## 10. PERFORMANCE OF SUBSIDIARY COMPANIES

### 10.1 Performance of BG Fund Management Luxembourg S.A. (BGFML)

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). The third quarter saw the launch of the new Sicav called “BG Alternative”, reserved for institutional investors, while the BG Dragon Sicav was definitely placed in liquidation.

BGFML ended 2016 with net profit of 139.9 million euros, down 54.7 million euros compared to the previous year, chiefly due to the decrease in performance fees (-59.6 million euros).

Net banking income amounted to 159.1 million euros (-60.7 million euros). Total operating expenses amounted to 5.1 million euros (3.8 million euros of which consisted of staff expenses) with a moderate decrease compared to the previous year.

The Company’s net equity amounted to 116.0 million euros, net of a dividend payout of 130.5 million euros, as payment in advance for 2016 and total payment for 2015.

Overall, assets under management at 31 December 2016 amounted to 12,495 million euros, compared to 11,849 million euros at 31 December 2015 (+5.4%).

### 10.2 Performance of BG Fiduciaria SIM

BG Fiduciaria, a company specialising in individual portfolio management in the form of securities and funds, primarily through trusts, ended 2016 with net profit at 1.7 million euros, down compared to the previous year (-0.2 million euros), and net equity of 17.4 million euros.

Net banking income amounted to 4.6 million euros (-0.8 million euros). Total operating expenses amounted to 2.2 million euros (1.4 million euros of which consisted of staff expenses), with a moderate decrease compared to the previous year (-5.4%).

Total assets under management amounted to 721 million euros, compared to 787 million euros at 31 December 2015.

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

Generfid, a company specialising in custodian capacity of assets, ended 2016 with a slight net profit, and net equity amounting to about 0.9 million euros.

Net banking income amounted to about 1.2 million euros, whereas operating expenses were 1.1 million euros. Assets under management amounted to 1,166 million euros (1,045 million euros at the end of 2015).

### 10.4 Public disclosure by country of operation

In accordance with the provisions set forth in Circular Letter No. 285 issued by the Bank of Italy on 17 December 2013 (Part I, Title III, Charter 2), information on operations by country to be disclosed by the Banking Group, pursuant to Article 89 of Directive No. 2013/36/EU dated 26 June 2013, is available on the corporate website of Banca Generali: <http://www.bancagenerali.com/site/home/corporate-governance/sistema-di-corporate-governance.html>.

## 11. RELATED PARTY TRANSACTIONS

### 11.1 Procedural aspects

In accordance with Article 2391-*bis* of the Italian Civil Code and Article 4 of the Regulation on Related Party Transactions, adopted by Consob with Resolution No. 17221 of 12 March 2010, as amended by Resolution No. 17389 of 23 June 2010, the Board of Directors of Banca Generali approved the "**Related Party Transactions Procedure**", effective 1 January 2011.

On 12 December 2011, the Bank of Italy also updated the Supervisory Provisions for Banks (Bank of Italy Circular Letter No. 263/2006) by issuing new **Provisions on risk activities and conflicts of interest of banks and banking groups with Connected Parties** (Title V, Chapter 5), aimed at monitoring the risk that close relations between certain persons and the bank decision-making bodies may affect the objectivity and impartiality of decisions concerning loans to and other transactions involving those persons, leading to possible distortions in resource allocation, the bank's exposure to risks that are not adequately measured or controlled and potential adverse impact on depositors and shareholders.

Consequently, on 21 June 2012, the Board of Directors of Banca Generali, in light of the contingency of the matters, supplemented the above Procedure, by including the provisions regarding Connected Parties and passing a resolution on a new version of the **Related Party and Connected Party Transaction Procedure**.

The aforementioned Procedure was most recently revised in accordance with the provisions set forth in Article 150 of TUF and those introduced by the Bank of Italy on 2 July 2013 with the 15<sup>th</sup> amendment of Circular Letter No. 263 of 27 December 2006 called "New Regulations for the Prudential Supervision of Banks" on Transactions of Greater Importance, which have now been transposed in Circular Letter No. 285 of 17 December 2013 "Supervisory Provisions for Banks".

On 18 December 2012, the Internal Policies Regarding Controls on Risk Activities and Conflicts of Interest in Respect of Connected Parties were approved in view of the actual implementation of the new procedure. Said policies were most recently updated during the Shareholders' Meeting held on 26 June 2013.

The new Procedure for Related Party and Connected Party Transaction and Transactions of Greater Importance, whose latest version became effective on 12 May 2016, is intended to implement Consob and Bank of Italy regulations, by adopting, at Group level, rules on Transactions with Related Parties and Connected Parties and Transactions of Greater Importance governing the related investigation, approval, reporting and disclosure activities.

The main regulations provided for by the provisions of the Bank of Italy and included in the Procedure are the following:

- > expanded scope of the parties involved, i.e., Connected Parties (Related Parties and Connected Entities), and change in the characteristics of some of the identified parties compared to Consob Regulation;
- > the introduction of prudential limits in respect of the Capital for Regulatory Purposes and the assumption of risks with Connected Parties. The limits vary according to the different types of Connected Parties, in proportion with the level of involvement in the relationship and the potential impact of the resulting risks on sound and prudent management. In light of the greater risks associated with conflicts of interest in bank-industry relations, more stringent limits are envisaged for risk activities carried out with entities qualifying as non-financial related parties;
- > the introduction of specific guidelines relating to organisational arrangements and internal controls intended to identify corporate bodies' responsibilities and corporate functions' tasks with respect to the objectives of conflicts of interest prevention and management, as well as the obligations for identifying the Connected Parties and monitoring exposures over time;
- > the changed definition of:
  1. **Non-ordinary Transactions**, as the Bank of Italy considers as "non-ordinary" all transactions that exceed the Greater Importance threshold, even if concluded at market or standard conditions;
  2. **Low Value Transactions**, as the Bank of Italy sets specific thresholds for these transactions, in order to ensure uniform application in the banking sector. To this end, it has established that Low Value transactions cannot exceed **250,000** euros for banks with capital for regulatory purposes of less than 500 million euros and the lower of 1,000,000 euros and 0.05% of capital for regulatory purposes in the other cases. In respect of these transactions, the exemption only applies to provisions relating to approval procedures;
  3. **Highly Significant Transactions**, as the Bank of Italy identifies these transactions on

the basis of two parameters – relevance of the consideration and relevance of the assets – making no mention of the liabilities parameter as provided by Consob Regulation;

4. **Transactions of Greater Importance**, i.e., transactions within the scope of the applicable provisions laid down in the 15<sup>th</sup> update to Circular Letter No. 285/2013 and the provisions of Article 150 of the TUF. These are transactions the specific characteristic of which is an impact from the standpoint of financial performance and financial position, as well as transactions that, although ordinary in nature, either exceed 2.5% of Own Funds or have a material impact on the companies and the Group, inasmuch as they represent departures from specific contractual conditions and standards.

Furthermore, with reference to the approval procedures on Connected Party Transactions provided for by the Bank of Italy provisions, they appear to be similar to those set forth by Consob Regulation, and therefore, the assessment/approval procedures for Highly Significant and Moderately Significant transactions have been aligned to the Bank of Italy Regulation to ensure simplification and process uniformity.

Transactions of Greater Importance shall be approved by the Board of Directors, as set forth in Article 18 of the Articles of Association.

It is also envisaged that the Risk Management function expresses a prior opinion of the consistency of the transaction with the RAF (**Risk Appetite Framework**) and the compatibility of risk policies.

If the Risk Management function expresses a negative opinion, the Board of Directors may nevertheless approve the proposed transaction, while providing an adequate, express indication of the rationale for the approval of the transaction despite the negative opinion rendered.

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

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

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

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

## 11.2 Disclosure on Related Party Transactions

### Unusual, atypical or extraordinary transactions

There were no atypical and/or unusual transactions to be reported in 2016. Nor were such transactions undertaken with parties other than related parties such as intragroup entities or third parties.

Pursuant to Consob Notices Nos. 98015375 of 27 February 1998 and 1025564 of 6 April 2001, "atypical and unusual transactions" are defined as all transactions that due to their significance/materiality, the nature of the counterparties, the subject matter of the transaction (inclu-

ding in relation to ordinary operations), the transfer pricing method and timing of occurrence (near the end of the period) may give rise to doubts as to the accuracy/completeness of the information presented in the financial statements, conflicts of interest, the safeguarding of company assets and the protection of minority shareholders.

---

#### Highly significant transactions

In 2016, the Group did not carry out any transaction that qualified as “Highly Significant Transaction”.

---

#### Intragroup highly significant transactions

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

---

#### Other significant transactions

The following should be noted with regard to ordinary transactions qualifying as “Moderately Significant Transactions”, which are subject to a prior non-binding opinion by the Audit and Risks Committee:

- > on 10 February 2016 the Board of Directors, after receiving a favourable opinion from the Audit and Risks Committee, resolved to participate in a request for proposals announced by the Generali Group for the creation of a unique operating platform to optimise the collection and payment systems of Insurance Companies and Agencies with an indicative amount of 1,700,000 euros. Banca Generali was invited to participate in the tender on the basis of its significant, long-standing experience in collection and payment services provided in Italy to various Group companies and agencies. The Bank’s participation was consistent with its strategic guidelines calling for a primary focus on private banking. Banca Generali was not selected to participate in the subsequent stages of the tender;
- > during its meeting of 10 February 2016, the Board of Directors, after informing the Audit and Risks Committee, and in accordance with the methods set out in Article 136 of TUB, resolved to grant a loan of 100,000 euros to a Director. The transaction was considered moderately significant because it was in addition to other lines of credit already granted to the same Director. The standard economic conditions set out in the existing agreement for employees and executives of the Assicurazioni Generali Group – the category to which the Director belongs – were applied;
- > on 22 February 2016, after informing the Audit and Risks Committee, and in accordance with the methods set in Article 136 of TUB, the Board of Directors resolved to grant guaranteed loans to two close-family members of the then-Chief Executive Officer of 1,300,000 euros each. The economic conditions applied to the two borrowings were identical to those of lines of credit granted to non-related party customers of the same standing;
- > during its meeting of 11 May 2016, the Board of Directors resolved to grant a loan to the General Manager, in accordance with the methods set out in Article 136 of TUB, and after informing the Audit and Risks Committee. The loan was granted under the conditions applicable to the agreement reserved for Banca Generali Group managers, and thus intended for all related parties and non-related parties;
- > on 12 October 2016, the Lending Department, after receiving a favourable opinion from the Audit and Risks Committee, granted an account overdraft facility of 30,000 euros to a Key Manager of the Assicurazioni Generali Group. The transaction was considered moderately significant because it was in addition to other lines of credit already granted to the same Key Manager. The standard economic conditions set out in the existing agreement for employees and managers of the Assicurazioni Generali Group were applied;
- > during its meeting of 11 October 2016, the Board of Directors, after obtaining a favourable opinion from the Internal Audit and Risk Committee, granted Assicurazioni Generali S.p.A. a ten-year pro-rata guarantee of 2,260,000 euros securing the timely fulfilment of its joint sponsorship obligations with Allianz S.p.A. for the Tre Torri stop of Line 5 of the Milan Underground Railway. The guarantee was granted in replacement of the similar guarantee of equal amount issued in the same period of 2016, also in connection with the sponsorship agreement, which never became operational. The guarantee was granted at market conditions;
- > on 14 December 2016, the Board of Directors, after obtaining a favourable opinion from the Audit and Risks Committee, resolved to renew the guarantee of 1,000,000 euros granted to Genagricola S.p.A. to cover any requests for bank guarantees securing grants or financing provided by public entities, urban development charges or remediation expenses. The sum of 629,280 euros has been drawn down from the facility following the two bank guarantees issued in previous years. The economic conditions of the guarantee include the standard fees.

---

## Ordinary or recurring transactions

Transactions of an ordinary or recurring nature carried out in 2016 with related parties fall within the Group's ordinary course of business and are usually carried out at arm's length and in any case based on mutual economic advantage, in compliance with the internal procedures mentioned above.

As regards these transactions, there were no changes in the situation of related party transactions, which might have a material effect on the financial situation and the results of the Company and the Banking Group compared to 2015.

The developments of ordinary transactions with related parties are presented in the specific section of the Notes and Comments – Part H of the Separate and Consolidated Financial Statements for the year ended 31 December 2016, along with other information on related party transactions.

## 12. BANCA GENERALI STOCK PERFORMANCE

Many economically significant events – some of historic scope – took place in 2016. The year began with a market collapse due to concerns of an abrupt slowing of the Chinese economy and the falling price of oil. International equity markets reached a low in early February. The ECB's move to expand quantitative easing in March then drove a stock market recovery. After a brief period of volatility, the unexpected victory of the 'yes' Brexit vote was another factor triggering a bull market, which gained momentum in the second half of the year as oil prices recovered on the strength of the agreement between OPEC members, and above all the reversal of international monetary policy that started with the Bank of Japan and culminated in a rate increase by the Federal Reserve in December, paving the group for the end of zero (or negative) rate policy. In December, the U.S. election victory of the Republican candidate, who supports expansionary fiscal policy in pursuit of economic growth, drove a further recovery of international stock markets, which generally posted gains over the twelve months. However, the Italian stock exchange (FTSE MIB -10.2%) was among the few negative exceptions, along with stock exchanges in China (CSI 300 -14.9%) and Spain (IBEX -2%). This was due to the performance of the banking sector, which in 2016 lost 38% of its value as a result of concerns of additional bail-outs and reclassifications of distressed banks, which only government intervention succeeded in averting near the end of the year.

### Performance of the main stock indices (% change, y/y)

	2012	2013	2014	2015	2016
<b>Banca Generali</b>	<b>79.3%</b>	<b>74.4%</b>	<b>2.4%</b>	<b>26.6%</b>	<b>-22.3%</b>
FTSE MIB	7.8%	16.6%	0.2%	12.7%	-10.2%
FTSE Italia Mid Cap	-0.4%	48.8%	-3.9%	38.2%	-8.0%
FTSE Italia Banks (All Shr)	-0.02%	33.1%	6.8%	14.8%	-38.2%
DJ EuroStoxx 600	14.4%	17.4%	4.4%	7.8%	-1.7%
DJ EuroStoxx 600 Banks	12.0%	25.9%	-4.9%	-4.2%	-8.5%
MSCI World	11.2%	18.8%	17.3%	8.5%	8.1%
S&P 500 (USA)	11.4%	24.0%	26.9%	10.5%	12.3%
DAX 50 (Germany)	29.1%	25.5%	2.7%	9.6%	6.9%
CAC 40 (France)	15.2%	18.0%	-0.5%	10.2%	4.0%
CSI 300 (China)	6.7%	-9.0%	68.5%	15.9%	-14.9%
IBOV (Brazil)	-4.1%	-29.9%	-1.8%	-35.3%	38.9%

Note: changes in euro.

Banca Generali's stock – which started out near an all-time high for the ten-year history on the exchange – was profoundly affected early in the year by the severe bear market, due in part to the consequences in terms of asset valuations. After a partial recovery in early February, the weakness triggered by the sudden untimely passing of Chief Executive Officer Piermario Motta and then by concerns of involvement in M&As – subsequently denied – weighed down share performance. This was in addition to latent concerns of a possible commitment to support a bail-out of the banking industry within the framework of the new European directive on bank resolutions. Stock performance then recovered in the fourth quarter, with the presentation of the new General Manager Gian Maria Mossa to the financial community, along with strategic and commercial initiatives in the coming years.

## Market price of Banca Generali shares – Summary

(€)	2012	2013	2014	2015	2016
Maximum	13.000	22.510	25.110	33,360	28,300
Minimum	6.540	12.920	18.580	22,230	16,020
Average	9.640	16.940	21.810	28,110	21,684
<b>Year-end</b>	<b>12.910</b>	<b>22.510</b>	<b>23.050</b>	<b>29,180</b>	<b>22,660</b>
<b>Capitalisation (€ m)</b>	<b>1,458</b>	<b>2,586</b>	<b>2,668</b>	<b>3,388</b>	<b>2,638</b>

Banca Generali shares have been listed on Borsa Italiana since 15 November 2006. Specifically, the stock is included in the FTSE Italia All-Share and FTSE Italia Mid Cap indices.

In November 2016, Banca Generali celebrated the **ten-year anniversary of its IPO** with a dedicated event at the Italian Stock Exchange, involving a review of the salient points of the Bank's significant total assets and income growth during the period. In addition, the strategic guidelines for the coming years were also laid down. Stock performance was cause for great satisfaction: during the ten years since the date of the IPO, 15 November 2006, Banca Generali generated a total return for its shareholders of 303%, of which 168% attributable to stock price appreciation and 135% to the dividends distributed (source: Bloomberg).

At year-end 2016, outstanding shares amounted to 116,424,502, of which 50.5% held by the Generali Group.

## Share capitale approved at 31.12.2016

	2012	2013	2014	2015	2016
Number of shares issued	112,937,722	114,895,247	115,746,023	116,092,599	116,424,502
Outstanding shares at year-end*	112,927,651	114,885,176	115,735,952	115,995,422	115,995,422
Treasury shares	10,071	10,071	10,071	97,177	126,129

\* net of Treasury shares.

## 12.1 Investor relations

As in previous years, contacts with the financial community were frequent and regular. After a brief but necessary hiatus following the company reorganisation triggered by Piermario Motta's untimely passing, regular investor marketing activity resumed in the fourth quarter, resulting in a slight increase in the number of meetings with investors and analysts compared to the previous year (299 compared to 256 in 2015).

The stock price correction at the beginning of the year supported a clear upwards revision of positive recommendations, which overall exceeded 80% of the total. Neutral recommendations accounted for the remaining 20%, whereas there were no negative opinions.

## 13. PRODUCTS AND MARKETING

### 13.1 Development of the product line

Despite the fact that the macroeconomic scenario continued on its slow road to recovery, the other financial markets suffered various volatility shocks during the year, relating in particular to political events (such as Brexit), which in some periods compromised their visibility and directionality. In this complex, convoluted scenario, marketing activity focused on constantly improving the level of service offered to the Customer and on introducing sophisticated investment solutions. The drivers that resulted in the design of new asset management offerings included, in particular: the containment of market volatility for both equities and bonds, the search for de-correlation, which is increasingly complex due to the change in correlations between individual asset classes, and the introduction of innovative approaches aimed at seeking returns on specific themes and segments of the market.

To achieve this goal, themed multi-asset sub-funds were launched to ensure de-correlation and provide alternative sources of return through the use of innovative approaches and liquid alternative solutions that seek to contain volatility while also managing changes in the correlations that condition market directionality.

Asset management services benefited from significant development efforts, resulting in the distribution of the new multi-line products BG Solution and BG Solution Top Client, which offer customers an optimal degree of customisation in building their portfolios and access to high value-added services.

Insurance offerings were also adapted to the circumstances, including an expansion of the investment products available through BG Stile Libero to include new sub-funds of assets managers with long-track records, excellent management performance, as recognised by the main international providers, and highly qualified management skills.

In 2016, Banca Generali also focused its efforts on finalising the platform “BG Personal Advisory” in support of the Advanced Advisory service and the launch of Digital Collaboration, the new service that simplifies the relationship between customers and their advisors by allowing investments to be concluded via mobile platforms or conveniently from home in a few simple steps. Digital Collaboration is available in the new BG Store app, an innovative digital tool that can be personalised to suit the customer’s technological and financial interests and habits, serving as point of access to the full range of services offered by the Bank.

Finally, with regard to assets under administration and custody, mention should be made of the launch of the Smart Derivatives Platform, in collaboration with BNP Paribas, which allows the Bank’s customers to purchase investment certificates through private placements.

### Development and promotion of the product range of BG Fund Management Luxembourg (BGFML)

#### BG Selection Sicav

In 2016, the offerings of BG Selection Sicav, the innovative fund-of-fund platform of BG Fund Management Luxembourg that for more than eight years has represented Banca Generali’s flagship asset management product, were further enriched.

Major developments in 2016 included:

- > the expansion of the line, with the launch of three liquid alternative sub-funds and two multi-asset solutions:
  - containment of volatility and management of the variation of correlations between individual asset classes was the main reason for the creation of the Liquid Alternatives family within BG Selection Sicav. The new sub-funds are distinguished by their goals: reduced sensitivity to directional movements for BlackRock, less volatility without giving up possible upsides associated with special situations for Kairos and exposure to alternative risk factors with a low correlation with equity markets for Man Glg;
  - the search for returns through innovative approaches, in a scenario of low rates and constantly tighter spreads, was what motivated the introduction of the two new multi-asset sub-funds. BGFML Flexible Europe allows investors to harness the potential of European equity markets through a multi-sector approach, while M&G Multi Asset Allocation combines a flexible strategy with a search for income in specific segments of the market (e.g., High Yield Floating Rate);
- > the optimisation of the multi-asset offerings in the Global area through the merger of the sub-fund managed by Lemanik (Glocal Investor) with the fund managed by BGFML (Flexible Europe).



At 31 December 2016, BG Selection Sicav offer was comprised of a comprehensive and extremely diversified product range comprising 49 sub-funds, (19 equity, 21 flexible, 3 liquid alternatives, 5 real assets, 1 liquidity), of which 13 are managed by BG Fund Management Luxembourg and 36 have been entrusted to leading international investment firms.

---

## BG Sicav

The search for innovative solutions capable of responding to the increasing complexity of markets guided the development of BG Sicav, a platform of managed products investing in securities complementary to the BG Selection Sicav line.

Changes in 2016 included:

- > the expansion of the range with the launch of two new sub-funds:
  - one themed equity sub-fund, Algebris Best Ideas, which takes a macro/concentrated approach to select the best investment ideas;
  - one liquid alternative sub-fund focused on a long/short credit strategy, managed by Muzinich, which seeks income in specific segments of the bond market by using the alternative component to protect against interest rate risk/wider spreads;
- > the optimisation of the product line in terms of managers and investment strategies through:
  - the merger, within the flexible bond family, of the sub-fund UBS Global Income Alpha into the sub-fund UBS Dynamic Credit High Yield;
  - the replacement of Columbia Threadneedle with UBS as the manager of a liquid alternative sub-fund.

At 31 December 2016, BG Sicav had 30 sub-funds, of which 8 managed by BG Fund Management Luxembourg and 22 under mandate entrusted to leading international investment houses.

The multi-manager platform was also further developed through an update of the ranges already placed in 2015 and the launch in May of the partnership with AllFunds Bank which was gradually consolidated during the year by expanding the possible choices through the retail distribution of products from as many as 14 new companies: AcomeA, Arca SGR, Nordea, Symphonia, Pioneer, Algebris, Henderson, Financiere de l'Echiquier, Muzinich, Edmond de Rothschild, Hedge Invest, Carmignac, 8a+, Natixis. At 31 December 2016, Banca Generali's retail offerings included over 4,800 sub-funds.

---

## Portfolio management

Significant development and rationalisation of the portfolio management range were undertaken in 2016.

Distribution of the new multi-line wrappers of products BG Solution and BG Solution Top Client (dedicated to the private-banking segment) began in February 2016. The new solutions provide Customers with the greatest possible level of personalisation in building their portfolios, with freedom to choose the combination best suited to their needs through the mix of management lines and individual financial instruments, with the possibility of benefiting from additional services with high added value. All of the single-line portfolio solutions managed by the BG AM division (with the exception of GPM Target and GPM Real Estate Top Portfolio) were migrated to the new investment solutions to rationalise offerings.

In April 2016, alongside GPM Real Estate Top Portfolio, launched in 2015, the new GPM Real Estate Multi Portfolio was opened for placement until June. This multi-line solution further confirms the interest in the real-estate market and aims to protect Customers in a scenario of very low interest rates.

Overall, Banca Generali offers a full portfolio of actively distributed portfolio management solutions – composed of BG Solution (31 management lines, of which 3 entrusted to third-party asset managers for advisory) and BG Solution Top Client (33 management lines, of which 5 entrusted to third-party asset managers for advisory), BG Elite (4 management lines) and BG Exclusive – which cover all investment strategies, with a strong emphasis on customisation, a need typical of high net worth customers.

---

## Insurance products

In 2016, Banca Generali's insurance products continued to achieve significant results, due in particular to BG Stile Libero, the innovative multi-line policy that combines investment in a segregated account in both euros and U.S. dollars (from 5% to 30% of investment) with a selection of more than 1,000 sub-funds from 49 investment firms.

BG Stile Libero is a constantly evolving investment solution. The beginning of the year saw the launch the BG Stile Libero Private Insurance version, for investments of over 2.5 million euros, offering greater possibilities in terms of personalisation, asset allocation and customer pricing.

Alongside multi-line products, traditional LOB I insurance policies have continued to be distributed, with the need to manage inflows to segregated accounts in order to ensure their sustainability.

Mention should also be made of the quality of the 2016 certified returns generated by the main segregated accounts (3.50% for RI.Alto BG and 3.94% for Nuova Concreta) underlying the insurance products distributed by Banca Generali, which in a general scenario of falling bond yields were at or above the average for the segregated accounts on the Italian market (3.53% - source: *Milano Finanza*, December 2016).

## Banking products

In 2016, a year after the restyling of its line of current accounts, the Bank launched the “Protection Package”, which provides Customers who have their salaries or pensions deposited to their accounts or authorise to direct debiting their accounts to pay utilities bills with receiving free access to the following value-added services:

- > insurance cover for their ATM cards, protecting against theft involving the use of such cards;
- > a text message information service for alerts about site access activity, account transactions, ATM transactions and securities trading.

In addition, in November 2016 the Bank launched its Smart Derivatives platform, developed in collaboration with BNP Paribas and aimed at allowing its customers to purchase investment certificates through private placements.

Public sale, exchange and sale and exchange offers such as Coima Res, Enav and MPS continued to be placed in 2016.

In addition, the prior years’ promotion involving the reimbursement from stamp duty for new customers and customers who make new investments with Banca Generali also continued.

In mortgage segment, the referral agreement with the Intesa Sanpaolo Group remained in place, allowing the Bank’s customers to enjoy access to the range of mortgages and other loans offered by the partner institution.

## 13.2 The new service model: BG Personal Advisory, Banca Generali’s advanced advisory service

In 2016, Banca Generali focused its efforts on implementing the advanced advisory service BG Personal Advisory, resulting in the development and release of new features for the BGPA advisory platform in support of Financial Advisors.

Banca Generali’s new service model aims to increase knowledge of the customer in terms of total assets, family situation and risk appetite, with the goal of offering an integrated, balanced approach to managing customers’ assets and risks.



Through the BGPA advisory platform, Banca Generali’s Financial Advisors can support their customers with all of their needs, not only those directly related to their financial wealth held with Banca Generali. More specifically:

- > **Financial Wealth:** analysis and monitoring of each customer’s financial wealth at a very

deep level, in terms of composition (for example, by asset allocation, currency allocation or asset managers), risk, diversification and return, and preparation of personalised diagnostic reports tailored to the customer's needs; extension of financial wealth analysis to assets held with other institutions, ensuring that the values of positions are constantly up to date and risk level and diversification are monitored over time. The BGPA platform also allows the formulation of commercial offers suited to the customer's risk profile and specific needs, in a manner that is completely integrated into the Bank's product catalogue and capable of fully supporting the Financial Advisor during the planning phase. The BGPA platform covers the entire advisory process, end to end, from analysis to planning, culminating in order execution, by integrating the order process – with automatic form completion and submission through Digital Collaboration – into a single platform;

- > **Family Protection:** possibility to analyse the customer's total wealth (financial and non-financial) in view of generational transfer in order to identify any critical factors in terms of the allocation and distribution of assets or the usability of the real-estate portfolio; the platform also allows the simulation of changes to the current holdings in order to determine the effects of such changes;
- > **Real Estate:** possibility to analyse the Customer's real-estate holdings in terms of composition, risk (change in commercial value over time and degree of liquidity) and cost/revenue ratio (profit and loss account of the property).

With regard to Financial Wealth, the Advanced Advisory service provides customers with access to periodic **specialised financial information created in cooperation with important partner firms from the financial sector**, including market analysis with views, outlooks and performances and buy and sell lists for UCITS, shares and bonds.

In addition to the BGPA platform, the service model benefits from **partnerships with leading, highly regarded firms** for specialised advice in various fields:

- > Real Estate;
- > Family Protection;
- > Corporate Finance;
- > Art Services.

The preliminary phase leading up to the launch of the BG Personal Advisory advanced advisory service also resulted in a revision of the contractual structure and management of customer positions in the Bank's systems in the second half of 2016.

These measures added further flexibility in the management of Customers and their immediate families by allowing customers to personalise the scope of their financial relationships and enjoy access to systems providing combined views of their positions.

### 13.3 Technological infrastructure and digital marketing

#### Front End and Financial Advisor apps

Banca Generali is continuing to implement the plan for the gradual release of Integrated Contract Management (GIC) functions for the electronic completion of contracts and transactions.

Recent developments for Financial Advisors included:

- > initial subscriptions and post-sales for the new multi-line products "BG Solution" and "BG Solution Top Client";
- > initial subscriptions and post-sales for the policies "BG Stile Libero Concreta" and "BG Stile Libero Special Concreta";
- > initial subscriptions of third-party funds and Sicavs. During the year, Integrated Contract Management (GIC) features were gradually extended to a further five Sicavs in addition to those already present.

In 2016, GIC features for automatic electronic completion of all orders for funds and Sicavs, BG Stile Libero and multi-line products were integrated into the BGPA advisory platform to provide Financial Advisors with simple, quick access, at a mere click, to completion of the forms required to execute the transactions generated in an advisory proposal and to monitor the status of customers' orders.

The new Document Library service, which provides access to offering documentation for funds and Sicavs directly through the Morningstar tools, was also added to the Web version of the Financial Advisor application Front End Consulenti.

The development of "vertical" apps within the advisor's BG Store also continues. In particular, the following apps were released in 2016:

- > BG Personal Portfolio, the new app created to support Financial Advisors in constructing, analysing and monitoring personalised portfolios through financial optimisation engines,

- integration with recommended portfolios and the use of advanced research tools. The new app can be used to construct portfolios based on model portfolios and stable portfolios suggested by Banca Generali Investment Advisory. The initial release concerned portfolio construction in the multi-line product BG Solution; plans call for the features be gradually extended to the multi-line policy BG Stile Libero and à la carte Funds;
- > a digital brochure dedicated to the new multi-line products “BG Solution” and “BG Solution Top Client”.

---

## Customer Front End

In 2016, Banca Generali launched Digital Collaboration, the new service that simplifies the relationship between customers and their Financial Advisors.

Customers can use Digital Collaboration to conclude investments agreed with their Financial Advisors using mobile devices or conveniently from home in just a few steps.

The new digital service has yielded a number of benefits in commercial relationship management, including:

- > simplification of the confirmation of investment transactions;
- > significant reduction in order processing times;
- > total elimination of paper for transactions undertaken through Digital Collaboration.

Digital Collaboration is available in the new BG Store app, an innovative digital instrument that can be personalised by the customer and will continue to be expanded to include new content. Through BG Store, Banca Generali has sought to create a single point of access to all services offered to its customers, while enabling a high level of personalisation: customers can choose which tools and content to activate according to their interests and their technological and financial habits.

The entire app is based on a “Financial Advisor-centric” customer experience where the Financial Advisor is always the customer’s main point of contact, in keeping with the Bank’s business model.

Significant digital investments were also made at the level of the Bank’s products in 2016, including a website ([www.bgsolution.bancagenerali.it](http://www.bgsolution.bancagenerali.it)) dedicated to the new multi-line asset management solutions BG Solution and BG Solution Top Client.

In addition to providing commercial support to Financial Advisors, the new Web portal dedicated to multi-line solutions allowed the new product’s strengths to be communicated effectively, by emphasising the maximum level of personalisation in portfolio construction and the freedom to choose the combination best suited to their needs through a combination of management lines and individual financial instruments.

In early 2016, *Pagina Personale Consulente* – a digital showcase dedicated to the Bank’s Financial Advisors – was further expanded to include new features benefiting both Financial Advisors and customers.

Customers can now schedule an appointment with their Financial Advisors directly through the *Pagina Personale Consulente* using a new integrated graphical interface.

Advisors’ work has been further simplified through a significantly redesigned user experience and the addition of new features, such as integrated address book management, aimed at reducing the steps required to Financial Advisors in using the *Pagina Personale Consulente*.

Further opportunities to personalise these personal pages have been provided, such as allowing Financial Advisors to change their page backgrounds and add highlighted content from among the available Banca Generali products and services.

## 13.4 Other aspects of marketing policies

### Customer communications

In 2016, the Bank continued to focus on customer information by preparing all of the documents associated with the new products BG Solution and BG Solution Top Client. Specifically, particular attention was devoted to preparing the new account statement so as to model the basic structure on the investment solution's particular characteristics and thus to provide combined views and graphical presentations of the various lines in each portfolio, adding value in terms of both depth of analysis and transparency for the customer.

The project BG Value Contract was also launched during the year, with the ambitious goal of revising the Bank's main contracts and activation forms to simplify and clarify their content. The new Customer Relations Charter was released into production in October, entailing a redesign of the Customer Information Sheet and the creation of the new Application Form for Activation of the Advisory and Placement Service, in keeping with the new advisory model adopted by Banca Generali. The new model of the Application Form for Banking and Investment Services was also launched simultaneously, with the new Doc@line activation system. The project will continue in 2017 with the preparation of the application forms for activation of the "BG Personal Advisory" advanced advisory service and the redesign of the "BG Solution" and "BG Solution Top Client" subscription modules.

In the second half of the year, attention was focused on the planned launch of Digital Collaboration and an entire series of activities leading up to the launch of the new advanced advisory service, scheduled for early 2017.

### Incentive and image enhancing events

During 2016 Banca Generali developed a rich calendar of institutional events, in addition to the many initiatives developed at the local level by the Financial Planner and Private Banking Divisions.

The Bank also celebrated its ten-year anniversary on the Italian stock exchange in November: ten years of success celebrated at the Milan Exchange headquarters with an event that began with an investor day, followed by a talk show where Banca Generali's testimonials told their stories about these last ten years of "talent evolution".

The traditional roadshow devoted to illustrating the new business projects and strategic and commercial objectives for the year with the top management was held in January. The event was attended by some of the foremost asset management firms to further explore investment scenarios and portfolio strategies.

Among industry events dedicated to professional advisors, in January the Bank participated in PF Expo, followed in February by Consulentia 2016, and then EFPA Italia Meeting in Sicily in May.

The Bank remained committed to sport and education through the event "Banca Generali: A Champion for a Friend" held in ten Italian cities with the participation of four great champions – Adriano Panatta, Jury Chechi, Francesco Graziani and Andrea Lucchetta – to share with elementary and middle school children not only the fun of engaging in physical activity, but also the positive values of sport, such as discipline, healthy competition and team play.

With reference to sports, with the aim of continuing to strengthen the bond of trust between the Bank and its customers by sharing in their interests and passions, in 2016 the Private Banking Division continued to organise the Invitational Golf Tour, an exclusive circuit consisting of ten of Italy's major golf clubs.

Banca Generali renewed its commitment to culture and artistic heritage by supporting the Italian Environment Fund (FAI) as part of the initiative "FAI Spring Days". In 2016, the bond between the Bank and FAI was further strengthened by exceptional opening of Palazzo Trivulzio, an historical building in Milan that is home to Banca Generali's local office.

The Piazza Sant'Alessandro office then also hosted the show "Trace" by Indonesian artist Farhan Siki.

Finally, in social responsibility arena, Banca Generali continued its longstanding support for the Italian Multiple Sclerosis Association through the sale of polenta and risotto packages at its offices during the Christmas season, the full proceeds of which were donated to the cause.



## 13.5 Media communications and relations



Banca Generali's communication strategy stands out for the transparency and promptness with which information is provided to the financial community. In 2016, the Bank remained committed to the process of positioning itself in the private banking segment of the market, in the light of new dedicated services and products and the leadership in a sector undergoing rapid commercial development. During the reorganisation completed in the spring, the company redefined its mission as being **"Trusted professionals always by the customers' side, developing and looking after their life plans"** and its vision of being **"No. 1 private bank in terms of service value and innovation."** The communication plan remained focused on corporate aspects with results, commercial performance and strategic development being a focal point of the company's disclosures and conversations with the media. Similarly, attention was focused on product initiatives, such as the creation of the new BG Solutions asset management schemes, with the aim of improving their comprehension and competitive dynamics.

The commitment to constant, responsible dialogue with investors also extends to comments and market analyses in order to ensure the optimal alignment of investment decisions, according to a conservative, cautious approach in keeping with the Bank's tradition. Hence, asset management and research experts were often involved to clarify the positions taken.

In addition to direct channels and visibility in the media, the Bank's communications strategy is also based on a series of specialised local events that confirm its expertise and professionalism. Such events include the conventions organised throughout Italy at the beginning of the year on the changing European bail-in legislation. Periodic focus groups were also held with customers on both the changing financial market scenario and challenges in protecting assets from succession issues, optimally exploiting real-estate assets and supporting companies with their corporate finance challenges. These are all areas in which Banca Generali has led the market by expanding the scope of its communications efforts.

In November, on the tenth anniversary of its listing on the stock exchange, the company's management met with the financial community at a dedicated event to give a comprehensive overview of the expansion and the guidelines for future strategies that also embrace wealth management services.

### Image



In 2016, Banca Generali continued to work with its current testimonials on commercial and image-building initiatives:

- > **Daide Oldani:** the renowned chef participated in a digital advertising campaign focused on strengthening the Bank's institutional image as a valued partner that supports customers with all of their most important decisions, in keeping with its mission;
- > **FAI Spring Days:** Banca Generali's support to the Italian Environment Fund (FAI) as sponsor of "Spring Days" was celebrated in an advertising campaign that stresses the Bank's focus on protecting Italy's cultural and artistic heritage;
- > **Alessandro Del Piero:** the longstanding partnership with the former champion footballer translates into custom-tailored local events;
- > **Federica Brignone:** the ski champion supports the Bank's initiatives and visibility as she competes in the Ski World Cup, and her winning performances in 2016 were the subject of ad-hoc newspaper advertisements.

In addition to events and ambassadors, Banca Generali's advertising campaigns were geared by the prestigious awards that it received in 2016: **Best Private Bank in Italy** from the publications specialising in private banking and wealth management of the Financial Times Group and "Best Service" from the German quality institute, which bestowed the award on the basis of a direct survey of the major networks' customers.

### Media relations

Transparency, openness and accuracy are the key drivers of the constant dialogue with the media. The company was the subject of more than 300 articles in the press and more than 1,500 articles on the Web. Its annual and quarterly results, net inflows performance, strategies and product innovation were the subjects most discussed by the media, but attention was also given to the social commitment with support for various local projects.

Finally, Banca Generali's commitment to increasingly interactive communication and greater openness to dialogue with its stakeholders resulted in the creation of official profiles on the major social networks Facebook and YouTube, in addition to the pre-existing LinkedIn page, as additional outlets for the company's institutional content and initiatives.

## 14. HUMAN RESOURCES

### 14.1 Employees

#### Personnel

At 31 December 2016, the Bank's workforce was 849, composed of 47 managers, 151 3<sup>rd</sup> and 4<sup>th</sup> level executives and 651 employees at other levels; of the last category, 109 were 1<sup>st</sup> and 2<sup>nd</sup> level executives, and 1 was apprentice.

	BANCA GENERALI	BG FIDUCIARIA	GENERFID	BG FML	TOTAL 2016	TOTAL 2015
Managers	44	1	-	2	47	44
3 <sup>rd</sup> and 4 <sup>th</sup> level executives	138	5	-	8	151	140
Other employees	629	6	4	12	651	653
<b>Total</b>	<b>811</b>	<b>12</b>	<b>4</b>	<b>22</b>	<b>849</b>	<b>837</b>

Among the 849 employees at 31 December 2016, 29 were working under fixed-term contracts (13 of these as substitutes for employees on maternity leave or leaves of absence).

There was a net increase in the workforce of 12 resources compared to 2015. Specifically, there were:

- > an increase of 6 people with indefinite-term contracts due to:
  - the entry of new sales personnel;
  - specialised personnel hired to support the company's development;
  - the hiring of staff to replace outgoing employees in previous periods;
- > an increase of 6 fixed-term resources, due primarily to the inclusion of personnel hired to handle peak workloads tied to extraordinary activities and projects.

Considering these net increases, total turnover underwent the following changes, primarily as a result of transfers of fixed-term staff for projects and peak workloads, in addition to maternity replacements:

<b>Workforce at 31 December 2015</b>	<b>837</b>
Hirings	82
Terminations	-70
<b>Workforce at 31 December 2016</b>	<b>849</b>

The actual headcount, consisting of the staff on the payroll (849), net of employees seconded to Generali Group companies (-2) or on secondment from such companies (0), increased by 12, attributable to the increase in employees on the payroll.

ACTUAL WORKFORCE	31.12.2016	31.12.2015	CHANGE
Banca Generali	804	789	15
BG Fiduciaria	13	12	1
Generfid	8	10	-2
BG FML	22	24	-2
<b>Total</b>	<b>847</b>	<b>835</b>	<b>12</b>

#### Breakdown of workforce

Staff members with university degrees accounted for 53.5% of the total. The Group's average age is 43 years, while the percentage of female staff members is 50.3%.

	WOMEN		MEN		TOTAL 2016	
Managers	12	2.8%	35	8.3%	47	5.5%
3 <sup>rd</sup> and 4 <sup>th</sup> level executives	37	8.7%	114	27.0%	151	17.8%
Other employees	378	88.5%	273	64.7%	651	76.7%
<b>Total</b>	<b>427</b>	<b>100.0%</b>	<b>422</b>	<b>100.0%</b>	<b>849</b>	<b>100.0%</b>

## Labour relations

After the presentation by company unions in April 2016 of the platform for renewal of the Banca Generali Group's supplementary contract for office employees and executives, in the subsequent months follow-ups to the union meetings were held, primarily to renew the economic mechanisms of the contract.

In particular, the following agreements were reached on 30 June 2016:

1. a union agreement on the company bonus for 2015;
2. an overall memorandum on the renewal of the supplementary agreement concerning:
  - the 2016, 2017 and 2018 company bonus: adoption of guidelines for the regulation of a new calculation mechanism – closely linked to productivity parameters – and allowance for the possible introduction of payment of the premium according to the “welfare” substitute mechanisms envisaged in the 2016 Stability Law;
  - meal vouchers, healthcare, supplementary pensions and collective policies.

The agreements reached with the unions will be valid until 30 June 2019.

A detailed union agreement on the 2016 company bonus was reached on 15 December 2016. An additional agreement aimed at the practical implementation of the payment according to the welfare mechanism – in part through the institution of a specific Bilateral Welfare Commission composed of company and union representatives – is currently being negotiated.

In addition, in May 2016 Banca Generali and union representatives circulated the content of the training plan “Country Italia for Excellence” which was then the subject of a union agreement at Italy's Country level for the purposes of participation in FBA Notice No. 1/2016.

With regard to the implementation of the National Collective Labour Agreement, Banca Generali continued to participate in the Prosolidar Foundation, which is engaged in solidarity projects at the international level. In 2016, over 400 employees took part, paying the required contribution, matched by a contribution from Group companies.

## Resource development

The company continued to focus on **internal mobility at all levels** as a tool to increase the professionalism and managerial development of the staff.

Mobility involved both those already holding management positions, with the aim of extending the job boundaries and spreading corporate culture across all levels, and senior professionals, with a view to promote professional growth. Considerable attention is also devoted to the development of junior employees assigned to the various areas of the company, including a bottom-up approach involving BG – Job Posting, a tool introduced in 2016 that allows employees under indefinite-term contracts to receive top priority as candidates for vacant positions within the Banca Generali Group. Employees develop their careers by participating in Development Centres in which they can verify their current management skills and then build personalised development processes. On the basis of the resulting profile and their new roles, specific processes are organised. When positions requiring greater management responsibilities need to be filled, business coaching processes may be implemented; if technical knowledge needs to be honed or a stronger future vision to be forged, master's degree programmes or post-graduate specialisation courses at leading academic institutions are identified.

The objective is to help people becoming more aware of their abilities while working on the development of skills to be consolidated in a structured way (through development plans or targeted training).

In order to enhance bottom-up communication and feedback processes, in view of engagement and to support the visibility of all employees, in December the Bank launched the Testimonials project, in which employees take part in team-building exercises with the top management in a convivial, informal environment, designed to encourage listening and transversal relationships. The first edition, held in December, involved 30 employees.

**The annual evaluation of qualitative performance** was carried out, as usual, during the first half of the year. All employees were involved in this process, which also included discussion sessions with the respective managers.

The above initiatives – performance appraisal, assessment, talent management, development and career paths – alongside specific strategic indications given by the company's management, are the basis for designing the training plan in support of and for the development of the Bank's professional skills.



---

## Training

The consolidation of the Bank's position in the sector has required the already intensive training programme provision to be intensified to ensure that the expertise, knowledge and conduct of staff are in line with the bank's positioning.

Particular emphasis was placed on internally planned management training provided by leading consulting firms. In 2016, such activities included the completion of the Employee Management course, a far-reaching management culture programme that in the past three years also involved human resource managers, in addition to the "Management Growth Workshops", which provide opportunities for further exploration of various management issues affecting the company from a team-coaching perspective. Other management growth initiatives included business coaching courses for top managers and their immediate reports.

In addition, the Women's Leadership course, dedicated to the empowerment and development of personal leadership among female employees, was also launched in support of diversity.

In specialist training, advanced programmes dedicated to various areas of the company were provided in cooperation with leading consulting firms, universities, post-graduate academic institutions and individual university lecturers. Such programmes included the second-level master's degree in Wealth Management and Generational Transfer designed and implemented in cooperation with the University of Brescia. Language training also remained a strong focus, with a particular emphasis on English, and was opened to employees of various levels.

In order to reinforce the process of obtaining and sharing knowledge, including the process of allowing employees to familiarise themselves with and internalise the Bank's mission and the resulting strategy, formal opportunities for dialogue concerning the Bank's strategic projects and their objectives ("cascading") were organised with employees. Workshops illustrating the advanced consulting platform "BG Personal Advisory" and its philosophy continued in parallel.

Mandatory training continued both on health and safety in the workplace and on legal subjects (Anti-Money Laundering, the Administrative Responsibility of Entities - Legislative Decree No. 231/01 and Privacy), through e-learning and classroom sessions.

All mandatory Web-based courses for new recruits, under both indefinite- and fixed-term contracts, are provided through the e-learning platform.

---

## People selection – employer branding and talent engagement

The company is increasingly focussing on talented young people in order to encourage their professional growth both through participation in career days with the Generali Group, and through long-standing and ongoing relationships with leading national and international Universities and Specialisation Schools.

Within this framework, considerable attention was devoted to developing the educational offerings for students and recent graduates as part of on-the-job training programmes provided by universities and post-graduate specialisation institutions for the various areas of the Bank, at both the Milan and Trieste offices.

Key positions were filled using both head hunters and specialised active search channels through the main dedicated platforms, depending on the specific needs.

All people who join Banca Generali have first undergone an assessment path, as required by the Generali Group policy.

---

## Internal communications

The main change in 2016 was the launch of the monthly newsletter "Prima Pagina", as part of a thorough series of measures to keep employees better informed of the company's strategic decisions and performance. In addition to increasing the flow of news items published on the company portal, efforts in this area included the shooting of video interviews of the Bank's top managers.

Working together to define company strategy and organisational decisions, emphasising the Bank's mission and values and analysing business performance were the subjects on which the two semi-annual meetings of all employees and the top management focused.

---

## 14.2 Financial Advisors

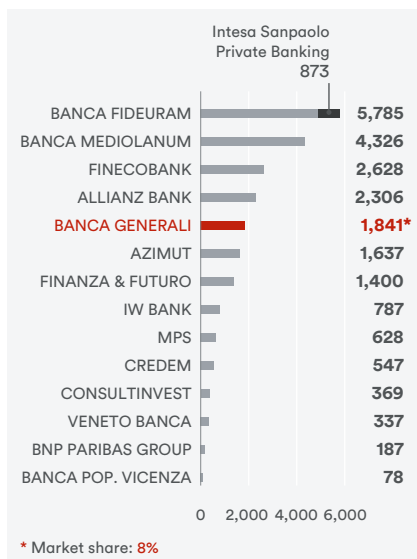
In line with the general growth in both the asset management market and that mainly based on Financial Advisors ("Assoreti" market), the number of Financial Advisors of the major companies surveyed increased by about 0.8% (from 22,679 to 22,856).

In this sector, Banca Generali owns one of the leading Financial Advisor distribution networks on the Italian market: at 31 December 2016, the network included 1,841 Financial Advisors and Relationship Managers, up compared to 2015 (+7%, 126 additional Financial Advisors). As a result of this increase, Banca Generali continued to rank fifth within the Assoreti market, with an 8% market share.

This growth was supported by the recruitment of new professionals both from banks and networks, which resulted in the addition of 161 new Financial Advisors in 2016.

## Number of Assoreti Financial Advisors: 22,856

December 2016



Source: Assoreti

The main data relating to Banca Generali's distribution network are briefly summarised in the following tables, which compare 2016 and 2015 data and break them down into the two divisions making up the network, one more specifically dedicated to Affluent customers and the other to Private customers. Both divisions are growing in terms of number and average assets under management, as evidence of the quantitative and qualitative development of the distribution network:

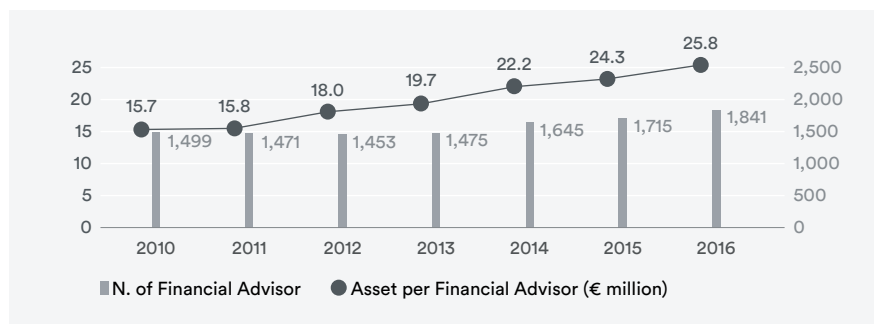
31.12.2016	NO. OF FAS/ PBS/RMS	AUM (€ MILLION)	AUM PER FINANCIAL ADVISOR (€ MILLION)
Financial Planner Division	1,371	28,295	20.6
Private Banking Division	470	19,252	41.0
<b>Total</b>	<b>1,841</b>	<b>47,547</b>	<b>25.8</b>

31.12.2015	NO. OF FAS/ PBS/RMS	AUM (€ MILLION)	AUM PER FINANCIAL ADVISOR (€ MILLION)
Financial Planner Division	1,292	24,321	18.8
Private Banking Division	423	17,283	40.9
<b>Total</b>	<b>1,715</b>	<b>41,605</b>	<b>24.3</b>

Regarding the network growth trend, it is important to report that, for several years, a selection process has been implemented that promotes the recruitment of top-ranking professionals with substantial customer portfolios, who are able to properly reflect the Bank's qualitative philosophy.

Despite the slight increase in the number of Financial Advisors in Banca Generali's sales network (+7% YOY), the value of the average portfolio managed by each Financial Advisor was 25.8 million euros at 31 December 2016, up further compared to the average assets of Banca Generali's sales network in 2015 (24.3 million euros), proof of a truly significant and internally consistent growth process aimed at obtaining and retaining only high-profile personnel.

### Financial Advisor and Assets per Financial Advisor

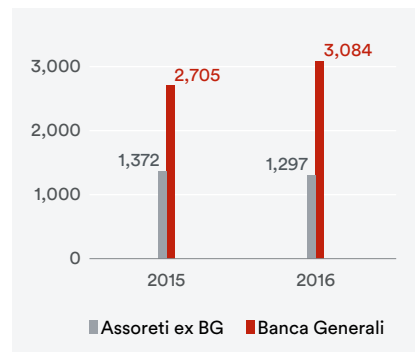


Even during years of high instability of the financial markets - indeed, owing precisely to such instability - Banca Generali's advisory approach and the professional skills of its Financial Advisors have thus proven able to provide customers true added value. As a result, the Bank's Financial Advisors have led the market for many years in terms of per-capita assets managed, and therefore the ability to attract new inflows of assets.

In fact, per-capita net inflows, amounting to 3,084 million euros in 2016, were 138% higher than the sector average; this figure is even more exceptional if one refers to the per-capita net inflows from managed and insurance products, where, in a volatile and uncertain market context, Banca Generali Financial Advisors achieved per-capita net inflows of about 2,155 million euros, 213% higher than the average market productivity of 688 thousand euros (net of Banca Generali's contribution). Regarding the average asset figure, which embodies the quantitative-qualitative success of the strategy applied, Banca Generali stands firmly at the top of the market, with a value 50% higher than the general average (25.8 million euros as against 17.2 million euros, excluding the December 2015 extension of the scope of the sample of companies).

### Total net inflows per BG Financial Advisor vs. Assoreti

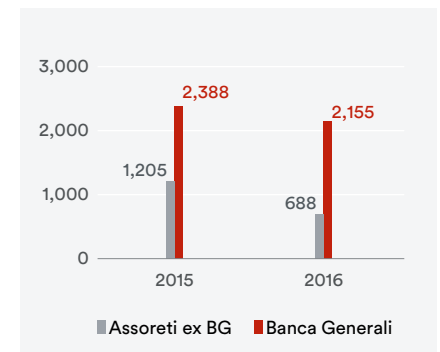
December 2016



Source: Assoreti

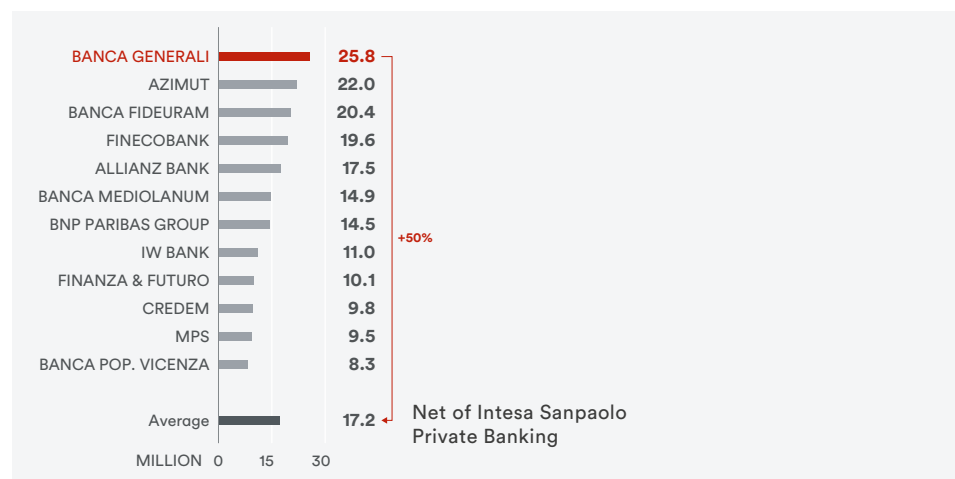
### Net inflows of managed and insurance products per BG Financial Advisor vs. Assoreti

December 2016



Source: Assoreti

### Average assets of Assoreti Financial Advisors December 2016



Fonte: Assoreti

In 2016, Banca Generali added 161 new, carefully selected professionals with solid experience in the banking industry, who were able to draw on the vast array of investment opportunities offered by the bank to meet customers' needs more thoroughly in accordance with their individual risk profiles. Against these additions, there was a modest number of professionals leaving the network, including for retirement reasons - ordinary events in such a well-established structure - or due to a change in professional activity. In fact, the turnover of Banca Generali's network significantly decreased, bearing witness to the loyalty inspired in current professionals and the attractiveness of Banca Generali's offerings to the market.

### Network's organisational structure

Considering the network as a whole, the organisation can be divided into four types of professional roles:

	2016	2015
1 <sup>st</sup> level managers	25	25
2 <sup>nd</sup> level managers	44	44
Executive managers	76	61
FAs/PBs/RMs	1,696	1,585
<b>Total</b>	<b>1,841</b>	<b>1,715</b>

At Banca Generali the number of managers (1<sup>st</sup> and 2<sup>nd</sup> level managers, namely those to whom the professionals dedicated exclusively to customer relations report), remained stable over time compared to the overall increased number of Financial Advisors, in keeping with the aforementioned observations regarding the distribution network's qualitative evolution.

## Geographical breakdown by gender and age

The distribution network extends nationwide, with a greater concentration, namely about two thirds of the workforce, in the Centre-North regions compared to the Centre-South, consistent with national wealth distribution. Female staff numbers rose slightly, 15.8% of the total against 15% in 2015, whilst the average age of Financial Advisors remained stable at 51, taking account of the fact that the professionals recruited in recent years have an average age of less than 45. An average length of service of about 11 years, also considering the "young age" of the Company, bears witness to the network's stability and its modest turnover.

REGION	FA	PB-RM	TOTAL	% ON TOTAL	% WOMEN	AVERAGE AGE			AVERAGE LENGTH OF SERVICE*		
						W	M	TOTAL	W	M	TOTAL
Abruzzo	30	-	30	1.6%	0.2%	51.1	54.5	52.8	6.7	11.2	8.9
Basilicata	-	-	-	-	-	-	-	-	-	-	-
Calabria	23	3	26	1.4%	0.2%	50.2	49.1	49.6	14.8	12.5	13.7
Campania	123	10	133	7.2%	0.5%	50.8	51.3	51.1	7.9	14.3	11.1
Emilia-Romagna	202	33	235	12.8%	2.8%	51.1	53.0	52.1	10.5	12.4	11.4
Friuli Venezia-Giulia	70	8	78	4.2%	0.4%	55.1	52.8	53.9	11.4	12.1	11.8
Latium	82	47	129	7.0%	1.5%	51.5	52.7	52.1	16.0	11.9	13.9
Liguria	52	51	103	5.6%	1.1%	53.5	55.3	54.4	11.3	13.7	12.5
Lombardy	246	156	402	21.8%	3.7%	50.0	52.5	51.3	9.0	10.7	9.9
Marche	54	-	54	2.9%	0.4%	49.4	49.5	49.4	14.3	13.6	14.0
Molise	1	-	1	0.1%	-	-	47.8	23.9	-	3.1	1.5
Piedmont	79	70	149	8.1%	1.6%	50.6	52.6	51.6	10.0	11.3	10.6
Puglia	69	7	76	4.1%	0.5%	43.1	51.6	47.4	11.2	14.7	13.0
Sardinia	11	1	12	0.7%	0.2%	52.6	48.5	50.5	17.0	10.9	14.0
Sicily	44	-	44	2.4%	0.1%	48.9	49.6	49.3	10.4	12.6	11.5
Tuscany	76	36	112	6.1%	1.0%	50.7	53.7	52.2	5.9	12.1	9.0
Trentino-A. Adige	18	-	18	1.0%	0.1%	39.7	51.2	45.5	4.5	9.8	7.2
Umbria	26	-	26	1.4%	0.2%	50.5	54.2	52.3	7.1	16.9	12.0
Valle d'Aosta	-	4	4	0.2%	-	-	45.2	22.6	-	5.8	2.9
Veneto	165	44	209	11.4%	1.4%	49.0	53.1	51.0	8.1	12.4	10.2
<b>Overall total</b>	<b>1,371</b>	<b>470</b>	<b>1,841</b>	<b>100.0%</b>	<b>15.8%</b>	<b>50.5</b>	<b>52.5</b>	<b>51.5</b>	<b>10.2</b>	<b>12.2</b>	<b>11.2</b>

\* Length of service also contemplates service rendered to companies acquired by the BG Group (e.g., Prime, Altinia Sim, etc.).

## Presence in Italy

Banca Generali's Financial Advisor network covers a very extensive area in Italy and was supported, at 31 December 2016, by a total of 193 Bank branches and FA offices.

31.12.2016	BRANCHES			OFFICES			OVERALL TOTAL
	FA DIVISION	PB DIVISION	TOTAL	FA DIVISION	PB DIVISION	TOTAL	
Abruzzo	1	-	1	1	-	1	2
Calabria	1	-	1	2	1	3	4
Campania	3	1	4	8	3	11	15
Emilia-Romagna	4	-	4	14	4	18	22
Friuli Venezia-Giulia	2	-	2	4	1	5	7
Lazio	1	1	2	3	3	6	8
Liguria	5	1	6	6	5	11	17
Lombardy	5	2	7	17	8	25	32
Marche	-	-	-	3	-	3	3
Piedmont	3	1	4	6	9	15	19
Puglia	2	-	2	5	2	7	9
Sardinia	-	-	-	1	-	1	1
Sicily	1	-	1	4	-	4	5
Tuscany	3	2	5	10	1	11	16
Trentino-A. Adige	-	-	-	2	-	2	2
Umbria	1	-	1	2	-	2	3
Valle d'Aosta	-	-	-	-	1	1	1
Veneto	5	1	6	17	4	21	27
<b>Overall total</b>	<b>37</b>	<b>9</b>	<b>46</b>	<b>105</b>	<b>42</b>	<b>147</b>	<b>193</b>

## Training and development of the network

### Management training

In 2016, management training continued to focus on exploring and developing themes relating to the evolution of the role in the current scenario.

The managers of the Financial Planner Division continued the training process organised in collaboration with top business schools focused on strengthening their leadership in managing their teams to achieve increasingly challenging results.

In the first half of the year, the District Managers who joined the organisation after 2013 took part in a development process aimed at strengthening the management skills essential to filling this role.

In the second half of the year, the entire line participated in advanced time management training, with a particular emphasis on the speed and complexity inherent in business today.

All Executive Managers (Financial Planner Network) continued with their programmes, attending a new training workshop aimed at enhancing their ability to plan marketing and management activities.

During the year, Private Team Managers (Private Banking Network) took part in a complex course aimed at developing their roles, starting with an assessment, followed by an individual development plan accompanied by coaching sessions.

They then continued with their training plans with five classroom days aimed at developing skills used in managing commercial meetings.

Financial Advisors from the Relationship Manager Division took part in a training plan devoted to identifying and spreading best practices on business issues.

Banca Generali remains committed to both the leadership process for its Financial Advisors, which aims to explore issues of self-empowerment, self-management and interpersonal relations, and individual business coaching processes, expanding training offerings to include new opportunities for growth and professional development through team coaching sessions.

Multiple local training initiatives were planned to suit each Area's specific needs, with a focus on honing soft skills in support of the recruitment process.

### Commercial training

Commercial training activities, consistently with the evolution of the context and BG Personal Advisory's service model, supported the introduction of all the product and service activities implemented by Banca Generali.

Technical and commercial training concerning the new multi-line asset management product BG Solution began in mid-January 2016, in view of the launch of the product, first targeting Relationship Managers and then continuing with approximately 800 Financial Advisors. During the meeting, attention was focused on a deeper understanding of the distinctive elements of the new multi-line asset management scheme, the characteristics of each line and the methods for building bespoke solutions.

In June and July, the Private Banker Network training was defined. The latter is aimed at sharing management strategies concerning Liquid Alternative products and the new Stable Portfolio line, with a focus on when and how they can prove useful tools for both current customers and prospects.

Other activities in the first half of the year included continuing training on the BGPA platform, with special emphasis on the two modules "Family Protection" and "Real Estate". Throughout a two-year period, all of the over 1,800 Banca Generali advisors were able to receive training under the training plan, launched in the second half of 2015.

Classroom follow-up sessions were held for the "Financial Wealth" module to further explore developments, with a particular focus on returns, assets held with other institutions, managing prospective clients and advisory contracts.

In the second half of the year, Banca Generali placed particular emphasis on Digital Collaboration. This new tool allows customers to sign digital instructions for their Financial Advisors remotely. In addition, in view of the launch of the BG Store app, classroom training sessions on Digital Collaboration were held with the aim of providing support with the use of the tool and emphasising its commercial opportunities and advantages. Nearly 800 Financial Advisors were involved.

The second-level Master's degree programme in "Wealth Governance and Generational Transfer" – launched in January 2016 in collaboration with the University of Brescia and set to conclude in June 2017 – was attended by twenty-one Financial Advisors; it aims at creating

specialised professionals capable of providing expert advice on issues relating to wealth management and transfer.

---

## Institutional training

Mandatory IVASS professional refresher training for 2015-2016 was completed in 2016 and involved training concerning new products and the online course “Customer Behaviour Profiling”, which illustrates the principles of behavioural finance, with particular regard to the distorting effects of behavioural errors.

Mandatory online training continued to be provided via the Generali Group's e-learning platform, through which the entire network was asked to complete courses on “New Banking Transparency” concerning the rules and principles of transparency regulations and on “Combating and Preventing Financing for Terrorism”, aimed at raising awareness among all Financial Advisors of the importance of financial records in the fight against terrorism.

The e-learning platform also allowed newly recruited Financial Advisors to obtain on-demand online refresher training (Anti-Money Laundering, MiFID, Privacy, IT Security, Legislative Decree No. 231/2001, Banking Transparency, and Transparency and Consumer Credit).

In addition to Web-based training, the second half of the year saw the launch of training dedicated to a new product added to the BG line, the investment certificates, which involved a selected number of Financial Advisors with a focus on the technical characteristics of the product and on the use of the Smart Derivatives IT Platform, customised for Banca Generali.

Lastly, the induction path for recently recruited Financial Advisors at Banca Generali continued in 2016. As part of the process, the two days of the Welcome Programme allow newly hired Financial Advisors to visit and get to know the main Departments at the Milan and Trieste offices.

## 15. ORGANISATION AND ICT

In 2016, Banca Generali thoroughly redesigned its corporate governance structure, resulting in the reassignment of powers and functions previously held by the Chief Executive Officer to the Board of Directors, the Chairman and the General Manager.

This change was reflected in a substantial revision of the organisational structure and the constant pursuit of greater organisational efficiency to ensure a closer look at the needs of the sales network, which is even more important in a scenario of constant growth for the Bank and its network of Financial Advisors.

The change to the organisational structure also entailed a new composition of the committees on whom the General Manager relies for support with the most significant aspects of management.

The main changes related to:

**A. Redesigning the Bank's overall organisational structure.** The role of the Chief Executive Officer was eliminated, along with the Joint-General Managers of the Commercial Area, Bank Area and Governance Area. The reorganisation thus resulted in the creation of the following three new departments and three new vice departments, all of which report directly to the General Manager, with the ensuing new definition and allocation of tasks and responsibilities to the Areas, Departments, Services and Organisational Units of which they are composed:

- **General Counsel Department.** This department includes the Legal Department and the Bank's Corporate Affairs Department, which was previously a part of the Governance Area;
- **HR Department.** The Human Resources Department, which was previously coordinated by the Governance Area, was enhanced through the creation of a department aimed at organisational development, to support the growth and professional development of the Bank's human capital as effectively as possible;
- **Communications and External Relations Department.** This department, which is responsible for promotional initiatives and strengthening and protecting the Bank's image, both within the organisation and vis-à-vis the public, was also repositioned with the aim of facilitating the strategic objective of increasing the Bank's presence in the private banking segment of the market;
- **Finance & Operations Deputy General Department.** Formed to ensure effective coordination of the Bank's entire financial sphere and operational structure, and to support the analyses of strategic scenarios, the Finance & Operations Deputy General Department includes the CFO Area, the new COO Area – tasked with coordinating the units responsible for operations and optimising the Bank's planning – and the Strategic Planning Department, in addition to Investor Relations, which represents the Company before the Italian and international financial community.
- **Wealth Management, Markets and Products Deputy General Department.** It is tasked with synergistically increasing the suitability of the Bank's products and services to its customers, which represent the department's primary focus; it aims at constantly improving the level of commercial service provided. The Wealth Management, Markets and Products Deputy General Department coordinates the Asset Management Area and the Wealth Management, Marketing and Loans and Network Development and Training functions;
- **Distribution Channels Deputy General Department.** In order to facilitate synergies and interactions between the organisational structure and commercial partners, the Financial Planner, Private Banker and Private Relationship Manager network areas were placed within the Distribution Channels Deputy General Department, in addition to the Alternative and Supporting Channels Area, created to best support the network and the customer's needs, including through branches, the Contact Centre Service and a staff dedicated to monitoring quality.

**B. Compliance and Anti Money Laundering Department and Risk and Capital Adequacy Department.** The second-tier control functions have been repositioned so that the Risk and Capital Adequacy, Compliance and Anti-Money Laundering functions report directly to the Board of Directors.

## 15.1 Sales network services and customer services

### Sales network services

In 2016, the Bank completed important initiatives aimed at improving and creating new tools for the Financial Advisors network. Within the BG Personal Advisory service, a module for calculating the returns on customers' portfolios was released and features were added to retrieve asset information from other institutions and generate reports analysing and reviewing prospective customers.

As part of the digitalisation process undertaken by the Bank, the "order shopping cart" was developed as a fundamental preliminary component for the publication of orders for customers to be signed using Digital Collaboration.

As part of the process of developing BG Store Consultant, the app BG Personal Portfolio was launched. This app is a useful tool for monitoring and building portfolios through financial optimisation engines and advanced product search tools.

### Customer services

In 2016, the Bank completed the redesign of its range of portfolio management services by creating and launching an innovative product (BG Solution) of a particularly advanced nature in the light of the experience in the sector in terms of both flexibility and possible customisation. As part of innovative services for customers, the BG Store was launched with two initial apps: the *Numeri Utili* app (useful numbers, information only) and the *Digital Collaboration* app (which allows some types of orders to be signed on a totally paperless basis through the use of mobile devices, smartphones and tablets). Design work on other apps that will add to the BG Store and expand the opportunities for customers to do business and interact with the Bank and its Financial Advisors using their smartphones and tablets also began in 2016.

## 15.2 Internal support processes for company business

### Operations

In order to increase operational efficiency and develop synergies based on end-to-end management of processes, customer-oriented activities were identified and kept within the operations environment, whereas activities with an administrative/accounting focus were allocated to the administrative structure; in addition, important planning processes were launched in 2016, in view of automation and operational simplification, with particular regard to innovative technological solutions for optimisation.

### Administration

Activities with an administrative accounting focus, previously situated within the operations environment, were reallocated to the administrative structure, in the interest of operational efficiency and development of synergies deriving from end-to-end process management.

### Loans

Rationalisation of the lending process continued with the aim of simplifying and automating operating procedures with a focus on implementing paperless digital systems, particularly for the process of finalising pledges of assets provided to the Bank as collateral and of preparing, signing and archiving contracts and forms relating to credit facilities granted and the guarantees obtained for those facilities.

Business intelligence projects also continued and were enhanced with the aim of supporting management and control processes, involving the implementation of an integrated information platform that may be used to prepare management reports for strategic and second-tier control purposes.

### Finance

The main changes in the Finance Department related to the fine-tuning of the IT platform for position-keeping by the Treasury function and the launch of the project to use the platform as a tool for placing foreign exchange and securities orders and the release into production of the new features of the IT platform in order to comply with the provisions of the new market abuse legislation.

### Alternative and supporting channels

Important projects were launched in 2016 with a focus on developing the Contact Centre model in order to optimise the service's positioning with regard to the network and customers.



## 15.3 Legal compliance

Also in 2016, efforts to bringing organisational processes and the IT system into line with new provisions of law were significant. The most significant changes related to:

- > **Compound interest.** In response the resolution of the Interministerial Committee for Credit and Savings of August 2016, protective measures were taken with customers with the aim of recovering authorisations for the direct debiting of account debit interest and account overdrafts;
- > **ILAAP - Internal Liquidity Adequacy Assessment Process.** In addition to the ICAAP Report, the Bank also prepared a specific ILAAP Report on the management of liquidity risk at the Banking Group;
- > **CRM - Credit Risk Mitigation.** The Bank launched a project aimed at including the units/shares of UCITS managed by its Luxembourg company BGFML S.A. and the instruments included in the asset management of the Bank and its fiduciary companies within the scope of its CRM reporting process, in accordance with applicable legislation.

Other work on IT systems and organisational processes involved the initiatives concerning real-estate lending to consumers.

## 16. AUDITING

Audit activities were aimed at understanding and verifying that the internal control system of Banca Generali is structured in such a way to ensure the sound and prudent management of the Company and the Banking Group, whilst at the same time reconciling the attainment of corporate targets with the proper and timely monitoring of risks and appropriate operating procedures.

The Internal Audit function, as part of its activities and in compliance with professional and supervisory regulations, checked the following aspects:

- > the quality and appropriateness of internal and external disclosures in accordance with the corporate values of substantive and procedural fairness and transparency, confirming the traceability and verifiability of operations, and activities pertaining to business management, in general;
- > the reliability of accounting and operating data;
- > regulatory compliance, as well as security and other measures aimed at safeguarding corporate integrity, especially in terms of preventing fraud against the Bank and the market;
- > the quality of the organisation and the efficacy of the governance;
- > the implementation of improvement programmes.

In accordance with the regulatory requirements set out in Circular Letter No. 285, the established method calls for an assessment of the internal control system according to specific factors identified by the Bank of Italy.

The audit methodology governing the control of the Internal Audit function follows specific guidelines:

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

During the period, Internal Audit carried out projects aimed at improving governance with regard to the Single Supervisory Mechanism (SSM) framework, the interaction between the CFO and CRO relating to the vulnerability of the business model and the quality of information about risk through constant dialogue between the Risk Management Compliance function and the CFO.

The work done by Internal Audit provided assurance as to the adequacy of the risk management framework, ICAAP and ILAAP processes, the efficacy of the Compliance and AML functions, the adequacy and application of the administrative and accounting procedures and the related control measures pertaining to the Banca Generali Banking Group and the security of IT processes and new technologies. A voluntary asset quality review exercise was conducted on credit quality and assurance activities were performed on the adequacy of provisioning for loans.

The processes and procedures for managing, monitoring and reporting eligible guarantees for credit facilities were analysed as part of the credit risk mitigation project. Internal Audit participated in all of the Bank's main projects to facilitate an understanding of the risks and identify efficient solutions for developing control systems.

## 17. MAIN RISKS AND UNCERTAINTIES

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

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

In particular, securities measured at fair value and classified in the HFT and AFS portfolios are exposed to risk, as fluctuations in their prices impact the Group's Profit and Loss Account and net equity.

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

In 2016, average total risk exposure was about 2 million euros of capital requirement, with a 7% average weight on the trading book by which it is generated.

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

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

Loans to customers are characterised by a low risk of losses inasmuch as they are almost entirely secured by collateral (chiefly pledges of securities) and/or personal guarantees, in some cases provided by a leading financial institution.

In 2016, overall average risk exposure was about 134 million euros of capital requirement, with the following main contribution areas: about 43 million euros on average against exposures towards institutional counterparties (primarily banking book securities and other exposures towards banks, with an overall average weight of 0.8% on the exposures) and about 91 million euros on average against exposures towards customers (with an average weight of 4.9% on the exposures).

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

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

Moreover, the Banca Generali Group adopted an insurance coverage for operating risks deriving from acts of third parties or caused to third parties with and adequate clauses covering damages caused by providers of infrastructure and services; it also approved a Business Continuity Plan.

During 2016, the average risk in terms of capital requirement amounted to approximately 65 million euros.

The Bank's exposure to **liquidity risk** derives from funding and lending transactions in the course of the Group's ordinary business, as well as from the presence of unlisted financial instruments in its owned portfolios. Such risk takes the form of default on payment obligations, which may be caused by an inability to raise funds (funding liquidity risk) or the existence of limits on the divestment of assets (market liquidity risk). Liquidity risk also includes the risk that an entity may be forced to meet its own payment obligations at non-market costs, that is to say while incurring a high cost of funding or (and in some cases concurrently) sustaining capital losses when divesting assets.

The Finance Department is responsible for managing treasury and proprietary investment cash flows with the aim of ensuring thorough diversification of sources of financing and monitoring cash flows and daily liquidity. Liquidity needs are primarily managed through recourse to the money market (interbank deposits and repurchase agreements) and, to a secondary degree, where available, through the measures proposed by the ECB. In addition, the Group maintains a portfolio of listed, highly liquid financial instruments in order to respond to potential crisis scenarios characterised by a sudden interruption of net inflows.

The Group uses a maturity ladder to apply the guidelines set out in the Prudential Supervisory provisions governing the measurement of net financial position. Through the maturity ladder the -bank assesses the matching of expected cash flows, by balancing assets and liabilities whose maturity falls within each maturity range; the balances and therefore the mismatches between expected inflows and outflows within each maturity range allows, through the construction of cumulative mismatches, the calculation of the net balance of funding requirement (or surplus) over the holding period considered.

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

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

In 2016, the Banking Group presented an adequate level of capitalisation. At year-end, CET1 and TCR were 16.7% and 18.4%, respectively.

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

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

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

In this general scenario, in order to achieve adequate, coordinated oversight of activities, the organisational model adopted to manage the above-mentioned compliance risk involves centralising the Compliance and Anti-money Laundering functions with the Group Parent Company, which also provides the service to subsidiaries at which a compliance contact person has been identified, with the task of playing a supporting role to the Parent Company's functions.

During 2016, the Compliance function focused on those areas of activity and processes that, because they are inherently complex or more extensively affected by changes in the law, require revision or implementation or present compliance risk in need of management action. In accordance with the provisions of (i) the Regulation of the Bank of Italy and Consob issued pursuant to Article 6, paragraph 2-bis, of the Consolidated Law on Finance and (ii) the Supervisory Provisions governing compliance functions, the activities performed by the Compliance function are as follows:

- > assessing the compliance of the Bank's and the network, which is mainly composed of Financial Advisors on an ex-ante and ex-post basis within the scope of the tasks typically assigned to second-tier control functions.
- > advising on implementing processes and/or changing existing processes in order to ensure that they comply with applicable laws and regulations;

- > advising on how to arrange for new service conditions/new activities planned as part of the Company's growth objectives;
- > working with the competent company functions to define training processes aimed at fostering knowledge of and compliance with laws and regulations.

In the reporting year, the activities described above focused in particular on:

- > matters relating to staff remuneration and incentivisation policies, the management of conflicts of interest, personal transactions carried out by key personnel and the requirements relating to disclosure of information between banks and traceability of banking transactions;
- > advisory support on various topics (e.g., provision of investment services; privacy; conflicts of interest; development of corporate projects, etc.) aimed at the correct application of and compliance with the law;
- > the safeguards adopted in the provision of investment services, with special regard to, *inter alia*, investment advisory services, execution and transmission services and the prevention of the risk of market abuse;
- > the verification of off-premises offers conducted through the Financial Advisor network;
- > training concerning the supervision of the activity carried out by the distribution network, concerning compliance obligations in relation to the Privacy Code and the Administrative Liability of entities (Legislative Decree No. 231/2001).

In 2016, activity specifically relating to the Anti-Money Laundering function primarily focused on the following:

- > the fulfilment of anti-money laundering obligations relating to active collaboration (identifying and reporting suspect transactions and associated formalities);
- > coverage of obligations to record data in the Centralised Computer Archive and submission of aggregate statistical reports;
- > management of non-compliance reports relating to Article 49 of Legislative Decree No. 231/07 pertaining to restrictions on the transfer of cash and bearer securities and limitations on cheques;
- > working with the competent company functions to define training processes, also in classroom sessions aimed at fostering knowledge of and compliance with laws and regulations on anti-money laundering;
- > monitoring and control of customer positions subject to voluntary disclosure.

## 18. OUTLOOK

In advanced economies (primarily the U.S., Japan and the Eurozone), a macroeconomic scenario of positive growth is likely in 2017, whereas interest rates and inflation levels are expected to rise gradually. Furthermore, various geopolitical and financial factors – such as volatility, instability in the Middle East, Brexit, political events in major European countries, immigration and the threat of terrorism – may contribute additional risks to growth forecasts. In this context, due in part to accommodating monetary and tax policies, Italy is expected to enjoy modest GDP growth in 2017, increased employment despite high unemployment rates and a resumption of consumption.

In light of the above scenario, the reliability and expertise of wealth managers and Financial Advisors will be increasingly in demand.

Indeed, in the last two years there have been significant developments in the financial environment, characterised by plummeting interest rates on bonds, and moderate recovery in the stock market. This resulted in a significant shift in both the composition of household financial flows, increasingly oriented towards the asset management and insurance components, and in customers' objectives, which moved to a comprehensive asset protection approach.

More specifically, the Financial Advisor network sector timely responded to customers' need for expert advice, which emerged when government bonds were no longer available as a typical safe haven asset.

In this context, which is certainly complex but offers excellent growth opportunities, choices focusing on innovative and strong financial planning skills will prove the winning elements for ensuring that Banca Generali enjoys growth capable of allowing it to continue to gain market share in the asset management sector in Italy.

This market has growth potential but is also increasingly complex and competitive, also in light of the renewed attention to the advisory segment by traditional banks – a segment they had neglected for many years. This will require increasing investments to improve the quality of the network, complete the range of products and services offered and develop technological tools in support of more sophisticated and informed investment decisions.

In 2017, the Banking Group's goal will be to continue to focus on households, positioning itself to an increasing degree in the **private-banking** sector and intensifying its dedication to the development of custom-tailored solutions for both investment products and financial advisory services. In particular, actions will be aimed at increasing net inflows, with a particular focus on asset management, through:

- > the acquisition of new customers and high-profile, experienced Financial Advisors, as in previous years;
- > **comprehensive advisory service** covering all of the customer's wealth-related needs, in addition to advice concerning securities. In particular, thanks to several selected exclusive partnerships, the Bank can provide advice concerning **Real Estate, Wealth Planning, Generational Transfer, Corporate Finance** and **Family Office** issues;
- > **digital innovation**, which will allow the Bank to implement tools with a high level of technological innovation to **improve and streamline the relationship between the Bank, Customer and Financial Advisor, including by developing specific apps that support Financial Advisors** and by gradually extending Digital Collaboration; **product innovation**, that will translate into a flexible range of financial services that can be tailored to the customer's choices and attitudes through wrappers of products and solutions with a high risk-return correlation;
- > **enhancement of the communication of a solid, innovative brand**, including through the new social channels;
- > launch of a project to completely revamp the relationship between the Bank, Customer and Financial Advisor to ensure greater correlation between all methods of contact and communication with clients so that it is simpler, increasingly seamless and more efficient, with a view to improving customer service.

On the cost front, in 2017 the Bank will continue to pursue its current strategy aimed at containing cost growth well below revenue growth. More specifically, the increase in costs will be primarily applied to the development of useful products and services that help further improve the quality of advice given to customers and the network's productivity, with specific focus on technology investments.

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

## 19. PROPOSAL FOR THE DISTRIBUTION OF PROFITS

*Shareholders,*

We invite you to approve the Financial Statements as at 31 December 2016, which include the Balance Sheet, the Profit and Loss Account, the Notes and Comments and related attachments, as well as this Report on Operations, both taken as a whole and with regard to the individual entries. We therefore propose allocating net profit for the year as follows:

(€)	
<b>Net profit for the year</b>	<b>144,751,324</b>
To legal reserve	103,218
To retained earnings	19,974,040
<b>Dividend</b>	<b>124,674,066</b>
Allocation to the 116,517,819 outstanding ordinary shares of a dividend of 1.07 euro per share, including the amount to treasury shares as per Article 2357-ter of the Italian Civil Code	
	124,674,066

The dividend payment date will be 24 May, with ex-date 22 May and record date 23 May, pursuant to Article 83-*terdecies* of Consolidated Law on Finance.

Trieste, 10 March 2017

The Board of Directors



## **TENTENNANO FORTRESS**

Tuscany, July 2016

Michele Alassio



---

**1.2**  
**ANNUAL REPORT**  
**ON CORPORATE GOVERNANCE**  
**AND COMPANY OWNERSHIP**

pursuant to Article 123-*bis* of Legislative Decree No. 58/1998

**Board of Directors**  
**10 March 2017**

# ANNUAL REPORT ON CORPORATE GOVERNANCE AND COMPANY OWNERSHIP

pursuant to Article 123-bis of Legislative Decree No. 58/1998

## CONTENTS

Glossary	106
1. Issuer Profile	107
1.1 Corporate Mission	107
1.2 Organisation of the Company	107
2. Information on company ownership (pursuant to Article 123-bis TUF) as of 10 March 2017	109
a) Structure of the Share Capital (pursuant to Article 123-bis, paragraph 1, letter a) of TUF)	109
b) Restrictions on the Transfer of Securities (pursuant to Article 123-bis, paragraph 1, letter b) of TUF)	109
c) Significant Equity Investments in Share Capital (pursuant to Article 123-bis, paragraph 1, letter c) of TUF)	109
d) Securities Bearing Special Rights (pursuant to Article 123-bis, paragraph 1, letter d) of TUF)	110
e) Shares held by employees: mechanism for the exercise of the voting rights (pursuant to Article 123-bis, paragraph 1, letter e) of TUF)	110
f) Restrictions on voting rights (pursuant to Article 123-bis, paragraph 1, letter f) of TUF)	110
g) Shareholders' Agreements (pursuant to Article 123-bis, paragraph 1, letter g) of TUF)	110
h) Change of control clauses (pursuant to Article 123-bis, paragraph 1, letter h) of TUF), and statutory provisions regarding takeover bids (pursuant to Articles 104, paragraph 1-ter, and 104-bis, paragraph 1)	110
i) Powers to increase the share capital and authorisation for the acquisition of treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of TUF)	110
l) Direction and coordination (pursuant to Article 2497 et seq. of Civil Code)	111
3. Compliance (pursuant to Article 123-bis, paragraph 2, letter a) of TUF)	111
4. Board of Directors	112
4.1 Appointment and Replacement of the Board of Directors (pursuant to Article 123-bis, paragraph 1, letter l) of TUF)	112
4.2 Composition of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d), TUF)	114
4.3 Role of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d) Functioning of the Board of Directors	118
4.4 Delegated organs	120
Chief Executive Officer	122
Chairman of the Board of Directors	122
Report to the Board	123
4.5 Other Executive Directors	123
4.6 Independent and Non-executive Directors	124
4.7 Lead Independent Director	124
5. Handling of Corporate Information	125
Internal Dealing	127
6. Internal Committees of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d), of TUF)	128
7. Nomination Committee	128
8. Remuneration Committee	130

9. Directors' Remuneration	132
Directors' Severance Indemnities in the Event of Resignation, Dismissal or Severance as a Result of a Takeover Bid (pursuant to Article 123-bis, paragraph 1, letter i), of TUF)	135
10. Internal Audit and Risk Committee	135
11. Internal Control and Risk Management System	138
11.1 The Director in charge of the Internal Control and Risk Management system	140
11.2 Internal Auditor	141
11.3 Organisational model pursuant to Legislative Decree No. 231/2001	144
11.4 Independent Auditors	145
11.5 Manager in charge of the company's financial reports	145
11.6 Coordination amongst parties involved in the internal control and risk management system	147
12. Directors' Interests and Related Party and Connected Party Transactions	148
Obligations of Company Officers and Executives Pursuant to Legislative Decree No. 136 of TUB	149
13. Appointment of the Board of Statutory Auditors	150
14. Composition and Functioning of the Board of Statutory Auditors (pursuant to Article 123-bis, paragraph 2, subparagraph (d) of the Consolidation Law on Finance TUF)	151
15. Investor Relations	154
16. General Shareholders' Meetings (pursuant to Article 123-bis, paragraph 2, letter c) of TUF)	154
Regulations of the Shareholders' Meeting	155
17. Other Corporate Governance Practices (pursuant to Article 123-bis, paragraph 2, letter a) of TUF)	156
18. Changes since the end of the financial year of reference	156
Annex 1 - Information on Company ownership	157
Annex 2 - Board of Directors' and Committees' structure	158
Annex 3 - Statutory Auditors' structure	160

---

## GLOSSARY

**Code/Corporate Governance Code:** the Corporate Governance Code of listed companies as amended in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria (Confederation of Italian Industry).

**Civil Code:** the Italian Civil Code.

**Board:** the Board of Directors of the Issuer.

**Issuer:** the issuer of securities to which the Report refers.

**Period:** the financial period to which the Report refers.

**Instructions to the Market Rules:** the Instructions to the Rules for the Markets organised and managed by Borsa Italiana S.p.A.

**Rules for the Markets:** the Rules of the Markets organised and managed by Borsa Italiana S.p.A.

**Consob Rules on Issuers:** the Regulation on issuers issued under Consob Resolution No. 11971 of 1999 (as subsequently amended and extended).

**Consob Rules for Markets:** the Regulation on markets issued under Consob Resolution No. 16191 of 2007 (as subsequently amended and extended).

**Consob Related Party Regulations:** the Regulation on Related Party Transactions issued under Consob resolution No. 17221 of 12 March 2010 (as subsequently amended and extended).

**Bank of Italy Circular Letter No. 263:** Bank of Italy Circular No. 263 of 27 December 2006 on Prudential supervisory provisions for banks (as subsequently amended).

**Bank of Italy Circular Letter No. 285:** Bank of Italy Circular No. 285 of 17 December 2013 on Supervisory provisions for banks (as subsequently amended).

**Report:** the Report on Corporate Governance and Company Ownership that the companies have to prepare pursuant to Article 123-bis of the TUF.

**TUF:** the Legislative Decree No. 58 of 24 February 1998 (Consolidation Law on Finance).

**TUB:** Legislative Decree No. 385 of 1 September 1993 (Consolidation Law on Banking).

*Save where otherwise specified, the information contained in this Report is updated as at the date of its approval by the Company's Board of Directors (10 March 2017).*

## 1. ISSUER PROFILE

### 1.1 Corporate mission

Banca Generali is a leading company in protecting and growing investments in Italy and is capable of offering its clients the best strategies for effective financial planning. Thanks to its grass-roots market penetration through its two distribution networks (Banca Generali Financial Planner and Banca Generali Private Banking), the company manages assets amounting to 47.5 billion euros (Assoreti data updated to 31 December 2016) on behalf of over 260,000 customers. Banca Generali sets the standard for the Italian financial advisory market, aiding its clients in choosing the solutions best suited to protecting their financial and real-estate investments. Through a network of highly qualified financial advisors, the Banca Generali banking Group seeks to meet each customer's investment needs in a manner consistent with his or her financial profile and investment horizon.

As amply evidenced in the Group's Sustainability Report, in conducting these activities, Banca Generali undertakes to promote the ethos of sustainability through economic development that also takes social environmental aspects into account, respecting the values underlying the company's strategic vision and work.

The Banca Generali banking Group therefore aims to adopt initiatives geared towards developing and spreading increased responsibility, thereby providing a concrete contribution to quality economic and social development while respecting and promoting the implementation of human rights within all of its spheres of influence. The Group is also committed to taking an environmentally friendly approach to its operations, launching initiatives aimed at developing and spreading increased environmental responsibility.

### 1.2 Organisation of the Company

A proper corporate governance system must be based on certain key elements, such as the central role of the Board of Directors and Top Management, the proper management of conflicts of interest, transparency in the disclosure of corporate decisions, and an efficient internal control system.

As a public limited company subject to Italian law, and a bank subject to TUB, Banca Generali has set up a governance system firmly grounded on the said principles.

Against this background, with a view to reinforcing minimum standards of corporate organisation and governance, and ensuring "healthy and prudent management" (Article 56 of TUB), by Circular Letter No. 285/2013 entitled "Supervisory Provisions Concerning Banks" – most recently amended by the first update of 6 May 2014 – the Bank of Italy established a regulatory framework under which organisation is to play a central role in strategic corporate policy-making and risk assessment and management within the banking and financial industry.

In adopting an organisational structure consistent with this legal framework, Banca Generali pursued the following objectives: (i) a clear definition of functions and responsibilities; (ii) the appropriate balancing of delegated powers; (iii) the balanced composition of corporate organs; (iv) an integrated and effective internal control system; (v) comprehensive risk assessment and management; (vi) a remuneration structure in line with risk-management policies and long-term corporate strategy; (vii) adequate reporting systems and information flows.

Banca Generali's organisational structure is made of the following main corporate boards and officers:

- i) Board of Directors;
- ii) Chairman of the Board of Directors;
- iii) Remuneration Committee;
- iv) Nomination Committee;
- v) Internal Audit and Risk Committee;
- vi) General Shareholders' Meeting;
- vii) Board of Statutory Auditors.

Other corporate boards and officers include the General Management, and persons vested with powers of representation pursuant to the provisions of the Articles of Association.

The Company's organisational structure is based on the classical model of corporate governance.

Responsibility for the strategic supervision of the company lies solely with the Board of Directors (the "Board").

The Board of Directors is appointed by the Shareholders' Meeting, for a three-year term. The Board of Directors shall elect, from amongst its members, a Chairman, and if it deems fit, a

Vice Chairman and may also appoint one or more Chief Executive Officers, determining the powers and responsibilities thereof. The Board of Directors can also appoint a General Manager, one or more Joint General Managers and one or more Deputy General Managers, who together constitute the General Management.

Responsibility for company management lies with the Chief Executive Officer, if appointed, and General Manager.

Appointed Committees may act solely in a consultative and advisory capacity.

The Remuneration Committee is in fact tasked with providing the Board of Directors with advisory opinions and non-binding recommendations on remuneration, and is accordingly vested with the authority and independence of judgment required to assess the appropriateness of remuneration and incentivisation policies and plans, and related repercussions in terms of risk taking and risk management.

In detail, the Remuneration Committee is in charge of, *inter alia*: (i) submitting to the Board of Directors non-binding opinions and recommendations on the remuneration of the Chairman of the Board of Directors, the Chief Executive Officer, and any and all other executive Directors, and expressing an opinion on the setting of the performance targets to which the variable remuneration component, if any, is linked; (ii) expressing to the Board of Directors – in accordance with applicable laws and regulations in force from time to time as well as the provisions of the Company's Remuneration and Incentivisation Policy – non-binding opinions and recommendations in respect of the remuneration of employees whose compensation and incentives are established by the Board of Directors, whilst also providing the latter with opinions on the setting of the performance targets to which the variable remuneration component is linked; (iii) determining the criteria used to establish the remuneration of all the other staff members, as identified in the Company's Remuneration and Incentivisation Policy; (iv) periodically assessing the appropriateness, overall cohesion and concrete implementation of the remuneration policy regulating the compensation of directors, key management personnel and all the other staff members whose compensation and incentives are established by the Board of Directors, in accordance with applicable laws and regulations from time to time into force, as well as the provisions of the Company's Remuneration and Incentivisation Policy; (v) directly monitoring the proper application of rules regulating the remuneration of the heads of internal control functions, in close collaboration with the Body entrusted with internal control functions; and (vi) submitting opinions on the determination of severance indemnities in the event of termination of employment or termination in office ahead of the scheduled expiry of the term of appointment (so-called golden parachutes).

More specifically, the Nomination Committee:

- i) assists the Board of Directors in determining the latter's own optimal membership in terms of number and professional skill set, ahead of the appointment or co-option of Board members. Within the aforesaid context, the Nomination Committee (a) submits to the Board of Directors opinions regarding the size and composition of the Board itself; (b) provides recommendations on the appropriate professional skills to be represented on the Board of Directors; (c) provides recommendations on the maximum number of concurrent directorships or auditorships in other corporations listed on regulated markets (including abroad), or in banking, financial, insurance or large companies, that may be considered compatible with effectively serving as a director of the issuer, taking due account of membership of various Board Committees and drawing distinctions on the basis of the commitment required to discharge the duties attendant to each appointment; (d) proposes potential candidates for Board of Directors' membership in cases of co-option for the replacement of independent directors;
- ii) assists the Board of Directors in subsequently evaluating whether or not the optimal membership of the Board of Directors, in terms of number and professional skill set, is reflected in the actual composition of the said Board upon conclusion of the appointments procedure;
- iii) formulates opinions to the Board of Directors on resolutions concerning the replacement of members of the committees within the Board, which may become necessary during the Committee's term of office;
- iv) assists in the Board of Directors in conducting self-assessments;
- v) assists the Board of Directors in verifying satisfaction of the conditions imposed under article 26 of Legislative Decree 385/1993;
- vi) assists the Board of Directors in preparing succession plans for top managers;
- vii) assists the Audit and Risk Committee in selecting candidates for appointment to head of the corporate functions tasked with internal control;
- viii) expresses opinions concerning the acceptance by company directors and managers of positions or functions at companies outside the Banca Generali Banking Group;
- ix) expresses opinions on the appointments made to represent the Company on the Boards of Directors of Subsidiaries.

The Internal Audit and Risk Committee is tasked with: (i) assisting the Board of Directors in laying down the strategic guidelines, internal control and risk management system guidelines, periodically checking that said system is adequate to the bank's characteristics and risk profile, reviewing its effective functioning and also ensuring that the major company risks have been identified, adequately measured, managed and monitored, as well as determining the degree to which such risks are compatible with management of the enterprise in accordance with the strategic goals identified, in liaison with the responsible company functions; (ii) expressing its opinion regarding related party and connected party transactions, in accordance with the terms and conditions set forth in the Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance approved by Banca Generali pursuant to applicable laws and regulations; (iii) assisting the Board of Statutory Auditors in discharging its statutory auditing duties pursuant to the provisions of Legislative Decree No. 39 of 27 January 2010; and (iv) expressing opinions in compliance with the Equity Investment Management Policy.

The General Shareholders' Meeting (the "Shareholders' Meeting") passes resolutions expressing the intentions of the shareholders. Resolutions approved by the Shareholders' Meeting pursuant to statutory provisions and the Articles of Association are binding on all the Company's shareholders, including those abstaining or dissenting.

Responsibility for control lies with the Board of Statutory Auditors, appointed by the Shareholders' Meeting, for a three-year term. The Board of Statutory Auditors is not responsible for statutory auditing of the Company's accounts, a task entrusted to Independent Auditors duly registered with the specific professional rolls set by the Italian market regulator, Consob. The Independent Auditors are bound to monitor the proper bookkeeping of the Company's accounts, during the course of the financial year, and to ensure that the Company's books faithfully reflect management facts. The Independent Auditors are also in charge of checking that the figures carried in the annual and consolidated financial statements present a true and fair account of the Company's books and that all accounting documents are compliant with applicable regulations.

The powers and operating procedures of the corporate organs are governed by law, the Articles of Association and the resolutions approved by the relevant organs.

The Articles of Association are available at the Company's registered office and can also be consulted on the Company's website ([www.bancagenerali.com](http://www.bancagenerali.com)) under section "Corporate Governance" – "Corporate Governance System".

## 2. INFORMATION ON COMPANY OWNERSHIP (pursuant to Article 123-bis TUF) as of 10 March 2017

### a) Structure of the Share Capital (pursuant to Article 123-bis, paragraph 1, letter a) of TUF)

Banca Generali's subscribed and paid up share capital, as shown in the following table, amounts to 116,643,948.00 euros, divided into 116,643,948 ordinary shares of a par value of 1.00 euro each.

	NO. OF SHARES	% OF SHARE CAPITAL	LISTED (SPECIFY ON WHICH MARKETS)	RIGHTS AND OBLIGATIONS
Ordinary shares	116,643,948	100	Listed on MTA organised and managed by Borsa Italiana S.p.A.	All the rights contemplated under the Civil Code and the Articles of Association

Table 1 included in Annex 1) to this Report provides a breakdown of categories of shares in which the share capital is split.

Banca Generali holds 126,129 treasury shares acquired to meet requirements arising under the banking group's Remuneration and Incentivisation Policy. The voting rights attaching to the said shares have been suspended pursuant to section 2357-ter of the Civil Code.

The Shareholders' Meeting held on 21 April 2010 also approved two stock option plans reserved for the distribution networks, respectively one for Financial Advisors and Private Bankers, and one for Relationship Managers. It also approved the share capital increase in one or more tranches, excluding option rights, pursuant to Article 2441, paragraphs 5 and 8, of the Civil Code, in service of the above-mentioned two new stock option plans and the subsequent amendment of Article 5 of the Articles of Association. Overall, the share capital increase envisages the issuance of up to a maximum of 2.5 million ordinary shares of a par value of 1.00 euro each, at the service of the aforementioned two plans, of which respectively a maximum of 2.3 million euros in service of the plan reserved for Financial Advisors and Private Bankers, and a maximum of 0.2 million euros in service of the plan reserved for Relationship Managers. The deadline for the completion of the aforesaid share capital increase is 30 June 2017.

### b) Restrictions on the Transfer of Securities (pursuant to Article 123-bis, paragraph 1, letter b) of TUF)

Apart from the current regulatory provisions on the ownership of shares in banks, there are no other restrictions on the transfer of shares in the Company, other than those indicated below, and pertaining to the Rules of the Stock Granting Plan reserved for specific financial advisors. According to such Rules, should the recipient intend to sell all or some of the granted shares, the said recipient must first inform Banca Generali thereof, and the latter retains the right to indicate a third-party purchaser at the same conditions and at market price.

### c) Significant Equity Investments in Share Capital (pursuant to Article 123-bis, paragraph 1, letter c) of TUF)

Shareholders holding more than 3% of the Company's share capital, directly and/or indirectly and including through third party intermediaries, trust companies and subsidiaries, as per the Shareholders' Register and the notices recei-

ved pursuant to law, as well as other information available to the company as at 10 March 2017, are indicated in Table 2 included in Annex 1) to this Report.

---

**d) Securities Bearing Special Rights (pursuant to Article 123-bis, paragraph 1, letter d) of TUF)**

No securities bearing special rights of control have been issued.

---

**e) Shares held by employees: mechanism for the exercise of the voting rights (pursuant to Article 123-bis, paragraph 1, letter e) of TUF)**

There are no specific mechanisms for the exercise of the voting rights attendant to the shares held by employees.

---

**f) Restrictions on voting rights (pursuant to Article 123-bis, paragraph 1, letter f) of TUF)**

Pursuant to Article 10 of the Company's Articles of Association and Article 23 of the Rules adopted by the Bank of Italy and by Consob with the Provision dated 22 February 2008, as further amended and extended, Shareholders with voting rights may attend the Meeting provided that:

- a) they can provide legal proof of their entitlement to vote;
- b) the notice from the intermediary responsible for keeping the accounts regarding the shares, in replacement of the deposit giving entitlement to attend the General Shareholders' Meeting, has been received at the Company's registered office by the end of the third trading day prior to the date set for the first call of the General Shareholders' Meeting, in accordance with Article 83-sexies, paragraph 4, of TUF, after the terms specified above, provided that it arrived within the start of the Shareholders' Meeting specifically called.

Moreover, the Company's ownership structure at 10 March 2017, indicates that:

- > Banca Generali holds 126,129 treasury shares acquired to meet requirements arising under the banking group's Remuneration and Incentivisation Policy. The voting rights attaching to the said shares have been suspended pursuant to section 2357-ter of the Civil Code.

---

**g) Shareholders' Agreements (pursuant to Article 123-bis, paragraph 1, letter g) of TUF)**

The Company is not aware of the existence of any significant shareholders' agreements within the meaning of Article 122 of TUF.

---

**h) Change of control clauses (pursuant to Article 123-bis, paragraph 1, letter h) of TUF), and statutory provisions regarding takeover bids (pursuant to Articles 104, paragraph 1-ter, and 104-bis, paragraph 1)**

The Company has not entered into any significant agreements that enter into force, undergo amendments or are terminated in the event of a change of control of the contracting party.

The Articles of Association provide for no departures whatsoever from the "passivity rule" entrenched in Article 104, paragraphs 1 and 2, of TUF, and make no provision for the application of the neutralisation rules contemplated in Article 104-bis, paragraphs 2 and 3, of TUF.

---

**i) Powers to increase the share capital and authorisation for the acquisition of treasury shares (pursuant to Article 123-bis, paragraph 1, letter m) of TUF)**

The Board of Directors has not been empowered to increase the share capital within the meaning of Article 2443 of the Civil Code.

The Ordinary Shareholders' Meeting held on 21 April 2016, pursuant to Articles 2357 and 2357-ter of the Civil Code, authorised – with the sole aim to endow the Company with the resources necessary to comply with the banking group's Remuneration and Incentivisation Policy – the acquisition by Banca Generali of no more than 67,051 ordinary shares issued by Banca Generali S.p.A., of a nominal value of Euro 1.00 each, as well as the disposal of the same, together with those acquired on the basis of previous authorisations to acquire treasury shares, subject to the following terms and conditions:

- a) acquisitions may be effected pursuant to the said authorisation solely for the purposes specified;
- b) the unit price per ordinary share shall range between no less than the par value of the share, i.e., 1.00 euro, and no more than 5% of the reference price of the trading day preceding the day on which each acquisition is made;



- c) authorisation for acquisition is granted for eighteen months as of the date of approval of this Shareholders' resolution, whilst authorisation for disposal is granted without any time limit whatsoever, in order to enable the achievement of the specified objectives;
- d) the purchase will be carried out within the limits of distributable profits and unrestricted reserves, as per the latest duly approved financial statements;
- e) acquisitions of treasury shares are made, pursuant to Article 144-bis, paragraph 1(b), of the Rules for Issuers, in accordance with the operating procedures set forth in the organisational and operating rules on the markets, so as to ensure equal treatment for all Shareholders. Accordingly, the acquisitions shall be made exclusively, including in several tranches, on regulated markets organised and managed by Borsa Italiana S.p.A., pursuant to operating procedures established by the latter which do not allow for the direct matching of buy orders with pre-placed sell orders.

The same General Shareholders' Meeting also authorised the Company to assign its treasury shares, without any time limit whatsoever, free of charge, to Key Personnel identified in the Remuneration and Incentivisation Policy, provided that any and all conditions, whether regulatory or imposed under the Policy itself, for entitlement to the variable component of remuneration have been duly met.

Lastly, the Shareholders' Meeting vested the Chairman of the Board of Directors and the General Manager, severally and not jointly, with powers to identify the reserve funds from which the restricted reserve amount, contemplated under Article 2357-ter of the Civil Code, is to be drawn, as well as to also be able to use treasury shares already currently held by the Company to achieve specified objectives.

At 31 December 2016, the Company held 126,129 treasury shares.

## **l) Direction and coordination (pursuant to Article 2497 et seq. of Civil Code)**

Banca Generali is part of the Generali Group.

The Company is subject to management and coordination by its Parent Company, Assicurazioni Generali S.p.A., within the meaning and for the intents and purposes of Article 2497 of the Civil Code, including through the subsidiary Generali Italia S.p.A.

Assicurazioni Generali exercises its management and coordination powers by, *inter alia*, making recommendations to the Shareholders' Meeting of Banca Generali in respect of appointments to Banca Generali's Board of Directors; imparting instructions on the composition of the administrative organs of the Company and its subsidiaries; laying down the deadlines and procedures for drawing up the Generali Group's budget and strategic plan in general; issuing guidelines and instructions on the disclosure of operations and accounting information, in order to ensure the consistence, timeliness and correctness of the information disclosed by or regarding the Generali Group; issuing guidelines in respect of third parties, requiring certain categories of transaction to be subjected to prior authorisation from Assicurazioni Generali's Board of Directors.

It is confirmed that the conditions provided for by Article 37, paragraph 1, of Consob Regulation No. 16191/2007 have been satisfied, and it is specifically stated that:

- a) the disclosure obligations pursuant to Article 2497-bis of the Civil Code have been complied with;
- b) the company is able to independently negotiate with customers and suppliers;
- c) the Company has no centralised treasury accounts with the company that exercises centralised management or with other companies of the Generali Group, unless it is in the interest of the company;
- d) an Internal Audit and Risk Committee is in place, composed of independent Directors only (Section 9) and a Board of Directors composed of a majority of independent Directors (Section 4.2).

With regard to further information as per Article 123-bis of TUF, it should be pointed out that:

- > the information to be disclosed pursuant to Article 123-bis, paragraph 1, subparagraph (i) ("*agreements between companies and directors, members of the control body or supervisory council which envisage indemnities in the event of resignation or dismissal without just cause, or if their employment contract should terminate as the result of a takeover bid*") is contained in the section of the Report focusing on Directors' remuneration (Section 8), as well as in the Remuneration and Incentivisation Report to be published pursuant to Article 123-ter of the TUF;
- > the information to be disclosed pursuant to Article 123-bis paragraph 1, subparagraph (l) ("*rules applying to the appointment and replacement of directors and members of the control body or supervisory council, and to amendments to the articles of association if different from those applied as a supplementary measure*") is set forth in the section of the Report focusing on the Board of Directors (Section 4.1).

## **3. COMPLIANCE (pursuant to Article 123-bis, paragraph 2, letter a) of TUF)**

Banca Generali S.p.A. (the "Company") was admitted for listing on the electronic share market (MTA) managed by Borsa Italiana S.p.A. in November 2006, and on such occasion adopted the Code, having determined that bringing its

corporate governance system (i.e., the framework of rules, principles and procedures making up a company's management and internal control system) in line with the international corporate governance best practices on which the Code is based is an essential pre-requisite for achieving the Company's objectives. These objectives in fact include not only the creation of value for shareholders and customer satisfaction, but also the quest for excellence in terms of the transparency of decision-making processes, the efficiency of internal control systems and the probity and rigour in related party and connected party transactions and/or transactions entailing a potential conflict of interests, as well as constant professionalism, probity and respect in all relationships with shareholders, customers and, in general, all the Company's stakeholders. The company is in fact fully aware that no corporation can hope to boost its reputation for reliability without implementing effective and efficient operating rules and procedures. To this end, the Company, at the Board of Directors on 13 September 2016, updated its Internal Code of Conduct, setting out the minimum standards of conduct to be observed in relations with colleagues, customers, competitors, suppliers and other stakeholders. Therefore it contains explicit rules and principles relating to Corporate Social Responsibility, the promotion of diversity and inclusion, safety and health in the workplace, the protection of company assets, fair competition and antitrust and the fight against corruption and bribery.

The Corporate Governance Code is available to the public on the Corporate Governance Committee's website at [www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf](http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf).

## 4. BOARD OF DIRECTORS

### 4.1 Appointment and Replacement of the Board of Directors (pursuant to Article 123-bis, paragraph 1, letter l) of TUF)

Pursuant to Article 15 of the Articles of Association, the Company is managed by a Board made up of no less than seven and no more than twelve members, appointed by the Shareholders' Meeting after determination of the number of members. Members of the Board of Directors hold office for a maximum of three financial years. Their term ends on the date of the meeting called to approve the financial statements of the last financial year of said term and they are eligible for reappointment. In the case of appointment during the period of office, the mandate of the newly appointed members will expire with that of members already in office.

Board members must possess the legal requisites also, within the limits established by law, in terms of independence. It should be recalled that the TUB sets precise integrity and professionalism requirements for banks' directors.

In detail, since the Company is an Italian bank, in compliance with Article 26 of Legislative Decree No. 385 of 1 September 1993 and related implementing provisions (Regulation No. 161 issued by the Ministry of the Treasury, Budget and Economic Planning, on 18 March 1998), its Board members shall be selected on the basis of very high standards of professionalism and competency and must have acquired, on the overall, at least three years' experience (i) performing administrative, managerial or control functions in companies; (ii) in professional practice in the banking, financial, real estate, insurance sectors or other fields pertinent to the Company's business; (iii) in academia, especially in the fields of law or economics; (iv) as a senior civil servant with public undertakings specialising in the banking, financial, real estate, insurance sectors, or with public administrations, bodies or undertakings that are not directly involved in the aforesaid sectors, provided that the job description pertaining to the position held entailed the management of economic and financial resources. The persons appointed as Chairman of the Board and Chief Executive Officer must have acquired at least five years' experience in the above fields and/or positions.

Moreover, pursuant to the provisions of Article 26 of Legislative Decree No. 385 of 1 September 1993 and Article 147-*quinquies* of TUF, Board members must meet the requirements of personal integrity imposed on members of supervisory organs under Regulation No. 162 issued by the Ministry of Justice on 30 March 2000, as well as the requirements pertaining specifically to bank executives, under Regulation No. 161 issued by the Ministry of the Treasury, Budget and Economic Planning on 18 March 1998.

It should finally be noted that five members of Banca Generali's Board have been found to satisfy applicable independence requirements, in accordance with the principles set forth in the Corporate Governance Code for listed companies (issued by Consob in Notice No. DEM/10078683 of 24 September 2010, and equivalent to the standards contemplated in Article 148, paragraph 3, of Legislative Decree No. 58/1998), and pursuant to Article 37, paragraph 1(d), of the Regulation adopted by Consob Resolution No. 16191 of 29 October 2007, as further amended and extended.

Members of the Board of Directors are appointed on the basis of lists of candidates. Those shareholders who alone or in conjunction with other shareholders represent the percentage of share capital envisaged for the Company by current applicable regulations are entitled to submit a list. As established by Article 144-*quater* of the Rules for Issuers, this percentage is currently 1.00%. The appointment mechanism based on the so-called voting lists ensures transparency, as well as timely and adequate information on the personal and professional profiles of the candidates for directorships.

In order to ensure that the governing bodies includes persons capable of guaranteeing that the role assigned to them is discharged effectively, the Board of Directors, with the advisory support of the Nomination Committee, shall: (i) define in advance the professional expertise required to achieve this result; (ii) define, in light of the bank's characteristics, the qualitative and quantitative composition of company bodies (determining and justifying the theoretical profiles of candidates considered suitable, including as regards professional qualifications and independence); (iii) verify that the outcome of the appointment process complies with the provisions on the optimal qualitative and quantitative composi-

tion; (iv) periodically perform self-assessments for verifying the Board of Directors' composition and functioning. The results of the above analysis (i) and (ii) shall be submitted to the shareholders' attention in a timely manner so that the process of selecting and appointing candidates may take account of such indications.

Each shareholder (as well as (i) shareholders belonging to the same group, the latter being defined to include the party, which need not necessarily be a corporation, exercising control within the meaning of Article 2359 of the Civil Code, and each subsidiary controlled by, or under the common control of the said party or (ii) shareholders who have entered into the same shareholders' agreement within the meaning of Article 122 of Legislative Decree No. 58 of 24 February 1998, or (iii) shareholders who are otherwise associated with each other by virtue of associative relationships contemplated under the applicable statutory and/or regulatory framework) may submit, either on their own or jointly with other shareholders, directly or through third party intermediaries, or trust companies, a single list of candidates, under pain of disqualification of the list. The lists must contain a number of candidates no higher than the number of members to be elected, listed by progressive number with a specific indication of the candidates who meet the statutory requirements of independence. Each candidate may appear on only one list, upon penalty of ineligibility.

The lists submitted by shareholders must be filed at the registered office no later than twenty-five days prior to the date set for the Shareholders' Meeting in first call. Furthermore, the list will be available at the Company's registered office, on the corporate website and in any other forms required by applicable laws and regulations no later than twenty-one days prior to the date set for the Shareholders' Meeting in first call.

If the outgoing Board submits its own list, the Nomination Committee must express an opinion on the appropriateness of the candidates proposed by the outgoing Board in exercise of its discretion. The list submitted by the outgoing Board must be lodged with the Company's registered office and published on its website, as well as using other means, no later than the deadlines imposed for such publication under applicable statutory and regulatory provisions. Within the term specified for the publication of the lists by the Company and in order to prove their entitlement to submit lists, shareholders shall file the documentation proving legal ownership of their shareholdings, in accordance with applicable laws and regulations, at the Company's registered office. Within the same term, shareholders who submitted the lists shall also file at the Company's registered office: (i) information pertaining to the identity of the shareholders submitting the lists, with an indication of the percentage of share capital they jointly hold; (ii) exhaustive information on the personal and professional features of the candidates included in the list; (iii) a declaration by shareholders other than those who, even jointly, hold a controlling interest or relative majority stake, attesting the absence of associative relationships with the latter; (iv) the declarations filed by each candidate, in which each candidate accepts his/her nomination and also certifies, under his/her own responsibility, the inexistence of causes of incompatibility and of ineligibility, possession of the requisites of integrity and professionalism which prevailing laws require for the office of director of the Company, as well as those of independence, if applicable, provided for by the law and by the codes of conduct promoted by companies managing regulated markets or by trade categories, to which the Company adheres.

Each shareholder (as well as (i) shareholders belonging to the same group, the latter being defined to include the party, which need not necessarily be a corporation, exercising control within the meaning of Article 2359 of the Civil Code, and each subsidiary controlled by, or under the common control of the said party or (ii) shareholders who have entered into the same shareholders' agreement within the meaning of Article 122 of Legislative Decree No. 58 of 24 February 1998, or (iii) shareholders who are otherwise associated with each other by virtue of associative relationships contemplated under the applicable statutory and/or regulatory framework) shall be entitled to vote for only one list.

Should only one list be submitted, all the members of the Board of Directors shall be appointed from the said list. Should, on the other hand, two or more lists be submitted, the first candidates on the list obtaining the greatest number of votes, equal to eight ninths of the number of members of the Board of Directors determined by the Shareholders' Meeting – with rounding down in the case of split number – will be elected Board members. In the case where the number of Board members belonging to the gender less represented, and appearing on the list that obtained the highest number of votes, is lower than the number required under applicable statutory provisions, the elected candidate with the highest serial number, and belonging to the more represented gender, shall be excluded. The eliminated candidate shall be replaced by the following candidate belonging to the gender less represented and appearing on the same list as the eliminated candidate. In the case where it is not possible to draw from the list obtaining the highest number of votes, the required number of Directors belonging to the gender less represented, the Board seats in question will be filled by appointments made by the General Shareholders' Meeting, by majority vote. The remaining directors will be taken from other lists, not linked in any way, not even indirectly, with the shareholders who submitted or voted for the list which gained the highest number of votes, and to this end the votes obtained by said lists will subsequently be divided by one, two, three and so on, according to the number of directors to be elected. The ratios obtained in this way will be progressively assigned to the candidates of each of the lists, according to the respectively established order of said lists. The ratios thus attributed to the candidates of the various lists will be set out in a single decreasing list. In the event of votes being equal between two or more lists, the younger candidates will be elected until all the posts to be assigned have been filled.

Should it emerge that, at the end of voting, a sufficient number of independent Directors, within the meaning of applicable regulations, has not been elected, the director bearing the highest serial number in the list that obtained the greatest number of votes, and who does not meet the requirements of independence, shall be replaced by the next candidate on the same list, who does meet the said requirements. If necessary, this procedure shall be repeated until all the vacancies of independent directors on the Board have been filled. Should it not be possible to cover all the vacancies on the Board, even after following the procedure mentioned above, the Shareholders' Meeting shall proceed with the appointment of the remaining directors, at the proposal of the shareholders in attendance and by resolution approved by simple majority.

Upon the conclusion of the process of appointing, the Board of Directors (with the advisory support of the Nomination Committee) shall conduct a thorough, formal review that the actual result of the appointment process corresponds to the qualitative and quantitative composition deemed optimal.

If, during the term of office, one or more Board members should leave office for whatever reason, they will be replaced according to the procedures established by law. If the outgoing director was taken from the minority list that had obtained the greatest number of votes, replacement will occur with appointment of the first eligible candidate taken from the same list as the outgoing director and willing to accept office or, where this is not possible, with the appointment of the first eligible candidate who is willing to accept office, and taken, in serial order, from the list to which the first unappointed candidate belonged. The term of the replacement director shall expire together with the term of the directors in office at the time of the replacement Director's appointment to the Board.

Where it is not possible to proceed as described above, either because of too few candidates being presented on the lists or as a result of non-acceptance of appointments, the Board of Directors shall co-opt, within the meaning of Article 2386 of the Civil Code, a director selected by the Board in accordance with the criteria established under law. The director thus coopted shall remain in office through to the next Shareholders' Meeting that shall either confirm or replace him following the ordinary procedures and with ordinary majorities, in departure from the list-based voting system mentioned in Article 15 of the Articles of Association.

The Board is required to appoint a Secretary who need not necessarily be a Board member.

Amendments to the Articles of Association are regulated pursuant to applicable regulations.

Although the implementing guidelines set forth in Application Criterion 5.C.2 of the Code leaves succession planning entirely up to the discretion of the Board of Directors, on 15 December 2015, in order to comply with Bank of Italy Circular Letter No. 285/13 which provides that "Plans for the orderly succession of top managers (chief executive officer, general manager) in the event of the expiry of their terms of appointment or for any other reason or cause whatsoever, must be formalised within large or operationally complex banks, with a view to securing continuity of operations and avoiding economic and reputational repercussions", the Company's Board of Directors adopted the Succession Planning Policy and the related Succession Plan.

In such regard, it must be pointed out that the Board of Directors first established, within the framework of the said Policy, criteria and procedures for identifying the replacements of the top managers whose positions are subject to succession planning.

The Succession Planning Policy accordingly establishes:

- i) the procedures for identifying the replacements of the top managers whose positions are subject to succession planning, in the event the said managers are unavailable or otherwise unable, albeit only temporarily, to discharge their assigned duties;
- ii) the procedures for identifying potential replacements of company managers whose positions are subject to succession planning, in the event of the termination of the appointments of the said managers;
- iii) the corporate bodies and officers involved in preparing the succession plan;
- iv) procedures for and the frequency of revisions of the succession plan;
- v) procedures and deadlines for the implementation of the succession plan.

With regard to point (iii) above, it is worth specifying that the Board of Directors has been identified as the corporate body in charge of preparing the succession plan with support from the Nomination Committee.

Moreover, the Board of Directors is also vested with authority to periodically assess the prevailing succession plan and amend the same in light of the Bank's specific business and organisational requirements, availing of support from the Nomination Committee.

On its meeting of 14 December 2016, the Board of Directors reviewed the Succession Plan Policy, bringing it in line with the current corporate governance structure.

After reviewing the Succession Plan Policy, and aware that there is in place a succession plan guaranteeing continuity and certainty in the management of the company and the selection of the best possible replacements, permitting the related decisions to be made in the context of a defined, structured process, the Board of Directors updated the Succession Plan during the same meeting of 14 December 2016.

The Policy and related Plan will be updated by the Board of Directors whenever it is found necessary to do so, including in response of significant changes in the Bank's governance structure. The Plan specifically covers the following positions:

- > General Manager;
- > Deputy General Managers.

The resolution was passed with the support of the Nomination Committee, which carried out in-depth preliminary analysis of the resolution to be submitted for the approval of the Board of Directors.

## 4.2 Composition of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d), TUF)

The Shareholders' Meeting of 23 April 2015 established that the Board of Directors would be made up of nine members and appointed a new Board through the list voting system.

On 23 April 2015, the Shareholders' Meeting appointed the members of the Board of Directors based on two lists of candidates submitted, respectively, by the majority shareholder Assicurazioni Generali S.p.A. and various Undertakings for Collective Investment in Transferable Securities, under the aegis of Assogestioni.

The list submitted by the majority shareholder Assicurazioni Generali S.p.A. included the following candidates: Paolo Vagnone, Piermario Motta, Giancarlo Fancel, Philippe Roger Donnet, Giovanni Brugnoli (Independent), Anna Gervasoni (Independent), Massimo Lapucci (Independent), Annalisa Pescatori (Independent) and Ettore Riello (Independent). Pursuant to article 15 of the Articles of Association, the General Shareholders' Meeting elected as Board members, the first eight candidates on the list submitted by Assicurazioni Generali S.p.A., with the favourable vote of 62.987% of the share capital represented at the General Meeting and the sole candidate on the list submitted under the aegis of Assogestioni, with the favourable vote of 35.684% of the share capital represented at the General Meeting.

Piermario Motta, appointed Chief Executive Officer during the session of the Board of Directors of 23 April 2015, held after the Shareholders' Meeting on that same date, passed away unexpectedly in March 2016. During the session held on 20 April 2016, the Board of Directors co-opted Luca Giovanni Perin, pursuant to Article 2386 of the Italian Civil Code, as Director without operational powers. In June 2016, Chairman Paolo Vagnone and Director Philippe Roger Donnet left office.

During its session of 23 June 2016, the Board of Directors co-opted Cristina Rustignoli and Azzurra Caltagirone pursuant to Article 2386 of the Italian Civil Code and appointed Giancarlo Fancel Chairman of the Board of Directors, restoring the number of Directors to nine.

Thus at present five of the Directors in office have been drawn from the list submitted by the majority shareholder that received the greatest number of votes, one has been drawn from the list not connected in any way, whether directly or indirectly, with the shareholders who submitted or voted for the list that received the most votes and three were co-opted in 2016 pursuant to Article 2386 of the Italian Civil Code. The Directors thus co-opted will remain in office until the Shareholders' Meeting of 20 April 2017, which will confirm or replace them according to the ordinary conditions and majorities, in derogation from the list-based voting mechanism previously mentioned. The Directors confirmed or appointed by the Shareholders' Meeting will leave office together with the Directors in office when they join the Board.

The term of the Board of Directors shall expire on the date of the Shareholders' Meeting called for the approval of the Financial Statements for the year ended 31 December 2017.

It should also be noted that, in determining the composition of the current Board of Directors, the Law 120/2011 was taken into account (as well as the provisions of Section IV, Chapter 1, Title IV, of the aforementioned Bank of Italy Circular Letter No. 285 and Article 123-bis, paragraph 2 (d-bis), of TUF), thus reserving at least one fifth of Board seats to the less represented gender, (2 Board Members).

The table provided in Annex 2 lists the members of the Board of Directors as of 31 December 2016, other information about them and Board and Committees meeting attendance.

In order to ensure that the Board includes persons capable of ensuring that the role assigned to them is discharged effectively, the Board of Directors, with the advisory support of the Remuneration and Nomination Committee, shall: (i) define in advance the professional expertise required to achieve this result, (ii) define, in light of the bank's characteristics, the qualitative and quantitative composition of company bodies (determining and justifying the theoretical profiles of candidates considered suitable, including as regards professional qualifications and independence). The results of the above analysis have been submitted to the shareholders' attention in a timely manner so that the process of selecting and appointing candidates could take account of such indications. Moreover, upon the conclusion of the process of appointing or co-opting company directors, the Board of Directors (with the advisory support of the Nomination Committee) assessed that the actual result of the appointment process corresponded, in any and all cases, to the ideal qualitative and quantitative composition.

The procedures for the appointment of the Board of Directors are regulated under Article 15 of the Articles of Association, which provide for, inter alia, an adequate gender balance, achieved via a replacement mechanism, where necessary, as detailed in paragraph 4.1. In adopting the purposes and objectives set forth in Law No. 120/2011 (so called "Pink Quota Law") and in light of a substantial equality that promotes gender balance and better access to board member positions of the under-represented gender, the Board of Directors established – in its report on the ideal qualitative and quantitative composition of the Board drawn up upon the appointment of the new Board members on 23 April 2015 – to ensure that at least one fifth of members belongs to the less represented gender as required by law, it being the Company's first Board of Directors to which the aforementioned statute applied. In addition, the aforementioned report defined the professional requirements that Directors must possess, laying down additional features and professional requirements for the position of Chairman of the Board of Directors and the Chief Executive Officer, if appointed, as described in greater detail in paragraph 4.1.

With regard to the age of directors, in light of best practices that are gaining ever more acceptance throughout the sector, the Board recommends that Directors have different ages and that, at the time of their appointment, they do not exceed 65 years.

With regard to the composition of the Board of Directors – given that Banca Generali is subjected to management and coordination by another Italian company whose stock is listed for trading on regulated markets – pursuant to Article 37, paragraph 1(d), of the Rules adopted by Consob with Resolution No. 16191 of 29 October 2007, as amended and extended, the Board is made up of a majority (5) of independent directors.

Pursuant to Article 36 of Law No. 214/2011, the Board of Directors has also verified, in respect of each Director, that there were no grounds of incompatibility; on 23 June 2016, the Board assessed and confirmed that there continued to be no grounds for incompatibility concerning the said Directors.

Summary information on the personal and professional profiles of the Company's Directors is provided below, with an indication, as recommended in paragraph 1.C.2 of the Code, of the directorships and auditorships held by the same in other companies listed on regulated markets, including overseas, as well as in large companies other than Group companies.

**Giancarlo Fancel.** Born in Portogruaro (Venice) on 26 September 1961. After graduating in Economics from the University of Trieste, and becoming a chartered accountant and certified auditor, he started his professional career in Reconta Ernst & Young, where he gained proven experience in the auditing field (1988-1999). In 1999, he joined the Generali Group as Head of Internal Audit, filling several positions and lastly becoming Head of Group Management Control. From January 2007 to April 2014, he held the position of Deputy General Manager, Joint General Manager and Chief Financial Officer of Banca Generali. He currently is Chairman of Genagricola S.p.A., a member of the Board of Directors of Società per Azioni Autovie Venete, CFO of Generali Italia S.p.A and Country Italy, as well as a member of the Boards of Directors of other Generali Group Companies. He has been Chairman of the Board of Directors of Banca Generali S.p.A. since 23 June 2016.

**Cristina Rustignoli.** Born in Monfalcone (Gorizia) on 11 February 1966, she graduated in Law from the University of Trieste. In 1999, she was licensed to practice law. Previously, she had been working in Cassa di Risparmio di Gorizia (currently Friulcassa S.p.A.). In 2000, she joined Banca Generali where she held positions of increasing responsibility up to Central Manager responsible for the Governance Area of the Banking Group. She is currently General Counsel of Generali Italia and **General Counsel of Country Italy of Assicurazioni Generali**, in addition to Managing Director of Generali Business Solutions, Director of Alleanza Assicurazioni, Genertel and Genertellife and, since 23 June 2016, non-executive Director of Banca Generali.

**Giovanni Luca Perin.** Born in Refrontolo (Treviso), on 5 December 1965, he holds a degree in Business Administration from the University L. Bocconi of Milan. From 1991 to 2003 he served in various positions in the Human Resources and Organisation area of the RCS Group, most recently as Human Resources and Organisation Manager of RCS Libri S.p.A. (2001-2003). From September 2003 to 2010 he filled positions of responsibility in human resources at Mondadori and in 2010 - 2012 he was Human Resources and Organisation Manager at the Sole 24ore Group. In July 2012, he joined the Generali Group, where he has been Chief HR & Organisation Officer at Generali Italia since June 2013, a role in which he is responsible at a functional level for all HR departments in Italy. He has been a Director of Banca Generali, Managing Director of Generali Business Solutions and Director of Genagricola and Agricola San Giorgio since April 2016.

**Giovanni Brugnoli.** Born in Busto Arsizio (Varese) on 24 January 1970, he has always been actively engaged in entrepreneurial associations. Within the Employers' Association of the Province of Varese, he was Vice President of the Young Entrepreneurs Group from 1999 to 2001 and President from 2001 to 2004, member of the Association's Board of Directors since 1999, member of the Executive Committee since 2001, Vice President from 2007 to 2011 and Chairman from 2011 to 2015. Since 2011 he has been a member of the General Council of Confindustria. He is currently Chairman of the Board of Directors of Tiba Tricot S.r.l. and of Palatino S.r.l. and sole shareholder of Tiba immobiliare S.r.l. - companies all belonging to the Brugnoli Group. He is also a member of the Board of Directors of Cofiva S.p.A. and Chairman of Promindustria S.p.A, both of which belong to the Gruppo Industriali di Varese. Since 2009, he has been a member of the Board of Directors of the Association for LIUC and since 2010 a member of the Managing Board of the University Carlo Cattaneo LIUC. He is Chairman of the Board of Directors of Industria e Università S.r.l. and Iniziativa Universitaria 1991, a member of the Board of Directors of Anemotech and of Previmoda Fondo Pensione, as well as a member of the Board of Directors of Banca Generali since April 2012.

**Azzurra Caltagirone.** Born in Rome on 10 March 1973, after receiving a degree in Art History in London, she began her career in 2000 at the Caltagirone Group, as deputy chairman of Caltagirone Editore, a position she continues to fill today. She is currently Deputy Chairwoman of Caltagirone S.p.A., Chief Executive Officer of Il Messaggero and Chairwoman of Il Gazzettino. She sits on the boards of directors Cementir Holding, other Caltagirone Group companies and Fondazione Musica per Roma. She has been a non-executive director of Banca Generali since June 2016.

**Anna Gervasoni.** Born in Milan on 18 August 1961, she graduated with honours in Economics at the Bocconi University in Milan. She is currently a tenured professor of Economics and Business Management at the University Cattaneo - LIUC, where she is responsible for the Specialisation Master Degree on private equity: "Master in Merchant Banking: Private Equity, Finance and Business" and the Research Centre "Finance for Growth". Since 1986 she has been General Manager of AIFI, the Italian Private Equity, Venture Capital and Private Debt Association and since 2007 Chairwoman of the Board of Directors of AIFI Ricerca e Formazione S.r.l. She is President of Hit - Hub Innovazione Trentino S.c.a.r.l., Independent Director of Banca Generali and GENERFID S.p.A., a Banca Generali Group company. In addition, she served as Independent Director of Fondo Italiano d'Investimento SGR S.p.A., Mittel S.p.A. and Sol S.p.A.

**Massimo Lapucci:** Born in Rome on 22 November 1969, he graduated in Economics at the La Sapienza University in Rome. After gaining extensive experience working in international management consulting firms, mainly in the banking and corporate finance sectors, he was Head of Business Planning of companies within the Telefonica group. Subsequently, from 2002 to 2008, he worked in Ferrovie dello Stato Group as M&A and Strategic Planning Manager. From 2009 to 2012, he served also as Investment Director at Sintonia S.A. Currently, he is Secretary General of "Fondazione CRT", a foundation operating in the banking sector. He holds the same position at Fondazione Sviluppo e Crescita - CRT, a foundation focused on venture philanthropy and impact investing, and is also general manager of OGR-CRT, whose mission is to transform a large former industrial factory in central Turin into a centre for contemporary culture, research and business accelerator. He has been an independent Director of Banca Generali since April 2015 and also has extensive international experience on advisory boards and boards of directors in Europe and America, including

Atlantia, RFI, and Tx Logistik, and at non-profit organisations, such as the Brussels-based Management Committee of the European Foundation Centre and the Board of Directors of the European Venture Philanthropy Association. He is also Deputy Chairman of ISI Global Science USA and of Agenda Social Impact per l'Italia. Since 2006 he has been a World Fellow and lecturer at Yale University, USA.

**Annalisa Pescatori.** Born in Rome on 24 July 1964, Annalisa Pescatori is Equity Partner of the law firm Grimaldi Studio Legale. After graduating magna cum laude in Law through the “La Sapienza” University of Rome in 1988, she was admitted to bar in 1991 in Italy and obtained her licence to practice before the Italian Supreme Court in 2015. She is enrolled in the Milan Bar of Lawyers. In 1985, she earned a Diploma in Japanese Language and Culture through the Rome-based Italian Institute for the Middle and Far East (ISMEO).

She has been serving as an independent director of Banca Generali S.p.A. since April 2015 and of Enertronica S.p.A. since June 2016. Before joining Grimaldi Studio Legale, she was Equity Partner at the Milan-based law firm Studio Tonucci from 2012 to 2014, and from 2002 to 2011 at the law firm Studio Legale Grimaldi e Associati. Prior to 2002, she acquired experience as a practicing lawyer with the law firms Clifford Chance and Studio Bonelli e Associati. From 1991 to 1996, she was employed at IMI-Istituto Mobiliare Italiano S.p.A., as legal counsel to the Corporate Finance Department, and on Staff of the Deputy General Manager for Finance and the Finance and Equity Holdings Department.

**Vittorio Emanuele Terzi.** Born in Gravina di Puglia (Bari) on 16 August 1954, he graduated in Mechanical Engineering in 1979 and worked briefly at the EEC Environment Directorate in Brussels before joining Citibank in 1980 where he focused on wholesale banking and international project financing for 5 years. In 1985, he joined McKinsey & Company where he was appointed Partner in 1990 and Director in 1996. In 1988, he managed the opening of the company's new offices in Rome. From 2004 to 2011 he served as Managing Partner of McKinsey & Company's Mediterranean Complex. In 2014, he founded the consultancy firm Terzi & Partners which specialises in advising corporations and financial institutions on business strategy, M&As, corporate finance, and governance. He is an independent director of Banca Generali S.p.A. since April 2015, of the Genova-based Italian Institute of Technology Foundation (Istituto Italiano di Tecnologia), as well as of Mventure Mid-Market Private Equity SGR, SPAFID S.p.A. and MoneyFarm Holding Ltd., London. In addition, he is Past President of the American Chamber of Commerce in Italy, President of NEV Mobility and Senior Advisor at BC Partners and Collier Capital.

Domenica Lista, General Counsel of the Company, serves as Secretary to the Board of Directors.

The “Rules on the Functioning of the Board of Directors of Banca Generali S.p.A.” (the “Board Rules”), which were approved by the Board at the meeting on 16 February 2007 and amended on 11 May 2016 in accordance with section 1.C.3 of the Rules and Article 15, paragraph 3 of the Articles of Association, establish the maximum number of corporate positions normally compatible with the role of Company Director, as allowed based on regulations in force from time to time. Such indications are summarised in the following table and take the following into account: (i) the different degree of a director's commitment in relation to the position held, (ii) the nature and size of the company in which the position is held, and (iii) whether the company is part of the Issuer's group or of a same group:

	LISTED COMPANIES			FINANCIAL OR INSURANCE COMPANIES AND BANKING INSTITUTIONS			LARGE CORPORATIONS		
	EXECUTIVE DIRECTOR	NON- EXECUTIVE DIRECTOR	AUDITOR	EXECUTIVE DIRECTOR	NON- EXECUTIVE DIRECTOR	AUDITOR	EXECUTIVE DIRECTOR	NON- EXECUTIVE DIRECTOR	AUDITOR
Executive Directors	-	5	-	-	5	-	-	5	-
Non-executive Directors	2	5	2	2	5	2	2	5	2

The Board of Directors' Rules also envisage that, in determining the total number of companies in which appointees to the Company's Board of Directors hold directorships or auditorships, no account may be taken of companies belonging to the Company's Group, with the exception of corporations listed on regulated markets (including abroad), financial institutions, banks, insurance companies and large corporations. Appointments to the corporate organs of several companies belonging to a single corporate group, other than the Company's Group, are, in practice, generally considered as a single appointment, with the exception of corporations listed on regulated markets (including abroad) and financial institutions, banks, insurance companies and large corporations (Article 5.4 of the Rules).

The table provided in Annex 2 also specifies the number of corporate positions each Director holds in the aforementioned companies on the basis of the criteria indicated in the Board of Director's Rules.

All Company Directors are fully aware of the duties and responsibilities attaching to their office and actively participate in initiatives designed to help them deepen their knowledge and grasp of Company operations and dynamics, so as to enable them to make fully informed decisions.

In accordance with paragraph 2.C.2. of the Code, the Chairman of the Board of Directors ascertained that the Directors and Auditors, after their appointments and throughout their office, participate in initiatives aimed at providing them with an adequate knowledge of the business sector in which the Issuer runs its activity, the corporate dynamics and the relevant evolutions, as well as the applicable regulatory framework.

In this regard, in accordance with the first update of 6 May 2014 to Bank of Italy Circular Letter No. 285/2013 and the aforementioned provisions of the Code, the Bank has informed the Directors of meetings held by trade associations concerning subjects pertaining to banking activity and corporate governance and the Chairman also informally convened the Board of Directors for discussion and further exploration of issues of particular interest, considered strategic to the development of the Company and Banking Group.

In particular, on 2 February 2017 an induction meeting was held for the Bank's Directors, with participation open to the Board of Statutory Auditors. The meeting raised and explored issues relating to (i) the logic behind the preparation of the 2018/2019 budget document and forecasts, (ii) the upcoming compliance with the new provisions of Directive 2014/65/EU (MiFID II), (iii) the activity performed by Generfid, the Banking Group's fiduciary services company, and (iv) the trend in the recruitment costs of financial advisors in recent years.

The subject matter addressed at the meeting was determined directly by the directors in attendance who the aim of favouring a deeper insight into the dynamics and other aspects of the issues selected.

#### 4.3 Role of the Board of Directors (pursuant to Article 123-bis, paragraph 2, letter d)

The Board of Directors, made of the 9 members, plays a central role in the Company's corporate governance system. The Board of Directors, charged with strategic supervision, is vested with full powers of ordinary and extraordinary management of the Company. It has the authority to resolve on all matters pertaining to the corporate purpose that are not reserved to the exclusive competence of the Shareholders' Meeting. The Board is also the only corporate organ empowered to pass resolutions also on the setting up or closure of secondary offices, and for appointing the Board members vested with powers of corporate representation and signature, as well as on mergers, in the cases permitted under law, on the amendment of the provisions of the Articles of Association that may be incompatible with new imperative regulatory requirements.

In accordance with paragraph 1.C.1., letters (a), (b) and (f) of the Code, Article 18 of the Articles of Association invests the Board with broad decision-making powers susceptible of significantly impacting the life of the Company and the Group, including, in particular, the power to define the general operating guidelines and approve the Company's strategic, industrial and financial plans, as well as transactions that could have a significant impact on the Company's equity or economic or financial position, including transactions with Related and Connected Parties; the power to define the Company's general organisational layout, approve and amend internal rules and regulations, as well as set up advisory or coordinating committees or commissions.

In detail, pursuant to the Articles of Association, save in the emergency situations contemplated in Article 18, paragraph 9 of the same, the Board alone is vested with decision-making powers in respect of: a) establishing the general management policies, approving the Company's strategic, industrial and financial plans and the transactions of considerable economic, equity and financial importance, including with Related and Connected Parties; b) appointing, when it sees fit, a General Manager, Joint General Managers and Deputy General Managers, assigning their relative powers and deciding upon their retirement; c) appointing the Internal Auditor, after having heard the opinion of the Board of Statutory Auditors; d) appointing the Compliance Manager, after having heard the opinion of the Board of Statutory Auditors; e) upon hearing the Board of Statutory Auditors, the appointment and dismissal of the Manager in charge of the company's financial reports, the determination of the powers and resources thereof, as well as the supervision of the tasks carried out by the same and monitoring of actual compliance with administrative and accounting procedures; f) authorising company representatives fulfilling managerial, executive and supervisory roles to perform transactions or assume obligations of any kind with the Company or to carry out direct or indirect sales and purchases; g) purchasing or selling shareholdings that cause changes in the Banking Group or controlling or associative shareholdings; selling companies and/or company business lines; entering into agreements pertaining to joint ventures or strategic alliances; h) approving the organisational structure and any and all amendments to internal rules and policies; i) carrying out periodic checks to ensure that the internal control structure is respectful of the principle of proportionality and complies with strategic guidelines, and that internal control functions are afforded a sufficient degree of independence within the organisational structure and are endowed with adequate resources to allow them to function properly; l) carrying out checks to ensure that the system of information flows is adequate, complete and timely; m) drawing up guidelines for the recruitment and internal placement of Company executives; n) creating committees or commissions with control, consultation, recommendatory or coordination functions, also for the purpose of ensuring that corporate governance complies with prevailing recommendations on the matter, establishing the components, duration, powers and authority of said committees or commissions at the time they are set up; p) ongoing monitoring to ensure that the system of information flows amongst corporate organs is adequate, complete and timely; q) approving Related Party and Connected Party transactions, in accordance with the provisions set forth in the procedure adopted by the Company in compliance with applicable regulations governing such transactions.

The Board of Directors may approve highly significant related party transactions, even in disregard of the contrary advice of the independent auditors, provided that the transactions in question are authorised by the Shareholders' Meeting, within the meaning of Article 2364, paragraph 1 (5), of the Civil Code, pursuant to a resolution passed with the majorities contemplated in applicable regulations, and in accordance with the procedure adopted by the Company with regard to Related and Connected Party transactions. With respect to transactions that could have a significant impact on the Company's equity, capital or financial position, the Board of Directors adopted a special regulation (Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance) that defines the general criteria for their identification and a specific authorisation process, which, in accordance with the regulatory provisions in force, also involves the Risk Management function which has to provide prior opinion. In general, the following transactions are identified as transactions of Greater Importance: (i) the issuance of financial instruments; (ii) the granting of personal guarantees and collateral on behalf of subsidiaries; (iii) the granting of loans to subsidiaries, real-estate investments and divestments, the acquisition and sale of equity investments, companies or business lines; (iv) mergers or demergers; (v) other transactions, the value of which is higher



than 2.5% of the consolidated regulatory capital, which do not fall within the ordinary activities of the Bank and are not carried out at or near market conditions.

The Board of Directors of the Bank, in its capacity as Parent Company of the Banking Group, is also assigned exclusive competence over resolutions concerning the purchase and sale of shareholdings by subsidiaries belonging to the banking group, as well as the establishment of the criteria for coordinating and managing the banking group companies and for implementing the instructions issued by the Bank of Italy in the interest of group stability.

Finally, pursuant to the current regulatory framework governing companies providing investment services, the Board of Directors is tasked with drawing up corporate policies, measures, processes and procedures aimed at containing risks and ensuring financial stability, as well as sound and prudent management. The Board of Directors is consequently in charge of: (i) identifying the objectives, strategies, risk profile, and tolerance thresholds of the Bank and the guidelines for the internal control system, by defining corporate risk management policies within the Risk Appetite Framework - RAF and by determining the corporate policies; it periodically checks its correct implementation and its consistency with business developments and the associated risks, paying special attention to the adequacy and effectiveness of the Risk Appetite Framework and the compatibility between actual risk and the risk appetite; (ii) ensuring that the remuneration and incentive system does not increase company risks and is consistent with the RAF and with long-term strategies; (iii) with respect to the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP), defining and approving the general outline of the process, ensuring its consistency with the Risk Appetite Framework and promoting full use of results for strategic purposes and business decisions; (iv) ensuring that the strategic plan, Risk Appetite Framework, ICAAP, budget and internal control system are consistent with one another, considering the development of the external and internal conditions in which the Company operates; (v) approving, at least annually, the plan of activities and checking the reports of the control functions on the activities carried out; (vi) in compliance with the Remuneration Policies approved by the Shareholders' Meeting and with regard to company executives, entering into, amending and terminating the employment contracts of individual employees, as well as making decisions regarding the promotion, subjection to disciplinary measures and dismissal of the same; (vii) identifying and periodically reviewing the strategic guidelines and risks management policies relating to money laundering and financing of terrorism in a manner appropriate to the level and type of risks to which the Company Bank is actually exposed; (viii) ensuring, on an ongoing basis, that tasks and responsibilities concerning anti-money laundering and countering of the financing of terrorism are clearly and appropriately allocated, making sure that operational and control functions are separated and have qualitatively and quantitatively adequate resources; as well as approving education and training programmes for employees and collaborators.

Moreover, the "Board Rules" provide, inter alia, that:

- i) pursuant to paragraph 1.C.1 (c) of the Code, the Board is bound to evaluate the appropriateness of the organisational, administrative and accounting layout of the Company and its strategic subsidiaries, with special reference to the internal control and risk management system, in light of the information received from the competent corporate organs (Article 8.2 of the Board Rules). The Board periodically deliberates on the bank's organisational structure and assesses the functions aimed at guaranteeing the accurateness and efficiency of the bank's administrative and accounting system;
- ii) pursuant to paragraph 1.C.1 (c) of the Code, the Board is bound to evaluate the appropriateness and effectiveness of the internal control and risk management system, taking due account of the Company's features and risk exposure. In such regard the Board (a) lays down guidelines for the internal control and risk management system, so as to ensure that the main risks to which the Company and its subsidiaries are exposed are properly identified, appropriately measured and adequately managed and monitored, and establishes the extent to which the related risk exposure is compatible with business management in line with the Company's strategic objectives; (b) assess, at least on an annual basis, the appropriateness of the internal control and risk management system in light of the Company's features and risk profile and also assesses its effectiveness (article 8.3 of the Board of Directors' Rules). The Board also approves policies and regulations governing the functioning of the control functions, approves regulations on the management of the main risks to which the Group is exposed and the policy on conflicts-of-interest of the banking group that establishes procedures for handling such conflicts;
- iii) the Board is bound to assess general management trends, especially in light of the information received from the delegated bodies and periodically comparing results against expectations, in accordance with the provisions of paragraph 1.C.1., letter e), of the Code. The Board periodically assesses the Company's and the Group's operations, compares the results with budget forecasts and analyses any differences;
- iv) since the Company is also the Parent Company of the Banking Group, the Company's Board is further vested with decision-making powers in respect of the acquisition and disposal of participating interests, as well as the policies for the coordination and management of Group companies and compliance with Bank of Italy instructions, with a view to ensuring the stability of the Group. The Board approved Group Rules that establish guidelines for interaction and information flows among Group companies.

Article 18 of the Articles of Association further empowers the Board to delegate its powers, in accordance with paragraph 1.C.1, letter d), of the Code, subject to the obligation binding especially any and all such delegates to report to the Board of Directors, as well as the Board of Statutory Auditors, at least every quarter, in respect of the management trends and business activities of the Company and its subsidiaries, expected future developments, transactions susceptible of exerting a significant impact on the equity, capital and financial situation of Banca Generali and its subsidiaries, with specific reference to the transactions in which either the Company's Directors or third parties have an interest, or

transactions influenced by the party exercising management and coordination powers over the Company, and decisions pertaining to lending policies.

Finally, in accordance with the Corporate Governance Code and surveillance regulations, the Board of Directors' Rules also establishes that the Board:

- > prior to the appointment of each new Board, or in the event of the co-optation of directors, identify in advance the qualitative and quantitative composition of the Board deemed optimal by determining and justifying the theoretical profile of candidates considered appropriate and submitting it for the shareholders' attention in a timely manner;
- > after a new Board of Directors is appointed or directors co-opted, verify the correspondence between the qualitative and quantitative composition deemed optimal and the actual composition resulting from the appointment process;
- > in order to ensure the proper management of company information, adopt a procedure for the internal management and external disclosure of documents and information pertaining to the Company, with special regard to insider information.

---

## Functioning of the Board of Directors

Pursuant to Article 17 of the Articles of Association, Board meetings are to be held – in general – on a monthly basis. As mentioned above, on 11 May 2016, in order to ensure that the Board's operating procedures comply with the principles entrenched in the Code and the supervising instructions issued by the Bank of Italy, the Board approved the Regulations of the Board of Directors, most recently amended at the Board Meeting held on 11 February 2015.

The aforesaid Board Rules provide, *inter alia*, that:

- i) pursuant to Article 1.C.2 of the Code, without prejudice to the causes for inelegibility and disqualification, as well as limits on simultaneous offices established in laws and regulations, appointments to Board may only be accepted after the appointees have determined that they are in a position to devote the time required to ensure the diligent performance of their tasks and duties as Board members, also in light of their professional activities, the number of directorships or auditorships they may hold within other corporations listed on regulated markets (including abroad) and in financial institutions, banks, insurance companies and large corporations, as well as their other professional activities (Article 5.2 of the Board Rules);
- ii) the Chairman of the Board of Directors shall ensure that documentation pertaining to items of business on the agenda is brought to the attention of the directors and statutory auditors in advance of the date of the Board meeting (Article 4.2 of the Board Rules). Specifically, should the said items pertain to routine business, the related documents, if available, must generally be forwarded at least two days prior to the scheduled date of the Board meeting, save in the case where this is not possible for reasons of confidentiality, with specific reference to "price sensitive" information. This provision was generally complied with, without prejudice to the fact that when, due to urgency or confidentiality reasons, this was not possible, the Chairman made sure that during the meeting for the discussion thereof, sufficient time was devoted to an in-depth analysis and related discussion;
- iii) even if management decisions have already been determined, guided or in any event influenced by a person or party exercising management and coordination powers in respect of the Company or by persons or parties acting pursuant to a shareholder agreement, each Board member shall be bound to exercise decision-making powers in total autonomy and independence, making decisions that are reasonably likely to result – as a priority objective – in the creation of value for shareholders, in the medium-to-long term (Article 7 of the Board Rules);
- iv) pursuant to paragraph 1.C.1, letter g), of the Code, with at least annual frequency, the Board of Directors shall express an opinion of the functioning of the Board of Directors and its committees, as well as their size and composition, also considering factors such as the professional characteristics, experience, including managerial experience, and nature of its members, as well as their length of service, and the adequacy and effectiveness of the provisions set forth in the Board of Directors' Rules (Article 10 thereof).

In compliance with said requirement, as well as the provisions introduced pursuant to Bank of Italy Circular Letter No. 285/2013 which provides, *inter alia*, that it is good practice for large or operationally complex banks (a category that includes all listed banks) to undergo, at least once every three years, self-evaluation in consultation with an outside professional vested with independence of judgement, the Board of Directors underwent the self-evaluation in question, in consultation with the firm acting as independent expert, Egon Zehnder, and in keeping with the service it received in the first months of 2016.

The aforesaid self-evaluation was undertaken in January and February 2017 and refers to financial year 2016.

The self-evaluation process was divided into the following phases:

- > a structured questionnaire, based both on the outcome of previous self-evaluation and the most significant events that involved the Board of Directors during the year, was filled out by each Director in office during the period of reference of the self-evaluation, as well as by the General Manager and the Chairman of the Board of Statutory Auditors;
- > confidential, one-on-one interview with each Director, the Chairman of the Board of Statutory Auditors and the General Manager, so as to acquire additional viewpoints on the functioning of the Board, using the answers to the questionnaire as the basis for the interview;

- > compilation of the data generated through the answers provided to the questionnaire by the Directors, the General Manager and the Chairman of the Board of Statutory Auditors and processing of the results in anonymous and aggregate form;
- > drawing up of a summary report based on the data acquired.

The specific issues assessed, included: size, structure and composition of the Board of Directors, independence, integration, training, meetings and decision-making processes, other meetings of Boards members, the role of the Chairman of the Board of Directors, relationships between Board members and Management, information, presentations, strategy, risks and related controls, structures, people, functioning and composition of the Board Committees, Board dynamics, summary and benchmarking.

The results of the Board Review were shared with the Board of Directors during the session held on 10 March 2017, after being examined by the Appointments Committee. The answers to the questionnaire and confidential interviews indicated a highly positive situation with regard to the qualitative and quantitative profile of the Board of Directors and its internal dynamics, in terms of relations with both the management and Board of Statutory Auditors, and additional progress was found to have been made in the areas of (i) the scope and international breadth of discussions within the Board of Directors, (ii) the sharing of information concerning talent quality, possible succession plans and management performance assessment, (iii) information about strategic plans and the main areas of development and dialogue with the market, (iv) the scheduling of Board agendas and appointments and (v) the full integration of the General Manager as privileged interlocutor of the Board.

In order to continue the progress towards optimal governance, in the case of Banca Generali's Board of Directors it was recommended that the frequency of informal meetings of the independent directors be increased, and a recommendation was also made concerning participation in discussion and debate within the Board. In particular, efforts will be made during the year to schedule informal meetings of the independent directors during which to examine in detail individual aspects of Banca Generali's strategy, as also compared to the market strategies of its direct competitors.

The Board meetings are held periodically and, in general once a month, in compliance with the statutory requirements and pursuant to a schedule of works defined on an annual basis. In 2016, Banca Generali's Board met 14 times. The meetings lasted about 1 hour and 59 minutes on average. In the year underway, a total of 11 Board meetings are scheduled; from the beginning of the year up until and including the date of this Report, two have been held.

The table in Annex 2 provides also information on the attendance of Directors at the Board meetings held in 2015. Absentee Directors provided justification for non-attendance.

In accordance with the Board Rules and to encourage the development of mechanisms for the flow of information amongst and within company bodies aimed at achieving management efficiency and control effectiveness, the information flows involving company bodies are regulated by a specific internal company circular letter, approved by the Board of Directors. The aforesaid circular letter lays down the timetable, procedures and contents of the information to be provided to the company bodies in question, and identifies the persons and parties bound to submit appropriately exhaustive reports on a periodic basis and/or upon request. The formal rules governing the structure of information flows (in particular towards the Board of Directors and Board of Statutory Auditors) officially establish the reports already in use at the bank, which are typically systematic and well organised in terms of form and content. These reports satisfy the need of providing a timely flow of information to the Board with regard to the exercise of delegated powers. They are revised on an ongoing basis as necessitated by legislation or operations. The preferred method for ensuring a flow of information towards Directors and Statutory Auditors is by making written documents available in a timely manner, especially reports, explanatory notes, memoranda, presentations, reports prepared by the bank's organisational units, other public and non-public documentation and accounting documentation intended for publication. The information reported through the procedures set forth above shall be supplemented (and where necessary for reasons of confidentiality, replaced) by oral explanations provided to the Chairman, the General Manager or members of the Bank's management, either at Board meetings or at informal gatherings open to Board members and members of the Board of Statutory Auditors, organised for the specific purpose of allowing the latter to discuss and acquire deeper insight into issues of interest in terms of the Bank's operations. Apart from matters over which the Bank's Board of Directors is vested with exclusive powers of decision and approval pursuant to law and the Articles of Association, reports to the members of the Board of Directors and the Board of Statutory Directors shall focus primarily on: (i) general business performance and foreseeable developments, with an indication of departures from previous forecasts; (ii) activities undertaken, with specific reference to transactions that could have a particularly significant impact on the company's balance sheet, income statement and/or cash flow, related and connected party transactions, and atypical, unusual or innovative transactions, and the risks associated with each of the above; (iii) the internal control and risk management system and the level of Bank's exposure to all significant types of risk; (iv) the performance of the products placed and the relevant returns; (v) the performance of lending activities; (vi) the performance of the bank's investing activities; and (vii) any and all other activities, transactions or events deemed worthy of the attention of the Board of Directors and the Board of Statutory Auditors. As an additional contribution to the promotion of methods for circulating information among the Corporate Bodies with the aim of achieving management efficiency and control effectiveness, at its first meeting of 2013, the Board adopted a computer application, whose objective is the secure distribution of digital documents to the members of Banca Generali Board of Directors and Committees, through iPad, tablet devices and PC platform. The application general features enable the exchange of documents without e-mails and printing on paper, ensuring maximum security and confidentiality of the documents on the Board's agenda. In fact, (i) all communications to and from devices are encrypted, (ii)

the authentication process involves the use of a numeric code as Personal Identification (PIN), (iii) all documents on the devices (iPad, tablet and/or PC) are encrypted and, (iv) the documents cannot be retrieved and consulted without the application and the security key (in case the device is lost or stolen).

In addition to the activities dealt with in the various chapters of this Report, in discharging its tasks pursuant to the Articles of Association and the supervisory regulations governing banking in Italy, the Board of Directors, also:

- a) periodically passed resolutions pertaining to the Company's organisational layout, with specific emphasis on corporate functions involved in providing services to the entire banking group headed by the Company;
- b) examined general business trends, on a quarterly basis, especially in light of information received from the General Manager, as well as carried out quarterly comparisons of results achieved against expectations and forecasts;
- c) determined, as proposed by the Remuneration Committee and after hearing the opinion of the Board of Statutory Auditors, the remuneration of the General Manager, the Directors serving on Board committees and other professional figures who can influence the risk profile of the Bank, as well as those responsible for control functions.

The meetings of the Board of Directors may be held by telephone or video conference and attended by the General Manager and the Deputy General Managers, each with respect to the items on the agenda falling within her/his remit and role. Whenever the Chairman sees fit to do so, including upon the request of one or more directors, the executives of the Company and those of companies belonging to the Group controlled by the Company who are in charge of company functions competent with respect to the subject matter concerned, shall participate in meetings of the Board of Directors in order to provide the appropriate further clarification regarding items on the agenda.

With regard to Banca Generali subsidiaries, in order to ensure that effective and efficient management and control systems are in place also at consolidated level, all the companies of the banking group are currently closely integrated with the Parent Company.

This integration is especially evident in:

- i) the ownership structure: the share capital of the subsidiaries is wholly owned by Banca Generali S.p.A.;
- ii) the composition of the governing and control bodies of the subsidiaries, whose members include various officers of the Parent Company with a view to ensuring that the latter's guidelines are effectively and efficiently imparted so as to allow for sound business administration without jeopardising the decisional autonomy of subsidiaries in any way, whilst also providing for a uniform level of care, caution and concern in assessing risk-containment mechanisms and the actions taken in this regard. Joint meetings of the Boards of Statutory Auditors of Italian group companies are periodically held for risk control purposes;
- iii) the organisational, administrative and accounting layout, as well as the control system adopted for the subsidiaries, featuring the centralisation of certain key functions within the Parent Company.

As the Parent Company vested with the powers of management and coordination specified in the Civil Code, and developed in greater detail in Articles 59 *et seq.* of Legislative Decree No. 385/1993 and Title I, Chapter II, of Bank of Italy Circular Letter No. 285 of 17 December 2013, Banca Generali discharges, in respect of the subsidiaries belonging to the Banking Group, the management and coordination functions related to the administration of the Group as a whole, determining and imparting instructions on how best the common business purpose is to be pursued by all the individual operating units comprising the Group, whilst ensuring the autonomy of each of the companies belonging to the Banking Group. Given that, under the sector-specific regulations in question, the Parent Company is to serve as the point of reference for the Bank of Italy with regard to all supervisory issues at Group level, appropriate organisational structures have been set up to ensure the implementation of provisions and monitor ongoing compliance with Bank of Italy instructions within all Group companies.

#### 4.4 Delegated organs

No member of the Board of Directors may be considered an executive director, since a Chief Executive Officer has not been appointed to replace the late Piermario Motta, and the non-independent Directors cannot serve at the parent company in an executive capacity that also extends to the Bank (more in detail. Giancarlo Fancel, Giovanni Luca Perin and Cristina Rustignoli hold executive posts at Generali Italia and Country Italy, to which Banca Generali does not belong as it is included in the Group's Chief Investment Officer structure).

##### Chief Executive Officer

Pursuant to Article 18, paragraph 6, of the Articles of Association, the Board may, within the limits imposed under law and the Articles of Association, delegate the powers not strictly reserved to its competence to one or more Chief Executive Officers, establishing the powers and term in office of the same.

Following the untimely passing of Chief Executive Officer Piermario Motta on 26 March 2016, the Board of Directors resolved, on a transitional basis and with the Supervisory Authority's consent, not to appoint a Chief Executive Officer from among its members.

## Chairman of the Board of Directors

The Bank of Italy Circular Letter No. 285 highlights the importance of the role of the Chairman of the Board of Directors who is in charge of promoting internal debate, ensuring the balance of powers, and promoting the effective functioning of the corporate governance system, including with regard to the Chief Executive Officer and the other executive directors. He acts as interlocutor of the control body and of the internal committees. To this end, the Chairman, in addition to meeting the requirements provided for directors, must have the skills needed to fulfill the tasks assigned to this role. In order to effectively discharge this key function, the Chairman must play a non-executive role and must be free from operating responsibilities.

In compliance with the aforesaid requirements of the Bank of Italy, the Regulations of the Board of Directors specifically govern the procedures through which the Chairman is to discharge his coordination and oversight functions aimed at ensuring the smooth functioning of the Board of Directors and the constant flow of information amongst Board members.

Paolo Vagnone, who was appointed Chairman of the Board of Directors by the Shareholders' Meeting of 23 April 2015, resigned from this position and the position of Director in June 2016.

Therefore, in addition to the powers granted by law and the Articles of Association, on 23 June 2016 the Board resolved to appoint Giancarlo Fancel Chairman of the Board of Directors and vest the same with powers to coordinate the activities of the Company's corporate organs, oversee the implementation of the resolutions approved by the Shareholders' Meeting and the Board, ensure the prompt and proper execution of the decisions made by the General Manager, monitor business operations and compliance with strategic policy guidelines, as follows:

1. monitoring the Company's operations performance and laying down management policies;
2. establishing general guidelines for dealing with corporate affairs;
3. coordinating the smooth functioning of the Board of Directors and the General Shareholders' Meeting, by promoting internal dialogue and ensuring the balance of powers and circulation of information;
4. overseeing relations with public bodies and shareholders, and managing the Company's public relations in general;
5. liaising with any and all public administration bodies, the Bank of Italy, the Italian market regulator Consob, as well as any and all national and international entities and organisations,
6. coordinating the Company's communication strategies, managing the company's public image and relations with the press or other media, in accordance with the guidelines provided by the Board of Directors and in line with the company's strategic plan and the Group policies on this matter;
7. concretely implementing the provisions of subparagraphs (l) and (p) of Article 18 of the Articles of Association.

Moreover, under Article 18, paragraph 9, of the Articles of Association, the Chairman of the Board is vested, in the event of exceptional emergency and with respect to matters falling outside the scope of the delegated powers in force, with taking decisions falling within the purview of the Board of Directors, except for decisions that cannot be delegated under imperative statutory provisions. The Board will be informed of such decisions at the next Board meeting.

Pursuant to Article 22 of the Articles of Association, powers of representation and signature before the Courts, public authorities and third parties, are vested in the Chairman of the Board of Directors.

## Report to the Board

The General Manager reports periodically to the Board of Directors with regard to activities carried out. Specifically:

- > usually, on a monthly basis:
  - i) on any and all transactions that could have a particularly significant impact on the balance sheet, income statement or cash flow statement of the company or any of its subsidiaries;
  - ii) on decisions pertaining to lending policies and, in general, on credit trend;
  - iii) on property investments;
  - iv) on the performance of sales and inflows;
  - v) on Banca Generali stock performance;
- > on a quarterly basis:
  - i) on the general state of operations, the outlook for the Company and Group and comparisons with budget forecasts;
  - ii) on activities carried out by the Company and the Group with related parties and connected parties;
  - iii) on the type and performance of managed products;
  - iv) on the macroeconomic scenario and the definition of managed portfolios investment policies;
  - v) on compliance with limits established for activities generating conflicts of interest within the portfolio management activity;
- > on a half-yearly basis:
  - i) on the situation of litigations;
  - ii) on the need to update risk allocations or provisions.

#### 4.5 Other Executive Directors

No member of the Board of Directors may be considered an executive director, since a Chief Executive Director has not been appointed and the non-independent Directors cannot serve at the parent in an executive capacity that also extends to the Bank.

#### 4.6 Independent and non-executive Directors

Considering that Banca Generali is subject to management and coordination by another Italian company with shares listed in regulated markets, the Board of Directors consists of a majority of independent directors, pursuant to the provisions of Article 37, paragraph 1, letter d), of the Regulation adopted by Consob in Resolution No. 16191 of 29 October 2007, as amended.

Independent Directors are tasked with independently overseeing corporate management, and contributing towards ensuring that the company is administered in the interest of its shareholders and in accordance with the principles of good corporate governance (Article 12.5 of the Board Rules).

Moreover, Article 12.4 of the Board Rules requires the Board to be made up primarily of non-executive directors.

In accordance with the provisions of paragraph 2.C.1 of the Code, for the intents and purposes of the Board Rules, executive directors are defined to include:

- i) the Chief Executive Officers and Chairmen of the Company or a strategic subsidiary thereof, in the case where the same are personally vested with delegated powers or play a specific role in shaping corporate policy and strategy;
- ii) Directors who also serve as executives within the Company or within a strategic subsidiary thereof, or even within the Parent Company, in the case where the position also involves Banca Generali.

Within the meaning of the definitions set forth above, the Company's Board at 31 December 2016 was made up of nine non-executive directors. The said situation still prevails to date.

In compliance with the recommendations set forth in the Code, the number and acknowledged expertise of the Company's non-executive Directors lend their opinions decisive weight in the Board's decision-making process.

Non-executive Directors help ensure that Board resolutions are always in keeping with the interests of the Company. By contributing their specialist know-how, non-executive Directors help ensure that Board members are in a position to make informed decisions reached after due reflection. The Board Rules require that non-executive Directors meet at least once a year without the other Directors.

Since the Board consists entirely of non-executive directors, it was not deemed necessary to schedule an additional meeting of the non-executive directors, in addition to the already planned sessions of the Board.

The Company's Board of Directors includes five Non-executive Directors, who also qualify as Independent Directors within the meaning of not only Article 37, paragraph 1 (d), of the Rules adopted pursuant to Consob Resolution No. 16191 of 29 October 2007, under which independent directors are barred from serving as directors of the company or entity exercising management or coordination over the undertaking they serve as independent directors, or of any listed undertaking controlled by the aforesaid company or entity, but also of the Corporate Governance Code (paragraph 3.C.1) as well as the definition provided by Consob in Notice No. DEM/10078683 of 24 September 2010, which provides that the independence requirements imposed under the said Code, are to be deemed equivalent to those imposed under article 148, paragraph 3, of Legislative Decree No. 58/1998. These independence requirements are also entrenched in article 13 of the Board Rules under which a director may not normally be considered independent in the following cases (although provision is made for departures):

- a) directly or indirectly, including through subsidiaries, trust companies and third party intermediaries, controls the Company or is in a position as to exert a significant influence over the same, or is party to a shareholder agreement under which one or more parties are afforded control of or a significant influence over the Company;
- b) is, or has been in the preceding three financial years, a key executive of the Company or a strategic subsidiary thereof, or a company subjected to common control with the Company, or a company or body that, even together with others on the basis of a shareholder agreement, controls the Company or is in a position as to exert a significant influence over the same;
- c) directly or indirectly (for instance through subsidiaries or companies in which he serves as a key executive, or professional partnerships or consultancy firms in which he is a partner) maintained in the previous year or currently maintains significant commercial, financial or professional relationships with: (i) the Company, or one of its subsidiaries or one of its key executives; (ii) a person or party that, including together with others on the basis of a shareholder agreement, controls the company, or – in the case where the said party is a body corporate or legal entity – with the key executives thereof; or is or was an employee of the aforesaid persons or parties, during the current or previous three financial years;
- d) currently receives or received in the previous three financial years, from the Company or a subsidiary or corporate parent thereof, significant remuneration in addition to the 'fixed' emoluments due to Non-executive Directors of the Company, including as part of stock option or other plans linked to corporate performance;

- e) has been a Director of the Company for more than nine years during the past twelve years;
- f) is an Executive Director in another company in which an Executive Director of the Company also holds a directorship;
- g) is a shareholder or Director of a company or entity belonging to the network of the company or firm appointed as the Company's Independent Auditors;
- h) is a close family member of a person in one of the situations described above.

For the intents and purposes of the above, the "key executives" of a corporation or entity shall include: the Chairman of the entity, or the Chairman of its Board of Directors, as well as the entity's legal representatives, executive directors, managers and executives with strategic responsibilities.

The Board Rules (Article 14), pursuant to the Code (paragraph 3.C.6), require the Company's Independent Directors to meet at least once a year, without the presence of other Directors.

In compliance with the said requirement, Banca Generali's Independent Directors met separately on 9 March 2017 to discuss the following matters:

1. appropriateness of the number of Independent Directors;
2. contribution of independent Directors to the Board's meetings.

In light of Article 3.C.4 of the Code, the Board Rules require the Board to examine, at the time of the appointment of any independent directors and, in accordance with the policies and procedures set forth in the same Board Rules, any and all the information and declarations submitted by appointee independent directors, or otherwise acquired by the Board, with a view to ensuring that the requirements for independence have been fully met, and to further check, on a yearly basis, that the said independent directors continue to qualify as such.

The Board Rules (Article 13.8) also require the Board to assess the compliance with the independence requirements by examining all credit situations in which the bank is involved and related to the independent director in question.

The Board Rules also require the Chairman to ensure that the Board of Statutory Auditors is placed in a position to independently verify the outcome of the aforesaid checks, as recommended in Article 3.C.5 of the Code.

In compliance with the above-mentioned provisions, on 10 February 2017, the Board carried out the scheduled annual assessment of satisfaction of the requirements of independence and found that the Directors Giovanni Brugnoli, Anna Gervasoni, Massimo Lapucci, Annalisa Pescatori and Vittorio Emanuele Terzi qualified as Independent Directors within the meaning of Articles 147-ter, paragraph 4, and 148, paragraph 3, of Legislative Decree 58/1998, as well as in light of the requirements set forth the Application Criteria of Article 3 of the Code, and pursuant to article 37, paragraph 1, subparagraph (d) of Regulation No. 16191 adopted by Consob on 29 October 2007, as further amended and extended. The Board of Directors announced the outcome of its assessment in a press release.

On 10 February 2017, the Board of Statutory Auditors, after examining the documentation provided, confirmed the results of the checks performed by the Board and determined that the criteria and procedures used to evaluate the independence of the independent Directors had been correctly applied.

#### 4.7 Lead Independent Director

The Company has not appointed a lead independent director within the meaning of Article 2.C.3 of the Corporate Governance Code. This choice is considered appropriate to the Company as the Chairman of the Board of Directors, Giancarlo Fancel, is CFO of Generali Italia S.p.A. and of Country Italy.

This is because the Company deems that Giancarlo Fancel's role within Generali Italia S.p.A. does not entail potential conflict of interest or unchecked concentration of corporate decision-making powers. As a matter of fact, within Banca Generali, Giancarlo Fancel is devoid of any responsibility whatsoever in respect of business operations and corporate management, and is tasked only with overseeing and monitoring the implementation, by the Board of Directors, of the resolutions passed by the Shareholders' Meeting, and compliance by delegated corporate officers and organs with the provisions of Board resolutions.

Giancarlo Fancel, therefore, serves as an observer, monitor and supervisor tasked primarily with ensuring that Company management scrupulously complies with strategic corporate guidelines and policy.

## 5. HANDLING OF CORPORATE INFORMATION

Members of the Board of Directors and the Board of Statutory Auditors shall handle with the utmost confidentiality any and all documents and information of which they may become aware in the discharge of their duties, and shall strictly comply with Company procedures for the internal handling and outside disclosure of the said documents and information.

Pursuant to the above, and to Articles 114 and 115-bis of TUF, as well as Articles 65-duodecies et seqq. and 152-bis et seqq. of Consob Regulation (the "Rules on Issuers"), on 18 July 2006, the Board of Directors, upon request of the Chief Executive Officer, approved the rules of conduct to be followed in the management and public disclosure of inside in-

formation (the “Code on Inside Information”), most recently amended by Board of Directors’ resolution dated 23 June 2016.

The Code on Inside Information is aimed at effectively regulating the management and handling of inside information, as well as the procedures to be followed for forwarding, both within and outside the Company, documents and information pertaining to Banca Generali and its subsidiaries, with specific reference to Inside Information, as defined below. The purpose of regulating the handling of Inside Information is to avoid the untimely, incomplete or inadequate handling of such information, and to ensure that the said handling does not give rise to asymmetrical reporting of information to the public. The disclosure of Inside Information therefore allows for greater protection of the market and investors, by providing the same with adequate knowledge about the issuer, so as to enable them to make informed investment decisions.

Reporting obligations aimed at the disclosure of Inside Information in accordance with pre-established procedures are designed to avoid:

- a) the abuse or attempted abuse of Inside Information;
- b) recommendation or inducement of others to abuse Inside Information; and
- c) disclosure to others of Inside Information except in the normal course of the work, professional practice, function or office;

preventing certain parties or categories of parties from using information not available to the public to engage in speculative trading on markets, to the detriment of investors who do not have access to the said information.

The essential elements of the Code on Inside Information are summarised below.

Inside Information means information

- a) which has a precise nature, that is to say:
  - i) which refers to a series of existing circumstances, or circumstances that it may reasonably be believed will occur, or to an event that has occurred or that may reasonably be believed will occur;
  - ii) which is specific enough to enable a conclusion to be drawn as to the possible effect of said set of circumstances or said event on the prices of Financial Instruments or of the related derivative financial instrument;
- b) which has not been made public;
- c) which relates directly or indirectly to Banca Generali or its subsidiaries; and
- d) which, if it were made public, would be likely to have a significant effect on the prices of the Financial Instruments (as defined below) of Banca Generali or on the prices of the related derivative financial instruments, i.e., information a reasonable investor would be likely to use as a decision-making factor for investments.

The procedures set forth in the Code on Inside Information must be followed by the members of the Board of Directors and the Board of Statutory Auditors, and the employees of the Company and its subsidiaries, as well as any and all insiders, and that is to say, persons who, by virtue of the exercise of their employment or profession or by virtue of their official functions, have access on a regular or an occasional basis to inside information pertaining to Banca Generali and/or its subsidiaries (the “Insiders”).

In the handling of the confidential information of which they may become aware in performing the duties relating to their positions, company officers and informed individuals are required to maintain the utmost confidentiality and take every precaution to ensure that such information is circulated within the company without jeopardising the confidential nature of the information, until it is disclosed to the market according to the provisions of the Code for Handling Inside Information.

The aforesaid persons are barred from issuing interviews to the press and media, or in general, any declarations containing Inside Information not included in documents already disclosed to the public.

Any and all relationships with financial analysts and institutional investors entailing the disclosure of Inside Information must take place solely through the Investor Relations department, following authorisation from the General Manager, whose responsibilities include the procedures for managing Inside Information pertaining to the Company and its subsidiaries, relations between the Company and institutional investors, as well as press relations, availing for such purpose of the support and assistance of the Communications function.

The Board of Directors has assigned the Investor Relator the task of preparing the press release drafts concerning inside information on the Company or its Subsidiaries, and to the Communications and External Relations Manager the task of liaising with the media. The Corporate Affairs Service is responsible for fulfilling market disclosure obligations and issuing the press releases pertaining to inside information approved by the Company CEO, in the manner provided for by the Rules for Issuers, the Market Rules of Borsa Italiana and the Instructions accompanying the Market Rules, as well as the Code on Inside Information, regarding the issuing of press releases disclosing Inside Information, approved by the Company’s General Manager.

Only persons specifically authorised for such purpose by the Chairman of the Board of Directors of Banca Generali (or in the case of the absence or unavailability thereof, the General Manager) may meet with market operators in Italy and abroad.

The Company has also set up the Register of Insiders, within the meaning of Article 115-*bis* of TUF, establishing procedures for the maintenance of the said Register and appointing the General Counsel to maintain and update the same.



## Internal Dealing

In accordance with the provisions of Article 114, paragraph 7 of TUF, as well as Articles 152-*sexies et seqq.* of the Rules on Issuers, on 18 July 2006, the Board of Directors approved a code of conduct in respect of internal dealing (the “Code on Internal Dealing”), as most recently amended by Board resolution of 13 September 2016.

The said Internal Dealing Code defines “Relevant Persons” (which include, in particular, the members of the Board of Directors and the Board of Statutory Auditors of the Issuer, persons performing managerial responsibilities within the Company, as well as the independent auditors), and persons closely associated therewith, who are bound to give notice to the Company, Consob and the public of any and all Significant Transactions involving shares issued by the Issuer or other financial instruments thereto related, that they may effect, including through third-party intermediaries.

The Internal Dealing Code defines as Significant Transactions those transactions involving Shares or Financial Instruments Linked to Shares of Banca Generali, undertaken on own account, including through an intermediary, by Relevant Persons or Persons Closely Tied to Relevant Persons. Such transactions include:

- a) purchase, sale, short sale, subscription and exchange;
- b) acceptance or exercise of an option, including an option granted to Relevant Persons as part of the remuneration to which they are entitled, and the sale of shares deriving from the exercise of an option;
- c) use of swap contracts involving equity indices or the exercise of such contracts;
- d) transactions in derivatives instruments or related instruments, including cash-settled transactions;
- e) participation in contracts for difference involving a financial instrument of the Company;
- f) purchase, sale or exercise of rights, including put options, call options and warrants;
- g) subscription for a capital increase or issuance of debt instruments;
- h) transactions in derivative instruments and financial instruments connected to a debt instrument of the Company, including credit default swaps;
- i) conditional transactions contingent on the satisfaction of conditions and the actual execution of transactions;
- j) automatic or non-automatic conversion of a financial instrument into another financial instrument, including the exchange of bonds convertible into shares;
- k) donations and gifts given and received and inheritances received;
- l) transactions in indexed products, baskets and derivative instruments, where so provided in Article 19 of Regulation (EU) No. 596/2014;
- m) transactions in shares or units of investment funds, including the alternative investment funds (AIFs) set out in Article 1 of Directive 2011/61/EU, where so provided in Article 19 of Regulation (EU) No. 596/2014;
- n) transactions undertaken by a manager of an AIF in which the Relevant Person or a close associate of the Relevant Person has invested, where so provided in Article 19 of Regulation (EU) No. 596/2014;
- o) transactions undertaken by third parties as part of a collective or individual portfolio management arrangement on account or on behalf of a Relevant Person or a close associate of a Relevant Person;
- p) borrowing or lending of units or debt instruments of the issuer or derivative instruments or financial instruments connected to derivative instruments.

The following transactions shall not however be deemed to be Significant Transactions:

- i) transactions that collectively do not exceed 5,000.00 (five thousand) euros in a calendar year, where such significance threshold is calculated by taking account of all transactions involving the Shares and Financial Instruments linked to the Shares carried out on behalf of each Relevant Person and those carried out by Persons closely associated with Relevant Persons during the calendar year, commencing on the date of the last transaction undertaken. In the case of exchange, the consideration of the transaction shall be deemed to be the estimated value of the exchanged financial instruments. For Derivative Financial Instruments linked to the Shares, the amount shall be computed with reference to the underlying shares;
- ii) transactions effected by the Company and its subsidiaries;
- iii) transactions effected by a lending institution or an investment company, provided that they are part of the creation of a trading portfolio of such institution or company, as defined by Article 3 of Directive 2013/36/UE, and provided that the same party: (i) keeps its trading and market-making units separate from its treasury and units responsible for managing strategic equity investments from an organisational standpoint; (ii) is able to identify the shares held for trading and/or market-making, in a manner that may be subject to review by Consob, i.e., by holding such shares in a specific separate account; and, where it operates as market maker, (iii) is authorised by its home Member State pursuant to Directive 2004/39/EC to conduct market-making activity; (iv) provides Consob the market-making agreements with the market management company and/or the issuer as required by the law and associated implementing provisions in force in the EU Member State in which the market maker conducts its activity; and (v) notifies Consob that it intends to conduct or conducts market-making activity on the shares of an issuer of listed shares; the market maker shall also notify Consob without delay of the cessation of market-making activity on those same shares.

The Internal Dealing Code also contains rules governing the handling and disclosure of information pertaining to the said transactions.

The Internal Dealing Code restricts the performance of Relevant Transactions (as defined therein) in the 30 days prior to the dates of sessions of the Board of Directors during which (i) the Board reviews the separate or consolidated financial statements of the companies, the condensed half-yearly financial statements or an interim financial report that the company is required to publish in accordance with Borsa Italiana or Italian national rules; (ii) distributed of a

dividend is proposed. The reporting obligations imposed under the Internal Dealing Code shall apply even in the case of exercise of stock options by Relevant Persons, if the Shares acquired through the exercise of option rights are re-sold on the market. The date of the transaction shall be deemed to be the date of the sale of the shares on the market, and not the date on which the shares were acquired by the Company through the exercise of option rights. The aforesaid Code, furthermore, empowers the Board of Directors to further prohibit or restrict purchases, sales, exchanges or other transactions entailing a transfer of title in shares issued by the Company or in financial instruments linked to the said shares, by the said Relevant Persons, including through third-party intermediaries, during specific periods of the year and/or on occasions marking specific events in the Issuer's corporate life.

The Board of Directors has appointed the General Counsel as the person responsible for implementing the provisions of the Code.

## 6. INTERNAL COMMITTEES OF THE BOARD OF DIRECTORS (pursuant to Article 123-bis, paragraph 2, letter d), of TUF)

The Bank of Italy Circular Letter No. 285/2013 dated 17 December 2013 and the Code set forth a recommendation for listed companies to set up certain Committees within their Boards of Directors, to be assigned responsibility for certain specific matters.

The roles of these Committees, set up for the purposes of improving the functioning of the Board, are primarily consultative and recommendatory.

In particular, the above-mentioned provisions recommend the setting up of an Internal Audit and Risk Committee, a Remuneration Committee and a Nomination Committee.

In accordance with the above, the Board of Directors set up the Internal Audit and Risk Committee, the Remuneration Committee and the Nomination Committee, requiring the aforesaid Committees to be made up entirely of Non-executive Independent Directors.

## 7. NOMINATION COMMITTEE

In accordance with principle 5.P.1. of the Corporate Governance Code and pursuant to the "Supervisory Instructions for Banks" set forth in Bank of Italy Circular Letter No. 285/2013, the Board of Directors set up the Nomination Committee and vested the latter with the tasks specified in the Code and the supervisory instructions, as described in greater detail below.

The Nomination Committee is tasked with assisting the Board of Directors during the course of the procedure through which the Company appoints its officers.

The current Nomination Committee was appointed by the Board of Directors on 23 April 2015, and is made up as follows:

NAME AND SURNAME	OFFICE HELD (AS OF 10 MARCH 2017)
Massimo Lapucci	Committee Chairman Non-executive, Independent Director
Giovanni Brugnoli	Committee member Non-executive, Independent Director
Vittorio Emanuele Terzi	Committee member Non-executive, Independent Director

Board Secretary Domenica Lista serves as Committee secretary.

All three Committee members are Non-executive, Independent Directors.

The Committee is vested with a consultative and recommendatory role towards the Board of Directors on matters pertaining appointments. More specifically, the Nomination Committee is entrusted with the following tasks:

- > assisting the Board of Directors in determining the latter's own optimal membership in terms of number and professional skill set, ahead of the appointment or co-option of Board members. Within the aforesaid context, the Nomination Committee (i) submits to the Board of Directors opinions regarding the size and composition of the Board itself; (ii) provides recommendations on the appropriate professional skills to be represented on the Board of Directors; (iii) provides recommendations on the maximum number of concurrent directorships or auditorships in other corporations listed on regulated markets (including abroad), or in banking, financial, insurance or large companies, that may be considered compatible with effectively serving as a director of the issuer, taking due account of membership of various Board Committees and drawing distinctions on the basis of the commitment required to discharge the duties attendant to each appointment; (iv) proposes potential candidates for Board of Directors' membership in cases of co-option for the replacement of independent directors;
- > assisting the Board of Directors in subsequently evaluating whether or not the optimal membership of the Board of Directors, in terms of number and professional skill set, is reflected in the actual composition of the said Board upon conclusion of the appointments procedure;
- > formulating opinions to the Board of Directors on resolutions concerning the replacement of members of the committees within the Board, which may become necessary during the Committee's term of office;

- > assisting in the Board of Directors in conducting self-assessments;
- > assisting the Board of Directors in verifying satisfaction of the conditions imposed under Article 26 of Legislative Decree No. 385/1993;
- > assisting the Board of Directors in preparing succession plans for top managers;
- > assisting the Audit and Risk Committee in selecting candidates for appointment to head of the corporate functions tasked with internal control;
- > expressing opinions on the proposed appointments of corporate officers at the Banking Group companies;
- > expressing opinions concerning the acceptance by directors and officers of positions or functions at companies outside the Banca Generali Banking Group.

The operating procedures of Nomination Committee are set forth in the Nomination Committee Rules approved by the Board of Directors.

In addition to Committee members, Committee meetings must be attended by the Chairman of the Board of Statutory Auditors or another Auditor delegated with such task, it being understood that the other members of the Board of Statutory Auditors may also attend. The General Manager shall also attend Committee meetings, but may not be present during discussions of any matters pertaining to himself.

Upon invitation, non-members may also attend Committee meetings so as to provide assistance with regard to specific items placed on the agenda.

Committee members are appointed for a period that is coterminous with the term of the Board of Directors, and are entitled to annual remuneration as well as an attendance fee.

The Nomination Committee met fourteen times in 2016. The meetings lasted about 1 hour, on average. Three Committee meetings have been scheduled in the year underway, and to date, two have been held.

The Committee's main activities in 2016 are listed below.

- > At its meeting of 28 January 2016, the Committee examined the following issue:
  - i) support for the Board of Directors with regard to the review of the legal requirements applicable to Alternate Auditor Anna Bruno;
- > At its meeting of 3 February 2016, the Committee examined the following issues:
  - i) support for the Board of Directors with regard to the review of the independence requirements applicable to the Directors;
  - ii) identification of the overall growth process of the profiles of the replacements designated within the Succession Plan;
- > At its meeting of 9 March 2016, the Committee examined the following issues:
  - i) submission of the self-assessment document of the Board of Directors;
  - ii) reflections concerning the appointment of the General Manager;
- > At its meeting of 23 March 2016, the Committee examined the following issue:
  - i) opinion on the appointment of the General Manager;
- > At its meeting of 31 March 2016, the Committee examined the following issues:
  - i) reflections concerning the Bank's governance;
  - ii) proposal to confirm the current members of the Board of Directors of the subsidiary BG Fund Management Luxembourg;
- > At its meeting of 4 April 2016, the Committee examined the following issue:
  - i) reflections concerning the Bank's governance;
- > At its meeting of 15 April 2016, the Committee examined the following issues:
  - i) opinion concerning the proposal for the Bank's new governance;
  - ii) opinion concerning the report on the ideal qualitative and quantitative composition of the Board of Directors in respect of the passing of resolutions pursuant to Article 2386 of the Italian Civil Code and Article 15, paragraph 14, of the Articles of Association and opinion concerning the designated candidate;
  - iii) support for the Board of Directors concerning the review of satisfaction of the legal requirements applicable to the General Manager;
  - iv) opinion on the designation of a company representative at a Subsidiary;
- > At its meeting of 9 May 2016, the Committee examined the following issues:
  - i) support for the Board of Directors concerning the review of legal requirements applicable to newly appointed company officers;
  - ii) support for the Board of Directors concerning the review of the satisfaction of the ideal qualitative and quantitative requirements of the Board of Directors following the resolution passed pursuant to Article 2386 of the Italian Civil Code;
- > At its meeting of 16 June 2016, the Committee examined the following issues:
  - i) opinion concerning the ideal qualitative and quantitative composition of the Board of Directors in respect of the passing of resolutions pursuant to Article 2386 of the Italian Civil Code and Article 15, paragraph 14, of the Articles of Association and opinion on the designated candidates;
  - ii) review of the proposed revision of the organisational structure;
  - iii) opinion concerning the proposal to appoint Vice General Managers;
  - iv) support for the Board of Directors with regard to the absence of situations of incompatibility involving company officers;
- > At its meeting of 23 June 2016, the Committee examined the following issue:
  - i) support for the Board of Directors concerning the review of legal requirements applicable to newly appointed company officers;

- > At its meeting of 6 July 2016, the Committee examined the following issue:
  - i) opinion concerning the engagement of an officer of a company not part of the Banca Generali Banking Group;
- > At its meeting of 22 July 2016, the Committee examined the following issues:
  - i) support for the Board of Directors concerning the review of the satisfaction of the ideal qualitative and quantitative requirements of the Board of Directors following the resolution passed pursuant to Article 2386 of the Italian Civil Code;
  - ii) support for the Board of Directors regarding the identification of the new CFO;
  - iii) opinion concerning the appointment of several offices of the company to the Board of Directors of the new company BG Alternative Sicav;
  - iv) proposal for the appointment of a Vice Deputy General Manager;
  - v) opinion on the appointment of an officer of the Company to a Company not part of the Banca Generali Banking Group;
  - vi) support for the identification of a new Head of the Anti Money Laundering Service;
- > At its meeting of 7 November 2016, the Committee examined the following issue:
  - i) identification of a new Head of the Anti Money Laundering Service;
- > At its meeting of 13 December 2016, the Committee examined the following issues:
  - i) support for the Board of Directors with defining succession plans for top managers;
  - ii) support for the Board of Directors with the self-assessment process.

The proceedings of each meeting, coordinated by the Chairman, were duly recorded in minutes.

All members of the Committee attended eleven of the 14 meetings held in 2016.

The table in Annex 2 hereto provides the percentage of Committee meetings attended by each Committee member.

The Nomination Committee is entitled to unhindered access to any and all the corporate information and functions it may deem necessary for the proper discharge of its assigned tasks, and to avail of the services of outside consultants. A provision of 75,000 euros has been budgeted for use by the Committee to discharge its duties during the current year.

## 8. REMUNERATION COMMITTEE

In accordance with principle 6.P.3. of the Corporate Governance Code and pursuant to the “Supervisory Instructions for Banks” set forth in Bank of Italy Circular Letter No. 285/2013, the Board of Directors set up the Remuneration Committee and vested the latter with the tasks specified in the Code and the supervisory instructions, as described in greater detail below.

The Remuneration Committee is tasked with assisting the Board of Directors during the course of the procedure through which the Company determines the remuneration of its top managers who are considered as Key Personnel employed by the Company and the heads of its internal control functions.

The current Remuneration Committee was appointed by the Board of Directors on 23 April 2015, and is made up as follows:

NAME AND SURNAME	OFFICE HELD (AS OF 10 MARCH 2017)
Giovanni Brugnoli	Committee Chairman Non-executive, Independent Director
Anna Gervasoni	Committee member Non-executive, Independent Director
Annalisa Pescatori	Committee member Non-executive, Independent Director

Board Secretary Domenica Lista serves as Committee secretary.

All three Committee members are Non-executive, Independent Directors. At the time of making the appointment, the Board found Anna Gervasoni’s experience in the financial field, adequate, and Giovanni Brugnoli’s professional experience adequate in both the financial field and in the area of remuneration policies.

The Committee is vested with a consultative and recommendatory role towards the Board of Directors on matters pertaining remuneration. More specifically, the Remuneration Committee is tasked with:

1. submitting to the Board of Directors non-binding opinions and recommendations on the remuneration of the Chairman of the Board of Directors, the Chief Executive Officer and General Manager, and any and all other executive Directors, and expressing an opinion on the setting of the performance targets to which the variable remuneration component, if any, is linked;
2. (ii) expressing to the Board of Directors – in accordance with applicable laws and regulations in force from time to time as well as the provisions of the Company’s Remuneration and Incentivisation Policy – non-binding opinions and recommendations in respect of the remuneration of employees whose compensation and incentives are established by the Board of Directors, whilst also providing the latter with opinions on the setting of the performance targets to which the variable remuneration component is linked;
3. providing advice on the determination of the criteria applied to establish the remuneration key personnel, as identified in the Company’s Remuneration and Incentivisation Policy;

4. periodically assessing the appropriateness, overall cohesion and concrete implementation of the remuneration policy regulating the compensation of directors, key management personnel and all the other staff members whose compensation and incentives are established by the Board of Directors, in accordance with applicable laws and regulations from time to time into force, as well as the provisions of the Company's Remuneration and Incentivisation Policy. In such respect, it may also avail of information provided by the General Manager, and submits recommendations to the Board of Directors;
5. monitoring the implementation of Board decisions, putting forward general recommendations on related matters to the Board of Directors;
6. directly monitoring the proper application of rules regulating the remuneration of the heads of internal control functions, in close collaboration with the Body entrusted with internal control functions;
7. submitting opinions on the determination of severance indemnities in the event of termination of employment or termination in office ahead of the scheduled expiry of the term of appointment (so-called golden parachutes); assessing the effects of termination of the rights assigned under incentivisation plans based on financial instruments;
8. expressing opinions, taking due account, *inter alia*, of information received from the relevant corporate departments, on the achievement of the performance targets to which incentivisation plans are linked, as well as on the other terms and conditions imposed on incentives;
9. expressing non-binding opinions and proposals for any stock options plans and shares allotment or other share-based incentive systems also suggesting the objectives associated with the provision of such benefits and the criteria for assessing the achievement of those objectives; monitoring the evolution and application in time of any plans approved by the General Shareholders' Meeting on a proposal from the Board;
10. submitting an opinion to the Board of Directors of the Parent Company in respect of proposals pertaining to the remuneration of Directors vested with specific responsibilities at strategic subsidiaries within the meaning of article 2389 of the Civil Code, as well as the general managers and key management personnel of those companies;
11. overseeing the preparation of the documents to be submitted to the Board of Directors in connection with corporate decisions;
12. providing adequate reports on its activities to the Company's bodies, as well as the General Shareholders' Meeting, sufficiently ahead of meetings scheduled for addressing matters forming the subject-matter of the said reports;
13. ensuring it is represented at the General Shareholders' Meeting through its Chairman or a Committee member;
14. liaising with all relevant corporate functions and operating structures in designing and monitoring remuneration and incentivisation policies and practices;
15. collaborating with the other Board committees, especially the Audit and Risk Committee in charge of verifying that the incentives offered under the remuneration system take due account of the risks, capital and liquidity;
16. carrying out any and all other tasks and duties entrusted to the Committee by the Board of Directors through specific resolutions.

The procedures governing the functioning of the Remuneration Committee are set forth in the Remuneration Committee Rules approved by the Board of Directors.

Committee meetings are generally held at least two times a year and, in any event, with the timeliness necessary to allow a full treatment and discussion of any and all matters on which the Committee may be requested to report to the Board of Directors.

In addition to Committee members, Committee meetings must be attended by the Chairman of the Board of Statutory Auditors or another Auditor delegated with such task, it being understood that the other members of the Board of Statutory Auditors may also attend. Committee meetings are attended by the General Manager (unless motions are dealt with in the meeting concerning the General Manager's remuneration).

Upon invitation, non-members may also attend Committee meetings so as to provide assistance with regard to specific items placed on the agenda.

Directors do not take part in Committee meetings at which recommendations in respect of their own compensation are drawn up for submission to the Board of Directors.

Committee members are appointed for a period that is coterminous with the term of the Board of Directors, and are entitled to annual remuneration as well as an attendance fee.

In 2016, the Remuneration Committee met seven times. The meetings lasted about 1 hour on average. A total of six Committee meetings have been scheduled for the year underway, two of which has already been held as at the date hereof.

The Committee's main activities in 2016 are listed below.

- > At its meeting of 9 February 2016, the Committee examined the following issues:
  - i) report on the self-assessment of the remuneration and incentivisation system;
  - ii) motion to raise the ratio between the variable and fixed components of remuneration to 2:1 for some managers.
- > At its meeting of 9 March 2016, the Committee examined the following issue:
  - i) conditions of severance of the employment of a Manager of the Bank;
- > At its meeting of 23 March 2016, the Committee examined the following issues:
  - i) opinion on the determination of the remuneration of the General Manager to be appointed;
  - ii) verification of the achievement of the access gate requirements and the objectives set forth by the MBO system for 2015 assigned to the CEO/General Manager, Joint General Managers – Commercial Area, Central Mana-

- gers, other Key Personnel and Heads of the control functions, and consequent definition of the related variable remuneration;
- iii) verification of the achievement of the objectives at the end of the Long Term Incentive Plan for the period 2013-2015;
  - iv) verification of the achievement of the objectives in second year of the Long Term Incentive Plan for the period 2014-2016;
  - v) verification of the achievement of the objectives in first year of the Long Term Incentive Plan for the period 2015-2017;
  - vi) Remuneration Report: Banking Group's Remuneration and Incentivisation Policies and Report on the Application of Remuneration and Incentivisation Policies in 2015;
  - vii) determination of the Bonus Pool;
  - viii) determination of the number of own shares to be purchased in service of remuneration and incentive policies;
- > At its meeting of 19 April 2016, the Committee examined the following issues:
    - i) definition of the objective scorecard for the variable component of the General Manager's remuneration;
    - ii) survey of the remuneration package for Central Managers and definition of objective scorecards for the variable component of their remuneration;
    - iii) survey of the remuneration of heads of control functions and definition of the lists of objectives underlying the variable components of their remuneration;
    - iv) survey of the remuneration of other managers, including key managers, and definition of their respective objective scorecards for the variable component of their remuneration;
  - > At its meeting of 21 June 2016, the Committee examined the following issues:
    - i) definition of the objective scorecard for the variable component of the General Manager's remuneration;
    - ii) survey of the remuneration package for Central Managers and definition of objective scorecards for the variable component of their remuneration;
    - iii) survey of the remuneration of heads of control functions and definition of the objectives scorecards underlying the variable components of their remuneration;
    - iv) survey of the remuneration of other managers, including key managers, and definition of their respective objective scorecards for the variable component of their remuneration;
    - v) opinion on the motion regarding the remuneration of the Chairman of the Board of Directors;
    - vi) determination of the results of the BSC 2016 assigned to Ms Rustignoli for the first half of the year;
  - > At its meeting of 26 July 2016, the Committee examined the following issues:
    - i) proposal for the hiring of managers;
    - ii) definition of the objectives and gates for Assicurazioni Generali's Long-Term Incentive Plan and approval of the terms of the plan;
    - iii) review of the BSC of several key executives following the reorganisation of the Bank's governance;
  - > At its meeting of 13 December 2016, the Committee examined the following issue:
    - i) redefinition of the remuneration package of a manager.

The proceedings of each meeting, coordinated by the Chairman, were duly recorded in minutes.

All the meetings held in 2016 were attended by all the Committee's members.

The table in Annex 2 hereto provides the percentage of Committee meetings attended by each Committee member.

The Remuneration Committee is entitled to unhindered access to any and all the corporate information and functions it may deem necessary for the proper discharge of its assigned tasks, and to avail of the services of outside consultants. A provision of 75,000 euros has been budgeted for use by the Committee to discharge its duties during the current year.

## 9. DIRECTORS' REMUNERATION

With regard to remuneration, the Company is subject to the provisions of Bank of Italy Circular Letter No. 285. With such provision, the Supervisory Body also requires banking sector operators to adopt and implement compensation mechanisms that are in line with risk-management policies and long-term strategies. Towards such end, the regulations provide that, in addition to establishing the remuneration of the members of the corporate organs, the Ordinary Shareholders' Meeting shall also approve the remuneration and incentive policies applicable to personnel with functions of strategic oversight, management and control, as well as to other personnel; the remuneration plans based on financial instruments (e.g. stock option plans); the criteria for defining the remuneration to be allocated in case of early termination in a post, including limits imposed on such compensation in terms of years of fixed remuneration and the maximum amount resulting from their application.

The aforementioned regulations set forth specific principles and requirements that banks must comply with so as to ensure that: remuneration systems are properly designed and implemented; potential conflicts of interest are effectively managed; the remuneration system takes due account of current and prospective risks, the degree of capitalisation, as well as liquidity levels of each intermediary; transparency towards the market is maximised; and oversight by regulatory authorities is reinforced.

The objective of the regulations is to promote - in the interest of all stakeholders - the implementation of remuneration systems that are in line with long-term corporate values, objectives and strategies, linked to corporate performance but appropriately adjusted to reflect all risks, commensurate with the capital and liquidity levels required to cover ongoing

business operations, and in any event, designed to avoid distorted incentives that could lead to regulatory violations and excessive risk-taking by individual banks and within the system as a whole.

Moreover, the Company is subject to the provisions set forth in Article 123-ter of TUF, under which a special Remuneration Report – whose content is described in detail in Annex 3 of the Rules for Issuers – must be approved by the Board of Directors and submitted to the non-binding resolution of the General Shareholders' Meeting called to approve the Financial Statements.

The above framework is further completed by the recommendations laid down by the Corporate Governance Code for listed companies, adopted by Banca Generali, which incorporates the main aspects of the recommendations issued by the European authorities on the process for determining the remuneration policies and their content.

Therefore, the Shareholders' Meeting of 21 April 2016 acknowledged the disclosure on the implementation in 2015 of the remuneration and incentivisation policy approved by the General Shareholders' Meeting on 23 April 2015 and approved the new remuneration and incentivisation policy of the Company and the Group. In this regard, it should be mentioned that in implementing its remuneration policies, Banca Generali aims at ensuring the greatest possible convergence of the interests of the banking group's shareholders and management, especially by focusing on careful corporate risk management and commitment to long-term strategies. Banca Generali believes that a well-balanced system of remuneration and incentivisation for the bank's Directors and Top Management is key to boosting competitiveness and ensuring corporate governance. Moreover, remuneration, especially with regards to key personnel, is useful in terms of attracting and retaining people with the talent and skills best suited to the Company's needs.

The remuneration package consists of fixed components and variable components. The variable component of the remuneration relative to the fixed component increases in percentage terms the greater the strategic importance of the position to which the remuneration refers.

The fixed components of the remuneration serve to remunerate the managerial and technical skills of employees used to perform the roles assigned to them, in order to ensure managerial continuity and pursue effective and fair internal remuneration policies that are competitive in respect of the external market.

The aim of the recurring variable components of remuneration and long-term incentives (such as stock option plans, stock granting schemes and deferred bonus systems), on the other hand, is to balance directly the interests of the shareholders and those of management.

A Management by Objectives mechanism, consistent with the achievement of the operating and financial results indicated by the budget for the reference year and with indicators reflecting the weighting of business risks, is used for the Top Management. The Management by Objectives system is linked to the Balanced Scorecards principle. The variable remuneration is hence linked on a straight-line basis to the degree to which the individual objectives are achieved, with a minimum access threshold.

A system for the deferral of the disbursement of variable remuneration was introduced for the Generali Banking Group's key management personnel and main network managers who earn a bonus in excess of 75,000 euros.

In order to link the variable pay of management personnel even more closely to long-term performance indicators, and in order to also take account of current and prospective risks, the cost of capital and the cash required to meet the needs of the activities undertaken, accrual of bonuses will be linked not only to the effective results achieved by each manager, but also to an access gate common to the Banking Group's entire staff, including Financial Advisors.

The remuneration patterns of high-level executives and managers are monitored applying the methods most used on the market of reference. This weighting system enables effective mechanisms to be adopted for monitoring the remuneration dynamics.

It must, moreover, be pointed out that under its Remuneration and Incentivisation Policy, Banca Generali envisages appropriate malus and claw back clauses, in the event of material errors in determining the values.

Information regarding the remuneration received by Board members and the General Manager during the year is contained in Banca Generali's Remuneration and Incentivisation Policy, under the section focusing on the application of the said policy in 2016.

Information regarding the cumulative remuneration received during the year by key management personnel as well as further details pertaining to the Company's remuneration policy, will similarly be provided in Banca Generali's Remuneration and Incentivisation Policy, which will be published pursuant to Article 123-ter of TUF. However, it should be mentioned that in any case the objectives set for the persons in charge of control functions, including the HR Director and the Manager in charge of the Company's financial reports – in accordance with the above-mentioned Bank of Italy's Regulations – are consistent with the tasks assigned to each of them and are not linked to economic results of the Company or the Group.

Pursuant to the criteria described in Article 6.C.4 of the Code, the remuneration due to non-executive directors is not linked to the Issuer's financial performance. Non-executive directors may not benefit from any share-based remuneration plan, and are consequently remunerated solely on the basis of the fixed compensation established by the General Shareholders' Meeting.

In order to motivate key management personnel and the distribution network to pursue strategic results for the Company, on 24 May 2006 Banca Generali approved two stock option plans, both subjected to the condition precedent of the commencement of trading of shares in the Company on the electronic share market – MTA (such condition precedent having been met on 15 November 2006): (i) the first of these is reserved to employees of Banca Generali Group companies, whilst (ii) the second is reserved to Banca Generali's Financial Advisors, area managers and business managers.

On 21 April 2010, the Shareholders' Meeting approved a broad-ranging retention programme, which comprised two Stock Option Plans targeted at (a) Financial Advisors and Private Bankers, as well as (b) Relationship Managers employed in Banca Generali.

This initiative had a twofold objective: maintaining the interest of the distribution network and network managers in line with the interest of shareholders, in the medium- and long-term, as well as retaining the most promising professionals, by involving the same economically in overall value creation within the Company, whilst also providing incentives to boost productivity in the medium term.

The Plans apply to financial year 2010, in addition to the fourth quarter of 2009, as limited to net inflows associated with the so-called "tax shield".

The retention programme called for the granting of a total maximum of 2,500,000 option rights for the subscription of Banca Generali ordinary shares (of which 2,300,000 reserved for Financial Advisors and network managers and 200,000 for employed Relationship Managers).

In this regard, options were to be granted in a single instalment to the optionees identified as included in one of the above-mentioned categories by the relevant Plan Management Committee. The grant was conditional upon the achievement of both consolidated Group objectives and individual objectives for the development of net inflows in the reference period.

Pursuant to the applicable Rules, in 2011 the Delegated Organs awarded:

- i) 2,300,000 option rights in application of the Stock Option Plan for Banca Generali S.p.A.'s Financial Advisors and Network Managers;
- ii) 200,000 option rights in application of the Stock Option Plan for Banca Generali S.p.A. Relationship Managers.

In total, 2,500,000 stock options were awarded pursuant to the aforesaid Plans.

The options are exercisable within 6 years from 1 July 2011 in the amount of one sixth per year. The recipients have the right to subscribe to Banca Generali ordinary shares for consideration equal to the arithmetic mean of the market listing prices of the shares in question on the electronic share market (MTA), organised and managed by Borsa Italiana S.p.A. surveyed during the period from the option grant date to the same date of the previous solar month.

In order to give full effect to the Stock Option Plan for the Financial Advisors and Network Managers of Banca Generali S.p.A. for 2010 and the Stock Option Plan for the Relationship Managers of Banca Generali S.p.A. for 2010, the Shareholders' Meeting held on 21 April 2010 resolved, pursuant to Article 2441, paragraphs 5 and 8, of the Civil Code, on a Company's share capital increase, in several tranches, by an amount equal to the maximum number of options that may be granted under the above-mentioned Plans, and thus in a maximum nominal amount of 2,500,000.00 euros, broken down as follows:

- a) for a maximum amount of 2,300,000.00 euros, reserving the same for Financial Advisors and Private Bankers of the Banca Generali Group, to serve the "Stock Option Plan for Financial Advisors and Network Managers of Banca Generali S.p.A. for 2010";
- b) for a maximum nominal amount of 200,000.00 euros, reserving the same to Banca Generali employed Relationship Managers and their coordinators, to serve the "Stock option plan for Relationship Managers of Banca Generali S.p.A. for 2010".

Moreover, as of 2013, the General Shareholders' Meeting, in approving the Remuneration Policies and with reference to the long term incentives, resolved to integrate the variable component of the remuneration of some of Banca Generali's managers through participation in the Generali Group's Long Term Incentive Plan (LTIP) for executives serving the Generali Group in Italy and abroad, approved by the General Shareholders' Meeting of Assicurazioni Generali S.p.A. The plan is targeted at reinforcing the relationship between the remuneration of management and expected performance according to the strategic plan of the Group (absolute performance), as well as the relationship between remuneration and value generation in relation to a group of peers (relative performance).

Lastly, in accordance with the Supervisory Provisions set forth in the 7th update of Bank of Italy Circular Letter No. 285/2013, the Banking Group's Remuneration and Incentivisation Policy approved by Shareholders' Resolution of 21 April 2016 requires the payment of the variable component of remuneration of Key Personnel to be made through the granting of Banca Generali's financial instruments.

In detail, key personnel who accrue a variable remuneration linked to short-term objectives exceeding 75,000 euros in financial year 2016 will be entitled, in addition to the deferral of the disbursement of 40% of the variable component, also to the payment of 25% of the said component through assignment of Banca Generali's shares, based on the following stock-granting and retention mechanism:

- > 60% of the bonus to be paid up-front in the year following that under review: 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year;
- > 20% of the bonus to be deferred for one year: 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year;
- > the remaining 20% of the bonus to be deferred by two years: 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year.

The payment in shares will be conditional not only upon the achievement of the pre-set objectives defined in the MBO mechanism, but also to the satisfaction of access gates established by the Banking Group (TCR - Total Capital Ratio,



LCR - Liquidity Coverage Ratio) for the year in which the remuneration is accrued and the following two-year period of retention.

In light of the foregoing, on 21 April 2016 the Shareholders' Meeting resolved to repurchase a maximum number of 67,051 treasury shares within an 18-month period, to be granted to Key Management Personnel.

The mechanism described above was authorised by the Bank of Italy, by order dated 6 June 2016.

### Directors' Severance Indemnities in the Event of Resignation, Dismissal or Severance as a Result of a Takeover Bid (pursuant to Article 123-bis, paragraph 1, letter i), of TUF)

In accordance with applicable laws and contractual provisions, the treatment in the event of severance of the employment of General Manager Gian Maria Mossa provides for – in addition to the applicable provisions of laws and/or the national contract concerning notice – an all-inclusive lump-sum indemnity of an amount equivalent to 24 months of "recurring remuneration" (defined as gross annual remuneration, plus the average amount actually collected by the Executive by way of short-term component of variable remuneration in the past three years) and that, in specific cases of severance of employment at the Bank's initiative, or otherwise at the Bank's initiative, it be modified in a way unfavourable to the Executive.

The aforesaid amount must be paid in accordance with the Bank of Italy provisions in force from time to time and the Bank's remuneration policies, with particular regard to provisions governing the connection between performance compensation and risks, the deferral of payment and the settlement of the remuneration partly in cash and partly in financial instruments.

## 10. INTERNAL AUDIT AND RISK COMMITTEE

The Board of Directors has endowed itself with an Internal Audit and Risk Committee made up of four Board members, all of whom are non-executive and independent, vested with consulting and recommendatory functions. The current Internal Audit and Risk Committee was appointed by the Board of Directors on 23 April 2015, and is made up as follows:

NAME AND SURNAME	OFFICE HELD (AS OF 10 MARCH 2017)
Anna Gervasoni	Chairwoman Non-executive, Independent Director
Massimo Lapucci	Committee member Non-executive, Independent Director
Annalisa Pescatori	Committee member Non-executive, Independent Director
Vittorio Emanuele Terzi	Committee member Non-executive, Independent Director

The Board of Directors deemed adequate the professional experience of Vittorio Emanuele Terzi in accounting and finance, Annalisa Pescatori, attorney-at-law, in risk management and Massimo Lapucci and Anna Gervasoni in accounting and finance as well as risk management.

Domenica Lista, the Board Secretary, also serves as Internal Audit and Risk Committee secretary.

The functioning of the Internal Audit and Risk Committee is regulated by specific rules (the "Audit and Risk Committee Rules"), approved by the Board.

The Committee is charged with the following tasks and powers: (i) supporting the Board of Directors with adequate investigative activity in its evaluations and decisions concerning the internal control and risk management system and the approval of periodic financial reports; (ii) advisory powers in the area of related party and connected party transactions, in accordance with the terms and conditions established by the related party and connected party transaction procedure approved by Banca Generali (the "Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance"); (iii) advisory and investigative powers in relation to the Board of Statutory Auditors in the area of the statutory auditing of the accounts, pursuant to Italian Legislative Decree No. 39 of 27 January 2010; and (iv) consulting and supporting powers to the decision-making body concerning equity investments, in compliance with the "Equity Investment Management Policy" approved by Banca Generali.

With reference to the internal control system, the Committee assists the Board of Directors in laying down the guidelines of the internal control and risk management system, periodically checking that said system is adequate to the bank's characteristics and risk profile, reviewing its effective functioning and also ensuring that the major company risks (credit, financial and operating risks) have been identified, adequately measured, managed and monitored, as well as determining the degree to which such risks are compatible with management of the enterprise in accordance with the strategic goals identified, in liaison with the responsible company functions.

In such regard, the Committee:

- > assists the Board of Directors in framing corporate strategy and setting the orientation of the internal control system and risk management policies, with particular emphasis on tasks that are key to enabling the Board to

- properly and effectively determining the Risk Appetite Framework and devising appropriate risk containment measures;
- > provides the Board with input and feedback within the context of the Risk Appetite Framework, so as to ensure that the Board-approved Risk Appetite and Risk Tolerance parameters are properly determined;
  - > assists the Board of Directors in determining corporate performance assessment policies and processes, especially with a view to ensuring that pricing policies and terms of service are in line with the business model and risk management strategies;
  - > assists the Board of Directors in periodically checking the appropriateness and effectiveness of the internal control and risk management system in light of the features of the company and the assumed risk profile;
  - > without prejudice to the responsibilities of the Remuneration Committee, assess the extent to which the incentives offered under the Bank's remuneration and incentivisation system are in line with the Risk Appetite Framework;
  - > identifies and recommends – with input from the Nominations Committee – candidates for appointment to head the control functions, and expresses an opinion on the dismissal of any such person;
  - > monitors the independence, appropriateness, effectiveness and efficiency of the Internal Audit, Compliance and Risk Management functions;
  - > ensures that the Internal Audit, Compliance and Risk Management functions are endowed with adequate resources to discharge their duties;
  - > examines the calendar of scheduled activities and the annual reports prepared by the Heads of the Compliance, Internal Audit and Risk Management functions prior to the submission thereof to the Board of Directors;
  - > checks that internal control functions duly comply with the Board's instructions and guidelines;
  - > assists the Board in preparing the coordination document requested by Title IV, Chapter 3 of Bank of Italy Circular Letter No. 285/2013;
  - > submits findings and opinions to the Board of Directors on compliance with the principles with which the internal control system and the Company's organisational structure as a whole, are required to conform, as well as on satisfaction of the requirements imposed on internal control functions, highlighting weaknesses and recommending appropriate remedial measures where necessary, whilst also assessing any related proposals put forward by the General Manager;
  - > participates, with input and opinions, in framing the Company's policy on the outsourcing of internal control functions in compliance with Title IV, Chapter 3 of Bank of Italy Circular Letter No. 285;
  - > expresses opinions on specific aspects pertaining to the identification of the main corporate risks;
  - > assesses compliance with the consistency principle in the preparation of the consolidated financial statements, in concert with the Company Manager in charge of the company's financial reports, and taking due account of the opinions of the independent auditors and the Board of Statutory Auditors;
  - > directs the Internal Audit, Compliance and/or Risk Management functions (as appropriate in light of the issues in question) to undertake checks on specific areas of operation, simultaneously notifying the Chairman of the Board of Statutory Auditors thereof;
  - > reports to the Board of Directors on its activities and the appropriateness of the Internal Control and Risk Management system, at Board meetings called for the approval of the annual and half-yearly financial statements;
  - > may be consulted on specific transactions directly or indirectly entailing a conflict of interests;
  - > performs the other duties subsequently entrusted to it by the Board of Directors.

Regarding related party and connected party transactions, in compliance with the provisions set forth in the Regulations on related party transactions approved by Consob with Resolution No. 17221 of 12 March 2010, as further amended and extended by Consob Resolution No. 17389 of 23 June 2010, and as required pursuant to the New Prudential Supervisory Provisions Concerning Banks, Circular Letter No. 263/2006, 9th update of 12 December 2011, and 15th update of 2 July 2013, as well as in compliance with the Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance adopted by the company, the Committee shall:

- > in respect of Moderately Significant Related Party Transactions, as defined in the Related Party and Connected Party Transaction Procedure, express, in the manner and form and in accordance with the deadlines established in the Procedure, a non-binding opinion, duly supported by grounds, on the extent to which it is in Banca Generali's interest to effect each such transaction, as well as on the fairness and substantive correctness of the related terms and conditions;
- > in respect of Highly Significant Related Party Transactions, as defined in the Related Party and Connected Party Transaction Procedure, (i) play an active role in the preliminary fact-finding and negotiation phases of each such transaction, including by seeking information from and/or forwarding comments and observations to any and all the persons and parties involved in the said phases; and (ii) express, in the manner and form and in accordance with the deadlines established in the Related Party and Connected Party Transaction Procedure, a binding opinion, duly supported by grounds, on the extent to which it is in Banca Generali's interest to effect each such transaction, as well as on the fairness and substantive correctness of the related terms and conditions. If a definitive "Transaction of Greater Importance", within the meaning of the 15th update of the Bank of Italy Circular Letter No. 263/2006 on 2 July 2013, is also classified as a "Highly Significant Transaction" pursuant to the document "Procedure for Transactions of Greater Importance with Related Parties and Connected Parties," the transaction in question is to be subject not only to the procedure described above, but also to a prior opinion by the Risk Management function.

The Committee is also in charge of providing support to the Board of Statutory Auditors, at the latter's request, especially in the form of advice and assistance in conducting the fact-finding inquiries required to discharge the duties entrusted to the Board of Statutory Auditors with regard to the statutory auditing of accounts pursuant to Legislative Decree No. 39 of 27 January 2010. More specifically, the Committee shall:

- > assess the proposals put forward by auditing firms to obtain the audit engagement, within the framework of the Company's procedures for appointing the independent auditors in charge of certifying the consolidated financial statements and half-yearly financial statements, with specific reference to the subject-matter of the appointments and the related economic terms and conditions, reporting its findings to the Board of Statutory Auditors;
- > assess the work schedule of the statutory audit, and examine the results set forth in the report drawn up by the independent auditors together with any suggestions the latter may have put forward, reporting its findings to the Board of Statutory Auditors;
- > monitor the effectiveness of the processes followed for the statutory auditing of accounts, reporting its findings to the Board of Statutory Auditors;
- > undertake any and all further tasks that the Board of Statutory Auditors may entrust to it in respect of the statutory auditing of accounts.

Lastly, as far as equity investments are concerned, in accordance with the procedures set forth in the "Equity Investment Management Policy" approved by Banca Generali, the Committee is charged with advisory powers in the various cases described above, expressing, where requested, opinions regarding (i) the granting of significant loans to companies in which the bank holds a qualified equity investment; (ii) the acquisition of a qualified equity investment in a company which has been granted significant loans; (iii) the acquisition of equity investments in companies considered strategic suppliers; and (iv) the acquisition of equity investments in debtor companies aimed at recovering credits.

Internal Audit and Risk Committee members are appointed for a period that is coterminous with the term of the Board, and are entitled to annual remuneration plus an attendance fee payable for each meeting they attend.

Committee meetings are generally held at least four times a year and, in any event, with the timeliness necessary to allow a full treatment and discussion of any and all matters on which the Committee may be requested or required to report to the Board of Directors.

In addition to Committee members, Committee meetings must be attended by the General Manager, the Chairman of the Board of Statutory Auditors or another Auditor delegated with such task, it being understood that other Auditors may also attend.

At the invitation of the Committee Chairman, Committee meetings may be attended by top managers, the Compliance Officer, Internal Auditor, the Risk Management Officer, the Anti Money Laundering Officer, the Heads of other corporate functions, the Manager in charge of Company's financial reports and any and all other persons whose presence is deemed useful in relation to the items on the Agenda.

In 2016, the Internal Audit and Risk Committee met thirteen times, for an average of approximately 1 hour and 30 minutes each time. In the year under review, a total of eight Board meetings are scheduled; from the beginning of the year to the date of this Report, two have been held.

The main activities carried out by the Committee during the year are listed below.

- > In its meeting on 26 January 2016, the Committee examined the following issues:
  - i) half-yearly report on litigation at 31 December 2015 and proposals for provisions for risks and impairment;
  - ii) tableau de bord for the fourth quarter, 2016 annual report and plan of activity of the Compliance function;
  - iii) tableau de bord for the fourth quarter and 2016 activity plan of the Anti Money Laundering function;
  - iv) annual report and activity plan 2016 of the Risk and Capital Adequacy Department;
  - v) tableau de bord for the fourth quarter, annual report and plan of activity 2016 of the Internal Audit Department;
  - vi) assessment of the 2016 Plan of internal audit functions;
- > In its meeting on 10 February 2016, the Committee examined the following issues:
  - i) verification of the adequacy of the accounting policies followed in preparing the annual financial statements;
  - ii) tableau de bord for the fourth quarter of 2015 of the Risk Management function;
  - iii) proposal for offers for activity with a related party and a connected party;
  - iv) information on a transaction with a related party and a connected party;
- > In its meeting of 22 February 2016, the Committee examined the following issue:
  - i) information about a transactions with a related party and a connected party;
- > In its meeting of 9 March 2016, the Committee examined the following issues:
  - i) report within the meaning of Article 2.2.17 of the Internal Audit and Risk Committee Rules;
- > In its meeting on 24 March 2016, the Committee examined the following issues:
  - i) annual report on the internal control system and assessments carried out at the subsidiary companies;
  - ii) annual report of the Compliance function on assessments carried out at the subsidiary companies;
  - iii) annual report of the Anti Money Laundering function on assessments carried out at the subsidiary companies;
  - iv) annual report of the Anti Money Laundering function including self-assessment;
  - v) annual report of the Risk Management function on assessments carried out at the subsidiary companies;
- > In its meeting on 19 April 2016, the Committee examined the following issues:
  - i) presentation of the ICAAP report;
  - ii) presentation of Pillar 3 public disclosures;

- iii) ILAAP presentation;
- iv) report of the Internal Audit function on controls of important operating functions outsourced;
- > In its meeting on 9 May 2016, the Committee examined the following issues:
  - i) presentation of the tableau de bord of the Compliance and Anti Money Laundering Department;
  - ii) presentation of the tableau de bord of the Risk and Capital Adequacy Department;
  - iii) presentation of the tableau de bord of the Internal Audit Department;
  - iv) information about a transactions with a related party and a connected party;
- > In its meeting on 21 June 2016, the Committee examined the following issues:
  - i) information about a transaction with a related party and connected parties;
  - ii) quarterly information about risk management and performance measurement activity on Banca Generali's portfolio management schemes;
  - iii) information about an anonymous complaint received;
- > In its meeting on 25 July 2016, the Committee examined the following issues:
  - i) check of the adequacy of the accounting policies followed in drawing up the half-year financial statements;
  - ii) presentation of the half-year FARG-Financial Report 2016;
  - iii) presentation of the tableau de bord of the Compliance and Anti Money Laundering Department;
  - iv) presentation of the tableau de bord of the Risk and Capital Adequacy Department;
  - v) presentation of the tableau de bord of the Internal Audit Department;
  - vi) information about an inspection by the Italian Finance Police;
  - vii) information regarding a transaction with related parties and connected parties;
  - viii) transaction with a related party and a connected party;
  - ix) report within the meaning of Article 2.2.17 of the Internal Audit and Risk Committee Rules;
  - x) information about the development of the Credit Risk Mitigation framework;
- > In its meeting on 8 September 2016, the Committee examined the following issues:
  - i) information regarding a transaction with related parties and connected parties;
  - ii) quarterly information about risk management and performance measurement activity on Banca Generali's portfolio management schemes;
  - iii) information about the Tyndaris convertible bonds;
- > In its meeting on 11 October 2016, the Committee examined the following issues:
  - i) public disclosures on a transactions with a related party and a connected party;
  - ii) report on changes to the organisational and control structure and IT systems in order to ensure compliance with the EBA's final orientations on the security of Internet payments;
- > In its meeting on 7 November 2016, the Committee examined the following issues:
  - i) presentation of the tableau de bord of the Compliance and Anti Money Laundering Department;
  - ii) presentation of the tableau de bord of the Risk and Capital Adequacy Department;
  - iii) presentation of the tableau de bord of the Internal Audit Department;
  - iv) identification of the new Head of the Anti Money Laundering Service;
- > In its meeting on 13 December 2016, the Committee examined the following issues:
  - i) presentation of the proposals concerning the objectives of the Risk Appetite Statement;
  - ii) presentation of the Framework stress test;
  - iii) information about related party and connected party transactions;
  - iv) information about the outcomes of settlements with the Italian Revenue Service;
  - v) quarterly information about risk management and performance measurement activity on Banca Generali's portfolio management schemes;
  - vi) approval of the guidelines for managing and mitigating credit risk (CRM).

The proceedings of each meeting, coordinated by the Chairman, were duly recorded in minutes.

Seven out of the thirteen meetings held in 2016 were attended by all the Committee's members, while at the others one member was absent.

The table in Annex 2 hereto provides information on the attendance rate of each member at the Committee meetings. The Internal Audit and Risk Committee is afforded unhindered access to any and all the corporate information and functions it may deem necessary or useful for the proper discharge of its assigned tasks, and may also avail of outside consultants, if necessary. In order for the Committee to carry out its duties, a specific item of 75,000 euros was allocated in the budget for the current year.

## 11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The bank's Board of Directors adopted an organisational model for the Group's internal control system, under which so-called second and third control functions are centralised within the Parent Company, especially so as to meet the need for managerial, as well as technical-operating coordination that is as deep-reaching as the strong strategic coordination of group companies, achieved through the presence of representatives of the Parent Company on the governance and control bodies of subsidiaries.

As required pursuant to the Civil Code and the supervisory regulations for banks and, as recommended in the Corporate Governance Code, the Bank has therefore adopted an internal control system capable of continuously monitoring typical business risks.

The internal control system is a structured set of organisational functions, procedures and rules of conduct aimed at ensuring sound and proper corporate governance in line with pre-set targets, through adequate processes for identifying, measuring, managing and monitoring the main business risks. The system forms an integral part of the Company's operations and entails the involvement of all corporate structures and sectors, each of which is called upon to ensure constant and continuous risk monitoring, within the limits of its specific sphere of competence.

Within this framework, Banca Generali has set up an internal control system, fully compliant with the provisions of Article 7 of the Corporate Governance Code and, moreover, specifically designed to ensure healthy and prudential corporate management of the bank and the banking group, whilst at the same time reconciling the attainment of corporate targets, the proper and timely monitoring of risks and appropriate operating procedures.

Banca Generali S.p.A.'s Internal Control System was most recently updated by the Board of Directors and is regularly revised and amended to comply with the provisions of the Bank of Italy Circular Letter No. 283/2013.

The Internal Control System consists of:

- i) *checks involving the business lines*: systematic or periodic checks on samples of information, carried out by the heads of individual operating units with a view to ensuring the proper completion of the transactions effected by the same production structures, or incorporated into procedures, or performed as part of middle/back-office processes;
- ii) *risk management checks*: checks carried out by the heads of individual operating units and by the Risk Management function, as part of the process of determining risk measurement methods, with a view to ensuring compliance with the thresholds assigned to the various operating departments, as well as in order to maintain the operations of individual production units in line with the risk/return targets set for specific types of risk (credit risk, market risk, operating risk);
- iii) *compliance checks*: checks carried out by the Compliance Department on the compliance of transactions with statutory requirements, orders and instructions imposed under supervisory authorities and the Company's self-regulatory provisions;
- iv) *checks regarding money laundering*: checks carried out by the Anti Money Laundering Service on the compliance of transactions with statutory requirements, orders and instructions imposed under supervisory authorities and the Company's self-regulations;
- v) *internal auditing*: checks carried out by the Internal Audit Department with a view to ensuring the propriety of the Company's operations, risk trends, the overall functioning of the internal control system, whilst at the same time identifying abnormal trends, breaches of procedure and regulations, as well as assessing the effectiveness of internal control.

The Company's Internal Control system is structured to ensure proper disclosure of information and adequate oversight of all the Banking Group's activities, with a view to promoting fairness and transparency, in both form and substance, whilst also ensuring the efficiency, traceability and auditing of transactions, and more in general all management activities; the reliability of accounting and management data; compliance with laws and regulations, and the protection of the integrity of the Company's assets, especially in order to prevent fraud against the customers, the Company and the financial markets.

The key principles underlying the Company's Internal Control System include:

- > the separation of roles in the performance of the main tasks involved in individual production processes;
- > the traceability and constant visibility of choices;
- > objective decision-making with regard to individual operating processes.

Responsibility for the Internal Control System, pursuant to applicable regulations, resides with the Board of Directors that is in charge of: (i) establishing the guidelines, strategic orientation and risk management policies pertaining to the internal control system; (ii) approving the bank's organisational structure, ensuring that tasks and responsibilities are clearly and properly assigned, and periodically checking the adequacy and effectiveness of the said structure, further ensuring that the main company risks are identified and appropriately managed, the Company's control structures are endowed with sufficient autonomy and independence within the Company's organisation, as well as with adequate resources to ensure the proper functioning thereof.

The Board of Directors, with the support of the Internal Audit and Risk Committee, also carries out periodic assessments of the functioning, effectiveness and efficiency of the internal control system, taking timely corrective actions in case of shortcomings and/or anomalies in the performance of the checks themselves.

Pursuant to supervisory regulations, internal control functions must be independent of other operating functions, and report directly to the Board of Directors and Board of Statutory Auditors, on a periodic basis, in respect of the outcome of its activities.

On 25 September 2003, the Board of Directors appointed Francesco Barraco Head of the Internal Audit Function, effective 1 October 2003. His remuneration is examined each year by the Board of Directors, with the support of the Remuneration Committee and in concert with the Board of Statutory Auditors, and is in line with market best practices.

The Internal Audit Department: (i) performs assurance activities and submits potential improvements to the corporate bodies, with specific reference to the RAF, the risk management process and its risk measurement and control tools, as well as audit advisory activities; (ii) directly reports the assessments and evaluations results to the corporate functions; (iii) promptly and directly forwards to the governing bodies the audit results concluded with negative judgments, or highlighting major deficiencies; (iv) provides guidance to the concerned Areas, Divisions, Departments, Services and Organisational Units; (v) in drawing up procedures for managing and containing company risks, monitors the

implementation of the said risk management procedures and measures, and, moreover, expresses its opinion on the effectiveness of the system in maintaining overall risk exposure within acceptable limits; (vi) submits the results of its activities to the Board of Directors, the Internal Audit and Risk Committee, the Chief Executive Officer and the Board of Statutory Auditors.

The Internal Audit Department performs said activities not only for Banca Generali, but also for Banking Group Companies, both under specific outsourcing agreements that govern the provision of audit function, and in an institutional capacity as a function of the Parent Company of the Banking Group.

The auditing method, on which internal auditing activities are based, is defined under the Internal Audit Rules approved by the Board of Directors and the supervisory model, also approved by the Board of Directors and constantly implemented in light of developments in oversight compliance and best auditing practices (CoSo Report, professional standards).

In compliance with applicable laws, on 24 June 2015, the Board of Directors appointed Fabio Benvenuti to head of the Compliance and Anti-Money Laundering Department, as of 1 July 2015.

On the same day, 24 June 2015, the Board of Directors entrusted Antonio Bucci to head the Risk and Capital Adequacy Department as of 1 July 2015.

As already noted, in order to implement the Code's recommendations regarding internal control and comply with the supervisory provisions in force, the Board set up within itself an Internal Audit and Risk Committee in charge, among other tasks, of completing all the preparatory activities required for the Board to properly undertake its internal control tasks (for further information, see "Internal Audit and Risk Committee", above).

Moreover, with regard to risks, the General Manager may also avail of the advice of the Risks Committee established by Board resolution of 23 September 2008 with a view to coordinating the banking group's risk management and control system, and identifying and implementing appropriate risk containment measures.

In order to transpose the Code's provisions on internal controls, and in compliance with the Bank of Italy's supervisory regulations, pursuant to Article 8 of the Board Rules requirements, the Board:

- i) defines guidelines for the Internal Control and Risk Management System so that the primary risks affecting the Company and its subsidiaries are properly identified and adequately measured, managed and monitored; moreover, it determines the degree to which such risks are compatible with management of the Company consistent with the strategic goals identified;
- ii) assesses at least on an annual basis, the adequacy of the internal control and risk management system with respect to the Company characteristics and risk profile, as well as its effectiveness;
- iii) approves the plans prepared by the Heads of Compliance, Anti Money Laundering, Internal Audit and Risk Management and examines the periodic *tableaux de bord* and the annual reports prepared by those functions;
- iv) assesses the results presented by the independent auditors in management letters of suggestions and report, if any, on important issues that arose during the auditing of the Company's accounts.

Moreover, pursuant to Article 52-bis, paragraph 1 of TUB which requires "banks and the related parent company to adopt specific procedures for the internal reporting by employees of conduct or events that could entail a breach of the rules regulating the banking industry", and taking due account of the implementing provisions issued by the Bank of Italy through Circular Letter No. 285/2013, on 15 December 2015, the Board of Directors adopted whistleblowing procedure enabling employees to report suspected breaches of banking regulations.

Responsibility for all related matters was assigned to Fabio Benvenuti, the Head of the Company's Compliance and Anti-Money Laundering Department, pursuant to his appointment as Whistleblowing Manager.

In managing and coordinating the Group as its Parent Company, the Bank also exercises:

- a) strategic control over the development of various business areas in which the Group operates, and the risks arising from the own securities portfolio. This type of control is aimed at monitoring the expansion of the business operations of group companies, and their policies in terms of mergers, de-mergers and acquisitions. Strategic coordination is ensured primarily through presence, within the subsidiaries' Board of Directors, of a certain number of persons appointed by the Bank's Board;
- b) operating control aimed at ensuring that the income statements, cash flow statement and balance sheets of both, individual group companies and the group as a whole, are appropriately balanced. These checks are carried out preferably through the drawing up of plans, programmes and budgets (for each group company and for the group as a whole) and by analysing the quarterly performance, interim results and annual financial statements of each group company and the group as a whole, duly broken down by specific business sector, and with regard to the entire group. Operations are coordinated by the Planning and Control Department which liaises with the company bodies/functions of each of the subsidiaries;
- c) technical-operating control aimed at assessing the profiles of the various risks incurred by the group as a whole as a result of the business operations of individual subsidiaries.

## 11.1 The Director in charge of the Internal Control and Risk Management system

Following the aforementioned untimely passing of Chief Executive Officer Piermario Motta on 26 March 2016, the Board of Directors, with the supervisory authority's consent and with effect from 20 April 2016, resolved not to appoint a new Chief Executive Officer, resulting in a governance structure for the Bank based on an organisational structure

led by a General Manager, who has been charged with acting as the head of the Bank and who has been granted the necessary powers as person responsible for the management function.

Accordingly, the Board of Directors did not identify a director in charge of the internal control and risk management system, instead preferring to have the Compliance and Anti Money Laundering Department and the Risk and Capital Adequacy Department report directly the Board, along with the Internal Audit Department, which had already been reporting directly to the Board for some time. The Heads of internal audit functions thus report directly to the Board of Directors, the Board of Statutory Auditors and the Audit and Risk Committee with regard to the activity performed. The Board of Directors defines the operating policies and related risk control procedures, identifying and evaluating, including on the basis of management trends and departures from forecasts, any and all factors giving rise to risks, and assesses the functioning, effectiveness and efficiency of the internal control system, promoting the updating of the same as may be necessary or useful, from time to time.

The Board of Directors Auditors is in charge of, *inter alia*:

1. defining and monitoring on an ongoing basis the implementation of the risk management process, ensuring its consistency with the risk appetite and risk governance policies, taking also into account the changes in operating conditions both inside and outside the Bank;
2. defining and approving the guidelines for the internal control system and verifying whether they are consistent with the established strategic guidelines and risk appetite, and that they are capable of reflecting the development of and interaction between company risks, taking the initiatives and actions necessary to ensure, on an ongoing basis, the completeness, adequacy, functionality and reliability of the internal control system;
3. with at least annual frequency, verifying the adequacy and efficacy of internal control systems and organisation in the light of the requirements set by the laws and regulations in effect from time to time and the Bank's characteristics;
4. verifying that the structure of the company control functions has been established in a manner consistent with the principle of proportionality and strategic guidelines, and that said functions have been provided qualitatively and quantitatively adequate resources;
5. approving the way in which control functions coordinate and collaborate with one another;
6. defining and approving the Risk Appetite Framework (RAF) and periodically assessing its adequacy and efficacy in the light of the Bank's characteristics and operation;
7. defining and periodically reviewing the strategic guidelines and risks management policies relating to money laundering and terrorist financing in a manner appropriate to the level and type of risks to which the Bank is actually exposed; *inter alia*, it ensures, on an ongoing basis, that tasks and responsibilities concerning anti-money laundering and countering of terrorist financing are clearly and appropriately allocated, making sure that operational and control functions are separated and have qualitatively and quantitatively adequate resources. Defining the information flows aimed at ensuring that all the company functions involved and the controlling bodies are aware of risk factors, and approving training and education programmes for employees and professionals.

## 11.2 Internal Auditor

On 25 September 2003, the Board of Directors appointed Francesco Barraco Head of the Internal Control Department and Head of the Internal Audit Function, with effect as from 1 October 2003.

The Internal Audit Department is an independent function intended, on the one hand, to supervise, from a third-tier standpoint and including through onsite checks, the regular course of operations and evolution of risks and, on the other, to assess the completeness, adequacy, functionality and reliability of the organisational structure and the other components of the internal control system, as well as to inform the company bodies of possible improvements, in particular to the Risk Appetite Framework, risk management process, and risk measurement and control instruments.

The Internal Audit function is charged with constantly and independently verifying that the internal control system is completely adequate, fully functional and operational. The Internal Audit function assesses and contributes to the improvement of the governance, risk management and control processes through a systematic professional approach.

The Internal Auditor:

1. is charged with verifying that the internal control system is always adequate, fully operational and functional; to that end, he verifies, both on an ongoing basis and in relation to specific needs, and in accordance with international standards, the suitability of the internal control and risk management system, through an audit plan approved by the Board of Directors and based on a structured process of analysis and prioritisation of the main risks;
2. is not to be assigned responsibilities for any operating department and not to be hierarchically answerable to the head of any operating department, including the administration and finance department;
3. is to be afforded direct access to any and all the information that may be useful for the performance of his duties;
4. is to be endowed with adequate resources for the performance of his assigned duties;
5. reports on his actions to the Internal Audit and Risk Committee, the Board of Statutory Auditors and the Board of Directors, preparing periodic reports containing adequate information about his activity, the manner in which risks are managed and compliance with the plans defined to contain those risks. Specifically, he expresses an opinion on the effectiveness of the internal control and risk management system in ensuring an acceptable overall risk profile;
6. prepares reports on events of particular significance in a timely manner, forwarding them to the bodies mentioned above;

7. verifies the reliability of the systems in the context of audit plans;
8. has a budget to refer to for completing his tasks and activities.

During the year, Internal Audit activity pertained in particular to the safeguards associated with risks arising from IT and security processes, privacy, the processing of customers' orders, risk management (credit, liquidity, operating, anti-money laundering and fraud risks), investment services and administrative and accounting entries, with intervention at all levels of control with the responsible departments. The Internal Auditor also monitored the improvement paths for existing controls, which were initiated as a result of previous audits (follow ups).

---

## Main features of the Company's risk management and internal control systems related to the financial reporting process (pursuant to Article 123-bis, paragraph 2, letter b), of TUF)

### Foreword

The risk management and internal control system as it relates to the financial reporting process adopted by the bank (the "System") is part of the broader Internal Control and Risk Management System described in the previous section. The System addresses the issues of internal control and risk management arising in respect of the financial reporting process, from an integrated perspective, with a view to identifying, assessing and containing the so-called financial reporting risks (i.e., risks of errors leading the annual financial statements, the condensed half-yearly financial statements, the consolidated financial statements and/or other financial disclosures and filings to reflect a view of the balance sheet, income statement and/or cash flow that cannot be described as true and/or fair) to which the Company and the Group are exposed.

The System is thus intended to guarantee the reliability, accuracy and timeliness of financial reports. To this end, the bank created a financial reporting risk model consisting of principles and rules that aim to guarantee an adequate administrative and accounting system, in part by ensuring the availability of procedures and instructions.

The Manager in charge of the company's financial reports works within this framework. The Manager is charged by Italian Law No. 262 of 28 December 2005 ("Law 262") with the critical task of ensuring the reliability of accounting documents and availability of adequate administrative and accounting procedures for listed companies based in Italy. The Manager in charge of the company's financial reports is responsible for defining the methodological and organisational aspects of adopting the financial reporting risk model within the Company and Group, to the extent of the powers and means granted to him/her under paragraph 4 of Article 154-bis of the TUF.

The financial reporting risk model adopted is based on a process developed by the Company in accordance with the following reference frameworks, which are generally recognised and accepted internationally:

- i) the CoSO (Committee of Sponsoring Organisation of the Treadway Commission). Internal Control - Integrated Framework, released in 1992, defines guidelines for assessing and developing an internal control system. In the CoSO Framework, the model refers to the component of the internal control system concerning the processes of collection, processing and publication of financial information flows (financial reporting);
- ii) COBIT (Control Objective for IT and Related Technology, built by the IT Governance Institute based on the CoSO Framework), provides specific IT guidelines and can be used together with ITIL (Information Technology Infrastructure Library, a framework already used by the Group) and ISO/IEC 27001 (International Organisation for Standardisation/Information Electrotechnical Commission).

Within the Group, the financial reporting risk model has been extended to companies identified as relevant in the context of the model ("Companies within the Scope of Application"). In particular, the Companies within the scope of analysis area adopt a financial reporting risk model that is consistent with the model used by the Company so as to create a uniform system throughout the Group. The models are then changed as indicated by Banca Generali's Manager in charge of the company's financial reports.

---

## Key characteristics of the existing risk management and internal control system as it relates to the financial reporting process

The key characteristics of the financial reporting risk model adopted by Banca Generali are summarised below, with particular reference to: (A) phases of the model; (B) departments/employees involved in the model and their respective roles and information flows.

### (A) Phases of the financial reporting risk model

The different phases of the financial reporting risk model were defined by the Company based on the reference framework. In detail, the model may be divided into the following phases: (i) identification and assessment of financial reporting risks, (ii) identification and assessment of controls for mitigating identified risks.

#### (i) Identification and assessment of financial reporting risks:

To identify and assess financial reporting risks, the Company identifies the relevant Banking Group Companies and significant information (consolidated accounts and company-wide processes), considering both quantitative and qualitative



elements. Companies within the scope of analysis are those that, in considering the relationships between the assets, revenues and profit or loss of the individual companies and consolidated balances, exceed specific limits established by best market practice (in 2015, such companies accounted for nearly all of consolidated assets). In relation to the consolidated accounts, significance is determined based on the guidelines generally used in audit procedures. Processes are considered significant and therefore subject to analysis if, from an accounting perspective, they have a potential impact on the consolidated accounts. All processes involved in period-end reporting are included in the scope of processes to be analysed. All significant processes must be subjected to testing at least on an annual basis. The scope of analysis is revised at least annually or when warranted by changes in the Group's structure.

### ***(ii) Identification and assessment of controls for mitigating identified risks***

The financial reporting risk model includes the following types of controls: (a) company-level; (b) process-level; (c) information technology.

The structure of the controls is designed so as to allow adequate identification and assessment and is based on four main characteristics:

- 1) time of execution: controls can be either preventative or after-the-fact;
- 2) the execution procedure: manual or automatic;
- 3) nature (i.e., structural characteristics): authorisation, reconciliation, management review, etc.;
- 4) frequency (i.e., time interval of controls): weekly, monthly, quarterly, etc.

Control analyses include a phase in which the adequacy of the design (ToD) is evaluated and a phase in which the actual application (ToE) is evaluated according to specific methods for each type of control. If during these phases shortcomings are identified in the management of financial reporting risk, the appropriate corrective measures or actions are determined. The implementation of corrective measures or actions is constantly monitored by the Manager in charge of the company's financial reports.

#### ***(a) Company-level controls***

The goal of company-level controls is to ensure the existence of an organised, formal company structure designed to reduce the risk of improper conduct through adequate governance systems, standards of conduct based on ethics and integrity, efficient organisational structures, clarity in the assignment of powers and responsibilities, adequate risk management policies, employee disciplinary systems, efficient codes of conduct and fraud-prevention systems. Adequacy assessments focus on ensuring the existence and dissemination of the appropriate tools (such as policies, codes, rules, service rules, etc.) used to identify rules of conduct applicable to company employees. The next phase involves evaluating the actual application of the aforementioned rules.

#### ***(b) Process-level controls***

Process-level controls are carried out at a more detailed level than company-level controls and are aimed at mitigating financial reporting risk through controls included in the Company's operating processes. Assessments of control adequacy are carried out by identifying company processes, determining the key controls used to manage financial reporting risk and evaluating the appropriateness of such controls in mitigating this risk. Efficiency assessments involve verifying the actual and correct execution of controls and the adequacy of related documentation.

#### ***(c) Controls on Information Technology (IT)***

IT controls focus on processes associated with managing and handling information stored in the computer systems used to create the financial statements. Specifically, analyses are performed on controls concerning software purchases and maintenance, physical and logical security management, application development and maintenance, data completeness and accuracy, IT risk analysis and information system management. As for the applications used to create the financial statements in relation to business processes, as well as period-end reporting, analyses focus on evaluating the adequacy of controls as they pertain to the key best practices and reference frameworks used and ensuring that controls remain functional according to standardised methodologies. The analyses also evaluate the efficiency of the automatic controls (ITAC - IT Application Controls) performed by applications as part of major processes.

### **(B) The departments/employees involved in the model, their roles and information flows**

Consistent with the internal control and risk management system adopted by the Company, the financial reporting risk model engages its corporate boards and operating and control units in an integrated management approach based on the various levels of responsibility so as to guarantee the model's ongoing adequacy.

The Board of Directors, with the support of the Internal Audit and Risk Committee, ensures that the model enables the identification, assessment and control of major risks, at both the Company and Group level, through the definition of strategies and general internal-control and risk-management guidelines. In compliance with applicable legislation, the Board also ensures that the Manager in charge of the company's financial reports has the necessary means and powers to perform the duties assigned to him/her under Italy's Law No. 262.

The Manager in charge of the company's financial reports is responsible for implementing, maintaining and monitoring the financial reporting risk model in compliance with the strategies defined by the Board. Accordingly, the said Manager is responsible for evaluating the adequacy and use of administrative and accounting procedures and their appro-

priateness to present a true and fair view of the assets, liabilities, profit or loss and financial position of the Company and Group. In fulfilling these responsibilities, the Manager in charge of the company's financial reports is supported by a special unit (Law 262 Organisational Unit) that is charged with the task of coordinating all activities necessary for the correct performance of the duties assigned to him. The Unit also serves as a point of reference for the entire Group as regards the management of administrative and accounting risks through guidance and coordination activities, and coordinates testing on key controls entrusted with independent auditors.

Banca Generali's Regulations and Organisational Analysis Service is responsible for mapping the Company's processes, and therefore also the administrative and accounting processes of the Group's companies; it ensures that the information and documentation pertaining to them is kept up-to-date.

The Internal Audit Department conducts periodic efficacy assessments, according to a risk-oriented approach, on the procedures and the controls represented in them, with regard to the administrative and accounting processes, the IT applications relevant for administrative and accounting purposes and ITAC controls (automatic controls). Every six months, it submits an assurance report to the Director in charge and the Internal Audit and Risk Committee.

The Compliance function is responsible for checking and assessing the appropriateness and effectiveness of administrative and accounting processes, with a view to ensuring compliance with any and all applicable regulatory provisions governing the performance of any and all the banking and investment services offered by the Banking Group, especially so as to minimise the risk of non-conformities.

Process Owners (managers of the Company's and Group's Organisational Units) are in charge of managing one or more major processes in accordance with Law No. 262. They are responsible for ensuring that the documentation system put in place by the Group's dedicated units is consistent with actual operations. This is achieved by promptly communicating changes that have been made and implementing corrective actions designed to address any shortcomings found and ensuring the execution of self tests.

Furthermore, if key activities and/or controls that are the responsibility of a department other than the Process Owner's are identified within a process, a Sub-Process Owner is appointed with the duty and responsibility of ensuring that operations are consistent with company procedure. This is achieved by identifying, formalising and continuously updating the portion within one's remit.

The Company also developed – through a special circular related to all Group companies – a documentation system that ensures that all boards, departments and employees with specific tasks within the internal control and risk management system work together to complete their respective duties.

The activities, information and documents included in the financial reporting risk model are managed using computer applications that are shared with other control units.

The Manager in charge of the financial reports of the Company reports to the Board of Directors on a regular basis as to the activities carried out in exercising his functions.

### 11.3 Organisational model pursuant to Legislative Decree No. 231/2001

Legislative Decree No. 231 of 8 June 2001 introduced the principle that corporations may be held liable for specifically listed offences committed or attempted in their interest and/or for their benefit by individuals entrusted with corporate representation, administration and management, or individuals subjected to the management or oversight of one of the latter.

The above-mentioned Decree provides for exemption from this form of liability in the case of entities which have adopted and effectively implemented organisational and management models designed to prevent the aforesaid offences.

The adoption of an Organisational and Management Model (hereinafter the "Model") is not an obligation or duty, but a right, that the Company has decided to exercise in order, not only to restructure and formalise, where necessary, a system of preventive checks aimed at preventing conduct entailing administrative liability for the Company pursuant to the above-mentioned Decree, but also to ensure the Company's own integrity, and to boost the effectiveness and the transparency of corporate operations.

The Board of Directors approved the Company's Organisational and Management Model, drawn up in light of the Company's specific operating conditions and requirements. The aforesaid Model must be constantly updated taking due account of changes in the relevant regulatory framework. A copy of the Model is available on the website [www.bancagenerali.com/About us/Corporatestructure/BancaGenerali](http://www.bancagenerali.com/About us/Corporatestructure/BancaGenerali).

Apart from meeting all the necessary formal requirements, the Model fully achieves, even in substance, the aforesaid main goal underlying its adoption and aims at preventing from all types of offences contemplated in the relevant laws. The Model is complemented by regulations and corporate rules, is made up of a structured set of principles, rules, provisions and organisational layouts pertaining to the management and oversight of business operations, and is contained in an illustrative document that sets forth the general rules that make it impossible for the offences to be committed without fraudulently violating the model.

In accordance with the provisions of the aforesaid Decree, the task of supervising compliance with the Model and updating the same must be entrusted to an independent and qualified body set up within the entity, and endowed with autonomous powers of initiative and oversight.

In this regard, the regulations applicable to the Company provide precise rules for the assignment of the role of Supervisory Body, which was previously based on internal assessments and the guidelines proposed by industry associations. According to Article 6, paragraph 4-bis of Legislative Decree No. 231/2001, as introduced by Article 14, paragraph 12, of Law No. 183 of 12 November 2011 ("Provisions for preparing the annual and multi-year state budget – 2012 Stability Law"), corporations are now authorised to assign this role to the Board of Statutory Auditors. In addition, Bank of Italy Circular Letter No. 263, as amended by the 15th update issued on 2 July 2013, provides that the body with control

function (i.e., the Board of Statutory Auditors in the governance system adopted by the Company) generally also carries out the functions of the supervisory body.

The Corporate Governance Code approved by the Borsa Italiana S.p.A. in favours assigning the tasks of the Supervisory Body to the Board of Statutory Auditors.

In light of the foregoing, the Board of Directors of Banca Generali, on 1 April 2014, resolved to identify the Board of Statutory Auditors as the body entrusted with the Supervisory Body's functions, concurrently attributing to the latter all necessary powers to carry out the aforesaid functions.

On 23 April 2015, the Shareholders' Meeting made the necessary amendments to ensure that the eligibility requirements for membership of the Company's Supervisory Board and the causes of disqualification from and unfitness for such office are identical to the statutory eligibility requirements and causes of disqualification and unfitness applicable to members of the Board of Statutory Auditors of a listed bank.

Accordingly, subject to prior verification that the integrity and professionalism requirements are met and that there are no relevant situations incompatible with taking on the office in question, the current members of the Board of Statutory Auditors are now members of the Supervisory Body, namely the Chairman of the Board of Statutory Auditors, Massimo Cremona, and the Acting Auditors, Mario Francesco Anaclerio and Flavia Daunia Minutillo.

Furthermore, the following remuneration was established for the members of the Supervisory Body:

- > 15,000 euros gross per year for the Chairman of the Supervisory Body, identified in the Chairman of the Board of Statutory Auditors;
- > 10,000 euros gross per year for each of the other members of the Supervisory Body, identified in the Acting Auditors.

In carrying out its tasks, the Supervisory Body is also to avail of the support of other corporate functions, especially the Compliance function.

---

#### 11.4 Independent Auditors

On 23 April 2015 the General Shareholders' Meeting resolved to entrust the statutory auditing of the Company's accounts for the years ended on 31 December 2015 through to 31 December 2023, to the accounting firm BDO Italia S.p.A.

---

#### 11.5 Manager in charge of the company's financial reports

Article 154-*bis* of Legislative Decree No. 58 of 24 February 1998, introduced by Law No. 262 of 28 December 2005, requires *inter alia*:

- a) the Manager in charge of the company's financial reports to issue a written statement attesting that any and all notices and information the Company discloses on the market in respect of its annual and/or interim financial reports corresponds to the documentary results, books and accounting records;
- b) the Manager in charge of the company's financial reports and the delegated Administrative Bodies to issue a joint written statement to be attached to the annual financial statements, the condensed half-yearly financial statements, and, where applicable, the consolidated financial statements, certifying the appropriateness and effective implementation of all relevant accounting and administrative procedures during the accounting reporting period, as well as warranting that all the related accounting documents were prepared in accordance with the international accounting principles generally accepted and applied within the European Union, and, accordingly faithfully reflect the contents of the Company's accounting books and records, with the result that the said accounting documents may be deemed to provide a true and fair view of the balance sheet, income statement and cash flow statement of the Company and the Group. Moreover, with respect to the annual financial statements and the consolidated financial statements, the said written statement shall certify that the related Directors' Report on Operations includes a reliable analysis not only of business trends and operating results, but also of the situation of the issuer and all the companies included in the scope of consolidation of the reporting entity, together with a description of the main risks and uncertainties to which the Company and Group are exposed, as well as, in respect of the condensed half-yearly financial statements, that the related interim Directors' Report comprises a reliable analysis of the information mentioned in paragraph 4 of Article 154-*ter* of TUF;
- c) the Board of Directors to oversee the appropriateness of the powers and resources made available to the Manager in charge of the company's financial reports and the proper implementation of "administrative and accounting procedures".

Pursuant to Article 23, paragraph 3, of the Articles of Association, the Board of Directors, after consultation with the Board of Statutory Auditors, appoints and dismisses the Manager in charge of the company's financial reports, in compliance with Article 154-*bis* of Legislative Decree No. 58 of 24 February 1998, establishing the powers and resources of the same.

Paragraph 4 of the same Article provides that the said Manager shall be selected from amongst the company executives in possession of the following professional qualifications:

- > adequate professional experience for a suitable length of time or, in any event, of no less than three years, in activities of administration, management or control or professional activities in the banking, insurance and financial sectors; or

- > specific know-how in the field of financial reporting and auditing, in respect of listed issuers or their subsidiaries and in the management or oversight of related administrative procedures, acquired over at least five years of experience in positions of responsibility for operating structures within the company, the group or other comparable corporations or entities in terms of business sector and organisational structure.

The said Manager must furthermore meet the requirements of integrity imposed under regulations governing the assumption of corporate offices. Loss of the requisite of integrity determines fall from office.

On 26 July 2016, pursuant to the Articles of Association, and having heard the opinion of the Board of Statutory Auditors, the Board of Directors appointed Paolo Tamagni to serve, as of 1 September 2016, as Manager in charge of the company's financial reports, within the meaning of Article 154-bis of Legislative Decree No. 58/1998, having ensured that he was fit and proper for such appointment within the meaning of Article 23 of the Articles of Association, and determining the powers and resources to be made available to him for the discharge of his assigned duties.

Paolo Tamagni is the head of the CFO Area (i.e., the area including the Finance, Administration, Planning and Control Departments and the 262 Organisational Unit) and is tasked with ensuring the proper and timely preparation of the Company and the banking group's accounts, as well as discharging related accounting and regulatory formalities, and drawing up financial reporting and tax compliance guidelines and policies in line with corporate strategies and targets.

The Board of Directors of 13 September 2016, lastly granted Paolo Tamagni, Head of the CFO Area and assigned the role of Manager in charge of the company's financial reports, the following powers, which are to be exercised, under his sole signature, in accordance with the general directives imparted by the Board of Directors and the guidelines established by the General Manager and the Deputy General Manager Finance & Operations, as well as in the context of the strategies of the banking group in question and budget plans:

1. to coordinate and supervise the activities of the Departments and Services that report to his Area of competence, reporting to the Deputy General Manager Finance & Operations on the results and activities of those departments and services;
2. to implement Board resolutions, in the course of all activities falling within his remit, in accordance with the guidelines imparted by the General Manager and the Deputy General Manager Finance & Operations;
3. in the course of all activities falling within his remit, to recommend measures designed to ensure the optimal organisation of the activities of the Company's offices, on the basis of functional criteria that, by breaking down tasks, allows for concurrent and subsequent checks, as well as the determination of individual responsibilities;
4. to recommend, for the activities within his remit, the duties and assigned tasks of employees in service at offices, in accordance with the guidelines established by the Board of Directors and the General Manager and the Deputy General Manager Finance & Operations;
5. to support the Deputy General Manager Finance & Operations in drawing up proposals regarding the annual budget and strategic three-year plan;
6. to support the Deputy General Manager Finance & Operations in submitting proposals concerning the draft financial statements and consolidated financial statements, as well as interim financial reports;
7. as Manager in charge of the company's financial reports, within the meaning of Article 154-bis of Legislative Decree No. 58/1998, to ensure that any and all notices and information the Company discloses to the market in respect of its annual and/or interim financial reports, are accompanied by a written statement issued by him, and attest that the said notices and information corresponds to the documentary results, books and accounting records;
8. as Manager in charge of the company's financial reports, within the meaning of Article 154-bis of Legislative Decree No. 58/1998, to draw up suitable administrative and accounting procedures for the preparation of the annual and consolidated financial reports, as well as any and all other financial notices;
9. as Manager in charge of the company's financial reports, within the meaning of Article 154-bis of Legislative Decree No. 58/1998, to certify, in a specific report drawn up in accordance with the form established by the Italian stock-market regulator Consob and attached to the annual financial statements, the condensed half-yearly financial statements and the consolidated financial statements, the appropriateness and proper application of the procedures mentioned in the preceding point, during the period of reference of the financial statements in question, further attesting that the latter provide a true and fair view of the balance sheet, profit and loss account and cash flow statement of the issuer and all the companies included in the scope of consolidation of the reporting entity;
10. to certify that the documents were drawn up in accordance with the international accounting principles applicable within the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002;
11. to certify that the Directors' report on operations attached to the annual financial statements and the consolidated financial statements includes a reliable analysis of the business trends, operating result and financial situation of the issuer and all the companies making up the reporting entity, as well as a description of the main risks and uncertainties to which the latter are exposed;
12. to certify that the interim Directors' report on operations attached to the interim financial statements includes a reliable analysis of the information mentioned in Article 154-ter, paragraph 4;
13. to assume any commitment, including of an economic nature, and undertake whatsoever else that may be necessary for discharging the tasks mentioned in Article 154-bis of Legislative Decree No. 58/1998;
14. for the purposes of discharging the tasks and/or exercising the powers mentioned in Article 154-bis of Legislative Decree No. 58/1998, to avail of the support and collaboration of other corporate functions (including the Internal Audit Department), should intervention by the latter be deemed necessary or even merely useful towards such end;
15. to express his opinion concerning the proposals formulated by the Deputy General Managers responsible for writing off loans, totally or partially waiving repayment of any credit extended, and thus waiving the guarantees acquired, where applicable, consenting to notations for the cancellation, subrogation, restriction, reduction and/or subordination of mortgages and/or liens and/or other collateral and settling disputed positions;

16. to express his opinion concerning the proposals formulated by the Deputy General Managers responsible for writing off expenses incurred by the company due to employees' errors;
17. within the framework of the budget approved by the Board, to cover the Company's current expenses;
18. to represent the Company before any and all offices of the Financial Administration and to effect any and all tax filings and related formalities; to resist tax assessments and audits and to settle tax disputes;
19. within the framework of the budget approved and up to the limits of his responsibilities, with a threshold of 100,000.00 euros for each individual asset, to acquire, dispose of or barter moveable assets, including those subject to registration, to collect amounts due by way of prices and to delegate, in whole or in part, the payment thereof, as well as the power to authorise payment by instalments with or without mortgage guarantees or hypothecation;
20. within the framework of the approved budget and within his remit, to negotiate and enter into, amend and terminate lease agreements, tender agreements, as well as agreements for rental, maintenance, supply, insurance, carriage, loan for use, security and transport services for cash and cash equivalents, brokerage, intermediation, advertising, agency and deposit services, as well as to enter into commitments for the supply of tangibles, the acquisition of intangibles, and the procurement of services rendered by third parties or consultants or other professionals, up to the ceiling of 100,000.00 euros per transaction, it being understood that, in the case of multi-year transactions the aforesaid ceiling shall apply on a per annum basis, provided that the said multi-year transactions do not extend over more than three years, and further provided that the aforesaid thresholds shall not apply to contracts with ordinary utilities companies providing essential services (electricity, telecommunications, etc), or payments required pursuant to law;
21. within the limits of his responsibilities and delegated powers or with the approval of the relevant corporate organ, to operate the Company's accounts and effect any and all withdrawals in general, drawing the related cheques or other negotiable instruments, up to the extent of actual deposits;
22. within the limits of his responsibilities, to liaise with any and all public authorities and bodies, the Bank of Italy, Consob, as well as any and all national and international entities and organisations, to effect any and all transactions with the Public Debt Office, the Italian investment organisation known as Cassa Depositi e Prestiti, the Bank of Italy, the manager of the electronic securities administration system, Monte Titoli, the Italian Inland Revenue Service, the Italian state railways, the Post Office, customs, energy and other utilities companies, and any and all other bodies, undertakings and corporations in general, making collection of any and all securities, monies and other receivables, and issuing valid receipt in respect of the same;
23. with the approval of the relevant corporate organ, to approve loans, agreements for the rendering of any and all types of banking services, financing, exemptions from liability in the case of the loss, theft and/or destruction of securities and cheques, personal guarantees, including performance bonds, payment bonds, suretyships, and commitments to honour bills of exchange;
24. to issue demand drafts;
25. to sign, on the behalf and in the name of the Company, any and all ordinary correspondence and deeds pertaining to the exercise of delegated powers;
26. to open and close, in the Company's name and on the latter's behalf, current and securities deposit and management accounts of any nature, sort, type or kind whatsoever, with banks, post offices or other authorised custodians, deposits subjected to central management by the Bank of Italy, as well as with bodies specialising in the administration of securities, negotiating and stipulating any and all related contractual terms and conditions;
27. to foreclose loans and collect any and all monies or amounts due to the Company, issuing full redemptory receipt therefore;
28. to endorse and issue receipt for any and all securities, including, regardless of form, bills of exchange, cheques, money orders, securities and the like, as well as bills of lading and other deeds representing documentary credit, and equity and debt securities, and any and all other financial instruments and commercial paper in general;
29. to exercise the powers granted to him from time to time by the regulations adopted by the bank and all other powers granted to him on an ongoing basis or from time to time by the Board of Directors or the General Manager and the Deputy General Manager Finance & Operations, in the context of his responsibilities.

In order to fully comply with the regulation in question, the initiative known as the *FARG - Financial Accounting Risk Governance Project* has been implemented since early 2007. The previous section "*Key characteristics of the existing risk management and internal control system as it relates to the financial reporting process*" provides further information on FARG.

## 11.6 Coordination amongst parties involved in the internal control and risk management system

Methods of coordination between the various parties involved in the internal control and risk management system have been established with the aim of avoiding overlapping and ensuring complete coverage of the various risks. Efforts to this end included the following:

- i) setting up of the Risks Committee, a collegial body including the General Manager, the Deputy General Manager Finance & Operations, the Deputy General Manager Wealth Management Markets & Products, the Heads of the control functions and the General Counsel;
- ii) collegial meetings were planned between the Board of Statutory Auditors and the heads of control functions, also in conjunction with the preparation of the activity plan;
- iii) a specific circular letter was issued concerning the coordination of activities between internal audit, compliance, anti-money laundering and risk management and all other control functions, with the aim of formulating an effective activity plan, while respecting the independent authority of each;

- iv) the Boards of Statutory Auditors of Group companies periodically hold joint meetings;
- v) the Board of Statutory Auditors participates in the meetings of the Internal Audit and Risks Committee and the Chairman of the Board of Statutory Auditors participates in the meetings of the Remuneration Committee and the Nomination Committee;
- vi) the Board of Statutory Auditors has been acting as Supervisory Body since 1 April 2014;
- vii) the various control functions perform the necessary analyses jointly on specific projects and subjects.

For information concerning the other parties involved in the internal control and risk management system, refer to Chapter 11, Internal Control and Risk Management System.

## 12. DIRECTORS' INTERESTS AND RELATED PARTY AND CONNECTED PARTY TRANSACTIONS

In compliance with Article 2391-*bis* of the Civil Code and Article 4 of the Regulation on Related Party Transactions (approved pursuant to Consob Resolution No. 17221 of 12 March 2010, as further amended and extended by Consob Resolution No. 17389 of 23 June 2010), Banca Generali's Board of Directors – after hearing the opinion of the Internal Audit and Risk Committee set up within the Board of Directors and made up of independent directors – approved procedures aimed at ensuring the transparency, as well as the procedural and substantive correctness of related party transactions (the “Related Party Transaction Procedure” or merely the “Procedure”).

Following the adoption by the Bank of Italy of the Provisions on risk activities and conflicts of interest of banks and banking groups with Connected Parties, on 21 June 2012 the Board of Directors of Banca Generali, in light of the contiguity of the matters, supplemented the above Procedure by including the provisions on Connected Parties within the same Procedure and passing resolution on a new version of the “Related Party and Connected Party Transaction Procedure”.

The procedure in question – most recently revised on 11 May 2016 in accordance with Article 150 of TUF and the provisions introduced by Bank of Italy Circular Letter No. 263 on Transactions of Greater Importance, now included in Circular Letter No. 285 dated 17 December 2013 “Supervisory Provisions for Banks” – is intended to implement Consob and Bank of Italy regulations, by adopting, at group level, rules on Transactions with Related Parties and Connected Parties and Transactions of Greater Importance, governing the related investigation, approval, reporting and disclosure activities.

In detail, Bank of Italy Circular Letter No. 263 introduced new industry-wide regulations governing risk-taking and conflicts of interest in respect of Connected Parties (Title V, Chapter 5, of the said Circular Letter). These provisions are aimed at containing the risk that the closeness of certain persons to the bank's decision-making centres could compromise the objectivity and impartiality of decisions pertaining to the approval of loans and other transactions involving the said persons, and potentially give rise to distortions in the resource-allocation process, expose the bank to risks that are not adequately measured or contained, and/or result in harm and losses to depositors and shareholders. In pursuit of this objective, the aforesaid regulatory provisions include within the scope of the term “Related Parties”, first and foremost, the company top management, main shareholders and other persons in a position to influence bank management, in light of their seniority or authority, or otherwise, the delegated powers vested in them, whether to be exercised individually or jointly with others. The regulatory provisions specify that conflicts of interest might emerge even in course of business and other dealings with subsidiaries or entities over which the bank exercises considerable influence, or in respect of which the bank is significantly exposed pursuant to loans, and/or as a result of participating interests held in the same.

Under the aforesaid provisions, any related party and any and all persons thereto connected fall within the scope of the definition of the term “connected parties”, all of which are subject to quantitative restrictions and procedural rules imposed under the said regulatory framework. The quantitative restrictions consist in the imposition of prudential limits on the amount of risk a bank or banking group may assume in respect of the said parties, it being understood that the related ceilings are differentiated on the basis of the type of related party in question, with a view to ensuring proportionality with the closeness of the ties and the repercussions of associated risks in terms of sound and prudent business management. In light of the greater risks associated with conflicts of interest in bank-industry relations, more stringent limits are envisaged for risk activities carried out with related parties qualifying as non-financial entities. The regulatory framework is completed by supplementing prudential restrictions with procedural requirements entailing specific decision-making steps designed to ensure the proper allocation of resources and adequately protect third parties against undue harm and losses. Moreover, specific guidelines relating to organisational arrangements and internal controls enable the identification of corporate bodies' responsibilities and corporate functions tasks with respect to the objectives of conflicts of interest prevention and management, as well as the obligations for identifying the Connected Parties and monitoring exposures over time.

The Procedure applies to Related Party Transactions and Connected Party Transactions that:

- a) are to be effected in exercise of the Company's powers of management and coordination over subsidiaries within the meaning of Article 2359 of the Civil Code; and
- b) pursuant to the system of delegated powers currently in force, are subject to prior assessment and approval by the Company.

Authorisation must be obtained from the Company in any event for any and all Highly Significant Related Party Transactions or Connected Party Transactions to be effected by Italian or foreign subsidiaries within the meaning of Article 2359 of the Civil Code.

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

- i) the Company's Board of Directors to include an account of all related party and connected party transactions concluded during the year, including through subsidiaries. in the Directors' Report on Operations pursuant to Article 2428 of the Civil Code;
- ii) the decision-making body through the General Manager to report to the Board of Directors, as well as the Board of Statutory Auditors in respect of the conclusion of any and all Moderately Significant Related Party and Connected Party Transactions and Transactions of Greater importance, at least on a quarterly basis;
- iii) the Chairman of the Board of Directors to ensure that adequate information on all Moderately Significant Related Party Transactions pertaining to the Board of Directors and all Highly Significant Related Party Transactions without exception, is made available not only to all Directors in compliance with Article 2381 of the Civil Code, but also to the Board of Statutory Auditors;
- iv) the Board of Statutory Auditors to monitor compliance with the provisions of the above-mentioned Procedure and submit a report in such regard to the Shareholders' Meeting pursuant to Article 2429, paragraph 2, of the Civil Code and Article 153 of TUF.

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

The Procedure for Related Party Transactions can be viewed on the corporate website ([www.bancagenerali.com](http://www.bancagenerali.com)), section "*Corporate Governance – Corporate Governance System – Governance Policies*".

In order to duly implement the above-mentioned regulatory framework, on 18 December 2012, Banca Generali's Board of Directors approved specific "Internal Policies Governing Controls of Risk Assets and Conflicts of Interest in Relation to Connected Parties", which are constantly updated by the Board of Directors to keep them in line with company's organisational structure.

The said "Policies", *inter alia*:

- i) require risk-appetite levels to be maintained in line with the strategic profile and organisational features of the bank or banking group, it being understood that the risk appetite is also defined in terms of the maximum risk exposure towards connected parties that may be considered acceptable in light of regulatory capital requirements, taking due account of the cumulative risk assumed in respect of the sum total of connected parties;
- ii) without prejudice to Banca Generali's existing rules and regulations with regard to conflicts of interests, set forth specific provisions governing business dealings with connected parties, and the sectors of operations and types of economic relationships involved, which, whilst not necessarily entailing risk-taking, could give rise to conflicts of interest;
- iii) regulate organisational processes designed to identify and individually list all connected parties, duly recording and quantifying any and all transactions effected with the same, at all stages of the relationship;
- iv) require the implementation of checks and monitoring procedures designed to ensure that risks are properly assessed and managed throughout the course of dealings with connected parties, and that internal policies are appropriately designed and effectively enforced.

## Obligations of Company Officers and Executives Pursuant to Legislative Decree No.136 of TUB

With regard to the obligations binding on company officers and executives of banks, it must be borne in mind that pursuant to Article 136 of the TUB, as most recently amended with Legislative Decree No. 179/2012, the said persons are barred from assuming obligations and/or effecting trading transactions of any nature or kind whatsoever, with the bank. This prohibition may only be overcome with the favourable resolution of the governing body, and with the unanimous vote of all the members of the control body, without prejudice to the obligations set forth by the Civil Code regarding the directors' interests, as well as related party and connected party transactions.

In order to ensure thorough oversight of situations that might give rise to a potential conflict of interest, Banca Generali took the appropriate measures, and in particular all company exponents are directly and personally informed, upon appointment, of the content of the legislation in question through a brochure entitled "Obligations of Bank Exponents – General Concepts", which summarises applicable legislation and the pertinent interpretative guidance, as well as a "Declaration Form" that all company exponents are to compile and that satisfies both the Consob and Bank of Italy rules on Related Party and Connected Party Transactions and the prescriptions of Article 136 of TUB. Moreover, bearing in mind that on 21 June 2012, as explained above, Banca Generali S.p.A.'s Board of Directors approved the "Procedure for Transactions with Related Parties and Connected Parties and Transactions of Greater Importance", Banca Generali adopted the application software Easy Regulation that enables: (i) the identification and listing of Relevant Persons, whilst also allowing data pertaining to the same, to be managed and processed; (ii) the identification of those Bank's transactions that fall within the scope of the various regulations; (iii) the registration and monitoring of the said transactions; (iv) the identification of transactions subject to specific procedural requirements, whilst supporting the computerised management and processing of transactions that exceed significance thresholds; (v) the production of personalised reports.

It must be pointed out that the process model selected by Banca Generali and supported by Easy Regulation is designed to ensure the streamlined, integrated and multi-regulatory management of Related Party and Connected Party Transactions and transactions with Company Officers and Executives pursuant to Article 136 of TUB.

Lastly, in compliance with the provisions set forth in the *Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance*, the Bank's specific unit, made of one or more members of the Corporate Affairs Service, has been entrusted with the following main tasks: (i) updating the list of the persons and parties involved, after having identified the latter; (ii) managing decision-making procedures, information flows regarding the transactions, and relations with the Internal Audit and Risk Committee and the Board of Directors; (iii) managing internal and external transparency obligations with supervisory bodies; (iv) drawing up the reports to be filed under the aforesaid Consob and Bank of Italy regulations; (v) coordinating activities with relevant corporate functions of the Parent Company and Subsidiaries.

### 13. APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors consists of three acting and two alternate Auditors, whose functions, duties and terms of office are defined by the law.

Pursuant to Article 20 of the Articles of Association, acting and alternate Auditors must possess the requisites required by law and are eligible for reappointment. Those whose situations are incompatible pursuant to law and persons who serve as company directors or officers in other companies beyond the thresholds established under applicable regulations may not be appointed to the Board of Statutory Auditors, and if so appointed, will fall from office.

In addition to meeting all the eligibility requirements imposed under law for membership of the Board of Statutory Auditors, all the acting and alternate members of the Company's Board of Statutory Auditors must be free of criminal convictions for any of the offences listed in Legislative Decree No. 231/01 or any criminal offence whatsoever entailing wilful misconduct. Similarly, no member of the Company's Board of Statutory Auditors may stand indicted for any of the aforesaid offences and, if so indicted shall be deemed unfit to serve in office through to full and final acquittal. Dismissal from service on the Company's Supervisory Board for cause, pursuant to resolution of the Board of Directors, shall entail forfeiture of the seat held on the Company's Board of Statutory Auditors. Dismissal from service on the Company's Board of Statutory Auditors or otherwise forfeiture of or disqualification from such office by reason of non-satisfaction of the requirements of professionalism, personal integrity and independence, shall entail forfeiture of the seat held on the Supervisory Board.

Auditors are appointed on the basis of lists of candidates, in accordance with the procedures set forth below.

Those shareholders who, alone or in conjunction with other shareholders represent the percentage of share capital envisaged for the Company to submit lists of candidates for appointment of the Board of Directors, are entitled to submit a list. Currently, the percentage is 1.00%. Each shareholder (as well as (i) shareholders belonging to the same group, the latter being defined to include the party, which need not necessarily be a corporation, exercising control within the meaning of Article 2359 of the Civil Code, and each subsidiary controlled by, or under the common control of the said party or (ii) shareholders who have entered into the same shareholders' agreement within the meaning of Article 122 of Legislative Decree No. 58 of 24 February 1998 as further amended, or (iii) shareholders who are otherwise associated with each other by virtue of associative relationships contemplated under the applicable statutory and/or regulatory framework) may contribute to the submission of only one list. In the event of breach, account will not be taken of the relative backing given to any of the lists.

The lists are made up of two sections: one for the appointment of the acting Auditors and the other for the appointment of the alternate Auditors. The lists contain a number of candidates no higher than the number of members to be elected, listed by progressive number. Each of the two sections of the lists, save for those featuring less than three candidates, must present candidates in a manner that ensures gender balance. Each candidate may appear on only one list, upon penalty of ineligibility. Together with each list and within the term established for the filing of lists, the shareholders submitting the lists must also file the following documentation at the registered office: (i) information pertaining to the identity of the shareholders submitting the lists, with an indication of the percentage of share capital they jointly hold; (ii) exhaustive information on the personal and professional features of the candidates included in the list; (iii) a declaration by shareholders other than those who, even jointly, hold a controlling interest or relative majority stake, attesting the absence of associative relationships with the latter; (iv) the declarations in which each candidate accepts nomination and also certifies, under his own responsibility, the inexistence of causes of incompatibility and of ineligibility, as well as possession of the requisites of integrity and professionalism which prevailing laws require for the office of Auditor of the Company. Within the term specified for the publication of the lists by the Company and in order to prove their entitlement to submit lists, shareholders shall file the documentation proving legal ownership of their shareholdings, in accordance with applicable laws and regulations, at the Company's registered office.

The lists, signed by the submitting shareholders, shall be filed at the Company's registered office no later than twenty-five days prior to the date set for the Shareholders' Meeting in first call. Furthermore, the list will be available at the Company's registered office, on the corporate website and in any and all forms required by applicable laws and regulations, no later than twenty-one days prior to the date set for the Shareholders' Meeting in first call. In the case where, by the aforesaid deadline, submission has been made of only one list or only of lists submitted by shareholders associated amongst themselves, the relevant statutory and regulatory provisions shall apply.

Each shareholder (as well as (i) shareholders belonging to the same group, the latter being defined to include the party, which need not necessarily be a corporation, exercising control within the meaning of Article 2359 of the Civil Code, and each subsidiary controlled by, or under the common control of the said party or (ii) shareholders who have entered into the same shareholders' agreement within the meaning of article 122 of Legislative Decree No. 58 of 24 February 1998 as further amended, or (iii) shareholders who are otherwise associated with each other by virtue of associative relationships contemplated under the applicable statutory and/or regulatory framework) shall be entitled to vote for only one list.



The first two candidates on the list obtaining the highest number of votes and the first candidate on the list obtaining the highest number of votes from amongst the lists submitted and voted by shareholders who are not associated, not even indirectly, with the shareholders who submitted and voted for the list obtaining the highest number of votes shall be deemed elected acting Auditors; the first candidate on the list obtaining the highest number of votes and the first candidate on the list obtaining the highest number of votes and submitted and voted by shareholders who are not associated, not even indirectly, with the shareholders who submitted and voted for the list obtaining the highest number of votes shall be deemed elected alternate Auditors. In the case where the number of acting Auditors belonging to the gender less represented falls short of the threshold established under applicable statutory provisions, the candidates appearing in the acting Auditor section of the list obtaining the highest number of votes will be replaced following the order in which the candidates were presented for election.

In the case where only one list is submitted, the entire Board of Statutory Auditors is appointed from the said list.

Should no list be submitted, the Shareholders' Meeting shall appoint the Board of Statutory Auditors and the Chairman thereof by majority of the votes cast, in accordance with law.

In the event of votes being equal between two or more lists, the younger candidates will be elected until all the posts to be assigned have been filled.

The first candidate on the list obtaining the highest number of votes, from amongst those lists submitted and voted by shareholders who are not associated, not even indirectly, with the shareholders who submitted and voted for the list obtaining the highest number of votes on the overall shall be elected Chairman of the Board of Statutory Auditors. In the event of submission of a single list, the first candidate specified therein will take the chairmanship.

In the case of the death, resignation or forfeiture of an acting Auditor; the first alternate Auditor belonging to the same list as the replaced Auditor will succeed him. Such alternate will succeed him for a period conterminous with the term of the other statutory Auditors in office at the time of his appointment as an Auditor. Should the outgoing Auditor be the Chairman of the Board of Auditors, his replacement on such Board shall also assume the Chairmanship of the Board of Auditors. In the case where it is not possible to proceed as indicated above and the procedure for the replacement of the members of the Board of Statutory Auditors fails to ensure gender balance on the same, the term of the entire Board of Statutory Auditors shall be deemed to have expired in full with immediate effect, and accordingly, a Shareholders' Meeting must be called to pass resolutions on the appointment of a new Board of Statutory Auditors pursuant to the voting list system set forth above.

The members of the Board of Statutory Auditors must be selected from amongst persons who have acquired, on the overall, at least three years' experience in:

- a) professional activities or permanent university teaching in legal, economic, financial and technical/scientific subjects strictly pertinent to the Company's business activities;
- b) senior management functions in public entities or public administration operating in sectors strictly pertinent to the Company's activity.

In such regard, Article 20 of the Articles of Association provides that: (i) fields and sectors closely related to the Company's business activities shall include all those mentioned in point (a) above pertaining to banking, and economic sectors closely related thereto; (ii) economic sectors closely related to banking shall include the credit, parabanking, financial and insurance sectors.

## **14. COMPOSITION AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS (pursuant to Article 123-bis, paragraph 2, subparagraph (d) of the consolidation law on finance TUF )**

Banca Generali's current Board of Statutory Auditors was appointed by Shareholders' resolution dated 23 April 2015. The table included in Annex 3 hereto lists the members of the Board of Statutory Auditors as of 31 December 2016, and provides summary information about each together with attendance rates at Board of Statutory Auditors' meetings. On 23 April 2015, the General Shareholders' Meeting elected the members of the Board of Statutory Auditors on the basis of two lists of candidates submitted respectively by the majority shareholder Assicurazioni Generali S.p.A., and various Undertakings for Collective Investment in Transferable Securities, under the aegis of Assogestioni.

The list submitted by the majority shareholder Assicurazioni Generali S.p.A. included the following candidates for the post of acting auditor: Mario Francesco Anaclerio, Flavia Daunia Minutillo and Gambi Alessandro, and the following candidates for the post of alternate auditor Anna Bruno and Luca Camerini.

At the end of voting, the candidates on the aforesaid list were elected with favourable vote of 62.918% of the share capital represented at the General Shareholders' Meeting, and accordingly, the following appointments were made: Mario Francesco Anaclerio and Flavia Daunia Minutillo as acting auditors, and Anna Bruno, as alternate auditor.

The list submitted by Assogestioni proposed Ettore Maria Tosi as the sole candidate for the post of acting auditor and Massimo Cremona as the sole candidate for the post of alternate auditor. At the end of voting, both the aforesaid candidates were elected with the favourable vote of 35.762% of the share capital represented at the General Shareholders' Meeting and accordingly, the following appointments were made: Ettore Maria Tosi as acting auditor and Chairman of the Board of Statutory Auditors pursuant to article 20, paragraph 10 of the Articles of Association (under which Chairmanship of the said Board of Statutory Auditors vests in the candidate drawn from the list obtaining the highest number of votes from amongst the lists submitted and voted by shareholders who are not directly or indirectly linked to the shareholders who submitted or voted for the list that obtained the highest number of votes overall), and Massimo Cremona as alternate auditor.

On 30 June 2015, following the resignation of the Chairman of the Board of Statutory Auditors, Ettore Maria Tosi, the latter was replaced in his position as acting auditor and Chairman of the said Board by Massimo Cremona, pursuant to Article 20, paragraph 11, of the Articles of Association.

The current membership of the Board of Statutory Auditors is fully compliant with the gender equality regulations entrenched in law No. 120 of 12 July 2011.

On 4 March 2016, Alternate Auditor Anna Bruno also resigned from her position.

The General Shareholders' Meeting of 21 April 2016 resolved to appoint the two alternate auditors required to fill the vacancies on the Board of Statutory Auditors.

The list of the majority shareholder Assicurazioni Generali S.p.A. presented the following candidates for the position of alternate auditor: Maria Maddalena Gnudi and Alessandro Copparoni.

The list presented with the support of Assogestioni indicated Carlo Delladio as the sole candidate for alternate auditor.

On the basis of the results of the votes cast by the shareholders, the following were elected as the new alternate auditors for the remainder of the three-year term of office, and thus until the end of the Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2017:

- > Maria Maddalena Gnudi, the first candidate from the list that received the most votes (67.750% of share capital present at the Shareholders' Meeting with voting rights);
- > Carlo Delladio, the first candidate from the list that received the second-largest number votes (30.790% of share capital present at the Shareholders' Meeting with voting rights).

A summary profile of the members of the Board of Statutory Auditors, is provided below.

**Massimo Cremona.** Born in Busto Arsizio (Varese) on 3 April 1959, Massimo Cremona currently is Visiting Professor at the Economics and Commerce Faculty of Milan's Università Cattolica del Sacro Cuore. Previously, he was visiting professor at the Milan Università Statale, faculty of Law.

Widely published in Italy and abroad, he has been a Speaker at national and international seminars focusing on national and international taxation. A Founding and Managing Partner of the Law Firm Pirola Pennuto Zei & Associati, he currently runs his own private practice. His clientele includes large Italian and foreign groups primarily in the financial, banking and insurance industries. He serves on the Boards of Directors and Statutory Auditors of several major corporations including, without limitation, and companies belonging to the De Benedetti Group, the Bosch Group, the Metro Group and the Ermenegildo Zegna Group.

**Mario Francesco Anaclerio.** Born in Genoa on 2 May 1973, he graduated in Economics and Commerce through the Catholic University of Milan before qualifying as a Certified Public Accountant and Auditor. He is currently in private practice in Milan as a consulting accountant specialising in finance, corporate appraisals, fairness opinions, independent expert assessments and extraordinary transactions, corporate governance, internal auditing and organisational, management and control models within the meaning of Legislative Decree No. 231/2001. He also serves on the Boards of Statutory Auditors of several companies not belonging to the Generali Group, including Società Italiana per Azioni per il traforo del Monte Bianco S.p.A., Pasticceria Bindi S.p.A., FBH S.p.A., Società Gestione Servizi BP S.C.P.A. (Banco BPM Group), and Spencer Contract S.p.A., beside holding the post of Chairman on the Supervisory Boards of Esprinet S.p.A. and ADR Mobility S.r.l. (Atlantia Group).

**Flavia Daunia Minutillo.** Born in Milan on 24 May 1971, she earned a degree in Economics and Commerce in 1995 before qualifying as a Certified Public Accountant and professional Dealer. She is a Founding Partner of the firm Simonelli Associati. Since 1998, she has served as acting auditor and Chairwoman of the Board of Statutory Auditors of banks, listed corporations, securitisation companies, trust companies, financial institutions, factoring companies, securities brokerages, asset management companies, holding companies as well as undertakings operating in the real estate, heavy industry, service and commercial sectors. In particular, she has served as Chair of the Board of Statutory Auditors of General Real Estate SGR since 2015, acting auditor of E-MID SIM S.p.A. since 2008, Emittenti Titoli S.p.A. since 2012, the listed corporation Molmed S.p.A. since 2013, Fondo Strategico Italiano Investimenti S.p.A. since 2014, Areti S.p.A. and the listed corporation Mondadori S.p.A. since 2015, as well as Rizzoli Libri S.p.A. since 2016.

**Maria Maddalena Gnudi.** Born in Pesaro on 13 March 1979, she graduated with full marks with a degree in Economics and Business from the University of Bologna. A chartered accountant and auditor, she has been working with Studio Gnudi since 2010, where she has been a partner since 2011. She is an expert tax advisor with particular expertise in international taxation and transfer pricing. She is a member of the Board of Directors of ACBGroup S.p.A. and a Statutory Auditor of Intecos S.p.A. and Intecos Europe S.p.A.

**Carlo Delladio.** Born in Cavalese (Trento) on 4 November 1968, he holds a degree in Economics and Business from the University of Trento. He is a chartered accountant and has been admitted to the Roll of Auditors. He is also a member of the Order of Journalists of Trentino Alto Adige and is a contributor to and author of many publications and magazines in the series "Il Sistema Frizzera", in addition to contributing to the newspaper *Il Sole 24 ore*.

Since 1998 he has been practicing accountancy from offices in Trento, Milan and Cavalese, with a particular focus on tax, corporate and business consulting for private-sector clients in banking, insurance, real estate, information technology and industry and the government. He currently sits on the Boards of Statutory Auditors of a number of major firms and financial institutions. He is also a member of the Supervisory Boards of a number of major companies.

The Board of Statutory Auditors met 21 times in 2016. The average attendance of Auditors at Board of Directors' me-

etings in 2016 was 100.00%. A total of 12 meetings are planned for 2017. To date, 3 meetings have been held. Under the Bank of Italy's Provisions, the company body vested with control functions is required to periodically verify its own adequacy in terms of powers, functioning and composition, taking into account the scale, complexity and activities of the Bank. These provisions also require the members of the company body vested with control functions to meet a level of professionalism in line with the size and operational complexity of the Bank, and to devote sufficient time and resources to discharging their duties, whilst also establishing that on the occasion of the appointment of company officers and periodically over time, the number of similar positions held must be verified and evaluated, with special attention to those requiring greater involvement in the current business of the Company. In light of the above, Article 20 of the Articles of Association, establishes, by way of reference to applicable regulations, both the maximum number of other appointments a member of Banca Generali's Board of Auditors may simultaneously hold and the requirements of professionalism to be met by the members of the said board.

In addition to meeting the requirements of personal integrity and independence and not labouring under any of the causes of unfitness or disqualification contemplated under special regulations and the Corporate Governance Code for Listed Banks, members of the Board of Auditors must also satisfy the requirements of professionalism set forth below, under penalty of forfeiting their appointments: at least one Acting Auditor and one Alternate Auditor (and in any event, the Chairman) must be registered with the Rolls of Certified Public Accountants, it being understood that acting and alternate members of the said Board who do not meet this requirement must have acquired specific experience: a) as professional practitioners or full university professors specialising in law, economics, finance or technical-scientific fields closely related to the Company's specific sector of business; b) in managerial positions in public administrations or undertakings operating in sectors closely related to the Company's business operations.

Moreover, pursuant to the Bank of Italy Provisions, no member of the control body may hold any position within any body other than control bodies within other companies belonging to the group or financial conglomerate, and/or within companies in which the Bank holds, directly or indirectly, a strategic stake (that is to say, at least 10% of the share capital or voting rights at the Ordinary Shareholders' Meeting of the investee company, and 5% of the Banking Group's consolidated assets).

With reference to gender balance, the Articles of Association provide that, in the case where the number of regular Auditors belonging to the gender less represented falls short of the threshold established under applicable statutory provisions, the candidates appearing in the regular Auditor section of the list obtaining the highest number of votes will be replaced following the order in which the candidates were presented for election. In the case of replacement of an Acting Auditor with an Alternate Auditor and the procedure for the replacement of Auditors fails to ensure gender balance, the term of the entire Board of Statutory Auditors shall be deemed to have expired in full with immediate effect. When the Board of Statutory Auditors is next elected, Banca Generali reserves the right to assess and implement additional diversity policies concerning the age of members of the Board of Statutory Auditors, as well as aspects such as candidates' age, gender, and educational and professional backgrounds.

Satisfaction of the relevant requirements is verified by the Board of Directors in accordance with applicable supervisory regulations, as well as the provisions of the Code.

Banca Generali's Board of Directors last verified satisfaction of the relevant statutory requirements for acting members of the Board of Directors on 4 May 2015 and for alternate members on 11 May 2016.

All the members of Banca Generali's Board of Auditors must be enrolled with the Order of Certified Public Accountants and Auditors; all the members of the Board of Auditors must also be independent within the meaning of both Legislative Decree No. 58/1998 and the Self-regulatory Code.

The Board of Auditors assessed the independence of its members, and the most recent assessment was carried out at its meeting on 9 February 2017.

In carrying out the aforesaid assessments, the Board of Statutory Auditors applied all the criteria recommended in the Corporate Governance Code in respect of the independence of Directors.

Any Auditor who holds any interest, whether on his own behalf or on behalf of others, in any transaction effected by the Company, must give timely and exhaustive notice of the nature, origin and terms of the said interest, to the other Auditors and the Chairman of the Board of Directors. The same reporting obligations shall be binding on any Auditor falling within the scope of the cases contemplated in Article 136 of TUB, in which case the said rules shall apply.

The Board of Statutory Auditors has monitored the independence of the independent auditors, in terms of both compliance with the relevant requirements, and the nature and volume of non-auditing services rendered to the Company and its subsidiaries by the said independent auditors and entities belonging to the same network.

Given that, pursuant to statutory requirements, non-auditing services must be entrusted to independent auditors, Article 20 of the Articles of Association vests the Board of Statutory Auditors with the power/duty to liaise with the other persons and parties with oversight responsibilities; forms of ongoing coordination have been developed to serve this purpose, entailing, inter alia, the scheduling of specific meetings especially for periodic exchanges of information and views between the Board of Statutory Auditors and the independent auditors. In respect of these issues, the Board of Auditors may, if it deems fit, also avail of the advice and support of the Internal Audit and Risk Committee, as contemplated in the relevant Committee Rules.

Moreover, the Parent Company's control body must operate in close collaboration with its counterparts within subsidiaries. In performing its duties, the Board of Statutory Auditors coordinated its efforts with the Internal Audit and Risk Committee and control units (compliance, anti money laundering, internal audit and risk management). In this regard, it bears recalling the aforementioned information flows and coordination among all corporate bodies.

The Chairman of the Board of Directors ascertained that the Auditors, after their appointments, could participate in initiatives aimed at providing them with an adequate knowledge of the business sector in which the Issuer operates, of the corporate dynamics and the relevant evolutions, as well as the relevant regulatory framework. Within this framework, he involved the members of the Board of Statutory Auditors in two induction meetings, held in November

2016 and February 2017. During the meeting held in November 2016, on the ten-year anniversary of Banca Generali's IPO, the results achieved, strategies pursued and commitment to the new business model, strongly oriented towards exploiting digital opportunities, were illustrated. Business issues and remuneration and commercial policies were explored at the induction meeting in February 2017.

In 2016, the Board of Statutory Auditors, acting on its own initiative, met with members of the Bank's management team, as well as with the heads of internal control functions and the independent auditors, on several occasions for issue-specific discussions organised with a view to improving the Statutory Auditors' understanding of the Bank's operations from a practical standpoint.

---

## 15. INVESTOR RELATIONS

Banca Generali feels that it has a specific interest – as well as a duty towards the market – to engage in ongoing dialogue, based on a mutual understanding of roles and responsibilities, with its Shareholders, in general, as well as with institutional investors, such dialogue being placed within the framework of procedures for the public disclosure of corporate information and documents.

In particular, the Company avails of Shareholders' Meetings to provide Shareholders with information on the Company and its prospects, obviously, in compliance with the regulations governing inside information, and therefore, whenever necessary, by simultaneously disclosing the same information to the market.

The management of daily relations with Shareholders is entrusted to the Corporate Affairs Service within General Counsel Department.

The Investor Relations Service is in charge of liaising with institutional investors.

### INVESTOR RELATIONS

Giuliana Pagliari

Tel. + 39 02 60765548

Fax +39 02 69 462 138

[investor.relations@bancagenerali.it](mailto:investor.relations@bancagenerali.it)

The Company uses its website to allow the public to consult constantly updated information regarding the Company, its products and services.

Apart from a presentation and historical overview of the Company and the Group, the website hosts the most significant documents pertaining to Corporate Governance, all the press releases on the main corporate events, as well as financial and accounting data.

The website also presents the Calendar of Events indicating the dates of meetings of Corporate Organs, such as Shareholders' and Board meetings called for the approval of the draft annual financial statements, the consolidated financial statements, the half-yearly condensed report and interim reports, as well as for making decisions in respect of purely financial matters.

In order to ensure the transparency and effectiveness of the information disclosed to the public, the website is constantly and timely updated.

---

## 16. GENERAL SHAREHOLDERS' MEETINGS (pursuant to Article 123-bis, paragraph 2, letter c) of TUF)

The procedures governing the conduct of Shareholders' Meetings are regulated by the Articles of Association and the Regulations of the Shareholders' Meeting.

The condition of shareholder implies acceptance of the Memorandum of Association and of the Articles of Association. The Shareholders' Meeting is the body that expresses the Company's will through its resolutions. Resolutions adopted by Shareholders' Meeting in compliance with the law and the Articles of Association are binding on all shareholders, including those who are absent or dissenting.

The Shareholders' Meeting may be held at the registered office or at another venue, provided that it is in Italian territory. The Shareholders' Meeting is convened by the Board of Directors. Shareholders are called through published notice, under the terms and conditions required by applicable laws and regulations. The Shareholders' Meeting is called whenever the governing body deems necessary and advisable or upon request of the Board of Statutory Auditors or of the shareholders, in accordance with the law, or in the other cases in which call of the Shareholders' Meeting is obligatory pursuant to law. The ordinary Shareholders' Meeting must be called at least once a year within 120 days of closure of the financial year. This deadline may be extended to 180 days where certain legal conditions are met.

In the cases provided by law, those shareholders who, alone or in conjunction with others, represent at least the percentage of share capital envisaged by current applicable regulations, are entitled to request call of the Shareholders' Meeting. Those shareholders who, alone or in conjunction with others, represent at least one fortieth of the share capital are entitled to request, in compliance with laws in force, integration of the list of items on the agenda.

The notice of call may specify the date of a second or third call, in the event that the Meeting does not prove to be legally constituted.

Entitled attendees, in accordance with applicable laws, may participate in the Shareholders' Meeting, provided that they prove their entitlement pursuant to the law and that the notice from the intermediary responsible for keeping the accounts regarding the shares, in replacement of the deposit giving entitlement to attend the Shareholders' Meeting, has been received by the Company by the end of the third trading day prior to the date set for the first call of the Meeting, in accordance with Article 83-*sexies*, paragraph 4, of TUF, after the terms specified above, provided that it arrived within the start of the Shareholders' Meeting specifically called.

Shareholders may be represented by others in the Shareholders' Meeting in accordance with the provisions of the law. In compliance with the provisions of Article 135-*undecies* of TUF, the Company has appointed a representative for the exercise of voting rights.

Legal provisions are observed with regard to the validity of Shareholders' Meetings and their resolutions.

Ordinary and extraordinary Shareholders' Meetings are attributed all the powers to which they are respectively entitled pursuant to current regulations. The Ordinary Shareholders' Meeting shall also establish the remuneration due to the organs it appoints. The said Shareholders' Meeting may provide for a lump-sum amount covering the remuneration of all company directors, including those vested with specific tasks, such lump-sum amount being subject to distribution amongst individual directors pursuant to the determinations of the Board of Directors. The Shareholders' Meeting shall also approve the remuneration policies and compensation plans based on financial instruments, to be implemented in favour of company directors, employees, and outside collaborators other than company employees. In respect of related party and connected party transactions, pursuant to the procedure adopted by the Company in such regard, the Shareholders' Meeting is vested with the decision-making powers assigned to it under applicable regulations. In emergency situations arising from corporate crises, any and all related party and connected party transactions subject, under law, to shareholder approval, may only be effected pursuant to shareholder resolutions passed in accordance with the terms, conditions, procedures and deadlines imposed under applicable regulations and the aforesaid Procedure adopted by the Company.

Under Article 18 of the Articles of Association, the Board of Directors is the sole corporate body qualified to deliberate on matters pertaining to the setting up or closing down of secondary offices, indication of which Directors may represent the Company and use the company signature, mergers, in the cases permitted by law, amendments to the provisions of the Articles of Association that no longer comply with new and mandatory regulatory provisions.

Seven Directors attended the most recent Shareholders' Meeting on 21 April 2016. On that occasion, the Board reported in respect of completed and scheduled activities and ensured that all Shareholders were provided adequate information on all pertinent matters so as to enable them to make informed decisions. The Remuneration Committee informed all Shareholders on the activities it performed in respect of remuneration policies.

## Regulations of the Shareholders' Meeting

Pursuant to article 23 of the Board Rules, the Company encourages Shareholders to attend all Shareholders' Meetings. The Board shall report to the Shareholders' Meeting in respect of completed and scheduled activities and shall ensure that all Shareholders are provided adequate information on all pertinent matters so as to enable them to make informed decisions about the items placed on the agenda of Shareholders' Meetings.

In compliance with the recommendations of the Code, the Shareholders' Meeting approved its own Regulations (most recently amended by resolution of the General Shareholders' Meeting on 20 April 2011), setting forth the procedures to be followed in order to ensure orderly proceedings. The Regulations of the General Shareholders' Meeting are available for consultation at the Company's registered offices, as well as on its website, under the section "*Corporate Governance - AGM - Attending the AGM*".

The said Regulations are aimed at governing the proceedings of ordinary and extraordinary Shareholders' Meetings, and ensuring the proper and orderly functioning of the same and, in particular, the right of each shareholder to take part and express an opinion on the items under debate. The Rules, therefore, constitute a valid tool for ensuring the protection of the rights of all the Company's shareholders and the proper approval of shareholders' resolutions.

In particular, persons entitled to attend have the right to speak on each one of the items on the agenda or placed up for discussion and make proposals on them.

Pursuant to Article 127-*ter* of TUF, shareholders are entitled to submit questions regarding the items placed on the Agenda even before the Shareholders' Meeting. Questions submitted prior to the Shareholders' Meeting shall be answered at the very latest during the course of the Shareholders' Meeting itself, even by treating several questions regarding the same subject-matter as a single query.

Entitled Attendees who intend to take the floor shall submit a written request to the Chairman, after the items on the agenda have been read out and before the Chairman has declared closed the discussion on the item subject to the request to speak.

If the Chairman so authorises, requests to take the floor may be made by raising the hand.

In the case where written requests to take the floor are required, the Chairman shall grant the floor in accordance with the order in which requests to speak were received. In the case where requests to take the floor are made by the raising of hands, the Chairman shall grant the floor to the person who first raises his hand; in the case where it is not possible to determine precisely which person was the first to raise his or her hand, the Chairman shall grant the floor in accordance with the order established by the Chairman himself, at his sole discretion.

The Chairman and/or, on his invitation, the Directors and the Statutory Auditors, respond to entitled attendees according to their areas of expertise or when deemed useful by the Chairman, after the speech of each one or after all speeches have been given on each item of the agenda, taking due account of any and all questions raised by shareholders

prior to the Shareholders' Meeting and left unaddressed by the Company until the latter. Entitled attendees have the right to make one speech on each item on the agenda, except for a reply and a statement of vote, each of a duration of no more than five minutes. The Chairman, taking into account the issue and the importance of the single items on the agenda, as well as the number of persons requesting the floor and any and all questions raised by shareholders prior to the meeting and left unaddressed by the Company, shall announce the period of time available for each Entitled Attendee to take floor; such time, as a general rule, being established at no less than five and no more than ten minutes for each speaker. When such period of time has expired, the Chairman may invite the entitled attendee to conclude within another five minutes.

---

## **17. OTHER CORPORATE GOVERNANCE PRACTICES (pursuant to Article 123-bis, paragraph 2, letter a) of TUF)**

Further information of corporate governance practices is provided in the relevant individual paragraphs of this Report.

---

## **18. CHANGES SINCE THE END OF THE FINANCIAL YEAR OF REFERENCE**

No changes were brought to the corporate governance structure since the end of the financial year and until the date of this Report.

Milan, 10 March 2017

The Board of Directors

## Annex 1 – Information on company ownership

### Table 1 - Structure of the share capital

	NO. OF SHARES	% OF SHARE CAPITAL	LISTED (SPECIFY ON WHICH MARKETS)/NOT LISTED	RIGHTS AND OBLIGATIONS
Ordinary shares	116,643,948	100	Listed on the electronic share market (MTA) of Borsa Italiana S.p.A.	All the rights contemplated under the Civil Code and Articles of Association
Shares with multiple voting rights	-	-	-	-
Shares with limited voting rights	-	-	-	-
Shares without voting rights	-	-	-	-
Other	-	-	-	-

### Other financial instruments (giving right to underwrite newly issued shares)

	LISTED (SPECIFY ON WHICH MARKETS)/NOT LISTED	NO. OF OUTSTANDING INSTRUMENTS	CATEGORY OF SHARES IN SERVICE OF THE CONVERSION/ EXERCISE	NO. OF SHARES IN SERVICE OF THE CONVERSION/ EXERCISE
Convertible bonds	-	-	-	-
Warrants	-	-	-	-

### Table 2 - Significant shareholdings

DECLARANT	DIRECT SHAREHOLDER	% OF ORDINARY STOCK	% OF VOTING STOCK
Assicurazioni Generali S.p.A.	Generali Italia S.p.A.	33.070	33.070
	Generali Vie S.A.	9.525	9.525
	Genertellife S.p.A.	4.826	4.826
	Alleanza Assicurazioni S.p.A.	2.405	2.405
	Genertel S.p.A.	0.435	0.435
Wellington Management Company LLP	Wellington Management Company LLP	4.989	4.989

## Annex 2 – Board of Directors’ and Committees’ structure

## BOARD OF DIRECTORS (AT 10 MARCH 2017)

OFFICE HELD	MEMBER	YEAR OF BIRTH	DATE OF FIRST APPOINTED	IN OFFICE FROM	IN OFFICE UNTIL	LIST (M/M)
Chairman	Giancarlo Fancel	1961	23.04.2015	23.04.2015	Shareholders’ Meeting to approve the fin. statements 31.12.2017	M
Directors	Giovanni Luca Perin	1965	20.04.2016	20.04.2016		X <sup>(ii)</sup>
Directors	Giovanni Brugnoli	1970	24.04.2012	23.04.2015	Shareholders’ Meeting to approve the fin. statements 31.12.2017	M
Directors	Azzurra Caltagirone	1973	23.06.2016	23.06.2016		X <sup>(iv)</sup>
Directors	Cristina Rustignoli	1966	23.06.2016	23.06.2016		X <sup>(iv)</sup>
Directors	Anna Gervasoni	1961	24.04.2012	23.04.2015	Shareholders’ Meeting to approve the fin. statements 31.12.2017	M
Directors	Massimo Lapucci	1969	23.04.2015	23.04.2015	Shareholders’ Meeting to approve the fin. statements 31.12.2017	M
Directors	Annalisa Pescatori	1964	23.04.2015	23.04.2015	Shareholders’ Meeting to approve the fin. statements 31.12.2017	M
Directors	Vittorio Emanuele Terzi	1954	23.04.2015	23.04.2015	Shareholders’ Meeting to approve the fin. statements 31.12.2017	m

(i) The Chairman, as required by the Bank of Italy’s provisions, does not have any operating power within the company.

(ii) On 20 April 2016, Giovanni Luca Perin was co-opted Director.

(iii) The percentage of attendance to the meetings has been calculated for the period from 20 April 2016 to 31 December 2016.

(iv) On 23 June 2016, Cristina Rustignoli and Azzurra Caltagirone were co-opted Directors.

(v) The percentage of attendance to the meetings has been calculated for the period from 23 June 2016–31 December 2016.

<sup>1</sup> In determining the total number of companies in which appointees to the Company’s Board of Directors hold directorships or auditorships, no account may be taken of companies belonging to the Company’s Group, with the exception of corporations listed on regulated markets (including abroad) and in financial institutions, banks, insurance companies and large corporations. Appointments to the corporate organs of several companies belonging to a single corporate group, other than the Company’s Group, are, in practice, generally considered as a single appointment, with the exception of corporations listed on regulated markets (including abroad) and in financial institutions, banks, insurance companies and large corporations.

## Directors who left during reference year

## BOARD OF DIRECTORS

OFFICE HELD	MEMBER	YEAR OF BIRTH	DATE OF FIRST APPOINTED	IN OFFICE FROM	IN OFFICE UNTIL	LIST (M/M)
CEO	Piermario Motta	1957	24.04.2012	23.04.2015	26.03.2016	M
Chairman	Paolo Vagnone	1963	25.07.2012	23.04.2015	14.06.2016	M
Directors	Philippe Donnet	1960	15.10.2013	23.04.2015	14.06.2016	M

Necessary quorum for minorities to present lists for the election of one or more members (re. Article 148 of TUF): 1%

## Number of meetings held during reference year

Board of Directors: 14

Internal Audit and Risk Committee: 13

Remuneration Committee: 7

Nomination Committee: 14



BOARD OF DIRECTORS (AT 10 MARCH 2017)					INTERNAL AUDIT AND RISK COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE		
EXEC.	NON EXEC.	INDEP. AS PER CODE	INDEP. AS PER TUF	NO. OF OTHER OFFICES	MEMBER	(%)	MEMBER	(%)	MEMBER	(%)	(%)
	X <sup>(i)</sup>			92.9	5						
	X			100 <sup>(iii)</sup>	1						
	X	X	X	92.9	5			X (Chairman)	100	X	80
	X			83.3 <sup>(v)</sup>	5						
	X			100 <sup>(v)</sup>	4						
	X	X	X	92.9	5	X (Chairman)	100	X	100		
	X	X	X	100	2	X	84.62			X (Chairman)	100
	X	X	X	100	1	X	100	X	100		
	X	X	X	57.1	3	X	69.23			X	100

BOARD OF DIRECTORS					INTERNAL AUDIT AND RISK COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
EXEC.	NON EXEC.	INDEP. AS PER CODE	INDEP. AS PER TUF	NO. OF OTHER OFFICES (%)	MEMBER	(%)	MEMBER	(%)	MEMBER	(%)
X				80	1					
	X			100	2					
X				12.5	4					

## Annex 3 – Statutory Auditors' structure

### BOARD OF STATUTORY AUDITORS (AT 10 MARCH 2017)

OFFICE HELD	MEMBER	YEAR OF BIRTH	DATE OF FIRST APPOINTED	IN OFFICE FROM	IN OFFICE UNTIL
Chairman	Massimo Cremona	1959	23.04.2015	30.06.2015*	Shareholders' Meeting to approve the fin. statements 31.12.2017
Acting Auditor	Mario Francesco Anaclerio	1973	23.04.2015	23.04.2015	Shareholders' Meeting to approve the fin. statements 31.12.2017
Acting Auditor	Flavia Daunia Minutillo	1971	23.04.2015	23.04.2015	Shareholders' Meeting to approve the fin. statements 31.12.2017
Alternate Auditor	Maria Maddalena Gnudi	1979	21.04.2016	21.04.2016	Shareholders' Meeting to approve the fin. statements 31.12.2017
Alternate Auditor	Carlo Delladio	1968	21.04.2016	21.04.2016	Shareholders' Meeting to approve the fin. statements 31.12.2017

(\*) Massimo Cremona, appointed alternate Auditor by the General Shareholders' Meeting held on 23 April 2015 replaced Ettore Maria Tosi who resigned on 30 June 2015 as Chairman of the Board of Statutory Auditors.

### Auditors who left during reference year

#### BOARD OF STATUTORY AUDITORS (AT 10 MARCH 2017)

OFFICE HELD	MEMBER	YEAR OF BIRTH	DATE OF FIRST APPOINTED	IN OFFICE FROM	IN OFFICE UNTIL
Alternate Auditor	Anna Bruno	1967	23.11.2009	23.04.2015	04.03.2016

Necessary quorum for minorities to present lists for the election of one or more members (re. Article 148 of TUF): 1%

Number of meetings held during reference year: 21

## BOARD OF STATUTORY AUDITORS (AT 10 MARCH 2017)

LIST (M/M)	INDEP. AS PER CODE	PARTICIPATION IN THE MEETINGS OF THE BOARD OF STATUTORY AUDITORS (%)	NUMBER OF OTHER OFFICES
m	X	100	32
M	X	95	16
M	X	90	11
M	X	/	3
m	X	/	24

## BOARD OF STATUTORY AUDITORS (AT 10 MARCH 2017)

LIST (M/M)	INDEP. AS PER CODE	PARTICIPATION IN THE MEETINGS OF THE BOARD OF STATUTORY AUDITORS (%)	NUMBER OF OTHER OFFICES
M	X	/	5



**ISCHIA**  
June 2016

Michele Alassio

---

**2.**  
**CONSOLIDATED**  
**FINANCIAL**  
**STATEMENTS**  
as of 31.12.2016

Board of Directors  
10 March 2017

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

### Assets

(€ THOUSAND)	31.12.2016	31.12.2015
10. Cash and deposits	583,361	103,111
20. HFT financial assets	38,560	28,004
40. AFS financial assets	4,409,318	2,939,211
50. HTM financial assets	731,362	423,586
60. Loans to banks	326,688	330,286
70. Loans to customers	1,881,927	1,922,020
100. Equity investments	1,988	2,152
120. Property and equipment	6,333	4,891
130. Intangible assets:	91,480	88,223
<i>of which:</i>		
- goodwill	66,065	66,065
140. Tax receivables:	44,538	61,992
a) current	3,836	21,547
b) prepaid	40,702	40,445
<i>b1) as per Law No. 214/2011</i>	9,755	11,496
160. Other assets	241,180	212,541
<b>Total Assets</b>	<b>8,356,735</b>	<b>6,116,017</b>

### Net Equity and Liabilities

(€ THOUSAND)	31.12.2016	31.12.2015
10. Due to banks	802,709	333,954
20. Due to customers	6,648,202	4,839,613
40. HFT financial liabilities	1,169	463
80. Tax payables:	17,118	22,575
a) current	7,792	9,715
b) deferred	9,326	12,860
100. Other liabilities	118,853	163,188
110. Employee termination indemnities	5,129	4,889
120. Provisions for liabilities and contingencies:	117,034	114,537
b) other provisions	117,034	114,537
140. Valuation reserves	8,979	22,424
170. Reserves	314,353	247,214
180. Additional paid-in capital	53,803	50,063
190. Share capital	116,425	116,093
200. Treasury shares (-)	-2,933	-2,555
220. Net profit (loss) for the year (+/-)	155,894	203,559
<b>Total Net Equity and Liabilities</b>	<b>8,356,735</b>	<b>6,116,017</b>

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

### Items

(€ THOUSAND)	2016	2015
10. Interest income and similar revenues	61,778	69,743
20. Interest expense and similar charges	-3,115	-3,513
<b>30. Net interest income</b>	<b>58,663</b>	<b>66,230</b>
40. Fee income	604,689	651,960
50. Fee expense	-295,678	-281,198
<b>60. Net fees</b>	<b>309,011</b>	<b>370,762</b>
70. Dividends and similar income	1,963	3,120
80. Net income (loss) from trading activities	2,383	4,489
100. Gain (loss) from sale or repurchase of:	30,371	21,301
a) receivables	2,204	1,700
b) AFS financial assets	28,151	19,601
c) HTM financial assets	16	-
<b>120. Net banking income</b>	<b>402,391</b>	<b>465,902</b>
130. Net adjustments/reversals due to impairment of:	-778	-6,471
a) receivables	1,921	-1,121
b) AFS financial assets	-2,865	-2,845
c) HTM financial assets	101	-2,575
d) other financial transactions	65	70
<b>140. Net result of financial operations</b>	<b>401,613</b>	<b>459,431</b>
180. General and administrative expense:	-220,589	-214,969
a) staff expenses	-80,470	-80,949
b) other general and administrative expense	-140,119	-134,020
190. Net provisions for liabilities and contingencies	-34,740	-45,585
200. Net adjustments/reversals of property and equipment	-1,353	-1,252
210. Net adjustments/reversals of intangible assets	-4,587	-4,058
220. Other operating expenses/income	44,545	44,720
<b>230. Operating expenses</b>	<b>-216,724</b>	<b>-221,144</b>
240. Gains (losses) from equity investments	-75	-40
270. Gains (losses) from disposal of investments	22	-6
<b>280. Profit before income taxes</b>	<b>184,836</b>	<b>238,241</b>
290. Income taxes for the year on operating activities	-28,942	-34,682
<b>300. Net profit after income taxes</b>	<b>155,894</b>	<b>203,559</b>
<b>320. Net profit for the year</b>	<b>155,894</b>	<b>203,559</b>
<b>340. Net profit (loss) for the year of the Parent Company</b>	<b>155,894</b>	<b>203,559</b>

## STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

## Items

(€ THOUSAND)	2016	2015
<b>10. Net profit for the year</b>	<b>155,894</b>	<b>203,559</b>
<b>Other income net of income taxes without transfer to Profit and Loss Account</b>		
40. Actuarial gains (losses) from defined benefit plans	-196	70
<b>Other income net of income taxes with transfer to Profit and Loss Account</b>		
80. Exchange differences	-88	-8
100. AFS financial assets	-13,161	4,379
<b>130. Total other income net of income taxes</b>	<b>-13,445</b>	<b>4,441</b>
<b>140. Comprehensive income</b>	<b>142,449</b>	<b>208,000</b>
<b>160. Consolidated comprehensive income attributable to the Parent Company</b>	<b>142,449</b>	<b>208,000</b>



## STATEMENT OF CHANGES IN CONSOLIDATED NET EQUITY

## Items

(€ THOUSAND)	SHARE CAPITAL		SHARE PREMIUM RESERVE	RESERVES		VALUATION RESERVES	EQUITY INSTRUMENTS	INTERIM DIVIDENDS	TREASURY SHARES	NET PROFIT (LOSS) FOR THE YEAR	NET EQUITY	GROUP NET EQUITY	NET EQUITY OF MINORITY INTERESTS
	A) ORDINARY SHARES	B) OTHER		A) RETAINED EARNINGS	B) OTHER								
<b>Net equity at 31.12.2015</b>	<b>116,093</b>	-	<b>50,063</b>	<b>236,281</b>	<b>10,933</b>	<b>22,424</b>	-	-	<b>-2,555</b>	<b>203,559</b>	<b>636,798</b>	<b>636,798</b>	-
Change in opening balances	-	-	-	-	-	-	-	-	-	-	-	-	-
Amounts at 01.01.2016	116,093	-	50,063	236,281	10,933	22,424	-	-	-2,555	203,559	636,798	636,798	-
Allocation of net profit for the previous year:	-	-	-	64,322	-	-	-	-	-	-203,559	-139,237	-139,237	-
- Reserves	-	-	-	64,322	-	-	-	-	-	-64,322	-	-	-
- Dividends and other allocations	-	-	-	-	-	-	-	-	-	-139,237	-139,237	-139,237	-
Change in reserves	-	-	-	-	2,647	-	-	-	-	-	2,647	2,647	-
Transactions on net equity:	332	-	3,740	-	170	-	-	-	-378	-	3,864	3,864	-
- Issue of new shares	332	-	3,740	-	-1,519	-	-	-	1,001	-	3,554	3,554	-
- Purchase of treasury shares	-	-	-	-	-87	-	-	-	-1,379	-	-1,466	-1,466	-
- Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
- Stock options	-	-	-	-	1,776	-	-	-	-	-	1,776	1,776	-
Comprehensive income	-	-	-	-	-	-13,445	-	-	-	155,894	142,449	142,449	-
<b>Net equity at 31.12.2016</b>	<b>116,425</b>	-	<b>53,803</b>	<b>300,603</b>	<b>13,750</b>	<b>8,979</b>	-	-	<b>-2,933</b>	<b>155,894</b>	<b>646,521</b>	<b>646,521</b>	-
<b>Net equity, Group</b>	<b>116,425</b>	-	<b>53,803</b>	<b>300,603</b>	<b>13,750</b>	<b>8,979</b>	-	-	<b>-2,933</b>	<b>155,894</b>	<b>646,521</b>	-	-
<b>Net equity, Minority interests</b>	-	-	-	-	-	-	-	-	-	-	-	-	-

(€ THOUSAND)	SHARE CAPITAL		SHARE PREMIUM RESERVE	RESERVES		VALUATION RESERVES	EQUITY INSTRUMENTS	INTERIM DIVIDENDS	TREASURY SHARES	NET PROFIT (LOSS) FOR THE YEAR	NET EQUITY	GROUP NET EQUITY	NET EQUITY OF MINORITY INTERESTS
	A) ORDINARY SHARES	B) OTHER		A) RETAINED EARNINGS	B) OTHER								
<b>Net equity at 31.12.2014</b>	<b>115,677</b>	-	<b>45,575</b>	<b>188,808</b>	<b>7,401</b>	<b>17,983</b>	-	-	<b>-41</b>	<b>160,905</b>	<b>536,308</b>	<b>536,308</b>	-
Change in opening balances	-	-	-	-	-	-	-	-	-	-	-	-	-
Amounts at 01.01.2015	115,677	-	45,575	188,808	7,401	17,983	-	-	-41	160,905	536,308	536,308	-
Allocation of net profit for the previous year:	-	-	-	47,474	-	-	-	-	-	-160,905	-113,431	-113,431	-
- Reserves	-	-	-	47,474	-	-	-	-	-	-47,474	-	-	-
- Dividends and other allocations	-	-	-	-	-	-	-	-	-	-113,431	-113,431	-113,431	-
Change in reserves	-	-	-	-1	2,312	-	-	-	-	-	2,311	2,311	-
Transactions on net equity:	416	-	4,488	-	1,220	-	-	-	-2,514	-	3,610	3,610	-
- Issue of new shares	416	-	4,488	-	-520	-	-	-	5	-	4,389	4,389	-
- Purchase of treasury shares	-	-	-	-	-	-	-	-	-2,519	-	-2,519	-2,519	-
- Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
- Change in equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
- Stock options	-	-	-	-	1,740	-	-	-	-	-	1,740	1,740	-
Comprehensive income	-	-	-	-	-	4,441	-	-	-	203,559	208,000	208,000	-
<b>Net equity at 31.12.2015</b>	<b>116,093</b>	-	<b>50,063</b>	<b>236,281</b>	<b>10,933</b>	<b>22,424</b>	-	-	<b>-2,555</b>	<b>203,559</b>	<b>636,798</b>	<b>636,798</b>	-
<b>Net equity, Group</b>	<b>116,093</b>	-	<b>50,063</b>	<b>236,281</b>	<b>10,933</b>	<b>22,424</b>	-	-	<b>-2,555</b>	<b>203,559</b>	<b>636,798</b>	-	-
<b>Net equity, Minority interests</b>	-	-	-	-	-	-	-	-	-	-	-	-	-

## CONSOLIDATED CASH FLOW STATEMENT

### Indirect method

(€ THOUSAND)

	2016	2015
<b>A. OPERATING ACTIVITIES</b>		
<b>1. 1. Operations</b>	<b>165,622</b>	<b>173,820</b>
Net profit (loss) for the year	155,894	203,559
Gain/loss on HFT financial assets and liabilities	1,761	117
Gain/loss on hedging assets	-	-
Net adjustments/reversals due to impairment	778	6,471
Net adjustments/reversals of property, equipment and intangible assets	5,940	5,310
Net provisions for liabilities and contingencies and other costs/revenues	2,497	20,182
Taxes and duties not paid	18,305	-28,179
Adjustments/reversals of discontinued operations	-	-
Other adjustments	-19,553	-33,640
<b>2. Liquidity generated by/used for financial assets (+/-)</b>	<b>-1,457,154</b>	<b>-857,118</b>
HFT financial assets	-10,814	5,159
Financial assets measured value	-	-
AFS financial assets	-1,490,309	-712,180
Loans to banks: repayable on demand	106,354	-122,933
Loans to banks: other receivables	-100,119	76,501
Loans to customers	38,664	-98,444
Other assets	-930	-5,221
<b>3. Liquidity generated by/used for financial liabilities (+/-)</b>	<b>2,227,524</b>	<b>-142,491</b>
Due to banks repayable on demand	22,280	-4,016
Due to banks other payables	447,886	-689,260
Due to customers	1,798,691	549,611
Securities issued	-	-
HFT financial liabilities	-806	-2,655
Financial liabilities measured at fair value	-	-
Other liabilities	-40,527	3,829
<b>Net liquidity generated by/used for operating activities</b>	<b>935,992</b>	<b>-825,789</b>

(€ THOUSAND)	2016	2015
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Liquidity generated by</b>	<b>19,916</b>	<b>1,004,215</b>
Disposal of equity investments	-	-
Dividends received	-	-
Disposal of HTM financial assets	19,885	1,004,201
Disposal of property and equipment	31	14
Disposal of intangible assets	-	-
Disposal of business units	-	-
<b>2. Liquidity used for</b>	<b>-338,509</b>	<b>-44,204</b>
Purchase of equity investments	-	-2,200
Purchase of HTM financial assets	-327,861	-37,354
Purchase of property and equipment	-2,804	-2,334
Purchase of intangible assets	-7,844	-2,316
Purchase of business units and equity investments in subsidiaries	-	-
<b>Net liquidity generated by/used for investing activities</b>	<b>-318,593</b>	<b>960,011</b>
<b>C. FUNDING ACTIVITIES</b>		
Issue/purchase of treasury shares	2,088	1,870
Issue/purchase of equity instruments	-	-
Distribution of dividends and other	-139,237	-113,431
<b>Net liquidity generated by/used for funding activities</b>	<b>-137,149</b>	<b>-111,561</b>
<b>NET LIQUIDITY GENERATED/USED IN THE YEAR</b>	<b>480,250</b>	<b>22,661</b>
<b>Reconciliation</b>		
Cash and cash equivalents at year-start	103,111	80,450
Total liquidity generated/used in the year	480,250	22,661
Cash and cash equivalents – effects of exchange rate fluctuations	-	-
<b>Cash and cash equivalents at year-end</b>	<b>583,361</b>	<b>103,111</b>

Trieste, 10 March 2017

## NOTES AND COMMENTS

---

Part A - Accounting Policies	171
Part B - Information on the Balance Sheet	207
Part C - Information on the Profit and Loss Account	233
Part D - Comprehensive Income	245
Part E - Information on Risks and Risk Hedging Policies	246
Part F - Information on Net Equity	273
Part G - Mergers of Companies or Business Units	287
Part H - Related Party Transactions	291
Part I - Payment Agreements Based on Own Equity Instruments	298
Part L - Segment Reporting	303

## PART A – ACCOUNTING POLICIES

### Part A.1 – General

#### Section 1 – Declaration of Compliance with International Accounting Standards

These consolidated financial statements have been drawn up in compliance with Italian Legislative Decree No. 38 of 28 February 2005, based on the International Accounting Standards issued by the International Accounting Standards Board (IASB) and interpretation of the International Financial Reporting Interpretations Committee (IFRIC), and endorsed by the European Commission with Regulation No. 1606 of 19 July 2002.

In preparing the annual financial statements, Banca Generali adopted the IASs/IFRSs in force at 31 December 2016 (including SIC and IFRIC interpretations), which were endorsed by the European Union.

It should be noted that, following the completion of the endorsement procedure, as of 1 January 2016, several amendments to the IASs/IFRSs, and IFRICs were adopted and new IFRICs were issued.

#### International Accounting Standards endorsed in 2015 and effective as of 2016

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
Amendments to IAS 27: Equity Method in Separate Financial Statements	2441/2015	23.12.2015	01.01.2016
Amendments to IAS 1: Disclosure Initiative	2404/2015	19.12.2015	01.01.2016
Annual Improvements to IFRSs 2012–2014 Cycle (IFRS1, IFRS5, IFRS7, IAS 19, IAS 34)	2343/2015	16.12.2015	01.01.2016
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	2231/2015	03.12.2015	01.01.2016
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	2173/2015	25.11.2015	01.01.2016
Amendments to IAS 16 and IAS 41: Bearer Plants	2113/2015	24.11.2015	01.01.2016

#### International Accounting Standards endorsed in 2016

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities	1703/2016	23.09.2016	01.01.2016

#### International Accounting Standards endorsed in 2016 but not yet effective

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRS 9 – Financial Instruments	2067/2016	29.11.2016	01.01.2018
IFRS 15 – Revenue from contracts with customers	1905/2016	29.10.2016	01.01.2018

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

The Consolidated Financial Statements at 31 December 2016 were prepared based on the “Instructions for Preparing the Financial Statements and Consolidated Financial Statements of Banks and Parent Holding Companies of Banking Groups,” which were issued by the Bank of Italy in the exercise of the powers established in Article 9 of Legislative Decree No. 38/2005. Such instructions were issued in Circular Letter No. 262/05 “*Banks' Financial Statements: Layouts and Preparation*” by Provision dated 22 December 2005.

The Instructions set forth binding rules governing the presentation and preparation of financial statements and the minimum content of the Notes and Comments.

## Section 2 – Preparation criteria

The consolidated Financial Statements consists of the following documents:

- > Balance Sheet;
- > Profit and Loss Account;
- > Statement of Other Comprehensive Income;
- > Statement of Changes in Net equity;
- > Cash Flow Statement;
- > Notes and Comments.

The accounts are accompanied by a Directors' report on the Group's operations, financial situation, profit and loss and balance sheet results.

In compliance with the requirements of Article 5 of Legislative Decree No. 38/2005, the Consolidated Financial Statements were prepared in euros. All amounts in the Accounting Statements are expressed in thousands of euros. Unless otherwise specified, the figures in the Notes and Comments and the Directors' Report on Operations are expressed in thousands of euros.

The Financial Statements and Notes and Comments include figures for the period under review, as well as comparative data at 31 December 2015.

The Financial Statements are prepared by applying the general standards set out in IAS 1 and the specific accounting standards approved by the European Commission, as illustrated in Part A.2 of these Notes and Comments. International accounting standards have been applied in compliance with the Framework for the Preparation and Presentation of Financial Statements drafted by the IASB.

There were no derogations of the application of international accounting standards (IASs/IFRSs).

The Directors' Report on Operations and the Notes and Comments include the information required by international accounting standards, the law, the Bank of Italy and the Italian National Commission for Listed Companies and the Stock Exchange (Consob), as well as other non-compulsory information that was deemed necessary to provide an accurate and fair picture of the Bank's situation.

The measurement standards have been adopted on a going-concern basis and are shaped by the principles of accrual-basis accounting and the relevance and meaningfulness of accounting disclosures. Economic substance takes precedence over legal form.

In further detail, the directors are reasonably certain that the Bank will continue to operate in its current form for the foreseeable future (for at least 12 months) and have prepared the Financial Statements on a going-concern basis. Any uncertainty detected has not been deemed material and does not cast doubt on the Group's ability to operate as a going concern.

## Contents of the Financial Statements

The Financial Statements and the Notes and Comments have been prepared in accordance with Bank of Italy Circular Letter No. 262/2005 and the fourth update published on 15 December 2015.

Accounts that do not include items pertaining to the year under review or the previous year are not stated in the balance sheet and profit and loss account. Likewise, sections or tables which include no values are not included in the Notes and Comments.

The Statement of Comprehensive Income begins with the net profit (loss) for the year and then presents components of profit and loss recognised through valuation reserves, net of the related tax effect, in accordance with international accounting standards.

Consolidated comprehensive income is presented by providing a separate account of components of profit and loss that will not be reversed to the profit and loss account in the future, and components that may subsequently be reclassified to net profit (loss) for the year under certain conditions.

As for the Balance Sheet and Profit and Loss Account, items with nil amounts in both the reporting year and previous year are not presented.

The Statement of Changes in Net Equity is presented by inverting the rows and columns with respect to the presentation suggested by the Bank of Italy's Circular No. 262/2005.

The statement presents the composition of and changes in net equity accounts during the reporting year and the previous year, broken down into share capital, capital reserves, earnings reserves, asset and liability valuation reserves, and net profit. Treasury shares are recorded as a reduction to net equity.

The Cash Flow Statement was prepared using the indirect method, according to which cash flows from operating activities are derived by adjusting net profit for the effects of non-cash transactions.

Cash flows generated in the year are recognised without plus or minus signs, whereas cash flows used in the year are preceded by a minus sign.

Cash flows are broken down into:

- > cash flows from operating activities, including cash flows from operations and cash flows from increases and decreases in financial assets and liabilities;
- > cash flows generated by (used for) investing activities involving fixed assets;
- > cash flows generated by (used for) financing activities that alter the company's equity capital.

Specifically, sections 2 and 3 include only cash generated by (used for) the decrease (increase) in financial assets or the increase (decrease) in financial liabilities resulting from new transactions or reimbursements related to existing transactions.

Accordingly, these sections do not include items such as changes in value (adjustments, reversal values), amortisation and depreciation, the net balance of unpaid taxes (current and deferred), interest and unpaid or uncollected fees; these items have been disclosed separately and classified under operating activities.

These cash flows also do not include changes in operating assets and liabilities, but include those relating to financing activities, such as changes in operating loans and amounts payable to financial advisors and employees and any related advance payments.

## Annual Financial Report

The Consolidated Financial Statements are published in accordance with Article 154-ter of Legislative Decree No. 58/1998. The statute requires that, within 120 days of the end of the year, listed issuers whose home country is Italy make an **Annual Financial Report** including the following items available to the public at their registered offices, on their websites and in the other ways specified by Consob in a regulation:

- > the Consolidated Financial Statements,
- > the Annual Financial Statements,
- > the Report on Operations, and
- > the Attestation as per Article 154-bis, paragraph 5.

The Independent Auditors' Report and the Board of Statutory Auditors' Report pursuant to Article 153 of the Consolidated Finance Act (TUF) are published in their entirety with the Annual Financial Report.

In addition, no fewer than 21 days must lapse between the date of publication of the Annual Financial Report and the date of the General Shareholders' Meeting.

According to the provisions of Article 41, paragraph 5-bis, of Legislative Decree No. 136/2015 of 18 August 2015, implementing Directive No. 2013/34/EC, the Consolidated Report on Operations and the Separate Report on Operations of the company may be presented as a single document, in which additional attention is dedicated to issues relevant to the entirety of the companies within the scope of consolidation, as appropriate.

Banca Generali elected to exercise this option by presenting a single document. Consequently, the Consolidated Report on Operations also includes the information required for the Separate Report on Operations.

In compliance with Article 123-bis of TUF, the Report on Operations includes a specific section entitled "Report on Corporate Governance and Ownership Structure."

## Section 3 – Scope of consolidation and consolidation methods

### Scope of consolidation

#### 1. Equity investments in wholly owned subsidiaries

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

COMPANY NAME	REGISTERED OFFICE	OPERATING OFFICE	TYPE OF CONTROL	SHAREHOLDING RELATIONSHIP		% OF VOTES IN ORDINARY SHAREHOLDERS' MEETING
				INVESTOR	% OF OWNERSHIP INTEREST	
Banca Generali S.p.A.	Trieste	Trieste, Milan	1	Parent Company		
BG Fiduciaria Sim S.p.A.	Trieste	Milan	1	Banca Generali	100.00%	100.00%
BG Fund Management Luxembourg S.A.	Luxembourg	Luxembourg	1	Banca Generali	100.00%	100.00%
Generfid S.p.A.	Milan	Milan	1	Banca Generali	100.00%	100.00%

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).

## 2. Significant judgements and assumptions used in determining the scope of consolidation

### 2.1 Subsidiaries

Entities, including structured entities, over which the Group has a direct or indirect control, are subsidiaries. Control over an entity exists when the Group has the power to influence the variable returns to which the Group is exposed from its involvement with the investee.

To determine that control exists, the Group considers the following issues:

- > the investee's purpose and design, to identify the entity's purpose, the activities that determine its returns and how decisions about such activities are made;
- > power, to understand whether the Group has contractual rights that give the Group the ability to direct the relevant activities; for this purpose, only substantive rights entailing practical ability to direct the investee are considered;
- > exposure in the investee, to establish whether the Group has relations with the investee whose returns can vary based on changes in the investee's performance;
- > existence of possible principal/agent relationships.

Where relevant activities are directed through voting rights, the following factors are evidence of control:

- > ownership, direct or indirect through subsidiaries, of more than half of the voting rights of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control;
- > ownership of half or less of the votes that can be exercised in the General Shareholders' Meeting and the effective power to unilaterally govern significant activities through:
  - control over more than half of the voting rights by virtue of an agreement with other investors;
  - the power to govern the financial and operating policies of the entity under a statute or an agreement;
  - the power to appoint or remove the majority of the members of the board of directors or equivalent governing body, and the entity is managed by that board or body;
  - the power to cast the majority of votes at meetings of the board of directors or equivalent governing body, and the entity is controlled by that board or body.

The existence and effect of potential voting rights, if substantive, are taken into consideration when assessing whether a party has the power to direct the financial and management policies of another entity.

Subsidiaries may also include "structured entities" in which voting rights are not significant in assessing the existence of control, including special purpose entities (SPEs) and investment funds.

Structured entities are considered as subsidiaries when:

- > the Group has power arising from contractual rights to direct relevant activities;
- > the Group is exposed to variable returns arising from such activities.

### 2.2 Associate companies

An associate company is one over which the investor has significant influence and that is neither a subsidiary nor a joint venture.

Significant influence is assumed when the investor:

- > holds, directly or indirectly, 20% or more of the share capital in the investee, or
- > has significant influence over the investee, also by way of shareholders' agreements, through:
  - a) representation on the governing body of the investee;
  - b) participation in policy making processes, including with regard to decisions on dividends and other distributions;
  - c) material transactions;
  - d) interchange of management personnel;
  - e) provision of essential technical information.

Investments in associates are valued using the equity method.

As of 31 December 2016, the only associative shareholding included in the scope of consolidation of the Banking Group is IOCA Entertainment Ltd., a company under the UK law, in which Banca Generali subscribed, in 2015, a 35% interest, equivalent at the acquisition date to approximately 2.2 million euros.

### 2.3 Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Under IFRS 11, joint arrangements are classified as either a joint operation or a joint venture based on the Group's contractual rights or obligations:

- > a Joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities relating to the arrangement;



> a Joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement.

Investments in joint arrangements are valued using the equity method.

As of 31 December 2016, the Banking Group's scope of consolidation did not include any investments in joint arrangements.

---

### 3. Equity investments in wholly owned subsidiaries with significant non-controlling interests

As of 31 December 2016, all the Group's equity investments were wholly owned and there were no non-controlling interests.

---

### 4. Significant restrictions

As of 31 December 2016, there were no significant restrictions of a legal, contractual, or statutory nature on the Parent Company's ability to access or use the Group's assets and settle the Group's liabilities.

---

## Consolidation methods

---

### Full consolidation method

Subsidiaries are included in the accounts using the full consolidation method, whereby the balance sheet and profit and loss items are consolidated on a line-by-line basis.

After the attribution to minority interests of any portion of net equity and profit and loss results, the value of the equity investment is cancelled due to the residual value of the subsidiary's net equity.

The resulting differences are allocated to the assets or liabilities – including intangible assets – of the subsidiary in question and any remaining balances, if positive, are recorded as goodwill under Intangible Assets. Negative differences are charged to the Profit and Loss Account.

The most important intra-Group transactions, influencing both the balance sheet and profit and loss account, were eliminated. Unreconciled amounts were recognised in other assets/liabilities and other revenues/expenses, respectively.

Dividends distributed by subsidiaries were eliminated from the consolidated profit and loss account and a corresponding adjustment was made to income reserves.

---

### Equity method

Associate companies are consolidated according to the concise equity method.

Under the equity method, an equity investment is initially recognised at acquisition cost, inclusive of goodwill, and subsequently adjusted according to the investor's share in the investee's net equity.

Upon acquisition, the difference between the cost of the equity investment and the share of the net fair value of the investee's identifiable assets and liabilities must be determined and then recognised as goodwill, if positive, or as income, if negative.

The carrying amount is then increased or decreased to recognise the investor's share of the profits or losses of the investee recorded after the acquisition date under item 240 "Gains (losses) from equity investments" of the profit and loss account.

That share is adjusted to reflect:

- > gain and loss on transactions with the associate company, in proportion to the percent interest in the associate company;
- > depreciation and amortisation of depreciable assets at their respective fair values at the acquisition date and impairment losses on goodwill and any other non-monetary elements.

Distributions received from an investee reduce the carrying amount of the equity investment.

Changes in the valuation reserves of associate companies are presented separately in the statement of comprehensive income.

If the associate company prepares its financial statements in a foreign currency, the translation differences at the reporting date are recognised in a specific valuation reserve for monetary conversion in other comprehensive income.

When there is indication of a possible loss in value of an equity investment, the recoverable amount of the investment is estimated based on the present value of future cash flows that the company could generate, including the disposal value of the investment. If the recoverable amount is less than the carrying amount, the difference is recognised in profit or loss.

---

#### Translation of financial statements denominated in currencies other than the euro

The financial statements of companies operating in areas other than the Euro Area are translated into euro by applying the current exchange rates at year-end to assets and liabilities and average exchange rates for the year to items of profit and loss.

The foreign exchange differences of the financial statements of such companies on the application of different exchange rates to assets and liabilities and profit and loss are recognised among valuation reserves in equity. Foreign exchange differences on investees' equity are also recognised among valuation reserves.

---

#### Other information

The consolidated accounts include the separate financial statements of the Parent Company and the subsidiaries at 31 December 2016, reclassified and adjusted where necessary to take account of consolidation requirements.

---

#### Section 4 – Events occurred after the consolidated balance sheet date

The draft Consolidated Financial Statements of Banca Generali has been approved by the Board of Directors on 10 March 2017, when the Board also authorised its disclosure pursuant to IAS 10.

No events occurred after 31 December 2016 and until the publication was authorised that would significantly impact the Banking Group's operations and P&L results.

---

#### Section 5 – Other issues

---

##### Non-recurring significant events and transactions

During the year, there were no non-recurring transactions or events outside the scope of ordinary operations that had a significant impact on the aggregate items of the balance sheet and profit and loss account (Consob Communication No. DEM/6064293 of 28 July 2006).

---

##### National Tax Consolidation option

In 2004, the Parent Company Assicurazioni Generali S.p.A. and some Italian companies belonging to the Assicurazioni Generali Group, including Banca Generali S.p.A., began participating in the National Tax Consolidation scheme governed by Articles 117-129 of the TUIR (Italy's income tax code), which was introduced into Italy's fiscal legislation by Italian Legislative Decree No. 344/2003.

Under the scheme, Banca Generali transfers its taxable profit (or tax losses) to the Parent Company, Assicurazioni Generali S.p.A., which computes a single taxable profit (or a single tax loss) for the Group as the sum of the profits and/or losses of the individual companies, and reports a single tax receivable from or payable to the Tax Authorities.

---

##### Restatement of demand deposits with the Bank of Italy

With effect from 1 January 2016, the portion of the balance of the settlement account held with the Bank of Italy that is not restricted according to the mandatory reserve rules is recognized as demand deposits with the Central Bank and has therefore been reclassified to item 10 of the balance sheet, cash and deposits. In the interest of ease of comparison, the corresponding item from the accounting situation at 31 December 2015 has also been restated.

---

#### Audit

The Consolidated Financial Statements were audited by BDO Italia S.p.A. in accordance with the Resolution passed by the Shareholders' Meeting on 23 April 2015 and appointing the said company as the independent auditors for the years 2015-2023, included.

## Part A.2 – Accounting policies adopted by the Banca Generali Group

This section sets out the accounting policies adopted for the preparation of the consolidated Financial Statements as of 31 December 2016, as regards the stages of classification, recognition, measurement and derecognition of the various asset and liability items and the methods of recognition of costs and revenues.

With reference to the foregoing, it should be noted that during the reporting year, the accounting policies adopted by the banking Group underwent no significant amendments and supplementations.

### 1. HFT financial assets

#### Classification

This category includes only debt and equity securities and the positive value of derivative contracts held for trading,

including those embedded in complex financial instruments. Embedded derivatives were reported separately for the following reasons:

- > their economic characteristics and risks are not closely related to the characteristics of the underlying contract;
- > the embedded instruments considered separately meet the definition of a derivative;
- > the hybrid instruments in which they are embedded are not recognised at fair value with changes in fair value recognised in profit or loss.

Derivatives are presented as assets if their fair value is positive and as liabilities if their fair value is negative. It is possible to set off current positive and negative values deriving from outstanding transactions with the same counterparty only if there is currently a legal right to set off the recognised amounts and the entity intends to settle the positions subject to offsetting on a net basis.

Reclassifications to other categories of financial assets are not allowed, except in cases of unusual events or events that are unlikely to recur in the near term.

In such cases, debt and equity securities no longer held for trading purposes may be reclassified to the other categories indicated in IAS 39 provided that the conditions for recognising the assets have been met (Financial assets held to maturity, Financial assets available for sale, Loans). The transfer value is the fair value at the time of reclassification. The presence of any embedded derivative contracts to be separated must be evaluated during the reclassification process.

#### Recognition

Debt and equity securities are initially recognised on the settlement date. Derivative contracts are initially recognised on the date the contract is entered into.

Financial assets held for trading are initially recognised at cost, being the fair value of the instrument less transaction costs or income directly related to the instrument itself.

Embedded derivatives, that are not closely related to the host contract but meet the definition of a derivative, are separated from the host contract and recorded at fair value; the host contract is accounted for using the appropriate standard.

#### Measurement

Subsequent to initial recognition, financial assets held for trading are recognised at fair value. The effects of the application of this measurement consideration are recognised in profit and loss.

The fair value of financial instruments traded in active markets is determined by referring to the appropriate quoted market price of such instruments.

A financial instrument is regarded as listed in an active market if quoted prices represent actual and regularly occurring market transactions on an arm's length basis over a normal reference period and those prices, are readily and regularly available from an exchange, dealer, broker, industry company, pricing service or authorised entity.

In the absence of an active market, alternative valuation methods based on market data are used, such as quotes drawn from inactive markets, or on markets where similar instruments are traded, the notional value of financial instruments, quotas from brokers or placing agents involved in the issue of financial instruments, quotes from info providers specialised in specific sectors, and values drawn from recent comparable transactions.

Equity securities, UCITS units and equity derivatives, which are not listed on active markets and have no reliable fair value measurement, are measured at cost.

---

## Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all related risks and rewards, is transferred. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried on the balance sheet, even though the ownership of said assets has been effectively transferred in legal terms.

---

## 2. AFS financial assets

---

### Classification

This category includes non-derivative financial assets not otherwise classified as Loans, Assets held for trading (HFT assets), Assets at fair value or Assets held to maturity (HTM assets).

Specifically, it includes:

- > equity investments not held for trading;
- > other equity interests and quotas not considered as establishing a relationship of control, association, or joint control, such as minority-interest equity investments and private-equity investments;
- > bonds not held for trading and not classified as Assets held to maturity or with Loans, intended for the treasury portfolio and purchased in connection with their potential cash flow in terms of interest rather than for trading purposes.

Where permitted by accounting standards, debt securities may also be reclassified to HTM Financial assets or Loans, if the entity intends to hold the instrument for the foreseeable future and the conditions for recognising the asset have been met. The transfer value is the fair value at the time of reclassification.

---

### Recognition

Debt and equity securities are initially recognised on the settlement date. Loans are initially recognised on the disbursement date.

Upon initial recognition, these assets are measured at cost, defined as the fair value of the instrument, which normally corresponds to the consideration paid, including the transaction income or expenses directly attributable to the instrument itself.

Such assets may also be recognised upon reclassification from assets held to maturity, or, in rare circumstances, from assets held for trading; in this case, they are recognised at their fair value at the time of the transfer.

---

### Measurement

After initial recognition, available-for-sale assets are measured at fair value, as follows:

- > the amortised cost is recognised in profit or loss;
- > gains and losses arising from changes in fair value are recognised in a special reserve in equity (net of the related tax effects) until the financial instrument is sold or impairment occurs.

Upon derecognition or impairment, cumulative gains and losses are recognised in profit or loss.

Fair value is determined according to the same criteria as indicated above for held-for-trading assets. The book value of debt securities comprises accrued interest income.

Equity securities and related derivatives with no reliable fair value measurement are measured at cost.

Available-for-sale financial assets are tested in order to determine whether there is objective evidence of impairment (impairment testing).

If such evidence is found, the amount of the loss is measured as the difference between the carrying amount of the asset and the current value of estimated future cash flows, discounted at the original effective interest-rate, or by using specific valuation methods for equity securities.

If the reasons for impairment loss cease to exist due to an event occurring after the impairment is recognised, the loss is reversed and, in the case of loans, receivables or debt securities, recognised in profit or loss or, in the case of equity securities, under net equity.

The amount of the reversal should not exceed what the amortised cost would have been, had the past adjustments not been made.

---

## Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all the related risks and rewards incidental to ownership, is transferred. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried on the balance sheet, even though the ownership of said assets has been effectively transferred in legal terms.

---

## 3. HTM financial assets

---

### Classification

Held-to-maturity investments comprise non-derivative securities having fixed or determinable payments and fixed maturities, which the entity has the intention and ability to hold to maturity.

In the cases allowed by the accounting standards, reclassifications are admitted only to the item Financial assets available for sale.

---

### Recognition

Initial recognition of these assets takes place on the settlement date.

Financial assets classified as held-to-maturity are initially recognised at fair value, including any directly attributable costs and income.

If recognition under this category occurs due to the reclassification of AFS assets or, in rare circumstances, of HFT assets, the new amortised cost of said assets is taken as the fair value thereof at the date of reclassification.

Where a non-insignificant amount of such investments is sold or reclassified prior to maturity, the remaining held-to-maturity assets are reclassified as available-for-sale and the use of the portfolio in question is precluded for the following two years (tainting provision), unless such sales or reclassifications:

- > are so near the date of the maturity or repayment option associated with the asset that the fluctuations in the market interest rate would not have a significant effect on the asset's fair value;
- > occur after the collection of substantially all of the asset's original principal through scheduled or early ordinary payments.

---

### Measurement

After initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest-rate method.

Gains or losses relating to HTM assets are taken through profit and loss when the assets are derecognised (gains or losses on repurchase) or suffer impairment (impairment adjustments), as well as through the process of amortising the difference between the value at initial recognition and the value payable at maturity.

HTM assets are tested in order to determine whether there is objective indication of impairment (impairment testing). If evidence to this effect is found, the amount of the loss is measured as the difference between the asset's book value and the current value of estimated future cash flows, discounted at the original effective interest rate. The amount of the loss is taken through profit and loss.

If the reasons for impairment cease to exist due to an event occurring after the impairment was recognised, the impairment loss is reversed and the reversal is recognised in profit or loss. The reversal may not exceed the amortised cost that would have been attributable to the asset had the impairment not been recognised.

Financial assets held to maturity for which there is no objective evidence of loss are tested collectively for impairment. Collective evaluation is carried out on categories of loans with similar risk characteristics; the related loss percentages are estimated using historical data and other elements that can be observed at the measurement date, allowing the probable loss to be estimated for each category of loan. Adjustments resulting from collective evaluation are recognised in profit or loss.

---

## Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all the related risks and rewards incidental to ownership, is transferred. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried on the balance sheet, even though the ownership of said assets has been effectively transferred in legal terms.

---

## 4. Loans

---

### Classification

This category includes loan commitments with customers and banks, either granted directly or acquired from third parties, that have fixed or determinable payments and are not listed in an active market and are not initially classified as financial assets available for sale.

This item also includes:

- > repurchase agreements with a commitment to repurchase;
- > debt securities not listed on active markets, having determined or determinable payments, purchased through subscription or through private placement;
- > operating receivables deriving from the provision of financial services, as defined in the Consolidated Law on Banking (TUB) and Consolidated Law on Finance (TUF). This latter category also includes receivables from product companies and receivables from the network of financial advisors for advances on commissions paid.

Reclassifications to the other categories of financial assets provided for in IAS 39 are not allowed.

Available-for-sale debt securities may also be reclassified to this category if the securities in question are not listed on an active market and the entity has the intention and ability to hold said securities for the foreseeable future or until maturity.

---

### Recognition

Loans are initially recognised at the date of disbursement or, in the case of debt securities, at the settlement date, based on the fair value of the financial instrument, i.e., the amount disbursed or the subscription price, including the costs/revenues directly related to the individual loan and determined at origination, even if settled at a later date.

Costs with the above-described characteristics are excluded if they are to be repaid by a third-party borrower or can be considered normal, internal, general and administrative expense.

The fair value of loans disbursed under non-market conditions is determined using the appropriate valuation techniques; the difference between the fair value and the amount dispensed or the subscription price is recognised in profit or loss.

This category includes loans disbursed under below-market conditions, the carrying value of which is equal to the current value of the expected cash flows, discounted at the benchmark market rates used by the bank instead of the contractual rate.

If recognition in this category takes place as a result of reclassification from available-for-sale assets, the asset's fair value on the date of reclassification is taken as its new amortised cost.

---

### Measurement

Subsequent to initial recognition, loans are recognised at amortised cost, which is equal to the initially recognised value minus or plus principal repayments, impairments or reversals and the amortisation (calculated using the effective interest-rate method) of the difference between the amount disbursed and the amount payable on maturity, which typically comprises the costs and income directly attributable to the individual loan.

The effective interest rate is the rate that equates the discounted future cash outflows (for principal and interest payments) with the amount disbursed including the costs and income relating to the loan. This method of recognition allows the financial effect of the costs and income to be distributed across the expected remaining life of the loan.

The amortised cost method is not used for short-term loans if discounting to present value is deemed to have a negligible effect. Such loans are measured at historical cost, and the related costs and income are recognised in profit or loss.

on a straight-line basis over the contractual duration of the loan. The same method is used to measure loans with no stated maturity or that are valid until revoked.

## Adjustments and reversal value

At annual and interim reporting dates, an impairment test is performed on loans to determine if there is objective evidence of possible loss in value as a result of events that occurred after their initial recognition.

Non-performing exposures, i.e., those that present the characteristics indicated in paragraphs 58-62 of IAS 39, are classified to the following categories:

- 1) **bad loans**: this category refers to formally non-performing loans, consisting of exposures to customers who are in a state of insolvency, regardless of whether confirmed by a court, or in similar situations;
- 2) **unlikely to pay**: these are on- and off-balance sheet exposures for which the conditions have not been met for classification as bad loans and for which it is deemed unlikely that the borrower will be capable of fulfilling all of its debt obligations (in terms of principal and/or interest) in the absence of actions such as the enforcement of guarantees. This assessment is conducted regardless of the presence of any past due and unpaid amounts or instalments. Classification as unlikely to pay is not necessarily tied to the explicit presence of anomalies (non-payment), but rather is linked to the existence of elements indicative of a situation of risk of default of the borrower;
- 3) **non performing past-due exposures**: these are on-balance sheet exposures other than those classified as bad debts or unlikely to pay loans that are past due by more than 90 days at the reporting date. Non performing past-due exposures may be identified in reference to either the individual borrower or individual transaction.

Loans classified as *bad loans* or *unlikely to pay* are normally subject to an analytical assessment process.

Non performing past-due exposures are measured on a lump-sum basis according to historical and statistical loss projections, or, in cases of individually insignificant amounts, on the basis of assumptions of non-recoverability.

As regards analytical assessments, the amount of the impairment for each loan is equal to the difference between its book value at the time of assessment (amortised cost) and the current value of the expected future cash flows, calculated by applying the original effective interest rate.

Expected cash flows take account of anticipated collection times, the presumed realisable value of any underlying guarantees and costs that are expected to be incurred to recover the credit exposure.

Cash flows relating to short-term loans are not discounted.

The original effective interest rate of each loan remains unchanged over time, even if a renegotiation of the terms results in a change of the contractual rate, including if the loan becomes non-interest-bearing. Adjustments are recognised in profit or loss.

The original value of loans is reinstated in subsequent periods, if the circumstances that gave rise to the value adjustment cease to exist and such adjustment is objectively related to an event that occurred after the adjustment was made. The reversal is recognised in profit or loss and should not exceed what the amortised cost would have been, had the impairment not been recognised.

In light of the method employed to determine the recoverable value of non-performing exposures, the mere passage of time, and the ensuing increased proximity to the projected date of recovery, implies an automatic decrease in the notional financial expenses previously charged against the loans.

Write-backs due to the passage of time are taken among reversals.

Performing loans for which there is no objective evidence of loss are tested collectively for impairment. Collective evaluation is carried out on categories of loans with similar risk characteristics; the related loss percentages are estimated using historical data and other elements that can be observed at the measurement date, allowing the probable loss to be estimated for each category of loan.

In further detail, a probability of default and a loss given default value are attributed to each class of assets having similar characteristics in terms of exposure, the borrower's industry, type of collateral and other significant factors, based on a historical/statistical approach, probability of default and loss given default.

Adjustments resulting from collective evaluation are recognised in profit or loss. At annual or interim reporting dates, impairment losses or reversals are recalculated on a differential basis with reference to the entire portfolio of performing loans at that date.

## Derecognition

Receivables are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all the related risks and rewards incidental to ownership, is transferred. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried on the balance sheet, even though the ownership of said assets has been effectively transferred in legal terms.

---

## 5. Financial assets at fair value

At the reporting date, none of the Bank's financial assets are classified under this category.

---

## 6. Hedging transactions

### Types of hedging transactions

The objective of hedging is to eliminate possible losses on a specific item or group of items that could be incurred as a result of a certain risk with gains on another item or group of items.

Possible types of hedges include:

- > fair-value hedges, intended to hedge exposure to changes in the fair value of a balance-sheet item attributable to a particular risk;
- > cash-flow hedge, intended to hedge exposure to changes in future cash flows of balance-sheet items attributable to particular risks;
- > hedges of a net investment in a foreign operation: intended to hedge the foreign currency exposure of an investment in a foreign enterprise.

---

### Measurement

Hedging derivatives are measured at fair value. Specifically:

- > in the case of a fair-value hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. Both the change in value of the hedged item attributable to the hedged risk (with reference to changes due to the underlying risk factor) and the change in value of the hedging instrument are recognised in profit or loss. Any difference between the two represents an element of ineffectiveness of the hedge and determines the net effect on net profit or loss;
- > in the case of cash-flow hedges, the effective portion of changes in the fair value of the derivative is recognised immediately in net equity and recognised in profit or loss only when there are changes in the cash flow of the hedged item;
- > hedges of a net investment in a foreign operation are accounted for similarly to cash-flow hedges.

Derivatives qualify as hedging instruments when the relationship between the hedged item and the hedging instrument is formally documented and the hedge is effective at inception and is expected to be effective on an ongoing basis over the term of the hedge.

The effectiveness of the hedge depends on the degree to which changes in the fair value or cash flows of the hedged item are offset by changes in the fair value or cash flows of the hedging instrument. Effectiveness is thus assessed by comparing these changes in light of the intentions expressed by the enterprise at the hedge's inception.

A hedge is considered effective (within a range of 80-125%) when the changes in fair value (or cash flows) of the hedging instrument almost entirely offset the changes in the hedged item.

Effectiveness is assessed at annual and interim reporting dates using:

- > *prospective tests*, which justify the use of hedge accounting by demonstrating effectiveness;
- > *retrospective tests*, which show the degree of effectiveness achieved in the period under review. In other words, retrospective tests measure the extent to which actual results differed from a perfect hedge.

If these tests do not confirm the effectiveness of a hedge, the hedge accounting procedures described above are discontinued and the derivative instrument is reclassified as a trading instrument.

---

## 7. Equity investments

The initial recognition and subsequent measurement criteria used for equity investments under IFRS 10 – *Consolidated Financial Statements* and IAS 28 – *Investments in Associates and Joint Ventures* are given in Part A.1 - Section 3 - Scope of consolidation and consolidation methods in the Notes and Comments.

Other investments – other than subsidiaries, associates, joint ventures and those recognised in items 150. “Non-current assets available for sale and disposal group” and 90. “Liabilities associated to assets held for sale” (see section 10) – are classified as available-for-sale financial assets and financial assets held for trading and are recognised accordingly.



## 8. Property and equipment

### Classification

Property and equipment include technical systems, furniture, furnishings and equipment of any type. They also include assets held exclusively for operating purposes, to be used in the production or provision of goods and services to be leased to third parties or for administrative purposes and that are expected to be used for more than one year.

### Recognition

Property and equipment are initially recognised at cost, which includes the purchase price, as well as all directly related costs necessary to purchase the asset and bring it into working condition.

Extraordinary maintenance costs that increase the future economic benefits of the asset are added to the carrying amount of the asset to which they relate, while routine maintenance costs are recognised in the statement of operations.

### Measurement

Property and equipment, including those not used in production, are measured at cost less depreciation and impairment losses.

They are systematically depreciated over their estimated useful life using the straight-line method.

At each annual or interim reporting date, if there is indication that an asset may be impaired, its carrying amount is compared to its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use, i.e., the present value of future cash flows expected to be generated by the asset. Impairment losses are recognised in the profit and loss account.

If the reasons for impairment cease to exist, the impairment loss is reversed; the new amount cannot exceed the carrying amount the asset would have had after depreciation, had no impairment loss been recognised.

### Derecognition

Property and equipment are removed from the balance sheet upon disposal or when permanently withdrawn from use and no future economic benefits are expected from their disposal.

## 9. Intangible assets

### Classification

An intangible asset is an identifiable non-monetary asset controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

In order to be identifiable, an asset must be separable, i.e., capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or must arise from contractual or other legal rights, regardless of whether those rights are transferrable or separable from the entity or from other rights and obligations.

An entity controls an asset if the entity has the power to obtain the future benefits flowing from the underlying resource and simultaneously restrict the access of others to those benefits.

The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law.

Goodwill, which represents the positive difference between the purchase cost and the fair value of the acquiree's assets and liabilities, is also recognised among intangible assets.

Intangible assets include the value of contractual relations with customers acquired as a result of the business combination of Banca Del Gottardo Italia.

This asset is an intangible asset, as defined by IAS 38, from which future economic benefits are likely to flow to the acquirer. The value of these relationships was determined on the basis of an estimate of the return on the assets managed by Banca del Gottardo Italia, analysed by asset class, while the useful life was estimated as a ten-year period, based on the historic percentage of decline of assets under management, before the company was acquired.

The remaining intangible assets are application software intended for long-term use, including the expenses of modifying the legacy system, which in turn include intangible assets in progress at the end of the year.

Software costs recorded as intangible assets refer to application software developed by third parties for company use (software development contracts) or purchased with a multi-year licence for use.

Software costs recognised among intangible assets include, at set conditions, also charges for the development of the IT system used by the Bank based on the outsourcing contract with CSE (legacy, front-end financial advisors and front-end customers, etc.).

Such charges are capitalised when they refer to the development of innovative components of the system, which are not part of consortium projects, for which it is possible to identify a control situation, and from which future economic rewards are expected.

Expenses related to corrective and evolution maintenance of IT procedures and the website already in use are usually recognised in the balance sheet in the year in which they are borne.

---

## Recognition

### Goodwill

An intangible asset can be classified as goodwill when the positive difference between the fair value of the assets and liabilities acquired and the cost of the investment (including incidental expenses) is representative of the investee company's ability to generate future income (goodwill).

In case of badwill, or if the goodwill is not representative of the investee company's ability to generate future income, the difference is recognised directly through profit and loss.

---

### Other intangible assets

Other intangible assets are recorded at cost less any incidental expenses when it is probable that the asset will produce future economic benefits and if the cost of the asset can be reliably determined. When this is not the case, the cost of the intangible asset is recognised in the profit and loss account in the period in which it is incurred.

---

## Measurement

Intangible assets are amortised on a straight-line basis over their useful lives.

*Software costs* are typically amortised over a three-year period.

*Other capitalised costs associated with legacy systems* are amortised over a five-year period.

For contractual relations with customers, acquired as a result of the above-mentioned business combination of Banca del Gottardo Italia, the useful lives are estimated at ten years.

Intangible assets with indefinite lives are not amortised, but are periodically reviewed to assess the appropriateness of their carrying amount.

---

## Impairment

### Goodwill

In accordance with IAS 36, goodwill is no longer amortised, but is tested for impairment at least annually.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs), which may be no larger than the segments identified for management reporting.

To determine the amount of impairment, the carrying amount of the CGU is compared with its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The impairment test for goodwill is presented in Section 3. "Retrospective adjustments" in Part G of these Notes and Comments.

### Other intangible assets

At each reporting date, if impairment is indicated, the recoverable amount of the asset is estimated. The amount of impairment, which is recognised in the profit and loss account, is the amount by which the asset's carrying amount exceeds its recoverable amount.

---

## Derecognition

Intangible assets are removed from the balance sheet on disposal or when no future economic benefits are expected from their use.

## 10. Non-current assets held for sale or disposal groups

The asset item “Non-current assets held for sale or disposal groups” and liability item “Liabilities associated with assets held for sale or disposal groups” include non-current assets or groups of assets/liabilities for which a disposal process has been initiated and the sale of which is deemed highly likely. Such assets/liabilities are measured at the lesser of their carrying value and fair value less costs to sell.

The net balance of income and expenses (net of the tax effect) attributable to a group of assets available for sale or a group of assets recognised as available for sale during the year is taken through profit and loss under a specific separate item, “Income (Loss) of disposal groups, net of taxes.”

## 11. Current and deferred taxes

Income taxes are recognised in the profit and loss account, with the exception of those relating to items posted directly to net equity.

Provisions for income taxes are made based on a conservative estimate of current taxes, and deferred tax assets and liabilities, which are calculated using prevailing tax rates.

Specifically, deferred tax assets and liabilities are calculated based on the temporary differences – without time limits – between the carrying amount of assets and liabilities and their corresponding values for tax purposes.

Deferred tax assets are recognised to the extent that it is probable that they will be recovered, which is determined based on the ability of the company in question or the Parent Company Assicurazioni Generali – as a result of its exercise of the option provided by the Italian tax consolidation scheme – to generate ongoing taxable income.

Deferred tax liabilities are recognised in the balance sheet, except for the main assets pending taxation, represented by equity investments.

Deferred tax assets and liabilities are shown separately in the balance sheet and are not offset; deferred tax assets are recorded under “tax assets” and deferred tax liabilities are recorded under “tax liabilities”.

Deferred taxes resulting from consolidation are recognised where it is probable that they will give rise to a tax charge for one of the consolidated enterprises. Such taxes arise when positive differences resulting from consolidation are allocated to the assets of the subsidiary in question.

Deferred tax assets and liabilities are systematically assessed to take account of any changes in tax legislation or rates, as well as changes to the specific situations.

Provisions for taxes also include allocations made to cover charges that could arise from audits or litigation underway with revenue authorities.

## Accounting effects of the redemption of goodwill and other intangible assets pursuant to Italy’s tax laws

In recent years, the tax regime applicable to corporate reorganisation transactions has undergone considerable changes aimed at allowing surplus amounts (for example, goodwill) recognised following an extraordinary transaction involving contribution, merger or de-merger to be recognised for income-tax purposes, as well as through the payment of a substitute tax.

Law No. 244 of 24 December 2007 (the 2008 Finance Law) introduced the new paragraph 2-ter into Article 176 of the Consolidated Income Tax Law (hereinafter TUIR) that allows entities to recognise for income-tax purposes greater amounts recognised in the accounts following a corporate reorganisation transaction in relation to intangible assets, including goodwill, and property and equipment.

That provision requires that the entity pay a substitute tax, determined according to three income brackets, on the basis of the realigned amounts (12% up to 5 million, 14% up to 10 million and 16% for amounts in excess of the latter bracket, respectively) in lieu of the ordinary rates of 27.5% (IRES) and 3.9% (IRAP).

The substitute tax is to be paid in three annual instalments beginning on the term of payment of the balance of income taxes for the year in which the extraordinary transaction is undertaken, whereas the greater amounts are recognised for the purposes of the tax-deductibility of depreciation and amortisation charges beginning in the tax period in progress when the option for payment of substitute tax is exercised on the tax return, that is to say in the year in which the first instalment is paid.

Legislative Decree No. 185 of 29 November 2008 (the Anti-Crisis Decree), converted to Law No. 2 of 28 January 2009, subsequently introduced a new system of optional realignment of tax and balance-sheet values. The provision, set forth in Article 15, paragraph 10, of the cited Decree, states that, in derogation of the substitute-tax regime introduced by the 2008 Finance Law, taxpayers may obtain recognition for tax purposes of the greater amounts attributed to goodwill, trademarks and other intangible assets with finite useful lives in the financial statements by paying a substitute tax in

lieu of IRES and IRAP at the fixed rate of 16%, that is to say without any reference to income brackets and the possibility of paying in instalments.

However, the greater amounts attributed to goodwill and trademarks may be recovered through the off-the-books procedure for amortising goodwill in ten annual instalments instead of the 18 ordinary required under Article 103 of TUIR, beginning in the tax period after that in which the tax is paid.

That statute also requires that the option be exercised by paying the substitute tax by the term of payment for income taxes for the year in which the extraordinary transactions in question are undertaken.

Lastly, paragraphs 12 to 14 of Article 23 of Legislative Decree No. 98/2011 (known as the “Summer Manoeuvre”) introduced the new paragraphs 10-*bis* and 10-*ter* to Article 10 of Legislative Decree No. 185/2008, thus allowing an extension of the “special redemption” procedure to goodwill recognised at the consolidated level only due to not being presented in the carrying amount of the equity investment.

The additional redemption scenario is founded solely on the accounting figures presented in the consolidated financial statements (it is not required that the value of the goodwill be separated from that of the equity investment at an accounting level) and applies not only to cases of equity investments arising from mergers or other extraordinary transactions, but also to cases of non-tax neutral transactions excluded from the previous rules, such as the acquisition of an entity whose assets also include a control interest or the acquisition of such a control interest (the new paragraph 10-*ter*).

The statute also provides that in order to close redemption transactions, as limited to previous transactions undertaken prior to 31 December 2010, the payment of the 16% substitute tax must be made by 30 November 2011, whereas the non-accounting deduction of amortisation in ten equal instalments is to take place beginning in financial year 2013.

Banca Generali has undertaken the following transactions in connection with the aforementioned options afforded by the tax code:

- 1) redemption of the mismatch between the carrying amounts and book values of goodwill arising from the merger of Banca del Gottardo Italia into Banca BSI S.p.A. (subsequently merged into Banca Generali effective 1 January 2010), closed in 2010 on the basis of the provisions of Article 15, paragraph 10, of Legislative Decree No. 185/2008;
- 2) redemption of other intangible assets (client relationships) arising from the above transaction undertaken in 2010 on the basis of the amounts carried in the financial statements of Banca BSI Italia at 31 December 2009 according to the ordinary procedure outlined in Article 176, paragraph 2-*ter*, of the TUIR;
- 3) redemption of goodwill recognised on a consolidated basis in connection with the full equity interest in the subsidiary BG Fiduciaria Sim S.p.A. undertaken in 2011.

The accounting treatment of the payment of substitute tax on goodwill is susceptible to varying interpretations, given that there is no specific provision of IAS 12 regarding the taxable element of goodwill after initial recognition.

IAS 12 merely prohibits the recognition of deferred tax assets on initial recognition of goodwill from acquisitions not relevant for tax purposes.

The analyses conducted by the OIC – the Italian Accounting Standard Setter – summarised in application document No. 1 of 27 February 2009 entitled “*Accounting treatment of substitute tax on the redemption of goodwill in accordance with Article 15, paragraph 10, of Legislative Decree No. 185 of 29 November 2008 (converted into Law No. 2 of 28 January 2009) for entities that prepare financial statements in accordance with IASs/IFRSs*”, which can however be extended to other special redemption cases envisaged by tax laws, have led to three different accounting treatments being considered compatible with IFRSs:

- 1) Recognition through profit and loss of substitute tax only, without recognising deferred tax assets;
- 2) Immediate recognition through profit and loss of both substitute tax and the deferred tax assets representing the future tax benefit; and
- 3) Recognition of substitute tax as a tax credit under assets and subsequent recognition through profit and loss over the years to coincide with the non-accounting deduction of the redeemed amortised amounts.

In this regard, it should be noted that the accounting policy adopted by Banca Generali is based on the second method, which allows the attribution of the entire tax benefit, equal to the difference between the substitute tax paid and the deferred tax assets recognised (IRES and IRAP) during the year to which the redemption transaction refers.

During the years in which the redeemed goodwill may be deducted on a straight-line basis, the entity will release the previously recognised deferred tax assets to profit and loss at a constant rate, based on the specific system adopted (ten or eighteen amortisation charges), thereby neutralising the decrease in current taxes.

Any impairment losses to the goodwill are not relevant to measuring the recognised deferred tax asset, provided that the value of that asset continues to be believed to be recoverable on the basis of future taxable income.

## 12. Provisions for liabilities and contingencies

Other provisions for liabilities and contingencies include allocations relating to provisions for legal obligations, contractual indemnities or legal disputes, including tax disputes, arising from a past event where fulfilment of such obligation is likely to require an outflow of financial resources, provided that the amount of the outflow can be reliably estimated.

Therefore, a provision is recognised only when:

- > there is a present obligation (legal or constructive) as a result of a past event;
- > it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- > a reliable estimate can be made of the amount of the obligation.

The amount recognised as provision corresponds to the best estimate of the expenditure required to settle the present obligation at the balance sheet date and accounts for all the risks and uncertainties that inevitably are entailed in certain events and circumstances.

Where the effect of the time-value of money is material, provisions are discounted using current market rates. Provisions and increases due to the time value of money are recognised in the Profit and Loss Account.

Provisions are periodically reviewed and, where necessary, adjusted to reflect the best current estimate. If, upon review, it is determined that it is unlikely that a cost will be incurred, the provision is reversed.

Other provisions for liabilities and contingencies include, in particular:

- > provisions for contractual indemnities for the network of financial advisors (end-of-service and other similar indemnities), measured according to the actuarial method;
- > provisions for incentive or recruitment bonuses (recruitment plans) for financial advisors;
- > provisions for long-term employee benefits;
- > provisions for restructuring plans.

In some circumstances, provisions for liabilities and contingencies (for example, charges relating to staff expenses) have been presented in a separate item of the profit and loss account to best reflect their nature.

---

### 13. Debt and securities issued

---

#### Classification

Due to banks, Due to customers and Securities issued include the various forms of interbank funding and direct customer inflows, as well as funding through certificates of deposit and the issue of other debt securities, net of any amounts repurchased.

Due to banks and due to customers also include operating debts from financial services.

---

#### Recognition

These items are initially recognised when funding is received or the debt securities are issued.

Initial recognition is at the fair value of the liabilities, which is normally the amount received or the issue price plus any costs or income directly attributable to the transaction and not repaid by the creditor. Internal general and administrative expense are excluded.

For financial liabilities issued below market value, the fair value is estimated and the difference with respect to the market value is recognised directly in the profit and loss account.

---

#### Measurement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, with the exception of short-term liabilities where the time-value of money is not material. These are measured at the amount received, and any costs incurred are recognised in the profit and loss account on a straight-line basis for the contractual duration of the liability.

---

#### Derecognition

Financial liabilities are removed from the balance sheet when they mature or are settled, or when previously issued securities are repurchased. The difference between the carrying amount of the liability and the amount paid for repurchase is recognised in the profit and loss account.

The reissue of securities on the market after their repurchase is considered a new issue; such securities are therefore measured at the new placement price without any effect on net profit and loss.

---

### 14. HFT financial liabilities

This item includes the negative value of trading derivative contracts measured at fair value.

If the fair value of a financial asset falls below zero due to trading, it is recorded as a financial liability held for trading.

---

## 15. Financial liabilities at fair value

There are currently no financial liabilities measured at fair value.

---

## 16. Foreign currency transactions

### Initial recognition

On initial recognition, foreign currency transactions are recorded in the functional currency using the exchange rate at the date of the transaction.

---

### Subsequent measurement

At each annual or interim reporting date, monetary items denominated in foreign currency are translated using the exchange rate at that date.

The Group has no non-monetary items that are measured at historical cost or fair value.

Exchange rate differences that result from the settlement of monetary items or the translation of monetary items at a rate that is different from the one used for initial translation or for translating the previous year's financial statements are recognised in the statement of operations in the period in which they arise.

---

## 18. Other information

### Treasury shares

Treasury shares are recognised at their purchase cost under a specific item decreasing net equity and are not subject to measurement. Where subsequently sold, any difference between the purchase cost and sale price is recognised among the components of net equity.

---

### Repurchase agreements

Securities received under a transaction involving a contractual obligation to resell said securities and securities delivered under a transaction involving a contractual obligation to repurchase said securities are not recognised and/or derecognised inasmuch as the associated risks/rewards are not transferred.

Consequently, if securities are purchased under a resale agreement, the amount paid is recognised as a loan to customers or banks. If securities are sold under a repurchase agreement, the liability is recognised among due to banks or customers.

Investment income, in the form of coupons accrued on securities and the difference between the spot and forward price of said securities, is recognised to the profit and loss account items associated with interest on an accrual basis.

---

### Leasehold improvements

Costs associated with refurbishing properties owned by third parties are capitalised due to the fact that, for the duration of the lease, the company using the property has control of the assets and can therefore receive the related future economic benefits.

The above costs, which have been classified among "Other assets", as required by the Bank of Italy's Instructions, are amortised for a period that may not exceed the term of the lease agreement.

---

### Share-based payments

These are payments to employees or other similar persons, such as financial advisors, as consideration for services rendered, based on the equity instruments of the banking or ultimate parent company.

Such plans may provide for either:

- > the right to subscribe for rights issues at a pre-determined price (stock-option plans);
- > the free assignment of a certain number of shares, generally repurchased (stock-granting plans).

In accordance with IFRS 2 - *Share-Based Payments*, share-based benefit plans for personnel and financial advisors are recognised as costs on the profit and loss account based on the fair value of the shares on the assignment date, spreading out the charges over the period covered in the plan.

In light of the difficulty inherent in reliably measuring the fair value of the services received in return for equity instruments, reference is made to the fair value of such instruments measured at the grant date.

The fair value of options is measured using a model whose inputs are exercise price, time to maturity, the current share price, expected volatility, expected dividend, the risk-free interest rate, and the specific features of the plan in effect. The pricing model measures distinctly the option and the probability that the conditions on which basis the option was assigned will be realised. The combination of the two amounts generates the fair value of the assigned instrument. In cases of stock-granting plans, the fair value of the shares granted is determined on the basis of market prices on the date of the resolution of the shareholders' meeting authorising the plans. Any reduction in the number of financial instruments assigned is recognised as a cancellation of part of them.

Charges relating to shared-based payment plans are recognised as a cost in the profit and loss account for the period under item 180.a) "General and administrative expense: staff expenses", where they relate to employment services, and under item 50) "Fee expense" where they relate to contractual relationships with financial advisors. In both cases, such charges are recognised through item 170. "Equity reserves".

## The Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) is a share-based incentive plan approved annually by the shareholders' meeting of the parent company, Assicurazioni Generali, and intended for the key personnel of the latter company and other insurance group companies, including several Key Managers of the Banking Group.

The plan is aimed at encouraging the pursuit of the objective of an increase in the value of the company's shares by strengthening the link between the remuneration of beneficiaries and performance as identified in the framework of the group's strategic plans ("absolute" performance) and the increase in value compared to a peer group ("relative" performance).

However, for beneficiaries from the Banking Group, the targets triggering accrual of the incentive are broken down into:

- > insurance group targets, i.e., ROE (return on equity) and relative total shareholders' return (rTSR), compared to a peer group, assigned a weight of 40% of the total bonus; and
- > business unit targets (Banking Group ROE and EVA), assigned a 60% weight.

The key characteristics of the plan are as follows:

- > the incentive accrued upon achieving the targets is disbursed by Assicurazioni Generali S.p.A. in a single instalment at the end of the three-year vesting period through the free granting to the beneficiaries of its own ordinary shares;
- > the maximum number of the shares to be granted is determined at the beginning of the three-year period and is divided into three instalments for the three years of the plan.
- > each year, the level of satisfaction of the objectives initially set for the three-year period is verified in order to determine the number of shares to be set aside for each instalment.
- > from the 2015-2017 cycle, a lock-up restriction is envisaged for the shares assigned, applicable to 50% of the shares for one year from assignment and to 50% after two years from assignment;
- > malus and claw-back clauses have been included and a minimum access gate set for each tranche.

The new plan may be classified as an equity-settled transaction and therefore within the scope of IFRS 2.

IFRS 2, in the new formulation endorsed by Commission Regulation (EU) No. 244/2010 of 23 March 2010, includes a specific section governing share-based payment transactions between group entities (paragraphs 43B-43C and B45-B61 of the Application Guidance).

In that section, it is specified that in share-based payment transactions between group entities, the entity that receives the goods or services must assess whether the cost of the goods or services are to be accounted for as an equity-settled shared-based payment transaction, through a balancing entry to a capital reserve, or on a cash basis, through a balancing entry to a liability.

In this regard, the accounting standard envisages (paragraph 43B) that if the arrangement calls for the shares of the parent company to be granted directly by itself to a subsidiary's employees – and therefore with no action on the part of the subsidiary –, the charge to the profit and loss account will be recognised to an equity reserve through a balancing entry, inasmuch as it is similar to a capital contribution by the parent company.

Given the specific nature of the plans reserved for beneficiaries belonging to the Banking Group, such plans must be assessed individually for components relating to group targets and business targets (for the Banking Group).

More specifically:

- > as it is a pure stock grant, the plan component linked to business unit objectives should be valued exclusively based on the fair value of the Assicurazioni Generali ordinary shares at the grant date;
- > the plan component linked to the Group's objectives includes TSR as an objective, since it qualifies as market condition whose value is included in the fair value of the stock grant.

The total cost of the plan is equal to the sum of the cost calculated for each tranche on the basis of the fair value determined according to the above methods, multiplied by the number of shares that may potentially be granted in respect of the performance condition, the likelihood that the service condition will be met and the achievement of the minimum eligibility threshold. That cost is allocated over a three-year vesting period starting from the grant date, with a balancing entry to a specific equity reserve.

## Employee termination indemnities

Employee termination indemnities, which are governed by Article 2220 of the Italian Civil Code, constitute “**post-employment benefits**” as defined in IAS 19 – *Employee Benefits*.

Following the entry into force of Italy’s 2007 Finance Law, which brought forward to 1 January 2007 the supplementary pension reform enacted by Italian Legislative Decree No. 252 of 5 December 2005, the portions of employees’ termination indemnities accrued starting from 1 January 2007 must – depending on the employees’ choice – be allocated to a supplementary pension fund or maintained within the company and – in the case of companies with at least 50 employees – transferred to a special fund managed by Italy’s national security institute (INPS).

Accordingly, obligations to employees have taken on a twofold nature from an accounting standpoint:

- > “a defined contribution plan” for termination indemnities accrued by personnel starting on 1 January 2007 whether the employee chooses to redirect such amount to a supplementary pension fund or allocate it to the INPS treasury fund.  
For such portions, the amount recognised amongst staff expenses is determined on the basis of the contributions owed, without the application of actuarial calculation methods.  
The portions paid to supplementary pension funds are recognised in the specific item, whilst the portions paid to the INPS fund are reclassified to the item “employee termination indemnities” by convention.
- > “a defined-benefit plan” for the portion of termination indemnities accrued to personnel through 31 December 2006, which is thus recognised on the basis of the actuarial value of the expected future benefit, determined according to the **projected unit credit method**.

According to this method, the amount already accrued is to be increased by the unit amount accrued annually (current service cost) projected into the future through the date of expected termination of employment then discounted to the reference date. The unit amount accrued is also determined on the basis of the employee’s entire expected working life.

In the specific case, however, the past liability is assessed without pro-rating past service because the service cost of the termination indemnity has already fully accrued. Accordingly, the annual accrual consists solely of the interest cost relating to the revaluation of the expected benefit due to the passage of time.

The rate used for discounting is determined by reference to market yields on high quality corporate bonds, taking into account the average time-to-maturity of the liability, and calculated using the percentage paid and expected to be paid for each contractual period compared to the total amount to be paid and expected to be paid until the final settlement of the entire obligation.

Considering that IAS 19R requires that the discount rate is to be determined by reference to the yields on “high-quality corporate bonds,” it was decided to use the index IBOXX EURO CORP, formed of AA series.

The plan’s service costs have been recognised amongst staff expenses under the item “provisions for post-employment benefits.”

Following the entry into force of IAS 19R from 1 January 2013, with the aim of improving financial statement comparability, it was decided to eliminate the option of adopting different treatments for **actuarial gains and losses** deriving from the assessment of the obligation, i.e., decreases or increases in liabilities deriving from changes in the parameters used for the actuarial assessment (change in the discount rate, estimate of expected staff turnover rates, salary increases, etc.).

In fact, changes in liabilities due to actuarial assessments are now required to be recognised in full in the other comprehensive income, and thus with a balancing entry to an equity reserve, net of the associated tax effect.

By contrast, in the previous accounting arrangement adopted by the Bank the above item was recognised in the profit and loss account according to the corridor method, i.e., the amount of cumulative actuarial gains/losses resulting at the end of the previous year in excess of 10% of the present value of the benefits generated by the plan.

The elimination of this method entailed an impact on the Bank’s net equity from the date of first-time application of the new Standard due to the recognition of actuarial gains or losses not previously booked in application of the corridor method.

Finally, actuarial assessments of the provision are conducted net of the 11% substitute tax and 0.50% contribution, which are thus reclassified to the profit and loss account during the year of accrual under a specific item.



## Productivity bonuses for salaried employees

Pursuant to the first update to Circular Letter No. 262/05 of 18 November 2009, productivity bonuses to be paid to salaried employees during the following year are to be allocated to the item "Other liabilities."

More specifically, in accordance with IAS 19 – *Employee Benefits*, the following are allocated to current liabilities:

- > the share of variable remuneration to be paid to managers and employees for which there are legal obligations that may be reliably estimated, such as bonuses relating to the supplementary company agreement, managerial bonuses associated with balance scorecards (MBO) and other individual incentive plans of a contractual nature, such as those for sales personnel and managers;
- > incentives not subject to contractual agreement for which there is objective evidence of their customary nature, giving rise to a constructive obligation for the bank.

For these items, a reliable estimate has been prepared of the expense owed to staff under the formal conditions of the individually assigned incentive plans and the probability that the quantitative and qualitative targets set out therein will be met.

Pursuant to IAS 19, the Company also recognises among staff expense in the profit and loss account the following types of expenses that do not constitute certain short-term liabilities and thus have the item for provisions for liabilities and contingencies as their balancing entry in equity:

- > the share of the variable remuneration of managers of the Banking Group deferred up to two years, and conditional upon the satisfaction of the access gates requirements established in the Banking Group's new remuneration policy;
- > the long-term incentive plans authorised by the parent company Assicurazioni Generali for the benefit of the Group's top managers and adopted by Banca Generali's Board of Directors, analysed in greater detail in the following paragraph.

By contrast, it was determined that the requirements set forth in IAS 19 had not been met in the following cases:

- > incentives for employees that have yet to be formally defined at the date of approval of the financial statements and are of a non-customary nature;
- > provisions for post-employment medical benefits of Group executives;
- > allocations intended to support company restructuring and reorganisation plans and other expenses associated with the classification of staff still to be determined at the date of authorisation of publication of the financial statements.

Such expenses are therefore attributed in their entirety to the item for provisions for liabilities and contingencies.

## Termination indemnity for Financial Advisors

The provision covering the cost of termination indemnities for Financial Advisors is assessed in compliance with IAS 37 according to an actuarial approach, pursuant to the law (Article 1751 of the Italian Civil Code) and the specific disbursement criteria set by the Bank.

In detail, the indemnity to be paid to a Financial Advisor is calculated on the basis of the annual average direct and indirect fees paid to the Financial Advisor during his or her final five years of service (Article 1751 of the Italian Civil Code), net of:

- a) the total amount paid to Enasarco each year by the Bank until the date of termination;
- b) the contractual lump-sum reduction which gradually declines with the length of service at the date of retirement or termination (with the exception of cases of death and permanent disability).

In cases of withdrawal for cause with service, the indemnity may be further reduced as a function of the decline in AUM during the post-termination observation period.

The assessment is then conducted according to actuarial methods on the basis of demographic parameters, expected turnover rates, with and without the right to service, assumptions regarding the age of entry into the compulsory general insurance (AGO) system and the retirement age.

The procedure also takes account of:

- a) the percent fee reduction expected as a function of the estimated period of past service at the date of termination;
- b) the prospective termination indemnity fund, i.e., the payments that the Bank is to make each year directly to the Enasarco Foundation by way of termination indemnity contributions for the Financial Advisor's entire period of service and that, in the end, are to be deducted from the gross indemnity owed.

## Portfolio development indemnity

The portfolio development scheme calls for Financial Advisors with at least five years of service who leave service

permanently due to retirement, serious disability, death or voluntary removal from the register to be entitled to an indemnity commensurate to the profitability of the portfolio previously managed.

The indemnity, which is governed by an appendix to the Agency agreement, is only due on the condition that the outgoing advisor formally undertakes to conduct a hand-over to an incoming Financial Advisor identified by the Company and discharges the obligation for removal from the register. Conversely, the incoming Financial Advisor undertakes to pay the company an indemnity commensurate to that obtained from the outgoing advisor.

In relation to recent market practices in the area, a thorough contractual revision of the scheme entered into effect on 1 January 2012 was carried out.

The system introduces a rule, namely that the indemnity collected by the outgoing Financial Advisor is to correspond exactly to the indemnities paid by the recipients of the hand-over, thus limiting the principal's role to the service represented by handling the cash flows between the parties.

Therefore, on the basis of the new rules, the outgoing Financial Advisor may only collect the agreed indemnity provided that it has actually been paid to the Bank by the incoming Financial Advisor, thereby fostering greater involvement of the interested parties in the successful completion of the transaction and an appropriate hand-over of customer relationships.

However, the Bank's guarantee has been maintained in cases of the reassignment of customer relationships due to the death or permanent disability of the Financial Advisor to whom they had been assigned. In such cases, the Bank will immediately pay out the entire indemnity to the outgoing Financial Advisor's beneficiary or heirs and then recover the amount from the incoming advisors under an instalment plan, in the reduced amount of 75% in consideration of the increased expense associated with the impossibility of conducting an appropriate hand-over.

The specific provision covering the obligations associated with the scheme is determined through an assessment conducted according to statistical and actuarial methods on the basis of an estimate, carried out through IT procedures, of the development coefficient for the assets managed by the Financial Advisors at the reference date, the historical percentages of indemnity payouts, network turnover rates and other demographic, welfare-related and financial variables.

According to IAS 1, paragraph 234 b), accruals are presented net of contractually established reimbursements to be provided by incoming Financial Advisors.

---

### Expenses functionally related to staff

In accordance with IAS 19, under item 150 a) Staff expenses are recognised exclusively costs representing remuneration for professional services rendered, thus excluding those representing pure reimbursement of the expenses incurred by the employee for the benefit of the enterprise in the performance of professional activity.

Accordingly, indirect expenses functionally related to activity performed by staff are recognised under item 150 b) Other general and administrative expense. Such expense also include:

- a) documented, specific reimbursements of the costs of room and board incurred by employees during business trips;
- b) documented, specific mileage reimbursements, calculated on the basis of rates recognised as valid (e.g., Automobile Club d'Italia) and the mileage actually travelled;
- c) costs of check-ups conducted when staff are hired and the costs of compulsory examinations of staff required by law.

By contrast, amongst other items, the costs of professional refresher courses for employees continue to be recognised under staff expenses.

---

### Recognition of revenues and costs

Revenues are recognised when they are realised or when it is probable that the related future benefits will be received and such benefits can be reliably measured. More specifically:

- > interest payable is recognised on a pro-rated basis according to contractual interest rate, or the effective interest rate if amortised cost is used;
- > default interest accrued on the basis of contractual terms is recognised in the profit and loss account only when received;
- > dividends are recognised in the profit and loss account when dividend payout is approved;
- > service revenue commissions are recognised, on the basis of the existence of contractual agreements, during the period in which the services in question are rendered; in further detail, trading commissions on securities trading are recognised when the service is rendered. Portfolio management, advisory and mutual fund management commissions are recognised according to the length of the service. Commissions considered among amortised cost for the purposes of determining the effective interest rate are excluded and are recognised among interest.

Costs are taken through profit and loss during the periods in which the associated revenues are recognised. If the above matching can only be done generally or indirectly, then the costs are allocated to more than one accounting period according to rational procedures and on a systematic basis. Those costs that cannot be matched with the related revenues are immediately taken through profit and loss.

## Use of estimates and assumptions in the preparation of the Consolidated Financial Statements

The preparation of the consolidated Financial Statements requires the use of estimates and assumptions that could influence the amounts reported in the consolidated balance sheet and profit and loss account and the disclosure of contingent assets and liabilities therein.

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

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

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

- > determining the amount of provisions for liabilities and contingencies;
- > determining the expenses of personnel productivity bonuses;
- > determining the amount of incentive fees to be paid to the sales network for work done during the year;
- > determining the fair value of cash financial instruments and derivatives to be used in financial statement disclosures, when not based on current prices drawn from active markets;
- > determining the impairment of financial instruments;
- > determining the value adjustments and reversals of non-performing loans and the provision for performing loans;
- > preparing estimates and assumptions underlying the determination of current taxes, which may differ from the effective tax liability computed in conjunction with the payment of the balance of taxes for the year and the filing of the income tax return;
- > preparing estimates and assumptions on the recoverability of deferred tax assets;
- > evaluating the appropriateness of the amounts of goodwill and other intangible assets.

## Testing financial instruments for impairment

In accordance with IAS 39, the portfolio of securities, not designated at fair value through profit or loss and classified as available for sale (AFS), held to maturity (HTM) and loans to customers and banks (Loans), is tested for impairment to be recognised in profit or loss.

An asset is impaired when, following the occurrence of specific events (“loss events”), there is objective evidence of a decrease in expected future cash flows with respect to original estimates and the loss may be reliably estimated.

Some indicators that an asset may have become impaired include, for example, significant financial difficulty experienced by the issuer, the probability that insolvency or other financial restructuring procedures will be initiated, the breach or non-payment of interest or principal, the disappearance of an active market for a financial instrument, a significant downgrade of credit rating and the decrease in the fair value of a financial asset below its cost or amortised cost for reasons not attributable to changes in market conditions (change in the risk-free rate).

In addition to the general criteria cited above, a significant or prolonged decrease in the fair value of an equity instrument below its cost is objective evidence of impairment.

The loss event must have occurred at the measurement date. Losses expected as a result of future events, no matter how likely, are not recognised.

The impairment measurement process involves the use of specific methods according to the type of securities in question:

- > equity securities allocated to the portfolio of financial assets available for sale (AFS);
- > corporate debt securities allocated to the portfolio of financial assets available for sale (AFS);
- > corporate debt securities allocated to the portfolio of financial assets held to maturity (HTM) and the portfolio of loans and receivables (Loans);
- > the portfolio of asset-backed securities (ABSs) and similar securities allocated to the portfolio of loans and receivables (Loans).

The test is performed on an individual basis for financial assets that present specific evidence of losses and on a collective basis for financial assets for which individual testing is not necessary or does not require adjustments.

For listed equity instruments, a loss is considered significant if it represents a decrease of more than 50% with respect to the average book value of the investments at the test date or a prolonged reduction in fair value with respect to book value for at least 24 months from the reporting date.

Criteria based on temporal and quantitative filters of varying scopes are also used to identify additional financial instruments that may have become impaired.

For unlisted equity instruments, the specific conditions of the issuer are analysed on the basis of the most recent financial statements available and further information drawn from the market.

For corporate debt securities classified to AFS and HTM portfolios, a decrease in value of more than 50% with respect to the average book value of the investments at the reporting date is also considered evidence of impairment.

For the portfolio of ABSs classified as loans to customers, individual testing takes account of the type of the underlying asset class (RMBSs, CMBSs, cards, etc.), seniority, rating, and the trend in relevant quantitative parameters for the underlying assets based on the most recent reports issued by rating agencies.

Once an asset has been found to be impaired, the amount of the impairment is determined as follows.

For financial instruments classified as available for sale (AFS), the amount of the loss is equal to the difference between:

- > purchase cost, net of any redemptions and repayments and less any impairment already recognised in the profit and loss account; and
- > the current fair value.

Impairment losses on equity securities may not be reversed through the profit and loss account. Accordingly, any reversals are recognised in net equity. Conversely, reversals are allowed for debt securities, as for securities classified as HTM/LOANS.

For debt securities measured at amortised cost and classified as held to maturity (HTM) and loans and receivables (LOANS), the loss is measured as the difference between:

- > the book value of the asset; and
- > the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For ABSs, the decrease is determined based on losses on the tranche of the security held.

Where this amount is not readily determinable, an estimate of the fair value of the securities at the measurement date may be used.

### Collective impairment

Debt securities included in amortised cost portfolios classified as loans to banks and customers (L&R) and assets held to maturity (HTM) that have not individually shown signs of impairment are tested for impairment on a collective basis pursuant to IAS 39, paragraph 64, in order to estimate the value of any latent losses on assets that have not explicitly manifested situations of default.

For corporate bonds other than those deriving from securitisation, such testing is done according to homogeneous categories on the basis of rating classes and residual lives.

In detail, the probability of a default (PD) event is determined according to historical series for default rates surveyed globally over a period of many years (*Standard & Poor's Cumulative Average Default Rates By Rating, 1981-2015*) and using a *market loss given default* (LGD) between 60% and 70%.

For securities with residual lives of less than six months, PD is weighted according to the actual time until the maturity of the securities.

In any event, Italian government bonds are excluded from such testing of securities in the HTM portfolio.

The portfolio of securities deriving from securitisation is divided into segments according to the nature of the assets underlying the ABSs (home mortgages, commercial mortgages, leases and other types of loans) and the geographic area of reference, and specific probability of default (PD) and loss given default (LGD) figures are developed for each segment. In detail, the PD rates for each cluster were determined according to weighted average losses (defaults and delinquencies > 180 days) specifically observed on the underlying assets over the past two years, of a sample of securitisation transactions with similar characteristics.

The rates thus obtained are then multiplied by the expected residual lives of the issues, yielding the portion of underlying assets potentially at risk.

The expected loss on each issue in portfolio is then determined by multiplying those figures by the LGD rate (determined according to internal estimates produced by the Bank) and verifying the share of the underlying assets potentially at risk that exceeds the aggression threshold for the tranche in portfolio (senior, mezzanine or junior).

### Contributions to deposit guarantee systems and resolution mechanisms

Through Directives 2014/49/EU of 16 April 2014 and 2014/59/EU of 15 May 2014, respectively the "Deposit Guarantee Schemes Directive (DGSD)" and "Bank Recovery and Resolution Directive (BRRD)" and the institution of the Single

Resolution Mechanism (Regulation (EU) No. 806/2014 of 15 July 2014), European lawmakers made significant changes to the rules concerning banking crises with the strategic aim of strengthening the single market and ensuring systemic stability. As illustrated in further detail below, the above legislative changes had a significant impact on financial performance and financial position as a result of the obligation to establish specific funds with financial resources that must be provided by contributions from financial institutions starting in 2015.

### Contributions deriving from the Deposit Guarantee Schemes Directive (DGS)

Directive 2014/49/EU, effective as of 3 July 2015, harmonises the levels of protection offered by national deposit guarantee schemes (DGSs) and their methods of intervention, with the aim of eliminating possible competitive disparities within the European market. To that end, the Directive provides that national DGSs (in Italy, the Interbank Deposit Protection Fund or FITD) must endow themselves with means commensurate to the deposits protected, which must be provided through mandatory contributions from financial institutions. The new element for Italian banks is the new mechanism for financing the fund: the previous after-the-fact contribution system, in which funds were requested in case of need, has been replaced by a mixed system, in which funds must be paid in advance, so as to reach, within ten years of the entry into force of the Directive (3 July 2024), a minimum target level of **0.8% of the deposits guaranteed**. The contributions from each entity are calculated as a function of the ratio of the amount of own deposits to the total protected deposits in the country.

Article 10 of Directive 2014/49/EU provides that contributions are to be paid by banks with at least annual frequency. In its extraordinary meeting of 26 November 2015, the FITD then amended its Articles of Association to comply with the new contribution rules and regulatory framework.

The Directive was then transposed into Italian law through Legislative Decree No. 30/2016.

### Contribution charges deriving from the Bank Recovery and Resolution Directive (BRRD)

Directive 2014/59/EU establishes the new resolution rules, applicable from 1 January 2015 to all European Union banks in a state of current or prospective default. These rules, which introduce the “bail-in” principle, require, under certain circumstances, that funding for resolution may also be supported by a national resolution fund instituted by each of the 28 European Union Member States and managed by a national resolution authority.

To that end, the Directive provides that the national resolution funds be endowed with financial means provided through mandatory advance contributions from authorised financial institutions.

In particular, the funds are to be paid in advance until reaching a minimum target level, over a period of ten years, i.e., by 31 December 2024, **of 1% of guaranteed deposits**<sup>1</sup>.

The contributions from each entity are calculated as a function of the ratio of its total eligible liabilities, i.e., net of own funds and the guaranteed deposits, to the total liabilities of all authorised financial institutions in the country.

In this context, on 16 November 2015 Legislative Decrees 180/2015 and 181/2015 were enacted, introducing the National Resolution Fund into the Italian legal order and assigning the Bank of Italy the role of National Resolution Authority.

In particular, Articles 78 and following of Legislative Decree 180/15 provide that such funds are to be financed by, among other sources:

- a) ordinary contributions paid on an annual basis in the amount determined by the Bank of Italy in accordance with Directive 2014/59/EU (Article 103) and commensurate for the purposes of reaching the fund's target funding level;
- b) extraordinary contributions when ordinary contributions are insufficient to cover losses, costs or other expenses incurred to achieve resolution objectives, up to an amount of three times annual average ordinary contributions.

The new European Single Resolution Fund (SRF) provided for in Regulation No. 806/2014, instituting the Single Resolution Mechanism (SRM) and managed by a new European resolution authority, formed within the ECB (Single Resolution Board – SRB), began to function on 1 January 2016.

From 1 January 2016 to 31 December 2023 (a period of eight years), the Single Resolution Fund must reach a target level of means of at least 1% of the amount of the protected deposits of all authorised entities in the banking union. The contribution rules for the period 2016-2023 are established in Article 8 of Implementing Regulation 81 of 2015.

Accordingly, the banks of Member States of the Banking Union (including Italian banks) contributed to the National Resolution Fund in 2015 and contributed to the Single Resolution Fund starting in 2016 (until 2023). During the initial period, when calculating each institution's individual contributions, this transfer will be taken into account.

### Accounting treatment of contribution charges deriving from the BRRD and DGSD

The accounting and reporting treatment applicable to contributions to resolution funds was the subject of the Bank of Italy's notice dated 20 January 2016, as well as of a notice dated 25 January 2017 specifically relating to “Additional contributions to the national resolution fund”.

Similar conclusions were reached by ESMA in its Opinion 2015/ESMA/1462 “Application of the IFRS requirements in relation to the recognition of contributions to Deposit Guarantee Schemes in IFRS accounts” of 25 September 2015 with regard to non-reimbursable cash contributions to be paid in advance into deposit guarantee funds.

1 Anche in questo caso, al fine del raggiungimento del livello obiettivo, i mezzi finanziari forniti dagli enti creditizi possono comprendere impegni di pagamento, nella misura massima del 30%.

For financial reporting purposes, reference should be made to IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* and the Interpretation IFRIC 21 – *Levies*, which entered into force on 1 January 2015.

The Interpretation concerns the accounting treatment of a liability for a levy where the liability falls within the scope of application of IAS 37.

As defined in IFRIC 21, “a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation”.

Obligations to contribute to the National Guarantee Fund, in both ordinary and extraordinary form, are imposed by legislation, and thus fall within the scope of “levies” as defined in IFRIC 21.

IAS 37 and IFRIC 21 provide that a liability must be recognised when the obligating event that gives rise to a present obligation occurs. Since the decree does not provide for contributions to be reduced or refunded to intermediaries, in whole or in part, whenever the obligating event occurs the liability relating to the contributions in question must be recognised for the full amount.

Since it is not possible to account for the liability through either an intangible asset pursuant to IAS 38 or a prepayment asset, the contributions must be recognised in profit and loss.

In this regard, the Bank of Italy has clarified that the item to which to classify such contributions, which for accounting purposes may be regarded as levies, is sub-item 150 b “General and administrative expense – other general and administrative expense” of the profit and loss account in the separate financial statements (item 180 b) of the consolidated financial statements), which is also used to account for the indirect levies and taxes (paid and unpaid) accrued during the year.

---

## Credit quality – Non-performing exposures

On 9 January 2015, the European Commission approved Commission Implementing Regulation 2015/227, published in the *Official Journal of the European Union* on 20 February 2015, adopting the EBA’s Implementing Technical Standards (ITS)<sup>2</sup> containing the definitions of “non performing exposure” and “forborne exposure”, with the aim of establishing consistent classification at the European level for the purposes of supervisory regulations.

In order to comply with the European legislation, on 20 January 2015 the Bank of Italy published an update to Circular Letter No. 272<sup>3</sup>, which introduced the new prudential criteria to be followed for the purpose of classifying credit quality, with effect from 1 January 2015.

Finally, the aforementioned changes were adopted, with respect to financial reporting provisions, in the fourth update to Circular Letter No. 262 “Banks’ Financial Statements: Layouts and Presentation”, issued on 15 December 2015.

In detail, the previous four categories of non-performing exposures (“bad loans”, “substandard loans”, “expired loans” and “restructured loans”) are replaced by the three new categories<sup>4</sup>:

- > bad loans;
- > unlikely to pay;
- > non-performing, past-due exposures.

The categories “substandard loans” and “restructured exposures” have been eliminated and the new category of “unlikely to pay” has been added, consisting of non-performing exposures for which the Bank regards it as unlikely that the borrower will discharge its credit obligations (by way of principal and/or interest) in full, without the need for measures aimed at protecting credit claims, such as the enforcement of guarantees.

This assessment is conducted by the Bank independently of the presence of any situations of overdue payments and thus it is not necessary to await the express manifestation of signs of anomaly. The category in question thus attaches great importance to the Bank’s judgment in punctually observing elements in support of difficulty for the borrower to make full repayment of principal and interest, without undertaking credit protection measures, even in the absence of tangible signs of presumed difficulty.

The new regulation also introduces an obligation to include forborne exposures among both non-performing and performing exposures.

The EBA standards define forbearance as:

- > the modification of the previous terms and conditions of a contract that the debtor is considered unable to comply with due to its financial difficulties (“troubled debt”) to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties;
- > a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

<sup>2</sup> Final Draft Implementing Technical Standards on Supervisory reporting on Forbearance and non-performing exposures (EBA/ITS/2013/03/rev1 24/7/2014).

<sup>3</sup> 7<sup>th</sup> update of the Circular No. 272 dated 30 July 2008 - “Account matrix” issued by the Bank of Italy on 20 January 2015.

<sup>4</sup> The previous classification adopted by the Bank of Italy provided for four classes of non-performing loans: bad loans, restructured loans, substandard loans and expired loans.

With respect to measurements and provisions for forborne exposures, accounting policies observe the general criterion, in line with the provisions of IAS 39.

---

## Forborne exposures

### Forborne exposures – Performing

Within the context of performing loans, individual cash exposures for which the Bank, due to the debtor's worsening economic-financial conditions (in "financial difficulties"), allows changes to the original contractual conditions or a total/partial refinancing of a contract that would not have been allowed if the debtor had not found itself in such difficulties, are identified and classified as exposures subject to forbearance measures. Such exposures do not form a separate category, but constitute an attribute common to the various categories of assets and are reported on the individual arrangement subject to concession.

Performing forborne exposures for which the forbearance measure applies and which have not been classified amongst non-performing loans by virtue of such forbearance measure are hence identified amongst performing loans (regular or past-due and/or past-due by less than 90 days).

In addition, Forborne exposure status ceases to apply when:

1. a probation period of at least 2 years has elapsed since the date forbearance was granted (or since the date on which the forborne exposure was reclassified as performing);
2. regular payments of a significant amount of the principal or interest have been made at least during half the probation period;
3. at the end of the probation period none of the debtor's exposures have become past-due and/or past due by more than 30 days.

### Forborne exposures – Non-performing

Non-performing forborne exposures, i.e., individual cash exposures belonging to the aforementioned categories, for which the forbearance principle applies, as defined previously, are identified in non-performing loans. These exposures do not form a separate category but, depending on circumstances, constitute an attribute of the categories of non-performing assets to which they belong. They also include any restructurings of credit exposures realised with liquidation in mind, to be reclassified as non-performing.

The exposure ceases to be considered a Non-performing forborne exposure and is considered as Performing forborne exposure when all the following conditions are met:

1. assignment of the forbearance measure does not entail the recognition of write-downs or impairment losses;
2. a year has passed since the forbearance measures on the exposure;
3. following the forbearance classification no past-due exposures and/or elements have been reported that jeopardise full repayment of the exposure in accordance with the conditions provided for in the forbearance measures adopted.

The absence of prejudicial elements has to be determined after an analytical assessment of the debtor's financial situation.

The prejudicial elements must be considered to no longer exist when the debtor has already repaid, at the due dates specified in the rescheduling/restructuring plan, an amount equal to the sum that was previously past-due (if there were past-due exposures) or equal to the sum that became impaired as part of the forbearance measures adopted or; alternatively, the debtor has already demonstrated with other actions its ability to meet the post-forbearance conditions.

---

## Business combinations

Business combinations are regulated by the IFRS 3 – *Business Combinations*.

Based on this standard, any acquisition of companies is accounted for using the purchase method, whereby the assets, liabilities, and potential liabilities of the acquired company are recognised at fair value on the acquisition date. Any positive difference of the price paid over fair value is recognised as goodwill or other intangible assets; if the price is less, the difference is recognised in the Profit and Loss Account.

The purchase method is applied as of the acquisition date, i.e., from the time effective control of the acquired company is obtained. Accordingly, the results of subsidiaries acquired during the year are included in the Consolidated Financial Statements from the date of acquisition. Also the profit and loss results of a subsidiary which has been disposed of are included in the Consolidated Financial Statements, up to the date control is transferred.

Business combinations of entities under common control are not included in the scope of IFRS 3, nor are they covered by other IFRS. They are accounted for in accordance with IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*.

The IAS/IFRS provide specific guidelines for transactions not covered by IFRS (described in paragraphs 10-12 of IAS 8); according to these guidelines, management is encouraged to consider the most recent pronouncements of other regulatory bodies that use a similar conceptual framework to define accounting standards.

In fulfilment of this requirement, we observed that the Financial Accounting Standards Board (FASB) has published an accounting standard regarding business combinations (FAS 141) that in some respects is similar to IFRS 3. Unlike IFRS 3, however, FAS 141 includes an appendix containing limited accounting guidelines for transactions under common control that were previously included in the Accounting Principles Board's (APB) Opinion 16. According to the pooling of interest method, for this type of transaction the assets and liabilities of business combinations are stated at historical (book) value instead of fair value, and goodwill is not recognised.

This solution was essentially adopted at national level by Assirevi, with documents OPI No. 1R on the accounting treatment of business combinations of entities under common control, and OPI No. 2R on the accounting treatment of mergers.

Intra-group combinations or other combinations of entities under common control within the Banca Generali Group are therefore accounted for based on the book value of the entity transferred. Any difference between the consideration paid for the acquisition of the equity interest and the book value of the entity transferred (goodwill) is deducted from the net equity of the acquirer, and the transaction is classified as an extraordinary distribution of reserves.

In a similar way, if an entity is disposed of, the amount received is directly recognised in an equity reserve, as it is a capital contribution by other companies of the Group to which it belongs.

---

## Compliance with IFRS 9

Commission Regulation (EU) No. 2016/2067 adopting international accounting standard IFRS 9 – *Financial Instruments*, issued by the IASB on 24 July 2014, in replacement of IAS 39, was published in the Official Journal of the *European Union* on 29 November 2016.

The standard will enter into force on 1 January 2018 and includes significant changes relating to:

- > a new classification of financial assets, superseding the current model based on five portfolios – trading, fair value option (FVO), available for sale (AFS), loans and held to maturity (HTM) – with a model based on the characteristics of the financial instruments and business model;
- > a new model for the impairment of financial assets based on the concept of expected loss in lieu of the concept of incurred loss and on the classification of non-performing assets in two stages, according to an assessment of risk level and any deterioration of creditworthiness compared to original conditions.

The Banking Group has taken steps to implement the new accounting standard in a timely manner, launching a specific project under the supervision of the CFO Area involving the Administration, Finance, Lending and Risk Management functions, and is receiving consulting services from Ernst & Young in two areas: “Classification & Measurement” and “Impairment”.

Banca Generali also cooperates pro-actively with its IT outsourcer, the CSE consortium, which is implementing the new procedures needed to bring its IT systems into compliance with the requirements of the new standard.

In 2016, Banca Generali conducted an analysis of the line items affected by the standard and performed a preliminary assessment of the balance sheet impacts of the new classification according to the current business model.

A regulatory assessment and gap analysis of accounting policies were also completed and the structural options for operational implementation of the standard were identified.

In January 2017, CSE informed the consortium banks about the progress of the projects, indicating that the first impact simulations will be available in the first half of 2017.

At the reporting date, the ongoing project has not reached a degree of progress sufficient to permit a reliable estimate of the balance sheet impacts of the initial application of the new standard.

---

## Compliance with IFRS 15 and IFRS 16

Commission Regulation (EU) No. 2016/1905 adopting international accounting standard IFRS 15 – *Revenue from Contracts with Customers*, issued by the IASB, was published in the *Official Journal of the European Union* on 29 October 2016. The new standard, which will also take effect on 1 January 2018, will replace IAS 18 – *Revenue*, IAS 11 – *Construction Contracts*, and the interpretations IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenue – Barter Transactions Involving Advertising Services*.

IFRS 15 presents a single model for the accounting treatment of revenue on the sale of goods and services not falling within the scope of application of the standards concerning financial instruments (IFRS 9), insurance contracts (IFRS 4) and leases (IAS 17 and IFRS 16).

According to the standard, an entity recognises revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, according to the following five steps:

- > identification of the contract, defined as an agreement between two or more parties that creates enforceable rights and obligations;



- > identification of the individual performance obligations in the contract;
- > determination of the transaction price, i.e., the amount to which an entity expects to be entitled in exchange for the transfer of goods and services;
- > allocation of the transaction price to each performance obligation on the basis of its standalone selling price;
- > recognition of the revenue when the entity satisfies a performance obligation, i.e., when the customer obtains control of the goods and services.

Such recognition takes account of the fact that some services may be rendered at a specific point in time or over time. In 2017, the Banking Group will initiate a process of assessing the impact of the standard, which at the reporting date is not expected to be material.

The standard IFRS 16 – *Leases*, issued by the IASB on 16 January 2016 and not yet endorsed by the European Union, introduces new rules for the accounting treatment of lease contracts for both lessors and lessees in replacement of the previous standards and interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27).

A lease is defined as a contract the fulfilment of which depends on the use of an identified asset and which grants the right to control the asset's use for a period of time in exchange for consideration.

Accordingly, on the basis of the new standard, the distinction between operating and finance leases for accounting purposes is eliminated.

This results in a significant change in the treatment of leasing transactions in the financial statements of the lessee, which recognises the assets and liabilities deriving from the contract in the balance sheet. More specifically, the lessee recognises a liability on the basis of the present value of the future lease payments and an asset consisting of the right to use the asset governed by the lease contract. After initial recognition, the right of use is amortised over the term of the contract or the useful life of the leased asset. The liability is progressively reduced due to lease payments made and the interest on the liability is recognised in profit or loss. To reduce the costs of adoption, exemptions are available for contracts with a term of less than twelve months and contracts of low-value assets.

Application of the standard is mandatory with effect from 1 January 2019, but early application is allowed, provided that IFRS 15 is adopted.

The new standard is to be endorsed by the second half of 2017 and thus in 2017 the Banking Group will conduct an impact assessment aimed at determining the scope and accounting treatment of the assets used by the Group under lease contracts.

## Part A.3 – Information on transfers between portfolios of financial assets

Following the endorsement of IAS 39 and IFRS 7 issued by the IASB (International Accounting Standard Board) on 13 October 2008 and included in the European Regulation (EC) No. 1004/2008 of 15 October 2008, in financial year 2008 the Parent Company Banca Generali reclassified part of the accounting portfolios of assets held for trading (HFT) and assets available for sale (AFS) to the new IAS portfolios measured at amortised cost, assets held to maturity (HTM) and loans to banks and customers (L&Rs), while equity securities held for trading were transferred to the AFS portfolio. For further details of the conditions of this transaction, please refer to the contents of the corresponding Section A.3 of the Notes and Comments to the 2009 Financial Statements and Part A of the 2008 Financial Statements.

### A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

TYPE OF FINANCIAL INSTRUMENT (€ THOUSAND)	FROM	TO	DATE OF TRANSF.	31.12.2016 BOOK VALUE	31.12.2016 FAIR VALUE	INCOME COMPONENTS WITH NO TRANSFER		INCOME COMPONENTS FOR THE YEAR	
						VALUATION	OTHER	VALUATION	OTHER
Equity securities	TRA	AFS	01.07.2008	1,384	1,384	-254	-	-254	-
Debt securities	TRA	HTM	01.07.2008	-	-	-	-18	2	33
Total HTM portfolio				-	-	-	-18	2	33
Debt securities	TRA	LOANS	01.07.2008	4,996	4,999	7	8	8	31
Total loan portfolio (banks and clients)				4,996	4,999	7	8	8	31
<b>Total reclassified financial assets</b>				<b>6,380</b>	<b>6,383</b>	<b>-247</b>	<b>-10</b>	<b>-244</b>	<b>64</b>

During 2016, the Company continued the process of dismantling the debt securities subject to reclassification due to redemptions and sales. At the reporting date, the portfolios concerned therefore presented a total carrying amount of 6.4 million euros, down sharply from the 26.7 million euros reported at the end of the previous year (-20.3 million euros). This amount includes the increases for the amortised costs gradually reaching maturity and the impairment losses recognised.

Any change in the fair value of the transferred assets from the trading portfolio at the end of 2016 would have entailed non-material positive differences compared to book values, gross of the relevant tax effect (3 thousand euros).

Had the Bank not opted to reclassify such securities, they would have registered greater capital losses through profit and loss and equity in 2016 of 3 thousand euros, equal to the difference between the decrease in fair value for the year and the impairment losses actually recognised through profit or loss.

The contribution to profit and loss of the other components of income (realised gains and losses and interest) would have amounted to a negative balance of 0.1 million euros as a result of lower interest recognised according to the effective interest rate method recognised net of the higher realised gains remeasured based on the fair values of the previous year.

### A.3.4 Effective interest rate and cash flows expected from reclassified assets

TYPE OF FINANCIAL INSTRUMENT	FROM	TO	AVERAGE RESIDUAL	ACTUAL
Debt securities	TRA	Loans	0.170	0.36%

## Part A.4 – Information on fair value

With the introduction of IFRS 13, the definition of **fair value** has been modified with respect to IAS 39, in view of a more market-based approach.

According to the new standard, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value is thus not an entity-specific measurement, but rather a market-based measurement.

In detail, measurement at fair value:

- > presumes that the asset or liability is exchanged in an orderly transaction between market operators under current market conditions;
- > refers to a particular asset or liability and must take account of the characteristics of the asset or liability that market participants take into account when pricing the asset or liability;
- > assumes that market participants act in their economic best interest;
- > assumes that the sale of the asset or the transfer of the liability takes place:
  - a) in the principal market for the asset or liability; or
  - b) in the most advantageous market, in the absence of a principal market.

### Fair value hierarchy

International accounting standard IFRS 13 requires that financial assets be classified according to a hierarchy of levels (the “fair-value hierarchy”) that reflects the significance of the inputs used in valuation.

- > **Level 1:** quoted prices in active markets, as defined in IFRS 13, for identical instruments;
- > **Level 2:** inputs other than the price quotations indicated above, observable on the market either directly (prices) or indirectly (price-derived data);
- > **Level 3:** inputs not based on observable market data.

For the purposes of the fair value hierarchy, inputs may thus be classified as:

- > **observable**, when the information used in the measurement techniques is based on market data obtained from sources independent of the Bank and available on the market;
- > **unobservable**, when they reflect assumptions by the Bank reached by drawing on the best available information in such circumstances.

### Valuation criteria of the fair value of financial instruments

In 2010, Banca Generali adopted its Fair Value Policy, which sets out the procedures for measuring the fair value of financial instruments and entrusts responsibility for the measurement process to the Finance Department and review and validation of the data to the Risk Management Service.

The procedure lays down a decision-making process aimed at identifying the best measurement method in the context of the classification of available price sources in the three levels of the fair-value hierarchy.

The fair value of financial instruments is determined through the use of prices obtained from capital markets, if the instruments are listed on active markets (the mark-to-market policy) or through the use of valuation procedures for other financial instruments (the mark-to-model policy), based on the analysis of recent transactions involving similar instruments (comparable approach) or, failing the latter, on valuation models.

When determining a financial instrument’s fair value, it is thus fundamental to verify whether the market on which that instrument is traded may be considered active, i.e., whether the quoted prices observed represent actual, regular market transactions undertaken during a normal reference period and are promptly and regularly available through exchanges, intermediaries, brokers, industry companies, quotation services and other authorised entities.

Equity securities, exchange-traded funds (ETFs), government bonds listed on regulated markets and financial derivatives listed on regulated markets are normally considered to be listed on an active market that meets the foregoing requirements.

However, quotation on a regulated or official market does not in itself guarantee the presence of significant prices owing to the limited, sporadic nature of transactions (illiquid securities) on certain securities exchanges, such as that of Luxembourg, whereas there are market types that are unregulated yet show significant daily exchanges in terms of volumes that are suitable to providing prices on an ongoing basis.

Accordingly, most bonds are considered listed on an active market if objective parameters such as the following may be observed:

- > an adequate number of counterparties that presents a minimum number of executable ask and bid offers;
- > a spread between the ask and bid price that falls within an interval deemed appropriate; and

> continuity of quotations on both sides of the market.

For financial instruments listed on active markets, the current bid price is used for financial assets and the current ask price for financial liabilities.

For equity securities, ETFs and government bonds listed on regulated markets, for which the bid-ask spread is not material, the official closing price for the last trading day is also used.

---

#### A.4.1 Fair value Level 2 and Level 3: valuation techniques and inputs used

---

##### Financial instruments measured at fair value on a recurring and non-recurring basis

For securities not listed on active markets, the procedure calls for the analysis of:

- 1) prices of similar instruments quoted on active or inactive markets; and
- 2) inputs other than quotations observable directly or indirectly on the market.

The first category includes bonds that do not meet the price significance requirements for classification as listed on an active market but for which it is determined that there is:

1. a single contributor on a regulated market or exchange system capable of providing a fair, binding price at the measurement date;
2. a consensus pricing mechanism capable of determine the fair value, for example:
  - Bloomberg Bondtrade Composite (CBBT/BBT), which provides prices constructed as the average of the most recent executable prices;
  - Bloomberg Generic Number (BGN), which represents Bloomberg's market consensus price and is calculated using the prices contributed to Bloomberg;
  - Markit European ABS, a consensus platform for measuring ABS-type instruments;
3. a reference to current market values of other essentially identical or similar instruments.

UCITS not listed on regulated markets are usually not considered listed on active markets and are valued at the unit value (NAV) at the end of the period in question.

Since it is impossible or inappropriate to use the comparable approach for OTC financial derivatives, the Group uses widespread valuation techniques commonly used by financial operators, including:

- > the analysis of discounted cash flows;
- > option pricing models.

Lastly, the class L3 of financial instruments measured according to non-observable market parameters includes securities measured according to prices and market data obtained from brokers.

Level 3 also includes certain financial instruments measured at cost in the absence of reliable estimates of fair value. These consist mainly of "minor equity investments" in companies with which the Group has service relationships, and disposal of which is not conceivable (CSE, GBS Caricese, SWIFT, etc.).

---

##### Other financial assets and liabilities not measured at fair value on a recurring basis

The fair value and hierarchical classification of financial assets other than debt securities, equity securities and units of UCITS, as well as of financial and operating receivables classified amongst loans to banks and customers, are determined as follows.

##### **On-demand and uncommitted financial assets and financial assets with residual lives of less than one year**

The fair value of this class of assets, which essentially consists of uncommitted current account exposures, on-demand deposits or short-term time deposits, as well as operating receivables, is not believed to differ significantly from its carrying amount. Considering that the measurement process does not contemplate significant unobservable inputs, such instruments are typically classified as L2.

##### **Assets with fixed contractual lives included in the financial portfolio**

This class of assets consists primarily of medium- or long-term mortgages or loans with financial instruments as collateral.

The fair value of loans with amortisation schedules is calculated according to a discounted cash flow model that calls for the cash flows expected on the basis of the contractual amortisation schedule to be discounted at the proper rate for the risks associated with the instrument. This correction consists of a spread to be added to the risk-free discount rate for the cash flows.

The spread in question is to be defined in such a way as to include the following components of risk:

- > the cost of credit risk (the cost of covering expected losses in relation to credit risk);
- > the cost of funding (the cost of funding positions);
- > the cost of capital (the cost of covering unexpected losses in relation to credit risk);
- > operating costs (any other costs, specific to the type of loan, that are to be considered in the exit price).

The cost of credit risk is calculated on the basis of multi-period historic PDs related to the rating of the counterparty in the transaction and the LGD specific to the type of instrument.

Loans with a fixed contractual maturity are classified to Level 3 of the fair value hierarchy, in consideration of the significant presence of unobservable inputs (spreads determined on the basis of internal PD and LGD).

### **Non-performing loans**

When bad loans and substandard loans are separately assessed, their book value is believed to be a reasonable approximation of their fair value.

Such loans are classified to Level 3 of the fair value hierarchy.

### **Other financial liabilities**

Financial liabilities classified as amounts due to customers and banks consist mainly of on-demand current account deposits, short-term time deposits and operating payables.

Such liabilities also include repurchase agreements that are set to mature within the year and, in the case of interbank funding, fully collateralised, with the determination of daily margins of change.

Such financial liabilities are subject to fair value measurement criteria similar to those applied to other on-demand or uncommitted financial assets.

---

## **A.4.2 Processes and sensitivity of measurements**

For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the new standard IFRS 13 requires a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement.

The unobservable inputs capable of affecting the measurement of instruments categorised within Level 3 consist mainly of estimates and assumptions underlying the models used to measure investments in equities and other UCITS. For such investments, no quantitative analysis has been prepared of the sensitivity of the fair value to changes in unobservable inputs, given that the fair value either has been drawn from third sources without any adjustments or is the result of a model, the inputs to which are specific to the entity subject to measurement (for example, the company's asset values) and for which the use of alternative values is not reasonably feasible.

The case in question does not apply to Level 3 financial instruments classified to the trading and AFS portfolios. The reader is referred to the detailed analysis of individual positions provided in the subsequent section concerning quantitative information.

---

## **A.4.3 Fair value hierarchy**

IFRS 13, recalling the contents of IFRS 7, requires that entities that apply IAS/IFRS make adequate disclosure of the fair value measurements used for each class of financial instruments, and in particular:

- 1) the level in the fair value hierarchy into which the fair value measurements are categorised, segregating instruments belonging to different categories;
- 2) any significant transfers between Level 1 and Level 2 during the year;
- 3) for instruments measured in Level 3, a reconciliation from the beginning balances to the ending balances, disclosing separately changes in profit and loss (in the profit and loss account and net equity), purchases and sales, and transfers out of Level 3 due to the use of market data.

Transfers between levels refer to the end of the accounting period of reference (half-yearly or annual), in an independent manner, and generally enter into effect from the beginning of the year of reference.

Transfers to and from Level 3 are infrequent and primarily involve the occurrence of situations of default, in which the Bank's subjective assessment of the recoverability of the debt takes pre-eminence.

---

## **A.4.4 Other information**

No cases envisaged in IFRS 13, paragraphs 51, 93(i) and 96, occur in these Financial Statements.

## Quantitative Information

### A.4.5 Fair value hierarchy

#### A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair-value levels

ASSETS/LIABILITIES AT FAIR VALUE	31.12.2016				TOTAL
	L1	L2	L3	AT COST	
1. HFT financial assets	3,659	22,884	12,017	-	38,560
2. Financial assets at fair value	-	-	-	-	-
3. AFS financial assets	4,352,325	47,952	1,941	7,100	4,409,318
4. Hedging derivatives	-	-	-	-	-
5. Property and equipment	-	-	-	-	-
6. Intangible assets	-	-	-	-	-
<b>Total</b>	<b>4,355,984</b>	<b>70,836</b>	<b>13,958</b>	<b>7,100</b>	<b>4,447,878</b>
1. HFT financial liabilities	409	760	-	-	1,169
2. Financial liabilities at fair value	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-
<b>Total</b>	<b>409</b>	<b>760</b>	<b>-</b>	<b>-</b>	<b>1,169</b>

ASSETS/LIABILITIES AT FAIR VALUE	31.12.2015				TOTAL
	L1	L2	L3	AT COST	
1. HFT financial assets	2,177	12,799	13,028	-	28,004
2. Financial assets at fair value	-	-	-	-	-
3. AFS financial assets	2,898,120	30,860	3,466	6,765	2,939,211
4. Hedging derivatives	-	-	-	-	-
5. Property and equipment	-	-	-	-	-
6. Intangible assets	-	-	-	-	-
<b>Total</b>	<b>2,900,297</b>	<b>43,659</b>	<b>16,494</b>	<b>6,765</b>	<b>2,967,215</b>
1. HFT financial liabilities	-	463	-	-	463
2. Financial liabilities at fair value	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>463</b>	<b>-</b>	<b>-</b>	<b>463</b>

At the reporting date, Banca Generali's portfolios at fair value, i.e., the portfolio of assets and liabilities held for trading and the portfolio of AFS financial assets, comprised 97.9% of financial assets eligible for allocation to class L1, with an unchanged ratio compared to the previous year. L1 is mainly comprised of Italian government bonds (4,092.6 million euros), which increased by 1,498.1 million euros compared to the previous year (+57.7%). It also includes other debt securities (252.8 million euros) chiefly referring to credit sector (140.1 million euros), and equities and UCITS listed on Italian and European regulated markets (10.5 million euros).

Financial liabilities classified in the L1 portfolio refer to options on the FTSE MIB index.

The financial assets allocated to the L2 class, on the other hand, consist primarily of UCITS not listed on regulated markets (43.5 million euros), including an interest in the Sicav SIF Tyndaris, a closed-end fund that invests in subordinated financial assets linked to the real estate market. In addition, the L2 portfolio includes bonds of Italian banks and banks of the main Eurozone countries (26.5 million euros) and derivative financial liabilities consisting solely of currency outright, valued on the basis of observable market parameters.

In the reporting year, no significant transfers of financial assets were performed between class L1 and class L2.

#### A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (level L3)

	FINANCIAL ASSETS		
	TRADING	AFS AT FAIR VALUE	AFS AT COST
<b>1. Amount at year-start</b>	<b>13,028</b>	<b>3,466</b>	<b>6,765</b>
<b>2. Increases</b>	<b>10</b>	<b>1,344</b>	<b>335</b>
2.1 Purchases	10	1,334	335
2.2 Gains through:			
2.2.1 Profit and loss	-	-	-
- of which: capital gains	-	-	-
2.2.2 Net equity	-	-	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
- of which: business combinations	-	-	-
<b>3. Decreases</b>	<b>1,021</b>	<b>2 859</b>	<b>-</b>
3.1 Disposals	-	-	-
3.2 Redemptions	554	166	-
3.3 Losses through:			
3.3.1 Profit and loss	467	1,235	-
- of which: capital losses	467	1,235	-
3.3.2 Net equity	-	-	-
3.4 Transfers to other levels	-	1,458	-
3.5 Other decreases	-	-	-
<b>4. Amount at year-end</b>	<b>12,017</b>	<b>1,941</b>	<b>7,100</b>

L3 financial assets in the trading portfolio consist of the investment in the Quarzo 1 notes. These notes, amounting to 12,009 thousand euros, were created through the securitisation of residential mortgages (RMBSs) originated by Mediobanca and Morgan Stanley, in relation to the activity of the Scarlatti real-estate fund (Fondo Immobiliare Scarlatti), promoted by the Assicurazioni Generali Group, and were partially repaid during the year.

L3 financial assets in the AFS portfolio, amounting to 1,941 thousand euros, consist of:

- > the investment in the private-equity special purpose entity Athena Private Equity (922 thousand euros), which became impaired in previous years and is currently in the course of liquidation and repayment;
- > the equity interest in Veneto Banca (13 thousand euros), an unlisted cooperative bank acquired in 2011 and subject to a total impairment loss of 5.0 million euros (of which 907 thousand euros in the reporting year), deemed to be impaired in accordance with the result of the capital increase undertaken in June 2016, fully subscribed by the Atlante fund at the price of 0.1 euros per share;
- > the 1,334 thousand euros capital contribution paid in September 2016 to the Interbank Deposit Protection Fund (FITD) to recapitalise Cassa di Risparmio di Cesena. At year-end 2016, the initial contribution was written down by approximately 328 thousand euros.

Some equity investments allocated to the AFS portfolio continued, on the other hand, to be measured at purchase cost in the absence of reliable estimates of fair value:

- > the “minor investments” in companies with which the Bank has long-term service arrangements (CSE, GBS, Caricese, SWIFT, etc.) or commercial partnerships (Tosetti Value), for a total of 6.6 million euros;
- > the contributions to film production ventures with Tyco film S.r.l., Fabula Pictures S.r.l., Eskimo S.r.l. for a total amount of 510 thousand euros.

#### A.4.5.4 Breakdown by fair-value levels of annual changes in assets and liabilities not measured at fair value on a recurring basis

FINANCIAL ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31.12.2016			
	BV	L1	L2	L3
1. HTM financial assets	731,362	759,651	12,859	-
2. Loans to banks	326,688	36,445	289,882	-
3. Loans to customers	1,881,927	23,430	1,036,411	828,958
4. Property and equipment held as investments	-	-	-	-
5. Non-current assets available for sale and disposal groups	-	-	-	-
<b>Total</b>	<b>2,939,977</b>	<b>819,526</b>	<b>1,339,152</b>	<b>828,958</b>
1. Due to banks	802,709	-	802,709	-
2. Due to customers	6,648,202	-	6,604,921	44,246
3. Securities issued	-	-	-	-
4. Liabilities associated to assets held for sale	-	-	-	-
<b>Total</b>	<b>7,450,910</b>	<b>-</b>	<b>7,407,629</b>	<b>44,246</b>

FINANCIAL ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31.12.2015			
	BV	L1	L2	L3
1. HTM financial assets	423,586	457,593	13,220	-
2. Loans to banks	330,286	38,036	294,898	-
3. Loans to customers	1,922,020	28,313	1,086,842	814,781
4. Property and equipment held as investments	-	-	-	-
5. Non-current assets available for sale and disposal groups	-	-	-	-
<b>Total</b>	<b>2,675,892</b>	<b>523,942</b>	<b>1,394,960</b>	<b>814,781</b>
1. Due to banks	333,954	-	333,954	-
2. Due to customers	4,839,613	-	4,796,331	44,007
3. Securities issued	-	-	-	-
4. Liabilities associated to assets held for sale	-	-	-	-
<b>Total</b>	<b>5,173,567</b>	<b>-</b>	<b>5,130,285</b>	<b>44,007</b>

#### Part A.5 – Disclosure about so-called “day-one profit/loss”

IFRS 7, paragraph 28, governs the specific case in which, following the purchase of a financial instrument designated at fair value but not listed on an active market, the transaction price, which generally represents the best estimate of fair value at initial recognition, differs from the fair value according to the valuation technique used by the entity. In this case, there is a valuation gain/loss upon acquisition of which adequate disclosure must be given by financial instrument class.

It should be noted that no such cases occur in the Financial Statements in question.



## PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET - ASSETS

### Section 1 – Cash and deposits - Item 10

#### 1.1 Breakdown of cash and deposits

ITEMS/VALUES	31.12.2016	31.12.2015
a) Cash	16,049	13,889
b) Demand deposits with Central Banks	567,312	89,222
<b>Total</b>	<b>583,361</b>	<b>103,111</b>

#### Note

1. The Item b) Demand deposits with Central Banks are the portion of the balance of the settlement account held with the Bank of Italy that is not restricted according to the mandatory reserve rules.

### Section 2 – Held-for-trading financial assets - Item 20

#### 2.1 HFT financial assets: categories

ITEMS/VALUES	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
<b>A. Cash assets</b>						
<b>1. Debt securities</b>	-	22,111	12,009	211	10,037	13,028
1.1 Structured securities	-	22,111	-	-	9,886	-
1.2 Other debt securities	-	-	12,009	211	151	13,028
<b>2. Equity securities</b>	1,959	-	8	1,331	-	-
<b>3. UCITS units</b>	1,596	-	-	635	2,233	-
<b>4. Loans</b>	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total A</b>	<b>3,555</b>	<b>22,111</b>	<b>12,017</b>	<b>2,177</b>	<b>12,270</b>	<b>13,028</b>
<b>B. Derivatives</b>						
<b>1. Financial</b>	104	773	-	-	529	-
1.1 Trading	104	773	-	-	529	-
1.2 Related to the fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
<b>2. Credit</b>	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-
2.2 Related to the fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
<b>Total B</b>	<b>104</b>	<b>773</b>	<b>-</b>	<b>-</b>	<b>529</b>	<b>-</b>
<b>Total (A + B)</b>	<b>3,659</b>	<b>22,884</b>	<b>12,017</b>	<b>2,177</b>	<b>12,799</b>	<b>13,028</b>

#### Note

1. A more detailed analysis of the fair value hierarchy of financial instruments (L1, L2, L3) is given in Part A.4 of these Notes and Comments - Information on fair value.

**2.2 HFT financial assets: debtors/issuers**

ITEMS/VALUES	31.12.2016	31.12.2015
<b>A. Cash assets</b>		
<b>1. Debt securities</b>	<b>34,120</b>	<b>23,276</b>
a) Government and Central Banks	-	-
b) Other public institutions	-	-
c) Banks	22,111	10,138
d) Other issuers	12,009	13,138
<b>2. Equity securities</b>	<b>1,967</b>	<b>1,331</b>
a) Banks	644	-
b) Other issuers:	1,323	1,331
- insurance companies	705	775
- financial companies	-	-
- non-financial companies	618	556
- other entities	-	-
<b>3. UCITS units</b>	<b>1,596</b>	<b>2,868</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Government and Central Banks	-	-
b) Other public institutions	-	-
c) Banks	-	-
d) Other entities	-	-
<b>Total A</b>	<b>37,683</b>	<b>27,475</b>
<b>B. Derivatives</b>		
a) Banks	193	204
b) Customers	684	325
<b>Total B</b>	<b>877</b>	<b>529</b>
<b>Total (A + B)</b>	<b>38,560</b>	<b>28,004</b>

At 31 December 2016, UCITS units referred to two ETF funds; during the year, the shares of the BG Selection sub-funds were sold (2.2 million euros at 31 December 2015).

**Section 4 – Available-for-sale financial assets - Item 40****4.1 AFS financial assets: categories**

ITEMS/VALUES	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
<b>1. Debt securities</b>	<b>4,345,493</b>	<b>4,421</b>	<b>-</b>	<b>2,889,693</b>	<b>3,016</b>	<b>-</b>
1.1 Structured securities	-	-	-	2,038	-	-
1.2 Other debt securities	4,345,493	4,421	-	2,887,655	3,016	-
<b>2. Equity securities</b>	<b>6,832</b>	<b>-</b>	<b>9,041</b>	<b>8,427</b>	<b>-</b>	<b>8,773</b>
2.1 Valued at fair value	6,832	-	1,941	8,427	-	2,008
2.2 Valued at cost	-	-	7,100	-	-	6,765
<b>3. UCITS units</b>	<b>-</b>	<b>43,531</b>	<b>-</b>	<b>-</b>	<b>27,844</b>	<b>1,458</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>4,352,325</b>	<b>47,952</b>	<b>9,041</b>	<b>2,898,120</b>	<b>30,860</b>	<b>10,231</b>

**Notes**

- A more detailed analysis of the fair value hierarchy of financial instruments (L1, L2, L3) is given in Part A.4 of these Notes and Comments - Information on fair value.
- Item "Debt securities" includes assets sold but not written off, which refer to own securities used in repurchase agreements amounting to 349,829 thousand euros. This item also includes encumbered assets used as collateral for ECB refinancing operations totalling 636,068 thousand euros and certificates of deposit with Cassa di Compensazione e Garanzia amounting to 25,223 thousand euros.

## 4.2 AFS financial assets: debtors/issuers

ITEMS/VALUES	31.12.2016	31.12.2015
<b>1. Debt securities</b>	<b>4,349,914</b>	<b>2,892,709</b>
a) Government and Central Banks	4,117,859	2,594,480
b) Other public institutions	-	-
c) Banks	144,539	213,540
d) Other issuers	87,516	84,689
<b>2. Equity securities</b>	<b>15,873</b>	<b>17,200</b>
a) Banks	526	2,274
b) Other issuers:	15,347	14,926
- insurance companies	652	782
- financial companies	2,283	2,509
- non-financial companies	12,405	11,628
- other entities	7	7
<b>3. UCITS units</b>	<b>43,531</b>	<b>29,302</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Government and Central Banks	-	-
b) Other public institutions	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>Total</b>	<b>4,409,318</b>	<b>2,939,211</b>

### Notes

- The portfolio of equity securities includes investments amounting to 6,585 thousand euros and falling within the category of the so-called "minor equity investments" and which are not usually traded, largely related to service agreements concluded by the Group (CSE, GBS, Tosetti Value Sim, Caricese, SWIFT, etc.). In the absence of reliable estimates of fair value, those interests are measured at purchase cost.
- In the reporting year, two joint ventures were formed, one with Fabula Pictures S.r.l. to produce the movie "Piccoli crimini coniugali", and the other with Eskimo S.r.l. to produce "Beate". Both capital contributions were recognised at cost.
- In 2016, Banca Generali contributed to the Interbank Deposit Protection Fund (FITD) to recapitalise Cassa di Risparmio di Cesena. The initial contribution amounting to 1,334 thousand euros was written down by 328 thousand euros at the end of the year.
- The UCITS portfolio included 27,072 thousand euros related to an interest of about 8% in Tyndaris European Real Estate Finance S.A. (TECREF), an alternative fund under Luxembourg law, which through the master/feeder fund invests in financial instruments linked to the European business real estate market, particularly in mezzanine instruments.
- In the first half of the year, the fund Finlabo Investments was subscribed; at year-end it amounted to 511 thousand euros. In the second half of the year, units of the fund Tenax Italian Credit Fund, managed by the Irish company Tenax Capital Ltd., were bought; at year-end, they amounted to 3,084 thousand euros. In 2016, the interest in the Luxembourg vehicle Algebris increased to 4,516 thousand euros at the end of December (+3,058 thousand compared to 31 Decembers 2015).
- The residual UCITS portfolio is comprised for 2,048 thousand euros of sub-funds of Group's Sicav BG Selection Sicav and for 6,301 thousand euros of investments in the Luxembourg Sicav-SIF BNP Flexi III, specialised in investing in leveraged loans, and the fund BNP Bond Italy PMI, specialised in mini-bonds.

## Section 5 – Held-to-maturity financial assets - Item 50

### 5.1 HTM financial assets: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2016				31.12.2015			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
<b>1. Debt securities</b>	<b>731,362</b>	<b>759,651</b>	<b>12,859</b>	<b>-</b>	<b>423,586</b>	<b>457,593</b>	<b>13,220</b>	<b>-</b>
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	731,362	759,651	12,859	-	423,586	457,593	13,220	-
<b>2. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>731,362</b>	<b>759,651</b>	<b>12,859</b>	<b>-</b>	<b>423,586</b>	<b>457,593</b>	<b>13,220</b>	<b>-</b>

### Notes

- A more detailed analysis of the fair value hierarchy of financial instruments (L1, L2, L3) is given in Part A.4 of these Notes and Comments - Information on fair value.
- The item "Debt securities" includes encumbered assets used as collateral for ECB refinancing operations in the amount of 219,319 thousand euros and securities used for NewMIC market operations totalling 174,453 thousand euros.
- HTM financial assets underwent analytical impairment testing but they were not found to be impaired. The portfolio is also hedged by a collective reserve established to cover contingent losses (regarding exclusively the non-governmental portfolio), for an overall amount of 2,914 thousand euros.

## 5.2 HTM financial assets: debtors/issuers

ITEMS/VALUES	31.12.2016	31.12.2015
<b>1. Debt securities</b>	<b>731,362</b>	<b>423,586</b>
a) Government and Central Banks	610,833	363,836
b) Other public institutions	-	-
c) Banks	44,593	10,037
d) Other issuers	75,936	49,713
<b>2. Loans</b>	<b>-</b>	<b>-</b>
a) Government and Central Banks	-	-
b) Other public institutions	-	-
c) Banks	-	-
d) Other entities	-	-
<b>Total</b>	<b>731,362</b>	<b>423,586</b>
<b>Total fair value</b>	<b>772,510</b>	<b>470,813</b>

## Section 6 – Loans to banks - Item 60

### 6.1 Loans to banks: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2016 VB	31.12.2015 VB
<b>A. Loans to Central Banks</b>	<b>56,314</b>	<b>49,991</b>
1. Term deposits	-	-
2. Mandatory reserve	56,314	49,991
3. Repurchase agreements	-	-
4. Other	-	-
<b>B. Loans to banks</b>	<b>270,374</b>	<b>280,295</b>
1. Loans:	147,327	163,802
1.1 Current accounts and demand deposits	108,030	163,217
1.2 Term deposits	35,136	83
1.3 Other loans:	4,161	502
- Repurchase agreements	-	-
- Finance lease	-	-
- Other	4,161	502
2. Debt securities:	123,047	116,493
2.1 Structured securities	5,060	5,132
2.2 Other debt securities	117,987	111,361
<b>Total (book value)</b>	<b>326,688</b>	<b>330,286</b>
<b>Total (fair value)</b>	<b>326,327</b>	<b>332,934</b>

TYPE OF TRANSACTIONS/VALUES	31.12.2016				31.12.2015			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
<b>A. Loans to Central Banks</b>	<b>56,314</b>	-	<b>56,314</b>	-	<b>49,991</b>	-	<b>49,991</b>	-
<b>B. Loans to banks</b>	<b>270,374</b>	<b>36,445</b>	<b>233,568</b>	-	<b>280,295</b>	<b>38,036</b>	<b>244,907</b>	-
1. Loans	147,327	-	147,328	-	163,802	-	163,802	-
2. Debt securities	123,047	36,445	86,240	-	116,493	38,036	81,105	-
<b>Total</b>	<b>326,688</b>	<b>36,445</b>	<b>289,882</b>	-	<b>330,286</b>	<b>38,036</b>	<b>294,898</b>	-

#### Notes

- A more detailed analysis of the fair value hierarchy of financial instruments (L1, L2, L3) is given in Part A.4 of these Notes and Comments - Information on fair value.
- The item includes encumbered assets used as collateral for ECB refinancing operations totalling 4,997 thousand euros.
- A specific impairment test was conducted on debt portfolio classified among loans to banks and no impairment was detected. Moreover, a 1,123 thousand euros collective reserve was allocated for contingent losses on the securities portfolio that was not subjected to analytical impairment.

## Breakdown of item loans to banks - other loans and operating loans

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
Operating loans	129	195
Other loans – collateral margins	4,032	307
<b>Total</b>	<b>4,161</b>	<b>502</b>

## Section 7 – Loans to customers - Item 70

## 7.1 Loans to customers: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2016				31.12.2015			
	TOTAL	PERFORMING LOANS	NON-PERFORMING LOANS		TOTAL	PERFORMING LOANS	NON-PERFORMING LOANS	
			PURCHASED	OTHER			PURCHASED	OTHER
<b>1. Loans</b>	<b>1,838,827</b>	<b>1,806,968</b>	-	<b>31,859</b>	<b>1,872,945</b>	<b>1,839,740</b>	-	<b>33,205</b>
1.1 Current accounts	907,032	890,118	-	16,914	928,894	912,178	-	16,716
1.2 Repurchase agreements	-	-	-	-	-	-	-	-
1.3 Mortgages	783,920	768,981	-	14,939	781,665	765,183	-	16,482
1.4 Credit cards, personal loans	6	-	-	6	7	-	-	7
1.5 Finance lease	-	-	-	-	-	-	-	-
1.6 Factoring	-	-	-	-	-	-	-	-
1.7 Other loans	147,869	147,869	-	-	162,379	162,379	-	-
<b>2. Debt securities</b>	<b>43,100</b>	<b>43,100</b>	-	-	<b>49,075</b>	<b>49,075</b>	-	-
2.1 Structured securities	12,922	12,922	-	-	14,033	14,033	-	-
2.2 Other debt securities	30,178	30,178	-	-	35,042	35,042	-	-
<b>Total (book value)</b>	<b>1,881,927</b>	<b>1,850,068</b>	-	<b>31,859</b>	<b>1,922,020</b>	<b>1,888,815</b>	-	<b>33,205</b>

TYPE OF TRANSACTIONS/VALUES	31.12.2016				31.12.2015			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1. Loans	1,838,827	-	1,028,878	814,754	1,872,945	-	1,065,241	814,781
2. Debt securities	43,100	23,430	7,533	14,204	49,075	28,313	21,599	-
<b>Total (fair value)</b>	<b>1,881,927</b>	<b>23,430</b>	<b>1,036,411</b>	<b>828,958</b>	<b>1,922,020</b>	<b>28,313</b>	<b>1,086,840</b>	<b>814,781</b>

## Notes

- Performing loans that have not individually shown signs of impairment are tested for impairment on a collective basis in order to identify any impairment that has not yet become openly manifest. As at 31 December 2016, the collective reserve allocated totalled 1,672 thousand euros.
- A specific impairment test was conducted on debt portfolio classified among loans to customers and no impairment was detected. Moreover, a 2,123 thousand euros collective reserve was allocated for contingent losses on the securities portfolio that was not subjected to analytical impairment.
- Item 2.1 "Structured securities" refers to a 14.0 million euro convertible loan issued on 16 December 2015 by Tyndaris LLP, an English fund management company. The six-year loan includes an option to convert the shares of Tyndaris LLP upon expiry of the second year and upon final maturity, for an amount not exceeding 2 million pound sterling for each of the expiry dates, and in any event, up to maximum share equal of 9.9% of the share capital of said company. The loan provides for an interest of 3% for the first two years and subsequently of 7.5%. Provision is also made for an early repayment option by the issuer. A collective reserve amounting to about 1.5 million euros was allocated in relation with that position.
- A more detailed analysis of the fair value hierarchy of financial instruments (L1, L2, L3) is given in Part A.4 of these Notes and Comments - Information on fair value.

## Breakdown of loans to customers - other transactions

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
Other grants and pooled funding	8,115	8,372
Operating loans	99,252	106,364
Sums advanced to Financial Advisors	32,544	36,294
Stock exchange interest-bearing daily margin	1,940	3,383
Interest-bearing caution deposits	779	661
Amounts to be debited/collected	5,239	7,305
<b>Total</b>	<b>147,869</b>	<b>162,379</b>

## Note

- Sums advanced to Financial Advisors listed on the Register of Financial Advisors include non-performing loans for a net amount of 994 thousand euros, largely attributable to advances to former Financial Advisors who have left service due to a dispute or pre-dispute.

## 7.2 Loans to customers: debtors/issuers

TYPE OF TRANSACTIONS/VALUES	31.12.2016				31.12.2015			
	TOTAL	PERFORMING LOANS	NON-PERFORMING LOANS		TOTAL	PERFORMING LOANS	NON-PERFORMING LOANS	
			PURCHASED	OTHER			PURCHASED	OTHER
<b>1. Debt securities</b>	<b>43,100</b>	<b>43,100</b>	-	-	<b>49,075</b>	<b>49,075</b>	-	-
a) Governments	-	-	-	-	-	-	-	-
b) Other public institutions	-	-	-	-	-	-	-	-
c) Other issuers:	43,100	43,100	-	-	49,075	49,075	-	-
- non-financial companies	33,115	33,115	-	-	16,407	16,407	-	-
- financial companies	9,985	9,985	-	-	32,668	32,668	-	-
- insurance companies	-	-	-	-	-	-	-	-
- other entities	-	-	-	-	-	-	-	-
<b>2. Loans</b>	<b>1,838,827</b>	<b>1,806,968</b>	-	<b>31,859</b>	<b>1,872,945</b>	<b>1,839,741</b>	-	<b>33,204</b>
a) Governments	-	-	-	-	-	-	-	-
b) Other public institutions	-	-	-	-	-	-	-	-
c) Other entities:	1,838,827	1,806,968	-	31,859	1,872,945	1,839,741	-	33,204
- non-financial companies	458,222	439,738	-	18,484	473,764	450,080	-	23,684
- financial companies	128,713	124,054	-	4,659	121,042	120,935	-	107
- insurance companies	18,937	18,937	-	-	20,920	20,920	-	-
- other entities	1,232,955	1,224,239	-	8,716	1,257,219	1,247,806	-	9,413
<b>Total</b>	<b>1,881,927</b>	<b>1,850,068</b>	-	<b>31,859</b>	<b>1,922,020</b>	<b>1,888,816</b>	-	<b>33,204</b>

## Section 10 – Equity investments - Item 100

## 10.1 Equity investments: disclosure on type of relations

COMPANY NAME	REGISTERED OFFICE	OPERATING OFFICE	TYPE OF RELATION	SHAREHOLDING		% VOTES AVAILABLE
				INVESTOR COMPANY	% HELD	
A. Subsidiaries under common control						
B. Companies subject to significant influence						
1. IOCA Entertainment Limited	United Kingdom - London	United Kingdom - London	Associate company	Banca Generali	35%	35%

Reference is made to IOCA Entertainment Ltd., a company based in the United Kingdom, in which Banca Generali subscribed a 35% interest, in the form of 3,500 shares with a par value of 1.00 pound sterling each, for a total of 1,616,125 pounds sterling, equivalent to approximately 2.2 million euros at the acquisition date, 19 October 2015. In accordance with the Shareholders' Agreement, the company's Board of Directors is composed of three Directors, one of whom is a representative of Banca Generali. The remaining 65% interest (6,500 shares) is held by the UK-based company IOCA Ventures Ltd. (Jersey), which is entitled to appoint the other two directors.

The company is an e-commerce/social-networking start-up currently engaged in the commercial development of an app for smartphones and tablets. In 2016, the portion of loss for the year recognised by Banca Generali amounted to approximately 75 thousand euros, whereas the exchange differences on the equity investment in foreign currency amounted to 96 thousand euros.

## 10.4 Non significant investments: accounting information

NAME	BOOK VALUE OF INVESTMENTS	TOTAL ASSETS	TOTAL LIABILITIES	TOTAL REVENUES	PROFIT (LOSS) FROM OPERATING ACTIVITIES	PROFIT (LOSS) OF DISPOSAL GROUPS	NET PROFIT (LOSS) FOR THE YEAR (1)	OTHER INCOME COMPONENTS (2)	COMPREHENSIVE INCOME (3) = (1) + (2)
B. Companies subject to significant influence									
1. IOCA Entertainment Limited	1,988	1,614	63	-	-215	-	-215	-	-215
<b>Total</b>	<b>1,988</b>	<b>1,614</b>	<b>63</b>	<b>-</b>	<b>-215</b>	<b>-</b>	<b>-215</b>	<b>-</b>	<b>-215</b>

## 10.5 Equity investments: year changes

	31.12.2016	31.12.2015
<b>A. Amount at year-start</b>	<b>2,152</b>	-
<b>B. Increases</b>	-	<b>2,200</b>
B.1 Purchases	-	2,200
B.2 Reversals	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
<b>C. Decreases</b>	<b>164</b>	<b>48</b>
C.1 Sales	-	-
C.2 Adjustments	75	48
C.3 Other changes	89	-
<b>D. Amount at year-end</b>	<b>1,988</b>	<b>2,152</b>
<b>E. Total revaluations</b>	-	-
<b>F. Total adjustments</b>	<b>164</b>	<b>48</b>

## Section 12 – Property and equipment - Item 120

### 12.1 Operating property and equipment: assets valued at cost

ASSETS/VALUES	31.12.2016	31.12.2015
<b>1. Owned assets</b>	<b>6,333</b>	<b>4,891</b>
a) Land	-	-
b) Buildings	-	-
c) Furniture	4,702	3,587
d) Electronic equipment	567	690
e) Other	1,064	614
<b>2. Acquired under finance lease</b>	-	-
a) Land	-	-
b) Buildings	-	-
c) Furniture	-	-
d) Electronic equipment	-	-
e) Other	-	-
<b>Total</b>	<b>6,333</b>	<b>4,891</b>

## 12.5 Operating property and equipment: year changes

	LAND	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
<b>A. Gross amount at year-start</b>	-	-	<b>21,127</b>	<b>6,364</b>	<b>8,229</b>	<b>35,720</b>
A.1 Total net impairment	-	-	17,540	5,674	7,615	30,829
<b>A.2 Net amount at year-start</b>	-	-	<b>3,587</b>	<b>690</b>	<b>614</b>	<b>4,891</b>
<b>B. Increases</b>	-	-	<b>1,888</b>	<b>156</b>	<b>767</b>	<b>2,811</b>
B.1 Purchases	-	-	1,888	156	767	2,811
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals	-	-	-	-	-	-
B.4 Fair value positive changes in:						
a) Net equity	-	-	-	-	-	-
b) Profit and loss account	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers of buildings held as investments	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
<i>of which: business combinations</i>	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	<b>773</b>	<b>279</b>	<b>317</b>	<b>1,369</b>
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	-	760	276	317	1,353
C.3 Adjustments for impairment in:						
a) Net equity	-	-	-	-	-	-
b) Profit and loss account	-	-	-	-	-	-
C.4 Fair value negative changes in:						
a) Net equity	-	-	-	-	-	-
b) Profit and loss account	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:						
a) property and equipment held as investments	-	-	-	-	-	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	13	3	-	16
<i>of which: business combinations</i>	-	-	-	-	-	-
<b>D. Net amount at year-end</b>	-	-	<b>4,702</b>	<b>567</b>	<b>1,064</b>	<b>6,333</b>
D.1 Total net impairment	-	-	18,038	4,966	7,929	30,933
<b>D.2 Gross amount at year-end</b>	-	-	<b>22,740</b>	<b>5,533</b>	<b>8,993</b>	<b>37,266</b>
<b>E. Valued at cost</b>	-	-	<b>4,702</b>	<b>567</b>	<b>1,064</b>	<b>6,333</b>

## Section 13 – Intangible assets - Item 130

## 13.1 Intangible Assets: categories

ASSETS/VALUES	31.12.2016			31.12.2015		
	DEFINITE LIFE	INDEFINITE LIFE	TOTAL	DEFINITE LIFE	INDEFINITE LIFE	TOTAL
A.1 Goodwill	-	66,065	66,065	-	66,065	66,065
A.2 Other intangible assets	25,415	-	25,415	22,158	-	22,158
A.2.1 Assets valued at cost:	25,415	-	25,415	22,158	-	22,158
a) internally generated intangible assets	-	-	-	-	-	-
b) other assets	25,415	-	25,415	22,158	-	22,158
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) internally generated intangible assets	-	-	-	-	-	-
b) other assets	-	-	-	-	-	-
<b>Total</b>	<b>25,415</b>	<b>66,065</b>	<b>91,480</b>	<b>22,158</b>	<b>66,065</b>	<b>88,223</b>



## 13.2 Intangible assets: year changes

	OTHER INTANGIBLE ASSETS					TOTAL
	GOODWILL	INTERNALLY GENERATED		OTHER		
		DEFINITE LIFE	INDEFINITE LIFE	DEFINITE LIFE	INDEFINITE LIFE	
<b>A. Amount at year-start</b>	<b>66,065</b>	-	-	<b>43,720</b>	-	<b>109,785</b>
A.1 Total net impairment	-	-	-	21,564	-	21,564
<b>A.2 Net amount at year-start</b>	<b>66,065</b>	-	-	<b>22,156</b>	-	<b>88,221</b>
<b>B. Increases</b>	-	-	-	<b>7,846</b>	-	<b>7,846</b>
B.1 Purchases	-	-	-	7,846	-	7,846
B.2 Increase of internal intangible assets	-	-	-	-	-	-
B.3 Reversal value	-	-	-	-	-	-
B.4 Fair value positive changes in:	-	-	-	-	-	-
- Net equity	-	-	-	-	-	-
- Profit and Loss account	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
<i>of which: business combinations</i>	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	-	<b>4,587</b>	-	<b>4,587</b>
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	4,587	-	4,587
- Amortisation	-	-	-	4,587	-	4,587
- Write-downs:	-	-	-	-	-	-
- Net equity	-	-	-	-	-	-
- Profit and Loss	-	-	-	-	-	-
C.3 Fair value negative changes in:	-	-	-	-	-	-
- Net equity	-	-	-	-	-	-
- Profit and Loss	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
<i>of which: business combinations</i>	-	-	-	-	-	-
<b>D. Amount at year-end</b>	<b>66,065</b>	-	-	<b>25,415</b>	-	<b>91,480</b>
D.1 Total net adjustments	-	-	-	26,151	-	26,151
<b>E. Gross amount at year-end</b>	<b>66,065</b>	-	-	<b>51,566</b>	-	<b>117,631</b>
<b>F. Valued at cost</b>	<b>66,065</b>	-	-	<b>25,415</b>	-	<b>91,480</b>

## Breakdown of consolidated goodwill

(€ THOUSAND)	31.12.2016	31.12.2015
Prime Consult Sim and INA Sim	2,991	2,991
BG Fiduciaria Sim S.p.A.	4,289	4,289
Banca del Gottardo	31,352	31,352
Credit Suisse Italy	27,433	27,433
<b>Total</b>	<b>66,065</b>	<b>66,065</b>

## Breakdown of intangible assets - other assets

	31.12.2016	31.12.2015
Charges associated with the implementation of legacy CSE procedures	9,638	2,056
Transactions with customers (former Banca del Gottardo)	953	1,907
Transactions with customers (former Credit Suisse Italia)	14,784	15,936
Other software costs	40	131
Other fixed assets and payments on account	-	2,128
<b>Total</b>	<b>25,415</b>	<b>22,158</b>

The consideration for the acquisition of the former Credit Suisse's business unit amounting to 44,712 thousand euros was allocated pursuant to IFRS 3 (PPA – Purchase Price allocation) for 17,280 thousand euros to intangible assets (Transactions with customers) and 27,432 thousand euros to goodwill. The asset recognised for contractual relations on assets under management is the economic valuation of expected financial flows from this portfolio based on the profitability ratio and adequate impairment rates. A useful life of 15 years has been estimated for this asset.

## Section 14 – Tax assets and liabilities - Item 140 (Assets) and Item 80 (Liabilities)

### Breakdown of item 140 (Assets): tax assets

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>Current taxation</b>	<b>3,836</b>	<b>21,547</b>
Sums due for taxes to be refunded	483	1,711
IRES arising on National Tax Consolidation scheme	1,650	16,458
IRES	413	125
IRAP	1,290	3,253
<b>Deferred tax assets</b>	<b>40,702</b>	<b>40,445</b>
<b>With impact on Profit and Loss Account</b>	<b>37,294</b>	<b>39,536</b>
IRES	32,170	34,384
IRAP	5,124	5,152
<b>With impact on net equity</b>	<b>3,408</b>	<b>909</b>
IRES	2,974	816
IRAP	434	93
<b>Total</b>	<b>44,538</b>	<b>61,992</b>

#### Notes

- Current tax assets and liabilities represent the positive or negative imbalance between the estimated income taxes due for the year and the associated tax credits due to overpayments in previous tax periods, prepayments made and amounts withheld.
- In the case of Banca Generali in particular, current tax assets or liabilities due to IRES take the form, respectively, of an account receivable from or payable to the consolidating company, Assicurazioni Generali S.p.A. Due to Banca Generali's participation in Assicurazioni Generali's tax consolidation programme, the former's taxable profits or losses for IRES purposes, along with the tax credits to which it is entitled and sums withheld from it, are transferred to the consolidating entity, which then calculates and pays the tax owed by the Group. The consolidating entity is also responsible for paying the taxes owed by or to the credit of the consolidated entity and requesting the associated prepayments.
- Sums due for taxes to be refunded refer mostly to the excess IRES paid in years 2007-2011 due to the effect of the introduction, in accordance with Legislative Decree No. 201/2011, of the deductibility from that tax of the share of IRAP paid on the cost of labour. The account receivable was recognised on the basis of the provisions of the Order of the Director of the Italian Revenue Service of 17 December 2012, which governs the methods for presenting refund applications, and also takes the form of a positive entry in Assicurazioni Generali's tax consolidation programme.

### Breakdown of item 80 (Liabilities): tax liabilities

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>Current taxation</b>	<b>7,792</b>	<b>9,715</b>
IRES arising on National Tax Consolidation scheme	-	-
IRES and other income taxes	7,792	9,693
IRAP	-	22
<b>Deferred tax liabilities</b>	<b>9,326</b>	<b>12,860</b>
<b>With impact on profit and loss account</b>	<b>2,120</b>	<b>1,844</b>
IRES	1,852	1,657
IRAP	268	187
<b>With impact on net equity</b>	<b>7,206</b>	<b>11,016</b>
IRES	6,076	9,325
IRAP	1,130	1,691
<b>Total</b>	<b>17,118</b>	<b>22,575</b>

## 14.1 Breakdown of deferred tax assets

	31.12.2016	PURSUANT TO LAW NO. 214/2011	31.12.2015	PURSUANT TO LAW NO. 214/2011
<b>With impact on profit and loss account</b>	<b>37,294</b>	<b>9,755</b>	<b>39,536</b>	<b>11,495</b>
Provisions for liabilities and contingencies	27,383	-	27,777	-
Credit devaluation	2,986	2,986	3,143	3,143
Redeemed goodwill (pursuant to Art. 15, para. 10, of Legislative Decree No. 185/2008)	4,032	4,032	5,040	5,040
Consolidated goodwill of BG Fiduciaria (Art. 15, para. 10-ter)	1,379	1,379	1,379	1,379
Redeemed goodwill (Art. 176, para. 2-ter, of TUIR)	1,057	1,057	1,145	1,145
Other goodwill	301	301	788	788
Collective reserve for collateral granted	111	-	130	-
Other	45	-	134	-
<b>With impact on net equity</b>	<b>3,408</b>	<b>-</b>	<b>909</b>	<b>-</b>
Measurement at fair value of AFS financial assets	2,992	-	568	-
Actuarial losses IAS 19	416	-	341	-
<b>Total</b>	<b>40,702</b>	<b>9,755</b>	<b>40,445</b>	<b>11,495</b>

## Notes

1. The DTAs eligible for conversion into tax credits pursuant to Law No. 214/2011 include:

- assets associated with goodwill redeemed in accordance with Article 10 of Legislative Decree No. 185/2008 and Article 172 of TUIR;
- assets related to goodwill recognised for tax purposes but not for accounting purposes as they refer to business combinations "under common control" (Circular Letter Assonime No. 33/2013, paragraph 3.3.2);
- assets associated with write-downs in excess of 0.30% in connection with the banking portfolio, pursuant to Article 106, paragraph 3, of TUIR, in the version effective until 2012 (previously eligible for deduction over 18 years on a straight-line basis);
- assets associated with write-downs of loans to customers recognised in the financial statements in accordance with Article 106, paragraph 3, as reformulated by the 2014 Financial Stability Law, applicable for financial years 2013 and 2014 (formerly deductible in the financial year of reference and in the following four years using the straight-line method);
- assets related to 25% of value adjustments of loans operated in 2015 pursuant to new Article 106, paragraph 3, introduced by Law Decree No. 83 of 27 June 2015.

The above-mentioned Law Decree No. 83/2015 made effective the full deductibility of value adjustments of loans in the year in which they are recognised and changed the deductibility percentages of prior write-downs yet to be deducted at 31 December 2014 (and by 25% of value adjustments for 2015). It also envisages a ten-year time horizon – from 2016 to 2025 – with variable annual rates for total repayment. For 2016, the statute provides for 5% deductibility of the total amount of prior value adjustments.

The 2015 Financial Stability Law (Law No. 305 of 28 December 2015) mandated a general reduction in the ordinary IRES rate from 27.5% to 24% effective 1 January 2017. However, for the credit sector only, an IRES surtax of 4.5% was introduced in parallel, applicable as of the same date and essentially aimed at allowing the recovery of extensive DTAs accrued by the banking industry. As a consequence of the combined effect of these two measures, no value adjustment was made on DTAs/DTLs to adjust the tax rates.

## 14.2 Breakdown of deferred tax liabilities

	31.12.2016	31.12.2015
<b>With impact on profit and loss account</b>	<b>2,120</b>	<b>1,844</b>
Capital gains by instalments from the transfer of the funds business unit	-	281
Provision for termination indemnity	155	155
Goodwill	1,965	1,408
<b>With impact on net equity</b>	<b>7,206</b>	<b>11,016</b>
Measurement at fair value of AFS financial assets	7,206	11,016
<b>Total</b>	<b>9,326</b>	<b>12,860</b>

### 14.3 Change in deferred tax assets (offsetting entry to the Profit and Loss account)

	31.12.2016	31.12.2015
<b>1. Amount at year-start</b>	<b>39,536</b>	<b>37,946</b>
<b>2. Increases</b>	<b>12,281</b>	<b>16,212</b>
2.1 Deferred tax assets for the year	12,281	16,212
a) relative to prior years	-	215
b) change in accounting criteria	-	-
c) reversal value	-	-
d) other	12,281	15,997
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases:	-	-
<i>of which: business combinations</i>	-	-
<b>3. Decreases</b>	<b>14,523</b>	<b>14,622</b>
3.1 Deferred tax assets eliminated in the year	14,523	14,622
a) transfers	13,925	14,239
b) write-downs for non-recoverability	598	383
c) change in accounting criteria	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	-	-
a) conversion into tax credits pursuant to Law No. 214/2011	-	-
b) other	-	-
<i>of which: business combinations</i>	-	-
<b>4. Amount at year-end</b>	<b>37,294</b>	<b>39,536</b>

#### 14.3.1 Change in deferred tax assets pursuant to Law No. 214/2011 (offsetting entry to the Profit and Loss Account)

	31.12.2016	31.12.2015
<b>1. Amount at year-start</b>	<b>11,495</b>	<b>13,012</b>
<b>2. Increases</b>	<b>-</b>	<b>66</b>
<i>of which: business combinations</i>	-	-
<b>3. Decreases</b>	<b>1,740</b>	<b>1,583</b>
3.1 Transfers	1,740	1,583
3.2 Conversion into tax credits:	-	-
a) due to losses for the year	-	-
b) due to fiscal losses	-	-
3.3 Other decreases	-	-
<b>4. Amount at year-end</b>	<b>9,755</b>	<b>11,495</b>

**14.4 Change in deferred tax liabilities (offsetting entry to the Profit and Loss Account)**

	31.12.2016	31.12.2015
<b>1. Amount at year-start</b>	<b>1,844</b>	<b>1,549</b>
<b>2. Increases</b>	<b>557</b>	<b>576</b>
2.1 Deferred tax liabilities for the year:	557	576
a) relative to prior years	-	20
b) change in accounting criteria	-	-
c) other	557	556
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<i>of which: business combinations</i>	-	-
<b>3. Decreases</b>	<b>281</b>	<b>281</b>
3.1 Deferred tax liabilities eliminated during the year:	281	281
a) transfers	281	281
b) change in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Amount at year-end</b>	<b>2,120</b>	<b>1,844</b>

**14.5 Changes in deferred tax assets (offsetting entry to the Net Equity)**

	31.12.2016	31.12.2015
<b>1. Amount at year-start</b>	<b>909</b>	<b>675</b>
<b>2. Increases</b>	<b>3,383</b>	<b>363</b>
2.1 Deferred tax assets for the year:	3,383	363
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	3,383	363
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>884</b>	<b>129</b>
3.1 Deferred tax assets eliminated in the year:	147	129
a) transfers	147	129
b) write-downs for non-recoverability	-	-
c) change in accounting criteria	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	737	-
<b>4. Amount at year-end</b>	<b>3,408</b>	<b>909</b>

The item 3.3 "Other decreases" refers to the reduction in deferred tax assets following the re-absorption of deductible temporary differences as a result of reversals of assets in the AFS portfolio.

**14.6 Changes in deferred tax liabilities (offsetting entry to the Net Equity)**

	31.12.2016	31.12.2015
<b>1. Amount at year-start</b>	<b>11,016</b>	<b>8,831</b>
<b>2. Increases</b>	<b>3,016</b>	<b>8,299</b>
2.1 Deferred tax liabilities for the year:	3,016	8,299
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	3,016	8,299
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>6,826</b>	<b>6,114</b>
3.1 Deferred tax liabilities eliminated during the year:	6,082	5,480
a) transfers	6,082	5,480
b) change in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	744	634
<b>4. Amount at year-end</b>	<b>7,206</b>	<b>11,016</b>

The item 3.3 "Other decreases" refers to the reduction in deferred tax liabilities following the re-absorption of deductible temporary differences as a result of higher value adjustments of assets in the AFS portfolio.

**Section 16 – Other assets - Item 160****16.1 Breakdown of other assets**

	31.12.2016	31.12.2015
<b>Fiscal items</b>	<b>56,731</b>	<b>61,480</b>
Advances paid to fiscal authorities – current account withholdings <sup>(1)</sup>	1,173	1,304
Advances paid to fiscal authorities – stamp duty <sup>(1)</sup>	38,248	35,207
Sums due from fiscal authorities for advances on capital gains <sup>(1)</sup>	15,464	22,064
Excess payment of substitute tax for tax shield	634	634
Fiscal authorities/VAT	333	209
Sums due from fiscal authorities for taxes to be refunded - other	215	273
Other sums due from fiscal authorities	664	1,789
<b>Leasehold improvements</b>	<b>5,004</b>	<b>3,798</b>
<b>Sundry advances to suppliers and employees</b>	<b>4,499</b>	<b>4,375</b>
<b>Operating loans not related to financial transactions</b>	<b>194</b>	<b>190</b>
<b>Cheques under processing</b>	<b>13,768</b>	<b>18,414</b>
C/a cheques drawn on third parties under processing	272	1,040
Our c/a cheques under processing c/o service	9,410	11,307
Cheques - other amounts under processing	4,086	6,067
<b>Other amounts to be debited under processing</b>	<b>32,473</b>	<b>17,708</b>
Amounts to be settled in the clearing house (debits)	522	1,896
Clearing accounts for securities and funds procedure	29,494	15,224
Other amounts to be debited under processing	2,457	588
<b>Amounts receivable for legal disputes related to non-credit transactions</b>	<b>3,493</b>	<b>3,502</b>
<b>Trade receivables from customers and banks that cannot be traced back to specific items</b>	<b>30,621</b>	<b>29,333</b>
<b>Other amounts</b>	<b>94,397</b>	<b>73,741</b>
Prepayments for the new supplementary fees for FAs	88,638	68,835
Prepayments of exclusive portfolio management fees	1,558	1,697
Other accrued income and deferred charges	4,121	3,107
Sundry amounts	80	102
<b>Total</b>	<b>241,180</b>	<b>212,541</b>

(1) Receivables from fiscal authorities for withholdings on current accounts represent the positive imbalance between payments on account and the related payable to fiscal authorities.

## PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET - LIABILITIES

### Section 1 – Due to banks - Item 10

#### 1.1 Due to banks: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>1. Due to Central Banks</b>	<b>400,000</b>	<b>-</b>
<b>2. Due to banks</b>	<b>402,709</b>	<b>333,954</b>
2.1 Current accounts and demand deposits	23,673	1,393
2.2 Term deposits	4,748	5,261
2.3 Loans:	351,437	303,927
2.3.1 Repurchase agreements	351,437	303,927
2.3.2 Other	-	-
2.4 Liabilities for repurchase commitments of own equity instruments	-	-
2.5 Other debts	22,851	23,373
<b>Total</b>	<b>802,709</b>	<b>333,954</b>
Fair value - L1	-	-
Fair value - L2	802,709	333,954
Fair value - L3	-	-
<b>Total - Fair value</b>	<b>802,709</b>	<b>333,954</b>

#### Notes

- The item "Due to Central Banks" includes 400 million euros attributable to a long-term refinancing operation disbursed by the ECB under the new TLTRO 2 programme (Targeted Longer Term Refinancing Operations) launched in 2016. The financing, disbursed on 29 June 2016, has a term of four years, with maturity on 24 June 2020, may be repaid in advance at the end of the second year and bears interest at a rate equal to the rate for the main refinancing operations in effect at the time, currently 0%. However, that rate may be reduced to the level of interest rate envisaged for overnight deposits with the ECB (currently negative, at -0.40%) if at the end of January 2018 the loans disbursed by Banca Generali to households for credit purposes other than home purchases and non-financial companies residing in the Euro Area exceed a certain benchmark level (for Banca Generali, equal to the amount of such loans as at 31 January 2016, plus 5%).
- The item "Other debts" includes 22,576 thousand euros in deposits placed by BSI S.A. to secure certain non-performing exposures arising from the acquisition of Banca del Gottardo Italia (collateral deposits), whereas 268 thousand euros refer to collateral margins received from counterparties in connection with repurchase agreements.

### Section 2 – Due to customers - Item 20

#### 2.1 Due to customers: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>1. Current accounts and demand deposits</b>	<b>6,466,672</b>	<b>4,655,750</b>
<b>2. Term deposits</b>	<b>-</b>	<b>-</b>
<b>3. Financing</b>	<b>43,282</b>	<b>43,283</b>
3.1 Repurchase agreements	-	-
3.2 Other	43,282	43,283
<b>4. Liabilities for repurchase commitments of own equity instruments</b>	<b>-</b>	<b>-</b>
<b>5. Other debts</b>	<b>138,248</b>	<b>140,580</b>
<b>Total</b>	<b>6,648,202</b>	<b>4,839,613</b>
Fair value - L1	-	-
Fair value - L2	6,604,921	4,796,331
Fair value - L3	44,246	44,007
<b>Total - Fair value</b>	<b>6,649,167</b>	<b>4,840,338</b>

#### Notes

- The item 5 "Other debts" refers for 25,271 thousand euros to the stock of money orders issued by the parent company Banca Generali in relation to claims payment of insurance companies of the Generali Group, other amounts available to customers and, for the remaining amount, trade payables to the sales network.
- The item 3.2 "Other financing" amounted to 43,282 thousand euros, referring entirely to the subordinated loan illustrated in table 2.2.

## 2.2 Due to customers: subordinated debts

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>Due to customers subordinated debts</b>	<b>43,282</b>	<b>43,283</b>
Generali Beteiligungs GmbH subordinated loan	43,282	43,283

The subordinated loan, amounting to 43 million euros, was entered into with the German company Generali Beteiligungs GmbH to fund the acquisition of the Credit Suisse (Italia) S.p.A. business unit. The loan, entered into on 30 October 2014, has a ten-year term and is repayable on maturity in one instalment. Provision is also made for an early repayment option, as from the sixth year, subject to the supervisory authority's prior approval. The interest rate for the first 5 years is fixed and equal to 3.481% per annum, corresponding to the 5-year mid swap rate identified at the contract execution date, plus a spread of 300 bps; from the start of the sixth year the rate will be reparametrised to the 3-month Euribor, plus the same spread identified when the original fixed rate was determined. The loan is subordinated in the event of a default by the Bank.

## Section 4 – Financial liabilities held for trading - Item 40

### 4.1 HFT financial liabilities: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2016 - FV					31.12.2015 - FV				
	NV	L1	L2	L3	FV (*)	NV	L1	L2	L3	FV (*)
<b>A. Cash liabilities</b>										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds:	-	-	-	-	-	-	-	-	-	-
3.1.1 structured	-	-	-	-	X	-	-	-	-	X
3.1.2 other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities:	-	-	-	-	-	-	-	-	-	-
3.2.1 structured	-	-	-	-	X	-	-	-	-	X
3.2.2 other	-	-	-	-	X	-	-	-	-	X
<b>Total A</b>	-	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>										
1. Financial	-	409	760	-	-	-	-	463	-	-
1.1 Trading	X	409	760	-	X	X	-	463	-	X
1.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit										
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
<b>Total B</b>	<b>X</b>	<b>409</b>	<b>760</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>-</b>	<b>463</b>	<b>-</b>	<b>X</b>
<b>Total (A + B)</b>	<b>X</b>	<b>409</b>	<b>760</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>-</b>	<b>463</b>	<b>-</b>	<b>X</b>

(\*) FV: fair value measured without taking account of issuer's credit merit changes compared to issue date.

HFT financial liabilities consist for 760 thousand euros of trading transactions relating to currency outright with customers as counterparty. This item has its balancing entry in assets classified under Item 20.

The remaining 409 thousand euros relates to options on the FTSE MIB index.

## Section 8 – Tax liabilities - Item 80

### Breakdown of tax liabilities - Item 80

Section 14 (Assets) provides an analysis.



## Section 10 – Other liabilities - Item 100

### 10.1 Breakdown of other liabilities

	31.12.2016	31.12.2015
<b>Trade payables</b>	<b>27,355</b>	<b>31,521</b>
Due to suppliers	26,763	30,227
Due for payments on behalf of third parties	592	1,294
<b>Due to staff and social security institutions</b>	<b>17,177</b>	<b>17,075</b>
Due to staff for accrued holidays etc.	3,116	3,906
Due to staff for productivity bonuses to be paid out	8,055	6,911
Contributions to be paid to social security institutions	2,323	2,738
Contributions to Financial Advisors to be paid to Enasarco	3,683	3,520
<b>Tax authorities</b>	<b>28,997</b>	<b>22,624</b>
Withholding taxes to be paid to tax authorities on behalf of employees and contract workers	4,745	4,648
Withholding taxes to be paid to tax authorities on behalf of customers	15,054	8,066
Notes to be paid into collection services	8,791	8,549
VAT payable	383	902
Tax payables - other (stamp duty and substitute tax on medium-/long-term loans)	24	459
<b>Amounts to be debited under processing</b>	<b>38,202</b>	<b>88,405</b>
Bank transfers, cheques and other sums payable	6,106	4,270
Amounts to be settled in the clearing house (credits)	16,713	25,608
Liabilities from reclassification of portfolio subject to collection (SBF)	784	1,074
Other amounts to be debited under processing	14,599	57,453
<b>Sundry items</b>	<b>7,122</b>	<b>3,563</b>
Accrued expenses and deferred income that cannot be traced back to specific items	599	1,023
Amounts due to the National Resolution Fund	3,979	-
Sums made available to customers	870	759
Sundry items	881	978
Amounts to be credited	390	330
Payables for non-performing signature loans	403	473
<b>Total</b>	<b>118,853</b>	<b>163,188</b>

Note

- Based on the instructions included in Circular Letter No. 262/05, write-downs of signature loans are commonly recognised among other liabilities. At 31 December 2016, this item referred only to the collective reserve for performing signature loans.

## Section 11 – Provisions for termination indemnity - Item 110

### 11.1 Provisions for termination indemnity: year changes

	31.12.2016	31.12.2015
<b>A. Amount at year-start</b>	<b>4,889</b>	<b>5,250</b>
Change in the opening balance	-	-
<b>B. Increases</b>	<b>411</b>	<b>90</b>
B.1 Provisions for the year	141	90
B.2 Other increases	270	-
<i>of which: business combinations</i>	-	-
<b>C. Decreases</b>	<b>171</b>	<b>451</b>
C.1 Amounts paid	168	355
C.2 Other decreases	3	96
<i>of which: business combinations</i>	-	-
<b>D. Amount at year-end</b>	<b>5,129</b>	<b>4,889</b>

### 11.2 Other information

The amount of termination indemnity can be considered as a non-financial defined benefit plan after the termination of the employment, in accordance with IAS 19.

The provision was measured based on the actuarial value using the methods described in Part. A.2 of these Notes and Comments.

The following are the main actuarial assumptions and the breakdown of the provision for the year and actuarial gains/(losses):

	31.12.2016	31.12.2015
Discount rate (*)	1.21%	1.80%
Annual inflation rate	1.50%	1.50%
Salary increase rate	1.50%	1.50%
Average duration (years)	10	9-11

(\*) Rate applied to Banca Generali.

	31.12.2016	31.12.2015
1. Provisions:	141	90
- current service cost	48	21
- interest cost	94	69
2. Actuarial gains and losses:	270	-96
- based on financial assumptions	215	-126
- based on actuarial demographic assumptions	55	30
<b>Total provisions for the year</b>	<b>412</b>	<b>-6</b>
<b>Actuarial value</b>	<b>5,129</b>	<b>4,889</b>
<b>Value calculated re. Article 2120 of the Italian Civil Code</b>	<b>4,869</b>	<b>4,869</b>

## Section 12 – Provisions for liabilities and contingencies - Item 120

### 12.1 Breakdown of provisions for liabilities and contingencies

ITEMS/COMPONENTI	31.12.2016	31.12.2015
<b>1. Company provisions for pensions</b>	<b>-</b>	<b>-</b>
<b>2. Other provisions for liabilities and contingencies</b>	<b>117,034</b>	<b>114,537</b>
2.1 Litigation	15,123	16,029
2.2 Staff	21,008	20,772
2.3 Other	80,903	77,736
<b>Total</b>	<b>117,034</b>	<b>114,537</b>

### Breakdown of other provisions for liabilities and contingencies

	31.12.2016	31.12.2015
<b>Provision for staff expenses</b>	<b>21,008</b>	<b>20,772</b>
Provision for restructuring plan	8,500	10,170
Provision for staff expenses - other	12,508	10,602
<b>Provisions for legal disputes</b>	<b>15,123</b>	<b>16,029</b>
Provision for risks related to litigations connected with sales network's embezzlements	10,656	11,338
Provision for risks related to legal disputes with sales network	734	1,811
Provision for risks related to legal disputes with staff	50	779
Provision for other legal disputes	3,683	2,101
<b>Provision for termination indemnity of Financial Advisors</b>	<b>49,165</b>	<b>41,424</b>
Provision for termination indemnity of sales network	38,511	31,996
Provision for portfolio overfee indemnities	3,263	2,403
Provision for pension bonuses for Financial Advisors	7,391	7,025
<b>Provisions for risks related to network incentives</b>	<b>31,466</b>	<b>33,457</b>
Provision for network development plans	16,872	15,909
Provision for deferred bonus	1,282	1,247
Provisions for managers with access gate	4,512	3,849
Provision for sales incentives	5,773	5,592
Provision for travel incentives	2,580	2,631
Provision for other fee plans	336	336
Provision for loyalty plan	111	3,893
<b>Other provisions for liabilities and contingencies</b>	<b>272</b>	<b>2,855</b>
<b>Total</b>	<b>117,034</b>	<b>114,537</b>

## 12.2 Provisions for liabilities and contingencies: year changes

ITEMS/COMPONENTS	PROVISIONS FOR PENSIONS	OTHER PROVISIONS	TOTAL
<b>A. Amount at year-start</b>	-	<b>114,537</b>	<b>114,537</b>
<b>B. Increases</b>	-	<b>45,219</b>	<b>45,219</b>
B.1 Provisions for the year	-	45,219	45,219
B.2 Other increases	-	-	-
<b>C. Decreases</b>	-	<b>42,722</b>	<b>42,722</b>
C.1 Use in the year	-	35,968	35,968
C.2 Other decreases	-	6,754	6,754
<b>D. Amount at year-end</b>	-	<b>117,034</b>	<b>117,034</b>

## Provisions for liabilities and contingencies - details of movements

	31.12.2015	OTHER CHANGES	USES	SURPLUS	PROVISIONS	31.12.2016
<b>Provision for staff expenses</b>	<b>20,772</b>	<b>-34</b>	<b>-4,816</b>	<b>-2,090</b>	<b>7,176</b>	<b>21,008</b>
Provision for restructuring plan	10,170	-26	-255	-1,389	-	8,500
Provision for staff expenses - other	10,602	-8	-4,561	-701	7,176	12,508
<b>Provisions for legal disputes</b>	<b>16,029</b>	<b>-</b>	<b>-2,474</b>	<b>-1,896</b>	<b>3,464</b>	<b>15,123</b>
Provision for risks related to litigations connected with sales network's embezzlements	11,338	-	-1,541	-183	1,042	10,656
Provision for risks related to legal disputes with sales network	1,811	-	-312	-942	177	734
Provision for risks related to legal disputes with staff	779	-	-123	-656	50	50
Provision for other legal disputes	2,101	-	-498	-115	2,195	3,683
<b>Provision for termination indemnity of Financial Advisors</b>	<b>41,424</b>	<b>-</b>	<b>-937</b>	<b>-906</b>	<b>9,584</b>	<b>49,165</b>
Provision for termination indemnity of sales network	31,996	-	-773	-742	8,030	38,511
Provision for portfolio overfee indemnities	2,403	-	-144	-78	1,082	3,263
Provision for pension bonuses for Financial Advisors	7,025	-	-20	-86	472	7,391
<b>Provisions for risks related to network incentives</b>	<b>33,457</b>	<b>-</b>	<b>-25,649</b>	<b>-1,255</b>	<b>24,913</b>	<b>31,466</b>
Provision for network development plans	15,909	-	-13,674	-1,120	15,757	16,872
Provision for deferred bonus	1,247	-	-234	-	269	1,282
Provisions for managers with access gate	3,849	132	-1,589	-	2,120	4,512
Provision for sales incentives	5,592	-132	-3,536	-	3,849	5,773
Provision for fees – travel incentives	2,631	-	-2,496	-135	2,580	2,580
Provision for fee plans	336	-	-336	-	336	336
Provision for loyalty programme	3,893	-	-3,784	-	2	111
<b>Other provisions for liabilities and contingencies</b>	<b>2,855</b>	<b>-</b>	<b>-2,092</b>	<b>-573</b>	<b>82</b>	<b>272</b>
<b>Total</b>	<b>114,537</b>	<b>-34</b>	<b>-35,968</b>	<b>-6,720</b>	<b>45,219</b>	<b>117,034</b>

## 12.4 Provisions for liabilities and contingencies - other provisions

### 12.4.1 Provisions for staff expenses

Provisions for staff expenses include the following amounts:

- > the share of the variable compensation of managers of the Banking Group deferred up to two years and conditional upon continuing satisfaction of the predetermined quantitative levels of asset solidity and liquidity (access gates) established in compliance with the Banking Group's Remuneration policy;
- > allocations to the provision for Relationship Managers (RM) recruitment plans, valued also based on the specific contractual conditions agreed upon and on the probability to achieve the net inflow targets set;
- > allocations for post-employment medical benefits of Group's executives, valued using the actuarial method pursuant to IAS 19;
- > the provision related to the performance bonus, if at the balance sheet date the company supplementary contract (CIA) has expired or has not been renewed yet.

The above-mentioned provisions have as their balancing entries staff expenses.

Provisions for staff expenses also include provisions outside the scope of IAS 19 but for which IAS 37 applies and that have therefore as their balancing entries net provisions for liabilities and contingencies.

#### 12.4.2 Restructuring provisions - Redundancy incentives plan

The voluntary redundancy plan covered by the specific company restructuring provision was launched at the end of 2015 to encourage the rotation of resources through incentives for voluntary departure for groups of employees nearest to retirement age and the filling of the resulting vacant positions with professional and/or managerial profiles more suited to the specific skills now required from a business standpoint.

However, in 2016 the implementation of the plan was slowed considerably by various factors, including the consequences of the new strategic reorganisation launched in 2016 following the untimely passing of CEO Piermario Motta, the uncertainties surrounding the development of retirement legislation (with particular regard to possible eligibility for early retirement) and, most recently, the particularly long time required for the employees interested in participating to prepare the necessary documentation.

In view of continuing company and business needs and the reliance on the system by employees, the plan, which was originally limited to 2016, has been extended to all of 2017 and the potential beneficiaries have been modified accordingly.

#### 12.4.3 Provisions for legal disputes

This type of provisions for risks includes provisions for pending litigations connected with sales network's embezzlements after insurance coverage, as well as those with disputes currently underway with the sales network and employees and other legal and extra-legal disputes with customers and other entities.

#### 12.4.4 Provisions for contractual indemnities for the sales network

These include provisions for termination indemnities of the sales network, the portfolio development indemnity and the social-security bonus.

Provisions covering the cost of the termination indemnity of Financial Advisors with an agency agreement is valued as provided for by the law (Article 1751 of the Italian Civil Code) and the specific disbursement criteria defined by Banca Generali. Further details on the latter are provided in Part A.2 of the Notes and Comments.

The expense associated with obligations extant at period-end relating to Financial Advisors is valued using the statistical-actuarial method, with the advice of independent professionals.

The following are the main actuarial assumptions:

TERMINATION INDEMNITY	31.12.2016	31.12.2015
Discount rate (Eur IRS + 200 bps)	3.0%	3.0%
Turnover rate (professionals)	1.12%	1.59%
Average duration (years)	14 years	15 years
DBO IAS 37/Indemnity provision at the measurement date	53.02%	48.7%

The ratio of Deferred benefit obligations (DBO) to nominal value of the accrued obligation towards Financial Advisors is given using the value of the provision after one-off deductions related to seniority.

The increase in the provision for termination indemnities accrued by Financial Advisors during the year was mainly due to basic fees as a result of the increase in the number of active Financial Advisors and the ongoing development of business, and the adjustment of demographic parameters, both statistical and statutory.

Moreover, a sensitivity analysis highlights the changes that would be caused by a +/-0.50% variation in discounting rates:

(€ THOUSAND)	BASE (3.0%)	SENSITIVITY (3.5%)	SENSITIVITY (2.5%)
Termination indemnity	38,256	36,279	40,399
Change	-	-1,977	+2,143

A specific measurement is made for Financial Advisors who have left service.

The DBO already accrued by Financial Advisors formerly employed by Credit Suisse, totalling 3.0 million euros, is still based on the payment criteria established by the previous employer and was recognised as a debt payable to the acquired sales network. Their DBO accrued with Banca Generali will be due only for the amount exceeding that accrued with Credit Suisse, if any.

The **portfolio development indemnity** is instead a scheme (further details are provided in Part A.2 of the Notes and Comments) that calls for Financial Advisors with at least five years of service who leave service permanently to be entitled to an indemnity commensurate to the profitability of the portfolio previously managed, in case of reallocation of the latter.

The indemnity due to the outgoing FA is entirely borne by the incoming FA identified by the Company, except for a residual guarantee by the Bank – equal to 25% of the total indemnity – in the event of termination for death or permanent disability.

Even in this case, the charge is determined based on the statistical actuarial method, with the support of independent experts and with reference to the percentage of the Bank's residual risk, i.e., 25% of the indemnity due in case of death or permanent disability.

Finally, the **"pension bonus"** is a component of the sales network's indemnity plans, which entails the yearly provision of an amount based on the achievement of pre-set sales objectives and to be paid only upon final termination for retirement or permanent disability. The actuarial method is used also for this type of evaluation.

#### 12.4.5 Provisions for sales network incentives

This aggregate includes:

- > the estimate of the charges accrued in relation with several recruitment plans for middle-term expansion of managed portfolios. These plans envisage different kinds of incentives (entry bonus, deferred bonus, volume bonus, etc.) related to the achievement of net inflow target and the presence in the company for one or more years (up to 5 or 7 years);
- > the share of network managers' annual incentives deferred up to two years and conditional upon continuing satisfaction of the predetermined quantitative levels of asset solidity and liquidity (access gates) established in compliance with the Banking Group's remuneration policy;
- > the share of annual incentives (particular transactions), contingent upon the maintenance over time of the inflow targets achieved;
- > provisions for incentive plans based on the network's performance for the period, including the BG Premier Club trip and other special fee plans (supplementary allowances, stabilisers, target-achievement bonuses, etc.) that involve the payment of benefits or increases in advances paid when certain conditions are met, such as continuous service on the network or the achievement of sales targets.

In 2014, provisions were also made, for 8.0 million euros, for the **Loyalty Plans** agreed upon with Financial Advisors of the former Credit Suisse business unit, intended to facilitate their inclusion in Banca Generali's sales structure and for loyalty-building purposes. This provision entailed the payment of incentives in two annual tranches at the end of 2015 and 2016, provided the FAs were still part of Banca Generali's network. The second tranche amounting to 3.8 million euros was paid in December 2016. The remainder, amounting to 0.1 million euros and referring to a Financial Advisor, will be paid in the two-year period 2017-2018.

#### 12.4. 6 Other provisions for liabilities and contingencies

Provisions for liabilities and contingencies include provisions made to cover operating risks and tax dispute, as described in detail here below.

##### Tax disputes

On 30 November 2016, the disputes arising from the following tax audits were resolved through settlement procedure:

- > the audit conducted by the Italian Revenue Service - Friuli Venezia-Giulia Regional Department in 2013 concerning tax period 2010 (2013 Auditors' Report on Findings - PVC);
- > the audit conducted by the Italian Finance Police in the period August 2015–June 2016, concerning financial transactions involving equities undertaken in the years 2010 and 2011 (2016 Auditors' Report on Findings - PVC).

In both cases, the outcome was positive for the Bank, which successfully defended its behaviour and was able to significantly reduce the amounts claimed by the revenue authority.

Overall, the settlement of the two Auditors' Reports on Findings – PVC (2013 and 2016) entailed a total cash outlay of 2.1 million euros for additional taxes, penalties and interest.

In 2013, the Bank had specifically increased its provision for tax disputes by 2.7 million euros to account for the tax risk associated with the 2013 Auditors' Report on Findings, and this amount was more than enough to cover the financial impact of both disputes.

At 31 December 2016, Banca Generali was involved in a single tax dispute concerning the registry tax paid in respect of the acquisition of the Credit Suisse business unit at the end of October 2014. This dispute was concluded in January 2017 through the settlement procedure for a total outlay of approximately 27 thousand euros.

## Section 15 – Group net equity - Items 140, 160, 170, 180, 190, 200 and 220

### 15.1 Breakdown of capital and treasury shares

	UNIT VALUE	NUMBER	NOMINAL VALUE (€)	BOOK VALUE (€ THOUSAND)
<b>Share capital</b>				
- Ordinary shares	1.00	116,424,502	116,424,502	116,425
<b>Treasury shares</b>				
- Ordinary shares	1.00	-126,129	-126,129	-2,933
<b>Total</b>		<b>116,298,373</b>	<b>116,298,373</b>	<b>113,492</b>

### 15.2 Capital - Number of shares of the Parent Company: year changes

ITEMS/TYPE	ORDINARY	OTHER
<b>A. Existing shares at year-start</b>	<b>116,092,599</b>	-
Paid up	116,092,599	-
Partially paid	-	-
A.1 Treasury shares (-)	-97,177	-
A.2 Outstanding shares: at year-start	115,995,422	-
<b>B. Increases</b>	<b>370,002</b>	-
B.1 Newly issued shares:		
- against payment:	331,903	-
- business combinations	-	-
- bond conversion	-	-
- exercise of warrant	331,903	-
- other	-	-
- for free:	-	-
- to staff	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	38,099	-
B.3 Other changes	-	-
<b>C. Decreases</b>	<b>-67,051</b>	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-67,051	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
<b>D. Outstanding shares: at year-end</b>	<b>116,298,373</b>	-
D.1 Treasury shares (+)	126,129	-
D.2 Existing shares at year-end	116,424,502	-
- paid up	116,424,502	-
- partially paid	-	-

### 15.3 Capital: further information

At the reporting date, the share capital of the bank consisted of 116,424,502 ordinary shares of 1 euro each, with regular dividend entitlement, and it was fully paid up.

In 2016, as a result of the exercise of options within the stock option plan reserved for Financial Advisors, 331,903 newly issued shares were issued, for a total of 332 thousand euros.

## 15.4 Income reserves: further information

	31.12.2015	PROFIT ALLOCATION - DIVIDEND DISTRIBUTION	PURCHASES/ DISPOSAL OF OWN SHARES	STOCK OPTION PLANS AND OTHER IFRS2- RELATED PAYMENTS	ISSUE OF NEW SHARES	STOCK GRANT PLANS	OTHER CHANGES	31.12.2016
Legal Reserve	23,151	75	-	-	-	-	-	23,226
Restricted reserve for treasury shares <sup>(2)</sup>	2,555	-	-2,555	-	-	-	-	-
Restricted reserve for shares of the Parent Company	1,052	-	-	-	-	-	-344	708
Merger surplus reserve – BG SGR	3,853	-	-	-	-	-	-	3,853
Share-based payments reserve (IFRS2)	2,309	-	-	29	-360	-	-1,635	343
Share-based payments reserve (IFRS2) – plans ended	507	-	-	-	-	-	-	507
Reserve for the allotment of Assicurazioni Generali Shares (175°)	19	-	-	-	-	-	-	19
IFRS2 reserves – LTIP cycles underway <sup>(1)</sup>	4,407	-	-	-	-	2,623	-2,437	4,593
IFRS2 reserves – LTIP cycles ended <sup>(1)</sup>	-	-	-	-	-	-	2,437	2,437
IFRS2 reserve – Key personnel remuneration	-	-	-1,214	1,707	-	-	1,612	2,105
IFRS2 reserve – Group key personnel remuneration	-	-	-30	39	-	-	46	55
Reserve from net profit (loss) carried forward - Parent Company	111,668	44,980	2,555	-	-	-	344	159,547
Reserve from income (loss) carried forward - consolidated	93,983	19,267	-	-	-	-	-	113,250
Equity reserve from the transfer of the funds business unit	3,710	-	-	-	-	-	-	3,710
<b>Total</b>	<b>247,214</b>	<b>64,322</b>	<b>-1,244</b>	<b>1,775</b>	<b>-360</b>	<b>2,623</b>	<b>23</b>	<b>314,353</b>

(1) This reserve shows the increase in capital ensuing from share-based payments to employees and Directors through assignment of shares of the parent company Assicurazioni Generali S.p.A.

(2) This reserve was repealed by Italian Legislative Decree No. 139/2015, amending Article 2357-ter of the Italian Civil Code.

## PART B – INFORMATION ON THE BALANCE SHEET

## Other Information

## 1. Guarantees issued and commitments

TRANSACTION	31.12.2016	31.12.2015
<b>1) Financial guarantees issued</b>	<b>79,992</b>	<b>84,460</b>
a) Banks	-	-
b) Customers	79,992	84,460
<b>2) Commercial guarantees issued</b>	<b>38,695</b>	<b>33,241</b>
a) Banks	-	-
b) Customers	38,695	33,241
<b>3) Irrevocable commitment to dispense funds</b>	<b>4,126</b>	<b>1,024</b>
a) Banks:	3,744	70
i) of certain use	3,744	70
ii) of uncertain use	-	-
b) Customers:	382	954
i) of certain use	-	-
ii) of uncertain use	382	954
<b>4) Underlying commitments to credit derivatives: hedging sales</b>	<b>-</b>	<b>-</b>
<b>5) Assets pledged as collateral of third-party bonds</b>	<b>-</b>	<b>3,383</b>
<b>6) Other commitments</b>	<b>2,181</b>	<b>-</b>
<i>of which: securities receivable for put options issued</i>	-	-
<b>Total</b>	<b>124,994</b>	<b>122,108</b>

## Notes

- Other commitments amounted to 2,181 thousand euros and refer to the irrevocable commitment to dispense funds granted by the Bank in favour of the Interbank Deposit Protection Fund (FITD)'s Voluntary Scheme aimed at supporting the Italian banking system, in which the Bank participates. At 31 December 2016, the Scheme's total assets amounted to 418 million euros. Following the intervention in favour of Banca Tercas, on 17 June 2016, the Extraordinary Meeting of the members of the Voluntary Scheme replenished the Voluntary Scheme's financial resources of 700 million euros; 280 million euros of these funds were then used by Cassa di Risparmio di Cesena for a capital increase, approved by the Voluntary Scheme's Management Board on 15 June 2016 and authorised by the ECB on 15 September 2016.
- Commitments to grant certain-use funds to banks and customers only refer to financial commitments for securities receivable.
- Uncertain-use commitments to customers refer to margins available on irrevocable credit lines granted to customers.
- Assets pledged as collateral of third-party bonds consist of the default fund contributed to cover possible losses of defaulted operators within the New MIC and transactions concerning customers' securities and derivatives.

## 2. Assets pledged as collateral for own liabilities and commitments

PORTFOLIO	31.12.2016				31.12.2015			
	REPURCHASE AGREEMENTS	BCE	CC&G	TOTAL	REPURCHASE AGREEMENTS	BCE	CC&G	TOTAL
1. HFT financial assets	-	-	-	-	-	-	-	-
2. Financial assets at fair value	-	-	-	-	-	-	-	-
3. AFS financial assets	349,829	636,068	25,223	1,011,120	303,812	364,099	45,611	713,522
4. HTM financial assets	-	219,319	174,453	393,772	-	226,285	171,979	398,264
5. Loans to banks	-	4,997	-	4,997	-	4,989	-	4,989
6. Loans to customers	-	-	-	-	-	-	-	-
7. Property and equipment	-	-	-	-	-	-	-	-
8. Intangible assets	-	-	-	-	-	-	-	-
<b>Total</b>	<b>349,829</b>	<b>860,384</b>	<b>199,676</b>	<b>1,409,889</b>	<b>303,812</b>	<b>595,373</b>	<b>217,590</b>	<b>1,116,775</b>

## Note

- Financial assets pledged as collateral for own liabilities and commitments refer mainly to repurchase agreement transactions with a commitment to repurchase with banks and collateral for refinancing transactions with ECB. This amount also includes financial instruments pledged with Cassa di Compensazione e Garanzia for possible transactions on the NewMIC for ordinary operations.



## 5. Trading of financial instruments on behalf of third parties

TYPE OF SERVICE	31.12.2016	31.12.2015
<b>1. Execution of orders on behalf of customers</b>	<b>21,644,771</b>	<b>23,949,025</b>
a) Purchases:	10,567,096	11,475,947
1. Settled	10,525,716	11,456,622
2. To be settled	41,380	19,325
b) Sales:	11,077,675	12,473,078
1. Settled	10,985,969	12,466,344
2. To be settled	91,706	6,734
<b>2. Portfolio management <sup>(1)</sup></b>	<b>15,209,506</b>	<b>13,792,533</b>
a) Individual	4,109,282	3,157,154
b) Collective	11,100,224	10,635,379
<b>3. Custody and administration of securities (excluding asset management)</b>	<b>-</b>	<b>-</b>
a) Third-party securities held in deposit		
- Related to services provided as depository bank:		
1. issued by companies included in the consolidation area	-	-
2. other	-	-
b) Other third-party securities held in deposit		
- Other:	6,188,124	6,503,741
1. issued by companies included in the consolidation area	14,446	14,975
2. other	6,173,678	6,488,766
c) Third-party securities deposited with third parties	6,141,713	6,457,344
d) Portfolio securities deposited with third parties	5,300,697	3,483,747
<b>4. Other transactions</b>	<b>9,928,548</b>	<b>9,338,194</b>
UCITS units placed with the customers	9,928,548	9,338,194

### Notes

- The item "Portfolio management" refers to the overall amount, at market value, of assets managed on behalf of third parties, that include individual (GPM/GPF) and collective (Funds, Sicavs) asset management. The figure referring to individual management does not include 475 million euros of liquidity.
- The figure referring to collective management does not include 1,395 million euros of funds included in Group individual discretionary accounts GPM/GPF.
- Securities under custody and administration are recognised at nominal value.

## 6. Financial assets offset in the financial statements or falling within the scope of master netting agreements or similar agreements

No transactions involving derivatives, repurchase agreements, security lending or other offsetting entries in the balance sheet or transactions that could fall within the scope of master netting agreements were reported.

## 7. Financial liabilities offset in the financial statements or falling within the scope of master netting agreements or similar agreements

TECHNICAL TYPE	GROSS AMOUNT OF FINANCIAL LIABILITIES (A)	AMOUNT OF FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL (B)	NET AMOUNT OF FINANCIAL LIABILITIES RECOGNIZED IN THE FINANCIAL STATEMENTS (C = A - B)	CORRELATED AMOUNT NOT OFFSET IN THE FINANCIAL STATEMENTS		NET AMOUNT AT 31.12.2016 (F = C - D - E)	NET AMOUNT AT 31.12.2015
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS AS COLLATERAL (E)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	351,437	-	351,437	351,169	268	-	-
3. Securities loans	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	<b>351,437</b>	<b>-</b>	<b>351,437</b>	<b>351,169</b>	<b>268</b>	<b>-</b>	<b>X</b>
<b>Total at 31.12.2015</b>	<b>303,927</b>	<b>-</b>	<b>303,927</b>	<b>303,927</b>	<b>-</b>	<b>X</b>	<b>-</b>

IFRS 7 requires a detailed disclosure on offsetting of financial instruments pursuant to IAS 32 or financial instruments that can be potentially set off, under certain conditions, but have been recognised in the balance sheet without any offsetting as they fall within the scope of master netting agreements or similar agreements that do not meet all the requirements under IAS 32 paragraph 42.

In this regard, it should be noted that Banca Generali has not entered into any netting arrangements that meet the requirements of IAS 32.42 on offsetting in the financial statements.

With reference to financial instruments that can be potentially set off under certain conditions, it should be noted that Banca Generali usually in repurchase agreements (REPO) with banks has in place master netting arrangements that enable offsetting of credits and debts in case of default of the counterparty and compliant with international standards (Global Master Repurchase Agreement - GMRA). Such transactions are also covered by GMRA-compliant financial guarantee agreements, envisaging the bilateral exchange of collaterals in cash and/or government bonds.

These agreements, in the case of repurchase agreements, mitigate the liquidity risk by offsetting the debt to the counterparty up to the fair value of the collateral.

In the table, repurchase agreements are valued at amortised cost, whereas financial instruments used as collateral are valued at fair value up to the amount of the guaranteed liability.

## PART C – INFORMATION ON THE PROFIT AND LOSS ACCOUNT

### Section 1 – Interests - Items 10 and 20

#### 1.1 Breakdown of interest income and similar revenues

ITEMS/TECHNICAL TYPES	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	2016	2015
1. HFT financial assets	79	-	-	79	256
2. AFS financial assets	19,267	-	-	19,267	23,032
3. HTM financial assets	15,461	-	-	15,461	19,800
4. Loans to banks	2,347	90	-	2,437	2,337
5. Loans to customers	1,417	20,674	-	22,091	24,274
6. Financial assets measured at fair value	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	2,443	2,443	44
<b>Total</b>	<b>38,571</b>	<b>20,764</b>	<b>2,443</b>	<b>61,778</b>	<b>69,743</b>

By convention, interest on “Other assets” includes the negative interest expense accrued on funding transactions and primarily refers to repurchase agreements for funding purposes. With effect from June 2016, negative interest is also applied to the captive deposits held by Generali Group companies.

#### 1.3 Breakdown of interest income and similar revenues: further information

	2016	2015
Interest income on bank deposits and current accounts	68	43
Repurchase agreements with banks	1,448	-
Interest income on customer deposit and current accounts	927	1
<b>Total interest income on other liabilities</b>	<b>2,443</b>	<b>44</b>

	2016	2015
1.3.1 Interest income on financial assets in foreign currencies	168	184
1.3.2 Interest income on finance lease transactions	-	-
<b>Total</b>	<b>168</b>	<b>184</b>

#### 1.4 Breakdown of interest expense and similar charges

ITEMS/TECHNICAL TYPES	DEBTS	SECURITIES	OTHER OPERATIONS	2016	2015
1. Due to Central Banks	-	-	-	-	49
2. Due to banks	599	-	-	599	751
3. Due to customers	2,194	-	-	2,194	2,685
4. Securities issued	-	-	-	-	-
5. HFT financial liabilities	-	-	-	-	-
6. Financial liabilities measured at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	322	322	28
8. Hedging derivatives	-	-	-	-	-
<b>Total</b>	<b>2,793</b>	<b>-</b>	<b>322</b>	<b>3,115</b>	<b>3,513</b>

By convention, interest on “Other liabilities” includes the negative interest income accrued on lending transactions and primarily refers to demand deposits with the Central Bank.

## 1.6 Breakdown of interest expense and similar charges: further information

	2016	2015
Interest expense on deposits with the ECB	242	24
Interest expense on deposits with banks	66	4
Interest expense on customer deposits	14	-
<b>Total interest expense on other assets</b>	<b>322</b>	<b>28</b>
	2016	2015
1.6.1 Interest expense on financial liabilities in foreign currencies	28	40
1.6.2 Interest expense on finance lease liabilities	-	-
<b>Total</b>	<b>28</b>	<b>40</b>

## Section 2 – Fees - Items 40 and 50

### 2.1 Breakdown of fee income

TYPE OF SERVICE/VALUES	2016	2015
a) Guarantees issued	675	674
b) Credit derivatives	-	-
c) Management, brokerage and consultancy services:	596,270	643,292
1. trading of financial instruments	12,453	14,403
2. currency trading	-	-
3. portfolio management:	331,461	395,486
3.1 individual	39,462	38,946
3.2 collective	291,999	356,540
4. custody and administration of securities	444	487
5. depository bank	-	-
6. placement of securities	58,281	64,588
7. order receiving and collection	2,896	5,468
8. consultancy activities	4,519	4,658
8.1 investment advice	4,519	4,658
8.2 advice on financial structure	-	-
9. distribution of third-party services:	186,216	158,202
9.1 portfolio management:	741	720
9.1.1 individual	209	223
9.1.2 collective	532	497
9.2 insurance products	185,078	157,171
9.3 other products	397	311
d) Collection and payment services	2,982	3,370
e) Servicing related to securitisations	-	-
f) Factoring-related services	-	-
g) Tax collection services	-	-
h) Management of multilateral trading facilities	-	-
i) Keeping and management of current accounts	2,392	2,577
j) Other services	2,370	2,047
<i>of which: all-inclusive fees on credit lines</i>	1,719	1,493
<b>Total</b>	<b>604,689</b>	<b>651,960</b>

## 2.2 Breakdown of fee expense

SERVICES/VALUES	2016	2015
a) Guarantees received	19	72
b) Credit derivatives	-	-
c) Management and brokerage services:	292,942	278,791
1. trading of financial instruments	2,141	4,901
2. currency trading	-	-
3. portfolio management	26,298	25,272
3.1 own portfolio	26,298	25,272
3.2 third-party portfolio	-	-
4. custody and administration of securities	1,579	1,389
5. placement of financial instruments	-	-
6. off-premises offer of financial instruments, products, and services	262,924	247,229
d) Collection and payment services	2,254	2,044
e) Other services	463	291
<b>Total</b>	<b>295,678</b>	<b>281,198</b>

## Section 3 – Dividends and similar income - Item 70

### 3.1 Breakdown of dividends and similar income

ITEMS/INCOME	2016		2015	
	DIVIDENDS	PROCEEDS FROM UCITS UNITS	DIVIDENDS	PROCEEDS FROM UCITS UNITS
A. HFT financial assets	65	16	67	21
B. AFS financial assets	1,677	205	2,840	192
C. Financial assets measured at fair value	-	-	-	-
D. Equity investments	-	-	-	-
<b>Total</b>	<b>1,742</b>	<b>221</b>	<b>2,907</b>	<b>213</b>

## Section 4 – Net profit from trading - Item 80

### 4.1 Breakdown of net profit from trading

TRANSACTIONS/INCOME COMPONENTS	CAPITAL GAINS	INCOME FROM TRADING	CAPITAL LOSSES	LOSS FROM TRADING	NET RESULT 2016	NET RESULT 2015
<b>1. HFT financial assets</b>	<b>276</b>	<b>598</b>	<b>946</b>	<b>376</b>	<b>-448</b>	<b>564</b>
1.1 Debt securities	112	297	489	32	-112	171
1.2 Equity securities	164	266	28	93	309	171
1.3 UCITS units	-	35	429	251	-645	222
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	-	-	-	-	-
<b>2. HFT financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Debt securities	-	-	-	-	-	-
2.2 Debts	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
<b>3. Other financial assets and liabilities: exchange gains and losses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,264</b>	<b>3,262</b>
<b>4. Derivatives</b>	<b>80</b>	<b>870</b>	<b>257</b>	<b>1,115</b>	<b>-433</b>	<b>663</b>
4.1 Financial	80	870	257	1,115	-433	663
- On debt securities and interest rates:	-	-	-	-	-	-
- interest rate swaps	-	-	-	-	-	-
- government bond forwards	-	-	-	-	-	-
- On equity securities and stock indexes:	80	870	257	1,115	-422	669
- options	80	866	257	1,062	-373	669
- futures	-	4	-	53	-49	-
- On currency and gold <sup>(1)</sup>	-	-	-	-	-11	-6
- Other	-	-	-	-	-	-
4.2 Credit	-	-	-	-	-	-
<b>Total</b>	<b>356</b>	<b>1,468</b>	<b>1,203</b>	<b>1,491</b>	<b>2,383</b>	<b>4,489</b>

(1) It includes currency options and currency outright.

## Section 6 – Gain (loss) from transfer/repurchase - Item 100

### 6.1 Breakdown of gain (loss) from transfer/repurchase

ITEMS/INCOME COMPONENTS	2016			2015		
	GAINS	LOSSES	NET RESULT	GAINS	LOSSES	NET RESULT
<b>Financial assets</b>						
1. Loans to banks	560	-	560	2,182	-	2,182
2. Loans to customers	1,644	-	1,644	1,177	1,659	-482
3. AFS financial assets	30,652	2,501	28,151	21,681	2,080	19,601
3.1 Debt securities	30,402	2,455	27,947	19,673	1,516	18,157
3.2 Equity securities	150	4	146	-	200	-200
3.3 UCITS units	100	42	58	2,008	364	1,644
3.4 Loans	-	-	-	-	-	-
4. HTM financial assets	22	6	16	-	-	-
<b>Total assets</b>	<b>32,878</b>	<b>2,507</b>	<b>30,371</b>	<b>25,040</b>	<b>3,739</b>	<b>21,301</b>
<b>Financial liabilities</b>						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

AFS equity reserves transferred back to the profit and loss account due to the disposal of pre-existing equity reserves of the AFS portfolio are illustrated in the following table.

	POSITIVE	NEGATIVE	NET
Debt securities	18,897	-430	18,467
Equity securities	-	-4	-4
UCITS units	20	-24	-4
<b>Total</b>	<b>18,917</b>	<b>-458</b>	<b>18,459</b>

## Section 8 – Net adjustments/reversal value for impairment - Item 130

### 8.1 Breakdown of net adjustments to non-performing loans

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS				2016	2015
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER	PORTFOLIO	FROM INTEREST	OTHER REVERSALS	FROM INTEREST	OTHER REVERSALS		
<b>A. Loans to banks</b>	-	-	<b>239</b>	-	-	-	<b>3,040</b>	<b>2,801</b>	<b>-294</b>
Loans	-	-	-	-	-	-	-	-	-
Debt securities	-	-	239	-	-	-	3,040	2,801	-294
<b>B. Loans to customers</b>	<b>102</b>	<b>619</b>	<b>2,009</b>	<b>4</b>	<b>1,231</b>	-	<b>615</b>	<b>-880</b>	<b>-827</b>
Non-performing loans purchased:	-	-	-	-	-	-	-	-	-
- loans	-	-	-	-	-	-	-	-	-
- operating loans	-	-	-	-	-	-	-	-	-
- debt securities	-	-	-	-	-	-	-	-	-
Other:	102	619	2,009	4	1,231	-	615	-880	-827
- loans	24	477	36	4	1,081	-	-	548	-488
- operating loans	78	142	-	-	150	-	-	-70	-196
- debt securities	-	-	1,973	-	-	-	615	-1,358	-143
<b>C. Total</b>	<b>102</b>	<b>619</b>	<b>2,248</b>	<b>4</b>	<b>1,231</b>	-	<b>3,655</b>	<b>1,921</b>	<b>-1,121</b>

Specific value adjustments to loans to customers amounted to 477 thousand euros and included 403 thousand euros for positions past due by more than 90 days and 27 thousand euros for unlikely-to-pay positions, and bad loans for the remainder.

These write-downs were partially offset through reversals relating to positions past due at the end of the previous year (322 thousand euros) and reclassified out of the non-performing category, and to unlikely to pay exposures (48 thousand euros).

Reversals also included 592 thousand euros attributable to the release to the Profit and Loss Account of previous write-downs relating to a significant bad debt position, which was closed in the first half of the year with a recovery of 1,550 thousand euros.

Net value adjustment of the collective reserve on performing loans amounted to 36 thousand euros.

Value adjustments to operating loans primarily refer to write-downs of advanced fees to former Financial Advisors.

Portfolio reversals and adjustments relating to debt securities classified among loans to banks (net amount of 2,801 thousand euros) and loans to customers (net amount of 1,358 thousand euros) refer to the adjustment of the collective reserve recognised to account for latent losses in the bond portfolio determined on the basis of the risk profiles (ratings/residual lives) of the bonds.

## 8.2 Breakdown of net adjustments for impairment of available-for-sale financial assets

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS				2016	2015
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER	PORTFOLIO	FROM INTEREST	OTHER REVERSALS	FROM INTEREST	OTHER REVERSALS		
A. Debt securities	-	-	-	-	-	-	-	-	-
B. Equity securities	-	2,865	-	-	-	-	-	-2,865	-2,845
C. UCITS units	-	-	-	-	-	-	-	-	-
D. Loans to banks	-	-	-	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-	-	-	-
<b>F. Total</b>	<b>-</b>	<b>2,865</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-2,865</b>	<b>-2,845</b>

Adjustments to equity securities referred for 907 thousand euros to additional impairment losses on the equity investments in Veneto Banca, besides those already recognised in the previous year, for 1,194 thousand euros to the impairment of equity investments in companies recently listed on the AIM - Alternative Investment Market (Axelero, Gambero Rosso), for 183 thousand euros to the impairment of Banco Popolare shares, for 253 thousand euros to the impairment on Credito Valtellinese shares, and for 328 thousand euros to the impairment on the contribution paid to Interbank Deposit Protection Fund (FITD) to recapitalised Caricesena.

## 8.3 Breakdown of net adjustments for impairment of held-to-maturity financial assets

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS				2016	2015
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER	PORTFOLIO	FROM INTEREST	OTHER REVERSALS	FROM INTEREST	OTHER REVERSALS		
A. Debt securities	-	-	1,149	-	-	-	1,250	101	-2,575
B. Loans to banks	-	-	-	-	-	-	-	-	-
C. Loans to customers	-	-	-	-	-	-	-	-	-
<b>D. Total</b>	<b>-</b>	<b>-</b>	<b>1,149</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,250</b>	<b>101</b>	<b>-2,575</b>

Portfolio reversals on debt securities classified under HTM financial assets, for a net amount of 101 thousand euros, refer to the adjustments of the collective reserve allocated to account for latent losses on the bond portfolio, calculated based on the risk profile (rating/residual lives) of the bonds.

## 8.4 Breakdown of net adjustments for impairment of other financial transactions

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS				2016	2015
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER	PORTFOLIO	FROM INTEREST	OTHER REVERSALS	FROM INTEREST	OTHER REVERSALS		
A. Guarantees issued	1,046	-	-	-	1,041	-	70	65	70
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to grant funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
<b>E. Total</b>	<b>1,046</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,041</b>	<b>-</b>	<b>70</b>	<b>65</b>	<b>70</b>

The reversals of 1,041 thousand euros referred to the refund of the contribution paid to FITD in 2014 in respect of the approved transaction in support of Banca Tercas, declared in violation of state aid regulations by the EU during the reporting year.

In connection with this transaction, the total adjustments of 1,046 thousand euros referred to the contribution paid by the Bank to the Interbank Deposit Protection Fund (FITD), instituted in December 2015, aimed at indemnifying Banca Tercas against the consequences of the aforementioned decision by the European Commission.

The remaining reversals refer to the adjustment of the collective reserve for performing signature loans.



## Section 11 – General and administrative expense - Item 180

### Breakdown of general and administrative expense

	2016	2015
a) Staff expenses	80,470	80,949
b) Other general and administrative expense	140,119	134,020
<b>Total</b>	<b>220,589</b>	<b>214,969</b>

### 11.1 Breakdown of staff expenses

TYPE OF EXPENSES/VALUES	2016	2015
<b>1) Employees</b>	<b>78,953</b>	<b>78,943</b>
a) Wages and salaries	44,395	42,931
b) Social security charges	11,031	11,020
c) Termination indemnity	594	630
d) Retirement benefit plans	-	-
e) Provision for termination indemnity	141	90
f) Provision for pensions and similar costs:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) Contributions paid to supplementary pension funds:	3,680	3,702
- defined contribution	3,680	3,702
- defined benefit	-	-
h) Costs related to payment agreements based on own equity instruments	3,042	2,724
i) Other employee benefits	16,070	17,846
<b>2) Other staff</b>	<b>157</b>	<b>250</b>
<b>3) Directors and Auditors</b>	<b>1,333</b>	<b>1,744</b>
<b>4) Retired personnel</b>	<b>27</b>	<b>12</b>
<b>Total</b>	<b>80,470</b>	<b>80,949</b>

### 11.2 Average number of employees by category

	2016	2015
<b>Employees</b>	<b>844</b>	<b>828</b>
a) Managers	46	45
b) Total executives	251	235
<i>of which: 3<sup>rd</sup> and 4<sup>th</sup> level</i>	146	138
c) Employees at other levels	547	548
<b>Other employees</b>	<b>-4</b>	<b>-5</b>
<b>Total</b>	<b>840</b>	<b>823</b>

### Breakdown of personnel

	31.12.2016	31.12.2015
<b>Employees</b>	<b>849</b>	<b>837</b>
a) Managers	47	44
b) Total executives	260	241
<i>of which: 3<sup>rd</sup> and 4<sup>th</sup> level</i>	151	140
c) Employees at other levels	542	552
<b>Other employees</b>	<b>1</b>	<b>-8</b>
<b>Total</b>	<b>850</b>	<b>829</b>

#### 11.4 Other employee benefits

	2016	2015
Short-term productivity bonuses	8,485	9,950
<b>Long-term benefits</b>		
Charges for Relationship Manager recruitment plans	1,795	2,676
Charges for deferred variable remuneration (managers' MBO)	1,027	1,095
Charges for post-employment medical care plans	647	-
<b>Other benefits</b>		
Charges for staff supplementary pensions	2,574	2,654
Amounts replacing cafeteria indemnities	843	789
Training expenses	322	376
Allowances and charitable gifts	226	152
Transfer incentives and other indemnities	-	17
Other expenses	151	137
<b>Total</b>	<b>16,070</b>	<b>17,846</b>

Short-term productivity bonuses include the portion of non-deferred variable remuneration payable in cash (MBO) for office and sales managers and portfolio managers, the performance bonus envisaged in company supplementary contracts and allocations in service of the 2016 plan for measures.

#### 11.5 Breakdown of other general and administrative expense

	2016	2015
<b>Administration</b>	<b>15,794</b>	<b>13,441</b>
Advertising	4,228	3,871
Consultancy and professional advice expenses	6,762	5,074
Corporate boards and auditing firms	520	593
Insurance	3,007	2,933
Entertainment expenses	464	205
Membership contributions	690	695
Charity	123	70
<b>Operations</b>	<b>34,978</b>	<b>34,524</b>
Rent and usage of premises and management of property	17,970	17,018
Outsourced administrative services	4,748	5,250
Post and telephone	2,606	2,974
Print material	1,279	1,167
Other expenses for sales network management	3,281	2,997
Other expenses and purchases	2,769	2,458
Other indirect staff expenses	2,325	2,660
<b>Information system and equipment</b>	<b>37,374</b>	<b>34,807</b>
Expenses related to outsourced IT services	26,888	24,667
Fees for IT services and databases	6,842	6,586
Software maintenance and servicing	2,867	2,779
Fees for equipment hired and software used	159	180
Other maintenance	618	595
<b>Indirect taxation</b>	<b>43,692</b>	<b>42,537</b>
Stamp duty on financial instruments	42,545	41,370
Substitute tax on medium/long-term financing	458	702
Other indirect taxes to be paid by the Bank	689	465
<b>Contributions to the Italian National Resolution Fund and the Interbank Protection Fund</b>	<b>8,281</b>	<b>8,711</b>
<b>Total</b>	<b>140,119</b>	<b>134,020</b>

## Section 12 – Net provisions for liabilities and contingencies - Item 190

### 12.1 Breakdown of net provisions for liabilities and contingencies

	2016			2015		
	PROVISIONS	REVERSALS	NET	PROVISIONS	REVERSALS	NET
<b>Provision for staff expenses</b>	<b>3,100</b>	<b>-1,773</b>	<b>1,327</b>	<b>11,523</b>	<b>-2,953</b>	<b>8,570</b>
Provision for restructuring plan	-	-1,389	-1,389	10,170	-	10,170
Provision for staff expenses – Other <sup>(1)</sup>	3,100	-384	2,716	1,353	-2,953	-1,600
<b>Provisions for legal disputes</b>	<b>3,464</b>	<b>-1,896</b>	<b>1,568</b>	<b>3,240</b>	<b>-577</b>	<b>2,663</b>
Provision for risks related to legal disputes with subscribers	1,042	-183	859	1,796	-390	1,406
Provision for risks related to legal disputes with Financial Advisors	177	-942	-765	635	-48	587
Provision for risks related to legal disputes with staff	50	-656	-606	40	-	40
Provision for risks related to legal disputes with other parties	2,195	-115	2,080	769	-139	630
<b>Provisions for termination indemnity for Financial Advisors</b>	<b>9,584</b>	<b>-906</b>	<b>8,678</b>	<b>16,079</b>	<b>-1,117</b>	<b>14,962</b>
Provisions for termination indemnity for Financial Advisors	8,030	-742	7,288	12,283	-1,032	11,251
Provision for portfolio overfee indemnities	1,082	-78	1,004	443	-48	395
Provision for pension bonuses	472	-86	386	3,353	-37	3,316
<b>Provisions for risks related to network incentives</b>	<b>24,913</b>	<b>-1,255</b>	<b>23,658</b>	<b>24,879</b>	<b>-5,495</b>	<b>19,384</b>
Provision for network development plans	15,757	-1,120	14,637	15,362	-4,325	11,037
Provision for deferred bonus	269	-	269	283	-681	-398
Provision for sales incentives	3,849	-	3,849	4,829	-	4,829
Provisions for managers with access gate	2,120	-	2,120	1,405	-	1,405
Provision for incentive travels	2,580	-135	2,445	2,631	-135	2,496
Provision for fee plans	336	-	336	336	-	336
Provision for loyalty plans	2	-	2	33	-354	-321
<b>Other provisions for liabilities and contingencies</b>	<b>82</b>	<b>-573</b>	<b>-491</b>	<b>30</b>	<b>-24</b>	<b>6</b>
<b>Total</b>	<b>41,143</b>	<b>-6,403</b>	<b>34,740</b>	<b>55,751</b>	<b>-10,166</b>	<b>45,585</b>

(1) Allocations to provisions for staff expenses do not include the items that are classified as "Staff expenses - other benefits" in accordance with IAS 19.

## Section 13 – Net adjustments/reversals of property and equipment - Item 200

### 13.1 Breakdown of net adjustments of property and equipment

ASSETS/INCOME COMPONENTS	DEPRECIATION	ADJUSTMENTS FOR IMPAIRMENT	REVERSALS	NET RESULT 2016	NET RESULT 2015
<b>A. Property and equipment</b>					
A.1 Owned:	1,353	-	-	1,353	1,252
- operating	1,353	-	-	1,353	1,252
- investment	-	-	-	-	-
A.2 Leased:	-	-	-	-	-
- operating	-	-	-	-	-
- investment	-	-	-	-	-
<b>Total</b>	<b>1,353</b>	<b>-</b>	<b>-</b>	<b>1,353</b>	<b>1,252</b>

## Section 14 - Net adjustments/reversals of intangible assets - Item 210

### 14.1 Breakdown of net adjustments of intangible assets

ASSETS/INCOME COMPONENTS	AMORTISATION	ADJUSTMENTS FOR IMPAIRMENT	REVERSALS	NET RESULT 2016	NET RESULT 2015
<b>A. Intangible assets</b>					
A.1 Owned:	4,587	-	-	4,587	4,058
- generated in-house	-	-	-	-	-
- other	4,587	-	-	4,587	4,058
A.2 Leased	-	-	-	-	-
<b>Total</b>	<b>4,587</b>	<b>-</b>	<b>-</b>	<b>4,587</b>	<b>4,058</b>

### Breakdown of value adjustments of intangible fixed assets – amortisation

	2016	2015
Charges associated with the implementation of legacy CSE procedures	2,391	1,837
Customers relationships	2,105	2,105
Other intangible fixed assets	91	116
<b>Total</b>	<b>4,587</b>	<b>4,058</b>

## Section 15 – Other operating income and expenses - Item 220

### 15.1 Breakdown of other operating expenses

	2016	2015
Adjustments of leasehold improvements	1,280	1,033
Write-downs of other assets	51	89
Indemnities and compensation for litigation and claims	1,499	1,019
Charges from accounting adjustments with customers	787	848
Charges for card compensation and guarantees	26	15
Costs associated with tax disputes, penalties and fines	16	179
Other contingent liabilities and non-existent assets	977	1,711
Other operating expenses	-30	31
<b>Consolidation adjustments</b>	<b>4,606</b>	<b>4,925</b>

### 15.2 Breakdown of other operating income

	2016	2015
Recovery of taxes from customers	42,295	41,470
Recovery of expenses from customers	542	505
Fees for outsourced services	56	312
Charge-back of portfolio development indemnity to incoming financial advisors	1,496	973
Indemnities for Financial Advisors' termination without notice	773	40
Other recoveries of repayments and costs from financial advisors	1,003	1,219
Tax credit related to movie production	-	840
Contingent assets related to provisions for staff expenses	1,011	1,289
Contributions to Employment in the Banking Sector (FOC)	182	358
Other contingent assets and non-existent liabilities	1,116	1,945
Insurance compensation and indemnities	255	125
Other income	422	569
<b>Total</b>	<b>49,151</b>	<b>49,645</b>
<b>Total other net income</b>	<b>44,545</b>	<b>44,720</b>

## Section 16 – Gains (losses) of equity investments - Item 240

### 16.1 Gains (losses) of equity investments

INCOME COMPONENTS/VALUES	2016	2015
<b>A. Gains</b>	-	-
1. Revaluations	-	-
2. Gains from disposal	-	-
3. Reversals	-	-
4. Other positive changes	-	-
<b>B. Charges</b>	<b>-75</b>	<b>-40</b>
1. Write-downs	-75	-40
2. Adjustments for impairment	-	-
3. Losses from disposal	-	-
4. Other negative changes	-	-
<b>Net result</b>	<b>-75</b>	<b>-40</b>

Write-downs on equity investments amounted to 75 thousand euros and related to the measurement using the equity method of the associate company IOCA Entertainment Ltd., acquired in October 2015. Charges refer in particular to the portion of the company's profit for the year attributable to the banking group.

## Section 19 – Gains (losses) from disposal of investments - Item 270

### 19.1 Breakdown of gains (losses) from disposal of investments

INCOME COMPONENTS/VALUES	2016	2015
<b>A. Buildings</b>	-	-
Gains from disposal	-	-
Losses from disposal	-	-
<b>B. Other assets</b>	<b>22</b>	<b>-6</b>
Gains from disposal	32	1
Losses from disposal	10	7
<b>Net result</b>	<b>22</b>	<b>-6</b>

## Section 20 – Income tax for the year for current operations - Item 290

### 20.1 Breakdown of income tax for the year for current operations

INCOME COMPONENTS/VALUES	2016	2015
1. Current taxation (-)	-27,436	-36,972
2. Change in prior years' current taxes (+/-)	1,011	996
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current taxes arising on tax credits, pursuant to Law No. 214/2011 (+)	-	-
4. Changes of prepaid taxation (+/-)	-2,242	1,589
5. Changes of deferred taxation (+/-)	-275	-295
<b>6. Taxes for the year (-)</b>	<b>-28,942</b>	<b>-34,682</b>

## 20.2 Reconciliation between theoretical and actual tax expense

The following table reconciles the total amount of taxes due for the year, including both current and deferred taxes, as indicated in Item 290 of the Profit and Loss Account, and the theoretical corporate income tax IRES calculated by applying the 27.5% current applicable tax rate to pre-tax profit.

The reconciliation statement is therefore expressed based on higher or lower current and deferred taxes debited or credited to the P&L account compared to the theoretical taxation.

	2016	2015
<b>Current taxation</b>	<b>-27,436</b>	<b>-36,972</b>
IRES	-21,079	-29,125
IRAP	-6,354	-7,844
Other	-3	-3
<b>Prepaid and deferred taxation</b>	<b>-2,517</b>	<b>1,295</b>
IRES	-2,420	1,078
IRAP	-97	217
<b>Taxes of prior years</b>	<b>1,011</b>	<b>995</b>
IRES	590	560
IRAP	421	435
<b>Income taxes</b>	<b>-28,942</b>	<b>-34,682</b>
<b>Theoretical tax rate</b>	<b>27.5%</b>	<b>27.5%</b>
<b>Profit (loss) before taxation</b>	<b>184,835</b>	<b>238,241</b>
<b>Theoretical taxation</b>	<b>-50,830</b>	<b>-65,516</b>
<b>Non-taxable income (+)</b>		
Dividends	438	742
ACE	2,103	1,446
Deductible IRAP and other	302	685
<b>Non-deductible charges (-)</b>		
Double taxation on 5% of Group's dividends	-1,794	-2,439
Non-deductible interest expense (4%)	-31	-39
Impairment of AFS equity securities PEX	-829	-606
Other non-deductible costs	-1,153	-1,684
IRAP	-6,030	-7,817
Rate change of companies under foreign law	28,331	39,444
Taxes of prior years	590	996
Other taxes	-3	-3
Not related deferred tax assets and liabilities	-36	109
<b>Actual tax expense</b>	<b>-28,942</b>	<b>-34,682</b>
<b>Total actual tax rate</b>	<b>15.7%</b>	<b>14.6%</b>
<b>Actual tax rate (IRES)</b>	<b>12.4%</b>	<b>11.5%</b>
<b>Actual tax rate (IRAP)</b>	<b>3.3%</b>	<b>3.0%</b>

## Section 24 – Earnings per Share

### 24.1 Average number of ordinary shares after dilution

	2016	2015
Net profit for the year (€ thousand)	155,894	203,559
Net profit attributable to ordinary shares (€ thousand)	155,894	203,559
Average number of outstanding shares (thousand)	116,067	115,867
<b>EPS - Earnings per Share (euros)</b>	<b>1.343</b>	<b>1.757</b>
Average number of outstanding shares after dilution (thousand)	116,614	116,418
<b>EPS - Diluted earnings per share (euros)</b>	<b>1.337</b>	<b>1.749</b>

## PART D – COMPREHENSIVE INCOME

## Analytical Statement of Comprehensive Income

ITEMS	GROSS AMOUNT	INCOME TAXES	NET AMOUNT
10. Net profit (loss) for the year	X	X	155,894
<b>Other components of income, without transfer to profit and loss:</b>			
20. Property and equipment	-	-	-
30. Intangible assets	-	-	-
40. Defined benefit plans	-270	74	-196
50. Non-current assets held for sale	-	-	-
60. Share of valuation reserves of investments valued at equity	-	-	-
<b>Other components of income, with transfer to profit and loss:</b>			
<b>70. Hedges of foreign investments:</b>	-	-	-
a) fair value changes	-	-	-
b) transfer to Profit and Loss Account	-	-	-
c) other changes	-	-	-
<b>80. Exchange differences:</b>	<b>-88</b>	-	<b>-88</b>
a) value adjustments	-	-	-
b) transfer to Profit and Loss Account	-	-	-
c) other changes	-88	-	-88
<b>90. Cash-flow hedges:</b>	-	-	-
a) fair value changes	-	-	-
b) transfer to Profit and Loss Account	-	-	-
c) other changes	-	-	-
<b>100. AFS financial assets:</b>	<b>-19,395</b>	<b>6,234</b>	<b>-13,161</b>
a) fair value changes	-3,473	409	-3,064
b) transfer to Profit and Loss Account:	-15,922	5,818	-10,104
- adjustments due to impairment	2,537	-118	2,419
- gains (losses) on disposal	-18,459	5,936	-12,523
c) other changes	-	7	7
<b>110. Non-current assets held for sale:</b>	-	-	-
a) fair value changes	-	-	-
b) transfer to Profit and Loss Account	-	-	-
c) other changes	-	-	-
<b>120. Share of valuation reserves of investments valued at equity:</b>	-	-	-
a) fair value changes	-	-	-
b) transfer to Profit and Loss Account:	-	-	-
- adjustments due to impairment	-	-	-
- gains (losses) on disposal	-	-	-
c) other changes	-	-	-
<b>130. Total other components of income</b>	<b>-19,753</b>	<b>6,308</b>	<b>-13,445</b>
<b>140. Comprehensive income (Item 10 + 130)</b>	<b>-</b>	<b>-</b>	<b>142,449</b>

## PART E – INFORMATION ON RISKS AND RISK HEDGING POLICIES

### Foreword

The development of a genuine risk culture within Banca Generali is based upon an understanding of the risks that the Bank assumes and how they are managed, while always taking full account of the risk tolerance threshold defined in the Bank's Risk Appetite Framework (RAF).

In this context, the internal control system plays a key role in the risk management process, as well as in the Bank's corporate governance generally.

The internal control system is a set of rules, procedures and organisational structures aimed at ensuring compliance with Company strategies, while also seeking to achieve:

- > the efficiency and effectiveness of work processes;
- > the safety of the company's assets and protection against losses;
- > the reliability and integrity of accounting and operating information;
- > operational compliance with the law and supervisory regulations;
- > policies, plans, regulations and internal procedures; and
- > the dissemination of a culture of control, also through training initiatives for the various levels.

The Banca Generali Banking Group has designed an internal control model consistent with national and international best practices, minimising the risks of inefficiency, overlapping of roles and sub-optimal system performance. The system is structured on three different levels:

- > first-tier checks: they are performed by production or back-office company areas and organisational units, with the support of information technology procedures, where envisaged, and take the form of hierarchical or line checks;
- > second-tier checks: they aim at preventing and mitigating risks of different nature through prior risk assessment of products and business practices, and the development of ex-ante support to operating activities. The aforementioned checks are performed by the following functions:
  - the Risk and Capital Adequacy Department is tasked with identifying, measuring/evaluating and monitoring all the types of risks to which the Banking Group is exposed in terms of its own assets (excluding the risks of non-compliance, money laundering and financing of terrorism), providing relevant information and thereby contributing to the definition and implementation of the Risk Appetite Framework, as well as all related risk management policies. The Department acts with a view to maintaining risk levels within the limits and tolerance thresholds indicated in the risk profile and strategies established by the Board of Directors in the Risk Appetite Framework; it assures that risks are fully and transversally analysed, and to this end it applies a strategic, consistent and prospective approach and duly provides periodic reports;
  - Compliance Service: it is tasked with verifying the observance of obligations relating to the provision of services for Banking Group companies and preventing and managing the risk of non-compliance with applicable legislation;
  - Anti-Money Laundering Service: it is responsible, within the Banking Group, for preventing and combating transactions involving money laundering and financing of terrorism;
- > third-tier checks: they are conducted by the Internal Audit Department and are aimed at an independent verification of the operating efficacy and quality of control systems and the verification of any conduct departing from the established rules.

The proper functioning of the risk governance system adopted by the Banca Generali Group is ensured by consistency from the standpoint of organisational structure, competencies and a guarantee of the independence of functions.

Within the internal control system, it is possible to identify the second tier as the home to an internal risk management culture that then effectively translates into company behaviour and choices.

The following entities operate within the Internal Control System, in addition to the tasks assigned to the Board of Directors, control body and independent auditors (who are responsible for accounting control):

- > the Audit and Risk Committee, which was set up pursuant to the Corporate Governance Code of Listed Companies and supervisory regulations, and is tasked with performing a supporting role, with investigative, propositional and advisory duties in relation to the Board of Directors and the Board of Statutory Auditors, in particular on matters of internal control and risk management, related parties and connected parties, statutory auditing and equity investments. The tasks and functions of the Committee, as well as the frequency of its meetings and the operating procedures to be followed to ensure that its duties are smoothly and properly performed, shall be regulated pursuant to specific Internal Audit and Risk Committee Rules;
- > the Risks Committee is charged with ensuring coordinated coverage of the system for managing and controlling the risks assumed by the Group in compliance with the Risk Appetite Framework; it is vested with specific responsibility for monitoring the Group's risks, such as the management of risk containment measures, as well as decision-making powers for identifying and implementing risk containment measures;



- > the Supervisory Board, which is the corporate body in charge of updating the Organisational and Management Model and monitoring the implementation of and compliance with the said Model;
- > the Law 262 Organisational Unit, which acts as a point of reference, orienting and coordinating the management of all the Banking Group's administrative and accounting risks, for the intents and purposes of Law No. 262/2005.

---

## Section 1 – Credit risk

---

### Qualitative information

---

#### 1. General aspects

Credit risk is defined as the possibility that a counterparty may become insolvent, or the likelihood that a debtor may fail to fulfil its obligations or fulfil its obligations on a delayed basis with respect to predetermined due dates. In further detail, credit risk arises from the possibility that an unexpected variation in the creditworthiness of a counterparty to which the bank has an exposure may result in a corresponding unexpected variation in the market value of the credit position.

Banca Generali Group's lending operations are ancillary to its core business, which focuses on the management of investment services for private customers.

The Bank's exposure to credit risk mainly arises from its loans to customers (chiefly in the retail channel, and to a lesser extent in the corporate one), financial instruments held in portfolios measured at amortised cost and AFS portfolios, and investments in the money market (interbank deposits).

Loans are issued to high-standing retail customers (mainly individuals), generally with collaterals, and, to a lesser extent, to corporate customers who, during the year under review, were granted loans chiefly backed by collaterals on financial instruments.

As for credit card issuance, the Bank continues to follow a very prudent policy, aimed almost exclusively at individuals.

With regard to credit risk management, the Group has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

The Group has also formally defined lending policy guidelines within the Lending Rules and Procedures of Banca Generali S.p.A. that assign specific responsibilities to each company unit involved.

The Group has defined an extensive system of powers associated with loan authorisation. In this context, it has formally defined detailed levels of autonomy and specific operating conditions for the loan authorisation powers held by the various decision-making levels.

In order to supervise the loans after they have been disbursed, the Group has assigned specific tasks pertaining to timely monitoring of outstanding credit positions.

First-tier control activities are conducted by the Lending Department and the Finance Department, the latter being responsible for lending operations involving institutional borrowers (loans to banks) and securities investment operations, which are considered when defining the Group's overall credit exposure.

The Risk and Capital Adequacy Department is responsible for second level controls and monitors the performance of each credit exposure – and non-performing exposures in particular – assessing the consistency of classifications, the fairness of provisions and the appropriateness of credit collection process in order to provide an overall analysis of the portfolio's risk profile and report any anomalies in the first-tier control.

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

Level three controls are conducted by the Internal Audit Service, in accordance with the Internal Rules and Procedures.

The Risk Committee is the collegial body responsible for a shared vision of the global performance of the credit risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

## 2. Credit risk management policies

Loans are issued to customers by Banca Generali's Lending Department, which is responsible for loan approval and outstanding loan management, as governed by and detailed in the specific Lending Rules and Procedures.

In addition to issuing loans, the Lending Department is also charged with credit managing and first-tier control, with a special focus on the performance of doubtful loans.

The credit risk on the securities portfolio is very low since it predominantly consists of government and bank-issued securities. The corporate securities in the portfolio are negligible.

### Credit risk mitigation techniques

In order to mitigate credit risk in loans to customers, collaterals – or more sporadically personal guarantees – are typically required to secure the loans granted.

Collaterals are mainly requested in the form of pledges on securities, including managed assets, funds and insurance products. As limited to certain segments of customers (Group's employees and Financial Advisors), mortgages are also acquired, almost exclusively in residential properties used as a primary residences: on a conservative basis, they are registered in an amount in excess of the obligation they secure. When collaterals are in the form of securities, a discount is usually applied upon disbursement of the loan and the market value of the securities is determined periodically.

Banca Generali also benefits from an additional master guarantee (indemnity) provided by BSI S.A. for the entire loan portfolio originating with Banca del Gottardo Italia, acquired by BSI Italia S.p.A. on 1 October 2008.

This guarantee, which is similar to a first-demand bank guarantee, covers all loans and any associated losses sustained from acquisition until 31 December 2009. After such date, the indemnity was maintained for those positions managed with the aim of recovery and those positions that showed a default event for which payment of the indemnity was requested from the guarantor, BSI S.A.

At 31 December 2016, the guarantees covered a residual class of loans (not classified as bad loans) for an amount of approximately 10 million euros.

Finally, as for credit card issuance, the Bank continues to follow a very prudent policy, aimed almost exclusively at households.

### Non-performing financial assets

Non-performing financial assets are classified into default categories in accordance with the instructions issued by the regulatory authority, as provided for in Bank of Italy Circular Letter No. 272 dated 20 July 2008 (as subsequently amended).

The process of identifying doubtful positions requires constant monitoring of positions. When limits are exceeded, various debt procedures are triggered. In general, considering that the vast majority of positions are secured by pledges of financial instruments, there are no residual debt exposures once the enforcement procedure has been concluded. If the exposure is unsecured or there is a residual unsecured exposure, the Bank avails itself of the services of major debt collection agencies. Positions are normally classified as bad debts when a negative report is received from the debt collection agency, except when it is considered a priority to obtain an enforcement order.

Losses are analysed and estimated for each position based on all relevant factors, such as borrowers' net worth, income, estimated repayment date, etc.

The aggregate of non-performing loans chiefly consists of exposures referring to Banca del Gottardo Italia's costumers and guaranteed by indemnity issued by the seller BSI S.A.; as described above, these exposures do not entail any risk for the Bank.

Therefore, no adjustments were made to these loans with respect to the impairment already carried out by Banca del Gottardo Italia.

Total net non-performing loans (see table A.1.1) amounted to 31,859 thousand euros, of which:

- > 23,024 thousand euros of bad loans;
- > 6,771 thousand euros of unlikely-to-pay exposures;
- > 2,064 thousand euros of past-due exposures.

Excluding positions covered by indemnity – entailing no risk for Banca Generali, amounting to 27,538 thousand euros and accounting for nearly 83.8% of total net non-performing loans – the remainder for the item totalled 5,315 thousand euros, representing a merely marginal portion of total net loans to customers (just 0.28%).

## Quantitative information

### A. Credit quality

#### A.1 Credit exposures to non-performing and performing exposures: balances, adjustments, performance, income and geographical breakdown

For the purposes of quantitative information about credit quality, credit exposures include the entire financial asset portfolio, regardless of the portfolio of allocation for accounting purposes, with the exception of equities and units of UCITS.

##### A.1.1 Breakdown of financial assets by portfolio and credit quality (balance sheet amounts)

PORTFOLIOS/QUALITY	BAD LOANS	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE EXPOSURES	OTHER PERFORMING PAST DUE EXPOSURES	PERFORMING EXPOSURES	TOTAL
1. AFS financial assets	-	-	-	-	4,349,914	4,349,914
2. HTM financial assets	-	-	-	-	731,362	731,362
3. Loans to banks	-	-	-	-	326,688	326,688
4. Loans to customers	23,024	6,771	2,064	23,078	1,826,990	1,881,927
5. Financial assets at fair value	-	-	-	-	-	-
6. HFS financial assets	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	<b>23,024</b>	<b>6,771</b>	<b>2,064</b>	<b>23,078</b>	<b>7,234,954</b>	<b>7,289,891</b>
<b>Total at 31.12.2015</b>	<b>24,729</b>	<b>5,104</b>	<b>3,371</b>	<b>24,934</b>	<b>5,510,463</b>	<b>5,568,601</b>

##### A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)

PORTFOLIOS/QUALITY	NON-PERFORMING ASSETS			PERFORMING ASSETS			TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	SPECIAL ADJUSTMENTS	NET EXPOSURE	GROSS EXPOSURE	SPECIAL ADJUSTMENTS	NET EXPOSURE	
1. AFS financial assets	-	-	-	4,349,914	-	4,349,914	4,349,914
2. HTM financial assets	-	-	-	734,276	2,914	731,362	731,362
3. Loans to banks	-	-	-	327,811	1,123	326,688	326,688
4. Loans to customers	44,354	12,495	31,859	1,853,864	3,796	1,850,068	1,881,927
5. Financial assets at fair value	-	-	-	X	X	-	-
6. HFS financial assets	-	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	<b>44,354</b>	<b>12,495</b>	<b>31,859</b>	<b>7,265,865</b>	<b>7,833</b>	<b>7,258,032</b>	<b>7,289,891</b>
<b>Total at 31.12.2015</b>	<b>47,245</b>	<b>14,041</b>	<b>33,204</b>	<b>5,544,737</b>	<b>9,340</b>	<b>5,535,397</b>	<b>5,568,601</b>

PORTFOLIOS/QUALITY	ASSETS WITH OBVIOUSLY POOR CREDIT QUALITY		OTHER ASSETS
	CUMULATIVE CAPITAL LOSSES	NET EXPOSURE	NET EXPOSURE
1. HFT financial assets	-	-	34,997
2. Hedging derivatives	-	-	-
<b>Total at 31.12.2016</b>	<b>-</b>	<b>-</b>	<b>34,997</b>
<b>Total at 31.12.2015</b>	<b>-</b>	<b>-</b>	<b>23,805</b>

### A.1.3 Cash and off-balance sheet credit exposures with banks: gross and net values and maturity brackets

Cash exposures to banks include all cash financial assets claimed from banks, regardless of the portfolio of allocation for accounting purposes: HTF, AFS, HTM or loans.

Off-balance sheet exposures include all financial transactions other than cash transactions, such as financial derivatives, guarantees issued and commitments, that entail the assumption of credit risk, determined on the basis of the measurement criteria established by the Bank of Italy.

TYPES OF EXPOSURES/VALUES	GROSS EXPOSURE							
	NON-PERFORMING ASSETS				PERFORMING ASSETS	SPECIFIC ADJUSTMENTS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE
	UP TO 3 MONTHS	OVER 3 MONTHS, UP TO 6 MONTHS	OVER 6 MONTHS, UP TO 1 YEAR	BEYOND 1 YEAR				
<b>A. Cash exposures</b>								
a) Bad loans	-	-	-	-	X	-	X	-
<i>of which: forborne exposures</i>	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
<i>of which: forborne exposures</i>	-	-	-	-	X	-	X	-
c) Non-performing past-due exposures	-	-	-	-	X	-	X	-
<i>of which: forborne exposures</i>	-	-	-	-	X	-	X	-
d) Performing past-due exposures	X	X	X	X	-	X	-	-
<i>of which: forborne exposures</i>	X	X	X	X	-	X	-	-
e) Other performing exposures	X	X	X	X	539,451	X	1,520	537,931
<i>of which: forborne exposures</i>	X	X	X	X	-	X	-	-
<b>Total A</b>	-	-	-	-	<b>539,451</b>	-	<b>1,520</b>	<b>537,931</b>
<b>B. Off-balance sheet exposures</b>								
a) Non-performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	2,766	X	-	2,766
<b>Total B</b>	-	-	-	-	<b>2,766</b>	-	-	<b>2,766</b>
<b>Total (A + B)</b>	-	-	-	-	<b>542,217</b>	-	<b>1,520</b>	<b>540,697</b>

### A.1.6 Cash and off-balance sheet credit exposures with customers: gross and net values and maturity brackets

TYPES OF EXPOSURES/VALUES	GROSS EXPOSURE							
	NON-PERFORMING ASSETS				PERFORMING ASSETS	SPECIFIC ADJUSTMENTS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE
	UP TO 3 MONTHS	OVER 3 MONTHS, UP TO 6 MONTHS	OVER 6 MONTHS, UP TO 1 YEAR	BEYOND 1 YEAR				
<b>A. Cash exposures</b>								
a) Bad loans	-	-	-	34,948	X	11,924	X	23,024
<i>of which: forborne exposures</i>	-	-	-	-	X	-	X	-
b) Unlikely to pay	1,375	229	13	5,294	X	140	X	6,771
<i>of which: forborne exposures</i>	636	-	13	5,145	X	10	X	5,784
c) Non-performing past-due exposures	-	152	1,469	874	X	431	X	2,064
<i>of which: forborne exposures</i>	-	-	-	-	X	-	X	-
d) Performing past-due exposures	X	X	X	X	23,078	X	-	23,078
<i>of which: forborne exposures</i>	X	X	X	X	10	X	-	10
e) Other performing exposures	X	X	X	X	6,737,455	X	6,313	6,731,142
<i>of which: forborne exposures</i>	X	X	X	X	42	X	-	42
<b>Total A</b>	<b>1,375</b>	<b>381</b>	<b>1,482</b>	<b>41,116</b>	<b>6,760,533</b>	<b>12,495</b>	<b>6,313</b>	<b>6,786,079</b>
<b>B. Off-balance sheet exposures</b>								
a) Non-performing	2,919	-	-	-	X	-	X	2,919
b) Performing	X	X	X	X	120,187	X	-	120,187
<b>Total B</b>	<b>2,919</b>	-	-	-	<b>120,187</b>	-	-	<b>123,106</b>
<b>Total (A + B)</b>	<b>4,294</b>	<b>381</b>	<b>1,482</b>	<b>41,116</b>	<b>6,880,720</b>	<b>12,495</b>	<b>6,313</b>	<b>6,909,185</b>

Cash exposures with customers include all cash financial assets claimed from customers, regardless of the portfolio of allocation for accounting purposes: HFT, AFS, HTM or loans.

Off-balance sheet exposures include all financial transactions other than cash transactions, such as financial derivatives, guarantees issued and commitments, that entail the assumption of credit risk, determined on the basis of the measurement criteria established by the Bank of Italy. Non-performing off-balance sheet exposures referred to two positions of former Banca del Gottardo covered by Banca BSI S.A. as part of the indemnity guarantee, and therefore entailing no risk for Banca Generali.

### Bad loans

Gross bad loans amounted to 34,948 thousand euros and included 11,924 thousand euros of value adjustments; therefore, net bad loans recognised totalled 23,024 thousand euros. About 97.7% of this amount (22,488 thousand euros) related to positions attributable to former Banca del Gottardo Italia's customers, fully covered by cash collateral deposits granted by BSI S.A., as part of the indemnity guarantee.

Therefore, net bad loans to remaining ordinary customers amounted to 536 thousand euros, equal to slightly below 2.3% of total net bad loans and 0.03% of total net loans to customers.

In the reporting year, the aggregate (see table A.1.7) generated inflows and write-offs for a total of 3,998 thousand euros, mainly regarding the closing-out of indemnity-guaranteed positions and of an exposure amounting to about 1.9 million euros that was classified as bad loan subject to forbearance measures in 2015, to date recovered for over 80%.

In addition, table A.1.7 shows increases amounting to approximately 767 thousand euros, chiefly due to the 717 thousand euros arrears interests accrued, whereas new exposures transfer to the bad loan category were just 50 thousand euros.

### Unlikely to pay

At 31 December 2016, the net aggregate totalled 6,771 thousand euros, mainly including the following positions:

1. cash loans for a net amount of about 5,145 thousand euros, subject to forbearance measures, attributable to customers of the former Banca del Gottardo Italia;
2. 600 thousand euros relating to a forborne position secured by a mortgage, in addition to 547 thousand euros not subject to forbearance measures and secured by a pledge; the position is classified as unlikely to pay since at the date of the forbearance measures it was classified among past-due positions; it is believed that at the end of the cure period the position may be classified as performing for the subsequent 24-month probation period, since the account was in good standing at the reporting date;
3. 448 thousand euros relating to a position classified as unlikely to pay since the borrower, a sole trader, filed a simplified petition for admission to an insolvency procedure; the position consists of a mortgage loan for a first home with a mortgage charge;
4. other exposures for a net amount of 31 thousand euros referring to 90 positions with average balance of about 325 euros.

The aggregate grew mainly due to the transfer to this category of two positions, as described in points 2 and 3 of the previous paragraph.

### Non-performing past-due exposures

At year-end, this aggregate reported a net amount of 2,064 thousand euros and consisted for over 95% of 7 positions backed by collateral (pledges, mortgages, mandate to collect policy premiums), for which renewal of the credit line was underway.

The aggregate was subject to adjustments for 431 thousand euros overall.

### Performing past-due exposures

Performing past-due exposures include also positions past due or expired by more than 90 days, for which the outstanding amount does not exceed the materiality threshold of 5% of the overall loan granted, in compliance with the provisions set forth in Bank of Italy Circular Letter No. 272.

In almost all cases, these are positions guaranteed by pledges of securities found to be expired at the reporting date and currently being repaid.

At year-end, this aggregate stood at 23,078 thousand euros, broken down as follows:

- > 9,318 thousand euros for positions that were already settled in the first 50 days of 2017;
- > 191 thousand euros for three positions currently subject to recovery procedures;
- > 13,371 thousand euros of positions secured by collateral – almost exclusively consisting of pledges of financial instruments, and to a lesser extent, a mandate to collect insurance policy premiums – regarding outstanding balances in excess of the approved credit limits due to interest charges or extended positions subject to repayment plans;
- > 41 thousand euros for positions covered by personal guarantee;
- > 952 marginal positions totalling 157 thousand euros, with an average amount past due of approximately 165 euros each, subject to debt recovery procedures or written off when deemed uncollectible.

## Forborne exposures

Non-performing exposures with forbearance measures totalled 5,784 thousand euros at 31 December 2016 and essentially include two positions:

- > 5,145 thousand euros attributable to a position reclassified amongst unlikely to pay, subject to forbearance in the form of turnaround agreements (pursuant to Article 67, paragraph 3, of the Bankruptcy Law) and associated with the portfolio guaranteed by the seller BSI S.A. (indemnity guarantee), thus with no risk for Banca Generali;
- > 600 thousand euros relating to a non-performing position with forbearance measures, since at the date of the forbearance it was classified among past-due positions; it is believed that at the end of the cure period the position may be classified as performing for the subsequent 24-month probation period, since the account was in good standing at the reporting date.

The amount of forborne performing exposures is negligible.

### A.1.7 Cash credit exposures with customers: changes in gross non-performing exposures

CAUSES/CATEGORIES	BAD LOANS	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE EXPOSURES
<b>A. Gross exposure at year-start</b>	<b>38,179</b>	<b>5,307</b>	<b>3,759</b>
- of which: exposures transferred but not written off	-	-	-
<b>B. Increases</b>	<b>767</b>	<b>1,779</b>	<b>3,292</b>
B.1 Inflows from performing exposures	-	1,596	2,117
B.2 Transfers from other categories of non-performing exposures	50	21	-
B.3 Other increases	717	162	1,175
- of which: business combinations	-	-	-
<b>C. Decreases</b>	<b>3,998</b>	<b>175</b>	<b>4,556</b>
C.1 Outflows to performing exposures	-	15	3,049
C.2 Write-offs	2,092	27	17
C.3 Repayments received	1,906	83	1,469
C.4 Gains from disposals	-	-	-
C.5 Losses from disposals	-	-	-
C.6 Transfer to other categories of non-performing exposures	-	50	21
C.7 Other decreases	-	-	-
<b>D. Gross exposure at year-end</b>	<b>34,948</b>	<b>6,911</b>	<b>2,495</b>
- of which: exposures transferred but not written off	-	-	-

### A.1.7-bis Cash credit exposures with customers: changes in gross forborne exposures, broken down by credit quality

CAUSES/QUALITY	NON-PERFORMING EXPOSURES WITH FORBEARANCE MEASURES	PERFORMING FORBORNE EXPOSURES
<b>A. Gross exposure at year-start</b>	<b>6,961</b>	<b>23</b>
- of which: exposures transferred but not written off	-	-
<b>B. Increases</b>	<b>780</b>	<b>107</b>
B.1 Inflows from performing non-forborne exposures	-	13
B.2 Inflows from performing forborne exposures	-	X
B.3 Inflows from non-performing exposures with forbearance measures	X	-
B.4 Other increases	780	94
<b>C. Decreases</b>	<b>1,947</b>	<b>78</b>
C.1 Outflows for performing non-forborne exposures	X	-
C.2 Outflows for forborne performing exposures	-	X
C.3 Outflows for non-performing exposures with forbearance measures	X	-
C.4 Write-offs	374	-
C.5 Repayments received	1,573	4
C.6 Gains from disposals	-	-
C.7 Losses from disposals	-	-
C.8 Other decreases	-	74
<b>D. Gross exposure at year-end</b>	<b>5,794</b>	<b>52</b>
- of which: exposures transferred but not written off	-	-

The main changes reported for forborne exposures were:

- > reclassification to this category of a 600 thousand euros position, as commented upon with regard to unlikely-to-pay positions;
- > reclassification to a different category of a 1,901 thousand euros position, as commented upon with regard to bad loans.

Other changes were attributable to several performing positions of marginal amount.

### A.1.8 Cash credit exposures with customers: changes in total adjustments

CAUSES/CATEGORIES	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST-DUE EXPOSURES	
	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES
<b>A. Total adjustments at year-start</b>	<b>13,450</b>	<b>967</b>	<b>202</b>	<b>11</b>	<b>388</b>	<b>-</b>
- of which: exposures transferred but not written off	-	-	-	-	-	-
<b>B. Increases</b>	<b>1,288</b>	<b>-</b>	<b>31</b>	<b>6</b>	<b>385</b>	<b>-</b>
B.1 Adjustments	1,270	-	29	4	385	-
B.2 Losses from disposals	-	-	-	-	-	-
B.3 Transfer from other categories of non-performing exposures	18	-	2	2	-	-
B.4 Other increases	-	-	-	-	-	-
<b>C. Decreases</b>	<b>2,814</b>	<b>967</b>	<b>93</b>	<b>7</b>	<b>342</b>	<b>-</b>
C.1 Reversal of adjustments	12	-	17	-	292	-
C.2 Reversal of collections	710	593	31	7	31	-
C.3 Gains from disposals	-	-	-	-	-	-
C.4 Write-offs	2,092	374	27	-	17	-
C.5 Transfer to other categories of non-performing exposures	-	-	18	-	2	-
C.6 Other decreases	-	-	-	-	-	-
<b>D. Total adjustments at year-end</b>	<b>11,924</b>	<b>-</b>	<b>140</b>	<b>10</b>	<b>431</b>	<b>-</b>
- of which: exposures transferred but not written off	-	-	-	-	-	-

Besides the exposures included in the previous tables, other non-performing positions recognised in the Financial Statements amounted to 994 thousand euros, attributable to operating receivables not involving loans, mostly relating to disputes and pre-dispute positions against former Financial Advisors (terminated or expired contracts).

OPERATING RECEIVABLES UNDER DISPUTE	GROSS	WRITE-DOWNS	NET
Former Sim FA litigation	14	-14	-
FA litigation	1,771	-777	994
Advanced to FAs	79	-79	-
INA agents	813	-813	-
<b>Write-downs of receivables from FAs</b>	<b>2,677</b>	<b>-1,683</b>	<b>994</b>
Write-downs of operating receivables	279	-279	-
<b>Total</b>	<b>2,956</b>	<b>-1,962</b>	<b>994</b>

## A.2 Classification of exposures based on external and internal ratings

The Banking Group Banca Generali has not yet defined an internal rating system for evaluating its customers' credit standing.

The Bank therefore uses ratings published by the main rating companies (Moody's, S&P and Fitch) in making decisions regarding its trading activities.

### A.2.1 Cash and off-balance sheet credit exposures, broken down by external rating classes

EXPOSURES	EXTERNAL RATING CLASSES						WITHOUT RATING	TOTAL
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	< B-		
HFT financial assets	-	-	22,111	-	-	-	12,009	34,120
AFS financial assets	29,195	39,276	4,259,055	17,968	4,420	-	-	4,349,914
HTM financial assets	2,511	36,445	638,769	36,864	9,671	-	7,102	731,362
Loans to customers	-	2,500	18,993	1,945	1,774	-	1,856,715	1,881,927
Loans to banks	-	22,962	48,094	15,164	36,827	-	203,641	326,688
<b>A. Cash exposure</b>	<b>31,706</b>	<b>101,183</b>	<b>4,987,022</b>	<b>71,941</b>	<b>52,692</b>	<b>-</b>	<b>2,079,467</b>	<b>7,324,011</b>
Financial derivatives	-	-	-	-	-	-	877	877
Credit derivatives	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>877</b>	<b>877</b>
<b>C. Guarantees issued</b>	<b>-</b>	<b>-</b>	<b>2,224</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>116,463</b>	<b>118,687</b>
<b>D. Commitment to dispense funds</b>	<b>101</b>	<b>345</b>	<b>3,074</b>	<b>96</b>	<b>-</b>	<b>-</b>	<b>510</b>	<b>4,126</b>
<b>E. Other</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,181</b>	<b>2,181</b>
<b>Total</b>	<b>31,807</b>	<b>101,528</b>	<b>4,992,320</b>	<b>72,037</b>	<b>52,692</b>	<b>-</b>	<b>2,199,498</b>	<b>7,449,882</b>

## A.3 Breakdown of guaranteed credit exposures by type of guarantee

### A.3.2 Guaranteed credit exposures with customers

	COLLATERALISED GUARANTEES (1)					PERSONAL GUARANTEES (2)					TOTAL (1) + (2)	
	EXPOSURE NET AMOUNT	BUILDINGS - MORTGAGES	BUILDINGS - FINANCE LEASE	OTHER COLLATE- RALISED GUARANTEES	SECURITIES	CREDIT DERIVATIVES		SIGNATURE LOANS				
						CLN	OTHER DERIVATIVES	GOVERNMENT AND CENTRAL BANKS	OTHER PUBLIC INSTITUTIONS	BANKS		OTHER ENTITIES
<b>1. Guaranteed cash credit exposures:</b>	<b>1,638,575</b>	<b>418,313</b>	<b>-</b>	<b>834,055</b>	<b>356,538</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,027</b>	<b>1,619,933</b>
1.1 Totally guaranteed	1,552,569	414,775	-	782,237	345,396	-	-	-	-	-	10,181	1,552,589
- of which: non-performing	27,555	17,318	-	5,145	287	-	-	-	-	-	4,804	27,554
1.2 Partially guaranteed	86,006	3,538	-	51,818	11,142	-	-	-	-	-	846	67,344
- of which: non-performing	2,095	3	-	488	534	-	-	-	-	-	-	1,025
<b>2. Guaranteed off-balance sheet credit exposures:</b>	<b>115,308</b>	<b>253</b>	<b>-</b>	<b>69,001</b>	<b>41,780</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,021</b>	<b>112,055</b>
2.1 Totally guaranteed	108,085	217	-	66,048	40,799	-	-	-	-	-	1,021	108,085
- of which: non-performing	919	-	-	529	322	-	-	-	-	-	68	919
2.2 Partially guaranteed	7,223	36	-	2,953	981	-	-	-	-	-	-	3,970
- of which: non-performing	2,000	-	-	-	15	-	-	-	-	-	-	15



## B. Breakdown and concentration of credit exposures

### B.1 Sector breakdown of cash and off-balance sheet credit exposures to customers (book value)

EXPOSURES/COUNTERPARTY	NET EXPOSURES	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS
<b>A. Cash exposures</b>			
<b>1. Governments</b>	<b>4,728,691</b>	-	-
A.1 Bad loans	-	-	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	-	-	-
- of which: forborne exposures	-	-	-
A.3 Non-performing past-due exposures	-	-	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	4,728,691	-	-
- of which: forborne exposures	-	-	-
<b>2. Other public institutions</b>	-	-	-
A.1 Bad loans	-	-	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	-	-	-
- of which: forborne exposures	-	-	-
A.3 Non-performing past-due exposures	-	-	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	-	-	-
- of which: forborne exposures	-	-	-
<b>3. Financial companies</b>	<b>277,700</b>	<b>105</b>	<b>1,187</b>
A.1 Bad loans	4,655	89	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	1	12	-
- of which: forborne exposures	-	-	-
A.3 Non-performing past-due exposures	3	4	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	273,041	-	1,187
- of which: forborne exposures	-	-	-
<b>4. Insurance companies</b>	<b>18,937</b>	-	-
A.1 Bad loans	-	-	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	-	-	-
- of which: forborne exposures	-	-	-
A.3 Non-performing past-due exposures	-	-	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	18,937	-	-
- of which: forborne exposures	-	-	-
<b>5. Non-financial companies</b>	<b>527,796</b>	<b>10,598</b>	<b>5,126</b>
A.1 Bad loans	13,193	10,461	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	5,188	24	-
- of which: forborne exposures	5,183	10	-
A.3 Non-performing past-due exposures	103	113	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	509,312	-	5,126
- of which: forborne exposures	32	-	-
<b>6. Other entities</b>	<b>1,232,955</b>	<b>1,792</b>	-
A.1 Bad loans	5,176	1,374	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	1,582	104	-
- of which: forborne exposures	601	-	-
A.3 Non-performing past-due exposures	1,958	314	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	1,224,239	-	-
- of which: forborne exposures	19	-	-
<b>Total A - Cash exposures</b>	<b>6,786,079</b>	<b>12,495</b>	<b>6,313</b>

EXPOSURES/COUNTERPARTY	NET EXPOSURE	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS
<b>B. Off-balance sheet exposures</b>			
<b>1. Governments</b>	<b>3,352</b>	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	3,352	-	-
<b>2. Other public institutions</b>	<b>-</b>	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	-	-	-
<b>3. Financial companies</b>	<b>461</b>	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	461	-	-
<b>4. Insurance companies</b>	<b>4,224</b>	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	4,224	-	-
<b>5. Non-financial companies</b>	<b>70,160</b>	-	-
B.1 Bad loans	68	-	-
B.2 Unlikely to pay	2,851	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	67,241	-	-
<b>6. Other entities</b>	<b>44,909</b>	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	44,909	-	-
<b>Total B - Off-balance sheet exposures</b>	<b>123,106</b>	-	-

## Summary

	NET EXPOSURE	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS
Governments	4,732,043	-	-
Public institutions	-	-	-
Financial companies	278,161	105	1,187
Insurance companies	23,161	-	-
Non-financial companies	597,956	10,598	5,126
Other entities	1,277,864	1,792	-
<b>Overall total (A + B) 31.12.2016</b>	<b>6,909,185</b>	<b>12,495</b>	<b>6,313</b>
<b>Overall total (A + B) 31.12.2015</b>	<b>5,146,895</b>	<b>14,041</b>	<b>2,400</b>

## B.2 Geographical breakdown of cash and off-balance sheet credit exposures to customers (book value)

EXPOSURES/GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
<b>A. Cash exposures</b>										
A.1 Bad loans	23,024	11,328	-	596	-	-	-	-	-	-
A.2 Unlikely to pay	6,771	140	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	2,064	429	-	2	-	-	-	-	-	-
A.4 Other performing exposures	6,491,415	3,273	184,321	2,944	74,378	72	1,495	-	2,611	24
<b>Total A</b>	<b>6,523,274</b>	<b>15,170</b>	<b>184,321</b>	<b>3,542</b>	<b>74,378</b>	<b>72</b>	<b>1,495</b>	<b>-</b>	<b>2,611</b>	<b>24</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Bad loans	68	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	2,851	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Other performing exposure	119,692	-	495	-	-	-	-	-	-	-
<b>Total B</b>	<b>122,611</b>	<b>-</b>	<b>495</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total at 31.12.2016</b>	<b>6,645,885</b>	<b>15,170</b>	<b>184,816</b>	<b>3,542</b>	<b>74,378</b>	<b>72</b>	<b>1,495</b>	<b>-</b>	<b>2,611</b>	<b>24</b>
<b>Total at 31.12.2015</b>	<b>4,886,336</b>	<b>15,427</b>	<b>213,938</b>	<b>1,008</b>	<b>44,989</b>	<b>6</b>	<b>1,632</b>	<b>-</b>	<b>-</b>	<b>-</b>

## B.3 Geographical breakdown of cash and off-balance sheet credit exposures to banks (book value)

EXPOSURES/GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
<b>A. Cash exposures</b>										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	370,979	1,303	89,261	173	57,103	-	7,526	29	13,062	15
<b>Total A</b>	<b>370,979</b>	<b>1,303</b>	<b>89,261</b>	<b>173</b>	<b>57,103</b>	<b>-</b>	<b>7,526</b>	<b>29</b>	<b>13,062</b>	<b>15</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Other performing exposures	2,526	-	240	-	-	-	-	-	-	-
<b>Total B</b>	<b>2,526</b>	<b>-</b>	<b>240</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total at 31.12.2016</b>	<b>373,505</b>	<b>1,303</b>	<b>89,501</b>	<b>173</b>	<b>57,103</b>	<b>-</b>	<b>7,526</b>	<b>29</b>	<b>13,062</b>	<b>15</b>
<b>Total at 31.12.2015</b>	<b>398,458</b>	<b>3,872</b>	<b>113,733</b>	<b>53</b>	<b>52,046</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## B.4 Large exposures

The Regulation (EU) No. 575/2013 (CRR) and the Directive No. 2013/36/EU (CRD IV), published on the *Official Journal of the European Union* on 27 June 2013, enacted the new rules defined by the Basel Committee on banking supervision. On 17 December 2013, the Bank of Italy applied the above provisions by issuing Circular Letter No. 285 "Prudential Supervisory Provisions Concerning Banks" – further amended in 2014 – and Circular Letter No. 286 "Instructions for the Compilation of Prudential Reports for Banks and Securities Brokerage Companies". In detail, according to the new rules, exposure values of a bank to a counterparty or to a group of connected counterparties must be defined as a "large exposure" if it is equal to or above 10% of the bank's eligible capital base.

The EU Regulation CRR No. 575/2013 defines the "eligible capital" as the sum of Tier 1 capital and Tier 2 capital that is equal to or less than one third of Tier 1 capital.

The exposure value of an asset item shall be its accounting value and not its weighted value. Therefore, the positions which fall within the meaning of "Large Exposure" are recognised at both book value and weighted value.

BIG RISKS	31.12.2016	31.12.2015
a) Carrying amount	5,807,203	3,614,884
b) Weighted amount	37,886	117,406
c) Number	4	4

### C. Securitisation

The securitisation portfolio contains only Quarzo CLI securities, with underlying residential and commercial mortgages (RMBS/CMBS).

TYPE OF UNDERLYING ASSETS/EXPOSURES	CASH EXPOSURES						TOTAL NET EXPOSURE
	SENIOR		MEZZANINE		JUNIOR		
	GROSS EXPOSURE	NET EXPOSURE	GROSS EXPOSURE	NET EXPOSURE	GROSS EXPOSURE	NET EXPOSURE	
<b>A. With own underlying assets</b>	-	-	-	-	-	-	-
a) Non-performing	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-
<b>B. With third-party underlying assets</b>	<b>12,473</b>	<b>12,009</b>	-	-	-	-	<b>12,009</b>
a) Non-performing	-	-	-	-	-	-	-
b) Other	12,473	12,009	-	-	-	-	12,009

#### C.1.3 Exposures resulting from the third-party main securitisation, broken down by type of securitised assets and type of exposure

TYPE OF UNDERLYING ASSETS/EXPOSURES	CASH EXPOSURES					
	SENIOR		MEZZANINE		JUNIOR	
	BOOK VALUE	ADJUSTMENTS OF REVERSALS	BOOK VALUE	ADJUSTMENTS OF REVERSALS	BOOK VALUE	ADJUSTMENTS OF REVERSALS
<b>A. Cash exposures</b>						
A.1 QUARZO CL1 FRN 31.12.2019 ABS. Trading portfolio ISIN IT0004284706 underlying RMBS/CMBS	12,009	-464	-	-	-	-
<b>B. Guarantees issued</b>	-	-	-	-	-	-
<b>C. Lines of credit</b>	-	-	-	-	-	-

#### C.1.4 Exposures arising on securitisations broken down by financial-asset portfolio and type

EXPOSURE/PORTFOLIO	TYPE OF FINANCIAL-ASSET PORTFOLIO						31.12.2016	31.12.2015
	HFT FINANCIAL ASSETS	FINANCIAL ASSETS AT FAIR VALUE	AFS FINANCIAL ASSETS	HTM FINANCIAL ASSETS	LOANS			
<b>1. Cash exposures</b>	<b>12,009</b>	-	-	-	-	-	<b>12,009</b>	<b>13,027</b>
Senior	12,009	-	-	-	-	-	12,009	13,027
Mezzanine	-	-	-	-	-	-	-	-
Junior	-	-	-	-	-	-	-	-
<b>2. Off-balance sheet exposures</b>	-	-	-	-	-	-	-	-
Senior	-	-	-	-	-	-	-	-
Mezzanine	-	-	-	-	-	-	-	-
Junior	-	-	-	-	-	-	-	-

## E. Transfer Operations

### E.1 Transferred financial assets not written off: book value and total value

TECHNICAL TYPE/ PORTFOLIO	HFT FINANCIAL ASSETS			AFS FINANCIAL ASSETS			HTM FINANCIAL ASSETS			LOANS TO BANKS			LOANS TO CUSTOMERS			TOTAL AT 31.12.2016	TOTAL AT 31.12.2015
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
<b>A. Cash assets</b>	-	-	-	<b>349,829</b>	-	-	-	-	-	-	-	-	-	-	-	<b>349,829</b>	<b>304,153</b>
1. Debt securities	-	-	-	349,829	-	-	-	-	-	-	-	-	-	-	-	349,829	304,153
2. Equity securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	-	-	-	<b>349,829</b>	-	-	-	-	-	-	-	-	-	-	-	<b>349,829</b>	-
<i>of which: non-performing</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total at 31.12.2015</b>	-	-	-	<b>304,153</b>	-	-	-	-	-	-	-	-	-	-	-	-	<b>304,153</b>
<i>of which: non-performing</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A = transferred financial assets fully recognised (book value).  
B = transferred financial assets partially recognised (book value).  
C = transferred financial assets partially recognised (total value).

### E.2 Financial liabilities for transferred assets not written off: book value

LIABILITIES/ASSETS PORTFOLIO	HFT FINANCIAL ASSETS	FVO FINANCIAL ASSETS	AFS FINANCIAL ASSETS	HTM FINANCIAL ASSETS	LOANS TO BANKS	LOANS TO CUSTOMERS	TOTAL
<b>1. Due to customers</b>	-	-	-	-	-	-	-
a) for fully recognised assets	-	-	-	-	-	-	-
b) for partially recognised assets	-	-	-	-	-	-	-
<b>2. Due to banks</b>	-	-	<b>351,437</b>	-	-	-	<b>351,437</b>
a) for fully recognised assets	-	-	351,437	-	-	-	351,437
b) for partially recognised assets	-	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	-	-	<b>351,437</b>	-	-	-	<b>351,437</b>
<b>Total at 31.12.2015</b>	-	-	<b>303,927</b>	-	-	-	<b>303,927</b>

## Section 2 – Market risks

The Bank's exposure to market risk is mainly due to the trading by the parent company, Banca Generali, of financial instruments on its own account, while the exposure of the subsidiaries is limited and residual. Market risk is represented by the possibility to suffer losses due to variations in the value of a security or a portfolio of securities associated with unexpected variations in market conditions (share prices, interest rates, exchange rates, the prices of goods and the volatility of risk factors).

In particular, securities measured at fair value and classified in the HFT and AFS portfolios are exposed to risk, as fluctuations in their prices impact the Group's profit and loss account and/or net equity.

With regard to market risk management, the Group has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority. The Finance Department conducts first-tier management and monitoring of Banca Generali's exposure to market risk in accordance with predefined operating limits detailed in the Parent Company's Finance Rules.

Second-tier checks are a responsibility of the Risk and Capital Adequacy Department, as is the monitoring of operating limits with the objective of maintaining a level of risk that is consistent with the strategies and risk appetite defined by the Board of Directors.

The Internal Audit Department conducts independent controls (third-tier checks) on transactions undertaken by the Departments/Functions involved in the management of market risk in accordance with the Parent Company's Internal Rules and Procedures.

The Risk Committee is the collegial body responsible for a shared vision of the global performance of the market risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

The own securities portfolio is mainly invested in Italian government securities, securities issued by Eurozone governments, and domestic and international banks and, to a lesser extent, in securities of corporate issuers.

The portfolio's exposure to the equities market remains limited with respect to the bond component, and derivatives transactions are absolutely marginal in extent.

The Group's investment policy is to contain country risk and exchange rate risk to very low levels. Exposure to non-OECD issuers and entities is limited.

The main objective of exchange rate operations is to contain open positions in foreign currencies. The main objective of interest rate operations is to align asset and liability items.

The Banca Generali Group holds only small amounts of securities denominated in foreign currencies.

Market risks are measured based on a daily analysis of VaR (Value at Risk) in the next day for 99% of the cases, prudentially monitored on the whole owned portfolio. VaR describes the maximum potential loss in value of a portfolio in the next day in 99% of the cases. It is calculated based on the volatility of and correlations among the individual risk factors, including, for each currency, short- and long-term interest rates, exchange rates and share prices.

VaR measurement is used for the sole purpose of performing a management analysis of the Group, which has no internal models aimed at submitting regular reports to the Supervisory Body.

## 2.1 Interest Rate and Price Risk – Regulatory Trading Book

### Qualitative information

#### A. General aspects

The main activities of the Banking Group that increase its exposure to interest rate risk relating to its trading book include:

- > management of the government bond book;
- > management of the financial bond portfolio;
- > dealings in interest rate derivatives, all of which over the counter.

As the majority of financial products and services are distributed by the sales network, the objectives assigned to the Finance Department in relation to the trading book are aimed at the minimisation of risks.

Management of the trading book is therefore based on the following strategies:

- > supporting the activities of the sales network in relation to placing repurchase agreements for customers;
- > supporting secondary market trading for the clientele, with particular reference to Generali Group counterparties (trading for its own account);
- > providing medium-term liquidity management by investing in government securities and/or securities of major banks;
- > investing with a view to asset allocation in floating- and/or fixed-rate financial bonds and asset-backed securities issued by companies with high investment grade, with the objective of improving the risk-return profile and containing risks.

The bank's investments in structured securities are negligible.

#### B. Management processes and interest rate risk measurement techniques

Market risks are measured based on a daily analysis of VaR (Value at Risk) in the next day for 99% of the cases, prudentially monitored on the whole owned portfolio.

VaR describes the maximum potential loss in value of a portfolio in the next day in 99% of the cases. It is calculated based on the volatility of and correlations among the individual risk factors, including, for each currency, short- and long-term interest rates, exchange rates and share prices.

The following table shows the average risk of the Bank's portfolio (both trading and banking books) for 2016:

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Average VaR 99% 1 day (Euro/000)	21,905.28	23,851.48	19,888.48	15,518.88

Throughout 2016, market risk remained at moderate levels, with an average one-day 99% VaR of approximately 0.4% of the total portfolio.

## Quantitative information

## 1. Regulatory trading portfolio: breakdown by time-to-maturity (repricing date) of cash assets and liabilities and financial derivatives

TYPE/TIME-TO-MATURITY	REPAYABLE ON DEMAND	UP TO 3 MONTHS	OVER 3 MONTHS, UP TO 6 MONTHS	OVER 6 MONTHS, UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS, UP TO 10 YEARS	OVER 10 YEARS	UNSPECIFIED MATURITY	TOTAL
<b>1. Cash assets</b>	-	<b>12,798</b>	<b>10,219</b>	<b>11,905</b>	-	-	-	-	<b>34,922</b>
1.1 Debt securities									
- With early repayment option	-	-	1,734	1,800	-	-	-	-	3,534
- Other	-	12,798	8,485	10,105	-	-	-	-	31,388
1.2 Other assets	-	-	-	-	-	-	-	-	-
<b>2. Cash liabilities</b>	-	-	-	-	-	-	-	-	-
2.1 Repurchase agreement liabilities	-	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	<b>147,006</b>	<b>27,105</b>	<b>7,730</b>	<b>379</b>	<b>16,950</b>	<b>278</b>	-	<b>199,448</b>
3.1 With underlying securities	-	18,096	297	102	379	16,950	278	-	36,102
- Options									
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
- Other									
- long positions	-	14,352	297	48	189	3,056	139	-	18,081
- short positions	-	3,744	-	54	190	13,894	139	-	18,021
3.2 Without underlying securities	-	128,910	26,808	7,628	-	-	-	-	163,346
- Options									
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
- Other									
- long positions	-	64,455	13,404	3,814	-	-	-	-	81,673
- short positions	-	64,455	13,404	3,814	-	-	-	-	81,673

## 2. Regulatory trading portfolio: breakdown of exposures in capital securities and stock indices for the main countries on the market of listing

TYPE OF TRANSACTION/INDEX	LISTED			NON- LISTED
	ITALY	FRANCE	OTHER	
<b>A. Equity securities</b>				
Long positions	843	-	1,116	8
Short positions	-	-	-	-
<b>B. Equity security purchases/ sales to be settled</b>				
Long positions	-	-	-	-
Short positions	-	-	-	-
<b>C. Other derivatives on capital securities</b>				
Long positions	-	-	-	-
Short positions	13	-	-	-
<b>D. Stock index derivatives</b>				
Long positions	-	-	-	-
Short positions	-	-	-	-

Price risk consists of the risk that the fair value or future cash flows of a given financial instrument may fluctuate as a result of changes in market prices (other than changes triggered by **interest-rate risk** or **exchange-rate risk**), regardless of whether such changes are the result of factors specific to the instrument or issuer in question, or are due to factors that influence all similar financial instruments traded on the market.

Price risk arises mainly as a result of the trading of shares, stock-index and/or stock futures, stock-index and/or stock options, warrants, covered warrants, option rights, etc., and in relation to UCITS units held in the relevant portfolio.

However, the Group's exposure to this risk is moderate given the limited weight of such securities in its portfolio of financial assets held for trading.

### 3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

Sensitivity analysis was also employed to assess the market risks originating in the trading portfolio.

This sort of analysis quantifies the change in the value of a financial portfolio as a result of variation in the primary risk factors, which for Banca Generali Group are interest-rate and price risk.

In calculating interest-rate risk, the analysis assumed a parallel, uniform shift of +100/-100 basis points in the rate curve.

The next stage involves establishing the potential effects on the Profit and Loss Account, both in terms of the point change in the fair value of the portfolio under analysis on the reporting date, and the change in the net interest income for the current year.

In calculating the price risk associated with equities, a 10% change in market prices was considered. On this basis, the point impact of such a change on the current equities portfolio was then determined.

On the whole, a change in market prices of +10%/-10% would result in the recognition through profit and loss of capital gains/losses of +196.7/-196.7 thousand euros, gross of the tax effect, on the portfolio of equity securities held for trading.

By contrast, an interest rate movement of +100/-100 basis points would have had an overall effect on the fair value of the portfolio of debt securities held for trading of -425.4/+425.4 thousand euros, gross of the tax effect.

	HFT
FV equity delta (+10%)	196.70
FV equity delta (-10%)	-196.70
FV bonds delta (+1%)	-425.45
- of which: government bonds	-
FV bonds delta (-1%)	425.45
- of which: government bonds	-
Net interest income delta (+1%)	442.92
Net interest income delta (-1%)	-371.13

## 2.2 Interest Rate and Price Risk - Banking Portfolio

### Qualitative information

#### A. General aspects, management processes and interest rate risk measurement techniques

The interest rate risk to which the banking portfolio is exposed consists of the risk of incurring losses due to potential fluctuations in interest rates.

This risk is generated by the gaps between the maturities and time required to reset the interest rate on the Group's assets and liabilities. Where such gaps are present, fluctuations in interest rates result in variations of net income, and therefore projected profit, as well as variations in the market value of the assets and liabilities, and, in turn, net equity.

With regard to managing the interest rate risk to which the banking portfolio is exposed, the Group has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

The Finance Department and Lending Department conduct first-tier controls on the management of interest rate risk. The Risk and Capital Adequacy Department is responsible for second-tier controls with the aim of conducting specific independent measurement, control and monitoring of the interest rate risk to which the banking portfolio is exposed. The Internal Audit Department is responsible for third-tier controls of loans and inflows transactions.



The Risk Committee is the collegial body responsible for a shared vision of the global performance of the management and control system for interest rate risk in the banking portfolio and for deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Most of the interest rate risk in the Group's banking portfolio arises from:

- > trading on the interbank deposits market;
- > customer lending activities; and
- > investment operations of the debt securities portfolio held as treasury investment, which can cause a mismatch in the repricing dates and currencies of asset and liability items, with a negative impact on the Group's objectives in terms of net interest income.

The price risk associated with the banking portfolio is limited to the equity investments classified to the portfolio of financial assets available for sale (AFS).

Financial instruments mainly refer to equities and UCITS units listed on regulated markets, except for SIF Tyndaris SICAV (closed-end fund linked to the real-estate market), the Algebris NPL fund, the Tenax Italian Credit Funds, of Bnp Paribas Bond Italia fund, and the equity investment in the vehicle Athena Private Equity and Veneto Banca.

The remainder of the portfolio consists of unlisted minority equity investments representing a marginal portion of financial assets. These financial assets have nonetheless continued to be carried at cost due to the lack of market bid prices.

## **B. Fair value and cash flow hedging**

The Group does not currently engage in fair value or cash flow hedging.

## Quantitative information

**1. Banking portfolio: broken down by time-to-maturity (according to repricing date) of financial assets and liabilities**

TYPE/TIME-TO-MATURITY	REPAYABLE ON DEMAND	UP TO 3 MONTHS	OVER 3 MONTHS, UP TO 6 MONTHS	OVER 6 MONTHS, UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS, UP TO 10 YEARS	OVER 10 YEARS	UNSPECIFIED MATURITY	TOTAL
<b>1. Cash assets</b>	<b>1,901,387</b>	<b>1,259,995</b>	<b>2,069,963</b>	<b>45,520</b>	<b>1,433,826</b>	<b>578,957</b>	<b>242</b>	<b>-</b>	<b>7,289,890</b>
1.1 Debt securities									
- with early repayment option	-	12,743	3,049	5,060	17,032	10,102	-	-	47,986
- other	-	1,108,695	2,065,411	40,396	1,416,325	568,609	-	-	5,199,436
1.2 Loans to banks	112,327	91,314	-	-	-	-	-	-	203,641
1.3 Loans to customers									
- current accounts	906,970	3	3	5	51	-	-	-	907,032
- other loans	882,090	47,240	1,500	59	418	246	242	-	931,795
- with early repayment option	773,494	268	28	59	329	246	242	-	774,666
- other	108,596	46,972	1,472	-	89	-	-	-	157,129
<b>2. Cash liabilities</b>	<b>6,619,321</b>	<b>163,727</b>	<b>99,817</b>	<b>99,493</b>	<b>400,000</b>	<b>43,282</b>	<b>-</b>	<b>-</b>	<b>7,425,640</b>
2.1 Due to customers									
- current accounts	6,466,672	-	-	-	-	-	-	-	6,466,672
- other payables	106,132	6,845	-	-	-	43,282	-	-	156,259
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	106,132	6,845	-	-	-	43,282	-	-	156,259
2.2 Debiti verso banche									
- current accounts	22,308	-	-	-	-	-	-	-	22,308
- other payables	24,209	156,882	99,817	99,493	400,000	-	-	-	780,401
2.3 Debt securities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
2.4 Other liabilities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
3.1 With underlying securities									
- Options									
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
- Other									
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
3.2 Without underlying securities									
- Options									
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
- Other									
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
<b>4. Other off-balance sheet transactions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-

**2. Banking portfolio: internal models and other methods of sensitivity analysis**

The sensitivity analysis discussed in the foregoing paragraph has also been conducted for the banking portfolio, focusing on the portfolio of financial assets available for sale, and, with reference to interest-rate risk, for the portfolio of financial assets held to maturity and the portfolio of loans to customers and banks.

As regards the price risk, a change in market prices of +10%/-10% would result in a change in valuation reserves associated with equities classified among AFS assets of +1.6/-1.6 million euros, whereas a shock of +100/-100 basis points would yield a change in the valuation reserves on AFS debt securities of -68/+68 million euros, gross of the tax effect.

The fair value delta component associated with the government bonds in the AFS portfolio would amount to -65.6/+65.6 million euros as a result of the hypothesised shift in the rate curve, or 96.3% of the fair value delta of the entire AFS portfolio.

To provide a complete information, the following table shows the effect of a similar price shock in the fair value of portfolios recognised at amortised cost.

A change of +100/-100 basis points in interest rates would have an effect of +39.9/-39.9 million euros on the flow of interest on the banking book consisting of debt securities classified among financial assets available for sale (AFS), held to maturity (HTM), loans and receivables (L&R) and loans.

	HFT	HTM+L&R	LOANS (*)	TOTAL
FV equity delta (+10%)	1,586.80	-	-	1,586.80
FV equity delta (-10%)	-1,586.80	-	-	-1,586.80
FV bonds & loans delta (+1%)	-68,089.38	-40,771.02	-44,287.58	-153,147.99
- of which: government bonds	-65,563.80	-32,016.82	-	-97,580.62
FV bond & loans delta (-1%)	68,089.38	40,771.02	44,287.58	153,147.99
- of which: government bonds	65,563.80	32,010.32	-	97,574.12
Net interest income delta (+1%)	16,613.31	760.51	22,491.12	39,864.94
Net interest income delta (-1%)	-16,614.17	-760.56	-22,492.39	-39,867.12

(\*) Loans to banks and Loans to customers.

The same criteria were also applied to a sensitivity analysis of net interest income of all financial statement items. It resulted in a potential impact on the Profit and Loss Account of +37 million euros, gross of the tax effect, in case of increase of interest rates by 1%, and -36.8 million euros in case of decrease by the same amount.

	ASSETS	LIABILITIES	NET
Net interest income delta (+1%)	40,307.86	-3,256.57	37,051.29
Net interest income delta (-1%)	-40,238.24	3,401.90	-36,836.35

## 2.3 Exchange Rate Risk

### Qualitative information

#### A. General aspect, management processes and exchange rate risk measurement techniques

Exchange rate risk is the possibility of incurring losses due to adverse fluctuations in the value of foreign currencies on all positions held by the Bank, regardless of the portfolio to which they have been allocated.

With regard to exchange rate risk management, the Group has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

The Finance Department performs first-tier controls of exchange-rate risk management.

The Risk and Capital Adequacy Department Service is responsible for second-tier controls with the aim of conducting specific independent measurement, control and monitoring of the exchange rate risk.

The Internal Audit Department is responsible for third-tier controls of loans and inflows in foreign currency.

The Risk Committee is the collegial body responsible for a shared vision of the global performance of the exchange rate risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Most of the exchange-rate risk arises from:

- > trading of securities and other financial assets in foreign currency;
- > interest to be collected and/or paid, reimbursements, fees or dividends in foreign currency;
- > bank transfers in foreign currency to customers (Institutional and Retail customers);
- > currency trading on behalf of customers.

The main objective of exchange rate operations is to contain open positions in foreign currencies, exclusively currency account currencies.

Exchange rate risk is mitigated through funding activities in the same currency as that of lending transactions.

## Quantitative information

## 1. Breakdown by currency of denomination for assets, liabilities, and derivatives

ITEMS	CURRENCY								TOTAL CURRENCIES
	US DOLLAR	JAPANESE YEN	SWISS FRANC	POUND STERLING	ICELAND KRONA	CANADIAN DOLLAR	AUSTRALIAN DOLLAR	OTHER CURRENCIES	
<b>A. Financial assets</b>	<b>39,716</b>	<b>4,192</b>	<b>16,446</b>	<b>4,310</b>	<b>1,882</b>	<b>1,991</b>	<b>1,762</b>	<b>1,648</b>	<b>71,947</b>
A.1 Debt securities	-	-	-	-	-	-	-	-	-
A.2 Equity securities	1,032	-	-	-	-	-	-	-	1,032
A.3 Loans to banks	38,684	4,090	11,567	4,310	1,882	1,991	1,762	1,648	65,934
A.4 Loans to customers	-	102	4,879	-	-	-	-	-	4,981
A.5 Other financial assets	-	-	-	-	-	-	-	-	-
<b>B. Other assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>C. Financial liabilities</b>	<b>39,876</b>	<b>4,085</b>	<b>16,366</b>	<b>4,502</b>	<b>1,177</b>	<b>1,957</b>	<b>1,533</b>	<b>1,585</b>	<b>71,081</b>
C.1 Due to banks	-	-	4,748	-	-	-	-	-	4,748
C.2 Due to customers	39,876	4,085	11,618	4,502	1,177	1,957	1,533	1,585	66,333
C.3 Debt securities	-	-	-	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-	-	-	-
<b>D. Other liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>E. Financial derivatives</b>	<b>76</b>	<b>-3</b>	<b>-136</b>	<b>-2,731</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-2,790</b>
Options	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
Other derivatives	76	-3	-136	-2,731	-	-	-	4	-2,790
- long positions	29,299	733	60	8,560	-	-	-	789	39,441
- short positions	29,223	736	196	11,291	-	-	-	785	42,231
<b>Total assets</b>	<b>69,015</b>	<b>4,925</b>	<b>16,506</b>	<b>12,870</b>	<b>1,882</b>	<b>1,991</b>	<b>1,762</b>	<b>2,437</b>	<b>111,388</b>
<b>Total liabilities</b>	<b>69,099</b>	<b>4,821</b>	<b>16,562</b>	<b>15,793</b>	<b>1,177</b>	<b>1,957</b>	<b>1,533</b>	<b>2,370</b>	<b>113,312</b>
<b>Excess</b>	<b>-84</b>	<b>104</b>	<b>-56</b>	<b>-2,923</b>	<b>705</b>	<b>34</b>	<b>229</b>	<b>67</b>	<b>-1,924</b>

## 2. Internal models and other methods of sensitivity analysis

The sensitivity analysis discussed in the foregoing paragraph has been also conducted on assets and liabilities denominated in currencies other than the euro, regardless of the portfolio to which they have been allocated.

On the whole, a change in market prices of +10%/-10% would result in a change of the value of securities of +103/-103 thousand euros, whereas a shock of +100/-100 bps in rates would have an effect on the fair value of bonds and securities other than equities in foreign currency of -18/+18 thousand euros, gross of the tax effect.

	ASSETS
FV equity delta (+10%)	103.20
FV equity delta (-10%)	-103.20
FV non-equity delta (+1%)	-18.01
FV non-equity delta (-1%)	18.01
Net interest income delta (+1%)	691.62
Net interest income delta (-1%)	-691.62

By contrast, an interest rate movement of +100/-100 basis points would have an effect of -/+692 thousand euros on the flow of interest on assets and liabilities denominated in currencies other than the euro.

## 2.4 Derivative instruments

### A. Financial derivatives

#### A.1 Regulatory and trading portfolio: notional amounts at year-end

TYPES OF DERIVATIVES/ UNDERLYING ASSETS	31.12.2016		31.12.2015	
	OTC	CENTRAL COUNTERPARTIES	OTC	CENTRAL COUNTERPARTIES
<b>1. Debt securities and interest rates</b>	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Equity securities and equity indices</b>	<b>6,902</b>	-	-	-
a) Options	6,902	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Currencies and gold</b>	<b>40,254</b>	-	<b>67,217</b>	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	40,254	-	67,217	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Goods</b>	-	-	-	-
<b>5. Other underlying assets</b>	-	-	-	-
<b>Total</b>	<b>47,156</b>	-	<b>67,217</b>	-

## A.3 Financial derivatives: positive gross fair value - breakdown by products

PORTFOLIO/TYPE OF DERIVATIVES	POSITIVE FV 2016		POSITIVE FV 2015	
	OTC	CENTRAL COUNTERPARTIES	OTC	CENTRAL COUNTERPARTIES
<b>A. Regulatory trading portfolio</b>	<b>877</b>	<b>-</b>	<b>529</b>	<b>-</b>
a) Options	104	-	42	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	773	-	487	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>B. Hedging portfolio</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking portfolio - other derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>877</b>	<b>-</b>	<b>529</b>	<b>-</b>

## A.4 Financial derivatives: negative gross fair value - breakdown by products

PORTFOLIO/TYPE OF DERIVATIVES	NEGATIVE FV 2016		NEGATIVE FV 2015	
	OTC	CENTRAL COUNTERPARTIES	OTC	CENTRAL COUNTERPARTIES
<b>A. Regulatory trading portfolio</b>	<b>1,169</b>	<b>-</b>	<b>463</b>	<b>-</b>
a) Options	409	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	760	-	463	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>B. Hedging portfolio</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking portfolio – other derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>1,169</b>	<b>-</b>	<b>463</b>	<b>-</b>

## A.5 OTC financial derivatives - Regulatory Trading Book: notional values, positive and negative gross fair value by counterparties - contracts other than netting arrangements

CONTRACTS OTHER THAN NETTING ARRANGEMENTS	GOVERNMENT AND CENTRAL BANKS	OTHER PUBLIC INSTITUTIONS	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
<b>1) Debt securities and interest-rates</b>							
Notional value	-	-	-	-	-	-	-
Positive fair value	-	-	-	-	-	-	-
Negative fair value	-	-	-	-	-	-	-
Future exposure	-	-	-	-	-	-	-
<b>2) Equity securities and equity indices</b>							
Notional value	-	-	-	6,902	-	-	-
Positive fair value	-	-	-	104	-	-	-
Negative fair value	-	-	-	409	-	-	-
Future exposure	-	-	-	181	-	-	-
<b>3) Currencies and gold</b>							
Notional value	-	-	20,127	-	-	6,155	13,972
Positive fair value	-	-	193	-	-	300	280
Negative fair value	-	-	572	-	-	-	188
Future exposure	-	-	201	-	-	62	140
<b>4) Other values</b>							
Notional value	-	-	-	-	-	-	-
Positive fair value	-	-	-	-	-	-	-
Negative fair value	-	-	-	-	-	-	-
Future exposure	-	-	-	-	-	-	-

**A.9 Time-to-maturity of OTC financial derivatives: notional values**

UNDERLYING/RESIDUAL LIFE	UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS	TOTAL
<b>A. Regulatory trading portfolio</b>	<b>46,196</b>	<b>960</b>	-	<b>47,156</b>
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity securities and stock indices	5,942	960	-	6,902
A.3 Financial derivatives on exchange rates and gold	40,254	-	-	40,254
A.4 Financial derivatives on other valuables	-	-	-	-
<b>B. Banking portfolio</b>	-	-	-	-
B.1 Financial derivatives on debt securities and interest rates	-	-	-	-
B.2 Financial derivatives on equity securities and stock indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other valuables	-	-	-	-
<b>Total at 31.12.2016</b>	<b>46,196</b>	<b>960</b>	-	<b>47,156</b>
<b>Total at 31.12.2015</b>	<b>67,217</b>	-	-	<b>67,217</b>

**Section 3 – Liquidity risk**

Exposure to liquidity risk derives from funding and lending transactions in the course of the Group's ordinary business, as well as from the presence of unlisted financial instruments in its owned portfolios. Such risk takes the form of default on payment obligations, which may be caused by an inability to raise funds (funding liquidity risk) or the existence of limits on the divestment of assets (market liquidity risk). Liquidity risk also includes the risk that an entity may be forced to meet its own payment obligations at non-market costs, that is to say while incurring a high cost of funding or (and in some cases concurrently) sustaining capital losses when divesting assets.

With regard to liquidity risk management, the Group has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

The Finance Department is responsible for first-tier controls and managing treasury and proprietary investment cash flows with the aim of ensuring thorough diversification of sources of financing and monitoring cash flows and daily liquidity. Liquidity needs are primarily managed through recourse to the money market (interbank deposits and repurchase agreements) and, secondly, where present, through extraordinary measures provided by the ECB. The Group also holds a portfolio of highly liquid, listed financial instruments in order to react to possible crisis scenarios involving a sudden interruption of funding flows.

The Risk and Capital Adequacy Department is responsible for second-tier controls. Liquidity risks are maintained within appropriate short-term and structural operating limits (beyond one year), which are monitored by the Risk and Capital Adequacy Department. Such limits are established with the objective of maintaining a level of risk that is consistent with the strategies and risk appetite defined by the Board of Directors.

The Internal Audit Department is responsible for third-tier controls on lending and inflows transactions.

The Risk Committee is the collegial body responsible for a shared vision of the global performance of the liquidity risk management and control system and for deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.



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

The own securities portfolio is mainly invested in Italian government securities, securities issued by Eurozone governments, and domestic and international financials and, to a lesser extent, in securities of corporate issuers.

The Group uses a maturity ladder to apply the guidelines set out in the Prudential Supervisory provisions governing the measurement of net financial position. Through the maturity ladder the Bank assesses the matching of expected cash flows, by balancing assets and liabilities whose maturity falls within each maturity range; the balances and therefore the mismatches between expected inflows and outflows within each maturity range allow, through the construction of cumulative mismatches, the calculation of the net balance of funding requirement (or surplus) over the period considered.

## 1. Breakdown of financial assets and liabilities by remaining contractual maturity

ITEM/TIME-TO-MATURITY	ON DEMAND	OVER 1 DAY UP TO 7 DAYS	OVER 7 DAYS UP TO 15 DAYS	OVER 15 DAYS UP TO 1 MONTH	OVER 1 MONTH UP TO 3 MONTHS	OVER 3 MONTHS UP TO 6 MONTHS	OVER 6 MONTHS UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	INDEF. MATURITY	TOTAL
<b>Cash assets</b>											
A.1 Government securities	-	-	1,144	-	6,789	112,229	40,088	2,299,820	2,265,001	-	4,725,071
A.2 Other debt securities	-	-	212	16,661	22,958	13,879	62,946	390,241	55,200	-	562,097
A.3 UCITS units	45,128	-	-	-	-	-	-	-	-	-	45,128
A.4 Loans											
- to banks	112,327	-	-	25,000	10,000	-	-	-	-	56,314	203,641
- to customers	1,006,899	90	6,907	1,136	55,508	41,576	112,464	303,408	318,518	-	1,846,506
<b>Total</b>	<b>1,164,354</b>	<b>90</b>	<b>8,263</b>	<b>42,797</b>	<b>95,255</b>	<b>167,684</b>	<b>215,498</b>	<b>2,993,469</b>	<b>2,638,719</b>	<b>56,314</b>	<b>7,382,443</b>
<b>Cash liabilities</b>											
B.1 Deposits and current accounts											
- from banks	23,674	-	-	-	4,753	-	-	400,000	-	-	428,427
- from customers	6,465,118	26	-	130	244	270	691	193	-	-	6,466,672
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	154,247	-	-	-	158,979	99,817	99,493	-	43,000	-	555,536
<b>Total</b>	<b>6,643,039</b>	<b>26</b>	<b>-</b>	<b>130</b>	<b>163,976</b>	<b>100,087</b>	<b>100,184</b>	<b>400,193</b>	<b>43,000</b>	<b>-</b>	<b>7,450,635</b>
<b>Off-balance sheet transactions</b>											
C.1 Financial derivatives with capital swap											
- long positions	-	55,770	15,173	1,157	6,707	13,403	3,829	520	3,210	-	99,769
- short positions	-	45,162	15,173	1,157	6,707	13,403	3,814	240	13,210	-	98,866
C.2 Financial derivatives with capital swap											
- long positions	101	-	-	-	-	-	-	-	-	-	101
- short positions	409	-	-	-	-	-	-	-	-	-	409
C.3 Deposits and loans receivable											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds											
- long positions	-	-	-	-	-	-	150	63	4	-	217
- short positions	217	-	-	-	-	-	-	-	-	-	217
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>727</b>	<b>100,932</b>	<b>30,346</b>	<b>2,314</b>	<b>13,414</b>	<b>26,806</b>	<b>7,793</b>	<b>823</b>	<b>16,424</b>	<b>-</b>	<b>199,579</b>

## Section 4 – Operating risks

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

With regard to operating risk management, the Group has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the Supervisory Authority.

The functions dealing with Organisation and IT guarantee the efficient functioning of application procedures and information systems that support organisational processes. They also evaluate the physical and logical security conditions within the Group and, if necessary, implement measures to guarantee a higher general level of security.

The Risk and Capital Adequacy Department function identifies and assesses the operational risks inherent in business processes (risk assessment and scoring), measures the impact of operational losses (Loss Data Collection process), monitors the action plans adopted to mitigate material risks, and controls KRIs (Key Risk Indicators) to manage the areas of highest risk.

The Internal Auditing function supervises the regular conduct of the Group's operations and processes, and assesses the efficacy and efficiency of the overall internal control system established to monitor activities exposed to risk.

The Risk Committee is the collegial body responsible for a shared vision of the global performance of the operating risk management and control system and for deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Moreover, the Banca Generali Group has insurance coverage for operating risks deriving from acts of third parties or caused to third parties and adequate clauses covering damages caused by providers of infrastructure and services. In addition, the Group has also approved a Business Continuity Plan.

## PART F – INFORMATION ON NET EQUITY

### Section 1 – Net equity

#### A. Qualitative information

The Banca Generali Group's capital management strategy aims to ensure that the capital and ratios of Banca Generali and the banks and financial companies it controls are consistent with its risk profile and regulatory requirements.

Banca Generali Group and the banks and financial companies belonging to it are subject to the capital adequacy requirements established by the Basel Committee in accordance with the rules defined by the EU (CRR/CRD IV) and applied by the Bank of Italy.

Such rules envisage the concept of "Own Funds", which is separate from the net equity stated in the financial statements. Own funds are calculated as the sum of positive and negative items, which are included in the calculation based on the quality of capital attributed to them.

Compliance with minimum capital requirements is monitored by the Risk Management Service, whereas the Regulatory Reporting function is responsible for calculating and disclosing of own funds and capital requirements on a regular basis, as well as safeguarding the related databases (historical regulatory archive).

The Parent Company's compliance with capital adequacy ratios is monitored throughout the year and on a quarterly basis, and the necessary measures are taken to ensure control over the balance sheet items.

Additional analyses and control of the capital adequacy is also carried out any time the Company carries out extraordinary transactions (e.g., acquisitions, transfers, etc.). In these cases, information concerning the transaction is used to estimate its impact on the capital ratios, and any actions that may be necessary to comply with the requirements of the supervisory authorities are planned.

Compliance with capital adequacy is also guaranteed by the adoption of ECB's recommendations issued on 13 December 2016 on dividend distribution policies (ECB/2016/44) and ECB's Letter of the same date concerning variable remuneration policies, both aimed at observing minimum capital adequacy requirements in the medium/long term and detecting the potential effects of any adverse market situation.

#### B. Quantitative information

At 31 December 2016, consolidated net equity, including net profit for the year, amounted to 646.5 million euros compared to 636.8 million euros at the end of the previous year.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
1. Share capital	116,425	116,093	332	0.3%
2. Additional paid-in capital	53,803	50,063	3,740	7.5%
3. Reserves	314,353	247,214	67,139	27.2%
4. (Treasury shares)	-2,933	-2,555	-378	14.8%
5. Valuation reserves	8,979	22,424	-13,445	-60.0%
6. Equity instruments	-	-	-	n.a.
7. Minority interests	-	-	-	n.a.
8. Net profit (loss) for the year	155,894	203,559	-47,665	-23.4%
<b>Total net equity</b>	<b>646,521</b>	<b>636,798</b>	<b>9,723</b>	<b>1.5%</b>

The change in equity during the reporting year was influenced by the distribution of the 2015 dividend of 139.2 million euros, approved by the Shareholders' Meeting of 21 April 2016 that also approved the Financial Statements, the change in the reserves for shared-based payments (IFRS 2), the change in fair value valuation reserves for the portfolio of AFS financial assets and other reserves included in other comprehensive income.

During the first half of the year, by virtue of the resolution of the Shareholders' Meeting of 21 April 2015 and the authorisation granted by the Bank of Italy on 6 June 2016, 67,051 Banca Generali shares were purchased, for a value of 1,379 thousand euros, in service of the portion of variable remuneration of key personnel of the Banking Group, payable in shares in accordance with the 2016 Remuneration Policy.

On the basis of the achievement of the performance objectives set out in the 2015 Remuneration Policy, 38,099 treasury shares, with a value of 1,001 thousand euros, were awarded to managers and network managers.

At the end of the year, the parent company Banca Generali thus held 126,129 treasury shares, with a value of 2,933 thousand euros, intended solely for the service of remuneration plans for the Banking Group's key personnel.

	31.12.2016	31.12.2015
<b>Net equity at year-start</b>	<b>636,798</b>	<b>536,308</b>
Dividend paid	-139,237	-113,431
Purchase and sale of treasury shares	-1,466	-2,514
Stock option plans: capital increases	3,554	4,384
Matured IFRS2 reserves (from stock option plans and remuneration policies)	1,609	1,740
Matured IFRS 2 reserves on LTIP	2,814	2,311
Change in valuation reserves	-13,445	4,441
Consolidated net profit	155,894	203,559
<b>Net equity at year-end</b>	<b>646,521</b>	<b>636,798</b>
<b>Change</b>	<b>9,723</b>	<b>100,490</b>

### B.1 Consolidated net equity: breakdown by type of company

(€ THOUSAND)	BANKING GROUP	INSURANCE COMPANIES	OTHER COMPANIES	CANCELLATIONS AND ADJUSTMENTS FOR CONSOLIDATION PURPOSES	TOTAL 2016	TOTAL 2015	CHANGE
1. Share capital	116,425	-	-	-	116,425	116,093	332
2. Additional paid-in capital	53,803	-	-	-	53,803	50,063	3,740
3. Reserves	314,353	-	-	-	314,353	247,214	67,139
4. Equity instruments	-	-	-	-	-	-	-
5. (Treasury shares)	-2,933	-	-	-	-2,933	-2,555	-378
6. Valuation reserves	8,979	-	-	-	8,979	22,424	-13,445
AFS financial assets	10,760	-	-	-	10,760	23,921	-13,161
Property and equipment	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-	-	-
Cash-flow hedges	-	-	-	-	-	-	-
Exchange differences	-96	-	-	-	-96	-8	-88
Non-current assets held for sale	-	-	-	-	-	-	-
Actuarial gains (losses) from defined benefit plans	-1,685	-	-	-	-1,685	-1,489	-196
Share of valuation reserves of investee companies valued at equity	-	-	-	-	-	-	-
Special revaluation laws	-	-	-	-	-	-	-
7. Net profit (loss) for the year attributable to the Group and minority interests	155,894	-	-	-	155,894	203,559	-47,665
<b>Total net equity</b>	<b>646,521</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>646,521</b>	<b>636,798</b>	<b>9,723</b>

### B.2 Breakdown of valuation reserves from AFS financial assets

Valuation reserves from AFS financial assets measure the unrealised capital gains and losses, net of the associated tax effect, on the assets allocated to that portfolio and recognised at fair value.

The change in these reserves contributes to determining the overall company performance in relation to other comprehensive income (OCI), without passing through the Profit and Loss Account.

However, when gains or losses are realised or an impairment loss is recognised, the cumulative amount of the reserve is reclassified to the Profit and Loss Account in the year of reference.

Fair value valuation reserves referring to the AFS financial asset portfolio decreased sharply compared to the end of the previous year, due in part to the release to the Profit and Loss Account of pre-existing positive reserves relating to the securities subject to disposal, and in part to the decrease in positive reserves on government securities recorded at the end of the year.

The aggregate had an overall positive balance of 10.8 million euros, down by 13.2 million euros compared to year-end 2015.

This trend was mainly influenced by the portfolio of Italian government bonds, for which net reserves amounted to 6.5 million euros compared to 21.6 million euros at year-end 2015.

ASSETS/VALUES	BANKING GROUP		INSURANCE COMPANIES		OTHER COMPANIES		CANCELLATIONS AND ADJUSTMENTS FOR CONSOLIDATION PURPOSES		TOTAL	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. Debt securities	13,243	-6,101	-	-	-	-	-	-	13,243	-6,101
2. Equity securities	2,176	-17	-	-	-	-	-	-	2,176	-17
3. UCITS units	1,672	-213	-	-	-	-	-	-	1,672	-213
4. Loans	-	-	-	-	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	<b>17,091</b>	<b>-6,331</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,091</b>	<b>-6,331</b>
<b>Total at 31.12.2015</b>	<b>25,352</b>	<b>-1,431</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,352</b>	<b>-1,431</b>

### B.3 Reserves from financial assets available for sale: year changes

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

- > a decrease in net valuation gains totalling 0.9 million euros;
- > the reduction of pre-existing net positive reserves due to re-absorption through profit or loss upon realisation (18.5 million euros);
- > the positive net fiscal effect associated with the above changes and resulting from offsetting net DTLs and increases in DTAs (+6.2 million euros).

(€ THOUSAND)	31.12.2016				
	EQUITY SECURITIES	UCITS UNITS	DEBT SECURITIES		TOTAL
			CORPORATE	GOVERNMENT	
<b>1. Amount at year-start</b>	<b>2,174</b>	<b>-259</b>	<b>413</b>	<b>21,593</b>	<b>23,921</b>
<b>2. Increases</b>	<b>2,794</b>	<b>2,603</b>	<b>2,022</b>	<b>12,334</b>	<b>19,753</b>
2.1 Fair value increases	236	2,579	1,574	5,179	9,568
2.2 Transfer to Profit and Loss Account of negative reserves	-	-	-	-	-
- due to impairment	2,537	-	-	-	2,537
- due to disposal	4	24	430	-	458
2.3 Other changes	17	-	18	7,155	7,190
<b>3. Decreases</b>	<b>2,809</b>	<b>885</b>	<b>1,785</b>	<b>27,435</b>	<b>32,914</b>
3.1 Fair value decreases	2,798	51	394	9,798	13,041
3.2 Adjustments due to impairment	-	-	-	-	-
3.3 Transfer to Profit and Loss Account of positive reserves: due to disposal	-	20	1,261	17,637	18,918
3.4 Other changes	11	814	130	-	955
<b>4. Amount at year-end</b>	<b>2,159</b>	<b>1,459</b>	<b>650</b>	<b>6,492</b>	<b>10,760</b>

### B.4 Valuation reserves relating to defined benefit plans: year changes

	31.12.2016		
	RESERVE	DTAS	NET RESERVE
<b>1. Amount at year-start</b>	<b>-2,054</b>	<b>565</b>	<b>-1,489</b>
<b>2. Increases</b>	<b>-</b>	<b>-</b>	<b>-</b>
Decreases of actuarial losses	-	-	-
Other increases	-	-	-
<b>3. Decreases</b>	<b>-270</b>	<b>74</b>	<b>-196</b>
Increases of actuarial losses	-270	74	-196
Other decreases	-	-	-
<b>4. Amount at year-end</b>	<b>-2,324</b>	<b>639</b>	<b>-1,685</b>

## Section 2 – Own funds and surveillance coefficients

### 2.1 Own funds

The new prudential supervisory provisions applicable to banks and banking groups came into force in EU law on 1 January 2014. They were drafted as part of the Basel Committee agreements (“Basel 3”) and designed to strengthen banks’ capacity to absorb shocks caused by financial and economic stresses, regardless of their origin, improve risk management and governance, and reinforce banks’ transparency and reporting.

The new rules defined by the Basel Committee for bank supervision were adopted in community law in EU Regulation No. 575/2013 (CRR) and Directive No. 2013/36/EU (CRD IV), published in the Official Journal of the European Union on 27 June 2013.

The Bank of Italy applied the above-mentioned provisions by issuing, on 17 December 2013, Circular Letter No. 285 “*Supervisory Provisions for Banks*”, and Circular Letter No. 286 “*Instructions for the Compilation of Prudential Reports for Banks and Securities Brokerage Companies*.”

The Regulatory Technical Standards, issued by the European Banking Authority (EBA) and endorsed by the European Commission, provide the operating instructions for applying the new provisions. EBA also prepares the Implementing Technical Standards (ITS) aimed at harmonising prudential reports (COREP) and statistics (FINREP) at European level.

The new regulatory framework retained the approach based on three pillars underlying the previous Capital Accord (Basel 2), while complementing and reinforcing that approach with the aim of improving the quantity and quality of intermediaries’ capital, introducing countercyclical regulatory instruments and rules concerning liquidity risk management and the containment of leverage.

In detail, **Pillar 1** was strengthened by introducing a more harmonised definition of capital and increasing capital requirements.

Basel 3 introduced the definition of a harmonised concept of Common Equity Tier 1 capital (CET1), virtually corresponding to ordinary shares and earnings reserves; in addition, more stringent criteria were established for deducting from capital intangible assets, equity investments in financial and insurance companies and deferred tax assets (DTAs) in excess of pre-set individual and cumulative thresholds.

It also provided for more stringent regulatory capital requirements to more accurately capture potential risks from securitisation positions and trading book and introduces DTAs, which were previously not included.

The minimum overall requirement remained set at 8% of risk-weighted assets, but more than half of this, or 4.5%, is to be met by common equity.

In order to respond to periods of stress, an additional capital conservation buffer is also required beyond the regulatory minimum, equal to 2.5% of common equity in relation to risk-weighted assets. Banks that do not have such capital conservation buffer are in any event required to comply with limits on the distribution of dividends and the award of bonuses, which become increasingly stringent as the buffer shrinks.

In order to provide complete information, it should be remarked that, in accordance with CRD IV, the countercyclical capital buffer (CCyB) has also been applied with effect from 2016.

The countercyclical capital buffer is intended to protect the banking sector during periods of excess credit growth. In fact, its application allows the accumulation, during the build-up phase of the credit cycle, of Common Equity Tier 1 capital, which can then be used to absorb losses during the negative phases of the cycle.

The European regulations were implemented in Italy by the Bank of Italy with Circular Letter No. 285/2013, on the basis of which the supervisory authority quarterly assesses whether to require a reserve buffer. Following an analysis of the indicators of reference, the Bank of Italy decided to set the countercyclical ratio (for exposures to Italian counterparties) at 0% for 2016.

Basel 3 also introduces new requirements and supervisory systems for the liquidity and leverage risks, based on the following ratios:

- > Liquidity Coverage Ratio – LCR, a short-term liquidity requirement;
- > Net Stable Funding Ratio – NSFR, a longer-term structural stability requirement;
- > Leverage Ratio, which as of 2017 will limit the maximum expansion of assets based on the size of CET1.

**Pillar 2** requires banks to adopt a current and prospective capital adequacy strategy and a relevant monitoring process, and leaves to the supervisory authority the task to verify the reliability and consistency of relevant results and adopt adequate corrective measures, should the situation require this.

Finally, **Pillar 3** covers public reporting requirements on capital adequacy, risk exposure and the general characteristics of related management and control systems, in order to promote market discipline. This pillar has also been revised to introduce, amongst other things, transparency requirements regarding securitisation exposures, more information

on the composition of capital for regulatory purposes and the methods used by the Parent Company to calculate capital ratios.

Further information on own funds, capital adequacy, risk exposure and the general characteristics of systems designed to identify, measure and manage such risks may hence be found in the document entitled Third Basel Pillar 3 or “Pillar 3”, published on the Bank’s website.

The introduction of the Basel 3 rules is being gradually phased in, with full application being achieved between 2019 and 2023; in the phase-in period the new rules will be applied at an increasing rate.

## A. Qualitative information

As in the previous regulations, own funds are calculated as the sum of positive components, included with some limitations, and negative items, based on their capital quality. They consist of the following aggregates:

- > Common Equity Tier 1 capital (CET1);
- > Additional Tier 1 capital (AT1);
- > Tier 2 capital (T2).

### 1. Common Equity Tier 1 capital (CET1)

#### A. Common Equity Tier 1 capital (CET1)

CET1 includes paid-in capital, additional paid-in capital, earnings reserves, valuation reserves (AFS valuation reserve, IAS19 actuarial losses reserve), with the exception of the cash flow hedge reserve, to which a special prudential filter is applied.

Net profit for the year may be calculated net of the provision for dividends (retained earnings) in compliance with Article 26 of the CRR and national discretionary measures provided for by the Bank of Italy.

CET1 own instruments (treasury shares) and loss for the year, if any, are deducted from this aggregate.

#### B. CET1 prudential filters

“Prudential filters” are applied to CET1 with the purpose of safeguarding the quality of the capital for regulatory purposes and reducing its potential volatility caused by application of the new IAS/IFRS standards. These filters consist of corrections to accounting data before they are used for regulatory purposes and are regulated directly by the CRR or provided for by national discretionary measures.

With reference to the prudential filters introduced directly by the CRR, the *prudent valuation* filter is applied to Banca Generali for the portfolio of financial assets and liabilities valued at fair value in the Balance Sheet.

This filter is determined as 0.1% of total net exposures shown in the balance sheet at fair value (HFT and AFS financial assets) in order to take account of the overall uncertainty of the parameters used for the valuation (risk model, costs of closure, etc.).

#### D. Elements to be deducted from CET1

CET1 is then subject to the following deductions:

- a) intangible assets, including goodwill;
- b) **deferred tax assets (DTAs) arising on tax losses**, i.e., DTAs whose recovery is based on future profitability and do not arise from temporary differences;
- c) **ordinary deferred tax assets**, which depend on future profitability and derive from temporary differences; in certain circumstances (netting legal right, taxes due to the same taxing authority) this item may be stated net of the corresponding deferred tax liabilities;
- d) **deferred tax assets (DTAs) relating to multiple reliefs** on the same goodwill for the portion that has not yet been reflected in the current tax position;
- e) direct, indirect and synthetic **non-significant investments** (<10%) in CET1 instruments issued by financial entities;
- f) direct, indirect and synthetic **significant investments** (>10%) in CET1 instruments issued by financial institutions;
- g) any deductions exceeding AT1 capital instruments.

The **DTAs eligible for transformation into tax credits** pursuant to Law No. 214/2011 do not fall within deferred tax assets which dependent on future profitability. Such assets therefore are not deducted from own funds, but included in risk-weighted assets with a weighting of 100%.

Deductions relating to significant and non-significant **investments in instruments issued by financial institutions** and to **ordinary deferred tax assets** apply only to amounts exceeding given CET1 thresholds, known as **allowances**, according to a particular mechanism described below:

1. the deduction is made for the portion exceeding 10% of CET1 determined after applying prudential filters and all the deductions, other than those relating to ordinary net deferred tax assets, direct, indirect and synthetic investments in CET1 instruments issued by financial institutions, any deductions exceeding AT1 capital instruments and deductions of qualified investments in financial institutions;

2. non-significant investments issued by financial institutions are assessed by aggregating all CET1, AT1 and T2 instruments;
3. amounts not deducted due to the 10% allowance relating to significant investments in CET1 instruments issued by financial institutions and ordinary deferred tax assets that, added together, are deducted only **for the amount exceeding 17.65%** of CET1 obtained after applying prudential filters and all the deductions, including investments in financial institutions and deferred tax assets calculated in their entirety without taking account of the aforementioned thresholds, except for any deductions exceeding AT1 capital instruments;
4. amounts not deducted due to the allowances are included in risk-weighted assets and subject to a 250% weighting.

#### *Multiple reliefs on the same goodwill*

National discretionary measures concerning multiple reliefs aim at neutralising the benefits at the level of own funds due to the DTAs recognised in connection with the tax redemption on the same goodwill within a single group or intermediary.

In further detail, the procedures of tax redemption in question were carried out in accordance with Article 10 of Legislative Decree No. 185/2010 or ordinary rules governing successive business combinations within a single group that have also entailed the transfer of portions of goodwill.

To this end, it has been specified that the share of DTAs recognised at the level of the intermediary or group is to be deducted from core Tier 1 capital, as limited to the portion associated with the DTAs recognised after the initial one.

In addition, for years ending on or before 31 December 2012, intermediaries may distribute the neutralisation over a period of five years, including one-fifth of the value of those DTAs at 31 December 2012, net of the amount that, each year, is to be reversed to the Profit and Loss Account or transformed into a tax credit, among the negative items of Tier 1 capital.

In the Banking Group's case, the above filter only affects the share of goodwill associated with the acquisition of Banca del Gottardo Italia S.p.A., originally subject to the prepayment of taxes on goodwill by Banca BSI Italia and subsequently once more by BG SGR S.p.A. following the contribution by the former of its portfolio management business unit. Both companies were then merged into the Parent Company, Banca Generali.

The tax value of the goodwill subject to tax alignment amounted to 4,932 thousand euros, of which deferred tax assets for Italian corporate income tax (IRES) and regional production taxes (IRAP) of 1,410 thousand euros had been allocated at 31 December 2012. The amount of the filter as at 31 December 2016 thus amounted to 1,057 thousand euros.

#### *Annual fee on DTAs eligible for conversion into tax credits*

With effect from 2016, Article 11 of Legislative Decree No. 59 of 3 May 2016 amended the regulatory framework (Law Decree No. 225/2010; Law No. 214/2011) governing the eligibility for conversion into tax credits of "qualified DTAs", i.e., deferred tax assets tied to the previous deferred deductibility system for impairment losses and losses on loans governed by Article 106, paragraph 3, of the TUIR and the amortisation of goodwill and other intangible assets.

In particular, in order to remedy the observations made by the European Commission concerning the compatibility of the regulatory framework in question with the restriction of state aid, the Decree introduced a distinction between the following two types of qualified DTAs:

- > type 1, which corresponds to an effective prepayment of taxes;
- > type 2, which does not correspond to an effective prepayment of taxes (typically DTAs on tax losses).

The Decree thus rendered the possibility to convert type-2 qualified DTAs into tax credits contingent on the exercise of a specific option to pay an annual fee until the year in progress at 31 December 2029, calculated by applying a rate of 1.5% to the difference between the previously recognised amount of deferred tax assets and the taxes paid.

The implementing order of 22 July 2016 states that the option to maintain the eligibility for conversion of DTAs into tax credits is considered exercised when the annual fee is paid, or, if the fee is not due, by sending a certified e-mail (PEC) to the competent regional department of the Italian Revenue Service by 1 August 2016.

In addition, if the taxpayer participates in a national tax consolidation scheme, the fee must be paid or, if the fee is not due, the PEC notice must be sent by the consolidating entity, and not by the individual consolidated companies.

It should be noted that:

- > the tax consolidation scheme of Assicurazioni Generali reported a taxable loss, and thus the lack of an obligation to pay the fee by the established deadline;
- > the Financial Statements of Banca Generali only include qualified DTAs, which can be converted into type-1 tax credits, deriving from the actual payment of taxes.

The introduction of the new regulation thus did not have an impact on the prudential rules for DTAs eligible for transformation into tax credits pursuant to Law No. 214/2011.

#### ***E. Phase-in – impact on CET1***

The main aspects of the phase-in are set out below:

1. the AFS portfolio's positive and negative valuation reserves relating to central EU administration exposures may be excluded from CET1 up to the date the European Commission approves the new IFRS 9; this exemption was introduced by the Bank of Italy under the national discretionary measures provided for by the CRR;



2. the AFS portfolio's positive valuation reserves, other than those relating to central administration exposures, are calculated in CET1 from 2015 for 40% and then through a progressive phase-in of 20% per annum (60% in 2016, 80% in 2017, and 100% in 2018);
3. the AFS portfolio's negative valuation reserves, other than those relating to central administration exposures, are calculated in CET1 through a progressive phase-in of 20% per annum (60% in 2016, 80% in 2017, and 100% in 2018);
4. actuarial gains/losses deriving from the IAS 19 valuation of Termination Indemnity (TFR) (and defined benefit pension funds) are reported, net of the prudential filter activated by the Bank of Italy for 2013 in order to sterilise the effects of the new IAS19, through a progressive phase-in of 20% per annum as from 2015 (80% in 2015, 60% in 2016, 40% in 2017 and 20% in 2018);
5. DTAs that rely on future profitability and do not arise on temporary differences (tax losses) are deducted at 60% in 2016 (80% in 2017 and 100% from 2018);
6. residual ordinary deferred tax assets (DTAs) existing at 1 January 2014 are deducted from CET1 through a progressive phase-in of 10% per annum as from 2015 (20% in 2016 and 100% in 2024);
7. other ordinary deferred tax assets (DTAs) generated after 1 January 2014 are deducted from CET1 through a progressive phase-in of 20% per annum as from 2014 (60% in 2016, 80% in 2017 and 100% in 2018);
8. non significant investments in CET1 capital instruments issued by financial institutions held directly, indirectly or synthetically exceeding the aforementioned allowances, are deducted from CET1 through a progressive phase-in of 20% per annum as from 2014 (60% in 2016, 80% in 2017 and 100% in 2018); direct investments in financial institutions not deducted from CET1 in the phase-in are deducted for 50% from AT1 and for 50% from T2; indirect and synthetic investments are subject to capital requirements and included in risk weighted-assets;
9. significant investments in CET1 capital instruments issued by financial institutions held directly, indirectly or synthetically exceeding the aforementioned allowances, are deducted from CET1 through a progressive phase-in of 20% per annum as from 2014 (60% in 2016, 80% in 2017 and 100% in 2018); direct investments in financial institutions not deducted from CET1 in the phase-in are deducted for 50% from AT1 and for 50% from T2; indirect and synthetic investments are subject to capital requirements and included in risk weighted-assets.

*Central administration exposures classified amongst "Assets available for sale" as per IAS 39 approved by the EU*

It should be noted that Banca Generali exercised the **option to neutralise** the capital gains and losses deriving from fair-value measurement of AFS financial assets belonging to the Euro Area government bond segment for the purposes of measuring own funds, as allowed under Bank of Italy Order of 18 May 2010.

This option was also extended under the new Basel 3 prudential supervisory system, on the basis of the national discretion granted to the Bank of Italy pursuant to Article 467(2) of the CRR, until the Commission "adopts a regulation on the basis of Regulation (EC) No. 1606/2002 endorsing the International Financial Reporting Standard replacing IAS 39" (IFRS 9).

In this regard, it should be noted that Regulation (EU) No. 2067/2106, which adopts IFRS 9, was published on 29 November 2016 and entered into effect on 19 December 2016. However, pursuant to Article 2 of that Regulation, IFRS 9 must be applied, at the latest, by the beginning of the first financial year starting on or after 1 January 2018.

Consequently, given the interpretative uncertainty that arose with respect to the relevance of the two different dates, until formal clarification is provided by the European authorities, in its Notice of 23 January 2017 the Bank of Italy confirmed that this discretion may continue to be exercised on a phase-in basis, solely for "less significant" banks subject to direct supervision.

*Phase-in of IAS 19 actuarial loss reserve*

The phase-in of **IAS 19 actuarial loss** reserves, provided for in Article 473, paragraph 3, of the CRR and adopted amongst the national discretionary measures by Bank of Italy Circular Letter No. 285/2013, is designed to neutralise the impact on own funds of the amendments to IAS19, which came into force on 1 January 2013, and provide for actuarial gains and losses relating to defined benefit plans to be recognised in full in other comprehensive income (OCI) and offset by an equity reserve (actuarial gains and losses valuation reserve).

IAS 19 previously also recognised the alternative accounting treatment known as the "corridor method," which allowed:

- > the amount of the actuarial gains and losses in excess of the significance threshold of 10% of the present value of the defined benefit obligation (the "overcorridor") to be recognised in profit and loss; and
- > the actuarial gains and losses below that threshold to be deferred, without recognising them in the financial statements.

Since for entities that previously adopted the corridor method the new equity reserve would have a negative impact on capital for regulatory purposes, and considering the stance taken at the Community level in conjunction with the approval of the new prudential regulations implementing Basel 3 (the CRR/CRD IV Package) in favour of the gradual recognition over five years of the difference in net equity between the old and new approach, the Bank of Italy introduced for 2013 a prudential filter to neutralise the effects of the revision of IAS 19. Based on the CRR provisions, the effects of such filter are expected to be fully reabsorbed in the 2015-2018 phase-in period.

	31.12.2016
Termination indemnity IAS 19R	-5,129
Termination indemnity IAS 19 (2012)	-4,640
Gross difference	489
Tax effect	-134
<b>Positive filter</b>	<b>354</b>

## 1. Additional Tier 1 capital (AT1)

Additional Tier 1 capital includes capital instruments regulated under Articles 51 et seqq. of CRR. This aggregate is not present in the Banking Group's own funds.

## 2. Tier 2 (T2)

### M. Tier 2 - T2

Tier 2 capital includes Tier 2 capital instruments and subordinated liabilities, regulated by Articles 63 et seqq. of the CRR and having the following characteristics:

- > the original term is not less than 5 years and no incentives are envisaged for early repayment;
- > call options, where applicable, may be exercised at the issuer's sole discretion and in any event no earlier than 5 years, subject to the authorisation of the supervisory authority granted in special circumstances;
- > early repayment is also allowed before 5 years only in the event of significant changes to the tax or regulatory regime and always with the prior authorisation of the supervisory authority;
- > subscription and purchase must not be financed by the Parent Company or its subsidiaries;
- > they are not subject to guarantees issued by the Parent Company, its subsidiaries or other companies that have close links with them, which increase their seniority;
- > interest does not change based on the Parent Company's credit rating;
- > these instruments are amortised pro-rata over the past 5 years for T2 calculation purposes.

The following Tier 2 subordinated liabilities are included in the year-end Tier 2 capital of the parent company Banca Generali:

	EFFECTIVE AS OF	EXPIRY	AMOUNT	REMAINING AMOUNT
Generali Beteiligungs GmbH subordinated loan	30.10.2014	30.10.2024	43,000	43,000

The subordinated loan agreed with the German company Generali Beteiligungs GmbH relates to the acquisition of the Credit Suisse (Italy) S.p.A. business unit.

The loan disbursed on 30 October 2014, for the amount of 43 million euros, has a ten-year term and is repayable on maturity in one instalment.

Provision is also made for an early repayment option, as from the sixth year, subject to the Supervisory authority's prior approval.

The interest rate for the first 5 years is fixed and equal to 3.481% per annum, corresponding to the 5-year mid swap rate identified at the contract execution date, plus a spread of 300 bps; from the start of the sixth year the rate will be reparametrised to the 3-month Euribor, plus the same spread identified when the original fixed rate was determined. The loan is subordinated for repayment in the event of a default by the Bank.

### N. Elements to be deducted from T2

T2 is subject to the following main deductions:

- > direct, indirect and synthetic investments in T2 own instruments;
- > direct, indirect and synthetic investments in T2 instruments of financial entities.

These cases do not appear in Banca Generali's financial statements particularly since there are no investments in T2 instruments of financial entities exceeding the relevant thresholds for purposes of the deduction from own funds.

### O. Phase-in - impact on T2

The main aspects of the phase-in provisions for 2016 are as follows:

1. **positive AFS reserves**, other than those relating to EU country government bonds, are recognised as part of the phase-in for 2016 at the rate of 50% provided by previous regulation, with a progressive reduction of 20% per annum from 2014 (60% in 2016, 80% in 2017 and 0% in 2018);
2. **non-significant investments** in CET1 capital instruments issued by financial institutions exceeding the 10% allowance and the general allowance, not deducted from CET1 in the phase-in, are deducted for 50% from T2;

3. **significant investments** in CET1 capital instruments issued by financial institutions exceeding the 10% allowance and the general allowance, not deducted from CET1 in the phase-in, are deducted for 50% from T2;
4. non significant investments in Tier 2 capital instruments issued by financial institutions held directly are deducted 100% from T2; non-significant investments in Tier 2 capital instruments issued by financial institutions held indirectly or synthetically are deducted through a progressive phase-in 20% per annum as from 2014 (40% in 2015 and 100% in 2018). Indirect and synthetic investments not deducted in the phase-in are subject to capital requirements and included in risk-weighted assets;
5. significant investments in Tier 2 capital instruments issued by financial institutions held directly are deducted 100% from T2; significant investments in Tier 2 capital instruments issued by financial institutions held indirectly or synthetically are deducted through a progressive phase-in 20% per annum as from 2014 (40% in 2015 and 100% in 2018). Indirect and synthetic investments not deducted in the phase-in are subject to capital requirements and included in risk-weighted assets.

## B. Quantitative information

**Consolidated own funds**, calculated in accordance with the Basel 3 phase-in rules, amounted to 462.9 million euros, up by 35.0 million euros compared to the end of the previous year, chiefly owing to the portion of retained earnings.

ITEMS/VALUES	31.12.2016 PHASE IN	31.12.2015 PHASE IN	CHANGE	
			AMOUNT	%
Common Equity Tier 1 capital (CET1)	419,073	384,178	34,895	9.08%
Additional Tier 1 capital (AT1)	-	-	-	n.a.
Tier 2 capital (T2)	43,854	43,698	156	0.36%
<b>Own funds</b>	<b>462,927</b>	<b>427,876</b>	<b>35,051</b>	<b>8.19%</b>
<b>Consolidated net equity</b>	<b>646,521</b>	<b>636,798</b>	<b>9,723</b>	<b>1.53%</b>

In the year under review, CET1 performance was chiefly attributable to the contribution of profit for the year which was not allocated as dividend to be distributed to shareholders (31.4 million euros), equal to about 20% of the consolidated net profit.

In addition, the positive effects of the previous and new stock-option plans also contributed to the performance, partially offset by the buy-back of own shares and the decrease in intangible assets.

<b>Own funds at 31.12.2015</b>	<b>427,876</b>
<b>Change in Tier 1 capital</b>	
Purchase of treasury shares and repurchase commitments of CET1 instruments	-1,466
Change in reserves for share-based payments (IFRS2)	7,977
2015 dividend payout	-42
Regulatory provisions for retained earnings 2016	31,455
Phase-in: change in AFS positive and negative reserves	<b>1,541</b>
Change in IAS 19 reserves (net of the filter)	-194
Change in goodwill and intangibles	-2,895
Negative prudential filters	-1,481
Deductions for significant investments, DTAs; general deductions	-
Phase-in: CET1	-
<b>Total changes in TIER 1 capital</b>	<b>34,895</b>
<b>Change in Tier 2 capital</b>	
Tier 2 subordinated loans (regulatory amortisation)	-
Phase-in: change in AFS positive reserves	156
Other effects	-
<b>Total change in TIER 2 capital</b>	<b>156</b>
<b>Own funds at 31.12.2016</b>	<b>462,927</b>
<b>Change</b>	<b>35,051</b>

### Composition of own funds

The composition of own funds is shown synthetically below, illustrating the effects of the prudential filters and the changes linked to the phase-in.

	31.12.2016
<b>A. Tier 1 capital before application of prudential filters</b>	<b>522,082</b>
<i>of which: CET1 instruments covered by phase-in provisions</i>	-
B. CET1 prudential filters (+/-)	-4,449
<b>C. CET1 gross of elements to be deducted and effects of the phase-in</b>	<b>517,633</b>
D. Elements to be deducted from CET1	-90,574
E. Phase-in – impact on CET1	-7,986
<b>F. Total Common Equity Tier 1 capital - CET1 (C - D+/- E)</b>	<b>419,073</b>
G. Additional Tier 1 capital (AT1) gross of elements to be deducted and phase-in effects	-
<i>of which: AT1 instruments covered by phase-in provisions</i>	-
H. Elements to be deducted from AT1	-
I. Phase-in – impact on AT1	-
<b>L. Total additional Tier 1 capital (AT1)</b>	<b>-</b>
M. Tier 2 capital (T2) gross of elements to be deducted and phase-in effects	43,000
<i>of which: T2 instruments covered by transitional provisions</i>	-
N. Elements to be deducted from T2	-
O. Phase-in – impact on Tier 2	854
<b>P. Total Tier 2 capital (T2)</b>	<b>43,854</b>
<b>Q. Total own funds</b>	<b>462,927</b>

More in detail, own funds are composed as follows.

OWN FUNDS	31.12.2016		
	FULL APPLICATION	PHASE IN	TOTAL
<b>Tier 1 capital</b>			
Share capital	116,425	-	116,425
Additional paid-in capital	53,803	-	53,803
Treasury shares	-2,933	-	-2,933
<b>CET1 instruments</b>	<b>167,295</b>	<b>-</b>	<b>167,295</b>
Reserves	314,353	-	314,353
Net profit (loss) for the year	155,894	-	155,894
Share of net profit for the year not included in CET1	-124,439	-	-124,439
<b>Earnings reserves</b>	<b>345,808</b>	<b>-</b>	<b>345,808</b>
AFS reserves – equity securities and UCITS	3,618	-1,447	2,171
AFS reserves – EU government securities – neutralisation option up to 2017	6,492	-6,492	-
AFS reserves – debt securities	650	-260	390
Reserve for exchange differences	-96	-	-96
Actuarial reserves IAS 19	-1,685	-	-1,685
Other (neutralisation of actuarial losses – IAS 19)	-	213	213
<b>Other components of other comprehensive income (OCI)</b>	<b>8,979</b>	<b>-7,986</b>	<b>993</b>
Prudent valuation	-4,449	-	-4,449
Cash flow hedge	-	-	-
<b>Negative prudential filters</b>	<b>-4,449</b>	<b>-</b>	<b>-4,449</b>
Goodwill	-66,065	-	-66,065
Goodwill DTLs	1,964	-	1,964
Intangible assets	-25,415	-	-25,415
DTAs to P&L not arising from temporary differences (tax losses)	-	-	-
Other negative items (neutralisation of DTAs arising on multiple prepayment of taxes on goodwill)	-1,058	-	-1,058
<b>Total negative items</b>	<b>-90,574</b>	<b>-</b>	<b>-90,574</b>
<b>Adjustment of DTAs/DTLs through P&amp;L arising on temporary differences</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Portion exceeding non-significant investments (&lt;10%) in CET1 instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Portion exceeding significant investments (&gt;10%) in CET1 instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>
General deduction – portion exceeding DTAs	-	-	-
General deduction – portion exceeding significant investments	-	-	-
<b>General deduction with threshold 17.65%-15%</b>	<b>-</b>	<b>-</b>	<b>-</b>
Phase-in - DTA impact on CET1	-	-	-
Significant investments: Phase-in – impact on CET1	-	-	-
Significant investments: 50% of items to be deducted from CET1	-	-	-
<b>Phase-in</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Common Equity Tier 1 capital (CET1)</b>	<b>427,059</b>	<b>-7,986</b>	<b>419,073</b>
Significant investments: phase-in – impact on AT1	-	-	-
Significant investments: excess to be deducted from AT1	-	-	-
<b>Total Additional Tier 1 capital (AT1)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Tier 1 capital</b>	<b>427,059</b>	<b>-7,986</b>	<b>419,073</b>
T2 instruments (subordinated liabilities)	43,000	-	43,000
Significant investments: 50% excess portion deducted from Tier 1 capital	-	-	-
50% positive AFS reserves – phase-in – T2 impact (80%)	-	854	854
<b>Total Tier 2 capital</b>	<b>43,000</b>	<b>854</b>	<b>43,854</b>
<b>Total own funds</b>	<b>470,059</b>	<b>-7,132</b>	<b>462,927</b>

## 2.2 Capital adequacy

### A. Qualitative information

Supervisory provisions require banks to comply with specific capital adequacy ratios calculated by relating the corresponding category of own funds (CET1, Tier 1, Total Capital) to the bank's overall risk exposure (RWAs - Risk Weighted Assets).

In particular, Own funds must represent at least 8% of total weighted assets in relation to the credit risk profile, valued based on the category of debtor counterparties, term, country risk and guarantees received (**credit and counterparty risk**).

Banks are also required to comply with regulatory capital requirements connected to trading activities. Related **market risks** are calculated on the entire trading portfolio for each different type of risk: debt securities risk, equity securities risk, settlement risk, counterparty risk and concentration risk. Furthermore, exchange-rate risk and commodity-price risk must be determined for all financial statement items.

Internal models may be used to calculate capital requirements for market risk; however, the Banca Generali Group uses standard methods under all circumstances.

Lastly, banks are required to set aside part of their own funds to cover **operating risk**, taking into account the type and volumes of operations performed.

A minimum CET1 ratio of 4.5%, a Tier 1 ratio of 6% and a Total Capital Ratio of 8% are envisaged by the Prudential Supervisory Provisions. In addition to these minimum ratios, banks must also hold a capital conservation buffer (CCB) equal to 2.5% of the bank's overall risk exposure, consisting of Common Equity Tier 1 capital, bringing the overall capital requirement to 10.5%.

Moreover, with reference to the annual Supervisory Review and Evaluation Process (SREP) carried out by the relevant supervisory authority (ECB or national Central Banks), additional capital requirements may be imposed by the said authority on the basis of a specific evaluation of each intermediary's risk exposure.

In this regard, in early January 2017, the Bank of Italy communicated to Banca Generali the following specific capital requirements to be applied to the Banking Group effective 1 January 2017:

- > CET1 ratio of **6.4%**, consisting of:
  - on **Overall Capital Requirement (OCR)** of **5.9%**, made of a binding ratio of **4.7%** (of which **4.5%** as minimum regulatory requirement and **0.2%** as additional requirement following the SREP) and a capital conservation buffer for the remainder;
  - a **capital guidance** of 0.5%, due to a higher risk exposure under stress conditions;
- > Tier 1 ratio of **8.1%**, consisting of:
  - an **Overall Capital Requirement (OCR)** of **7.5%**, made of a binding ratio of **6.2%** (of which **6%** as minimum regulatory requirement and **0.2%** as additional requirement following the SREP) and a capital conservation buffer for the remainder;
  - a **capital guidance** of 0.6%, due to a higher risk exposure under stress conditions;
- > Total Capital ratio of **10.4%**, consisting of:
  - an **Overall Capital Requirement (OCR)** of **9.6%**, made of a binding ratio of **8.3%** (of which **8%** as minimum regulatory requirement and **0.3%** as additional requirement following the SREP) and a capital conservation buffer for the remainder;
  - a **capital guidance** of 0.8%, due to a higher risk exposure under stress conditions.

In 2017, the conservation capital buffer requirement envisaged in the ratios was reduced from 2.5% to 1.25% (in line with the Bank of Italy's decision to bring this requirement to the level set forth in the phase-in, to then bring it back to 2.5% in 2019, as stated in the 18th update of Circular Letter No. 285 of 4 October 2016).

### B. Quantitative information

Total capital adequacy requirements for credit, market and operating risks set by the supervisory authority amounted to 201.0 million euros at year-end, with a decrease of 14.1 million euros compared to the previous year (-6.5%).

(€ THOUSAND)	31.12.2016 BASEL 3 PHASE IN	31.12.2015 BASEL 3 PHASE IN	CHANGE	
			AMOUNT	%
Credit and counterparty risk	132,469	148,306	-15,837	-10.68%
Market risk	2,681	2,505	176	7.02%
Operating risk	65,863	64,254	1,609	2.50%
<b>Total absorbed capital</b>	<b>201,012</b>	<b>215,064</b>	<b>-14,052</b>	<b>-6.53%</b>
<b>Excess over absorbed capital</b>	<b>261,915</b>	<b>212,812</b>	<b>49,103</b>	<b>23.07%</b>

The reduction in the capital requirement for credit risk was largely due to the implementation, in the fourth quarter of 2016, of measures aimed at expanding the scope of application of CRM (Credit Risk Mitigation) and using financial collaterals in the form of pledges of managed portfolios and UCITS promoted by the Group, for which the underlying assets were thoroughly analysed.

The measures had an impact in terms of a lesser capital requirement of approximately 15 million euros.

This reduction was partially offset by the increase in exposures to retail customers and, to a lesser extent, by exposures secured by real properties and exposures to UCITS and equity instruments.

The reduction in the requirement for exposures to supervised intermediaries was primarily due to the sale of part of the securities portfolio.

CREDIT RISK REGULATORY PORTFOLIO	2016			2015			CHANGE	
	INITIAL EXPOSURE	WEIGHTED ASSETS	REQUIREMENT	INITIAL EXPOSURE	WEIGHTED ASSETS	REQUIREMENT	WEIGHTED ASSETS	REQUIREMENT
Administrations and Central Banks	5,440,787	69,170	5,534	3,209,391	53,272	4,262	15,898	1,272
Non-profit organisations and public entities	-	-	-	-	-	-	-	-
Supervised intermediaries	830,070	207,970	16,638	837,923	284,306	22,744	-76,336	-6,107
Companies	1,246,490	861,261	68,901	1,328,089	966,582	77,327	-105,321	-8,426
Detail	1,054,039	285,114	22,809	977,447	335,566	26,845	-50,452	-4,036
Exposures secured by real property	373,315	131,743	10,539	346,968	123,030	9,842	8,713	697
Past-due exposures	48,344	5,131	410	52,432	5,788	463	-657	-53
UCITS	13,928	13,928	1,114	11,294	11,294	904	2,634	211
Equity exposures	44,230	44,230	3,538	37,400	37,400	2,992	6,830	546
Other	162,984	36,709	2,937	161,376	36,230	2,898	479	38
Securitisation	-	-	-	-	-	-	-	-
<b>Total requirements</b>	<b>9,214,187</b>	<b>1,655,256</b>	<b>132,420</b>	<b>6,962,320</b>	<b>1,853,468</b>	<b>148,277</b>	<b>-198,212</b>	<b>-15,857</b>
Risk of credit valuation adjustment	-	560	45	-	351	28	209	17
<b>Total credit risk</b>	<b>9,214,187</b>	<b>1,655,816</b>	<b>132,465</b>	<b>6,962,320</b>	<b>1,853,819</b>	<b>148,306</b>	<b>-198,003</b>	<b>-15,840</b>

Risk mitigation was also achieved thanks to the absence of exposures in significant investments in financial entities and to the decline in net DTAs, two categories that entail an unfavourable 250% weighting.

Exposure to **market risk**, which relates to the banking book, appeared highly circumscribed and referred mostly to the Quarzo securitisation.

MARKET RISK – STANDARDISED METHOD Position risk – regulatory portfolio	CAPITAL REQUIREMENT		
	2016	2015	CHANGE
Generic risk on debt securities	551	177	374
Generic risk on equity securities	157	106	51
Specific risk on debt securities	282	153	129
Specific risk on equity securities	157	106	51
Specific risk on securitisations	1,024	1,043	-19
UCITS position risk	510	920	-410
<b>Total</b>	<b>2,681</b>	<b>2,505</b>	<b>176</b>

With regard to the calculation of capital prudential requirement for operating risk, the Bank, in light of its specific operating and organisational characteristics, uses the basic method (BIA – Basic Indicator Approach) as defined by Article 316 of CRR.

Based on the provisions of Bank of Italy Circular Letter No. 286/2013 (4th update of 31 March 2015), this approach calls for the aforementioned calculation to be performed by applying a regulatory coefficient (15%) to the three-year average of an indicator of the volume of company operations (the so-called ‘relevant indicator’), as defined by Article 316 of CRR. In detail, the relevant indicator is now calculated based on the accounting categories for the Profit and Loss Account under Article 27 of Directive No. 86/635/EEC; institutions that apply accounting standards different from those established by the said Directive shall calculate the relevant indicator on the basis of data that best reflect the above-mentioned aggregates.

The relevant indicator is the sum of the following elements:

1. Interest receivable and similar income;
2. Interest payable and similar charges;
3. Income from shares and other variable/fixed-yield securities;
4. Commission/fee receivable;
5. Commission/fee payable;
6. Net profit or net loss on financial operations;
7. Other operating income.

Therefore, the simultaneous increase in consolidated own funds and the reduction of absorbed capital allow to establish the **excess capital compared to the minimum capital requirements** for risks set by the supervisory authority at **261.7 million euros**, up by 48.9 million euros compared to the value recognised at the end of the previous year.

CET1 ratio reached 16.7%, compared to a minimum requirement of 6.4%, and Total Capital Ratio (TCR) stood at 18.4%, compared to the SREP minimum requirement of 10.4%.

Consolidated own funds, calculated in accordance with Basel 3 rules, which will become fully applicable as of 1 January 2019, were 470.1 million euros, with Total Capital Ratio at 18.7%.

	31.12.2016		31.12.2015	
	NON-WEIGHTED AMOUNTS	WEIGHTED AMOUNTS	NON-WEIGHTED AMOUNTS	WEIGHTED AMOUNTS
<b>A. Risk assets</b>	<b>9,214,187</b>	<b>1,655,816</b>	<b>6,962,320</b>	<b>1,853,819</b>
<b>A.1 Credit and counterparty risk</b>				
1. Standardised method	9,214,187	1,655,816	6,962,320	1,853,819
2. Internal rating method				
2.1 basic	-	-	-	-
2.2 advanced	-	-	-	-
3. Securitisation	-	-	-	-
<b>B. Regulatory capital requirements</b>				
<b>B.1 Credit risk</b>	X	<b>132,424</b>	X	<b>148,261</b>
<b>B.2 Risk of credit valuation adjustment</b>	X	<b>45</b>	X	<b>45</b>
<b>B.3 Regulation risk</b>	X	-	X	-
<b>B.4 Market risks</b>	X	<b>2,681</b>	X	<b>2,505</b>
1. Standard method	X	2,681	X	2,505
2. Internal models	X	-	X	-
3. Concentration risk		-		-
<b>B.5 Operating risk</b>	X	<b>65,863</b>	X	<b>64,254</b>
1. Basic method	X	65,863	X	64,254
2. Standardised method	X	-	X	-
3. Advanced method	X	-	X	-
<b>B.6 Other variables</b>	X	-	X	-
<b>B.7 Total prudential requirements</b>	X	<b>201,012</b>	X	<b>215,064</b>
<b>C. Risk-weighted assets and regulatory capital ratio</b>				
<b>C.1 Risk-weighted assets</b>	X	<b>2,512,654</b>	X	<b>2,688,303</b>
<b>C.2 Tier 1 capital/ Risk-weighted assets (CET1 capital ratio)</b>	X	<b>16.7%</b>	X	<b>14.3%</b>
<b>C.3 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)</b>	X	<b>16.7%</b>	X	<b>14.3%</b>
<b>C.4 Total own funds/ Risk-weighted assets (Total capital ratio)</b>	X	<b>18.4%</b>	X	<b>15.9%</b>



## PART G – BUSINESS COMBINATIONS OF COMPANIES OR BUSINESS UNITS

This section includes both transactions within the scope of IFRS 3 and business combinations between entities under common control.

The results of impairment testing of the Banking Group's goodwill are also stated in the interest of consistency of presentation.

### Section 1 – Transactions undertaken during the year

In 2016, no business combination transactions were undertaken.

### Section 2 – Transactions after the close of the year

After 31 December 2016, no business combination transactions were undertaken.

### Section 3 – Retrospective adjustments

No retrospective adjustments to business combinations carried out by the Banking Group in previous years were undertaken in 2016, pursuant to paragraphs 61 and B7 of IFRS 3.

The latter provisions also require that the amount of goodwill during the year be reconciled, including an indication of any impairment of goodwill recognised.

The Banking Group's goodwill totalled 66.1 million euros at 31 December 2016, broken down as follows:

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE AMOUNT
Prime Consult and INA Sim	2,991	2,991	-
BG Fiduciaria Sim S.p.A.	4,289	4,289	-
Banca del Gottardo Italia	31,352	31,352	-
Credit Suisse Italy	27,433	27,433	-
<b>Total</b>	<b>66,065</b>	<b>66,065</b>	<b>-</b>

### Impairment test

In accordance with IAS 36, goodwill is no longer amortised, but is reviewed at least annually for impairment.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs), which may be no larger than the operating segment identified for management reporting, pursuant to IFRS 8.

To determine the amount of impairment, the carrying amount of the CGU is compared with its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The following operating segments (business areas) have been identified by the Banking Group:

- > the **Affluent Channel**, which refers to the total earnings generated for the Group by the network of Financial Advisors mainly of Banca Generali, and their respective clients;
- > the **Private Banking Channel**, which refers to the total earnings generated for the Group by the network of Private Bankers and Relationship Managers, and their respective clients;
- > the **Corporate Channel**, which refers to the total earnings generated for the Group on the provision of banking and investment services to medium-sized and large enterprises, including those belonging to the Assicurazioni Generali Group.

The following CGUs have been defined in order to perform the impairment test for such goodwill in accordance with IAS 36:

- > for the Private Banking operating segment:
  - Private Banking CGU;
  - Trust Management CGU;
- > for the Affluent operating segment:
  - Trust Management CGU;
  - Prime Consult and INA Sim CGU;
- > for the Corporate operating segment:
  - Trust Management CGU.

To determine the recoverable amount, both basic methodologies (to calculate value in use) and market assessments (to calculate fair value) were considered.

Value in use was calculated by employing an analytical method as the main method, whereas fair value was calculated by employing an empirical method, such as the control method.

In detail, the analytical method employed was the Dividend Discount Model (“DDM”), specifically the Excess Capital variant of said model, on the basis of which the value of an asset is a function of:

- a) current value of future cash flows generated within a specific time period and available for distribution to shareholders (dividends);
- b) the perpetual capitalisation of the expected normalised dividend from the final year of the financial plan of reference, on the basis of a payout consistent with ordinary profitability.

The control method employed was the comparable market multiples method.

The earnings and cash flow projections for each individual CGU were based on an extract of the Generali Banking Group's 2017-2019 Economic and Financial Plan, as approved by the Board of Directors, and further cash-flow projections constructed on the basis of the Group's historical experience and in accordance with external sources of financial information.

## 1. Private Banking CGU (PB CGU)

The Private Banking CGU (PB CGU) refers to the overall activity of the Private Banker e Relationship Manager networks and their clients, reporting to the Banca Generali Private Banking Division and the Private Relationship Manager Division, respectively.

Created in 2015, the Private Relationship Manager Division includes all Relationship Managers with an employment agreement with Banca Generali and their clients, with specific reference to the operations of Banca BSI Italia and Banca del Gottardo Italia, currently merged into the parent company Banca Generali.

The Banca Generali Private Banking Division also includes Private Bankers reporting to the business unit made up of the Italian Affluent and Upper Affluent private banking operations of Credit Suisse Italia S.p.A., acquired on 1 November 2014.

In light of the exchange of positions among Private Bankers and Relationship Managers also resulting from the subsequent merger transactions and company reorganisation processes, the two corporate Divisions constitute a single CGU.

The goodwill arising from the acquisitions of Banca del Gottardo Italia and the aforementioned Credit Suisse business unit was allocated to the Private Banking CGU.

The CGU's scope and the relevant future cash flows are thus identified on the basis of the AUM managed by the Private Banking and Private Relationship Manager Divisions.

In light of economic-financial forecasts based on the 2017-2019 Economic and Financial Plan, for the CGU in question the mean portfolio of assets under management (AUM) was assumed to grow at the end of the three years of reference (CAGR), by 7.0% per year whilst the long-term growth rate expected following the explicit planning period, and used to determine the Terminal Value (perpetual yield), was estimated at 1.5%.

The cost of capital employed to discount cash flows, determined according to the Capital Asset Pricing Model (CAPM), was estimated at **7.94%**.

The cost of capital was established applying the Capital Asset Pricing Model, on the basis of the following assumptions:

- a) risk free rate of 1.46%, equivalent to the annual gross return on 10-year BTPs (Italian government bonds), over the last 12 months;
- b) market risk premium of 6.0%, established on the basis of the difference in long-term yields between equity securities and bonds on international financial markets;
- c) a value of 1.08 assigned to the Beta coefficient measuring the extent to which the performance of any given stock is likely to depart from market trends, and determined on the basis of a sample of comparable companies, duly weighted for their respective market capitalisation values.

The foregoing assumptions are substantially in line with the estimates and variables used during the previous financial year.

The tests performed on the CGU did not detect any goodwill impairment.

Compared to the PB CGU's carrying amount of **149.3 million euros**, the value obtained by applying the analytical method described above amounted to a minimum of **673.7 million euros** and a maximum of **775.1 million euros**.

In accordance with the requirements of IAS 36.134 f), a sensitivity analysis was conducted as a function of the parameters "cost of capital" (Ke) and "long-term growth rate", using a range of variation of 7.7%-8.2% and 1.25%-1.75%, respectively.

The test performed using the control method also confirmed that the carrying amount remained applicable.

## 2. Trust Management CGU (TM CGU)

The Trust Management CGU (TM CGU) coincides substantially with the equity investment in BG Fiduciaria Sim. For the purposes of the application of IAS 36 in connection with IFRS 8, since the CGU in question is transversal to the operating segments identified for IFRS 8, future cash flows were allocated between the Private Banking, Retail and Corporate segments according to AUM, thereby avoiding overlapping between segments. Since the profitability of the assets attributed to the three segments is similar and costs are also allocated on the basis of AUM, the fact that the TM CGU passed the impairment test means that the goodwill attributed to the Private Banking, Retail and Corporate segments also passed the test.

In light of economic-financial forecasts based on the 2017-2019 Economic and Financial Plan, for the CGU in question the mean portfolio of assets under management (AUM) was assumed to grow over the three years of reference (CAGR) by **0.2%** per year, whilst the long-term growth rate expected following the explicit planning period, and used to determine the Terminal Value (perpetual yield), was estimated at 1.5%.

The cost of capital employed to discount cash flows, determined according to the Capital Asset Pricing Model (CAPM), was estimated at **9.26%**.

The cost of capital was established applying the Capital Asset Pricing Model, on the basis of the following assumptions:

- a) risk free rate of **1.46%**, equivalent to the annual gross return on 10-year BTPs (Italian government bonds), over the last 12 months;
- b) market risk premium of **6.0%**, established on the basis of the difference in long-term yields between equity securities and bonds on international financial markets;
- c) a value of **1.30** assigned to the Beta coefficient measuring the extent to which the performance of any given stock is likely to depart from market trends, and determined on the basis of a sample of comparable companies, duly weighted for their respective market capitalisation values.

The foregoing assumptions are substantially in line with the estimates and variables used during the previous financial year.

The tests performed on the CGU did not detect any goodwill impairment.

Compared to the TM CGU's carrying amount of **21.6 million euros**, the value obtained by applying the analytical method described above amounted to a minimum of **27.1 million euros** and a maximum of **30.2 million euros**.

In accordance with the requirements of IAS 36.134 f), a sensitivity analysis was conducted as a function of the parameters "cost of capital" (Ke) and "long-term growth rate", using a range of variation of 8.8%-9.8% and 1.0%-2.0%, respectively.

The test performed using the control method also confirmed that the carrying amount remained applicable.

## 3. Prime Consult and INA Sim CGU

The CGU Prime Consult and INA Sim (former Sim CGU) refers to the part of the activity of the Affluent operating segment, relating to the operations of the stock brokerage companies Prime Consult Sim S.p.A and INA Sim S.p.A., merged at the end of 2002, to which all of the goodwill arising from the acquisition may be attributed.

In light of economic-financial forecasts based on the 2017-2019 Economic and Financial Plan, for the CGU in question the mean portfolio of assets under management (AUM) was assumed to grow over the three years of reference (CAGR) by **8.2%** per year, whilst the long-term growth rate expected following the explicit planning period, and used to determine the Terminal Value (perpetual yield), was estimated at 1.5%.

The cost of capital employed to discount cash flows, determined according to the Capital Asset Pricing Model (CAPM), was estimated at **7.94%**.

The cost of capital was established applying the Capital Asset Pricing Model, on the basis of the following assumptions:

- a) risk free rate of 1.46%, equivalent to the annual gross return on 10-year BTPs (Italian government bonds), over the last 12 months;
- b) market risk premium of 6.0%, established on the basis of the difference in long-term yields between equity securities and bonds on international financial markets;
- c) a value of 1.08 assigned to the Beta coefficient measuring the extent to which the performance of any given stock is likely to depart from market trends, and determined on the basis of a sample of comparable companies, duly weighted for their respective market capitalisation values.

The foregoing assumptions are substantially in line with the estimates and variables used during the previous financial year.

The tests performed on the CGU did not detect any goodwill impairment.

Compared to the Prime Consult and INA Sim CGU's carrying amount of **24.4 million euros**, the value obtained by applying the analytical method described above amounted to a minimum of **440.7 million euros** and a maximum of **508.6 million euros**.

In accordance with the requirements of IAS 36.134 f), a sensitivity analysis was conducted as a function of the parameters "cost of capital" (Ke) and "long-term growth rate", using a range of variation of 7.7%-8.2% and 1.25%-1.75%, respectively.

The test performed using the control method also confirmed that the carrying amount remained applicable.

## PART H – RELATED PARTY TRANSACTIONS

### Procedural aspects

Banca Generali's Board of Directors approved the Related Party Transaction Procedure, effective as of 1 January 2011, in compliance with the provisions of Article 2391-*bis* of the Italian Civil Code, and Article 4 of the Regulations adopted with Consob Resolution No. 17221 of 12 March 2010, as subsequently amended.

On 12 December 2011, the Bank of Italy updated the Prudential Supervisory Provisions for Banks (Bank of Italy Circular Letter No. 263/2006), issuing new Provisions on Risk Assets and Conflicts of Interest of Banks and Banking Groups with Connected Parties (Title V, Chapter 5).

The Procedure was last updated to bring it in line with Article 150 of TUF and the provisions introduced by the Bank of Italy on 2 July 2013 with the 15th update to Circular Letter No. 263 of 27 December 2006 concerning "New Prudential Supervisory Provisions for Banks" on Transactions of Greater Importance.

The new Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance, in force as of 1 July 2014, is intended to implement Consob and Bank of Italy regulations, by adopting, at group level, rules on Transactions with Related Parties and Connected Parties and Transactions of Greater Importance, governing the related investigation, approval, reporting and disclosure activities.

### The scope of Related Parties

Based on Consob Regulations, the Provisions issued by the supervisory authority, and the Procedure, the following parties are considered as Banca Generali's related parties:

- > subsidiaries of the Banking Group;
- > the ultimate parent company Assicurazioni Generali S.p.A., its subsidiaries (companies subject to common control) and the direct parent Generali Italia S.p.A., as well as pension funds established for the benefit of Generali Group employees;
- > Key Management Personnel of the Bank and the parent company Assicurazioni Generali, close relatives of the cited personnel and the related relevant subsidiaries (entities in which one of these persons exercises control, joint control or significant influence or holds, directly or indirectly, a significant shareholding of no less than 20% of the voting rights).

Under IAS 24, whose revised version is in force since 1 January 2011, the associate companies of the Generali Banking and Insurance Groups are also considered related parties.

With specific regard to **key managers**, the following persons have been designated as such:

- > Directors and Statutory Auditors of the companies of the Banking Group, including the Chief Financial Officer of Banca Generali;
- > members of the Top Management, as defined in the Remuneration Policies of the Banking Group, namely the General Manager, the two Deputy General Managers and three Central Managers;
- > representatives of the parent company Assicurazioni Generali S.p.A. identified as Key Management Personnel in the corresponding procedure regarding transactions with related parties adopted by that Insurance Group.

### Significance thresholds of Related Party Transactions

The Procedure lays down specific provisions on decision-making authority, obligation to provide justification and documentation to be prepared depending on the type of transaction.

More specifically:

- > **Highly Significant Transactions** – i.e., transactions exceeding the threshold of 5% of at least one of the significance indicators of the countervalue of the transaction or the assets, as provided by Consob Resolution No. 17221, reduced to 2.5% for transactions carried out with the listed parent company or with undertakings thereto related, which are in turn related to the Company; they must be approved by the Board of Directors, upon the binding favourable opinion of the Internal Control Committee;
- > **Moderately Significant Transactions** – i.e., related party transactions whose amount falls between the Highly Significant Transactions and the Low Value Transactions; they must be approved as established pursuant to the system of delegated powers in force from time to time, only after hearing the non-binding opinion of the Internal Control Committee in such regard. The aforesaid transactions must be presented with a full and in-depth information about the reasons underlying each and every transaction in question, as well as the advisability of proceeding with the latter in light of the substantive propriety of the related terms and conditions;
- > **Low Value Transactions**, whose value, defined pursuant to the Bank of Italy's Provisions, cannot exceed the amount of 250,000 euros for banks with own funds below 1 million euros, and are excluded from the scope of application of the regulation on approval procedures and disclosure transparency.

In addition to transactions of a low value, in accordance with Consob Regulation, there are additional circumstances which are not subject to the specific approval procedures:

- > **share-based remuneration plans** approved by the General Shareholders' Meeting within the meaning of Article 114-bis of the TUF, and related implementing transactions;
- > **resolutions regarding the remuneration of Directors** entrusted with specific tasks other than those determined on an overall basis pursuant to Article 2389, paragraph 3, of the Italian Civil Code, and resolutions regarding the remuneration of Key Management Personnel, provided that the Company has adopted a remuneration policy with certain characteristics;
- > **ordinary transactions** that are part of the ordinary operations and any and all related financial activities, and are effected at arm's-length or standard terms or conditions. Pursuant to the Bank of Italy's Provisions, all transactions that exceed the Greater Importance threshold, even if carried out on an arms' length basis or at standard conditions, should be considered as non-ordinary transactions;
- > **transactions with or between Subsidiaries and Associates**, provided that none of the Company's other related parties holds any interest in the Subsidiaries or Associates in question.

On the basis of the indicator consisting of the consolidated own funds, the threshold of transactions of Greater Importance currently stands at around **23.1 million euros**, reduced to **11.5 million euros** for transactions with the parent company Assicurazioni Generali and the latter's related entities.

Moreover, for the first time, the provisions issued by the Bank of Italy impose prudential restrictions, based on own funds, to risk assets in respect of Connected Parties. The limits vary according to the different types of Connected Parties, in proportion with the level of involvement in the relationship and the potential impact of the resulting risks on sound and prudent management. In light of the greater risks associated with conflicts of interest in bank-industry relations, more stringent limits are envisaged for risk assets carried out with entities qualifying as non-financial related parties. Exposure in respect of the Generali Group's connected parties, on the other hand, is capped at 7.5% of consolidated own funds.

Even if the aforesaid consolidated cap is not exceeded, Banca Generali's exposure in respect of any given set of connected parties may in no event exceed **20%** of the sum total of individual Own funds.

## 1. Disclosure of remuneration of directors and executives

As required by IAS 24, the total remuneration recorded in the Profit and Loss Account for the year is disclosed below, broken down by personnel category and type.

	31.12.2016				31.12.2015	CHANGE
	DIRECTORS	AUDITORS	KEY MANAGEMENT PERSONNEL	TOTAL		
Short-term benefits (current remuneration and social security charges) <sup>(1)</sup>	1,111	224	2,712	4,047	5,328	-1,281
Post-employment benefits <sup>(2)</sup>	-	-	609	609	189	420
Other long-term benefits <sup>(3)</sup>	-	-	116	116	367	-251
Severance indemnities	-	-	-	-	-	-
Share-based payments <sup>(4)</sup>	-	-	2,634	2,634	2,601	33
<b>Total</b>	<b>1,111</b>	<b>224</b>	<b>6,071</b>	<b>7,407</b>	<b>8,485</b>	<b>-1,078</b>
<b>Total at 31.12.2015</b>	<b>1,783</b>	<b>219</b>	<b>6,484</b>	<b>8,485</b>		

(1) Includes current remuneration and social security charges payable by the Company and the short-term portion of variable remuneration.

(2) Includes the Company's pension fund contribution and allocation to the provision for severance indemnities provided for by the law and Company regulations.

(3) Includes 40% of the bonus with access gate.

(4) Includes the estimated cost for share-based payment plans, determined based on IFRS 2 criteria and recognised in the Financial Statements.

The table presents the total expenses recognised in the Profit and Loss Account presented in the consolidated Annual Financial Statements on the basis of the application of IASs/IFRSs. It therefore also includes the social security charges payable by the Company, the allocation to the provision for severance indemnities, the expenses associated with share-based payment plan determined in accordance with IFRS 2, and the estimate of the variable remuneration accrued during the year on the basis of the Remuneration and Incentivisation Policy for the Key Personnel of the Banking Group.

It should also be noted that the amounts are net of recoverable remuneration associated with services rendered to other companies.

In further detail, the item "Other long-term benefits" includes the estimate of the 40% portion of variable remuneration for the year in excess of 75,000 euros payable on a deferred basis over the next two years, contingent upon specific access gate conditions being met, in accordance with the aforementioned Remuneration Policy.

The item "Short-term benefits" includes the fixed remuneration and the 60% portion of variable remuneration accrued in the reporting year and payable in the following one.

Beginning in 2015, a 25% portion of the variable remuneration – both current and deferred – will be paid in Banca Generali shares.

Therefore, the item “Share-based payments” accounts for the costs associated with IFRS2 accrued in the year and regarding:

- > the Long-Term Incentive Plans (LTIPs) introduced by the parent company Assicurazioni Generali, for a total amount of 2.7 million euros;
- > the share-based payments envisaged in the new Remuneration Policy mentioned above and discussed in greater detail in Part I of these Notes and Comments (0.5 million euros).

With regard to the LTIPs of the parent company Assicurazioni Generali, it should be noted that effective the fourth cycle of the plan (2013-2015), the incentivisation characteristics were completely revised and now only envisage a share bonus in the form of shares of the Parent Company, Assicurazioni Generali, the cost of which is exclusively estimated on the basis of the IFRS 2. This incentivisation plan is described in greater detail in Part A of these Notes and Comments, Section 17 – Other information.

For detailed information concerning Remuneration Policies, the reader is therefore referred to the specific document concerning Remuneration Policies instituted by Consob Resolution No. 18049 of 23 December 2011 and, as regards the disclosure required by the Bank of Italy, to the relevant section of Pillar 3.

## 2. Disclosure of Related Party Transactions

As part of its normal business operations, Banca Generali carries out numerous financial and commercial transactions with related parties included in the scope of consolidation of the Generali Group.

Banca Generali is a direct subsidiary of Generali Italia S.p.A., the holding of all the Insurance Group’s operations in Italy. However, Assicurazioni Generali S.p.A. – the company engaging in management and coordination activities pursuant to Article 2497 of the Italian Civil Code – continues to be the ultimate Parent Company. This is the reason why reference is made to the latter when speaking of the “Parent Company” of Banca Generali, in compliance with IAS 24.

In the banking area, such operations include current accounts, the custody and administration of securities, stock brokerage and commercial portfolio collection.

As regard the distribution and sale of financial services, a number of agreements were established regarding the placement of asset management and insurance products, as well as banking products and services through the Financial Advisors network.

To a lesser extent, advisory and wealth management activities are also carried out, with reference to underlying assets of insurance products placed by the companies of the Insurance Group.

Finally, as part of its normal operations, the Bank also maintains relationships pertaining to IT and administration outsourcing, insurance and leasing relationships, as well as other minor relationships with Generali Group companies. Transactions with related parties outside the Generali Group are mostly confined to direct and indirect net inflows activities and loans to Key Management Personnel (and their relatives) of the Bank and its Parent Company. These transactions are carried out at arm’s length. Banca Generali’s direct investments in undertakings on which such related parties exercise significant influence or control are absolutely not material.

### 2.1 Extraordinary and non-recurring transactions

#### Unusual, atypical or extraordinary transactions

There were no atypical and/or unusual transactions to be reported in 2016, nor were such transactions undertaken with parties other than related parties such as intragroup entities or third parties.

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

#### Highly Significant Transactions

In 2016, the Banking Group did not carry out any transactions qualifying as non-ordinary, “highly significant” transactions, entered into at non-market or non-standard conditions which, in accordance with the Related Party Transaction Procedure, would have been subject to market disclosure and the obligation of publishing an information memorandum.

## Other Significant Transactions

In 2016, some transactions were approved qualifying as “moderately significant” transactions, which are subject to the prior non-binding opinion of the Audit and Risk Committee; in this regard, the reader is referred to the dedicated section of the Report on Operations.

### 2.2 Ordinary or recurring transactions

The developments of ordinary transactions with related parties during 2016 are presented in the following sections.

#### Transactions with the Assicurazioni Generali Group

##### Balance Sheet data

(€ THOUSAND)	PARENT COMPANY ASSICURAZIONI GENERALI	SUBSIDIARIES OF THE AG GROUP	31.12.2016	31.12.2015	WEIGHT % 2016
HFT financial assets	225	-	225	270	0.58%
AFS financial assets	652	246	898	1,028	0.02%
Loans to customers	-	19,100	<b>19,100</b>	20,874	1.01%
Tax assets (AG tax consolidation)	2,150	-	2,150	16,399	4.83%
Other assets	1	427	428	631	0.05%
<b>Total assets</b>	<b>3,028</b>	<b>19,773</b>	<b>22,801</b>	<b>39,202</b>	<b>0.27%</b>
Due to customers	2,802	748,355	751,157	912,632	11.30%
Other liabilities	1	10,823	10,824	17,005	9.11%
<b>Total liabilities</b>	<b>2,803</b>	<b>759,178</b>	<b>761,981</b>	<b>929,637</b>	<b>9.12%</b>
<b>Guarantees issued</b>	<b>2,224</b>	<b>284</b>	<b>2,508</b>	<b>3,019</b>	<b>2.24%</b>

The total exposure to the Parent Company, **Assicurazioni Generali**, of companies subject to its control, including the direct parent, Generali Italia S.p.A., and its associate companies, amounted to 22.8 million euros, compared to 39.2 million euros recognised at the end of 2015, equal to 0.3% of Banca Generali’s total assets.

By contrast, the total debt position reached 762.0 million euros, accounting for 9.1% of liabilities, down by 167.6 million euros (-18.0%) compared to the previous year.

As part of assets, **HFT and AFS financial assets** claimed from the Parent Company refer to shares of Assicurazioni Generali held in the corresponding portfolios of Banca Generali. As part of the AFS portfolio, shareholdings in subsidiaries of the Generali Insurance Group refer to the shares held in the consortia of the GBS Group (Generali Business Solutions) and CGS (Generali Corporate Services).

Exposures to Generali Group companies recognised as **loans to customers** amounted to 19.1 million euros and refer to the following transactions:

COMPANY	RELATIONSHIP	TYPE OF TRANSACTION	31.12.2016		31.12.2015	
			AMOUNT	REVENUES	AMOUNT	REVENUES
Investimenti Marittimi	Associate of the AG Group	Medium/Long-term grant in current account	-	-	-	449
Genertellife	Subsidiary of the AG Group	Operating receivables	17,461	-	19,789	-
Assicurazioni Generali	Parent Company	Operating receivables	-	-	16	-
Other companies of the Generali Group	Subsidiary of the AG Group	Operating receivables	1,632	-	1,068	-
Other exposures with Group companies	Subsidiary of the AG Group	Temporary current account exposures	7	816	1	104
			<b>19,100</b>	<b>816</b>	<b>20,874</b>	<b>553</b>

**Operating receivables** are comprised of transitional items including fees accrued over the last quarter for the distribution of insurance and financial products of Group companies.

Amounts receivable from the Parent Company and classified as **tax assets** consisted of Banca Generali S.p.A.’s net tax receivables resulting from the balance between tax prepayments, withholdings and credits and the IRES tax calculated at the end of the year. This item also includes the estimated tax credit arising from the application for the refund of the portion of the IRAP tax made deductible for IRES purposes pursuant to Legislative Decree No. 201/2011, and subject to reimbursement within the tax consolidation scheme adopted by the Parent Company.

**Amounts due to customers** attributable to Generali Group’s related parties reached 751.1 million euros at the end of the year and included amounts due to the parent company Assicurazioni Generali S.p.A. for 2.8 million euros and amounts due to Generali Italia S.p.A. for 142.4 million euros.



Amounts due to customers also included the **subordinated loan** with Generali Beteiligungs GmbH, taken up at the end of 2014 to acquire the Credit Suisse Italia S.p.A.'s business unit and amounting to 43.3 million euros, gross of accrued interest.

Finally, a total of 2.5 million euros in personal guarantees was issued for Generali Group companies, of which 2.2 million euros on behalf of Assicurazioni Generali S.p.A.

### Profit and Loss Account data

At 31 December 2016, overall profit and loss components recognised in the Financial Statements with regard to transactions with companies of the Generali Group amounted to 173.6 million euros, or 94.0% of operating profit before taxation.

(€ THOUSAND)	PARENT COMPANY ASSICURAZIONI GENERALI	SUBSIDIARIES OF THE AG GROUP	2016	2015	WEIGHT % 2016
Interest income	34	782	816	553	1.32%
Interest expense	-	-1,669	-1,669	-1,981	53.58%
<b>Net interest income</b>	<b>34</b>	<b>-887</b>	<b>-853</b>	<b>-1,428</b>	<b>-1.45%</b>
Fee income	1	190,756	190,757	161,864	31.55%
Fee expense	-	-1,011	-1,011	-1,213	0.34%
<b>Net fees</b>	<b>1</b>	<b>189,745</b>	<b>189,746</b>	<b>160,651</b>	<b>61.40%</b>
Dividends	45	-	45	37	2.29%
Gain (loss) on transactions	-	-	-	-1,850	-
<b>Operating income</b>	<b>80</b>	<b>188,858</b>	<b>188,938</b>	<b>157,410</b>	<b>46.95%</b>
Staff expenses	-	232	232	420	-0.29%
General and administrative expense	-1	-15,644	-15,645	-15,675	11.17%
Other operating income and expenses	-	75	75	328	0.17%
<b>Net operating expenses</b>	<b>-1</b>	<b>-15,337</b>	<b>-15,338</b>	<b>-14,927</b>	<b>8.43%</b>
<b>Operating result</b>	<b>79</b>	<b>173,521</b>	<b>173,600</b>	<b>142,483</b>	<b>78.76%</b>
<b>Operating profit</b>	<b>79</b>	<b>173,521</b>	<b>173,600</b>	<b>142,483</b>	<b>93.9%</b>
<b>Net profit (loss) for the year</b>	<b>79</b>	<b>173,521</b>	<b>173,600</b>	<b>142,483</b>	<b>111.4%</b>

Overall, **net interest income** accrued in dealings with companies of the Insurance Group is negative and amounted to 0.8 million euros, with net interest paid to such companies (1.7 million euros) accounting for 53.6% of the total amount recognised in the Profit and Loss Account and showing a decline of 312 thousand euros compared to the same period of the previous year.

By convention, interest income also includes the negative interest expense applied to the deposits of Generali Group companies starting in June, calculated according to the average one-month Euribor for the month prior to the month of calculation.

Interest expense paid in relation to the subordinated loan with Generali Beteiligungs-GmbH totalled 1.6 million euros, whereas the interest income from other companies of the Generali Group was absolutely negligible due to the persistence of negative short-term interest rates.

**Fee income** paid back by companies of the Insurance Group amounted to 190.7 million euros, equal to 31.5% of the aggregate amount and was broken down as follows:

	2016	2015	CHANGE	
			ABSOLUTE	%
Asset management fees	4,527	3,865	662	17.1%
Distribution of insurance products	183,711	155,561	28,150	18.1%
Consultancy	2,141	1,973	168	n.a.
Other banking fees	378	465	-87	n.a.
<b>Total</b>	<b>190,757</b>	<b>161,864</b>	<b>28,893</b>	<b>17.9%</b>

The most significant component consists of fees on the **distribution of insurance products** by Genertellife, up by 18.1% compared to the same period of the previous year (+28.2 million euros).

Fees on the placement of units of UCITS of the Insurance Group were largely related to the income on the distribution of BG Focus funds, promoted by Generali Investments Europe SGR.

Furthermore, Banca Generali advises on, or directly manages through portfolio management solutions, a portion of the underlying assets of the Group's insurance products. In this regard, in 2016 fee income for advisory services rendered to Alleanza Assicurazioni S.p.A. and Generali Italia S.p.A. amounted to 2.1 million euros.

The other bank fees refer primarily to direct debit collection activity on behalf of Group companies.

It should also be noted that Banca Generali renders trading and order receipt services to Italian and international UCITS administered by management companies that belong to the Banking and Insurance Group. Such fees, amounting to 1.1 million euros, are generally charged directly against the assets of the UCITS, which are considered entities beyond the scope of IAS 24.

The Bank also directly collects from customers – through the correspondent bank – subscription fees for the Sicavs promoted by the Group (BG Sicav, BG Selection Sicav, Generali Investments Sicav).

	2016	2015	CHANGE
Sicav underwriting fees	55	128	-73
Trading fees on funds and Sicavs	1,080	4,964	-3,884
	<b>1,135</b>	<b>5,092</b>	<b>-3,957</b>

**Net operating expenses** recognised by the Bank in relation to transactions with related parties of the Generali Group amounted to 15.3 million euros, equal to 8.4% of the aggregate total and refer to outsourced services in the insurance, leasing, administrative and IT sectors.

	2016	2015	CHANGE	
			ABSOLUTE	%
Insurance services	2,225	2,116	109	5.2%
Property services	5,726	6,970	-1,244	-17.8%
Administration, IT and logistics services	7,622	6,261	1,361	21.7%
Financial services	-3	-	-3	-
Staff services	-232	-420	188	-44.8%
<b>Total administrative expense</b>	<b>15,338</b>	<b>14,927</b>	<b>411</b>	<b>2.8%</b>

Administrative expense incurred in relation to Generali Italia S.p.A. amounted to 3.3 million euros, of which 2.1 million euros refers to insurance services and the remainder to rentals for former INA property leases.

The cost of property services relating to the lease of offices, branch network and operating outlet premises of the Bank totalled 5.7 million euros and referred to Generali Italia S.p.A. (1.2 million euros), Generali Properties (3.2 million euros) and Fondo Mascagni (1.4 million euros).

Expenses relating to IT, administration and logistics related chiefly to services rendered by Generali Business Solutions S.r.l. (GBS) on the basis of current outsourcing agreements.

### Transactions with other related parties

Exposures with **Key Managers** of the Bank and its parent company Assicurazioni Generali mainly referred to residential mortgages subject to the same terms and conditions applied to similar mortgages held by other Managers of the Banking and Insurance Group.

Amounts due to such parties consist of the balances of correspondent accounts with Banca Generali and are regulated on the basis of conditions applicable to employees of the Banking and Insurance Group.

Equity investments include the interest acquired by the Banking Group in 2015 in the UK-based firm IOCA Entertainment Ltd.

In 2016, the share of the loss for the year attributable to Banca Generali amounted to approximately 75 thousand euros, whereas the exchange differences on the equity investment in foreign currency amounted to 96 thousand euros.

In addition, the **AFS portfolio** included an equity investment in Dea Capital – whose amount was not material – attributable to a Key Manager of the Parent Company, Assicurazioni Generali S.p.A. In 2016, the equity investment earned dividends for 36 thousand euros.

(€ THOUSAND)	KEY MANAGEMENT PERSONNEL	ENTITIES UNDER CONTROL OR SIGNIFICANT INFLUENCE
AFS financial assets	-	361
Loans to customers	3,082	-
Due to customers	3,780	-
Equity investments	-	1,988
Guarantees issued	45	-
Guarantees received	-	-

## Direction and Coordination

Pursuant to Article 2497-bis of the Italian Civil Code, Banca Generali is subject to Assicurazioni Generali S.p.A.'s "management and coordination" activities.

A summary of the main items of this company's latest Financial Statements is reported hereunder.

### 2015 Highlights of Assicurazioni Generali

(€ MILLION)

<b>Net profit</b>	<b>931.5</b>
Aggregate dividend	1,123.0
<i>Increase</i>	-
Total net premiums	2,290.0
Total gross premiums	3,113.1
Total gross premiums from direct business	595.0
<i>Increase on equivalent terms <sup>(a)</sup></i>	-
Total gross premiums from indirect business	2,518.1
<i>Increase on equivalent terms <sup>(a)</sup></i>	-
Acquisition and administration costs	397.2
<i>Expense ratio <sup>(b)</sup></i>	17.34%
<b>Life business</b>	
Life net premiums	1,353.6
Life gross premiums	1,719.4
<i>Increase on equivalent terms <sup>(a)</sup></i>	-
Life gross premiums from direct business	244.6
<i>Increase on equivalent terms <sup>(a)</sup></i>	-
Life gross premiums from indirect business	1,478.8
<i>Increase on equivalent terms <sup>(a)</sup></i>	-
Life acquisition and administration costs	210.2
<i>Expense ratio <sup>(b)</sup></i>	15.53%
<b>Non-life business</b>	
Non-life net premiums	936.4
Non-life gross premiums	1,393.7
<i>Increase on equivalent terms <sup>(a)</sup></i>	-
Non-life gross premiums from direct business	350.4
<i>Increase on equivalent terms <sup>(a)</sup></i>	-
Non-life gross premiums from indirect business	1,043.3
<i>Increase on equivalent terms <sup>(a)</sup></i>	-
Non-life acquisition and administration costs	187.0
<i>Expense ratio <sup>(b)</sup></i>	19.97%
<i>Loss ratio <sup>(c)</sup></i>	63.20%
<i>Combined ratio <sup>(d)</sup></i>	83.10%
<b>Current financial result</b>	<b>1,673.8</b>
Technical provisions	14,120.1
Life segment technical provisions	12,135.5
Non-life segment technical provisions	1,984.6
Investments	41,170.3
Capital and reserves	13,767.5

(a) At constant exchange rates.

(b) Ratio of administrative expense to total premiums.

(c) Ratio of accrued claims to accrued premiums.

(d) Total (b) + (c).

The highlights of the Parent Company Assicurazioni Generali S.p.A. shown above were taken from the company's Financial Statements for the year ended 31 December 2015. These are available together with the Independent Auditor's Report as provided for by the law. Consequently, these figures of the Parent Company are not subject to audit performed by the auditing firm engaged by Banca Generali.

## PART I – PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

### A. Qualitative information

At 31 December 2016, the payment agreements based on own equity instruments activated by Banca Generali consisted of two stock-option granting plans reserved, respectively, to Financial Advisors, Networks Managers, and Relationship Managers (employees) of Banca Generali, approved by the General Shareholders' Meeting held on 21 April 2010. These plans have already completed their vesting period and are nearing the end of their option strike period.

The Remuneration and Incentivisation Policy of the Banca Generali Group – amended to comply with the provisions set forth in the Supervisory Provisions (Bank of Italy Circular Letter No. 285/2013, 7th update) – established, inter alia, that part of the variable remuneration of Key Personnel be paid by assigning Banca Generali's financial instruments.

#### A.1 Rules for the stock-option plans for Financial Advisors, Network Managers and Relationship Managers of Banca Generali S.p.A. for 2010

In order to pursue the twofold objective, in the medium and long term, of maintaining the interest of the distribution network and Network Managers in line with the interest of the company, as well as increasing the loyalty of the most promising professionals, by involving the same economically in overall value creation within the Company, whilst also providing incentives to boost productivity, on 21 April 2010 the Shareholders' Meeting approved two stock-option plans, which called for:

- > the allotment to Banca Generali's Financial Advisors, Area Managers, Business Managers and Private Bankers of a maximum of 2,300,000 shares to be issued;
- > the allotment to Banca Generali's Relationship Managers of a maximum amount of 200,000 ordinary shares to be issued;
- > the allotment of options by 30 June 2011, after having verified that overall and individual targets for the development of net inflows by 31 December 2010 have been reached;
- > the possibility to exercise the options between 1 July 2011 and 30 June 2017 to the extent of one-sixth per year.

The main aspects of the plans in question are summarised in the 2014 Consolidated and Separate Financial Statements and those of previous financial years, to which reference can be made for further information.

A share capital increase in one or more tranches, excluding option rights pursuant to Article 2441, paragraphs 5 and 8, of the Italian Civil Code, was approved in service of the stock-option plans indicated above for the issue of a maximum of 2.5 million ordinary shares, in addition to the 5.5 million new shares already approved in relation to the existing stock-option plans, already examined.

On 13 May 2011, the Plan Management Committee assessed the achievement of the individual targets established for the different categories of recipients, who then were actually assigned the option rights on 7 June 2011.

The exercise price of the shares, amounting to 10.7118 euros, was determined on the basis of the plans' Rules, based on the arithmetic mean of the reference price of Banca Generali stock listing in the period from the option allotment date to the same date of the previous solar month.

The sixth – and last – tranche of options, accounting for one-sixth of the total of options allotted, became eligible for exercise as of 1 July 2016, and can therefore be exercised until 30 June 2017.

In 2016, a total of 340,007 options were exercised, of which 20,907 by Relationship Managers. In addition, 5,318 options were cancelled due to termination of the mandate of the Financial Advisors to whom they had been allotted.

Therefore, a total of 1,945,687 options were exercised and 120,127 were cancelled overall.

At the end of 2016, 434,186 options were yet to be exercised, of which 38,339 referring to Relationship Managers.

#### Measurement of the fair value and accounting treatment

Valuation of the stock-option plans is based on the fair value of the options allotted, calculated with reference to the final allotment date of the options.

In further detail, since the various tranches of the plan are associated with different vesting dates and option exercise periods, each tranche has been treated as a separate allotment, with the determination of a specific fair value.

The measurement of the fair value of the options was computed using a standardised model available among the operating tools on the Bloomberg platform. This model contemplated information such as the strike price, the vesting period, the exercise window, current share price and implied volatility, expected dividends and the risk-free interest rate. The binomial pricing model also takes into account the possibility of early exercise.

The implied volatility of Banca Generali stock used in the model was determined according to an inductive process commonly used by the market.

In detail, the expected volatility of at-the-money Banca Generali options at three months was first estimated according to surveys of historical volatility, and the volatility of more liquid options at three months based on the equities of listed issuers with similar structural characteristics. The spread between the volatility of the option at three months and the DJ STOXX 50 index was then calculated, and that spread was applied to the index's implied volatility during the holding period for the new maturities, while also taking the various moneyness profiles into account.

Considering the particular situation of market volatility that occurred during the option allotment period, the current value of the options was determined on the basis of the average quotations during the period from 15 May (the date on which the beneficiaries were identified) to 30 June 2011, the date specified in the plans' Rules as the final deadline for allotment of the options.

The other specific characteristics of the plans, such as the presence of periods of suspension of exercisability, were also considered for measurement purposes.

Since the plan's Rules also call for forfeiture of the right to exercise options in the event of the termination of a Financial Advisor for any reason, except for decease, permanent disability or retirement, an estimate was prepared of the briefer expected residual life of the options compared to their contractual duration due to expected cases of early exercise. To that end, the notional fair value of the shares was adjusted on the basis of the expected turnover rates by option vesting class.

This procedure resulted in the identification of fair values between 1.01 and 0.65 euros depending on the exercise date for the option rights.

The impact on the Profit and Loss Account was measured from year to year based on the vesting period of the option, i.e., the period between allotment and final maturity, likewise taking into account the probability that exercise conditions for all recipients will not be realised.

Given the different vesting dates of the various tranches of the plan, each tranche was measured separately for this purpose. It follows that for the first tranche, which became exercisable on 1 July 2011, vesting was immediate, whereas for the sixth tranche, which became exercisable on 1 July 2016, the vesting period was calculated over six years.

## A.2 Share-based payment plans linked to the variable portion of remuneration based on performance objectives

In accordance with the Supervisory Provisions set forth in the 7<sup>th</sup> update of Bank of Italy Circular Letter No. 285/2013 issued on 18 November 2014, the Remuneration and Incentivisation Policy for the Key Personnel of the Banca Generali Group – applied as of financial year 2015 – requires a portion of the variable component of remuneration, both current and deferred, to be paid by assigning Banca Generali's financial instruments.

In detail, Key Personnel and main Network Managers who accrue a variable remuneration linked to short-term objectives exceeding 75 thousand euros would be entitled, in addition to the deferral of the disbursement of 40% of the variable component, also to the payment of 25% of the said component through assignment of Banca Generali shares, based on the following stock-granting and retention mechanism:

- > 60% of the bonus to be paid up-front in the year following that under review: 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year;
- > 20% of the bonus to be deferred for one year: 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year;
- > the remaining 20% of the bonus to be deferred by two years: 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year.

If the actual bonus accrued falls below the threshold of 75 thousand euros, the bonus will be paid in full up-front during the year after that of reference, 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year.

The payment in shares will be executed after the Board of Directors verifies the earnings results for the year in question and will be conditional not only upon the achievement of the pre-set objectives defined in the MBO mechanism, but also to the satisfaction of access gates established by the Banking Group (TCR – Total Capital Ratio, LCR – Liquidity Coverage Ratio) for the year in which the remuneration is accrued and the following two-year period of deferral.

In calculating the number of shares to be assigned, a method is applied where:

- > the numerator is equal to 25% of the variable remuneration accrued in respect of the actual achievement of the targets set for the year in question; and
- > the denominator is equal to the average price of Banca Generali shares during the three months prior to the meeting of the Board of Directors that approves the draft Separate and Consolidated Financial Statements for the year prior to that in which the cycle in question begins.

## Measurement of fair value and accounting treatment

Pursuant to IFRS 2 – *Share-based Payments*, the mechanisms to assign variable remuneration – discussed in the previous section – are considered as equity-settled share-based payment transactions.

The accounting treatment set forth for these transactions requires an entity to reflect in its Profit and Loss Account, under the most appropriate items (staff expenses, fee expense), the estimated expense associated with transactions in which shares are assigned, and allocate a specific equity reserve as offsetting entry.

IFRS 2 envisages that with regard to *transactions with employees and others providing similar services (employees/network managers)*, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.

From an accounting standpoint, as the share-based payment does not call for an exercise price, it can be considered a stock grant and recognised in compliance with the rules set forth for this category of transactions. The overall expense regarding the allotments was therefore determined based on the number of shares expected to be assigned, on the basis of the objectives achieved, multiplied by the fair value of the Banca Generali stock at the date of allotment.

Moreover, as the share allotment is effected in three tranches, each tranche is considered individually: a first tranche (60%) paid up-front after the approval of the Financial Statements for the year of reference, and two annual tranches (40%) to be deferred and subject to both the continuation of service and the satisfaction of access gates established on an annual basis.

In detail, the vesting period for the tranche paid up-front lasts from 1 January to 31 December of the year of reference of the remuneration (12 months), whereas for the two deferred tranches the vesting period is extended up to 31 December of the first subsequent year (24 months) and of the second subsequent year (36 months).

The overall number of shares to be allotted is defined dividing the 25% portion of variable remuneration payable in the form of shares by the average price of Banca Generali shares during the three months prior to the meeting of the Board of Directors that approves the Separate and Consolidated Financial Statements for the year prior to that in which the cycle in question begins.

In detail, an estimate of variable remuneration envisaged by MBO plans was considered for salaried Managers, whereas for Network Managers an estimate of fee incentives accruing against the objectives set for the year was taken into account.

However, the number of shares actually granted to beneficiaries may change based on the assessment of satisfaction of the individual objectives set for the year.

The fair value of Banca Generali stock at the allotment date is equal to the market price reported at the date of the Shareholders' Meeting that is called annually to approve the Remuneration Policy for the year of reference.

### Information on the cycles of the share-based plan in connection to the Remuneration Policies

The **first share-based payment cycle**, relating to the 2015 variable remuneration, was approved by the Shareholders' Meeting on 23 April 2015.

In order to service the plan, the Shareholders' Meeting also passed a resolution to buy-back a maximum number of **88,213** treasury shares, subsequently authorised by Bank of Italy Order of 3 June 2015.

For the purpose of determining the number of shares to be assigned, the price of reference of Banca Generali shares, calculated as the average official market price during the period 12 December 2014 to 9 March 2015, was determined to be **23.94 euros**.

The fair value of Banca Generali stock at the allotment date was equal to the market price (approximately **29.4 euros**) reported on 23 April 2015.

In that cycle, the shares to be assigned to Key Personnel totalled **68,250**, of which **51,960** were awarded to Network Managers, **14,578** to employees, and **1,712** referred to the subsidiary BGFML.

The overall fair value of the plan was estimated at about 2.0 million euros, of which 1.6 million euros already recognised in 2015 and 0.3 million euros to be recognised in 2017.

The first tranche of those shares, associated with the portion of current remuneration, was assigned on 27 April 2016 and consisted of **38,099** treasury shares.,

The total shares allotted in respect of the 2015 remuneration of Chief Executive Officer and General Manager Piermario Motta (**5,222** shares), who passed away untimely in March 2016, were paid in cash to his heirs. Pursuant to IFRS 2, paragraph 28, concerning the cancellation of share-based payment plans, the entire plan was considered fully vested and recognised through profit and loss, and the amounts paid out to his heirs were treated as a buy-back of shares, in an amount equivalent to the fair value of the Banca Generali stock on the settlement date.

The **second share-based payment cycle**, relating to the variable remuneration accrued in 2016, was approved by the Shareholders' Meeting on **21 April 2016** and presents characteristics essentially similar to those of the previous year;

with the sole difference of the extension of the share-based payment mechanism to also include variable remuneration below the threshold of 75 thousand euros.

In this regard, the Shareholders' Meeting of 21 April 2016 also passed a resolution to buy-back a maximum number of **67,051** treasury shares, subsequently authorised by Bank of Italy Order of 6 June 2016.

For the purpose of determining the number of shares to be assigned, the price of reference of Banca Generali shares, calculated as the average official market price during the period 12 December 2015 to 9 March 2016, was determined to be **25.26 euros**.

The fair value of Banca Generali stock at the allotment date was equal to the market price (approximately **26 euros**<sup>5</sup>) reported on 21 April 2016.

In respect of the assessment of the achievement by Key Personnel of the objectives set for 2016, it was estimated that the portion of variable remuneration subject to share-based payment amounted to approximately 77.4 thousand shares, for a total plan fair value of **1.9 million euros**.

In 2016, a plan for new recruits was also implemented. This plan is subject to long-term deferral and envisages the assignment of ten annual variable instalments to be paid from 2016 to 2025, conditional upon the maintenance of the net inflows contributed at 30 November 2016. Each annual instalment of this plan is also subject to deferral and payment in shares according to the Remuneration Policy from time to time in force, until the year 2028.

At 31 December 2016, pursuant to IFRS 2, the estimated fair value of the incentive plan's portion payable in shares was approximately 348 thousand euros, of which about 63 thousand euros accrued during the reporting year.

5 The price was adjusted for the dividend approved by the Shareholders' Meeting on 21 April 2016, already reflected in the share price, and the expected coupons for the next three years, to take account of the failure to collect that dividend.

## B. Quantitative information

During 2016, nearly 340,000 option rights deriving from the new 2010 plans were exercised.

The weighted average strike price was 10.71 euros, compared to an average price of the Banca Generali stock of 21.684 euros in 2016.

The Bank's total amount of proceeds for the exercise of the options thus reached 3,355 thousand euros, whereas the value of the IFRS 2 equity reserve set aside in previous years in connection with the rights exercised amounted to 361 thousand euros.

That amount, along with the amount paid out to the beneficiaries, net of the par value of the shares allotted, was added to the share premium reserve (3,584 thousand euros) pursuant to the supervisory authority's instructions (Circular Letter No. 262/2005, paragraph 5, Statement of Changes in Net Equity).

The expenses recognised in the Profit and Loss Account in 2016 in connection with the stock-option plans reserved for Financial Advisors and salaried Relationship Managers authorised in 2010 amounted to 29 thousand euros.

At the end of 2016, the IFRS 2 equity reserve associated with the 2010 stock-option plans therefore amounted to 0.3 million euros.

The total number of options that can be exercised at the end of financial year 2016 is 434 thousand, with an average strike price of 10.71 euros and a total exercise value of about 4.7 million euros.

The remaining average life of such aggregate amount is 0.5 years.

### B.1 Stock-option plans – year changes

NUMBER OF OPTIONS AND EXERCISE PRICE	AVERAGE PRICES	STOCK OPTIONS – FINANCIAL ADVISORS	AVERAGE PRICES	STOCK OPTIONS – SALARIED MANAGERS	AVERAGE PRICES	TOTAL STOCK OPTIONS	AVERAGE PRICES	AVERAGE MATURITY
<b>A. Amount at year-start</b>	-	<b>720,265</b>	<b>10.71</b>	<b>59,246</b>	<b>10.71</b>	<b>779,511</b>	<b>10.71</b>	<b>1.50</b>
<b>B. Increases</b>	-	-	-	-	-	-	-	<b>x</b>
B.1 Newly issued shares	-	-	-	-	-	-	-	x
B.2 Other changes	-	-	9.00	-	-	-	-	x
<b>C. Decreases</b>	-	<b>-324,418</b>	<b>10.71</b>	<b>-20,907</b>	<b>10.71</b>	<b>-345,325</b>	<b>10.71</b>	<b>x</b>
C.1 Cancelled	-	-5,318	10.71	-	-	-5,318	10.71	x
C.2 Exercised	-	-319,100	10.71	-20,907	10.71	-340,007	10.71	x
C.3 Expired	-	-	-	-	-	-	-	x
C.4 Other changes	-	-	-	-	-	-	-	x
<b>D. Amount at year-end</b>	-	<b>395,847</b>	<b>10.71</b>	<b>38,339</b>	<b>10.71</b>	<b>434,186</b>	<b>10.71</b>	<b>0.50</b>
<b>E. Options that can be exercised at year-end</b>	-	<b>395,847</b>	<b>10.71</b>	<b>38,339</b>	<b>10.71</b>	<b>434,186</b>	<b>10.71</b>	<b>0.50</b>
Strike price (euro/000)	-	<b>27</b>	<b>X</b>	<b>3</b>	<b>X</b>	<b>29</b>	<b>X</b>	<b>X</b>
IFRS 2 reserve (euro/000)	-	<b>312</b>	<b>X</b>	<b>31</b>	<b>X</b>	<b>343</b>	<b>X</b>	<b>X</b>

With reference to the share-based payment plans contemplated in the Remuneration Policy, the expense accrued in 2016 is expected to amount to about 1.7 million euros, whereas the overall allocated IFRS2 reserve was 2.2 million euros.



## PART L – SEGMENT REPORTING

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

The Banking Group identifies the following three main business areas:

- > the **Affluent Channel**, which refers to the total earnings generated for the Group by the Financial Advisor network mainly reporting to the Financial Planner Division, and their respective clients;
- > the **Private Channel**, which refers to the total earnings generated for the Group by the network of Private Bankers and Relationship Managers, reporting to the Private Banking and Private Relationship Manager Divisions, and by their respective clients;
- > the **Corporate Channel**, which refers to the total earnings generated for the Group by the financing activities of the Finance Department and the provision of banking and investment services to medium-sized and large companies, including companies of the Assicurazioni Generali Group.

The periodical reports analysed by the Management requires the Group to assess the performance of its operating segments on the basis of the performance of the net banking income attributable to such segments.

The financial aggregates presented for each segment therefore consist of net interest, net fees and the result of trading activity including dividends. They include both components arising from transactions with third parties external to the Group ("external revenues"), and those deriving from transactions with other segments ("internal revenues").

It should be noted in this regard that internal revenues can be identified solely with reference to the interest margin; in fact, since net fees are generated directly by volumes of gross inflows and Assets Under Management relating to the individual segments, they are generated in full as external revenues.

The interest income and related to the Affluent and Private segment were determined on the basis of the actual interest paid on each segment's direct net inflows and lending. In addition, reports also show a share of the "notional interest", calculated using the Internal Transfer Rate.

The following tables show the consolidated profit and loss results of each of the identified segments, stated net of intra-segment eliminations and reclassified based on IFRS 5.

Moreover, below the tables, by way of additional quantitative information analysed by the management to evaluate the Group's performance, a breakdown is given of assets under management at year-end and net inflows for the year ended 31 December 2016, along with the comparative figures, broken down by operating segment.

## Distribution by Business Segment: Profit and Loss Account Figures

BANCA GENERALI GROUP PROFIT AND LOSS ACCOUNT (€ THOUSAND)	31.12.2016				31.12.2015			
	AFFLUENT CHANNEL	PRIVATE CHANNEL	CORPORATE CHANNEL	TOTAL	AFFLUENT CHANNEL	PRIVATE CHANNEL	CORPORATE CHANNEL	TOTAL
Interest income and similar revenues	11,336	7,005	40,732	59,073	12,792	7,781	49,170	69,743
Notional interest	14,250	7,049	-21,299	-	16,335	8,827	-25,163	-
Interest expense and similar charges	-406	-245	241	-410	-560	-154	-2,799	-3,513
<b>Net interest income</b>	<b>25,180</b>	<b>13,809</b>	<b>19,674</b>	<b>58,663</b>	<b>28,567</b>	<b>16,454</b>	<b>21,208</b>	<b>66,230</b>
Fee income	367,941	203,440	33,308	604,689	387,365	225,258	39,338	651,960
of which:								
- subscriptions	13,415	2,508	617	16,540	26,011	5,649	330	31,990
- management	305,895	171,261	15,108	492,264	280,152	167,637	11,341	459,129
- performance	37,985	19,706	9,463	67,154	69,983	40,063	17,112	127,158
- other	10,646	9,965	8,120	28,731	11,219	11,909	10,555	33,683
Fee expense	-186,730	-96,828	-12,120	-295,678	-176,760	-94,097	-10,341	-281,198
<b>Net fees</b>	<b>181,211</b>	<b>106,612</b>	<b>21,188</b>	<b>309,011</b>	<b>210,605</b>	<b>131,161</b>	<b>28,996</b>	<b>370,762</b>
Net income (loss) from trading activities	-	-	32,754	32,754	-	-	25,790	25,790
Dividends	-	-	1,963	1,963	-	-	3,120	3,120
<b>Net banking income</b>	<b>206,391</b>	<b>120,421</b>	<b>75,579</b>	<b>402,391</b>	<b>239,172</b>	<b>147,615</b>	<b>79,115</b>	<b>465,903</b>
Staff expenses	-	-	-	-80,470	-	-	-	-80,949
Other general and administrative expense	-	-	-	-140,119	-	-	-	-134,020
Net adjustments/reversal of property, equipment and intangible assets	-	-	-	-5,940	-	-	-	-5,310
Other operating expenses/income	-	-	-	44,545	-	-	-	44,720
<b>Net operating expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-181,984</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-175,559</b>
<b>Operating result</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>220,407</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>290,343</b>
Reversal value of loans	-	-	-	-	-	-	-	-
Adjustments of other assets	-	-	-	-778	-	-	-	-6,471
Net provisions	-	-	-	-34,740	-	-	-	-45,585
Gains (losses) from the disposal of equity investments	-	-	-	-53	-	-	-	-46
<b>Operating profit before taxation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>184,836</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>238,241</b>
Income taxes for the period on current operations	-	-	-	-28,942	-	-	-	-34,682
Profit (loss) from AFS assets	-	-	-	-	-	-	-	-
Minority interests (+/-) for the year	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>155,894</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>203,559</b>
(€ MILLION)								
Assets Under Management	28,295	19,252	2,957	50,504	24,321	17,283	2,778	44,383
Net inflows	3,704	1,973	n.a.	5,677	2,885	1,755	n.a.	4,640
No. of FAs/RMs	1,371	470	n.a.	1,841	1,292	423	n.a.	1,715

## Notes

- Interest income includes negative interest income classified under Item 20 of the Profit and Loss Account (Interest expense).
- Interest expense includes negative interest expense classified under Item 10 of the Profit and Loss Account (Interest income).

With respect to the information about assets and liabilities required by IFRS 8, it should be noted that the Group's management does not present or analyse the data in question in a format that differs from that as approved in the consolidated and separate financial statements.

Accordingly, for comments on the Group's balance sheet figures, the reader is referred to the other sections of these Notes and Comments.

The following table allocates the balance of consolidated intangible assets, showing separately goodwill, between the three segments.

(€ THOUSAND)	31.12.2016			TOTAL
	AFFLUENT CHANNEL	PRIVATE CHANNEL	CORPORATE CHANNEL	
Goodwill	4,416	60,543	1,106	66,065
Intangible assets (client relationships)	-	15,737	-	15,737

In accordance with the requirements of IFRS 8.33, we report that the Group's business is substantially evenly distributed throughout Italy. The management does not receive any reports on performance by geographical area.

In accordance with the requirements of IFRS 8.34, we report that the Group does not have customers representing more than 10% of consolidated revenue.

Trieste, 10 March 2017

THE BOARD OF DIRECTORS

# INDEPENDENT AUDITORS' REPORT

pursuant to Articles 14 and 16 of Legislative Decree 27.01.2010, no. 39



Tel: +39 02 58.20.10  
Fax: +39 02 58.20.14.03  
www.bdo.it

Viale Abruzzi n. 94  
20131 Milano

## Independent auditors' report in accordance with art. 14 and 16 of legislative decree nO.39 of January 27<sup>th</sup>, 2010

To the shareholders of  
Banca Generali S.p.A.

### Report of the consolidated financial statements

We have audited the accompanying consolidated financial statements of Banca Generali Group, which comprise the consolidated balance sheet as of December 31<sup>st</sup>, 2016, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated shareholders' equity and the statement of consolidated cash flows for the year then ended and the explanatory notes.

#### *Directors' responsibility for the consolidated financial statements*

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree NO. 38/2005 and art. 43 of Legislative Decree NO. 136/2015.

#### *Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to art. 11 of Legislative Decree NO. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Banca Generali Group as of December 31<sup>st</sup>, 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree NO. 38/2005 and art. 43 of Legislative Decree NO. 136/2015.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Novara, Padova, Palermo, Pescara, Potenza, Roma, Torino, Treviso, Trieste, Verona, Vicenza

BDO Italia S.p.A. - Sede Legale: Viale Abruzzi, 94 - 20131 Milano - Capitale Sociale Euro 1.000.000 i.v.  
Codice Fiscale, Partita IVA e Registro Imprese di Milano n. 07722780967 - R.E.A. Milano 1977842  
Iscritta al Registro dei revisori Legali al n. 167911 con D.M. del 15/03/2013 G.U. n. 26 del 02/04/2013

BDO Italia S.p.A., società per azioni italiana, è membro di BDO International Limited, società di diritto inglese (company limited by guarantee), e fa parte della rete internazionale BDO, network di società indipendenti.

**Report on compliance with other laws and regulation***Opinion on the consistency of the consolidated financial statements with the report on operations and of certain information set out on corporate governance and ownership structure*

We have performed the procedures required by auditing standard (SA Italia) NO. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in art. 123-bis, paragraph 4 of Legislative Decree NO. 58/98, which are the responsibility of the directors of Banca Generali S.p.A., with the consolidated financial statements of Banca Generali Group. In our opinion, the report on operations and of the information set out in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Banca Generali Group as of December 31st, 2016.

Milan, March 28, 2017

BDO Italia S.p.A.

Signed by Rosanna Vicari  
Partner

*This report has been translated into English from the Italian original solely for the convenience of international readers*



**NAZARÈ**  
Portugal, September 2016

Michele Alassio

---

**3.**  
**FINANCIAL**  
**STATEMENTS OF**  
**BANCA GENERALI**  
**S.P.A.**  
as of 31.12.2016

Board of Directors  
10 March 2017

# ECONOMIC AND FINANCIAL HIGHLIGHTS

## Economic and financial highlights

(€ MILLION)	2016	2015	CHANGE
Net interest income	58.7	66.2	-11.4
Net fees	144.3	144.6	-0.2
Net income (loss) from trading activities	34.7	28.9	20.1
<b>Net banking income</b>	<b>237.7</b>	<b>239.7</b>	<b>-0.8</b>
Staff expenses	-74.5	-74.9	-0.5
Other general and administrative expense	-136.5	-130.3	4.7
Amortisation	-5.9	-5.3	11.8
Other operating income	43.3	44.0	-1.4
<b>Net operating expenses</b>	<b>-173.6</b>	<b>-166.5</b>	<b>4.2</b>
<b>Operating result</b>	<b>64.1</b>	<b>73.2</b>	<b>-12.4</b>
Provisions	-34.7	-45.5	-23.7
Dividends and income from equity investments	130.5	177.4	-26.4
Net adjustments of loans and other assets	-0.9	-6.5	-85.7
<b>Profit before taxation</b>	<b>159.0</b>	<b>198.6</b>	<b>-19.9</b>
<b>Net profit</b>	<b>144.8</b>	<b>184.3</b>	<b>-21.5</b>
Cost/Income ratio (gross of dividends)	45.5%	38.7%	17.8
EBTDA	200.5	255.8	-21.6
ROE	40.39%	60.01%	-32.7
EPS - Earnings per Share (units of euros)	1.247	1.591	-21.6

## Net inflows

(€ MILLION) (ASSORETI DATA)	31.12.2016	31.12.2015	CHANGE
Mutual funds	198	869	-77.2
Asset management	1,020	-168	-707.1
Insurance/Pension funds	2,749	3,394	-19.0
Securities/Current accounts	1,710	545	213.8
<b>Total</b>	<b>5,677</b>	<b>4,640</b>	<b>22.3</b>



## Assets Under Management &amp; Custody (AUM/C)

(€ BILLION) (ASSORETI DATA)	31.12.2016	31.12.2015	CHANGE
Mutual funds	11.2	10.9	2.4
Asset management	4.7	3.6	28.6
Insurance/Pension funds	20.2	17.3	17.1
Securities/Current accounts	11.5	9.8	17.3
<b>Total</b>	<b>47.5</b>	<b>41.6</b>	<b>14.3</b>

## Net equity

(€ MILLION)	31.12.2016	31.12.2015	CHANGE
Net equity	522.2	523.6	-0.3
Own funds	343.2	318.9	7.6
Excess capital	173.1	134.5	28.7
<b>Total Capital Ratio</b>	<b>16.14%</b>	<b>13.83%</b>	<b>16.7</b>

# FINANCIAL STATEMENTS

## BALANCE SHEET

### Assets

(€)	31.12.2016	31.12.2015
10. Cash and deposits	583,356,168	103,108,434
20. HFT financial assets	38,560,001	28,003,985
40. AFS financial assets	4,409,313,232	2,939,206,635
50. HTM financial assets	731,360,756	423,585,115
60. Loans to banks	319,982,653	285,555,028
70. Loans to customers	1,843,231,181	1,871,577,325
100. Equity investments	16,224,545	16,224,545
110. Property and equipment	6,252,420	4,784,311
120. Intangible assets	87,190,974	83,933,817
<i>of which:</i>		
- goodwill	61,775,347	61,775,347
130. Tax receivables:	44,018,092	61,678,898
a) current	3,386,543	21,430,178
b) prepaid	40,631,549	40,248,720
b1) as per Law No. 214/2011	9,754,965	11,495,700
150. Other assets	232,385,073	208,593,717
<b>Total assets</b>	<b>8,311,875,095</b>	<b>6,026,251,810</b>

### Net equity and liabilities

(€)	31.12.2016	31.12.2015
10. Due to banks	802,701,547	333,941,495
20. Due to customers	6,738,733,731	4,883,329,494
40. HFT financial liabilities	1,168,718	463,036
80. Tax payables:	9,323,304	12,856,965
b) deferred	9,323,304	12,856,965
100. Other liabilities	116,360,639	153,689,300
110. Employee termination indemnities	4,644,954	4,448,039
120. Provisions for liabilities and contingencies:	116,709,611	113,941,769
b) other provisions	116,709,611	113,941,769
130. Valuation reserves	9,158,217	22,499,627
160. Reserves	201,028,404	153,190,078
170. Additional paid-in capital	53,803,000	50,063,050
180. Share capital	116,424,502	116,092,599
190. Treasury shares (-)	-2,932,856	-2,555,193
200. Net profit for the year	144,751,324	184,291,551
<b>Total net equity and liabilities</b>	<b>8,311,875,095</b>	<b>6,026,251,810</b>

## PROFIT AND LOSS ACCOUNT

### Items

(€)	2016	2015
10. Interest income and similar revenues	61,780,099	69,735,644
20. Interest expense and similar charges	-3,114,220	-3,513,922
<b>30. Net interest income</b>	<b>58,665,879</b>	<b>66,221,722</b>
40. Fee income	412,639,187	399,741,865
50. Fee expense	-268,333,736	-255,188,029
<b>60. Net fees</b>	<b>144,305,451</b>	<b>144,553,836</b>
70. Dividends and similar income	132,425,373	180,480,194
80. Net income (loss) from trading activities	2,383,127	4,485,809
100. Gain (loss) from sale or repurchase of:	30,371,018	21,301,302
a) receivables	2,204,039	1,700,238
b) AFS financial assets	28,151,158	19,601,065
c) HTM financial assets	15,821	-1
<b>120. Net banking income</b>	<b>368,150,848</b>	<b>417,042,863</b>
130. Net adjustments/reversals due to impairment of:	-928,374	-6,470,946
a) receivables	1,770,626	-1,120,823
b) AFS financial assets	-2,865,228	-2,845,159
c) HTM financial assets	100,819	-2,574,527
d) other financial transactions	65,409	69,563
<b>140. Net result of financial operations</b>	<b>367,222,474</b>	<b>410,571,917</b>
150. General and administrative expense:	-211,015,091	-205,218,541
a) staff expenses	-74,482,791	-74,869,076
b) other general and administrative expense	-136,532,300	-130,349,465
160. Net provisions for liabilities and contingencies	-34,691,232	-45,453,374
170. Net adjustments/reversals of property and equipment	-1,294,412	-1,201,513
180. Net adjustments/reversals of intangible assets	-4,587,088	-4,058,126
190. Other operating expenses/income	43,341,594	43,970,840
<b>200. Operating expenses</b>	<b>-208,246,229</b>	<b>-211,960,714</b>
240. Gains (losses) from disposal of investments	21,715	-5,801
<b>250. Profit (loss) from operating activities before income taxes</b>	<b>158,997,960</b>	<b>198,605,402</b>
260. Income taxes for the year on operating activities	-14,246,636	-14,313,851
<b>270. Profit (loss) from operating activities net of income taxes</b>	<b>144,751,324</b>	<b>184,291,551</b>
<b>290. Net profit for the year</b>	<b>144,751,324</b>	<b>184,291,551</b>

## STATEMENT OF COMPREHENSIVE INCOME

Items

(€)	2016	2015
<b>10. Net profit for the year</b>	<b>144,751,324</b>	<b>184,291,551</b>
<b>Other income net of income taxes, without transfer to Profit and Loss Account</b>		
40. Defined benefit plans	-180,609	66,509
<b>Other income net of income taxes, with transfer to Profit and Loss Account</b>		
100. AFS financial assets	-13,160,801	4,378,816
<b>130. Total other income net of income taxes</b>	<b>-13,341,410</b>	<b>4,445,325</b>
<b>140. Comprehensive income</b>	<b>131,409,914</b>	<b>188,736,876</b>

## STATEMENT OF CHANGES IN NET EQUITY

## Items

(€)	SHARE CAPITAL			RESERVES		VALUATION RESERVES	EQUITY INSTRUMENTS	TREASURY SHARES	NET PROFIT (LOSS)	NET EQUITY
	A) ORDINARY SHARES	B) OTHER	SHARE PREMIUM RESERVE	A) RETAINED EARNINGS	B) OTHER					
<b>Net equity at 31.12.2015</b>	<b>116,092,599</b>	<b>- 50,063,050</b>	<b>142,279,511</b>	<b>10,910,567</b>	<b>22,499,627</b>	<b>-</b>	<b>-2,555,193</b>	<b>184,291,551</b>	<b>523,581,712</b>	
Change in opening balances	-	-	-	-	-	-	-	-	-	
Amounts at 01.01.2016	116,092,599	- 50,063,050	142,279,511	10,910,567	22,499,627	-	-2,555,193	184,291,551	523,581,712	
Allocation of net income of the previous year:	-	-	45,054,731	-	-	-	-	-184,291,551	-139,236,820	
- Reserves	-	-	45,054,731	-	-	-	-	-45,054,731	-	
- Dividends and other allocations	-	-	-	-	-	-	-	-139,236,820	-139,236,820	
Change in reserves	-	-	-	2,622,230	-	-	-	-	2,622,230	
Transactions on net equity:	331,903	- 3,739,950	-	161,365	-	-	-377,663	-	3,855,555	
- Issue of new shares	331,903	- 3,739,950	-	-1,488,138	-	-	1,001,788	-	3,585,503	
- Purchase of treasury shares	-	-	-	-87,525	-	-	-1,379,451	-	-1,466,976	
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	
- Change in equity instruments	-	-	-	-	-	-	-	-	-	
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	
- Stock options	-	-	-	1,737,028	-	-	-	-	1,737,028	
Comprehensive income	-	-	-	-	-13,341,410	-	-	144,751,324	131,409,914	
<b>Net equity at 31.12.2016</b>	<b>116,424,502</b>	<b>- 53,803,000</b>	<b>187,334,242</b>	<b>13,694,162</b>	<b>9,158,217</b>	<b>-</b>	<b>-2,932,856</b>	<b>144,751,324</b>	<b>522,232,591</b>	

(€)	SHARE CAPITAL			RESERVES		VALUATION RESERVES	EQUITY INSTRUMENTS	TREASURY SHARES	NET PROFIT (LOSS)	NET EQUITY
	A) ORDINARY SHARES	B) OTHER	SHARE PREMIUM RESERVE	A) RETAINED EARNINGS	B) OTHER					
<b>Net equity at 31.12.2014</b>	<b>115,677,077</b>	<b>- 45,574,956</b>	<b>88,251,081</b>	<b>7,401,556</b>	<b>18,054,302</b>	<b>-</b>	<b>-41,238</b>	<b>167,459,532</b>	<b>442,377,266</b>	
Change in opening balances	-	-	-	-	-	-	-	-	-	
Amounts at 01.01.2015	115,677,077	- 45,574,956	88,251,081	7,401,556	18,054,302	-	-41,238	167,459,532	442,377,266	
Allocation of net income of the previous year:	-	-	54,028,430	-	-	-	-	-167,459,532	-113,431,102	
- Reserves	-	-	54,028,430	-	-	-	-	-54,028,430	-	
- Dividends and other allocations	-	-	-	-	-	-	-	-113,431,102	-113,431,102	
Change in reserves	-	-	-	2,312,303	-	-	-	-	2,312,303	
Transactions on net equity:	415,522	- 4,488,094	-	1,196,708	-	-	-2,513,955	-	3,586,369	
- Issue of new shares	415,522	- 4,488,094	-	-519,606	-	-	4,534	-	4,388,544	
- Purchase of treasury shares	-	-	-	-	-	-	-2,518,489	-	-2,518,489	
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	
- Change in equity instruments	-	-	-	-	-	-	-	-	-	
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-	
- Stock options	-	-	-	1,716,314	-	-	-	-	1,716,314	
Comprehensive income	-	-	-	-	4,445,325	-	-	184,291,551	188,736,876	
<b>Net equity at 31.12.2015</b>	<b>116,092,599</b>	<b>- 50,063,050</b>	<b>142,279,511</b>	<b>10,910,567</b>	<b>22,499,627</b>	<b>-</b>	<b>-2,555,193</b>	<b>184,291,551</b>	<b>523,581,712</b>	

## CASH FLOW STATEMENT

## Indirect method

(€)	2016	2015
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Operations</b>	<b>25,646,389</b>	<b>-24,654,697</b>
Net profit (loss) for the year	144,751,324	184,291,551
Gain/loss on HFT financial assets	716,241	117,189
Gain/loss on hedging assets	-	-
Net adjustments/Reversals due to impairment	928,374	6,470,946
Net adjustments/reversals of property, equipment and intangible assets	5,881,500	5,259,639
Net provisions for liabilities and contingencies and other costs/revenues	2,767,842	20,355,645
Taxes and duties not paid	20,429,184	-29,065,967
Adjustments/Reversals of discontinued operations	-	-
Other adjustments	-149,828,076	-212,083,700
<b>2. Liquidity generated by/used for financial assets (+/-)</b>	<b>-1,499,851,065</b>	<b>-821,968,382</b>
HFT financial assets	-10,813,664	4,763,651
Financial measured assets at fair value	-	-
AFS financial assets	-1,490,309,502	-712,180,764
Loans to banks: repayable on demand	-86,922,072	-36,573,261
Loans to banks: other receivables	52,330,670	25,625,589
Loans to customers	36,083,156	-97,779,688
Other assets	-219,653	-5,823,909
<b>3. Liquidity generated by/used for financial liabilities (+/-)</b>	<b>2,279,669,368</b>	<b>-156,596,034</b>
Due to banks: repayable on demand	22,251,365	-3,987,165
Due to banks: other payables	447,915,912	-689,287,878
Due to customers	1,844,951,837	528,431,571
Securities issued	-	-
HFT financial liabilities	238,138	-2,654,784
Financial liabilities measured at fair value	-	-
Other liabilities	-35,687,884	10,902,221
<b>Net liquidity generated by/used for operating activities</b>	<b>805,464,693</b>	<b>-1,003,219,114</b>

(€)	2016	2015
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Liquidity generated by</b>	<b>150,377,095</b>	<b>1,181,574,625</b>
Disposal of equity investments	-	-
Dividends received	130,462,000	177,360,000
Disposal of HTM financial assets	19,884,959	1,004,200,625
Disposal of property and equipment	30,136	14,000
Disposal of intangible assets	-	-
Disposal of business units	-	-
<b>2. Liquidity used for</b>	<b>-338,475,761</b>	<b>-44,134,832</b>
Purchase of equity investments	-	-2,200,000
Purchase of HTM financial assets	-327,860,574	-37,353,617
Purchase of property and equipment	-2,770,942	-2,264,756
Purchase of intangible assets	-7,844,245	-2,316,459
Disposal of business units	-	-
<b>Net liquidity generated by/used for investing activities</b>	<b>-188,098,666</b>	<b>1,137,439,793</b>
<b>C. FUNDING ACTIVITIES</b>		
Issue/purchase of treasury shares	2,118,527	1,870,055
Issue/purchase of equity instruments	-	-
Distribution of dividends and other	-139,236,820	-113,431,102
<b>Net liquidity generated by/used for funding activities</b>	<b>-137,118,293</b>	<b>-111,561,047</b>
<b>NET LIQUIDITY GENERATED/USED IN THE YEAR</b>	<b>480,247,734</b>	<b>22,659,632</b>
+ liquidity generated (-) liquidity used	-	-
<b>Reconciliation</b>		
Cash and cash equivalents at year-start	103,108,434	80,448,802
Total liquidity generated/used in the year	480,247,734	22,659,632
Cash and cash equivalents – effects of exchange rate fluctuations	-	-
<b>Cash and cash equivalents at year-end</b>	<b>583,356,168</b>	<b>103,108,434</b>

Legend:  
 (+) Liquidity generated.  
 (-) Liquidity used.

Trieste, 10 March 2017

## NOTES AND COMMENTS

---

Part A - Accounting Policies	319
Part B - Information on the Balance Sheet	353
Part C - Information on the Profit and Loss Account	381
Part D - Comprehensive Income	394
Part E - Information on Risks and Risk Hedging Policies	395
Part F - Information on Net Equity	423
Part G - Business Combinations of Companies or Business Units	437
Part H - Related Party Transactions	440
Part I - Payment Agreements Based on Own Equity Instruments	448



## PART A – ACCOUNTING POLICIES

### Part A.1 - General

#### Section 1 – Declaration of compliance with International Accounting Standards

These Financial Statements have been drawn up in compliance with Italian Legislative Decree No. 38 of 28 February 2005, based on the International Accounting Standards issued by the International Accounting Standards Board (IASB) and interpretation of the International Financial Reporting Interpretations Committee (IFRIC), and endorsed by the European Commission with Regulation No. 1606 of 19 July 2002.

In preparing the annual Financial Statements, Banca Generali adopted the IASs/IFRSs in force at 31 December 2016 (including SIC and IFRIC interpretations), which were endorsed by the European Union.

It should be noted that, following the completion of the endorsement procedure, as of 1 January 2016, several amendments to the IASs/IFRSs, and IFRICs were adopted and new IFRICs were issued.

#### International Accounting Standards endorsed in 2015 and effective as of 2016

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
Amendments to IAS 27: <i>Equity Method in Separate Financial Statements</i>	2441/2015	23.12.2015	01.01.2016
Amendments to IAS 1: <i>Disclosure Initiative</i>	2404/2015	19.12.2015	01.01.2016
Annual Improvements to IFRSs 2012–2014 Cycle (IFRS1, IFRS5, IFRS7, IAS 19, IAS 34)	2343/2015	16.12.2015	01.01.2016
Amendments to IAS 16 and IAS 38: <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	2231/2015	03.12.2015	01.01.2016
Amendments to IFRS 11: <i>Accounting for Acquisitions of Interests in Joint Operations</i>	2173/2015	25.11.2015	01.01.2016
Amendments to IAS 16 and IAS 41: <i>Bearer Plants</i>	2113/2015	24.11.2015	01.01.2016

#### International Accounting Standards endorsed in 2016

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
Amendments to IFRS 10, IFRS 12 and IAS 28: <i>Investment Entities</i>	1703/2016	23.09.2016	01.01.2016

#### International Accounting Standards endorsed in 2016 but not yet effective

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRS 9 - <i>Financial Instruments</i>	2067/2016	29,11,2016	01.01.2018
IFRS 15 - <i>Revenue from Contracts with Customers</i>	1905/2016	29,10,2016	01.01.2018

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 new standards and interpretations that entered into force did not have a significant impact on Banca Generali's Balance Sheet and Profit and Loss Account.

The Financial Statements at 31 December 2016 were prepared based on the "Instructions for Preparing the Financial Statements of the Company and Banks and Parent Holding Companies of Banking Groups," which were issued by the Bank of Italy in the exercise of the powers established in Article 9 of Legislative Decree No. 38/2005. Such instructions were issued in Circular Letter No. 262/05 "Banks' Financial Statements: Layouts and Preparation" by Provision dated 22 December 2005.

The Instructions set forth binding rules governing the presentation and preparation of financial statements and the minimum content of the Notes and Comments.

#### Section 2 – Preparation criteria

The Financial Statements consist of the following documents:

- > Balance Sheet;
- > Profit and Loss Account;

- > Statement of Other Comprehensive Income;
- > Statement of Changes in Net equity
- > Cash Flow Statement;
- > Notes and Comments.

The accounts are accompanied by a Directors' report on the Bank's operations, financial situation, profit and loss and balance sheet results.

According to the provisions of Article 41, paragraph 5, of Legislative Decree No. 136/2015 of 18 August 2015, implementing Directive No. 2013/34/EC, the Consolidated Report on Operations and the Separate Report on Operations of the company may be presented as a single document, in which additional attention is dedicated to issues relevant to the entirety of the companies within the scope of consolidation, as appropriate.

Banca Generali elected to exercise this option by presenting a single document. Consequently, the Consolidated Report on Operations also includes the information required for the Separate Report on Operations.

In compliance with the requirements of Article 5 of Legislative Decree No. 38/2005, the Financial Statements were prepared in euros. All amounts in the Accounting Statements are expressed in euro units, while the figures in the Notes and Comments and Directors' Report on Operations, unless otherwise specified, are expressed in thousands of euros.

The Financial Statements and Notes and Comments include figures for the period under review, as well as comparative data at 31 December 2015.

The Financial Statements are prepared by applying the general standards set out in IAS 1 and the specific accounting standards approved by the European Commission, as illustrated in Part A.2 of these Notes and Comments.

International accounting standards have been applied in compliance with the Framework for the Preparation and Presentation of Financial Statements drafted by the IASB.

There were no derogations of the application of international accounting standards (IASs/IFRSs).

The Directors' Report on Operations and the Notes and Comments include the information required by international accounting standards, the law, the Bank of Italy and the Italian National Commission for Listed Companies and the Stock Exchange (Consob), as well as other non-compulsory information that was deemed necessary to provide an accurate and fair picture of the Bank's situation.

The measurement standards have been adopted on a going-concern basis and are shaped by the principles of accrual-basis accounting and the relevance and meaningfulness of accounting disclosures. Economic substance takes precedence over legal form.

In further detail, the directors are reasonably certain that the Bank will continue to operate in its current form for the foreseeable future (for at least 12 months) and have prepared the Financial Statements on a going-concern basis. Any uncertainty detected has not been deemed material and does not cast doubt on the Group's ability to operate as a going concern.

---

## Contents of the Financial Statements

The Financial Statements and the Notes and Comments have been prepared in accordance with Bank of Italy Circular Letter No. 262/2005 and the fourth update published on 15 December 2015.

Accounts that do not include items pertaining to the year under review or the previous year are not stated in the Balance Sheet and Profit and Loss Account. Likewise, sections or tables which include no values are not included in the Notes and Comments.

The Statement of Comprehensive Income begins with the net profit (loss) for the year and then presents components of profit and loss recognised through valuation reserves, net of the related tax effect, in accordance with international accounting standards.

Comprehensive income is presented by providing a separate account of components of profit and loss that will not be reversed to the Profit and Loss Account in the future, and components that may subsequently be reclassified to net profit (loss) for the year under certain conditions.

As for the Balance Sheet and Profit and Loss Account, items with nil amounts in both the reporting year and previous year are not presented.

The Statement of Changes in Net Equity is presented by inverting the rows and columns with respect to the presentation suggested by the Bank of Italy's Circular No. 262/2005.

The statement presents the composition of and changes in net equity accounts during the reporting year and the previous year, broken down into share capital, capital reserves, earnings reserves, asset and liability valuation reserves, and net profit. Treasury shares are recorded as a reduction to net equity.

The Cash Flow Statement was prepared using the indirect method, according to which cash flows from operating activities are derived by adjusting net profit for the effects of non-cash transactions.

Cash flows generated in the year are recognised without plus or minus signs, whereas cash flows used in the year are preceded by a minus sign.

Cash flows are broken down into:

- > cash flows from operating activities, including cash flows from operations and cash flows from increases and decreases in financial assets and liabilities;
- > cash flows generated by (used for) investing activities involving fixed assets;
- > cash flows generated by (used for) financing activities that alter the company's equity capital.

Specifically, sections 2 and 3 include only cash generated by (used for) the decrease (increase) in financial assets or the increase (decrease) in financial liabilities resulting from new transactions or reimbursements related to existing transactions.

Accordingly, these sections do not include items such as changes in value (adjustments, reversal values), amortisation and depreciation, the net balance of unpaid taxes (current and deferred), interest and unpaid or uncollected fees; these items have been disclosed separately and classified under operating activities.

These cash flows also do not include changes in operating assets and liabilities, but include those relating to financing activities, such as changes in operating loans and amounts payable to Financial Advisors and employees and any related advance payments.

---

### Section 3 – Events occurred after the Balance Sheet date

The draft Financial Statements of Banca Generali have been approved by the Board of Directors on 10 March 2017, when the Board also authorised its disclosure pursuant to IAS 10.

No events occurred after 31 December 2016 and until the publication was authorised that would significantly impact the Bank's operations and P&L results.

---

### Section 4 – Other issues

---

#### Non-recurring significant events and transactions

During the year, there were no non-recurring transactions or events outside the scope of ordinary operations that had a significant impact on the aggregate items of the balance sheet and Profit and Loss Account (Consob Communication No. DEM/6064293 of 28 July 2006).

---

#### National Tax Consolidation option

In 2004, the Parent Company Assicurazioni Generali S.p.A. and some Italian companies belonging to the Assicurazioni Generali Group, including Banca Generali S.p.A., began participating in the National Tax Consolidation scheme governed by Articles 117-129 of the TUIR (Italy's income tax code), which was introduced into Italy's fiscal legislation by Italian Legislative Decree No. 344/2003.

Under the scheme, Banca Generali transfers its taxable profit (or tax losses) to the Parent Company, Assicurazioni Generali S.p.A., which computes a single taxable profit (or a single tax loss) for the Group as the sum of the profits and/or losses of the individual companies, and reports a single tax receivable from or payable to the Tax Authorities.

---

#### Restatement of Demand Deposits with the Bank of Italy

With effect from 1 January 2016, the portion of the balance of the settlement account held with the Bank of Italy that is not restricted according to the mandatory reserve rules is recognised as demand deposits with the Central Bank and has therefore been reclassified to item 10 of the balance sheet, cash and deposits. In the interest of ease of comparison, the corresponding item from the accounting situation at 31 December 2015 has also been restated.

---

#### Audit

The Financial Statements were audited by BDO Italy S.p.A. in accordance with the Resolution passed by the Shareholders' Meeting on 23 April 2015 and appointing the said company as the independent auditors for the years 2015-2023, included.

## Part A.2 - Main Financial Statements aggregates

### Accounting policies

This section sets out the accounting policies adopted for the preparation of the Financial Statements as of 31 December 2016, as regards the stages of classification, recognition, measurement and derecognition of the various asset and liability items and the methods of recognition of costs and revenues.

With reference to the foregoing, it should be noted that during the reporting year, the accounting policies adopted by the Bank underwent no significant amendments and supplementations.

### 1. HFT financial assets

#### Classification

This category includes only debt and equity securities and the positive value of derivative contracts held for trading.

Including those embedded in complex financial instruments. Embedded derivatives were reported separately for the following reasons:

- > their economic characteristics and risks are not closely related to the characteristics of the underlying contract;
- > the embedded instruments considered separately meet the definition of a derivative;
- > the hybrid instruments in which they are embedded are not recognised at fair value with changes in fair value recognised in profit or loss.

Derivatives are presented as assets if their fair value is positive and as liabilities if their fair value is negative. It is possible to set off current positive and negative values deriving from outstanding transactions with the same counterparty only if there is currently a legal right to set off the recognised amounts and the entity intends to settle the positions subject to offsetting on a net basis.

Reclassifications to other categories of financial assets are not allowed, except in cases of unusual events or events that are unlikely to recur in the near term.

In such cases, debt and equity securities no longer held for trading purposes may be reclassified to the other categories indicated in IAS 39 provided that the conditions for recognising the assets have been met (Financial assets held to maturity, Financial assets available for sale, Loans). The transfer value is the fair value at the time of reclassification. The presence of any embedded derivative contracts to be separated must be evaluated during the reclassification process.

#### Recognition

Debt and equity securities are initially recognised on the settlement date. Derivative contracts are initially recognised on the date the contract is entered into.

Financial assets held for trading are initially recognised at cost, being the fair value of the instrument less transaction costs or income directly related to the instrument itself.

Embedded derivatives, that are not closely related to the host contract but meet the definition of a derivative, are separated from the host contract and recorded at fair value; the host contract is accounted for using the appropriate standard.

#### Measurement

Subsequent to initial recognition, financial assets held for trading are recognised at fair value. The effects of the application of this measurement consideration are recognised in profit and loss.

The fair value of financial instruments traded in active markets is determined by referring to the appropriate quoted market price of such instruments.

A financial instrument is regarded as listed in an active market if quoted prices represent actual and regularly occurring market transactions on an arm's length basis over a normal reference period and those prices, are readily and regularly available from an exchange, dealer, broker, industry company, pricing service or authorised entity.

In the absence of an active market, alternative valuation methods based on market data are used, such as quotes drawn from inactive markets, or on markets where similar instruments are traded, the notional value of financial instruments, quotas from brokers or placing agents involved in the issue of financial instruments, quotes from info providers specialised in specific sectors, and values drawn from recent comparable transactions.

Equity securities, UCITS units and equity derivatives, which are not listed on active markets and have no reliable fair value measurement, are measured at cost.

---

## Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all related risks and rewards, is transferred. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried on the balance sheet, even though the ownership of said assets has been effectively transferred in legal terms.

---

## 2. AFS financial assets

---

### Classification

This category includes non-derivative financial assets not otherwise classified as Loans, Assets held for trading (HFT assets), Assets at fair value or Assets held to maturity (HTM assets).

Specifically, it includes:

- > equity investments not held for trading;
- > other equity interests and quotas not considered as establishing a relationship of control, association, or joint control, such as minority-interest equity investments and private-equity investments;
- > bonds not held for trading and not classified as Assets held to maturity or with Loans, intended for the treasury portfolio and purchased in connection with their potential cash flow in terms of interest rather than for trading purposes.

Where permitted by accounting standards, debt securities may also be reclassified to HTM Financial assets or Loans, if the entity intends to hold the instrument for the foreseeable future and the conditions for recognising the asset have been met. The transfer value is the fair value at the time of reclassification.

---

### Recognition

Debt and equity securities are initially recognised on the settlement date. Loans are initially recognised on the disbursement date.

Upon initial recognition, these assets are measured at cost, defined as the fair value of the instrument, which normally corresponds to the consideration paid, including the transaction income or expenses directly attributable to the instrument itself.

Such assets may also be recognised upon reclassification from assets held to maturity, or, in rare circumstances, from assets held for trading; in this case, they are recognised at their fair value at the time of the transfer.

---

### Measurement

After initial recognition, available-for-sale assets are measured at fair value, as follows:

- > the amortised cost is recognised in profit or loss;
- > gains and losses arising from changes in fair value are recognised in a special reserve in equity (net of the related tax effects) until the financial instrument is sold or impairment occurs.

Upon derecognition or impairment, cumulative gains and losses are recognised in profit or loss.

Fair value is determined according to the same criteria as indicated above for held-for-trading assets. The book value of debt securities comprises accrued interest income.

Equity securities and related derivatives with no reliable fair value measurement are measured at cost.

Available-for-sale financial assets are tested in order to determine whether there is objective evidence of impairment (impairment testing).

If such evidence is found, the amount of the loss is measured as the difference between the carrying amount of the asset and the current value of estimated future cash flows, discounted at the original effective interest-rate, or by using specific valuation methods for equity securities.

If the reasons for impairment loss cease to exist due to an event occurring after the impairment is recognised, the loss is reversed and, in the case of loans, receivables or debt securities, recognised in profit or loss or, in the case of equity securities, under net equity.

The amount of the reversal should not exceed what the amortised cost would have been, had the past adjustments not been made.

---

## Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all the related risks and rewards incidental to ownership, is transferred. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried on the balance sheet, even though the ownership of said assets has been effectively transferred in legal terms.

---

## 3. HTM financial assets

---

### Classification

Held-to-maturity investments comprise non-derivative securities having fixed or determinable payments and fixed maturities, which the entity has the intention and ability to hold to maturity.

In the cases allowed by the accounting standards, reclassifications are admitted only to the item Financial assets available for sale.

---

### Recognition

Initial recognition of these assets takes place on the settlement date.

Financial assets classified as held-to-maturity are initially recognised at fair value, including any directly attributable costs and income.

If recognition under this category occurs due to the reclassification of AFS assets or, in rare circumstances, of HFT assets, the new amortised cost of said assets is taken as the fair value thereof at the date of reclassification.

Where a non-insignificant amount of such investments is sold or reclassified prior to maturity, the remaining held-to-maturity assets are reclassified as available-for-sale and the use of the portfolio in question is precluded for the following two years (tainting provision), unless such sales or reclassifications:

- > are so near the date of the maturity or repayment option associated with the asset that the fluctuations in the market interest rate would not have a significant effect on the asset's fair value;
- > occur after the collection of substantially all of the asset's original principal through scheduled or early ordinary payments.

---

### Measurement

After initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest-rate method.

Gains or losses relating to HTM assets are taken through profit and loss when the assets are derecognised (gains or losses on repurchase) or suffer impairment (impairment adjustments), as well as through the process of amortising the difference between the value at initial recognition and the value payable at maturity.

HTM assets are tested in order to determine whether there is objective indication of impairment (impairment testing). If evidence to this effect is found, the amount of the loss is measured as the difference between the asset's book value and the current value of estimated future cash flows, discounted at the original effective interest rate. The amount of the loss is taken through profit and loss.

If the reasons for impairment cease to exist due to an event occurring after the impairment was recognised, the impairment loss is reversed and the reversal is recognised in profit or loss. The reversal may not exceed the amortised cost that would have been attributable to the asset had the impairment not been recognised.

Financial assets held to maturity for which there is no objective evidence of loss are tested collectively for impairment. Collective evaluation is carried out on categories of loans with similar risk characteristics; the related loss percentages are estimated using historical data and other elements that can be observed at the measurement date, allowing the probable loss to be estimated for each category of loan. Adjustments resulting from collective evaluation are recognised in profit or loss.

---

## Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all the related risks and rewards incidental to ownership, is transferred. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried on the balance sheet, even though the ownership of said assets has been effectively transferred in legal terms.

---

## 4. Loans

---

### Classification

This category includes loan commitments with customers and banks, either granted directly or acquired from third parties, that have fixed or determinable payments and are not listed in an active market and are not initially classified as financial assets available for sale.

This item also includes:

- > repurchase agreements with a commitment to repurchase;
- > debt securities not listed on active markets, having determined or determinable payments, purchased through subscription or through private placement;
- > operating receivables deriving from the provision of financial services, as defined in the Consolidated Law on Banking (TUB) and Consolidated Law on Finance (TUF). This latter category also includes receivables from product companies and receivables from the network of Financial Advisors for advances on commissions paid.

Reclassifications to the other categories of financial assets provided for in IAS 39 are not allowed.

Available-for-sale debt securities may also be reclassified to this category if the securities in question are not listed on an active market and the entity has the intention and ability to hold said securities for the foreseeable future or until maturity.

---

### Recognition

Loans are initially recognised at the date of disbursement or, in the case of debt securities, at the settlement date, based on the fair value of the financial instrument, i.e., the amount disbursed or the subscription price, including the costs/revenues directly related to the individual loan and determined at origination, even if settled at a later date.

Costs with the above-described characteristics are excluded if they are to be repaid by a third-party borrower or can be considered normal, internal, general and administrative expense.

The fair value of loans disbursed under non-market conditions is determined using the appropriate valuation techniques; the difference between the fair value and the amount dispensed or the subscription price is recognised in profit or loss.

This category includes loans disbursed under below-market conditions, the carrying value of which is equal to the current value of the expected cash flows, discounted at the benchmark market rates used by the bank instead of the contractual rate.

If recognition in this category takes place as a result of reclassification from available-for-sale assets, the asset's fair value on the date of reclassification is taken as its new amortised cost.

---

## Measurement

Subsequent to initial recognition, loans are recognised at amortised cost, which is equal to the initially recognised value minus or plus principal repayments, impairments or reversals and the amortisation (calculated using the effective interest-rate method) of the difference between the amount disbursed and the amount payable on maturity, which typically comprises the costs and income directly attributable to the individual loan.

The effective interest rate is the rate that equates the discounted future cash outflows (for principal and interest payments) with the amount disbursed including the costs and income relating to the loan. This method of recognition allows the financial effect of the costs and income to be distributed across the expected remaining life of the loan.

The amortised cost method is not used for short-term loans if discounting to present value is deemed to have a negligible effect. Such loans are measured at historical cost, and the related costs and income are recognised in profit or loss on a straight-line basis over the contractual duration of the loan. The same method is used to measure loans with no stated maturity or that are valid until revoked.

---

## Adjustments and reversal value

At annual and interim reporting dates, an impairment test is performed on loans to determine if there is objective evidence of possible loss in value as a result of events that occurred after their initial recognition.

Non-performing exposures, i.e., those that present the characteristics indicated in paragraphs 58-62 of IAS 39, are classified to the following categories:

- 1) **bad loans**: this category refers to formally non-performing loans, consisting of exposures to customers who are in a state of insolvency, regardless of whether confirmed by a court, or in similar situations;
- 2) **unlikely to pay**: these are on- and off-balance sheet exposures for which the conditions have not been met for classification as bad loans and for which it is deemed unlikely that the borrower will be capable of fulfilling all of its debt obligations (in terms of principal and/or interest) in the absence of actions such as the enforcement of guarantees. This assessment is conducted regardless of the presence of any past due and unpaid amounts or instalments. Classification as unlikely to pay is not necessary tied to the explicit presence of anomalies (non-payment), but rather is linked to the existence of elements indicative of a situation of risk of default of the borrower;
- 3) **non performing past-due exposures**: these are on-balance sheet exposures other than those classified as bad debts or unlikely to pay loans that are past due by more than 90 days at the reporting date. Non performing past-due exposures may identified in reference to either the individual borrower or individual transaction.

Loans classified as bad loans or unlikely to pay are normally subject to an analytical assessment process.

Non performing past-due exposures are measured on a lump-sum basis according to historical and statistical loss projections, or, in cases of individually insignificant amounts, on the basis of assumptions of non-recoverability.

As regards analytical assessments, the amount of the impairment for each loan is equal to the difference between its book value at the time of assessment (amortised cost) and the current value of the expected future cash flows, calculated by applying the original effective interest rate.

Expected cash flows take account of anticipated collection times, the presumed realisable value of any underlying guarantees and costs that are expected to be incurred to recover the credit exposure.

Cash flows relating to short-term loans are not discounted.

The original effective interest rate of each loan remains unchanged over time, even if a renegotiation of the terms results in a change of the contractual rate, including if the loan becomes non-interest-bearing. Adjustments are recognised in profit or loss.

The original value of loans is reinstated in subsequent periods, if the circumstances that gave rise to the value adjustment cease to exist and such adjustment is objectively related to an event that occurred after the adjustment was made. The reversal is recognised in profit or loss and should not exceed what the amortised cost would have been, had the impairment not been recognised.

In light of the method employed to determine the recoverable value of non-performing exposures, the mere passage of time, and the ensuing increased proximity to the projected date of recovery, implies an automatic decrease in the notional financial expenses previously charged against the loans.

Write-backs due to the passage of time are taken among reversals.



Performing loans for which there is no objective evidence of loss are tested collectively for impairment. Collective evaluation is carried out on categories of loans with similar risk characteristics; the related loss percentages are estimated using historical data and other elements that can be observed at the measurement date, allowing the probable loss to be estimated for each category of loan.

In further detail, a probability of default and a loss given default value are attributed to each class of assets having similar characteristics in terms of exposure, the borrower's industry, type of collateral and other significant factors, based on a historical/statistical approach, probability of default and loss given default.

Adjustments resulting from collective evaluation are recognised in profit or loss. At annual or interim reporting dates, impairment losses or reversals are recalculated on a differential basis with reference to the entire portfolio of performing loans at that date.

---

## Derecognition

Receivables are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all the related risks and rewards incidental to ownership, is transferred. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried on the balance sheet, even though the ownership of said assets has been effectively transferred in legal terms.

---

## 5. Financial assets at fair value

At the reporting date, none of the Bank's financial assets are classified under this category.

---

## 6. Hedging transactions

---

### Types of hedging transactions

The objective of hedging is to eliminate possible losses on a specific item or group of items that could be incurred as a result of a certain risk with gains on another item or group of items.

Possible types of hedges include:

- > fair-value hedges, intended to hedge exposure to changes in the fair value of a balance-sheet item attributable to a particular risk;
- > cash-flow hedge, intended to hedge exposure to changes in future cash flows of balance-sheet items attributable to particular risks;
- > hedges of a net investment in a foreign operation: intended to hedge the foreign currency exposure of an investment in a foreign enterprise.

---

### Measurement

Hedging derivatives are measured at fair value. Specifically:

- > in the case of a fair-value hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. Both the change in value of the hedged item attributable to the hedged risk (with reference to changes due to the underlying risk factor) and the change in value of the hedging instrument are recognised in profit or loss. Any difference between the two represents an element of ineffectiveness of the hedge and determines the net effect on net profit or loss;
- > in the case of cash-flow hedges, the effective portion of changes in the fair value of the derivative is recognised immediately in net equity and recognised in profit or loss only when there are changes in the cash flow of the hedged item;
- > hedges of a net investment in a foreign operation are accounted for similarly to cash-flow hedges.

Derivatives qualify as hedging instruments when the relationship between the hedged item and the hedging instrument is formally documented and the hedge is effective at inception and is expected to be effective on an ongoing basis over the term of the hedge.

The effectiveness of the hedge depends on the degree to which changes in the fair value or cash flows of the hedged item are offset by changes in the fair value or cash flows of the hedging instrument. Effectiveness is thus assessed by comparing these changes in light of the intentions expressed by the enterprise at the hedge's inception.

A hedge is considered effective (within a range of 80-125%) when the changes in fair value (or cash flows) of the hedging instrument almost entirely offset the changes in the hedged item.

Effectiveness is assessed at annual and interim reporting dates using:

- > *prospective tests*, which justify the use of hedge accounting by demonstrating effectiveness;
- > *retrospective tests*, which show the degree of effectiveness achieved in the period under review. In other words, retrospective tests measure the extent to which actual results differed from a perfect hedge.

If these tests do not confirm the effectiveness of a hedge, the hedge accounting procedures described above are discontinued and the derivative instrument is reclassified as a trading instrument.

---

## 7. Equity investments

This item includes equity investments in subsidiaries and associates.

The Bank does not hold equity investments in joint arrangements.

Subsidiaries are entities in which the Bank is exposed to variable returns or holds rights to such returns, arising from its relationship with the said entities, whilst having the ability to affect those returns through the power it exercises over the said entities.

Entities subject to significant influence (associates) are those entities in which the Bank holds 20% or more of the voting power (including "potential" voting rights), or in which – although holding a lower voting power – it has the power to participate in the financial and management policy-making process, in light of specific legal ties, such as syndicate agreements.

---

### Recognition

Equity investments are recognised at the transaction settlement date, i.e., the date the acquisition becomes effective. Equity investments are initially recognised at cost, including costs or income directly attributable to the transaction.

---

### Measurement

Equity investments are measured at cost and adjusted for impairment.

When there is indication of a possible loss in value of an equity investment, the recoverable amount of the investment is estimated based on the present value of future cash flows that the company could generate, including the disposal value of the investment.

If the recoverable amount is less than the carrying amount, the difference is recognised through profit or loss.

If the reasons for impairment cease to exist due to an event occurring after the impairment was recognised, the impairment loss is reversed and the reversal is recognised through profit or loss.

---

### Derecognition

Equity investments are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all related risks and rewards, is transferred.

---

## 8. Property and equipment

---

### Classification

Property and equipment include technical systems, furniture, furnishings and equipment of any type.

They also include assets held exclusively for operating purposes, to be used in the production or provision of goods and services to be leased to third parties or for administrative purposes and that are expected to be used for more than one year.

---

### Recognition

Property and equipment are initially recognised at cost, which includes the purchase price, as well as all directly related costs necessary to purchase the asset and bring it into working condition.

Extraordinary maintenance costs that increase the future economic benefits of the asset are added to the carrying amount of the asset to which they relate, while routine maintenance costs are recognised through profit or loss.

---

### Measurement

Property and equipment, including those not used in production, are measured at cost less depreciation and impairment losses.

They are systematically depreciated over their estimated useful life using the straight-line method.

At each annual or interim reporting date, if there is indication that an asset may be impaired, its carrying amount is compared to its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use, i.e., the present value of future cash flows expected to be generated by the asset. Impairment losses are recognised in the profit or loss account.

If the reasons for impairment cease to exist, the impairment loss is reversed; the new amount cannot exceed the carrying amount the asset would have had after depreciation, had no impairment loss been recognised.

---

### Derecognition

Property and equipment are removed from the Balance Sheet upon disposal or when permanently withdrawn from use and no future economic benefits are expected from their disposal.

---

## 9. Intangible assets

---

### Classification

An intangible asset is an identifiable non-monetary asset controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

In order to be identifiable, an asset must be separable, i.e., capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or must arise from contractual or other legal rights, regardless of whether those rights are transferrable or separable from the entity or from other rights and obligations.

An entity controls an asset if the entity has the power to obtain the future benefits flowing from the underlying resource and simultaneously restrict the access of others to those benefits.

The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law.

Goodwill, which represents the positive difference between the purchase cost and the fair value of the acquiree's assets and liabilities, is also recognised among intangible assets.

Intangible assets include the value of contractual relations with customers acquired as a result of the business combination of Banca del Gottardo Italy.

This asset is an intangible asset, as defined by IAS 38, from which future economic benefits are likely to flow to the acquirer. The value of these relationships was determined on the basis of an estimate of the return on the assets managed by Banca del Gottardo Italy, analysed by asset class, while the useful life was estimated as a ten-year period, based on the historic percentage of decline of assets under management, before the company was acquired.

The remaining intangible assets are application software intended for long-term use, including the expenses of modifying the legacy system, which in turn include intangible assets in progress at the end of the year.

Software costs recorded as intangible assets refer to application software developed by third parties for company use (software development contracts) or purchased with a multi-year licence for use.

Software costs recognised among intangible assets include, at set conditions, also charges for the development of the IT system used by the Bank based on the outsourcing contract with CSE (legacy, front-end Financial Advisors and front-end customers, etc.).

Such charges are capitalised when they refer to the development of innovative components of the system, which are not part of consortium projects, for which it is possible to identify a control situation, and from which future economic rewards are expected.

Expenses related to corrective and evolution maintenance of IT procedures and the website already in use are usually recognised in the Profit and Loss Account in the year in which they are borne.

---

## Recognition

### Goodwill

An intangible asset can be classified as goodwill when the positive difference between the fair value of the assets and liabilities acquired and the cost of the investment (including incidental expenses) is representative of the investee company's ability to generate future income (goodwill).

In case of badwill, or if the goodwill is not representative of the investee company's ability to generate future income, the difference is recognised directly through profit and loss.

### Other intangible assets

Other intangible assets are recorded at cost less any incidental expenses when it is probable that the asset will produce future economic benefits and if the cost of the asset can be reliably determined. When this is not the case, the cost of the intangible asset is recognised in the Profit and Loss Account in the period in which it is incurred.

---

## Measurement

Intangible assets are amortised on a straight-line basis over their useful lives.

*Software costs* are typically amortised over a three-year period.

*Other capitalised costs associated with legacy systems* are amortised over a five-year period.

For contractual relations with customers, acquired as a result of the above-mentioned business combination of Banca del Gottardo Italy, the useful lives are estimated at ten years.

Intangible assets with indefinite lives are not amortised, but are periodically reviewed to assess the appropriateness of their carrying amount.

---

## Impairment

### Goodwill

In accordance with IAS 36, goodwill is no longer amortised, but is tested for impairment at least annually.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs), which may be no larger than the segments identified for management reporting.

To determine the amount of impairment, the carrying amount of the CGU is compared with its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The impairment test for goodwill is presented in Section 3. "Retrospective adjustments" in Part G of these Notes and Comments.

### Other intangible assets

At each reporting date, if impairment is indicated, the recoverable amount of the asset is estimated. The amount of impairment, which is recognised in the Profit and Loss Account, is the amount by which the asset's carrying amount exceeds its recoverable amount.

---

## Derecognition

Intangible assets are removed from the Balance Sheet on disposal or when no future economic benefits are expected from their use.

---

## 10. Non-current assets held for sale or disposal groups

The asset item "Non-current assets held for sale or disposal groups" and liability item "Liabilities associated with assets held for sale or disposal groups" include non-current assets or groups of assets/liabilities for which a disposal process has been initiated and the sale of which is deemed highly likely. Such assets/liabilities are measured at the lesser of their carrying value and fair value less costs to sell.

The net balance of income and expenses (net of the tax effect) attributable to a group of assets available for sale or a group of assets recognised as available for sale during the year is taken through profit and loss under a specific separate item, "Income (Loss) of disposal groups, net of taxes."

## 11. Current and deferred taxes

Income taxes are recognised in the Profit and Loss Account, with the exception of those relating to items posted directly to net equity.

Provisions for income taxes are made based on a conservative estimate of current taxes, and deferred tax assets and liabilities, which are calculated using prevailing tax rates.

Specifically, deferred tax assets and liabilities are calculated based on the temporary differences – without time limits – between the carrying amount of assets and liabilities and their corresponding values for tax purposes.

Deferred tax assets are recognised to the extent that it is probable that they will be recovered, which is determined based on the ability of the company in question or the Parent Company Assicurazioni Generali – as a result of its exercise of the option provided by the Italian tax consolidation scheme – to generate ongoing taxable income.

Deferred tax liabilities are recognised in the balance sheet, except for the main assets pending taxation, represented by equity investments.

Deferred tax assets and liabilities are shown separately in the balance sheet and are not offset; deferred tax assets are recorded under "tax assets" and deferred tax liabilities are recorded under "tax liabilities".

Deferred taxes resulting from consolidation are recognised where it is probable that they will give rise to a tax charge for one of the consolidated enterprises. Such taxes arise when positive differences resulting from consolidation are allocated to the assets of the subsidiary in question.

Deferred tax assets and liabilities are systematically assessed to take account of any changes in tax legislation or rates, as well as changes to the specific situations.

Provisions for taxes also include allocations made to cover charges that could arise from audits or litigation underway with revenue authorities.

### Accounting effects of the redemption of goodwill and other intangible assets pursuant to Italy's tax laws

In recent years, the tax regime applicable to corporate reorganisation transactions has undergone considerable changes aimed at allowing surplus amounts (for example, goodwill) recognised following an extraordinary transaction involving contribution, merger or de-merger to be recognised for income-tax purposes, as well as through the payment of a substitute tax.

Law No. 244 of 24 December 2007 (the 2008 Finance Law) introduced the new paragraph 2-ter into Article 176 of the Consolidated Income Tax Law (hereinafter TUIR) that allows entities to recognise for income-tax purposes greater amounts recognised in the accounts following a corporate reorganisation transaction in relation to intangible assets, including goodwill, and property and equipment.

That provision requires that the entity pay a substitute tax, determined according to three income brackets, on the basis of the realigned amounts (12% up to 5 million, 14% up to 10 million and 16% for amounts in excess of the latter bracket, respectively) in lieu of the ordinary rates of 27.5% (IRES) and 3.9% (IRAP).

The substitute tax is to be paid in three annual instalments beginning on the term of payment of the balance of income taxes for the year in which the extraordinary transaction is undertaken, whereas the greater amounts are recognised for the purposes of the tax-deductibility of depreciation and amortisation charges beginning in the tax period in progress when the option for payment of substitute tax is exercised on the tax return, that is to say in the year in which the first instalment is paid.

Legislative Decree No. 185 of 29 November 2008 (the Anti-Crisis Decree), converted to Law No. 2 of 28 January 2009, subsequently introduced a new system of optional realignment of tax and balance-sheet values. The provision, set forth in Article 15, paragraph 10, of the cited Decree, states that, in derogation of the substitute-tax regime introduced by the 2008 Finance Law, taxpayers may obtain recognition for tax purposes of the greater amounts attributed to goodwill, trademarks and other intangible assets with finite useful lives in the financial statements by paying a substitute tax in lieu of IRES and IRAP at the fixed rate of 16%, that is to say without any reference to income brackets and the possibility of paying in instalments.

However, the greater amounts attributed to goodwill and trademarks may be recovered through the off-the-books procedure for amortising goodwill in 10 annual instalments instead of the 18 ordinary required under Article 103 of TUIR, beginning in the tax period after that in which the tax is paid.

That statute also requires that the option be exercised by paying the substitute tax by the term of payment for income taxes for the year in which the extraordinary transactions in question are undertaken.

Lastly, paragraphs 12 to 14 of Article 23 of Legislative Decree No. 98/2011 (known as the “Summer Manoeuvre”) introduced the new paragraphs 10-*bis* and 10-*ter* to Article 10 of Legislative Decree 185/2008, thus allowing an extension of the “special redemption” procedure to goodwill recognised at the consolidated level only due to not being presented in the carrying amount of the equity investment.

The additional redemption scenario is founded solely on the accounting figures presented in the consolidated financial statements (it is not required that the value of the goodwill be separated from that of the equity investment at an accounting level) and applies not only to cases of equity investments arising from mergers or other extraordinary transactions, but also to cases of non-tax neutral transactions excluded from the previous rules, such as the acquisition of an entity whose assets also include a control interest or the acquisition of such a control interest (the new paragraph 10-*ter*).

The statute also provides that in order to close redemption transactions, as limited to previous transactions undertaken prior to 31 December 2010, the payment of the 16% substitute tax must be made by 30 November 2011, whereas the non-accounting deduction of amortisation in ten equal instalments is to take place beginning in financial year 2013.

Banca Generali has undertaken the following transactions in connection with the aforementioned options afforded by the tax code:

- 1) redemption of the mismatch between the carrying amounts and book values of goodwill arising from the merger of Banca del Gottardo Italy into Banca BSI S.p.A. (subsequently merged into Banca Generali effective 1 January 2010), closed in 2010 on the basis of the provisions of Article 15, paragraph 10, of Legislative Decree No. 185/2008;
- 2) redemption of other intangible assets (client relationships) arising from the above transaction undertaken in 2010 on the basis of the amounts carried in the financial statements of Banca BSI Italy at 31 December 2009 according to the ordinary procedure outlined in Article 176, paragraph 2-*ter*, of the TUIR;
- 3) redemption of goodwill recognised on a consolidated basis in connection with the full equity interest in the subsidiary BG Fiduciaria Sim S.p.A. undertaken in 2011.

The accounting treatment of the payment of substitute tax on goodwill is susceptible to varying interpretations, given that there is no specific provision of IAS 12 regarding the taxable element of goodwill after initial recognition. IAS 12 merely prohibits the recognition of deferred tax assets on initial recognition of goodwill from acquisitions not relevant for tax purposes.

The analyses conducted by the OIC – the Italian Accounting Standard Setter – summarised in application document No. 1 of 27 February 2009 entitled “*Accounting treatment of substitute tax on the redemption of goodwill in accordance with Article 15, paragraph 10, of Legislative Decree No. 185 of 29 November 2008 (converted into Law No. 2 of 28 January 2009) for entities that prepare financial statements in accordance with IASs/IFRSs*”, which can however be extended to other special redemption cases envisaged by tax laws, have led to three different accounting treatments being considered compatible with IFRSs:

1. Recognition through profit and loss of substitute tax only, without recognising deferred tax assets;
2. Immediate recognition through profit and loss of both substitute tax and the deferred tax assets representing the future tax benefit; and
3. Recognition of substitute tax as a tax credit under assets and subsequent recognition through profit and loss over the years to coincide with the non-accounting deduction of the redeemed amortised amounts.

In this regard, it should be noted that the accounting policy adopted by Banca Generali is based on the second method, which allows the attribution of the entire tax benefit, equal to the difference between the substitute tax paid and the deferred tax assets recognised (IRES and IRAP) during the year to which the redemption transaction refers.

During the years in which the redeemed goodwill may be deducted on a straight-line basis, the entity will release the previously recognised deferred tax assets to profit and loss at a constant rate, based on the specific system adopted (10 or 18 amortisation charges), thereby neutralising the decrease in current taxes.

Any impairment losses to the goodwill are not relevant to measuring the recognised deferred tax asset, provided that the value of that asset continues to be believed to be recoverable on the basis of future taxable income.

## 12. Provisions for liabilities and contingencies

Other provisions for liabilities and contingencies include allocations relating to provisions for legal obligations, contractual indemnities or legal disputes, including tax disputes, arising from a past event where fulfilment of such obligation is likely to require an outflow of financial resources, provided that the amount of the outflow can be reliably estimated.

Therefore, a provision is recognised only when:

- > there is a present obligation (legal or constructive) as a result of a past event;
- > it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- > a reliable estimate can be made of the amount of the obligation.

The amount recognised as provision corresponds to the best estimate of the expenditure required to settle the present obligation at the balance sheet date and accounts for all the risks and uncertainties that inevitably are entailed in certain events and circumstances.

Where the effect of the time-value of money is material, provisions are discounted using current market rates. Provisions and increases due to the time value of money are recognised in the Profit and Loss Account.

Provisions are periodically reviewed and, where necessary, adjusted to reflect the best current estimate. If, upon review, it is determined that it is unlikely that a cost will be incurred, the provision is reversed.

Other provisions for liabilities and contingencies include, in particular:

- > provisions for contractual indemnities for the network of Financial Advisors (end-of-service and other similar indemnities), measured according to the actuarial method;
- > provisions for incentive or recruitment bonuses (recruitment plans) for Financial Advisors;
- > provisions for long-term employee benefits;
- > provisions for restructuring plans.

In some circumstances, provisions for liabilities and contingencies (for example, charges relating to staff expenses) have been presented in a separate item of the Profit and Loss Account to best reflect their nature.

---

### 13. Debt and Securities Issued

---

#### Classification

Due to banks, Due to customers and Securities issued include the various forms of interbank funding and direct customer inflows, as well as funding through certificates of deposit and the issue of other debt securities, net of any amounts repurchased.

Due to banks and due to customers also include operating debts from financial services.

---

#### Recognition

These items are initially recognised when funding is received or the debt securities are issued.

Initial recognition is at the fair value of the liabilities, which is normally the amount received or the issue price plus any costs or income directly attributable to the each funding transaction or issuance and not repaid by the creditor. Internal general and administrative expense are excluded.

For financial liabilities issued below market value, the fair value is estimated and the difference with respect to the market value is recognised directly in the Profit and Loss Account.

---

#### Measurement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method,

with the exception of short-term liabilities where the time-value of money is not material. These are measured at the amount received, and any costs incurred are recognised in the Profit and Loss Account on a straight-line basis for the contractual duration of the liability.

---

#### Derecognition

Financial liabilities are removed from the balance sheet when they mature or are settled, or when previously issued securities are repurchased. The difference between the carrying amount of the liability and the amount paid for repurchase is recognised in the Profit and Loss Account.

The reissue of securities on the market after their repurchase is considered a new issue; such securities are therefore measured at the new placement price without any effect on net profit and loss.

---

#### 14. HFT financial liabilities

This item includes the negative value of trading derivative contracts measured at fair value. If the fair value of a financial asset falls below zero due to trading, it is recorded as a financial liability held for trading.

---

#### 15. Financial liabilities measured at fair value

There are currently no financial liabilities measured at fair value.

---

#### 16. Foreign currency transactions

##### Initial recognition

On initial recognition, foreign currency transactions are recorded in the functional currency using the exchange rate at the date of the transaction.

##### Subsequent measurement

At each annual or interim reporting date, monetary items denominated in foreign currency are translated using the exchange rate at that date.

There are no non-monetary items that are measured at historical cost or fair value.

Exchange rate differences that result from the settlement of monetary items or the translation of monetary items at a rate that is different from the one used for initial translation or for translating the previous year's financial statements are recognised through profit or loss in the period in which they arise.

---

#### 17. Other Information

##### Treasury shares

Treasury shares are recognised at their purchase cost under a specific item decreasing net equity and are not subject to measurement. Where subsequently sold, any difference between the purchase cost and sale price is recognised among the components of net equity.

##### Repurchase agreements

Securities received under a transaction involving a contractual obligation to resell said securities and securities delivered under a transaction involving a contractual obligation to repurchase said securities are not recognised and/or derecognised inasmuch as the associated risks/rewards are not transferred.

Consequently, if securities are purchased under a resale agreement, the amount paid is recognised as a loan to customers or banks. If securities are sold under a repurchase agreement, the liability is recognised among due to banks or customers.

Investment income, in the form of coupons accrued on securities and the difference between the spot and forward price of said securities, is recognised to the Profit and Loss Account items associated with interest on an accrual basis.

##### Leasehold improvements

Costs associated with refurbishing properties owned by third parties are capitalised due to the fact that, for the duration of the lease, the company using the property has control of the assets and can therefore receive the related future economic benefits.

The above costs, which have been classified among "Other assets", as required by the Bank of Italy's Instructions, are amortised for a period that may not exceed the term of the lease agreement.

##### Share-based payments

These are payments to employees or other similar persons, such as Financial Advisors, as consideration for services rendered, based on the equity instruments of the banking or ultimate Parent Company.



Such plans may provide for either:

- > the right to subscribe for rights issues at a pre-determined price (stock-option plans);
- > the free assignment of a certain number of shares, generally repurchased (stock-granting plans).

In accordance with IFRS 2 – *Share-Based Payments*, share-based benefit plans for personnel and Financial Advisors are recognised as costs on the Profit and Loss Account based on the fair value of the shares on the assignment date, spreading out the charges over the period covered in the plan.

In light of the difficulty inherent in reliably measuring the fair value of the services received in return for equity instruments, reference is made to the fair value of such instruments measured at the grant date.

The fair value of options is measured using a model whose inputs are exercise price, time to maturity, the current share price, expected volatility, expected dividend, the risk-free interest rate, and the specific features of the plan in effect. The pricing model measures distinctly the option and the probability that the conditions on which basis the option was assigned will be realised. The combination of the two amounts generates the fair value of the assigned instrument. In cases of stock-granting plans, the fair value of the shares granted is determined on the basis of market prices on the date of the resolution of the shareholders' meeting authorising the plans.

Any reduction in the number of financial instruments assigned is recognised as a cancellation of part of them.

Charges relating to shared-based payment plans are recognised as a cost in the Profit and Loss Account for the period under item 180.a) "General and administrative expense: staff expenses", where they relate to employment services, and under item 50) "Fee expense" where they relate to contractual relationships with Financial Advisors. In both cases, such charges are recognised through item 170. "Equity reserves".

---

## The Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) is a share-based incentive plan approved annually by the shareholders' meeting of the parent company, Assicurazioni Generali, and intended for the key personnel of the latter company and other insurance group companies, including several Key Managers of Banca Generali.

The plan is aimed at encouraging the pursuit of the objective of an increase in the value of the company's shares by strengthening the link between the remuneration of beneficiaries and performance as identified in the framework of the group's strategic plans ("absolute" performance) and the increase in value compared to a peer group ("relative" performance).

However, for beneficiaries belonging to the Bank, the targets triggering accrual of the incentive are broken down into:

- > insurance group targets, i.e., ROE (return on equity) and relative total shareholders' return (rTSR), compared to a peer group, assigned a weight of 40% of the total bonus; and
- > business unit targets (Banking Group ROE and EVA), assigned a 60% weight.

The key characteristics of the plan are as follows:

- > the incentive accrued upon achieving the targets is disbursed by Assicurazioni Generali S.p.A. in a single instalment at the end of the three-year vesting period through the free granting to the beneficiaries of its own ordinary shares;
- > the maximum number of the shares to be granted is determined at the beginning of the three-year period and is divided into three instalments for the three years of the plan.
- > each year, the level of satisfaction of the objectives initially set for the three-year period is verified in order to determine the number of shares to be set aside for each instalment.
- > from the 2015-2017 cycle, a lock-up restriction is envisaged for the shares assigned, applicable to 50% of the shares for one year from assignment and to 50% after two years from assignment;
- > malus and claw-back clauses have been included and a minimum access gate set for each tranche.

The new plan may be classified as an equity-settled transaction and therefore within the scope of IFRS 2.

IFRS 2, in the new formulation endorsed by Commission Regulation (EU) No. 244/2010 of 23 March 2010, includes a specific section Governmentsng share-based payment transactions between group entities (paragraphs 43B-43C and B45-B61 of the Application Guidance).

In that section, it is specified that in share-based payment transactions between group entities, the entity that receives the goods or services must assess whether the cost of the goods or services are to be accounted for as an equity-settled shared-based payment transaction, through a balancing entry to a capital reserve, or on a cash basis, through a balancing entry to a liability.

In this regard, the accounting standard envisages (paragraph 43B) that if the arrangement calls for the shares of the parent company to be granted directly by itself to a subsidiary's employees – and therefore with no action on the part of the subsidiary –, the charge to the Profit and Loss Account will be recognised to an equity reserve through a balancing entry, inasmuch as it is similar to a capital contribution by the parent company.

Given the specific nature of the plans reserved for beneficiaries belonging to Banca Generali, such plans must be assessed individually for components relating to group targets and business targets (for the Banking Group).

More specifically:

- > as it is a pure stock grant, the plan component linked to business unit objectives should be valued exclusively based on the fair value of the Assicurazioni Generali ordinary shares at the grant date;
- > the plan component linked to the Group's objectives includes TSR as an objective, since it qualifies as market condition whose value is included in the fair value of the stock grant.

The total cost of the plan is equal to the sum of the cost calculated for each tranche on the basis of the fair value determined according to the above methods, multiplied by the number of shares that may potentially be granted in respect of the performance condition, the likelihood that the service condition will be met and the achievement of the minimum eligibility threshold. That cost is allocated over a three-year vesting period starting from the grant date, with a balancing entry to a specific equity reserve.

---

## Employee termination indemnities

Employee termination indemnities, which are governed by Article 2220 of the Italian Civil Code, constitute “**post-employment benefits**” as defined in IAS 19 – *Employee Benefits*.

Following the entry into force of Italy's 2007 Finance Law, which brought forward to 1 January 2007 the supplementary pension reform enacted by Italian Legislative Decree No. 252 of 5 December 2005, the portions of employees' termination indemnities accrued starting from 1 January 2007 must – depending on the employees' choice – be allocated to a supplementary pension fund or maintained within the company and – in the case of companies with at least 50 employees – transferred to a special fund managed by Italy's national security institute (INPS).

Accordingly, obligations to employees have taken on a twofold nature from an accounting standpoint:

- > “**a defined contribution plan**” for termination indemnities accrued by personnel starting on 1 January 2007 whether the employee chooses to redirect such amount to a supplementary pension fund or allocate it to the INPS treasury fund.  
For such portions, the amount recognised amongst staff expenses is determined on the basis of the contributions owed, without the application of actuarial calculation methods.  
The portions paid to supplementary pension funds are recognised in the specific item, whilst the portions paid to the INPS fund are reclassified to the item “employee termination indemnities” by convention;
- > “**a defined-benefit plan**” for the portion of termination indemnities accrued to personnel through 31 December 2006, which is thus recognised on the basis of the actuarial value of the expected future benefit, determined according to the **projected unit credit method**.

According to this method, the amount already accrued is to be increased by the unit amount accrued annually (current service cost) projected into the future through the date of expected termination of employment then discounted to the reference date. The unit amount accrued is also determined on the basis of the employee's entire expected working life.

In the specific case, however, the past liability is assessed without pro-rating past service because the service cost of the termination indemnity has already fully accrued. Accordingly, the annual accrual consists solely of the interest cost relating to the revaluation of the expected benefit due to the passage of time.

The rate used for discounting is determined by reference to market yields on high quality corporate bonds, taking into account the average time-to-maturity of the liability, and calculated using the percentage paid and expected to be paid for each contractual period compared to the total amount to be paid and expected to be paid until the final settlement of the entire obligation.

Considering that IAS 19R requires that the discount rate is to be determined by reference to the yields on “high-quality corporate bonds,” it was decided to use the index IBOXX EURO CORP, formed of AA series.

The plan's service costs have been recognised amongst staff expenses under the item “provisions for post-employment benefits.”

Following the entry into force of IAS 19R from 1 January 2013, with the aim of improving financial statement comparability, it was decided to eliminate the option of adopting different treatments for **actuarial gains and losses** deriving from the assessment of the obligation, i.e., decreases or increases in liabilities deriving from changes in the parameters used for the actuarial assessment (change in the discount rate, estimate of expected staff turnover rates, salary increases, etc.).

In fact, changes in liabilities due to actuarial assessments are now required to be recognised in full in the other comprehensive income, and thus with a balancing entry to an equity reserve, net of the associated tax effect. By contrast, in the previous accounting arrangement adopted by the Bank the above item was recognised in the Profit and Loss Account according to the corridor method, i.e., the amount of cumulative actuarial gains/losses resulting at the end of the previous year in excess of 10% of the present value of the benefits generated by the plan.

The elimination of this method entailed an impact on the Bank's net equity from the date of first-time application of the new Standard due to the recognition of actuarial gains or losses not previously booked in application of the corridor method.

Finally, actuarial assessments of the provision are conducted net of the 11% substitute tax and 0.50% contribution, which are thus reclassified to the Profit and Loss Account during the year of accrual under a specific item.

---

## Productivity bonuses for salaried employees

Pursuant to the first update to Circular Letter No. 262/05 of 18 November 2009, productivity bonuses to be paid to salaried employees during the following year are to be allocated to the item "Other liabilities."

More specifically, in accordance with IAS 19 – *Employee Benefits*, the following are allocated to current liabilities:

- > the share of variable remuneration to be paid to managers and employees for which there are legal obligations that may be reliably estimated, such as bonuses relating to the supplementary company agreement, managerial bonuses associated with balance scorecards (MBO) and other individual incentive plans of a contractual nature, such as those for sales personnel and managers;
- > incentives not subject to contractual agreement for which there is objective evidence of their customary nature, giving rise to a constructive obligation for the bank.

For these items, a reliable estimate has been prepared of the expense owed to staff under the formal conditions of the individually assigned incentive plans and the probability that the quantitative and qualitative targets set out therein will be met.

Pursuant to IAS 19, the Company also recognises among staff expenses in the Profit and Loss Account the following types of expenses that do not constitute certain short-term liabilities and thus have the item for provisions for liabilities and contingencies as their balancing entry in equity:

- > the share of the variable remuneration of managers of the Banking Group deferred up to two years, and conditional upon the satisfaction of the access gates requirements established in the Banking Group's new remuneration policy;
- > the long-term incentive plans authorised by the parent company Assicurazioni Generali for the benefit of the Group's top managers and adopted by Banca Generali's Board of Directors, analysed in greater detail in the following paragraph.

By contrast, it was determined that the requirements set forth in IAS 19 had not been met in the following cases:

- > incentives for employees that have yet to be formally defined at the date of approval of the financial statements and are of a non-customary nature;
- > provisions for post-employment medical benefits of Group executives;
- > allocations intended to support company restructuring and reorganisation plans and other expenses associated with the classification of staff still to be determined at the date of authorisation of publication of the financial statements.

Such expenses are therefore attributed in their entirety to the item for provisions for liabilities and contingencies.

---

## Termination indemnity for Financial Advisors

The provision covering the cost of termination indemnities for Financial Advisors is assessed in compliance with IAS 37 according to an actuarial approach, pursuant to the law (Article 1751 of the Italian Civil Code) and the specific disbursement criteria set by the Bank.

In detail, the indemnity to be paid to a Financial Advisor is calculated on the basis of the annual average direct and indirect fees paid to the Financial Advisor during his or her final five years of service (Article 1751 of the Italian Civil Code), net of:

- a) the total amount paid to Enasarco each year by the Bank until the date of termination;

- b) the contractual lump-sum reduction which gradually declines with the length of service at the date of retirement or termination (with the exception of cases of death and permanent disability).

In cases of withdrawal for cause with service, the indemnity may be further reduced as a function of the decline in AUM during the post-termination observation period.

The assessment is then conducted according to actuarial methods on the basis of demographic parameters, expected turnover rates, with and without the right to service, assumptions regarding the age of entry into the compulsory general insurance (AGO) system and the retirement age.

The procedure also takes account of:

- a) the percent fee reduction expected as a function of the estimated period of past service at the date of termination;  
 b) the prospective termination indemnity fund, i.e., the payments that the Bank is to make each year directly to the Enasarco Foundation by way of termination indemnity contributions for the Financial Advisor's entire period of service and that, in the end, are to be deducted from the gross indemnity owed.

---

### Portfolio development indemnity

The portfolio development scheme calls for Financial Advisors with at least five years of service who leave service permanently due to retirement, serious disability, death or voluntary removal from the register to be entitled to an indemnity commensurate to the profitability of the portfolio previously managed.

The indemnity, which is governed by an appendix to the Agency agreement, is only due on the condition that the outgoing advisor formally undertakes to conduct a hand-over to an incoming Financial Advisor identified by the Company and discharges the obligation for removal from the register. Conversely, the incoming Financial Advisor undertakes to pay the company an indemnity commensurate to that obtained from the outgoing advisor.

In relation to recent market practices in the area, a thorough contractual revision of the scheme entered into effect on 1 January 2012 was carried out.

The system introduces a rule, namely that the indemnity collected by the outgoing Financial Advisor is to correspond exactly to the indemnities paid by the recipients of the hand-over, thus limiting the principal's role to the service represented by handling the cash flows between the parties.

Therefore, on the basis of the new rules, the outgoing Financial Advisor may only collect the agreed indemnity provided that it has actually been paid to the Bank by the incoming Financial Advisor, thereby fostering greater involvement of the interested parties in the successful completion of the transaction and an appropriate hand-over of customer relationships.

However, the Bank's guarantee has been maintained in cases of the reassignment of customer relationships due to the death or permanent disability of the Financial Advisor to whom they had been assigned. In such cases, the Bank will immediately pay out the entire indemnity to the outgoing Financial Advisor's beneficiary or heirs and then recover the amount from the incoming advisors under an instalment plan, in the reduced amount of 75% in consideration of the increased expense associated with the impossibility of conducting an appropriate hand-over.

The specific provision covering the obligations associated with the scheme is determined through an assessment conducted according to statistical and actuarial methods on the basis of an estimate, carried out through IT procedures, of the development coefficient for the assets managed by the Financial Advisors at the reference date, the historical percentages of indemnity payouts, network turnover rates and other demographic, welfare-related and financial variables.

According to IAS 1, paragraph 234 b), accruals are presented net of contractually established reimbursements to be provided by incoming Financial Advisors.

---

### Expenses functionally related to staff

In accordance with IAS 19, under item 150 a) Staff expenses are recognised exclusively costs representing remuneration for professional services rendered, thus excluding those representing pure reimbursement of the expenses incurred by the employee for the benefit of the enterprise in the performance of professional activity.

Accordingly, indirect expenses functionally related to activity performed by staff are recognised under item 150 b) Other general and administrative expense. Such expense also include:

- a) documented, specific reimbursements of the costs of room and board incurred by employees during business trips;  
 b) documented, specific mileage reimbursements, calculated on the basis of rates recognised as valid (e.g., Automobile Club d'Italy) and the mileage actually travelled;  
 c) costs of check-ups conducted when staff are hired and the costs of compulsory examinations of staff required by law.

By contrast, amongst other items, the costs of professional refresher courses for employees continue to be recognised under staff expenses.

---

## Recognition of revenues and costs

Revenues are recognised when they are realised or when it is probable that the related future benefits will be received and such benefits can be reliably measured. More specifically:

- > interest payable is recognised on a pro-rated basis according to contractual interest rate, or the effective interest rate if amortised cost is used;
- > default interest accrued on the basis of contractual terms is recognised in the Profit and Loss Account only when received;
- > dividends are recognised in the Profit and Loss Account when dividend payout is approved;
- > service revenue commissions are recognised, on the basis of the existence of contractual agreements, during the period in which the services in question are rendered; in further detail, trading commissions on securities trading are recognised when the service is rendered. Portfolio management, advisory and mutual fund management commissions are recognised according to the length of the service. Commissions considered among amortised cost for the purposes of determining the effective interest rate are excluded and are recognised among interest.

Costs are taken through profit or loss during the periods in which the associated revenues are recognised. If the above matching can only be done generally or indirectly, then the costs are allocated to more than one accounting period according to rational procedures and on a systematic basis. Those costs that cannot be matched with the related revenues are immediately taken through profit and loss.

---

## Use of estimates and assumptions in the preparation of the Financial Statements

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

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

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

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

- > determining the amount of provisions for liabilities and contingencies;
- > determining the expenses of personnel productivity bonuses;
- > determining the amount of incentive fees to be paid to the sales network for work done during the year;
- > determining the fair value of cash financial instruments and derivatives to be used in financial statement disclosures, when not based on current prices drawn from active markets;
- > determining the impairment of financial instruments;
- > determining the value adjustments and reversals of non-performing loans and the provision for performing loans;
- > preparing estimates and assumptions underlying the determination of current taxes, which may differ from the effective tax liability computed in conjunction with the payment of the balance of taxes for the year and the filing of the income tax return;
- > preparing estimates and assumptions on the recoverability of deferred tax assets;
- > evaluating the appropriateness of the amounts of goodwill and other intangible assets.

---

## Testing Financial Instruments for Impairment

In accordance with IAS 39, the portfolio of securities, not designated at fair value through profit or loss and classified as available for sale (AFS), held to maturity (HTM) and loans to customers and banks (Loans), is tested for impairment to be recognised in the Profit or Loss Account.

An asset is impaired when, following the occurrence of specific events (“loss events”), there is objective evidence of a decrease in expected future cash flows with respect to original estimates and the loss may be reliably estimated.

Some indicators that an asset may have become impaired include, for example, significant financial difficulty experienced by the issuer, the probability that insolvency or other financial restructuring procedures will be initiated, the breach or non-payment of interest or principal, the disappearance of an active market for a financial instrument, a significant downgrade of credit rating and the decrease in the fair value of a financial asset below its cost or amortised cost for reasons not attributable to changes in market conditions (change in the risk-free rate).

In addition to the general criteria cited above, a significant or prolonged decrease in the fair value of an equity instrument below its cost is objective evidence of impairment.

The loss event must have occurred at the measurement date. Losses expected as a result of future events, no matter how likely, are not recognised.

The impairment measurement process involves the use of specific methods according to the type of securities in question:

- > equity securities allocated to the portfolio of financial assets available for sale (AFS);
- > corporate debt securities allocated to the portfolio of financial assets available for sale (AFS);
- > corporate debt securities allocated to the portfolio of financial assets held to maturity (HTM) and the portfolio of loans and receivables (Loans);
- > the portfolio of asset-backed securities (ABSs) and similar securities allocated to the portfolio of loans and receivables (Loans).

The test is performed on an individual basis for financial assets that present specific evidence of losses and on a collective basis for financial assets for which individual testing is not necessary or does not require adjustments.

For listed equity instruments, a loss is considered significant if it represents a decrease of more than 50% with respect to the average book value of the investments at the test date or a prolonged reduction in fair value with respect to book value for at least 24 months from the reporting date.

Criteria based on temporal and quantitative filters of varying scopes are also used to identify additional financial instruments that may have become impaired.

For unlisted equity instruments, the specific conditions of the issuer are analysed on the basis of the most recent financial statements available and further information drawn from the market.

For corporate debt securities classified to AFS and HTM portfolios, a decrease in value of more than 50% with respect to the average book value of the investments at the reporting date is also considered evidence of impairment.

For the portfolio of ABSs classified as loans to customers, individual testing takes account of the type of the underlying asset class (RMBSs, CMBSs, cards, etc.), seniority, rating, and the trend in relevant quantitative parameters for the underlying assets based on the most recent reports issued by rating agencies.

Once an asset has been found to be impaired, the amount of the impairment is determined as follows.

- For financial instruments classified as available for sale (AFS), the amount of the loss is equal to the difference between:
- > purchase cost, net of any redemptions and repayments and less any impairment already recognised in the Profit and Loss Account; and
  - > the current fair value.

Impairment losses on equity securities may not be reversed through the Profit and Loss Account. Accordingly, any reversals are recognised in net equity. Conversely, reversals are allowed for debt securities, as for securities classified as HTM/LOANS.

For debt securities measured at amortised cost and classified as held to maturity (HTM) and loans and receivables (LOANS), the loss is measured as the difference between:

- > the book value of the asset; and
- > the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For ABSs, the decrease is determined based on losses on the tranche of the security held.

Where this amount is not readily determinable, an estimate of the fair value of the securities at the measurement date may be used.

### **Collective impairment**

Debt securities included in amortised cost portfolios classified as loans to banks and customers (L&R) and assets held to maturity (HTM) that have not individually shown signs of impairment are tested for impairment on a collective basis pursuant to IAS 39, paragraph 64, in order to estimate the value of any latent losses on assets that have not explicitly manifested situations of default.

For corporate bonds other than those deriving from securitisation, such testing is done according to homogeneous categories on the basis of rating classes and residual lives.

In detail, the probability of a default (*PD*) event is determined according to historical series for default rates surveyed globally over a period of many years (*Standard & Poor's Cumulative Average Default Rates By Rating, 1981-2015*) and using a market loss given default (LGD) between 60% and 70%.

For securities with residual lives of less than six months, *PD* is weighted according to the actual time until the maturity of the securities.

In any event, Italian government bonds are excluded from such testing of securities in the HTM portfolio.

The portfolio of securities deriving from securitisation is divided into segments according to the nature of the assets underlying the ABSs (home mortgages, commercial mortgages, leases and other types of loans) and the geographic area of reference, and specific probability of default (*PD*) and loss given default (LGD) figures are developed for each segment. In detail, the *PD* rates for each cluster were determined according to weighted average losses (defaults and delinquencies > 180 days) specifically observed on the underlying assets over the past two years, of a sample of securitisation transactions with similar characteristics.

The rates thus obtained are then multiplied by the expected residual lives of the issues, yielding the portion of underlying assets potentially at risk.

The expected loss on each issue in portfolio is then determined by multiplying those figures by the LGD rate (determined according to internal estimates produced by the Bank) and verifying the share of the underlying assets potentially at risk that exceeds the aggression threshold for the tranche in portfolio (senior, mezzanine or junior).

---

## Contributions to deposit guarantee systems and resolution mechanisms

Through Directives 2014/49/EU of 16 April 2014 and 2014/59/EU of 15 May 2014, respectively the “Deposit Guarantee Schemes Directive (DGSD)” and “Bank Recovery and Resolution Directive (BRRD)” and the institution of the Single Resolution Mechanism (Regulation (EU) No. 806/2014 of 15 July 2014), European lawmakers made significant changes to the rules concerning banking crises with the strategic aim of strengthening the single market and ensuring systemic stability. As illustrated in further detail below, the above legislative changes had a significant impact on financial performance and financial position as a result of the obligation to establish specific funds with financial resources that must be provided by contributions from financial institutions starting in 2015.

### Contributions deriving from the Deposit Guarantee Schemes Directive (DGS)

Directive 2014/49/EU, effective as of 3 July 2015, harmonises the levels of protection offered by national deposit guarantee schemes (DGSs) and their methods of intervention, with the aim of eliminating possible competitive disparities within the European market. To that end, the Directive provides that national DGSs (in Italy, the Interbank Deposit Protection Fund or FITD) must endow themselves with means commensurate to the deposits protected, which must be provided through mandatory contributions from financial institutions. The new element for Italian banks is the new mechanism for financing the fund: the previous after-the-fact contribution system, in which funds were requested in case of need, has been replaced by a mixed system, in which funds must be paid in advance, so as to reach, within ten years of the entry into force of the Directive (3 July 2024), a minimum target level of **0.8% of the deposits guaranteed**. The contributions from each entity are calculated as a function of the ratio of the amount of own deposits to the total protected deposits in the country.

Article 10 of Directive 2014/49/EU provides that contributions are to be paid by banks with at least annual frequency. In its extraordinary meeting of 26 November 2015, the FITD then amended its Articles of Association to comply with the new contribution rules and regulatory framework.

The Directive was then transposed into Italian law through Legislative Decree No. 30/2016.

### Contribution charges deriving from the Bank Recovery and Resolution Directive (BRRD)

Directive 2014/59/EU establishes the new resolution rules, applicable from 1 January 2015 to all European Union banks in a state of current or prospective default. These rules, which introduce the “bail-in” principle, require, under certain circumstances, that funding for resolution may also be supported by a national resolution fund instituted by each of the 28 European Union Member States and managed by a national resolution authority.

To that end, the Directive provides that the national resolution funds be endowed with financial means provided through mandatory advance contributions from authorised financial institutions.

In particular, the funds are to be paid in advance until reaching a minimum target level, over a period of ten years, i.e. by 31 December 2024, **of 1% of guaranteed deposits**<sup>1</sup>.

The contributions from each entity are calculated as a function of the ratio of its total eligible liabilities, i.e., net of own funds and the guaranteed deposits, to the total liabilities of all authorised financial institutions in the country.

In this context, on 16 November 2015 Legislative Decrees 180/2015 and 181/2015 were enacted, introducing the National Resolution Fund into the Italian legal order and assigning the Bank of Italy the role of National Resolution Authority.

In particular, Articles 78 *et seqq.* of Legislative Decree 180/15 provide that such funds are to be financed by, among other sources:

- a) ordinary contributions paid on an annual basis in the amount determined by the Bank of Italy in accordance with Directive 2014/59/EU (Article 103) and commensurate for the purposes of reaching the fund's target funding level;
- b) extraordinary contributions when ordinary contributions are insufficient to cover losses, costs or other expenses incurred to achieve resolution objectives, up to an amount of three times annual average ordinary contributions.

The new European Single Resolution Fund (SRF) provided for in Regulation No. 806/2014, instituting the Single Resolution Mechanism (SRM) and managed by a new European resolution authority, formed within the ECB (Single Resolution Board – SRB), began to function on 1 January 2016.

From 1 January 2016 to 31 December 2023 (a period of eight years), the Single Resolution Fund must reach a target level of means of at least 1% of the amount of the protected deposits of all authorised entities in the banking union. The contribution rules for the period 2016-2023 are established in Article 8 of Implementing Regulation 81 of 2015.

Accordingly, the banks of Member States of the Banking Union (including Italian banks) contributed to the National Resolution Fund in 2015 and contributed to the Single Resolution Fund starting in 2016 (until 2023). During the initial period, when calculating each institution's individual contributions, this transfer will be taken into account.

### **Accounting treatment of contribution charges deriving from the BRRD and DGSD**

The accounting and reporting treatment applicable to contributions to resolution funds was the subject of the Bank of Italy's notice dated 20 January 2016, as well as of a notice dated 25 January 2017 specifically relating to "Additional contributions to the national resolution fund".

Similar conclusions were reached by ESMA in its Opinion 2015/ESMA/1462 "Application of the IFRS requirements in relation to the recognition of contributions to Deposit Guarantee Schemes in IFRS accounts" of 25 September 2015 with regard to non-reimbursable cash contributions to be paid in advance into deposit guarantee funds.

For financial reporting purposes, reference should be made to IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* and the Interpretation IFRIC 21 – *Levies*, which entered into force on 1 January 2015.

The Interpretation concerns the accounting treatment of a liability for a levy where the liability falls within the scope of application of IAS 37.

As defined in IFRIC 21, "a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation".

Obligations to contribute to the National Guarantee Fund, in both ordinary and extraordinary form, are imposed by legislation, and thus fall within the scope of "levies" as defined in IFRIC 21.

IAS 37 and IFRIC 21 provide that a liability must be recognised when the obligating event that gives rise to a present obligation occurs. Since the decree does not provide for contributions to be reduced or refunded to intermediaries, in whole or in part, whenever the obligating event occurs the liability relating to the contributions in question must be recognised for the full amount.

Since it is not possible to account for the liability through either an intangible asset pursuant to IAS 38 or a prepayment asset, the contributions must be recognised through profit or loss.

In this regard, the Bank of Italy has clarified that the item to which to classify such contributions, which for accounting purposes may be regarded as levies, is item 150.b "General and administrative expense: other general and administrative expense" of the Profit and Loss Account in the Separate Financial Statement – and item 180.b of the Consolidated Financial Statements – which is also used to account for the indirect levies and taxes (paid and unpaid) accrued during the year.

1 Also in this case, in order to achieve the target level, the financial means provided by the credit institutions may include payment commitments up to a maximum of 30%.



## Credit quality – Non-performing exposures

On 9 January 2015, the European Commission approved Commission Implementing Regulation 2015/227, published in the *Official Journal of the European Union* on 20 February 2015, adopting the EBA's<sup>2</sup> Implementing Technical Standards (ITS) containing the definitions of “non performing exposure” and “forborne exposure”, with the aim of establishing consistent classification at the European level for the purposes of supervisory regulations.

In order to comply with the European legislation, on 20 January 2015 the Bank of Italy published an update to Circular Letter No. 272<sup>3</sup>, which introduced the new prudential criteria to be followed for the purpose of classifying credit quality, with effect from 1 January 2015.

Finally, the aforementioned changes were adopted, with respect to financial reporting provisions, in the fourth update to Circular Letter No. 262 “Banks’ Financial Statements: Layouts and Presentation”, issued in December of the previous year.

In detail, the previous four categories of non-performing exposures (“bad loans”, “substandard loans”, “expired loans” and “restructured loans”) are replaced by the three new categories<sup>4</sup>:

- > bad loans;
- > unlikely to pay;
- > non-performing, past-due exposures.

The categories “substandard loans” and “restructured exposures” have been eliminated and the new category of “unlikely to pay” has been added, consisting of non-performing exposures for which the Bank regards it as unlikely that the borrower will discharge its credit obligations (by way of principal and/or interest) in full, without the need for measures aimed at protecting credit claims, such as the enforcement of guarantees.

This assessment is conducted by the Bank independently of the presence of any situations of overdue payments and thus it is not necessary to await the express manifestation of signs of anomaly. The category in question thus attaches great importance to the Bank’s judgment in punctually observing elements in support of difficulty for the borrower to make full repayment of principal and interest, without undertaking credit protection measures, even in the absence of tangible signs of presumed difficulty.

The new regulation also introduces an obligation to include forborne exposures among both non-performing and performing exposures.

The EBA standards define forbearance as:

- > the modification of the previous terms and conditions of a contract that the debtor is considered unable to comply with due to its financial difficulties (“troubled debt”) to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties;
- > a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

With respect to measurements and provisions for forborne exposures, accounting policies observe the general criterion, in line with the provisions of IAS 39.

## Forborne exposures

### Forborne exposures – Performing

Within the context of performing loans, individual cash exposures for which the Bank, due to the debtor’s worsening economic-financial conditions (in “financial difficulties”), allows changes to the original contractual conditions or a total/partial refinancing of a contract that would not have been allowed if the debtor had not found itself in such difficulties, are identified and classified as exposures subject to forbearance measures. Such exposures do not form a separate category, but constitute an attribute common to the various categories of assets and are reported on the individual arrangement subject to concession.

Performing forborne exposures for which the forbearance measure applies and which have not been classified amongst non-performing loans by virtue of such forbearance measure are hence identified amongst performing loans (regular or past-due and/or past-due by less than 90 days).

<sup>2</sup> Final Draft Implementing Technical Standards on Supervisory reporting on Forbearance and non-performing exposures (EBA/ITS/2013/03/rev1 24/7/2014).

<sup>3</sup> 7<sup>th</sup> update of Circular Letter No. 272 dated 30 July 2008 - “Account matrix” issued by the Bank of Italy on 20 January 2015.

<sup>4</sup> The previous classification adopted by the Bank of Italy provided for four classes of non-performing loans: bad loans, restructured loans, substandard loans and past-due loans.

In addition, Forborne exposure status ceases to apply when:

1. a probation period of at least 2 years has elapsed since the date forbearance was granted (or since the date on which the forborne exposure was reclassified as performing);
2. regular payments of a significant amount of the principal or interest have been made at least during half the probation period;
3. at the end of the probation period none of the debtor's exposures have become past-due and/or past due by more than 30 days.

### **Forborne exposures – Non-performing**

Non-performing forborne exposures, i.e., individual cash exposures belonging to the aforementioned categories, for which the forbearance principle applies, as defined previously, are identified in non-performing loans. These exposures do not form a separate category but, depending on circumstances, constitute an attribute of the categories of non-performing assets to which they belong. They also include any restructurings of credit exposures realised with liquidation in mind, to be reclassified as non-performing.

The exposure ceases to be considered a Non-performing forborne exposure and is considered as Performing forborne exposure when all the following conditions are met:

1. assignment of the forbearance measure does not entail the recognition of write-downs or impairment losses;
2. a year has passed since the forbearance measures on the exposure;
3. following the forbearance classification no past-due exposures and/or elements have been reported that jeopardise full repayment of the exposure in accordance with the conditions provided for in the forbearance measures adopted.

The absence of prejudicial elements has to be determined after an analytical assessment of the debtor's financial situation.

The prejudicial elements must be considered to no longer exist when the debtor has already repaid, at the due dates specified in the rescheduling/restructuring plan, an amount equal to the sum that was previously past-due (if there were past-due exposures) or equal to the sum that became impaired as part of the forbearance measures adopted or, alternatively, the debtor has already demonstrated with other actions its ability to meet the post-forbearance conditions.

---

## **Compliance with IFRS 9**

Commission Regulation (EU) No. 2016/2067 adopting international accounting standard IFRS 9 – *Financial Instruments*, issued by the IASB on 24 July 2014, in replacement of IAS 39, was published in the *Official Journal of the European Union* on 29 November 2016.

The standard will enter into force on 1 January 2018 and includes significant changes relating to:

- > a new classification of financial assets, superseding the current model based on five portfolios – trading, fair value option (FVO), available for sale (AFS), loans and held to maturity (HTM) – with a model based on the characteristics of the financial instruments and business model;
- > a new model for the impairment of financial assets based on the concept of expected loss in lieu of the concept of incurred loss and on the classification of non-performing assets in two stages, according to an assessment of risk level and any deterioration of creditworthiness compared to original conditions.

The Bank has taken steps to implement the new accounting standard in a timely manner, launching a specific project under the supervision of the CFO Area involving the Administration, Finance, Lending and Risk Management functions, and is receiving consulting services from Ernst & Young in two areas: "Classification & Measurement" and "Impairment".

Banca Generali also cooperates pro-actively with its IT outsourcer, the CSE consortium, which is implementing the new procedures needed to bring its IT systems into compliance with the requirements of the new standard.

In 2016, Banca Generali conducted an analysis of the line items affected by the standard and performed a preliminary assessment of the balance sheet impacts of the new classification according to the current business model.

A regulatory assessment and gap analysis of accounting policies were also completed and the structural options for operational implementation of the standard were identified.

In January 2017, CSE informed the consortium banks about the progress of the projects, indicating that the first impact simulations will be available in the first half of 2017.

At the reporting date, the ongoing project has not reached a degree of progress sufficient to permit a reliable estimate of the balance sheet impacts of the initial application of the new standard.

## Compliance with IFRS 15 and IFRS 16

Commission Regulation (EU) No. 2016/1905 adopting international accounting standard IFRS 15 – *Revenue from Contracts with Customers*, issued by the IASB, was published in the *Official Journal of the European Union* on 29 October 2016.

The new standard, which will also take effect on 1 January 2018, will replace IAS 18 – *Revenue*, IAS 11 – *Construction Contracts*, and the interpretations IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers*, and SIC 31 – *Revenue – Barter Transactions Involving Advertising Services*.

IFRS 15 presents a single model for the accounting treatment of revenue on the sale of goods and services not falling within the scope of application of the standards concerning financial instruments (IFRS 9), insurance contracts (IFRS 4) and leases (IAS 17 and IFRS 16).

According to the standard, an entity recognises revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, according to the following five steps:

- > identification of the contract, defined as an agreement between two or more parties that creates enforceable rights and obligations;
- > identification of the individual performance obligations in the contract;
- > determination of the transaction price, i.e., the amount to which an entity expects to be entitled in exchange for the transfer of goods and services;
- > allocation of the transaction price to each performance obligation on the basis of its standalone selling price;
- > recognition of the revenue when the entity satisfies a performance obligation, i.e., when the customer obtains control of the goods and services.

Such recognition takes account of the fact that some services may be rendered at a specific point in time or over time.

In 2017, Banca Generali will initiate a process of assessing the impact of the standard, which at the reporting date is not expected to be material.

The standard IFRS 16 – *Leases*, issued by the IASB on 16 January 2016 and not yet endorsed by the European Union, introduces new rules for the accounting treatment of lease contracts for both lessors and lessees in replacement of the previous standards and interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27).

A lease is defined as a contract the fulfilment of which depends on the use of an identified asset and which grants the right to control the asset's use for a period of time in exchange for consideration.

Accordingly, on the basis of the new standard, the distinction between operating and finance leases for accounting purposes is eliminated.

This results in a significant change in the treatment of leasing transactions in the financial statements of the lessee, which recognises the assets and liabilities deriving from the contract in the Balance Sheet. More specifically, the lessee recognises a liability on the basis of the present value of the future lease payments and an asset consisting of the right to use the asset governed by the lease contract.

After initial recognition, the right of use is amortised over the term of the contract or the useful life of the leased asset. The liability is progressively reduced due to lease payments made and the interest on the liability is recognised through profit or loss. To reduce the costs of adoption, exemptions are available for contracts with a term of less than twelve months and contracts of low-value assets.

Application of the standard is mandatory with effect from 1 January 2019, but early application is allowed, provided that IFRS 15 is adopted.

The new standard is to be endorsed by the second half of 2017 and thus in 2017 Banca Generali will conduct an impact assessment aimed at determining the scope and accounting treatment of the assets used by the Bank under lease contracts.

## Part A.3 - Information on transfers between portfolios of financial assets

Following the endorsement of IAS 39 and IFRS 7 issued by the IASB (International Accounting Standard Board) on 13 October 2008 and included in the European Regulation (EC) No. 1004/2008 of 15 October 2008, in financial year 2008 the Parent Company Banca Generali reclassified part of the accounting portfolios of assets held for trading (HFT) and assets available for sale (AFS) to the new IAS portfolios measured at amortised cost, assets held to maturity (HTM) and loans to banks and customers (L&Rs), while equity securities held for trading were transferred to the AFS portfolio. For further details of the conditions of this transaction, please refer to the contents of the corresponding Section A.3 of the Notes and Comments to the 2009 Financial Statements and Part A of the 2008 Financial Statements.

### A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

TYPE OF FINANCIAL INSTRUMENT (€ THOUSAND)	FROM	TO	DATE OF TRANSF.	31.12.2016 BOOK VALUE	31.12.2016 FAIR VALUE	INCOME COMPONENTS WITH NO TRANSFER		INCOME COMPONENTS FOR THE YEAR	
						VALUATION	OTHER	VALUATION	OTHER
<b>Equity securities</b>	<b>TRA</b>	<b>AFS</b>	<b>01.07.2008</b>	<b>1,384</b>	<b>1,384</b>	<b>-254</b>	<b>-</b>	<b>-254</b>	<b>-</b>
Debt securities	TRA	HTM	01.07.2008	-	-	-	-18	2	33
<b>Total HTM portfolio</b>				<b>-</b>	<b>-</b>	<b>-</b>	<b>-18</b>	<b>2</b>	<b>33</b>
Debt securities	TRA	LOANS	01.07.2008	4,996	4,999	7	8	8	31
<b>Total loan portfolio (banks and clients)</b>				<b>4,996</b>	<b>4,999</b>	<b>7</b>	<b>8</b>	<b>8</b>	<b>31</b>
<b>Total reclassified financial assets</b>				<b>6,380</b>	<b>6,383</b>	<b>-247</b>	<b>-10</b>	<b>-244</b>	<b>64</b>

During 2016, the Company continued the process of dismantling the debt securities subject to reclassification due to redemptions and sales. At the reporting date, the portfolios concerned therefore presented a total carrying amount of 6.4 million euros, down sharply from the 26.7 million euros reported at the end of the previous year (-20.3 million euros). This amount includes the increases for the amortised costs gradually reaching maturity and the impairment losses recognised.

Any change in the fair value of the transferred assets from the trading portfolio at the end of 2016 would have entailed non-material positive differences compared to book values, gross of the relevant tax effect (3 thousand euros).

Had the Bank not opted to reclassify such securities, they would have registered greater capital losses through profit and loss and equity in 2016 of 3 thousand euros, equal to the difference between the decrease in fair value for the year and the impairment losses actually recognised through profit or loss.

The contribution to profit and loss of the other components of income (realised gains and losses and interest) would have amounted to a negative balance of 0.1 million euros as a result of lower interest recognised according to the effective interest rate method recognised net of the higher realised gains remeasured based on the fair values of the previous year.

### A.3.4 Effective interest rate and cash flows expected from reclassified assets

TYPE OF FINANCIAL INSTRUMENT	FROM	TO	AVERAGE RESIDUAL USEFUL LIFE	ACTUAL INTEREST RATE
Debt securities	TRA	LOANS	0.170	0.36%

## Part A.4 - Information on fair value

With the introduction of IFRS 13, the definition of **fair value** has been modified with respect to IAS 39, in view of a more market-based approach.

According to the new standard, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value is thus not an entity-specific measurement, but rather a market-based measurement.

In detail, measurement at fair value:

- > presumes that the asset or liability is exchanged in an orderly transaction between market operators under current market conditions;
- > refers to a particular asset or liability and must take account of the characteristics of the asset or liability that market participants take into account when pricing the asset or liability;
- > assumes that market participants act in their economic best interest;
- > assumes that the sale of the asset or the transfer of the liability takes place:
  - a) in the principal market for the asset or liability; or
  - b) in the most advantageous market, in the absence of a principal market.

### Fair value hierarchy

International accounting standard IFRS 13 requires that financial assets be classified according to a hierarchy of levels (the “fair-value hierarchy”) that reflects the significance of the inputs used in valuation:

- > **Level 1:** quoted prices in active markets, as defined in IFRS 13, for identical instruments;
- > **Level 2:** inputs other than the price quotations indicated above, observable on the market either directly (prices) or indirectly (price-derived data);
- > **Level 3:** inputs not based on observable market data.

For the purposes of the fair value hierarchy, inputs may thus be classified as:

- > **observable**, when the information used in the measurement techniques is based on market data obtained from sources independent of the Bank and available on the market;
- > **unobservable**, when they reflect assumptions by the Bank reached by drawing on the best available information in such circumstances.

### Valuation criteria of the fair value of financial instruments

In 2010, Banca Generali adopted its Fair Value Policy, which sets out the procedures for measuring the fair value of financial instruments and entrusts responsibility for the measurement process to the Finance Department and review and validation of the data to the Risk Management Service.

The procedure lays down a decision-making process aimed at identifying the best measurement method in the context of the classification of available price sources in the three levels of the fair-value hierarchy.

The fair value of financial instruments is determined through the use of prices obtained from capital markets, if the instruments are listed on active markets (the mark-to-market policy) or through the use of valuation procedures for other financial instruments (the mark-to-model policy), based on the analysis of recent transactions involving similar instruments (comparable approach) or, failing the latter, on valuation models.

When determining a financial instrument’s fair value, it is thus fundamental to verify whether the market on which that instrument is traded may be considered active, i.e., whether the quoted prices observed represent actual, regular market transactions undertaken during a normal reference period and are promptly and regularly available through exchanges, intermediaries, brokers, industry companies, quotation services and other authorised entities.

Equity securities, exchange-traded funds (ETFs), government bonds listed on regulated markets and financial derivatives listed on regulated markets are normally considered to be listed on an active market that meets the foregoing requirements.

However, quotation on a regulated or official market does not in itself guarantee the presence of significant prices owing to the limited, sporadic nature of transactions (illiquid securities) on certain securities exchanges, such as that of Luxembourg, whereas there are market types that are unregulated yet show significant daily exchanges in terms of volumes that are suitable to providing prices on an ongoing basis.

Accordingly, most bonds are considered listed on an active market if objective parameters such as the following may be observed:

- > an adequate number of counterparties that presents a minimum number of executable ask and bid offers;

> a spread between the ask and bid price that falls within an interval deemed appropriate; and continuity of quotations on both sides of the market.

For financial instruments listed on active markets, the current bid price is used for financial assets and the current ask price for financial liabilities.

For equity securities, ETFs and government bonds listed on regulated markets, for which the bid-ask spread is not material, the official closing price for the last trading day is also used.

---

#### A.4.1 Fair value Level 2 and Level 3: valuation techniques and inputs used

---

##### Financial instruments measured at fair value on a recurring and non-recurring basis

For securities not listed on active markets, the procedure calls for the analysis of:

- 1) prices of similar instruments quoted on active or inactive markets; and
- 2) inputs other than quotations observable directly or indirectly on the market.

The first category includes bonds that do not meet the price significance requirements for classification as listed on an active market but for which it is determined that there is:

- 1) a single contributor on a regulated market or exchange system capable of providing a fair, binding price at the measurement date;
- 2) a consensus pricing mechanism capable of determine the fair value, for example:
  - > Bloomberg Bondtrade Composite (CBBT/BBT), which provides prices constructed as the average of the most recent executable prices;
  - > Bloomberg Generic Number (BGN), which represents Bloomberg's market consensus price and is calculated using the prices contributed to Bloomberg;
  - > Markit European ABS, a consensus platform for measuring ABS-type instruments;
- 3) a reference to current market values of other essentially identical or similar instruments.

UCITS not listed on regulated markets are usually not considered listed on active markets and are valued at the unit value (NAV) at the end of the period in question.

Since it is impossible or inappropriate to use the comparable approach for OTC financial derivatives, the Group uses widespread valuation techniques commonly used by financial operators, including:

- > the analysis of discounted cash flows;
- > option pricing models.

Lastly, the class L3 of financial instruments measured according to non-observable market parameters includes securities measured according to prices and market data obtained from brokers.

Level 3 also includes certain financial instruments measured at cost in the absence of reliable estimates of fair value. These consist mainly of "minor equity investments" in companies with which the Group has service relationships, and disposal of which is not conceivable (CSE, GBS Caricese, SWIFT, etc.).

---

##### Other financial assets and liabilities not measured at fair value on a recurring basis

The fair value and hierarchical classification of financial assets other than debt securities, equity securities and units of UCITS, as well as of financial and operating receivables classified amongst loans to banks and customers, are determined as follows.

##### **On-demand and uncommitted financial assets and financial assets with residual lives of less than one year**

The fair value of this class of assets, which essentially consists of uncommitted current account exposures, on-demand deposits or short-term time deposits, as well as operating receivables, is not believed to differ significantly from its carrying amount. Considering that the measurement process does not contemplate significant unobservable inputs, such instruments are typically classified as L2.

##### **Assets with fixed contractual lives included in the financial portfolio**

This class of assets consists primarily of medium- or long-term mortgages or loans with financial instruments as collateral.

The fair value of loans with amortisation schedules is calculated according to a discounted cash flow model that calls for the cash flows expected on the basis of the contractual amortisation schedule to be discounted at the proper rate for the risks associated with the instrument. This correction consists of a spread to be added to the risk-free discount

rate for the cash flows.

The spread in question is to be defined in such a way as to include the following components of risk:

- > the cost of credit risk (the cost of covering expected losses in relation to credit risk);
- > the cost of funding (the cost of funding positions);
- > the cost of capital (the cost of covering unexpected losses in relation to credit risk);
- > operating costs (any other costs, specific to the type of loan, that are to be considered in the exit price).

The cost of credit risk is calculated on the basis of multi-period historic PDs related to the rating of the counterparty in the transaction and the LGD specific to the type of instrument.

Loans with a fixed contractual maturity are classified to Level 3 of the fair value hierarchy, in consideration of the significant presence of unobservable inputs (spreads determined on the basis of internal PD and LGD).

### **Non-performing loans**

When bad loans and substandard loans are separately assessed, their book value is believed to be a reasonable approximation of their fair value.

Such loans are classified to Level 3 of the fair value hierarchy.

### **Other financial liabilities**

Financial liabilities classified as amounts due to customers and banks consist mainly of on-demand current account deposits, short-term time deposits and operating payables.

Such liabilities also include repurchase agreements that are set to mature within the year and, in the case of interbank funding, fully collateralised, with the determination of daily margins of change.

Such financial liabilities are subject to fair value measurement criteria similar to those applied to other on-demand or uncommitted financial assets.

---

## **A.4.2 Processes and sensitivity of measurements**

For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the new standard IFRS 13 requires a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. The unobservable inputs capable of affecting the measurement of instruments categorised within Level 3 consist mainly of estimates and assumptions underlying the models used to measure investments in equities and other UCITS. For such investments, no quantitative analysis has been prepared of the sensitivity of the fair value to changes in unobservable inputs, given that the fair value either has been drawn from third sources without any adjustments or is the result of a model, the inputs to which are specific to the entity subject to measurement (for example, the company's asset values) and for which the use of alternative values is not reasonably feasible.

The case in question does not apply to Level 3 financial instruments classified to the trading and AFS portfolios. The reader is referred to the detailed analysis of individual positions provided in the subsequent section concerning quantitative information.

---

## **A.4.3 Fair Value Hierarchy**

IFRS 13, recalling the contents of IFRS 7, requires that entities that apply IAS/IFRS make adequate disclosure of the fair value measurements used for each class of financial instruments, and in particular:

- 1) the level in the fair value hierarchy into which the fair value measurements are categorised, segregating instruments belonging to different categories;
- 2) any significant transfers between Level 1 and Level 2 during the year;
- 3) for instruments measured in Level 3, a reconciliation from the beginning balances to the ending balances, disclosing separately changes in profit and loss (in the Profit and Loss Account and net equity), purchases and sales, and transfers out of Level 3 due to the use of market data.

Transfers between levels refer to the end of the accounting period of reference (half-yearly or annual), in an independent manner, and generally enter into effect from the beginning of the year of reference.

Transfers to and from Level 3 are infrequent and primarily involve the occurrence of situations of default, in which the Bank's subjective assessment of the recoverability of the debt takes pre-eminence.

---

## **A.4.4 Other information**

No cases envisaged in IFRS 13, paragraphs 51, 93(i) and 96, occur in these Financial Statements.

## Quantitative information

### A.4.5 Fair value hierarchy

#### A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair-value levels

ASSETS/LIABILITIES AT FAIR VALUE	31.12.2016				TOTAL
	L1	L2	L3	AT COST	
1. HFT financial assets	3,659	22,884	12,017	-	38,560
2. Financial assets at fair value	-	-	-	-	-
3. AFS financial assets	4,352,325	47,952	1,941	7,095	4,409,313
4. Hedging derivatives	-	-	-	-	-
5. Property and equipment	-	-	-	-	-
6. Intangible assets	-	-	-	-	-
<b>Total</b>	<b>4,355,984</b>	<b>70,836</b>	<b>13,958</b>	<b>7,095</b>	<b>4,447,873</b>
1. HFT financial liabilities	409	760	-	-	1,169
2. Financial liabilities measured at fair value	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-
<b>Total</b>	<b>409</b>	<b>760</b>	<b>-</b>	<b>-</b>	<b>1,169</b>

ASSETS/LIABILITIES AT FAIR VALUE	31.12.2015				TOTAL
	L1	L2	L3	AT COST	
1. HFT financial assets	2,177	12,799	13,028	-	28,004
2. Financial assets at fair value	-	-	-	-	-
3. AFS financial assets	2,898,120	30,860	3,466	6,761	2,939,207
4. Hedging derivatives	-	-	-	-	-
5. Property and equipment	-	-	-	-	-
6. Intangible assets	-	-	-	-	-
<b>Total</b>	<b>2,900,297</b>	<b>43,659</b>	<b>16,494</b>	<b>6,761</b>	<b>2,967,211</b>
1. HFT financial liabilities	-	463	-	-	463
2. Financial liabilities measured at fair value	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>463</b>	<b>-</b>	<b>-</b>	<b>463</b>

At the reporting date, Banca Generali's portfolios at fair value, i.e., the portfolio of assets and liabilities held for trading and the portfolio of AFS financial assets, comprised 97.9% of financial assets eligible for allocation to class L1, with an unchanged ratio compared to the previous year. L1 is mainly comprised of Italian government bonds (4,092.6 million euros), which increased by 1,498.1 million euros compared to the previous year (+57.7%). It also includes other debt securities (252.8 million euros) chiefly referring to credit sector (140.1 million euros), and equities and UCITS listed on Italian and European regulated markets (10.5 million euros).

Financial liabilities classified in the L1 portfolio refer to options on the FTSE MIB index.

The financial assets allocated to the L2 class, on the other hand, consist primarily of UCITS not listed on regulated markets (43.5 million euros), including an interest in the Sicav SIF Tyndaris, a closed-end fund that invests in subordinated financial assets linked to the real estate market. In addition, the L2 portfolio includes bonds of Italian banks and banks of the main Eurozone countries (26.5 million euros) and derivative financial liabilities consisting solely of currency outright, valued on the basis of observable market parameters.

In the reporting year, no significant transfers of financial assets were performed between class L1 and class L2.



#### A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (level L3)

	FINANCIAL ASSETS		
	TRADING	AFS AT FAIR VALUE	AFS AT COST
<b>1. Amount at year-start</b>	<b>13,028</b>	<b>3,466</b>	<b>6,761</b>
<b>2. Increases</b>	<b>10</b>	<b>1,334</b>	<b>334</b>
<b>2.1 Purchases</b>	<b>10</b>	<b>1,334</b>	<b>334</b>
2.2 Gains through:			
2.2.1 Profit and loss	-	-	-
- of which: capital gains	-	-	-
2.2.2 Net equity	-	-	-
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
- of which: business combinations			
<b>3. Decreases</b>	<b>1,021</b>	<b>2,859</b>	<b>-</b>
3.1 Disposals	-	-	-
3.2 Redemptions	554	166	-
3.3 Losses through:			
3.3.1 Profit and loss	467	1,235	-
- of which: capital losses	467	1,235	-
3.3.2 Net equity	-	-	-
3.4 Transfers to other levels	-	1,458	-
3.5 Other decreases	-	-	-
<b>4. Amount at year-end</b>	<b>12,017</b>	<b>1,941</b>	<b>7,095</b>

L3 financial assets in the trading portfolio consist of the investment in the Quarzo 1 notes. These notes, amounting to 12,009 thousand euros, were created through the securitisation of residential mortgages (RMBSs) originated by Mediobanca and Morgan Stanley, in relation to the activity of the Scarlatti real-estate fund (Fondo ImFurnitureare Scarlatti), promoted by the Assicurazioni Generali Group, and were partially repaid during the year.

L3 financial assets in the AFS portfolio, amounting to 1,941 thousand euros, consist of:

- > the investment in the private-equity special purpose entity Athena Private Equity (922 thousand euros), which became impaired in previous years and is currently in the course of liquidation and repayment;
- > the equity interest in Veneto Banca (13 thousand euros), an unlisted cooperative bank acquired in 2011 and subject to a total impairment loss of 5.0 million euros (of which 907 thousand euros in the reporting year), deemed to be impaired in accordance with the result of the capital increase undertaken in June 2016, fully subscribed by the Atlante fund at the price of 0.1 euros per share;
- > the 1,334 thousand euros capital contribution paid in September 2016 to the Interbank Deposit Protection Fund (FITD) to recapitalise Cassa di Risparmio di Cesena. At year-end 2016, the initial contribution was written down by approximately 328 thousand euros.

Some equity investments allocated to the AFS portfolio continued, on the other hand, to be measured at purchase cost in the absence of reliable estimates of fair value:

- > the “minor investments” in companies with which the Bank has long-term service arrangements (CSE, GBS, Caricese, SWIFT, etc.) or commercial partnerships (Tosetti Value), for a total of 6.6 million euros;
- > the contributions to film production ventures with Tyco film S.r.l., Fabula Pictures S.r.l, Eskimo S.r.l. for a total amount of 510 thousand euros.

#### A.4.5.4 Breakdown by fair-value levels of annual changes in assets and liabilities not measured at fair value on a recurring basis

FINANCIAL ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31.12.2016			
	VB	L1	L2	L3
1. HTM financial assets	731,361	759,650	12,859	-
2. Loans to banks	319,983	36,445	283,176	-
3. Loans to customers	1,843,231	23,430	997,715	828,958
4. Property and equipment held as investments	-	-	-	-
5. Non-current assets available for sale and disposal groups	-	-	-	-
<b>Total</b>	<b>2,894,575</b>	<b>819,525</b>	<b>1,293,750</b>	<b>828,958</b>
1. Due to banks	802,702	-	802,702	-
2. Due to customers	6,738,734	-	6,695,452	44,246
3. Securities issued	-	-	-	-
4. Liabilities associated to assets held for sale	-	-	-	-
<b>Total</b>	<b>7,541,436</b>	<b>-</b>	<b>7,498,154</b>	<b>44,246</b>

FINANCIAL ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31.12.2015			
	VB	L1	L2	L3
1. HTM financial assets	423,585	457,592	13,220	-
2. Loans to banks	285,555	38,036	250,167	-
3. Loans to customers	1,871,577	28,313	1,036,399	814,781
4. Property and equipment held as investments	-	-	-	-
5. Non-current assets available for sale and disposal groups	-	-	-	-
<b>Total</b>	<b>2,580,717</b>	<b>523,941</b>	<b>1,299,786</b>	<b>814,781</b>
1. Due to banks	333,941	-	333,941	-
2. Due to customers	4,883,329	-	4,840,047	44,007
3. Securities issued	-	-	-	-
4. Liabilities associated to assets held for sale	-	-	-	-
<b>Total</b>	<b>5,217,270</b>	<b>-</b>	<b>5,173,988</b>	<b>44,007</b>

#### Part A.5 - Disclosure about so-called “Day-one profit/loss”

IFRS 7, paragraph 28, governs the specific case in which, following the purchase of a financial instrument designated at fair value but not listed on an active market, the transaction price, which generally represents the best estimate of fair value at initial recognition, differs from the fair value according to the valuation technique used by the entity.

In this case, there is a valuation gain/loss upon acquisition of which adequate disclosure must be given by financial instrument class.

It should be noted that no such cases occur in the Financial Statements in question.

## PART B – INFORMATION ON THE BALANCE SHEET - ASSETS

### Section 1 – Cash and deposits - Item 10

#### 1.1 Breakdown of cash and deposits

	31.12.2016	31.12.2015
a) Cash	16,044	13,888
b) Demand deposits with Central Banks	567,312	89,220
<b>Total</b>	<b>583,356</b>	<b>103,108</b>

Item b) Demand deposits with Central Banks represents the portion of the balance of the settlement account held with the Bank of Italy that is not restricted according to the mandatory reserve rules.

### Section 2 – Held-for-trading financial assets - Item 20

#### 2.1 HFT financial assets: categories

ITEMS/VALUES	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
<b>A. Cash assets</b>						
<b>1. Debt securities</b>	-	22,111	12,009	211	10,037	13,028
1.1 Structured securities	-	22,111	-	-	9,886	-
1.2 Other debt securities	-	-	12,009	211	151	13,028
<b>2. Equity securities</b>	1,959	-	8	1,331	-	-
<b>3. UCITS units</b>	1,596	-	-	635	2,233	-
<b>4. Loans</b>	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total A</b>	<b>3,555</b>	<b>22,111</b>	<b>12,017</b>	<b>2,177</b>	<b>12,270</b>	<b>13,028</b>
<b>B. Derivatives</b>						
<b>1. Financial</b>	104	773	-	-	529	-
1.1 Trading	104	773	-	-	529	-
1.2 Related to the fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
<b>2. Credit</b>	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-
2.2 Related to the fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
<b>Total B</b>	<b>104</b>	<b>773</b>	<b>-</b>	<b>-</b>	<b>529</b>	<b>-</b>
<b>Total (A + B)</b>	<b>3,659</b>	<b>22,884</b>	<b>12,017</b>	<b>2,177</b>	<b>12,799</b>	<b>13,028</b>

Note

1. A more detailed analysis of the fair value hierarchy of financial instruments (L1, L2, L3) is given in Part A.4 of these Notes and Comments - Information on fair value.

## Section 2 – Held-for-trading financial assets - Item 20

### 2.2 HFT financial assets: debtors/issuers

ITEMS/VALUES	31.12.2016	31.12.2015
<b>A. Cash assets</b>		
<b>1. Debt securities</b>	<b>34,120</b>	<b>23,276</b>
a) Government and Central Banks	-	-
b) Other public institutions	-	-
c) Banks	22,111	10,138
d) Other issuers	12,009	13,138
<b>2. Equity securities</b>	<b>1,967</b>	<b>1,331</b>
a) Banks	644	-
b) Other issuers:	1,323	1,331
- insurance companies	705	775
- financial companies	-	-
- non-financial companies	618	556
- other entities	-	-
<b>3. UCITS units</b>	<b>1,596</b>	<b>2,868</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Government and Central Banks	-	-
b) Other public institutions	-	-
c) Banks	-	-
d) Other entities	-	-
<b>Total A</b>	<b>37,683</b>	<b>27,475</b>
<b>B. Derivatives</b>		
a) Banks	193	204
b) Customers	684	325
<b>Total B</b>	<b>877</b>	<b>529</b>
<b>Total (A + B)</b>	<b>38,560</b>	<b>28,004</b>

At 31 December 2016, UCITS units referred to two ETF funds; during the year, the shares of the BG Selection sub-funds were sold (2.2 million euros at 31 December 2015).

## Section 4 – Available-for-sale financial assets - Item 40

### 4.1 AFS financial assets: categories

ITEMS/VALUES	31.12.2016			31.12.2015		
	L1	L2	L3	L1	L2	L3
<b>1. Debt securities</b>	<b>4,345,493</b>	<b>4,421</b>	<b>-</b>	<b>2,889,693</b>	<b>3,016</b>	<b>-</b>
1.1 Structured securities	-	-	-	2,038	-	-
1.2 Other debt securities	4,345,493	4,421	-	2,887,655	3,016	-
<b>2. Equity securities</b>	<b>6,832</b>	<b>-</b>	<b>9,036</b>	<b>8,427</b>	<b>-</b>	<b>8,769</b>
2.1 Valued at fair value	6,832	-	1,941	8,427	-	2,008
2.2 Valued at cost	-	-	7,095	-	-	6,761
<b>3. UCITS units</b>	<b>-</b>	<b>43,531</b>	<b>-</b>	<b>-</b>	<b>27,844</b>	<b>1,458</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>4,352,325</b>	<b>47,952</b>	<b>9,036</b>	<b>2,898,120</b>	<b>30,860</b>	<b>10,227</b>

#### Notes

- A more detailed analysis of the fair value hierarchy of financial instruments (L1, L2, L3) is given in Part A.4 of these Notes and Comments - Information on fair value.
- Item "Debt securities" includes assets sold but not written off, which refer to own securities used in repurchase agreements amounting to 349,829 thousand euros. This item also includes encumbered assets used as collateral for ECB refinancing operations totalling 636,068 thousand euros and certificates of deposit with Cassa di Compensazione e Garanzia amounting to 25,223 thousand euros.

## 4.2 AFS financial assets: debtors/issuers

ITEMS/VALUES	31.12.2016	31.12.2015
<b>1. Debt securities</b>	<b>4,349,914</b>	<b>2,892,709</b>
a) Government and Central Banks	4,117,859	2,594,480
b) Other public institutions	-	-
c) Banks	144,539	213,540
d) Other issuers	87,516	84,689
<b>2. Equity securities</b>	<b>15,868</b>	<b>17,196</b>
a) Banks	526	2,274
b) Other issuers	15,342	14,922
- insurance companies	652	782
- financial companies	2,283	2,509
- non-financial companies	12,400	11,624
- other entities	7	7
<b>3. UCITS units</b>	<b>43,531</b>	<b>29,302</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Government and Central Banks	-	-
b) Other public institutions	-	-
c) Banks	-	-
d) Other entities	-	-
<b>Total</b>	<b>4,409,313</b>	<b>2,939,207</b>

## Notes

- The portfolio of equity securities includes investments amounting to 6,585 thousand euros and falling within the category of the so-called "minor equity investments" and which are not usually traded, largely related to service agreements concluded by the Group (CSE, GBS, Tosetti Value Sim, Caricese, SWIFT, etc.). In the absence of reliable estimates of fair value, those interests are measured at purchase cost.
- In the reporting year, two joint ventures were formed, one with Fabula Pictures S.r.l. to produce the movie "Piccoli crimini coniugali", and the other with Eskimo S.r.l. to produce "Beate". Both capital contributions were recognised at cost.
- In 2016, Banca Generali contributed to the Interbank Deposit Protection Fund (FITD) to recapitalise Cassa di Risparmio di Cesena. The initial contribution amounting to 1,334 thousand euros was written down by 328 thousand euros at the end of the year.
- The UCITS portfolio included 27,072 thousand euros related to an interest of about 8% in Tyndaris European Real Estate Finance S.A. (TECREF), an alternative fund under Luxembourg law, which through the master/feeder fund invests in financial instruments linked to the European business real estate market, particularly in mezzanine instruments.
- In the first half of the year, the fund Finlabo Investments was subscribed; at year-end it amounted to 511 thousand euros. In the second half of the year, units of the fund Tenax Italian Credit Fund, managed by the Irish company Tenax Capital Ltd., were bought; at year-end, they amounted to 3,084 thousand euros. In 2016, the interest in the Luxembourg vehicle Algebris increased to 4,516 thousand euros at the end of December (+3,058 thousand compared to 31 December 2015).
- The residual UCITS portfolio is comprised for 2,048 thousand euros of sub-funds of Group's Sicav BG Selection Sicav and for 6,301 thousand euros of investments in the Luxembourg Sicav-SIF BNP Flexi III, specialised in investing in leveraged loans, and the fund BNP Bond Italy PMI, specialised in mini-bonds.

## Section 5 – Held-to-maturity financial assets - Item 50

## 5.1 HTM financial assets: categories

	31.12.2016				31.12.2015			
	BOOK VALUE	FV			BOOK VALUE	FV		
		L1	L2	L3		L1	L2	L3
<b>1. Debt securities</b>	<b>731,361</b>	<b>759,650</b>	<b>12,859</b>	<b>-</b>	<b>423,585</b>	<b>457,592</b>	<b>13,220</b>	<b>-</b>
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	731,361	759,650	12,859	-	423,585	457,592	13,220	-
<b>2. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>731,361</b>	<b>759,650</b>	<b>12,859</b>	<b>-</b>	<b>423,585</b>	<b>457,592</b>	<b>13,220</b>	<b>-</b>

## Notes

- A more detailed analysis of the fair value hierarchy of financial instruments (L1, L2, L3) is given in Part A.4 of these Notes and Comments - Information on fair value.
- The item "Debt securities" includes encumbered assets used as collateral for ECB refinancing operations in the amount of 219,319 thousand euros and securities used for NewMIC market operations totalling 174,453 thousand euros.
- HTM financial assets underwent analytical impairment testing but they were not found to be impaired. The portfolio is also hedged by a collective reserve established to cover contingent losses (regarding exclusively the non-governmental portfolio), for an overall amount of 2,914 thousand euros.

## 5.2 HTM financial assets: debtors/issuers

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>1. Debt securities</b>	<b>731,361</b>	<b>423,585</b>
a) Government and Central Banks	610,832	363,835
b) Other public institutions	-	-
c) Banks	44,593	10,037
d) Other issuers	75,936	49,713
<b>2. Loans</b>	<b>-</b>	<b>-</b>
a) Government and Central Banks	-	-
b) Other public institutions	-	-
c) Banks	-	-
d) Other entities	-	-
<b>Total</b>	<b>731,361</b>	<b>423,585</b>
<b>Total fair value</b>	<b>772,509</b>	<b>470,812</b>

## Section 6 – Loans to banks - Item 60

## 6.1 Loans to banks: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2016 BV	31.12.2015 BV
<b>A. Loans to Central Banks</b>	<b>56,314</b>	<b>49,992</b>
1. Term deposits	-	-
2. Mandatory reserve	56,314	49,992
3. Repurchase agreements	-	-
4. Other	-	-
<b>B. Loans to banks</b>	<b>263,669</b>	<b>235,563</b>
1. Loans	140,622	119,070
1.1 Current accounts and demand deposits	101,325	118,486
1.2 Term deposits	35,136	83
1.3 Other loans:	4,161	501
- Repurchase agreements	-	-
- Finance lease	-	-
- Other	4,161	501
2. Debt securities	123,047	116,493
2.1 Structured securities	5,060	5,132
2.2 Other debt securities	117,987	111,361
<b>Total (book value)</b>	<b>319,983</b>	<b>285,555</b>

TYPE OF TRANSACTIONS/VALUES	31.12.2016				31.12.2015			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
<b>A. Loans to Central Banks</b>	<b>56,314</b>	-	<b>56,314</b>	-	<b>49,992</b>	-	<b>49,992</b>	-
<b>B. Loans to banks</b>	<b>263,669</b>	<b>36,445</b>	<b>226,862</b>	-	<b>235,563</b>	<b>38,036</b>	<b>200,175</b>	-
1. Loans	140,622	-	140,622	-	119,070	-	119,070	-
2. Debt securities	123,047	36,445	86,240	-	116,493	38,036	81,105	-
<b>Total</b>	<b>319,983</b>	<b>36,445</b>	<b>283,176</b>	-	<b>285,555</b>	<b>38,036</b>	<b>250,167</b>	-

## Notes

- A more detailed analysis of the fair value hierarchy of financial instruments (L1, L2, L3) is given in Part A.4 of these Notes and Comments - Information on fair value.
- The item includes encumbered assets used as collateral for ECB refinancing operations totalling 4,997 thousand euros.
- A specific impairment test was conducted on debt portfolio classified among loans to banks and no impairment was detected. Moreover, a 1,123 thousand euros collective reserve was allocated for contingent losses on the securities portfolio that was not subjected to analytical impairment.

## Breakdown of loans to banks - other transactions

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
Operating loans	129	195
Other loans: collateral margins	4,032	306
<b>Total</b>	<b>4,161</b>	<b>501</b>

## Section 7 – Loans to customers - Item 70

## 7.1 Loans to customers: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2016				31.12.2015			
	TOTAL	NON-PERFORMING LOANS	PERFORMING LOANS		TOTAL	NON-PERFORMING LOANS	PERFORMING LOANS	
			PURCHASED	OTHER			PURCHASED	OTHER
<b>1. Loans</b>	<b>1,800,131</b>	<b>1,768,272</b>	-	<b>31,859</b>	<b>1,822,502</b>	<b>1,789,298</b>	-	<b>33,204</b>
1.1 Current accounts	911,665	894,751	-	16,914	928,894	912,178	-	16,716
1.2 Repurchase agreements	-	-	-	-	-	-	-	-
1.3 Mortgages	783,920	768,981	-	14,939	781,665	765,183	-	16,482
1.4 Credit cards, personal loans and loans on wages	6	-	-	6	6	-	-	6
1.5 Finance lease	-	-	-	-	-	-	-	-
1.6 Factoring	-	-	-	-	-	-	-	-
1.7 Other loans	104,540	104,540	-	-	111,937	111,937	-	-
<b>2. Debt securities</b>	<b>43,100</b>	<b>43,100</b>	-	-	<b>49,075</b>	<b>49,075</b>	-	-
2.1 Structured securities	12,922	12,922	-	-	14,033	14,033	-	-
2.2 Other debt securities	30,178	30,178	-	-	35,042	35,042	-	-
<b>Total (book value)</b>	<b>1,843,231</b>	<b>1,811,372</b>	-	<b>31,859</b>	<b>1,871,577</b>	<b>1,838,373</b>	-	<b>33,204</b>

TYPE OF TRANSACTIONS/VALUES	31.12.2016				31.12.2015			
	BOOK VALUE	FAIR VALUE			BOOK VALUE	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1. Loans	1,800,131	-	990,182	814,754	1,822,502	-	1,014,800	814,781
2. Debt securities	43,100	23,430	7,533	14,204	49,075	28,313	21,599	-
<b>Total</b>	<b>1,843,231</b>	<b>23,430</b>	<b>997,715</b>	<b>828,958</b>	<b>1,871,577</b>	<b>28,313</b>	<b>1,036,399</b>	<b>814,781</b>

## Notes

- Performing loans that have not individually shown signs of impairment are tested for impairment on a collective basis in order to identify any impairment that has not yet become openly manifest. As at 31 December 2016, the collective reserve allocated totalled 1,672 thousand euros.
- A specific impairment test was conducted on debt portfolio classified among loans to customers and no impairment was detected. Moreover, a 2,123 thousand euros collective reserve was allocated for contingent losses on the securities portfolio that was not subjected to analytical impairment.
- Item 2.1 "Structured securities" refers to a 14.0 million euro convertible loan issued on 16 December 2015 by Tyndaris LLP, an English fund management company. The six-year loan includes an option to convert the shares of Tyndaris LLP upon expiry of the second year and upon final maturity, for an amount not exceeding 2 million pound sterling for each of the expiry dates, and in any event, up to maximum share equal of 9.9% of the share capital of said company. The loan provides for an interest of 3% for the first two years and subsequently of 7.5%. Provision is also made for an early repayment option by the issuer. A collective reserve amounting to about 1.5 million euros was allocated in relation with that position.
- A more detailed analysis of the fair value hierarchy of financial instruments (L1, L2, L3) is given in Part A.4 of these Notes and Comments - Information on fair value.

## Breakdown of loans to customers - other transactions

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
Other grants and pooled funding	8,115	8,373
Stock exchange interest-bearing daily margin	1,940	3,383
Sums advanced to Financial Advisors	32,544	36,294
Operating loans	59,657	62,319
Interest-bearing caution deposits	779	661
Amounts to be collected	1,505	907
<b>Total</b>	<b>104,540</b>	<b>111,937</b>

Sums advanced to Financial Advisors listed on the Register of Financial Advisors include non-performing loans for a net amount of 994 thousand euros, largely attributable to advances to former Financial Advisors who have left service due to a dispute or pre-dispute.

## 7.2 Loans to customers: debtors/issuers

TYPE OF TRANSACTIONS/VALUES	31.12.2016				31.12.2015			
	TOTAL	NON-PERFORMING LOANS	PERFORMING LOANS		TOTAL	NON-PERFORMING LOANS	PERFORMING LOANS	
			PURCHASED	OTHER			PURCHASED	OTHER
<b>1. Debt securities</b>	<b>43,100</b>	<b>43,100</b>	-	-	<b>49,075</b>	<b>49,075</b>	-	-
a) Governments	-	-	-	-	-	-	-	-
b) Other public institutions	-	-	-	-	-	-	-	-
c) Other issuers	43,100	43,100	-	-	49,075	49,075	-	-
- non-financial companies	33,115	33,115	-	-	16,407	16,407	-	-
- financial companies	9,985	9,985	-	-	32,668	32,668	-	-
- insurance companies	-	-	-	-	-	-	-	-
- other entities	-	-	-	-	-	-	-	-
<b>2. Loans</b>	<b>1,800,131</b>	<b>1,768,272</b>	-	<b>31,859</b>	<b>1,822,502</b>	<b>1,789,298</b>	-	<b>33,204</b>
a) Governments	-	-	-	-	-	-	-	-
b) Other public institutions	-	-	-	-	-	-	-	-
c) Other entities	1,800,131	1,768,272	-	31,859	1,822,502	1,789,298	-	33,204
- non-financial companies	458,222	439,738	-	18,484	473,764	450,080	-	23,684
- financial companies	94,047	89,388	-	4,659	77,231	77,124	-	107
- insurance companies	18,820	18,820	-	-	20,856	20,856	-	-
- other entities	1,229,042	1,220,326	-	8,716	1,250,651	1,241,238	-	9,413
<b>Total</b>	<b>1,843,231</b>	<b>1,811,372</b>	-	<b>31,859</b>	<b>1,871,577</b>	<b>1,838,373</b>	-	<b>33,204</b>

## Section 10 – Equity investments - Item 100

## 10.1 Equity investments: disclosure on type of relations

NAME	REGISTERED OFFICE	OPERATING OFFICE	% HELD	% OF VOTING RIGHTS
<b>A. Subsidiary companies wholly controlled</b>				
1. BG Fiduciaria Sim S.p.A.	Trieste	Milan	100%	100%
2. BG Fund Management Luxembourg S.A.	Luxembourg	Luxembourg	100%	100%
3. Generfid S.p.A.	Milan	Milan	100%	100%
<b>C. Companies subject to significant influence</b>				
1. IOCA Entertainment Limited	United Kingdom - London	United Kingdom - London	35%	35%



## Controlling equity investments – accounting information

	31.12.2016	31.12.2015	CHANGE
BG Fiduciaria Sim S.p.A.	11,779	11,779	-
Generfid S.p.A.	245	245	-
BG Fund Management Luxembourg S.A.	2,000	2,000	-
<b>Total</b>	<b>14,024</b>	<b>14,024</b>	<b>-</b>

The difference between the carrying value of the equity investment in BG Fiduciaria, amounting to 11,779 thousand euros, and the relevant net equity, net of profit (15,639 thousand euros), is due to the combined effect of the goodwill paid upon acquisition of the company (4,289 thousand euros) and the retained earnings recognised after the acquisition (8,654 thousand euros). The goodwill included in the value of the equity investment was tested for impairment in the consolidated financial statements, pursuant to IAS 36, and no impairment was detected.

## Company subject to significant influence – accounting information

	31.12.2016	31.12.2015	CHANGE
IOCA Entertainment Limited	2,200	2,200	-
<b>Total</b>	<b>2,200</b>	<b>2,200</b>	<b>-</b>

Reference is made to IOCA Entertainment Ltd., a company based in the United Kingdom, in which Banca Generali subscribed a 35% interest, in the form of 3,500 shares with a par value of 1.00 pound sterling each, for a total of 1,616,125 pounds sterling, equivalent to approximately 2.2 million euros at the acquisition date, 19 October 2015. In accordance with the Shareholders' Agreement, the company's Board of Directors is composed of three Directors, one of whom is a representative of Banca Generali. The remaining 65% interest (6,500 shares) is held by the UK-based company IOCA Ventures Ltd. (Jersey), which is entitled to appoint the other two directors.

The company is an e-commerce/social-networking start-up currently engaged in the commercial development of an app for smartphones and tablets, named "dishball". In 2016, the portion of loss for the year recognised by Banca Generali amounted to approximately 75 thousand euros, whereas the exchange differences on the equity investment in foreign currency amounted to 96 thousand euros.

## Section 11 – Property and equipment - Item 110

### 11.1 Operating property and equipment: assets valued at cost

ASSETS/VALUES	31.12.2016	31.12.2015
<b>1. Owned assets</b>	<b>6,252</b>	<b>4,784</b>
a) Land	-	-
b) Buildings	-	-
c) Furniture	4,670	3,570
d) Electronic equipment	518	601
e) Other	1,064	613
<b>2. Acquired under finance lease</b>	<b>-</b>	<b>-</b>
a) Land	-	-
b) Buildings	-	-
c) Furniture	-	-
d) Electronic equipment	-	-
e) Other	-	-
<b>Total</b>	<b>6,252</b>	<b>4,784</b>

## 11.5 Operating property and equipment: year changes

	LAND	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
<b>A. Gross amount at year-start</b>	-	-	<b>21,090</b>	<b>5,887</b>	<b>8,228</b>	<b>35,205</b>
A.1 Total net impairment	-	-	17,520	5,286	7,615	30,421
<b>A.2 Net amount at year-start</b>	-	-	<b>3,570</b>	<b>601</b>	<b>613</b>	<b>4,784</b>
<b>B. Increases</b>	-	-	<b>1,866</b>	<b>145</b>	<b>767</b>	<b>2,778</b>
B.1 Purchases	-	-	1,866	145	767	2,778
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals:	-	-	-	-	-	-
a) Net equity	-	-	-	-	-	-
b) Profit and loss account	-	-	-	-	-	-
B.4 Fair value positive changes in:	-	-	-	-	-	-
a) Net equity	-	-	-	-	-	-
b) Profit and loss account	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers of buildings held as investments	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
<i>of which: business combinations</i>	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	<b>766</b>	<b>228</b>	<b>316</b>	<b>1,310</b>
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	-	753	225	316	1,294
C.3 Adjustments for impairment in:	-	-	-	-	-	-
a) Net equity	-	-	-	-	-	-
b) Profit and loss account	-	-	-	-	-	-
C.4 Fair value negative changes in:	-	-	-	-	-	-
a) Net equity	-	-	-	-	-	-
b) Profit and loss account	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property and equipment held as investments	-	-	-	-	-	-
b) assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	13	3	-	16
<i>of which: business combinations</i>	-	-	-	-	-	-
<b>D. Net amount at year-end</b>	-	-	<b>4,670</b>	<b>518</b>	<b>1,064</b>	<b>6,252</b>
D.1 Total net impairment	-	-	18,011	4,527	7,929	30,467
D.2 Gross amount at year-end	-	-	22,681	5,045	8,993	36,719
<b>E. Valued at cost</b>	-	-	<b>4,670</b>	<b>518</b>	<b>1,064</b>	<b>6,252</b>

## Section 12 – Intangible assets- Item 120

## 12.1 Intangible assets: categories

ASSETS/VALUES	31.12.2016		31.12.2015	
	DEFINITE LIFE	INDEFINITE LIFE	DEFINITE LIFE	INDEFINITE LIFE
A.1 Goodwill		61,775		61,775
A.2 Other intangible assets	25,416	-	22,159	-
A.2.1 Assets valued at cost:	25,416	-	22,159	-
a) Internally generated intangible assets		-		-
b) Other assets	25,416	-	22,159	-
A.2.2 Assets valued at fair value:				
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
<b>Total</b>	<b>25,416</b>	<b>61,775</b>	<b>22,159</b>	<b>61,775</b>

## 12.2 Intangible assets: year changes

	OTHER INTANGIBLE ASSETS					TOTAL
	GOODWILL	INTERNALLY GENERATED		OTHER		
		DEFINITE LIFE	INDEFINITE LIFE	DEFINITE LIFE	INDEFINITE LIFE	
<b>A. Gross amount at year-start</b>	<b>61,775</b>	-	-	<b>43,721</b>	-	<b>105,496</b>
A.1 Total net impairment	-	-	-	21,564	-	21,564
<b>A.2 Net amount at year-start</b>	<b>61,775</b>	-	-	<b>22,157</b>	-	<b>83,932</b>
<b>B. Increases</b>	-	-	-	<b>7,846</b>	-	<b>7,846</b>
B.1 Purchases	-	-	-	7,846	-	7,846
B.2 Increase of internal intangible assets	-	-	-	-	-	-
B.3 Reversals	-	-	-	-	-	-
B.4 Fair value positive changes in:	-	-	-	-	-	-
- Net equity	-	-	-	-	-	-
- Profit and loss account	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
<i>of which: business combinations</i>	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	-	<b>4,587</b>	-	<b>4,587</b>
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	4,587	-	4,587
- Amortisation	-	-	-	4,587	-	4,587
- Write-downs	-	-	-	-	-	-
- Net equity	-	-	-	-	-	-
- Profit and loss account	-	-	-	-	-	-
C.3 Fair value negative changes in:	-	-	-	-	-	-
- Net equity	-	-	-	-	-	-
- Profit and loss account	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
<i>of which: business combinations</i>	-	-	-	-	-	-
<b>D. Amount at year-end</b>	<b>61,775</b>	-	-	<b>25,416</b>	-	<b>87,191</b>
D.1 Total net adjustments	-	-	-	26,151	-	26,151
<b>E. Gross amount at year-end</b>	<b>61,775</b>	-	-	<b>51,567</b>	-	<b>113,342</b>
<b>F. Valued at cost</b>	<b>61,775</b>	-	-	<b>25,416</b>	-	<b>87,191</b>

## Breakdown of goodwill

(€ THOUSAND)	31.12.2016	31.12.2015
Incorporazione Prime Consult Sim e INA Sim	2,991	2,991
Incorporazione Banca del Gottardo	31,352	31,352
Credit Suisse Italy's business unit	27,432	27,432
<b>Total</b>	<b>61,775</b>	<b>61,775</b>

## Breakdown of intangible assets - other assets

(€ THOUSAND)	31.12.2016	31.12.2015
Charges associated with the implementation of legacy CSE procedures	9,638	2,056
Other software costs	41	132
Transactions with customers (former Banca del Gottardo)	953	1,907
Transactions with customers (former Credit Suisse Italy)	14,784	15,936
Advance payments on intangible assets	-	2,128
<b>Total</b>	<b>25,416</b>	<b>22,159</b>

The consideration for the acquisition of the former Credit Suisse's business unit amounting to 44,712 thousand euros was allocated pursuant to IFRS 3 (PPA – Purchase Price allocation) for 17,280 thousand euros to intangible assets (Transactions with customers) and 27,432 thousand euros to goodwill. The asset recognised for contractual relations on assets under management is the economic valuation of expected financial flows from this portfolio based on the profitability ratio and adequate impairment rates. A useful life of 15 years has been estimated for this asset.

## Section 13 – Tax assets and liabilities - Item 130 (Assets) and Item 80 (Liabilities)

## Breakdown of item 130 (Assets): tax assets

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>Current taxation</b>	<b>3,386</b>	<b>21,430</b>
Sums due for taxes to be refunded	405	1,633
IRES arising on National Tax Consolidation scheme	1,650	16,458
IRES (8.5% surtax excess)	98	98
IRAP	1,233	3,241
<b>Deferred tax assets</b>	<b>40,632</b>	<b>40,249</b>
<b>With impact on Profit and Loss Account</b>	<b>37,254</b>	<b>39,364</b>
IRES	32,130	34,212
IRAP	5,124	5,152
<b>With impact on net equity</b>	<b>3,378</b>	<b>885</b>
IRES	2,944	792
IRAP	434	93
<b>Total</b>	<b>44,018</b>	<b>61,679</b>

## Notes

- Current tax assets and liabilities represent the positive or negative imbalance between the estimated income taxes due for the year and the associated tax credits due to overpayments in previous tax periods, prepayments made and amounts withheld.
- In the case of Banca Generali in particular, current tax assets or liabilities due to IRES take the form, respectively, of an account receivable from or payable to the consolidating company, Assicurazioni Generali S.p.A. Due to Banca Generali's participation in Assicurazioni Generali's tax consolidation programme, the former's taxable profits or losses for IRES purposes, along with the tax credits to which it is entitled and sums withheld from it, are transferred to the consolidating entity, which then calculates and pays the tax owed by the Group. The consolidating entity is also responsible for paying the taxes owed by or to the credit of the consolidated entity and requesting the associated prepayments.
- Sums due for taxes to be refunded refer mostly to the excess IRES paid in years 2007-2011 due to the effect of the introduction, in accordance with Legislative Decree No. 201/2011, of the deductibility from that tax of the share of IRAP paid on the cost of labour. The account receivable was recognised on the basis of the provisions of the Order of the Director of the Italian Revenue Service of 17 December 2012, which governs the methods for presenting refund applications, and also takes the form of a positive entry in Assicurazioni Generali's tax consolidation programme.

## Breakdown of tax liabilities - Item 80

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>Current taxation</b>	-	-
IRES arising on National Tax Consolidation scheme	-	-
IRES	-	-
IRAP	-	-
<b>Deferred tax liabilities</b>	<b>9,323</b>	<b>12,857</b>
<b>With impact on profit and loss account</b>	<b>2,117</b>	<b>1,841</b>
IRES	1,849	1,654
IRAP	268	187
<b>With impact on net equity</b>	<b>7,206</b>	<b>11,016</b>
IRES	6,076	9,325
IRAP	1,130	1,691
<b>Total</b>	<b>9,323</b>	<b>12,857</b>

## 13.1 Breakdown of deferred tax assets

TYPE OF TRANSACTIONS/VALUES	31.12.2016	PURSUANT TO LAW NO. 214/2011	31.12.2015	PURSUANT TO LAW NO. 214/2011
<b>With impact on profit and loss account</b>	<b>37,254</b>	<b>9,755</b>	<b>39,364</b>	<b>11,495</b>
Provisions for liabilities and contingencies	27,343	-	27,605	-
Credit devaluation	2,986	2,986	3,143	3,143
Redeemed goodwill (pursuant to Article 15, para. 10, of Legislative Decree No. 185/2008)	4,032	4,032	5,040	5,040
Redeemed goodwill of former BG SGR (Article 176, para. 2-ter, of TUIR)	1,057	1,057	1,145	1,145
Consolidated goodwill of BG Fiduciaria (Article 15, para. 10-ter, of Legislative Decree No. 185/2008)	1,379	1,379	1,379	1,379
Other goodwill of former BG SGR	301	301	788	788
Collective reserve for collateral granted	111	-	130	-
Other operating expenses	45	-	134	-
<b>With impact on net equity</b>	<b>3,378</b>	<b>-</b>	<b>885</b>	<b>-</b>
Measurement at fair value of AFS financial assets	2,992	-	568	-
Actuarial losses IAS 19	386	-	317	-
<b>Total</b>	<b>40,632</b>	<b>9,755</b>	<b>40,249</b>	<b>11,495</b>

## Note

1. The DTAs eligible for conversion into tax credits pursuant to Law No. 214/2011 include:
- assets associated with goodwill redeemed in accordance with Article 10 of Legislative Decree No. 185/2008 and Article 172 of TUIR;
  - assets related to goodwill recognised for tax purposes but not for accounting purposes as they refer to business combinations "under common control" (Circular Letter Assonime No. 33/2013, paragraph 3.3.2);
  - assets associated with write-downs in excess of 0.30% in connection with the banking portfolio, pursuant to Article 106, para. 3 of TUIR, in the version effective until 2012 (previously eligible for deduction over 18 years on a straight-line basis);
  - assets associated with write-downs of loans to customers recognised in the Financial Statements in accordance with Article 106, paragraph 3, as reformulated by the 2014 Financial Stability Law, applicable for financial years 2013 and 2014 (formerly deductible in the financial year of reference and in the following four years using the straight-line method);
  - assets related to 25% of value adjustments of loans operated in 2015 pursuant to new Article 106, paragraph 3, introduced by Law Decree No. 83 of 27 June 2015.
- The above-mentioned Law Decree No. 83/2015 made effective the full deductibility of value adjustments of loans in the year in which they are recognised and changed the deductibility percentages of prior write-downs yet to be deducted at 31 December 2014 (and by 25% of value adjustments for 2015). It also envisages a ten-year time horizon – from 2016 to 2025 – with variable annual rates for total repayment. For 2016, the statute provides for 5% deductibility of the total amount of prior value adjustments.
- The 2015 Financial Stability Law (Law No. 305 of 28 December 2015) mandated a general reduction in the ordinary IRES rate from 27.5% to 24% effective 1 January 2017. However, for the credit sector only, an IRES surtax of 4.5% was introduced in parallel, applicable as of the same date and essentially aimed at allowing the recovery of extensive DTAs accrued by the banking industry. As a consequence of the combined effect of these two measures, no value adjustment was made on DTAs/DTLs to adjust the tax rates.

### 13.2 Breakdown of deferred tax liabilities

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>With impact on Profit and Loss Account</b>	<b>2,117</b>	<b>1,841</b>
Capital gains by instalments from the transfer of the funds business unit	-	281
Goodwill, excluding off-balance sheet transactions	1,965	1,408
Provision for post-employment benefits (IAS19)	152	152
<b>With impact on net equity</b>	<b>7,206</b>	<b>11,016</b>
Measurement at fair value of AFS financial assets	7,206	11,016
<b>Total</b>	<b>9,323</b>	<b>12,857</b>

### 13.3 Change in deferred tax assets (offsetting entry to the Profit and Loss account)

	31.12.2016	31.12.2015
<b>1. Amount at year-start</b>	<b>39,364</b>	<b>37,760</b>
<b>2. Increases</b>	<b>12,252</b>	<b>16,125</b>
2.1 Deferred tax assets for the year	12,252	16,125
a) relative to prior years	-	215
b) change in accounting criteria	-	-
c) reversal value	-	-
d) other	12,252	15,910
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<i>of which:</i>		
- <i>adjustment of losses used within the National Tax Consolidation scheme</i>	-	-
- <i>business combinations</i>	-	-
<b>3. Decreases</b>	<b>14,362</b>	<b>14,521</b>
3.1 Deferred tax assets eliminated in the year	14,362	14,521
a) transfers	13,819	14,163
b) write-downs for non-recoverability	543	358
c) change in accounting criteria	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
a) conversion into tax credits pursuant to Law No. 214/2011	-	-
b) other	-	-
<i>of which:</i>		
- <i>adjustment of losses used within the National Tax Consolidation scheme</i>	-	-
- <i>business combinations</i>	-	-
<b>4. Amount at year-end</b>	<b>37,254</b>	<b>39,364</b>

#### 13.3.1 Change in deferred tax assets pursuant to Law No. 214/2011

	31.12.2016	31.12.2015
<b>1. Amount at year-start</b>	<b>11,495</b>	<b>13,012</b>
<b>2. Increases</b>	<b>-</b>	<b>66</b>
<b>3. Decreases</b>	<b>1,740</b>	<b>1,583</b>
3.1 Transfers	1,740	1,583
3.2 Conversion into tax credits	-	-
a) due to losses for the year	-	-
b) due to fiscal losses	-	-
3.3 Other decreases	-	-
<b>4. Amount at year-end</b>	<b>9,755</b>	<b>11,495</b>

**13.4 Change in deferred tax liabilities (offsetting entry to the Profit and Loss Account)**

	31.12.2016	31.12.2015
<b>1. Amount at year-start</b>	<b>1,841</b>	<b>1,546</b>
<b>2. Increases</b>	<b>557</b>	<b>576</b>
2.1 Deferred tax liabilities for the year	557	576
a) relative to prior years	-	20
b) change in accounting criteria	-	-
c) reversal value	-	-
d) other	557	556
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<i>of which: business combinations</i>	-	-
<b>3. Decreases</b>	<b>281</b>	<b>281</b>
3.1 Deferred tax liabilities eliminated during the year	281	281
a) transfers	281	281
b) change in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Amount at year-end</b>	<b>2,117</b>	<b>1,841</b>

**13.5 Changes in deferred tax assets (offsetting entry to the Net Equity)**

	31.12.2016	31.12.2015
<b>1. Amount at year-start</b>	<b>885</b>	<b>650</b>
<b>2. Increases</b>	<b>3,373</b>	<b>363</b>
2.1 Deferred tax assets for the year	3,373	363
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	3,373	363
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>880</b>	<b>128</b>
3.1 Deferred tax assets eliminated in the year	146	128
a) transfers	146	128
b) write-downs for non-recoverability	-	-
c) change in accounting criteria	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	734	-
<b>4. Amount at year-end</b>	<b>3,378</b>	<b>885</b>

The item 3.3 "Other decreases" refers to the reduction in deferred tax assets following the re-absorption of deductible temporary differences as a result of reversals of assets in the AFS portfolio.

**13.6 Changes in deferred tax liabilities (offsetting entry to the Net Equity)**

	31.12.2016	31.12.2015
<b>1. Amount at year-start</b>	<b>11,016</b>	<b>8,831</b>
<b>2. Increases</b>	<b>3,016</b>	<b>8,299</b>
2.1 Deferred tax liabilities for the year	3,016	8,299
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	3,016	8,299
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>6,826</b>	<b>6,114</b>
3.1 Deferred tax liabilities eliminated during the year	6,082	5,480
a) transfers	6,082	5,480
b) change in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	744	634
<b>4. Amount at year-end</b>	<b>7,206</b>	<b>11,016</b>

The item 3.3 "Other decreases" refers to the reduction in deferred tax liabilities following the re-absorption of deductible temporary differences as a result of higher value adjustments of assets in the AFS portfolio.

**Section 15 – Other assets - Item 150****15.1 Breakdown of other assets**

	31.12.2016	31.12.2015
<b>Fiscal items</b>	<b>49,794</b>	<b>59,546</b>
Advances paid to fiscal authorities – current account withholdings	1,173	1,304
Advances paid to fiscal authorities – stamp duty	37,027	33,516
Advances of substitute tax on capital gains	10,116	22,064
Excess payment of substitute tax for tax shield	634	634
Other sums due from fiscal authorities	664	1,789
Sums due from other fiscal authorities for other taxes to be refunded	180	239
<b>Leasehold improvements</b>	<b>5,004</b>	<b>3,798</b>
<b>Operating loans not related to financial transactions</b>	<b>169</b>	<b>134</b>
<b>Sundry advances to suppliers and employees</b>	<b>4,483</b>	<b>4,375</b>
<b>Cheques under processing</b>	<b>13,768</b>	<b>18,414</b>
C/a cheques drawn on third parties under processing	272	1,040
Our c/a cheques under processing c/o service	9,410	11,307
Money orders and other amounts receivable	4,086	6,067
<b>Other amounts to be debited under processing</b>	<b>32,473</b>	<b>17,708</b>
Amounts to be settled in the clearing house (debits)	522	1,896
Clearing accounts for securities and funds procedure	29,494	15,224
Other amounts to be debited under processing	2,457	588
<b>Amounts receivable for legal disputes related to non-credit transactions</b>	<b>3,493</b>	<b>3,502</b>
<b>Trade receivables from customers and banks that cannot be traced back to specific items</b>	<b>30,621</b>	<b>29,333</b>
<b>Other amounts</b>	<b>92,580</b>	<b>71,784</b>
Prepayments for the new supplementary fees for FAs	88,638	68,835
Other accrued income and deferred charges that cannot be traced back to specific items	3,941	2,949
Sundry amounts	1	-
<b>Total</b>	<b>232,385</b>	<b>208,594</b>

Note

1. Receivables from fiscal authorities for withholdings on current accounts represent the positive imbalance between payments on account and the related payable to fiscal authorities.



## PART B - INFORMATION ON THE BALANCE SHEET - LIABILITIES

### Section 1 – Due to banks - Item 10

#### 1.1 Due to banks: categories

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>1. Due to Central Banks</b>	<b>400,000</b>	<b>-</b>
<b>2. Due to banks</b>	<b>402,702</b>	<b>333,941</b>
2.1 Current accounts and demand deposits	23,673	1,392
2.2 Term deposits	4,748	5,261
2.3 Loans	351,437	303,927
2.3.1 Repurchase agreements	351,437	303,927
2.3.2 Other	-	-
2.4 Liabilities for repurchase commitments of own equity instruments	-	-
2.5 Other debts	22,844	23,361
<b>Total</b>	<b>802,702</b>	<b>333,941</b>
Fair value - L1	-	-
Fair value - L2	802,702	333,941
Fair value - L3	-	-
<b>Total - Fair value</b>	<b>802,702</b>	<b>333,941</b>

#### Notes

- The item "Due to Central Banks" includes 400 million euros attributable to a long-term refinancing operation disbursed by the ECB under the new TLTRO 2 programme (Targeted Longer Term Refinancing Operations) launched in 2016. The financing, disbursed on 29 June 2016, has a term of four years, with maturity on 24 June 2020, may be repaid in advance at the end of the second year and bears interest at a rate equal to the rate for the main refinancing operations in effect at the time, currently 0%. However, that rate may be reduced to the level of interest rate envisaged for overnight deposits with the ECB (currently negative, at -0.40%) if at the end of January 2018 the loans disbursed by Banca Generali to households for credit purposes other than home purchases and non-financial companies residing in the Euro Area exceed a certain benchmark level (for Banca Generali, equal to the amount of such loans as at 31 January 2016, plus 5%).
- The item "Other debts" includes 22,576 thousand euros in deposits placed by BSI S.A. to secure certain non-performing exposures arising from the acquisition of Banca del Gottardo Italy (collateral deposits), whereas 268 thousand euros refer to collateral margins received from counterparties in connection with repurchase agreements.

### Section 2 – Due to customers - Item 20

#### 2.1 Due to customers categories

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>1. Current accounts and demand deposits</b>	<b>6,564,049</b>	<b>4,706,918</b>
<b>2. Term deposits</b>	<b>-</b>	<b>-</b>
<b>3. Loans</b>	<b>43,282</b>	<b>43,282</b>
3.1 Repurchase agreements	-	-
3.2 Other	43,282	43,282
<b>4. Liabilities for repurchase commitments of own equity instruments</b>	<b>-</b>	<b>-</b>
<b>5. Other debts</b>	<b>131,403</b>	<b>133,129</b>
<b>Total</b>	<b>6,738,734</b>	<b>4,883,329</b>
Fair value - L1	-	-
Fair value - L2	6,695,452	4,840,047
Fair value - L3	44,246	44,007
<b>Total - Fair value</b>	<b>6,739,698</b>	<b>4,884,054</b>

#### Notes

- The item 5 "Other debts" refers for 25,271 thousand euros to the stock of money orders issued by the parent company Banca Generali in relation to claims payment of insurance companies of the Generali Group, other amounts available to customers and, for the remaining amount, trade payables to the sales network.
- The item 3.2 "Other financing" amounted to 43,282 thousand euros, referring entirely to the subordinated loan illustrated in table 2.2.

## 2.2 Due to customers subordinated debts

TYPE OF TRANSACTIONS/VALUES	31.12.2016	31.12.2015
<b>Due to customers subordinated debts</b>	<b>43,282</b>	<b>43,282</b>
Generali Beteiligungs GmbH subordinated loan	43,282	43,282

The subordinated loan, amounting to 43 million euros, was entered into with the German company Generali Beteiligungs GmbH to fund the acquisition of the Credit Suisse (Italy) S.p.A. business unit. The loan, entered into on 30 October 2014, has a ten-year term and is repayable on maturity in one instalment. Provision is also made for an early repayment option, as from the sixth year, subject to the supervisory authority's prior approval. The interest rate for the first 5 years is fixed and equal to 3.481% per annum, corresponding to the 5-year mid swap rate identified at the contract execution date, plus a spread of 300 bps; from the start of the sixth year the rate will be reparameterised to the 3-month Euribor, plus the same spread identified when the original fixed rate was determined. The loan is subordinated in the event of a default by the Bank.

## Section 4 – Financial liabilities held for trading - Item 40

### 4.1 HFT financial liabilities: categories

TYPE OF TRANSACTIONS/VALUES	NOMINAL VALUE	31.12.2016 - FAIR VALUE				FV (*)	NOMINAL VALUE	31.12.2015 - FAIR VALUE				FV (*)
		L1	L2	L3				L1	L2	L3		
<b>A. Cash liabilities</b>												
1. Due to banks	-	-	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-	-	-
3.1.1 structured	-	-	-	-	X	-	-	-	-	-	X	-
3.1.2 other bonds	-	-	-	-	X	-	-	-	-	-	X	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-	-	-
3.2.1 structured	-	-	-	-	X	-	-	-	-	-	X	-
3.2.2 other	-	-	-	-	X	-	-	-	-	-	X	-
<b>Total A</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>												
1. Financial	-	409	760	-	-	-	-	463	-	-	-	-
1.1 Trading	X	409	760	-	X	X	-	463	-	-	X	-
1.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	-	X	-
1.3 Other	X	-	-	-	X	X	-	-	-	-	X	-
2. Credit	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Trading	X	-	-	-	X	X	-	-	-	-	X	-
2.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	-	X	-
2.3 Other	X	-	-	-	X	X	-	-	-	-	X	-
<b>Total B</b>	<b>X</b>	<b>409</b>	<b>760</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>-</b>	<b>463</b>	<b>-</b>	<b>-</b>	<b>X</b>	<b>-</b>
<b>Total (A + B)</b>	<b>X</b>	<b>409</b>	<b>760</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>-</b>	<b>463</b>	<b>-</b>	<b>-</b>	<b>X</b>	<b>-</b>

(\*) FV \* fair value measured without taking account of issuer's credit merit changes compared to issue date.

HFT financial liabilities consist for 760 thousand euros of trading transactions relating to currency outright with customers as counterparty. This item has its balancing entry in assets classified under Item 20.

The remaining 409 thousand euros relates to options on the FTSE MIB index.

## Section 8 - Tax liabilities - Item 80

### Breakdown of tax liabilities - Item 80

Section 13 (Assets) provides an analysis.

## Section 10 - Other liabilities - Item 100

### 10.1 Breakdown of other liabilities

	31.12.2016	31.12.2015
<b>Trade payables</b>	<b>27,272</b>	<b>31,216</b>
Due to suppliers	26,680	29,922
Due for payments on behalf of third parties	592	1,294
<b>Due to staff and social security institutions</b>	<b>15,852</b>	<b>15,663</b>
Due to staff for accrued holidays etc.	2,916	3,741
Due to staff for productivity bonuses	7,173	5,867
Contributions to be paid to social security institutions	2,080	2,535
Contributions to Financial Advisors to be paid to Enasarco	3,683	3,520
<b>Tax authorities</b>	<b>28,071</b>	<b>14,863</b>
Withholding taxes to be paid to tax authorities on behalf of employees and contract workers	4,693	4,592
Withholding taxes on investment return payable to tax authorities	14,180	903
Notes to be paid into collection services	8,791	8,549
VAT and other tax payables	407	819
<b>Amounts to be debited under processing</b>	<b>38,192</b>	<b>88,405</b>
Bank transfers, cheques and other sums payable	6,106	4,270
Amounts to be settled in the clearing house (credits)	16,713	25,608
Liabilities from reclassification of portfolio subject to collection (SBF)	784	1,074
Other amounts to be debited under processing	14,589	57,453
<b>Sundry items</b>	<b>6,974</b>	<b>3,542</b>
Amounts to be credited	390	330
Amounts due to the National Resolution Fund	3,979	-
Sundry items	737	975
Accrued expenses and deferred income	600	1,020
Sums made available to customers	865	744
Payables for non-performing signature loans	403	473
<b>Total</b>	<b>116,361</b>	<b>153,689</b>

#### Note

1. Based on the instructions included in Circular Letter No. 262/05, write-downs of signature loans are commonly recognised among other liabilities. At 31 December 2016, this item referred only to the collective reserve for performing signature loans.

## Section 11 - Provisions for termination indemnity - Item 110

### 11.1 Breakdown of provisions for termination indemnity

(€ THOUSAND)	31.12.2016	31.12.2015
Subordinated termination indemnity	4,645	4,448
<b>Total</b>	<b>4,645</b>	<b>4,448</b>

### 11.2 Provisions for termination indemnity: year changes

	31.12.2016	31.12.2015
<b>A. Amount at year-start</b>	<b>4,448</b>	<b>4,829</b>
Change in the opening balance	-	-
<b>B. Increases</b>	<b>357</b>	<b>64</b>
B.1 Provisions for the year	109	64
B.2 Other increases	248	-
<i>of which: business combinations</i>	-	-
<b>C. Decreases</b>	<b>160</b>	<b>445</b>
C.1 Amounts paid	157	353
C.2 Other decreases	3	92
<i>of which: business combinations</i>	-	-
<b>D. Amount at year-end</b>	<b>4,645</b>	<b>4,448</b>

### 11.3 Other information

The amount of termination indemnity can be considered as a non-financial defined benefit plan after the termination of the employment, in accordance with IAS 19.

The provision was measured based on the actuarial value using the methods described in Part. A.2 of these Notes and Comments.

The following are the main actuarial assumptions and the breakdown of the provision for the year and actuarial gains/(losses):

	31.12.2016	31.12.2015
Discount rate	1.21%	1.80%
Annual inflation rate	1.50%	1.50%
Salary increase rate	1.50%	1.50%
Average duration (years)	10	11
	31.12.2016	31.12.2015
<b>1. Provisions:</b>	<b>109</b>	<b>64</b>
- current service cost	22	-
- interest cost	87	64
<b>2. Actuarial gains and losses:</b>	<b>249</b>	<b>-92</b>
- based on financial assumptions	190	-108
- based on actuarial demographic assumptions	59	16
<b>Total provisions for the year</b>	<b>358</b>	<b>-28</b>
<b>Actuarial value</b>	<b>4,645</b>	<b>4,448</b>
<b>Value calculated re. Article 2120 of the Italian Civil Code</b>	<b>4,419</b>	<b>4,438</b>

## Section 12 – Provisions for liabilities and contingencies - Item 120

### 12.1 Breakdown of provisions for liabilities and contingencies

ITEMS/VALUES	31.12.2016	31.12.2015
<b>1. Company provisions for pensions</b>	<b>-</b>	<b>-</b>
<b>2. Other provisions for liabilities and contingencies</b>	<b>116,710</b>	<b>113,942</b>
2.1 Litigation	15,072	15,704
2.2 Staff	20,735	20,502
2.3 Other	80,903	77,736
<b>Total</b>	<b>116,710</b>	<b>113,942</b>

## Breakdown of other provisions for liabilities and contingencies

	31.12.2016	31.12.2015
<b>Provision for staff expenses</b>	<b>20,735</b>	<b>20,502</b>
Provision for restructuring plan	8,500	10,170
Provision for staff expenses - other	12,235	10,332
<b>Provisions for legal disputes</b>	<b>15,072</b>	<b>15,704</b>
Provision for risks connected with sales network's embezzlements	10,656	11,338
Provision for risks related to legal disputes with sales network	734	1,811
Provision for risks related to legal disputes with staff	50	779
Provision for other legal disputes	3,632	1,776
<b>Provisions for termination indemnity for Financial Advisors</b>	<b>49,165</b>	<b>41,424</b>
Provision for termination indemnity	38,511	31,996
Provision for portfolio overfee indemnities	3,263	2,403
Provision for pension bonuses	7,391	7,025
<b>Provisions for risks related to network incentives</b>	<b>31,466</b>	<b>33,457</b>
Provision for network development plans	16,872	15,909
Provision for deferred bonus	1,282	1,247
Provisions for managers with access gate	4,512	3,849
Provision for sales incentives	5,773	5,592
Provision for fees – travel incentives	2,580	2,631
Provision for fee plans	336	336
Provision for loyalty plans	111	3,893
<b>Other provisions for liabilities and contingencies</b>	<b>272</b>	<b>2,855</b>
<b>Total</b>	<b>116,710</b>	<b>113,942</b>

## 12.2 Provisions for liabilities and contingencies: year changes

	PROVISIONS FOR PENSIONS	OTHER PROVISIONS	TOTAL
<b>A. Amount at year-start</b>	-	<b>113,942</b>	<b>113,942</b>
<b>B. Increases</b>	-	<b>44,952</b>	<b>44,952</b>
B.1 Provisions for the year	-	44,952	44,952
B.2 Other increases	-	-	-
<i>of which: business combinations</i>	-	-	-
<b>C. Decreases</b>	-	<b>42,184</b>	<b>42,184</b>
C.1 Use in the year	-	35,466	35,466
C.2 Other decreases	-	6,718	6,718
<i>of which: business combinations</i>	-	-	-
<b>D. Amount at year-end</b>	-	<b>116,710</b>	<b>116,710</b>

## Provisions for liabilities and contingencies - details of movements

	31.12.2015	USES	SURPLUS	OTHER CHANGES	PROVISIONS	31.12.2016
<b>Provision for staff expenses</b>	<b>20,502</b>	<b>-4,639</b>	<b>-2,062</b>	<b>-26</b>	<b>6,960</b>	<b>20,735</b>
Provision for restructuring plan	10,170	-255	-1,389	-26	-	8,500
Provision for staff expenses - other	10,332	-4,384	-673	-	6,960	12,235
<b>Provisions for legal disputes</b>	<b>15,704</b>	<b>-2,149</b>	<b>-1,896</b>	<b>-</b>	<b>3,413</b>	<b>15,072</b>
Provision for risks connected with sales network's embezzlements	11,338	-1,541	-183	-	1,042	10,656
Provision for risks related to legal disputes with sales network	1,811	-312	-942	-	177	734
Provision for risks related to legal disputes with staff	779	-123	-656	-	50	50
Provision for other legal disputes	1,776	-173	-115	-	2,144	3,632
<b>Provisions for termination indemnity for Financial Advisors</b>	<b>41,424</b>	<b>-937</b>	<b>-906</b>	<b>-</b>	<b>9,584</b>	<b>49,165</b>
Provision for termination indemnity of sales network	31,996	-773	-742	-	8,030	38,511
Provision for portfolio overfee indemnities	2,403	-144	-78	-	1,082	3,263
Provision for pension bonuses	7,025	-20	-86	-	472	7,391
<b>Provisions for risks related to network incentives</b>	<b>33,457</b>	<b>-25,649</b>	<b>-1,255</b>	<b>-</b>	<b>24,913</b>	<b>31,466</b>
Provision for network development plans	15,909	-13,674	-1,120	-	15,757	16,872
Provision for deferred bonus	1,247	-234	-	-	269	1,282
Provisions for managers with access gate	3,849	-1,589	-	132	2,120	4,512
Provision for sales incentives	5,592	-3,536	-	-132	3,849	5,773
Provision for incentive travels	2,631	-2,496	-135	-	2,580	2,580
Provision for fee plans	336	-336	-	-	336	336
Provision for loyalty plans	3,893	-3,784	-	-	2	111
<b>Other provisions for liabilities and contingencies</b>	<b>2,855</b>	<b>-2,092</b>	<b>-573</b>	<b>-</b>	<b>82</b>	<b>272</b>
<b>Total</b>	<b>113,942</b>	<b>-35,466</b>	<b>-6,692</b>	<b>-26</b>	<b>44,952</b>	<b>116,710</b>

## 12.4 Provisions for liabilities and contingencies - other provisions

## 12.4.1 Provisions for staff expenses

Provisions for staff expenses include the following amounts:

- > the share of the variable compensation of managers of the Banking Group deferred up to two years and conditional upon continuing satisfaction of the predetermined quantitative levels of asset solidity and liquidity (access gates) established in compliance with the Banking Group's Remuneration policy;
- > allocations to the provision for Relationship Managers (RM) recruitment plans, valued also based on the specific contractual conditions agreed upon and on the probability to achieve the net inflow targets set;
- > allocations for post-employment medical benefits of Group's executives, valued using the actuarial method pursuant to IAS 19;
- > the provision related to the performance bonus, if at the balance sheet date the company supplementary contract (CIA) has expired or has not been renewed yet.

The above-mentioned provisions have as their balancing entries staff expenses.

Provisions for staff expenses also include, to a lesser extent, provisions outside the scope of IAS 19 but for which IAS 37 applies and that have therefore as their balancing entries net provisions for liabilities and contingencies.

## 12.4.2 Restructuring provisions - Redundancy incentives plan

The voluntary redundancy plan covered by the specific company restructuring provision was launched at the end of 2015 to encourage the rotation of resources through incentives for voluntary departure for groups of employees nearest to retirement age and the filling of the resulting vacant positions with professional and/or managerial profiles more suited to the specific skills now required from a business standpoint.

However, in 2016 the implementation of the plan was slowed considerably by various factors, including the consequences of the new strategic reorganisation launched in 2016 following the untimely passing of CEO Piermario Motta, the uncertainties surrounding the development of retirement legislation (with particular regard to possible eligibility for early retirement) and, most recently, the particularly long time required for the employees interested in participating to prepare the necessary documentation.

In view of continuing company and business needs and the reliance on the system by employees, the plan, which was originally limited to 2016, has been extended to all of 2017 and the potential beneficiaries have been modified accordingly.

#### 12.4.3 Provisions for legal disputes

This type of provisions for risks includes provisions for pending litigations connected with sales network's embezzlements after insurance coverage, as well as those with disputes currently underway with the sales network and employees and other legal and extra-legal disputes with customers and other entities.

#### 12.4.4 Provisions for contractual indemnities for the sales network

These include provisions for termination indemnities of the sales network, the portfolio development indemnity and the social-security bonus.

Provisions covering the cost of the termination indemnity of Financial Advisors with an agency agreement is valued as provided for by the law (Article 1751 of the Italian Civil Code) and the specific disbursement criteria defined by Banca Generali. Further details on the latter are provided in Part A.2 of the Notes and Comments.

The expense associated with obligations extant at year-end relating to Financial Advisors is valued using the statistical-actuarial method, with the advice of independent professionals.

The following are the main actuarial assumptions:

TERMINATION INDEMNITY	31.12.2016	31.12.2015
Discount rate (Eur IRS + 200 bps)	3.0%	3.0%
Turnover rate (professionals)	1.12%	1.59%
Average duration (years)	14 years	15 years
DBO IAS 37/Indemnity provision at the measurement date	53.02%	48.7%

The ratio of Deferred benefit obligations (DBO) to nominal value of the accrued obligation towards Financial Advisors is given using the value of the provision after one-off deductions related to seniority.

The increase in the provision for termination indemnities accrued by Financial Advisors during the year was mainly due to basic fees as a result of the increase in the number of active Financial Advisors and the ongoing development of business, and the adjustment of demographic parameters, both statistical and statutory.

Moreover, a sensitivity analysis highlights the changes that would be caused by a +/-0.50% variation in discounting rates:

(€ THOUSAND)	BASE (3.0%)	SENSITIVITY (3.5%)	SENSITIVITY (2.5%)
Termination indemnity	38,256	36,279	40,399
Change		-1,977	+2,143

A specific measurement is made for Financial Advisors who have left service.

The DBO already accrued by Financial Advisors formerly employed by Credit Suisse, totalling 3.0 million euros, is still based on the payment criteria established by the previous employer and was recognised as a debt payable to the acquired sales network. Their DBO accrued with Banca Generali will be due only for the amount exceeding that accrued with Credit Suisse, if any.

The **portfolio development indemnity** is instead a scheme (further details are provided in Part A.2 of the Notes and Comments) that calls for Financial Advisors with at least five years of service who leave service permanently to be entitled to an indemnity commensurate to the profitability of the portfolio previously managed, in case of reallocation of the latter.

The indemnity due to the outgoing FA is entirely borne by the incoming FA identified by the Company, except for a residual guarantee by the Bank – equal to 25% of the total indemnity – in the event of termination for death or permanent disability.

Even in this case, the charge is determined based on the statistical actuarial method, with the support of independent experts and with reference to the percentage of the Bank's residual risk, i.e., 25% of the indemnity due in case of death or permanent disability.

Finally, the **"pension bonus"** is a component of the sales network's indemnity plans, which entails the yearly provision of an amount based on the achievement of pre-set sales objectives and to be paid only upon final termination for retirement or permanent disability. The actuarial method is used also for this type of evaluation.

#### 12.4.5 Provisions for sales network incentives

This aggregate includes:

- > the estimate of the charges accrued in relation with several recruitment plans for middle-term expansion of managed portfolios. These plans envisage different kinds of incentives (entry bonus, deferred bonus, volume bonus, etc.) related to the achievement of net inflow target and the presence in the company for one or more years (up to 5 or 7 years);
- > the share of network managers' annual incentives deferred up to two years and conditional upon continuing satisfaction of the predetermined quantitative levels of asset solidity and liquidity (access gates) established in compliance with the Banking Group's remuneration policy;
- > the share of annual incentives (particular transactions), contingent upon the maintenance over time of the inflow targets achieved;
- > provisions for incentive plans based on the network's performance for the period, including the BG Premier Club trip and other special fee plans (supplementary allowances, stabilisers, target-achievement bonuses, etc.) that involve the payment of benefits or increases in advances paid when certain conditions are met, such as continuous service on the network or the achievement of sales targets.

In 2014, provisions were also made, for 8.0 million euros, for the Loyalty Plans agreed upon with Financial Advisors of the former Credit Suisse business unit, intended to facilitate their inclusion in Banca Generali's sales structure and for loyalty-building purposes. This provision entailed the payment of incentives in two annual tranches at the end of 2015 and 2016, provided the FAs were still part of Banca Generali's network. The second tranche amounting to 3.8 million euros was paid in December 2016. The remainder, amounting to 0.1 million euros and referring to a Financial Advisor, will be paid in the two-year period 2017-2018.

#### 12.4.6 Other provisions for liabilities and contingencies

Provisions for liabilities and contingencies include provisions made to cover operating risks and tax dispute, as described in detail here below.

##### **Tax disputes**

On 30 November 2016, the disputes arising from the following tax audits were resolved through settlement procedure:

- > the audit conducted by the Italian Revenue Service – Friuli Venezia-Giulia Regional Department in 2013 concerning tax period 2010 (2013 Auditors' Report on Findings – PVC);
- > the audit conducted by the Italian Finance Police in the period August 2015–June 2016, concerning financial transactions involving equities undertaken in the years 2010 and 2011 (2016 Auditors' Report on Findings – PVC).

In both cases, the outcome was positive for the Bank, which successfully defended its behaviour and was able to significantly reduce the amounts claimed by the revenue authority.

Overall, the settlement of the two Auditors' Reports on Findings – PVC (2013 and 2016) entailed a total cash outlay of 2.1 million euros for additional taxes, penalties and interest.

In 2013, the Bank had specifically increased its provision for tax disputes by 2.7 million euros to account for the tax risk associated with the 2013 Auditors' Report on Findings, and this amount was more than enough to cover the financial impact of both disputes.

At 31 December 2016, Banca Generali was involved in a single tax dispute concerning the registry tax paid in respect of the acquisition of the Credit Suisse business unit at the end of October 2014. This dispute was concluded in January 2017 through the settlement procedure for a total outlay of approximately 27 thousand euros.



## Section 14 – Company net equity - Items 130, 150, 160, 170, 180, 190 and 200

### 14.1 Breakdown of capital and treasury shares

	UNIT VALUE	NUMBER	NOMINAL VALUE (€)	BOOK VALUE (€ THOUSAND)
<b>Share capital</b>				
- ordinary shares	1.00	116,424,502	116,424,502	116,425
<b>Treasury shares</b>				
- ordinary shares	1.00	-126,129	-126,129	-2,933
<b>Total</b>		<b>116,298,373</b>	<b>116,298,373</b>	<b>113,492</b>

### 14.2 Capital – Number of shares: year changes

ITEMS/TYPE	ORDINARY	OTHER
<b>A. Existing shares at year-start</b>	<b>116,092,599</b>	-
- paid up	116,092,599	-
- partially paid	-	-
A.1 Treasury shares (-)	-97,177	-
A.2 Outstanding shares: at year-start	115,995,422	-
<b>B. Increases</b>	<b>370,002</b>	-
B.1 Newly issued shares		
- against payment:	331,903	-
- business combinations	-	-
- bond conversion	-	-
- exercise of warrant	331,903	-
- other	-	-
- for free:	-	-
- to staff	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	38,099	-
B.3 Other changes	-	-
<b>C. Decreases</b>	<b>-67,051</b>	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-67,051	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
<b>D. Outstanding shares: at year-end</b>	<b>116,298,373</b>	-
D.1 Treasury shares (+)	126,129	-
D.2 Existing shares at year-end	116,424,502	-
- paid up	116,424,502	-
- partially paid	-	-

### 14.3 Capital: further information

At the reporting date, the share capital of the bank consisted of 116,424,502 ordinary shares of 1 euro each, with regular dividend entitlement, and it was fully paid up.

In 2016, as a result of the exercise of options within the stock option plan reserved for Financial Advisors, 331,903 newly issued shares were issued, for a total of 332 thousand euros.

### 14.4 Income reserves: further information

	31.12.2015	PROFIT ALLOCATION - DIVIDEND DISTRIBUTION	PURCHASES/ DISPOSAL OF OWN SHARES	ISSUE OF NEW SHARES	STOCK OPTION PLANS AND OTHER IFRS2 - RELATED CHARGES	STOCK GRANT PLANS	OTHER CHANGES	31.12.2016
Legal reserve	23,151	75	-	-	-	-	-	23,226
Restricted reserve for treasury shares	2,555	-	-2,555	-	-	-	-	-
Restricted reserve for shares of the Parent Company	1,052	-	-	-	-	-	-344	708
Merger surplus reserve – BG SGR	3,853	-	-	-	-	-	-	3,853
Share-based payments reserve (IFRS2)	2,286	-	-	-360	29	-	-1,612	343
Share-based payments reserve (IFRS2) – plans ended	507	-	-	-	-	-	-	507
IFRS2 reserves – LTIP cycles underway	4,407	-	-	-	-	2,623	-2,437	4,593
IFRS2 reserves – LTIP cycles ended	-	-	-	-	-	-	2,437	2,437
IFRS2 reserve – Key personnel remuneration	-	-	-1,214	-	1,707	-	1,612	2,105
Reserve from income (loss) carried forward	111,668	44,980	2,555	-	-	-	344	159,547
Equity reserve from the transfer of the funds business unit	3,710	-	-	-	-	-	-	3,710
<b>Total</b>	<b>153,189</b>	<b>45,055</b>	<b>-1,214</b>	<b>-360</b>	<b>1,736</b>	<b>2,623</b>	<b>-</b>	<b>201,029</b>

## 14.4.1 Disclosure pursuant to Article 2427, paragraph 7-bis, of the Italian Civil Code

As required by Article 2427, paragraph 7-bis, of the Italian Civil Code, the following table contains an analytical illustration of net equity items, including an indication of their origins, possible draw-downs and distribution, as well as draw-downs made during previous years.

	31.12.2016	POSSIBLE DRAW-DOWNS <sup>(1)</sup>	RESTRICTED PORTION	UNRESTRICTED PORTION	DISTRIBUTABLE PORTION	DRAW-DOWNS 2016-2014	
						DIVIDENDS	LOSSES
<b>Share capital</b>	<b>116,425</b>		<b>116,425</b>	-	-	-	-
<b>Treasury shares</b>	<b>-2,932</b>		<b>-2,932</b>	-	-	-	-
<b>Additional paid-in capital</b>	<b>53,803</b>	<b>A, B, C <sup>(3)</sup></b>	-	<b>53,803</b>	-	-	-
<b>Reserves</b>	<b>201,029</b>		<b>708</b>	<b>200,321</b>	<b>170,054</b>	-	-
Legal Reserve	23,226	B <sup>(4)</sup>	-	23,226	-	-	-
Restricted reserve for treasury shares <sup>(7)</sup>	-	B	-	-	-	-	-
Restricted reserve for shares of the Parent Company	708	B	708	-	-	-	-
Merger surplus reserve – BG SGR	3,853	A, B, C	-	3,853	3,853	-	-
Share-based payments reserve (IFRS2)	343	A <sup>(5)</sup>	-	343	-	-	-
Share-based payments reserve (IFRS2) – plans ended	507	A, B, C	-	507	507	-	-
IFRS2 reserves – LTIP cycles underway <sup>(6)</sup>	4,593	A <sup>(5)</sup>	-	4,593	-	-	-
IFRS2 reserves – LTIP cycles ended <sup>(6)</sup>	2,437	A, B, C	-	2,437	2,437	-	-
IFRS2 reserve – Key personnel remuneration	2,105	A <sup>(5)</sup>	-	2,105	-	-	-
Reserve from income (loss) carried forward	159,547	A, B, C	-	159,547	159,547	-	-
Equity reserve from the transfer of the funds business unit	3,710	A, B, C	-	3,710	3,710	-	-
<b>Valuation reserves <sup>(2)</sup></b>	<b>9,158</b>		<b>9,158</b>	-	-	-	-
Reserve from valuation of actuarial gains and losses	-1,602		-1,602	-	-	-	-
Reserve from valuation of available for sale securities	10,760		10,760	-	-	-	-
<b>Net profit (loss) for the year</b>	<b>144,751</b>	<b>A, B, C</b>	-	<b>144,751</b>	<b>144,648</b>	<b>X</b>	<b>X</b>
<b>Net equity for accounting purposes</b>	<b>525,166</b>		<b>126,291</b>	<b>398,875</b>	<b>314,702</b>	-	-

(1) Availability refers to possible draw-downs for:

- A capital increase;
- B replenishment of losses;
- C distribution to shareholders.

(2) Restricted reserve pursuant to Article 6 of Legislative Decree No. 38/2005.

(3) May not be distributed until the legal reserve has reached 1/5th of share capital (Article 2431 of Italian Civil Code).

(4) Draw-downs for capital increases and distributions may be effected exclusively for portion exceeding 1/5th of share capital (Article 2430 of the Italian Civil Code).

(5) The reserve can only be used for stock option plans.

(6) This reserve shows the increase in capital ensuing from share-based payments to employees and Directors through assignment of shares of the parent company Assicurazioni Generali S.p.A.

(7) This reserve was repealed by Italian Legislative Decree No. 139/2015, amending Article 2357-ter of the Italian Civil Code.

## PART B – INFORMATION ON THE BALANCE SHEET

## Other Information

## 1. Guarantees issued and commitments

TRANSACTION	31.12.2016	31.12.2015
<b>1) Financial guarantees issued</b>	<b>79,992</b>	<b>84,460</b>
a) Banks	-	-
b) Customers	79,992	84,460
<b>2) Commercial guarantees issued</b>	<b>38,695</b>	<b>33,241</b>
a) Banks	-	-
b) Customers	38,695	33,241
<b>3) Irrevocable commitment to dispense funds</b>	<b>4,126</b>	<b>1,024</b>
a) Banks	3,744	70
i) of certain use	3,744	70
ii) of uncertain use	-	-
b) Customers	382	954
i) of certain use	-	-
ii) of uncertain use	382	954
<b>4) Underlying commitments to credit derivatives: hedging sales</b>	<b>-</b>	<b>-</b>
<b>5) Assets pledged as collateral of third-party bonds</b>	<b>-</b>	<b>3,383</b>
<b>6) Other commitments</b>	<b>2,181</b>	<b>-</b>
<i>of which: commitment to buy-back treasury shares</i>	-	-
<b>Total</b>	<b>124,994</b>	<b>122,108</b>

## Notes

- Other commitments amounted to 2,181 thousand euros and refer to the irrevocable commitment to dispense funds granted by the Bank in favour of the Interbank Deposit Protection Fund (FITD)'s Voluntary Scheme aimed at supporting the Italian banking system, in which the Bank participates. At 31 December 2016, the Scheme's total assets amounted to 418 million euros. Following the intervention in favour of Banca Tercas, on 17 June 2016, the Extraordinary Meeting of the members of the Voluntary Scheme replenished the Voluntary Scheme's financial resources of 700 million euros; 280 million euros of these funds were then used by Cassa di Risparmio di Cesena for a capital increase, approved by the Voluntary Scheme's Management Board on 15 June 2016 and authorised by the ECB on 15 September 2016.
- Commitments to grant certain-use funds to banks and customers only refer to financial commitments for securities receivable.
- Uncertain-use commitments to customers refer to margins available on irrevocable credit lines granted to customers.
- Assets pledged as collateral of third-party bonds consist of the default fund contributed to cover possible losses of defaulted operators within the NewMIC and transactions concerning customers' securities and derivatives.

## 2. Assets pledged as collateral for own liabilities and commitments

PORTFOLIO	31.12.2016				31.12.2015			
	REPURCHASE AGREEMENTS	ECB	CC&G	TOTAL	REPURCHASE AGREEMENTS	ECB	CC&G	TOTAL
1. HFT financial assets	-	-	-	-	-	-	-	-
2. Financial assets at fair value	-	-	-	-	-	-	-	-
3. AFS financial assets	349,829	636,068	25,223	1,011,120	303,812	364,099	45,611	713,522
4. HTM financial assets	-	219,319	174,453	393,772	-	226,285	171,979	398,264
5. Loans to banks	-	4,997	-	4,997	-	4,989	-	4,989
6. Loans to customers	-	-	-	-	-	-	-	-
7. Property and equipment	-	-	-	-	-	-	-	-
8. Intangible assets	-	-	-	-	-	-	-	-
<b>Total</b>	<b>349,829</b>	<b>860,384</b>	<b>199,676</b>	<b>1,409,889</b>	<b>303,812</b>	<b>595,373</b>	<b>217,590</b>	<b>1,116,775</b>

### Note

- Financial assets pledged as collateral for own liabilities and commitments refer mainly to repurchase agreement transactions with a commitment to repurchase with banks and collateral for refinancing transactions with ECB. This amount also includes financial instruments pledged with Cassa di Compensazione e Garanzia for possible transactions on the NewMIC for ordinary operations.

## 4. Trading of financial instruments on behalf of third parties

TYPE OF SERVICE	31.12.2016	31.12.2015
<b>1. Execution of orders on behalf of customers</b>	<b>21,644,771</b>	<b>23,949,025</b>
a) Purchases	10,567,096	11,475,947
1. Settled	10,525,716	11,456,622
2. To be settled	41,380	19,325
b) Sales	11,077,675	12,473,078
1. Settled	10,985,969	12,466,344
2. To be settled	91,706	6,734
<b>2. Asset management</b>	<b>3,449,147</b>	<b>2,779,613</b>
a) Individual	3,449,147	2,779,613
b) Collective	-	-
<b>3. Custody and administration of securities (excluding asset management)</b>		
a) Third-party securities held in deposit related to services provided as depository bank:	-	-
1. issued by the bank that prepares the financial statements	-	-
2. other securities	-	-
b) Other third-party securities held in deposit - other:	6,188,124	6,503,741
1. issued by the bank that prepares the financial statements	14,446	14,975
2. other securities	6,173,678	6,488,766
c) Third-party securities deposited with third parties	6,141,713	6,457,344
d) Portfolio securities deposited with third parties	5,300,697	3,483,747
<b>4. Other transactions</b>		
UCITS units placed with the customers	9,928,548	9,338,194

### Note

- Securities under custody and administration are recognised at nominal value.

## 5. Financial assets offset in the financial statements or falling within the scope of master netting arrangements or similar agreements

No transactions involving derivatives, repurchase agreements, security lending or other offsetting entries in the balance sheet or transactions that could fall within the scope of master netting agreements were reported.

## 6. Financial liabilities offset in the financial statements or falling within the scope of master netting arrangements or similar agreements

FORME TECNICHE	GROSS AMOUNT OF FINANCIAL LIABILITIES (A)	AMOUNT OF FINANCIAL LIABILITIES OFFSET IN THE FINANCIAL (B)	NET AMOUNT OF FINANCIAL LIABILITIES RECOGNIZED IN THE FINANCIAL STATEMENTS (C = A - B)	CORRELATED AMOUNT NOT OFFSET IN THE FINANCIAL STATEMENTS		NET AMOUNT AT 31.12.2016 (F = C - D - E)	NET AMOUNT AT 31.12.2015
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS AS COLLATERAL (E)		
1. Derivatives	-	-	-	-	-	-	-
2. Repurchase agreements	351,437	-	351,437	351,169	268	-	-
3. Securities loans	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	<b>351,437</b>	<b>-</b>	<b>351,437</b>	<b>351,169</b>	<b>268</b>	<b>-</b>	<b>X</b>
<b>Total at 31.12.2015</b>	<b>303,927</b>	<b>-</b>	<b>303,927</b>	<b>303,927</b>	<b>-</b>	<b>X</b>	<b>-</b>

IFRS 7 requires a detailed disclosure on offsetting of financial instruments pursuant to IAS 32 or financial instruments that can be potentially set off, under certain conditions, but have been recognised in the balance sheet without any offsetting as they fall within the scope of master netting agreements or similar agreements that do not meet all the requirements under IAS 32 paragraph 42.

In this regard, it should be noted that Banca Generali has not entered into any netting arrangements that meet the requirements of IAS 32.42 on offsetting in the financial statements.

With reference to financial instruments that can be potentially set off under certain conditions, it should be noted that Banca Generali usually in repurchase agreements (REPO) with banks has in place master netting arrangements that enable offsetting of credits and debts in case of default of the counterparty and compliant with international standards (Global Master Repurchase Agreement - GMRA). Such transactions are also covered by GMRA-compliant financial guarantee agreements, envisaging the bilateral exchange of collaterals in cash and/or government bonds.

These agreements, in the case of repurchase agreements, mitigate the liquidity risk by offsetting the debt to the counterparty up to the fair value of the collateral.

In the table, repurchase agreements are valued at amortised cost, whereas financial instruments used as collateral are valued at fair value up to the amount of the guaranteed liability.

## PART C - INFORMATION ON THE PROFIT AND LOSS ACCOUNT

### Section 1 – Interests - Items 10 and 20

#### 1.1 Breakdown of interest income and similar revenues

ITEMS/TECHNICAL TYPES	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	2016	2015
1. HFT financial assets	79	-	-	79	249
2. AFS financial assets	19,267	-	-	19,267	23,032
3. HTM financial assets	15,461	-	-	15,461	19,800
4. Loans to banks	2,346	90	-	2,436	2,337
5. Loans to customers	1,418	20,676	-	22,094	24,274
6. Financial assets at fair value	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	2,443	2,443	44
<b>Total</b>	<b>38,571</b>	<b>20,766</b>	<b>2,443</b>	<b>61,780</b>	<b>69,736</b>

By convention, interest on “Other assets” includes the negative interest expense accrued on funding transactions and primarily refers to repurchase agreements for funding purposes. With effect from June 2016, negative interest is also applied to the captive deposits held by Generali Group companies.

#### 1.3 Interest income and similar revenues: further information

	2016	2015
Interest income on bank deposits and current accounts	68	43
Repurchase agreements with banks	1,448	-
Interest income on customer deposit and current accounts	927	1
<b>Total interest income on other liabilities</b>	<b>2,443</b>	<b>44</b>

	2016	2015
1.3.1 Interest income on financial assets in foreign currencies	168	184
1.3.2 Interest income on finance lease transactions	-	-
<b>Total</b>	<b>168</b>	<b>184</b>

#### 1.4 Breakdown of interest expense and similar charges

ITEMS/TECHNICAL TYPES	DEBTS	SECURITIES	OTHER TRANSACTIONS	2016	2015
1. Due to Central Banks	-	-	-	-	73
2. Due to banks	599	-	-	599	751
3. Due to customers	2,194	-	-	2,194	2,686
4. Securities issued	-	-	-	-	-
5. HFT financial liabilities	-	-	-	-	-
6. Financial liabilities measured at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	321	321	4
8. Hedging derivatives	-	-	-	-	-
<b>Total</b>	<b>2,793</b>	<b>-</b>	<b>321</b>	<b>3,114</b>	<b>3,514</b>

By convention, interest on “Other liabilities” includes the negative interest income accrued on lending transactions and primarily refers to demand deposits with the Central Bank.

## 1.6 Interest expense and similar charges further information

	2016	2015
Interest expense on deposits with the ECB	242	24
Interest expense on deposits with banks	66	4
Interest expense on customer deposits	14	-
<b>Total interest expense on other assets</b>	<b>322</b>	<b>28</b>

	2016	2015
1.6.1 Interest expense on financial liabilities in foreign currencies	28	40
1.6.2 Interest expense on finance lease liabilities	-	-
<b>Total</b>	<b>28</b>	<b>40</b>

## Section 2 – Fees - Items 40 and 50

### Breakdown of fee income

TYPE OF SERVICE/VALUES	2016	2015
a) Guarantees issued	675	674
b) Credit derivatives	-	-
c) Management, brokerage and consultancy services:	404,403	391,231
1. Trading of financial instruments	12,360	14,300
2. Currency trading	-	-
3. Portfolio management	30,260	28,776
3.1 Individual	30,260	28,776
3.2 Collective	-	-
4. Custody and administration of securities	444	487
5. Depository bank	-	-
6. Placement of securities	165,145	176,876
7. Order receiving and collection	2,898	5,468
8. Consultancy activities	4,519	4,658
8.1 Investment advice	4,519	4,658
8.2 Advice on financial structure	-	-
9. Distribution of third-party services	188,777	160,666
9.1 Portfolio management	3,286	3,169
9.1.1 Individual	2,755	2,672
9.1.2 Collective	531	497
9.2 Insurance products	185,078	157,171
9.3 Other products	413	326
d) Collection and payment services	2,982	3,370
e) Servicing related to securitisations	-	-
f) Factoring-related services	-	-
g) Tax collection services	-	-
h) Management of multilateral trading facilities	-	-
i) Keeping and management of current accounts	2,392	2,577
j) Other services	2,187	1,890
<i>of which: all-inclusive fees on credit lines</i>	1,719	1,493
<b>Total</b>	<b>412,639</b>	<b>399,742</b>



## 2.2 Fee income: distribution channels of products and services offered

CHANNELS/VALUES	2016	2015
<b>a) Group branches:</b>	<b>294</b>	<b>953</b>
1. Portfolio management	-	-
2. Placement of securities	294	953
3. Third-party products and services	-	-
<b>b) Off-premises offer:</b>	<b>383,888</b>	<b>365,365</b>
1. Portfolio management	30,260	28,776
2. Placement of securities	164,851	175,923
3. Third-party products and services	188,777	160,666
<b>c) Other distribution channels:</b>	<b>-</b>	<b>-</b>
1. Portfolio management	-	-
2. Placement of securities	-	-
3. Third-party products and services	-	-
<b>Total</b>	<b>384,182</b>	<b>366,318</b>

## 2.3 Breakdown of fee expense

SERVICES/VALUES	2016	2015
a) Guarantees received	19	72
b) Credit derivatives	-	-
<b>c) Management and brokerage services:</b>	<b>265,600</b>	<b>252,789</b>
1. Trading of financial instruments	2,141	4,902
2. Currency trading	-	-
3. Portfolio management	212	-
3.1 own portfolio	212	-
3.2 third-party portfolio	-	-
4. Custody and administration of securities	1,458	1,249
5. Placement of financial instruments	-	-
6. Off-premises offer of financial instruments, products, and services	261,789	246,638
d) Collection and payment services	2,254	2,043
e) Other services	461	284
<b>Total</b>	<b>268,334</b>	<b>255,188</b>

## Section 3 – Dividends and similar income - Item 70

### 3.1 Breakdown of dividends and similar income

ITEMS/INCOME	2016		2015	
	DIVIDENDS	PROCEEDS FROM UCITS UNITS	DIVIDENDS	PROCEEDS FROM UCITS UNITS
A. HFT financial assets	65	16	67	21
B. AFS financial assets	1,677	205	2,840	192
C. Financial assets measured at fair value	-	-	-	-
D. Equity investments	130,462	-	177,360	-
<b>Total</b>	<b>132,204</b>	<b>221</b>	<b>180,267</b>	<b>213</b>

## Section 4 – Net profit from trading - Item 80

### 4.1 Breakdown of net profit from trading

TRANSACTIONS/INCOME COMPONENTS	CAPITAL GAINS	INCOME FROM TRADING	CAPITAL LOSSES	LOSS FROM TRADING	NET RESULT 2016	NET RESULT 2015
<b>1. HFT financial assets</b>	<b>276</b>	<b>598</b>	<b>946</b>	<b>376</b>	<b>-448</b>	<b>563</b>
1.1 Debt securities	112	297	489	32	-112	170
1.2 Equity securities	164	266	28	93	309	171
1.3 UCITS units	-	35	429	251	-645	222
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	-	-	-	-	-
<b>2. HFT financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Debt securities	-	-	-	-	-	-
2.2 Debts	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
<b>3. Other financial assets and liabilities: exchange gains and losses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,264</b>	<b>3,260</b>
<b>4. Derivatives</b>	<b>80</b>	<b>870</b>	<b>257</b>	<b>1,115</b>	<b>-433</b>	<b>663</b>
4.1 Financial:	80	870	257	1,115	-433	663
- On debt securities and interest rates:	-	-	-	-	-	-
- interest rate swaps	-	-	-	-	-	-
- government bond forwards	-	-	-	-	-	-
- On equity securities and stock indexes	80	870	257	1,115	-422	669
- options	80	866	257	1,062	-373	669
- futures	-	4	-	53	-49	-
- On currency and gold <sup>(1)</sup>	-	-	-	-	-11	-6
- Other	-	-	-	-	-	-
4.2 Credit	-	-	-	-	-	-
<b>Total</b>	<b>356</b>	<b>1,468</b>	<b>1,203</b>	<b>1,491</b>	<b>2,383</b>	<b>4,486</b>

Note

(1) It includes currency options and currency outright.

## Section 6 – Gain (loss) from transfer/repurchase - Item 100

### 6.1 Breakdown of gain (loss) from transfer/repurchase

ITEMS/INCOME COMPONENTS	2016			2015		
	GAINS	LOSSES	NET RESULT	GAINS	LOSSES	NET RESULT
<b>Financial assets</b>						
1. Loans to banks	560	-	560	2,182	-	2,182
2. Loans to customers	1,644	-	1,644	1,177	1,659	-482
3. AFS financial assets	30,652	2,501	28,151	21,681	2,080	19,601
3.1 Debt securities	30,402	2,455	27,947	19,673	1,516	18,157
3.2 Equity securities	150	4	146	-	200	-200
3.3 UCITS units	100	42	58	2,008	364	1,644
3.4 Loans	-	-	-	-	-	-
4. HTM financial assets	22	6	16	-	-	-
<b>Total assets</b>	<b>32,878</b>	<b>2,507</b>	<b>30,371</b>	<b>25,040</b>	<b>3,739</b>	<b>21,301</b>
<b>Financial liabilities</b>						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

AFS equity reserves transferred back to the profit and loss account due to the disposal of pre-existing equity reserves of the AFS portfolio are illustrated in the following table.

	POSITIVE	NEGATIVE	NET
Debt securities	18,897	-430	18,467
Equity securities	-	-4	-4
UCITS units	20	-24	-4
<b>Total</b>	<b>18,917</b>	<b>-458</b>	<b>18,459</b>

## Section 8 – Net adjustments/reversal value for impairment - Item 130

### 8.1 Breakdown of net adjustments to non-performing loans

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS				2016	2015
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER	PORTFOLIO	FROM INTEREST	OTHER REVERSALS	FROM INTEREST	OTHER REVERSALS		
<b>A. Loans to banks</b>	-	-	<b>239</b>	-	-	-	<b>3,040</b>	<b>2,801</b>	<b>-294</b>
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	239	-	-	-	3,040	2,801	-294
<b>B. Loans to customers</b>	<b>102</b>	<b>619</b>	<b>2,009</b>	<b>4</b>	<b>1,081</b>	-	<b>615</b>	<b>-1,030</b>	<b>-827</b>
Non-performing loans purchased	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Operating loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other	102	619	2,009	4	1,081	-	615	-1,030	-827
- Loans	24	477	36	4	1,081	-	-	548	-488
- Operating loans	78	142	-	-	-	-	-	-220	-196
- Debt securities	-	-	1,973	-	-	-	615	-1,358	-143
<b>C. Total</b>	<b>102</b>	<b>619</b>	<b>2,248</b>	<b>4</b>	<b>1,081</b>	-	<b>3,655</b>	<b>1,771</b>	<b>-1,121</b>

Specific value adjustments to loans to customers amounted to 477 thousand euros and included 403 thousand euros for positions past due by more than 90 days and 27 thousand euros for unlikely-to-pay positions, and bad loans for the remainder.

These write-downs were partially offset through reversals relating to positions past due at the end of the previous year (322 thousand euros) and reclassified out of the non-performing category, and to unlikely to pay exposures (48 thousand euros).

Reversals also included 592 thousand euros attributable to the release to the Profit and Loss Account of previous write-downs relating to a significant bad debt position, which was closed in the first half of the year with a recovery of 1,550 thousand euros.

Net value adjustment of the collective reserve on performing loans amounted to 36 thousand euros.

Value adjustments to operating loans primarily refer to write-downs of advanced fees to former Financial Advisors.

Portfolio reversals and adjustments relating to debt securities classified among loans to banks (net amount of 2,801 thousand euros) and loans to customers (net amount of 1,358 thousand euros) refer to the adjustment of the collective reserve recognised to account for latent losses in the bond portfolio determined on the basis of the risk profiles (ratings/residual lives) of the bonds.

## 8.2 Breakdown of net adjustments for impairment of available-for-sale financial assets

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS				2016	2015
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER	PORTFOLIO	FROM INTEREST	OTHER REVERSALS	FROM INTEREST	OTHER REVERSALS		
A. Debt securities	-	-	-	-	-	-	-	-	-
B. Equity securities	-	2,865	-	-	-	-	-	-2,865	-2,845
C. UCITS units	-	-	-	-	-	-	-	-	-
D. Loans to banks	-	-	-	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-	-	-	-
<b>F. Total</b>	<b>-</b>	<b>2,865</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-2,865</b>	<b>-2,845</b>

Adjustments to equity securities referred for 907 thousand euros to additional impairment losses on the equity investments in Veneto Banca, besides those already recognised in the previous year, for 1,194 thousand euros to the impairment of equity investments in companies recently listed on the AIM - Alternative Investment Market (Axelero, Gambero Rosso), for 183 thousand euros to the impairment of Banco Popolare shares, for 253 thousand euros to the impairment on Credito Valtellinese shares, and for 328 thousand euros to the impairment on the contribution paid to Interbank Deposit Protection Fund (FITD) to recapitalised Caricesena.

## 8.3 Breakdown of net adjustments for impairment of held-to-maturity financial assets

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS				2016	2015
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER	PORTFOLIO	FROM INTEREST	OTHER REVERSALS	FROM INTEREST	OTHER REVERSALS		
A. Debt securities	-	-	1,149	-	-	-	1,250	101	-2,575
B. Loans to banks	-	-	-	-	-	-	-	-	-
C. Loans to customers	-	-	-	-	-	-	-	-	-
<b>D. Total</b>	<b>-</b>	<b>-</b>	<b>1,149</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,250</b>	<b>101</b>	<b>-2,575</b>

Portfolio reversals on debt securities classified under HTM financial assets, for a net amount of 101 thousand euros, refer to the adjustments of the collective reserve allocated to account for latent losses on the bond portfolio, calculated based on the risk profile (rating/residual lives) of the bonds.

## 8.4 Breakdown of net adjustments for impairment of other financial transactions

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS				2016	2015
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER	PORTFOLIO	FROM INTEREST	OTHER REVERSALS	FROM INTEREST	OTHER REVERSALS		
A. Guarantees issued	1,046	-	-	-	1,041	-	70	65	70
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to grant funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
<b>E. Total</b>	<b>1,046</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,041</b>	<b>-</b>	<b>70</b>	<b>65</b>	<b>70</b>

The reversals of 1,041 thousand euros referred to the refund of the contribution paid to FITD in 2014 in respect of the approved transaction in support of Banca Tercas, declared in violation of state aid regulations by the EU during the reporting year.

In connection with this transaction, the total adjustments of 1,046 thousand euros referred to the contribution paid by the Bank to the Interbank Deposit Protection Fund (FITD), instituted in December 2015, aimed at indemnifying Banca Tercas against the consequences of the aforementioned decision by the European Commission.

The remaining reversals refer to the adjustment of the collective reserve for performing signature loans.

## Section 9 – General and administrative expense - Item 150

### Breakdown of general and administrative expense

	2016	2015
150 a) Staff expenses	74,483	74,869
150 b) Other general and administrative expense	136,532	130,349
<b>Total</b>	<b>211,015</b>	<b>205,218</b>

### 9.1 Breakdown of staff expenses

TYPE OF EXPENSES/VALUES	2016	2015
<b>1) Employees</b>	<b>73,629</b>	<b>73,455</b>
a) Wages and salaries	41,251	39,814
b) Social security charges	10,527	10,538
c) Termination indemnity	587	625
d) Retirement benefit plans	-	-
e) Provision for termination indemnity	109	64
f) Provision for pensions and similar costs:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) Contributions paid to supplementary pension funds:	3,464	3,456
- defined contribution	3,464	3,456
- defined benefit	-	-
h) Costs related to payment agreements based on own equity instruments	3,003	2,700
i) Other employee benefits	14,688	16,258
<b>2) Other staff</b>	<b>502</b>	<b>744</b>
<b>3) Directors and Auditors</b>	<b>980</b>	<b>1,504</b>
<b>4) Retired personnel</b>	<b>27</b>	<b>12</b>
<b>5) Recovery of expenses for seconded staff from other companies</b>	<b>-697</b>	<b>-846</b>
<b>6) Repayments of expenses for seconded staff from other companies</b>	<b>42</b>	<b>-</b>
<b>Total</b>	<b>74,483</b>	<b>74,869</b>

### 9.2 Average number of employees by category

	2016	2015
<b>Employees</b>	<b>805</b>	<b>787</b>
a) Managers	43	42
b) Total executives	235	219
<i>of which: 3<sup>rd</sup> and 4<sup>th</sup> level</i>	133	124
<i>of which: 1<sup>st</sup> and 2<sup>nd</sup> level</i>	102	95
c) Employees at other levels	527	526
<b>Other employees</b>	<b>-5</b>	<b>-6</b>
<b>Total</b>	<b>800</b>	<b>781</b>

## Breakdown of personnel

	31.12.2016	31.12.2015
<b>Employees</b>	<b>811</b>	<b>796</b>
a) Managers	44	41
b) Total executives	244	225
<i>of which:</i>		
- 3 <sup>rd</sup> and 4 <sup>th</sup> level	138	127
- 1 <sup>st</sup> and 2 <sup>nd</sup> level	106	98
c) Employees at other levels	523	530
<b>Other employees</b>	<b>-4</b>	<b>-5</b>
Contract and temporary workers	4	4
Seconded staff from other companies	1	-
Seconded staff to other companies	-9	-9
<b>Total</b>	<b>807</b>	<b>791</b>

## 9.4 Other employee benefits

	2016	2015
Short-term productivity bonuses	7,581	8,856
<b>Long-term benefits</b>		
Charges for Relationship Manager recruitment plans	1,796	2,676
Charges for deferred variable remuneration (managers' MBO)	855	924
Charges for post-employment medical care plans	647	-
<b>Other benefits</b>		
Charges for staff supplementary pensions	2,477	2,499
Amounts replacing cafeteria indemnities	795	744
Training expenses	302	362
Long-term health care	226	152
Transfer incentives and other indemnities	-	17
Other expenses	9	28
<b>Total</b>	<b>14,688</b>	<b>16,258</b>

Short-term productivity bonuses include the portion of non-deferred variable remuneration payable in cash (MBO) for office and sales managers and portfolio managers, the performance bonus envisaged in company supplementary contracts and allocations in service of the 2016 plan for measures.

## 9.5 Breakdown of other general and administrative expense

	2016	2015
<b>Administration</b>	<b>15,066</b>	<b>12,729</b>
Advertising	4,209	3,854
Consultancy and professional advice expenses	6,447	4,775
Corporate boards and auditing firms	311	393
Insurance	3,004	2,929
Entertainment expenses	434	166
Membership contributions	549	547
Charity	112	65
<b>Operations</b>	<b>34,904</b>	<b>34,376</b>
Rent and usage of premises and management of property	17,605	16,601
Outsourced administrative services	5,274	5,727
Post and telephone	2,543	2,925
Print material	1,275	1,159
Other expenses for sales network management	3,281	2,997
Other expenses and purchases	2,756	2,442
Other indirect staff expenses	2,170	2,525
<b>Information system and equipment</b>	<b>35,802</b>	<b>33,250</b>
Expenses related to outsourced IT services	26,316	24,097
Fees for IT services and databases	6,047	5,807
Software maintenance and servicing	2,673	2,587
Fees for equipment hired and software used	148	164
Other maintenance	618	595
<b>Indirect taxation</b>	<b>42,479</b>	<b>41,287</b>
Stamp duty on financial instruments	41,341	40,133
Substitute tax on medium/long-term financing	458	702
Other indirect taxes to be paid by the Bank	680	452
<b>Contributions to the Italian National Resolution Fund and the Interbank Protection Fund</b>	<b>8,281</b>	<b>8,707</b>
<b>Total</b>	<b>136,532</b>	<b>130,349</b>

## Section 10 – Net provisions for liabilities and contingencies - Item 160

### 10.1 Breakdown of net provisions for liabilities and contingencies

	2016			2015		
	PROVISIONS	SURPLUS	NET	PROVISIONS	SURPLUS	NET
<b>Provision for staff expenses</b>	<b>3,100</b>	<b>-1,771</b>	<b>1,329</b>	<b>11,524</b>	<b>-2,912</b>	<b>8,612</b>
Provision for restructuring plan	-	-1,389	-1,389	10,170	-	10,170
Provision for staff expenses – Other <sup>(1)</sup>	3,100	-382	2,718	1,354	-2,912	-1,558
<b>Provisions for legal disputes</b>	<b>3,413</b>	<b>-1,896</b>	<b>1,517</b>	<b>3,067</b>	<b>-577</b>	<b>2,490</b>
Provision for risks related to legal disputes with subscribers	1,042	-183	859	1,796	-390	1,406
Provision for risks related to legal disputes with Financial Advisors	177	-942	-765	634	-48	586
Provision for risks related to legal disputes with staff	50	-656	-606	40	-	40
Provision for risks related to legal disputes with other parties	2,144	-115	2,029	597	-139	458
<b>Provisions for termination indemnity for Financial Advisors</b>	<b>9,584</b>	<b>-906</b>	<b>8,678</b>	<b>16,079</b>	<b>-1,117</b>	<b>14,962</b>
Provisions for termination indemnity for Financial Advisors	8,030	-742	7,288	12,283	-1,032	11,251
Provision for portfolio overfee indemnities	1,082	-78	1,004	443	-48	395
Provision for pension bonuses	472	-86	386	3,353	-37	3,316
<b>Provisions for risks related to network incentives</b>	<b>24,913</b>	<b>-1,255</b>	<b>23,658</b>	<b>24,878</b>	<b>-5,495</b>	<b>19,383</b>
Provision for network development plans	15,757	-1,120	14,637	15,361	-4,326	11,035
Provision for deferred bonus	269	-	269	283	-681	-398
Provision for sales incentives	3,849	-	3,849	4,829	-	4,829
Provisions for managers with access gate	2,120	-	2,120	1,405	-	1,405
Provision for incentive travels	2,580	-135	2,445	2,631	-135	2,496
Provision for fee plans	336	-	336	336	-	336
Provision for loyalty plans	2	-	2	33	-353	-320
<b>Other provisions for liabilities and contingencies</b>	<b>82</b>	<b>-573</b>	<b>-491</b>	<b>30</b>	<b>-24</b>	<b>6</b>
<b>Total</b>	<b>41,092</b>	<b>-6,401</b>	<b>34,691</b>	<b>55,578</b>	<b>-10,125</b>	<b>45,453</b>

(1) Allocations to provisions for staff expenses do not include the items that are classified as “Staff expenses - other benefits” in accordance with IAS 19.

## Section 11 – Net adjustments/reversals of property and equipment - Item 170

### 11.1 Breakdown of net adjustments of property and equipment

ASSETS/INCOME COMPONENTS	DEPRECIATION	ADJUSTMENTS FOR IMPAIRMENT	REVERSALS	NET RESULT 2016	NET RESULT 2015
<b>A. Property and equipment</b>					
A.1 Owned	1,294	-	-	1,294	1,202
- operating	1,294	-	-	1,294	1,202
- investment	-	-	-	-	-
A.2 Leased	-	-	-	-	-
- operating	-	-	-	-	-
- investment	-	-	-	-	-
<b>Total</b>	<b>1,294</b>	<b>-</b>	<b>-</b>	<b>1,294</b>	<b>1,202</b>



## Section 12 – Net adjustments/reversals of intangible assets - Item 180

### 12.1 Breakdown of net adjustments of intangible assets

ASSETS/INCOME COMPONENTS	AMORTISATION	ADJUSTMENTS FOR IMPAIRMENT	REVERSALS	NET RESULT 2016	NET RESULT 2015
<b>A. Intangible assets</b>					
A.1 Owned	4,587	-	-	4,587	4,058
- generated in-house	-	-	-	-	-
- other	4,587	-	-	4,587	4,058
A.2 Leased	-	-	-	-	-
<b>Total</b>	<b>4,587</b>	<b>-</b>	<b>-</b>	<b>4,587</b>	<b>4,058</b>

### Breakdown of value adjustments of intangible assets - amortisation

	2016	2015
Charges associated with the implementation of legacy CSE procedures	2,391	1,837
Customers relationships	2,105	2,105
Other intangible fixed assets	91	116
<b>Total</b>	<b>4,587</b>	<b>4,058</b>

## Section 13 – Other operating income and expenses - Item 190

### 13.1 Breakdown of other operating expenses

	2016	2015
Adjustments of leasehold improvements	1,280	1,033
Write-downs of other assets	51	89
Indemnities and compensation for litigation and claims	1,499	1,019
Charges from accounting adjustments with customers	787	849
Charges for card compensation and guarantees	26	15
Costs associated with tax disputes, penalties and fines	13	175
Other contingent liabilities and non-existent assets	924	887
<b>Total</b>	<b>4,580</b>	<b>4,067</b>

### 13.2 Breakdown of other operating income

	2016	2015
Recovery of taxes from customers	41,091	40,233
Recovery of expenses from customers	542	505
Fees for outsourced services	259	380
Charge-back of portfolio development indemnity to incoming Financial Advisors	1,496	973
Indemnities for Financial Advisors' termination without notice	773	40
Other recoveries of repayments and costs from Financial Advisors	1,003	1,218
Tax credit related to movie production	-	840
Contingent assets - staff expenses	1,147	1,234
Other contingent assets and non-existent liabilities	941	1,921
Insurance compensation and indemnities	255	125
Other income	414	569
<b>Total</b>	<b>47,921</b>	<b>48,038</b>
<b>Total other net income</b>	<b>43,341</b>	<b>43,971</b>

## Section 17 – Gains (losses) from disposal of investments - Item 240

### 17.1 Breakdown of gains (losses) from disposal of investments

INCOME COMPONENTS/VALUES	2016	2015
<b>A. Buildings</b>	-	-
Gains from disposal	-	-
Losses from disposal	-	-
<b>B. Other assets</b>	<b>22</b>	<b>-6</b>
Gains from disposal	32	1
Losses from disposal	10	7
<b>Net result</b>	<b>22</b>	<b>-6</b>

## Section 18 – Income tax for the year for current operations - Item 260

### 18.1 Breakdown of income tax for the year for current operations

INCOME COMPONENTS/VALUES	2016	2015
1. Current taxation (-)	-12,871	-16,613
2. Change in prior years' current taxes (+/-)	1,010	990
3. Reduction of current taxes for the year (+)	-	-
3.bis Reduction of current taxes arising on tax credits, pursuant to Law No. 214/2011 (+)	-	-
4. Changes of prepaid taxation (+/-)	-2,110	1,604
5. Changes of deferred taxation (+/-)	-276	-295
<b>6. Taxes for the year (-)</b>	<b>-14,247</b>	<b>-14,314</b>

## 18.2 Reconciliation between theoretical and actual tax expense

The following table reconciles the total amount of taxes due for the year, including both current and deferred taxes, as indicated in Item 290 of the Profit and Loss Account, and the theoretical corporate income tax IRES calculated by applying the 27.5% current applicable tax rate to pre-tax profit.

The reconciliation statement is therefore expressed based on higher or lower current and deferred taxes debited or credited to the P&L account compared to the theoretical taxation.

	2016	2015
<b>Current taxation</b>	<b>-12,871</b>	<b>-16,613</b>
IRES	-6,643	-8,766
IRAP	-6,225	-7,844
Other	-3	-3
<b>Prepaid and deferred taxation</b>	<b>-2,386</b>	<b>1,309</b>
IRES	-2,288	1,092
IRAP	-98	217
<b>Taxes of prior years</b>	<b>1,010</b>	<b>990</b>
IRES	589	555
IRAP	421	435
<b>Income taxes</b>	<b>-14,247</b>	<b>-14,314</b>
<b>Theoretical tax rate</b>	<b>27.5%</b>	<b>27.5%</b>
<b>Profit (loss) before taxation</b>	<b>158,998</b>	<b>198,606</b>
<b>Theoretical taxation</b>	<b>-43,724</b>	<b>-54,617</b>
<b>Non-taxable income (+)</b>		
Dividends	34,521	47,077
ACE	1,984	1,359
Deductible IRAP and other	266	681
<b>Non-deductible charges (-)</b>		
Non-deductible interest expenses (4%)	-31	-39
Impairment of equity securities PEX	-829	-606
Other non-deductible costs	-1,118	-1,648
IRAP	-5,902	-7,192
Taxes of prior years	586	555
Other (foreign) taxes	-	-3
Change in deferred taxes without offsetting entry	-	119
<b>Actual tax expense</b>	<b>-14,247</b>	<b>-14,314</b>
<b>Total actual tax rate</b>	<b>9.0%</b>	<b>7.2%</b>
<b>Actual tax rate (IRES)</b>	<b>5.2%</b>	<b>3.6%</b>
<b>Actual tax rate (IRAP)</b>	<b>3.7%</b>	<b>3.6%</b>

## Section 21 – Earnings per Share

### 21.1 Average number of ordinary shares after dilution

	2016	2015
Net profit for the year (€ thousand)	144,751	184,292
Net profit attributable to ordinary shares (€ thousand)	144,751	184,292
Average number of outstanding shares (thousand)	116,067	115,867
<b>EPS - Earnings per Share (€)</b>	<b>1.247</b>	<b>1.591</b>
Average number of outstanding shares after dilution (thousand)	116,614	116,418
<b>EPS - Diluted earnings per share (€)</b>	<b>1.241</b>	<b>1.583</b>

## PART D – COMPREHENSIVE INCOME

## Analytical Statement of Comprehensive Income

ITEMS	GROSS AMOUNT	INCOME TAXES	NET AMOUNT
<b>10. Net profit (loss) for the year</b>	<b>X</b>	<b>X</b>	<b>144,751</b>
<b>Other components of income, without transfer to Profit and Loss Account</b>			
<b>20. Property and equipment</b>	-	-	-
<b>30. Intangible assets</b>	-	-	-
<b>40. Defined benefit plans</b>	<b>-249</b>	<b>68</b>	<b>-181</b>
<b>50. Non-current assets held for sale</b>	-	-	-
<b>60. Share of valuation reserves of investments valued at equity</b>	-	-	-
<b>Other components of income, with transfer to Profit and Loss Account</b>			
<b>70. Hedges of foreign investments:</b>	-	-	-
a) fair value changes	-	-	-
b) transfer to Profit and Loss Account	-	-	-
c) other changes	-	-	-
<b>80. Exchange differences:</b>	-	-	-
a) value adjustments	-	-	-
b) transfer to Profit and Loss Account	-	-	-
c) other changes	-	-	-
<b>90. Cash-flow hedges:</b>	-	-	-
a) fair value changes	-	-	-
b) transfer to Profit and Loss Account	-	-	-
c) other changes	-	-	-
<b>100. AFS financial assets:</b>	<b>-19,395</b>	<b>6,234</b>	<b>-13,161</b>
a) fair value changes	-3,473	409	-3,064
b) transfer to Profit and Loss Account:	-15,922	5,818	-10,104
- adjustments due to impairment	2,537	-118	2,419
- gains (losses) on disposal	-18,459	5,936	-12,523
c) other changes	-	7	7
<b>110. Non-current assets held for sale:</b>	-	-	-
a) fair value changes	-	-	-
b) transfer to Profit and Loss Account	-	-	-
c) other changes	-	-	-
<b>120. Share of valuation reserves of investments valued at equity:</b>	-	-	-
a) fair value changes	-	-	-
b) transfer to Profit and Loss Account	-	-	-
- adjustments due to impairment	-	-	-
- gains (losses) on disposal	-	-	-
c) other changes	-	-	-
<b>130. Total other components of income</b>	<b>-19,644</b>	<b>6,302</b>	<b>-13,342</b>
<b>140. Comprehensive income (Items 10 + 130)</b>	<b>-</b>	<b>-</b>	<b>131,409</b>

## PART E – INFORMATION ON RISKS AND RISK HEDGING POLICIES

### Foreword

The development of a genuine risk culture within Banca Generali is based upon an understanding of the risks that the Bank assumes and how they are managed, while always taking full account of the risk tolerance threshold defined in the Bank's Risk Appetite Framework (RAF).

In this context, the internal control system plays a key role in the risk management process, as well as in the Bank's corporate governance generally.

The internal control system is a set of rules, procedures and organisational structures aimed at ensuring compliance with Company strategies, while also seeking to achieve:

- > the efficiency and effectiveness of work processes;
- > the safety of the company's assets and protection against losses;
- > the reliability and integrity of accounting and operating information;
- > operational compliance with the law and supervisory regulations;
- > policies, plans, regulations and internal procedures; and
- > the dissemination of a culture of control, also through training initiatives for the various levels.

The Banca Generali Banking Group has designed an internal control model consistent with national and international best practices, minimising the risks of inefficiency, overlapping of roles and sub-optimal system performance. The system is structured on three different levels:

- > first-tier checks: they are performed by production or back-office company areas and organisational units, with the support of information technology procedures, where envisaged, and take the form of hierarchical or line checks;
- > second-tier checks: they aim at preventing and mitigating risks of different nature through prior risk assessment of products and business practices, and the development of ex-ante support to operating activities. The aforementioned checks are performed by the following functions:
  - the Risk and Capital Adequacy Department is tasked with identifying, measuring/evaluating and monitoring all the types of risks to which the Banking Group is exposed in terms of its own assets (excluding the risks of non-compliance, money laundering and financing of terrorism), providing relevant information and thereby contributing to the definition and implementation of the Risk Appetite Framework, as well as all related risk management policies. The Department acts with a view to maintaining risk levels within the limits and tolerance thresholds indicated in the risk profile and strategies established by the Board of Directors in the Risk Appetite Framework. It assures that risks are fully and transversally analysed, and to this end it applies a strategic, consistent and prospective approach and duly provides periodic reports;
  - Compliance Service: it is tasked with verifying the observance of obligations relating to the provision of services for Banking Group companies and preventing and managing the risk of non-compliance with applicable legislation;
  - Anti-Money Laundering Service: it is responsible, within the Banking Group, for preventing and combating transactions involving money laundering and financing of terrorism;
- > third-tier checks: they are conducted by the Internal Audit Department and are aimed at an independent verification of the operating efficacy and quality of control systems and the verification of any conduct departing from the established rules.

The proper functioning of the risk governance system adopted by the Banca Generali Group is ensured by consistency from the standpoint of organisational structure, competencies and a guarantee of the independence of functions.

Within the internal control system, it is possible to identify the second tier as the home to an internal risk management culture that then effectively translates into company behaviour and choices.

The following entities operate within the Internal Control System, in addition to the tasks assigned to the Board of Directors, control body and independent auditors (who are responsible for accounting control):

- > the Audit and Risk Committee, which was set up pursuant to the Corporate Governance Code of Listed Companies and supervisory regulations, and is tasked with performing a supporting role, with investigative, propositional and advisory duties in relation to the Board of Directors and the Board of Statutory Auditors, in particular on matters of internal control and risk management, related parties and connected parties, statutory auditing and equity investments. The tasks and functions of the Committee, as well as the frequency of its meetings and the operating procedures to be followed to ensure that its duties are smoothly and properly performed, shall be regulated pursuant to specific Internal Audit and Risk Committee Rules;
- > the Risks Committee is charged with ensuring coordinated coverage of the system for managing and controlling the risks assumed by the Group in compliance with the Risk Appetite Framework; it is vested with specific responsibility for monitoring the Group's risks, such as the management of risk containment measures, as well as decision-making powers for identifying and implementing risk containment measures;

- > the Supervisory Body, which is the corporate body in charge of updating the Organisational and Management Model and monitoring the implementation of and compliance with the said Model;
- > the Law 262 Organisational Unit, which acts as a point of reference, orienting and coordinating the management of all the Banking Group's administrative and accounting risks, for the intents and purposes of Law No. 262/2005.

---

## Section 1 – Credit risk

---

### Qualitative information

---

#### 1. General aspects

Credit risk is defined as the possibility that a counterparty may become insolvent, or the likelihood that a debtor may fail to fulfil its obligations or fulfil its obligations on a delayed basis with respect to predetermined due dates.

In further detail, credit risk arises from the possibility that an unexpected variation in the creditworthiness of a counterparty to which the bank has an exposure may result in a corresponding unexpected variation in the market value of the credit position.

Banca Generali Group's lending operations are ancillary to its core business, which focuses on the management of investment services for private customers.

The Bank's exposure to credit risk mainly arises from its loans to customers (chiefly in the retail channel, and to a lesser extent in the corporate one), financial instruments held in portfolios measured at amortised cost and AFS portfolios, and investments in the money market (interbank deposits).

Loans are issued to high-standing retail customers (mainly individuals), generally with collaterals, and, to a lesser extent, to corporate customers who, during the year under review, were granted loans chiefly backed by collaterals on financial instruments.

As for credit card issuance, the Bank continues to follow a very prudent policy, aimed almost exclusively at individuals.

With regard to credit risk management, the Group has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the supervisory authority.

The Group has also formally defined lending policy guidelines within the Lending Rules and Procedures of Banca Generali S.p.A. that assign specific responsibilities to each company unit involved.

The Group has defined an extensive system of powers associated with loan authorisation. In this context, it has formally defined detailed levels of autonomy and specific operating conditions for the loan authorisation powers held by the various decision-making levels.

In order to supervise the loans after they have been disbursed, the Group has assigned specific tasks pertaining to timely monitoring of outstanding credit positions.

First-tier control activities are conducted by the Lending Department and the Finance Department, the latter being responsible for lending operations involving institutional borrowers (loans to banks) and securities investment operations, which are considered when defining the Group's overall credit exposure.

The Risk and Capital Adequacy Department is responsible for second level controls and monitors the performance of each credit exposure – and non-performing exposures in particular – assessing the consistency of classifications, the fairness of provisions and the appropriateness of credit collection process in order to provide an overall analysis of the portfolio's risk profile and report any anomalies in the first-tier control.

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

Level three controls are conducted by the Internal Audit Service, in accordance with the Internal Rules and Procedures.

The Risk Committee is the collegial body responsible for a shared vision of the global performance of the credit risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

## 2. Credit risk management policies

Loans are issued to customers by Banca Generali's Lending Department, which is responsible for loan approval and outstanding loan management, as governed by and detailed in the specific Lending Rules and Procedures.

In addition to issuing loans, the Lending Department is also charged with credit managing and first-tier control, with a special focus on the performance of doubtful loans.

The credit risk on the securities portfolio is very low since it predominantly consists of government and bank-issued securities. The corporate securities in the portfolio are negligible.

### Credit risk mitigation techniques

In order to mitigate credit risk in loans to customers, collaterals – or more sporadically personal guarantees – are typically required to secure the loans granted.

Collaterals are mainly requested in the form of pledges on securities, including managed assets, funds and insurance products. As limited to certain segments of customers (Group's employees and Financial Advisors), mortgages are also acquired, almost exclusively in residential properties used as a primary residences: on a conservative basis, they are registered in an amount in excess of the obligation they secure. When collaterals are in the form of securities, a discount is usually applied upon disbursement of the loan and the market value of the securities is determined periodically.

Banca Generali also benefits from an additional master guarantee (indemnity) provided by BSI S.A. for the entire loan portfolio originating with Banca del Gottardo Italy, acquired by BSI Italy S.p.A. on 1 October 2008.

This guarantee, which is similar to a first-demand bank guarantee, covers all loans and any associated losses sustained from acquisition until 31 December 2009. After such date, the indemnity was maintained for those positions managed with the aim of recovery and those positions that showed a default event for which payment of the indemnity was requested from the guarantor, BSI S.A.

At 31 December 2016, the guarantees covered a residual class of loans (not classified as bad loans) for an amount of approximately 10 million euros.

Finally, as for credit card issuance, the Bank continues to follow a very prudent policy, aimed almost exclusively at households.

### Non-performing financial assets

Non-performing financial assets are classified into default categories in accordance with the instructions issued by the supervisory authority, as provided for in Bank of Italy Circular Letter No. 272 dated 20 July 2008 (as subsequently amended).

The process of identifying doubtful positions requires constant monitoring of positions. When limits are exceeded, various debt procedures are triggered. In general, considering that the vast majority of positions are secured by pledges of financial instruments, there are no residual debt exposures once the enforcement procedure has been concluded. If the exposure is unsecured or there is a residual unsecured exposure, the Bank avails itself of the services of major debt collection agencies. Positions are normally classified as bad debts when a negative report is received from the debt collection agency, except when it is considered a priority to obtain an enforcement order.

Losses are analysed and estimated for each position based on all relevant factors, such as borrowers' net worth, income, estimated repayment date, etc.

The aggregate of non-performing loans chiefly consists of exposures referring to Banca del Gottardo Italy's customers and guaranteed by indemnity issued by the seller BSI S.A.; as described above, these exposures do not entail any risk for the Bank.

Therefore, no adjustments were made to these loans with respect to the impairment already carried out by Banca del Gottardo Italy.

Total net non-performing loans (see table A.1.1) amounted to 31,859 thousand euros, of which:

- > 23,024 thousand euros of bad loans;
- > 6,771 thousand euros of unlikely-to-pay exposures;
- > 2,064 thousand euros of past-due exposures.

Excluding positions covered by indemnity – entailing no risk for Banca Generali, amounting to 27,538 thousand euros and accounting for nearly 83.8% of total net non-performing loans – the remainder for the item totalled 5,315 thousand euros, representing a merely marginal portion of total net loans to customers (just 0.29%).

## Quantitative information

### A. Credit quality

#### A.1 Credit exposures to non-performing and performing exposures: balances, adjustments, performance, income and geographical breakdown

For the purposes of quantitative information about credit quality, credit exposures include the entire financial asset portfolio, regardless of the portfolio of allocation for accounting purposes, with the exception of equities and units of UCITS.

##### A.1.1 Breakdown of credit exposures by portfolio and credit quality (balance sheet amounts)

PORTFOLIOS/QUALITY	BAD LOANS	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE EXPOSURES	PERFORMING PAST-DUE EXPOSURES	OTHER PERFORMING EXPOSURES	TOTAL
1. AFS financial assets	-	-	-	-	4,349,914	4,349,914
2. HTM financial assets	-	-	-	-	731,361	731,361
3. Loans to banks	-	-	-	-	319,983	319,983
4. Loans to customers	23,024	6,771	2,064	23,078	1,788,294	1,843,231
5. Financial assets at fair value	-	-	-	-	-	-
6. HFS financial assets	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	<b>23,024</b>	<b>6,771</b>	<b>2,064</b>	<b>23,078</b>	<b>7,189,552</b>	<b>7,244,489</b>
<b>Total at 31.12.2015</b>	<b>24,729</b>	<b>5,104</b>	<b>3,371</b>	<b>24,934</b>	<b>5,415,288</b>	<b>5,473,426</b>

##### A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)

PORTFOLIOS/QUALITY	NON-PERFORMING ASSETS			PERFORMING ASSETS			TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	GROSS EXPOSURE	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	
1. AFS financial assets	-	-	-	4,349,914	-	4,349,914	4,349,914
2. HTM financial assets	-	-	-	734,275	2,914	731,361	731,361
3. Loans to banks	-	-	-	321,106	1,123	319,983	319,983
4. Loans to customers	44,354	12,495	31,859	1,815,168	3,796	1,811,372	1,843,231
5. Financial assets at fair value	-	-	-	X	X	-	-
6. HFS financial assets	-	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	<b>44,354</b>	<b>12,495</b>	<b>31,859</b>	<b>7,220,463</b>	<b>7,833</b>	<b>7,212,630</b>	<b>7,244,489</b>
<b>Total at 31.12.2015</b>	<b>47,245</b>	<b>14,041</b>	<b>33,204</b>	<b>5,449,562</b>	<b>9,340</b>	<b>5,440,222</b>	<b>5,473,426</b>



PORTFOLIOS/QUALITY	ASSETS WITH OBVIOUSLY POOR CREDIT QUALITY		OTHER ASSETS NET EXPOSURE
	CUMULATIVE CAPITAL LOSSES	NET EXPOSURE	
1. HFT financial assets	-	-	34,997
2. Hedging derivatives	-	-	-
<b>Total at 31.12.2016</b>	<b>-</b>	<b>-</b>	<b>34,997</b>
<b>Total at 31.12.2015</b>	<b>-</b>	<b>-</b>	<b>23,805</b>

### A.1.3 Cash and off-balance sheet credit exposures with banks: gross and net values and maturity brackets

TYPES OF EXPOSURES/VALUES	GROSS EXPOSURE								NET EXPOSURE
	NON-PERFORMING ASSETS				PERFORMING ASSETS	SPECIFIC ADJUSTMENTS	PORTFOLIO ADJUSTMENTS		
	UP TO 3 MONTHS	OVER 3 MONTHS, UP TO 6 MONTHS	OVER 6 MONTHS, UP TO 1 YEAR	BEYOND 1 YEAR					
<b>A. Cash exposures</b>									
a) Bad loans	-	-	-	-	X	-	X	-	
<i>of which: forborne exposures</i>	-	-	-	-	X	-	X	-	
b) Unlikely to pay	-	-	-	-	X	-	X	-	
<i>of which: forborne exposures</i>	-	-	-	-	X	-	X	-	
c) Non-performing past-due exposures	-	-	-	-	X	-	X	-	
<i>of which: forborne exposures</i>	-	-	-	-	X	-	X	-	
d) Performing past-due exposures	X	X	X	X	-	X	-	-	
<i>of which: forborne exposures</i>	X	X	X	X	-	X	-	-	
e) Other performing exposures	X	X	X	X	532,745	X	1,520	531,225	
<i>of which: forborne exposures</i>	X	X	X	X	-	X	-	-	
<b>Total A</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>532,745</b>	<b>-</b>	<b>1,520</b>	<b>531,225</b>	
<b>B. Off-balance sheet exposures</b>									
a) Non-performing	-	-	-	-	X	-	X	-	
b) Performing	X	X	X	X	2,766	X	-	2,766	
<b>Total B</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,766</b>	<b>-</b>	<b>-</b>	<b>2,766</b>	
<b>Total (A + B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>535,511</b>	<b>-</b>	<b>1,520</b>	<b>533,991</b>	

Cash exposures to banks include all cash financial assets claimed from banks, regardless of the portfolio of allocation for accounting purposes: HTF, AFS, HTM or loans.

Off-balance sheet exposures include all financial transactions other than cash transactions, such as financial derivatives, guarantees issued and commitments, that entail the assumption of credit risk, determined on the basis of the measurement criteria established by the Bank of Italy.

### A.1.6 Cash and off-balance sheet credit exposures with customers: gross and net values and maturity brackets

TYPES OF EXPOSURES/VALUES	GROSS EXPOSURE								
	NON-PERFORMING ASSETS				BEYOND 1 YEAR	PERFORMING ASSETS	SPECIFIC ADJUSTMENTS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE
	UP TO 3 MONTHS	OVER 3 MONTHS UP TO 6 MONTHS	OVER 6 MONTHS UP TO 1 YEAR						
<b>A. Cash exposures</b>									
a) Bad loans	-	-	-	34,948	X	11,924	X	23,024	
of which: forborne exposures	-	-	-	-	X	-	X	-	
b) Unlikely to pay	1,375	229	13	5,294	X	140	X	6,771	
of which: forborne exposures	636	-	13	5,145	X	10	X	5,784	
c) Non-performing past-due exposures	-	152	1,469	874	X	431	X	2,064	
of which: forborne exposures	-	-	-	-	X	-	X	-	
d) Performing past-due exposures	X	X	X	X	23,078	X	-	23,078	
of which: forborne exposures	X	X	X	X	10	X	-	10	
e) Other performing exposures	X	X	X	X	6,698,758	X	6,313	6,692,445	
of which: forborne exposures	X	X	X	X	42	X	-	42	
<b>Total A</b>	<b>1,375</b>	<b>381</b>	<b>1,482</b>	<b>41,116</b>	<b>6,721,836</b>	<b>12,495</b>	<b>6,313</b>	<b>6,747,382</b>	
<b>B. Off-balance sheet exposures</b>									
a) Non-performing	2,919	-	-	-	X	-	X	2,919	
b) Performing	X	X	X	X	120,187	X	-	120,187	
<b>Total B</b>	<b>2,919</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120,187</b>	<b>-</b>	<b>-</b>	<b>123,106</b>	
<b>Total (A + B)</b>	<b>4,294</b>	<b>381</b>	<b>1,482</b>	<b>41,116</b>	<b>6,842,023</b>	<b>12,495</b>	<b>6,313</b>	<b>6,870,488</b>	

Cash exposures with customers include all cash financial assets claimed from customers, regardless of the portfolio of allocation for accounting purposes: HFT, AFS, HTM or loans.

Off-balance sheet exposures include all financial transactions other than cash transactions, such as financial derivatives, guarantees issued and commitments, that entail the assumption of credit risk, determined on the basis of the measurement criteria established by the Bank of Italy. Non-performing off-balance sheet exposures referred to two positions of former Banca del Gottardo covered by Banca BSI S.A. as part of the indemnity guarantee, and therefore entailing no risk for Banca Generali.

#### Bad loans

Gross bad loans amounted to 34,948 thousand euros and included 11,924 thousand euros of value adjustments; therefore, net bad loans recognised totalled 23,024 thousand euros. About 97.7% of this amount (22,488 thousand euros) related to positions attributable to former Banca del Gottardo Italy's customers, fully covered by cash collateral deposits granted by BSI S.A., as part of the indemnity guarantee.

Therefore, net bad loans to remaining ordinary customers amounted to 536 thousand euros, equal to slightly below 2.3% of total net bad loans and 0.03% of total net loans to customers.

In the reporting year, the aggregate (see table A.1.7) generated inflows and write-offs for a total of 3,998 thousand euros, mainly regarding the closing-out of indemnity-guaranteed positions and of an exposure amounting to about 1.9 million euros that was classified as bad loan subject to forbearance measures in 2015, to date recovered for over 80%.

In addition, table A.1.7 shows increases totalling 767 thousand euros, chiefly due to the 717 thousand euros arrears interests accrued, whereas new exposures transfer to the bad loan category were just 50 thousand euros.

#### Unlikely to pay

At 31 December 2016, the net aggregate totalled 6,771 thousand euros, mainly including the following positions:

1. cash loans for a net amount of about 5,145 thousand euros, subject to forbearance measures, attributable to customers of the former Banca del Gottardo Italy;
2. 600 thousand euros relating to a forborne position secured by a mortgage, in addition to 547 thousand euros not subject to forbearance measures and secured by a pledge; the position is classified as unlikely to pay since at the date of the forbearance measures it was classified among past-due positions; it is believed that at the end of the cure period the position may be classified as performing for the subsequent 24-month probation period, since the account was in good standing at the reporting date;
3. 448 thousand euros relating to a position classified as unlikely to pay since the borrower, a sole trader, filed a simplified petition for admission to an insolvency procedure; the position consists of a mortgage loan for a first home with a mortgage charge;

4. other exposures for a net amount of 31 thousand euros referring to 90 positions with average balance of about 325 euros.

The aggregate grew mainly due to the transfer to this category of two positions, as described in points 2 and 3 of the previous paragraph.

---

### Non-performing past-due exposures

At year-end, this aggregate reported a net amount of 2,064 thousand euros and consisted for over 95% of seven positions backed by collateral (pledges, mortgages, mandate to collect policy premiums), for which renewal of the credit line was underway.

The aggregate was subject to adjustments for 431 thousand euros overall.

---

### Performing past-due exposures

Performing past-due exposures include also positions past due or expired by more than 90 days, for which the outstanding amount does not exceed the materiality threshold of 5% of the overall loan granted, in compliance with the provisions set forth in Bank of Italy Circular Letter No. 272.

In almost all cases, these are positions guaranteed by pledges of securities found to be expired at the reporting date and currently being repaid.

At year-end, this aggregate stood at 23,078 thousand euros, broken down as follows:

- > 9,318 thousand euros for positions that were already settled in the first 50 days of 2017;
- > 191 thousand euros for three positions currently subject to recovery procedures;
- > 13,371 thousand euros of positions secured by collateral – almost exclusively consisting of pledges of financial instruments, and to a lesser extent, a mandate to collect insurance policy premiums – regarding outstanding balances in excess of the approved credit limits due to interest charges or extended positions subject to repayment plans;
- > 41 thousand euros for positions covered by personal guarantee;
- > 952 marginal positions totalling 157 thousand euros, with an average amount past due of approximately 165 euros each, subject to debt recovery procedures or written off when deemed uncollectible.

---

### Forborne exposures

Non-performing exposures with forbearance measures totalled 5,784 thousand euros at 31 December 2016 and essentially include two positions:

- > 5,145 thousand euros attributable to a position reclassified amongst unlikely to pay, subject to forbearance in the form of turnaround agreements (pursuant to Article 67, paragraph 3, of the Bankruptcy Law) and associated with the portfolio guaranteed by the seller BSI S.A. (indemnity guarantee), thus with no risk for Banca Generali;
- > 600 thousand euros relating to a non-performing position with forbearance measures, since at the date of the forbearance it was classified among past-due positions; it is believed that at the end of the cure period the position may be classified as performing for the subsequent 24-month probation period, since the account was in good standing at the reporting date.

The amount of forborne performing exposures is negligible.

**A.1.7 Cash credit exposures with customers: changes in gross non-performing exposures**

CAUSES/CATEGORIES	BAD LOANS	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE EXPOSURES
<b>A. Gross exposure at year-start</b>	<b>38,179</b>	<b>5,307</b>	<b>3,759</b>
- of which: exposures transferred but not written off	-	-	-
<b>B. Increases</b>	<b>767</b>	<b>1,779</b>	<b>3,292</b>
B.1 Inflows from performing exposures	-	1,596	2,117
B.2 Transfers from other categories of non-performing exposures	50	21	-
B.3 Other increases	717	162	1,175
- of which: business combinations	-	-	-
<b>C. Decreases</b>	<b>3,998</b>	<b>175</b>	<b>4,556</b>
C.1 Outflows to performing exposures	-	15	3,049
C.2 Write-offs	2,092	27	17
C.3 Repayments received	1,906	83	1,469
C.4 Gains from disposals	-	-	-
C.5 Losses from disposals	-	-	-
C.6 Transfers to other categories of non-performing exposures	-	50	21
C.7 Other decreases	-	-	-
<b>D. Gross exposure at year-end</b>	<b>34,948</b>	<b>6,911</b>	<b>2,495</b>
- of which: exposures transferred but not written off	-	-	-

**A.1.7-bis Cash credit exposures with customers: changes in gross forborne exposures, broken down by credit quality**

CAUSES/CATEGORIES	NON-PERFORMING EXPOSURES WITH FORBEARANCE MEASURES	PERFORMING FORBORNE EXPOSURES
<b>A. Gross exposure at year-start</b>	<b>6,961</b>	<b>23</b>
- of which: exposures transferred but not written off	-	-
<b>B. Increases</b>	<b>780</b>	<b>107</b>
B.1 Inflows from performing non-forborne exposures	-	13
B.2 Inflows from performing forborne exposures	-	X
B.3 Inflows from non-performing exposures with forbearance measures	X	-
B.4 Other increases	780	94
<b>C. Decreases</b>	<b>1,947</b>	<b>78</b>
C.1 Outflows for performing non-forborne exposures	X	-
C.2 Outflows for forborne performing exposures	-	X
C.3 Outflows for non-performing exposures with forbearance measures	X	-
C.4 Write-offs	374	-
C.5 Repayments received	1,573	4
C.6 Gains from disposals	-	-
C.7 Losses from disposals	-	-
C.8 Other decreases	-	74
<b>D. Gross exposure at year-end</b>	<b>5,794</b>	<b>52</b>
- of which: exposures transferred but not written off	-	-

The main changes reported for forborne exposures were:

- > reclassification to this category of a 600 thousand euros position, as commented upon with regard to unlikely-to-pay positions;
- > reclassification to a different category of a 1,901 thousand euros position, as commented upon with regard to bad loans.

Other changes were attributable to several performing positions of marginal amount.

## A.1.8 Non-performing cash credit exposures with customers: changes in total adjustments

CAUSES/CATEGORIES	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST-DUE EXPOSURES	
	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES	TOTAL	OF WHICH: FORBORNE EXPOSURES
<b>A. Total adjustments at year-start</b>	<b>13,450</b>	<b>967</b>	<b>202</b>	<b>11</b>	<b>388</b>	<b>-</b>
- of which: exposures transferred but not written off	-	-	-	-	-	-
<b>B. Increases</b>	<b>1,288</b>	<b>-</b>	<b>31</b>	<b>6</b>	<b>385</b>	<b>-</b>
B.1. Adjustments	1,270	-	29	4	385	-
B.2. Losses from disposals	-	-	-	-	-	-
B.3 Transfers from other categories of non-performing exposures	18	-	2	2	-	-
B.4 Other increases	-	-	-	-	-	-
<b>C. Decreases</b>	<b>2,814</b>	<b>967</b>	<b>93</b>	<b>7</b>	<b>342</b>	<b>-</b>
C.1 Reversal of adjustments	12	-	17	-	292	-
C.2 Reversal of collections	710	593	31	7	31	-
C.3 Gains from disposals	-	-	-	-	-	-
C.4 Write-offs	2,092	374	27	-	17	-
C.5 Transfers to other categories of non-performing exposures	-	-	18	-	2	-
C.6 Other decreases	-	-	-	-	-	-
<b>D. Total adjustments at year-end</b>	<b>11,924</b>	<b>-</b>	<b>140</b>	<b>10</b>	<b>431</b>	<b>-</b>
- of which: exposures transferred but not written off	-	-	-	-	-	-

Besides the exposures included in the previous tables, other non-performing positions recognised in the Financial Statements amounted to 994 thousand euros, attributable to operating receivables not involving loans, mostly relating to disputes and pre-dispute positions against former Financial Advisors (terminated or expired contracts).

OPERATING RECEIVABLES UNDER DISPUTE	GROSS	WRITE-DOWNS	NET
Former Sim FA litigation	14	-14	-
FA litigation	1,771	-777	994
Sums advanced to Financial Advisors	79	-79	-
INA agents	813	-813	-
<b>Write-downs of receivables from FAs</b>	<b>2,677</b>	<b>-1,683</b>	<b>994</b>
Write-downs of operating receivables	279	-279	-
<b>Total</b>	<b>2,956</b>	<b>-1,962</b>	<b>994</b>

## A.2 Classification of exposures based on external and internal ratings

Banca Generali has not yet defined an internal rating system for evaluating its customers' credit standing. The Bank therefore uses ratings published by the main rating companies (Moody's, S&P and Fitch) in making decisions regarding its trading activities.

## A.2.1 Cash and off-balance sheet credit exposures, broken down by external rating classes

EXPOSURES	EXTERNAL RATING CLASSES						WITHOUT RATING	TOTAL
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	< B-		
HFT financial assets	-	-	22,111	-	-	-	12,009	34,120
AFS financial assets	29,195	39,276	4,259,055	17,968	4,420	-	-	4,349,914
HTM financial assets	2,511	36,445	638,768	36,864	9,671	-	7,102	731,361
Loans to customers	-	2,500	18,993	1,945	1,774	-	1,818,019	1,843,231
Loans to banks	-	22,962	48,094	15,164	36,827	-	196,936	319,983
<b>A. Cash exposures</b>	<b>31,706</b>	<b>101,183</b>	<b>4,987,021</b>	<b>71,941</b>	<b>52,692</b>	<b>-</b>	<b>2,034,066</b>	<b>7,278,609</b>
Financial derivatives	-	-	-	-	-	-	877	877
Credit derivatives	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>877</b>	<b>877</b>
<b>C. Guarantees issued</b>	<b>-</b>	<b>-</b>	<b>2,224</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>116,463</b>	<b>118,687</b>
<b>D. Commitments to dispense funds</b>	<b>101</b>	<b>345</b>	<b>3,074</b>	<b>96</b>	<b>-</b>	<b>-</b>	<b>510</b>	<b>4,126</b>
<b>E. Other</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,181</b>	<b>2,181</b>
<b>Total</b>	<b>31,807</b>	<b>101,528</b>	<b>4,992,319</b>	<b>72,037</b>	<b>52,692</b>	<b>-</b>	<b>2,154,097</b>	<b>7,404,480</b>

## A.3 Breakdown of guaranteed exposures by type of guarantee

## A.3.2 Guaranteed credit exposures with customers

	COLLATERALISED GUARANTEES (1)					PERSONAL GUARANTEES(2)							TOTAL (1) + (2)		
	EXPOSURE NET AMOUNT	BUILDINGS - MORTGAGES	BUILDINGS - FINANCE LEASE	OTHER COLLATE- RALISED SECURITIES GUARANTEES		CREDIT DERIVATIVES				SIGNATURE LOANS					
						GOVERNMENT AND CENTRAL BANKS	OTHER PUBLIC INSTITUTIONS	BANKS	OTHER ENTITIES	GOVERNMENT AND CENTRAL BANKS	OTHER PUBLIC INSTITUTIONS	BANKS		OTHER ENTITIES	
															OTHER DERIVATIVES
<b>1. Guaranteed cash credit exposures</b>	<b>1,638,575</b>	<b>418,313</b>	<b>-</b>	<b>834,055</b>	<b>356,538</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,027</b>	<b>1,619,933</b>
1.1 Totally guaranteed	1,552,569	414,775	-	782,237	345,396	-	-	-	-	-	-	-	-	10,181	1,552,589
- of which: non-performing	27,555	17,318	-	5,145	287	-	-	-	-	-	-	-	-	4,804	27,554
1.2 Partially guaranteed	86,006	3,538	-	51,818	11,142	-	-	-	-	-	-	-	-	846	67,344
- of which: non-performing	2,095	3	-	488	534	-	-	-	-	-	-	-	-	-	1,025
<b>2. Guaranteed off-balance sheet credit exposures:</b>	<b>115,308</b>	<b>253</b>	<b>-</b>	<b>69,001</b>	<b>41,780</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,021</b>	<b>112,055</b>
2.1 Totally guaranteed	108,085	217	-	66,048	40,799	-	-	-	-	-	-	-	-	1,021	108,085
- of which: non-performing	919	-	-	529	322	-	-	-	-	-	-	-	-	68	919
2.2 Partially guaranteed	7,223	36	-	2,953	981	-	-	-	-	-	-	-	-	-	3,970
- of which: non-performing	2,000	-	-	-	15	-	-	-	-	-	-	-	-	-	15

## B. Breakdown and concentration of credit exposures

### B.1 Sector breakdown of cash and off-balance sheet credit exposures to customers (book value)

EXPOSURES/COUNTERPARTY	NET EXPOSURE	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS
<b>A. Cash exposures</b>			
1. Governments	4,728,690	-	-
A.1 Bad loans	-	-	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	-	-	-
- of which: forborne exposures	-	-	-
A.3 Non-performing past-due exposures	-	-	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	4,728,690	-	-
- of which: forborne exposures	-	-	-
2. Other public institutions	-	-	-
A.1 Bad loans	-	-	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	-	-	-
- of which: forborne exposures	-	-	-
A.3 Non-performing past-due exposures	-	-	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	-	-	-
- of which: forborne exposures	-	-	-
3. Financial companies	243,036	105	1,187
A.1 Bad loans	4,655	89	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	1	12	-
- of which: forborne exposures	-	-	-
A.3 Non-performing past-due exposures	3	4	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	238,377	-	1,187
- of which: forborne exposures	-	-	-
4. Insurance companies	18,820	-	-
A.1 Bad loans	-	-	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	-	-	-
- of which: forborne exposures	-	-	-
A.3 Non-performing past-due exposures	-	-	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	18,820	-	-
- of which: forborne exposures	-	-	-
5. Non-financial companies	527,794	10,598	5,126
A.1 Bad loans	13,193	10,461	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	5,188	24	-
- of which: forborne exposures	5,183	10	-
A.3 Non-performing past-due exposures	103	113	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	509,310	-	5,126
- of which: forborne exposures	32	-	-
6. Other entities	1,229,042	1,792	-
A.1 Bad loans	5,176	1,374	-
- of which: forborne exposures	-	-	-
A.2 Unlikely to pay	1,582	104	-
- of which: forborne exposures	601	-	-
A.3 Non-performing past-due exposures	1,958	314	-
- of which: forborne exposures	-	-	-
A.4 Performing exposures	1,220,326	-	-
- of which: forborne exposures	19	-	-
<b>Total A - Cash exposures</b>	<b>6,747,382</b>	<b>12,495</b>	<b>6,313</b>

EXPOSURES/COUNTERPARTY	NET EXPOSURE	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS
<b>B. Off-balance sheet exposures</b>			
1. Governments	3,352	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	3,352	-	-
2. Other public institutions	-	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	-	-	-
3. Financial companies	461	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	461	-	-
4. Insurance companies	4,224	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	4,224	-	-
5. Non-financial companies	70,160	-	-
B.1 Bad loans	68	-	-
B.2 Unlikely to pay	2,851	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	67,241	-	-
6. Other entities	44,909	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4 Performing exposures	44,909	-	-
<b>Total B - Off-balance sheet exposures</b>	<b>123,106</b>	<b>-</b>	<b>-</b>
	NET EXPOSURE	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS
Governments	4,732,042	-	-
Public institutions	-	-	-
Financial companies	243,497	105	1,187
Insurance companies	23,044	-	-
Non-financial companies	597,954	10,598	5,126
Other entities	1,273,951	1,792	-
<b>Overall total (A + B) 31.12.2016</b>	<b>6,870,488</b>	<b>12,495</b>	<b>6,313</b>
<b>Overall total (A + B) 31.12.2015</b>	<b>5,059,452</b>	<b>14,041</b>	<b>2,400</b>



## B.2 Geographical breakdown of cash and off-balance sheet credit exposures to customers (book value)

EXPOSURES/GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
<b>A. Cash exposures</b>										
A.1 Bad loans	23,024	11,328	-	596	-	-	-	-	-	-
A.2 Unlikely to pay	6,771	140	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	2,064	429	-	2	-	-	-	-	-	-
A.4 Other performing exposures	6,492,702	3,273	144,337	2,944	74,378	72	1,495	-	2,611	24
<b>Total A</b>	<b>6,524,561</b>	<b>15,170</b>	<b>144,337</b>	<b>3,542</b>	<b>74,378</b>	<b>72</b>	<b>1,495</b>	<b>-</b>	<b>2,611</b>	<b>24</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Bad loans	68	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	2,851	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Other performing exposures	119,692	-	495	-	-	-	-	-	-	-
<b>Total B</b>	<b>122,611</b>	<b>-</b>	<b>495</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total at 31.12.2016</b>	<b>6,647,172</b>	<b>15,170</b>	<b>144,832</b>	<b>3,542</b>	<b>74,378</b>	<b>72</b>	<b>1,495</b>	<b>-</b>	<b>2,611</b>	<b>24</b>
<b>Total at 31.12.2015</b>	<b>4,880,391</b>	<b>15,427</b>	<b>169,440</b>	<b>1,008</b>	<b>44,989</b>	<b>6</b>	<b>1,632</b>	<b>-</b>	<b>-</b>	<b>-</b>

## B.3 Geographical breakdown of cash and off-balance sheet credit exposures to banks (book value)

EXPOSURES/GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
<b>A. Cash exposures</b>										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	364,273	1,303	89,261	173	57,103	-	7,526	29	13,062	15
<b>Total A</b>	<b>364,273</b>	<b>1,303</b>	<b>89,261</b>	<b>173</b>	<b>57,103</b>	<b>-</b>	<b>7,526</b>	<b>29</b>	<b>13,062</b>	<b>15</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Other performing exposures	2,526	-	240	-	-	-	-	-	-	-
<b>Total B</b>	<b>2,526</b>	<b>-</b>	<b>240</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total at 31.12.2016</b>	<b>366,799</b>	<b>1,303</b>	<b>89,501</b>	<b>173</b>	<b>57,103</b>	<b>-</b>	<b>7,526</b>	<b>29</b>	<b>13,062</b>	<b>15</b>
<b>Total at 31.12.2015</b>	<b>398,237</b>	<b>3,872</b>	<b>69,221</b>	<b>53</b>	<b>52,046</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## B.4 Large exposures

The Regulation (EU) No. 575/2013 (CRR) and the Directive No. 2013/36/EU (CRD IV), published on the *Official Journal of the European Union* on 27 June 2013, enacted the new rules defined by the Basel Committee on banking supervision. On 17 December 2013, the Bank of Italy applied the above provisions by issuing Circular Letter No. 285 "Prudential Supervisory Provisions Concerning Banks" – further amended in 2014 – and Circular Letter No. 286 "Instructions for the Compilation of Prudential Reports for Banks and Securities Brokerage Companies". In detail, according to the new rules, exposure values of a bank to a counterparty or to a group of connected counterparties must be defined as a "large exposure" if it is equal to or above 10% of the bank's eligible capital base.

The EU Regulation CRR No. 575/2013 defines the "eligible capital" as the sum of Tier 1 capital and Tier 2 capital that is equal to or less than one third of Tier 1 capital.

The exposure value of an asset item shall be its accounting value and not its weighted value. Therefore, the positions which fall within the meaning of "Large Exposure" are recognised at both book value and weighted value.

BIG RISKS	31.12.2016	31.12.2015
a) Carrying amount	5,936,171	3,758,456
b) Weighted amount	120,724	204,853
c) Number	7	8

## C. Securitisation

### C.1 Securitisation

The securitisation portfolio contains only Quarzo CL1 securities, with underlying residential and commercial mortgages (RMBS/CMBS).

#### C.1.1 Breakdown of exposures resulting from securitisation by quality of underlying assets

TYPE OF UNDERLYING ASSETS/EXPOSURES	CASH EXPOSURES						TOTAL NET EXPOSURE
	SENIOR		MEZZANINE		JUNIOR		
	GROSS EXPOSURE	NET EXPOSURE	GROSS EXPOSURE	NET EXPOSURE	GROSS EXPOSURE	NET EXPOSURE	
<b>A. With own underlying assets</b>	-	-	-	-	-	-	-
a) Non-performing	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-
<b>B. With third-party underlying assets</b>	<b>12,473</b>	<b>12,009</b>	-	-	-	-	<b>12,009</b>
a) Non-performing	-	-	-	-	-	-	-
b) Other	12,473	12,009	-	-	-	-	12,009

#### C.1.3 Exposures resulting from the third-party main securitisation, broken down by type of securitised assets and type of exposure

TYPE OF UNDERLYING ASSETS/EXPOSURES	CASH EXPOSURES					
	SENIOR		MEZZANINE		JUNIOR	
	BOOK VALUE	ADJUSTMENTS OF REVERSALS	BOOK VALUE	ADJUSTMENTS OF REVERSALS	BOOK VALUE	ADJUSTMENTS OF REVERSALS
<b>A. Cash exposures</b>						
A.1 Quarzo CL1 FRN 31.12.2019 ABS, Trading portfolio ISIN IT0004284706 underlying RMBS/CMBS	12,009	-464	-	-	-	-
<b>B. Guarantees issued</b>	-	-	-	-	-	-
<b>C. Lines of credit</b>	-	-	-	-	-	-

#### C.1.4 Exposures arising on securitisations broken down by portfolio and type

EXPOSURE/PORTFOLIO	TYPE OF FINANCIAL-ASSET PORTFOLIO						31.12.2016	31.12.2015
	HFT FINANCIAL ASSETS	FINANCIAL ASSETS AT FAIR VALUE OPTION	AFS FINANCIAL ASSETS	HTM FINANCIAL ASSETS	LOANS			
<b>1. Cash exposures</b>	<b>12,009</b>	-	-	-	-	-	<b>12,009</b>	<b>13,027</b>
Senior	12,009	-	-	-	-	-	12,009	13,027
Mezzanine	-	-	-	-	-	-	-	-
Junior	-	-	-	-	-	-	-	-
<b>2. Off-balance sheet exposures</b>	-	-	-	-	-	-	-	-
Senior	-	-	-	-	-	-	-	-
Mezzanine	-	-	-	-	-	-	-	-
Junior	-	-	-	-	-	-	-	-

## E. Transfer Operations

### E.1 Transferred financial assets not written off: book value and total value

TECHNICAL TYPE/PORTFOLIO	HFT FINANCIAL ASSETS			AFS FINANCIAL ASSETS			HTM FINANCIAL ASSETS			LOANS TO BANKS			LOANS TO CUSTOMERS			TOTAL AT 31.12.2016	TOTAL AT 31.12.2015
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C		
<b>A. Cash assets</b>	-	-	-	<b>349,829</b>	-	-	-	-	-	-	-	-	-	-	-	<b>349,829</b>	<b>304,153</b>
1. Debt securities	-	-	-	349,829	-	-	-	-	-	-	-	-	-	-	-	349,829	304,153
2. Equity securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	-	-	-	<b>349,829</b>	-	-	-	-	-	-	-	-	-	-	-	<b>349,829</b>	-
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total at 31.12.2015</b>	-	-	-	<b>304,153</b>	-	-	-	-	-	-	-	-	-	-	-	-	<b>304,153</b>
- of which: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A = Transferred financial assets fully recognised (book value).  
 B = Transferred financial assets partially recognised (book value).  
 C = Transferred financial assets partially recognised (total value).

### E.2 Financial liabilities for transferred assets not written off: book value

LIABILITIES/ASSETS PORTFOLIO	HFT FINANCIAL ASSETS	FVO FINANCIAL ASSETS	AFS FINANCIAL ASSETS	HTM FINANCIAL ASSETS	LOANS	LOANS TO CUSTOMERS	TOTAL
<b>1. Due to customers</b>	<b>to banks</b>		-	-	-	-	-
a) for fully recognised assets	-	-	-	-	-	-	-
b) for partially recognised assets	-	-	-	-	-	-	-
<b>2. Due to banks</b>	-	-	<b>351,437</b>	-	-	-	<b>351,437</b>
a) for fully recognised assets	-	-	351,437	-	-	-	351,437
b) for partially recognised assets	-	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	-	-	<b>351,437</b>	-	-	-	<b>351,437</b>
<b>Total at 31.12.2015</b>	-	-	<b>303,927</b>	-	-	-	<b>303,927</b>

## Section 2 – Market risk

The exposure to market risk is mainly due to the trading of financial instruments on its own account. Market risk is represented by the possibility to suffer losses due to variations in the value of a security or a portfolio of securities associated with unexpected variations in market conditions (share prices, interest rates, exchange rates, the prices of goods and the volatility of risk factors).

In particular, securities measured at fair value and classified in the HFT and AFS portfolios are exposed to risk, as fluctuations in their prices impact the Group's Profit and Loss Account and/or net equity.

With regard to market risk management, the Bank has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the supervisory authority. The Finance Department conducts first-tier management and monitoring of Banca Generali's exposure to market risk in accordance with predefined operating limits detailed in the Parent Company's Finance Rules.

Second-tier checks are a responsibility of the Risk and Capital Adequacy Department, as is the monitoring of operating limits with the objective of maintaining a level of risk that is consistent with the strategies and risk appetite defined by the Board of Directors.

The Internal Audit Department conducts independent controls (third-tier checks) on transactions undertaken by the Departments/Functions involved in the management of market risk in accordance with the Parent Company's Internal Rules and Procedures.

The Risk Committee is the collegial body responsible for a shared vision of the global performance of the market risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

The own securities portfolio is mainly invested in Italian government securities, securities issued by Eurozone governments, and domestic and international banks and, to a lesser extent, in securities of corporate issuers.

The portfolio's exposure to the equities market remains limited with respect to the bond component, and derivatives transactions are absolutely marginal in extent.

The Bank's investment policy is to contain country risk and exchange rate risk to very low levels. Exposure to non-OECD issuers and entities is limited.

The main objective of exchange rate operations is to contain open positions in foreign currencies. The main objective of interest rate operations is to align asset and liability items.

Banca Generali holds only small amounts of securities denominated in foreign currencies.

Market risks are measured based on a daily analysis of VaR (Value at Risk) in the next day for 99% of the cases, prudentially monitored on the whole owned portfolio. VaR describes the maximum potential loss in value of a portfolio in the next day in 99% of the cases. It is calculated based on the volatility of and correlations among the individual risk factors, including, for each currency, short- and long-term interest rates, exchange rates and share prices.

VaR measurement is used for the sole purpose of performing a management analysis of the Bank, which has no internal models aimed at submitting regular reports to the Supervisory Body.

## 2.1 Interest Rate Risk and Price Risk – Regulatory Trading Book

### Qualitative information

#### A. General aspects

The main activities of the Bank that increase its exposure to interest rate risk relating to its trading book include:

- > management of the government bond book;
- > management of the financial bond portfolio;
- > dealings in interest rate derivatives, all of which over the counter.

As the majority of financial products and services are distributed by the sales network, the objectives assigned to the Finance Department in relation to the trading book are aimed at the minimisation of risks.

Management of the trading book is therefore based on the following strategies:

- > supporting the activities of the sales network in relation to placing repurchase agreements for customers;
- > supporting secondary market trading for the clientele, with particular reference to Generali Group counterparties (trading for its own account);
- > providing medium-term liquidity management by investing in government securities and/or securities of major banks;
- > investing with a view to asset allocation in floating- and/or fixed-rate financial bonds and asset-backed securities issued by companies with high investment grade, with the objective of improving the risk-return profile and containing risks.

The bank's investments in structured securities are negligible.

#### B. Management processes and interest rate risk measurement techniques

Market risks are measured based on a daily analysis of VaR (Value at Risk) in the next day for 99% of the cases, prudentially monitored on the whole owned portfolio.

VaR describes the maximum potential loss in value of a portfolio in the next day in 99% of the cases. It is calculated based on the volatility of and correlations among the individual risk factors, including, for each currency, short- and long-term interest rates, exchange rates and share prices.

The following table shows the average risk of the Bank's portfolio (both trading and banking books) for 2016:

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Average VaR 99% 1 day (€/000)	21,905.28	23,851.48	19,888.48	15,518.88

Throughout 2016, market risk remained at moderate levels, with an average one-day 99% VaR of approximately 0.4% of the total portfolio.

## Quantitative information

**1. Regulatory trading portfolio: breakdown by time-to-maturity (repricing date) of cash assets and liabilities and financial derivatives**

TYPE/TIME-TO-MATURITY	REPAYABLE ON DEMAND	UP TO 3 MONTHS	OVER 3 MONTHS, UP TO 6 MONTHS	OVER 6 MONTHS, UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS, UP TO 10 YEARS	OVER 10 YEARS	UNSPECIFIED MATURITY	TOTAL
<b>1. Cash assets</b>	-	<b>12,798</b>	<b>10,219</b>	<b>11,905</b>	-	-	-	-	<b>34,922</b>
1.1 Debt securities									
- With early repayment option	-	-	1,734	1,800	-	-	-	-	3,534
- Other	-	12,798	8,485	10,105	-	-	-	-	31,388
1.2 Other assets	-	-	-	-	-	-	-	-	-
<b>2. Cash liabilities</b>	-	-	-	-	-	-	-	-	-
2.1 Repurchase agreement liabilities	-	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	<b>147,006</b>	<b>27,105</b>	<b>7,730</b>	<b>379</b>	<b>16,950</b>	<b>278</b>	-	<b>199,448</b>
3.1 With underlying securities	-	18,096	297	102	379	16,950	278	-	36,102
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	14,352	297	48	189	3,056	139	-	18,081
+ short positions	-	3,744	-	54	190	13,894	139	-	18,021
3.2 Without underlying securities	-	128,910	26,808	7,628	-	-	-	-	163,346
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	64,455	13,404	3,814	-	-	-	-	81,673
+ short positions	-	64,455	13,404	3,814	-	-	-	-	81,673

**2. Regulatory trading portfolio: breakdown of exposures in capital securities and stock indices for the main countries on the market of listing**

TYPE OF TRANSACTION/INDEX	LISTED			NON-LISTED
	ITALY	FRANCE	OTHER	
<b>A. Equity securities</b>				
Long positions	843	-	1,116	8
Short positions	-	-	-	-
<b>B. Equity security purchases/ sales to be settled</b>				
Long positions	-	-	-	-
Short positions	-	-	-	-
<b>C. Other derivatives on capital securities</b>				
Long positions	-	-	-	-
Short positions	13	-	-	-
<b>D. Stock index derivatives</b>				
Long positions	-	-	-	-
Short positions	-	-	-	-

Price risk consists of the risk that the fair value or future cash flows of a given financial instrument may fluctuate as a result of changes in market prices (other than changes triggered by **interest-rate risk** or **exchange-rate risk**), regardless of whether such changes are the result of factors specific to the instrument or issuer in question, or are due to factors that influence all similar financial instruments traded on the market.

Price risk arises mainly as a result of the trading of shares, stock-index and/or stock futures, stock-index and/or stock options, warrants, covered warrants, option rights, etc., and in relation to UCITS units held in the relevant portfolio. However, the Group's exposure to this risk is moderate given the limited weight of such securities in its portfolio of financial assets held for trading.

### 3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

Sensitivity analysis was also employed to assess the market risks originating in the trading portfolio.

This sort of analysis quantifies the change in the value of a financial portfolio as a result of variation in the primary risk factors, which for Banca Generali Group are interest-rate and price risk.

In calculating interest-rate risk, the analysis assumed a parallel, uniform shift of +100/-100 bps in the rate curve.

The next stage involves establishing the potential effects on the Profit and Loss Account, both in terms of the point change in the fair value of the portfolio under analysis on the reporting date, and the change in the net interest income for the current year.

In calculating the price risk associated with equities, a 10% change in market prices was considered. On this basis, the point impact of such a change on the current equities portfolio was then determined.

On the whole, a change in market prices of +10%/-10% would result in the recognition through profit and loss of capital gains/losses of +196.7/-196.7 thousand euros, gross of the tax effect, on the portfolio of equity securities held for trading.

By contrast, an interest rate movement of +100/-100 bps would have had an overall effect on the fair value of the portfolio of debt securities held for trading of -425.4/+425.4 thousand euros, gross of the tax effect.

	HFT
FV equity delta (+10%)	196.70
FV equity delta (-10%)	-196.70
FV bonds delta (+1%)	-425.45
- of which: government bonds	-
FV bonds delta (-1%)	425.45
- of which: government bonds	-
Net interest income delta (+1%)	442.92
Net interest income delta (-1%)	-371.13

## 2.2 Interest Rate and Price Risk – Banking Portfolio

### Qualitative information

#### A. General aspects, management procedures and techniques for measuring interest rate risks and price risks

The interest rate risk to which the banking portfolio is exposed consists of the risk of incurring losses due to potential fluctuations in interest rates.

This risk is generated by the gaps between the maturities and time required to reset the interest rate on the Bank's assets and liabilities. Where such gaps are present, fluctuations in interest rates result in variations of net profit, and therefore projected profit, as well as variations in the market value of the assets and liabilities, and, in turn, net equity.

With regard to managing the interest rate risk to which the banking portfolio is exposed, the Bank has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the supervisory authority.

The Finance Department and Lending Department conduct first-tier controls on the management of interest rate risk. The Risk and Capital Adequacy Department is responsible for second-tier controls with the aim of conducting specific independent measurement, control and monitoring of the interest rate risk to which the banking portfolio is exposed. The Internal Audit Department is responsible for third-tier controls of loans and inflows transactions.

The Risk Committee is the collegial body responsible for a shared vision of the global performance of the management and control system for interest rate risk in the banking portfolio and for deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Most of the interest rate risk in the Bank's banking portfolio arises from:

- > trading on the interbank deposits market;
- > customer lending activities; and

- > investment operations of the debt securities portfolio held as treasury investment, which can cause a mismatch in the repricing dates and currencies of asset and liability items, with a negative impact on the Group's objectives in terms of net interest income.

The price risk associated with the banking portfolio is limited to the equity investments classified to the portfolio of financial assets available for sale (AFS).

Financial instruments mainly refer to equities and UCITS units listed on regulated markets, except for SIF Tyndaris SICAV (closed-end fund linked to the real-estate market), the Algebris NPL fund, the Tenax Italian Credit Funds, of BNP Paribas Bond Italia fund, and the equity investment in the vehicle Athena Private Equity and Veneto Banca.

The remainder of the portfolio consists of unlisted minority equity investments representing a marginal portion of financial assets. These financial assets have nonetheless continued to be carried at cost due to the lack of market bid prices.

## **B. Fair value and cash flow hedging**

The Bank does not currently engage in fair value or cash flow hedging.

## Quantitative information

**1. Banking portfolio: broken down by time-to-maturity (according to repricing date) of financial assets and liabilities**

TYPE/TIME-TO-MATURITY	REPAYABLE ON DEMAND	UP TO 3 MONTHS	OVER 3 MONTHS, UP TO 6 MONTHS	OVER 6 MONTHS, UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS, UP TO 10 YEARS	OVER 10 YEARS	UNSPECIFIED MATURITY	TOTAL
<b>1. Cash assets</b>	<b>1,899,314</b>	<b>1,216,666</b>	<b>2,069,963</b>	<b>45,520</b>	<b>1,433,826</b>	<b>578,955</b>	<b>242</b>	<b>-</b>	<b>7,244,486</b>
1.1 Debt securities									
- with early repayment option	-	12,743	3,049	5,060	17,032	10,102	-	-	47,986
- other	-	1,108,695	2,065,411	40,396	1,416,325	568,607	-	-	5,199,434
1.2 Loans a Banks	105,622	91,314	-	-	-	-	-	-	196,936
1.3 Loans to customers									
- current accounts	911,603	3	3	5	51	-	-	-	911,665
- other loans	882,089	3,911	1,500	59	418	246	242	-	888,465
- with early repayment option	773,494	268	28	59	329	246	242	-	774,666
- other	108,595	3,643	1,472	-	89	-	-	-	113,799
<b>2. Cash liabilities</b>	<b>6,716,698</b>	<b>156,875</b>	<b>99,817</b>	<b>99,493</b>	<b>400,000</b>	<b>43,282</b>	<b>-</b>	<b>-</b>	<b>7,516,165</b>
2.1 Due to customers									
- current accounts	6,564,049	-	-	-	-	-	-	-	6,564,049
- other payables	106,132	-	-	-	-	43,282	-	-	149,414
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	106,132	-	-	-	-	43,282	-	-	149,414
2.2 Due to banks									
- current accounts	22,308	-	-	-	-	-	-	-	22,308
- other payables	24,209	156,875	99,817	99,493	400,000	-	-	-	780,394
2.3 Debt securities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
2.4 Other liabilities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
3.1 With underlying securities									
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
3.2 Without underlying securities									
- Options									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives									
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
<b>4. Other off-balance sheet transactions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-



## 2. Banking portfolio: internal models and other methods of sensitivity analysis

The sensitivity analysis discussed in the foregoing paragraph has also been conducted for the banking portfolio, focusing on the portfolio of financial assets available for sale, and, with reference to interest-rate risk, for the portfolio of financial assets held to maturity and the portfolio of loans to customers and banks.

As regards the price risk, a change in market prices of +10%/-10% would result in a change in valuation reserves associated with equities classified among AFS assets of +1.6/-1.6 million euros, whereas a shock of +100/-100 bps would yield a change in the valuation reserves on AFS debt securities of -68/+68 million euros, gross of the tax effect.

The fair value delta component associated with the government bonds in the AFS portfolio would amount to -65.6/+65.6 million euros as a result of the hypothesised shift in the rate curve, or 96.3% of the fair value delta of the entire AFS portfolio.

To provide a complete information, the following table shows the effect of a similar price shock in the fair value of portfolios recognised at amortised cost.

A change of +100/-100 bps in interest rates would have an effect of +39.9/-39.9 million euros on the flow of interest on the banking book consisting of debt securities classified among financial assets available for sale (AFS), held to maturity (HTM), loans and receivables (L&R) and loans.

	RESERVES	HTM+L&R	LOANS (*)	TOTAL
FV equity delta (+10%)	1,586.80	0.00	0.00	1,586.80
FV equity delta (-10%)	-1,586.80	0.00	0.00	-1,586.80
FV bonds & loans delta (+1%)	-68,089.38	-40,771.02	-44,287.58	-153,147.99
- of which: government bonds	-65,563.80	-32,016.90	0.00	-97,580.70
FV bond & loans delta (-1%)	68,089.38	40,771.02	44,287.58	153,147.99
- of which: government bonds	65,563.80	32,010.40	0.00	97,574.20
Net interest income delta (+1%)	16,613.31	760.51	22,491.12	39,864.94
Net interest income delta (-1%)	-16,614.17	-760.56	-22,492.39	-39,867.12

(\*) Loans to banks and Loans to customers.

The same criteria were also applied to a sensitivity analysis of net interest income of all financial statement items. It resulted in a potential impact on the Profit and Loss Account of +37.1 million euros, gross of the tax effect, in case of increase of interest rates by 1%, and -36.8 million euros in case of decrease by the same amount.

	ASSETS	LIABILITIES	NET
Net interest income delta (+1%)	40,307.86	-3,256.57	37,051.29
Net interest income delta (-1%)	-40,238.24	3,401.90	-36,836.35

## 2.3 Exchange Rate Risk

### Qualitative information

#### A. General aspect, management processes and exchange rate risk measurement techniques

Exchange rate risk is the possibility of incurring losses due to adverse fluctuations in the value of foreign currencies on all positions held by the Bank, regardless of the portfolio to which they have been allocated.

With regard to exchange rate risk management, the Group has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the supervisory authority.

The Finance Department performs first-tier controls of exchange-rate risk management.

The Risk and Capital Adequacy Department Service is responsible for second-tier controls with the aim of conducting specific independent measurement, control and monitoring of the exchange rate risk.

The Internal Audit Department is responsible for third-tier controls of loans and inflows in foreign currency.

The Risk Committee is the collegial body responsible for a shared vision of the global performance of the exchange rate risk management and control system and deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Most of the exchange-rate risk arises from:

- > trading of securities and other financial assets in foreign currency;
- > interest to be collected and/or paid, reimbursements, fees or dividends in foreign currency;
- > bank transfers in foreign currency to customers (Institutional and Retail customers);
- > currency trading on behalf of customers.

The main objective of exchange rate operations is to contain open positions in foreign currencies, exclusively currency account currencies.

Exchange rate risk is mitigated through funding activities in the same currency as that of lending transactions.

## Quantitative information

### 1. Breakdown by currency of denomination for assets, liabilities, and derivatives

ITEMS	CURRENCY								TOTAL CURRENCIES
	US DOLLAR	JAPANESE YEN	SWISS FRANC	POUND STERLING	ICELAND KRONA	CANADIAN DOLLAR	AUSTRALIAN DOLLAR	OTHER CURRENCIES	
<b>A. Financial assets</b>	<b>39,716</b>	<b>4,192</b>	<b>16,446</b>	<b>4,310</b>	<b>1,882</b>	<b>1,991</b>	<b>1,762</b>	<b>1,648</b>	<b>71,947</b>
A.1 Debt securities	-	-	-	-	-	-	-	-	-
A.2 Equity securities	1,032	-	-	-	-	-	-	-	1,032
A.3 Loans to banks	38,684	4,090	11,567	4,310	1,882	1,991	1,762	1,648	65,934
A.4 Loans to customers	-	102	4,879	-	-	-	-	-	4,981
A.5 Other financial assets	-	-	-	-	-	-	-	-	-
<b>B. Other assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>C. Financial liabilities</b>	<b>39,876</b>	<b>4,085</b>	<b>16,366</b>	<b>4,502</b>	<b>1,177</b>	<b>1,957</b>	<b>1,533</b>	<b>1,585</b>	<b>71,081</b>
C.1 Due to banks	-	-	4,748	-	-	-	-	-	4,748
C.2 Due to customers	39,876	4,085	11,618	4,502	1,177	1,957	1,533	1,585	66,333
C.3 Debt securities	-	-	-	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-	-	-	-
<b>D. Other liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>E. Financial derivatives</b>	<b>76</b>	<b>-3</b>	<b>-136</b>	<b>-2,731</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-2,790</b>
Options	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-
Other derivatives	76	-3	-136	-2,731	-	-	-	4	-2,790
- long positions	29,299	733	60	8,560	-	-	-	789	39,441
- short positions	29,223	736	196	11,291	-	-	-	785	42,231
<b>Total assets</b>	<b>69,015</b>	<b>4,925</b>	<b>16,506</b>	<b>12,870</b>	<b>1,882</b>	<b>1,991</b>	<b>1,762</b>	<b>2,437</b>	<b>111,388</b>
<b>Total liabilities</b>	<b>69,099</b>	<b>4,821</b>	<b>16,562</b>	<b>15,793</b>	<b>1,177</b>	<b>1,957</b>	<b>1,533</b>	<b>2,370</b>	<b>113,312</b>
<b>Excess</b>	<b>-84</b>	<b>104</b>	<b>-56</b>	<b>-2,923</b>	<b>705</b>	<b>34</b>	<b>229</b>	<b>67</b>	<b>-1,924</b>

## 2. Internal models and other methods of sensitivity analysis

The sensitivity analysis discussed in the foregoing paragraph has been also conducted on assets and liabilities denominated in currencies other than the euro, regardless of the portfolio to which they have been allocated.

On the whole, a change in market prices of +10%/-10% would result in a change of the value of securities of +103/-103 thousand euros, whereas a shock of +100/-100 bps in rates would have an effect on the fair value of bonds and securities other than equities in foreign currency of -18/+18 thousand euros, gross of the tax effect.

	ASSETS
FV equity delta (+10%)	103.20
FV equity delta (-10%)	-103.20
FV non-equity delta (+1%)	-18.01
FV non-equity delta (-1%)	18.01
Net interest income delta (+1%)	691.62
Net interest income delta (-1%)	-691.62

By contrast, an interest rate movement of +100/-100 bps would have an effect of -/+692 thousand euros on the flow of interest on assets and liabilities denominated in currencies other than the euro.

## 2.4 Derivative instruments

### A. Financial derivatives

#### A.1 Regulatory trading portfolio: notional amounts at year-end

TYPES OF DERIVATIVES/ UNDERLYING ASSETS	31.12.2016		31.12.2015	
	OTC	CENTRAL COUNTERPARTIES	OTC	CENTRAL COUNTERPARTIES
<b>1. Debt securities and interest rates</b>	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Equity securities and equity indices</b>	<b>6,902</b>	-	-	-
a) Options	6,902	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Currencies and gold</b>	<b>40,254</b>	-	<b>67,217</b>	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	40,254	-	67,217	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Goods</b>	-	-	-	-
<b>5. Other underlying assets</b>	-	-	-	-
<b>Total</b>	<b>47,156</b>	-	<b>67,217</b>	-

## A.3 Financial derivatives: positive gross fair value - breakdown by products

PORTFOLIO/TYPE OF DERIVATIVES	POSITIVE FV 2016		POSITIVE FV 2015	
	OTC	CENTRAL COUNTERPARTIES	OTC	CENTRAL COUNTERPARTIES
<b>A. Regulatory trading portfolio</b>	<b>877</b>	<b>-</b>	<b>529</b>	<b>-</b>
a) Options	104	-	42	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	773	-	487	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>B. Hedging portfolio</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking portfolio – other derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>877</b>	<b>-</b>	<b>529</b>	<b>-</b>

## A.4 Financial derivatives: negative gross fair value - breakdown by products

PORTFOLIO/TYPE OF DERIVATIVES	NEGATIVE FV 2016		NEGATIVE FV 2015	
	OTC	CENTRAL COUNTERPARTIES	OTC	CENTRAL COUNTERPARTIES
<b>A. Regulatory trading portfolio</b>	<b>1,169</b>	<b>-</b>	<b>463</b>	<b>-</b>
a) Options	409	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	760	-	463	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>B. Hedging portfolio</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking portfolio – other derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>1,169</b>	<b>-</b>	<b>463</b>	<b>-</b>

## A.5 OTC financial derivatives – Regulatory Trading Book: notional values, positive and negative gross fair value by counterparties – contracts other than netting arrangements

CONTRACTS OTHER THAN NETTING ARRANGEMENTS	GOVERNMENT AND CENTRAL BANKS	OTHER PUBLIC INSTITUTIONS	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
<b>1) Debt securities and interest rates</b>							
Notional value	-	-	-	-	-	-	-
Positive fair value	-	-	-	-	-	-	-
Negative fair value	-	-	-	-	-	-	-
Future exposure	-	-	-	-	-	-	-
<b>2) Equity securities and equity indices</b>							
Notional value	-	-	-	6,902	-	-	-
Positive fair value	-	-	-	104	-	-	-
Negative fair value	-	-	-	409	-	-	-
Future exposure	-	-	-	181	-	-	-
<b>3) Currencies and gold</b>							
Notional value	-	-	20,127	-	-	6,155	13,972
Positive fair value	-	-	193	-	-	300	280
Negative fair value	-	-	572	-	-	-	188
Future exposure	-	-	201	-	-	62	140
<b>4) Other values</b>							
Notional value	-	-	-	-	-	-	-
Positive fair value	-	-	-	-	-	-	-
Negative fair value	-	-	-	-	-	-	-
Future exposure	-	-	-	-	-	-	-

**A.9 Time-to-maturity of OTC financial derivatives: notional values**

UNDERLYING/RESIDUAL LIFE	UP TO 1 YEAR	OVER 1 YEAR, UP TO 5 YEARS	OVER 5 YEARS	TOTAL
<b>A. Regulatory trading portfolio</b>	<b>46,196</b>	<b>960</b>	-	<b>47,156</b>
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity securities and stock indices	5,942	960	-	6,902
A.3 Financial derivatives on exchange rates and gold	40,254	-	-	40,254
A.4 Financial derivatives on other valuables	-	-	-	-
<b>B. Banking portfolio</b>	-	-	-	-
B.1 Financial derivatives on debt securities and interest rates	-	-	-	-
B.2 Financial derivatives on equity securities and stock indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other valuables	-	-	-	-
<b>Total at 31.12.2016</b>	<b>46,196</b>	<b>960</b>	-	<b>47,156</b>
<b>Total at 31.12.2015</b>	<b>67,217</b>	-	-	<b>67,217</b>

**Section 3 – Liquidity risk**

Exposure to liquidity risk derives from funding and lending transactions in the course of the Bank's ordinary business, as well as from the presence of unlisted financial instruments in its owned portfolios. Such risk takes the form of default on payment obligations, which may be caused by an inability to raise funds (funding liquidity risk) or the existence of limits on the divestment of assets (market liquidity risk). Liquidity risk also includes the risk that an entity may be forced to meet its own payment obligations at non-market costs, that is to say while incurring a high cost of funding or (and in some cases concurrently) sustaining capital losses when divesting assets.

With regard to liquidity risk management, the Bank has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the supervisory authority.

The Finance Department is responsible for first-tier controls and managing treasury and proprietary investment cash flows with the aim of ensuring thorough diversification of sources of financing and monitoring cash flows and daily liquidity. Liquidity needs are primarily managed through recourse to the money market (interbank deposits and repurchase agreements) and, secondly, where present, through extraordinary measures provided by the ECB. The Group also holds a portfolio of highly liquid, listed financial instruments in order to react to possible crisis scenarios involving a sudden interruption of funding flows.

The Risk and Capital Adequacy Department is responsible for second-tier controls. Liquidity risks are maintained within appropriate short-term and structural operating limits (beyond one year), which are monitored by the said Department. Such limits are established with the objective of maintaining a level of risk that is consistent with the strategies and risk appetite defined by the Board of Directors.

The Internal Audit Department is responsible for third-tier controls on lending and inflows transactions.

The Risk Committee is the collegial body responsible for a shared vision of the global performance of the liquidity risk management and control system and for deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

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

The own securities portfolio is mainly invested in Italian government securities, securities issued by Eurozone governments, and domestic and international financials and, to a lesser extent, in securities of corporate issuers.

The Bank uses a maturity ladder to apply the guidelines set out in the Prudential Supervisory provisions governing the measurement of net financial position. Through the maturity ladder the Bank assesses the matching of expected cash flows, by balancing assets and liabilities whose maturity falls within each maturity range; the balances and therefore the mismatches between expected inflows and outflows within each maturity range allow, through the construction of cumulative mismatches, the calculation of the net balance of funding requirement (or surplus) over the period considered.

### 1. Breakdown of financial assets and liabilities by remaining contractual maturity

ITEM/TIME-TO-MATURITY	ON DEMAND	OVER 1 DAY UP TO 7 DAYS	OVER 7 DAYS UP TO 15 DAYS	OVER 15 DAYS TO 1 MONTH	OVER 1 MONTH UP TO 3 MONTHS	OVER 3 MONTHS UP TO 6 MONTHS	OVER 6 MONTHS UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	UNSPECIFIED MATURITY	TOTAL
<b>Cash assets</b>											
A.1 Government securities	-	-	1,144	-	6,789	112,229	40,088	2,299,820	2,265,000	-	4,725,070
A.2 Other debt securities	-	-	212	16,661	22,958	13,879	62,946	390,241	55,200	-	562,097
A.3 UCITS units	45,128	-	-	-	-	-	-	-	-	-	45,128
<b>A.4 Loans</b>											
- to banks	105,622	-	-	25,000	10,000	-	-	-	-	56,314	196,936
- to customers	1,006,899	90	6,907	1,136	16,811	41,576	112,464	303,408	318,518	-	1,807,809
<b>Total</b>	<b>1,157,649</b>	<b>90</b>	<b>8,263</b>	<b>42,797</b>	<b>56,558</b>	<b>167,684</b>	<b>215,498</b>	<b>2,993,469</b>	<b>2,638,718</b>	<b>56,314</b>	<b>7,337,040</b>
<b>Cash liabilities</b>											
<b>B.1 Deposits and current accounts</b>											
- from banks	23,673	-	-	-	4,753	-	-	400,000	-	-	428,426
- from customers	6,562,495	26	-	130	244	270	691	193	-	-	6,564,049
<b>B.2 Debt securities</b>											
B.3 Other liabilities	154,247	-	-	-	152,127	99,817	99,493	-	43,000	-	548,684
<b>Total</b>	<b>6,740,415</b>	<b>26</b>	<b>-</b>	<b>130</b>	<b>157,124</b>	<b>100,087</b>	<b>100,184</b>	<b>400,193</b>	<b>43,000</b>	<b>-</b>	<b>7,541,159</b>
<b>Off-balance sheet transactions</b>											
<b>C.1 Financial derivatives with capital swap</b>											
- long positions	-	55,770	15,173	1,157	6,707	13,403	3,829	520	3,210	-	99,769
- short positions	-	45,162	15,173	1,157	6,707	13,403	3,814	240	13,210	-	98,866
<b>C.2 Financial derivatives with capital swap</b>											
- long positions	101	-	-	-	-	-	-	-	-	-	101
- short positions	409	-	-	-	-	-	-	-	-	-	409
<b>C.3 Deposits and loans receivable</b>											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
<b>C.4 Commitments to disburse funds</b>											
- long positions	-	-	-	-	-	-	150	63	4	-	217
- short positions	217	-	-	-	-	-	-	-	-	-	217
<b>C.5 Financial guarantees issued</b>											
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-
<b>C.7 Credit derivatives with capital swap</b>											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
<b>C.8 Credit derivatives without capital swap</b>											
- long positions	-	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>727</b>	<b>100,932</b>	<b>30,346</b>	<b>2,314</b>	<b>13,414</b>	<b>26,806</b>	<b>7,793</b>	<b>823</b>	<b>16,424</b>	<b>-</b>	<b>199,579</b>

---

## Section 4 – Operating risks

---

### A. General aspects

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

With regard to operating risk management, the Bank has formally defined a single risk management policy, which specifies the general principles, the role of corporate bodies and functions involved in the risk management, the Group's risk management guidelines based on its business model, the Group's risk appetite, the system of delegated powers established by the Board of Directors, the internal control system in force, and the instructions of the supervisory authority.

The functions dealing with Organisation and IT guarantee the efficient functioning of application procedures and information systems that support organisational processes. They also evaluate the physical and logical security conditions within the Bank and, if necessary, implement measures to guarantee a higher general level of security.

The Risk and Capital Adequacy Department function identifies and assesses the operational risks inherent in business processes (risk assessment and scoring), measures the impact of operational losses (Loss Data Collection process), monitors the action plans adopted to mitigate material risks, and controls KRIs (Key Risk Indicators) to manage the areas of highest risk.

The Internal Auditing function supervises the regular conduct of the Bank's operations and processes, and assesses the efficacy and efficiency of the overall internal control system established to monitor activities exposed to risk.

The Risk Committee is the collegial body responsible for a shared vision of the global performance of the operating risk management and control system and for deciding which actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments conducted by the Risk and Capital Adequacy Department.

Moreover, Banca Generali has insurance coverage for operating risks deriving from acts of third parties or caused to third parties and adequate clauses covering damages caused by providers of infrastructure and services. In addition, the Group has also approved a Business Continuity Plan.



## PART F – INFORMATION ON NET EQUITY

### Section 1 – Net equity

#### A. Qualitative information

The Bank's capital management strategy mainly aims is to ensure that the capital and ratios are consistent with its risk profile and regulatory requirements.

The Bank is subject to the capital adequacy requirements established by the Basel Committee in accordance with the rules defined by European Union and applied by the Bank of Italy.

Such rules envisage the specific concept of "Own Funds", which is separate from the net equity stated in the financial statements. Own funds are calculated as the sum of positive and negative items, which are included in the calculation based on the quality of capital attributed to them.

Compliance with minimum capital requirements is monitored by the Risk Management Service, whereas the Regulatory Reporting function is responsible for calculating and disclosing of own funds and capital requirements on a regular basis, as well as safeguarding the related databases (historical regulatory archive).

The Parent Company's compliance with capital adequacy ratios is monitored throughout the year and on a quarterly basis, and the necessary measures are taken to ensure control over the balance sheet items.

Additional analyses and control of the capital adequacy is also carried out any time the Company carries out extraordinary transactions (e.g., acquisitions, transfers, etc.). In these cases, information concerning the transaction is used to estimate its impact on the capital ratios, and any actions that may be necessary to comply with the requirements of the supervisory authorities are planned.

Compliance with capital adequacy is also guaranteed by the adoption of ECB's recommendations issued on 13 December 2016 on dividend distribution policies (ECB/2016/44) and ECB's Letter of the same date concerning variable remuneration policies, both aimed at observing minimum capital adequacy requirements in the medium/long term and detecting the potential effects of any adverse market situation.

#### B. Quantitative information

At 31 December 2016, net equity, including net profit for the year, amounted to 522.2 million euros compared to 523.6 million euros at the end of the previous year.

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
1. Share capital	116,425	116,093	332	0.3%
2. Additional paid-in capital	53,803	50,063	3,740	7.5%
3. Reserves	201,028	153,190	47,838	31.2%
4. (Treasury shares)	-2,933	-2,555	-378	14.8%
5. Valuation reserves	9,158	22,500	-13,342	-59.3%
6. Equity instruments	-	-	-	n.a.
7. Net profit (loss) for the year	144,751	184,292	-39,541	-21.5%
<b>Total net equity</b>	<b>522,232</b>	<b>523,583</b>	<b>-1,351</b>	<b>-0.3%</b>

The change in equity during the reporting year was influenced by the distribution of the 2015 dividend of 139.2 million euros, approved by the Shareholders' Meeting of 21 April 2016 that also approved the Financial Statements, the change in the reserves for shared-based payments (IFRS 2), the change in fair value valuation reserves for the portfolio of AFS financial assets and other reserves included in other comprehensive income.

During the first half of the year, by virtue of the resolution of the Shareholders' Meeting of 21 April 2016 and the authorisation granted by the Bank of Italy on 6 June 2016, 67,051 Banca Generali shares were purchased, for a value of 1,379 thousand euros, in service of the portion of variable remuneration of key personnel of the Banking Group, payable in shares in accordance with the 2016 Remuneration Policy.

On the basis of the achievement of the performance objectives set out in the 2015 Remuneration Policy, 38,099 treasury shares, with a value of 1,001 thousand euros, were awarded to managers and network managers.

At the end of the year, Banca Generali thus held 126,129 treasury shares, with a value of 2,933 thousand euros, intended solely for the service of remuneration plans for the Banking Group's key personnel.

	31.12.2016	31.12.2015
<b>Net equity at year-start</b>	<b>523,583</b>	<b>442,377</b>
Dividend paid	-139,237	-113,431
Purchase and sale of treasury shares	-1,467	-2,514
Stock option plans: issue of new shares	3,585	4,384
Stock-option plans and other share-based payments (IFRS2-related charges)	1,737	1,717
Assicurazioni Generali stock granting plans (LTIPs)	2,622	2,312
Change in valuation reserves	-13,342	4,446
Net profit for the period	144,751	184,292
<b>Net equity at year-end</b>	<b>522,232</b>	<b>523,583</b>
<b>Change</b>	<b>-1,351</b>	<b>81,206</b>

## B.1 Breakdown of net equity

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
1. Share capital	116,425	116,093	332	0.3%
2. Additional paid-in capital	53,803	50,063	3,740	7.5%
3. Reserves	201,028	153,190	47,838	31.2%
- retained earnings	187,267	142,279	44,988	31.6%
a) legal reserve	23,226	23,151	75	0.3%
b) statutory reserve	-	-	-	n.a.
c) treasury shares	-	2,555	-2,555	-100.0%
d) other	164,041	116,573	47,468	40.7%
- other	13,761	10,911	2,850	26.1%
4. Equity instruments	-	-	-	n.a.
5. (Treasury shares)	-2,933	-2,555	-378	14.8%
6. Valuation reserves	9,158	22,500	-13,342	-59.3%
- AFS financial assets	10,760	23,921	-13,161	-55.0%
- Property and equipment	-	-	-	n.a.
- Intangible assets	-	-	-	n.a.
- Hedges of foreign investments	-	-	-	n.a.
- Cash-flow hedges	-	-	-	n.a.
- Exchange differences	-	-	-	n.a.
- Non-current assets held for sale	-	-	-	n.a.
- Actuarial gains (losses)	-1,602	-1,421	-181	12.7%
- From to defined benefit plans	-	-	-	n.a.
- Share of valuation reserves	-	-	-	n.a.
- Of investee companies valued at equity	-	-	-	n.a.
- Special revaluation laws	-	-	-	n.a.
7. Net profit (loss) for the year	144,751	184,292	-39,541	-21.5%
<b>Total net equity</b>	<b>522,232</b>	<b>523,583</b>	<b>-1,351</b>	<b>-0.3%</b>

## B.2 Breakdown of valuation reserves from AFS financial assets

Valuation reserves from AFS financial assets measure the unrealised capital gains and losses, net of the associated tax effect, on the assets allocated to that portfolio and recognised at fair value.

The change in these reserves contributes to determining the overall company performance in relation to other comprehensive income (OCI), without passing through the Profit and Loss Account.

However, when gains or losses are realised or an impairment loss is recognised, the cumulative amount of the reserve is reclassified to the Profit and Loss Account in the year of reference.

Fair value valuation reserves referring to the AFS financial asset portfolio decreased sharply compared to the end of the previous year, due in part to the release to the Profit and Loss Account of pre-existing positive reserves relating to the securities subject to disposal, and in part to the decrease in positive reserves on government securities recorded at the end of the year.

The aggregate had an overall positive balance of 10.8 million euros, down by 13.2 million euros compared to year-end 2015.

This trend was mainly influenced by the portfolio of Italian government bonds, for which net reserves amounted to 6.5 million euros compared to 21.6 million euros at year-end 2015.

ASSETS/VALUES (€ THOUSAND)	31.12.2016			31.12.2015		
	POSITIVE RESERVE	NEGATIVE RESERVE	NET RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE	NET RESERVE
1. Debt securities	13,243	-6,101	7,142	22,844	-838	22,006
2. Equity securities	2,176	-17	2,159	2,434	-260	2,174
3. UCITS units	1,672	-213	1,459	74	-333	-259
4. Loans	-	-	-	-	-	-
<b>Total</b>	<b>17,091</b>	<b>-6,331</b>	<b>10,760</b>	<b>25,352</b>	<b>-1,431</b>	<b>23,921</b>

### B.3 Reserves from financial assets available for sale: year changes

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

- > a decrease in net valuation gains totalling 0.9 million euros;
- > the reduction of pre-existing net positive reserves due to re-absorption through profit or loss upon realisation (18.5 million euros);
- > the positive net fiscal effect associated with the above changes and resulting from offsetting net DTLs and increases in DTAs (+6.2 million euros).

(€ THOUSAND)	31.12.2016				
	EQUITY SECURITIES	UCITS UNITS	DEBT SECURITIES		TOTAL
			CORPORATE	GOVERNMENT	
<b>1. Amount at year-start</b>	<b>2,174</b>	<b>-259</b>	<b>413</b>	<b>21,593</b>	<b>23,921</b>
<b>2. Increases</b>	<b>2,794</b>	<b>2,604</b>	<b>2,022</b>	<b>12,334</b>	<b>19,754</b>
2.1 Fair value increases	236	2,580	1,574	5,179	9,569
2.2 Transfer to Profit and Loss Account of negative reserves	-	-	-	-	-
- due to impairment	2,537	-	-	-	2,537
- due to disposal	4	24	430	-	458
2.3 Other changes	17	-	18	7,155	7,190
<b>3. Decreases</b>	<b>2,809</b>	<b>886</b>	<b>1,785</b>	<b>27,435</b>	<b>32,915</b>
3.1 Fair value decreases	2,798	51	394	9,798	13,041
3.2 Adjustments due to impairment	-	-	-	-	-
3.3 Transfer to Profit and Loss Account of positive reserves: due to disposal	-	21	1,261	17,637	18,919
3.4 Other changes	11	814	130	-	955
<b>4. Amount at year-end</b>	<b>2,159</b>	<b>1,459</b>	<b>650</b>	<b>6,492</b>	<b>10,760</b>

### B.4 Valuation reserves relating to defined benefit plans: year changes

	31.12.2016			31.12.2015		
	RESERVES	DTAS	NET RESERVE	RESERVES	DTAS	NET RESERVE
<b>1. Amount at year-start</b>	<b>-1,960</b>	<b>539</b>	<b>-1,421</b>	<b>-2,052</b>	<b>564</b>	<b>-1,488</b>
<b>2. Increases</b>	-	-	-	-	-	-
Decreases of actuarial losses	-	-	-	-	-	-
Other increases	-	-	-	-	-	-
<b>3. Decreases</b>	<b>-249</b>	<b>68</b>	<b>-181</b>	<b>92</b>	<b>-25</b>	<b>67</b>
Increases of actuarial losses	-249	68	-181	92	-25	67
Other decreases	-	-	-	-	-	-
<b>4. Amount at year-end</b>	<b>-2,209</b>	<b>607</b>	<b>-1,602</b>	<b>-1,960</b>	<b>539</b>	<b>-1,421</b>

## Section 2 – Own funds and surveillance coefficients

### 2.1 Own funds

The new prudential supervisory provisions applicable to banks and banking groups came into force in EU law on 1 January 2014. They were drafted as part of the Basel Committee agreements (“Basel 3”) and designed to strengthen banks’ capacity to absorb shocks caused by financial and economic stresses, regardless of their origin, improve risk management and governance, and reinforce banks’ transparency and reporting.

The new rules defined by the Basel Committee for bank supervision were adopted in community law in EU Regulation No. 575/2013 (CRR) and Directive No. 2013/36/EU (CRD IV), published in the Official Journal of the European Union on 27 June 2013.

The Bank of Italy applied the above-mentioned provisions by issuing, on 17 December 2013, Circular Letter No. 285 “*Supervisory Provisions for Banks*”, – further amended in 2014 – and Circular Letter No. 286 “*Instructions for the Compilation of Prudential Reports for Banks and Securities Brokerage Companies*.”

The Regulatory Technical Standards, issued by the European Banking Authority (EBA) and endorsed by the European Commission, provide the operating instructions for applying the new provisions. EBA also prepares the Implementing Technical Standards (ITS) aimed at harmonising prudential reports (COREP) and statistics (FINREP) at European level.

The new regulatory framework retained the approach based on three pillars underlying the previous Capital Accord (Basel 2), while complementing and reinforcing that approach with the aim of improving the quantity and quality of intermediaries’ capital, introducing countercyclical regulatory instruments and rules concerning liquidity risk management and the containment of leverage.

In detail, **Pillar 1** was strengthened by introducing a more harmonised definition of capital and increasing capital requirements.

Basel 3 introduced the definition of a harmonised concept of Common Equity Tier 1 capital (CET1), virtually corresponding to ordinary shares and earnings reserves; in addition, more stringent criteria were established for deducting from capital intangible assets, equity investments in financial and insurance companies and deferred tax assets (DTAs) in excess of pre-set individual and cumulative thresholds.

It also provided for more stringent regulatory capital requirements to more accurately capture potential risks from securitisation positions and trading book and introduces DTAs, which were previously not included.

The minimum overall requirement remained set at 8% of risk-weighted assets, but more than half of this, or 4.5%, is to be met by common equity.

In order to respond to periods of stress, an additional capital conservation buffer is also required beyond the regulatory minimum, equal to 2.5% of common equity in relation to risk-weighted assets. Banks that do not have such capital conservation buffer are in any event required to comply with limits on the distribution of dividends and the award of bonuses, which become increasingly stringent as the buffer shrinks.

In order to provide complete information, it should be remarked that, in accordance with CRD IV, the countercyclical capital buffer (CCyB) has also been applied with effect from 2016.

The countercyclical capital buffer is intended to protect the banking sector during periods of excess credit growth. In fact, its application allows the accumulation, during the build-up phase of the credit cycle, of Common Equity Tier 1 capital, which can then be used to absorb losses during the negative phases of the cycle.

The European regulations were implemented in Italy by the Bank of Italy with Circular Letter No. 285/2013, on the basis of which the supervisory authority quarterly assesses whether to require a reserve buffer. Following an analysis of the indicators of reference, the Bank of Italy decided to set the countercyclical ratio (for exposures to Italian counterparties) at 0% for 2016.

Basel 3 also introduces new requirements and supervisory systems for the liquidity and leverage risks, based on the following ratios:

- > Liquidity Coverage Ratio – LCR, a short-term liquidity requirement;
- > Net Stable Funding Ratio – NSFR, a longer-term structural stability requirement;
- > Leverage Ratio, which as of 2017 will limit the maximum expansion of assets based on the size of CET1.

**Pillar 2** requires banks to adopt a current and prospective capital adequacy strategy and a relevant monitoring process, and leaves to the supervisory authority the task to verify the reliability and consistency of relevant results and adopt adequate corrective measures, should the situation require this.

Finally, **Pillar 3** covers public reporting requirements on capital adequacy, risk exposure and the general characteristics of related management and control systems, in order to promote market discipline. This pillar has also been revised to introduce, amongst other things, transparency requirements regarding securitisation exposures, more information on the composition of capital for regulatory purposes and the methods used by the Parent Company to calculate capital ratios.

Further information on own funds, capital adequacy, risk exposure and the general characteristics of systems designed to identify, measure and manage such risks may hence be found in the document entitled Third Basel Pillar 3 or “Pillar 3”, published on the Bank’s website.

The introduction of the Basel 3 rules is being gradually phased in, with full application being achieved between 2019 and 2023; in the phase-in period the new rules will be applied at an increasing rate.

## A. Qualitative information

As in the previous regulations, own funds are calculated as the sum of positive components, included with some limitations, and negative items, based on their capital quality. They consist of the following aggregates:

- > Common Equity Tier 1 capital (CET1);
- > Additional Tier 1 capital (AT1);
- > Tier 2 capital (T2).

### 1. Common Equity Tier 1 capital (CET1)

#### A. Common Equity Tier 1 capital (CET1)

CET1 includes paid-in capital, additional paid-in capital, earnings reserves, valuation reserves (AFS valuation reserve, IAS19 actuarial losses reserve), with the exception of the cash flow hedge reserve, to which a special prudential filter is applied.

Net profit for the year may be calculated net of the provision for dividends (retained earnings) in compliance with Article 26 of the CRR and national discretionary measures provided for by the Bank of Italy.

CET1 own instruments (treasury shares) and loss for the year, if any, are deducted from this aggregate.

#### B. CET1 prudential filters

“Prudential filters” are applied to CET1 with the purpose of safeguarding the quality of the capital for regulatory purposes and reducing its potential volatility caused by application of the new IAS/IFRS standards. These filters consist of corrections to accounting data before they are used for regulatory purposes and are regulated directly by the CRR or provided for by national discretionary measures.

With reference to the prudential filters introduced directly by the CRR, the **prudent valuation** filter is applied to Banca Generali for the portfolio of financial assets and liabilities valued at fair value in the Balance Sheet.

This filter is determined as 0.1% of total net exposures shown in the balance sheet at fair value (HFT and AFS financial assets) in order to take account of the overall uncertainty of the parameters used for the valuation (risk model, costs of closure, etc.).

#### D. Elements to be deducted from CET1

CET1 is then subject to the following deductions:

- a) intangible assets, including goodwill;
- b) **deferred tax assets (DTAs) arising on tax losses**, i.e., DTAs whose recovery is based on future profitability and do not arise from temporary differences;
- c) **ordinary deferred tax assets (DTAs)**, which depend on future profitability and derive from temporary differences; in certain circumstances (netting legal right, taxes due to the same taxing authority) this item may be stated net of the corresponding deferred tax liabilities;
- d) **deferred tax assets (DTAs) relating to multiple reliefs** on the same goodwill for the portion that has not yet been reflected in the current tax position;
- e) direct, indirect and synthetic **non-significant investments** (<10%) in CET1 instruments issued by financial entities;
- f) direct, indirect and synthetic **significant investments** (>10%) in CET1 instruments issued by financial institutions;
- g) any deductions exceeding AT1 capital instruments.

The **DTAs eligible for transformation into tax credits** pursuant to Law No. 214/2011 do not fall within deferred tax assets which dependent on future profitability. Such assets therefore are not deducted from own funds, but included in risk-weighted assets with a weighting of 100%.

Deductions relating to significant and non-significant **investments in instruments issued by financial institutions** and to **ordinary deferred tax assets** apply only to amounts exceeding given CET1 thresholds, known as **allowances**, according to a particular mechanism described below:

1. the deduction is made for the portion exceeding 10% of CET1 determined after applying prudential filters and all the deductions, other than those relating to ordinary net deferred tax assets, direct, indirect and synthetic investments in CET instruments issued by financial institutions, any deductions exceeding AT1 capital instruments and deductions of qualified investments in financial institutions;
2. non-significant investments issued by financial institutions are assessed by aggregating all CET1, AT1 and T2 instruments;

3. amounts not deducted due to the 10% allowance relating to significant investments in CET1 instruments issued by financial institutions and ordinary deferred tax assets that, added together, are deducted only **for the amount exceeding 17.65%** of CET1 obtained after applying prudential filters and all the deductions, including investments in financial institutions and deferred tax assets calculated in their entirety without taking account of the aforementioned thresholds, except for any deductions exceeding AT1 capital instruments;
4. amounts not deducted due to the allowances are included in risk-weighted assets and subject to a 250% weighting.

#### *Multiple reliefs on the same goodwill*

National discretionary measures concerning multiple reliefs aim at neutralising the benefits at the level of own funds due to the DTAs recognised in connection with the tax redemption on the same goodwill within a single group or intermediary.

In further detail, the procedures of tax redemption in question were carried out in accordance with Article 10 of Legislative Decree No. 185/2010 or ordinary rules governing successive business combinations within a single group that have also entailed the transfer of portions of goodwill.

To this end, it has been specified that the share of DTAs recognised at the level of the intermediary or group is to be deducted from core Tier 1 capital, as limited to the portion associated with the DTAs recognised after the initial one.

In addition, for years ending on or before 31 December 2012, intermediaries may distribute the neutralisation over a period of five years, including one-fifth of the value of those DTAs at 31 December 2012, net of the amount that, each year, is to be reversed to the Profit and Loss Account or transformed into a tax credit, among the negative items of Tier 1 capital.

The above filter only affects the share of goodwill associated with the acquisition of Banca del Gottardo Italy S.p.A., originally subject to the prepayment of taxes on goodwill by Banca BSI Italy and subsequently once more by BG SGR S.p.A. following the contribution by the former of its portfolio management business unit. Both companies were then merged into the Parent Company, Banca Generali.

The tax value of the goodwill subject to tax alignment amounted to 4,932 thousand euros, of which deferred tax assets for Italian corporate income tax (IRES) and regional production taxes (IRAP) of 1,410 thousand euros had been allocated at 31 December 2012. The amount of the filter as at 31 December 2016 thus amounted to **1,057** thousand euros.

#### *Annual fee on DTAs eligible for conversion into tax credits*

With effect from 2016, Article 11 of Legislative Decree No. 59 of 3 May 2016 amended the regulatory framework (Law Decree No. 225/2010; Law No. 214/2011) governing the eligibility for conversion into tax credits of “qualified DTAs”, i.e., deferred tax assets tied to the previous deferred deductibility system for impairment losses and losses on loans governed by Article 106, paragraph 3, of the TUIR and the amortisation of goodwill and other intangible assets.

In particular, in order to remedy the observations made by the European Commission concerning the compatibility of the regulatory framework in question with the restriction of state aid, the Decree introduced a distinction between the following two types of qualified DTAs:

- > type 1, which corresponds to an effective prepayment of taxes;
- > type 2, which does not correspond to an effective prepayment of taxes (typically DTAs on tax losses).

The Decree thus rendered the possibility to convert type-2 qualified DTAs into tax credits contingent on the exercise of a specific option to pay an annual fee until the year in progress at 31 December 2029, calculated by applying a rate of 1.5% to the difference between the previously recognised amount of deferred tax assets and the taxes paid.

The implementing order of 22 July 2016 states that the option to maintain the eligibility for conversion of DTAs into tax credits is considered exercised when the annual fee is paid, or, if the fee is not due, by sending a certified e-mail (PEC) to the competent regional department of the Italian Revenue Service by 1 August 2016.

In addition, if the taxpayer participates in a national tax consolidation scheme, the fee must be paid or, if the fee is not due, the PEC notice must be sent by the consolidating entity, and not by the individual consolidated companies.

It should be noted that:

- > the tax consolidation scheme of Assicurazioni Generali reported a taxable loss, and thus the lack of an obligation to pay the fee by the established deadline;
- > the Financial Statements of Banca Generali only include qualified DTAs, which can be converted into type-1 tax credits, deriving from the actual payment of taxes.

The introduction of the new regulation thus did not have an impact on the prudential rules for DTAs eligible for transformation into tax credits pursuant to Law No. 214/2011.

#### ***E. Phase-in – impact on CET1***

The main aspects of the **phase-in** are set out below:

1. the AFS portfolio's positive and negative valuation reserves relating to central EU administration exposures may be excluded from CET1 up to the date the European Commission approves the new IFRS 9; this exemption was introduced by the Bank of Italy under the national discretionary measures provided for by the CRR;

2. the AFS portfolio's positive valuation reserves, other than those relating to central administration exposures, are calculated in CET1 from 2015 for 40% and then through a progressive phase-in of 20% per annum (60% in 2016, 80% in 2017, and 100% in 2018);
3. the AFS portfolio's negative valuation reserves, other than those relating to central administration exposures, are calculated in CET1 through a progressive phase-in of 20% per annum (60% in 2016, 80% in 2017, and 100% in 2018);
4. actuarial gains/losses deriving from the IAS 19 valuation of Termination Indemnity (TFR) (and defined benefit pension funds) are reported, net of the prudential filter activated by the Bank of Italy for 2013 in order to sterilise the effects of the new IAS19, through a progressive phase-in of 20% per annum as from 2015 (80% in 2015, 60% in 2016, 40% in 2017 and 20% in 2018);
5. DTAs that rely on future profitability and do not arise on temporary differences (tax losses) are deducted at 60% in 2016 (80% in 2017 and 100% from 2018);
6. residual ordinary deferred tax assets (DTAs) existing at 1 January 2014 are deducted from CET1 through a progressive phase-in of 10% per annum as from 2015 (20% in 2016 and 100% in 2024);
7. other ordinary deferred tax assets (DTAs) generated after 1 January 2014 are deducted from CET1 through a progressive phase-in of 20% per annum as from 2014 (60% in 2016, 80% in 2017 and 100% in 2018);
8. non significant investments in CET1 capital instruments issued by financial institutions held directly, indirectly or synthetically exceeding the aforementioned allowances, are deducted from CET1 through a progressive phase-in of 20% per annum as from 2014 (60% in 2016, 80% in 2017 and 100% in 2018); direct investments in financial institutions not deducted from CET1 in the phase-in are deducted for 50% from AT1 and for 50% from T2; indirect and synthetic investments are subject to capital requirements and included in risk weighted-assets;
9. significant investments in CET1 capital instruments issued by financial institutions held directly, indirectly or synthetically exceeding the aforementioned allowances, are deducted from CET1 through a progressive phase-in of 20% per annum as from 2014 (60% in 2016, 80% in 2017 and 100% in 2018); direct investments in financial institutions not deducted from CET1 in the phase-in are deducted for 50% from AT1 and for 50% from T2; indirect and synthetic investments are subject to capital requirements and included in risk weighted-assets.

### Central administration exposures classified amongst "Assets available for sale" as per IAS 39 approved by the EU

In this regard, it bears recalling that Banca Generali exercised the **option to neutralise** the capital gains and losses deriving from fair-value measurement of AFS financial assets belonging to the Euro Area government bond segment for the purposes of measuring own funds, as allowed under Bank of Italy Order of 18 May 2010.

This option was also extended under the new Basel 3 prudential supervisory system, on the basis of the national discretion granted to the Bank of Italy pursuant to Article 467(2) of the CRR, until the Commission "adopts a regulation on the basis of Regulation (EC) No. 1606/2002 endorsing the International Financial Reporting Standard replacing IAS 39" (IFRS 9).

In this regard, it should be noted that Regulation (EU) No. 2016/2106, which adopts IFRS 9, was published on 29 November 2016 and entered into effect on 19 December 2016. However, pursuant to Article 2 of that Regulation, IFRS 9 must be applied, at the latest, by the beginning of the first financial year starting on or after 1 January 2018.

Consequently, given the interpretative uncertainty that arose with respect to the relevance of the two different dates, until formal clarification is provided by the European authorities, in its Notice of 23 January 2017 the Bank of Italy confirmed that this discretion may continue to be exercised on a phase-in basis, solely for "less significant" banks subject to direct supervision.

### Phase-in of IAS 19 actuarial loss reserve

The phase-in of **IAS 19 actuarial loss** reserves, provided for in Article 473, paragraph 3, of the CRR and adopted amongst the national discretionary measures by Bank of Italy Circular Letter No. 285/2013, is designed to neutralise the impact on own funds of the amendments to IAS19, which came into force on 1 January 2013, and provide for actuarial gains and losses relating to defined benefit plans to be recognised in full in other comprehensive income (OCI) and offset by an equity reserve (actuarial gains and losses valuation reserve).

IAS 19 previously also recognised the alternative accounting treatment known as the "corridor method," which allowed:

- > the amount of the actuarial gains and losses in excess of the significance threshold of 10% of the present value of the defined benefit obligation (the "overcorridor") to be recognised in the Profit and Loss Account; and
- > the actuarial gains and losses below that threshold to be deferred, without recognising them in the financial statements.

Since for entities that previously adopted the corridor method the new equity reserve would have a negative impact on capital for regulatory purposes, and considering the stance taken at the Community level in conjunction with the approval of the new prudential regulations implementing Basel 3 (the CRR/CRD IV Package) in favour of the gradual recognition over five years of the difference in net equity between the old and new approach, the Bank of Italy introduced

for 2013 a prudential filter to neutralise the effects of the revision of IAS 19. Based on the CRR provisions, the effects of such filter are expected to be fully reabsorbed in the 2015-2018 phase-in period.

	31.12.2016
Termination indemnity IAS 19R	-4,645
Termination indemnity IAS 19 (2012)	-4,200
Gross difference	-445
Tax effect	122
<b>Positive filter</b>	<b>-323</b>

## 2. Additional Tier 1 capital (AT1)

Additional Tier 1 capital includes capital instruments regulated under Articles 51 et seqq. of CRR. This aggregate is not present within own funds.

## 3. Tier 2 capital (T2)

### M. Tier 2 capital – T2

Tier 2 capital includes Tier 2 capital instruments and subordinated liabilities, regulated by Articles 63 et seqq. of the CRR and having the following characteristics:

- > the original term is not less than 5 years and no incentives are envisaged for early repayment;
- > call options, where applicable, may be exercised at the issuer's sole discretion and in any event no earlier than 5 years, subject to the authorisation of the supervisory authority granted in special circumstances;
- > early repayment is also allowed before 5 years only in the event of significant changes to the tax or regulatory regime and always with the prior authorisation of the supervisory authority;
- > subscription and purchase must not be financed by the Parent Company or its subsidiaries;
- > they are not subject to guarantees issued by the Parent Company, its subsidiaries or other companies that have close links with them, which increase their seniority;
- > interest does not change based on the Parent Company's credit rating;
- > these instruments are amortised pro-rata over the past 5 years for T2 calculation purposes.

The following Tier 2 subordinated liabilities are included in the year-end Tier 2 capital of the Parent Company, Banca Generali:

	EFFECTIVE AS OF	EXPIRY	AMOUNT	REMAINING AMOUNT
Generali Beteiligungs GmbH subordinated loan	30.10.2014	30.10.2024	43,000	43,000

The subordinated loan agreed with the German company Generali Beteiligungs GmbH relates to the acquisition of the Credit Suisse (Italy) S.p.A. business unit.

The loan disbursed on 30 October 2014, for the amount of 43 million euros, has a ten-year term and is repayable on maturity in one instalment.

Provision is also made for an early repayment option, as from the sixth year, subject to the supervisory authority's prior approval.

The interest rate for the first five years is fixed and equal to 3.481% per annum, corresponding to the five-year mid swap rate identified at the contract execution date, plus a spread of 300 bps; from the start of the sixth year the rate will be reparametrised to the three-month Euribor, plus the same spread identified when the original fixed rate was determined. The loan is subordinated for repayment in the event of a default by the Bank.

### N. Elements to be deducted from T2

T2 is subject to the following main deductions:

- > direct, indirect and synthetic investments in T2 own instruments;
- > direct, indirect and synthetic investments in T2 instruments of financial entities.

These cases do not appear in Banca Generali's financial statements particularly since there are no investments in T2 instruments of financial entities exceeding the relevant thresholds for purposes of the deduction from own funds.,

### O. Phase-in – impact on T2

The main aspects of the phase-in provisions for 2016 are as follows:

1. **positive AFS reserves**, other than those relating to EU country government bonds, are recognised as part of the phase-in for 2016 at the rate of 50% provided by previous regulation, with a gradual reduction of 20% per annum from 2014 (60% in 2016, 80% in 2017 and 0% in 2018);
2. **non-significant investments** in CET1 capital instruments issued by financial institutions exceeding the 10% allowance and the general allowance, not deducted from CET1 in the phase-in, are deducted for 50% from T2;



3. **significant investments** in CET1 capital instruments issued by financial institutions exceeding the 10% allowance and the general allowance, not deducted from CET1 in the phase-in, are deducted for 50% from T2;
4. non-significant investments in Tier 2 capital instruments issued by financial institutions held directly are deducted 100% from T2; non-significant investments in Tier 2 capital instruments issued by financial institutions held indirectly or synthetically are deducted through a progressive phase-in 20% per annum as from 2014 (40% in 2015 and 100% in 2018). Indirect and synthetic investments not deducted in the phase-in are subject to capital requirements and included in risk-weighted assets;
5. significant investments in Tier 2 capital instruments issued by financial institutions held directly are deducted 100% from T2; significant investments in Tier 2 capital instruments issued by financial institutions held indirectly or synthetically are deducted through a progressive phase-in 20% per annum as from 2014 (40% in 2015 and 100% in 2018). Indirect and synthetic investments not deducted in the phase-in are subject to capital requirements and included in risk-weighted assets.

## B. Quantitative information

**Own funds**, calculated in accordance with the Basel 3 phase-in rules, amounted to 343.2 million euros, up by 24.2 million euros compared to the end of the previous year, chiefly owing to the portion of retained earnings.

ITEMS/VALUES	31.12.2016 PHASE IN	31.12.2015 PHASE IN	CHANGE	
			AMOUNT	%
Common Equity Tier 1 capital (CET1)	299,314	275,233	24,081	8.75%
Additional Tier 1 capital (AT1)	-	-	-	n.a.
Tier 2 capital (T2)	43,854	43,698	156	0.36%
<b>Own funds</b>	<b>343,168</b>	<b>318,931</b>	<b>24,237</b>	<b>7.60%</b>
<b>Net equity for accounting purposes</b>	<b>522,232</b>	<b>523,583</b>	<b>-1,351</b>	<b>-0.26%</b>

In the year under review, CET1 performance was chiefly attributable to the contribution of profit for the year which was not allocated as dividend to be distributed to shareholders (20.3 million euros), equal to about 20% of the consolidated net profit and 14% of the company's net profit for the year.

In addition, the positive effects of the previous and new stock-option plans also contributed to the performance, partially offset by the buy-back of own shares and the decrease in intangible assets.

<b>Own funds at year-start</b>	<b>318,931</b>
<b>Change in Tier 1 capital</b>	
Purchase of treasury shares	-1,466
2015 dividend payout	-42
Regulatory provisions for retained earnings 2016	20,312
IFRS2 reserve – Bank's stock option and stock grant plans (LTIPs)	7,944
Phase-in: change in AFS positive and negative reserves	1,629
Change in IAS 19 reserves (net of the filter)	-180
Change in goodwill and other intangibles	-2,635
Negative prudential filters	-1,481
Deduction DTAs and significant investments	-
Phase-in: CET1	-
<b>Total changes in Tier 1</b>	<b>24,081</b>
<b>Change in Tier 2 capital</b>	
Phase-in: change in AFS positive reserves	156
<b>Total changes in Tier 2 capital</b>	<b>156</b>
<b>Own funds at year-end</b>	<b>343,168</b>
<b>Change</b>	<b>24,237</b>

### Composition of own funds

The composition of own funds is shown synthetically below, illustrating the effects of the prudential filters and the changes linked to the phase-in.

	31.12.2016	31.12.2015
<b>A. Tier 1 capital before application of prudential filters</b>	<b>397,794</b>	<b>384,388</b>
<i>of which: CET1 instruments covered by phase-in provisions</i>	-	-
B. CET1 prudential filters (+/-)	-4,449	-2,968
<b>C. CET1 gross of elements to be deducted and effects of the phase-in</b>	<b>393,345</b>	<b>381,420</b>
D. Elements to be deducted from CET1	-86,024	-83,388
E. Phase-in – impact on CET1	-8,007	-22,799
<b>F. Total Common Equity Tier 1 capital - CET1 (C - D +/- E)</b>	<b>299,314</b>	<b>275,233</b>
<b>G. Additional Tier 1 capital (AT1) gross of elements to be deducted and phase-in effects</b>	<b>-</b>	<b>-</b>
<i>of which: AT1 instruments covered by phase-in provisions</i>	-	-
H. Elements to be deducted from AT1	-	-
I. Phase-in – impact on AT1	-	-
<b>L. Total Additional Tier 1 capital (AT1)</b>	<b>-</b>	<b>-</b>
M. Tier 2 capital (T2) gross of elements to be deducted and phase-in effects	43,000	43,000
<i>of which: T2 instruments covered by phase-in provisions</i>	-	-
N. Elements to be deducted from T2	-	-
O. Phase-in – impact on T2	854	698
<b>P. Total Tier 2 capital (T2)</b>	<b>43,854</b>	<b>43,698</b>
<b>Q. Total own funds</b>	<b>343,168</b>	<b>318,931</b>

More in detail, own funds are composed as follows.

OWN FUNDS	31.12.2016		
	FULLY-LOADED	ADJUSTMENTS	PHASE IN
<b>Tier 1 capital (T1)</b>			
Share capital (including minorities)	116,425	-	116,425
Additional paid-in capital	53,803	-	53,803
Treasury shares	-2,933	-	-2,933
<b>CET1 instruments</b>	<b>167,295</b>	<b>-</b>	<b>167,295</b>
Reserves	201,028	-	201,028
Net profit (loss) for the year	144,751	-	144,751
Share of net profit for the year not included in CET1	-124,439	-	-124,439
<b>Earnings reserves</b>	<b>221,340</b>	<b>-</b>	<b>221,340</b>
AFS valuation reserves	4,268	-1,707	2,561
AFS valuation reserve – government securities	6,493	-6,493	-
Actuarial reserves IAS 19	-1,602	-	-1,602
Other (neutralisation of actuarial losses – IAS 19)	-	193	193
<b>Other components of other comprehensive income (OCI)</b>	<b>9,159</b>	<b>-8,007</b>	<b>1,152</b>
Prudent valuation	-4,449	-	-4,449
Cash flow hedge	-	-	-
<b>Negative prudential filters</b>	<b>-4,449</b>	<b>-</b>	<b>-4,449</b>
Goodwill	-61,775	-	-61,775
Goodwill DTLs	1,964	-	1,964
Intangible assets	-25,416	-	-25,416
DTAs to P&L not arising from temporary differences (tax losses)	-	-	-
Other negative items (neutralisation of DTAs arising on multiple prepayment of taxes on goodwill)	-797	-	-797
<b>Total negative items</b>	<b>-86,024</b>	<b>-</b>	<b>-86,024</b>
<b>Adjustments of DTAs/DTLs through P&amp;L arising on temporary differences</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Portion exceeding non-significant investments (&lt;10%) in CET1 instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Portion exceeding significant investments (&gt;10%) in CET1 instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>
General deduction – portion exceeding DTAs	-	-	-
General deduction – portion exceeding significant investments	-	-	-
<b>General deduction with threshold 17.65%-15%</b>	<b>-</b>	<b>-</b>	<b>-</b>
Phase-in – DTA impact on CET1	-	-	-
Significant investments: phase-in – impact on CET1	-	-	-
Significant investments: 50% of items to be deducted from CET1	-	-	-
<b>Phase-in</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Common Equity Tier 1 capital (CET1)</b>	<b>307,321</b>	<b>-8,007</b>	<b>299,314</b>
Significant investments: phase-in – impact on AT1	-	-	-
Significant investments: excess to be deducted from AT1	-	-	-
<b>Total Additional Tier 1 capital (AT1)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Tier 1 capital</b>	<b>307,321</b>	<b>-8,007</b>	<b>299,314</b>
T2 instruments (subordinated liabilities)	43,000	-	43,000
Significant investments: 50% excess portion deducted from Tier 1 capital	-	-	-
50% positive AFS reserves – phase-in - T2 impact (80%)	-	854	854
<b>Total Tier 2 capital (T2)</b>	<b>43,000</b>	<b>854</b>	<b>43,854</b>
<b>Total own funds</b>	<b>350,321</b>	<b>-7,153</b>	<b>343,168</b>

## 2.2 Capital adequacy

### A. Qualitative information

Supervisory provisions require banks to comply with specific capital adequacy ratios calculated by relating the corresponding category of own funds (CET1, Tier 1, Total Capital) to the bank's overall risk exposure (RWAs - Risk Weighted Assets).

In particular, Own funds must represent at least 8% of total weighted assets in relation to the credit risk profile, valued based on the category of debtor counterparties, term, country risk and guarantees received (**credit and counterparty risk**).

Banks are also required to comply with regulatory capital requirements connected to trading activities. **Related market** risks are calculated on the entire trading portfolio for each different type of risk: debt securities risk, equity securities risk, settlement risk, counterparty risk and concentration risk. Furthermore, exchange-rate risk and commodity-price risk must be determined for all financial statement items.

Internal models may be used to calculate capital requirements for market risk; however, the Banca Generali Group uses standard methods under all circumstances.

Lastly, banks are required to set aside part of their own funds to cover **operating risk**, taking into account the type and volumes of operations performed.

Moreover, with reference to the annual Supervisory Review and Evaluation Process (SREP) carried out by the relevant supervisory authority (ECB or national Central Banks), additional capital requirements may be imposed by the said authority on the basis of a specific evaluation of each intermediary's risk exposure.

In this regard, in early January 2017, the Bank of Italy communicated to Banca Generali the following specific capital requirements – and already including the 2.5% capital conservation buffer – to be applied to the Banking Group effective 1 January 2017:

- > CET1 ratio of **6.4%**, consisting of:
  - an **Overall Capital Requirement** (OCR) of **5.9%**, made of a binding ratio of 4.7% (of which 4.5% as minimum regulatory requirement and 0.2% as additional requirement following the SREP) and a capital conservation buffer for the remainder;
  - a **capital guidance** of 0.5%, due to a higher risk exposure under stress conditions;
- > Tier 1 ratio of **8.1%**, consisting of:
  - an **Overall Capital Requirement** (OCR) of **7.5%**, made of a binding ratio of **6.2%** (of which **6%** as minimum regulatory requirement and **0.2%** as additional requirement following the SREP) and a capital conservation buffer for the remainder;
  - a **capital guidance** of 0.6%, due to a higher risk exposure under stress conditions;
- > Total Capital Ratio of **10.4%**, consisting of:
  - an **Overall Capital Requirement** (OCR) of **9.6%**, made of a binding ratio of **8.3%** (of which **8%** as minimum regulatory requirement and **0.3%** as additional requirement following the SREP) and a capital conservation buffer for the remainder;
  - a **capital guidance** of 0.8%, due to a higher risk exposure under stress conditions.

### B. Quantitative information

Total capital adequacy requirements for credit, market and operating risks set by the supervisory authority amounted to 170.1 million euros at year-end, with a decrease of 14.4 million euros compared to the previous year (-7.8%).

(€ THOUSAND)	31.12.2016 PHASE IN	31.12.2015 PHASE IN	CHANGE	
			AMOUNT	%
Credit and counterparty risk	128,242	142,727	-14,485	-10.1%
Market risk	2,681	2,505	176	7.0%
Operating risk	39,132	39,222	-91	-0.2%
<b>Total absorbed capital</b>	<b>170,055</b>	<b>184,455</b>	<b>-14,400</b>	<b>-7.8%</b>
<b>Excess over absorbed capital</b>	<b>173,113</b>	<b>134,477</b>	<b>38,637</b>	<b>28.7%</b>

The reduction in the capital requirement for **credit risk** was largely due to the implementation, in the fourth quarter of 2016, of measures aimed at expanding the scope of application of CRM (Credit Risk Mitigation) and using financial collaterals in the form of pledges of managed portfolios and UCITS promoted by the Group, for which the underlying assets were thoroughly analysed.

The measures had an impact in terms of a lesser capital requirement of approximately 15 million euros.

This reduction was partially offset by the increase in exposures to retail customers and, to a lesser extent, by exposures secured by real properties and exposures to UCITS and equity instruments.

The reduction in the requirement for exposures to supervised intermediaries was primarily due to the sale of part of the securities portfolio.

CREDIT RISK REGULATORY PORTFOLIO	31.12.2016			31.12.2015			CHANGE		
	INITIAL EXPOSURE	WEIGHTED ASSETS	REQUIREMENT	INITIAL EXPOSURE	WEIGHTED ASSETS	REQUIREMENT	INITIAL EXPOSURE	WEIGHTED ASSETS	REQUIREMENT
Administrations and Central Banks	5,433,333	69,001	5,520	3,207,202	52,786	4,223	2,226,131	16,215	1,297
Non-profit organisations and public entities	-	-	-	-	-	-	-	-	-
Supervised intermediaries	850,387	211,901	16,952	822,418	281,056	22,484	27,969	-69,155	-5,532
Companies	1,181,198	790,886	63,271	1,248,410	886,833	70,947	-67,212	-95,947	-7,676
Detail	1,054,040	285,114	22,809	977,447	335,566	26,845	76,593	-50,452	-4,036
Exposures secured by real property	373,315	131,743	10,539	346,968	123,030	9,842	26,347	8,713	697
Past-due exposures	48,344	5,131	410	52,432	5,788	463	-4,088	-657	-53
UCITS	13,929	13,929	1,114	11,295	11,295	904	2,634	2,634	211
Equity exposures	58,250	58,250	4,660	51,420	51,420	4,114	6,830	6,830	546
Other	148,893	36,516	2,921	161,111	35,966	2,877	-12,218	550	44
Securitisation	-	-	-	-	-	-	-	-	-
<b>Total requirements</b>	<b>9,161,689</b>	<b>1,602,471</b>	<b>128,198</b>	<b>6,878,703</b>	<b>1,783,740</b>	<b>142,699</b>	<b>2,282,986</b>	<b>-181,269</b>	<b>-14,502</b>
Risk of credit valuation adjustment	-	560	45	-	351	28	-	209	17
<b>Total credit risk</b>	<b>9,161,689</b>	<b>1,603,031</b>	<b>128,242</b>	<b>6,878,703</b>	<b>1,784,091</b>	<b>142,727</b>	<b>2,282,986</b>	<b>-181,060</b>	<b>-14,485</b>

Risk mitigation was also achieved thanks to the absence of exposures in significant investments in financial entities and to the decline in net DTAs, two categories that entail an unfavourable 250% weighting.

Exposure to market risk, which relates to the banking book, appeared highly circumscribed and referred mostly to the Quarzo securitisation.

MARKET RISK – STANDARDISED METHOD POSITION RISK – REGULATORY PORTFOLIO	CAPITAL REQUIREMENT		CHANGE
	2016	2015	
Generic risk on debt securities	551	177	374
Generic risk on equity securities	157	106	51
Specific risk on debt securities	282	153	129
Specific risk on equity securities	157	106	51
Specific risk on securitisations	1,024	1,043	-19
UCITS position risk	510	920	-410
<b>Total</b>	<b>2,681</b>	<b>2,505</b>	<b>176</b>

With regard to the calculation of capital prudential requirement for **operating risk**, the Bank, in light of its specific operating and organisational characteristics, uses the basic method (BIA – Basic Indicator Approach) as defined by Article 316 of CRR.

Based on the provisions of Bank of Italy Circular Letter No. 286/2013 (4<sup>th</sup> update of 31 March 2015), this approach calls for the aforementioned calculation to be performed by applying a regulatory coefficient (15%) to the three-year average of an indicator of the volume of company operations (the so-called ‘relevant indicator’), as defined by Article 316 of CRR. In detail, the relevant indicator is now calculated based on the accounting categories for the Profit and Loss Account under Article 27 of Directive No. 86/635/EEC; institutions that apply accounting standards different from those established by the said Directive shall calculate the relevant indicator on the basis of data that best reflect the above-mentioned aggregates.

The relevant indicator is the sum of the following elements:

1. Interest receivable and similar income;
2. Interest payable and similar charges;
3. Income from shares and other variable/fixed-yield securities;
4. Commission/fee receivable;
5. Commission/fee payable;
6. Net profit or net loss on financial operations;
7. Other operating income.

Therefore, the simultaneous increase in consolidated own funds and the reduction of capital allow to establish the **excess capital compared to the minimum capital requirements** for risks set by the supervisory authority at **173.1** million euros, up by 38.6 million euros compared to the value recognised at the end of the previous year.

CET1 ratio reached 14.1%, compared to a minimum regulatory requirement of 7%, and Total Capital Ratio (TCR) stood at 16.1%, compared to the minimum regulatory requirement of 10.5%.

Own funds, calculated in accordance with Basel 3 rules, which will become fully applicable as of 1 January 2019, were 350 million euros, with Total Capital Ratio at 16.5%.

	31.12.2016		31.12.2015	
	NON-WEIGHTED AMOUNTS	WEIGHTED AMOUNTS	NON-WEIGHTED AMOUNTS	WEIGHTED AMOUNTS
<b>A. Risk assets</b>	<b>9,161,689</b>	<b>1,603,031</b>	<b>6,878,703</b>	<b>1,784,091</b>
<b>A.1 Credit and counterparty risk</b>				
1. Standardised method	9,161,689	1,603,031	6,878,703	1,784,091
2. Internal rating method				
2.1 basic	-	-	-	-
2.2 advanced	-	-	-	-
3. securitisation	-	-	-	-
<b>B. Regulatory capital requirements</b>				
<b>B.1 Credit Risk</b>	<b>X</b>	<b>128,198</b>	<b>X</b>	<b>142,727</b>
<b>B.2 Risk of credit valuation adjustment</b>	<b>X</b>	<b>45</b>	<b>X</b>	<b>28</b>
<b>B.3 Regulation risk</b>	<b>X</b>	<b>-</b>	<b>X</b>	<b>-</b>
<b>B.4 Market risks</b>	<b>X</b>	<b>2,681</b>	<b>X</b>	<b>2,505</b>
1. Standard method	X	2,681	X	2,505
2. Internal models	X	-	X	-
3. Concentration risk		-		-
<b>B.5 Operating risk</b>	<b>X</b>	<b>39,132</b>	<b>X</b>	<b>39,222</b>
1. Basic method	X	39,132	X	39,222
2. Standardised method	X	-	X	-
3. Advanced method	X	-	X	-
<b>B.6 Other variables</b>	<b>X</b>	<b>-</b>	<b>X</b>	<b>-</b>
<b>B.7 Total prudential requirements</b>	<b>X</b>	<b>170,055</b>	<b>X</b>	<b>184,483</b>
<b>C. Risk-weighted assets and regulatory capital ratios</b>				
<b>C.1 Risk-weighted assets</b>	<b>X</b>	<b>2,125,686</b>	<b>X</b>	<b>2,306,036</b>
<b>C.2 CET1 capital/Risk-weighted assets (CET1 capital ratio)</b>	<b>X</b>	<b>14.1%</b>	<b>X</b>	<b>11.9%</b>
<b>C.3 Tier 1 capital/Risk-weighted assets (T1 capital ratio)</b>	<b>X</b>	<b>14.1%</b>	<b>X</b>	<b>11.9%</b>
<b>C.4 Total own funds/Risk-weighted assets (Total Capital Ratio)</b>	<b>X</b>	<b>16.1%</b>	<b>X</b>	<b>13.8%</b>

## PART G – BUSINESS COMBINATIONS OF COMPANIES OR BUSINESS UNITS

This section includes both transactions within the scope of IFRS 3 and business combinations between entities under common control.

The results of impairment testing of the Bank's goodwill are also stated in the interest of consistency of presentation.

### Section 1 – Transactions undertaken during the year

In 2016, no business combination transactions were undertaken.

### Section 2 – Transactions after the close of the year

After 31 December 2016, no business combination transactions were undertaken.

### Section 3 – Retrospective adjustments

No retrospective adjustments to business combinations carried out by the Banking Group in previous years were undertaken in 2016, pursuant to paragraphs 61 and B7 of IFRS 3.

The latter provisions also require that the amount of goodwill during the year be reconciled, including an indication of any impairment of goodwill recognised.

The Bank's goodwill totalled 61.8 million euros at 31 December 2016, broken down as follows:

(€ THOUSAND)	31.12.2016	31.12.2015	CHANGE	
			AMOUNT	%
Prime Consult and INA Sim	2,991	2,991	-	-
Banca del Gottardo Italy	31,352	31,352	-	-
Credit Suisse	27,432	27,432	-	-
<b>Total</b>	<b>61,775</b>	<b>61,775</b>	<b>-</b>	<b>-</b>

### Impairment test

In accordance with IAS 36, goodwill is no longer amortised, but is reviewed at least annually for impairment.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs), which may be no larger than the operating segment identified for management reporting, pursuant to IFRS 8.

To determine the amount of impairment, the carrying amount of the CGU is compared with its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The following operating segments (business areas) have been identified by the Bank:

- > the **Affluent Channel**, which refers to the total earnings generated for the Bank by the network of Financial Advisors mainly of Banca Generali, and their respective clients;
- > the **Private Banking Channel**, which refers to the total earnings generated for the Bank by the network of Private Bankers and Relationship Managers, and their respective clients;
- > the **Corporate Channel**, which refers to the total earnings generated for the Bank on the provision of banking and investment services to medium-sized and large enterprises, including those belonging to the Assicurazioni Generali Group.

The following CGUs have been defined in order to perform the impairment test for such goodwill in accordance with IAS 36:

- > Private Banking CGU, for the Private Banking operating segment, to which former Banca del Gottardo Italy and Credit Suisse Italy's goodwill refer;
- > Prime Consult and INA Sim CGU, for the Affluent operating segment, to which former Prime Consult and INA Sim's goodwill refer.

To determine the recoverable amount, both basic methodologies (to calculate value in use) and market assessments (to calculate fair value) were considered.

Value in use was calculated by employing an analytical method as the main method, whereas fair value was calculated by employing an empirical method, such as the control method.

In detail, the analytical method employed was the Dividend Discount Model (“DDM”), specifically the Excess Capital variant of said model, on the basis of which the value of an asset is a function of:

- a) current value of future cash flows generated within a specific time period and available for distribution to shareholders (dividends);
- b) the perpetual capitalisation of the expected normalised dividend from the final year of the financial plan of reference, on the basis of a payout consistent with ordinary profitability.

The control method employed was the comparable market multiples method.

The earnings and cash flow projections for each individual CGU were based on an extract of the Generali Banking Group's 2017-2019 Economic and Financial Plan, as approved by the Board of Directors, and further cash-flow projections constructed on the basis of the Group's historical experience and in accordance with external sources of financial information.

## 1. Private Banking CGU (PB CGU)

The Private Banking CGU (PB CGU) refers to the overall activity of the Private Banker e Relationship Manager networks and their clients, reporting to the Banca Generali Private Banking Division and the Private Relationship Manager Division, respectively.

Created in 2015, the Private Relationship Manager Division includes all Relationship Managers with an employment agreement with Banca Generali and their clients, with specific reference to the operations of Banca BSI Italy and Banca del Gottardo Italy, currently merged into the parent company Banca Generali.

The Banca Generali Private Banking Division also includes Private Bankers reporting to the business unit made up of the Italian Affluent and Upper Affluent private banking operations of Credit Suisse Italy S.p.A., acquired on 1 November 2014.

In light of the exchange of positions among Private Bankers and Relationship Managers also resulting from the subsequent merger transactions and company reorganisation processes, the two corporate Divisions constitute a single CGU.

The goodwill arising from the acquisitions of Banca del Gottardo Italy and the aforementioned Credit Suisse business unit was allocated to the Private Banking CGU.

The CGU's scope and the relevant future cash flows are thus identified on the basis of the AUM managed by the Private Banking and Private Relationship Manager Divisions.

In light of economic-financial forecasts based on the 2017-2019 Economic and Financial Plan, for the CGU in question the mean portfolio of assets under management (AUM) was assumed to grow at the end of the three years of reference (CAGR), by 7.0% per year whilst the long-term growth rate expected following the explicit planning period, and used to determine the Terminal Value (perpetual yield), was estimated at 1.5%.

The cost of capital employed to discount cash flows, determined according to the Capital Asset Pricing Model (CAPM), was estimated at **7.94%**.

The cost of capital was established applying the Capital Asset Pricing Model, on the basis of the following assumptions:

- a) risk free rate of 1.46%, equivalent to the annual gross return on 10-year BTPs (Italian government bonds), over the last 12 months;
- b) market risk premium of 6.0%, established on the basis of the difference in long-term yields between equity securities and bonds on international financial markets;
- c) a value of 1.08 assigned to the Beta coefficient measuring the extent to which the performance of any given stock is likely to depart from market trends, and determined on the basis of a sample of comparable companies, duly weighted for their respective market capitalisation values.

The foregoing assumptions are substantially in line with the estimates and variables used during the previous financial year.

The tests performed on the CGU did not detect any goodwill impairment.

Compared to the PB CGU's carrying amount of **149.3 million euros**, the value obtained by applying the analytical method described above amounted to a minimum of **673.7 million euros** and a maximum of **775.1 million euros**.

In accordance with the requirements of IAS 36.134 f), a sensitivity analysis was conducted as a function of the parameters “cost of capital” (Ke) and “long-term growth rate”, using a range of variation of 7.7%-8.2% and 1.25%-1.75%, respectively.

The test performed using the control method also confirmed that the carrying amount remained applicable.



## 2. Prime Consult and INA Sim CGU

The CGU Prime Consult and INA Sim (former Sim CGU) refers to the part of the activity of the Affluent operating segment, relating to the operations of the stock brokerage companies Prime Consult Sim S.p.A and INA Sim S.p.A., merged at the end of 2002, to which all of the goodwill arising from the acquisition may be attributed.

In light of economic-financial forecasts based on the 2017-2019 Economic and Financial Plan, for the CGU in question the mean portfolio of assets under management (AUM) was assumed to grow over the three years of reference (CAGR) by **8.0%** per year, whilst the long-term growth rate expected following the explicit planning period, and used to determine the Terminal Value (perpetual yield), was estimated at 1.5%.

The cost of capital employed to discount cash flows, determined according to the Capital Asset Pricing Model (CAPM), was estimated at **7.94%**.

The cost of capital was established applying the Capital Asset Pricing Model, on the basis of the following assumptions:

- a) risk free rate of 1.46%, equivalent to the annual gross return on 10-year BTPs (Italian government bonds), over the last 12 months;
- b) market risk premium of 6.0%, established on the basis of the difference in long-term yields between equity securities and bonds on international financial markets;
- c) a value of 1.08 assigned to the Beta coefficient measuring the extent to which the performance of any given stock is likely to depart from market trends, and determined on the basis of a sample of comparable companies, duly weighted for their respective market capitalisation values.

The foregoing assumptions are substantially in line with the estimates and variables used during the previous financial year.

The tests performed on the CGU did not detect any goodwill impairment.

Compared to the Prime Consult and INA Sim CGU's carrying amount of **24.4 million euros**, the value obtained by applying the analytical method described above amounted to a minimum of **440.7 million euros** and a maximum of **508.6 million euros**.

In accordance with the requirements of IAS 36.134 f), a sensitivity analysis was conducted as a function of the parameters "cost of capital" (Ke) and "long-term growth rate", using a range of variation of 7.7%-8.2% and 1.25%-1.75%, respectively.

The test performed using the control method also confirmed that the carrying amount remained applicable.

## PART H – RELATED PARTY TRANSACTIONS

### Procedural aspects

Banca Generali's Board of Directors approved the Related Party Transaction Procedure, effective as of 1 January 2011, in compliance with the provisions of Article 2391-*bis* of the Italian Civil Code, and Article 4 of the Regulations adopted with Consob Resolution No. 17221 of 12 March 2010, as subsequently amended.

On 12 December 2011, the Bank of Italy updated the Prudential Supervisory Provisions for Banks (Bank of Italy Circular Letter No. 263/2006), issuing new Provisions on Risk Assets and Conflicts of Interest of Banks and Banking Groups with Connected Parties (Title V, Chapter 5).

The Procedure was last updated to bring it in line with Article 150 of TUF and the provisions introduced by the Bank of Italy on 2 July 2013 with the 15th update to Circular Letter No. 263 of 27 December 2006 concerning "New Prudential Supervisory Provisions for Banks" on Transactions of Greater Importance.

The new Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance, in force as of 1 July 2014, is intended to implement Consob and Bank of Italy regulations, by adopting, at group level, rules on Transactions with Related Parties and Connected Parties and Transactions of Greater Importance, governing the related investigation, approval, reporting and disclosure activities.

### The scope of Related Parties

Based on Consob Regulations, the Provisions issued by the supervisory authority, and the Procedure, the following parties are considered as Banca Generali's related parties:

- > subsidiaries of the Banking Group;
- > the ultimate parent company Assicurazioni Generali S.p.A., its subsidiaries (companies subject to common control) and the direct parent Generali Italy S.p.A., as well as pension funds established for the benefit of Generali Group employees;
- > Key Management Personnel of the Bank and the parent company Assicurazioni Generali, close relatives of the cited personnel and the related relevant subsidiaries (entities in which one of these persons exercises control, joint control or significant influence or holds, directly or indirectly, a significant shareholding of no less than 20% of the voting rights).

Under IAS 24, whose revised version is in force since 1 January 2011, the associate companies of the Generali Banking and Insurance Groups are also considered related parties.

With specific regard to **key managers**, the following persons have been designated as such:

- > Directors and Statutory Auditors, including the Chief Financial Officer <sup>5</sup> and the General Manager;
- > other members of the Top Management, as defined in the Remuneration Policies of the Bank <sup>6</sup>, namely the Deputy General Managers and three Central Managers;
- > representatives of the parent company Assicurazioni Generali S.p.A. identified as Key Management Personnel in the corresponding procedure regarding transactions with related parties adopted by that Insurance Group.

### Significance thresholds of Related Party Transactions

The Procedure lays down specific provisions on decision-making authority, obligation to provide justification and documentation to be prepared depending on the type of transaction.

More specifically:

- > **Highly Significant Transactions** – i.e., transactions exceeding the threshold of 5% of at least one of the significance indicators of the countervalue of the transaction or the assets, as provided by Consob Resolution No. 17221, reduced to 2.5% for transactions carried out with the listed parent company or with undertakings thereto related, which are in turn related to the Company; they must be approved by the Board of Directors, upon the binding favourable opinion of the Internal Control Committee;
- > **Moderately Significant Transactions** – i.e., related party transactions whose amount falls between the Highly Significant Transactions and the Low Value Transactions; they must be approved as established pursuant to the system of delegated powers in force from time to time, only after hearing the non-binding opinion of the Internal Control Committee in such regard. The aforesaid transactions must be presented with a full and in-depth information about the reasons underlying each and every transaction in question, as well as the advisability of proceeding with the latter in light of the substantive propriety of the related terms and conditions;
- > **Low Value Transactions**, whose value, defined pursuant to the Bank of Italy's Provisions, cannot exceed the amount of 250,000 euros for banks with own funds below 1 million euros, and are excluded from the scope of application of the regulation on approval procedures and disclosure transparency.

<sup>5</sup> Office held by Piernario Motta until his untimely passing.

<sup>6</sup> In 2016, the Managers included in Top Management were the three Central Managers; after the reorganisation process performed on 1 July, the two new Deputy General Managers were also included.

In addition to transactions of a low value, in accordance with Consob Regulation, there are additional circumstances which are not subject to the specific approval procedures:

- > **share-based remuneration plans** approved by the General Shareholders' Meeting within the meaning of Article 114-bis of the TUF, and related implementing transactions;
- > **resolutions regarding the remuneration of Directors** entrusted with specific tasks other than those determined on an overall basis pursuant to Article 2389, paragraph 3, of the Italian Civil Code, and resolutions regarding the remuneration of Key Management Personnel, provided that the Company has adopted a remuneration policy with certain characteristics;
- > **ordinary transactions** that are part of the ordinary operations and any and all related financial activities, and are effected at arm's-length or standard terms or conditions. Pursuant to the Bank of Italy's Provisions, all transactions that exceed the Greater Importance threshold, even if carried out on an arms' length basis or at standard conditions, should be considered as non-ordinary transactions;
- > **transactions with or between subsidiaries and associates**, provided that none of the Company's other related parties holds any interest in the subsidiaries or associates in question.

On the basis of the indicator consisting of the consolidated own funds, the threshold of transactions of Greater Importance currently stands at around **23.1 million euros**, reduced to **11.5 million euros** for transactions with the parent company Assicurazioni Generali and the latter's related entities.

Moreover, for the first time, the provisions issued by the Bank of Italy impose prudential restrictions, based on own funds, to risk assets in respect of Connected Parties. The limits vary according to the different types of Connected Parties, in proportion with the level of involvement in the relationship and the potential impact of the resulting risks on sound and prudent management. In light of the greater risks associated with conflicts of interest in bank-industry relations, more stringent limits are envisaged for risk assets carried out with entities qualifying as non-financial related parties. Exposure in respect of the Generali Group's connected parties, on the other hand, is capped at **7.5%** of consolidated own funds.

Even if the aforesaid consolidated cap is not exceeded, Banca Generali's exposure in respect of any given set of connected parties may in no event exceed **20%** of the sum total of individual Own funds.

## 1. Disclosure of remuneration of directors and executives

As required by IAS 24, the total remuneration recorded in the Profit and Loss Account for the year is disclosed below, broken down by personnel category and type.

	31.12.2016				31.12.2015	CHANGE
	DIRECTORS	AUDITORS	KEY MANAGEMENT PERSONNEL	TOTAL		
Short-term benefits (current remuneration and social security charges) <sup>(1)</sup>	811	171	2,494	3,476	4,846	-1,370
Post-employment benefits <sup>(2)</sup>	-	-	572	572	154	418
Other long-term benefits <sup>(3)</sup>	-	-	116	116	367	-251
Severance indemnities	-	-	-	-	-	-
Share-based payments <sup>(4)</sup>	-	-	2,596	2,596	2,553	43
<b>Total</b>	<b>811</b>	<b>171</b>	<b>5,778</b>	<b>6,761</b>	<b>7,920</b>	<b>-1,159</b>
<b>Total at 31.12.2015</b>	<b>1,595</b>	<b>168</b>	<b>6,157</b>	<b>7,920</b>	-	-

(1) Includes current remuneration and social security charges payable by the Company and the short-term portion of variable remuneration.

(2) Includes the Company's pension fund contribution and allocation to the provision for severance indemnities provided for by the law and Company regulations.

(3) Includes 40% of the bonus with access gate.

(4) Includes the estimated cost for share-based payment plans, determined based on IFRS 2 criteria and recognised in the Financial Statements.

The table presents the total expenses recognised in the Profit and Loss Account presented in the Annual Financial Statements on the basis of the application of IASs/IFRSs. It therefore also includes the social security charges payable by the Company, the allocation to the provision for severance indemnities, the expenses associated with share-based payment plan determined in accordance with IFRS 2, and the estimate of the variable remuneration accrued during the year on the basis of the Remuneration and Incentivisation Policy for the Key Personnel of the Banking Group.

It should also be noted that the amounts are net of recoverable remuneration associated with services rendered to other companies.

In further detail, the item "Other long-term benefits" includes the estimate of the 40% portion of variable remuneration for the year in excess of 75,000 euros payable on a deferred basis over the next two years, contingent upon specific access gate conditions being met, in accordance with the aforementioned Remuneration Policy.

The item "Short-term benefits" includes the fixed remuneration and the 60% portion of variable remuneration accrued in the reporting year and payable in the following one.

Beginning in 2015, a 25% portion of the variable remuneration – both current and deferred – will be paid in Banca Generali shares.

Therefore, the item “Share-based payments” accounts for the costs associated with IFRS2 accrued in the year and regarding:

- > the Long-Term Incentive Plans (LTIPs) introduced by the parent company Assicurazioni Generali, for a total amount of 2.7 million euros;
- > the share-based payments envisaged in the new Remuneration Policy mentioned above and discussed in greater detail in Part I of these Notes and Comments (0.5 million euros).

With regard to the LTIPs of the parent company Assicurazioni Generali, it should be noted that effective the fourth cycle of the plan (2013-2015), the incentivisation characteristics were completely revised and now only envisage a share bonus in the form of shares of the Parent Company, Assicurazioni Generali, the cost of which is exclusively estimated on the basis of the IFRS 2. This incentivisation plan is described in greater detail in Part A of these Notes and Comments, Section 17 – Other information.

For detailed information concerning Remuneration Policies, the reader is therefore referred to the specific document concerning Remuneration Policies instituted by Consob Resolution No. 18049 of 23 December 2011 and, as regards the disclosure required by the Bank of Italy, to the relevant section of Pillar 3.

---

## 2. Disclosure of Related Party Transactions

As part of its normal business operations, Banca Generali carries out numerous financial and commercial transactions with related parties included in the scope of consolidation of the Generali Group.

Banca Generali is a direct subsidiary of Generali Italy S.p.A., the holding of all the Insurance Group's operations in Italy. However, Assicurazioni Generali S.p.A. – the company engaging in management and coordination activities pursuant to Article 2497 of the Italian Civil Code – continues to be the ultimate Parent Company. This is the reason why reference is made to the latter when speaking of the “Parent Company” of Banca Generali, in compliance with IAS 24.

In the banking area, such operations include current accounts, the custody and administration of securities, stock brokerage and commercial portfolio collection.

As regard the distribution and sale of financial services, a number of agreements were established regarding the placement of asset management and insurance products, as well as banking products and services through the Financial Advisors network.

To a lesser extent, advisory and wealth management activities are also carried out, with reference to underlying assets of insurance products placed by the companies of the Insurance Group.

Finally, as part of its normal operations, the Bank also maintains relationships pertaining to IT and administration outsourcing, insurance and leasing relationships, as well as other minor relationships with Generali Group companies. Transactions with related parties outside the Generali Group are mostly confined to direct and indirect net inflows activities and loans to Key Management Personnel (and their relatives) of the Bank and its Parent Company. These transactions are carried out at arm's length. Banca Generali's direct investments in undertakings on which such related parties exercise significant influence or control are absolutely not material.

---

### 2.1 Extraordinary and non-recurring transactions

#### Unusual, atypical or extraordinary transactions

There were no atypical and/or unusual transactions to be reported in 2016, nor were such transactions undertaken with parties other than related parties such as intragroup entities or third parties.

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

#### Highly Significant Transactions

In 2016, the Bank did not carry out any transactions qualifying as non-ordinary, “highly significant” transactions, entered into at non-market or non-standard conditions which, in accordance with the Related Party Transaction Procedure, would have been subject to market disclosure and the obligation of publishing an information memorandum.

## Other Significant Transactions

In 2016, some transactions were approved qualifying as “moderately significant” transactions, which are subject to the prior non-binding opinion of the Audit and Risk Committee; in this regard, the reader is referred to the dedicated section of the Report on Operations.

## 2.2 Ordinary or recurring transactions

The developments of ordinary transactions with related parties during 2016 are presented in the following sections.

### Transactions with the Assicurazioni Generali Group

#### Balance Sheet data

(€ THOUSAND)	SUBSIDIARIES OF THE BANKING GROUP	PARENT COMPANY ASSICURAZIONI GENERALI	SUBSIDIARIES OF THE GENERALI GROUP	31.12.2016	31.12.2015	CHANGE		WEIGHT % 2016
						AMOUNT	%	
HFT financial assets	-	225	-	225	270	-45	-16.7%	0.6%
AFS financial assets	-	652	241	893	1,023	-130	-12.7%	-
Loans to customers	31,681	-	18,838	50,519	49,836	683	1.4%	2.7%
Equity investments	16,224	-	-	16,224	16,224	-	-	100.0%
Tax assets (AG tax consolidation)	-	2,150	-	2,150	16,399	-14,249	-86.9%	4.9%
Other assets	31	-	400	431	658	-227	-34.5%	0.1%
<b>Total assets</b>	<b>47,936</b>	<b>3,027</b>	<b>19,479</b>	<b>70,442</b>	<b>84,410</b>	<b>-13,968</b>	<b>-16.5%</b>	<b>0.8%</b>
Due to customers	97,376	2,802	748,087	848,265	963,225	-114,960	-11.9%	12.6%
Other liabilities	371	1	10,779	11,151	17,220	-6,069	-35.2%	9.6%
<b>Total liabilities</b>	<b>97,747</b>	<b>2,803</b>	<b>758,866</b>	<b>859,416</b>	<b>980,445</b>	<b>-121,029</b>	<b>-12.3%</b>	<b>10.3%</b>
<b>Guarantees issued</b>	<b>-</b>	<b>2,224</b>	<b>284</b>	<b>2,508</b>	<b>3,019</b>	<b>-511</b>	<b>-16.9%</b>	<b>2.2%</b>

The total exposure to the Parent Company, **Assicurazioni Generali**, of companies subject to its control, including the direct parent, Generali Italy S.p.A., and its associate companies, amounted to 22.5 million euros, compared to 41.1 million euros recognised at the end of 2015, equal to 0.27% of Banca Generali’s total assets.

By contrast, the total debt position reached 761.7 million euros, accounting for 9.2% of liabilities, down by 167.4 million euros (-18%) compared to the previous year.

As part of assets, **HFT and AFS financial assets** claimed from the Parent Company refer to shares of Assicurazioni Generali held in the corresponding portfolios of Banca Generali. As part of the AFS portfolio, shareholdings in subsidiaries of the Generali Insurance Group refer to the shares held in the consortia of the GBS Group (Generali Business Solutions) and GCS (Generali Corporate Services).

Exposures to Generali Group companies recognised as **loans to customers** amounted to 18.8 million euros and refer to the following transactions:

COMPANY	RELATIONSHIP	TYPE OF TRANSACTION	31.12.2016		31.12.2015	
			AMOUNT	REVENUES	AMOUNT	REVENUES
Investimenti Marittimi	Associate of the AG Group	Medium/Long-term grant in current account	-	-	-	449
Genertellife	Subsidiary of the AG Group	Operating loans	17,344	-	19,740	-
Assicurazioni Generali	Parent Company	Operating loans	-	-	17	-
Other companies of the Generali Group	Subsidiary of the AG Group	Operating loans	1,487	-	889	-
Other exposures with Group companies	Subsidiary of the AG Group	Temporary current account exposures	7	816	1	104
			<b>18,838</b>	<b>816</b>	<b>20,647</b>	<b>553</b>

**Operating receivables** are comprised of transitional items including fees accrued over the last quarter for the distribution of insurance and financial products of Group companies.

Amounts receivable from the Parent Company and classified as **tax assets** consisted of Banca Generali S.p.A.’s net tax receivables resulting from the balance between tax prepayments, withholdings and credits and the IRES tax calculated at the end of the year. This item also includes the estimated tax credit arising from the application for the refund of the portion of the IRAP tax made deductible for IRES purposes pursuant to Legislative Decree No. 201/2011, and subject to reimbursement within the tax consolidation scheme adopted by the Parent Company.

**Amounts due to customers** attributable to Generali Group's related parties reached 750.9 million euros at the end of the year and included amounts due to the parent company Assicurazioni Generali S.p.A. for 2.8 million euros and amounts due to Generali Italy S.p.A. for 142.4 million euros.

Amounts due to customers also included the **subordinated loan** with Generali Beteiligungs GmbH, taken up at the end of 2014 to acquire the Credit Suisse Italy S.p.A.'s business unit and amounting to 43.3 million euros, gross of accrued interest.

Finally, a total of 2.5 million euros in personal guarantees was issued for Generali Group companies, of which 2.2 million euros on behalf of Assicurazioni Generali S.p.A.

## Profit and Loss Account data

At 31 December 2016, overall profit and loss components recognised in the Financial Statements with regard to transactions with companies of the Generali Group amounted to 174.0 million euros, or 109.4% of operating profit before taxation.

(€ THOUSAND)	SUBSIDIARIES OF THE BANKING GROUP	PARENT COMPANY ASSICURAZIONI GENERALI	SUBSIDIARIES OF THE GENERALI GROUP	2016	2015	CHANGE		WEIGHT % 2016
						AMOUNT	%	
Interest income	2	34	782	818	553	265	47.9%	1.3%
Interest expense	-	-	-1,669	-1,669	-1,982	313	-15.8%	53.6%
<b>Net interest income</b>	<b>2</b>	<b>34</b>	<b>-887</b>	<b>-851</b>	<b>-1,429</b>	<b>578</b>	<b>-40.4%</b>	<b>-1.5%</b>
Fee income	109,428	1	190,045	299,474	275,815	23,659	8.6%	72.6%
Fee expense	-	-	-	-	-58	58	-100.0%	-
<b>Net fees</b>	<b>109,428</b>	<b>1</b>	<b>190,045</b>	<b>299,474</b>	<b>275,757</b>	<b>23,717</b>	<b>8.6%</b>	<b>207.5%</b>
Dividends	-	45	-	45	37	8	21.6%	2.3%
Gain (loss) from trading	-	-	-	-	-1,850	1,850	-100.0%	-
<b>Operating income</b>	<b>109,430</b>	<b>80</b>	<b>189,158</b>	<b>298,668</b>	<b>272,515</b>	<b>26,153</b>	<b>9.6%</b>	<b>125.7%</b>
Staff expenses	398	-	232	630	826	-196	-23.7%	-0.8%
General and administrative expense	-735	-	-15,478	-16,213	-16,112	-101	0.6%	11.9%
Other net operating income	253	-	25	278	416	-138	-33.2%	0.6%
<b>Net operating expenses</b>	<b>-84</b>	<b>-</b>	<b>-15,221</b>	<b>-15,305</b>	<b>-14,870</b>	<b>-435</b>	<b>2.9%</b>	<b>8.8%</b>
<b>Operating result</b>	<b>109,346</b>	<b>80</b>	<b>173,937</b>	<b>283,363</b>	<b>257,645</b>	<b>25,718</b>	<b>10.0%</b>	<b>441.8%</b>
Dividends and income from equity investments	130,462	-	-	130,462	177,360	-46,898	-26.4%	100.0%
<b>Operating profit</b>	<b>239,808</b>	<b>80</b>	<b>173,937</b>	<b>413,825</b>	<b>435,005</b>	<b>-21,180</b>	<b>-4.9%</b>	<b>260.27%</b>
<b>Net profit (loss) for the year</b>	<b>239,808</b>	<b>80</b>	<b>173,937</b>	<b>413,825</b>	<b>435,005</b>	<b>-21,180</b>	<b>-4.9%</b>	<b>285.89%</b>

Overall, **net interest income** accrued in dealings with companies of the Insurance Group is negative and amounted to 0.8 million euros, with net interest paid to such companies (1.7 million euros) accounting for 53.6% of the total amount recognised in the Profit and Loss Account and showing a decline of 313 thousand euros compared to the same period of the previous year.

By convention, interest income also includes the negative interest expense applied to the deposits of Generali Group companies starting in June, calculated according to the average one-month Euribor for the month prior to the month of calculation.

Interest expense paid in relation to the subordinated loan with Generali Beteiligungs GmbH totalled 1.6 million euros, whereas the interest income from other companies of the Generali Group was absolutely negligible due to the persistence of negative short-term interest rates.

**Fee income** paid back by companies of the Insurance Group amounted to 190 million euros, equal to 46.1% of the aggregate amount and was broken down as follows:

	BANKING GROUP	GENERALI GROUP	2016	BANKING GROUP	GENERALI GROUP	2015	CHANGE
UCITS placement fees	106,864	2,946	109,810	112,288	2,164	114,452	-4,642
Distribution of insurance products	-	183,636	183,636	-	155,561	155,561	28,075
Distribution of asset management products	2,561	945	3,506	2,464	899	3,363	143
Consultancy	-	2,141	2,141	-	1,973	1,973	168
Other banking fees	3	378	381	1	465	466	-85
	<b>109,428</b>	<b>190,046</b>	<b>299,474</b>	<b>114,753</b>	<b>161,062</b>	<b>275,815</b>	<b>23,659</b>

The most significant component consists of fees on the **distribution of insurance products** by **Genertellife**, which amounted to 183.6 million euros, up by 18.0% compared to the same period of the previous year.

Fees on the placement of units of UCITS of the Insurance Group were largely related to the income on the distribution of BG Focus funds, promoted by Generali Investments Europe SGR.

Furthermore, Banca Generali advises on, or directly manages through portfolio management solutions, a portion of the underlying assets of the Group's insurance products. In this regard, in 2016 fee income for advisory services rendered to Alleanza Assicurazioni S.p.A. and Generali Italy S.p.A. amounted to 2.1 million euros.

The other bank fees refer primarily to direct debit collection activity on behalf of Group companies.

It should also be noted that Banca Generali renders trading and order receipt services to Italian and international UCITS administered by management companies that belong to the Banking and Insurance Group. Such fees, amounting to 1.1 million euros, are generally charged directly against the assets of the UCITS, which are considered entities beyond the scope of IAS 24.

The Bank also directly collects from customers – through the correspondent bank – subscription fees for the Sicavs promoted by the Group (BG Sicav, BG Selection Sicav, Generali Investments Sicav).

	BANKING GROUP	GENERALI GROUP	2016	BANKING GROUP	GENERALI GROUP	2015
Sicav underwriting fees	4,772	55	4,827	9,420	128	9,548
Trading fees on funds and Sicavs	1,016	1,080	2,096	1,065	4,964	6,029
	<b>5,788</b>	<b>1,135</b>	<b>6,923</b>	<b>10,485</b>	<b>5,092</b>	<b>15,577</b>

**Net operating expenses** recognised by the Bank in relation to transactions with related parties of the Generali Group amounted to 15.2 million euros, equal to 8.8% of the aggregate total and refer to outsourced services in the insurance, leasing, administrative and IT sectors.

	BANKING GROUP	GENERALI GROUP	2016	BANKING GROUP	GENERALI GROUP	2015	CHANGE
Insurance services	-4	2,219	2,215	-	2,112	2,112	103
Property services	-	5,626	5,626	-	5,372	5,372	254
Administration, IT and logistics services	486	7,611	8,097	367	7,865	8,232	-135
Financial services	-	-3	-3	-20	-	-20	17
Staff services	-398	-232	-630	-406	-420	-826	196
<b>Total administrative expense</b>	<b>84</b>	<b>15,221</b>	<b>15,305</b>	<b>-59</b>	<b>14,929</b>	<b>14,870</b>	<b>435</b>

Administrative expense incurred in relation to Generali Italy S.p.A. amounted to 3.3 million euros, of which 2.1 million euros refers to insurance services and the remainder to rentals for former INA property leases.

The cost of property services relating to the lease of offices, branch network and operating outlet premises of the Bank totalled 5.6 million euros and referred to Generali Italy S.p.A. (1.2 million euros), Generali Properties (3.1 million euros) and Fondo Mascagni (1.4 million euros).

Expenses relating to IT, administration and logistics related chiefly to services rendered by Generali Business Solutions S.r.l. (GBS) on the basis of current outsourcing agreements.

### Transactions with other related parties

Exposures with **Key Managers** of the Bank and its parent company Assicurazioni Generali mainly referred to residential mortgages subject to the same terms and conditions applied to similar mortgages held by other Managers of the Banking and Insurance Group.

Amounts due to such parties consist of the balances of correspondent accounts with Banca Generali and are regulated on the basis of conditions applicable to employees of the Banking and Insurance Group.

Equity investments include the interest acquired by the Banking Group in 2015 in the UK-based firm IOCA Entertainment Ltd.

In addition, the **AFS portfolio** included an equity investment in Dea Capital – whose amount was not material – attributable to a Key Manager of the Parent Company, Assicurazioni Generali S.p.A. In 2016, the equity investment earned dividends for 36 thousand euros.

(€ THOUSAND)	KEY MANAGEMENT PERSONNEL	ENTITIES UNDER CONTROL OR SIGNIFICANT INFLUENCE
AFS financial assets	-	361
Loans to customers	3,082	-
Due to customers	3,780	-
Equity investments	-	2,200
Guarantees issued	45	-
Guarantees received	-	-

### Relationships with the Banking Group's companies

Within the Banking Group, the exposure to subsidiaries amounted to 45.7 million euros, of which 4.6 million euros referred to the loan granted to the subsidiary Generfid S.p.A. in December 2016 to finance the annual prepayment of the substitute tax on capital gains calculated and paid on the customer's behalf, whereas the remainder consisted of operating receivables associated with financial product distribution activity.

Net inflows from Group companies amounted to 97.7 million euros and consist solely of the balances of current account deposits.

The profit and loss components recognised in the Financial Statements with regard to transactions with companies of the Banking group amounted to 239.8 million euros and primarily consist of:

- > fee income given back to the Group's product companies in connection with the distribution of financial products and services by such companies (109.4 million euros);
- > dividends distributed by the Luxembourg-based subsidiary GFM (130.5 million euros).

With respect to aggregate operating expenses, the services rendered by the Parent Company to members of the banking group are highly limited and refer essentially to the exchange of staff and the outsourcing of major administrative services.

### Direction and Coordination

Pursuant to Article 2497-bis of the Italian Civil Code, Banca Generali is subject to Assicurazioni Generali S.p.A.'s "management and coordination" activities.



A summary of the main items of this company's latest Financial Statements is reported hereunder.

## 2015 HIGHLIGHTS OF ASSICURAZIONI GENERALI

(€ MILLION)

<b>Net profit</b>	<b>931.5</b>
Aggregate dividend	1,123.0
<i>Increase</i>	
Total net premiums	2,290.0
Total gross premiums	3,113.1
Total gross premiums from direct business	595.0
<i>Increase on equivalent terms <sup>(a)</sup></i>	
Total gross premiums from indirect business	2,518.1
<i>Increase on equivalent terms <sup>(a)</sup></i>	
Acquisition and administration costs	397.2
<i>Expense ratio <sup>(b)</sup></i>	17.34%
<b>Life business</b>	
Life net premiums	1,353.6
Life gross premiums	1,719.4
<i>Increase on equivalent terms <sup>(a)</sup></i>	
Life gross premiums from direct business	244.6
<i>Increase on equivalent terms <sup>(a)</sup></i>	
Life gross premiums from indirect business	1,478.8
<i>Increase on equivalent terms <sup>(a)</sup></i>	
Life acquisition and administration costs	210.2
<i>Expense ratio <sup>(b)</sup></i>	15.53%
<b>Non-life business</b>	
Non-life net premiums	936.4
Non-life gross premiums	1,393.7
<i>Increase on equivalent terms <sup>(a)</sup></i>	
Non-life gross premiums from direct business	350.4
<i>Increase on equivalent terms <sup>(a)</sup></i>	
Non-life gross premiums from indirect business	1,043.3
<i>Increase on equivalent terms <sup>(a)</sup></i>	
Non-life acquisition and administration costs	187.0
<i>Expense ratio <sup>(b)</sup></i>	19.97%
<i>Loss ratio <sup>(c)</sup></i>	63.20%
<i>Combined ratio <sup>(d)</sup></i>	83.10%
<b>Current financial result</b>	<b>1,673.8</b>
Technical provisions	14,120.1
Life segment technical provisions	12,135.5
Non-life segment technical provisions	1,984.6
Investments	41,170.3
Capital and reserves	13,767.5

(a) At constant exchange rates.

(b) Ratio of administrative expense to total premiums.

(c) Ratio of accrued claims to accrued premiums.

(d) Total (b) + (c).

The highlights of the Parent Company Assicurazioni Generali S.p.A shown above were taken from the company's Financial Statements for the year ended 31 December 2015. These are available together with the Independent Auditor's Report as provided for by the law. Consequently, these figures of the Parent Company are not subject to audit performed by the auditing firm engaged by Banca Generali.

## PART I – PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

### A. Qualitative information

At 31 December 2016, the payment agreements based on own equity instruments activated by Banca Generali consisted of two stock-option granting plans reserved, respectively, to Financial Advisors, Network Managers, and Relationship Managers (employees) of Banca Generali, approved by the General Shareholders' Meeting held on 21 April 2010. These plans have already completed their vesting period and are nearing the end of their option strike period.

The Remuneration and Incentivisation Policy of the Banca Generali Group – amended to comply with the provisions set forth in the Supervisory Provisions (Bank of Italy Circular Letter No. 285/2013, 7th update) – established, *inter alia*, that part of the variable remuneration of Key Personnel be paid by assigning Banca Generali's financial instruments.

#### A.1 Rules for the stock-option plans for Financial Advisors, Network Managers and Relationship Managers of Banca Generali S.p.A. for 2010

In order to pursue the twofold objective, in the medium and long term, of maintaining the interest of the distribution network and Network Managers in line with the interest of the company, as well as increasing the loyalty of the most promising professionals, by involving the same economically in overall value creation within the Company, whilst also providing incentives to boost productivity, on 21 April 2010 the Shareholders' Meeting approved two stock-option plans, which called for:

- > the allotment to Banca Generali's Financial Advisors, Area Managers, Business Managers and Private Bankers of a maximum of 2,300,000 shares to be issued;
- > the allotment to Banca Generali's Relationship Managers of a maximum amount of 200,000 ordinary shares to be issued;
- > the allotment of options by 30 June 2011, after having verified that overall and individual targets for the development of net inflows by 31 December 2010 have been reached;
- > the possibility to exercise the options between 1 July 2011 and 30 June 2017 to the extent of one-sixth per year.

The main aspects of the plans in question are summarised in the 2014 Consolidated and Separate Financial Statements and those of previous financial years, to which reference can be made for further information.

A share capital increase in one or more tranches, excluding option rights pursuant to Article 2441, paragraphs 5 and 8, of the Italian Civil Code, was approved in service of the stock-option plans indicated above for the issue of a maximum of 2.5 million ordinary shares, in addition to the 5.5 million new shares already approved in relation to the existing stock-option plans, already examined.

On 13 May 2011, the Plan Management Committee assessed the achievement of the individual targets established for the different categories of recipients, who then were actually assigned the option rights on 7 June 2011.

The exercise price of the shares, amounting to 10.7118 euros, was determined on the basis of the plans' Rules, based on the arithmetic mean of the reference price of Banca Generali stock listing in the period from the option allotment date to the same date of the previous solar month.

The sixth – and last – tranche of options, accounting for one-sixth of the total of options allotted, became eligible for exercise as of 1 July 2016, and can therefore be exercised until 30 June 2017.

In 2016, a total of **340,007** options were exercised, of which **20,907** by Relationship Managers. In addition, **5,318** options were cancelled due to termination of the mandate of the Financial Advisors to whom they had been allotted.

Therefore, a total of 1,945,687 options were exercised and 120,127 were cancelled overall.

At the end of 2016, **434,186** options were yet to be exercised, of which **38,339** referring to Relationship Managers.

#### Measurement of the fair value and accounting treatment

Valuation of the stock-option plans is based on the fair value of the options allotted, calculated with reference to the final allotment date of the options.

In further detail, since the various tranches of the plan are associated with different vesting dates and option exercise periods, each tranche has been treated as a separate allotment, with the determination of a specific fair value.

The measurement of the fair value of the options was computed using a standardised model available among the operating tools on the Bloomberg platform. This model contemplated information such as the strike price, the vesting period, the exercise window, current share price and implied volatility, expected dividends and the risk-free interest rate. The binomial pricing model also takes into account the possibility of early exercise.

The implied volatility of Banca Generali stock used in the model was determined according to an inductive process commonly used by the market.

In detail, the expected volatility of at-the-money Banca Generali options at three months was first estimated according to surveys of historical volatility, and the volatility of more liquid options at three months based on the equities of listed issuers with similar structural characteristics. The spread between the volatility of the option at three months and the DJ STOXX 50 index was then calculated, and that spread was applied to the index's implied volatility during the holding period for the new maturities, while also taking the various moneyness profiles into account.

Considering the particular situation of market volatility that occurred during the option allotment period, the current value of the options was determined on the basis of the average quotations during the period from 15 May (the date on which the beneficiaries were identified) to 30 June 2011, the date specified in the plans' Rules as the final deadline for allotment of the options.

The other specific characteristics of the plans, such as the presence of periods of suspension of exercisability, were also considered for measurement purposes.

Since the plan's Rules also call for forfeiture of the right to exercise options in the event of the termination of a Financial Advisor for any reason, except for decease, permanent disability or retirement, an estimate was prepared of the briefer expected residual life of the options compared to their contractual duration due to expected cases of early exercise. To that end, the notional fair value of the shares was adjusted on the basis of the expected turnover rates by option vesting class.

This procedure resulted in the identification of fair values between 1.01 and 0.65 euros depending on the exercise date for the option rights.

The impact on the Profit and Loss Account was measured from year to year based on the vesting period of the option, i.e., the period between allotment and final maturity, likewise taking into account the probability that exercise conditions for all recipients will not be realised.

Given the different vesting dates of the various tranches of the plan, each tranche was measured separately for this purpose. It follows that for the first tranche, which became exercisable on 1 July 2011, vesting was immediate, whereas for the sixth tranche, which became exercisable on 1 July 2016, the vesting period was calculated over six years.

## A.2 Share-based payment plans linked to the variable portion of remuneration based on performance objectives

In accordance with the Supervisory Provisions set forth in the 7<sup>th</sup> update of Bank of Italy Circular Letter No. 285/2013 issued on 18 November 2014, the Remuneration and Incentivisation Policy for the Key Personnel of the Banca Generali Group – applied as of financial year 2015 – requires a portion of the variable component of remuneration, both current and deferred, to be paid by assigning Banca Generali's financial instruments.

In detail, Key Personnel and main Network Managers who accrue a variable remuneration linked to short-term objectives exceeding 75 thousand euros would be entitled, in addition to the deferral of the disbursement of 40% of the variable component, also to the payment of 25% of the said component through assignment of Banca Generali shares, based on the following stock-granting and retention mechanism:

- > 60% of the bonus to be paid up-front in the year following that under review: 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year;
- > 20% of the bonus to be deferred for one year: 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year;
- > the remaining 20% of the bonus to be deferred by two years: 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year.

If the actual bonus accrued falls below the threshold of 75 thousand euros, the bonus will be paid in full up-front during the year after that of reference, 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year.

The payment in shares will be executed after the Board of Directors verifies the earnings results for the year in question and will be conditional not only upon the achievement of the pre-set objectives defined in the MBO mechanism, but also to the satisfaction of access gates established by the Banking Group (TCR - Total Capital Ratio, LCR - Liquidity Coverage Ratio) for the year in which the remuneration is accrued and the following two-year period of deferral.

In calculating the number of shares to be assigned, a method is applied where:

- > the numerator is equal to 25% of the variable remuneration accrued in respect of the actual achievement of the targets set for the year in question; and
- > the denominator is equal to the average price of Banca Generali shares during the three months prior to the meeting of the Board of Directors that approves the draft Separate and Consolidated Financial Statements for the year prior to that in which the cycle in question begins.

### Measurement of fair value and accounting treatment

Pursuant to IFRS 2 – *Share-based Payments*, the mechanisms to assign variable remuneration – discussed in the previous section – are considered as equity-settled share-based payment transactions.

The accounting treatment set forth for these transactions requires an entity to reflect in its Profit and Loss Account, under the most appropriate items (staff expenses, fee expense), the estimated expense associated with transactions in which shares are assigned, and allocate a specific equity reserve as offsetting entry.

IFRS 2 envisages that with regard to *transactions with employees and others providing similar services (employees/network managers)*, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.

From an accounting standpoint, as the share-based payment does not call for an exercise price, it can be considered a stock grant and recognised in compliance with the rules set forth for this category of transactions. The overall expense regarding the allotments was therefore determined based on the number of shares expected to be assigned, on the basis of the objectives achieved, multiplied by the fair value of the Banca Generali stock at the date of allotment.

Moreover, as the share allotment is effected in three tranches, each tranche is considered individually: a first tranche (60%) paid up-front after the approval of the Financial Statements for the year of reference, and two annual tranches (40%) to be deferred and subject to both the continuation of service and the satisfaction of access gates established on an annual basis.

In detail, the vesting period for the tranche paid up-front lasts from 1 January to 31 December of the year of reference of the remuneration (12 months), whereas for the two deferred tranches the vesting period is extended up to 31 December of the first subsequent year (24 months) and of the second subsequent year (36 months).

The overall number of shares to be allotted is defined dividing the 25% portion of variable remuneration payable in the form of shares by the average price of Banca Generali shares during the three months prior to the meeting of the Board of Directors that approves the Separate and Consolidated Financial Statements for the year prior to that in which the cycle in question begins.

In detail, an estimate of variable remuneration envisaged by MBO plans was considered for salaried Managers, whereas for Network Managers an estimate of fee incentives accruing against the objectives set for the year was taken into account.

However, the number of shares actually granted to beneficiaries may change based on the assessment of satisfaction of the individual objectives set for the year.

The fair value of Banca Generali stock at the allotment date is equal to the market price reported at the date of the Shareholders' Meeting that is called annually to approve the Remuneration Policy for the year of reference.

### Information on the cycles of the share-based plan in connection to the Remuneration Policies

The **first share-based payment cycle**, relating to the 2015 variable remuneration, was approved by the Shareholders' Meeting on 23 April 2015.

In order to service the plan, the Shareholders' Meeting also passed a resolution to buy-back a maximum number of **88,213** treasury shares, subsequently authorised by Bank of Italy Order of 3 June 2015.

For the purpose of determining the number of shares to be assigned, the price of reference of Banca Generali shares, calculated as the average official market price during the period 12 December 2014 to 9 March 2015, was determined to be **23.94 euros**.

The fair value of Banca Generali stock at the allotment date was equal to the market price (approximately **29.4 euros**) reported on 23 April 2015.

In that cycle, the shares to be assigned to Key Personnel totalled **68,250**, of which **51,960** were awarded to Network Managers, **14,578** to employees, and **1,712** referred to the subsidiary BGFML.

The overall fair value of the plan was estimated at about 2.0 million euros, of which 1.6 million euros already recognised in 2015 and 0.3 million euros to be recognised in 2017.

The first tranche of those shares, associated with the portion of current remuneration, was assigned on 27 April 2016 and consisted of **38,099** treasury shares.

The total shares allotted in respect of the 2015 remuneration of Chief Executive Officer and General Manager Piermario Motta (**5,222** shares), who passed away untimely in March 2016, were paid in cash to his heirs. Pursuant to IFRS 2, paragraph 28, concerning the cancellation of share-based payment plans, the entire plan was considered fully vested and recognised through profit and loss, and the amounts paid out to his heirs were treated as a buy-back of shares, in an amount equivalent to the fair value of the Banca Generali stock on the settlement date.

The **second share-based payment cycle**, relating to the variable remuneration accrued in 2016, was approved by the Shareholders' Meeting on **21 April 2016** and presents characteristics essentially similar to those of the previous year, with the sole difference of the extension of the share-based payment mechanism to also include variable remuneration below the threshold of 75 thousand euros.

In this regard, the Shareholders' Meeting of 21 April 2016 also passed a resolution to buy-back a maximum number of **67,051** treasury shares, subsequently authorised by Bank of Italy Order of 6 June 2016.

For the purpose of determining the number of shares to be assigned, the price of reference of Banca Generali shares, calculated as the average official market price during the period 12 December 2015 to 9 March 2016, was determined to be **25.26 euros**.

The fair value of Banca Generali stock at the allotment date was equal to the market price (approximately **26 euros**) reported on 21 April 2016.

In respect of the assessment of the achievement by Key Personnel of the objectives set for 2016, it was estimated that the portion of variable remuneration subject to share-based payment amounted to approximately 77.4 thousand shares, for a total plan fair value of **1.9 million euros**.

In 2016, a plan for new recruits was also implemented. This plan is subject to long-term deferral and envisages the assignment of ten annual variable instalments to be paid from 2016 to 2025, conditional upon the maintenance of the net inflows contributed at 30 November 2016. Each annual instalment of this plan is also subject to deferral and payment in shares according to the Remuneration Policy from time to time in force, until the year 2028.

At 31 December 2016, pursuant to IFRS 2, the estimated fair value of the incentive plan's portion payable in shares was approximately 348 thousand euros, of which about 63 thousand euros accrued during the reporting year.

## B. Quantitative information

During 2016, nearly 340,000 option rights deriving from the new 2010 plans were exercised.

The weighted average strike price was 10.71 euros, compared to an average price of the Banca Generali stock of 21.684 euros in 2016.

The Bank's total amount of proceeds for the exercise of the options thus reached 3,355 thousand euros, whereas the value of the IFRS 2 equity reserve set aside in previous years in connection with the rights exercised amounted to 361 thousand euros.

That amount, along with the amount paid out to the beneficiaries, net of the par value of the shares allotted, was added to the share premium reserve (3,584 thousand euros) pursuant to the supervisory authority's instructions (Circular Letter No. 262/2005, paragraph 5, Statement of Changes in Net Equity).

The expenses recognised in the Profit and Loss Account in 2015 in connection with the stock-option plans reserved for Financial Advisors and salaried Relationship Managers authorised in 2010 amounted to 29 thousand euros.

At the end of 2016, the IFRS 2 equity reserve associated with the 2010 stock-option plans therefore amounted to 0.3 million euros.

The total number of options that can be exercised at the end of financial year 2016 is 434 thousand, with an average strike price of 10.71 euros and a total exercise value of about 4.7 million euros.

The remaining average life of such aggregate amount is 0.5 years.

### B.1 Stock-option plans – year changes

NUMBER OF OPTIONS AND EXERCISE PRICE	AVERAGE PRICES	STOCK OPTION – FINANCIAL ADVISORS	AVERAGE PRICES	STOCK OPTION – SALARIED MANAGERS	AVERAGE PRICES	TOTAL STOCK OPTIONS	AVERAGE PRICES	AVERAGE MATURITY
<b>A. Amount at year-start</b>	-	<b>720,265</b>	<b>10.71</b>	<b>59,246</b>	<b>10.71</b>	<b>779,511</b>	<b>10.71</b>	<b>1.50</b>
<b>B. Increases</b>	-	-	-	-	-	-	-	<b>X</b>
B.1 Newly issued shares	-	-	-	-	-	-	-	X
B.2 Other changes	-	-	9.00	-	-	-	-	X
<b>C. Decreases</b>	-	<b>-324,418</b>	<b>10.71</b>	<b>-20,907</b>	<b>10.71</b>	<b>-345,325</b>	<b>10.71</b>	<b>X</b>
C.1 Cancelled	-	-5,318	10.71	-	-	-5,318	10.71	X
C.2 Exercised	-	-319,100	10.71	-20,907	10.71	-340,007	10.71	X
C.3 Expired	-	-	-	-	-	-	-	X
C.4 Other changes	-	-	-	-	-	-	-	X
<b>D. Amount at year-end</b>	-	<b>395,847</b>	<b>10.71</b>	<b>38,339</b>	<b>10.71</b>	<b>434,186</b>	<b>10.71</b>	<b>0.50</b>
<b>E. Options that can be exercised at year-end</b>	-	<b>395,847</b>	<b>10.71</b>	<b>38,339</b>	<b>10.71</b>	<b>434,186</b>	<b>10.71</b>	<b>0.50</b>
Strike price (€/000)	-	<b>27</b>	<b>X</b>	<b>3</b>	<b>X</b>	<b>29</b>	<b>X</b>	<b>X</b>
IFRS 2 reserve (€/000)	-	<b>312</b>	<b>X</b>	<b>31</b>	<b>X</b>	<b>343</b>	<b>X</b>	<b>X</b>

With reference to the share-based payment plans contemplated in the Remuneration Policy, the expense accrued in 2016 is expected to amount to about 1.7 million euros, whereas the overall allocated IFRS2 reserve was 2.2 million euros.

With reference to the share-based payment plans contemplated in the Remuneration Policy, the expense accrued in 2016 is expected to amount to about 1.7 million euros, whereas the overall allocated IFRS2 reserve was 2.2 million euros.

# INDEPENDENT AUDITORS' REPORT

pursuant to Articles 14 and 16 of Legislative Decree 27.01.2010, no. 399



Tel: +39 02 58.20.10  
Fax: +39 02 58.20.14.03  
www.bdo.it

Viale Abruzzi n. 94  
20131 Milano

## Independent auditors' report in accordance with art. 14 and 16 of legislative decree no.39 of January 27<sup>th</sup>, 2010

To the shareholders of  
Banca Generali S.p.A.

### Report of the financial statements

We have audited the accompanying financial statements of Banca Generali S.p.A., which comprise the balance sheet as of December 31<sup>st</sup>, 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

### *Directors' responsibility for the financial statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree NO. 38/2005 and art. 43 of Legislative Decree NO. 136/2015.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to art. 11 of Legislative Decree NO. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Banca Generali S.p.A. as of December 31<sup>st</sup>, 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree NO. 38/2005 and art. 43 of Legislative Decree NO. 136/2015.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Novara, Padova, Palermo, Pescara, Potenza, Roma, Torino, Treviso, Trieste, Verona, Vicenza

BDO Italia S.p.A. - Sede Legale: Viale Abruzzi, 94 - 20131 Milano - Capitale Sociale Euro 1.000.000 i.v.

Codice Fiscale, Partita IVA e Registro Imprese di Milano n. 0772780967 - R.E.A. Milano 1977842

Iscritta al Registro dei revisori Legali al n. 167911 con D.A. del 15/03/2013 G.U. n. 26 del 02/04/2013

BDO Italia S.p.A., società per azioni italiana, è membro di BDO International Limited, società di diritto inglese (company limited by guarantee), e fa parte della rete internazionale BDO, network di società indipendenti.

**Report on compliance with other laws and regulation***Opinion on the consistency of the financial statements with the report on operations and of certain information set out on corporate governance and ownership structure*

We have performed the procedures required by auditing standard (SA Italia) N0. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in art. 123-bis, paragraph 4 of Legislative Decree N0. 58/98, which are the responsibility of the directors of Banca Generali S.p.A., with the financial statements of Banca Generali S.p.A.. In our opinion, the report on operations and of the information set out in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Banca Generali S.p.A. as of December 31<sup>st</sup>, 2016.

Milan, March 28, 2017

BDO Italia S.p.A.

Signed by Rosanna Vicari  
Partner

*This report has been translated into English from the Italian original solely for the convenience of international readers*

# BOARD OF STATUTORY AUDITORS' REPORT

**pursuant to Art. 153 of Legislative Decree No. 58/98 and Art. 2429, para. 2 and 3, of the Italian Civil Code**

Shareholders,

We have reviewed the Annual Financial Report for the year ended 31 December 2016, which consists of:

- > the Draft Separate and Consolidated Financial Statements of Banca Generali S.p.A. for the year ended 31 December 2016, including the Notes and Comments and detailed accounting statements;
- > the Consolidated Directors' Report on Operations, which includes the Annual Report on Corporate Governance and Company Ownership, in accordance with Article 123-bis of Legislative Decree No. 58/1998.

All documents were prepared by Directors and duly forwarded to the Board of Statutory Auditors.

The oversight activity attributed to the Board of Statutory Auditors, pursuant to the law and, specifically, to Article 149 of Legislative Decree No. 58/1998, was conducted during the year in accordance with the code of conduct recommended by the Roll of Certified Public Accountants and Commercial Experts, taking also account of CONSOB and Bank of Italy provisions, as well as in accordance with Article 19 of Legislative Decree No. 39/2010.

It bears recalling that the Board of Statutory Auditors currently in service was appointed for the years 2015-2016-2017 through resolution passed by the General Shareholders' Meeting on 23 April 2015.

The Board of Statutory Auditors herewith informs the General Shareholders' Meeting that during financial year 2016, it has conducted the following activities:

- > it participated in 14 meetings of the Board of Directors, verifying that the resolutions adopted and implemented were in compliance with the law and the Articles of Association and ensuring that they were neither imprudent nor gave rise to conflicts of interest not adequately addressed and managed;
- > it participated in 13 meetings of the Internal Audit and Risk Committee;
- > it participated in 8 meetings of the Remuneration Committee;
- > it participated in 14 meetings of the Nomination Committee;
- > it participated in 5 meetings of the Supervisory Board, in light of the Board of Directors' Resolution passed on 23 April 2015 which entrusted the Supervisory Board's functions to the Board of Statutory Auditors;
- > it participated in 21 regular meetings held to conduct its audits;
- > it requested and obtained from the General Manager, the Manager in charge of preparing the company's financial reports or other Company Managers information concerning the transactions of greater importance carried out by the Company, and acknowledged that such transactions were not considered openly imprudent or risky, in potential conflict of interest, in contrast with resolutions adopted by the Shareholders' Meeting or such as to compromise the integrity of the company's assets;
- > it exchanged information with the Chairmen of the Boards of Statutory Auditors of the investee companies, as well as the Board of Statutory Auditors of the Parent Company, Assicurazioni Generali S.p.A.;
- > it verified, pursuant to Article 114, paragraph 2, of Legislative Decree No. 58/1998, as well as the supervisory instructions issued by the Bank of Italy, the instructions given by the Company to its Subsidiaries and deemed that they were adequate;
- > it issued legal opinions, including those relating to the main subjects listed below:
  - remuneration and incentivisation policies;
  - ICAAP and ILAAP processes;
  - it verified that its members possessed the independence requisites, as well as its own adequacy in terms of powers, functioning and composition, taking into account the scale, complexity and activities of the Bank. Moreover, it verified that the independent auditors possessed the independence requisites and found that the procedures adopted by the Board of Directors to ascertain its own internal independence compliance were adequate;
- > it systematically monitored the functioning of the Internal Control and Risk Management System, stating its observations on the interim and annual reports concerning the activities performed and the programmes to be implemented by different control functions. It also checked the implementation status of the activity plans and ensuing results. The system envisages line checks, risk management and compliance checks, controls against money laundering, and internal audit activity. Business operations and information flows amongst the various parties involved, including the Board of Statutory Auditors, were efficiently coordinated during the year. Moreover, in the year under review, Internal Audit assessed that the internal control and risk management systems were effectively implemented, and put forward certain recommendations and suggestions aimed at improving risk management and control, without, however, highlighting any significant shortcomings. In light of the adoption of the new system of powers and functions, following the untimely passing of CEO Piermario Motta on 26 March 2016, the Board of Directors has carried out the task of overseeing the functionality of the internal control and risk management system: the Head of the Internal Audit function, the Head of the Risks function and the Head of the Compliance function thus report directly to the Board of Directors. Overall, the Internal Control System was deemed adequate as a whole to the current governance system;
- > it monitored complaints by investors, without discovering any shortcomings in internal procedures or the Company's organisational layout;
- > it verified the general compliance of the Bank with the requirements for correspondence with and notices to the Supervisory Bodies, as well as compliance with industry regulations and the Articles of Associations;



- > it assessed and verified the adequacy of the organisational structure with reference to issues falling within the remit of the Board of Statutory Auditors;
- > it evaluated and verified the appropriateness of the administrative and accounting system, as well as its reliability in accurately representing operations through the information received by the Manager in charge of preparing the company's financial reports and the Independent Auditors, and information directly obtained from the heads of the respective functions, as well as data arising from examination of company records. With reference to the application of Law No. 262/2005 and the provisions of letter a), paragraph 1, of Article 19 of Legislative Decree No. 39/10, the Board of Statutory Auditors also monitored the processes and activities carried out by the Bank, within the framework of the Financial Accounting Risk Governance activity, aimed at continuously assessing the adequacy of administrative and accounting procedures and the ensuing financial reports. The Annual Report on Corporate Governance and Company Ownership, as per Article 123-bis of Legislative Decree No. 58/1998, illustrates the main features of the Bank's financial reporting risk model, as defined by the Manager in charge of preparing the company's financial reports. The Company's Independent Auditors issued the report mentioned in Article 19, paragraph 3, of Legislative Decree No. 39/2010, in which no significant shortcomings were highlighted as regards the internal control system applied to the financial reporting process;
- > it checked that the Bank adopted regulations, processes and structures suitable for monitoring and overseeing banking-related risks (market risks, credit risks, liquidity risks, interest-rate risks, operating risks, compliance and money laundering risks), as described in the Directors' Report on Operations and Notes and Comments;
- > it evaluated the appropriateness of the internal capital adequacy assessment process (ICAAP);
- > it evaluated the appropriateness of the internal liquidity adequacy assessment process (ILAAP);
- > it verified, in concert with the Independent Auditors, that the foreign and Italian subsidiaries adopted a suitable administrative and accounting system such as to regularly report to the Company's management and Independent Auditors the economic and financial data required to draw up the Consolidated Financial Statements.

We hereby acknowledge that the Company discharged its obligations relating to the prevention of money laundering, with particular regard to Legislative Decree No. 231/2007, as further amended and extended, and the provisions of the Bank of Italy and the company's Financial Information Unit, including staff training, through the Anti-Money Laundering Service, within the Compliance and Anti-Money Laundering Department.

We also acknowledge that the Bank complied with its obligations concerning privacy with respect to the treatment of personal data pursuant to Italian Legislative Decree No. 196/2003 and other applicable laws in force.

In addition, we acknowledge that during the year the Supervisory Board, whose functions are carried out by the Board of Statutory Auditors effective 1 April 2014, monitored the operation and compliance of the Organisational and Management Model, and verified that it has been properly updated and is suitable for preventing over time the commission of the crimes mentioned in the regulation. The work performed showed no irregularities that could be related to the crimes contemplated under the provisions of Legislative Decree No. 231/2001.

We acknowledge that the company adopted, inter alia, the following main codes, policies and procedures, which were duly updated during the year:

- > internal dealing, setting up the Internal Dealing Register;
- > insider information, with the introduction of the Insider Register;
- > related party and connected party transactions and transactions of greater importance;
- > transactions with parties that have powers of management, administration and control over the bank;
- > internal policies governing control mechanisms for activities at risk and conflicts of interest involving connected parties;
- > order execution and transmission policy;
- > conflict of interest policy;
- > internal rules;
- > contingency funding plan;
- > single risk management policy;
- > Risk Appetite Framework;
- > fair value policy;
- > Group policy on service outsourcing;
- > equity investment management policy;
- > policy of enhancement of third-party financial instruments;
- > inducement policy;
- > policy for the classification of customers;
- > portfolio investment process;
- > compliance policy; Internal Audit policy;
- > internal control system policy;
- > Internal Code of Conduct;
- > policy for managing customer complaints;
- > IT security policy;
- > succession policy;
- > commercial policy.

Furthermore, we acknowledge that the Company adopted the Corporate Governance Code for Listed Companies. In light of the role and responsibilities entrusted to the Bank's Chairman, the Company did not appoint a lead independent director.

We acknowledge that in 2016, the Bank operated in strict compliance with the “Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance”, which lays down specific operating rules governing fact-finding procedures, decision-making powers, record-keeping and disclosure obligations; these transactions and relevant information are given in the Directors’ Report on Operations and Notes and Comments.

We also acknowledge that in 2016 the company’s intra-group transactions were of a financial and commercial nature, and regarded the supply of services, as described in the Directors’ Report on Operations and Notes and Comments.

We acknowledge that Banca Generali complies with the Assicurazioni Generali S.p.A.’s tax consolidation scheme.

We acknowledge that the Directors’ Report on Operations and Notes and Comments contain the information regarding the possession of own shares and parent company shares, in respect of which the respective restricted reserves were set aside. The Notes and Comments describe the new prudential regulatory provisions for banks concerning capital requirements. The Bank complies with applicable capital requirements (Common Equity Tier 1, Tier 1, Total Capital Ratio) set forth in the supervisory provisions; detailed information on own funds and capital regulatory requirements and capital ratios is given in the Directors’ Report on Operations and Notes and Comments. In order to determine its capital for regulatory purposes, Banca Generali exercised the option to neutralise the capital gains and losses deriving from fair-value measurement of AFS financial assets belonging to the Euro Area government bond segment, as allowed under Bank of Italy’s Order of 18 May 2010. This option was envisaged also in Basel 3 new prudential supervisory regime introduced as of 1 January 2014 until the new IFRS 9 becomes effective in 2018.

We acknowledge that the Corporate Governance Report includes the information pursuant to Article 123-bis of TUF.

We acknowledge that the Company drew up the Remuneration Policy on the Banking Group’s remuneration and incentivisation policies, as well as the report on their implementation.

We acknowledge that the Notes and Comments (Part I) provide information on the share-based payment plans.

In 2016, the Group did not carry out any transaction that qualified as “transaction of greater importance”. There were no atypical and/or unusual transactions to be reported in 2016. Nor were such transactions undertaken with parties other than related parties such as intragroup entities or third parties. “Atypical and unusual transactions” are defined as all transactions that due to their significance/materiality, the nature of the counterparties, the subject matter of the transaction (including in relation to ordinary operations), the transfer pricing method and/or timing of occurrence (near the end of the reporting period) may give rise to doubts as to the accuracy/completeness of the information presented in the financial statements, conflicts of interest, the safeguarding of company assets and the protection of minority shareholders. Similarly, in 2016, the Banking Group did not carry out any related party transaction that qualified as “transactions of greater importance”. In addition, as thoroughly described in the Directors’ Report on Operations, other related party transactions qualifying as “moderately significant transactions” were carried out, besides ordinary or recurring transactions effected at arm’s length, the effects of which are analysed in the dedicated section of Notes and Comments.

With reference to social corporate responsibility, the Directors’ Report on Operations provides a summary of the 2016 results achieved in the various areas of the Banking Group’s social responsibility, restated according to the GVA (Global Value Added) method.

The Company is subject to management and coordination by the Parent Company “Assicurazioni Generali S.p.A.” and all related statutory obligations were duly discharged.

In compliance with the resolution passed by the General Shareholders’ Meeting on 23 April 2015, the periodic auditing, the review of the Half-year Report, and the audit of the Separate and Consolidated Financial Statements were entrusted to the auditing firm “BDO Italia S.p.A.”, whose term of office will expire upon approval of the 2023 Financial Statements. The Board of Statutory Auditors examined the 2016 audit activity plan and periodically exchanged information with the Independent Auditors; the latter did not notify the Board of Auditors of any events, circumstances or irregularities requiring its attention. In 2016, the Independent Auditors verified regular bookkeeping practices and correct assessment of operations in the accounting entries, and that the Financial Statements for the year ended 31 December 2016 reflected the accounting books and records. The Independent Auditors have issued today a clean report with no need for further disclosure on the Separate and Consolidated Financial Statements for the year ended 31 December 2016.

The Independent Auditors have also issued the statement confirming their independence and the absence of the causes of incompatibility contemplated in Articles 10 and 17 of Legislative Decree No. 39/2010.

In the reporting year, no further tasks were entrusted to BDO Italia S.p.A. or other companies belonging to the same network.

The Manager in charge of preparing the company’s financial reports and the General Manager issued the statement and attestation of compliance required under applicable regulations in the field of accounting and financial statement disclosure.

The Board of Statutory Auditors nonetheless controlled the general criteria used in preparing the financial statements, as well as their compliance with the law and specific regulations regarding the preparation of financial statements of banking institutions.

The Financial Statements were prepared in compliance with Legislative Decree No. 38/2005 and in accordance with the accounting standards issued by IASB and related IFRIC interpretations. Moreover, they were based on the “Instructions for Preparing the Financial Statements and Consolidated Financial Statements of Banks and Parent Holding Companies of Banking Groups” issued by the Bank of Italy. The Notes and Comments explain the accounting criteria adopted and provide the necessary information as required by current laws, including information on credit risk, market risk, liquidity risk and operating risk. The Directors’ Report on Operations provides information on operations,

highlighting developments underway and the potential outlook, and the banking Group's development and reorganisation process in the reporting year. In their Report, Directors illustrate the main risks and uncertainties to which the Company is exposed.

The Chief Financial Officer illustrated to the Board of Statutory Auditors the accounting treatment applied to goodwill and the impairment process performed on intangible assets, and agreed on the related recognition.

In carrying out our supervisory activity, as described above, no other significant facts emerged that need to be reported to relevant Supervisory Bodies or that are worthy of mention in this report.

As concerns the Consolidated Financial Statements of the Banca Generali Group, the Board of Auditors also acknowledges that they were prepared in compliance with Legislative Decree No. 38/2005 and in accordance with the accounting standards issued by IASB and IFRIC interpretations. Moreover, they were based on "Instructions for Preparing the Financial Statements and Consolidated Financial Statements of Banks and Parent Holding Companies of Banking Groups" issued by the Bank of Italy. The scope of consolidation remained unchanged compared to the previous year and includes the Parent Company, Banca Generali S.p.A., and its subsidiaries, BG Fiduciaria SIM S.p.A., BG Fund Management Luxembourg S.A. (former GFM) and Generfid S.p.A. The Directors' Report on Operations includes information on the performance of subsidiaries.

We acknowledge that no complaints have been received pursuant to Article 2408 of the Italian Civil Code.

We acknowledge that during the year no complaints were received.

Lastly, the Board of Statutory Auditors has no proposal to submit to the General Shareholders' Meeting pursuant to Article 153, paragraph 2, of TUF.

Having regard to the above, the Board of Statutory Auditors considers that the Financial Statements for the year ended 31 December 2016, as presented to you by the Board of Directors, may be approved by you and expresses a favourable opinion regarding the allocation of the profit as proposed by the Board of Directors.

Milan, 28 March 2017

The Board of Statutory Auditors

Massimo Cremona - Chairman

Mario Anaclerio - Standing Auditor

Flavia Daunia Minutillo - Standing Auditor



**THE BIG OAK**  
Tuscany, July 2016

Michele Alassio

**4.**

## **ATTESTATION**

*pursuant to Article 154, paragraph 5, of Legislative Decree No. 58/98*

**Board of Directors  
10 March 2017**



## ATTESTATION



**Attestation to the Annual Financial Report pursuant to the provisions of art. 154-bis, paragraph 5, of Legislative Decree 58 of 24 February 1998 and art. 81-ter of CONSOB Regulation 11971 of 14 May 1999, as amended**

1. The undersigned Gian Maria Mossa, in his capacity as General Director, and Paolo Tamagnini, in his capacity as Manager in charge of the Financial Reports of Banca Generali S.p.A., taking into account the provisions set out in article 154-bis, paragraphs 3 and 4, of the Legislative Decree dated 24 February 1998, Nr. 58, hereby declare that the administrative and accounting procedures for preparing the Annual Financial Report for the year 2016:
  - are appropriate in light of the features of the company, and
  - have been actually applied.
  
2. The appropriateness of administrative and accounting procedures for preparing the Annual Financial Report at 31 December 2016 was assessed using a process established by Banca Generali S.p.A. based on the *Internal Control - Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Treadway Commission*, which is generally accepted as a reference framework worldwide.
  
3. The undersigned further declare that:
  - 3.1 the Annual Financial Report at 31 December 2016:
    - a) was prepared in compliance with the applicable international accounting standards recognized in the European Community pursuant to Regulation (EC) Nr. 1606/2002 of the European Parliament and Council of 19 July 2002, as well as the provisions of the Italian Civil Code, and of Legislative Decree Nr. 38 of 28 February 2005, and further applicable provisions, regulations and circular letters issued by the Supervisory Board;
    - b) reflects the accounting books and records;
    - c) provides a true and fair view of the asset, liabilities, profit or loss and financial position of the issuer and all its consolidated companies.
  - 3.2 The Directors' report on operations includes a reliable analysis of the business trends, operating result and financial situation of the issuer and all the companies included in the scope of consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

Trieste, 10 March 2017

Gian Maria Mossa  
General Director

BANCA GENERALI S.p.A.

Paolo Tamagnini  
Manager in Charge of  
the Company's Financial Reports  
BANCA GENERALI S.p.A.



**GIAU PASS**

Belluno, August 2016

Michele Alassio



## **5. ANNEXES**

**Board of Directors  
10 March 2017**



## ANNEX 1

### *Disclosure of compensation for auditing pursuant to Article 149*

The following table shows a breakdown of the compensation paid by the Banca Generali Group to the independent auditors BDO Italia S.p.A. engaged to audit the financial statements in accordance with Legislative Decree No. 58/98, as well as to the Italian and foreign entities in the network to which the auditing firm belongs.

The fees approved by the General Shareholders' Meeting of Banca Generali on 23 April 2015 for auditing of the financial statements and bookkeeping services amounted to 190 thousand euros (net of the VAT, out-of-pocket expenses and Consob contribution); the amount of 222 thousand euros shown in the Table refers for 98 thousand euros to the auditing of the 2015 financial statements and for 123 thousand euros for the activities carried out until 31 December, consisting in accounting audits, auditing of the quarterly, half-yearly and 9 month reports and for auditing of the 2016 financial statements (net of VAT, out-of-pocket expenses and Consob contribution).

The fees approved by the General Shareholders' Meeting of BG Fiduciaria on 17 December 2015 for the auditing of the financial statements and bookkeeping services for 2016 amounted to 50 thousand euros. The amount of 65 thousand euros shown in the Table refers for 28 thousand euros to the balance for auditing of the 2015 financial statements and for 37 thousand euros for bookkeeping activities and auditing of the 2016 financial statements carried out until 31 December 2016 (net of VAT, out-of-pocket expenses and Consob contributions).

The fees approved by the Board of Directors of BG Fund Management Luxembourg S.A. of 3 March 2016 for auditing of the financial statements and bookkeeping services for 2016 amounted to 69 thousand euros (net of VAT, out-of-pocket expenses) as shown in the following Table.

(€)	BDO ITALIA S.P.A.	BDO AUDIT S.A.
<b>Parent Company</b>	<b>222,000</b>	<b>-</b>
Audit	222,000	-
<b>Subsidiaries</b>	<b>65,000</b>	<b>69,000</b>
Audit	65,000	69,000
<b>Total</b>	<b>287,000</b>	<b>69,000</b>

Note

1. Amounts net of VAT, out-of-pocket expenses and Consob contributions.

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

Registered office  
Via Machiavelli 4 - 34132 Trieste

Share capital  
Authorised 119,378,836 euro  
Subscribed and paid 116,643,948 euro

Tax code, VAT No. and Trieste  
register of companies  
00833240328

Company managed and coordinated  
by Assicurazioni Generali S.p.A.  
Bank which is a member of the Interbank Deposit  
Protection Fund  
Registration with the bank register  
of the Bank of Italy under No. 5358  
Parent Company of the Banca Generali Banking Group  
registered in the banking group register  
ABI code 03075.9





**BANCA  
GENERALI**

**REGISTERED OFFICE**  
Via Machiavelli, 4  
I - 34132 Trieste

**MILAN HEAD OFFICE**  
Via Ugo Bassi, 6  
I - 20159 Milano  
+39 02 6076 5411

**TRIESTE HEAD OFFICE**  
Corso Cavour, 5/a  
I - 34132 Trieste  
+39 040 7777 111

[www.bancagenerali.com](http://www.bancagenerali.com)

