BANCA GENERALI

CONSOLIDATED INTERIM REPORT as at 30.06.2018

BANCA GENERALI S.P.A.

CONSOLIDATED INTERIM REPORT

as at 30.06.2018

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

CONSOLIDATED INTERIM REPORT
as at 30.06.2018

Board of Directors – 26 July 2018

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

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

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GROUP ECONOMIC AND FINANCIAL HIGHLIGHTS

GROUP ECONOMIC AND FINANCIAL HIGHLIGHTS

Consolidated figures

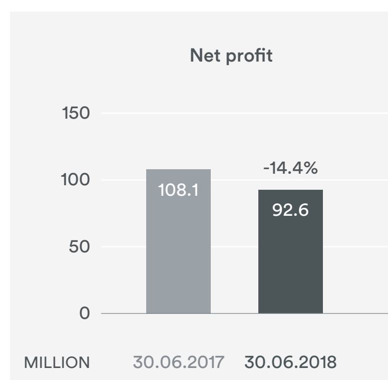
(€ MILLION)	30.06.2018	30.06.2017	CHANGE %
Net interest income	28.1	31.6	-11.1
Net income (loss) from trading activities and dividends	20.6	9.4	119.3
Net fees [c]	174.7	194.4	-10.1
Net banking income	**223.4**	**235.3**	**-5.1**
Staff expenses	-42.3	-43.9	-3.5
Other general and administrative expenses	-74.2	-69.6	6.7
Amortisation and depreciation	-4.2	-3.8	9.7
Other operating income and expenses	27.1	24.0	12.8
Net operating expenses	**-93.6**	**-93.2**	**0.4**
Operating result	**129.8**	**142.1**	**-8.7**
Provisions	-10.6	-10.8	-2.1
Adjustments	-3.6	-3.2	14.0
Profit before taxation	**115.4**	**128.0**	**-9.9**
Net profit	**92.6**	**108.1**	**-14.4**

PERFORMANCE INDICATORS	30.06.2018	30.06.2017	CHANGE %
Cost income ratio [c]	40.0%	38.0%	5.4
EBTDA [c]	133.9	145.9	-8.2
ROE [a] [c]	17.0%	21.4%	-20.6
ROA [b]	0.17%	0.23%	-26.9
EPS - Earning per share (euros)	0.798	0.928	-14.0

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

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

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



Net inflows

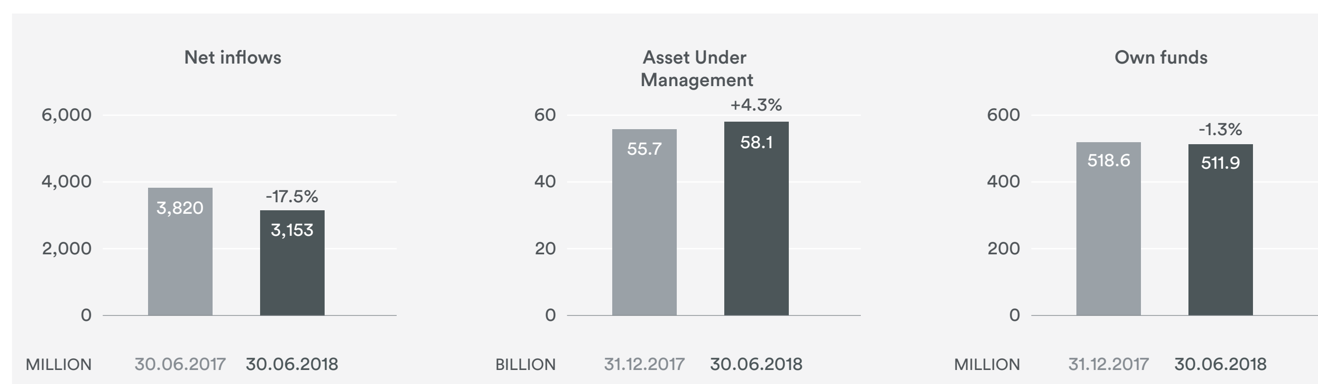
(€ MILLION) (ASSORETI DATA)	30.06.2018	30.06.2017	CHANGE %
Funds and Sicavs	558	979	-43.0
Financial wrappers	251	1,472	-82.9
Insurance wrappers	606	937	-35.3
Asset management	**1,415**	**3,388**	**-58.2**
Insurance / Pension funds	227	49	363.3
Securities / Current accounts	1,511	383	294.5
Total	**3,153**	**3,820**	**-17.5**

Assets Under Management & Custody (AUM/C)

(€ BILLION) (ASSORETI DATA)	30.06.2018	31.12.2017	CHANGE %
Funds and Sicavs	13.9	13.6	2.0
Financial wrappers	7.1	7.1	0.5
Insurance wrappers	7.8	7.3	7.1
Asset management	**28.8**	**28.0**	**2.9**
Traditional life insurance policies	15.1	14.9	1.5
AUC	14.1	12.8	10.5
Total	**58.1**	**55.7**	**4.3**

Net equity

(€ MILLION)	30.06.2018	31.12.2017	CHANGE %
Net equity	649.4	736.1	-11.8
Own funds	511.9	518.6	-1.3
Excess capital	305.5	313.5	-2.6
Total Capital Ratio	19.8%	20.2%	-1.9



CONSOLIDATED INTERIM REPORT ON OPERATIONS
as at 30.06.2018

Board of Directors
26 July 2018

1. SUMMARY OF HALF-YEAR OPERATIONS

The Banca Generali Group closed the first half of 2018 with consolidated net profit of 92.6 million euros and total net inflows of over 3.1 billion euros, bringing the total volume of the assets entrusted by customers to the Banking Group for management to 58.1 billion euros (+11.4% compared to the same period of the previous year).

Assets growth was driven by net inflows for the reporting period, of which 1.5 billion euros managed solutions, 0.2 billion euros traditional insurance policies and 1.5 billion euros AUC. With regard to managed solutions, net inflows of approximately 1.0 billion euros were generated by the Bank's innovative financial (BG Solution) and insurance (BG Stile Libero) wrapper solutions, which are increasingly appreciated by customers and Financial Advisors thanks to their operational flexibility and wide range of opportunities for investment diversification.
However, renewed volatility within a scenario of increasingly complex markets also heightened the propensity for liquid investments (770 million euros net inflows).

Net operating income amounted to 223.4 million euros, driven by the robust structural growth of **management fees**, which rose to 317.9 million euros (+13.5% compared to the first half of 2017), as a result of the constant rise in average AUM.

Similarly, net financial income — the sum of net interest income and net income from trading activities and dividends — grew by 18.7% following the banking book de-risking strategy launched in late 2017 and successfully implemented also in H1 2018. As a result, net income from trading activities and dividends amounted to 20.6 million euros, up 11.2 million euros compared to the same period of the previous year.
Net interest income declined slightly by 3.5 million euros (-11.1%), partly due to the extremely low interest rates, and partly to the conservative profile of the banking book adopted in the last months of 2017. As a result, the balance of cash on deposit with the ECB also remained consistently high throughout the reporting period, and amounted to 808 million euros at the end of June. Net interest income's quarterly performance however increased significantly in the second quarter, up 8% compared to Q1 2018 as a consequence of the gradual reinvestment of the portfolio.

Conversely, market performance resulted in a decline in the most volatile components of the profit and loss account, i.e., **performance fees**, which fell sharply by 51.4 million euros (-69.5%).

Net operating expenses amounted to 93.6 million euros, in line with the same period of the previous year, despite the significant business expansion and non-recurring components associated with the numerous ongoing projects.

With reference to capital, Banca Generali confirmed the soundness of its regulatory aggregates. On a phased-in basis, CET1 ratio stood at 18.2% and Total Capital Ratio at 19.8%. Excess capital on a phase-in basis amounted to 305.5 million euros, accounting for nearly 60% of total consolidated Own Funds.
Capital ratios were well above the specific requirements set by the Bank of Italy for the Group (i.e., CET1 ratio at 6.4% and a Total Capital Ratio at 10.4%, as the minimum required by the SREP – Supervisory Review and Evaluation Process).

The transition to the new accounting standards IFRS 9 and IFRS 15, as described in further detail in a specific document appended to this Consolidated Interim Report, took place on 1 January 2018, entailing an impact on the content of regulatory capital and capital ratios.
In particular, Total Capital ratio calculated according to the phase-in Basel 3 rules would have amounted to 20.89%, an increase of 66 bps compared with the ratio reported at 31 December 2017 and a modest decline of 12 bps compared with the fully loaded ratio at that same date, taking account of the end of the phase-in rules for neutralising valuation reserves for government bonds, also with effect from 1 January 2018.

The total value of AUM managed by the Group on behalf of its customers — which is the figure used for communications to Assoreti — amounted to 58.1 billion euros at 30 June 2018. In addition, managed assets also included 0.8 billion euros in AUC of the Generali Group and 3.2 billion euros in funds and Sicavs distributed directly by management firms, for an overall total of 62.1 billion euros.

Significant corporate events

The merger of the subsidiary BG Fiduciaria Sim S.p.A. into the Parent Company, Banca Generali, became effective 1 January 2018.
The merger did not require an increase in the capital of Banca Generali, as the Bank already held 100% of the merged company.
Since this business combination qualifies as a transaction between entities under common control, it was accounted for in accordance with the principle of the continuity of values of the transferred assets and liabilities on the basis of the book values indicated in Banca Generali's 2017

Consolidated Financial Statements and therefore it will not have any effects on the Consolidated Financial Statements for 2018.

Following the preliminary agreements signed in September 2017, on 9 March 2018 the Board of Directors of Banca Generali approved the final agreements with Saxo Bank to set up an exclusive partnership specializing in online trading and digital services.
The terms of the agreements — already approved by the competent bodies of Saxo Bank — provide for the incorporation of a new company, **BG Saxo Sim**, in which the Bank will hold an interest of just under 20%.
The objective of the partnership, which has a duration of eight years and may be renewed upon expiry, is to offer clients, on an exclusive basis for the Italian market, access to an innovative platform for advanced trading based on Saxo Bank's technology. Banca Generali will make available its banking platform and its leading market position in private banking to foster synergies and develop new opportunities for its financial advisors and clients, who will thus enjoy access to one of the most comprehensive suites of global trading tools.
Saxo Bank is globally recognised as one of the best fintech banks in Europe and Asia, and will provide the partnership with its multi–assets platform that enhances the range of digital services — not only trading but also dynamic hedging services — with a particular expertise in FX.
BG Saxo Sim is expected to make its debut in the second half of the year, after it has obtained, inter alia, the necessary authorisations from the competent authorities.

Agreements with Generali Italia governing the distribution of the Generali Group's insurance products by the Bank were also renewed in March.
The new commercial agreement, which has a term of ten years (with automatic renewal for an additional ten years), envisages:
- a renewed joint commitment to develop, under the **brand BG Vita**, new pension, guaranteed investment, protected investment and multi-line products;
- guarantees of **exclusive distribution** by the Bank of the Generali Group's insurance solutions, and Generali Italia's commitment not to provide its products to a Bank's group of competitors identified by mutual agreement.

2. MACROECONOMIC CONTEXT

In early 2018, the macroeconomic scenario was characterised by rapidly growing economies and low interest rates due to the monetary policies implemented by central banks, which despite last year's announcements remained accommodating.

Economic data were encouraging in January, surprising analysts on the upside. As a result, growth estimates were revised upwards and expectations grew very optimistic. In February and March, leading indicators (PMIs) remained high and solidly expansionary, although declining compared with previous months. Events belied the extremely positive expectations and the markets proved vulnerable to the greater volatility that ensued.
The first signs of renewed inflation began to be seen in February, particularly in the United States, culminating in the upwards revision of consumer inflation.

At the end of January, the bull **stock market** came to an end with the largest intra-day loss of recent years on the U.S. Dow Jones Industrial index. The loss was primarily due to market participants' concerns of rises in international bond curves, with particular regard to U.S. ten-year yields, up from 2% to 2.8% over the past year, and to the German one, up from 0.30% at the end of 2017 to 0.78% in early February.

March was the month of the Italian elections and the definitive formation of the German government, but above all the exacerbation of tensions regarding a possible "trade war" between China and the United States. After levying import tariffs of 10% on aluminium and 25% on steel, President Trump announced that the U.S. government would impose further sanctions on China, in the form of levies of approximately 25% on imported goods, for a total of about 60 billion dollars. Following the announcement of these measures by the U.S. government, global equity markets plummeted due to the possible impact on the balance of trade of the various countries involved.
The uncertainty that dominated the market resulted in a risk-off that also extended to risky bonds (such as high-yield and financial corporate securities), driving spreads with respect to government bonds wider. Conversely, core government bonds saw strong purchases.
In April, markets rallied, buoyed by expected global growth of 3.1% in 2018. In the first quarter of 2018, earnings growth was expected to be 11% in the United States and 5% in Europe.

As a consequence, **bond yields** on the markets of reference (Treasuries and Bunds) registered divergent performances, driven by the different monetary policies in place (more tightening in the U.S. compared to the Eurozone). In the United States, short-term yields continued to trend upwards, propelled by the rate increase being implemented by the Federal Reserve. The yield on two-year government bonds thus rose from 1.88% at the beginning of the year to 2.42% (+0.54%). The increase in yields was considerable on the longer maturities as well, which were also affected by the rising growth rate and inflation expectations. The U.S. ten-year rate climbed from 2.41% to 2.89% (+0.48%).
In the **Eurozone**, the ECB left rates unchanged. As a result, short-term yields did not show significant change. The ten-year German rate began the year at 0.42%, rose to 0.76% in January and then fell to 0.5% in February and March, near where it started the year, to close the half-year at around 0.30%.
May was a month of uncertainty attributable to the Italian political scenario, which penalised the Italian stock market and restored investors' focus to the risk of Italy's creditworthiness. Italian government bond yields climbed, peaking at increases of 300 bps on the short-term portion of the curve, with the two-year Italian government bonds (BTP) rising from a negative yield of 0.32% to a positive 2.76%, followed by a partial recovery. The medium-to-long stretch of the curve showed smaller increases in yield (135 bps for ten-year bonds and 80 bps for 30-year bonds), resulting in the 'flattening' of the curve characteristic of a period of stress. In this environment, the Italian stock exchange, despite presenting lower valuations than its other European counterparts and improving fundamentals, lost ground to Frankfurt and Paris, declining by approximately nine percentage points, dramatically reducing the positive balance since January.

On **currency markets**, in April and May the euro depreciated against the dollar, falling from 1.24 to around 1.16. This decline was due not only to political tensions in Italy and Spain, but also to the spread with U.S. interest rates, decidedly favourable to the dollar.
In June, the markets saw tensions ease as a result of developments in the political scenario in Europe, and in Italy in particular, while the "trade war" triggered by the protectionist policies championed by the United States intensified.

During the ECB's most recent meeting on 14 June, Draghi announced that the European Central Bank would continue its securities purchases at a rate of 30 billion euros a month until at least September, and then reduce them to 15 billion euros until December. Investments will continue to be rolled over at maturity for as long as deemed necessary.

The ECB also announced that no rate increases were expected until at least summer 2019. The slowdown of the European economy in the first quarter of 2018, with both GDP growth and inflation figures down compared to the end of 2017, played a key role in this decision.
Draghi's statements did not spur market volatility since the plan leading up to the end of quantitative easing had already been priced in for some time.

As regard trade tensions, the 25% tariffs levied by the Trump administration on Chinese goods, for a total of 34 billion dollars, entered into force on 6 July. Additional duties of approximately 16 billion dollars are expected to be imposed in the coming months.
The U.S. government is also considering levying further 10% tariffs on Chinese goods, for a total of 200 billion dollars, and new restrictions on Chinese investments in the United States will be announced by 30 June.
The Chinese response to the U.S. tariffs imposed on its exports was swift.
In fact, the Chinese government announced that it would levy tariffs equivalent to those applied by the United States, particularly in the agriculture and transport sectors.
Possible further developments along these lines could result in the escalation of tensions between the two countries, jeopardising current global growth forecasts.

Outlook

In the United States, it is expected that the Federal Reserve will continue its policy of normalising rates in the second half of 2018 due to the rise in inflation in recent months. The same will not apply in Europe, where, as Draghi himself has stated, it will be necessary to wait until summer 2019, barring upside surprises by the economy. The global scenario will continue to be characterised by a positive growth phase, consolidating the situation seen at the beginning of the year. The main risks that may be realised in the coming months are a faster-than-expected increase in inflation and interest rates in advanced economies and renewed volatility on financial markets due to the risk of protectionist policies and geopolitical tensions, currently affecting mainly the United States and China.

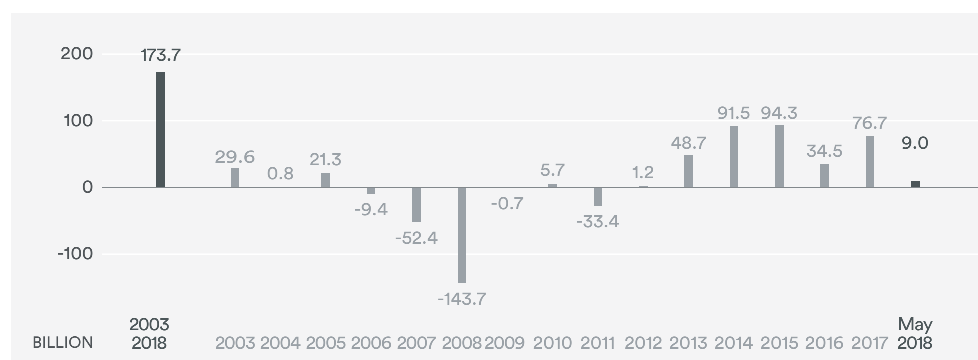
3. BANCA GENERALI'S COMPETITIVE POSITIONING

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

3.1 The asset management market

The year 2018 kicked off to a positive start for the economy, as in 2017 Italian GDP grew by 1.6%, recording one of the best performances of the past 15 years. The Italian economy is expected to continue to grow this year, while slowing slightly compared with the previous two years.
The economic conditions of Italian households improved, with an increase in disposable income in real terms due to improved employment level and low inflation rates.
However, according to ISTAT data, consumer confidence remains at rather low levels.
For the past several years, household financial decisions have favoured asset management products due to the effects of low interest rates on debt instruments. This preference is certainly due in part to the need to rely on professional asset managers given the complexity of the financial markets and the awareness of the importance of investment diversification.
During the first five months of 2018, the asset management market generated total net inflows of 9.0 billion euros, thus posting a positive result although declining compared to the trend that began in 2013. In the funds segment, international funds accounted for over 75% of total net inflows.
The role played by networks of Financial Advisors authorised to make off-premises offers was and still remains very important: within the open UCITS segment, the FA networks raised 6.8 billion euros from January to May 2018, accounting for 76% of the industry total.

The UCITS market in Italy since 2003
(€ billion)



Source: Assogestioni data updated May 2018

Evolution of Net inflows and Assets under Management

(€ MILLION)	NET INFLOWS 31.05.2018	NET INFLOWS 31.05.2017	ASSETS 31.05.2018	ASSETS 31.05.2017
Italian funds	2,239	5,598	256,204	247,291
Foreign funds	6,792	30,019	753,138	711,435
Total open-ended funds	**9,031**	**35,617**	**1,009,342**	**958,726**
GP retail	**-577**	**3,344**	**129,646**	**129,204**
Total	**8,454**	**38,961**	**1,138,988**	**1,087,930**

Source: Assogestioni data updated May 2018

The disposable income of Italian households is expected to continue to grow in 2018-2021 at a higher rate compared to 2017. This phenomenon, associated with more moderate development of household consumption, will drive an increase in the propensity to save, and hence a rise in inflows into financial assets. The positive economic scenario and favourable outlook for equity markets will continue to support demand for asset management products capable of ensuring broader diversification of portfolios and improved risk management. Bank bonds held by households will continue to decline, due in part to banks' marketing policies, which will continue to privilege asset management, in support of the profit generated by services. The increase in rates could drive a recovery of demand for government securities, to the detriment of the more liquid components of portfolios, above all in the final years of the forecast period.

In terms of distribution channels, Financial Advisor networks are expected to retain their competitive advantage, chiefly due to the increasing relevance of advisory services, in which such networks are already more specialised.

3.2 The Assoreti market

In the first five months of 2018, the net inflows recorded by the Assoreti market (which relate to the distribution activity o FA networks) declined compared to the figure reported in 2017 (-14%). Approximately 57% of net resources invested (8.1 billion euros) regarded asset management and insurance products, whereas the remainder was invested in AUC.

	ASSORETI MARKET		
(€ MILLION)	31.05.2018	31.05.2017	CHANGE
Total assets under management	3,877	10,824	-6,947
Total insurance products	4,198	4,954	-756
Total assets under custody	6,177	749	5,428
Total	**14,252**	**16,527**	**-2,275**

Source: Assoreti data updated May 2018

In the asset management market, the first five months of 2018 saw the positive performance of the UCITS segment for approximately 3,675 million euros and net inflows of 202 million euros generated by discretionary mandates. The insurance sector continued to attract a significant share of investments with net inflows of 4,198 million euros, of which 2,859 million euros related to unit-linked and multi-line policies.

Net inflows generated by AUC amounted to 6,177 million euros, thanks to the significant influx of cash.

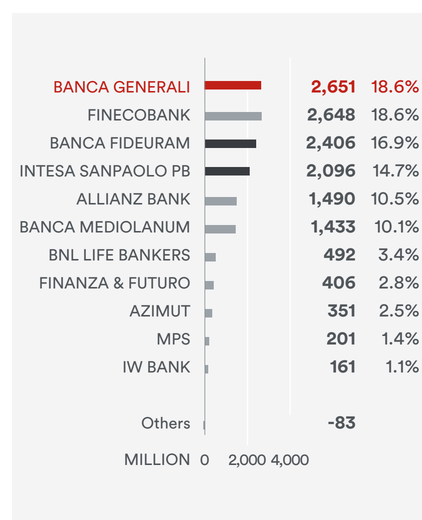
3.3 Banca Generali

Against this background, Banca Generali continues to be one of the market leaders in terms of net inflows through Financial Advisors, with 2,651 million euros at the end of May 2018 (latest available figure for Assoreti comparison), with a market share of 18.6%. The per capita net inflows per Financial Advisor was 1.337 million euros, 112% above the market average (0.6 million euros).

Banca Generali was among the top players in the industry in terms of net inflows into asset management and insurance products, with a 17.7% share of the market and net inflows into asset management and insurance products of 721 million euros per capita, 102% above the market average of 0.4 million euros.

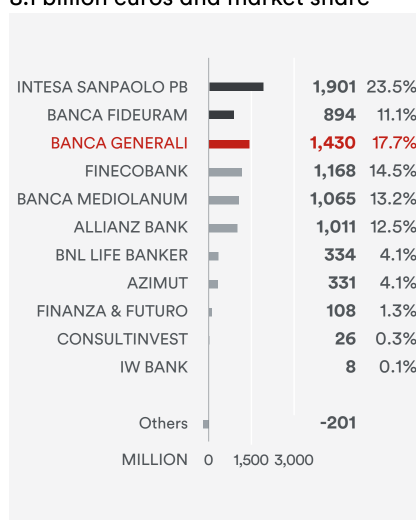
With specific reference to the June figures, the Bank's net inflows further increased to 3,153 million euros. This result reflected the households' high demand for financial advice, in a context where increasingly greater importance is attached to the control of risk and volatility and the diversification potential offered by wrapper products. In this context, the Bank is increasingly seen as a beacon for households in search of a secure, reliable and highly professional partner capable of protecting their assets and providing personalised investment solutions. The figure appears even more significant if it is considered that it is entirely derived from direct inflows from Banca Generali's Financial Advisors and Private Bankers.

Total Net Inflows Assoreti – 14.3 billion euros and market share



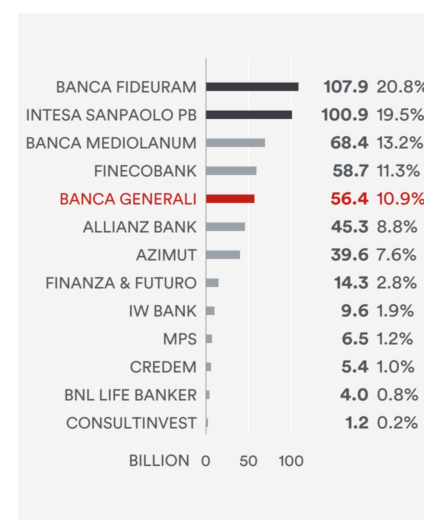
May 2018 (€ million and %) | Source: Assoreti

Net Inflows from AUM and Insurance products Assoreti – 8.1 billion euros and market share



May 2018 (€ million and %) | Source: Assoreti

Assoreti Total AUM – 518 billion euros and market share



March 2018 (€ billion and %) | Source: Assoreti

Net inflows of Banca Generali

	BG GROUP		Y/Y CHANGES VS 30.06.2017	
(€ MILLION)	30.06.2018	30.06.2017	AMOUNT	%
Funds and Sicavs	558	979	-421	-43%
Financial wrappers	251	1,472	-1,221	-83%
Insurance wrappers	606	937	-331	-35%
Total assets under management	**1,415**	**3,388**	**-1,973**	**-58%**
Total Traditional life insurance policy	**227**	**49**	**178**	**363%**
Total assets under custody	**1,511**	**383**	**1,128**	**295%**
Total net inflows placed by the network	**3,153**	**3,820**	**-667**	**-17%**

In terms of Assets Under Management, Banca Generali in March 2018 was once again one of the five top competitors in the Assoreti market, with 56.4 billion euros AUM and a market share of 10.9%.

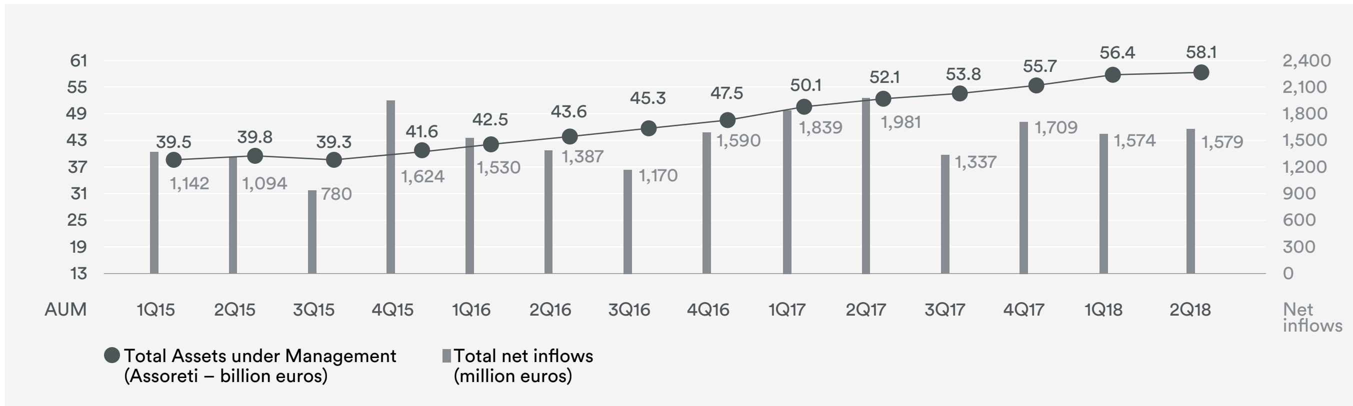
With reference to Banca Generali's assets under management — as illustrated in the table below —, the portfolio increased by approximately 4.3% in the first half of 2018 compared to the figure at December 2017.
The value of the portfolio at June 2018, amounting to 58.1 billion euros, refers to the Assoreti market, which is directly attributable to the distribution activity carried out through Financial Advisors.

AUM in asset management products rose by 2.9%. Assets in funds and Sicavs grew by 2.0%, whereas traditional life insurance policies increased by 1.5%. AUC rose by 10.5%, driven chiefly by the net inflows attributable to the acquisition of new customers and the liquidity generally deposited on current accounts in highly volatile markets contexts.

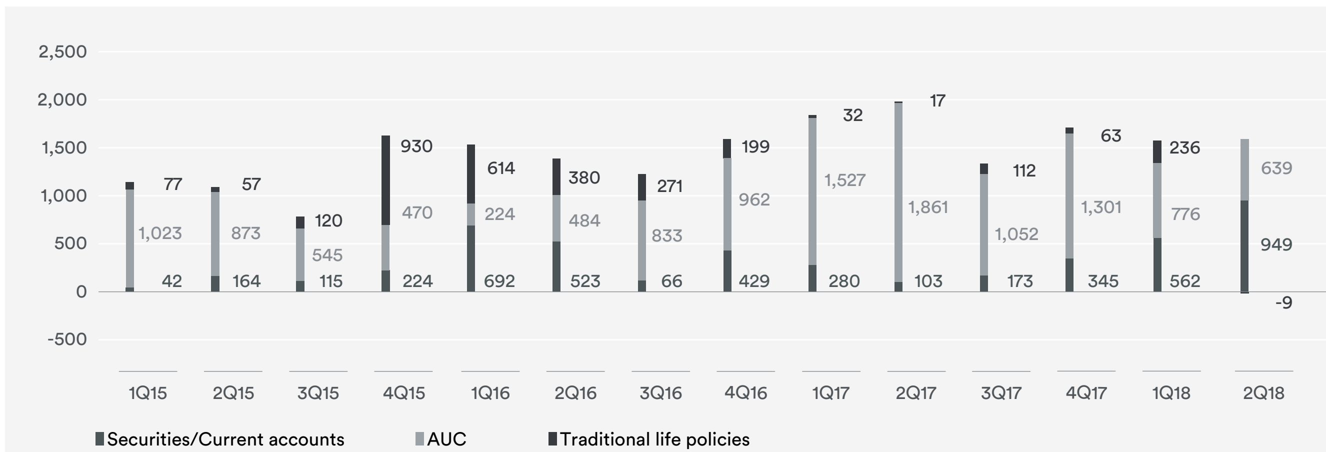
Banca Generali's Assets Under Management

	BG GROUP		CHANGES VS 31.12.2017	
(€ MILLION)	30.06.2018	31.12.2017	AMOUNT	%
Funds and Sicavs	13,887	13,611	275	2.0%
Financial wrappers	7,134	7,102	33	0.5%
Insurance wrappers	7,797	7,282	516	7.1%
Total assets under management	**28,818**	**27,995**	**823**	**2.9%**
Total Traditional life insurance policy	**15,121**	**14,897**	**224**	**1.5%**
Total assets under custody	**14,130**	**12,793**	**1,337**	**10.5%**
Total AUM placed by the network	**58,069**	**55,684**	**2,385**	**4.3%**

Evolution of AUM and Net inflows



Breakdown of Net inflows (€ million)



4. GROUP INDIRECT INFLOWS

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

4.1 Asset management and insurance products

Asset management products of the Banking Group

In the first half of 2018, in the asset management segment the Banking Group conducted wealth management operations through individual portfolio management of Banca Generali and collective asset management of BG Fund Management Luxembourg S.A.

			CHANGES VS 31.12.2017	
(€ MILLION)	30.06.2018	31.12.2017	AMOUNT	%
Funds and Sicavs	15,173	14,967	206	1.4%
GPF/GPM	7,129	7,115	13	0.2%
Total Group's managed assets	**22,302**	**22,082**	**219**	**1.0%**
of which UCITS attributable to the Banking Group GPF	*2,192*	*2,177*	*15*	*0.7%*
Total assets managed by the Banking Group, net of discretionary mandates, included in the GPF of the Banking Group	**20,110**	**19,906**	**204**	**1.0%**

Group's collective asset management products (funds and Sicavs) are currently represented exclusively by Luxembourg Sicavs placed by BG Fund Management Luxembourg S.A., a subsidiary of Banca Generali, with own management or management mandate granted to third parties.
Total assets invested in funds and Sicavs managed by the Banking Group amounted to 15 billion euros, up 206 million euros (+1.4%) compared to the end of 2017.
Total individual portfolio management (GPF/GPM) of the Banking Group amounted to 7.1 billion euros, up compared to year-end 2017 (+0.2%).

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 mutual funds segment, Banca Generali distributes the products of the Assicurazioni Generali Group and various third companies, in addition to the products of numerous international investment firms in the international UCITS segment.
In June 2018, third-party assets amounted to 8,020 million euros, up 8% compared to the end of 2017. This was due to the adoption of the open architecture model, which affords customer access to a very wide range of investment products, including at an international level.

In addition, with reference to the placement of third-party products, it should also be noted that over the years investments directed towards the collective asset management solutions of BG Fund Management Luxembourg S.A. These products are placed directly by the Banca Generali Group but invest primarily in third-party UCITS. Moreover, and in confirmation of the product's multi-manager orientation, at the end of 2009 and during the following years, management of a large number of sub-funds has been entrusted directly to several leading international investment firms, using their own brands, thereby significantly expanding the diversification of the asset management portfolios held by the Bank's customers. A similar strategy has been recently adopted for the sub-funds of Lux IM, a new Luxembourg Sicav launched in April 2018 that leverages on the Generali Group's management experience in the markets offering sub-funds broken down by asset class and specialised by geographical area. Overall, over 80% of BG Lux IM portfolios resorts to third-party management.

	BG GROUP		CHANGES VS 31.12.2017	
(€ MILLION)	30.06.2018	31.12.2017	AMOUNT	%
Funds and Sicavs	8,007	7,381	626	8%
GPF/GPM	13	58	-44	-77%
Total third-party asset management products	**8,020**	**7,439**	**581**	**8%**

Third-party insurance products

Almost all assets invested in insurance and pension products consist of traditional and multi-line policies of Genertellife, a company of the Assicurazioni Generali Group, placed under the brand BG Vita. In June 2018, assets stood at 22,918 million euros, up 3% compared to December 2017.
This result was mainly due to the life new business generated in the year, net of redemptions and

contractual maturities. The multi-line policy BG Stile Libero gathered over 600 million euros in the first six months of 2018, while other LOB I policies reported 285 million euro net inflows.

	BG GROUP		CHANGES VS 31.12.2017	
(€ MILLION)	30.06.2018	31.12.2017	AMOUNT	%
Insurance products (unit-linked, traditional policies, etc.)	22,918	22,178	740	3%
Total third-party insurance products	**22,918**	**22,178**	**740**	**3%**

4.2 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 30 June 2018, indirect net inflows amounted to 7,646 million euros at market value, compared to 7,192 million euros at the end of 2017.

	BG GROUP		CHANGES VS 31.12.2017	
(€ MILLION)	30.06.2018	31.12.2017	AMOUNT	%
Securities portfolios of the Banca Generali Group's customers	281	342	-61	-18%
Other customers’ securities portfolios	7,365	6,851	514	8%
Indirect net inflows of assets under administration and custody of the Banking Group at market values	**7,646**	**7,192**	**453**	**6%**

5. OPERATING RESULT AND PERFORMANCE OF THE MAIN NET EQUITY AGGREGATES

Results for the first half of 2018 must be interpreted taking account of the effects of the first-time adoption of the IFRS 9 and IFRS 15 with effect from 1 January 2018.
As disclosed in the specific document appended to this Consolidated Interim Report, the adoption of the above standards resulted in changes to the accounting policies governing the classification and measurement of financial statements, and thus in the adoption of a new presentation of the financial statements and changes in the contents of some line items.
For the purposes of comparison of the profit and loss account with the figures for the first half of 2017, it should be noted that the values of the items in the interim and annual 2017 financial statements impacted by the application of IFRS 9 have not been restated. Rather, the items in question have merely been presented according to the new presentation, since there are no specific provisions of IFRS 9 and IFRS 15 requiring mandatory restatement on a like-for like basis of the comparative figures in the year of first-time application of the new standards.
The comparison of balance sheet figures in the comments in the report on operations is instead uniform, since the reclassified balance sheet and related detailed tables also present the comparative figures at 1 January 2018, which therefore include the effects of the first-time application of IFRS 9 and IFRS 15.

5.1 Profit and Loss results

The Group's net profit at the end of the first half of 2018 was 92.6 million euros, slightly down compared to the same period of the previous year.

			CHANGE	
(€ THOUSAND)	30.06.2018	30.06.2017	AMOUNT	%
Net interest income	28,059	31,580	-3,521	-11.1%
Net income (loss) from trading activities and dividends	20,582	9,387	11,195	119.3%
Net financial income	**48,641**	**40,967**	**7,674**	**18.7%**
Fee income	376,603	382,832	-6,229	-1.6%
Fee expense	-201,860	-188,460	-13,400	7.1%
Net fees	**174,743**	**194,372**	**-19,629**	**-10.1%**
Net banking income	**223,384**	**235,339**	**-11,955**	**-5.1%**
Staff expenses	-42,309	-43,860	1,551	-3.5%
Other general and administrative expenses	-74,215	-69,574	-4,641	6.7%
Net adjustments of property, equipment and intangible assets	-4,159	-3,792	-367	9.7%
Other operating expenses/income	27,065	23,994	3,071	12.8%
Net operating expenses	**-93,618**	**-93,232**	**-386**	**0.4%**
Operating result	**129,766**	**142,107**	**-12,341**	**-8.7%**
Net adjustments for non-performing loans	-3,606	-3,164	-442	14.0%
Net provisions for liabilities and contingencies	-10,611	-10,835	224	-2.1%
Gain (loss) from equity investments	-141	-77	-64	83.1%
Operating profit before taxation	**115,408**	**128,031**	**-12,623**	**-9.9%**
Income taxes for the period	-22,842	-19,948	-2,894	14.5%
Net profit	**92,566**	**108,083**	**-15,517**	**-14.4%**

Reclassified **net operating income**[1] amounted to 223.4 million euros, with a decrease of 12.0 million euros (-5.1%) compared to the previous year, determined by the following factors:
> the significant increase in **management fee** income (+37.9 million euros), which represents the central component of the Banking Group's business model, closely tied to the quality and growth of assets under management;
> the decrease in the most volatile components of the profit and loss account, namely **performance fees**, which fell by 51.4 million euros as a result of increased market volatility;

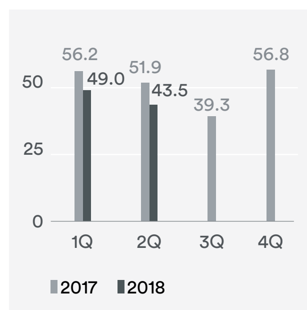
[1] To ensure a better understanding of operating performance, in the reclassified consolidated Profit and Loss Account the provisions for incentive fees and recruitment have been reclassified within the net fee aggregate. As a result, net provisions were restated net of these items for an amount of 14.3 million euros for the first half of 2018 and 34.8 million euros for 2017. In this regard, it should be noted that, effective the first half of 2018, allocations for accruing short-term incentives amounting to 13.9 million euros have been reclassified among fees payable and fee expense in the financial statements.

> the increase in **net financial income** — the sum of net interest income and net income from trading activities and dividends — up by 7.7 million euros (+18.7%) following the de-risking strategy applied to the banking portfolio launched at the end of 2017 and successfully implemented also in the first half of 2018.

Within this latter aggregate, net income from trading activities and dividends increased by 11.2 million euros, whereas **net interest income** declined slightly by 3.5 million euros (-11.1%), partly due to the extremely low interest rates and partly to the conservative profile of the banking book adopted in late 2017.

Net operating expenses amounted to 93.6 million euros, in line with the same period of the previous year, despite the significant business expansion and non-recurring components associated with the numerous ongoing projects.

Quarterly net profit
(€ million)



The **cost/income ratio**, which measures the ratio of operating expenses (gross of adjustments to property, equipment and intangible assets) to net operating income, amounted to an excellent 40.05% (42.7% net of performance fees and some extraordinary components), confirming the Bank's ability to maximise its operating leverage.

Provisions and net adjustments amounted to 14.2 million euros, essentially unchanged compared to the same period of 2017. They consist chiefly of long-term provisions for financial advisor network's contractual indemnities, including provisions in service of the second annual cycle of the Framework Loyalty Programme and the manager incentive indemnity, recently introduced by the Bank's Board of Directors.

Operating profit before taxation thus stood at 115.4 million euros, declining by 12.6 million euros compared to the first half of 2017. The tax burden for the reporting period increased slightly to an overall tax rate of 19.8%, due to the increased weight of profit generated in Italy.

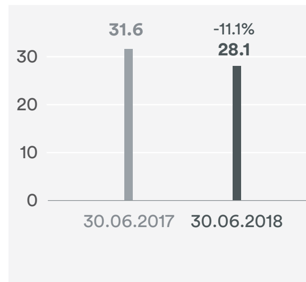
Quarterly evolution of the Profit and Loss Account

(€ THOUSAND)	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17
Net interest income	14,816	13,243	14,327	15,514	15,842	15,738
Net income (loss) from trading activities and dividends	5,355	15,227	4,016	4,688	6,025	3,362
Net financial income	**20,171**	**28,470**	**18,343**	**20,202**	**21,867**	**19,100**
Fee income	194,238	182,365	206,272	171,386	190,425	192,407
Fee expense	-105,126	-96,734	-108,803	-92,729	-99,481	-88,979
Net fees	**89,112**	**85,631**	**97,469**	**78,657**	**90,944**	**103,428**
Net banking income	**109,283**	**114,101**	**115,812**	**98,859**	**112,811**	**122,528**
Staff expenses	-21,173	-21,136	-21,506	-19,459	-23,133	-20,727
Other general and administrative expense	-36,914	-37,301	-14,277	-36,942	-34,623	-34,951
Net adjustments of property, equipment and intangible assets	-2,113	-2,046	-2,315	-2,037	-2,069	-1,723
Other operating expenses/income	13,125	13,940	-10,586	12,499	13,503	10,491
Net operating expenses	**-47,075**	**-46,543**	**-48,684**	**-45,939**	**-46,322**	**-46,910**
Operating result	**62,208**	**67,558**	**67,128**	**52,920**	**66,489**	**75,618**
Net adjustments for non-performing loans	-3,798	192	563	-2,840	-6	-3,158
Net provisions	-5,828	-4,783	-4,093	-3,051	-4,804	-6,031
Gain (loss) from equity investments	-53	-88	-70	-19	-44	-33
Operating profit before taxation	**52,529**	**62,879**	**63,528**	**47,010**	**61,635**	**66,396**
Income taxes for the period	-9,010	-13,832	-6,777	-7,739	-9,774	-10,174
Net profit	**43,519**	**49,047**	**56,751**	**39,271**	**51,861**	**56,222**

5.1.1 Net Interest income

Net interest income amounted to 28.1 million euros, down by 3.5 million euros on the first half of 2017 (-11.1%), decreasing despite a modest expansion of business volumes, as a result of the constant decline in loans profitability due to the persistently low interest rates.

Net interest (€ million)



Quarterly net interest (€ million)

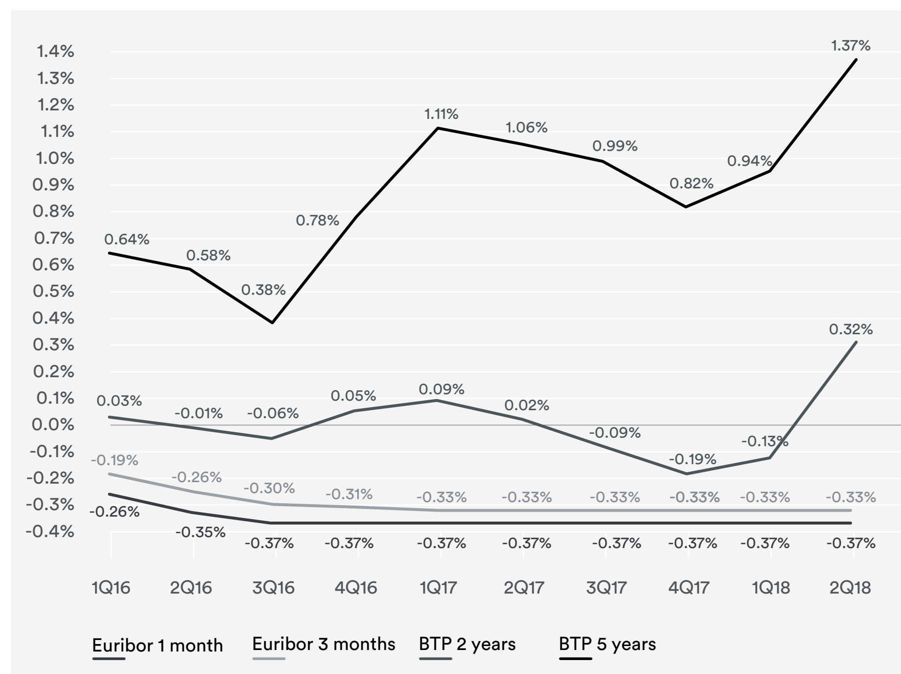
In the first half of 2018, interest rate performance in the Euro Area continued to be essentially influenced by the unconventional Quantitative Easing policy launched by the ECB in 2015.
During its most recent meeting on 16 June 2018, the ECB's Governing Council announced that no increases in interest rates are expected at least until summer 2019[2]. The Council also confirmed that the current financial asset purchasing programme would continue at a monthly rate of 30 billion euros until September 2018, to then decrease to 15 billion euros until December 2018. Maturing securities will continue to be reinvested until deemed necessary.

Therefore, the interest-rate curve on the interbank market did not show significant signs of recovery on the whole, consolidating an anomalous situation of positive funding rates but negative lending rates that have now exceeded the 12-month maturity. As a result, in June 2018 short-term interbank rates stood at a monthly average of -0.379% for the one-month Euribor and of -0.322% for the three-month Euribor.

Until April, the Italian government bond market was not significantly affected by the outcome of the March 2018 political elections, due in part to the support from the ECB.
However, in May, due to the uncertainty that arose in connection with the formation of the new government, Italian government bond yields surged suddenly, showing increases of up to 300 bps on the short-term portion of the curve, with the two-year Italian government bonds (BTP) rising from a negative yield of 0.32% to a positive 2.76%, followed by a partial decrease.

In June 2018, yields on Italian government bonds with average residual maturities of two years stood at around 0.94% on average, whereas those with residual maturities of five years rose to 2.04%.

Interest rate evolution
(quarterly average)



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

Within this environment, interest income declined by 2.2 million euros compared to the previous year (-6.5%), due to the modest increase in average non-interbank loan volumes and the minor impact that the recent increases in bond market interest rates has had to date on the Bank's securities portfolio.
The total average profitability of the portfolio in the first half of 2018 therefore stood at just over 0.66%.
Interest on loans to customers, most of which are benchmarked on the Euribor, gave minor signs of a recovery (+4.6%), chiefly attributable to the modest increase in loan volume compared to the first half of 2017.
Symmetrically, the cost of net inflows also stopped decreasing. However, the performance of the cost of net inflows were largely characterised by the increase in negative interest income on interbank deposits.

(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	CHANGE %
Financial assets at fair value through profit or loss	98	133	-35	-26.3%
Financial assets at fair value through other comprehensive income	2,473	9,865	-7,392	-74.9%
Financial assets at amortised cost	16,547	11,337	5,210	46.0%
Total financial assets	**19,118**	**21,335**	**-2,217**	**-10.4%**
Loans to banks	288	41	247	602.4%
Loans to customers	10,639	10,172	467	4.6%
Other assets	1,174	1,825	-651	-35.7%
Total interest income	**31,219**	**33,373**	**-2,154**	**-6.5%**
Due to banks	248	316	-68	-21.5%
Due to customers	381	268	113	42.2%
Subordinated loan	823	834	-11	-1.3%
Other liabilities	1,708	375	1,333	355.5%
Total interest expense	**3,160**	**1,793**	**1,367**	**76.2%**
Net interest income	**28,059**	**31,580**	**-3,521**	**-11.1%**

The negative interest income paid to counterparties on loans and negative interest expense paid by counterparties on the Bank's funding operations amounted to 1,708 thousand euros and 1,174 thousand euros, respectively.
The expenses incurred primarily relate to balances held with the Central Bank (1,656 thousand euros), whereas the income accrued relates to repurchase agreements at negative rates (332 thousand euros) and net inflows from institutional clients belonging to the Generali Group (742 thousand euros).

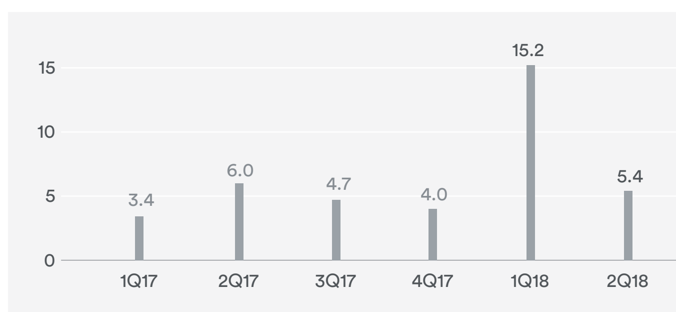
(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	CHANGE %
Banks	100	936	-836	-89.3%
Customers	1,074	889	185	20.8%
Total negative interest expense	**1,174**	**1,825**	**-651**	**-35.7%**
Banks	1,689	374	1,315	351.6%
Customers	19	1	18	n.a.
Total negative interest income	**1,708**	**375**	**1,333**	**355.5%**
Net interest income	**-534**	**1,450**	**-1,984**	**-136.8%**

Net interest income's quarterly performance however recorded a significant increase in the second quarter, up 8% compared to the first quarter of 2018, as a consequence of the gradual reinvestment of the portfolio.

5.1.2. Net income from trading activities and dividends

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

Net result of financial operations (€ million)



At the end of the first half of 2018, the item showed a positive contribution of 20.6 million euros, up sharply compared to the previous year, chiefly due to profit-taking on some performing exposures on Italian government bonds classified as financial assets at fair value through other comprehensive income.

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

(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	CHANGE %
Dividends and income on UCITS	**1,540**	**1,754**	**-214**	**-12.2%**
Trading of financial assets and equity derivatives	49	100	-51	-51.0%
Trading of financial assets and derivatives on debt securities and interest rates	154	792	-638	-80.6%
Trading of UCITS units	-3	84	-87	-103.6%
Securities transactions	200	976	-776	-79.5%
Currency and currency derivative transactions	2,841	1,745	1,096	62.8%
Net income (loss) from trading activities	**3,041**	**2,721**	**320**	**11.8%**
Equity securities and UCITS	526	-	526	n.a.
Debt securities	21	-	21	n.a.
Net income (loss) of assets mandatorily measured at fair value through profit and loss	**547**	**-**	**547**	**n.a.**
Debt securities	15,454	2,651	12,803	482.9%
Equity securities and UCITS (formerly AFS)	-	2,261	-2,261	n.a.
Income (loss) from disposal	**15,454**	**4,912**	**10,542**	**214.6%**
Net result of financial operations	**20,582**	**9,387**	**11,195**	**119.3%**

Net income (loss) on assets mandatorily measured at fair value through profit or loss includes realised gains and losses and unrealised gains and losses on UCITS units, equity instruments for which the option for designation at fair value through equity exclusively was not exercised and structured debt instruments, not included in the trading portfolio.
With regard to such assets, net realised gains on the said mandatory measurement amounted to 0.5 million euros in the first half of 2018, against net gains from disposal amounting to 2.3 million euros for the previous year.

Analysis of the half-year performance of the banking book

(€ THOUSAND)	TRANSFER OF RESERVES	GAINS	LOSSES	CAPITAL GAINS	CAPITAL LOSSES	30.06.2018	30.06.2017	CHANGE
Debt securities at FV through other comprehensive income	13,853	3,572	-1,976	X	X	15,449	2,370	13,079
Debt securities at amortised cost	x	5	-	X	X	5	-	5
Financial assets mandatorily measured at FV:								
Debt securities	x	96	-	-	-75	21	281	-260
UCITS units	x	16	-873	1,952	-76	1,019	-1	1,020
Equity securities	x	-	-	-	-493	-493	2,262	-2,755
Total	**13,853**	**3,689**	**-2,849**	**1,952**	**-644**	**16,001**	**4,912**	**11,089**

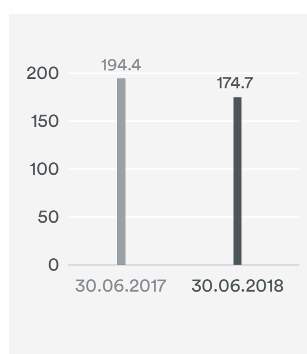
5.1.3 Net fees

Net fees amounted to 174.7 million euros, down 10.1% compared to the first half of the previous year, exclusively due to the decline in the non-recurring component consisting of performance fees, which were impacted by financial markets' greater volatility and uncertainty in the reporting period.

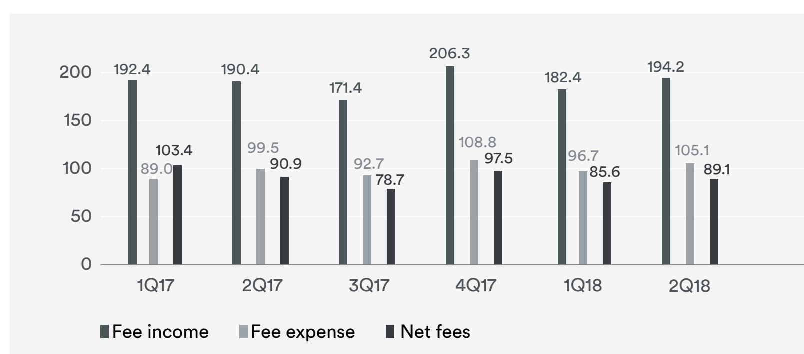
(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	CHANGE %
Collective and individual portfolio management fees	189,452	224,476	-35,024	-15.6%
Fees for the placement of securities and UCITS	52,094	37,092	15,002	40.4%
Fees for distribution of third-party financial products	110,442	102,573	7,869	7.7%
Fees for trading and securities custody	12,600	11,470	1,130	9.9%
Investment advisory fees	7,307	3,286	4,021	122.4%
Fees for other banking and financial services	4,708	3,935	773	19.6%
Total fee income	**376,603**	**382,832**	**-6,229**	**-1.6%**
Fees for off-premises offer (*)	180,664	167,953	12,711	7.6%
Fees for dealing in securities and custody	4,144	3,466	678	19.6%
Fees for portfolio management	14,711	15,633	-922	-5.9%
Fees for other banking services	2,341	1,408	933	66.3%
Total fee expense	**201,860**	**188,460**	**13,400**	**7.1%**
Net fees	**174,743**	**194,372**	**-19,629**	**-10.1%**

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

Net fees (€ million)



Quarterly net fees (€ million)

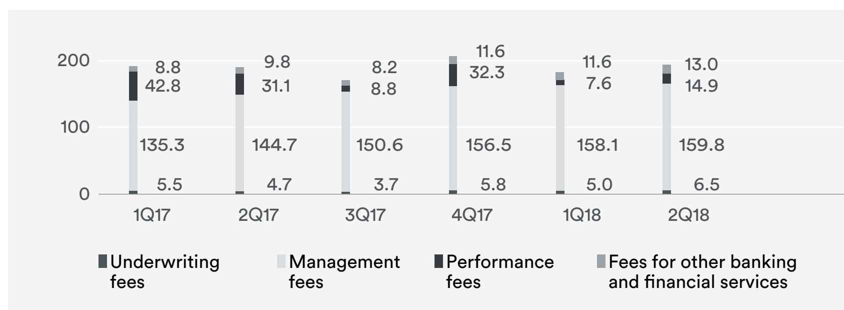


Fee income amounted to 376.6 million euros, slightly down by 1.6% due to the combined effect of the robust growth in management fees (+13.5%), in line with increased average AUM invested in asset management and insurance products compared to the same period of 2017 (+11.3%), offset by the aforementioned decline in performance fees calculated on the income generated by the Sicavs promoted by the Group. Net of this component, the aggregate rose by 14.6% compared to the first half of 2017.

(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	CHANGE %
Underwriting fees	11,515	10,178	1,337	13.1%
Management fees	317,895	279,994	37,901	13.5%
Performance fees	22,578	73,969	-51,391	-69.5%
Fees for other services	24,615	18,691	5,924	31.7%
Total	**376,603**	**382,832**	**-6,229**	**-1.6%**

The excellent result achieved by the innovative solutions offered by the Banking Group was also borne out by the increase in **fees for other banking and financial services** (+31.7%) thanks to higher revenues arising from advanced advisory services (+4.0 million euros in the reporting period). In this regard, it should be noted that **Assets under Advisory** grew significantly in the first half of 2018, increasing by over 900 million euros and bringing the total value of assets under Advisory to 2.2 billion euros.

Breakdown of fee income
(€ million)



Fee income from the solicitation of investment and asset management of households reached 352 million euros, with a 13.5% increase compared to the same period of the previous year, net of the aforementioned non-recurring component.

			CHANGE	
(€ THOUSAND)	30.06.2018	30.06.2017	AMOUNT	%
1. Collective portfolio management	148,204	194,804	-46,600	-23.9%
2. Individual portfolio management	41,248	29,671	11,577	39.0%
Portfolio management fees	**189,452**	**224,475**	**-35,023**	**-15.6%**
1. Placement of UCITS	47,459	36,390	11,069	30.4%
of which: underwriting of UCITS promoted by the Group	*2,218*	*3,151*	*-933*	*-29.6%*
2. Placement of bonds, equity securities and certificates	4,635	703	3,932	559.3%
3. Distribution of third-party asset management products (GPM/GPF, pension funds)	377	389	-12	-3.1%
4. Distribution of third-party insurance products	109,759	101,953	7,806	7.7%
5. Distribution of other third-party financial products	306	231	75	32.5%
Fees for the placement and distribution of financial services	**162,536**	**139,666**	**22,870**	**16.4%**
Asset management fee income	**351,988**	**364,141**	**-12,153**	**-3.3%**

Fee income from **distribution of insurance products** continued to report constant progress, growing +7.7% compared to the same period of 2017, thanks to the significant increase in average AUM relating to the segment (+8.9%).
At 30 June 2018, net inflows from insurance products amounted to 0.8 billion euros, mainly thanks to the contribution of the multi-line policy **BG Stile Libero** in the second quarter of the year, which gathered 0.6 billion euros, bringing its total to over 7.8 billion euros.
The revenues generated by the distribution of the subsidiary **Genertellife**'s products reached 109.5 million euros.

With reference to the successful "innovative financial wrappers", mention should also be made of the multi-line **discretionary portfolio management BG Solution**, which reported a 39.0% increase in revenues compared to the first half of 2017.

Sicavs promoted by the Banking Group - net of the effect of non-recurring performance components - yielded a 3.9% increase in management fees compared to the same period of the previous year, due to the more dynamic performance of institutional classes than their retail counterparts. As regards the business performance of the Sicavs promoted by the Group, mention should be made of the innovative Luxembourg-based Sicav **Lux IM**, which neared 200 million euro net inflows in just two months from inception.

Lastly, fees for the **placement of UCITS** amounted to 47.4 million euros, with an increase of 30.4% on the first half of 2017, thanks to very positive demand for à-la-carte funds and Sicavs, which attracted net inflows of over 0.6 billion euros in the first half 2018.
In addition, the placement of **Certificates** also reported a strong performance, generating fees for almost 3.8 million euros in the first half of 2018 compared to 0.5 million euros for the same period of 2017.

Fees for other services offered to customers include trading, order collection, custody and administration fees, advisory fees and fees charged to customers for account-keeping expenses and other banking services. The aggregate amounted to 24.6 million euros.

(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	%
Fees for dealing in securities and currencies	6,659	8,270	-1,611	-19.5%
Order collection and securities custody fees	5,941	3,200	2,741	85.7%
Investment advisory fees	7,307	3,286	4,021	122.4%
Fees for collection and payment services	2,102	1,354	748	55.2%
Fee income and account-keeping expenses	1,011	1,059	-48	-4.5%
Fees for other services	1,595	1,522	73	4.8%
Total fee income for other services	**24,615**	**18,691**	**5,924**	**31.7%**

Fees for the trading and custody of customers' financial assets amounted to 12.6 million euros, up by 1.1 million euros compared to 2017, essentially offset by the proportional rise in the corresponding fee expense.

Fee expense, including fee provisions, amounted to 201.8 million euros, up moderately compared to the previous year (+7.1%), mostly due to the increase in fees paid to the Financial Advisor network for off-premises offers (+7.6%).

Fee expense and other costs for off-premises offers paid to the Financial Advisors network amounted to 180.7 million euros, up by 12.7 million euros compared to the same period of 2017.

(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	%
Underwriting fees	8,026	7,478	548	7.3%
Management fees	102,148	82,833	19,315	23.3%
Fees for other services (trading, advisory, current accounts)	3,988	2,979	1,009	33.9%
Ancillary charges (FIRR, Enasarco)	5,862	5,571	291	5.2%
Other expenses for maintaining the network	7,119	11,588	-4,469	-38.6%
Total ordinary fees	**127,143**	**110,449**	**16,694**	**15.1%**
Incentive fees	53,521	57,504	-3,983	-6.9%
of which: provisions and advances on incentive fees and recruitment	*28,215*	*34,816*	*-6,601*	*-19.0%*
Total	**180,664**	**167,953**	**12,711**	**7.6%**

The increase in ordinary fees (+15.1%) was primarily driven by the rise in management fees (+19.3 million euros), correlated with the greater average AUM managed by the network than in the previous year.
Other expenses for maintaining the network referred to social-security charges (Enasarco and FIRR) and additional fees disbursed in relation to maintenance of the local network structure.
Incentive fees, which amounted to 53.5 million euros, regarded the organic increase in net inflows achieved thanks to both the efforts of the existing sales network and to the recruitment and induction of new professionals. Overall, they represent costs incurred to develop a network of high standing Financial Advisors. The change in the aggregate for the first half of 2018 was driven by both lower costs associated with the organic growth and the inclusion of new Financial Advisors.

Lastly, **fee expense for other services** increased by 3.4% due to the aforementioned expansion in trading activities (+56.6%).

(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	%
Fees for portfolio management	-14,711	-15,633	922	-5.9%
Fees for securities trading and custody	-4,144	-3,466	-678	19.6%
Fees for collection and payment services	-1,917	-1,147	-770	67.1%
Fees for other services	-424	-261	-163	62.5%
Total fee expense for other services	**-21,196**	**-20,507**	**-689**	**3.4%**

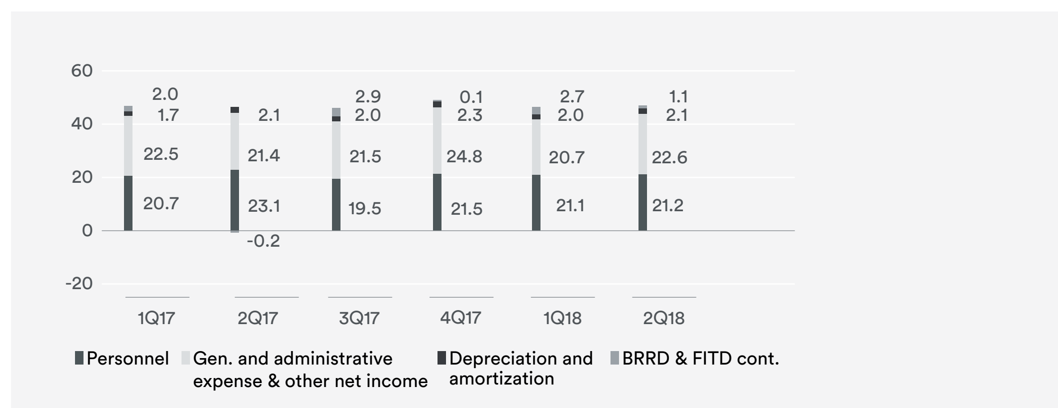
Within this aggregate, **fees for portfolio management** amounted to 14.7 million euros and referred essentially to administration and third-party management fees incurred by the Group's management company for the management of the Sicavs under administration.

5.1.4 Operating expenses

Operating expenses, including staff expenses, other general and administrative expenses, amortisation and depreciation and other operating income and expenses, amounted to 93.6 million euros, slightly increasing compared to the same period of the previous year (+0.4%).

(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	CHANGE %
Staff expenses	42,309	43,860	-1,551	-3.5%
General and administrative expenses (net of duty recovery) and other net income	43,355	43,827	-472	-1.1%
BRRD and FITD contributions	3,795	1,753	2,042	116.5%
Net adjustments of property, equipment and intangible assets	4,159	3,792	367	9.7%
Operating expenses	**93,618**	**93,232**	**386**	**0.4%**

Breakdown of operating costs (€ million)



Staff expenses, including full-time employees, interim staff and directors, reached 42.3 million euros, down by 3.5% compared to the previous year.

Group's employees totalled 884, six less compared to the same period of the previous year, whereas the average headcount increased by nine.

	30.06.2018	30.06.2017	CHANGE AMOUNT	CHANGE %	AVERAGE 2018	AVERAGE 2017
Managers	48	48	-	-	48.0	47.5
3rd and 4th level executives	150	155	-5	-3.2%	149.5	153.0
Other employees	686	687	-1	-0.1%	681.0	669.0
Total	**884**	**890**	**-6**	**-0.7%**	**878.5**	**869.5**

The performance of staff expenses in the first half of 2018 was mainly influenced by the decline in the variable incentive component (-31.4%), mainly due lower costs associated with the recruitment plans for new Relationship Managers and only partially offset by a slight increase in the remuneration recurrent component (+3.1%).

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

(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	CHANGE %
1) Employees	**41,545**	**43,280**	**-1,735**	**-4.0%**
Salaries and social security charges	29,292	28,484	808	2.8%
Provision for termination indemnity and supplementary pension funds	2,367	2,215	152	6.9%
Costs related to payment agreements based on own financial instruments	1,137	1,068	69	6.5%
Short-term productivity bonuses (MBO, CIA, incl. sales)	5,284	8,767	-3,483	-39.7%
Other long-term incentives (MBO)	821	715	106	14.8%
Other employee benefits	2,644	2,031	613	30.2%
2) Other staff	**53**	**-4**	**57**	**n.a.**
3) Directors and Auditors	**711**	**584**	**127**	**21.7%**
Total	**42,309**	**43,860**	**-1,551**	**-3.5%**

Other general and administrative expenses, net of recoveries of taxes paid by customers (stamp duty, substitute tax), amounted to 45.6 million euros, slightly up compared to the previous year (+2.1%).

The expenses related to the provisions for contributions to Resolution funds for 2018 (+2.0 million euros) grew due both to the increase of the ordinary contribution to the Single Resolution Fund, as a result of the expansion of the Banking Group's assets (+1.0 million euros), and to the additional contribution required by the National Resolution Fund, managed by the Bank of Italy, with respect to the interventions made in 2015 (+1.0 million euros).

			CHANGE	
(€ THOUSAND)	30.06.2018	30.06.2017	AMOUNT	%
Administration	**6,182**	**6,313**	**-131**	**-2.1%**
Advertising	1,685	1,852	-167	-9.0%
Advisory	2,096	2,201	-105	-4.8%
Auditing	200	190	10	5.3%
Insurance	1,529	1,473	56	3.8%
Other general costs (insurance; T&E)	672	597	75	12.6%
Operations	**18,573**	**17,987**	**586**	**3.3%**
Rent and usage of premises	9,480	8,939	541	6.1%
Outsourced services	2,795	2,902	-107	-3.7%
Post and telephone	1,333	1,254	79	6.3%
Print material and contracts	813	671	142	21.2%
Other indirect staff expenses	1,154	1,187	-33	-2.8%
Other operating expenses	2,998	3,034	-36	-1.2%
Information system and equipment	**20,240**	**19,834**	**406**	**2.0%**
Outsourced IT services	14,835	14,982	-147	-1.0%
Fees for financial databases and other IT services	3,626	3,165	461	14.6%
Software maintenance and servicing	1,365	1,312	53	4.0%
Other expenses (equipment rental, maintenance, etc.)	414	375	39	10.4%
Taxes and duties	**626**	**535**	**91**	**17.0%**
of which: virtual stamp duty and other duties borne by customers	25,101	23,429	1,672	7.1%
(minus) Recovery of stamp duty from customers	-24,799	-23,152	-1,647	7.1%
Other taxes and duties	324	258	66	25.6%
General and administrative expenses, net of tax recovery	**45,621**	**44,669**	**952**	**2.1%**
Contributions to the Italian National Resolution and Interbank Deposit Protection Funds and ECB	**3,795**	**1,753**	**2,042**	**116.5%**
Other net income and expenses	**-2,266**	**-842**	**-1,424**	**169.1%**
General and administrative expenses and other net income	**47,150**	**45,580**	**-472**	**171.3%**

5.1.5 Net provisions

Net provisions not related to fees amounted to 10.6 million euros, down by 0.2 million euros on the same period of 2017, and refer primarily to provisions for contractual indemnities for the sales network (+9.9 million euros), the increase in which was completely offset by a decrease in provisions for legal disputes and other provisions.

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

			CHANGE	
(€ THOUSAND)	30.06.2018	30.06.2017	AMOUNT	%
Provision for staff liabilities and contingencies	-674	317	-991	n.a.
Provisions for legal disputes	998	3,180	-2,182	-68.6%
Provision for contractual indemnities to the sales network	9,870	6,332	3,538	55.9%
Other provisions for liabilities and contingencies	503	1,006	-503	-50.0%
Guarantees and commitments	-86	-	-86	n.a.
Total	**10,611**	**10,835**	**-224**	**-2.1%**

5.1.6 Adjustments

Net adjustments for non-performing loans were 3.6 million euros, up 0.4 million euros compared to the same period of the previous year, which had been significantly impacted by losses generated by the Alitalia bond known as "Dolce Vita", allocated to the HTM portfolio following the airline's default.

(€ THOUSAND)	ADJUSTMENTS	REVERSALS	30.06.2018	30.06.2017	CHANGE
Specific adjustments/reversals	**-827**	**390**	**-437**	**-3,849**	**3,412**
Equity securities	-	-	-	-24	24
Debt securities	-	-	-	-2,642	2,642
Non-performing loans of the banking portfolio	-771	362	-409	-1,014	605
Operating loans to customers	-56	28	-28	-169	141
Portfolio adjustments/reversals	**-3,264**	**95**	**-3,169**	**685**	**-3,854**
Debt securities	-3,264	-	-3,264	345	-3,609
Performing loans to customers and banks	-	95	95	340	-245
Total	**-4,091**	**485**	**-3,606**	**-3,164**	**-442**

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

The revision of the model for calculating provisions for the non-performing loan portfolio undertaken as part of a more general review of Lending Processes was also completed in the second quarter of 2018. This entailed a moderate rise in provisioning for the non-performing loan portfolio, by a total of 0.4 million euros.

5.1.7 Consolidated net result, taxes and earnings per share

Income taxes for the reporting period on a current and deferred basis were estimated at 22.8 million euros, up 2.9 million euros compared to estimated taxes at the end of the same period of the previous year.

			CHANGE	
(€ THOUSAND)	30.06.2018	30.06.2017	AMOUNT	%
Current taxes for the period	-24,058	-28,151	4,093	-14.5%
Prior years' taxes	39	339	-300	-88.5%
Changes of prepaid taxation (+/-)	-739	8,142	-8,881	-109.1%
Changes of deferred taxation (+/-)	1,916	-278	2,194	-789.2%
Total	**-22,842**	**-19,948**	**-2,894**	**14.5%**

The estimated total tax rate was 19.8%, up compared to the figure estimated at end of the first half of 2017, chiefly due to the increase in the share of profit generated by the Parent Company in Italy.

The first half of 2018 thus closed with basic net earnings per share of 0.79 euros.

			CHANGE	
	30.06.2018	30.06.2017	AMOUNT	%
Net profit for the period (€ thousand)	92,566	108,083	-15,517	-14.4%
Earnings attributable to ordinary shares (€ thousand)	92,566	108,083	-15,517	-14.4%
Average number of outstanding shares (thousand)	116,067	116,489	-422	-0.4%
EPS – Earning per share (euros)	**0.80**	**0.93**	**-0.13**	**-14.0%**
Average number of outstanding shares with diluted share capital (thousand)	116,614	116,733	-119	-0.1%
EPS – Diluted earnings per share (euros)	**0.79**	**0.93**	**-0.13**	**-14.3%**

5.1.8 Comprehensive Income

The Banking Group's comprehensive income is determined by the consolidated net profit and all other components that contribute to company performance without being reflected in the Profit and Loss Account, such as changes in valuation reserves for securities at fair value through other comprehensive income.
In the first half of 2018, the latter component provided a negative overall contribution of 33.3 million euros, against a net negative change of -9.8 million euros recorded at the end of the same period of the previous year.
In detail, the increase in valuation reserves on the portfolio of financial assets at fair value with a counterentry in the other comprehensive income (OCI) was attributable to the following factors:
> the increase in net valuation capital losses totalling 35.8 million euros;
> the reduction of pre-existing net positive reserves due to re-absorption through profit or loss upon realisation (13.8 million euros);

> the positive net tax effect associated with the above changes and resulting from increases in DTLs and reabsorption of DTAs (15.8 million euros).

(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	CHANGE %
Net profit	**92,566**	**108,083**	**-15,517**	**-14.4%**
Other income, net of income taxes:				
with transfer to Profit and Loss Account				
Exchange gains and losses	-5	-14	9	-64.3%
Financial assets at fair value through other comprehensive income	-33,279	-9,829	-23,450	238.6%
without transfer to Profit and Loss Account:				
Actuarial gains (losses) from defined benefit plans	-116	-91	-25	27.5%
Total other income, net of taxes	**-33,400**	**-9,934**	**-23,466**	**236.2%**
Comprehensive income	**59,166**	**98,149**	**-38,983**	**-39.7%**

5.2 Balance sheet and net equity aggregates

At the end of the first half of 2018, total consolidated assets amounted to 9.5 billion euros, increasing by over 0.5 billion euros (+5.8%) compared to the end of 2017.

Total net inflows amounted to 8.5 billion euros (+8.1%), driven by the significant net inflows from customers (+11.5%), which offset the decline in interbank net inflows.

Core loans thus totalled 9.0 billion euros, up 6.4%.

ASSETS (€ THOUSAND)	30.06.2018	31.12.2017	CHANGE AMOUNT	CHANGE %	01.01.2018 FTA
Financial assets at fair value through profit or loss	104,355	49,814	54,541	109.5%	118,778
Financial assets at fair value through other comprehensive income	2,379,521	4,612,728	-2,233,207	-48.4%	2,977,389
Financial assets at amortised cost	6,550,780	3,831,104	2,719,676	71.0%	5,389,959
a) Loans to banks (*)	1,133,932	923,095	210,837	22.8%	922,492
b) Loans to customers	5,416,848	2,908,009	2,508,839	86.3%	4,467,467
Equity investments	1,716	1,820	-104	-5.7%	1,820
Property, equipment and intangible assets	95,318	98,380	-3,062	-3.1%	98,381
Tax receivables	54,734	45,735	8,999	19.7%	46,794
Other assets	328,518	351,430	-22,912	-6.5%	355,526
Total assets	**9,514,942**	**8,991,011**	**523,931**	**5.8%**	**8,988,647**

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

NET EQUITY AND LIABILITIES (€ THOUSAND)	30.06.2018	31.12.2017	CHANGE AMOUNT	CHANGE %	01.01.2018 FTA
Financial liabilities at amortised cost	8,521,256	7,879,779	641,477	8.1%	7,879,968
a) Due to banks	497,996	682,531	-184,535	-27.0%	682,531
b) Due to customers	8,023,260	7,197,248	826,012	11.5%	7,197,437
Financial liabilities held for trading and hedging	518	206	312	151.5%	206
Tax liabilities	37,049	35,564	1,485	4.2%	35,168
Other liabilities	147,761	185,218	-37,457	-20.2%	184,757
Special purpose provisions	158,926	154,174	4,752	3.1%	155,305
Valuation reserves	-19,350	21,646	-40,996	-189.4%	14,051
Reserves	411,409	348,519	62,890	18.0%	353,287
Share premium reserve	57,893	58,219	-326	-0.6%	58,219
Share capital	116,852	116,852	-	0.0%	116,852
Treasury shares (-)	-9,938	-13,271	3,333	-25.1%	-13,271
Net profit (loss) for the period (+/-)	92,566	204,105	-111,539	-54.6%	204,105
Total net equity and liabilities	**9,514,942**	**8,991,011**	**523,931**	**5.8%**	**8,988,647**

Quarterly evolution of Consolidated Balance Sheet

ASSETS (€ THOUSAND)	30.06.2018	31.03.2018 RESTATED (*)	01.01.2018 FTA	31.12.2017	30.09.2017	30.06.2017	31.03.2017
Financial assets at fair value through profit or loss	104,355	115,739	118,778	49,814	49,670	46,189	42,301
Financial assets at fair value through other comprehensive income	2,379,521	2,917,725	2,977,389	4,612,728	4,595,225	4,750,650	4,654,312
Financial assets at amortised cost	6,550,780	5,834,313	5,389,959	3,831,104	3,306,838	3,623,434	3,433,062
a) Loans to banks	1,133,932	1,111,505	922,492	923,095	406,974	740,320	539,010
b) Loans to customers	5,416,848	4,722,808	4,467,467	2,908,009	2,899,864	2,883,114	2,894,052
Equity investments	1,716	1,736	1,820	1,820	1,879	1,898	1,954
Property, equipment and intangible assets	95,318	96,778	98,381	98,380	94,436	95,820	97,383
Tax receivables	54,734	46,605	46,794	45,735	52,551	50,975	52,707
Other assets	328,518	291,632	355,526	351,430	288,272	305,317	287,552
Total assets	**9,514,942**	**9,304,528**	**8,988,647**	**8,991,011**	**8,388,871**	**8,874,283**	**8,569,271**

NET EQUITY AND LIABILITIES (€ THOUSAND)	30.06.2018	31.03.2018 RESTATED (*)	01.01.2018 FTA	31.12.2017	30.09.2017	30.06.2017	31.03.2017
Financial liabilities at amortised cost	8,521,256	8,186,830	7,879,968	7,879,779	7,381,076	7,545,634	7,564,740
a) Due to banks	497,996	505,127	682,531	682,531	792,737	946,895	1,034,603
b) Due to customers	8,023,260	7,681,703	7,197,437	7,197,248	6,588,339	6,598,739	6,530,137
Financial liabilities held for trading and hedging	518	290	206	206	988	1,013	1,097
Tax liabilities	37,049	36,307	35,168	35,564	41,066	32,324	20,826
Other liabilities	147,761	143,151	184,757	185,218	133,097	516,464	165,865
Special purpose provisions	158,926	159,234	155,305	154,174	165,521	152,473	136,129
Valuation reserves	-19,350	10,200	14,051	21,646	11,253	-955	-16,066
Reserves	411,409	557,668	353,287	348,519	346,597	345,626	470,576
Share premium reserve	57,893	58,170	58,219	58,219	58,504	58,363	56,171
Share capital	116,852	116,852	116,852	116,852	116,852	116,839	116,644
Treasury shares (-)	-9,938	-13,221	-13,271	-13,271	-13,437	-1,581	-2,933
Net profit (loss) for the period (+/-)	92,566	49,047	204,105	204,105	147,354	108,083	56,222
Total net equity and liabilities	**9,514,942**	**9,304,528**	**8,988,647**	**8,991,011**	**8,388,871**	**8,874,283**	**8,569,271**

(*) Balance sheet aggregates have been restated to account for final IFRS 9 FTA.

5.2.1 Direct inflows from customers

Total direct inflows from customers amounted to 8.0 billion euros, up by 11.5% compared to 31 December 2017.

(€ THOUSAND)	30.06.2018	31.12.2017	CHANGE AMOUNT	CHANGE %	01.01.2018 FTA
1. Current accounts and demand deposits	7,715,567	6,903,451	812,116	11.8%	6,903,451
2. Term deposits	-	-	-	-	-
3. Financing	183,045	83,845	99,200	118.3%	83,845
Repurchase agreements	138,944	40,567	98,377	242.5%	40,567
Subordinated loans	44,101	43,278	823	1.9%	43,278
4. Other debts	124,648	209,952	-85,304	-40.6%	210,141
Operating debts to sales network	102,668	119,371	-16,703	-14.0%	119,560
Other (money orders, amounts at the disposal of customers)	21,980	90,581	-68,601	-75.7%	90,581
Total due to customers	**8,023,260**	**7,197,248**	**826,012**	**11.5%**	**7,197,437**

The growth in inflows from customers (external to the Insurance Group) continued to be driven solely by on-demand current account balances, which reported a net increase of 837 million euros to 7,288 million euros. In the reporting period, net inflows in the form of repurchase agreements were also relaunched, increasing by 98.4 million euros.

Captive inflows from the companies within the Assicurazioni Generali Group decreased by 23.5 million euros to 472.3 million euros at the end of the half-year, thus accounting for 5.9% of total inflows.
The aggregate includes 44.1 million euros for the Tier-2 subordinated loan issued by the subsidiary Generali Beteiligungs GmbH in 2014.

(€ THOUSAND)	30.06.2018	31.12.2017	CHANGE AMOUNT	%
Inflows from Parent Company	36,250	6,247	30,003	480.3%
Inflows from other subsidiaries of the Generali Group	436,072	489,596	-53,524	-10.9%
Total inflows from Generali Group	**472,322**	**495,843**	**-23,521**	**-4.7%**
Inflows from other parties	7,550,938	6,701,405	849,533	12.7%
of which: current accounts	*7,288,309*	*6,451,682*	*836,627*	*13.0%*
Total inflows from customers	**8,023,260**	**7,197,248**	**826,012**	**11.5%**

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

5.2.2 Core loans

Core loans totalled 9,035 million euros overall, up 548.5 million euros compared to 1 January 2018, mainly as a consequence of the increase in both investments in financial asset portfolios, which grew by 287.0 million euros (+5.0%), and interbank loans (+26.6%).

Interbank loans rose by 221.0 million euros, chiefly due to the growth in demand deposits with the ECB, which stood at 808.1 million euros. The temporary growth of this item was aimed at mitigating the Bank's risk exposure against a backdrop of increasing volatility in the financial markets associated with the uncertainty posed by the Italian and international political scenario and the expectations on the central banks' future stance.

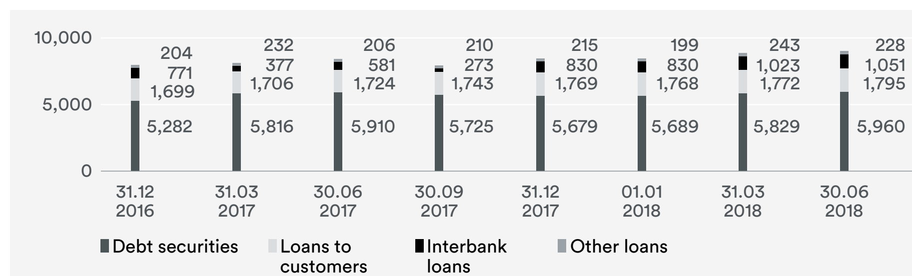
(€ THOUSAND)	30.06.2018	01.01.2018 FTA	CHANGE AMOUNT	%	31.12.2017
Financial assets at fair value through profit or loss	104,355	118,778	-14,423	-12.1%	49,814
Financial assets at fair value through other comprehensive income	2,379,521	2,977,389	-597,868	-20.1%	4,612,728
Financial assets at amortised cost	3,549,577	2,650,309	899,268	33.9%	1,073,896
Financial assets	**6,033,453**	**5,746,476**	**286,977**	**5.0%**	**5,736,438**
Loans to and deposits with banks (*)	1,050,853	829,864	220,989	26.6%	829,992
Loans to customers	1,795,255	1,768,192	27,063	1.5%	1,768,965
Operating loans and other loans	155,095	141,594	13,501	9.5%	158,251
Total interest-bearing financial assets and loans	**9,034,656**	**8,486,126**	**548,530**	**6.4%**	**8,493,646**

(*) ECB demand deposits included.

In the first half of 2018, the Banking Group began a process of revising its investment policies with the aim of shifting the core banking book towards the less volatile component of financial assets at amortised cost (HTC) and away from financial assets designated at fair value through other comprehensive income (HTCS).
The increase in financial assets was concentrated in the held-to-collect (HTC) portfolio, i.e., assets measured at amortised cost and held for investment purposes, which grew by approximately 900 million euros, mainly driven by the government bond purchases that were made primarily in the second quarter of 2018.
The portfolio of financial assets designated at fair value through other comprehensive income was rebalanced symmetrically, resulting in a decline of 598 million euros.

Overall, financial assets accounted for 66.8% of the core loan aggregate's total, slightly decreasing compared to 67.7% at the beginning of 2018. The exposure to financial instruments other than debt securities was extremely limited.

Quarterly evolution of loans
(€ million)



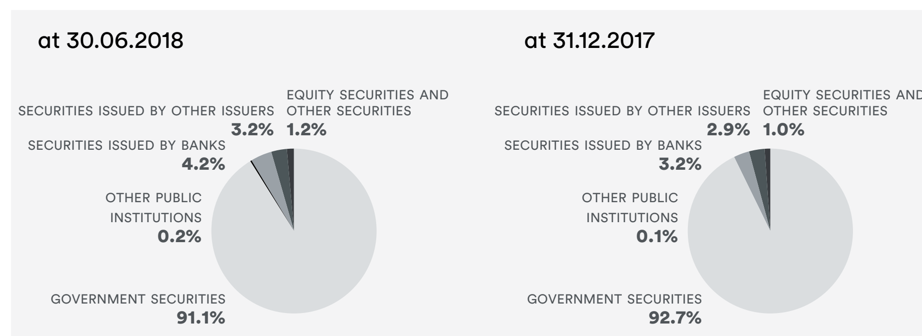
(€ MILLION)	30.06.2018	01.01.2018	CHANGE AMOUNT	CHANGE %	31.12.2017
Government securities	5,497,103	5,306,058	191,045	3.6%	5,316,611
Other public institutions	12,728	8,283	4,445	53.7%	8,283
Securities issued by banks	256,398	186,689	69,709	37.3%	186,293
Securities issued by other issuers	194,216	169,994	24,222	14.2%	168,038
Equity securities and other securities	73,008	75,452	-2,444	-3.2%	57,213
Total financial assets	**6,033,453**	**5,746,476**	**286,977**	**5.2%**	**5,736,438**

Sovereign debt exposure increased by 195.5 million euros accounting for 91.1% of total investments in financial instruments, essentially stable compared to the end of the previous year (92.7%). Such exposure mostly included bonds of the Italian Republic, with the only exception of some US Treasury bonds for an overall amount of 13 million euros.

(€ THOUSAND)	30.06.2018	01.01.2018	CHANGE AMOUNT	CHANGE %	31.12.2017
Exposure to the sovereign risk by portfolio:					
Financial assets at fair value through profit or loss	10	-	10	n.a.	-
Financial assets at fair value through other comprehensive income	2,170,969	2,890,047	-719,078	-24.9%	4,465,316
Financial assets at amortised cost	3,338,852	2,424,294	914,558	37.7%	859,578
Total	**5,509,831**	**5,314,341**	**195,490**	**3.7%**	**5,324,894**

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

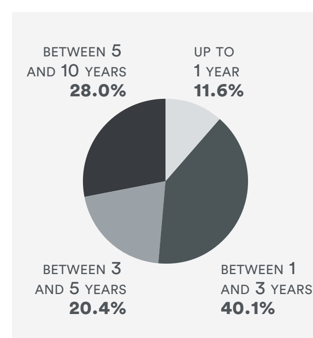
Breakdown of financial assets



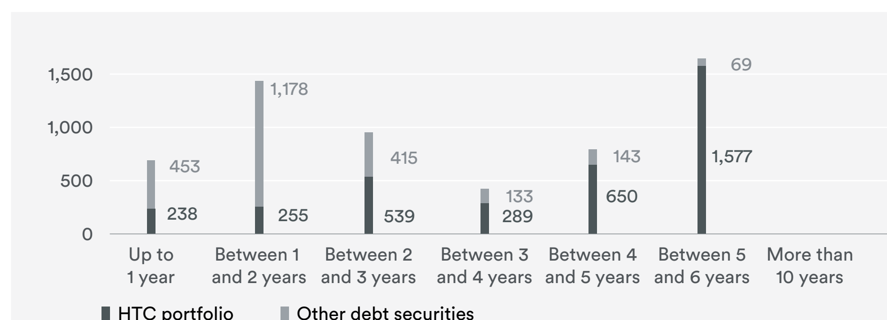
In a context where financial markets were increasingly volatile, the Banking Group adopted a policy aimed at narrowing the maturities of its portfolio issues.
At the end of June, the share of financial assets with a maturity of more than 5 years dropped to 28% from 30.6% in 2017, whilst the share of assets having a residual life of 1-3 years rose to 28.5% from 40.1%.

The portfolio of debt securities had an overall average residual life of about 3.5 years (4.1 years at the end of the first half of 2017) and 37.1% of it was made up of variable rate issues, and for the remainder, of fixed-rate issues and zero coupons (55.1% at the end of the first half of 2017).

Breakdown of bonds portfolio by maturity



Bonds portfolio maturity
(€ million)



Loans to customers reached 1,795.3 million euros, up slightly compared to year-end 2017 (+1.5%) due to the slight expansion of both overdraft facilities and mortgages.
In detail, the mortgage segment reported new disbursements amounting to 45 million euros.

Within **operating loans**, growth was reported by both trade receivables from placement and distribution of financial and insurance products, and by daily margin due to the shift from indirect to direct participation to Compensazione e Garanzia for the bonds segment, effective at the end of 2017. By contrast, financial advances provided to Financial Advisors, net of the reclassification of unit-linked policies entered into to cover contractual obligations towards them, remained essentially stable.

(€ THOUSAND)	30.06.2018	31.12.2017	CHANGE AMOUNT	CHANGE %	01.01.2018 FTA
Current accounts	913,551	895,369	18,182	2.0%	894,596
Mortgages and personal loans	877,859	869,793	8,066	0.9%	869,793
Other financing and loans not in current accounts	3,845	3,803	42	1.1%	3,803
Loans	**1,795,255**	**1,768,965**	**26,290**	**1.5%**	**1,768,192**
Operating loans to product companies	119,737	112,333	7,404	6.6%	112,333
Sums advanced to Financial Advisors	18,872	34,376	-15,504	-45.1%	17,719
Stock exchange interest-bearing daily margin	10,645	3,562	7,083	198.8%	3,562
Changes to be debited and other loans	4,672	7,629	-2,957	-38.8%	7,629
Operating loans and other loans	**153,926**	**157,900**	**-3,974**	**-2.5%**	**141,243**

Net non-performing loans amounted to 51.1 million euros, equal to 0.94% of total loans to customers, down by 22.4 million euros compared to the end of the previous year.
Unlikely to pay exposures decreased by 18.4 million euros, mainly due to two significant exposures classified among unlikely to pay following the general review of loans positions carried out in 2017 and fully repaid with no charge incurred by the Bank (15.4 million euros). The decline in bad loans was attributable to the final acquisition of the indemnity guarantee following the settlement of an insolvency procedure.

(€ THOUSAND)	GROSS EXPOSURE	ADJUSTMENTS	NET EXPOSURE 2018	NET EXPOSURE 2017	CHANGE AMOUNT	CHANGE %	CASH COLLATERAL INDEMNITY	EXPOSURE NET OF INDEMNITY
Bad loans	37,918	-15,315	22,603	24,899	-2,296	-9.2%	19,847	2,756
Financing	32,461	-10,813	21,648	23,892	-2,244	-9.4%	19,847	1,801
Debt securities	2,642	-2,642	-	-	-	-	-	-
Operating loans	2,815	-1,860	955	1,007	-52	-5.2%	-	955
Unlikely to pay	22,280	-1,496	20,784	39,232	-18,448	-47.0%	5,232	15,552
Past-due exposures - over 90 days	8,080	-396	7,684	9,326	-1,642	-17.6%	-	7,684
Total non-performing loans	**68,278**	**-17,207**	**51,071**	**73,457**	**-22,386**	**-30.5%**	**25,079**	**25,992**
Performing debt securities	3,472,808	-5,141	3,467,667	981,144				
Performing loans and financing	1,900,429	-2,319	1,898,110	1,853,408				
Total loans to customers	**5,441,515**	**-24,667**	**5,416,848**	**2,908,009**				

Within the segment of **loans to customers**, exposures were mostly revocable account credit facilities secured by financial collaterals mainly in the form of pledges of financial instruments and/or similar products (mandate to policy redemption); with regard to bad loans, exposures were chiefly mortgages of real property (63% of net exposure).
At the end of the reporting period, non-performing loans included 25.1 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.[3] upon the sale of the said company and mainly secured to that end by cash collateral payments by the counterparty. Net of this portfolio, which accounted for over 49% of net non-performing exposures, the weight of non-performing exposures to total loans to customers decreased to 0.48% (26.0 million euros).

However, **unsecured positions representing an actual risk for the Bank**, including the operating loan component, amounted to 1.7 million euros, or approximately 0.03% of total loans to customers.

At the end on the first half of 2018, forborne positions stood at approximately 113.2 million euros, of which 9.4 million euros referring to non-performing positions, including 5.2 million euros covered by indemnity guarantee.

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

At 30 June 2018, the **interbank position**, net of the securities portfolio and operating loans, showed a net credit balance of 552.9 million euros, up compared to a net exposure of 147.5 million euros at the end of the previous year.
This situation was mainly due to the combined effect of the ongoing significant loan position with the ECB (808.1 million euros) and the end of leveraged net inflows in the form of repurchase agreements at negative rates on the interbank market (189.7 million euros).

Interbank net inflows also includes the TLTRO2 financing disbursed on 29 June 2016, with a maturity of four years, set to come due on 24 June 2020, with an option for early repayment at the end of the second year.
This loan accrues an interest equal to that of the main refinancing operations applicable from time to time, which is currently 0%, but could however have been reduced to the interest rate on overnight deposits with the ECB (currently a negative -0.40%).

			CHANGE		
(€ THOUSAND)	30.06.2018	31.12.2017	AMOUNT	%	01.01.2018 FTA
1. Repayable on demand	**906,492**	**696,364**	**210,128**	**30.2%**	**696,236**
Demand deposits with ECB and Bank of Italy (*)	808,136	545,632	262,504	48.1%	545,632
Transfer accounts	98,356	150,732	-52,376	-34.7%	150,604
2. Time deposits	**144,361**	**133,628**	**10,733**	**8.0%**	**133,628**
Mandatory reserve	75,774	67,617	8,157	12.1%	67,617
Term deposits	65,919	65,938	-19	-	65,938
Collateral margins	2,668	73	2,595	n.a.	73
Total loans to banks	**1,050,853**	**829,992**	**220,861**	**26.6%**	**829,864**
1. Due to Central Banks	**400,000**	**400,000**	**-**	**-**	**400,000**
TLTRO	400,000	400,000	-	-	400,000
2. Due to banks	**97,996**	**282,531**	**-184,535**	**-65.3%**	**282,531**
Transfer accounts	78,074	57,472	20,602	35.8%	57,472
Term deposits	-	3,796	-3,796	-100.0%	3,796
Repurchase agreements	-	189,657	-189,657	-100.0%	189,657
Collateral margins	-	9,532	-9,532	-100.0%	9,532
Other debts	19,922	22,074	-2,152	-9.7%	22,074
Total due to banks	**497,996**	**682,531**	**-184,535**	**-27.0%**	**682,531**
Net interbank position	**552,857**	**147,461**	**405,396**	**274.9%**	**147,333**

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

5.2.3 Provisions

Total special purpose provisions totalled 158.9 million euros overall, up 4.7 million euros compared to the previous year (+3.1%) chiefly due to the provisions in connection with the beginning of the new annual cycle of the Framework Loyalty Programme for the Financial Advisors Network.

			CHANGE		
(€ THOUSAND)	30.06.2018	31.12.2017	AMOUNT	%	01.01.2018 FTA
Provision for termination indemnity	4,902	4,859	43	0.9%	4,859
Provisions for guarantees issued and commitments	118	-	118	n.a.	204
Other provisions for liabilities and contingencies	**153,906**	**149,315**	**4,591**	**3.1%**	**150,242**
Provisions for staff expenses	12,514	15,404	-2,890	-18.8%	15,404
Restructuring provision - Redundancy incentives plan	955	1,089	-134	-12.3%	1,089
Provisions for legal disputes	17,464	17,747	-283	-1.6%	17,747
Provisions for contractual indemnities to the sales network	71,567	61,459	10,108	16.4%	62,251
Provisions for sales network incentives	49,363	52,076	-2,713	-5.2%	52,211
Other provisions for liabilities and contingencies	2,043	1,540	503	32.7%	1,540
Total provisions	**158,926**	**154,174**	**4,752**	**3.1%**	**155,305**

Provisions for long-term contractual indemnities included 6.9 million euros referring to the provision for the annual cycles of the Framework Loyalty Programme for the Financial Advisors Network 2017-2026 launched in the previous year.
The Framework Loyalty Programme is divided into eight annual separate plans, all set to expire on 31 December 2026 and of decreasing lengths, which may be activated from one year to the next, with the authorisation of the Banca Generali Group's company bodies and in accordance with its remuneration policies.

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

Tax dispute

In the tax dispute, the audit launched by the Friuli-Venezia Giulia Regional Department of the Italian Revenue Service, in respect of tax period 2014, was concluded on 29 June 2018.
The audit had begun on 27 March 2017 and the auditors' report on findings (PVC) in conclusion of the first part of the investigation, claiming various irregularities relating to the matching and accrual principle in respect of costs for the year, had been served on 22 December 2017.
The auditors' report on findings that had been served at the end of June instead focused on transfer pricing issues, with particular regard to dealings with the Luxembourg management company BGFML pertaining to the distribution of the Sicavs promoted by the Group.

Banca Generali remains convinced that its actions were compliant with the law and that the claims are entirely groundless. In discussions with the revenue authorities, it plans resolutely to refute the arguments presented by the auditors, reserving the right to all further actions in protection of its rights in administrative and judicial venues to appeal any action potentially to be taken by the revenue authorities on the basis of the irregularities claimed in the auditors' report on findings.

5.2.4 Net equity and regulatory aggregates

At 30 June 2018, consolidated net equity, including net profit for the period, amounted to 649.4 million euros compared to 736.1 million euros at the end of the previous year.

(€ THOUSAND)	30.06.2018	31.12.2017	CHANGE AMOUNT	CHANGE %	01.01.2018 FTA
Share capital	116,852	116,852	-	-	116,852
Share premium reserve	57,893	58,219	-326	-0.6%	58,219
Reserves	411,409	348,519	62,890	18.0%	353,287
(Treasury shares)	-9,938	-13,271	3,333	-25.1%	-13,271
Valuation reserves	-19,350	21,646	-40,996	-189.4%	14,051
Net profit (loss) for the period	92,566	204,105	-111,539	-54.6%	204,105
Group net equity	**649,432**	**736,070**	**-86,638**	**-11.8%**	**733,243**

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

In the reporting period, on the basis of the achievement of the performance objectives set out in the 2015, 2016 and 2017 Remuneration Policy, 118,871 treasury shares, with a value of 3,333 thousand euros, were also allotted to managers and network managers.
At the end of the half-year, the Parent Company, Banca Generali, thus held 353,704 treasury shares, with a value of 9,938 thousand euros, intended solely for the service of remuneration plans for the Banking Group's key personnel.

On 12 April 2018, the General Shareholders' Meeting also authorised the repurchase of a maximum of 577,644 treasury shares in service of remuneration plans for key personnel for 2018, the second cycle of the Framework Loyalty Programme for 2018 and the new Long Term Incentive Plan for the three-year period 2018-2020. The plan for the buy-back of treasury shares was authorised by the Supervisory Authority on 14 June 2018, which also required the recognition of the commitment to repurchase own funds for 23.9 million euros.

Following the entry into force, effective 1 January 2018, of the new accounting standards IFRS 9 and IFRS 15, at the reporting date net equity reserves for the first-time adoption (FTA) were also recognised for an amount of about 4.8 million euros, and valuation reserves were reversed for 7.6 million euros, generating an overall negative impact of 2.8 million euros.

(€ THOUSAND)	30.06.2018	31.12.2017
Net equity at period-start	**736,070**	**646,521**
IFRS 9 and IFRS 15 FTA	-2,827	-
Dividend paid	-145,474	-124,674
Purchase and sale of treasury shares	1	-10,338
Issue of new shares (stock options)	-	3,057
Matured IFRS 2 reserves on own financial instruments	1,922	2,937
Maturity of IFRS 2 reserves on LTIP	576	1,796
Change in valuation reserves (net of FTA)	-33,402	12,667
Consolidated net profit	92,566	204,105
Net equity at period-end	**649,432**	**736,070**
Change	**-86,638**	**89,549**

Fair value valuation reserves for the portfolio of financial assets at fair value through other comprehensive income (HTCS) showed a net decrease of 33.4 million euros, primarily owing to the portfolio of Italian government bonds, for which net reserves amounted to -15.1 million euros compared to 15.2 million euros at the date of transition to IFRS 9 (1 January 2018).

	30.06.2018				
			DEBT SECURITIES		
(€ THOUSAND)	EQUITY SECURITIES	UCITS UNITS	CORPORATE	GOVERNMENT	TOTAL
1. Amount at period-start	**445**	**2,780**	**480**	**19,850**	**23,555**
Adjustment of opening balances	**-445**	**-2,780**	**230**	**-4,600**	**-7,595**
1. Amount at period-start	**-**	**-**	**710**	**15,250**	**15,960**
2. Increases	**-**	**-**	**1,553**	**15,002**	**16,555**
2.1 Fair value increases	-	-	6	-	6
2.2 Adjustments for credit risk	-	-	193	395	588
2.3 Transfer to Profit and Loss Account of negative reserves due to disposal	-	-	3	-	3
2.3 Other changes	-	-	1,351	14,607	15,958
3. Decreases	**-**	**-**	**4,271**	**45,563**	**49,834**
3.1 Fair value decreases	-	-	3,808	31,981	35,789
3.2 Reversals for credit risk	-	-	-	-	-
3.3 Transfer to Profit and Loss Account of positive reserves due to disposal	-	-	401	13,455	13,856
3.4 Other changes	-	-	62	127	189
4. Amount at period-end	**-**	**-**	**-2,008**	**-15,311**	**-17,319**

Consolidated own funds, calculated in accordance with the phase-in Basel 3 rules, amounted to 511.9 million euros, down by 6.7 million euros compared to the end of the previous year, chiefly owing to:

- the impact of negative valuation reserves for government bonds classified as financial assets in the HTCS category (-15.3 million euros), which, following the phase-in period defined by the CRR and the Italian national rule for neutralising such reserves, are now fully included when determining CET 1 capital, with effect from 1 January 2018;
- the overall effects of the FTA of IFRS 9 and IFRS 15 in terms of both income reserves and valuation reserves (-2.8 million euros) and regulatory adjustments (+1.6 million euros due to the lesser impact of prudent valuation);
- the recognition, following authorisation from the competent authority, of the commitment to purchase treasury shares in service of the Remuneration Policies and the Loyalty Programme, up to a maximum of 23.9 million euros.

	30.06.2018		31.12.2017	CHANGE		01.01.2018
(€ THOUSAND)	FULLY LOADED	PHASE IN	PHASE IN	AMOUNT	%	FTA - PHASE IN
Common Equity Tier 1 capital (CET1)	468,794	468,864	475,232	-6,368	-1.3%	494,564
Additional Tier 1 (AT1) capital	-	-	-	-	-	-
Tier 2 capital (T2)	43,000	43,000	43,370	-370	-0.9%	43,000
Total own funds	**511,794**	**511,864**	**518,602**	**-6,738**	**-1.3%**	**537,564**
Credit and counterparty risk	133,317	133,317	131,410	1,907	1.5%	132,219
Market risk	1,144	1,144	1,735	-591	-34.1%	1,735
Operating risk	71,914	71,914	71,914	-	-	71,914
Total absorbed capital	**206,375**	**206,375**	**205,059**	**1,316**	**0.6%**	**205,868**
Excess over absorbed capital	305,419	305,489	313,543	-8,054	-2.6%	331,696
Risk-weighted assets	2,579,688	2,579,688	2,563,242	16,446	0.6%	2,573,350
Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	18.17%	18.18%	18.54%	-0.37%	-1.97%	19.22%
Total own funds/Risk-weighted assets (Total Capital Ratio)	**19.84%**	**19.84%**	**20.23%**	**-0.39%**	**-1.93%**	**20.89%**

At the end of the reporting period, the aggregate Capital for regulatory purposes recorded 305.5 million euros in excess of the amount required to cover credit, market, and operating risks. CET1 ratio reached 18.2%, compared to a minimum requirement of 6.4%, and Total Capital Ratio (TCR) reached 19.8%, compared to the SREP minimum requirement of 10.4%.

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

Phase-in CET 1 ratio, restated at 1 January 2018, would thus have been 19.22%, up by 68 bps compared to that at 31 December 2017 and down slightly by 12 bps compared to the fully-loaded ratio at the same date. The phase-in CET 1 ratio takes into account the end of the phase-in period for neutralising evaluation reserves for government bonds as of 1 January 2018.
Similarly, Total Capital ratio would be 20.9%, up 66 bps compared to that at 31 December 2017 and a limited reduction of 13 bps compared to the fully loaded ratio at the same date.

Therefore, with reference to the adoption of IFRS 9, the Banking Group did not opt to apply the phase-in regime set forth in the Regulation (EU) No. 2717/2395 which allows banks, whose opening balance sheet at the date of IFRS 9 first-time adoption reports a decline in CET1 due to the increase in expected credit loss provisions (net of tax effects), to include in their CET1 a portion of the said increased provisions for a phase-in period of five years.

Absorbed capital for credit risk grew slightly compared to the previous year (+1.9 million euros), mostly due to the increase in DTAs/DTLs and the exposure to supervised intermediaries, partially offset by the decrease in past-due weighted exposures and exposures to companies.

Conversely, absorbed capital for market risks decreased, essentially due to the reduction of exposures within the trading portfolio, mainly as a result of the transfer of a securitisation exposure.

The leverage ratio at the end of the half-year reached 4.96%, in line with that at the end of the previous year.

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

	30.06.2018		
(€ THOUSAND)	SHARE CAPITAL AND RESERVES	NET PROFIT	NET EQUITY
Net equity of Banca Generali	**445,675**	**103,416**	**549,091**
Differences between net equity and book value of companies consolidated using the line-by-line method	**111,576**	**-**	**111,576**
Profit carried forward of consolidated companies	111,432	-	111,432
Other changes	144	-	144
Dividends from consolidated companies	-	-83,724	-83,724
Consolidated companies' result for the period	**-**	**72,973**	**72,973**
Result of associates valued at equity	**-267**	**-99**	**-366**
Valuation reserves - consolidated companies	**-118**	**-**	**-118**
Consolidation adjustments	**-**	**-**	**-**
Net equity of the Banking Group	**556,866**	**92,566**	**649,432**

6. PERFORMANCE OF GROUP COMPANIES

6.1 Banca Generali performance

Banca Generali closed the first half of 2018 with net profit of 103.4 million euros, down compared to 123.9 million euros reported at the end of the same period of the previous year, chiefly due to the lower contribution of dividends distributed both in advance and at the end of the previous period by the Luxembourg subsidiary BG Fund Management Luxembourg S.A., decreasing from 126.8 million euros to 83.7 million euros.

Reclassified net operating income[4], net of the dividends distributed by the Banking Group's investees, amounted to 139.8 million euros, up by 33.0 million euros (+31%) on the same period of the previous year, owing to the significant growth in net fees (+25.4 million euros) and in net income from trading activities and dividends (+11.2 million euros).

(€ THOUSAND)	30.06.2018	30.06.2017	CHANGE AMOUNT	CHANGE %	31.12.2017
Interest income	31,219	33,396	-2,177	-7%	65,050
Interest expense	-3,160	-1,783	-1,377	77%	-3,573
Net interest income	**28,059**	**31,613**	**-3,554**	**-11%**	**61,477**
Fee income	278,653	238,635	40,018	17%	500,310
Fee expense	-187,518	-172,856	-14,662	8%	-357,745
Net fees	**91,135**	**65,779**	**25,356**	**39%**	**142,565**
Dividends	1,539	1,754	-215	-12%	2,745
Net income (loss) from trading activities	19,043	7,628	11,415	150%	15,342
Net operating income	**139,776**	**106,774**	**33,002**	**31%**	**222,129**
Staff expenses	-39,704	-40,722	1,018	-2%	-78,590
Other general and administrative expense	-73,268	-67,674	-5,594	8%	-145,921
Net adjustments of property, equipment and intangible assets	-4,124	-3,775	-349	9%	-8,089
Other operating expenses/income	26,922	23,479	3,443	15%	53,717
Net operating expenses	**-90,174**	**-88,692**	**-1,482**	**2%**	**-178,883**
Operating result	**49,602**	**18,082**	**31,520**	**174%**	**43,246**
Net adjustments for non-performing	-3,606	-3,164	-442	14%	-5,418
Net provisions	-10,609	-10,320	-289	3%	-17,455
Dividends and income from equity investments	83,724	126,770	-43,046	-34%	201,770
Gain (loss) from investments	-42	-	-42	n.a.	-15
Operating profit before taxation	**119,069**	**131,368**	**-12,299**	**-9%**	**222,128**
Income taxes for the period	-15,653	-7,402	-8,251	111%	-15,679
Net profit	**103,416**	**123,966**	**-20,550**	**-16.6%**	**206,449**

The increase in net fees (+39%), which amounted to 91.1 million euros at the end of the reporting period, was primarily to be attributed to the increase in asset management fees (+15.5%), driven by the success of innovative financial wrapper solutions in the insurance business (+7.7%) and portfolio management (+61.0%), in addition to the placement of UCITS with retail customers (+13.2%).

Net operating expenses amounted to 90.2 million euros, showing a more moderate increase (+2.0%).

The cost/income ratio, which measures the ratio of operating expenses (gross of adjustments to property, equipment, intangible assets) to net operating income and dividends, amounted to 61.6%.

Provisions and net adjustments amounted to 14.2 million euros, up slightly compared to the first half of 2017 (+0.7 million euros), mainly due to the increased weight of net provisions for contractual indemnities for the sales network and higher collective portfolio adjustments.

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

[4] In order to ensure a better understanding of operating performance, in the Profit and Loss Account the provisions for sales incentives and recruitment plans have been reclassified within the net fee aggregate. As a result, the aggregate of net provisions was restated net of these items for an amount of 14.3 million euros for 2018 and 34.8 million euros for 2017. In this regard, it should be noted that, effective the first half of 2018, allocations for accruing short-term incentives amounting to 13.9 million euros have been reclassified among fees payable and fee expense in the financial statements.

Operating profit before taxation amounted to 119.1 million euros, down 12.3 million euros compared to the same period of 2017.
The expected tax burden was 15.7 million euros, with an overall tax rate at 13.1%, up as a result of the lower weight of dividends.

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

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

Own funds, calculated in accordance with the phase-in Basel 3 rules, amounted to 404.5 million euros, up slightly by 3.6 million euros compared to the end of the previous year.
At the end of the reporting period, the aggregate capital for regulatory purposes recorded 236.0 million euros in excess of the amount required to cover credit, market, and operating risks. CET 1 ratio reached 17.2% compared to a minimum requirement of 6.4% and Total capital ratio (TCR) reached 19.2%.

Total AUM managed by the Group on behalf of its customers — which is the figure used for communications to Assoreti — amounted to 58.1 billion euros at 30 June 2018, up 4.3% compared to the end of the previous year. Net inflows amounted to 3.2 billion euros, compared to 3.8 billion euros at the end of the same period of 2017 (-17.5%).

6.2 Performance of BG Fund Management Luxembourg S.A.

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

BGFML ended the first half of 2018 with net profit of 73.0 million euros, down 37.7 million euros compared to the same period of the previous year, chiefly due to the decrease in performance fees (-51.3 million euros).
Net banking income amounted to 83.1 million euros (-42.8 million euros). Total operating expenses were stable at 2.9 million euros (2.2 million euros of which consisted of staff expenses).

The Company's net equity amounted to 102.2 million euros, net of a dividend payout of 83.7 million euros, as payment in advance for 2018 and total payment for 2017.

Overall, assets under management at 30 June 2018 amounted to 15,173 million euros, compared to 14,967 million euros at 31 December 2017, up by 206 million euros.

6.3 Performance of Generfid S.p.A.

Generfid, a company specialising in custodian capacity of assets, ended the first half of 2018 with a slight net loss and net equity amounting to about 0.8 million euros.
Net banking income amounted to about 0.5 million euros and virtually covers operating expenses.
Assets under management amounted to 1,326 million euros (1,300 million euros at the end of 2017).

7. RELATED PARTY TRANSACTIONS

7.1 Procedural aspects

In accordance with Article 2391-*bis* of the Italian Civil Code and Article 4 of the Related Party Transaction Regulation, adopted by Consob with Resolution No. 17221 of 12 March 2010, as amended by Resolution No. 17389 of 23 June 2010, 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 No. 263/2006) by issuing new **Provisions on Risk Assets 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 monitored, and/or potential adverse impacts on depositors and shareholders.

Consequently, 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 regarding Connected Parties and passing a resolution on a new version of the "**Related Party and Connected Party Transaction Procedure**."

Finally, the **Procedure** was further amended to bring it into compliance with the provisions set forth in Article 150 of TUF and those introduced by the Bank of Italy on 2 July 2013 with the 15th update to Circular No. 263 of 27 December 2006 called “New Prudential Supervisory Provisions Concerning Banks” on Transactions of Greater Importance and the changes in the Bank’s organisational structure.

The new Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance, in force as from 15 May 2017, implements Consob and Bank of Italy regulations, by adopting, at group level, rules on Related Party and Connected Party Transactions and Transactions of Greater Importance governing the related investigation activities and approval, reporting and disclosure powers.

The main themes introduced by the Bank of Italy Provisions (Bank of Italy Circular No. 263/2006) and subsequent amendments, and implemented in the Procedure are the following:
- expanded scope of the parties involved, i.e., Connected Parties (Related Parties and Associated Entities), and change in the characteristics of some of the identified parties compared to Consob Regulation;
- definition of criteria to identify Transactions of Greater Importance and the relevant management process, with definition of roles and responsibilities;
- introduction of prudential limits in respect of Own Funds 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;
- 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;
- changes in the 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 Own Funds of less than 500 million euros and the lower of 1,000,000 euros and 0.05% of Own Funds, 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;

> **introduction of the definition of Transactions of Greater Importance** as defined by the Bank of Italy, i.e., the transactions characterised by their economic, capital and financial impact and the transactions that, despite being natural, exceed the value of 2.5% of consolidated Own Funds and have a significant impact on the company and group as they depart from specific standard contractual conditions.

7.2 Disclosure on Related Party Transactions

Without prejudice to the disclosure requirements set forth by IAS 24, rules on periodic disclosure on related party transactions are provided for in Article 5, paragraph 8, of Consob Regulations.
In detail, the interim report should provide the following disclosure:

a) each and every Transaction of Greater Importance effected during the accounting period of reference;
b) other individual transactions with related parties "that have materially influenced" the financial position or results of the company;
c) changes or developments in related party transactions described in the latest annual report that had a "material effect" on the financial position or results of the company during the reporting period.

In this regard, the following should be noted as follows:

Unusual, atypical or extraordinary transactions

During the first half of 2018, no related party transactions were carried out that could be defined as atypical or unusual or likely to have "effects on the safeguarding of the company assets or the completeness and accuracy of information, including accounting information, concerning the issuer."

Highly significant transactions

In the first half of 2018, just one transaction qualifying as "highly significant", non-ordinary transaction, entered into at non-market or non-standard conditions was carried out and, in accordance with the Procedure on Related Party Transactions, it gave rise to an obligation to publish the related Information Document.

On 20 March 2018, the Board of Directors of Banca Generali approved the proposal concerning the master agreement for distributing of insurance products/trademark license contract. The parties to this agreement were Banca Generali S.p.A., Assicurazioni Generali S.p.A. and Generali Italia S.p.A.
In compliance with the Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance of Banca Generali, the transaction was submitted to the prior binding opinion of the Audit and Risk Committee, which duly received comprehensive and timely information throughout the negotiation and preliminary phases.
The information document about the above-mentioned transaction is available at the following link http://www.bancagenerali.com/site/en/home/corporate-governance/corporate-governance-system/related-party-transactions.html, and was prepared and published pursuant to Article 5 of the “Regulations containing provisions relating to transactions with related parties” adopted by Consob with Resolution No. 17221 of 12 March 2010, and later amended by Consob with Resolution No. 17389 of 23 June 2010.

Other significant transactions

During the first half of 2018, five transactions were approved qualifying as transactions of “lesser importance”, which are subject to the prior non-binding opinion of the Internal Audit and Risk Committee (the amount of which exceeded 250 thousand euros).

On 9 February 2018, Banca Generali’s Board of Directors approved the proposal of revision of fees applied to Generali Investment Europe SGR.

On 20 March 2018, Banca Generali’s Board of Directors approved the proposal on the Management Contract between Generali Italia S.p.A. and Banca Generali S.p.A.

On 12 April 2018, Banca Generali’s Board of Directors approved the proposal on the Leasing Agreement with Generali Real Estate on behalf of Fondo Toscanini.

On 23 April 2018, Banca Generali’s Board of Directors approved the proposal on the Management Contract between Alleanza Assicurazioni S.p.A. and Banca Generali S.p.A.

On 23 April 2018, Banca Generali’s Board of Directors approved the proposal on the transaction with the Generali Group regarding the securities ABS Quarzo CL1 S.r.l. class A, series 2007, ISIN IT0004284706.

Ordinary or recurring transactions

Transactions of an ordinary or recurring nature carried out in the first half of 2018 with related parties fall within the Group's ordinary course of business and are usually carried out on an arm's length basis 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 described in more detail in the Annual Report as of 31 December 2017, which might have a material effect on the financial situation and the results of the company and the Banking Group.
The developments of ordinary transactions with related parties during the first half of 2018 are presented in the specific section of the condensed half-year financial statements as of 30 June 2018, along with other information about related party transactions.
Intra-group related party transactions are not included in the above statement, since they are eliminated on consolidation.

8. HUMAN RESOURCES AND THE GROUP'S DISTRIBUTION NETWORK

8.1 Employees

At 30 June 2018, the Bank's workforce was 884, composed of 48 Managers, 150 3rd and 4th level Executives and 686 employees at other levels; of the last category, 117 were 1st and 2nd level Executives

	BANCA GENERALI	GENERFID	BG FML	TOTAL AT 30.06.2018	TOTAL AT 31.12.2017
Managers	45	1	2	48	48
3rd and 4th level executives	141	1	8	150	149
Other employees	668	4	14	686	676
Total	**854**	**6**	**24**	**884**	**873**

Among the 884 employees at 30 June 2018, 58 were working under fixed-term contracts (11 of these as substitutes for employees on maternity leave or leaves of absence).
There was an increase of 11 resources compared to the end of 2017, as a result of the improvement in the number of both indefinite-term staff (+7), following the confirmation of staff already working in the company and recruitment form the market, and fixed-term staff (+4), following the hiring of resources who will serve as a support to handle work peaks due to extraordinary activities and projects and are expected to leave by the end of the year.

As regards labour relations, it should be noted that two union agreements were signed in February and March 2018 with the aim of introducing, on an experimental basis, smart working for 65 employees in different positions at the Milan offices. In addition, and to further strengthen the work-life balance, a union agreement was signed in April 2018 to ensure, on an experimental basis, more flexible working hours to specific corporate functions.

Trade union activities also included the preparation of the 2016-2017 biennial report on equal opportunity, which can be completed online effective 2018.

8.1.1 Training and development of employees

In pursuit of the development and professional growth of the company population, the "Qualitative Performance Evaluation" process was launched in March. The process is an opportunity for manager/staff feedback dedicated to the entire population of executives and professional areas at the Banca Generali Banking Group.
It is aimed at sharing the evaluation of the previous year's performance with the direct superior of the individual concerned and establishing the starting point for the professional development plan, while also assessing possible job rotation opportunities.
In 2018, in addition to the assessment sheet, an Individual Development Plan (IDP) was introduced for each resource according to a structured model.
A training session, which involved the entire company population, was organised before the phases dedicated to assessing and building the Individual Development Plan: on the one hand, people managers had the opportunity to underline and increase communication efficiency in interviews with the submission of feedback during the management performance cycle; on the other, all collaborators were stimulated to take on their roles and responsibilities in order to achieve the objectives set together with the manager.

The strengthening of the People Manager population's managerial skills was further expanded.
In detail, training included sessions for developing and enhancing leadership skills, as well as business coaching and mentoring programmes dedicated to people in key positions for honing the managerial and strategic skills needed by managers to support the Bank in its growth.

In the first half of the year, specific training to reinforce technical and transversal skills continued, offering specialised training at external training institutions.
Two colleagues have just completed two important Master's degrees: the "*Digital Marketing and Communication*" and "*Wealth and Asset Planning*" master courses, organised in partnership with major Italian education institutions.
In addition, two other colleagues attended the *Family Business Management* master's degree, held by a renowned business school: the Bank's attention towards wealth management required a strengthening of the technical skills on this topic.

In order to align the knowledge of the employees of Banca Generali, which operates in an economic scenario undergoing increasingly rapid evolution, several sessions of the training modules

"*Banking Transactions*" and "*Finance for Non-Specialists*" were organised again in 2018.
Moreover, this year saw also the launch of new courses: "*Complex Products*" focused on Certificates, and "*Basic lending*" and "*Advanced lending*" dedicated to several specific structures.

Informational and training workshops on the customer-centric approach to advisory known as "BG Personal Advisory" continued for headquarters staff, with the aim of facilitating and reinforcing the sharing of technical knowledge within Banca Generali.

In accordance with the Group's internationalisation strategy, investment in language training was intensified for both managers and the entire segment of the company population that has increased its contact with international counterparties.

As the process of digitalising and revamping systems continued, it became necessary to organise internal courses on the use of new applications already being used transversally through the Bank: internal trainers demonstrated the new features of these systems and communicated the contents of new procedures introduced following updates.

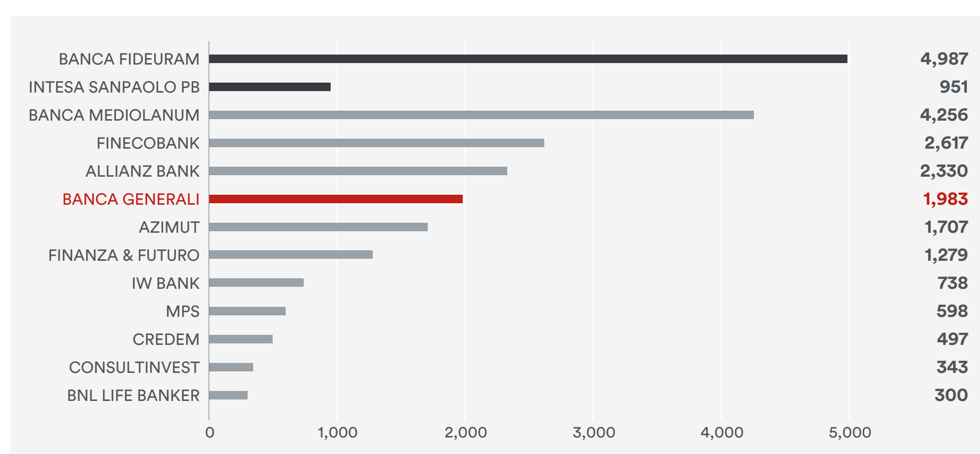
Training on mandatory regulations and safety issues continued to be provided in compliance with legal requirements, both through conventional classrooms and e-learning sessions.
All mandatory web-based courses for new recruits are provided through the dedicated e-learning platform.

8.2 Financial Advisors

Financial Advisors

Banca Generali owns one of the most important Financial Advisor distribution networks in the Italian market: in May 2018 (latest available data) the network included 1,983 Financial Advisors and Relationship Managers.

Number of Assoreti Financial Advisors: 22,586 May 2018 - Source: Assoreti



In June 2018, there were 44 Financial Advisors more compared to December 2017. This was the result of the recruitment activity from other banks and networks, which yielded excellent results also during the first half of the year.

Banca Generali's main data are summarised in the following tables, comparing figures for 2018 and 2017:

30.06.2018	NO. OF FAS	ASSETS (€ MILLION)	ASSET PER FA (€ MILLION)
Financial Planner / Private Banker	1,660	37,489	22.6
Wealth Management	320	20,580	64.3
Total	**1,980**	**58,069**	**29.3**

30.06.2017	NO. OF FAS	ASSETS (€ MILLION)	ASSET PER FA (€ MILLION)
BG Financial Planner Division	1,404	31,005	22.1
BG Private Banking Division	493	21,107	42.8
Total	**1,897**	**52,113**	**27.5**

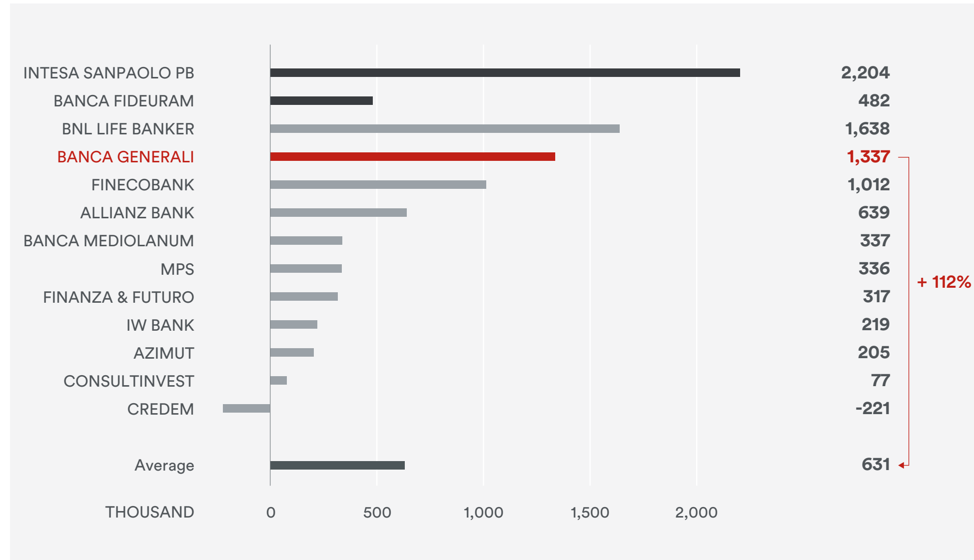
Careful selection in recruitment activities, targeted primarily at high-level professionals with si-

gnificant customer portfolios, led to a progressive reduction in less advanced professional profiles, thereby raising the average quality.
In March 2018 (latest available data), Banca Generali ranked second in terms of per-capita assets per Financial Advisor with 28.6 million euros.

Financial Advisors and per-capita AUM

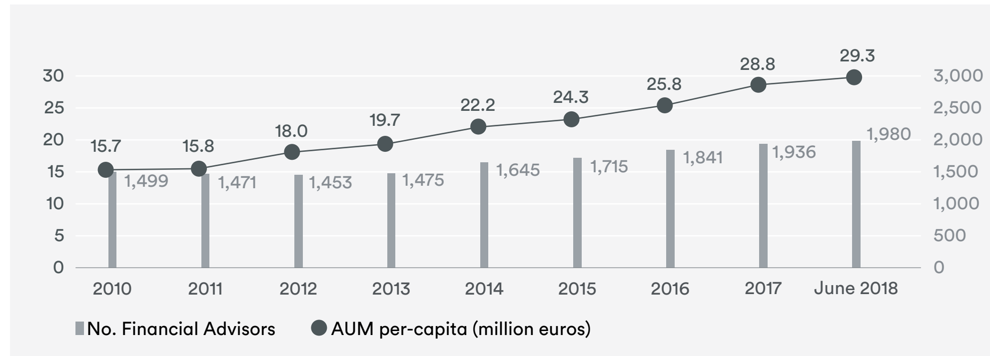
The good productivity of the sales network is also shown by per-capita net inflows. Banca Generali's professionals ranked in the first positions also in May 2018 (latest available data), with net inflows of 1.3 million euros, more than twice the network average (0.6 million euros) and exclusively focussed on private and affluent customers.

Average net inflows of Assoreti Financial Advisors May 2018



The productivity of Banca Generali's sales network is also clear from per-capita AUM, which amounted to 29.3 million euros in June 2018, up further on previous years, bearing witness to the quality of the distribution network and the important work done.

Financial Advisors and AUM per-capita



Distribution Network Training

Managerial training

In the first half of 2018, Banca Generali continued to reiterate its commitment to **managerial training**.

With regard to Private Banker Network, the management team — consisting of the Area Managers and District Managers — continued to strengthen their leadership through a process focusing on **Team Coaching** training their leading role in managing the considerable challenges posed by the context and market.

In keeping with the Bank's Vision and Mission, **the strategic skills of the District Manager (DM) role** have been defined through dedicated workshops: the first step in defining a **development path dedicated specifically to them**. In April, all the DMs were involved in an Advanced Public

Speaking course to improve their communication skills. The training programme will continue in the second half of 2018.

In view of the Sales Network's reorganisation at the beginning of 2018, new recruits to the **Executive Manager** team took part in a dedicated assessment process that produced development plans and a special "**Self Efficacy**" Training Programme designed to develop a common methodology and culture in the Performance and People Management field.

The plan that will be implemented from the second half of the year was launched for the Network at the **EM Meeting** in July.
Two information-training days involving the entire Executive Manager team in interactive and creative workshops the output of which, using an edutainment format, will form the basis for their dedicated training path.

The **leadership programme dedicated to Financial Advisors** continued, with the addition of a new module on handling personal and other people's emotions. The aim is to strengthen self-leadership, self-empowerment, interpersonal communication, time management and emotional intelligence.

The premium training programme "**The Value of Advisory**" dedicated to the Advanced Advisory service, which started at the end of 2016, continued throughout the Network.
The aim of the training days is to support the role of Financial Advisors in their trusted relationship with Customers in harmony with the latter's needs and the evolving circumstances, encouraging the long-term development of new business opportunities.

Since January, the programme has been enriched with an additional **Follow-up** day to consolidate learning in the field and share best and worst practice amongst Financial Advisors.

Commercial training

Commercial training in the first half of 2018, in conjunction with the changes introduced by the Basel 3 credit regulations, started with a training session on the **new credit policies** and the new **Quiclick platform** available to Financial Advisors to provide optimum management of customer requirements.

The first half of the year continued with training on the **new Lux IM Sicav**, announced in January's Area Meetings: a product that meets MiFID II requirements, while offering an innovative management method.
The training was delivered to all Network structures, first of all involving the Financial Advisors in a number of live training webinars, and continued locally, during the second half of the year, with classroom training sessions dedicated to **Portfolio building techniques** taught at the *Università Cattolica del Sacro Cuore* in Milan.

These sessions examined topics relating to **macroeconomic scenarios**, paying particular attention to the effects on how the portfolio is managed and identifying a set of tools for managing the portfolio efficiently, starting from **Risk Allocation**.
A training day was organised for selected Financial Advisors on the **Investment Certificate product** in collaboration with BNP Paribas, which leads the field in developing this specific product.
These sessions analysed all the technical aspects of an investment certificate, its potential in an extremely volatile market scenario and the best portfolio management based on the Customer's profile.

A training path was implemented for the **Wealth Management** Area, following the launch of the new Corporate module, starting with a group of selected Financial Advisors. This programme included alternating classroom sessions, live webinars, digital training briefs on the fundamental principles of a company's financial statements and tutorials dedicated to browsing on the BGPA Corporate platform.

In the first quarter of the year, the **BGLAb** training platform was enhanced with a new area, the **Library, a digital library**, where theme-related sections dedicated to the Bank's main strategic themes provide easy access to all the training material in any format (videos, tutorials, documents, etc.) to increase the Financial Advisor's knowledge.

Institutional training

Mandatory training linked to **IVASS** (Italian Insurance Supervisory Authority) professional updating, for the 2017-2018 two-year period, continued during the first half of 2018, with training on new products and two online courses illustrating specific new developments concerning the MiFID II, Banking Transparency, Anti-Money Laundering and Anti-terrorism Regulations.

As regards **MiFID II**, the training programme and support process leading to certification of MiFID II-compliant Skills and Knowledge were defined following the issue of the Intermediaries Regulation in the first half of 2018. This will all take place with two premium partners, Excellence Education and the *Università Cattolica del Sacro Cuore*.

The **BGLAb training refresher** dedicated to **newly recruited Financial Advisors** offers an onli-

ne self-training tool on Anti-Money Laundering, MiFID, Privacy, IT Security, Legislative Decree No. 231/2001, Banking Transparency, and Transparency and Consumer Credit.

In the first half of 2018, classroom training activities were again provided to several Financial Advisors by the Anti-Money Laundering Service, with the aim of illustrating how the Sales Network is involved in the processes of enhanced customer due diligence and suspect transaction reporting, as well as presenting several case studies involving the identification of potentially anomalous transactions for money-laundering purposes.

Lastly, the **induction path** for recently recruited Financial Advisors at Banca Generali continued in 2018. As part of the process, the two days of the Welcome Programme allowed newly hired Financial Advisors to visit and get to know the main Departments at the Milan and Trieste offices.

9. PRODUCTS AND MARKETING

In January 2018, following the introduction of the MiFID II Directive, the Bank carried out specific analyses on its Product Catalogue, increasing its Product Governance in compliance with the principles and guidelines laid down in the said Directive.
The adoption of the new approach led to a review of the offering catalogue and the definition of analysis, inclusion/exclusion, systemic and structured monitoring processes.

9.1 Asset management

The important innovative approach that has always been one of the Bank's distinctive features was reflected in the new products offered to retail customers in 2018. The new Lux IM Sicav was launched early in the second quarter of the year. The name refers, on the one hand, to the Luxembourg-based asset management product factory that created the strategies and, on the other, to the light of innovation that this project casts on fund management. In the first phase, the new Sicav will be able to count on twenty new sub-funds in addition to the twenty existing ones, resulting from the best experiences of the previous BG Sicav.

By the end of the year, the range will be expanded in another two phases, so that more than sixty solutions will be available to clients. The new strategies will be available both in the retail class and in the institutional class within Banca Generali innovative wrapper solutions (BG Stile Libero, BG Solution and BG Solution Top Client).

BG Selection Sicav

On BG Selection Sicav, the fund-of-fund platform of BG Fund Management Luxembourg with a track record of ten years and a distinctive level of coverage in terms of strategies and asset classes, several mergers and manager changes took place in the first half of 2018, with the aim of increasing the platform's efficiency.
The main rationale for the mergers was:

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

At 30 June 2018, BG Selection Sicav, had 40 sub-funds, of which 11 managed by BG Fund Management Luxembourg and 29 under mandate entrusted to leading international investment houses.

Lux IM

The highly innovative new Sicav is set apart by its specific focus on four investment families reflecting the major innovations in the asset management industry, expectations of control over market volatility, influential long-term macro-trends and clients' main needs. In further detail:

1. LONG-TERM TRENDS: a family of funds that focus on long-term trends that may result in profound, lasting change, such as demographic change, Millennials' consumption habits and the evolution of energy and technology. This family will be expanded to include important new developments such as ESG products and strategies focused on top applications of blockchain technology (in this case, with advice from an industrial partner with a strong specialisation in this sector);
2. SEARCH FOR INCOME: a family that includes sub-funds focusing on the search for income, with fixed income, equities and multi-asset approaches capable of combining, with an eye towards risk and volatility, debt and equity solutions offering attractive, sustainable dividends;
3. NEW SOURCES OF ALPHA: a family that includes strategies capable of outperforming the markets of reference, in particular in the credit sector, leveraging expertise in the corporate and high-yield universe, also extending to commercial and emerging securities;
4. RISK MITIGATION: a family that selects cutting-edge quantum mathematical strategies that take advantage of the enhanced computing power available today to generate very effective low-volatility management approaches.

At 30 June 2018, Lux IM had 40 sub-funds, of which 8 managed by BG Fund Management Luxembourg and 32 under mandate entrusted to leading international investment houses.

Open architecture

With the aim of constantly improving its services, in the first six months of 2018 the Bank forged ahead the expansion and ongoing adjustment of the funds offered by applying the open architecture model.
Sustainability played a central role in updating the product catalogue, leading to the introduction of 40 new sub-bunds including ESG, Themed, Impact Investing and Green Bond funds.

To date, Banca Generali can rely on a wide and highly diversified number of ESG certified solutions (over 130 funds), which cover all main asset classes.
At 30 June 2018, Banca Generali's retail offer included over 55 companies with more than 5,600 UCITS overall.

9.2 Portfolio management

The first six months of 2018 were characterised by optimisation of the product range, following the finalisation of the merger of BG Fiduciaria SIM into Banca Generali, as well as by constant expansion in pursuit of a closer focus on the private-banking market.

With effect from 1 January 2018, all existing discretionary mandate schemes offered by BG Fiduciaria (BG Elite, BG Obiettivo and BG Exclusive) were merged into the already numerous investment opportunities offered by the current multi-line discretionary mandates BG Solution and BG Solution Top Client (dedicated to private-banking clients).

In an economic scenario that continued to be dominated by low interest rates and increasing financial market volatility, in April 2018 Banca Generali returned to action with the second edition of the 3Y Credit Coupon management line, a part of BG Next, the multi-line wrapper solution devoted to professional clients.
The new line, 3Y Credit Coupon II, invests in a mix of innovative strategies that aim to contain the portfolio's volatility and offer a valid alternative to traditional investments.

Overall, Banca Generali offers a full portfolio of actively distributed discretionary mandates, composed of BG Solution (33 management lines) and BG Solution Top Client (35 management lines) and BG Next (3 management lines), which cover all investment strategies, with a strong emphasis on customisation — a need typical of high-net-worth customers and in line with current economic scenario.

9.3 Insurance Products

In the first six months of 2018, Banca Generali's insurance products continued to achieve significant results, due in particular to BG Stile Libero, the multi-line policy that combines investment in a segregated account in both euros and U.S. dollars (from 5% to 30% of investment) with a selection of more than 1,000 sub-funds from 52 investment firms.

The constant efforts to develop BG Stile Libero throughout the first half of the year will culminate in yet another transformation of the product in the second half of the year, marked by the launch of BG Stile Libero 2.0, the new version that revolutionises capital protection services, with a pure life insurance policy for capital losses that each year consolidates protection at the highest level reached from one year to the next, depending on the performance achieved.

The investible universe also continued to undergo constant revision, involving the addition of the new Lux IM for the entire BG Stile Libero family and continual updates to the available third-party partners.

In addition to the multi-line solutions, the range of traditional policies was also significantly revamped in the first six months of 2018.

The product range was expanded by the launch of BG Custody, a new policy featuring an enhanced mechanism for revaluing the segregated account and capital guarantee at the ten-year maturity, thus adding a new LOB I solution to the commercial line-up.

In addition, the new product BG LifeCare revolutionised the temporary life insurance policy range, representing an effective response to the need for protection and the new option of pairing early death cover with critical illness cover providing an additional payout in the event of a severe illness.

BG CedolaPiù, the policy that pays dividends equal to the return of the segregated account Ri.Alto BG, also performed well early in the first half of the year.

9.4 Assets under administration and custody

Private certificates — investment vehicles placed in weekly public offerings according to a streamlined, simplified subscription process — were launched in the first half of 2018. These certificates offer three different value propositions (Income, Extra Return and Protection) aimed at meeting the needs of private-banking clients.

In May 2018, the Bank acted as dealer in the auction of BTP Italia bonds.

9.5 Banking products

The new products launched in the first six months of 2018 as part of the constant pursuit of innovation and focus on the new needs of private-banking customers included dedicated new products such as:
> the new prepaid card BG Cash with contactless technology, which can be used to make payments of up to 25 euros by holding the card near the reader (using the Tap&Go system) without any need to enter a PIN;
> BG Business account for notaries: a mandatory account for notaries pursuant to **Law No. 124** of 4 August 2017. Sums deposited into accounts of this type are separate from the accountholder's other assets and are not part of the accountholder's estate.

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

9.6 Digital Marketing

Customer Front End and BG Store

In the first half of 2018, Banca Generali's home banking service was improved with the addition of a new app for managing current accounts and monitoring investments on the move, with improved graphics that best reflects Banca Generali's Private banking positioning.
This new products provides an even simpler and more intuitive user experience.

The new app gives access to a series of transaction options in line with current market trends, making them easier to use than in the past. The main features available on the new app enable the user to:
> check account balance and debit card and account movements;
> operate on the move, making bank and intrabank transfers;
> top up and make payments with a single tap;
> check the securities portfolio and trade on the main equities and bond markets;
> read the e-mail received from the Bank and access Doc@nline so that all documents are always to hand;
> identify the nearest branch through the geo-localisation service.

Banca Generali has also concentrated its commercial efforts on increasing the use of Digital Collaboration, the service that simplifies the relationship between the Customer and the Financial Advisor by allowing investment proposals to be confirmed remotely.
The Bank has significantly increased this tool's market penetration and the percentage of transactions confirmed digitally through an important marketing and communication plan aimed both at the Financial Advisor Network and at end Customers.
These efforts, consistent with the focus on the issues of sustainability and operating efficiency, have allowed the Bank to offer Customers and Advisors increasingly more effective solutions and tools that are able to seize market opportunities in a timely manner, reducing the environmental impact to a minimum.

Front End and Financial Advisors apps

With a view to customer retention, Banca Generali has continued with its programme of releases linked to new special Integrated Contract Management (GIC) functionalities. With this in mind, it has introduced the following functionalities for completing contracts and transactions electronically, such as:
> introduction of a new section dedicated to “Advisory Contracts” management;
> all-electronic management of the first BG Solution subscriptions (the multi-line discretionary mandates) for Legal Persons as well;
> optimisation and updating of graphics for the Market Orders Collection feature.

The development of ‘vertical’ apps within the Financial Advisor's BG Store also continued. In particular, the following were released in the first few months of 2018:
> BG Personal Portfolio: the app designed to support Financial Advisors as they build, analyse and monitor customised portfolios has also been further optimised through the following activities:
  – expansion of the set of financial tools on which simulations can be carried out;
  – introduction of a new search functionality with advanced filters and parameters and with the option to download the search results in Excel format with the reference data/statistics;
  – improved management and display of preferred products.
> BG Markets: the addition, in Banca Generali's online overview on financial markets, of a new dedicated Press Review section, updated with news and daily comments on economic and financial topics.

BG Personal Advisory, the New Service Model

Continuing Banca Generali's holistic model that aims to protect and manage the Customer's entire wealth, a new BGPA Advisory Platform module dedicated to corporate wealth was launched in the first half of 2018.

An analysis of financial statements allows a detailed analysis to be carried out of the composition, capital solidity, economic sustainability, as well as the profitability of individual businesses.

The Corporate module also enables the positioning of the business to be assessed in relation to the reference sector and the main market comparables, also providing a specific focus on the reference market in terms of past and future main economic/financial indicators.

The new Corporate module is part of the innovative advisory platform BGPA, through which Banca Generali's Financial Advisors can analyse and manage a Customer's total wealth, and in particular:

- Financial Wealth: the Customer's financial wealth can be analysed and monitored at a very deep level of analysis, in terms of composition (such as by asset allocation, currency allocation or asset manager), risk, diversification and return, and personalised diagnostic reports can be prepared according to the Customer's specific needs. In addition, the analysis can be extended to assets held with third institutions, thus ensuring that the values of positions are constantly updated and risk and diversification levels are monitored over time;
- Family Protection: possibility to analyse the Customer's total (financial and non-financial) wealth 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: through which it is possible to analyse the Customer's real-estate holdings in terms of composition, risk (change in commercial value over time and degree of marketability) and cost/revenue ratio (profit and loss account of the property).

In the area of financial wealth, the Advanced Advisory service offered by Banca Generali also provides customers with periodic access to specialist financial information prepared with the assistance of important players in the financial sector, and in particular:

- analysis of the markets with views, prospects and performances;
- buy & sell lists for shares and bonds;
- buy & sell lists for UCITS.

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

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

Thanks to the aggregate analysis and excellent partnerships in the sector, the Banca Generali Financial Advisor becomes a point of reference able to provide tailor-made responses not only with regard to the financial world, but also the entire wealth management field.

Against this background, the number of Customers who entered into the new BG Personal Advisory advanced advisory contract has increased constantly: at 30 June 2018, customers availing of Banca Generali's advanced services amounted to over 3,500, for over 2 billion assets overall.

9.7 Communications and external relations

Media relations

In the first half of 2018, the Bank pursued a communication strategy to promote the transparency and clarity of its reporting documents, with initiatives involving all the main traditional media, as well as the world of the Web with sites and social networks. Since the start of the year, the Bank has published 17 financial press releases with the aim of keeping the media and all the stakeholders constantly up to date on the Company's business developments. The press releases have been published both in Italian and English, so that the information can also be used correctly by foreign investors. The 2017 financial results were published in early February, in compliance with applicable regulations, whereas the resolutions adopted by the General Shareholders' Meeting on 12 April were published on the corporate website and also disclosed through interviews with the Chairman and the Chief Executive Officer, who highlighted the goals for the current year.

Monthly net inflows performance was regularly reported through financial press releases and interviews with major industry media. Product innovation, with tailor-made solutions to counter financial market uncertainties, received coverage from the industry's media, which gave particular prominence to the features of the private certificates platform and the Bank's new Lux IM Sicav.

Lux IM was also the subject of a special advertising campaign involving the daily press and main websites, such as the specialist TV channel Class CNBC, which for two weeks broadcast an advert dedicated to the new investment solution. In terms of advertising, mention should also be made of the visibility given to the ambassador Federica Brignone with a creative approach developed specially for the 2017/2018 skiing season, in which she confirmed her place as one of the world's top female skiers with a medal at the last Winter Olympics.

Banca Generali Private's commitment to the local area with social initiatives and sponsorships has been the subject of timely and detailed reporting on the local press.

Social media have been a favourite method of reporting to the public at large the activities and events promoted by the Bank in the first half of 2018. Alongside corporate communications and financial press releases on net inflows and results, Facebook, LinkedIn and YouTube profiles have been used particularly to highlight sustainability-related activities, with a focus on the world of art, young people and social values.

Finally, Banca Generali presented "*Ricette di Innovazione*" ("Innovation Recipes"), an innovative media format that sees the Bank engaging in discussion with leading Italian companies that have drawn strength from their ability to chart new horizons, emerging more and more as reference models in their own sector. The first episode, broadcast in June 2018, featured the CEO of Banca Generali, Gian Maria Mossa, in a dialogue with the Executive Chairman of Eataly, Andrea Guerra, and received wide coverage both from the Web and the media. The next episodes will be broadcast in the second half of the year.

Communications

The start of this year saw the launch of the new "Banca Generali Private" commercial brand, designed to reflect the Bank's positioning simply, directly and effectively, in line with its vision, mission and commercial strategy.

Since January, the new logo has appeared on the customer bank statements, reports and communications and on all customer relationship material, as well as on the bancagenerali.it website.

With the entry into force of MiFID II, all customer reporting documents have been brought into line with the regulations and integrated with additional information, in keeping with the new corporate identity inspired by the concepts of sustainability and reporting clarity.

The new Brand Manual has been drawn up to define the proper use of all the business brands (corporate brand, commercial brand and related division brands). This was followed by the Bank's new visual identity, which was applied for the first time in the new corporate brochure. The "Comunichiamo la nostra Banca" (Communicating our Bank) Manual containing guidelines for language consistency in Banca Generali has also been introduced, with the aim of making communication messages and methods increasingly more consistent.

The launch of the new Lux IM Sicav was accompanied by a communication plan designed to illustrate and promote the distinctive features of the new investment solution, also using an original and striking creative concept. The materials made available to the sales network include: a video detailing the investment lines, print and digital brochures and personalised mailing texts.

For the first time the Sustainability Report became an integral part of the 2017 Consolidated Financial Statements, confirming the Bank's increasingly firm commitment to a sustainable development approach that creates value for the stakeholders and for society as a whole, in line with the objective of "doing business" in an increasingly responsible manner.

Events

2018 started with the road show dedicated to presenting the strategic and commercial guidelines that travelled to all of Italy's main cities. All the Bank's Advisors and some partner companies took part in the events.
The Bank reiterated its social commitment by sponsoring the tour "Banca Generali – A Champion for a Friend" (UCPA) for the ninth consecutive year: thousands of children turned out for the event in ten Italian cities for a day of sports, games and music, where everyone participated in an outdoor physical education class. This event was the occasion for the Bank to develop, in partnership with FEDUF, the kids project aimed at promoting financial education through courses held in some Italian schools involved in the UCPA initiative.

In athletic endeavours, these first six months of the year saw the continuation of the previous tradition of organising the Golf Tour Invitational, an exclusive tour of Italy's most important golf clubs, in which the Bank's top clients are invited to participate. In addition, for the first time, the Bank supported the Italian Golf Federation as "title sponsor" for the 2018 Italian Pro Tour, the event that brings great golf to the whole of Italy, from north to south, covering nine regions and 10 tournaments in total.

Mention should be made of the Sestriere event — at the La Stampa mountain refuge — which in April involved our ambassadors Federica Brignone and Davide Oldani. The two personalities pooled their passions and gave an exclusive interview to the Deputy Editor-in Chief of *La Stampa*.

Both athletic and charitable aims were pursued by participating in the Milan Marathon, a marathon event in which athletes representing BG competed on behalf of the association CAF to raise funds for children in situations of particular adversity, and the Dynamo Challenge, a bicycle race in which employees, financial advisors and customers participated on behalf of Dynamo Camp, a camp for children undergoing medical treatment where they can enjoy a carefree holiday.

The support for local initiatives has remained constant. These include the exhibition circuit organised with Generali Valore e Cultura which travelled to a number of major Italian towns.
Thanks to the collaboration with the FAI (Italian Environmental Fund), local events were organised preceded by roundtables to introduce the public to issues linked to the protection of both artistic and financial wealth.

During FAI's Spring Days — which Banca Generali also partnered this year — gazebos were organised next to a number of heritage sites, attended by our Advisors who distributed pamphlets dedicated to financial education.

The Bank's involvement in cultural events was also confirmed with Christian Balzano's "Resilience" exhibition, first displayed at the Piazza Sant'Alessandro offices in Milan, and from May in Treviso, on the occasion of the opening of Banca Generali Private's new offices.

The work of The Human Safety Net foundation has been supported through the "For Families" project which was organised into two separate initiatives: "Home Visiting" and the "Girotondo delle mamme", in collaboration with the non-profit organisation CAF Onlus (*Centro Aiuto Minori e Famiglie di Milano* – Milan Aid Centre for Minors and Families). In particular, the "Girotondo delle mamme" project has provided equipped facilities for families in difficulty, where parents can meet and acquire the right skills to offer their children new opportunities for development and social inclusion.

10. AUDITING

Banca Generali's Internal Audit Function, a level-three control function, carries out independent, objective assurance and advisory activity aimed at improving the organisation's efficacy and efficiency and implementing control measures aimed at mitigating company risks. The Function also promotes an effective governance process in view to the Bank's long-term stability and sustainability. On the one hand, the Function is tasked with assessing the overall Internal Control System and ICT system in terms of completeness, adequacy, functionality and reliability, by performing checks and onsite audits of the regular conduct of operations and the evolution of risks, and on the other, it is responsible for supporting company bodies, the Board of Directors, the Board of Statutory Auditors, the Internal Audit and Risks Committee and Top Managers in defining the structure of the internal control and corporate governance system and providing possible improvements to risk management.
Audit work is performed on the basis of the methodologies and internal and external standards specified in the function's Rules and Procedures:

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

Internal Audit focused on management processes, assessing adequacy of capital and liquidity according to the new SREP criteria, on business processes, auditing compliance with operational and anti-money laundering safeguards at bank branches, and on proper dealings by Financial Advisors when purchasing and selling financial instruments on a recorded line. In the area of investment processes, the approach to selecting asset managers under mandate was assessed. In support processes, the safeguards implemented in administrative and accounting processes and IT applications were tested for efficacy, compliance with controls in the IT security management process was audited, and audits were also conducted of data protection, use of proper operating protocol by employees and Internet and mobile banking security. The whistleblowing application is scheduled to be implemented shortly.

Within this scenario, Internal Audit expedited the process of developing its working model to ensure the integration of information on risks, the efficacy of communication, the balance between assurance and consultancy and compliance with European supervisory requirements for less significant banks.

Internal Audit increased its interaction with tier-two functions and business functions in order to ensure constant analysis of risks, and in particular emerging risks. The improvement paths for existing controls, which were initiated as a result of previous audits, have been monitored (follow up activity).

Within a dynamic context, the work done confirms the sustainability of the internal control and risk management system, which must be constantly updated to keep pace with a changing environment.

11. ORGANISATION AND ICT

During the first half of 2018, the business project portfolio covered all business areas in terms of breadth and content; carrying on from the previous year and in line with the business plan, the Bank has invested resources on developing solutions to simplify Bank-Customer-Advisor processes. Banca Generali has also focused much of its attention on continuing the digital innovation process through partnerships with leading companies on the international market. These will allow innovative platforms and tools supporting both Network and Customer operating needs to be introduced between the end of 2018 and the beginning of 2019.

Work has continued on completing system compliance resulting from the entry into force of new laws. In addition, in preparation for the forthcoming opening of the Milan offices at City Life, a full range of work has started to ensure that the IT equipment functions properly in the new headquarters.

Legal compliance

During the first half of the year the Bank took steps to implement and/or start the measures to bring the organisational processes and IT system in line with the new legislation on the application of European Regulation No. 2016/679 on data protection (GDPR), the entry into force of European Directive 2015/2366 on payment services (PSD 2), the application of European Directive 2016/97 on the distribution of insurance products (IDD), as well as the entry into force of European Regulation No. 2014/1286 on packaged retail and insurance-based investment products (PRIIP).

In addition, in the first half of the year, the Bank also continued, as in previous years, with a series of initiatives aimed at ensuring constant compliance and alignment with industry regulations. Mention should be made of the activities associated with the full adoption of the provisions set forth by the IV Anti-Money Laundering Directive and the MiFID II.

Management of customer services

In the first half of the year, work continued on constantly developing products and services both in the AUC segment and in the managed and insurance area. From the product point of view, a particular focus was placed on the Certificates and the offer linked to the launch of the new Lux IM Sicav, as well as the continual improvement of the discretionary mandate platform with new lines (BG Next and BG Solution Special). In terms of customer service platforms, the redesign of Banca Generali's Internet Banking solution has almost been completed. At the same time, work has started on creating an advance trading platform in partnership with Saxo Bank and developing an all-digital customer onboarding process.

Management of services and support to the commercial network

Various initiatives aimed at supporting the Financial Advisors Network in its work were carried out in the first half of 2018: the first features of the new platform supporting end-to-end management of loan applications were released, and the first advanced services (BG *Irma*) in the contact centre environment were developed for self-service operations. Development continued in the area of digital collaboration, with a specific focus on implementation of the single post-sales module for funds and Sicavs. In addition, work began on implementation of a *Robo4Advisory* engine in support of the Sales Network's advisory activity with the aim of increasing the quality of customer service within the framework of both basic and advanced advisory.
Moreover, the first half of the year also saw the completion of the redesign the IT equipment issued to Financial Advisors, who were presented an innovative set of tools including new devices (such as iPads).

Management of internal processes

The new operating support service (First Operations) was implemented for tier-two units (Contact Centre, Network Operations Support and Branches) in the first half of the year, and a Dashboard is now being set up to monitor operating performance trends.
The first two waves of outsourcing of low-value added activities (updating of client details, direct debiting of bills, current account closing) have been implemented, and the third and final wave is currently in progress (requests for Internet banking codes).

Finally, several manuals for the Network are in the release phase. These manuals provide suggests regarding the completion of forms for processes with a high fault rate (opening of relations for legal persons, opening of relations for parties with restrictions, international transactions).

12. MAIN RISKS AND UNCERTAINTIES

The main risks and uncertainties to which the Banking Group is exposed may be summarised as follows.

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 financial assets at fair value through other comprehensive income, 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 Management 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.
Customer loans include a low percentage of NPLs in the overall portfolio, considering their value net of provisions and the security provided, covered primarily by collateral on securities and personal guarantees issued, for a significant part of the portfolio, by a primary credit institution.

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

The Bank's exposure to **market risk** — which is currently limited and residual — stems mainly from the trading by the Parent Company, Banca Generali, 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 portfolios of Financial assets at fair value through profit or loss and Financial assets at fair value through other comprehensive income are exposed to market 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 Management 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 bank's 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, 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 Management Function carries out risk assessment and scoring activities and Loss Data Collection processes, monitors the action plans adopted to mitigate material risks, and defines and controls KRIs (Key Risk Indicators) instrumental to monitoring of the areas of highest risk.
Moreover, the Banca Generali Group adopted an insurance coverage for operating risks deriving from acts of third parties or caused to third parties, as well as adequate clauses covering damages caused by providers of infrastructure and services; it also approved a Business Continuity Plan.

Exposure to the **risk of excessive leverage** is caused by a particularly high level of debt, with the resulting risk that any decreases in the value of an asset (e.g., impairment of securities) may result in the high erosion of capital.
The level of the leverage risk indicator (the ratio of equity to assets) is periodically monitored by the Risk Management Function in order to ensure that the Bank’s targets are met and the legal limits are observed.

In relation to the **concentration risk**, resulting from the exposure to groups of related counterparties and counterparties operating in the same sector/geographical area, the Bank reports a good level of diversification. In addition, the Bank guarantees ex-ante compliance with the regulatory limits regarding the level of exposure towards related parties and major risks.

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.
Liquidity risk is managed through appropriate short-term and structural (beyond one year) operating limits, monitored by the Risk Management Function, aimed at maintaining a level of risk deemed consistent with the strategies and risk appetite set by the Board of Directors.
The Group also implemented a Contingency Funding Plan aimed at anticipating and handling liquidity crises at both the systemic and idiosyncratic level.

In addition to the aforementioned risks, the Group also ensures monitoring of the following risks:
- **strategic risk**: the actual or prospective risk of a decrease in profits or capital arising from changes in the operating context or poor company decisions, the inadequate implementation of decisions, or insufficient reaction to changes in the competitive scenario. The strategic risk is tackled first and foremost by policies and procedures in which the most important decisions are reported to the Board of Directors and supported by specific preventive impact analyses in terms of capital adequacy and liquidity, consistency with the Risk Appetite Framework and sustainability of the business model.
- **Reputational risk**: the current or prospective risk of a decrease in profits or capital arising from a negative perception of the corporate image by clients, counterparties, shareholders, investors or regulatory authorities. The Banca Generali Group is structurally exposed to reputational risk due to the Group's distinctive trading operations, which focus on offering and placing asset management products with its retail customers through its own Financial Advisor Network. To monitor this risk, the Bank has adopted specific codes of conduct and codes of ethics that govern the Group's operations and its dealings with its main stakeholders. In addition, specific organisational structures exist inside the Bank to safeguard the corporate image, each one responsible for the areas within its remit (presentations to the financial community and investors, new product launch, complaints and dispute management, etc.).

13. OUTLOOK FOR THE SECOND HALF OF 2018

The second half of 2018 will be marked by stronger global growth prospects compared to year-start. Within the Eurozone, the ECB's accommodating policy will continue to drive growth while stabilising real interest rates at low levels, whereas in the United States the Federal Reserve is expected to continue normalising its interest rates, following the inflation increase in the recent months.

In this market context, where major risks include a swifter than expected rise in inflation and interest rates in advanced economies and a higher volatility in financial markets, the expertise and reliability of asset managers and Financial Advisors will be qualities for which there will be increasing need and demand.
This scenario will continue to result in a significant impact in both the composition of households' financial flows, which are increasingly oriented towards the asset management and insurance components, and in customers' objectives, which moved to a comprehensive asset protection approach, thus generating a higher demand for qualified professionals.

A market such as that of Financial Advisors is characterised by potentially high growth margins, but at the same time is increasingly complex and competitive. It therefore requires greater and greater investments to improve the advisory network quality, integrate and expand products and services, and make use of increasingly advanced technology.
Consequently, also in the second half of 2018, the Banking Group will aim at increasing and diversifying revenues by fostering in particular the growth of net inflows gathered through asset management, acquiring new customers and consolidating the profitability of assets under management, through measures such as:

- **development of new business lines**, particularly by reinforcing the comprehensive advisory service, which covers not only investment advice but also all customer wealth requirements. 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. The partnership, currently in the start-up phase, with Saxo Bank, specializing in online trading can also lead to AUM growth;
- **comprehensive advisory service** covering all of the customer's wealth-related needs, in addition to advice concerning securities. In particular, thanks to several selected exclusive partnerships, the Bank can provide advice concerning Real Estate, Wealth Planning, Generational Transfer, Corporate Finance and Family Office issues;
- **digital innovation** that will aim to adopt increasingly cutting-edge tools for improving and expediting the Bank-Customer-Financial Advisor relationship, including through the development of specific apps in support of the Financial Advisor's activity, with the progressive extension of Digital Collaboration, as well as the Robo Advisory partnership with UBS;
- **product innovation** that takes the form of a range of flexible financial services (financial and insurance wrappers) which can be built according to the customer's choices and appetites, through wrapper products and solutions with a high correlation between risk and return, and are sustainable also with respect to MiFID II;
- **process innovation**, which is constantly focused on optimising 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.

Finally, in the second half of 2018, 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.

Trieste, 26 July 2018

The Board of Directors

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS at 30.06.2018

Board of Directors
26 July 2018

CONSOLIDATED ACCOUNTING STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets

(€ THOUSAND)	30.06.2018	31.12.2017
10. Cash and deposits	827,450	563,498
20. Financial assets at fair value through profit or loss:	104,355	49,814
a) HFT financial assets	38,161	49,814
c) other financial assets mandatorily measured at fair value	66,194	-
30. Financial assets at fair value through other comprehensive income	2,379,521	4,612,728
40. Financial assets at amortised cost:	5,742,644	3,285,472
a) loans to banks	325,796	377,463
b) loans to customers	5,416,848	2,908,009
70. Equity investments	1,716	1,820
90. Property and equipment	6,916	6,570
100. Intangible assets	88,402	91,810
of which: goodwill	*66,065*	*66,065*
110. Tax receivables:	54,734	45,735
a) current	359	776
b) prepaid	54,375	44,959
b1) as per Law No. 214/2011	*7,333*	*8,107*
130. Other assets	309,204	333,564
Total Assets	**9,514,942**	**8,991,011**

Net Equity and Liabilities

(€ THOUSAND)	30.06.2018	31.12.2017
10. Financial liabilities at amortised cost:	8,521,256	7,879,779
a) due to banks	497,996	682,531
b) due to customers:	8,023,260	7,197,248
20. HFT financial liabilities	518	206
60. Tax liabilities:	37,049	35,564
a) current	31,539	21,024
b) deferred	5,510	14,540
80. Other liabilities	147,761	185,218
90. Employee termination indemnities	4,902	4,859
100. Provisions for liabilities and contingencies:	154,024	149,315
a) commitments and guarantees issued	118	-
c) other provisions	153,906	149,315
120. Valuation reserves	-19,350	21,646
150. Reserves	411,409	348,519
160. Share premium reserve	57,893	58,219
170. Share capital	116,852	116,852
180. Treasury shares (-)	-9,938	-13,271
200. Net profit (loss) for the period (+/-)	92,566	204,105
Total Net Equity and Liabilities	**9,514,942**	**8,991,011**

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Items

(€ THOUSAND)	30.06.2018	30.06.2017
10. Interest income and similar revenues	31,219	33,373
20. Interest expense and similar charges	-3,160	-1,793
30. Net interest income	**28,059**	**31,580**
40. Fee income	376,604	382,832
50. Fee expense	-187,540	-153,644
60. Net fees	**189,064**	**229,188**
70. Dividends and similar income	1,539	1,754
80. Net income (loss) from trading activities	3,041	2,721
100. Gain (loss) on disposal or repurchase of:	15,455	4,912
a) financial assets at amortised cost	6	281
b) financial assets at fair value through other comprehensive income	15,449	4,631
110. Net income (loss) from financial assets and liabilities at fair value through profit and loss:	547	-
b) other financial assets mandatorily measured at fair value	547	-
120. Net banking income	**237,705**	**270,155**
130. Net adjustments/reversals due to credit risk relating to:	-3,606	-3,164
a) financial assets at amortised cost	-2,256	-3,216
b) financial assets at fair value through other comprehensive income	-1,350	-24
other financial transactions	-	76
150. Net income (loss) from trading activities	**234,099**	**266,991**
190. General and administrative expenses:	-116,524	-113,434
a) staff expenses	-42,309	-43,860
b) other general and administrative expenses	-74,215	-69,574
200. Net provisions for liabilities and contingencies:	-24,932	-45,651
a) commitments and guarantees issued	86	-
a) other net provisions	-25,018	-45,651
210. Net adjustments/reversals of property and equipment	-750	-669
220. Net adjustments/reversals of intangible assets	-3,409	-3,123
230. Other operating expenses/income	27,065	23,994
240. Operating expenses	**-118,550**	**-138,883**
250. Gains (losses) from equity investments	-99	-77
280. Gains (losses) on disposal of investments	-42	-
290. Profit before income taxes	**115,408**	**128,031**
300. Income taxes for the period on operating activities	-22,842	-19,948
310. Net profit after income taxes	**92,566**	**108,083**
330. Net profit for the period	**92,566**	**108,083**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Items

(€ THOUSAND)		30.06.2018	30.06.2017
10.	**Net profit for the period**	**92,566**	**108,083**
	Other income net of income taxes without transfer to Profit and Loss Account		
40.	Actuarial gains (losses) from defined benefit plans	-116	-92
	Other income net of income taxes with transfer to Profit and Loss Account		
80.	Exchange differences	-5	-14
100.	AFS financial investments	-33,279	-9,829
130.	**Total other income net of income taxes**	**-33,400**	**-9,934**
140.	**Comprehensive income**	**59,166**	**98,149**
160.	**Consolidated comprehensive income attributable to the Parent Company**	**59,166**	**98,149**

CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY

Items

	SHARE CAPITAL			RESERVES								
(€ THOUSAND)	A) ORDINARY SHARES	B) OTHER	SHARE PREMIUM RESERVE	A) RETAINED EARNINGS	B) OTHER	VALUATION RESERVES	EQUITY INSTRUMENTS	INTERIM DIVIDENDS	TREASURY SHARES	NET PROFIT (LOSS) FOR THE PERIOD	NET EQUITY	GROUP NET EQUITY
Net equity at 31.12.2017	**116,852**	**-**	**58,219**	**331,823**	**16,696**	**21,646**	**-**	**-**	**-13,271**	**204,105**	**736,070**	**736,070**
Change in opening balances	-	-	-	4,768	-	-7,595	-	-	-	-	-2,827	-2,827
Amounts at 01.01.2017	116,852	-	58,219	336,591	16,696	14,051	-	-	-13,271	204,105	733,243	733,243
Allocation of net profit for the previous year:	-	-	-	58,631	-	-	-	-	-	-204,105	-145,474	-145,474
- Reserves	-	-	-	58,631	-	-	-	-	-	-58,631	-	-
- Dividends and other allocations	-	-	-	-	-	-	-	-	-	-145,474	-145,474	-145,474
Change in reserves	-	-	1	-	575	-1	-	-	-	-	575	575
Transaction on net equity:	-	-	-327	-	-1,084	-	-	-	3,333	-	1,922	1,922
- Issue of new shares	-	-	-327	-	-3,006	-	-	-	3,333	-	-	-
- Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
- Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	-	-	-
- Change in equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-		-	-
- Stock options	-	-	-	-	1,922	-	-	-	-	-	1,922	1,922
Comprehensive income	-	-	-	-	-	-33,400	-	-	-	92,566	59,166	59,166
Net equity at 30.06.2018	**116,852**	**-**	**57,893**	**395,222**	**16,187**	**-19,350**	**-**	**-**	**-9,938**	**92,566**	**649,432**	**649,432**
Group net equity	**116,852**	**-**	**57,893**	**395,222**	**16,187**	**-19,350**	**-**	**-**	**-9,938**	**92,566**	**649,432**	**-**

	SHARE CAPITAL			RESERVES								
(€ THOUSAND)	A) ORDINARY SHARES	B) OTHER	SHARE PREMIUM RESERVE	A) RETAINED EARNINGS	B) OTHER	VALUATION RESERVES	EQUITY INSTRUMENTS	INTERIM DIVIDENDS	TREASURY SHARES	NET PROFIT (LOSS) FOR THE PERIOD	NET EQUITY	GROUP NET EQUITY
Net equity at 31.12.2016	**116,425**	**-**	**53,803**	**300,603**	**13,750**	**8,979**	**-**	**-**	**-2,933**	**155,894**	**646,521**	**646,521**
Change in opening balance	-	-	-	-	-	-	-	-	-	-	-	-
Amounts at 01.01.2016	116,425	-	53,803	300,603	13,750	8,979	-	-	-2,933	155,894	646,521	646,521
Allocation of net profit for the previous year:	-	-	-	31,220	-	-	-	-	-	-155,894	-124,674	-124,674
- Reserves	-	-	-	31,220	-	-	-	-	-	-31,220	-	-
- Dividends and other allocations	-	-	-	-	-	-	-	-	-	-124,674	-124,674	-124,674
Change in reserves	-	-	1,444	-	-617	-	-	-	-	-	827	827
Transaction on net equity:	414	-	3,117	-	670	-	-	-	1,352	-	5,552	5,552
- Issue of new shares	414	-	3,117	-	-447	-	-	-	1,352	-	4,435	4,435
- Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
- Interim dividends	-	-	-	-	-	-	-	-	-	-	-	-
- Extraordinary dividends	-	-	-	-	-	-	-	-	-	-	-	-
- Change in equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
- Derivatives on treasury shares	-	-	-	-	-	-	-	-	-		-	-
- Stock options	-	-	-	-	1,117	-	-	-	-	-	1,117	1,117
Comprehensive income	-	-	-	-	-	-9,934	-	-	-	108,083	98,149	98,149
Net equity at 30.06.2017	**116,839**	**-**	**58,363**	**331,823**	**13,803**	**-955**	**-**	**-**	**-1,581**	**108,083**	**626,375**	**626,375**
Group net equity	**116,839**	**-**	**58,363**	**331,823**	**13,803**	**-955**	**-**	**-**	**-1,581**	**108,083**	**626,375**	**-**

CONSOLIDATED CASH FLOW STATEMENT

Indirect method

(€ THOUSAND)	30.06.2018	30.06.2017
A. OPERATING ACTIVITIES		
1. Operations	**71,527**	**104,360**
Net profit (loss) for the period	92,566	108,083
Gain/loss on financial assets and liabilities at fair value	-813	-695
Gain/loss on hedging assets	-	-
Net adjustments/reversals due to credit risk	3,606	3,164
Net adjustments/reversals of property, equipment and intangible assets	4,159	3,792
Net provisions for liabilities and contingencies and other costs/revenues	3,578	30,413
Taxes and duties not paid	9,755	12,794
Adjustments of discontinued operations	-	-
Other adjustments	-41,324	-53,191
2. Liquidity generated by/used for financial assets (+/-)	**-286,651**	**-474,937**
HFT financial assets	1,212	-6,860
Financial assets at fair value	-	-
Other financial assets mandatorily measured at fair value	13,824	-
Financial assets at fair value through other comprehensive income	542,974	-359,446
Financial assets at amortised cost:		
- loans to banks	51,827	-53,441
- loans to customers	-948,222	-41,461
Other assets	51,733	-13,729
3. Liquidity generated by/used for financial liabilities (+/-)	**625,688**	**521,048**
Financial liabilities at amortised cost:		
- due to banks	-182,149	145,264
- due to customers	842,084	-27,529
Securities issued	-	-
HFT financial liabilities	475	-215
Financial liabilities at fair value	-	-
Other liabilities	-34,722	403,528
Net liquidity generated by/used for operating activities	**410,564**	**150,472**

(€ THOUSAND)	30.06.2018	30.06.2017
B. INVESTING ACTIVITIES		
1. Liquidity generated by:	**-**	**3,993**
Disposal of equity investments	-	-
Dividends received	-	-
Disposal of HTM financial assets	-	3,993
Disposal of property and equipment	-	-
Disposal of intangible assets	-	-
Disposal of business units	-	-
2. Liquidity used for:	**-1,138**	**-283,322**
Purchase of equity investments	-	-
Purchase of HTM financial assets	-	-281,523
Purchase of property and equipment	-1,138	-580
Purchase of intangible assets	-	-1,219
Purchase of business units and equity investments in subsidiaries	-	-
Net liquidity generated by/used for investing activities	**-1,138**	**-279,329**
C. FUNDING ACTIVITIES		
Issue/purchase of treasury shares	-	4,435
Issue/purchase of equity instruments	-	-
Distribution of dividends and other	-145,474	-124,674
Net liquidity generated by/used for funding activities	**-145,474**	**-120,239**
NET LIQUIDITY GENERATED/USED IN THE PERIOD	**263,952**	**-249,096**
Reconciliation		
Cash and cash equivalents at period-start	563,497	583,361
Total liquidity generated/used in the period	263,953	-249,096
Cash and cash equivalents – effects of exchange rate fluctuations	-	-
Cash and cash equivalents at period-end	**827,450**	**334,265**

Legend
(+) Liquidity generated.
(-) Liquidity used.

NOTES AND COMMENTS

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PART A – ACCOUNTING POLICIES

Part A.1 – General

The consolidated half-year financial statements have been drawn up in compliance with Article 154-*ter* of Italian Legislative Decree No. 58/98, enacted by Legislative Decree No. 25 dated 15 February 2016.

In particular, paragraphs 2, 3 and 4 of the Article require that, within three months from the end of the first half of the financial year, listed companies having Italy as their member state of origin publish a half-year financial report including:
> the **Condensed Half-year Financial Statements** prepared in a consolidated form, if the listed company is required to prepare Consolidated Financial Statements in compliance with the international accounting standards;
> an **Interim Report on Operations**, including a description of important events occurred during the half-year period and their impact on the condensed half-year financial statements, the main risks and uncertainties for the remaining six months of the year and information on related parties;
> an **Attestation by the Manager in charge** of preparing the Company's financial reports as per paragraph 5 of Article 154-*bis*;
> a **Report by the independent auditing firm** on the Condensed Half-year Financial Statements, to be published within the same time limit.

A.1.1 Statement of compliance with International Accounting Standards

These consolidated condensed half-year financial statements have been drawn up in compliance with Italian Legislative Decree No. 38 of 28 February 2005, based on the International Accounting Standards issued by the International Accounting Standards Board (IASB) and interpretation of the International Financial Reporting Interpretations Committee (IFRIC), and endorsed by the European Commission with Regulation No. 1606 of 19 July 2002.

In preparing the Consolidated Condensed Half-year Financial Statements, Banca Generali adopted the IASs/IFRSs in force at the reference date of the report (including SIC and IFRIC interpretations), as endorsed by the European Union.

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

International Accounting Standards endorsed in previous years and effective as of 2018

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRS 9 - *Financial Instruments*	2016/2067	29.11.2016	01.01.2018
Amendments to IFRS 4: Applying IFRS 9 - *Financial Instruments* with IFRS 4 - *Insurance Contracts* (issued on 12 September 2016)	2017/1988	09.11.2017	01.01.2018
IFRS 15 - *Revenue from Contracts with Customers*	2016/1905	29.10.2016	01.01.2018
Clarifications to IFRS 15 - *Revenues from Contracts with Customers* (issued on 12 April 2016)	2017/1987	09.11.2017	01.01.2018

International Accounting Standards endorsed in 2018 and effective as of 2018

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRIC 22 - *Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016)	2018/519	28.03.2018	01.01.2018
Amendments to IAS 40: *Transfers of Investment Property* (issued on 8 December 2016)	2018/800	14.03.2018	01.01.2018
Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions* (issued on 20 June 2016)	2018/289	26.02.2018	01.01.2018
Annual Improvements to IFRS Standards 2014- 2016 Cycle (issued on 8 December 2016)	2018/182	07.02.2018	01.01.2018

International Accounting Standards endorsed but not effective yet

	ENDORSEMENT REGULATIONS	PUBLICATION DATE	EFFECTIVE DATE
IFRS 16 - *Leases* (issued on 13 January 2016)	2017/1986	09.11.2017	01.01.2019
Amendments to IFRS 9: *Prepayment Features with Negative Compensation* (issued on 12 October 2017)	2018/489	22.03.2018	01.01.2019

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

The effects of the first-time adoption as of 1 January 2018 of IFRS 9 and IFRS 15 are outlined in a specific Transition Report attached to these Consolidated Half-Year Financial Statements.
The other standards and interpretations that entered into force in 2018 did not have a significant impact on the Group's balance sheet and profit and loss account.

A.1.2 Preparation Criteria

The Condensed Consolidated Half-Year Financial Statements are comprised of:
> a **Balance Sheet** as of the end of the interim period under review and a comparative balance sheet as of the end of the previous financial year;
> a **Profit and Loss Account** for the interim reporting period, with a comparative profit and loss account for the same interim period of the previous financial year;
> the **Other Comprehensive Income (OCI) statement**, which includes the profit and loss items for the period recognised directly in net equity, for the interim reporting period as compared to the same period of the previous year;
> a **Statement of Changes in Net Equity** for the period extending from the beginning of the financial year to the end of the half-year period under review, with a comparative statement for the same period of the previous year;
> a **Cash Flow Statement** for the period extending from the beginning of the financial year to the end of the half-year period under review, with a comparative statement for the same period of the previous year;
> **Notes and Comments** containing references to the accounting standards used and other notes explaining transactions carried out during the period.

The Consolidated Condensed Half-year Financial Statements are prepared by applying IAS 34 on interim disclosures, 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, and in line with the general assumptions set out in 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).

In detail, IAS 34 on interim financial reporting states that, in the interest of time, the interim financial statements can contain a condensed version of the information provided in the annual report ("condensed financial statements") that provides an update to the latest complete annual report.
In application of this principle, the option to prepare the financial statements for the period in a condensed form has been therefore exercised instead of presenting the complete financial statements prepared for the year.

In compliance with the requirements of Article 5 of Legislative Decree No. 38/2005, the Consolidated Condensed Half-year Financial Statements were prepared in euros. The amounts included in the Financial Statements and the figures in the Notes and Comments are expressed in thousands of euro. Unless otherwise stated, the amounts reported in the interim Report on Operations are given in thousands of euro.

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.

Content of the Financial Statements and the Notes

The Financial Statements and the Notes and Comments have been prepared in accordance with Bank of Italy's Circular No. 262/2005 and the 5th update published on 28 December 2017 and effective as of 1 January 2018.
This update endorses the new IFRS 9 ***Financial Instruments***, the ensuing amendments introduced into other international financial standards; it also takes into account the new IFRS 15 "***Revenue from Contracts with Customers***".

Accounts that do not include items pertaining to the year under review or the previous year are not stated in the balance sheet and profit and loss account. In the consolidated profit and loss account, profit attributable to minority interests is presented with a negative sign, whereas losses attributable to minority interests are presented with a positive sign.
Notes and Comments include only the most significant Sections and tables. Sections or tables which include no values are not included in the Notes and Comments.

The Statement of Other Comprehensive Income consists of items that present changes in the value of assets reported during the half-year through valuation reserves, net of the associated tax effect and distinguishing between any income attributable to the Parent Company and minority interests.
The amendment to IAS 1 - *Presentation of Items of Other Comprehensive Income* also requires the separate recognition in the Statement of the components and the relevant taxes, that may or may not be reclassified to profit or loss.
As for the Balance Sheet and Profit and Loss Account, items with nil amounts in both the reporting year and previous year are not presented.

The Statement of Changes in Consolidated Net Equity is presented by inverting the rows and columns with respect to the presentation requested by the Bank of Italy's Circular No. 262/2005.
The statement presents changes in total consolidated net equity, showing separately the final carrying amounts of the net equity attributable to the Group and minority interests and aggregate changes in those items.

The Cash Flow Statement was prepared using the indirect method, according to which cash flows from operating activities are derived by adjusting net profit for the effects of non-cash transactions.

Cash flows are broken down into:
> cash flows from operating activities, including cash flows from operations and cash flows from increases and decreases in financial assets and liabilities;
> cash flows generated by (used for) investing activities involving fixed assets;
> cash flows generated by (used for) financing activities that alter the company's capital and its remuneration.

Specifically, sections 2 and 3 include only cash generated by (used for) the decrease (increase) in financial assets or the increase (decrease) in financial liabilities resulting from new transactions or reimbursements related to existing transactions.
Accordingly, these sections do not include items such as changes in value (adjustments, reversal values), amortisation and depreciation, the net balance of unpaid taxes (current and deferred), interest and unpaid or uncollected commissions; these items have been disclosed separately and classified under operating activities.
Moreover, these cash flows 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.

A.1.3 Scope of Consolidation and Business Combinations

1. Scope of Consolidation

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

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

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

The consolidated accounts include the separate accounts of the Parent Company and its subsidiaries at 30 June 2018, reclassified and adjusted where necessary to take account of consolidation requirements. The most important intra-Group transactions, influencing both the balance sheet and profit and loss account, were eliminated. Unreconciled amounts were recognised in other assets/liabilities and other revenues/expenses, respectively.

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 structure, 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 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 30 June 2018, the only associative shareholding included in the scope of consolidation of the Banking Group is IOCA Entertainment Ltd., a company under the UK law, in which Banca Generali subscribed, in 2015, a 35% interest, equivalent at the acquisition date to approximately 2.2 million euros.

2.3 Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control.
Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Under IFRS 11, joint arrangements are classified as either a joint operation or a joint venture based on the Group's contractual rights or obligations:
> a Joint operation is a joint arrangement whereby the parties have rights to the assets and obligations for the liabilities relating to the arrangement;
> a Joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement.

Investments in joint arrangements are valued using the equity method.

On 9 March 2018, the Board of Directors of Banca Generali approved the final agreements with Saxo Bank to set up a joint arrangement for the development of online trading market and related digital services in Italy.
The terms of the agreements provide for the incorporation of a new company, BG SAXO SIM, in which the Bank will hold a 19.9% interest.

The objective of the partnership, which has a duration of eight years and may be renewed upon expiry, is to offer clients, on an exclusive basis for the Italian market, access to an innovative platform for advanced trading based on Saxo Bank's technology.
Banca Generali will make available its banking platform and its leading market position in private banking to foster synergies and develop new opportunities for its financial advisors and clients, who will thus enjoy access to one of the most comprehensive suites of global trading tools.
The Bank will also provide outsourced services to the new brokerage firm (SIM), specifically various back-office activities relating to customer order receipt and execution services.

Saxo Bank will instead provide the new SIM with its multi-assets platform that enhances the range of trading and dynamic hedging services, with a particular expertise in FX.

The new brokerage firm, incorporated by Saxo Bank, has not yet become operational given that the authorisation procedure with the competent authorities is still ongoing and the online trading IT platform and related services have not yet been fully integrated into the technological infrastructure provided by Banca Generali, which will act as outsourcer.

According to the assessment conducted, it is believed that when the brokerage firm becomes operational it will qualify under IFRS 11 as a joint arrangement, and in particular as a joint venture. As a result, in accordance with paragraphs 24 and 26 of IFRS 11, Banca Generali will have to recognise its 19.90% equity investment in the company's share capital as follows:

a) in the consolidated financial statements by applying the equity method in accordance with IAS 28;
b) in the separate financial statements, in accordance with IAS 27, paragraph 10, using the cost method, as provided for by IFRS 9 or by applying the equity method as provided for by IAS 28.

3. Equity investments in wholly owned subsidiaries with significant non-controlling interests

As of 30 June 2018, all the Group's equity investments were wholly owned and there were no non-controlling interests.

4. Significant restrictions

As of 30 June 2018, there were no significant restrictions of a legal, contractual, or statutory nature on the Parent Company's ability to access or use the Group's assets and settle the Group's liabilities.

A.1.4 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 profit reserves.

Equity method

Associate companies are consolidated according to the concise equity method.
Under the equity method, an equity investment is initially recognised at acquisition cost, inclusive of goodwill, and subsequently adjusted according to the investor's share in the investee's net equity.

Upon acquisition, the difference between the cost of the equity investment and the share of the net fair value of the investee's identifiable assets and liabilities must be determined and recognised as goodwill, if positive, or as income, if negative.

The carrying amount is then increased or decreased to recognise the investor's share of the profits or losses of the investee recorded after the acquisition date under item 250 "Gains (losses) from equity investments" of the profit and loss account.

That share is adjusted to reflect:
> gain and loss on transactions with the associate company, in proportion to the percent interest in the associate company;
> depreciation and amortisation of depreciable assets at their respective fair values at the acquisition date and impairment losses on goodwill and any other non-monetary elements.

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 period-end to assets and liabilities and average exchange rates for the period to items of profit and loss.
The foreign exchange differences of the financial statements of such companies on the application of different exchange rates to assets and liabilities and profit and loss are recognised among valuation reserves in net equity. Foreign exchange differences on investees' net equity are also recognised among valuation reserves.

A.1.5 Events occurred after the reporting date

The Consolidated Half-Year Financial Statements were approved by the Board of Directors of Banca Generali on 26 July 2018 and its publication was authorised, pursuant to IAS 10, as of the same date.
No events occurred after 30 June 2018 and until the date of approval of the Consolidated Half-Year Financial Statements that would make it necessary to adjust the results presented in the consolidated half-year report at that date.

A.1.6 Other information

Accounting standards endorsed that will enter into effect this year

For the effects of the first-time adoption of IFRS 9 and IFRS 15 please refer to the specific Transition Report attached to these Consolidated Half-Year Financial Statements.

Accounting standards endorsed that will enter into effect after 31 December 2018

Introduction of IFRS 16

Commission Regulation (EU) No. 2017/1986 adopting international accounting standard IFRS 16 - *Leases*, issued by the IASB on 13 January 2016, was published in the *Official Journal of the European Union* on 9 November 2016.

The new standard, which will become effective on 1 January 2019, 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).

This standard applies to all the contracts that refer to a right of use of an asset for a certain period of time, for a consideration.
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 lease transactions in the financial statements of the lessee, which recognises a liability in the balance sheet on the basis of the present value of the future lease payments and an asset consisting of the right to use the asset governed by the lease contract. After initial recognition, the right of use is amortised over the term of the contract or the useful life of the leased asset, while the liability is progressively reduced due to lease payments made and the interest on the liability is recognised in profit or loss. 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.

It should be emphasised that the Group's entire logistical structure — divided into head offices, bank branches and financial advisor offices — is based on leased properties and therefore falls within the scope of the new Standard.

During the first half of the year, the Banking Group has begun — within the framework of a broader project coordinated by the Assicurazioni Generali Group — to identify contracts governing leases of assets (real estate, operating assets, etc.) that fall within the scope of application of the new Standard.
In addition the purchase of a specific IT product to manage the accounting processes in accordance with the new standard has been assessed.
However, a full assessment of the possible impacts of the application of the new Standard at the regulatory and financial reporting level is still not possible at this time.

Measurement

The preparation of the Interim Report requires the use of estimates and assumptions that could influence the amounts reported in the balance sheet and profit and loss account and the disclosure of contingent assets and liabilities therein. The estimates and assumptions used are based on the information available on operations and subjective judgements, which may also 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:
- the quantification of receivables from product companies for the placement of financial products and services (pay in);
- the quantification of the financial advisor network's remuneration (pay out) for June 2018 and fee-based incentive measures for the first six months of the year;
- the quantification of provisions for personnel incentives;
- the quantification of provisions for administrative expenses and the stamp duty;
- determining the amount of provisions for liabilities and contingencies;
- the determination of the fair value of financial instruments used for reporting purposes and any required reports;
- determining the value adjustments and reversals of non-performing loans and the provision for performing loans;
- estimates and assumptions used to determine current and deferred taxation.

Measurement of goodwill

During the preparation of the 2017 Financial Statements, goodwill was tested for impairment and the carrying value was determined to be accurate. Since all required information is only available when drafting the annual report and there currently are no significant indicators of impairment that would require an immediate assessment of loss, it was decided not to conduct an impairment test as of 30 June 2018. For further information on this subject, the reader is referred to the 2017 Financial Statements.

Non-recurring significant events and transactions

During the half 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).

Audit

The Consolidated Half-Year Financial Statements were subjected to limited review by BDO Italia S.p.A.

Part A.2 – Accounting Standards adopted by the Banca Generali Group

This section sets out the accounting standards adopted for the preparation of the Condensed Consolidated Half-Year Financial Statements at 30 June 2018, as regard the stages of classification, recognition, measurement and derecognition of the various asset and liability items and the methods of recognition of costs and revenues.

In this regard, it should be noted that the accounting standards adopted for preparing this Consolidated Half-Year Report, as regard the stages of classification, recognition, measurement and derecognition of the various asset and liability items and the methods of recognition of costs and revenues, differ from those adopted for drawing up the 2017 Annual Report. The change is attributable to the mandatory application, effective 1 January 2018, of the following international accounting standards:
> IFRS 9 – *Financial Instruments*, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation No. 2067/2016, which superseded IAS 39 for all matters concerning the classification and measurement of financial instruments, as well as their impairment;
> IFRS 15 – *Revenue from Contracts with Customers*, endorsed by the European Commission through Regulation No. 1905/2016, which superseded and replaced IAS 18 – *Revenues* and IAS 11 – *Construction Contracts*.

In light of the above, the new consolidated accounting policies of the Banca Generali Group are presented here below with an analysis of the main financial statements items.

1. Financial assets measured at fair value through profit or loss (FVTPL)

Classification

This category includes all financial assets other than those recognised among Financial assets at fair value through other comprehensive income and Financial asset at amortised cost.

In particular, the item includes:
> financial assets held for trading, essentially consisting of debt and equity securities and the positive value of derivative contracts held for trading; such assets are included in the regulatory trading book (the “trading book” pursuant to IFRS 9) and are also known as “hold-to-sell” or “HTS” assets;
> financial assets mandatorily measured at fair value, i.e., financial assets that do not meet the requirements for measurement at amortised cost or fair value through other comprehensive income. These are financial assets the contractual terms of which do not provide solely for payments of principal and interest (“SPPI test” not passed) or that are not held within a business model whose objective is to hold the assets to collect the contractual cash flows (a “hold-to-collect” business model) or whose objective is achieved by both collecting the contractual cash flows and selling the financial assets (a “hold-to-collect-and-sell” business model);
> financial assets designated at fair value, i.e., financial assets identified as such upon initial recognition, where the requirements have been met. In cases of this kind, upon recognition an entity may irrevocably designate a financial asset as at fair value through profit or loss if, and only if, so doing eliminates or significantly reduces a measurement or recognition inconsistency.

Accordingly, the following are included in this item:
> debt securities and loans that are held within an Other/Trading business model (i.e., not a hold-to-collect or hold-to-collect-and-sell business model) or that do not pass the SPPI test;
> equity securities that do not qualify as interests in subsidiaries, associates and joint arrangements that are held for trading or that were not designated at fair value through other comprehensive income upon initial recognition;
> UCITS units.

The item also includes derivatives accounted for among financial assets held for trading, classified as assets if fair value is positive, and as liabilities if fair value is negative.
It is possible to set off current positive and negative values deriving from outstanding transactions with the same counterparty only if there is currently a legal right to set off the recognised amounts and the entity intends to settle the positions subject to offsetting on a net basis.

Derivatives also include those embedded in hybrid financial contracts, in which the host contract is a financial liability, and which have been separately recognised inasmuch as:
> their economic characteristics and risks are not closely related to the characteristics of the underlying contract;
> the embedded instruments considered separately meet the definition of a derivative;
> the hybrid instruments in which they are embedded are not recognised at fair value and changes in fair value are recognised in profit or loss.

According to the general rules for the reclassification of financial assets (with the exception of equity securities, which cannot be reclassified) laid down by IFRS 9, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be quite rare, financial assets may be reclassified from fair value through profit or loss to one of the two other categories provided for in IFRS 9 (financial assets at amortised cost or financial assets at fair value through other comprehensive income). The transfer value is the fair value at the time of reclassification and the effects of reclassification apply prospectively from the reclassification date. In such cases, the effective interest rate of the reclassified financial asset is determined on the basis of its reclassification date fair value, and the reclassification date is taken as the date of initial recognition for allocation to the various credit risk stages (stage assessment) for impairment purposes.

Recognition

Debt and equity securities are initially recognised on the settlement date. Loans are initially recognised on the disbursement date, while derivative contracts on the date the contract is entered into.
Financial assets at fair value though profit and loss are initially recognised at fair value, less transaction costs or income directly related to the instrument itself.

Measurement

Subsequent to initial recognition, financial assets held for trading are recognised at fair value. The effects of the application of this measurement consideration are recognised in profit and loss.

The fair value of financial instruments traded in active markets is determined by referring to the appropriate quoted market price of such instruments.
A financial instrument is regarded as listed in an active market if quoted prices represent actual and regularly occurring market transactions on an arm's length basis over a normal reference period and those prices, are readily and regularly available from an exchange, dealer, broker, industry company, pricing service or authorised entity.

In the absence of an active market, alternative valuation methods based on market data are used, such as quotes drawn from inactive markets, or on markets where similar instruments are traded, the notional value of financial instruments, quotas from brokers or placing agents involved in the issue of financial instruments, quotes from info providers specialised in specific sectors, and values drawn from recent comparable transactions.

The cost criterion is used for equity securities and derivative instruments that have as their underlying equity securities, not listed on an active market, as an estimate of fair value solely to a residual degree and limited to a few cases, such as cases in which all previously discussed measurement methods are not applicable, or where there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within the range.
Further information on the criteria used for determining fair value is given in Section "A.4 Information on fair value" of Part A of the Notes and Comments of the 2017 Consolidated Financial Statements, to which reference is made as no material changes have been made following the application of IFRS 9.

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire or when the financial asset, together with substantially all related risks and rewards, is transferred.
Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried on the balance sheet, even though the ownership of said assets has been effectively transferred in legal terms.
In cases where the transfer of substantially all risks and returns cannot be assessed, derecognition occurs when no control has been retained over such assets. Conversely, if even partial control is retained, the asset continues to be recognised in the balance sheet to the extent of continuing involvement, which is measured by the exposure to changes in the value of the transferred assets and related cash flows.
Lastly, financial assets are also derecognised from the balance sheet if contractual rights to receive the asset's cash flows are retained, but a contractual obligation to pay, without a significant delay, those (and only those) cash flows to a third party is assumed.

2. Financial assets at fair value through other comprehensive income (FVOCI)

Classification

This category includes financial assets that satisfy both of the following conditions:
> the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets (a "hold-to-collect-and-sell" business model); and
> the contractual terms of the financial asset give rise, on specific dates, to cash flows consisting solely of payments of principal and interest ("SPPI test" passed).

The item also includes equity instruments not held for trading electively designated at fair value through other comprehensive income upon initial recognition.

Specifically, it includes:
> debt securities and loans held within a hold-to-collect-and-sell business model that have passed the SPPI test;
> equity interests, equity investments and capital contributions of various kinds not qualifying as controlling interests in subsidiaries, associates and joint ventures, not held for trading purposes, designated at fair value through other comprehensive income upon initial recognition.

According to the general rules for the reclassification of financial assets (with the exception of equity securities, which cannot be reclassified) laid down by IFRS 9, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets.
In such cases, which are expected to be quite rare, financial assets may be reclassified from fair value through other comprehensive income to one of the two other categories provided for in IFRS 9 (financial assets at amortised cost or financial assets at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to that at amortised cost, the cumulative gain (loss) recognised in the valuation reserve is taken as an adjustment of the financial asset's fair value at the reclassification date. In the event of reclassification to fair value through profit or loss, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from net equity to net profit (loss) for the year.

Recognition

Debt and equity securities are initially recognised on the settlement date. Loans are initially recognised at the disbursement date. Assets are initially recognised at fair value, being the fair value of the instrument including transaction costs or income directly related to the instrument.

Measurement

After initial recognition, assets designated at fair value through other comprehensive income other than equity securities are measured at fair value and the impact of the application of amortised cost, the effects of impairment and any foreign exchange effect are taken to profit or loss, whereas other gains or losses due to changes in fair value are entered to a specific equity reserve until the financial asset is derecognised.
Upon total or partial derecognition, cumulative gains and losses in the valuation reserve are recognised, fully or partially, through profit or loss.

Equity securities that have been classified to this category on an elective basis are measured at fair value through other comprehensive income (net equity) and cannot be transferred to profit and loss thereafter, even in the event of disposal. The only component attributable to the equity instruments in question that may be recognised in profit or loss is the related dividends.
Fair value is determined on the basis of the criteria set out above for financial assets designated at fair value through profit or loss.
In the case of equity instruments included in this category not listed on an active market, the cost criterion is only used to estimate fair value on a residual basis, limited to a few circumstances, i.e., where all previously discussed measurement methods do not apply, or where there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within the range.
Further information on the criteria used for determining fair value is given in Section "A.4 Information on fair value" of Part A of the Notes and Comments of the 2017 Consolidated Financial Statements, to which reference is made as no material changes have been made following the application of IFRS 9.

Derecognition

Financial assets are derecognised from the balance sheet only if the transfer results in the transfer of substantially all risks and rewards connected to such assets. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried on the balance sheet, even though the ownership of said assets has been effectively transferred in legal terms.
In cases where the transfer of substantially all risks and rewards cannot be assessed, derecognition occurs when no control has been retained over such assets. Conversely, if even partial control is retained, the asset continues to be recognised on the balance sheet to the extent of continuing involvement, which is measured by the exposure to changes in the value of the transferred assets and related cash flows.
Lastly, financial assets are also derecognised from the balance sheet if contractual rights to receive the asset's cash flows are retained, but a contractual obligation to pay, without a significant delay, those (and only those) cash flows to a third party is assumed.

3. Financial assets measured at amortised cost

Classification

This category includes financial assets (and in particular loans and debt securities) that satisfy both of the following conditions:
> the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows (a "hold-to-collect" business model); and
> the contractual terms of the financial asset give rise, on specific dates, to cash flows consisting solely of payments of principal and interest ("SPPI test" passed).

In further detail, the following are classified to this item:
> loans to banks in various forms that meet the requirements set out in the foregoing paragraph;
> loans to customers in various forms that meet the requirements set out in the foregoing paragraph;
> debt securities that meet the requirements set out in the foregoing paragraph.

This category also includes operating loans associated with the provision of financial services, as defined in the Consolidated Law on Banking (TUB) and the Consolidated Law on Finance (TUF) (for example, the distribution of financial products and servicing activities). This latter category also includes receivables from product companies and receivables from the Financial Advisor network for advances on commissions paid.

According to the general rules for the reclassification of financial assets laid down by IFRS 9, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be quite rare, financial assets may be reclassified from the category measured at amortised cost to one of the two other categories provided for in IFRS 9 (Financial assets at fair value through other comprehensive income or Financial assets at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification apply prospectively from the reclassification date. Gains or losses resulting from the difference between the amortised cost and fair value of a financial asset are taken to profit or loss in the event of reclassification to financial assets at fair value through profit or loss, and to a specific valuation reserve in net equity in the event of reclassification to financial assets at fair value through other comprehensive income.

Recognition

Financial assets are initially recognised on the settlement date. Loans are initially recognised on the disbursement date. Financial assets are initially recognised at fair value including transaction costs or income directly related to the instrument.
In the case of loans, in particular, the date of disbursement normally coincides with the date of execution of the contract. If the two dates do not coincide, a commitment to disburse funds terminating on the date of disbursement of the loan is added when the contract is executed. A loan is initially recognised on the basis of the fair value of the same, which is equal to the amount disbursed or the subscription price, including costs/income directly attributable to the individual loan that may be determined at the inception of the transaction, even if settled at a later time. Costs with the above-described characteristics are excluded if they are to be repaid by a third-party borrower or can be considered normal, internal, general and administrative expenses.

Measurement

After initial recognition, these financial assets are measured at amortised cost using the effective interest-rate method. Accordingly, such assets are measured at an amount equal to their initial recognition value, minus redemptions, plus or minus cumulative amortisation (calculated according to the aforementioned effective interest-rate method) of the difference between that initial amount and its value at maturity (typically derived from the costs/income directly attributable to the individual asset) and adjusted by loss allowance, if any. The effective interest rate is the rate that equates the discounted future cash outflows (for principal and interest payments) with the amount disbursed including the costs and income relating to the said financial asset. This method of recognition allows, by applying a financial logic, the financial effect of the costs and income directly attributable to a financial asset to be distributed across its expected remaining life.

The amortised cost method is not used for assets measured at historical cost whose short durations suggest that the effects of discounting would be negligible, nor is it applied to assets without fixed maturities or revocable lines of credit.

The measurement criteria are closely connected to the inclusion of the instruments in question in one of the three stages (credit risk stages) provided for in IFRS 9, the last of which (stage 3) includes non-performing financial assets, and the remainder (stages 1 and 2) performing financial assets.

In terms of the accounting treatment of the above measurement effects, adjustments attributable to this type of asset are taken to profit or loss:

- upon initial recognition, in an amount equal to the expected loss at twelve months;
- upon subsequent measurement of the asset, where credit risk has not increased significantly compared with initial recognition, in respect of changes in the amount of adjustments for expected losses in the following twelve months;
- upon subsequent measurement of the asset, where the credit risk has increased significantly with respect to initial recognition, in respect of the recognition of adjustments for expected credit losses attributable to the asset's entire residual contractual life;
- upon subsequent measurement of the asset, where, after a significant increase in credit risk with respect to initial recognition, this increase has ceased to be significant in respect of the adjustment of cumulative impairment losses to account for the transition from an expected loss over the entire residual lifetime of the instrument to the expected loss over a twelve-month period.

Where performing, the financial assets in question are measured with the aim of determining the impairment losses to be recognised at the level of each individual credit relationship (or "tranche" of a security) on the basis of the risk parameters of probability of default (PD), loss given default (LGD) and exposure at default (EAD).

If, in addition to a significant increase in credit risk, there is objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset — classified as "non-performing" along with all other relationships with the counterparty in question — and the present value of the estimated future cash flows, discounted at the original effective interest rate.
The amount of the loss, to be recognised in profit or loss, is determined on the basis of a measurement process performed for individual assets or uniform categories of assets, and then allocated to each position.

Non-performing loans include financial instrument classified as follows:

1) bad loans: this category refers to formally non-performing loans, consisting of exposures to customers who are in a state of insolvency, regardless of whether confirmed by a court, or in similar situations;
2) unlikely to pay: these are on- and off-balance sheet exposures for which the conditions have not been met for classification as bad loans and for which it is deemed unlikely that the borrower will be capable of fulfilling all of its debt obligations (in terms of principal and/or interest) in the absence of actions such as the enforcement of guarantees. This assessment is conducted regardless of the presence of any past due and unpaid amounts or instalments.
   Classification as unlikely to pay is not necessary tied to the explicit presence of anomalies (non-payment), but rather is linked to the existence of elements indicative of a situation of risk of default of the borrower;
3) non performing past-due exposures: these are on-balance sheet exposures other than those classified as bad debts or unlikely to pay loans that are past due by more than 90 days at the reporting date. Non performing past-due exposures may identified in reference to either the individual borrower or individual transaction.

Expected cash flows take account of expected collection times and the presumed realisable value of any underlying guarantees.
The original effective interest rate of each asset remains unchanged over time, even if a renegotiation of the terms results in a change of the contractual rate, including if the contract becomes non-interest-bearing.

If the reasons for impairment cease to exist due to an event occurring after the impairment was recognised, the impairment loss is reversed and the reversal is recognised in profit or loss. The reversal may not exceed the amortised cost that would have been attributable to the asset had the impairment not been recognised. Reversals due to the passage of time are taken in net interest income.

In some cases, over the lifetimes of the financial assets in question, and in particular over those of loans, the original contractual conditions are modified at the will of the parties to the contract.
When contractual terms are modified in the course of an instrument's life, it must be verified whether the original asset is to continue to be recognised or the original instrument is instead to be derecognised and a new financial instrument recognised.
When the modifications of financial assets are "substantial", the original asset is generally derecognised and a new asset is instead recognised. A modification is determined to be "substantial" on the basis of both qualitative and qualitative elements. In some cases, in fact, it may be clear, without the need for complex analysis, that the changes made substantially modify an asset's contractual characteristics and/or cash flows, whereas in other cases additional analyses (including of a quantitative nature) must be conducted to measure the effects of such modifications and verify whether the asset should be derecognised and a new financial instrument recognised.

Accordingly, the qualitative and quantitative analyses aimed at determining whether contractual modifications of a financial asset are substantial must be based on:

> the purposes of the modifications: for example, renegotiations for commercial reasons and forbearance measures due to financial difficulties by the counterparty;
  1. the former, aimed at "retaining" the customer, involve a debtor not in a situation of financial difficulty. This category also encompasses all renegotiation transactions aimed at adjusting the cost of debt to market conditions. Such transactions entail a modification of the original terms of the contract, typically at the debtor's request, relating to aspects affecting the cost of the debt, with the resulting economic benefit for the debtor. It is generally held that, whenever the bank renegotiates in order to avoid losing a customer, such renegotiation must be considered substantial inasmuch as, had it not occurred, the customer could have obtained financing from another intermediary and the bank would have incurred a loss of expected future revenues;
  2. the latter, undertaken for "reasons of credit risk" (forbearance measures), are attributable to the bank's attempt to maximise the recovery of the cash flows from the original loan. Substantially all the underlying risks and rewards are typically not transferred as a result of such modifications. Accordingly, the accounting treatment that provides the most relevant information for the readers of the financial statements (without prejudice to the remarks presented below regarding objective elements) is that based on "modification accounting", which entails the recognition in profit or loss of the difference between the carrying amount and the present value of the modified cash flows, discounted at the original interest rate, and not through derecognition;

> the presence of specific objective elements ("triggers") that affect the contractual characteristics and/or cash flows of the financial instrument (including, but not limited to, a change of currency or modification of the type of risk exposure, where correlated with equity and commodity parameters) that are believed to entail derecognition by virtue of their impact (expected to be significant) on the original contractual cash flows.

Derecognition

Financial assets are derecognised from the balance sheet only if the transfer results in the transfer of substantially all risks and rewards connected to such assets. Conversely, if a significant share of the risks and rewards relating to the transferred financial assets is retained, these assets will continue to be carried on the balance sheet, even though the ownership of said assets has been effectively transferred in legal terms.
In cases where the transfer of substantially all risks and rewards cannot be assessed, derecognition occurs when no control has been retained over such assets. Conversely, if even partial control is retained, the asset continues to be recognised on the balance sheet to the extent of continuing involvement, which is measured by the exposure to changes in the value of the transferred assets and related cash flows.
Lastly, financial assets are also derecognised from the balance sheet if contractual rights to receive the asset's cash flows are retained, but a contractual obligation to pay, without a significant delay, those (and only those) cash flows to a third party is assumed.

4. Hedging transactions

Types of hedging transactions

The objective of hedging is to eliminate possible losses on a specific item or group of items that could be incurred as a result of a certain risk with gains on another item or group of items.

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.

5. Equity investments

The initial recognition and subsequent measurement criteria used for equity investments under IFRS 10 – *Consolidated Financial Statements* and IAS 28 – *Investments in Associates and Joint Ventures* are given in Part A.1 – Section 3 – Scope of consolidation and consolidation methods in the Notes and Comments.
Other investments – other than subsidiaries, associates, joint ventures and those recognised in items 120. "Non-current assets available for sale and disposal group" and 70. "Liabilities associated to assets held for sale" (see section 8) - are classified as financial assets measured at fair value through other comprehensive income and financial assets held for trading and are recognised accordingly.

6. Property and equipment

Classification

Property and equipment include technical systems, furniture, furnishings and equipment of any type.
They also include assets held exclusively for operating purposes, to be used in the production or provision of goods and services to be leased to third parties or for administrative purposes and that are expected to be used for more than one year.

Recognition

Property and equipment are initially recognised at cost, which includes the purchase price, as well as all directly related costs necessary to purchase the asset and bring it into working condition.

Extraordinary maintenance costs that increase the future economic benefits of the asset are added to the carrying amount of the asset to which they relate, while routine maintenance costs are recognised 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 previous impairment loss been recognised.

Derecognition

Property and equipment are removed from the balance sheet upon disposal or when permanently withdrawn from use and no future economic benefits are expected from their disposal.

7. Intangible assets

Classification

An intangible asset is an identifiable non-monetary asset controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.
In order to be identifiable, an asset must be separable, i.e., capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or must arise from contractual or other legal rights, regardless of whether those rights are transferrable or separable from the entity or from other rights and obligations.
An entity controls an asset if the entity has the power to obtain the future benefits flowing from the underlying resource and simultaneously restrict the access of others to those benefits.
The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law.

Goodwill, which represents the positive difference between the purchase cost and the fair value of the acquiree's assets and liabilities, is also recognised among intangible assets.

Intangible assets include the value of contractual relations with customers acquired as a result of the business combination of Banca del Gottardo Italia.
This asset is an intangible asset, as defined by IAS 38, from which future economic benefits are likely to flow to the acquirer. The value of these relationships was determined on the basis of an estimate of the return on the assets managed by Banca del Gottardo Italia, analysed by asset class, while the useful life was estimated as a ten-year period, based on the historic percentage of decline of assets under management, before the company was acquired.

The remaining intangible assets are application software intended for long-term use, including the expenses of modifying the legacy system, which in turn include intangible assets in progress at the end of the year.

Software costs recorded as intangible assets refer to application software developed by third parties for company use (software development contracts) or purchased with a multi-year licence for use.
Software costs recognised among intangible assets include, at set conditions, also charges for the development of the IT system used by the Bank based on the outsourcing contract with CSE (legacy, front-end financial advisors and front-end customers, etc.).

Such charges are capitalised when they refer to the development of innovative components of the system, which are not part of consortium projects, for which it is possible to identify a control situation, and from which future economic rewards are expected.
Expenses related to corrective and evolution maintenance of IT procedures and the website already in use are usually recognised through profit and loss in the year in which they are borne.

Recognition

Goodwill

An intangible asset can be classified as goodwill when the positive difference between the fair value of the assets and liabilities acquired and the cost of the investment (including incidental expenses) is representative of the investee company's ability to generate future income (goodwill).
In case of badwill, or if the goodwill is not representative of the investee company's ability to generate future income, the difference is recognised directly through profit and loss.

Other intangible assets

Other intangible assets are recorded at cost less any incidental expenses when it is probable that the asset will produce future economic benefits and if the cost of the asset can be reliably determined. When this is not the case, the cost of the intangible asset is recognised in the profit and loss account in the period in which it is incurred.

Measurement

Intangible assets are amortised on a straight-line basis over their useful lives.
Software costs are typically amortised over a three-year period.
Other capitalised costs associated with legacy systems are amortised over a five-year period.
For contractual relations with customers, acquired as a result of the above-mentioned business combination of Banca del Gottardo Italia, the useful lives are estimated at ten years.
Intangible assets with indefinite lives are not amortised, but are periodically reviewed to assess the appropriateness of their carrying amount.

Impairment

Goodwill

In accordance with IAS 36, goodwill is no longer amortised, but is tested for impairment at least annually.
For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs), which may be no larger than the segments identified for management reporting.
To determine the amount of impairment, the carrying amount of the CGU is compared with its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.
The impairment test for goodwill is presented in Section 3 "Impairment Test" in Part G of Notes and Comments of the Annual Financial Report at 31 December 2017.

Other intangible assets

At each reporting date, if impairment is indicated, the recoverable amount of the asset is estimated. The amount of impairment, which is recognised in the profit and loss account, is the amount by which the asset's carrying amount exceeds its recoverable amount.

Derecognition

Intangible assets are removed from the balance sheet on disposal or when no future economic benefits are expected from their use.

8. Non-current assets held for sale or disposal groups

The asset item "Non-current assets held for sale or disposal groups" and liability item "Liabilities associated with assets held for sale or disposal groups" include non-current assets or groups of assets/liabilities for which a disposal process has been initiated and the sale of which is deemed highly likely. Such assets/liabilities are measured at the lesser of their carrying value and fair value less costs to sell.

The net balance of income and expenses (net of the tax effect) attributable to a group of assets available for sale or a group of assets recognised as available for sale during the year is taken through profit and loss under a specific separate item, "Income (Loss) of disposal groups, net of taxes."

9. Current and deferred taxes

Income taxes are recognised in the profit and loss account, with the exception of those relating to items posted directly to net equity.
Provisions for income taxes are made based on a conservative estimate of current taxes, and deferred tax assets and liabilities, which are calculated using prevailing tax rates.
Specifically, deferred tax assets and liabilities are calculated based on the temporary differences — without time limits — between the carrying amount of assets and liabilities and their corresponding values for tax purposes.

Deferred tax assets are recognised to the extent that it is probable that they will be recovered, which is determined based on the ability of the company in question or the Parent Company Assicurazioni Generali — as a result of its exercise of the option provided by the Italian tax consolidation scheme — to generate ongoing taxable income.

Deferred tax liabilities are recognised in the 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 Consolidated Finance Law) introduced the new paragraph 2-*ter* into Article 176 of the Consolidated Income Tax Law (hereinafter TUIR) that allows entities to recognise for income-tax purposes greater amounts recognised in the accounts following a corporate reorganisation transaction in relation to intangible assets, including goodwill, and property and equipment.
That provision requires that the entity pay a substitute tax, determined according to three income brackets, on the basis of the realigned amounts (12% up to 5 million euros, 14% up to 10 million euros and 16% for amounts in excess of the latter bracket, respectively) in lieu of the ordinary rates of 27.5% (IRES) and 3.9% (IRAP).
The substitute tax is to be paid in three annual instalments beginning on the term of payment of the balance of income taxes for the year in which the extraordinary transaction is undertaken, whereas the greater amounts are recognised for the purposes of the tax-deductibility of depreciation and amortisation charges beginning in the tax period in progress when the option for payment of substitute tax is exercised on the tax return, that is to say in the year in which the first instalment is paid.

Legislative Decree No. 185 of 29 November 2008 (the Anti-Crisis Decree), converted to Law No. 2 of 28 January 2009, 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 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.

10. Provisions for liabilities and contingencies

Provisions for commitments and guarantees issued

The sub-item of provisions for liabilities and contingencies in question includes provisions for credit risk recognised on the basis of loan commitments and guarantees issued that come within the scope of application of impairment rules pursuant to IFRS 9.

Such cases are generally subject to the same methods of allocation to the three credit risk stages and calculation of expected losses presented in regard to financial assets at amortised cost or at fair value through other comprehensive income.

Other provisions

Other provisions for liabilities and contingencies include allocations relating to provisions for legal contractual or non-contractual obligations or legal disputes, including tax disputes, arising from a past event where fulfilment of such obligation is likely to require an outflow of financial resources, provided that the amount of the outflow can be reliably estimated.

Therefore, a provision is recognised only when:
- there is a present obligation (legal or constructive) as a result of a past event;
- it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount 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.

11. Financial liabilities at amortised cost

Classification

Due to banks, *Due to customers* and *Securities issued* include the various forms of interbank funding and direct customer inflows, as well as funding through certificates of deposit and the issue of other debt securities, net of any amounts repurchased.
Due to banks and due to customers also include operating debts from financial services.

Recognition

These items are initially recognised when funding is received or the debt securities are issued.
Initial recognition is at the fair value of the liabilities, which is normally the amount received or the issue price plus any costs or income directly attributable to each funding transaction or issuance and not repaid by the creditor. Internal general and administrative expenses are excluded.
For financial liabilities issued below market value, the fair value is estimated and the difference with respect to the market value is recognised directly in the profit and loss account.

Measurement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

With the exception of short-term liabilities where the time-value of money is not material. These are measured at the amount received, and any costs incurred are recognised in the profit and loss account on a straight-line basis for the contractual duration of the liability.

Derecognition

Financial liabilities are removed from the balance sheet when they mature or are settled, or when previously issued securities are repurchased. The difference between the carrying amount of the liability and the amount paid for repurchase is recognised in the profit and loss account.
The reissue of securities on the market after their repurchase is considered a new issue; such securities are therefore measured at the new placement price without any effect on net profit and loss.

12. HFT financial liabilities

This item includes the negative value of trading derivative contracts measured at fair value.
If the fair value of a financial asset falls below zero due to trading, it is recorded as a financial liability held for trading.

13. Financial liabilities designated at fair value

There are currently no financial liabilities measured at fair value.

14. Foreign currency transactions

Initial recognition measurement criteria

On initial recognition, foreign currency transactions are recorded in the functional currency using the exchange rate at the date of the transaction.

Subsequent recognition measurement criteria

At each annual or interim reporting date, monetary items denominated in foreign currency are translated using the exchange rate as follows:
- monetary items are translated using the exchange rate at the reporting date;
- non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value are translated using the exchange rate at the reporting date.

Exchange rate differences that result from the settlement of monetary items or the translation of monetary items at a rate that is different from the one used for initial translation or for translating the previous year's financial statements are recognised in the statement of operations in the period in which they arise.

15. 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 190.a) "General and administrative expenses: staff expenses", where they relate to employment services, and under item 50) "Fee expense" where they relate to contractual relationships with financial advisors. In both cases, such charges are recognised through item 150. "Equity reserves".

The Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) is a share-based incentive plan approved annually by the shareholders' meeting of the parent company, Assicurazioni Generali, and intended for the key personnel of the latter company and other insurance group companies, including several **Key Managers** of the Banking Group.
The plan is aimed at encouraging the pursuit of the objective of an increase in the value of the company's shares by strengthening the link between the remuneration of beneficiaries and performance as identified in the framework of the group's strategic plans ("absolute" performance) and the increase in value compared to a peer group ("relative" performance).

However, for beneficiaries from the Banking Group, the targets triggering accrual of the incentive are broken down into:
> insurance group targets, i.e. ROE (return on equity) and relative total shareholders' return (rTSR), compared to a peer group, assigned a weight of 40% of the total bonus; and
> business unit targets (Banking Group ROE and EVA), assigned a 60% weight.

The key characteristics of the plan are as follows:
> the incentive accrued upon achieving the targets is disbursed by Assicurazioni Generali S.p.A. in a single instalment at the end of the three-year vesting period through the free granting to the beneficiaries of its own ordinary shares;
> the maximum number of the shares to be granted is determined at the beginning of the three-year period and is divided into three instalments for the three years of the plan;

> each year, the level of satisfaction of the objectives initially set for the three-year period is verified in order to determine the number of shares to be set aside for each instalment;
> from the 2015-2017 cycle, a lock-up restriction is envisaged for the shares assigned, applicable to 50% of the shares for one year from assignment and to 50% after two years from assignment;
> malus and claw-back clauses have been included and a minimum access gate set for each tranche.

The new plan may be classified as an equity-settled transaction and therefore within the scope of IFRS 2.

IFRS 2, in the new formulation endorsed by Commission Regulation (EU) No. 244/2010 of 23 March 2010, includes a specific section governing share-based payment transactions between group entities (paragraphs 43B-43C and B45-B61 of the Application Guidance).
In that section, it is specified that in share-based payment transactions between group entities, the entity that receives the goods or services must assess whether the cost of the goods or services are to be accounted for as an equity-settled shared-based payment transaction, through a balancing entry to a capital reserve, or on a cash basis, through a balancing entry to a liability.
In this regard, the accounting standard envisages (paragraph 43B) that if the arrangement calls for the shares of the parent company to be granted directly by itself to a subsidiary's employees — and therefore with no action on the part of the subsidiary —, the charge to the profit and loss account will be recognised to an equity reserve through a balancing entry, inasmuch as it is similar to a capital contribution by the parent company.

Given the specific nature of the plans reserved for beneficiaries belonging to the Banking Group, such plans must be assessed individually for components relating to group targets and business targets (for the Banking Group).

More specifically:
> as it is a pure stock grant, the plan component linked to business unit objectives should be valued exclusively based on the fair value of the Assicurazioni Generali ordinary shares at the grant date;
> the plan component linked to the Group's objectives includes TSR as an objective, since it qualifies as market condition whose value is included in the fair value of the stock grant.

The total cost of the plan is equal to the sum of the cost calculated for each tranche on the basis of the fair value determined according to the above methods, multiplied by the number of shares that may potentially be granted in respect of the performance condition, the likelihood that the service condition will be met and the achievement of the minimum eligibility threshold. That cost is allocated over a three-year vesting period starting from the grant date, with a balancing entry to a specific equity reserve.

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 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 190 a) Staff expenses are recognised exclusively costs representing remuneration for professional services rendered, thus excluding those representing pure reimbursement of the expenses incurred by the employee for the benefit of the enterprise in the performance of professional activity.

Accordingly, indirect expenses functionally related to activity performed by staff are recognised under item 190 b) Other general and administrative expenses. Such 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.

Calculation of impairment losses

Impairment losses of financial assets

At each reporting date, in accordance with IFRS 9, financial assets other than those at fair value through profit or loss are tested for evidence that their carrying amounts may not be fully recoverable. Similar tests are also performed for loan commitments and guarantees issued that come within the scope of impairment testing pursuant to IFRS 9.

Where such evidence of impairment exists, the financial assets in question are considered impaired and included in stage 3, along with all remaining assets associated with the same counterparty, if any. Such exposures, represented by financial assets classified, in accordance with Bank of Italy Circular No. 262/2005, as bad loans, unlikely-to-pay loans and exposures past due by more than 90 days must be accounted for by recognising impairment losses equivalent to the expected losses over their entire residual lifetimes.

Impairment losses of performing financial assets

For financial assets for which there is no evidence of impairment (performing financial instruments), it must be verified whether there are any indicators that the credit risk associated with each transaction has increased significantly with respect to initial recognition. The consequences of this assessment, from the standpoint of classification (or, to be more precise, "staging") and measurement, are as follows:
- where such indicators exist, the financial asset is classified as stage 2. In such cases, in accordance with international accounting standards, and despite the absence of a manifest decline in value, measurement involves recognising impairment losses equal to the expected losses over the financial instrument's entire residual lifetime;
- where such indicators do not exist, the financial asset is classified as stage 1. In such cases, in accordance with international accounting standards, and despite the absence of a manifest decline in value, measurement involves recognising impairment losses equal to the expected losses for the specific financial instrument over the following twelve months.

Such impairment losses are revised on each subsequent reporting date to verify periodically that they are consistent with constantly updated loss estimates and to take account of the changed forecasting period for calculating expected loss, in the event of changes in indicators signalling "significantly increased" credit risk.

With regard to the tracking of credit quality, in accordance with the provisions of the Standard and the Supervisory Authority's instructions as to how to apply the Standard in the case of less significant institutions, a detailed analysis was conducted for each relationship, whether in the form of a security or a loan.
To identify whether there has been a "significant deterioration" of credit quality since initial recognition and there is thus a need for classification to stage 2 and, vice versa, whether the conditions have been met for reclassification from stage 2 to stage 1, it has been decided to make a comparison, at each reporting date, between the credit quality of the financial instrument at the time of measurement and at the time of initial disbursement or purchase (stage assignment).

In view of the above, the factors that will be decisive when determining transitions between the various stages are as follows:
- a change in rating class with respect to the moment of initial recognition of the financial asset. In other words, this is an assessment according to a "relative" criterion;
- the presence of a position past due by at least 30 days. Where such positions exist, in other words, the credit risk of the exposure is presumed to have increased significantly and the position is thus reclassified to stage 2;
- the presence of forbearance measures, which entail the classification of the exposure as among those whose credit risk has "significantly increased" with respect to initial recognition.

Some particular considerations apply to the staging of securities. In the case of this type of exposure - as opposed to loans - purchase transactions following an initial purchase of securities with the same ISIN may be a customary part of ordinary management of such positions (resulting in the need to establish an approach to identify sales and redemptions to determine the residual balances of individual transactions with which to associate a credit quality/ rating upon origination to be compared with that as at the reporting date). The "first-in, first-out" ("FIFO") method has thus been deemed to contribute to more transparent management of the portfolio, including from the standpoint of front-office personnel, thus also permitting assessments of creditworthiness to be updated constantly on the basis of new purchases.

Finally, Banca Generali has adopted the low credit risk exemption provided for in IFRS 9 for certain financial assets, namely debt instruments issued by governments and public administrations. Accordingly, exposures that are rated investment grade or above as at the reporting date will be deemed low credit risk exposures and thus classified to stage 1.

Once exposures have been allocated to the various credit risk stages, expected credit losses (ECLs) are determined for each transaction or tranche of a security, on the basis of the parameters of probability of default (PD), loss given default (LGD) and exposure at default (EAD).

The measurement of financial assets also reflects the best estimate of the effects of future conditions - above all those of the economic context - with an impact on forward-looking PD and LGD.

Impairment losses of non-performing financial assets

Non-performing loans classified to the bad loan category are measured as follows:
- individual measurement of all exposures classified as bad loans;
- individual measurement of all exposures classified as unlikely-to-pay (UTP) and past-due of amounts in excess of 10 thousand euros and secured positions under 10 thousand euros;
- statistical measurement for all positions classified as unlikely-to-pay (UTP) and past-due below the above thresholds.

Individual measurement is performed by managers on individual positions on the basis of a qualitative and quantitative analysis of the debtor's financial performance and position, the risk level of the credit relationship and any mitigating factors (guarantees), while also taking account of the financial effect of the time estimated to be necessary for recovery.

In the case of bad loans in particular, significance is attached to a series of elements - present to varying degrees depending on the characteristics of the positions - to be assessed as thoroughly and prudently as possible, including, but not limited to:
- the nature of the claim, i.e., preferred or unsecured;
- the net assets of the obligors/third party guarantors;
- the complexity of ongoing or potential litigation and/or the underlying legal matters;
- exposure of obligors to the banking system and other creditors;
- most recent available financial statements;
- legal status of obligors and pending insolvency and/or individual procedures.

Statistical assessments are conducted on the basis of the parameters set out in the ECB guidelines. Residual exposures of amounts beneath a predetermined threshold are written off.
The financial effect of time (time value) is not taken into account for exposures classified as past due by more than 90 days due to the high frequency of return to performing status in the short term.

Contributions to deposit guarantee systems and resolution mechanisms

Through Directives 2014/49/EU of 16 April 2014 and 2014/59/EU of 15 May 2014, respectively the "Deposit Guarantee Schemes Directive (DGSD)" and "Bank Recovery and Resolution Directive (BRRD)" and the institution of the Single Resolution Mechanism (Regulation (EU) No 806/2014 of 15 July 2014), European lawmakers made significant changes to the rules concerning banking crises with the strategic aim of strengthening the single market and ensuring systemic stability. As illustrated in further detail below, the above legislative changes had a significant impact on financial performance and financial position as a result of the obligation to establish specific funds with financial resources that must be provided by contributions from financial institutions starting in 2015.

Contributions deriving from the Deposit Guarantee Schemes Directive (DGS)

Directive 2014/49/EU, effective as of 3 July 2015, harmonises the levels of protection offered by national deposit guarantee schemes (DGSs) and their methods of intervention, with the aim of eliminating possible competitive disparities within the European market. To that end, the Directive provides that national DGSs (in Italy, the Interbank Deposit Protection Fund or FITD) must endow themselves with means commensurate to the deposits protected, which must be provided through mandatory contributions from financial institutions. The new element for Italian banks is the new mechanism for financing the fund: the previous after-the-fact contribution system, in which funds were requested in case of need, has been replaced by a mixed system, in which funds must be paid in advance, so as to reach, within ten years of the entry into force of the Directive (3 July 2024), a minimum target level of **0.8% of the deposits guaranteed.**
The contributions from each entity are calculated as a function of the ratio of the amount of own deposits to the total protected deposits in the country.
Article 10 of Directive 2014/49/EU provides that contributions are to be paid by banks with at least annual frequency.
In its extraordinary meeting of 26 November 2015, the FITD then amended its Articles of Association to comply with the new contribution rules and regulatory framework.
The Directive was then transposed into Italian law through Legislative Decree No. 30/2016.

Contribution charges deriving from the Bank Recovery and Resolution Directive (BRRD)

Directive 2014/59/EU establishes the new resolution rules, applicable from 1 January 2015 to all European Union banks in a state of current or prospective default. These rules, which introduce the "bail-in" principle, require, under certain circumstances, that funding for resolution may also be supported by a national resolution fund instituted by each of the 28 European Union Member States and managed by a national resolution authority.

To that end, the Directive provides that the national resolution funds be endowed with financial means provided through mandatory advance contributions from authorised financial institutions.
In particular, the funds are to be paid in advance until reaching a minimum target level, over a period of ten years, i.e. by 31 December 2024, **of 1% of guaranteed deposits**[1],

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.

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%.

The new European Single Resolution Fund (SRF) provided for in Regulation No. 806/2014, instituting the Single Resolution Mechanism (SRM) and managed by a new European resolution authority, formed within the ECB (Single Solution Board – SRB), began to function on 1 January 2016.
From 1 January 2016 to 31 December 2023 (a period of eight years), the Single Resolution Fund must reach a target level of means of at least 1% of the amount of the protected deposits of all authorised entities in the banking union. The contribution rules for the period 2016-2023 are established in Article 8 of Implementing Regulation 81 of 2015.
Accordingly, the banks of Member States of the Banking Union (including Italian banks) contributed to the National Resolution Fund in 2015 and contributed to the Single Resolution Fund starting in 2016 (until 2023). During the initial period, when calculating each institution's individual contributions, this transfer will be taken into account.

Accounting treatment of contribution charges deriving from the BRRD and DGSD

The accounting and reporting treatment applicable to contributions to resolution funds was the subject of the Bank of Italy's notice dated 20 January 2016, as well as of a notice dated 25 January 2017 specifically relating to "Additional contributions to the national resolution fund".
Similar conclusions were reached by ESMA in its Opinion 2015/ESMA/1462 "Application of the IFRS requirements in relation to the recognition of contributions to Deposit Guarantee Schemes in IFRS accounts" of 25 September 2015 with regard to non-reimbursable cash contributions to be paid in advance into deposit guarantee funds.

For financial reporting purposes, reference should be made to IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* and the Interpretation IFRIC 21 – *Levies*, which entered into force on 1 January 2015.
The Interpretation concerns the accounting treatment of a liability for a levy where the liability falls within the scope of application of IAS 37.
As defined in IFRIC 21, "a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation".
Obligations to contribute to the National Guarantee Fund, in both ordinary and extraordinary form, are imposed by legislation, and thus fall within the scope of "levies" as defined in IFRIC 21.

IAS 37 and IFRIC 21 provide that a liability must be recognised when the obligating event that gives rise to a present obligation occurs. Since the decree does not provide for contributions to be reduced or refunded to intermediaries, in whole or in part, whenever the obligating event occurs the liability relating to the contributions in question must be recognised for the full amount.

Since it is not possible to account for the liability through either an intangible asset pursuant to IAS 38 or a prepayment asset, the contributions must be recognised in profit and loss.

In this regard, the Bank of Italy has clarified that the item to which to classify such contributions, which for accounting purposes may be regarded as levies, is sub-item 160 b) General and administrative expenses – other general and administrative expenses of the profit and loss account in the separate financial statements (item 190 b) of the consolidated financial statements), which is also used to account for the indirect levies and taxes (paid and unpaid) accrued during the year.

Business Combinations

Business combinations are regulated by the IFRS 3 – ***Business Combinations***.
Based on this standard, any acquisition of companies is accounted for using the purchase method, whereby the assets, liabilities, and contingent liabilities of the acquired company are recognised at fair value on the acquisition date. Any positive difference of the price paid over fair value is recognised as goodwill or other intangible assets; if the price is less, the difference is recognised in the Profit and Loss Account.
The purchase method is applied as of the acquisition date, i.e. from the time effective control of the acquired company is obtained. Accordingly, the results of subsidiaries acquired during the year are included in the Consolidated Financial Statements from the date of acquisition. Also the profit and loss results of a subsidiary which has been disposed of are included in the Consolidated Financial Statements, up to the date control is transferred.

Business combinations of entities under common control are not included in the scope of IFRS 3, nor are they covered by other IFRS. They are accounted for in accordance with IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*.
The IASs/IFRSs provide specific guidelines for transactions not covered by IFRS (described in paragraphs 10-12 of IAS 8); according to these guidelines, management is encouraged to consider the most recent pronouncements of other regulatory bodies that use a similar conceptual framework to define accounting standards.
In fulfilment of this requirement, we observed that the Financial Accounting Standards Board (FASB) has published an accounting standard regarding business combinations (FAS 141) that in some respects is similar to IFRS 3. Unlike IFRS 3, however, FAS 141 includes an appendix containing limited accounting guidelines for transactions under common control that were previously included in the Accounting Principles Board's (APB) Opinion 16. According to the pooling of interest method, for this type of transaction the assets and liabilities of business combinations are stated at historical (book) value instead of fair value, and goodwill is not recognised.

This solution was essentially adopted at national level by Assirevi, with documents OPI No. 1R on the accounting treatment of business combinations of entities under common control, and OPI No. 2R on the accounting treatment of mergers.

Intra-group combinations or other combinations of entities under common control within the Banca Generali Group are therefore accounted for based on the book value of the entity transferred. Any difference between the consideration paid for the acquisition of the equity interest and the book value of the entity transferred (goodwill) is deducted from the net equity of the acquirer, and the transaction is classified as an extraordinary distribution of reserves.
In a similar way, if an entity is disposed of, the amount received is directly recognised in an equity reserve, as it is a capital contribution by other companies of the Group to which it belongs.

Part A.3 – Information on Fair Value

IFRS 13 requires that entities that apply IASs/IFRSs make adequate disclosure of the fair value measurements used for each class of financial instruments, and in particular:

1) the level in the fair value hierarchy into which the fair value measurements are categorised, segregating instruments belonging to different categories;
2) any significant transfers between Level 1 and Level 2 during the year;
3) for instruments measured in Level 3, a reconciliation from the beginning balances to the ending balances, disclosing separately changes in profit and loss (in the profit and loss account and net equity), purchases and sales, and transfers out of Level 3 due to the use of market data.

The criteria and procedures for determining fair value used to measure portfolios of financial assets and liabilities in these Consolidated Half-Year Financial Statements are the same as those applied in the preparation of the Consolidated Financial Statements at 31 December 2017, as illustrated in Part A, Section 4, of the Notes and Comments to those Financial Statements.

Fair Value Hierarchy

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.

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.3.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair-value levels

ASSETS/LIABILITIES AT FAIR VALUE	30.06.2018				
	L1	L2	L3	AT COST	TOTAL
1. Financial assets measured at fair value through profit or loss:					
a) HFT financial assets	2,686	35,475	-	-	38,161
b) financial assets designated at fair value	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	888	64,951	355	-	66,194
2. Financial assets measured at fair value through other comprehensive income	2,353,932	17,794	468	7,327	2,379,521
3. Hedging derivatives	-	-	-	-	-
4. Property and equipment	-	-	-	-	-
5. Intangible assets	-	-	-	-	-
Total	**2,357,506**	**118,220**	**823**	**7,327**	**2,483,876**
1. HFT financial liabilities	185	333	-	-	518
2. Financial liabilities measured at fair value	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-
Total	**185**	**333**	**-**	**-**	**518**

ASSETS/LIABILITIES MEASURED AT FAIR VALUE	31.12.2017 L1	L2	L3	AT COST	TOTAL
1. Financial assets measured at fair value through profit or loss:					
a) HFT financial assets	3,922	36,426	9,466	-	49,814
b) financial assets designated at fair value	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	4,558,493	46,128	792	7,315	4,612,728
3. Hedging derivatives	-	-	-	-	-
4. Property and equipment	-	-	-	-	-
5. Intangible assets	-	-	-	-	-
Total	**4,562,415**	**82,554**	**10,258**	**7,315**	**4,662,542**
1. HFT financial liabilities	128	78	-	-	206
2. Financial liabilities measured at fair value	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-
Total	**128**	**78**	**-**	**-**	**206**

A.3.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
	TOTAL	OF WHICH: A) HFT FINANCIAL ASSETS	OF WHICH: B) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	OF WHICH: C) OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
1. Amount at period-start	**9,466**	**-**	**-**	**9,466**	**8,107**
2. Increases	**890**	**-**	**-**	**890**	**33**
2.1 Purchases	-	-	-	-	33
2.2 Gains through:	96	-	-	96	-
2.2.1 Profit and loss	96	-	-	96	-
of which: Capital gains	-	-	-	-	-
2.2.2 Net equity	-	X	X	X	-
2.3 Transfers from other levels	794	-	-	794	-
2.4 Other increases	-	-	-	-	-
3. Decreases	**10,001**	**-**	**-**	**10,001**	**345**
3.1 Disposals	9,562	-	-	9,562	21
3.2 Redemptions	-	-	-	-	324
3.3 Losses through:	439	-	-	439	-
3.3.1 Profit and loss	439	-	-	439	-
of which: Capital losses	*439*	-	-	*439*	-
3.3.2 Net equity	-	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-
4. Amount at period-end	**355**	**-**	**-**	**355**	**7,795**

A.3.3 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair-value levels

FINANCIAL ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	30.06.2018			
	BV	L1	L2	L3
1. Financial assets at amortised cost	5,742,644	3,404,668	1,328,621	929,837
2. Property and equipment held as investments	-	-	-	-
3. Non-current assets available for sale and disposal groups	-	-	-	-
Total	**5,742,644**	**3,404,668**	**1,328,621**	**929,837**
1. Financial liabilities at amortised cost	8,521,256	-	8,477,155	45,187
2. Liabilities associated to assets held for sale	-	-	-	-
Total	**8,521,256**	**-**	**8,477,155**	**45,187**

FINANCIAL ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31.12.2017			
	BV	L1	L2	L3
1. Financial assets at amortised cost	3,285,472	1,053,382	1,342,745	938,864
2. Property and equipment held as investments	-	-	-	-
3. Non-current assets available for sale and disposal groups	-	-	-	-
Total	**3,285,472**	**1,053,382**	**1,342,745**	**938,864**
1. Financial liabilities at amortised cost	7,879,779	-	7,836,510	45,656
2. Liabilities associated to assets held for sale	-	-	-	-
Total	**7,879,779**	**-**	**7,836,510**	**45,656**

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

1. Assets

1.1 Cash and deposits - Item 10

ITEMS/VALUES	30.06.2018	31.12.2017
a) Cash	19,314	17,865
b) Demand deposits with Central Banks	808,136	545,632
Total	**827,450**	**563,497**

Item b) Demand deposits with Central Banks represents the portion of the balance of the settlement account held with the Bank of Italy that is not restricted according to the mandatory reserve rules.

1.2 Financial assets measured at fair value through profit or loss - Item 20

1.2.1 HFT financial assets: debtors/issuers/counterparties

ITEMS/VALUES	30.06.2018	31.12.2017
A. Cash assets		
1. Debt securities	36,084	48,329
a) Central Banks	-	-
b) Public administration bodies	10	-
c) Banks	35,095	37,892
d) Other financial companies	979	10,437
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	1,651	799
a) Banks	1	1
b) Other financial companies	6	242
of which: insurance companies	-	*242*
c) Non-financial companies	1,644	556
d) Other issuers	-	-
3. UCITS units	-	-
4. Financing	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	**37,735**	**49,128**
B. Derivatives		
a) Central counterparties	-	-
b) Other	426	686
Total B	**426**	**686**
Total (A + B)	**38,161**	**49,814**

1.2.2 Other financial assets mandatorily measured at fair value: debtors/issuers

ITEMS/VALUES	30.06.2018	31.12.2017
1. Equity securities	**1,243**	**-**
of which:		
- *banks*	-	-
- *other financial companies*	*888*	-
- *other non-financial companies*	*355*	-
2. Debt securities	**3,059**	**-**
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	3,059	-
d) Other financial companies	-	-
of which:		
- *insurance companies*	-	-
e) Non-financial companies	-	-
3. UCITS units	**43,826**	**-**
4. Financing	**18,066**	**-**
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	18,066	-
of which:		
- *insurance companies*	*18,066*	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**66,194**	**-**

The UCITS portfolio included 28,293 thousand euros related to an interest of about 8% in Tyndaris European Real Estate Finance S.A. (TECREF), an alternative fund under Luxembourg law, which through the master/feeder fund invests in financial instruments linked to the European business real estate market, particularly in mezzanine instruments.

The residual UCITS portfolio is comprised for 4,040 thousand euros of the investment in the Luxembourg vehicle Algebris, for 4,759 thousand euros of the units of the Tenax Italian Credit Fund, managed by the Irish firm Tenax Capital Ltd., and for the remainder 6,734 thousand euros of investments in the Luxembourg Sicav SIF BNP Flexi III, specialised in investing in leveraged loans, in the fund BNP Bond Italy PMI, specialised in mini-bonds, and in the Finlabo Investments fund.

In the first half of 2018, the units of sub-funds of Group's Sicav BG Selection Sicav were sold. At 31 December 2017 they amounted to 2,105 thousand euros.

1.3 Financial assets measured at fair value through other comprehensive income - Item 30

1.3.1 Financial assets measured at fair value through other comprehensive income: debtors/issuers

ITEMS/VALUES	30.06.2018	31.12.2017
1. Debt securities	**2,371,726**	**4,557,000**
a) Central Banks	-	-
b) Public administration bodies	2,170,969	4,465,316
c) Banks	136,335	55,649
d) Other financial companies	54,405	23,173
of which: insurance companies	-	*7,090*
e) Non-financial companies	10,017	12,862
2. Equity securities	**7,795**	**9,600**
a) Banks	-	-
b) Other issuers:	7,795	9,600
- other financial companies	1,297	2,320
of which: insurance companies	-	*699*
- non-financial companies	6,491	7,273
- other	7	7
3. Financing	**-**	**-**
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Financial assets mandatorily measured at fair value	-	46,128
Total	**2,379,521**	**4,612,728**

The equity securities portfolio includes for 6,622 thousand euros “minor equity investments” and largely related to service agreements concluded by the Group (CSE, GBS, Tosetti Value Sim, Caricese, SWIFT, etc.), usually non-negotiable. Those interests are measured at cost in the absence of reliable estimates of fair value.

Such portfolio also includes the contributions to joint ventures, one with Fabula Pictures S.r.l. to produce the movie “Piccoli crimini coniugali”, one with Eskimo S.r.l. to produce “Beate”, and one with Tico Film to produce the movie “Babylon Sisters”, for an overall amount of 705,000 euros. Capital contributions were recognised at cost.

Another capital contribution, in the original amount of 1,053 thousand euros, was made to the Interbank Deposit Protection Fund (FITD) in December 2017 for the purchase of the junior tranche and a portion of the mezzanine tranche of the securitisation of the Caricesena NPLs, as part of the second rescue intervention for this latter bank. This contribution was then written down by 883 thousand euros to bring it into line with the Bank’s share of the fair value of the underlying instruments at 31 December 2017, on the basis of the results of the appraisal commissioned by the FITD, resulting in a value of 171 thousand euros at year-end. Said amount was unchanged as of 30 June 2018.

1.3.2 Financial assets measured at fair value through other comprehensive income: gross value and total adjustments

	GROSS VALUE		TOTAL ADJUSTMENTS	
	STAGE 1 AND STAGE 2	STAGE 3	STAGE 1 AND STAGE 2	STAGE 3
Debt securities	2,374,344	-	2,618	-
Financing	-	-	-	-
Total at 30 June 2018	**2,374,344**	**-**	**2,618**	**-**
Total at 31 December 2017	**4,557,000**	**-**	**-**	**-**

1.4 Financial assets measured at amortised cost - Item 40

1.4.1 Financial assets measured at amortised cost: loans to banks: categories

TYPE OF TRANSACTIONS/VALUES	30.06.2018 BOOK VALUE	31.12.2017 BOOK VALUE
A. Loans to Central Banks	**75,774**	**67,617**
1. Term deposits	-	-
2. Mandatory reserve	75,774	67,617
3. Repurchase agreements	-	-
4. Other	-	-
B. Loans to banks	**250,022**	**309,846**
1. Loans:	168,112	217,094
1.1 Current accounts and demand deposits	98,356	150,732
1.2 Term deposits	65,919	65,938
1.3 Other loans:	3,837	424
- repurchase agreements	-	-
- finance lease	-	-
- other	3,837	424
2. Debt securities	81,910	92,752
2.1 Structured securities	-	3,035
2.2 Other debt securities	81,910	89,717
Total (book value)	**325,796**	**377,463**

A specific impairment test was conducted on debt portfolio classified among loans to banks and no impairment was detected. Moreover, a 131 thousand euros collective reserve was allocated for contingent losses on the securities portfolio that was not subjected to analytical impairment.

A specific impairment test was conducted also on the remaining items classified among loans to banks and no impairment was detected. Moreover, a 126 thousand euro collective reserve was allocated for contingent losses.

1.4.2 Financial assets measured at amortised cost: loans to customers: categories

	30.06.2018	31.12.2017
Loans	**1,795,255**	**1,768,965**
Current accounts	913,551	895,369
Mortgages and personal loans	877,859	869,793
Other loans	3,845	3,803
Debt securities	**3,467,667**	**981,144**
Other transactions	**153,926**	**157,900**
Operating loans to management companies	119,737	112,333
Sums advanced to Financial Advisors	18,872	34,376
Stock exchange interest-bearing daily margin	10,645	3,562
Changes to be debited and other loans	4,672	7,629
Total loans to customers	**5,416,848**	**2,908,009**

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. At 30 June 2018, the allocated collective reserve totalled 2,319 thousand euros.

A specific impairment test was conducted on debt portfolios classified among loans to customers and no impairment was detected. Moreover, a 5,141 thousand euros collective reserve was allocated for contingent losses on the securities portfolio that was not subjected to analytical impairment.

The securities portfolio includes a 14.0 million euro convertible loan issued on 16 December 2015 by Tyndaris LLP, an English fund management company. The bond has a term of six years and may be converted into an interest in Tyndaris LLP at the end of the second year and at final maturity, in an amount not to exceed 2 million GBP at each maturity, and in any event, up to maximum share of 9.9% of the partnership. The loan provides for an interest of 3% for the first two years and subsequently of 7.5%. The bond may be redeemed in advance by the issuer. A collective reserve amounting to about 1.3 million euros was allocated in relation with that position.

1.4.3 Doubtful loans

(€ THOUSAND)	GROSS EXPOSURE	VALUE ADJUST-MENTS	NET EXPOSURE 2018	NET EXPOSURE 2017	CHANGE AMOUNT	CHANGE %	SECURED EXPOSURE SUBJECT TO INDEMNITY	EXPOSURE NET OF INDEMNITY
Bad loans	37,918	-15,315	22,603	24,899	-2,296	-9.2%	19,847	2,756
Financing	32,461	-10,813	21,648	23,892	-2,244	-9.4%	19,847	1,801
Debt securities	2,642	-2,642	-	-	-	-	-	-
Operating loans	2,815	-1,860	955	1,007	-52	-5.2%	-	955
Unlikely to pay	22,280	-1,496	20,784	39,232	-18,448	-47.0%	5,232	15,552
Past-due exposures - over 90 days	8,080	-396	7,684	9,326	-1,642	-17.6%	-	7,684
Total non-performing loans	**68,278**	**-17,207**	**51,071**	**73,457**	**-22,386**	**-30.5%**	**25,079**	**25,992**
Performing debt securities	3,472,808	-5,141	3,467,667	981,144				
Performing financing and loans	1,900,429	-2,319	1,898,110	1,853,408				
Total loans to customers	**5,441,515**	**-24,667**	**5,416,848**	**2,908,009**				

Net non-performing loans amounted to 51.0 million euros, equal to 0.95% of total loans to customers, and down compared to the previous year (-22.4 million euros).

Unlikely to pay exposures decreased by 18.4 million euros, mainly due to two significant exposures classified among unlikely to pay following the general review of loans positions carried out in 2017 and fully repaid with no charge incurred by the Bank (15.4 million euros). The decline in bad loans was attributable to the final acquisition of the indemnity guarantee following the settlement of an insolvency procedure.

Within the segment of loans to customers, exposures were mostly revocable account credit facilities secured by financial collaterals mainly in the form of pledges of financial instruments and/or similar products (mandate to policy redemption); with regard to bad loans, exposures were chiefly mortgages of real property (63% of net exposure).

At the end of the period, non-performing loans included 25.1 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 this portfolio, which accounted for over 49% of net non-performing exposures, the weight of non-performing exposures to total loans to customers decreased to 0.48% (26.0 million euros).

Net non-performing exposures relating to operating loans amounted instead to 931 thousand euros and referred primarily to litigation or pre-litigation positions of former Financial Advisors.

At the end on the first half of the year, the positions with forbearance measures stood at approximately 113.2 million euros, of which 9.3 million euros referring to non-performing positions.

1.4.4 Financial assets measured at amortised cost: gross value and total adjustments

	GROSS VALUE		TOTAL ADJUSTMENTS	
	STAGE 1 AND STAGE 2	STAGE 3	STAGE 1 AND STAGE 2	STAGE 3
Debt securities - banks	82,041	-	131	-
Debt securities - customers	3,472,808	2,642	5,141	2,642
Loans to banks	244,012	-	126	-
Loans to customers	1,900,429	65,636	2,319	14,565
Total at 30 June 2018	**5,699,290**	**68,278**	**7,717**	**17,207**
Total at 31 December 2017	**3,218,242**	**89,010**	**5,220**	**16,560**

1.5 Equity investments - Item 70

1.5.1 Equity investments: disclosure on type of relations

COMPANY NAME	REGISTERED OFFICE	OPERATING OFFICE	TYPE OF RELATION	SHAREHOLDING		% OF VOTING RIGHTS
				INVESTOR COMPANY	% HELD	
A. Subsidiaries under common control						
B. Companies subject to significant influence						
1. IOCA Entertainment Limited	United Kingdom - London	United Kingdom - London	Associate company	Banca Generali	35%	35%

1.5.2 Non-significant investments: accounting information

COMPANY NAME	BOOK VALUE OF EQUITY INVESTMENTS	TOTAL ASSETS	TOTAL LIABILITIES	TOTAL REVENUES	NET PROFIT (LOSS) FROM OPERATING ACTIVITIES	INCOME (LOSS) OF DISPOSAL GROUPS	NET PROFIT (LOSS) FOR THE PERIOD (1)	OTHER INCOME COMPONENTS (2)	COMPREH-ENSIVE INCOME (3) = (1) + (2)
B. Companies subject to significant influence									
1. IOCA Entertainment Limited	1,716	793	21	-	-284	-	-284	-	-284
Total	**1,716**	**793**	**21**	**-**	**-284**	**-**	**-284**	**-**	**-284**

1.5.3 Equity investments: year changes

	30.06.2018	31.12.2017
A. Amount at period-start	**1,820**	**1,988**
B. Increases	**-**	**-**
B.1 Purchases	-	-
B.2 Reversals	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**104**	**168**
C.1 Sales	-	-
C.2 Adjustments	99	151
C.3 Write-downs	-	-
C.4 Other changes	5	17
D. Amount at period-end	**1,716**	**1,820**
E. Total revaluations	**-**	**-**
F. Total adjustments	**104**	**168**

1.6 Property, equipment and intangible assets - Items 90 and 100

1.6.1 Breakdown of property, equipment and intangible assets

(€ THOUSAND)	30.06.2018	31.12.2017
A. Property and equipment		
1. Operating		
1.1 Owned assets:		
- furniture and fittings	5,544	5,033
- EAD machines and equipment	364	411
- miscellaneous machines and equipment	1,008	1,126
1.2 Leased assets	-	-
Total property and equipment	**6,916**	**6,570**
B. Intangible assets		
With unspecified maturity:		
- goodwill	66,065	66,065
With specified maturity - at cost:		
- customer relationship (former Banca del Gottardo, former CSI)	13,056	13,632
- charges for legacy systems	8,315	8,137
- other software costs	-	-
- other intangible assets	406	710
- assets in progress	560	3,266
Total intangible assets	**88,402**	**91,810**
Total property, equipment and intangible assets	**95,318**	**98,380**

1.6.2 Changes in property, equipment and intangible assets

	GOODWILL	INTANGIBLE ASSETS	PROPERTY AND EQUIPMENT	30.06.2018
Net amount at period-start	**66,065**	**25,745**	**6,570**	**98,380**
Increases	**-**	**1**	**1,122**	**1,123**
Purchases	-	-	1,122	1,122
Other changes	-	1	-	1
of which: business combinations	-	-	-	-
Decreases	**-**	**3,409**	**776**	**4,185**
Sales	-	-	-	-
Adjustments	-	3,409	750	4,159
of which:				
a) amortisation/depreciation	-	*3,409*	*750*	*4,159*
b) Write-downs	-	-	-	-
Other changes	-	-	26	26
Amount at period-end	**66,065**	**22,337**	**6,916**	**95,318**

1.7 Tax assets and liabilities - Item 110 (Assets) and Item 60 (Liabilities)

1.7.1 Breakdown of item 110 (Assets) - tax assets

TYPE OF TRANSACTIONS/VALUES	30.06.2018	31.12.2017
Current taxation	**359**	**776**
Sums due for taxes to be refunded	78	483
IRES	237	248
IRAP	44	45
Deferred tax assets	**54,375**	**44,959**
With impact on profit and loss account	**44,749**	**43,672**
IRES	37,802	37,115
IRAP	6,947	6,557
With impact on net equity	**9,626**	**1,287**
IRES	8,306	1,167
IRAP	1,320	120
Total	**54,734**	**45,735**

1.7.2 Breakdown of item 60 (Liabilities): tax liabilities

TYPE OF TRANSACTIONS/VALUES	30.06.2018	31.12.2017
Current taxation	**31,539**	**21,024**
IRES arising on National Tax Consolidation scheme	10,943	2,592
IRES and other income taxes	12,496	15,051
IRAP	8,100	3,381
Deferred tax liabilities	**5,510**	**14,540**
With impact on profit and loss account	**4,592**	**2,731**
IRES	4,045	2,375
IRAP	547	356
With impact on net equity	**918**	**11,809**
IRES	785	10,083
IRAP	133	1,726
Total	**37,049**	**35,564**

1.7.3 Breakdown of deferred tax assets

	30.06.2018	PURSUANT TO LAW NO. 214/2011	31.12.2017	PURSUANT TO LAW NO. 214/2011
With impact on profit and loss account	**44,749**	**7,333**	**43,672**	**8,107**
Provisions for liabilities and contingencies	36,037	-	35,281	-
Credit devaluation	2,579	2,579	2,735	2,735
Redeemed goodwill (pursuant to Art. 15, para. 10, of Legislative Decree No. 185/2008)	2,519	2,519	3,024	3,024
Consolidated goodwill of BG Fiduciaria (Art. 15, para. 10-*ter*)	1,310	1,310	1,379	1,379
Redeemed goodwill (Art. 176, para. 2-*ter*, of TUIR)	925	925	969	969
Collective reserve for collaterals granted	27	-	127	-
Alitalia analytical impairment reserve (IRAP only)	123	-	123	-
IFRS 9 FTA	1,201	-	-	-
Other	28	-	34	-
With impact on net equity	**9,626**	**-**	**1,287**	**-**
Measurement at fair value of HTCS financial assets	9,125	-	830	-
Actuarial losses IAS 19	501	-	457	-
Total	**54,375**	**7,333**	**44,959**	**8,107**

1.7.4 Breakdown of deferred tax liabilities

TYPE OF TRANSACTIONS/VALUES	30.06.2018	31.12.2017
With impact on profit and loss account	**4,592**	**2,731**
Residual value of capital contribution to FITD	55	55
Off-balance sheet goodwill deduction	2,800	2,521
Provision for post-employment benefits (IAS 19)	152	155
IFRS 9 FTA	540	-
IFRS 15 FTA	1,045	-
With impact on net equity	**918**	**11,809**
Measurement at fair value of HTCS financial assets	918	11,809
Total	**5,510**	**14,540**

1.7.5 Change in deferred tax assets (offsetting entry to the Profit and Loss Account)

	30.06.2018	31.12.2017
1. Amount at period-start	**43,672**	**37,294**
2. Increases	**11,396**	**20,031**
2.1 Deferred tax assets for the year:	9,938	20,031
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) reversals	-	-
d) other	9,938	20,031
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	1,458	-
of which:		
- *adjustment of losses used within the National Tax Consolidation scheme*	-	-
- *business combinations*	-	-
- *adjustment for IFRS 9 FTA*	*1,458*	-
3. Decreases	**10,319**	**13,653**
3.1 Deferred tax assets eliminated in the year:	10,319	13,653
a) transfers	10,187	13,516
b) write-downs for non-recoverability	132	137
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	-	-
of which:		
- *business combinations*	-	-
4. Amount at period-end	**44,749**	**43,672**

1.7.6 Change in deferred tax assets pursuant to Law No. 214/2011 (offsetting entry to the Profit and Loss Account)

	30.06.2018	31.12.2017
1. Amount at period-start	**8,107**	**9,755**
2. Increases	**-**	**-**
of which: business combinations	-	-
3. Decreases	**774**	**1,648**
3.1 Transfers	774	1,648
3.2 Conversion into tax credits:	-	-
a) due to losses for the period	-	-
b) due to fiscal losses	-	-
3.3 Other decreases	-	-
4. Amount at period-end	**7,333**	**8,107**

1.7.7 Change in deferred tax liabilities (offsetting entry to the Profit and Loss Account)

	30.06.2018	31.12.2017
1. Amount at period-start	**2,731**	**2,120**
2. Increases	**4,055**	**611**
2.1 Deferred tax liabilities recognised in the year:	787	611
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	787	611
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	3,268	-
of which:		
- *business combinations*	-	-
- *adjustment for IFRS 9-IFRS 15 FTA*	*3,268*	-
3. Decreases	**2,194**	**-**
3.1 Deferred tax liabilities eliminated during the year:	2,194	-
a) transfers	2,194	-
b) change in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Amount at period-end	**4,592**	**2,731**

1.7.8 Change in deferred tax assets (offsetting entry to the Net Equity)

	30.06.2018	31.12.2017
1. Amount at period-start	**1,287**	**3,408**
2. Increases	**11,550**	**869**
2.1 Deferred tax assets for the year:	11,550	869
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	11,550	869
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**3,211**	**2,990**
3.1 Deferred tax assets eliminated in the year:	1	1,842
a) transfers	1	1,842
b) write-downs for non-recoverability	-	-
c) change in accounting criteria	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	3,210	1,148
of which: adjustment for IFRS 9 FTA	*756*	-
4. Amount at period-end	**9,626**	**1,287**

The item 3.3 “Other decreases” refers, for the portion exceeding the adjustment deriving from the first application of IFRS 9, to the reduction in deferred tax assets following the re-absorption of deductible temporary differences as a result of reversals of assets in the HTCS portfolio.

1.7.9 Change in deferred tax liabilities (offsetting entry to the Net Equity)

	30.06.2018	31.12.2017
1. Amount at period-start	**11,809**	**7,206**
2. Increases	**191**	**8,174**
2.1 Deferred tax liabilities recognised in the year:	191	8,174
a) relative to prior years	-	-
b) change in accounting criteria	-	-
c) other	191	8,174
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**11,082**	**3,571**
3.1 Deferred tax liabilities eliminated during the year:	4,455	2,424
a) transfers	4,455	2,424
b) change in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	6,627	1,147
of which: adjustment for IFRS 9 FTA	*4,173*	-
4. Amount at period-end	**918**	**11,809**

The item 3.3 “Other decreases” refers, for the portion exceeding the adjustment deriving from the first time application of IFRS 9, to the reduction in deferred tax liabilities following the re-absorption of deductible temporary differences as a result of higher adjustments of assets in the HTCS portfolio.

1.8 Other assets - Item 130

1.8.1 Breakdown of other assets

	30.06.2018	31.12.2017
Fiscal items	**45,841**	**47,229**
Advances paid to fiscal authorities – current account withholdings	970	1,032
Advances paid to fiscal authorities – stamp duty	40,320	31,154
Advances of substitute tax on capital gains	2,709	13,124
Excess payment of substitute tax for tax shield	634	634
Other advances paid to and sums due from fiscal authorities	810	194
Fiscal Authorities/VAT	140	254
Sums due from fiscal authorities for taxes to be refunded	258	837
Leasehold improvements	**5,792**	**5,849**
Operating loans not related to financial transactions	**255**	**1,073**
Sundry advances to suppliers and employees	**2,996**	**260**
Cheques under processing	**10,995**	**25,307**
C/a cheques drawn on third parties under processing	1	481
Our c/a cheques under processing c/o service	-	9,735
Money orders and other amounts receivable	10,994	15,091
Other amounts under processing	**63,055**	**65,273**
Amounts to be settled in the clearing house (debits)	6,012	3,853
Clearing accounts for securities and funds procedure	51,347	59,246
Other amounts to be debited under processing	5,696	2,174
Amounts receivable for legal disputes related to non-credit transactions	**2,674**	**2,459**
Trade receivables from customers and banks that cannot be traced back to specific items	**17,315**	**37,791**
Other amounts	**160,281**	**148,322**
Prepayments for the new supplementary fees for sales network	127,358	121,401
Prepayments of exclusive portfolio management fees	415	496
Prepayments of new segregated accounts	17,434	19,808
Other accrued income and deferred charges that cannot be traced back to specific items	14,441	6,016
Sundry amounts	633	601
Total	**309,204**	**333,563**

Receivables from fiscal authorities for withholdings on current accounts represent the positive imbalance between payments on account and the related payable to fiscal authorities.

2. Net Equity and Liabilities

2.1 Financial liabilities measured at amortised cost - Item 10

2.1.1 Financial liabilities measured at amortised cost: due to banks – categories

TYPE OF TRANSACTIONS/VALUES	30.06.2018 BOOK VALUE	31.12.2017 BOOK VALUE
1. Due to Central Banks	**400,000**	**400,000**
2. Due to banks	**97,996**	**282,531**
2.1 Current accounts and demand deposits	78,074	57,472
2.2 Term deposits	-	3,796
2.3 Loans:	-	189,657
2.3.1 Repurchase agreements	-	189,657
2.3.2 Other	-	-
2.4 Liabilities for repurchase commitments of own equity instruments	-	-
2.5 Other debts	19,922	31,606
Total	**497,996**	**682,531**

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 could have been 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 had exceeded a certain benchmark level (for Banca Generali, equal to the amount of such loans as at 31 January 2016, plus 2.5%).

The item “Other debts” entirely refers to deposits made by EFG BANK S.A. as a guarantee for some non-performing exposures, arising on the acquisition of Banca del Gottardo Italia (collateral deposits).

2.1.2 Financial liabilities measured at amortised cost: due to customers – categories

TYPE OF TRANSACTIONS/VALUES	30.06.2018 BOOK VALUE	31.12.2017 BOOK VALUE
1. Current accounts and demand deposits	7,715,567	6,903,451
2. Term deposits	-	-
3. Financing:	183,045	83,845
3.1 Repurchase agreements	138,944	40,567
3.2 Other	44,101	43,278
4. Liabilities for repurchase commitments of own equity instruments	-	-
5. Other debts	124,648	209,952
Total	**8,023,260**	**7,197,248**

The item 5 “Other debts” refers for 7,348 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, for 14,632 thousand euros amounts available to customers and, for the remaining amount, trade payables to the sales network.

The item 3.2 “Loans – Other”, amounting to 44,101 thousand euros, exclusively refers to a subordinated loan in the amount of 43 million euros from 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 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.

2.2 Financial liabilities held for trading - Item 20

2.2.1 Breakdown of HFT financial liabilities

TYPE OF TRANSACTIONS/VALUES	30.06.2018 - FV					31.12.2017 - FV				
	NV	L1	L2	L3	FV *	NV	L1	L2	L3	FV *
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds:	-	-	-	-	-	-	-	-	-	-
3.1.1 structured	-	-	-	-	X	-	-	-	-	X
3.1.2 other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities:	-	-	-	-	-	-	-	-	-	-
3.2.1 structured	-	-	-	-	X	-	-	-	-	X
3.2.2 other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial	-	185	333	-	-	-	128	78	-	-
1.1 Trading	X	185	333	-	X	X	128	78	-	X
1.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit		-	-	-	-		-	-	-	-
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**185**	**333**	**-**	**X**	**X**	**128**	**78**	**-**	**X**
Total (A + B)	**X**	**185**	**333**	**-**	**X**	**X**	**128**	**78**	**-**	**X**

FV *: fair value measured without taking account of issuer's credit merit changes compared to issue date.

HFT financial liabilities consist for 333 thousand euros of trading transactions relating to currency outrights with customers as counterparty. This item has its balancing entry in assets classified under Item 20.
The remaining 185 thousand euros relates to options on the indices.

2.4 Other liabilities - Item 80

2.4.1 Breakdown of other liabilities

	30.06.2018	31.12.2017
Trade payables	**16,961**	**20,623**
Due to suppliers	16,012	19,565
Due for payments on behalf of third parties	949	1,058
Due to staff and social security institutions	**15,346**	**20,381**
Due to staff for accrued holidays etc.	3,461	3,039
Due to staff for productivity bonuses to be paid out	5,672	10,391
Contributions to be paid to social security institutions	2,348	2,588
Contributions to Financial Advisors to be paid to Enasarco	3,865	4,363
Tax authorities	**33,087**	**39,812**
Withholding taxes to be paid to tax authorities on behalf of employees and contract workers	5,235	5,272
Withholding taxes to be paid to tax authorities on behalf of customers	4,103	22,174
Notes to be paid into collection services	17,136	8,887
VAT payables	5,974	2,916
Tax payables - other (stamp duty and substitute tax on medium-/long-term loans)	639	563
Amounts to be debited under processing	**75,559**	**99,281**
Bank transfers, cheques and other sums payable	12,109	3,139
Amounts to be settled in the clearing house (credits)	38,890	33,375
Liabilities from reclassification of portfolio subject to collection (SBF)	817	563
Other amounts to be debited under processing	23,743	62,204
Sundry items	**6,808**	**5,121**
Accrued expenses and deferred income that cannot be traced back to specific items	4,841	2,369
Sums made available to customers	1,010	862
Sundry items	430	455
Amounts to be credited	527	974
Payables for non-performing signature loans	-	461
Total	**147,761**	**185,218**

In accordance with the new provisions introduced by IFRS 9, effective 1 January 2018, the collective reserve for commitments and guarantees issued has been recognised in a specific item under Provisions. At 31 December 2017, the amount was recognised among other liabilities, for a total amount of 461 thousand euros.

2.5 Provisions for termination indemnity - Item 90

2.5.1 Breakdown of provisions for termination indemnity

ITEMS/VALUES	30.06.2018	31.12.2017
Provision for termination indemnity	4,902	4,859
Total	**4,902**	**4,859**

2.5.2 Provisions for termination indemnity: changes

		30.06.2018	31.12.2017
A.	**Amount at period-start**	**4,859**	**5,129**
	Change in opening balance	-	-
B.	**Increases**	**188**	**243**
	B.1 Provisions for the period	28	90
	B.2 Other increases	160	153
C.	**Decreases**	**145**	**513**
	C.1 Amounts paid	145	513
	C.2 Other decreases	-	-
	of which: business combinations	-	-
D.	**Amount at period-end**	**4,902**	**4,859**

2.5.3 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):

	30.06.2018	31.12.2017
Discount rate (*)	1.33%	1.19%
Annual inflation rate	2.00%	1.50%
Salary increase rate	2.00%	1.50%
Average duration (years)	10	10

(*) Rate applied to Banca Generali.

		30.06.2018	31.12.2017
1.	Provisions:	28	90
	- current service cost	4	32
	- interest cost	24	58
2.	Actuarial gains and losses	160	153
	- based on financial assumptions	-47	57
	- based on actuarial demographic assumptions	207	96
Total provisions for the period		**188**	**243**
Actuarial value		**4,902**	**4,859**
Value calculated re. Article 2120 of the Italian Civil Code		**4,529**	**4,557**

2.6 Provisions for liabilities and contingencies - Item 100

2.6.1 Breakdown of provisions for liabilities and contingencies

ITEMS/COMPONENTS		30.06.2018	31.12.2017
1.	Provisions for credit risk relating to commitments and financial guarantees issued	118	-
2.	Provisions for other commitments and other guarantees issued	-	-
3.	Company provisions for pensions	-	-
4.	Other provisions for liabilities and contingencies	153,906	149,315
	4.1 Legal disputes	17,464	17,746
	4.2 Staff	13,469	16,494
	4.3 Other	122,973	115,075
Total		**154,024**	**149,315**

2.6.2 Provisions for liabilities and contingencies: year changes

ITEMS/COMPONENTS	PROVISIONS FOR COMMITMENTS AND GUARANTEES ISSUED	PROVISIONS FOR PENSIONS	OTHER PROVISIONS	TOTAL
A. Amount at period-start	**-**	**-**	**149,315**	**149,315**
B. Increases	**204**	**-**	**32,648**	**32,852**
B.1 Provisions for the period	-	-	31,721	31,721
B.2 Other increases	204	-	927	1,131
of which: adjustment for IFRS 9 FTA	*204*	-	*927*	*1,131*
C. Decreases	**86**	**-**	**28,057**	**28,143**
C.1 Use in the period	-	-	21,881	21,881
C.2 Other decreases	86	-	6,176	6,262
D. Amount at period-end	**118**	**-**	**153,906**	**154,024**

2.6.3 Other provisions for liabilities and contingencies - details of movements

	31.12.2017	OTHER CHANGES	USES	SURPLUS	PROVISIONS	30.06.2018
Provision for staff expenses	**16,494**	**-**	**-2,877**	**-1,108**	**960**	**13,469**
Provision for restructuring plan	1,088	-	-134	-	-	954
Provision for staff expenses - other	15,406	-	-2,743	-1,108	960	12,515
Provisions for legal disputes	**17,746**	**-**	**-1,280**	**-755**	**1,753**	**17,464**
Provision for risks related to litigations connected with sales network's embezzlements	9,225	-	-118	-178	940	9,869
Provision for risks related to legal disputes with sales network	580	-	-	-	254	834
Provision for other legal disputes	7,941	-	-1,162	-577	559	6,761
Provision for termination indemnity of Financial Advisors	**61,459**	**792**	**-555**	**-1,416**	**11,287**	**71,567**
Provision for termination indemnity of sales network	46,212	-	-399	-945	4,014	48,882
Provision for portfolio overfee indemnities	4,059	-	-116	-423	-	3,520
Provision for managerial development indemnity	-	-	-	-	3,746	3,746
Provision for pension bonuses for Financial advisors	7,679	792	-40	-48	91	8,474
Provisions for Framework Loyalty Programme	3,509	-	-	-	3,436	6,945
Provisions for risks related to network incentives	**52,076**	**135**	**-17,169**	**-2,897**	**17,218**	**49,363**
Provision for network development plans	34,096	-	-9,910	-2,836	15,270	36,620
Provision for deferred bonus	1,136	135	-20	-	83	1,334
Provisions for managers with access gate	5,262	-	-1,591	-	-	3,671
Provision for sales incentives	7,971	-	-2,155	-	391	6,207
Provision for fees - travel incentives	2,948	-	-2,891	-57	1,474	1,474
Provision for fee plans	606	-	-602	-4	-	-
Provision for loyalty programme	57	-	-	-	-	57
Other provisions for liabilities and contingencies	**1,540**	**-**	**-**	**-**	**503**	**2,043**
Total	**149,315**	**927**	**-21,881**	**-6,176**	**31,721**	**153,906**

2.6.5 Provisions for liabilities and contingencies - other provisions

2.6.5.1 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.

2.6.5.2 Restructuring provisions - Redundancy incentives plan

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

The redundancy incentives plan was prolonged by the Board of Directors on 7 December 2017 until 31 December 2018, with a limited amount of resources of 1 million euros.

2.6.5.3 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.

2.6.5.4 Provisions for contractual indemnities for the sales network

These include provisions for termination indemnities paid to the sales network, the portfolio development indemnity, the social-security bonus, the provisions associated with the Framework Loyalty Programme, approved by the General Shareholders' Meeting on 20 April 2017 and, lastly, the new provisions for manager development indemnity.
Provisions covering the cost of the **termination indemnity** of Financial Advisors with an agency agreement is valued as provided for by the law (Article 1751 of the Italian Civil Code) and the specific disbursement criteria defined by Banca Generali. Further details on the latter are provided in Part A.2 of these 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	30.06.2018	31.12.2017
Discount rate (Eur IRS + 200 bps)	2.5%	2.5%
Turnover rate (professionals)	1.88%	1.88%
Average duration (years)	13 years	14 years
DBO IAS 37/Indemnity provision at the measurement date	56.59%	56.21%

The ratio of Deferred benefit obligations (DBO) to nominal value of the accrued obligation towards Financial Advisors is given using the value of the provision after one-off deductions related to seniority.

The increase in the provision for termination indemnities accrued by Financial Advisors during the year was mainly due to basic fees as a result of the increase in the number of active Financial Advisors and the ongoing development of business, and the adjustment of demographic and statistical parameters.

A specific measurement is made for Financial Advisors who have left service.
The DBO already accrued by Financial Advisors formerly employed by Credit Suisse, totalling 2.8 million euros, is still based on the payment criteria established by the previous employer and was recognised as a debt payable to the acquired sales network. Their DBO accrued with Banca Generali will be due only for the amount exceeding that accrued with Credit Suisse, if any.

The **portfolio development indemnity** is instead a contractual scheme (further details are provided in Part A.2 of these Notes and Comments) that calls for Financial Advisors with at least five years of service who leave service permanently to be entitled to an indemnity commensurate to the profitability of the portfolio previously managed, in case of reallocation of the latter.
The indemnity due to the outgoing FA is entirely borne by the incoming FA identified by the Company, except for a residual guarantee by the Bank — equal to 25% of the total indemnity — in the event of termination for death or permanent disability.

Even in this case, the charge is determined based on the statistical actuarial method, with the support of independent experts and with reference to the percentage of the Bank's residual risk, i.e., 25% of the indemnity due in case of death or permanent disability.

The "**pension bonus**" is a component of the sales network's indemnity plans, which entailed the yearly provision of an amount based on the achievement of pre-set sales objectives and to be paid only upon final termination for retirement or permanent disability. The actuarial method is used also for this type of evaluation. This incentive has been discontinued as of 2016, without prejudice to the rights acquired by the beneficiaries in previous years.

Within the framework of provisions for contractual indemnities, on 21 March 2017 the Board of Directors granted its final approval for a **Framework Loyalty Programme for the sales network** aimed at improving the retention of the network and the customers acquired over time and creating value for the Group by attracting stable, high-quality net inflows.
The Framework Loyalty Program is divided into eight separate plans, all set to expire on 31 December 2026 and of decreasing lengths, which may be activated from one year to the next, with the authorisation of the Banca Generali Group's company bodies and in accordance with its remuneration policies.
The individual Network Framework Loyalty Program plans will all expire on 31 December 2026, after decreasing lengths, and each will allow part of the bonus to be paid in cash and part in shares of Banca Generali (max 50%), after having assessed their effects at the level of capital ratios and free float. The Banca Generali shares for each of the eight plans will be purchased on the market after authorisation is granted, from one year to the next, by the company bodies (Board of Directors and Shareholders' Meeting) and the Regulator.
In this regard, it should be noted that the Board of Directors of 20 March 2018 approved the launch of the second plan 2018-2026 on the basis of the same provisions set forth for the first plan of 2017 (assignment of Banca Generali shares for an amount equal to 50% of the indemnity accrued). This resolution was subsequently ratified by the General Shareholders' Meeting on 12 April 2018.

Provisions for contractual indemnities refer also to the charge relating to the inception of the new **managerial development indemnity mechanism**, approved by the BoD in June and intended to ensure fair treatment of all network managers in the event of dismissal from their additional roles.

2.6.5.5 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 an initial amount of 8.0 million euros, for the **Loyalty Plans** agreed upon with Financial Advisors of the former Credit Suisse business unit, intended to facilitate their inclusion in Banca Generali's sales structure and for loyalty-building purposes. The payment of the remainder amount of 57 thousand euros, referring to a Financial Advisor, is due in 2018.

2.6.5.6 Other provisions for liabilities and contingencies

Lastly, other provisions for liabilities and contingencies include provisions for operating risks.

Tax dispute

In the tax dispute, the audit launched by the Friuli-Venezia Giulia Regional Department of the Italian Revenue Service, in respect of tax period 2014, was concluded on 29 June 2018.
The audit had begun on 27 March 2017 and the auditors' report on findings (PVC) in conclusion of the first part of the investigation, claiming some irregularities relating to the matching and accrual principle in respect of costs for the year, had been served on 22 December 2017.
The auditors' report on findings that had been served at the end of June instead focused on transfer pricing issues, with particular regard to dealings with the Luxembourg management company BGFML pertaining to the distribution of the Sicavs promoted by the Group. Banca Generali remains convinced that its actions were compliant with the law and that the claims are entirely groundless. In discussions with the revenue authorities, it plans resolutely to refute the arguments presented by the auditors, reserving the right to all further actions in protection of its rights in administrative and judicial venues to appeal any action potentially to be taken by the revenue authorities on the basis of the irregularities claimed in the auditors' report on findings.

2.7 Net equity - Items 120, 130, 140, 150, 160, 170 and 180

2.7.1 Breakdown of share capital and treasury shares

	UNIT VALUE	NUMBER	NOMINAL VALUE (€)	BOOK VALUE (€ THOUSAND)
Share capital :				
- ordinary shares	1.00	116,851,637	116,851,637	116,852
Treasury shares:				
- ordinary shares	1.00	-353,704	-353,704	-9,938
Total		**116,497,933**	**116,497,933**	**106,914**

2.7.2 Share capital - Number of shares of the Parent Company: year changes

ITEMS/TYPE	ORDINARY	OTHER
A. Existing shares at period-start	**116,851,637**	**-**
Paid up	116,851,637	-
Partially paid	-	-
A.1 Treasury shares (-)	-472,575	-
A.2 Outstanding shares: at period-start	**116,379,062**	**-**
B. Increases	**118,871**	**-**
B.1 Newly issued shares		
- against payment:	-	-
- business combinations	-	-
- bonds conversion	-	-
- exercise of warrants	-	-
- other	-	-
- for free:	-	-
- to staff	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	118,871	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: at period-end	**116,497,933**	**-**
D.1 Treasury shares (+)	353,704	-
D.2 Existing shares at period-end	**116,851,637**	**-**
Paid up	116,851,637	-
Partially paid	-	-

At the reporting date, the share capital of the Bank consisted of 116,851,637 ordinary shares of 1 euro each, with regular dividend entitlement, and it was fully paid up.

2.8 Other information

2.8.1 Commitments and financial guarantees issued

TRANSACTION	NOMINAL VALUE OF COMMITMENTS AND FINANCIAL GUARANTEES ISSUED				
	STAGE 1	STAGE 2	STAGE 3	30.06.2018	31.12.2017
1. Commitments to disburse funds	**100,296**	**31**	**-**	**100,327**	**102,764**
a) Central Banks	-	-	-	-	-
b) Public administration bodies	-	-	-	-	-
c) Banks	48,886	-	-	48,886	101,599
d) Other financial companies	50,917	-	-	50,917	201
e) Non-financial companies	300	31	-	331	853
f) Households	193	-	-	193	111
2. Financial guarantees issued	**56,495**	**11,700**	**70**	**68,265**	**74,504**
a) Central Banks	-	-	-	-	-
b) Public administration bodies	-	-	-	-	-
c) Banks	2,308	-	-	2,308	73
d) Other financial companies	3,470	-	-	3,470	2,324
e) Non-financial companies	30,968	11,700	-	42,668	54,987
f) Households	19,749	-	70	19,819	17,120
Total	**156,791**	**11,731**	**70**	**168,592**	**177,268**

Loan commitments include commitments subject to mandatory and optional use towards banks and customers and refer to both financial commitments for securities to be received and irrevocable lines of credit already granted.

The item “Commitments to dispense funds – to Non-financial companies” included, for 31 thousand euros, 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.

The items Guarantees issued - to Banks and to Other financial companies include assets pledged as collateral of third-party bonds consisting of the default fund contributed to cover possible losses of defaulted operators within the New MIC and transactions concerning customers’ securities and derivatives.

2.8.2 Other commitments and other guarantees issued

TRANSACTION	NOMINAL VALUE	
	30.06.2018	31.12.2017
1. Other guarantees issued	**33,174**	**38,291**
of which: non-performing	*2,851*	*2,951*
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	2,008	41
e) Non-financial companies	15,471	21,186
f) Households	15,695	17,064
2. Other commitments	**-**	**-**
of which: non-performing	-	-
a) Central Banks	-	-
b) Public administration bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**33,174**	**38,291**

2.8.3 Assets pledged as collateral for own liabilities and commitments

	30.06.2018				31.12.2017			
PORTFOLIO	REPURCHASE AGREEMENTS	BCE	CC&G	TOTAL	REPURCHASE AGREEMENTS	BCE	CC&G	TOTAL
1. Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	180,352	15,086	195,438	40,408	425,284	101,498	567,190
3. Financial assets at amortised cost	80,176	533,104	153,117	766,397	195,944	317,684	207,812	721,440
4. Property and equipment:	-	-	-	-	-	-	-	-
of which: assets constituting inventories	-	-	-	-	-	-	-	-
Total	**80,176**	**713,456**	**168,203**	**961,835**	**236,352**	**742,968**	**309,310**	**1,288,630**

Financial assets pledged as collateral for own liabilities and commitments refer mainly to repurchase agreement transactions with a commitment to repurchase with customers and banks and collateral for refinancing transactions with ECB. This amount also includes financial instruments pledged with Cassa di Compensazione e Garanzia for possible transactions on the New MIC for ordinary operations.

PART C – INFORMATION ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

1. Interests - Items 10 and 20

1.1 Breakdown of interest income and similar revenues

ITEMS/TECHNICAL TYPES	DEBT SECURITIES	FINANCING	OTHER TRANSACTIONS	30.06.2018	30.06.2017
1. Financial assets measured at fair value through profit or loss:	**98**	**-**	**-**	**98**	**133**
1.1 HFT financial assets	50	-	-	50	133
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	48	-	-	48	-
2. Financial assets measured at fair value through other comprehensive income	**2,473**	**-**	**-**	**2,473**	**9,865**
3. Financial assets at amortised cost:	**16,547**	**10,927**	**-**	**27,474**	**21,550**
3.1 Loans to banks	714	288	-	1,002	1,234
3.2 Loans to customers	15,833	10,639	-	26,472	20,316
4. Hedging derivatives	**-**	**-**	**-**	**-**	**-**
5. Other assets	**-**	**-**	**1,174**	**1,174**	**1,825**
6. Financial liabilities	**-**	**-**	**-**	**-**	**-**
Total	**19,118**	**10,927**	**1,174**	**31,219**	**33,373**

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.

1.2 Interest income and similar revenues: further information

	30.06.2018	30.06.2017
Interest income on bank deposits and current accounts	13	29
Repurchase agreements with banks	87	907
Repurchase agreements with clients	332	-
Interest income on customer deposit and current accounts	742	889
Total interest income on other liabilities	**1,174**	**1,825**

1.3 Breakdown of interest expense and similar charges

ITEMS/TECHNICAL TYPES	DEBTS	SECURITIES	OTHER TRANSACTIONS	30.06.2018	30.06.2017
1. Financial liabilities at amortised cost:	**1,452**	**-**	**-**	**1,452**	**1,418**
1.1 Due to central banks	-	-	-	-	-
1.2 Due to banks	248	-	-	248	316
1.3 Due to customers	1,204	-	-	1,204	1,102
1.4 Securities issued	-	-	-	-	-
2. HFT financial liabilities	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and funds	**-**	**-**	**1,708**	**1,708**	**375**
5. Hedging derivatives	**-**	**-**	**-**	**-**	**-**
6. Financial assets	**-**	**-**	**-**	**-**	**-**
Total	**1,452**	**-**	**1,708**	**3,160**	**1,793**

By convention, interest on “Other liabilities” includes the negative interest income accrued on lending transactions and primarily refers to demand deposits with the Central Bank.

1.4 Interest expense and similar charges: further information

	30.06.2018	30.06.2017
Interest expense on deposits with the ECB	1,656	342
Interest expense on deposits with banks	33	32
Repurchase agreements with customers	1	-
Interest expense on customer deposits	18	1
Total interest expense on other assets	**1,708**	**375**

2. Fees - Items 40 and 50

2.1 Breakdown of fee income

TYPE OF SERVICE/VALUES	30.06.2018	30.06.2017
a) Guarantees issued	284	328
b) Credit derivatives	-	-
c) Management, brokerage and consultancy services:	371,897	378,897
1. trading of financial instruments	6,659	8,270
2. currency trading	-	-
3. portfolio management:	189,452	224,476
3.1 individual	41,248	29,672
3.2 collective	148,204	194,804
4. custody and administration of securities	135	132
5. depository bank	-	-
6. placement of securities	52,095	37,092
7. order receiving and collection	5,806	3,068
8. consultancy activities:	7,307	3,286
8.1 investment advice	7,307	3,286
8.2 advice on financial structure	-	-
9. distribution of third-party services:	110,443	102,573
9.1 portfolio management:	377	389
9.1.1 individual	-	102
9.1.2 collective	377	287
9.2 insurance products	109,759	101,953
9.3 other products	307	231
d) Collection and payment services	2,102	1,354
e) Servicing related to securitisations	-	-
f) Factoring-related services	-	-
g) Tax collection services	-	-
h) Management of multilateral exchange facilities	-	-
i) Keeping and management of current accounts	1,011	1,059
j) Other services	1,310	1,194
of which: all-inclusive fees on credit lines	*869*	*881*
Total	**376,604**	**382,832**

2.2 Breakdown of fee expense

SERVICES/VALUES	30.06.2018	30.06.2017
a) Guarantees received	10	8
b) Credit derivatives	-	-
c) Management and brokerage services:	185,199	152,236
1. trading of financial instruments	3,288	2,559
2. currency trading	-	-
3. portfolio management:	14,711	15,056
3.1 own portfolio	14,711	15,056
3.2 third-party portfolio	-	-
4. custody and administration of securities	856	907
5. placement of financial instruments	-	-
6. external offer of financial instruments, products and services	166,344	133,714
d) Collection and payment services	1,917	1,147
e) Other services	414	253
Total	**187,540**	**153,644**

3. Dividends and similar income - Item 70

3.1 Breakdown of dividends and similar income

	30.06.2018		30.06.2017	
ITEMS/INCOME	DIVIDENDS	SIMILAR INCOME	DIVIDENDS	SIMILAR INCOME
A. HFT financial assets	38	-	37	25
B. Other financial assets mandatorily measured at fair value	52	625	1,214	478
C. Financial assets measured at fair value through other comprehensive income	824	-	-	-
D. Equity investments	-	-	-	-
Total	**914**	**625**	**1,251**	**503**

4. Net income from trading - Item 80

4.1 Breakdown of net income from trading

TRANSACTIONS/INCOME COMPONENTS	CAPITAL GAINS	INCOME FROM TRADING	CAPITAL LOSSES	LOSSES FROM TRADING	NET RESULT 30.06.2018	NET RESULT 30.06.2017
1. HFT financial assets	**56**	**654**	**378**	**76**	**256**	**725**
1.1 Debt securities	8	525	374	5	154	792
1.2 Equity securities	48	129	4	68	105	-151
1.3 UCITS units	-	-	-	3	-3	84
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	-	-	-	-	-
2. HFT financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-	-
2.2 Debts	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**-**	**-**	**-**	**-**	**2,836**	**1,748**
4. Derivatives	**35**	**424**	**163**	**352**	**-51**	**248**
4.1 Financial:	35	424	163	352	-51	248
- On debt securities and interest rates:	-	-	-	-	-	-
- interest rate swaps	-	-	-	-	-	-
- government bond forwards	-	-	-	-	-	-
- On equity securities and stock indexes:	35	424	163	352	-56	251
- options	21	415	163	312	-39	251
- futures	14	9	-	40	-17	-
- On currency and gold (1)	-	-	-	-	5	-3
- Other	-	-	-	-	-	-
4.2 Credit	-	-	-	-	-	-
of which: natural hedging related to the fair value option	-	-	-	-	-	-
Total	**91**	**1,078**	**541**	**428**	**3,041**	**2,721**

(1) It includes currency options and currency outrights.

5. Gains (losses) on disposal/repurchase - Item 100

5.1 Breakdown of gains (losses) on disposal/ repurchase

ITEMS/INCOME COMPONENTS	30.06.2018 GAINS	30.06.2018 LOSSES	30.06.2018 NET RESULT	30.06.2017 GAINS	30.06.2017 LOSSES	30.06.2017 NET RESULT
Financial assets						
1. Financial assets at amortised cost:	**6**	**-**	**6**	**352**	**71**	**281**
1.1 Loans to banks	6	-	6	52	-	52
1.2 Loans to customers	-	-	-	300	71	229
2. Financial assets measured at fair value through other comprehensive income:	**17,425**	**1,976**	**15,449**	**4,523**	**2,153**	**2,370**
2.1 Debt securities	17,425	1,976	15,449	4,523	2,153	2,370
2.2 Loans	-	-	-	-	-	-
Total	**17,431**	**1,976**	**15,455**	**4,875**	**2,224**	**2,651**
Assets mandatorily measured at fair value	-	-	-	2,331	70	2,261
Total assets	**17,431**	**1,976**	**15,455**	**7,206**	**2,294**	**4,912**
Financial liabilities at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

HTCS equity reserves transferred back to the profit and loss account are illustrated in the following table:

	POSITIVE	NEGATIVE	NET
Debt securities	13,856	-3	13,853
Total	13,856	-3	13,853

6. Net result on other financial assets and liabilities measured at fair value through profit and loss - Item 110

6.2 Net change of other financial assets and liabilities measured at fair value through profit and loss account: breakdown of other financial assets mandatorily measured at fair value

ITEMS/INCOME COMPONENTS	30.06.2018 CAPITAL GAINS	30.06.2018 GAINS ON DISPOSAL	30.06.2018 CAPITAL LOSSES	30.06.2018 LOSSES ON DISPOSAL	30.06.2018 NET RESULT	30.06.2017 CAPITAL GAINS	30.06.2017 GAINS ON DISPOSAL	30.06.2017 CAPITAL LOSSES	30.06.2017 LOSSES ON DISPOSAL	30.06.2017 NET RESULT
1. Financial assets	**1,952**	**112**	**644**	**873**	**547**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	96	75	-	21	-	-	-	-	-
1.2 Equity securities	-	-	493	-	-493	-	-	-	-	-
1.3 UCITS units	1,952	16	76	873	1,019	-	-	-	-	-
1.4 Loans	-	-	-	-	-	-	-	-	-	-
2. Financial assets: exchange differences	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total assets	**1,952**	**112**	**644**	**873**	**547**	**-**	**-**	**-**	**-**	**-**

7. Net adjustments/reversals for credit risk - Item 130

7.1 Breakdown of net adjustments for credit risk relating to financial assets measured at amortised cost

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS		30.06.2018	30.06.2017
	STAGE 1 AND STAGE 2	STAGE 3 WRITE-OFF	STAGE 3 OTHER	STAGE 1 AND STAGE 2	STAGE 3		
A. Loans to banks	**38**	**-**	**-**	**-**	**-**	**-38**	**261**
Loans	-	-	-	-	-	-	-
Debt securities	38	-	-	-	-	-38	261
of which: acquired or generated impaired loans	-	-	-	-	-	-	-
B. Loans to customers	**1,876**	**12**	**815**	**96**	**389**	**-2,218**	**-3,477**
Loans	-	12	815	96	389	-342	-918
Debt securities	1,876	-	-	-	-	-1,876	-2,559
of which: acquired or generated impaired loans	-	-	-	-	-	-	-
Total	**1,914**	**12**	**815**	**96**	**389**	**-2,256**	**-3,216**

Specific adjustments to loans to customers classified under "stage 3" amounted to 815 thousand euros and included 197 thousand euros for positions past due by more than 90 days and 506 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 (92 thousand euros) and reclassified out of the non-performing category, and to unlikely to pay exposures (246 thousand euros) and, for the remaining 51 thousand euros, to bad loans.

Portfolio adjustments on debt securities classified under "Stage 1" and "Stage 2" — including loans to banks for 38 thousand euros and loans to customers amounting to 1,876 thousand euros — referred to the adjustment of the collective reserve allocated to account for potential impairment of the corporate bond portfolio.

During the transition to IFRS 9, the method for calculating impairment was modified from PD based on historical series of default rates surveyed globally by issuer rating class and residual maturity of the security to a new forward-looking method based on market price trends from which the credit-risk component has been isolated.

7.2 Breakdown of net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income

TRANSACTIONS/INCOME COMPONENTS	ADJUSTMENTS			REVERSALS		30.06.2018	30.06.2017
	STAGE 1 AND STAGE 2	STAGE 3 WRITE-OFF	STAGE 3 OTHER	STAGE 1 AND STAGE 2	STAGE 3		
A. Debt securities	1,350	-	-	-	-	-1,350	-
B. Loans	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
- to customers	-	-	-	-		-	-
of which: acquired or generated impaired financial assets	-	-	-	-	-	-	-
Total	**1,350**	**-**	**-**	**-**	**-**	**-1,350**	**-**
Equity securities	-	-	-	-	-	-	24
Total	**1,350**	**-**	**-**	**-**	**-**	**-1,350**	**24**

Portfolio adjustments on debt securities classified under "stage 1" and "stage 2" amounted to 1,350 thousand euros and refer to the adjustments of the collective reserve allocated to account for potential impairment of the bond portfolio.
During the transition to IFRS 9, the method for calculating impairment was modified from PD based on historical series of default rates surveyed globally by issuer rating class and residual maturity of the security to a new forward-looking method based on market price trends from which the credit-risk component has been isolated.

8. General and administrative expenses - Item 190

Breakdown of general and administrative expenses

	30.06.2018	30.06.2017
190 a) Staff expenses	42,309	43,860
190 b) Other general and administrative expense	74,215	69,574
Total	**116,524**	**113,434**

8.1 Breakdown of staff expenses

TYPE OF EXPENSES/SECTORS	30.06.2018	30.06.2017
1) Employees	**41,530**	**43,265**
a) Wages and salaries	23,430	22,617
b) Social security charges	5,862	5,867
c) Termination indemnity	266	250
d) Retirement benefit plans	-	-
e) Provision for termination indemnity	24	35
f) Provision for pensions and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) Amounts paid to supplementary external pension funds:	2,077	1,930
- defined contribution	2,077	1,930
- defined benefit	-	-
h) Costs related to payment agreements based on own equity instruments	1,137	1,068
i) Other employee benefits	8,734	11,498
2) Other staff	**172**	**-4**
3) Directors and Auditors	**711**	**584**
4) Retired personnel	**15**	**15**
5) Recovery of expenses for seconded staff from other companies	**-119**	**-**
6) Repayments of expenses for seconded staff from other companies	**-**	**-**
Total	**42,309**	**43,860**

8.2 Breakdown of personnel

	30.06.2018	30.06.2017
Employees	**884**	**890**
a) Managers	48	48
b) Total executives	267	269
of which: 3rd and 4th level	*150*	*155*
c) Employees at other levels	569	573
Other personnel	**-**	**7**
Total	**884**	**897**

8.3 Breakdown of other employee benefits

	30.06.2018	30.06.2017
Short-term productivity bonuses	**5,284**	**5,281**
Long-term benefits	**821**	**4,274**
Charges for Relationship Manager recruitment plans	821	3,486
Charges for deferred variable remuneration (managers' MBO)	-	715
Charges for post-employment medical care plans	-	73
Other benefits	**2,629**	**1,943**
Charges for staff supplementary pensions	1,336	1,171
Amounts replacing cafeteria indemnities	527	498
Training expenses	287	137
Allowances and charitable gifts	157	90
Transfer incentives and other indemnities	52	-
Other expenses	270	47
Total	**8,734**	**11,498**

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 plan for measures for the first half of 2018.

8.4 Breakdown of other general and administrative expenses

	30.06.2018	30.06.2017
Administration	**6,182**	**6,313**
Advertising	1,685	1,852
Consultancy and professional advice expenses	2,096	2,201
Corporate boards and auditing firms	200	190
Insurance	1,529	1,473
Entertainment expenses	148	186
Membership contributions	446	354
Charity	78	57
Operations	**18,573**	**17,987**
Rent and usage of premises and management of property	9,480	8,939
Outsourced administrative services	2,795	2,902
Post and telephone	1,333	1,254
Print material	813	671
Other expenses for sales network management	1,534	1,699
Other expenses and purchases	1,464	1,335
Other indirect staff expenses	1,154	1,187
Information system and equipment	**20,240**	**19,835**
Expenses related to outsourced IT services	14,835	14,982
Fees for IT services and databases	3,626	3,165
Software maintenance and servicing	391	316
Fees for equipment hired and software used	974	1,004
Other maintenance	414	368
Indirect taxation	**25,425**	**23,686**
Stamp duty on financial instruments	24,760	23,165
Substitute tax on medium/long-term financing	341	264
Other indirect taxes to be paid by the bank	324	257
Contributions to the Italian National Resolution Fund and the Interbank Protection Fund	**3,795**	**1,753**
Total	**74,215**	**69,574**

9. Net provisions for liabilities and contingencies - Item 200

9.1 Breakdown of net provisions for credit risk relating to commitment to disburse funds and financial guarantees issued

	30.06.2018			30.06.2017		
	PROVISIONS	SURPLUS	NET	PROVISIONS	SURPLUS	NET
Provisions for commitments and guarantees issued	-	-86	-86	-	-	-
Total	**-**	**-86**	**-86**	**-**	**-**	**-**

9.2 Breakdown of net provisions to other provisions for liabilities and contingencies

	30.06.2018			30.06.2017		
	PROVISIONS	SURPLUS	NET	PROVISIONS	SURPLUS	NET
Provision for staff expenses	**2**	**-676**	**-674**	**322**	**-5**	**317**
Provision for restructuring plan	-	-	-	-	-	-
Provision for staff expenses – Other [1]	2	-676	-674	322	-5	317
Provision for legal disputes	**1,753**	**-755**	**998**	**4,496**	**-1,316**	**3,180**
Provision for risks related to legal disputes with subscribers	940	-178	762	818	-398	420
Provision for risks related to legal disputes with Financial Advisors	254	-	254	342	-18	324
Provision for risks related to legal disputes with staff	-	-	-	100	-50	50
Provision for risks related to legal disputes with other parties	559	-577	-18	3,236	-850	2,386
Provisions for termination indemnity – Financial Advisors	**11,287**	**-1,417**	**9,870**	**6,983**	**-651**	**6,332**
Provision for termination indemnity – Financial Advisors	4,014	-946	3,068	3,789	-551	3,238
Provision for manager incentive indemnity	3,746	-	3,746	-	-	-
Provision for portfolio overfee indemnities	-	-423	-423	48	-18	30
Provision for pension bonuses	91	-48	43	128	-82	46
Provisions for Framework Loyalty Programme	3,436	-	3,436	3,018	-	3,018
Provisions for network incentives	**17,218**	**-2,897**	**14,321**	**35,913**	**-1,097**	**34,816**
Provision for network development plans	15,270	-2,836	12,434	18,900	-613	18,287
Provision for deferred bonus	83	-	83	99	-165	-66
Provision for sales incentives	391	-	391	15,424	-	15,424
Provisions for managers with access gate	-	-	-	-	-187	-187
Provision for incentive travels	1,474	-57	1,417	1,290	-132	1,158
Provision for fee plans	-	-4	-4	200	-	200
Other provisions for liabilities and contingencies	**503**	**-**	**503**	**1,006**	**-**	**1,006**
Total	**30,763**	**-5,745**	**25,018**	**48,720**	**-3,069**	**45,651**

(1) Provisions for staff expenses do not include the items that are classified as “Staff expenses - other benefits” in accordance with IAS 19.

10. Net adjustments/reversals of property and equipment - Item 210

10.1 Breakdown of net adjustments of property and equipment

ASSETS/INCOME COMPONENTS	DEPRECIATION	ADJUSTMENTS FOR IMPAIRMENT	REVERSALS	NET RESULT 30.06.2018	NET RESULT 30.06.2017
A. Property and equipment					
A.1 Owned:	750	-	-	750	669
- operating	750	-	-	750	669
- investment	-	-	-	-	-
- inventories	-	-	-	-	-
A.2 Finance leases:	-	-	-	-	-
- operating	-	-	-	-	-
- investment	-	-	-	-	-
Total	**750**	**-**	**-**	**750**	**669**

11. Net adjustments/reversals of intangible assets - Item 220

11.1 Breakdown of net adjustments of intangible assets

ASSETS/INCOME COMPONENTS	AMORTISATION	ADJUSTMENTS FOR IMPAIRMENT	REVERSALS	NET RESULT 30.06.2018	NET RESULT 30.06.2017
A. Intangible assets					
A.1 Owned	3,409	-	-	3,409	3,123
- generated in-house	-	-	-	-	-
- other	3,409	-	-	3,409	3,123
A.2 Finance leases	-	-	-	-	-
Total	**3,409**	**-**	**-**	**3,409**	**3,123**

12. Other operating income and expenses - Item 230

12.1 Breakdown of other operating expenses

	30.06.2018	30.06.2017
Adjustments of leasehold improvements	872	634
Write-downs of other assets	-	37
Indemnities and compensation for litigation and claims	247	237
Charges from accounting adjustments with customers	619	720
Charges for card compensation and guarantees	12	5
Costs associated with tax disputes, penalties and fines	7	2
Other contingent liabilities and non-existent assets	475	886
Other operating expenses	133	-
Total	**2,365**	**2,521**

12.2 Breakdown of other operating income

	30.06.2018	30.06.2017
Recovery of taxes from customers	24,799	23,152
Recovery of expenses from customers	351	378
Fees for outsourced services	28	28
Charge-back of portfolio development indemnity to incoming Financial Advisors	693	508
Indemnities for Financial Advisors' termination without notice	367	145
Other recoveries of repayments and costs from Financial Advisors	668	531
Contingent assets related to provisions for staff expenses	698	1,035
Contributions to Employment in the Banking Sector (FOC)	50	79
Other contingent assets and non-existent liabilities	1,650	513
Insurance compensation and indemnities	72	22
Other income	54	124
Total	**29,430**	**26,515**
Total other net income	**27,065**	**23,994**

13. Gains (losses) on disposal of investments - Item 280

13.1 Breakdown of gains (losses) on disposal of investments

INCOME COMPONENTS/SECTORS	30.06.2018	30.06.2017
A. Buildings	**-**	**-**
Gains on disposal	-	-
Losses on disposal	-	-
B. Other assets	**42**	**-**
Gains on disposal	-	-
Losses on disposal	-42	-
Net result	**42**	**-**

14. Income tax for the year for current operations - Item 300

14.1 Breakdown of income taxes for the period for current operations

INCOME COMPONENTS/VALUES	30.06.2018	30.06.2017
1. Current taxation (-)	-24,058	-28,151
2. Change in prior years' current taxes (+/-)	39	339
3. Reduction of current taxes for the period (+)	-	-
3.*bis* Reduction of current taxes arising on tax credits, pursuant to Law No. 214/2011 (+)	-	-
4. Changes of prepaid taxation (+/-)	-739	8,142
5. Changes of deferred taxation (+/-)	1,916	-278
6. Taxes for the period (-)	**-22,842**	**-19,948**

14.2 Reconciliation between theoretical and actual tax expense

The following table reconciles the total amount of taxes due for the period, including both current and deferred taxes, as indicated in Item 300 of the Profit and Loss Account, and the theoretical corporate income tax IRES calculated by applying the 27.5% current applicable tax rate to pre-tax profit.
It should be noted that the effects of the reduction of the IRES tax rate from 27.50% to 24% with effect from 1 January 2017 for tax periods after that in progress at 31 December 2016 by the "2016 Stability Law" were neutralised for the Bank as a result of the introduction by that same Law of a surtax of 3.5 percentage points on credit and financial institutions in respect of the same tax periods.

The reconciliation statement is therefore expressed based on higher or lower current and deferred taxes debited or credited to the P&L account compared to the theoretical taxation.

	30.06.2018	30.06.2017
Current taxation	**-24,058**	**-28,151**
IRES	-19,337	-22,107
IRAP	-4,721	-6,038
Other	-	-6
Prepaid and deferred taxation	**1,177**	**7,864**
IRES	841	6,527
IRAP	336	1,337
Prior years' taxes	**39**	**339**
IRES	39	-23
IRAP	-	362
Income taxes	**-22,842**	**-19,948**
Theoretical tax rate	**27.5%**	**27.5%**
Income (loss) before taxation	**115,408**	**128,032**
Theoretical taxation	**-31,737**	**-35,209**
Non-taxable income (+)		
Dividends	229	317
ACE	351	402
Deductible IRAP and other	94	31
Non-deductible charges (-)		
Double taxation on 5% of Group's dividends	-1,151	-1,743
Impairment of AFS equity securities PEX	-167	-57
Other non-deductible costs	-920	-828
IRAP	-4,385	-4,339
Rate change of companies under foreign law	14,835	21,522
Prior years taxes	39	-23
Other taxes	-	-6
Not related deferred tax assets and liabilities	-	7
Other consolidation adjustments	-30	-22
Actual tax expense	**-22,842**	**-19,948**
Total actual tax rate	**19.8%**	**15.6%**
Actual tax rate (IRES)	**16.0%**	**12.2%**
Actual tax rate (IRAP)	**3.8%**	**3.4%**

15. Earnings per Share

15.1 Average number of ordinary shares with diluted capital

	30.06.2018	30.06.2017
Net profit for the period (€ thousand)	92,566	108,083
Earnings attributable to ordinary shares (€ thousand)	92,566	108,083
Average number of outstanding shares (thousand)	116,067	116,489
EPS – Earning per share (€)	**0.80**	**0.93**
Average number of outstanding shares with diluted capital (thousand)	116,614	116,733
EPS – Diluted earnings per share (€)	**0.79**	**0.93**

PART D – CONSOLIDATED COMPREHENSIVE INCOME

Analytical Consolidated Statement of Comprehensive Income

ITEMS		GROSS AMOUNT	INCOME TAXES	NET AMOUNT
10.	**Net profit (loss) for the period**	**X**	**X**	**92,566**
	Other income, without transfer to Profit and Loss Account	**-160**	**44**	**-116**
20.	**Equity securities at fair value through other comprehensive income:**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfers to other net equity components	-	-	-
30.	**Financial liabilities at fair value through profit or loss (change in the own creditworthiness):**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfers to other net equity components	-	-	-
40.	**Equity security hedges at fair value through other comprehensive income:**	**-**	**-**	**-**
	a) fair value changes (hedged instrument)	-	-	-
	a) fair value changes (hedging instrument)	-	-	-
50.	**Property and equipment**	**-**	**-**	**-**
60.	**Intangible assets**	**-**	**-**	**-**
70.	**Defined benefit plans**	**-160**	**44**	**-116**
80.	**Non-current assets available for sale and disposal groups**	**-**	**-**	**-**
90.	**Share of valuation reserves of equity investments valued at equity**	**-**	**-**	**-**
100.	**Income taxes on other income, without transfer to Profit and Loss Account**	**-**	**-**	**-**
	Other income, with transfer to Profit and Loss Account	**-49,053**	**15,769**	**-33,284**
110.	**Hedges of foreign investments:**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to Profit and Loss Account	-	-	-
	c) other changes	-	-	-
120.	**Exchange differences:**	**-5**	**-**	**-5**
	a) fair value changes	-	-	-
	b) transfer to Profit and Loss Account	-	-	-
	c) other changes	-5	-	-5
130.	**Cash-flow hedges:**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to Profit and Loss Account	-	-	-
	c) other changes	-	-	-
	of which: result of net positions	-	-	-
140.	**Hedging instruments (non-designated items):**	**-**	**-**	**-**
	a) fair value changes	-	-	-
	b) transfer to Profit and Loss Account	-	-	-
	c) other changes	-	-	-

ITEMS	GROSS AMOUNT	INCOME TAXES	NET AMOUNT
150. Financial assets (other than equity securities) at fair value through other comprehensive income:	**-49,048**	**15,769**	**-33,279**
a) fair value changes	-35,783	11,504	-24,279
b) transfer to Profit and Loss Account:	-13,265	4,265	-9,000
- adjustments due to credit risk	588	-189	399
- gains (losses) on disposal	-13,853	4,454	-9,399
c) other changes	-	-	-
160. Non-current assets available for sale and disposal groups:	**-**	**-**	**-**
a) fair value changes	-	-	-
b) transfer to Profit and Loss Account	-	-	-
c) other changes	-	-	-
170. Share of valuation reserves of equity investments valued at equity:	**-**	**-**	**-**
a) fair value changes	-	-	-
b) transfer to Profit and Loss Account:	-	-	-
- adjustments due to impairment	-	-	-
- gains (losses) on disposal	-	-	-
c) other changes	-	-	-
180. Income taxes on other income, with transfer to Profit and Loss Account	**-**	**-**	**-**
190. Total other income components	**-49,213**	**15,813**	**-33,400**
200. Comprehensive income (Items 10 + 190)	**-**	**-**	**59,166**
210. Consolidated comprehensive income attributable to minority interests	**-**	**-**	**-**
220. Consolidated comprehensive income attributable to the Parent Company	**-**	**-**	**59,166**

PART E – INFORMATION ON NET EQUITY

1. Information on Consolidated Net Equity

1.1 Breakdown of net equity

The Banca Generali Group's net equity amounted to 649.4 million euros at 30 June 2018 and may be broken down as follows.

(€ THOUSAND)	30.06.2018	31.12.2017	CHANGE AMOUNT	CHANGE %
1. Share capital	116,852	116,852	-	-
2. Share premium reserve	57,893	58,219	-326	-0.6%
3. Reserves	411,409	348,519	62,890	18.0%
5. (Treasury shares)	-9,938	-13,271	3,333	-25.1%
6. Valuation reserves	-19,350	21,646	-40,996	n.a.
7. Net profit (loss) for the period	92,566	204,105	-111,539	-54.6%
Total net equity	**649,432**	**736,070**	**-86,638**	**-11.8%**

Net equity decreased by 86.6 million euros, compared to the end of the previous year, due to the following changes:

	30.06.2018
Net equity at period-start	**736,070**
Dividend paid	-145,474
IFRS 9 and IFRS 15 FTA	-2,827
Matured IFRS 2 reserves (from stock option plans and remuneration policies)	1,922
Matured IFRS 2 reserves on LTIP	575
Change in valuation reserves	-33,400
Consolidated net profit	92,566
Net equity at period-end	**649,432**
Change	**-86,638**

Following the entry into force, effective 1 January 2018, of the new accounting standards IFRS 9 and IFRS 15, at the reporting date net equity reserves for the first-time adoption (FTA) were also recognised for an amount of about 4.8 million euros, and valuation reserves were derecognised for an amount of 7.6 million euros, for an overall negative impact of 2.8 million euros.

1.2 Valuation reserves

1.2.1 Breakdown of valuation reserves

Fair value valuation reserves for the portfolio of financial assets measured at fair value through other comprehensive income (HTCS) showed a sharp net decrease of 33.3 million euros, primarily owing to the portfolio of Italian government bonds, for which net reserves amounted to -15.3 million euros, compared to 15.2 million euros at the date of transition to IFRS 9 on 1 January 2018.

During first-time application of IFRS 9, net negative valuation reserves of 7.6 million euros were recognised due to the combined effect of the reversal through a specific retained earnings reserve in equity of previous positive reserves for UCITS and equity securities reclassified to the portfolio of assets mandatorily measured at fair value (-3.2 million euros), and the recognition of negative reserves for corporate and government bonds due to the application of the new business models (-5.7 million euros).
The residual valuation reserve was also adjusted by a positive 1.4 million euros to neutralise the effect of the new collective impairment due to expected losses on the HTCS portfolio.

(€ THOUSAND)	30.06.2018 POSITIVE RESERVE	NEGATIVE RESERVE	NET RESERVE	31.12.2017 NET RESERVE	CHANGE
1. Debt securities	1,938	-19,257	-17,319	20,330	-37,649
2. Equity securities	-	-	-	445	-445
3. UCITS units	-	-	-	2,780	-2,780
HTCS reserve	**1,938**	**-19,257**	**-17,319**	**23,555**	**-40,874**
Exchange differences	-	-119	-119	-113	-6
Actuarial gains (losses) on defined benefit plans	-	-1,912	-1,912	-1,796	-116
Total	**1,938**	**-21,288**	**-19,350**	**21,646**	**-40,996**

1.2.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: change

Valuation reserves on the HTCS portfolio showed a net decrease of 33.3 million euros for the first half of 2018, as a result of the following factors:

> an increase in net valuation capital losses totalling 35.8 million euros;
> the reduction of pre-existing net positive reserves due to re-absorption through profit or loss upon realisation (-13.9 million euros);
> the positive net tax effect (DTAs) associated with the above changes (+15.8 million euros).

(€ THOUSAND)	30.06.2018 DEBT SECURITIES CORPORATE	GOVERNMENT	EQUITY SECURITIES	UCITS UNITS	TOTAL
1. Amount at period-start	**480**	**19,850**	**445**	**2,780**	**23,555**
Adjustment of opening balances	230	-4,599	-445	-2,780	-7,594
1. Amount at period-start	**710**	**15,251**	**-**	**-**	**15,961**
2. Increases	**1,552**	**15,002**	**-**	**-**	**16,554**
2.1 Fair value increases	6	-	-	-	6
2.2 Adjustments due to credit risk	193	395	-	-	588
2.3 Transfer to Profit and Loss Account of negative reserves: due to disposal	3	-	-	-	3
2.4 Transfer to other net equity components (equity securities)	-	-	-	-	-
2.5 Other changes	1,350	14,607	-	-	15,957
3. Decreases	**4,271**	**45,563**	**-**	**-**	**49,834**
3.1 Fair value decreases	3,808	31,981	-	-	35,789
3.2 Reversals for credit risk	-	-	-	-	-
3.3 Transfer to Profit and Loss Account of positive reserve due to disposal	401	13,455	-	-	13,856
3.4 Transfer to other net equity components (equity securities)	-	-	-	-	-
3.5 Other changes	62	127	-	-	189
4. Amount at period-end	**-2,009**	**-15,310**	**-**	**-**	**-17,319**

1.3 Own Funds

Own funds, calculated in accordance with the Basel 3 phase-in rules, amounted to 511.9 million euros, down by 6.7 million euros compared to the end of the previous year.

	30.06.2018		31.12.2017		CHANGE	
	FULLY-LOADED	PHASE IN	FULLY-LOADED	PHASE IN	AMOUNT	%
Total Common Equity Tier 1 capital (CET 1)	468,794	468,864	495,675	475,232	-6,368	-1.34%
Total additional Tier 1 capital (AT1)	-	-	-	-	-	n.a.
Total Tier 2 capital	43,000	43,000	43,000	43,370	-370	-0.85%
Total own funds	**511,794**	**511,864**	**538,675**	**518,602**	**-6,738**	**-1.30%**

The composition of own funds is shown synthetically below, illustrating the effects of the prudential filters and the changes linked to the transitional provisions.

A detailed analysis including all the components of own funds (CET 1, Tier 1, Tier 2) is given in Part F of the Notes and Comments of the Consolidated Financial Statements for the year ended 31 December 2017, to which reference is made.

OWN FUNDS BASEL 3	30.06.2018			31.12.2017	
	FULLY LOADED	ADJUSTMENTS	PHASE IN	PHASE IN	CHANGE
CET 1 instruments	**140,952**	**-**	**140,952**	**161,800**	**-20,848**
Reserves	411,409	-	411,409	348,519	62,890
Net profit (loss) for the period	24,793	-	24,793	58,631	-33,838
Other components of other comprehensive income (OCI)	-19,349	70	-19,279	1,203	-20,482
Share capital and reserves	557,805	70	557,875	570,153	-12,278
Goodwill	-63,265	-	-63,265	-63,544	279
Intangible assets	-22,337	-	-22,337	-25,745	3,408
Other negative items (neutralisation of DTAs arising on multiple prepayment of taxes on goodwill)	-925	-	-925	-969	44
Intangible assets	-86,527	-	-86,527	-90,258	3,731
Negative prudential filters	-2,484	-	-2,484	-4,663	2,179
Total	**468,794**	**70**	**468,864**	**475,232**	**-6,368**
Portion exceeding non-significant investments (<10%) in CET 1 instruments	-	-	-	-	-
Portion exceeding significant investments (>10%) in CET 1 instruments	-	-	-	-	-
General deduction with threshold 17.65%-15%	-	-	-	-	-
General deduction – portion exceeding DTAs	-	-	-	-	-
General deduction – portion exceeding significant investments	-	-	-	-	-
Deduction from CET 1 of 50% excess portion of significant investments	-	-	-	-	-
Total Common Equity Tier 1 capital (CET 1)	**468,794**	**70**	**468,864**	**475,232**	**-6,368**
Total Additional Tier 1 (AT1) Capital	**-**	**-**	**-**	**-**	**-**
T2 instruments (subordinated liabilities)	43,000	-	43,000	43,000	-
Significant investments: 50% excess portion deducted from Tier 1 capital	-	-	-	-	-
50% positive HTCS reserves – phase-in – T2 impact (20%)	-	-	-	370	-370
Total Tier 2 capital	**43,000**	**-**	**43,000**	**43,370**	**-370**
Total own funds	**511,794**	**70**	**511,864**	**518,602**	**-6,738**

In the reporting period, the performance of the aggregate was mainly influenced by the regulatory provisions for retained earnings, in addition to the following factors:

- the recognition of negative valuation reserves for government bonds classified as financial assets in the HTCS category (-15.3 million euros), which, following the phase-in period defined by the CRR and the Italian national rule for neutralisation, are now fully included when determining CET 1 capital, with effect from 1 January 2018;
- the overall effects of the FTA of IFRS 9 and IFRS 15 in terms of both income reserves and valuation reserves (-2.8 million euros) and regulatory adjustments (+1.6 million euros due to the lesser impact of prudent valuation);
- the recognition, following authorisation from the competent authority, of the commitment to purchase treasury shares in service of the Remuneration Policies and the Loyalty Programme, up to a maximum of 23.9 million euros.

Own funds at 31.12.2017	**518,602**
Change in Tier 1 capital	
IFRS 9 and IFRS 15 FTA	-2,827
Repurchase commitments of CET 1 instruments	-23,855
Change in reserves for share-based payments (IFRS 2)	2,498
Estimated regulatory provisions for retained earnings	24,793
Phase-in: change in AFS positive and negative reserves	-12,692
Change in IAS 19 reserves (net of filter application)	-194
Change in goodwill and intangibles	3,730
Negative prudential filters	2,179
Total changes in Tier 1 capital	**-6,368**
Change in Tier 2 capital	
Phase-in: change in positive HTCS reserves	-370
Total changes in Tier 2 capital	**-370**
Own funds at 30.06.2018	**511,864**
Change	**-6,738**

With reference to the adoption of IFRS 9, at the reporting date the Banking Group did not opt to apply the phase-in regime set forth in the Regulation (EU) No. 217/2395 which allows banks, whose opening balance sheet at the date of IFRS 9 first-time adoption reports a decline in CET 1 due to the increase in expected credit loss provisions (net of tax effects), to include in their CET 1 a portion of the said increased provisions for a phase-in period of five years.

1.4 Capital adequacy

Supervisory provisions require banks to comply with specific capital adequacy ratios calculated by relating the corresponding category of own funds (CET 1, 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 position risk, equity securities position 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 CET 1 ratio of 4.5%, a Tier 1 ratio of 6% and a Total Capital Ratio of 8% were envisaged by the Prudential Supervisory Provisions for 2018. In addition to these minimum ratios, the new regulations state that 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, as part of the SREP Supervisory Review and Evaluation Process carried out annually by the competent Supervisory Authority, the Bank of Italy to Banca Generali the following specific capital requirements to be applied to the Banking Group commencing with the reporting on Own Funds at 1 January 2017:

- CET 1 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.

The conservation capital buffer requirement envisaged in the ratios was reduced for 2018 to 1.875% (in line with the decision of the Supervisory Authority to bring the levels of the buffer back to phase-in levels, with repositioning at 2.5% in 2019 - 18th update to Circular 285 of 4 October 2016).

Total capital adequacy requirements for credit, market and operating risks set by the Supervisory Authority reached 206.4 million euros at year-end, with an increase of 1.3 million euros compared to the previous year (0.6%).

(€ THOUSAND)	30.06.2018 PHASE IN	31.12.2017 PHASE IN	CHANGE AMOUNT	CHANGE %
Credit and counterparty risk	133,317	131,410	1,907	1.4%
Market risk	1,144	1,735	-591	-34.1%
Operating risk	71,914	71,914	-	-
Total absorbed capital	**206,375**	**205,059**	**1,316**	**0.6%**
Excess over absorbed capital	**305,489**	**313,543**	**-8,054**	**-2.6%**

Absorbed capital for credit risk increased slightly compared to the previous year (+1.9 million euros), mostly due to the rise in exposures to Administrations, central banks and supervised intermediaries, offset by the decrease in exposures to companies and past due exposures.

The decline in absorbed capital for market risk was essentially attributable to the reclassification of several trading book exposures to the banking book mandatorily measured at fair value through profit or loss.

CREDIT RISK REGULATORY PORTFOLIO	30.06.2018			31.12.2017			CHANGE		
	INITIAL EXPOSURE	RISK-WEIGHTED ASSETS	REQUIRE-MENT	INITIAL EXPOSURE	RISK-WEIGHTED ASSETS	REQUIRE-MENT	INITIAL EXPOSURE	RISK-WEIGHTED ASSETS	REQUIRE-MENT
Administrations and Central Banks	6,501,120	118,163	9,453	6,086,465	70,189	5,615	414,655	47,974	3,838
Non-profit organisations and public entities	5	1	-	-	-	-	5	1	-
Supervised intermediaries	600,657	189,833	15,187	657,145	150,323	12,026	-56,488	39,510	3,161
Companies	1,259,477	790,636	63,251	1,133,941	834,919	66,794	125,536	-44,283	-3,543
Detail	1,154,018	312,662	25,013	1,118,831	296,788	23,743	35,187	15,874	1,270
Exposures secured by real property	383,017	135,129	10,810	378,746	133,707	10,697	4,271	1,422	114
Past-due exposures	71,603	26,256	2,100	92,639	46,304	3,704	-21,036	-20,048	-1,604
UCITS	15,831	15,831	1,266	18,737	18,737	1,499	-2,906	-2,906	-232
Equity exposures	38,850	38,850	3,108	38,809	38,809	3,105	41	41	3
Others	164,682	38,978	3,118	222,166	52,462	4,197	-57,484	-13,484	-1,079
Securitisation	-	-	-	-	-	-	-	-	-
Total requirements	**10,189,260**	**1,666,339**	**133,307**	**9,747,479**	**1,642,238**	**131,379**	**441,781**	**24,101**	**1,928**
Risk of credit valuation adjustment	-	125	10	-	388	31	-	-263	-21
Total credit risk	**10,189,260**	**1,666,464**	**133,317**	**9,747,479**	**1,642,626**	**131,410**	**441,781**	**23,838**	**1,907**

The simultaneous decline in consolidated Own funds however allows to establish the excess capital compared to the minimum capital requirements for risks set by the supervisory authority at 305.5 million euros, down by 8.1 million euros compared to the value recognised at the end of the previous year.
The CET 1 ratio reached 18.2%, compared to a minimum regulatory requirement of 6.4%, and the Total Capital ratio reached 19.8%, compared to a minimum requirement of 10.4% indicated by the supervisory authority following the SREP.
Consolidated own funds, calculated in accordance with the regulation which will be fully applicable as of 1 January 2019, would be 511.8 million euros, with Total Capital Ratio estimated at 19.8%.

	30.06.2018		31.12.2017		CHANGE	
	FULLY LOADED	PHASE-IN	FULLY LOADED	PHASE-IN	AMOUNT	%
Total Common Equity Tier 1 capital (CET 1)	468,794	468,864	495,675	475,232	-6,368	-1.3%
Total Additional Tier 1 capital (AT1)	-	-	-	-	-	n.a.
Total Tier 2 capital (T2)	43,000	43,000	43,000	43,370	-370	-0.9%
Total own funds	**511,794**	**511,864**	**538,675**	**518,602**	**-6,738**	**-1.3%**
Credit risk	133,317	133,317	131,410	131,410	1,907	1.5%
Market risks	1,144	1,144	1,735	1,735	-591	-34.1%
Other prudential requirements (concentration risk)	-	-	-	-	-	-
Operating risk	71,914	71,914	71,914	71,914	-	-
Total absorbed own funds	**206,375**	**206,375**	**205,059**	**205,059**	**1,316**	**0.6%**
Excess over absorbed capital	305,419	305,489	333,616	313,543	-8,054	-2.6%
Risk-weighted assets	2,579,688	2,579,688	2,563,242	2,563,242	16,446	0.6%
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	18.2%	18.2%	19.3%	18.5%	-0.4%	-2.0%
Own funds/Risk-weighted assets (Total Capital Ratio)	**19.8%**	**19.8%**	**21.0%**	**20.2%**	**-0.4%**	**-1.9%**

PART F – RELATED PARTY TRANSACTIONS

1. Disclosure of Related Party Transactions

As part of its normal business operations, Banca Generali carries out numerous financial and commercial transactions with related parties included in the scope of consolidation of the Generali Group.

Banca Generali is a direct subsidiary of Generali Italia S.p.A., the holding of all the Insurance Group's operations in Italy. However, the company engaging in management and coordination activities pursuant to Article 2497 of the Italian Civil Code continues to be the ultimate Parent Company, Assicurazioni Generali S.p.A. This is the reason why reference is made to the latter when speaking of the "Parent Company" of Banca Generali, in compliance with IAS 24.

In the banking area, such relationships include current accounts, the custody and administration of securities, stock brokerage and commercial portfolio collection.

As regard the distribution and sale of financial services, a number of agreements were established regarding the Financial Advisors network's placement of asset-management and insurance products, as well as banking products and services.
To a lesser extent, advisory and wealth management activities are also carried out, with reference to underlying assets of insurance products placed by the companies of the Insurance Group.

Finally, as part of its normal operations, the Bank also maintains relationships pertaining to outsourcing, IT and administration, insurance and leasing relationships, as well as other minor relationships with Generali Group companies. Transactions with related parties outside the Generali Group are mostly confined to direct and indirect inflows activities and loans to Key Management Personnel (and their relatives) of the Bank and its Parent Company. These transactions are carried out at arm's length. Banca Generali's direct investments in activities on which such related parties exercise significant influence or control are absolutely not material.

1.1 Extraordinary and non-recurring transactions

Unusual, atypical or extraordinary transactions

There were no atypical and/or unusual transactions to be reported in the first half of 2018, 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 the first half of 2018, just one transaction qualifying as "highly significant", non-ordinary transaction, entered into at non-market or non-standard conditions, was carried out. In accordance with the Procedure on Related Party Transactions, it gave rise to an obligation to publish the related Information Document; in this regard, please refer to the dedicated section of the Consolidated Report on Operations.

Other significant transactions

In the first half of 2018, five transactions were approved qualifying as "moderately significant" transactions, which were subject to the prior non-binding opinion of the Audit and Risk Committee; in this regard, please refer to the dedicated section of the Consolidated Report on Operations.

1.2 Ordinary or recurring transactions

The developments of ordinary transactions with related parties for the first half of 2018 are presented in the following sections.

Transactions with Assicurazioni Generali Group

Balance Sheet data

(€ THOUSAND)	PARENT COMPANY ASSICURAZIONI GENERALI	SUBSIDIARIES OF THE AG GROUP	30.06.2018	31.12.2017	WEIGHT % 2018
Financial assets measured at fair value through profit or loss:	888	-	888	242	0.9%
a) HFT financial assets	-	-	-	242	-
c) other financial assets mandatorily measured at fair value	888	-	888	-	1.3%
Financial assets at fair value through other comprehensive income	-	245	245	945	-
Financial assets at amortised cost:	-	20,935	20,935	20,520	0.4%
b) loans to customers	-	20,935	20,935	20,520	0.4%
Other assets	-	81	81	269	-
Total assets	**888**	**21,261**	**22,149**	**21,976**	**0.2%**
Financial liabilities at amortised cost:	36,250	436,071	472,321	495,843	5.5%
b) due to customers	36,250	436,071	472,321	495,843	5.9%
Tax liabilities (AG tax consolidation)	10,943	-	10,943	2,592	29.5%
Other liabilities	60	6,674	6,734	5,481	4.6%
Total liabilities	**47,253**	**442,745**	**489,998**	**503,916**	**5.2%**
Guarantees issued	**1,847**	**852**	**2,699**	**2,931**	**2.9%**

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 22.1 million euros, compared to the 21.9 million euros recognised at the end of 2017, equal to 0.23% of Banca Generali's total balance sheet assets.
By contrast, the total debt position reached 490 million euros, accounting for 5.2% of liabilities, down by 13.9 million euros (-2.8%) compared to the previous year.

As part of assets, **financial assets mandatorily measured at fair value through other comprehensive income (OCI FV)** claimed from the parent company refer to shares of Assicurazioni Generali held in the corresponding portfolio of Banca Generali. As part of the **financial assets measured at fair value through other comprehensive income (HTCS)** portfolio, shareholdings in subsidiaries of the Generali insurance group refer to the shares held in the consortia of the GBS Group (Generali Business Solutions).

Exposures to Generali Group companies recognised as **loans to customers** amounted to 20.9 million euros and refer to the following transactions:

COMPANY	RELATIONSHIP	TYPE OF TRANSACTION	30.06.2018		31.12.2017	
			AMOUNT	REVENUES	AMOUNT	REVENUES
Genertellife	Subsidiary of the AG Group	Operating loans	18,677	-	19,005	-
Other companies of the Generali Group	Subsidiary of the AG Group	Operating loans	2,257	-	1,498	-
Other exposures with Group companies	Subsidiary of the AG Group	Temporary current account exposures	1	733	17	1,472
			20,935	**733**	**20,520**	**1,472**

Operating loans are comprised of transitional items including fees accrued over the last quarter for the distribution of insurance and financial products of Group companies.

Amounts due to customers attributable to Generali Group's related parties reached 472.3 million euros at the end of the year and included amounts due to the parent company Assicurazioni Generali S.p.A. for 36.2 million euros and amounts due to Generali Italia S.p.A. for 142.3 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 line and amounting to 44.1 million euros, gross of accrued interest.

Finally, a total of 2.7 million euros in personal guarantees was issued for Generali Group companies, of which 1.8 million euros on behalf of Assicurazioni Generali S.p.A.

Amounts payable from the Parent Company and classified as **tax liabilities** consisted of Banca Generali S.p.A.'s net tax debt resulting from the balance between tax prepayments, withholdings and credits and the IRES tax calculated at the end of the period.

Profit and Loss Account data

At 30 June 2018, the profit and loss components recognised in the Financial Statements with regard to transactions with companies of the Generali Group amounted to 104.9 million euros, or 90.9% of operating profit before taxation.

(€ THOUSAND)	PARENT COMPANY ASSICURAZIONI GENERALI	SUBSIDIARIES OF THE AG GROUP	30.06.2018	30.06.2017	WEIGHT % 2018
Interest income	14	719	733	911	2.4%
Interest expense	-	-827	-827	-833	26.2%
Net interest income	**14**	**-108**	**-94**	**78**	**-0.3%**
Fee income	-	113,952	113,952	105,857	30.3%
Fee expense	-	-1,055	-1,055	-747	0.6%
Net fees	**-**	**112,897**	**112,897**	**105,110**	**59.7%**
Dividends	53	-	53	49	3.4%
Operating income	**67**	**112,789**	**112,856**	**105,237**	**47.5%**
Staff expenses	-	96	96	122	-0.2%
General and administrative expenses	-60	-8,043	-8,103	-7,761	10.9%
Other operating income and expenses	-	36	36	36	0.1%
Net operating expenses	**-60**	**-7,911**	**-7,971**	**-7,603**	**8.5%**
Operating result	**7**	**104,878**	**104,885**	**97,634**	**72.8%**
Operating profit	**7**	**104,878**	**104,885**	**97,634**	**90.9%**
Net profit (loss) for the period	**7**	**104,878**	**104,885**	**97,634**	**113.3%**

Overall, **net interest income** accrued in dealings with companies of the Insurance Group is negative and amounted to 0.1 million euros, with interest paid to such companies (0.8 million euros) accounting for 26.2% of the total amount recognised in the Profit and Loss Account, down compared to the previous year.
By convention, interest income also includes the negative interest expense applied to the deposits of Generali Group companies starting in June 2016, calculated according to the average one-month Euribor for the month prior to the month of calculation.
Interest paid in relation with the subordinated loan of Generali Versicherung and Generali Beteiligungs GmbH totalled 0.8 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 113.9 million euros, equal to 30.3% of the aggregate amount and was broken down as follows:

	30.06.2018	30.06.2017	ABSOLUTE CHANGE	%
Asset management fees	1,834	1,818	16	0.9%
Fees for distribution of insurance products	109,507	101,949	7,558	7.4%
Consultancy fees	2,466	1,855	611	32.9%
Other banking fees	145	235	-90	-38.3%
Total	**113,952**	**105,857**	**8,095**	**7.6%**

The most significant component consists of fees on the **distribution of insurance products** by **Genertellife**, reaching 109.5 million euros, up by 7.4% 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, a portion of the underlying assets of the Group's insurance products. In this regard, in the first half of 2018 fee income for advisory service rendered to Alleanza Assicurazioni S.p.A. and Generali Italia S.p.A. amounted to 2.5 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 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).

The **net operating expenses** reported by the Banca Generali Group in relation to transactions with related parties of the Generali Group amounted to 7.9 million euros and refer for 8.5% to outsourced services in the insurance, leasing, administrative and IT sector.

	30.06.2018	30.06.2017	ABSOLUTE CHANGE	%
Insurance services	1,275	1,148	127	11.1%
Property services	2,899	2,846	53	1.9%
Administration, IT and logistics services	3,893	3,731	162	4.3%
Financial services	-	-	-	-
Staff services	-96	-122	26	-21.3%
Total administrative expenses	**7,971**	**7,603**	**368**	**4.8%**

Administrative expenses incurred in relation to Generali Italia S.p.A. amounted to 2.5 million euros, of which 1.1 million euros refers to insurance services and the remainder to rentals for property leases.
The cost of property services relating to the lease of offices, branch network and the bank's operating outlet premises totalled 2.8 million euros and referred to Generali Italia S.p.A. (1.4 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

Exposure in respect of **Key Managers** of the Bank and its parent company Assicurazioni Generali mainly referred to residential mortgages subject to the same terms and conditions applied to similar mortgages held by other Executives of the Banking and Insurance Group.
Amounts due to such parties consist of the balances of correspondent accounts with Banca Generali and are regulated on the basis of conditions applicable to employees of the Banking and Insurance Group.

Equity investments include the interest acquired by the Banking Group in 2015 in the UK-based firm IOCA Entertainment Ltd.

(€ THOUSAND)	KEY MANAG. PERSONNEL	ENTITIES UNDER CONTROL OR SIGNIFICANT INFLUENCE
Financial assets at fair value through other comprehensive income	-	-
Loans to customers	3,134	-
Equity investments	-	1,716
Due to customers	4,555	-
Guarantees issued	45	-

PART G – PAYMENT AGREEMENTS BASED ON OWN CAPITAL INSTRUMENTS

At 30 June 2018, the payment agreements based on own equity instruments activated by Banca Generali consisted of:
> effective from 2015, the plans launched with respect to the **Remuneration and Incentivisation Policy** of the Banca Generali Group envisage that part of the variable remuneration of Key Personnel be paid by assigning Banca Generali's financial instruments;
> the new **2017-2026 Loyalty plan**, approved by the General Shareholders' Meeting on 20 April 2017, which calls for 50% of the indemnity accrued at the end of the year to be paid in financial instruments. With regards to the Loyalty Plan the first 2017-2026 plan and the second 2018-2026 plan were activated, the latter approved by the General Shareholders' Meeting of 12 April 2018;
> the new **Long Term incentive Plan (LTIP)**, reserved for the Banca Generali Group's Key personnel, based on the similar plan approved yearly by the Assicurazioni Generali Group, but linked mainly to the achievement of objectives of the Banking Group and based on Banca Generali shares instead of shares of the insurance parent company.

1.1 Variable components of remuneration in connection to performance objectives

As of financial year 2015, in accordance with the Supervisory Provisions set forth in the 7th update of 18 November 2014 of Bank of Italy's Circular No. 285/2013, the Remuneration and Incentivisation Policy of the Banca Generali Group provides that the remuneration package for Key Personnel be made up of fixed and variable components, and that a part of the variable remuneration be paid by assigning Banca Generali's financial instruments.

In detail, for Key Personnel, including the main network managers, 25% of the variable remuneration linked to short-term objectives will be paid in Banca Generali shares, according to the following assignment and retention mechanism:
> 60% of the bonus will be paid up-front during the year after that of reference, 75% in cash and 25% in Banca Generali shares, which will be subject to a retention period of one year;
> 20% of the bonus will 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 will 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.

Therefore, 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 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.

The fourth cycle of share-based payments for the year 2018 was approved by the General Shareholders' Meeting on 12 April 2018, which simultaneously resolved to proceed with the purchase, over a period of 18 months, of the treasury shares to be allocated for assignment to Key Personnel.

1.2 Framework Loyalty Programme for the Network

On 20 April 2017 the General Shareholders' Meeting approved the Framework Loyalty Programme for the sales network aimed at improving the retention of the network and the customers acquired over time and creating value for the Group by attracting stable, high-quality net inflows.

The Framework Loyalty Programme consists of a maximum of eight annual plans of decreasing length, ending on 31 December 2026.
The plans can be implemented from one year to the next, with the authorisation of the Banca Generali Group's company bodies and in accordance with its remuneration policies.

In addition, the Framework Program also states that for each plan implemented part of the bonus may be paid in cash and part in Banca Generali shares (a maximum of 50%), after assessing the effects of this on capital ratios and the free float. The Banca Generali shares for each of the eight plans will be purchased on the market after authorisation is granted, from one year to the next, by the company bodies (Board of Directors and Shareholders' Meeting) and the Regulator.

Accordingly, the General Shareholders' Meeting of 12 April, which approved the second (2018-2026) annual plan, authorising the Board of Directors to arrange for the payment of the indemnity accrued to the beneficiaries in the form of Banca Generali shares to the maximum permitted extent (50%).

1.3 The Long Term Incentive Plan

The new Long Term Incentive Plan, approved by the General Shareholders' Meeting of Banca Generali's on 12 April 2018, replaces — at the level of the Banking Group's key personnel — the corresponding plan launched annually by the insurance Parent Company and intended for the key management personnel of the entire Insurance Group.

In particular, the new plan calls for:
> the rebalancing of the weight assigned to the KPIs of Banca Generali with respect to the weight assigned to the KPIs of the Generali Insurance Group (without any change to plan access gates), increasing the weight of the KPIs of Banca Generali to 80% from the current 60%, and reducing the weight of the KPIs of the Assicurazioni Generali Group accordingly to 20%;
> the assignment of Banca Generali shares to reinforce the alignment of the interests of the Bank's management and shareholders.

In this regard, it bears recalling that a total of four objectives have been identified:
> two Generali Group objectives based on objectively measurable indicators such as Relative TSR or Return on Equity (ROE), which affect the determination of 20% of the number of shares to be assigned to each beneficiary; and
> two Banking Group objectives, also based on objectively measurable indicators such as tROE and EVAs, which affect the determination of 80% of the number of shares to be assigned to each beneficiary.

The key characteristics of the plan are as follows:
> the incentive accrued upon achieving the targets is disbursed 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;
> 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 maximum number of Banca Generali shares that may be assigned at the end of the Plan's three-year period of reference is calculated on the basis of the ratio of the percentage of beneficiaries' recurring gross annual remuneration, varying in the range of 87.5%-175% following the position held, to the value of one share, calculated as the average for the three months prior to the Board of Directors' approval of the draft Financial Statements and Consolidated Financial Statements for the year preceding that in which the Plan's three-year period of reference starts.

1.4 Plan to buy-back treasury shares

During the six-month period, on the basis of the achievement of the performance objectives set out in the 2015, 2016 and 2017 Remuneration Policy, **118,871** treasury shares, with a value of 3,333 thousand euros, were awarded to managers and network managers.
At the end of the half-year, the parent company, Banca Generali, thus held **353,704** treasury shares, with a value of 9,938 thousand euros, intended solely for the service of remuneration plans for the Banking Group's key personnel.

The General Shareholders' Meeting held on 12 April 2018 also authorised the buy-back of up to **577,644** treasury shares in service of the 2018 remuneration plans for key personnel, the second cycle of the 2018 Loyalty Plan and the new Long Term Incentive Plan for the three-year period 2018-2020. The plan for the buy-back of treasury shares was authorised by the Supervisory Authority on 14 June 2018.
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 2017 to 9 March 2018, was determined to be **28.5731** euros.

PART H – SEGMENT REPORTING

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

Until December 2017, the Banking Group identified the following three main business areas:
> the Affluent Channel, which referred to the total earnings generated for the Group by the network of Financial Advisors reporting to the Financial Planner Division;
> the Private Channel, which referred to the total earnings generated for the Group by the network of Private Bankers and Relationship Managers reporting to Private Division;
> the Corporate Channel, which referred to the total earnings generated for the Group by the financial activities of the Finance Department and the provision of banking and investment services to medium-sized and large enterprises, including those belonging to the Assicurazioni Generali Group, as well as all revenues and costs not attributable to the sales channels.

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

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

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

The interest expense incurred by the segments mentioned below was determined on the basis of the actual interest paid on each segment's direct inflows. Interest income for the segments includes, in addition to the actual interest accrued on the loans issued to customers in each segment, a share of the "notional interest" attributed to the Corporate segment.

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

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

BANCA GENERALI GROUP PROFIT AND LOSS ACCOUNT BY BUSINESS SEGMENT (€ THOUSAND)	30.06.2018				30.06.2017			
	PB CGU	WM CGU	CORPORATE CENTRE	TOTAL	AFFLUENT CHANNEL	PRIVATE CHANNEL	CORPORATE CHANNEL	TOTAL
Interest income and similar revenues	7,461	2,996	17,881	28,338	5,601	3,575	22,016	31,192
Notional interest	3,407	1,404	-4,811	-	2,970	2,197	-5,167	-
Interest expense and similar charges	-295	-51	67	-279	-161	-69	618	388
Net interest income	**10,573**	**4,349**	**13,137**	**28,059**	**8,410**	**5,703**	**17,467**	**31,580**
Fee income	258,236	89,129	29,239	376,604	222,119	123,395	37,318	382,832
of which:								
- *underwriting*	*9,863*	*1,520*	*133*	*11,516*	*7,795*	*1,705*	*161*	*9,661*
- *management*	*225,494*	*79,438*	*12,963*	*317,895*	*172,658*	*97,065*	*10,271*	*279,994*
- *performance*	*10,689*	*3,350*	*8,539*	*22,578*	*34,938*	*18,557*	*20,474*	*73,968*
- *other*	*12,190*	*4,821*	*7,604*	*24,615*	*6,728*	*6,068*	*6,412*	*19,208*
Fee expense	-139,284	-55,570	-7,007	-201,861	-117,240	-65,441	-5,780	-188,460
Net fees	**118,952**	**33,559**	**22,232**	**174,743**	**104,879**	**57,954**	**31,538**	**194,372**
Net income (loss) from trading activities	-	-	19,043	19,043	-	-	7,633	7,633
Dividends	-	-	1,539	1,539	-	-	1,754	1,754
Net banking income	**129,525**	**37,908**	**55,951**	**223,384**	**113,290**	**63,657**	**58,392**	**235,339**
Staff expenses	-	-	-	-42,309	-	-	-	-43,860
Other general and administrative expenses	-	-	-	-49,416	-	-	-	-46,421
Net adjustments/reversal of property, equipment and intangible assets	-	-	-	-4,159	-	-	-	-3,793
Other operating expenses/income	-	-	-	2,266	-	-	-	842
Net operating expenses	**-**	**-**	**-**	**-93,618**	**-**	**-**	**-**	**-93,232**
Operating result	**-**	**-**	**-**	**129,766**	**-**	**-**	**-**	**142,107**
Credit risk adjustments	-	-	-	-	-	-	-	-609
Adjustments of other assets	-	-	-	-3,606	-	-	-	-2,555
Net provisions	-	-	-	-10,611	-	-	-	-10,835
Gains (losses) from the disposal of equity investments	-	-	-	-141	-	-	-	-77
Operating profit before taxation	**-**	**-**	**-**	**115,408**	**-**	**-**	**-**	**128,032**
Income taxes for the period on current operations	-	-	-	-22,842	-	-	-	-19,949
Profit (loss) from AFS assets	-	-	-	-	-	-	-	-
Minority interests (+/-) for the period	-	-	-	-	-	-	-	-
Net profit	**-**	**-**	**-**	**92,566**	**-**	**-**	**-**	**108,083**

(€ MILLION)	30.06.2018				30.06.2017			
Assets Under Management	41,733	16,337	4,006	62,075	31,005	21,107	3,372	55,485
Net inflows	2,412	741	n.a.	3,153	2,270	1,550	n.a.	3,820
No. of FAs/RMs	1,722	258	n.a.	1,980	1,404	493	n.a.	1,897

Trieste, 26 July 2018

The Board of Directors

ANNEXES

Board of Directors
26 July 2018

IFRS 9 AND IFRS 15 TRANSITION REPORT

Transition to IFRS 9

Regulations

The new IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation No. 2067/2016 replaces, with effect from 1 January 2018, IAS 39, which until 31 December 2017 governed the classification and measurement of financial instruments.
IFRS 9 is divided into three areas: the classification and measurement of financial instruments, impairment and hedge accounting.
To date, the hedge accounting area is however not material for Banca Generali.

With regard, firstly, to the **classification and measurement** of financial instruments, IFRS 9 requires that their classification be guided by two drivers:
> the characteristics of the related **contractual cash flows**; and
> **the business model** within which the assets are purchased and held.

According to IFRS 9, financial assets are to be classified into three business models, instead of the previous four accounting categories, on the basis of the two above drivers:
> **Hold to collect (HTC)**, i.e., financial assets held for the collection of cash flows, measured at amortised cost;
> **Hold to collect and sell (HTCS)**, i.e., financial assets held for collecting cash flows and selling financial assets, measured at fair value through other comprehensive income;
> Other financial assets measured at fair value through profit and loss (FVPL) and **hold to sell (HTS)**, and therefore not falling within the two previous categories as they do not fulfil the necessary requirements.

Financial assets may be classified to the first two categories (measured at amortised cost or at fair value through equity) only if it may be shown that they give rise to cash flows that are solely payment of principal and interest (**SPPI test**). Equity instruments are always classified to the third category and measured at fair value through profit or loss unless the entity elects (irrevocably, upon initial recognition), in the case of shares not held for trading, to recognise changes in value through an equity reserve, which will never be transferred to profit and loss, even if the financial instrument is disposed of (financial assets designated as at fair value through other comprehensive income not subject to recycling).

With respect to **impairment**, a model is introduced for financial assets measured at amortised cost and fair value through equity: it is based on the concept of **expected credit loss** that supersedes the current **incurred loss**, which instead recognises only credit losses already incurred at the reporting date, although not yet manifest.

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

IFRS 9 adoption project

In light of the aforementioned changes introduced by IFRS 9, and of the impacts thereof on its organisation, reporting and business, in June 2016 the Parent Company, Banca Generali, launched a specific project aimed at exploring the various areas of influence of the Standard, defining its qualitative and quantitative impacts and identifying and implementing the measures at the level of application (in coordination with the IT services outsourcer) and organisation required for consistent, organic and effective adoption within the Group.
Under the supervision of the CFO Area, the project involved the Administration, Finance, Loans and Risk Management functions, with the active participation of other areas of the Bank (Compliance, Internal Audit, Compliance with Legislative Decree 262, Planning and Control). Thematic working groups were then formed for the two parts of the project: "Classification & Measurement" and "Impairment".

Turning to an analysis of the progress of the IFRS 9 project, the following is a brief account of the activities completed and currently underway in respect of the main areas of the impact of the Standard, as identified above.

Classification and measurement

In order to comply with IFRS 9 — which introduces a model according to which the classification of financial assets is driven by both the contractual characteristics of the instruments' cash flows and the business model according to which they are held — the methods of testing the contractual characteristics of the cash flows (the "SPPI Test") were defined and the business models adopted by the various units through which the Bank and Group operate were formalised.

The **SPPI testing** method to be used for financial assets was defined and an analysis of the composition of current security and loan portfolios was conducted in order to determine the proper classification of each at the time of transition to the new Standard.

In the case of debt instruments, a detailed examination of the characteristics of the cash flows of instruments classified as at amortised cost and financial assets available for sale according to IAS 39 was carried out in order to identify which assets do not pass the SPPI test and thus must be designated at fair value through profit or loss according to IFRS 9.
On the basis of the analyses conducted, it was determined that only an insignificant share of the Group's total portfolio is represented by debt instruments that do not pass the SPPI test, mainly consisting of UCITS and insurance policies.
In this regard, it should be noted that based on in-depth analysis and clarifications provided by the IFRS Interpretation Committee, UCITS units (open-ended and closed-ended funds) were classified among assets mandatorily measured at fair value through profit and loss.

In the case of the loan portfolio, the project involved performing analyses that take account of the substantial standardisation of the contractual forms used for lending. Based on such analyses, no significant impacts have been identified in the phase of transition to the new standard.

With regard to the second element of classification of financial assets, the **reference business models** were defined at the level of the proprietary securities portfolio and loan portfolio.

The following sub-portfolios attributable to the various business models provided for in IFRS 9 have been identified within the framework of the overall operational management of the **proprietary securities portfolio**:
> Core Banking Book: it includes financial instruments traded in accordance with the hold-to-collect-and-sell (HTCS) and hold-to-collect (HTC) business models;
> Treasury Book: it includes financial instruments traded in accordance with a hold-to-collect-and-sell (HTCS) business model;
> Trading Book: it includes financial instruments traded in accordance with a hold-to-sell (HTS) business model.

In particular, the core banking book is the structural part of the investment portfolio aimed at optimising net interest income and building a reserve of a value suitable to be used to optimise the various risk profiles, and in particular to manage liquidity risk.
This portfolio includes a static approach, applied under the HTC model, and a more dynamic approach, with the typical characteristics of the HTCS model.

The transitional rules for the adoption of IFRS 9 require that the business model for a portfolio or a sub-portfolio be assessed on the basis of conditions upon first-time application of IFRS 9 and not when the financial assets were originated. The resulting classification must be applied retrospectively.
The analyses conducted to allocate the securities portfolio held as at 31 December 2017 to the various business models reflected both historical experience and the current and prospective management strategies for financial investments.

On the basis of the analyses conducted, it was determined that the portfolio of debt securities measured at amortised cost pursuant to IAS 39 — classified among investments held to maturity (HTM) and loans to banks and customers (Loans) — is generally subject to limited trading, in accordance with the management strategy of an HTC business model, except for a limited portion of corporate securities no longer subject to the Bank's investment policies.

Some adjustments were made to debt securities classified as available-for-sale (AFS) in accordance with IAS 39 to reflect, in accordance with the new Standard, the underlying business model at the date of first-time adoption of IFRS 9. These adjustments primarily affected a portfolio of medium-to-long-term government bonds included in the core banking book and held as structural investments, which upon FTA were therefore included in the HTC segment of the core banking book, and hence measured at amortised cost.

In the case of the "Hold to Collect" segment identified within the securities portfolio, thresholds were set for considering sales to be permissible where not significant (individually and in the aggregate) or infrequent; the parameters for identifying sales consistent with this business model as attributable to an increase in credit risk were also established.

In further detail, within the HTC segment sales are permitted:
> in the event of an increase in credit risk, which occurs for securities when there is a downgrade of a predetermined number of notches with respect to the rating upon origination. In this case, the approach adopted requires that the number of notches be set depending on the rating upon origination, in accordance with the method used to identify "signification deterioration", and the consequent stage transfer;

> when frequent, but not significant in terms of value, or when occasional, even if significant in terms of value. Frequency and significance thresholds were therefore set to determine these aspects:
  – frequency is defined as the percent ration of the number of positions sold (ISIN or relationships) during the assessment period to the total positions in portfolio during the assessment period;
  – significance is defined as the percent ration of the nominal value of sales to the total average nominal value of the instruments in portfolio during the period considered.

When both the frequency and significance thresholds are exceeded concurrently, a further assessment is conducted to confirm the consistency of the HTC business model (for example, to assess whether sales are undertaken near maturity).

For equities, instruments (classified as available-for-sale pursuant to IAS 39) have been identified for classification upon FTA at fair value through other comprehensive income (without recycling to profit or loss).

The current approach to managing loans to retail and corporate counterparties may essentially be considered a “Hold to Collect” business model.

Impairment

The main activities performed by Banca Generali with respect to impairment (for which specific projects have been developed for the lending and securities portfolios) are detailed below:
> definition of the criteria for tracking the credit quality evolution of the positions in the portfolio of financial assets measured at amortised cost and designated at fair value through equity;
> definition of the parameters for identifying a significant increase in credit risk for the purposes of properly allocating performing exposures to stage 1 or stage 2 (stage assignment). Taking into account the alignment of the definitions of accounting and regulatory default — already in place — no changes have been made to the rules for classifying “non-performing” or “impaired” exposures compared to the classification rules adopted for exposures within stage 3;
> use of forward looking PD and LGD models, to calculate the expected credit loss (ECL) over 12 months (stage 1 exposures) and lifetime (stage 2 exposures), which consider the possible macro-economic scenarios by including the so-called satellite models.

With regard to the tracking of credit quality, in accordance with the provisions of the Standard and the Supervisory Authority’s instructions as to how to apply the Standard in the case of less significant institutions, a detailed analysis was conducted for each relationship, whether in the form of a security or a loan.
To identify whether there has been a “significant deterioration” of credit quality since initial recognition and there is thus a need for classification to stage 2 and, vice versa, whether the conditions have been met for reclassification from stage 2 to stage 1, it has been decided to make a comparison, at each reporting date, between the credit quality of the financial instrument at the time of measurement and at the time of initial disbursement or purchase (stage assignment).

In view of the above, the factors that will be decisive when determining transitions between the various stages are as follows:
> a change in rating class with respect to the moment of initial recognition of the financial asset. In other words, this is an assessment according to a “relative” criterion;
> the presence of a position past due by at least 30 days. Where such positions exist, in other words, the credit risk of the exposure is presumed to have increased significantly and the position is thus reclassified to stage 2;
> the presence of forbearance measures, which entail the classification of the exposure as among those whose credit risk has significantly increased with respect to initial recognition.

Some particular considerations apply to the staging of securities. In the case of this type of exposure — as opposed to loans — purchase transactions following an initial purchase of securities with the same ISIN may be a customary part of ordinary management of such positions (resulting in the need to establish an approach to identify sales and redemptions to determine the residual balances of individual transactions with which to associate a credit quality/rating upon origination to be compared with that as at the reporting date). The “first-in-first-out” (“FIFO”) method has thus been deemed to contribute to more transparent management of the portfolio, including from the standpoint of front-office personnel, thus also permitting assessments of creditworthiness to be updated constantly on the basis of new purchases.
Finally, Banca Generali has adopted the low credit risk exemption provided for in IFRS 9 for certain financial assets, namely debt instruments issued by governments and public administrations. Accordingly, exposures that are rated investment grade or above as at the reporting date will be deemed low credit risk exposures and thus classified to stage 1.

As stated above, the inclusion of forward-looking factors, and of macroeconomic scenarios in particular, is relevant for estimating expected losses.
From a methodological standpoint, the approach taken by Banca Generali to calculating expected credit loss (ECL) involves subjecting lifetime PD curves to various macroeconomic scenarios, where the weighted average probability of occurrence of the individual scenarios represents the values to be used to calculate expected losses.

In the interest of completeness, it should be observed that exposures classified to stage 3 (i.e., as mentioned above, those currently classified as non-performing financial assets) have not been subject to any particular considerations, since the measurement policies adopted in application of IAS 39 (primarily involving analytical measurement of each non-performing position) are already deemed to be IFRS 9-compliant.

Impacts on IT and organisational systems

Banca Generali actively co-operated (with the role of "pilot bank") with its IT outsourcer, the CSE consortium, which implemented the new procedures needed to bring its IT systems into compliance with the requirements of the new standard.

IFRS 9 Policy

On 20 March 2018, the IFRS 9 adoption project was completed with the approval by the Banca Generali's Board of Directors of the IFRS 9 Policy, an all-inclusive document that brings the rules set out in the Standard together into a single policy text.

In order to enact the IFRS 9 guidelines in a manner consistent with Banca Generali's business and operations, this document analyses the Standard's following areas:
> classification and measurement of loans and debt securities;
> impairment of loans and debt securities;
> stage assignment of loans and debt securities.

The effects of IFRS 9 First Time Adoption (FTA)

Reconciliation of accounting statements published in the 2017 Annual Report and IFRS9-compliant accounting statements at 1 January 2018 (Circular No. 262/2015, 5th update)

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

FTA date for the new standard is thus 1 January 2018.
The adjustments to accounting figures as a result of the application of the new standard to previous years have thus been presented solely with reference to that date, without any retrospective adjustment of the comparison figures for the previous year, which correspond to the figures in the official annual report at 31 December 2017.

To reconcile comparison figures at 31 December 2017 to the new accounting statement layouts introduced with the 5th update to Circular No. 262/2005, effective as of 1 January 2018, the necessary layout adjustments were made without any change in the accounting values.

It should be noted, in particular, that the items of the balance sheet and corresponding reclassified presentation have been grouped together by virtue of uniformity of accounting treatment — at fair value through profit or loss, at fair value through other comprehensive income or at amortised cost — according to the following scheme:

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

Accordingly, investments in the previous portfolio of financial assets held to maturity have been reclassified to loans to banks or loans to customers, depending on the nature of the issuer.

The previous items regarding loans to banks and loans to customers were all included in item "10. Financial liabilities measured at amortised cost".

Reconciliation between the Balance Sheet at 31 December 2017 and the Balance Sheet at 1 January 2018

According to the instructions provided along with the 5th update to Circular, banks that make use of the exemption from the obligation to restate comparative figures must nonetheless include in their first financial statements prepared according to the new Circular 262 a statement of reconciliation that emphasizes the method used and provides a reconciliation between the figures from the most recent approved financial statements and the first financial statements prepared according to the new rules. The form and content of this disclosure are left to the discretion of the competent company bodies.

To this regard, the following are the statements of reconciliation of assets and liabilities as at 31 December 2017 and as at 1 January 2018 due to the first-time application of IFRS 9 indicating, respectively:

a) the effects of reclassifications made according to the new classification criteria presented based on the previous IAS 39-compliant figures and thus on like-for-like total assets and total liabilities

b) the effects in terms of measurement and valuation ensuing from the new rules introduced by the standard to determine IFRS 9-compliant opening balances.

Statement of reconciliation of the balance sheet at 1 January 2018 – IAS 39 values

ASSETS (€ THOUSAND)	31.12.2017	FORMER AFS UCITS AND EQUITY SECURITIES	FROM LOANS TO HTCS	FROM AFS TO HTC	UNIT-LINKED POLICIES	GUARANTEES & COMMIT-MENTS	01.01.2018 FTA	CHANGE
Financial assets at fair value through profit or loss	49,814	47,621	3,049	-	16,657	-	117,141	67,327
Financial assets at fair value through other comprehensive income	4,612,728	-47,621	25,276	-1,613,483	-	-	2,976,900	-1,635,828
Financial assets measured at amortised cost:	3,285,472	-	-28,325	1,613,483	-16,657	-	4,853,973	1,568,501
a) loans to banks (*)	377,463	-	-18,201	17,585	-	-	376,847	-616
b) loans to customers	2,908,009	-	-10,124	1,595,898	-16,657	-	4,477,126	1,569,117
Equity investments	1,820	-	-	-	-	-	1,820	-
Property, equipment and intangible assets	98,380	-	-	-	-	-	98,380	-
Tax receivables	45,735	-	-	-	-	-	45,735	-
Other assets	897,062	-	-	-	-	-	897,062	-
Total assets	**8,991,011**	**-**	**-**	**-**	**-**	**-**	**8,991,011**	**-**

(*) ECB demand deposits have not been reclassified

NET EQUITY AND LIABILITIES (€ THOUSAND	31.12.2017	FORMER AFS UCITS AND EQUITY SECURITIES	FROM LOANS TO HTCS	FROM AFS TO HTC	UNIT-LINKED POLICIES	GUARANTEES & COMMIT-MENTS	01.01.2018 FTA	CHANGE
Financial liabilities measured at amortised cost:	7,879,779	-	-	-	-	-	7,879,779	-
a) due to banks	682,531	-	-	-	-	-	682,531	-
b) due to customers	7,197,248	-	-	-	-	-	7,197,248	-
Financial liabilities held for trading and hedging	206	-	-	-	-	-	206	-
Tax liabilities	35,564	-	-	-	-	-	35,564	-
Other liabilities	185,218	-	-	-	-	-461	184,757	-461
Special purpose provisions	154,174	-	-	-	-	461	154,635	461
Valuation reserves	21,646	-	-	-	-	-	21,646	-
Reserves	348,519	-	-	-	-	-	348,519	-
Share premium reserve	58,219	-	-	-	-	-	58,219	-
Share capital	116,852	-	-	-	-	-	116,852	-
Treasury shares (-)	-13,271	-	-	-	-	-	-13,271	-
Net profit (loss) for the period	204,105	-	-	-	-	-	204,105	-
Total liabilities and net equity	**8,991,011**	**-**	**-**	**-**	**-**	**-**	**8,991,011**	**-**

The application of new classification and measurement rules to financial assets led, in particular, to:

> the classification of part of the bonds available for sale according to IAS 39, 1,613 million euros of which were allocated to HTC financial assets measured at amortised cost; this amount mainly refers to a government bond portfolio for a total amount of 1,575 million euros;

> the classification of a bond portfolio classified among loans to banks and customers among HTCS financial assets measured at fair value through other comprehensive income for 25 million euros, due to the change of the business model, and about 3 million euros as a result of the failed SPPI test;

> the classification of a portfolio of unit-linked policies covering contractual obligations towards financial advisors, for 17 million euros from loans to customers to assets mandatorily measured at fair value through profit and loss, as they cannot pass the SPPI test;
> the classification of UCITS units and equity securities for 47.6 million euros classified, pursuant to IAS 39, among financial assets available for sale to assets mandatorily measured at fair value through profit and loss.

Equity securities representing equity investments in entities (non-controlling interests) or capital contributions of various kinds (8.1 million[1] euros overall), classified under IAS 39 among available-for-sale financial instruments , have been irrevocably classified, on an elective basis, as at fair value through equity (without recycling to profit or loss). The equity securities reclassified from the AFS portfolio to assets mandatorily measured at fair value through profit or loss therefore amount to 1.4 million euros.

With respect to financial liabilities, provisions for credit risk associated with loan commitments and financial guarantees issued that under the previous version of Bank of Italy Circular No. 262 were allocated to Other liabilities have been included among provisions for liabilities and contingencies according to the new rules.

Statement of reconciliation of the balance sheet at 1 January 2018 - IFRS 9 effects

Statements of reconciliation between the balance sheet at 31 December 2017 (IAS 39), reclassified according to the new IFRS 9 classification rules, as discussed above, and the balance sheet as at 1 January 2018 (IFRS 9) are set out below. In the following statements, the figures at 31 December 2017 (under IAS 39) have been modified due to the application of the new measurement and impairment rules to determine IFRS 9-compliant opening balances.

		C&M				IMPAIRMENT			
ASSETS (€ THOUSAND)	01.01.2018 IAS 39	UCITS AND EQUITY SECURITIES	FORMER AFS	FORMER LOANS	POLICIES	HTC & COMMIT-MENTS	HTCS	01.01.2018 IFRS 9	CHANGE
Financial assets at fair value through profit or loss	117,141	-	-	56	1,582	-	-	118,779	1,638
Financial assets at fair value through other comprehensive income	2,976,900	-	-	489	-	-	-	2,977,389	489
Financial assets measured at amortised cost:	4,853,973	-	-8,962	-	-	-683	-	4,844,328	-9,645
a) loans to banks (*)	376,847	-	-255	-	-	267	-	376,860	12
b) loans to customers	4,477,126	-	-8,707	-	-	-951	-	4,467,468	-9,658
Equity investments	1,820	-	-	-	-	-	-	1,820	-
Property, equipment and intangible assets	98,380	-	-	-	-	-	-	98,380	-
Tax receivables	45,735	-112	-645	-	359	805	652	46,794	1,059
Other assets	897,062	-	-	-	-	-	-	897,062	-
Total assets	**8,991,011**	**-112**	**-9,607**	**545**	**1,941**	**122**	**652**	**8,984,553**	**-6,458**

(*) ECB demand deposits have not been reclassified.

		C&M				IMPAIRMENT			
NET EQUITY AND LIABILITIES (€ THOUSAND)	01.01.2018 IAS 39	UCITS AND EQUITY SECURITIES	FORMER AFS	FORMER LOANS	POLICIES	HTC & COMMIT-MENTS	HTCS	01.01.2018 IFRS 9	CHANGE
Financial liabilities measured at amortised cost:	7,879,779	-	-	-	189	-	-	7,879,968	189
a) due to banks	682,531	-	-	-		-	-	682,531	-
b) due to customers	7,197,248	-	-	-	189	-	-	7,197,437	189
Financial liabilities held for trading and hedging	206	-	-	-	-	-	-	206	-
Tax liabilities	35,564	-96	-3,527	175	509	573	652	33,851	-1,713
Other liabilities	184,757	-	-	-		-	-	184,757	-
Special purpose provisions	154,635	-	-	-	928	-258	-	155,305	670
Valuation reserves	21,646	-3,225	-6,081	333	-	-	1,377	14,051	-7,595
Reserves	348,519	3,208	-	36	316	-193	-1,377	350,509	1,990
Share premium reserve	58,219	-	-	-	-	-	-	58,219	-
Share capital	116,852	-	-	-	-	-	-	116,852	-
Treasury shares (-)	-13,271	-	-	-	-	-	-	-13,271	-
Net profit (loss) for the period	204,105	-	-	-	-	-	-	204,105	-
Total liabilities and net equity	**8,991,011**	**-112**	**-9,607**	**545**	**1,941**	**122**	**652**	**8,984,553**	**-6,458**

1 In particular, these are the equity investments in CSE, Tosetti Value SIM, GBS and other minor interests, and the capital contributions to the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) and film production ventures.

The effects of the first-time adoption of IFRS 9 on the Banca Generali Group's **consolidated net equity** at 1 January 2018 primarily derive from:

> the different metric for measuring financial assets reclassified to the new accounting classes, resulting in an overall negative impact on net equity, net of taxes, of **5.4 million euros**;
> the application of the new impairment rules for financial instruments, according to the expected credit loss model, resulting in a limited negative effect on net equity of **0.2 million euros**.

The effects of the application of the new classification and measurement (C&M) rules derive primarily from the adjustment of the carrying amount of the portfolio of debt securities as a result of the modification of the business model and, solely to a minor extent, to failing the SPPI test.

The effects in question may be attributed to the following factors:

> classification of a portfolio of debt securities at fair value through other comprehensive income to the HTC segment, with the resulting redetermination of the carrying amount upon origination and the derecognition of net positive AFS reserves of **6.1 million euros** (-9.0 million euros gross of the tax effect);
> classification of a portfolio of debt securities at amortised cost to an HTCS segment, with the resulting redetermination of the carrying amount at fair value and recognition of the increase in fair value since origination in the OCI reserve, in the amount of approximately **0.4 million euros** (+0.5 million euros gross of the tax effect);
> classification of a portfolio of unit-linked policies (due to failing the SPPI test) previously measured at amortised cost among financial assets at fair value through profit or loss, with the cumulative fair value change taken to a specific FTA gains reserve, in the amount of **0.3 million euros**.

It should also be noted that the reclassification of units of UCITS from the AFS portfolio entailed the derecognition of the specific net positive AFS reserve, with a balancing entry to the FTA gains reserve, in the amount of approximately 3.2 million euros, with no net effect on net equity.

The transition to the new rules on collective impairment resulted in a net negative impact on net equity of 0.4 million euros, affecting the loans and guarantees segment, and a positive impact of 0.2 million euros in respect of the securities portfolio.

	IAS 39	IFRS 9	GROSS EFFECT	FTA RESERVE	OCI RESERVE	NET EFFECT
Collective reserves for HTC securities	3,583	3,365	218	231	-	231
of which:						
- *government bonds*	-	*1,824*	*-1,824*	*-1,237*	-	*-1,237*
- *banks*	*495*	*99*	*396*	*287*	-	*287*
- *customers*	*3,088*	*1,442*	*1,646*	*1,182*	-	*1,182*
Collective reserves for HTC securities	-	-2,030	-2,030	-1,377	1,377	-
of which:						
- *government bonds*	-	*-1,877*	*-1,877*	*-1,274*	*1,274*	-
- *other*	-	*-152*	*-152*	*-103*	*103*	-
Total collective reserves for securities	**3,583**	**1,335**	**-1,812**	**-1,146**	**1,377**	**231**
of which:						
- *banks*	-	*129*	*-129*	*-87*	-	*-87*
- *customers*	*1,638*	*2,411*	*-773*	*-524*	-	*-524*
- *commitments and guarantees*	*461*	*204*	*258*	*187*	-	*187*
Collective reserves for loans	**2,100**	**2,743**	**-644**	**-425**	**-**	**-425**
Total collective reserves for performing loans	**5,683**	**4,079**	**-2,455**	**-1,570**	**1,377**	**-193**

In respect of cash balance sheet exposures and guarantees, the adoption of the new expected credit loss model, inclusive of the forward-looking component, in lieu of the previous incurred credit loss model (IAS 39), essentially resulted in an increase in impairment losses on performing exposures due to:

> the expansion of the scope of application of impairment to include exposures to banks and, to a lesser extent, operating loans;
> the allocation of a part of the performing portfolio to stage 2, on the basis of the established stage allocation criteria, with the resulting need to calculate the expected loss for the lifetime of the financial assets; and
> the inclusion in the calculation of expected losses of forward-looking parameters deriving from future macroeconomic scenarios.

The limited impact of the application of the new impairment rules to the debt securities portfolio is fundamentally due to the following reasons:

> since 2008 Banca Generali has always recognised a collective reserve for performing loans and a collective reserve covering contingent losses in the portfolio of securities measured at amortised cost (HTM and Loans), with the exception of government bonds and the portfolio of AFS assets;

> with regard to this latter portfolio, already measured at fair value through other comprehensive income - the negative equity reserve allocated during FTA was fully neutralised by the symmetrical adjustment to the positive equity reserve through other comprehensive income, resulting in a nil impact on net equity;
> finally, during the transition to IFRS 9, the method for calculating impairment was modified from PD based on historical series of default rates surveyed globally by issuer rating class and residual maturity of the security to a new forward-looking method based on market price trends from which the credit-risk component has been isolated. The method for calculating the new PD was provided by a specialist firm, Prometeia.

Accordingly, the allocation of collective reserves on government bonds resulted in a negative impact on net equity of 1.2 million euros, net of the tax effect, which was entirely set off against the lesser impairment losses on corporate and bank securities, previously classified as held-to-maturity assets and loans to banks and customers, in the amount of 1.4 million euros.
The negative FTA equity reserve for the HTCS portfolio amounted to 1.4 million euros, against which a symmetrical positive fair value measurement equity reserve was recognised.

Statement of reconciliation of the balance sheet effects

IAS 39 net equity - 31.12.2017		**736,070**
CLASSIFICATION AND MEASUREMENT		
Adjustment of the carrying amounts of financial assets due to the adoption of the new business models		-8,472
Adjustment of financial assets to fair value due to failing the SPPI test		521
Reclassification of valuation reserves to profit reserves:		**-**
Net change in valuation reserves due to application of new classification and measurement rules	-3,225	
Net change in profit reserves (FTA reserve) due to the application of new classification and measurement rules	3,225	
IMPAIRMENT		
Application of the new (ECL) impairment model to loans at amortised cost:		-901
Application of the new impairment (ECL) model to guarantees granted and commitments		258
Application of the new (ECL) impairment model to debt securities at amortised cost		218
Reclassification from valuation reserves to profit reserves:		-
Net change in valuation reserves due to impairment of financial assets at fair value through other comprehensive income	1,377	
Net change in profit reserves (FTA reserve) due to impairment of financial assets at fair value through other comprehensive income	-1,377	
Tax effect		2,772
Total IFRS 9 transition effects 01.01.2018		**-5,604**
IFRS 9-compliant net equity 01.01.2018		**730,466**

On the whole, consolidated net equity shows a decline in valuation reserves of 7.6 million euros and the recognition of a positive FTA profit reserve of 2.0 million euros, resulting in an overall net negative effect, inclusive of the tax effect, of 5.6 million euros.
In particular, total reclassifications to valuation reserves and profit reserves (FTA reserve) due to the application of the new classification and measurement rules and the effect of the application of the new impairment model amounted to 1.8 million euros.

Impacts on Own funds and capital requirements

The accounting effects described above also had consequences for regulatory capital and capital ratios. More specifically:
> the FTA profit reserves in net equity and the change in fair value measurement reserves increase or reduce CET 1 capital, respectively;
> the reduction of the portfolio of financial assets designated at fair value through other comprehensive income reduces the regulatory reserve to be allocated for the prudent valuation of financial instruments at fair value, with a positive impact on CET 1 capital;
> the tax effect gives rise to DTAs, which, however, do not exceed the minimum levels established by the rules for deduction from CET 1 and thus are weighted at 250% for the purposes of RWAs;
> RWAs fall due to the derecognition of AFS reserves as a result of the adjustment of carrying amounts to the new IFRS 9 accounting portfolios and the increase in impairment.

With reference to the adoption of IFRS 9, the Banking Group did not opt to apply the phase-in regime set forth in the Regulation (EU) No. 217/2395 which allows banks, whose opening balance sheet at the date of IFRS 9 first-time adoption

reports a decline in CET 1 due to the increase in expected credit loss provisions (net of tax effects), to include in their CET 1 a portion of the said increased provisions for a phase-in period of five years.

Due to the initial application of IFRS 9, the CET 1 ratio, recalculated as at 1 January 2018, would thus stand at 19.11%, showing a modest decline of 23 bps on the previous situation.
Likewise, the Total Capital ratio would be 20.78%, with a 24 bps reduction.

Impacts on prudential ratios are shown in detail in the following table:

EFFECTS ON EQUITY (€ THOUSAND)	COMMON EQUITY TIER 1	TOTAL CAPITAL	TOTAL RWAS	CET 1 RATIO	TOTAL CAPITAL RATIO
Figures at 31.12.2017 – IAS 39 (on a phase-in basis)	**475,232**	**518,602**	**2,563,242**	**18.54%**	**20.23%**
Figures at 31.12.2017 – IAS 39 (on a fully loaded basis)	**495,675**	**538,675**	**2,563,242**	**19.34%**	**21.02%**
Figures at 01.01.2018 – IFRS 9 final (on a fully loaded basis)	**491,698**	**534,698**	**2,573,175**	**19.11%**	**20.78%**
FTA impact (on a fully loaded basis) in terms of % change	*-0.80%*	*-0.74%*	*0.39%*	*-0.23%*	*-0.24%*

Modification of the provisional FTA presented as at 31 March 2018

In accordance with IFRS 1, disclosure regarding **first-time adoption** (FTA) must be provided in the first financial statements prepared in accordance with the new accounting standard, i.e. in the case of IFRS 9 the financial statements for 2018.
With regard to the preparation of interim financial statements, however, IAS 34 requires "***a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies and methods have been changed, a description of the nature and effect of the change***" (IAS 34.16 A (a)).

It should be noted that due to accounting and regulatory requirements, Banca Generali was forced to make an early presentation of a provisional estimate of the effects of the aforementioned FTA in the interim report at 31 March 2018, which does not qualify as an IAS 34-compliant document, while reserving the right to formalise the impacts of the first-time adoption of IFRS 9 in its consolidated half-yearly report at 30 June 2018.

Several circumstances that were already present at 1 January 2018 but the potential impact of which on the transition to the new Standard still could not be thoroughly assessed in fact came to fruition in the first half of the year:
> the launch of the process of redefining the Banking Group's growth strategy, to be incorporated into the new business plan, which will be approved by the end of July 2018;
> the adoption of the risk framework, approved by the Board of Directors on 15 June 2018.

With regard to this former aspect, both organic and non-organic growth options are being considered as part of the process of redefining the Banking Group's development model.
On past occasions, acquisitions have served as an important means of reaching the Banking Group's current size, contributing nearly one-third of total assets under management.
In Italy the market is consolidating, due in part to the increasingly difficult competitive and regulatory challenges, and this means that there are potential small and medium-sized acquisitions that could mature into opportunities.
Outside of Italy, one of the markets where expansion could take place in the short term is Switzerland, and M&A deals are being considered, among the other options.
With the aim of replicating the bank's business model, growth in other markets outside of Italy could also be considered at a later juncture.
In the interest of successful planning of such initiatives, capital position must be monitored to ensure that the Bank continues to be perceived as sound by its clients, network and investors.
The adoption of the new **risk framework** approved by the Board of Directors on 15 June 2018 led to a thorough revamping of the Bank's investment policies in accordance with the new, more stringent constraints presented by the security portfolio's new sensitivity parameters. The adoption of the new model represents the conclusion of a process launched at the end of the previous year and that has recently come to an end after an appropriate period of parallel running on the results of the new approach.
In particular, the new framework governs the exposure to interest rate risk and the credit risk spread through the use of a sensitivity-based method, according to FRTB and IRBBB approaches.
The quantitative findings of the tests of the new framework support the advisability of adopting new investment strategies prospectively, with the aim of shifting the balance of the portfolio back towards less volatile components, consisting of financial assets at amortised cost (HTC), and away from financial assets at fair value through other comprehensive income (HTCS).

The need to modify the Bank's investment strategies, identified through an in-depth assessment of the factors set out above, thus suggested that the initial composition of the portfolios be adjusted upon first-time adoption of IFRS 9.

In particular, within the framework of the debt securities allocated to the core banking book, a portfolio consisting primarily of government bonds with a nominal value of 1,432 million euros was reclassified from HTCS to HTC.
This process entailed the measurement of the reclassified securities at amortised cost and thus derecognition of the pre-existing unrealised gains deriving from fair value measurement through the related equity reserves, for a total of 11.6 million euros, gross of the tax effect.
The carrying amounts of unit-linked policies were also marked to their fair value based on the mathematical reserves reported by the insurance company, and the related provisions for contractual indemnities for financial advisors were reassessed accordingly.

ASSETS (€ THOUSAND)	01.01.2018 PROVISIONAL FTA	ADJUSTMENTS	01.01.2018 IFRS 9 FTA
Financial assets at fair value through profit or loss	117,196	1,583	118,779
Financial assets at fair value through other comprehensive income	4,426,184	-1,448,795	2,977,389
Financial assets measured at amortised cost:	3,407,151	1,437,177	4,844,328
a) loans to banks (*)	359,556	17,304	376,860
b) loans to customers	3,047,595	1,419,873	4,467,468
Equity investments	1,820	-	1,820
Property, equipment and intangible assets	98,381	-	98,381
Tax receivables	46,670	124	46,794
Other assets	897,062	-	897,062
Total assets	**8,994,464**	**-9,911**	**8,984,553**

(*) ECB demand deposits have not been reclassified.

NET EQUITY AND LIABILITIES (€ THOUSAND)	01.01.2018 PROVISIONAL FTA	ADJUSTMENTS	01.01.2018 IFRS 9 FTA
Financial liabilities measured at amortised cost:	7,879,779	189	7,879,968
a) due to banks	682,531	-	682,531
b) due to customers	7,197,248	189	7,197,437
Financial liabilities held for trading and hedging	206	-	206
Tax liabilities	37,310	-3,459	33,851
Other liabilities	184,757	-	184,757
Special purpose provisions	154,376	929	155,305
Valuation reserves	21,935	-7,884	14,051
Reserves	350,195	314	350,509
Share premium reserve	58,219	-	58,219
Share capital	116,852	-	116,852
Treasury shares (-)	-13,271	-	-13,271
Net profit (loss) for the period	204,105	-	204,105
Total liabilities and net equity	**8,994,464**	**-9,911**	**8,984,553**

Overall, the implementation of the approach taken to FTA resulted in a decline in the opening balance sheet at 1 January 2018 of 7.6 million euros, in turn giving rise to a positive impact on IFRS 9 FTA net equity of 2.0 million euros, previously estimated at a negative impact of 5.6 million euros in the quarterly report at 31 March 2018.

The FTA restatement also had a modest negative impact on the Total Capital Ratio of 0.31%.

EFFECTS ON NET EQUITY (€ THOUSAND)	COMMON EQUITY TIER 1	TOTAL CAPITAL	TOTAL RWAS	CET 1 RATIO	TOTAL CAPITAL RATIO
Figures at 31.12.2017 – IAS 39 (on a fully loaded basis)	**495,675**	**538,675**	**2,563,242**	**19.34%**	**21.02%**
Figures at 01.01.2018 – IFRS 9 final	**491,698**	**534,698**	**2,573,175**	**19.11%**	**20.78%**
Figures at 01.01.2018 – IFRS 9 provisional	**497,657**	**540,657**	**2,563,245**	**19.42%**	**21.09%**
FTA impact in terms of % change	*-0.80%*	*-0.74%*	*0.39%*	*-0.23%*	*-0.24%*
Provisional FTA impact in terms of % change	*0.40%*	*0.37%*	*-*	*0.08%*	*0.08%*
Delta impact compared to provisional FTA	*-1.20%*	*-1.11%*	*0.39%*	*-0.31%*	*-0.31%*

In the interest of completeness, it bears remarking that the balance sheet situation as at 31 March 2018 also must be restated as presented below to reflect the changes made.

ASSETS (€ THOUSAND)	31.03.2018	FTA ADJUSTMENT - SECURITIES	FTA ADJUSTMENT - POLICIES	EFFECTS OF ADJUSTMENTS AT 31.03.2018	31.03.2018 TOTAL ADJUSTMENTS	31.03.2018 RESTATED
Financial assets at fair value through profit or loss	114,157	-	1,582	-	1,582	115,739
Financial assets at fair value through other comprehensive income	4,376,203	-1,448,795	-	-9,683	-1,458,478	2,917,725
Financial assets measured at amortised cost:	4,396,399	1,437,176	-	738	1,437,914	5,834,313
a) loans to banks	1,093,245	17,304	-	956	18,260	1,111,505
b) loans to customers	3,303,154	1,419,872	-	-218	1,419,654	4,722,808
Equity investments	1,736	-	-	-	-	1,736
Property, equipment and intangible assets	96,778	-	-	-	-	96,778
Tax receivables	46,394	-148	359	-	211	46,605
Other assets	291,632	-	-	-	-	291,632
Total assets	**9,323,299**	**-11,767**	**1,941**	**-8,945**	**-18,771**	**9,304,528**

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.03.2018	FTA ADJUSTMENT - SECURITIES	FTA ADJUSTMENT - POLICIES	EFFECTS OF ADJUSTMENTS AT 31.03.2018	31.03.2018 TOTAL ADJUSTMENTS	31.03.2018 RESTATED
Financial liabilities measured at amortised cost:	8,186,641	-	189	-	189	8,186,830
a) due to banks	505,127	-		-	-	505,127
b) due to customers	7,681,514	-	189	-	189	7,681,703
Financial liabilities held for trading and hedging	290	-	-	-	-	290
Tax liabilities	42,557	-3,883	509	-2,876	-6,250	36,307
Other liabilities	143,151	-	-	-	-	143,151
Special purpose provisions	158,307	-	927	-	927	159,234
Valuation reserves	24,153	-7,884		-6,069	-13,953	10,200
Reserves	557,352	-	316	-	316	557,668
Share premium reserve	58,170	-	-	-	-	58,170
Share capital	116,852	-	-	-	-	116,852
Treasury shares (-)	-13,221	-	-	-	-	-13,221
Net profit (loss) for the period	49,047	-	-	-	-	49,047
Total liabilities and net equity	**9,323,299**	**-11,767**	**1,941**	**-8,945**	**-18,771**	**9,304,528**

In detail, at 31 March 2018 the overall impact on net equity of the FTA IFRS 9 adjustment would have amounted to 13.6 million euros, mainly due to the transfer of the change in OCI reserves during the quarter.
There was no significant impact on the P&L as in the first quarter of the year there were no movements in the portfolio reclassified.
CET 1 ratio would have been 19.8% compared to the reported 20.3% (-0.5%) and Total Capital Ratio (TCR) would have decreased from 22.0% to 21.50%, well above the SREP minimum requirement of 10.4%.

EFFECTS ON NET EQUITY (€ THOUSAND)	CET 1	TOTAL CAPITAL	TOTAL RWAS	CET 1 RATIO	TOTAL CAPITAL RATIO
Figures at 31.03.2018 – Restated	**505,958**	**548,958**	**2,553,462**	**19.81%**	**21.50%**
Figures at 31.03.2018 - Reported	**518,135**	**561,135**	**2,546,574**	**20.35%**	**22.03%**
Impact in terms of change %	*-2.35%*	*-2.17%*	*0.27%*	*-0.53%*	*-0.54%*

Transition to IFRS 15

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

According to the standard, an entity recognises revenues in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, according to the following five steps:

> identification of the contract, defined as an agreement between two or more parties that creates enforceable rights and obligations;

> identification of the individual performance obligations in the contract;
> determination of the transaction price, i.e., the amount to which an entity expects to be entitled in exchange for the transfer of goods and services;
> allocation of the transaction price to each performance obligation on the basis of its standalone selling price;
> recognition of revenues allocated to the individual obligation, when the performance obligation is satisfied, i.e., when control is passed to the client; recognition takes into account the fact that some services can be rendered either at a point in time or over time over time.

The new Standard also includes a section devoted to the accounting treatment of contract **acquisition costs** (paragraphs 91-104), which, when certain conditions are met, must be recognised as assets, amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates and tested for impairment.

In detail, the Standard distinguishes between:
> **incremental costs of obtaining a contract**, i.e., costs that the entity incurs to obtain the contract with the customer, and that it would not have incurred if the contract had not been successfully obtained. They must be recognised as an asset if the entity expects to recover those costs;
> **costs incurred to fulfil a contract are recognised as an asset if and only if** all of the following criteria are met:
  a) the costs relate directly to a specifically identifiable contract;
  b) the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future;
  c) the costs are expected to be recovered.

In the second half of 2017, the Banking Group carried out a specific assessment project with the support of a major accounting consultancy firm, in which it was concluded that the Bank's accounting policies were essentially compliant with the new IFRS 15 framework.
Given the significance of the fees paid to the sales network, during the project particular attention was devoted to analysing the acquisition costs for contracts with customers.
In particular, a significant share of the incremental costs of obtaining contracts relating to recruitment programmes for new Financial Advisors - considered a part of what is known as the "*supplementary fee system*" - is already capitalised also in accordance with IAS 18.
In addition to the above, at present additional types of **incremental costs** relating to incentives paid to the management for recruitment activity have been identified. These costs, which previously were not capitalised, may be regarded as closely correlated with the process of acquiring new customers.
The amortisation period for such cases has been defined on the basis of the time required to recover (pay back) the costs incurred and the time to transfer the services governed by the investment contracts to customers, i.e., five years for asset management and two years for administration and custody solutions.
As a result, prepayments of **4.1 million euros** were recognised as at 1 January 2018 in respect of the costs incurred and taken to profit or loss in previous years but not yet accrued within the framework of the new Standard.
These prepayments were recognised through a specific retained earnings reserve for an amount of **2.8 million euros**, net of the tax effect.
Transition to IFRS 15 had a positive effect of 0.76% on own funds and of 0.11% on Total Capital Ratio.

Overall effects of the transition to IFRS 9 and IFRS 15

The overall effect arising from the first time application of IFRS 9 and IFRS 15 at 1 January 2018 are summarized here below.

ASSETS (€ THOUSAND)	31.12.2017	TOTAL IFRS 9	TOTAL IFRS 15	01.01.2018 FTA
Financial assets at fair value through profit or loss	49,814	68,965	-	118,779
Financial assets at fair value through other comprehensive income	4,612,728	-1,635,338	-	2,977,390
Financial assets measured at amortised cost:	3,285,472	1,558,856	-	4,844,328
a) loans to banks (*)	377,463	-603	-	376,860
b) loans to customers	2,908,009	1,559,459	-	4,467,468
Equity investments	1,820	-	-	1,820
Property, equipment and intangible assets	98,380	-	-	98,380
Tax receivables	45,735	1,059	-	46,794
Other assets	897,062	-	4,095	901,157
Total assets	**8,991,011**	**-6,458**	**4,095**	**8,988,648**

(*) ECB demand deposits have not been reclassified.

NET EQUITY AND LIABILITIES (€ THOUSAND)	31.12.2017	TOTAL IFRS 9	TOTAL IFRS 15	01.01.2018 FTA
Financial liabilities measured at amortised cost:	7,879,779	189	-	7,879,968
a) due to banks	682,531	-	-	682,531
b) due to customers	7,197,248	189	-	7,197,437
Financial liabilities held for trading and hedging	206	-	-	206
Tax liabilities	35,564	-1,713	1,317	35,168
Other liabilities	185,218	-461	-	184,757
Special purpose provisions	154,174	1,131	-	155,305
Valuation reserves	21,646	-7,595	-	14,051
Reserves	348,519	1,990	2,779	353,287
Share premium reserve	58,219	-	-	58,219
Share capital	116,852	-	-	116,852
Treasury shares (-)	-13,271	-	-	-13,271
Net profit (loss) for the period	204,105	-	-	204,105
Total liabilities and net equity	**8,991,011**	**-6,458**	**4,095**	**8,988,648**

On the whole, following the transition to the two new accounting standards, IFRS 9 and IFRS 15, the transitional (phase-in) CET 1 ratio recalculated as at 1 January 2018 would have amounted to 19.22%, an increase of 68 bps compared with the ratio reported at 31 December 2017 and a modest decline of 12 bps compared with the fully loaded ratio at that same date, taking account of the end of the transitional rules for neutralising valuation reserves for government bonds, also with effect from 1 January 2018.
Similarly, the Total Capital Ratio would stand at 20.89%, up by 66 bps compared with the ratio reported at 31 December 2017 and down by a modest 13 bps compared with the fully loaded situation as at that same date.

Impacts on prudential ratios are shown in detail in the following table:

(€ THOUSAND)	31.12.2017 REPORTED PHASE IN	31.12.2017 REPORTED FULLY LOADED	01.01.2018 FTA PHASE IN	CHANGE (PHASE-IN)		01.01.2018 PROVISIONAL FTA	CHANGE IN PROVISIONAL FTA
				AMOUNT	%		
Common Equity Tier 1 capital (CET 1)	475,232	495,675	494,565	19,333	4.07%	499,841	-5,276
Additional Tier 1 (AT1) capital	-	-	-	-	n.a.	-	-
Tier 2 capital (T2)	43,370	43,000	43,000	-370	-0.85%	43,000	-
Total own funds	**518,602**	**538,675**	**537,565**	**18,963**	**3.66%**	**542,841**	**24,239**
Credit and counterparty risk	131,410	131,410	132,219	809	0.62%	131,460	758
Market risk	1,735	1,735	1,735	-	-	1,735	-
Operating risk	71,914	71,914	71,914	-	-	71,914	-
Total absorbed capital	**205,059**	**205,059**	**205,868**	**809**	**0.39%**	**205,110**	**50**
Excess over absorbed capital	313,543	333,616	331,697	18,155	5.79%	337,731	-6,034
Non-committed capital	60.46%	61.93%	61.70%	1.24%	2.06%	62.22%	-0.51%
Risk-weighted assets	2,563,242	2,563,242	2,573,350	10,108	0.39%	2,563,871	0.37%
Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	18.54%	19.34%	19.22%	0.68%	3.66%	19.50%	-0.28%
Total own funds/Risk-weighted assets (Total Capital Ratio)	**20.23%**	**21.02%**	**20.89%**	**0.66%**	**-3.15%**	**21.2%**	**-0.28%**

Overall, the adjustment made as a result of the FTA of the two new standards compared to the previously reported provisional estimate had a negative effect on consolidated net equity of about 7.1 million euros and generated a limited reduction of Total Capital Ratio of 28 bps at the reference date of 1 January 2018.

The effects of FTA adjustment on net equity at 31 March 2018 amounted to 13.1 million euros, with a negative effect on Total Capital Ratio of about 51 bps.

Consolidated financial statements at 1 January 2018

ASSETS (€ THOUSAND)			01.01.2018 FTA
10.	Cash and deposits		563,497
20.	Financial assets measured at fair value through profit or loss:		118,778
	a)	HFT financial assets	40,106
	b)	financial assets designated at fair value	-
	c)	assets mandatorily measured at fair value	78,672
30.	Financial assets measured at fair value through other comprehensive income		2,977,389
40.	Financial assets measured at amortised cost:		4,844,327
	a)	loans to banks	376,860
	b)	loans to customers	4,467,467
70.	Equity investments		1,820
90.	Property and equipment		6,570
100.	Intangible assets		91,810
	-	*goodwill*	*66,065*
110.	Tax receivables:		46,794
	a)	current	776
	b)	prepaid	46,018
		b1) as per Law No. 214/2011	*8,107*
130.	Other assets		337,659
	Total assets		**8,988,647**

NET EQUITY AND LIABILITIES (€ THOUSAND)			01.01.2018 FTA
10.	Financial liabilities measured at amortised cost:		7,879,968
	a)	due to banks	682,531
	b)	due to customers	7,197,437
20.	HFT financial liabilities		206
60.	Tax liabilities:		35,167
	a)	current	21,024
	b)	deferred	14,143
80.	Other liabilities		184,756
90.	Employee termination indemnities		4,859
100.	Provisions for liabilities and contingencies:		150,446
	a)	commitments and guarantees issued	204
	c)	other provisions	150,242
120.	Valuation reserves		14,051
150.	Reserves		353,288
160.	Share premium reserve		58,219
170.	Share capital		116,852
180.	Treasury shares (-)		-13,271
200.	Net profit (loss) for the period (+/-)		204,105
	Total net equity and liabilities		**8,988,647**

ATTESTATION TO THE HALF-YEAR FINANCIAL STATEMENTS

Board of Directors
26 July 2018

ATTESTATION TO THE HALF-YEAR FINANCIAL STATEMENTS

Attestation to the Condensed Half-year Financial Statements Pursuant to Article 81-*ter* of Consob Regulation 11971 Dated 14 May 1999, as Amended

1. The undersigned Gian Maria Mossa in his capacity as Chief Executive Officer, and Tommaso Di Russo, in his capacity as Manager in charge of preparing the accounting documents of Banca Generali S.p.A., hereby declare, taking into account the provisions set out in article 154-*bis*, paragraphs 3 and 4 of the legislative decree dated 24 February 1998, No.58, that the administrative and accounting procedures adopted to prepare the condensed half-year report for the first half of 2018

   - are appropriate in light of the features of the company, and
   - have been applied.

2. The appropriateness of administrative and accounting procedures for preparing the condensed half-year financial statements at 30 June 2018 was assessed using a process established by Banca Generali S.p.A. based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is generally accepted as a reference framework worldwide.

3. The undersigned further declare that:

3.1 the condensed half-year financial statements at 30 June 2018:

   a) were prepared in compliance with the applicable international accounting standards recognised in the European Community pursuant to regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002, as well as the provisions of Legislative Decree No. 38 of 28 February 2005, and further applicable provisions, regulations and circular letters issued by the Supervisory Board;

   b) reflect the accounting books and records;

   c) provide a true and fair view of the assets, liabilities, profit or loss and financial position of the issuer and all consolidated companies.

3.2 The interim report includes a reliable analysis of references to important events occurred in the first six months of the year, and to their impact on the condensed half-year financial statements; it also includes a description of the main risks and uncertainties regarding the coming six months of the year. The interim report also includes a reliable analysis of information on significant related-party transactions.

Trieste, 26 July 2018

Dott. Gian Maria Mossa
Chief Executive Officer

BANCA GENERALI S.p.A.

Dott. Tommaso Di Russo
Manager in charge of preparing
the Company's Financial Documents
BANCA GENERALI S.p.A

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INDEPENDENT AUDITORS' REPORT

Board of Directors
26 July 2018

INDEPENDENT AUDITORS' REPORT

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Auditors' review report on the interim condensed consolidated financial statements
(Translation from the original Italian text)

To the shareholders of
Banca Generali S.p.A.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows and the related explanatory notes, of Banca Generali Group as of June 30, 2018. Directors are responsible for the preparation of the interim condensed consolidated financial statements in compliance with International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution No. 10867 of July 31, 1997. A review of an interim condensed consolidated financial statements consists of making enquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca Generali Group as of June 30, 2018 are not prepared, in all material respects, in conformity with International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, July 31, 2018

BDO Italia S.p.A.

Signed by Rosanna Vicari
Partner

This report has been translated into English language solely for the convenience of international readers

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Pescara, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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Codice Fiscale, Partita IVA e Registro Imprese di Milano n. 07722780967 - R.E.A. Milano 1977842
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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.

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Banca Generali S.p.A.

Registered office
Via Machiavelli 4 - 34132 Trieste

Share capital
Authorised 119,378,836 euros
Subscribed and paid 116,851,637 euros

Tax code, VAT No. and Trieste
register of companies
00833240328

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

Coordination and design
Sege Srl / zero3zero9 Srl
Layout t&t

BANCA GENERALI

BANCA GENERALI S.P.A.

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