

# Banca Generali Group

## PILLAR 3 DISCLOSURES

Situation at 31 December 2016

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## Key regulatory indicators

| (€ million)   | 31<br>December<br>2016 | 31<br>December<br>2015 | Change % |
|---|------------------------|------------------------|----------|
| Net equity  | 646.5                  | 636.8                  | 1.5      |
| Common Equity Tier 1 capital (CET 1)                        | 419.1                  | 384.2                  | 9.1      |
| Tier 1 capital  | 419.1                  | 384.2                  | 9.1      |
| Own funds   | 462.9                  | 427.9                  | 8.2      |
| Excess capital  | 261.9                  | 212.8                  | 23.1     |
| Risk-weighted assets (RWAs)                                 | 2,512.7                | 2,688.3                | -6.5     |
| Tier 1 Capital Ratio (Tier 1 capital /Risk-weighted assets) | 16.7%                  | 14.3%                  | 16.7     |
| Total Capital Ratio (Total own funds/Risk-weighted assets)  | 18.4%                  | 15.9%                  | 15.8     |

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## FOREWORD

The new prudential supervisory provisions applicable to banks and banking groups came into force in EU law on 1 January 2014. They were drafted as part of the Basel Committee agreements (“Basel 3”) and designed to strengthen banks’ capacity to absorb shocks caused by financial and economic stresses, regardless of their origin, improve risk management and governance, and reinforce banks’ transparency and reporting.

The new rules defined by the Basel Committee for bank supervision were adopted in community law through EU Regulation No. 575/2013<sup>1</sup> and Directive 2013/36/EU<sup>2</sup>, published in the Official Journal of the European Union on 27 June 2013.

The Bank of Italy applied the above-mentioned provisions by issuing, on 17 December 2013, Circular Letter No. 285 “Supervisory Provisions for Banks”, repeatedly updated in 2014, and Circular Letter No. 286 “Instructions for the Compilation of Prudential Reports for Banks and Securities Brokerage Companies” also on 17 December 2013.

The Regulatory Technical Standards, issued by the European Banking Authority (EBA) and endorsed by the European Commission, provide the operating instructions for applying the new provisions. EBA also prepares the Implementing Technical Standards (ITS) aimed at harmonising prudential reports (COREP) and statistics (FINREP) at European level.

The new regulatory framework has retained the approach based on three pillars underlying the previous Capital Accord (Basel 2), while complementing and reinforcing that approach with the aim of improving the quantity and quality of intermediaries’ capital, introducing counter-cyclical regulatory instruments and rules concerning liquidity risk management and the containment of leverage.

In detail, **Pillar 1** was strengthened by introducing a more harmonised definition of capital and increasing capital requirements.

Basel 3 includes the definition of a harmonised concept of Common Equity Tier 1 capital (CET1), corresponding to ordinary shares and earnings reserves; in addition, more stringent criteria have been established for deducting from capital intangible assets, equity investments in financial and insurance companies and deferred tax assets (DTAs) in excess of pre-set individual and cumulative thresholds. It also provides for more stringent regulatory capital requirements to more accurately capture potential risks from securitisation positions and trading book and introduces DTAs, which were previously not included.

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<sup>1</sup>Hereinafter also referred to as “CRR.”

<sup>2</sup>Hereinafter also referred to as “CRD IV.”

The minimum overall requirement will remain set at 8% of risk-weighted assets, but more than half of this, or 4.5%, is to be met by common equity. In order to respond to periods of stress, an additional capital conservation buffer is also required beyond the regulatory minimum, equal to 2.5% of common equity in relation to risk-weighted assets<sup>3</sup>. *Banks that do not have such capital conservation buffer will in any event be required to comply with limits on the distribution of dividends and the award of bonuses, which will become increasingly stringent as the buffer shrinks.*

Basel 3 also introduces new requirements and supervisory systems for the liquidity and leverage risks, based on the following ratios:

- Liquidity Coverage Ratio — LCR, a short-term liquidity requirement;
- Net Stable Funding Ratio — NSFR, a longer-term structural stability requirement;
- Leverage Ratio, which as of 2017 will limit the maximum expansion of assets based on the size of Tier1.

**Pillar 2** requires banks to adopt a current and prospective capital adequacy strategy and a relevant monitoring process, and leaves to the supervisory authority the task to verify the reliability and consistency of relevant results and adopt adequate corrective measures, should the situation require this.

**Pillar 3** is based on the assumption that **Market Discipline** can contribute to reinforcing the regulation of capital, and thus promote the stability and solidity of banks and the financial sector.

Therefore, Pillar 3 aims at combining minimum capital requirements (Pillar 1) and the prudential control process (Pillar 2), by identifying information transparency requirements that permit the market operators to have access to full, relevant and reliable information about:

- capital adequacy;
- risk exposure; and
- general characteristics of systems intended to identify, measure and manage such risks.

This pillar has also been revised to introduce, amongst other things, transparency requirements regarding the composition of capital for regulatory purposes and the methods used by the Parent Company to calculate capital ratios, securitisation exposures, assets pledged and the new leverage ratio.

Public disclosure is now governed directly by EU Regulation No. 575/2013.

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<sup>3</sup> The level of the conservation buffer component included in the ratios was reduced for 2017 from 2.5% to 1.25% (in line with the decision of the Supervisory authority to bring the levels of the buffer back to those of the transitory regulations, with repositioning at 2.5% in 2019 - 18th up-date of the circular 285 dated 4 October 2016).

Bank of Italy's Circular Letter No. 285 of 17 December 2014, which covers this subject in Chapter 13, Part Two, does not establish specific rules for drafting and publishing Pillar 3, but merely reproduces the list of provisions laid down on the matter in the CRR<sup>4</sup>.

The subject is therefore governed directly by:

- the CRR itself, Part 8 “Disclosure by institutions” (Articles 431 – 455), and Part 10, Title I, Chapter 3 “Transitional provisions for disclosure of own funds” (Article 492);
- the Regulations of the European Commission entrusted to the EBA (European Banking Authority), laying down the regulatory technical standards and implementing technical standards for uniform models for publication of the various types of disclosures.

Additional indications have been provided by the **EBA (European Banking Authority)** in a specific document concerning the issues of materiality, proprietary and confidentiality and the frequency of disclosures to be provided in Pillar 3<sup>5 6</sup>.

On the basis of Article 433 of the CRR, banks shall publish public disclosures on at least an annual basis, along with their financial reporting documents.

Institutions are also required to assess the need to publish some or all disclosures more frequently in light of the relevant characteristics of their businesses<sup>7</sup>.

In this regard, the aforementioned EBA guidelines have confirmed the minimum obligation for all institutions to disclose information on an annual basis, in conjunction with their financial statements, while allowing each National Competent Authority, in accordance with Article 106 of CRD IV, to set more frequent deadlines than in the CRR in their countries, and requiring each bank to conduct its own assessment of whether it needs to publish more frequent disclosures.

Disclosures are of a **qualitative and quantitative** nature, structured so as to provide an overview as complete as possible of the risks assumed, the characteristics of the pertinent governance and control systems and capital adequacy of the Banca Generali Group.

The Pillar 3 public disclosure is drafted **at consolidated level** by the Banking Parent Company.

Unless otherwise specified, all amounts are in **thousands of euros**.

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<sup>4</sup> Accordingly, the previous provisions (Bank of Italy's Circular Letter No. 263/06, Title IV) and all the schemes and rules envisaged thereon are no longer applicable.

<sup>5</sup> Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432(1), 432(2) and 433 of Regulation No. (EU) 575/2013), (EBA/GL/2014/14) of 23 December 2014.

<sup>6</sup> The public disclosure envisaged in Pillar 3 has been also analysed by the Basel Committee in its document “Revised Pillar 3 Disclosure Requirements”, which calls for the introduction of international standard schemes starting in 2016.

<sup>7</sup> In detail, entities shall assess whether it is necessary to set more frequent deadlines for disclosing information regarding “Own funds” (Article 437, CRR) and “Capital requirements” (Article 438, CRR), as well as information concerning risk exposure or other elements which may be subject to swift changes.

Pursuant to Article 432 of CRR, there are exemptions to publication obligations under which entities may in extraordinary circumstances omit to publish proprietary or confidential information (including information considered to constitute disclosure adequacy requirements), provided that the unpublished information and the reasons for omission are stated, and information of a more general nature on the same subject is given.

The current provisions regarding Disclosure to the general public are currently being reviewed both within the sphere of the re-examination of the regulations and the directive on capital requirements (CRR/CRD IV), leading to the so-called “CRR2 package” proposed by the Commission on 23 November 2016, in light of the financial guidelines on the disclosure legislative requirements published by the EBA.

The new amendments, which will come into force during 2017 on a proportional basis, mainly concern (i) the identification of a set of key indicators for assessing the prudent position of the individual financial institution; (ii) divulgation of the hypothetical RWAs calculated according to the standardised approach; (iii) increase of the granularity in the communication of the adjustments made to the prudent assessment; (iv) new disclosure requirements concerning TLAC (Total Loss-Absorbing Capacity) for the institutions with systemic importance, market, counterparty and liquidity risk.

Compliance with public disclosure obligations is a necessary condition for the Banca Generali Group to secure recognition of the effects of its credit risk management (CRM) techniques for prudential purposes<sup>8</sup>.

Given the public significance of Pillar 3, the document is submitted to the competent Corporate Boards for approval under the responsibility of the manager in charge of preparing the company’s accounting documents. In accordance with Article 154-bis of Legislative Decree No. 58/98 (TUF), the document is then submitted for the relative certification.

In order to ensure compliance with disclosure requirements, the Banca Generali Group has adopted organisational measures suitable to ensuring the fulfilment of disclosure obligations. Top management analyses the assessment and verification of information quality, inasmuch as the law specifies that these activities fall within the remit of company bodies on an independent basis.

In order to conform to the requirements of supervisory legislation, the Banca Generali Group defined an internal process for determining Public Disclosures regarding Banca Generali S.p.A. (the “Parent Company”) and, insofar as applicable, the Companies (the “Group Companies”) subject to consolidated prudential regulatory rules.

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<sup>8</sup>Compliance with public disclosure obligations is also a necessary condition to recognise, for prudential purposes, the internal methods applied to calculate capital requirements.

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The Banca Generali Group regularly publishes its public Pillar 3 disclosures on its website, at the following address:

[www.bancagenerali.com/Investor Relations](http://www.bancagenerali.com/Investor_Relations).

Additional information concerning the Group's risk profile, pursuant to Article 434 of the CRR, was also published in the Annual Report for the year ended 31 December 2016, the Corporate Governance Report and the Remuneration Report. In the light of the above Article, if similar information is already disclosed in two or more media, a reference to that information is included in each medium.



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## 1 RISK MANAGEMENT OBJECTIVES AND POLICIES

The roles and responsibilities of the bodies and functions involved in risk management are defined in accordance with the Prudential Supervisory Provisions, the Internal Control System Policy, the general criteria of the Risk Policies and the Group's general risk management and control objectives. The Group's risk management is centralised: consequently, the activities performed by the bodies and functions of the Parent Company are also carried out on behalf of the Subsidiaries.

In accordance with the regulatory requirements, the Board of Directors, as the body charged with strategic supervision<sup>9</sup>, has the following responsibilities<sup>10</sup>:

- it identifies the objectives, strategies, risk profile and tolerance thresholds of the Bank and the guidelines for the internal control system, by defining corporate risk management policies within the Risk Appetite Framework (RAF) and by concurrently determining the corporate policies; it periodically checks their proper implementation and consistency with business developments and the associated risks, paying special attention to the adequacy and effectiveness of the Risk Appetite Framework and the compatibility between actual risk and the risk appetite;
- with at least annual frequency, it verifies the adequacy and efficacy of internal control systems and organisation in the light of the requirements set by the laws and regulations in effect from time to time and the Bank's characteristics;
- it verifies that the structure of the company control functions has been established in a manner consistent with the principle of proportionality, the requirements envisaged by Supervisory Authority's regulations and strategic guidelines, and that said functions have been provided qualitatively and quantitatively adequate resources;
- it approves the way in which control functions coordinate and collaborate with one another;
- it defines and approves the Risk Appetite Framework (RAF) on the basis of the Chief Executive Officer's proposal for the maximum risk that may be assumed, risk targets and tolerance thresholds, and periodically assesses its adequacy and efficacy in the light of the Bank's characteristics and operation;
- it approves the corporate process structure and main control systems, and periodically verifies that they are adequate by reviewing the results of the activities of control functions;
- it approves and carries out checks to ensure that the system of information flows is adequate, complete and prompt;

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<sup>9</sup> Cf. Regulation (EU) No. 575/2013 of 26 June 2013 (CRR) – Part 8.

<sup>10</sup> Cf. Banca Generali S.p.A.'s Internal Rules.

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- it approves, at least once a year, the plan of activities and the periodical reports of the company's control functions;
  - it approves and periodically verifies, at least once a year, the organisational structure and the assignment of tasks and responsibilities;
  - it ensures that the remuneration and reward structure does not increase corporate risks and is in line with RAF and long-term strategies;
  - it lays down the basis for defining the general management guidelines, approves the Company's strategic, industrial and financial plans, in a manner consistent with the RAF, and periodically reviews such plans in the light of the development of the company's business and the external scenario, in order to ensure that the said plans remain effective over time;
  - with respect to the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP), it defines and approves the general outline of the process, ensuring its consistency with the Risk Appetite Framework and promoting full use of ICAAP and ILAAP results for strategic purposes and business decisions;
  - it approves risk management processes and assesses their compatibility with strategic guidelines and risk governance policies, including the Risk Appetite Framework, and ensures that they are consistent with the quantity and allocation of capital and liquidity;
  - it ensures that the strategic plan, Risk Appetite Framework, ICAAP, budget and internal control system are consistent with one another, considering the development of the external and internal conditions in which the Bank operates;
  - it grants delegated powers in the area of lending that are appropriate to the size of the Bank and carries out the necessary periodic reviews of the exercise of those delegated powers by the parties to which they have been granted by examining the findings of the Internal Audit function;
  - it establishes the criteria for classifying, measuring and managing non-performing exposures, identifies the units responsible for these activities and determines the methods of reconciling such criteria with those applied to supervisory reporting;
  - it approves the internal code of conduct containing the principles of conduct with which members of company bodies and employees of the Bank and Banking Group are required to comply;
  - it identifies and periodically reviews the strategic guidelines and risk management policies relating to money laundering and financing of terrorism in a manner appropriate to the level and type of risks to which the Bank is actually exposed; inter alia, it ensures, on an ongoing basis, that tasks and responsibilities concerning anti-money laundering and countering of financing of terrorism are clearly and appropriately allocated, making sure that operational and control functions are separated and have qualitatively and quantitatively adequate resources;

- it establishes the general management guidelines, approves the Company's strategic, industrial and financial plans and periodically reviews them in the light of the development of the company's business and the external scenario, in order to ensure that the said plans remain effective over time;
- it approves highly significant transactions from the standpoint of operating, capital and financial performance, including those with related parties and connected parties (for this latter type of transaction, in accordance with the provisions of the "Procedure for Related Party and Connected Party Transactions and Transactions of Greater Importance");
- it defines and approves the criteria for identifying Transactions of Greater Importance, including with Related Party and Connected Party;
- it defines the company's outsourcing policy;
- it approves the guidelines for purchasing systems, software and services, including dealings with external suppliers;
- it approves, in line with the outsourcing guidelines adopted, the strategies for developing the IT system and related architecture, the organisational structure of the Information and Communication Technology (ICT) function, the IT risk appetite and the IT Security Policy;
- it establishes business continuity objectives and strategies, while ensuring adequate resources for achieving such objectives and strategies, approves the Business Continuity Plan and appoints the manager in charge of it (Group Crisis Manager); in the event of technological or organisational changes, it also approves subsequent updates, while accepting the residual risks not managed by the plan; in addition, it is informed, with at least annual frequency, about the results of controls of the adequacy of the plan and about the verification of business continuity measures.
- it approves the Recovery Plan, and resolves the execution of the same.

The body charged with management establishes and maintains an effective risk management and control system in implementing strategic guidelines.

In accordance with applicable legislation<sup>11</sup> and the internal system of powers and delegation of powers, the **Chief Executive Officer/General Manager**, implementing the Internal Regulations and within the framework of their functions and duties, approves specific guidelines, in line with the strategic approach, aimed at ensuring the efficacy of the risk management system. In addition, he/she supervises the risk management and control system, verifying its constant overall efficiency and efficacy, in accordance with the business model and level of exposure determined by the Board of Directors, and manages problems and critical issues associated with organisational aspects by

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<sup>11</sup> Cf. Circular Letter No. 285 dated 17 December 2013 and subsequent amendments, "Supervisory Provisions for Banks".

adjusting them in response to anomalies, changes in the context of reference, or the introduction of new products, activities or significant processes.

In accordance with applicable regulations, the **Chief Executive Officer/General Manager** within the remit to his or her own functions and duties takes steps to:

- implement the corporate policies, strategies, Risk Appetite Framework and business risk governance policies, defined by the Board of Directors;
- assess on a continuous basis the compliance of the risk management process, ensuring its consistency with the risk appetite and risk governance policies, taking also into account the changes in operating conditions both inside and outside the Bank;
- define the information flows aimed at ensuring that the corporate bodies and control functions are informed of the most relevant management events, as well as ensuring full knowledge and governability of risk factors and verification of compliance with the Risk Appetite Framework; implement a proper, prompt and safe information management for accounting, management and reporting purposes;
- clearly define the tasks and responsibilities of corporate structures and functions who report to the same, organising and implementing any necessary improvement measures if weaknesses or anomalies are identified;
- make sure that all the staff concerned are promptly given notice of corporate policies and procedures;
- manage the implementation of the process to approve investments on new products, the start/distribution of new activities, products or services, or the entry onto new markets, preparing the necessary adjustment actions;
- see on an on-going basis to the implementation of the processes for the assessment of the business activities, with particular regard to financial instruments;
- ensure the implementation of the company's policy for the outsourcing of business functions;
- implement the Internal Capital Adequacy Assessment Process (ICAAP), and the Internal Liquidity Adequacy Assessment Process (ILAAP), ensuring that they are in line with the strategic policies, the Risk Appetite Framework and the guidelines drawn up by the Board of Directors, and meet the requirements imposed under the prudential supervisory rules for banks;
- ensure that the internal procedures, responsibilities and corporate structures and functions which report to the same are implemented and updated, taking due account of guidelines issued also at international level, in order to avoid the unintentional involvement in money laundering and terrorist financing activity; in this area, his or her duties include ensuring that operating procedures and information technology allow customers to be identified properly and constant updates to be applied to all information functional to reviewing customers' financial profiles, preparing procedures necessary to meet the requirements of document storage and

recording of information in the Single Computer Archive, ensuring the adoption of specific computer procedures for compliance with money laundering legislation, included with regard to transactions carried out by telephone or electronic channels;

- authorise, having consulted the Appointments Committee, the undertaking by employees of offices or appointments in other companies;
- ensure that the information system is complete, adequate, effective, efficient and reliable and, in the event of anomalies, take action with the service outsourcers so that they carry out the necessary corrective actions, as well as, make timely decisions in the event of serious IT security events or significant malfunctions, and report information to the Board of Directors;
- promote the development and periodic monitoring of the Business Continuity Plan and its update when significant organisational, technological and infrastructure changes occur (as well as if any gaps or deficiencies are identified or new risks occur); approve the annual audit plan of business continuity measures and examine the test results; report to the Board of Directors on the above matters;
- see to and co-ordinate, on the basis of the strategic policies of the Board of Directors and on the basis of any authorising powers/appointments specifically assigned, the implementation of the Recovery Plan in the event of resolution of the initiation of a state of crisis.

The Board of Statutory Auditors, in its capacity as a control body and within its institutional supervisory functions, oversees the adequacy and concrete functionality of the company's administrative, accounting and organisational structure, the completeness, adequacy, functionality and reliability of the internal control system and its regulatory compliance<sup>12</sup>, as well as the completeness, adequacy, functionality and reliability of the Risk Appetite Framework, the Recovery Plan and the Business Continuity Plan, recording the activities carried out and the decisions made in their regard.

## 1.1 CREDIT RISK

Considering that lending is instrumental to the Group's core business, such activities essentially consist of granting credit facilities secured by pledges, and primarily for customers who hold assets under management with the Parent Company or other Group companies.

With regard to credit risk management process, the Banca Generali Group has adopted a single risk management policy duly approved by the Board of Directors of Banca Generali S.p.A., that specifies the bodies and functions involved and sets forth the guidelines for the identification, measurement, monitoring and reporting of credit risk.

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<sup>12</sup> Cf. Regulation (EU) No 575/2013 of 26 June 2013 (CRR) – Part 8.

The Group has also formally defined lending policy guidelines within the Lending Rules and Procedures of Banca Generali S.p.A. that assign specific responsibilities to each company unit involved.

Within the same Rules, the Group has defined an extensive system of powers and limits associated with loan authorisation.

In this context, it has formally defined detailed levels of autonomy and specific operating conditions for the loan authorisation powers held by the various decision-making levels.

Exposures to enterprise and retail borrowers classifiable as cash loans and endorsements loans are subject to first-tier monitoring by the Lending and Operations Departments and to second-tier monitoring by the Risk and Capital Adequacy Department.

In short, the Lending Department:

- is responsible for lending activities and managing the credit lines granted in accordance with the special Lending Rules, with a view to ensuring the quality of approved loans and pursuing the risk/return targets established by the Board of Directors;
- is responsible for defining the criteria applied to determine the creditworthiness of Customers in respect of the various technical forms of credit and for developing the lending policies, in accordance with prudential risk-containment criteria.

With regard to non-performing loans, except for bad loans, the Lending Department is responsible for managing past due and/or expired positions and unlikely-to-pay positions that relate to approved credit facilities, whereas the Operations Department is responsible for managing those same categories of non-performing loans for customers without approved credit facilities. In some cases, for customers without credit facilities approved by the Operations Department, the Lending Department proposes that positions be reclassified to the bad debt category, through a report for the Legal Department. If there are no obstacles to reclassification to the bad debt category, the Legal Department drafts the report for the Lending Committee, which decides on the matter.

Non-performing and performing positions with forbearance measures are always the responsibility of either the Lending Department or the Operations Department, depending on the department to which the position is assigned.

The Risk and Capital Adequacy Department plays the role of second-level control function, which it performs by measuring and monitoring credit risk on an ongoing basis and periodically informing the Risk Committee and the Board of Directors, through a periodic report, of the activity performed and the result of the analyses conducted, while also providing a descriptive analysis of the monitoring of credit risk and the development of loan quality.

As part of its loan monitoring and review, as envisaged by the Bank of Italy Circular Letter No. 285, the Risk and Capital Adequacy Department is also responsible for the above activities for individual positions, and in particular it sees to:

- overall assessment and for specific drivers of the exposure and its degree of coverage with particular attention to the monitoring of the equivalent value of the guarantees over time;
- assessment of the degree of concentration of the portfolio vis-à-vis individual borrowers;
- assessment of the individual non-performing exposures;
- assessment of the consistency of classifications, with particular regard to the proper classifications of non-performing exposures;
- assessment of the compatibility of the provisions, in co-ordination with the competent structures (Lending Department, Administration Department and Legal Department);
- assessment of the adequacy of the process for recovering non-performing exposures, the adequacy of the degree of unrecoverability of such exposures and of their potential recovery value in the eventuality that a deterioration in the credit worthiness of the counterparties may emerge;
- proposal - on the basis of the evidence and the outcomes emerging within the sphere of the 2nd level controls - of operational recommendations for the review of the processes and the lending performance appraisal models for the purpose of their on-going improvement over time;
- prior opinions regarding the credit risk in Significant Transactions.

In addition to the Lending Department and the Operations Department, first-level control is also conducted by the Finance Department of Banca Generali S.p.A., which is responsible for lending operations involving institutional borrowers (loans to banks) and securities investment operations, which are considered when defining the Group's overall credit exposure.

The Finance Rules of Banca Generali S.p.A. set out and formalise the guidelines concerning securities transactions with institutional counterparties that may generate credit risk, envisaging a credit line to be issued for transactions that incorporate a specific analysis of the counterparty's creditworthiness. This creditworthiness assessment is based on the ratings provided by the major external ratings agencies (Moody's, S&P and Fitch), which are periodically verified, with at least annual frequency, to evaluate their consistency with internally generated management ratings.

The current loan granting process for borrowers without external ratings involves the Risk and Capital Adequacy Department, which expresses an opinion of the potential borrower's creditworthiness with binding effect in the review conducted by the Finance Department.

Approved credit limits are reviewed with a frequency of no more than one year.

The Group's credit and counterparty risk appetite is periodically monitored (i) on the basis of the objective levels (so-called Risk Triggers) and attention thresholds (so-called Risk Limits), as defined within the Risk Appetite Framework approved by the Parent Company's Board of Directors, and (ii) in operating terms, on the basis of the lending system, approved by the Parent Company's Board of Directors and the organisational measures adopted.

The Risk and Capital Adequacy Department is responsible for second-level controls and conducts specific independent control and monitoring of credit risk.

With reference to the main instruments used for monitoring, the Risk and Capital Adequacy Department has adopted appropriate IT solutions allowing for advance and after-the-fact review of the capacity of credit lines with institutional counterparties and/or the presence of any overdrafts, and a detailed inquiry into the deals and technical forms that contribute to the amount drawn down.

The Risk and Capital Adequacy Department, which operates on behalf of both Banca Generali S.p.A. and the Subsidiaries, is responsible for:

- in collaboration with relevant corporate functions, identifying and monitoring credit risk exposure of Generali Group companies by using analytical risk-assessment models, as well as overseeing the implementation of appropriate risk-containment procedures by all the operating units involved;
- verifying that the performance of individual exposures is properly monitored, particularly for non-performing exposures, and assessing the adequacy of the recovery process;
- assessing the appropriateness of the procedures for establishing and validating operating restrictions, whilst ensuring that any and all breaches of the said restrictions as well as increases in risk exposure levels, are promptly reported to high-level management, as well as the heads of the individual operating units in question;
- verifying the integrity of the information flows underlying timely risk monitoring and the immediate flagging of any and all anomalous transactions;
- validating the algorithms and calculation methods that support the credit counterparty classification process and conducting spot checks of the proper classification of credit counterparties;
- submitting periodic reports to company bodies on the overall status of the risk management system and its capacity, in particular, to respond to the development of risks, as well as the existence of breaches of the operating limits set and the corrective action taken accordingly;
- verifying the consistency of risk measurement models with the operating processes in force at the Banking Group, ensuring they are adjusted as the business and operations develop;
- carrying out stress tests;
- ensuring the consistency of the credit risk management systems implemented by Group Companies;
- preparing an annual Risk Management Plan for the identification and monitoring of credit risk internally to the Banking Group.

The Risk and Capital Adequacy Department is also responsible for verifying the efficacy of the attenuation techniques employed in credit risk mitigation (CRM).



Third-level controls are conducted by the Internal Audit Department, in accordance with the “Internal Rules and Procedures” of Banca Generali S.p.A. and the Group.

For the measurement of Credit Risk, the Group decided to adopt the standardised method proposed by Basel 2 using Moody’s as the ECAI, and, exclusively for securitisation positions, Moody’s, S&P and Fitch.

## **1.2 COUNTERPARTY RISK**

With regard to the counterparty risk management process, the Group has implemented a Single Risk Management Policy, duly approved by the Board of Directors of the Parent Company, which defines the bodies and functions involved in the management of said risk and describes the identification, measurement, control and reporting of counterparty risk.

The counterparty risk management and monitoring systems prepared by the Group take account of the limited extent of transactions concerning derivative instruments, both proprietary and on behalf of clients, and the limited number of financial instruments in which it deals.

The Finance Rules and Procedures of Banca Generali S.p.A. set out and formally define the guidelines concerning securities transactions that may generate counterparty risk and state that a credit limit must be established for such transactions incorporating a specific analysis of the counterparty’s creditworthiness. This creditworthiness assessment is based on the ratings provided by the major external ratings agencies (Moody’s, S&P and Fitch), which are periodically verified, with at least annual frequency, to evaluate their consistency with internally generated management ratings.

The current loan granting process for borrowers without external ratings involves the Risk and Capital Adequacy Department, which expresses an opinion of the potential borrower’s creditworthiness with binding effect in the review conducted by the Finance Department.

Approved credit limits are reviewed with a frequency of no more than one year.

The Group’s credit and counterparty risk appetite is periodically monitored (i) on the basis of the objective levels (so-called Risk Triggers) and attention thresholds (so-called Risk Limits), as defined within the Risk Appetite Framework approved by the Parent Company’s Board of Directors, and (ii) in operating terms, on the basis of the lending system, approved by the Parent Company’s Board of Directors and the organisational measures adopted.

The Finance Department of Banca Generali S.p.A. performs first-level controls of counterparty risk. Within the Finance Department, the Treasury and Corporate Finance Service ensures compliance with the credit limits for institutional counterparties established by the Board of Directors.

The Lending Department participates in defining the operating policies for transactions that may generate counterparty risk for the Group.

The Risk and Capital Adequacy Department is responsible for second-level control, including specific activities such as identification, measurement, monitoring and reporting of counterparty risk.

With reference to the main instruments used for monitoring, the Risk and Capital Adequacy Department has adopted appropriate IT solutions allowing for advance and after-the-fact review of the capacity of credit lines with institutional counterparties and/or the presence of any overdrafts, and a detailed inquiry into the deals and technical forms that contribute to the amount drawn down.

The third-level controls of operations are conducted by the Internal Audit Department, in accordance with the Internal Rules and Procedures of Banca Generali S.p.A. and the Group.

To determine the capital requirement for the Counterparty Risk, the Group uses the methodological approach based on the Current Value Method, in the interest of arriving at an accurate assessment of the level of risk inherent in transactions with long-term settlement and transactions involving over-the-counter (OTC) derivatives.

### **1.3 RISK OF CREDIT VALUATION ADJUSTMENT (CVA)**

With reference to the counterparty risk, the new Basel 3<sup>13</sup> regulations introduce the credit valuation adjustment (CVA), which refers to an adjustment of the mid-market valuation of the portfolio of transactions with a counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the institution, but does not reflect the current market value of the credit risk of the institution to the counterparty<sup>14</sup>.

Calculation of the requirement for the aforementioned risk includes OTC derivative instruments and securities financing transactions (SFTs). It does not include:

- transactions with a central counterparty clearing house (CCP);
- intra-group transactions;
- transactions with counterparties not subject to credit valuation adjustment (CVA);
- hedges not eligible for CVA risk.

Capital requirements for CVA risks are calculated at the portfolio level for each counterparty by applying the supervisory formula envisaged in the standardised method and by taking account of eligible CVA hedges.

With respect to the management process, since the scope of transactions subject to credit valuation adjustment risk coincides with that for counterparty risk, the same guidelines and procedures as those laid down for counterparty risk and formalised in the Single Risk Management Policy adopted by the Bank apply.

### **1.4 MARKET RISK**

With regard to the Market Risk management process, the Group implemented a Single risk management policy duly approved by the Board of Directors of the Parent Company, that specifies

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<sup>13</sup> Cf. Regulation (EU) No 575/2013 of 26 June 2013 (CRR).

<sup>14</sup> Cf. Regulation (EU) No 575/2013 of 26 June 2013 (CRR).

the bodies and functions involved in the management of market risk and sets forth the guidelines for the identification, measurement, monitoring and reporting of this type of risk.

The Finance Department conducts first-tier management and monitoring of exposure to market risk, in accordance with predefined operating limits detailed in the Parent Company's Finance Rules. In detail, the following types of limits have been identified: duration limits, position limits by residual maturity brackets, limits by type of issuer and rating class, limits on total and individual open positions (for equities only), limits on open intraday and overnight positions (for non-euro currencies only) and stop-loss limits by both portfolio and individual security.

In the Internal Rules and Procedures of Banca Generali S.p.A. and the Group, it is explicitly stated that the Finance Department of Banca Generali S.p.A. is responsible for "the trading of financial instruments on its own account and on account of Customers".

In the context of its market risk management process, the Group adopts appropriate IT solutions.

The Group's market risk appetite is periodically monitored (i) on the basis of the objective levels (so-called Risk Triggers) and attention thresholds (so-called Risk Limits), as defined within the Risk Appetite Framework approved by the Parent Company's Board of Directors, and (ii) in operating terms, on the basis of the operating limits system, approved by the Parent Company's Board of Directors and the organisational measures adopted.

Second-level control activities are the responsibility of the Risk and Capital Adequacy Department. Said Department is charged with identifying, measuring, controlling and managing the risks associated with the Banking Group's activities, processes and systems in accordance with the strategies and risk profile defined by the Top Management.

In connection with market risk, the Department is responsible for:

- identifying, with the collaboration of the company units concerned, and monitoring the market risks which the Banking Group companies are exposed to by means of developing suitable methods for measuring these risks and the verification of the implementation of action to hedge the identified risks by the operating units involved;
- assessing the appropriateness of the procedures for establishing and checking the limits, whilst ensuring that the violation of said limits, as well as the evolution of the risks are promptly reported to top management and the heads of the individual operating units in question;
- verifying the integrity of the information flows underlying timely risk monitoring and the immediate flagging of any and all anomalous transactions;
- submitting periodic reports to company bodies on the overall status of the market risk management system and its capacity, in particular, to respond to the development of such risks, as well as the existence of breaches of established limits and the corrective action taken accordingly;

- verifying the consistency of market risk measurement models with the operating processes in force at the Banking Group, ensuring they are adjusted as the business and operations develop;
- carrying out stress tests;
- verifying the consistency of the market risk management systems implemented by Group Companies;
- preparing an annual Risk Management Plan for the identification and monitoring of market risk internally to the Banking Group.

In second-level control activities, such as, for example, verifying that the information used to measure and monitor market risk is reliable, the Risk and Capital Adequacy Department relies on info-providers of reference.

In the context of market risk control, the Risk and Capital Adequacy Department makes use of appropriate IT solutions to monitor all market limits formalised in the Finance Rules, and to conduct all VaR analyses according to the historical simulation method.

VaR analyses are carried out using the historical simulation method, a 99% confidence interval, and a 1-day time horizon. It is calculated based on the volatility of and correlations among the individual risk factors, including, for each currency, short- and long-term interest rates, exchange rates and share price indexes.

VaR measurement is used for the sole purpose of performing a management analysis of the Bank, which has no internal models aimed at submitting regular reports to the Supervisory Body, and is prudentially calculated on the entire own portfolio (Trading and Banking Book).

The Internal Audit Department conducts independent controls (third-level controls) on transactions undertaken by the Departments/Functions involved in the management of market risk, in accordance with the Bank's and the Group's Internal Rules and Procedures.

The Internal Audit Department performs said controls not only for the Parent Company, but also for Banking Group Companies, both under specific outsourcing agreements that govern the provision of audit service, and in an institutional capacity as a function of the Parent Company of the Banking Group.

When determining the capital requirement to be held for market risks, the Group employs the standard methodology, whereas, for prudential regulatory capital purposes, the Group uses the delta-plus method for options.

## **1.5 OPERATING RISK**

With regard to the Operating Risk management process, the Group has implemented a Single risk management policy, duly approved by the Board of Directors of Banca Generali S.p.A., which defines

the bodies and functions involved in the management of the operating risk and describes the associated identifying, measuring, controlling and reporting activities.

In the context of operating risk management:

- the Regulations and Organisational Analysis Service is responsible for analysing and mapping processes for the purpose of conducting Operational Risk Assessment, through interviews with Process/Subprocess Owners, and for incorporating any changes in processes, as well as for populating and updating the process Library and its internal regulations;
- the C.O.O. Department is responsible for coordinating and monitoring the implementation of the solutions planned for any problems detected during the Operational Risk Assessment performed by the Risk and Capital Adequacy Department;
- within the General Counsel Area, the Legal Department contributes to the management of operating risks by handling disputes and complaints, whereas the Compliance Service is tasked with determining second-level control measures for the distribution Network, focusing not only on the risk of regulatory violations, but also on the risk of potential fraud as a result of the financial advisory activities performed.

Particular attention is devoted to the control and monitoring of the risk of fraud, a risk of particular importance to the Group, given its business model and organisational configuration.

The Internal Audit Department periodically confirms the proper application of the approved operating risk management system.

To reinforce the efficacy of the control process, the Parent Company's Board of Directors, in compliance with Bank of Italy's Circular Letter No. 84001014 of 20 April 2004 and the subsequent Regulatory Provision No. 311014 of 23 March 2007, approved a Business Continuity Plan (BCP).

In particular, the Group companies provided with a BCP are:

- Banca Generali S.p.A.;
- BG Fiduciaria SIM SpA;
- Generfid SpA.

Moreover, the Banca Generali Group has subscribed insurance coverage for operating risks deriving from acts of third parties or caused to third parties, and adequate clauses covering damages caused by providers of infrastructure and services.

The Group's operating risk appetite is periodically monitored (i) on the basis of the objective levels (so-called Risk Triggers) and attention thresholds (so-called Risk Limits), as defined within the Risk Appetite Framework approved by the Parent Company's Board of Directors, and (ii) in operating terms, on the basis of the organisational measures adopted.

The Risk and Capital Adequacy Department is responsible for second-level controls of operating risk and is consequently tasked with identifying, measuring, controlling and managing operating risks.

In further detail, said Department has the following primary responsibilities in connection with operating risks:

- identifying the risk-assessment model;
- developing, maintaining and validating the risk assessment methods;
- assessing the credit risk exposure through, among others:
  - identifying key risk indicators (KRIs) in collaboration with the affected company functions;
  - using the qualitative assessments gathered during the Operational Risk Assessment conducted primarily through interviews with the relevant process owners, with assistance, if appropriate, from any other function involved;
- promptly notifying the Regulations Organisational Analysis Service of any changes to processes resulting from the Operational Risk Assessment;
- determining any corrective measures to cover the operational risks determined and evaluating their proper implementation by the relevant process owners, with assistance from the Organisation and IT Coordination Department;
- collaborating with the other control functions by sharing information on the Bank's risk areas identified within its assessment activities.

The Group has also defined and formalised a Loss Data Collection process with the aim of determining the monetary quantification of the operating risks identified.

The Risk and Capital Adequacy Department also collaborates with the functions involved in various capacities (i) in the annual update of the Business Continuity Plan (BCP) of Banca Generali and the Banking Group, and (ii) in the definition of emergency plans, with the aim of ensuring the continuity of vital operations, and in particular of processes classified as critical to business continuity.

The Internal Audit Department is responsible for third-level controls of operating risk, in accordance with the Internal Rules and Procedures of Banca Generali S.p.A. and the Group.

In order to determine the capital requirements to be held for Operating Risk, the Group adopted the Basic Indicator Approach (BIA) method.

## **1.6 INTEREST RATE RISK ON THE BANKING BOOK**

With regard to management process of the interest-rate risk on the banking book, the Group has formally defined a Single risk management policy, duly approved by the Board of Directors of the Parent Company, which specifies the bodies and functions involved and describes the guidelines for the identification, measurement, control and reporting of interest rate risk on the banking book.

First-level controls of interest rate risk in the banking book are performed by the Lending Department of Banca Generali S.p.A. and Finance Department of the Parent Company.

In particular, the Finance Department is responsible for proprietary trading of financial instruments, trading of financial instruments on behalf of customers and the Group's treasury management.

The Lending Department is responsible for loan approval activities and the management of the loans issued by Group Banks.

In a manner instrumental to the control of operations in which it engages, the Group has implemented the appropriate IT solutions and developed an analysis of sight positions.

The Group's interest rate risk appetite on the banking book is periodically monitored (i) on the basis of the objective levels (so-called Risk Triggers) and attention thresholds (so-called Risk Limits), as defined within the Risk Appetite Framework approved by the Parent Company's Board of Directors, and (ii) in operating terms, on the basis of the organisational measures adopted.

The Risk and Capital Adequacy Department is responsible for second-level controls and in particular for the following activities (including the implementations of stress tests):

- identifying the Group's interest rate risk;
- measuring exposure to interest rate risk;
- verification of compliance with limits;
- generating and transmitting reports in its area of competence;
- preparation and verification of methods of measuring interest rate risk and implementation and maintenance of said methods within calculation applications.

The Department conducts a series of management analyses aimed at monitoring the risk of incurring losses over time as a consequence of potential changes in interest rates. The impact of fluctuations in interest rates is quantified both in terms of the change in current profits, i.e., the impact on current profits over a time horizon of twelve months, and in terms of a change in the market value of assets and liabilities, and thus of the economic value of net equity.

The Internal Audit Department is responsible for third-level controls of interest rate risk and performs said controls not only for the Parent Company, but also for Banking Group Companies, both under specific outsourcing agreements that govern the provision of audit service, and in an institutional capacity as a function of the Parent Company of the Banking Group.

In order to measure the risk deriving from the Group's exposure to changes in the interest rate in the banking book, the Group uses the model proposed by the Bank of Italy, applying a rate shock to all time buckets defined by the supervisory provisions.

## 1.7 CONCENTRATION RISK

With regard to the Concentration Risk management process, the Group has implemented a Single risk management policy, duly approved by the Board of Directors of the Parent Company, which specifies the bodies and functions involved in the management of said risk and describes the guidelines for the identification, measurement, control and reporting of concentration risk.

The Banca Generali Lending Rules and Procedures identify certain business areas in respect of lending operations, and risk is distributed across the various business areas with the aim of avoiding concentration in particular economic sectors, while nonetheless considering that most of the loans granted to ordinary customers are secured by pledges on financial instruments. In this regard, concentration of residual risk, net of the value of collateral, is not material and is deemed moderately significant.

Business areas are broken down as follows (the groups of the ATECO activity codes for each category are indicated in parentheses):

- (01-03) agriculture, forestry and fishing;
- (05-09) extraction of minerals from quarries and mines;
- (10-33) manufacturing;
- (35) supply of electrical power, natural gas, steam and air cooling;
- (36-39) supply of water; sewer networks; waste management and land reclamation;
- (41-43) construction;
- (45-47) wholesale and retail distribution; automobile and motorcycle repair;
- (49-53) transport and storage;
- (55-56) hospitality and dining services;
- (58-63) information and communications services;
- (64-66) financial and insurance activities;
- (68) real-estate activities;
- (69-75) professional, scientific and technical activities;
- (77-82) rentals, travel agencies, and business support services;
- (85) education;
- (86-88) healthcare and local assistance;
- (90-93) artistic, sporting, entertainment and leisure activities;
- (94-96) other services.

In addition, the Lending Rules and Procedures of Banca Generali S.p.A. identify further operating limits.

The Finance Department and Lending Department are responsible for first-level controls of concentration risk of the Parent Company.

The Finance Department is responsible for lending to institutional counterparties (loans to banks) and investment in securities considered in determining the Group's overall credit exposure.



The Lending Department is responsible for loans to customers, primarily retail and corporate customers.

The Group's concentration risk appetite is periodically monitored (i) on the basis of the objective levels (so-called Risk Triggers) and attention thresholds (so-called Risk Limits), as defined within the Risk Appetite Framework approved by the Parent Company's Board of Directors, and (ii) in operating terms, on the basis of the operating limits system, approved by the Parent Company's Board of Directors and the organisational measures adopted.

The Risk and Capital Adequacy Department is responsible for second-level controls, including the following activities:

- identifying concentration risk;
- measuring exposure to concentration risk;
- implementing stress tests;
- verifying compliance with concentration risk limits;
- generating and transmitting reports in its area of competence;
- preparing and verifying methods of measuring and monitoring concentration risk, as well as implementing and maintaining said methods within calculation applications.

In performing these activities, the Risk and Capital Adequacy Department makes use of the appropriate IT solutions, with the assistance of the competent company departments.

Third-level controls are conducted by the Internal Audit Department, in accordance with the Internal Rules and Procedures. The Internal Audit Department performs said controls not only for the Parent Company, but also for Banking Group Companies, both under specific outsourcing agreements that govern the provision of audit service, and in an institutional capacity as a function of the Parent Company of the Banking Group.

With regard to the measurement of concentration risk, considering both the risk per individual borrower ("per name") and the geo-sectoral risk: for the former, the Group uses the Granularity Adjustment (GA) method defined and regulated in the new prudential regulatory provisions, whereas for the latter it uses the Italian Banking Association method, defined in the context of the "Laboratorio Rischio di Concentrazione" (Concentration Risk Workshop) in collaboration with a qualified independent consulting firm, then presented and shared with the Bank of Italy.

## **1.8 LIQUIDITY RISK**

With regard to the Liquidity Risk management process, the Group has defined and formalised a Single risk management policy, which specifies the bodies and functions involved in the management of the liquidity risk and sets out the guidelines for the identification, assessment/measurement, control and reporting of the liquidity risk. The policies for governance of the liquidity risk are defined within the afore-mentioned policy.

Specifically, the liquidity risk monitoring and management policy established by the Group at consolidated level is divided up into:

- handling of the operational liquidity risk, or rather the events which have an impact on the Group's liquidity position over the short-term, with the primary aim of maintaining the Group's ability to cover the ordinary and extraordinary payment commitments, minimising the costs;
- handling of the structural liquidity risk, or rather all the events, which have an impact on the Group's liquidity position also over the medium/long-term, with the primary objective of maintaining a suitable dynamic relationship between liabilities and assets over the various timescales. In detail, the handling of the structural liquidity makes it possible to:
  - avoid pressure on the current and forecast sources of liquidity,
  - at the same time optimise the cost of funding.

In line with the matters defined in the Risk Appetite Framework approved by the Parent Company's Board of Directors, the liquidity risk appetite is periodically monitored on the basis of:

- the complementary indicators for the Group and legal entities relating to the Parent Company, which contribute to the determination of the primary indicators and are also considered when determining the objective risk profile for liquidity risk;
- the operational indicators for the Parent Company and, where relevant, for the Group in the exercise of the proportionality criterion for legal entities and business units, which identify the operating limits for liquidity risk. Those indicators are the basis for:
  - the Risk Limits, which represent the value of an operational indicator that, when exceeded, triggers analyses aimed at inquiring into the reasons for the overrun and the resulting impact on primary indicators, and that are reported to the Risk Committee;
  - the Risk Triggers, which aim at monitoring changes in risk exposure, by anticipating the possible approach to the limits of the operational indicators defined above.

First-level controls on operations are the responsibility of the Parent Company's Finance Department. The Risk and Capital Adequacy Department carries out second-level controls and has the following specific duties:

- identifying the Group's liquidity risk;
- supporting the definition of policies and processes for liquidity risk management;
- measurement/assessment of the exposure to the liquidity risk both in a context of the normal course of business (going-concern) and in situations of stress (stress scenario);
- verifying compliance with limits;
- working with the involved functions to prepare and formally draft a Contingency Funding Plan;
- generating and transmitting reports in its area of competence;
- preparing and verifying methods of measuring/assessing liquidity risk, as well as implementing and maintaining said methods within calculation applications.

The Internal Audit Department is responsible for third-level controls of liquidity risk and performs said controls not only for the Parent Company, but also for Banking Group Companies, both under specific outsourcing agreements that govern the provision of audit service, and in an institutional capacity as a function of the Parent Company of the Banking Group.

The Group has also formally defined a Contingency Funding Plan. The primary purpose of this Plan is to protect the Group's assets in low-liquidity situations through the preparation of crisis management strategies and procedures for the procurement of funding in emergencies.

The Plan distinguishes between two types of liquidity crisis:

- systemic crises, affecting the entire financial system;
- specific (or idiosyncratic) crises, affecting the Group only.

The Plan formally establishes the roles and responsibilities of all bodies and functions involved.

In addition, the Plan formally defines several indicators intended to detect/anticipate liquidity tensions/acute crises and the process of identifying, measuring, monitoring and reporting said indicators.

Three different scenarios have been identified according to the values of said indicators and their persistence over time:

- ordinary operation;
- liquidity tension;
- acute liquidity crisis.

The Contingency Funding Plan lays out the strategies that the Group is to follow in conditions of liquidity tension/acute crises, according to the scenario in question.

## **1.9 RISK OF EXCESSIVE LEVERAGE**

With reference to the excessive leverage risk management process, the Group has formally defined a Single risk management policy that specifies the bodies and functions involved in the management of this type of risk and sets out the guidelines for the identification, assessment/measurement, control and reporting of this risk.

The propensity to the risk of excessive leverage is periodically monitored based on target levels, which are defined with reference to normal conditions (Risk Appetite) and stress conditions (Risk Tolerance), as well as for the purposes of compliance with legal constraints (Risk Capacity) and are adopted within the Risk Appetite Framework approved by the Parent Company's Board of Directors.

The Risk and Capital Adequacy Department carries out second-level controls and has the following specific duties:

- quarterly assessment of the Leverage Ratio, calculated by the Administration Department both at individual and consolidated level, as part of its activities to prepare and transmission of Supervisory Warnings;

- stress tests to better assess the exposure to excessive leverage risk and identify relevant mitigation and control measures;
- observance of the established limits and, in the event of divergence, initiating of the recovery/adjustment process, informing the responsible functions thereof, or verifying that specific authorisation has been granted to maintain the risk position;
- generating and transmitting reports in its area of competence;

Third-level controls on the risk of excessive leverage are carried out by the Internal Audit Department. The Group measures the risk of excessive leverage with the indicator established by supervisory provisions and the leverage ratio, consisting of the ratio of regulatory capital (Tier 1) to total adjusted balance sheet assets.

## 1.10 OTHER RISKS

The Group has also identified and monitors other types of risks such as:

- Reputational Risk: the current or prospective risk of a decrease in profits or capital arising from a negative perception of the Bank's image by clients, counterparties, shareholders of the Bank, investors or regulatory authorities;<sup>15</sup>
- Strategic Risk: the current 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<sup>16</sup>;
- Compliance Risk: the risk of incurring legal or administrative penalties, significant financial losses or damages to reputation due to breaches of compulsory provisions (laws or regulations) or self-imposed rules (e.g., Articles of Association, codes of conduct, governance codes)<sup>17</sup>;
- Residual Risk: the risk that the recognised credit risk mitigation techniques used by the Bank prove less effective than foreseen<sup>18</sup>;
- Country risk: risk of losses caused by events occurring in a country other than Italy. The concept of country risk is broader than that of sovereign risk as it refers to all exposures, regardless of the nature of the counterparties, therefore including individuals, enterprises, banks or public administration bodies;
- Transfer risk: the risk that a bank with an exposure to a party that obtains financing in a currency other than that in which it collects its main sources of income may sustain losses due to difficulty by the borrower in converting its currency into the currency in which the exposure is denominated;

<sup>15</sup> Cf. Circular Letter No. 285 dated 17 December 2013: "Supervisory Provisions for Banks".

<sup>16</sup> Cf. Circular Letter No. 285 dated 17 December 2013: "Supervisory Provisions for Banks".

<sup>17</sup> Cf. Circular Letter No. 263 of the Bank of Italy of 27 December 2006 — 15th update

<sup>18</sup> Cf. New Prudential Supervisory Provisions Concerning Banks, Circular Letter No. 263 of 27 December 2006, Title III, Annex A.

- Equity investment risks: risks of overly illiquid assets as a result of equity investments in financial and non-financial companies;
- Risks related to risk assets and conflicts of interest with connected parties: the risk that the closeness of certain persons to the bank's decision-making centres could compromise the objectivity and impartiality of decisions pertaining to the approval of loans and other transactions involving the said persons, and potentially give rise to distortions in the resource-allocation process, expose the bank to risks that are not adequately measured or contained, and/or result in harm and losses to depositors and shareholders;
- Risk of money-laundering and terrorist financing: the risk that the bank may become involved, possibly without its knowledge, in phenomena of money-laundering and financing of terrorism;
- Information technology risk: the risk of sustaining financial losses or reputational damage, or losing market share, in connection with the use of information and communication technology (ICT).

#### 1.10.1 Reputational risk

With regard to the reputational risk management process, the Group has adopted a Single risk management policy, duly approved by the Parent Company's Board of Directors, which defines the bodies and functions involved in the management of the reputational risk and describes the guidelines for identifying, measuring, controlling and reporting said risk.

The Group has taken targeted actions and identified specific monitoring and control activities aimed at minimising the occurrence of events that may have negative consequences in reputational terms.

In this context, the Group has adopted specific codes of conduct and codes of ethics that govern the Group's operations and its dealings with its main stakeholders.

In detail, the Group has chiefly adopted the following codes:

- Internal Code of Conduct;
- Code on Insider information;
- Procedure for Related Party and Connected Party Transactions;
- Internal Dealing Code;
- Code of Ethics for the Generali Group's suppliers.

Considering the different impacts of reputational risk throughout the Group's organisational structure, there are various internal Departments/Functions that engage in the control and monitoring of such risk:

- the External Relations and Communications Department is in charge of the dissemination and protection of the image of the Bank and its Subsidiaries in respect of the financial community and the general public;
- the Legal Department contributes to the management of reputational risks by managing litigation and pre-litigation and by managing complaints filed by customers with the Parent

Company and Banking Group companies. In this regard, it defines the conditions, methods and tools of control and standard forms for reporting on results and in particular recognition for customers;

- the Communications and Events Unit is in charge of sensitising to the Company's policies and culture through appropriate outreach plans and tools;
- the Marketing and Product Development Department designs and develops new products and services targeted at various customer segments in light of market trends and the Parent Company's positioning, with a view to optimising the use of the Company's resources and attaining commercial targets.

The Group's appetite for reputational risk, in accordance with the risk management policy approved by the Parent Company's Board of Directors, underlies the organisational control systems adopted.

The Risk and Capital Adequacy Department, and the Compliance and the Anti Money Laundering functions (to the extent of their competence) are responsible for second-level controls.

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

- identifying the Group's reputational risk;
- assessing the reputational risk associated with company processes;
- generating and transmitting reports in its area of competence.

The Compliance function monitors that business practices are consistent with the objective of preventing the infringement of external laws and regulations and of self-regulations (codes of conduct, codes of ethics) applicable to the Group.

The Compliance function also monitors lawsuits that derive from processes that are not compliant with the law and that may have impacts and is responsible for the overall activity of selecting, arranging, implementing and analysing inspections of the activities undertaken by the Distribution Network with a view to identifying, including in respect of specific irregularities, any and all abnormal behaviour, breaches of organisational processes and applicable regulations, including through inspections of the Organisational Units and Structures of the Main and Branch Offices, Private Centres and Branches, and any and all authorised Outsourcers, as well as subsequently monitoring the elimination of the anomalies found.

The Anti-Money Laundering function monitors on an ongoing basis that business practices are consistent with the objective of preventing and combating the infringement of external and internal regulations on money laundering and terrorist financing.

The Internal Audit Department conducts independent controls (third-level controls) of the operations performed by the Departments/Functions involved in the management of reputational risk. The Internal Audit Department performs said activity not only for the Parent Company, but also for Banking Group Companies, both under specific outsourcing agreements that govern the provision of audit service, and in an institutional capacity as a function of the Parent Company of the Banking Group.

### 1.10.2 Strategic risk

With regard to the strategic risk management process, the Group has adopted a Single risk management policy, duly approved by the Parent Company's Board of Directors, which defines the bodies and functions involved in the management of strategic risk and describes the guidelines for identifying, measuring, controlling and reporting said risk.

In the Parent Company's Internal Rules and Procedures, the Group has identified and formalised the Functions/Departments responsible for preparing the business plan and related annual budgets.

The Group has also identified specific control activities performed by the competent functions on the performance and development of the results achieved with respect to the strategic objectives set.

The Planning & Control Department is responsible for first-level controls.

The C.F.O. & Strategy Area is responsible for the process of drafting the Banking Group's Strategic Plan, annual budget and operational planning, as well as for constant monitoring for the purposes of ensuring that objectives for the period are met through the preparation of periodic reports and the interpretation of results in order to direct all necessary measures, in addition to providing specific reports to the Top Management and the necessary support to the Banking Group's other departments.

As part of the process of setting the strategic guidelines for the preparation of the Strategic Plan and strategic objectives, the C.F.O. & Strategy Area performs specific analyses in terms of expected value, assessment of strategic projects, and collection of information concerning the competitive scenario, thereby identifying possible strengths and areas of improvement for the Banking Group.

Within the C.F.O. & Strategy Area, the Planning and Control Department coordinates the process of collecting data and information from other internal organisational units for the purposes of preparation of the Bank's Strategic Plan in accordance with the guidelines and medium-/long-term performance targets set by the company's management, in consultation with the Risk and Capital Adequacy Department so as to verify consistency with the targets set in terms of risk appetite.

In collaboration with the company functions involved, the Risk and Capital Adequacy Department supports the Top Management in defining allocated capital, conducting prospective capital balance analyses, and assessing corrective measures for divergence from risk targets.

The Group's strategic risk appetite, in accordance with the risk management policy approved by the Parent Company's Board of Directors, is subject to the organisational control systems adopted.

The Risk and Capital Adequacy Department is responsible for second-level controls.

The Risk and Capital Adequacy Department is responsible for:

- identifying the Group's strategic risk;
- assessing exposure to strategic risk;
- monitoring strategic risk;
- generating and transmitting reports in its area of competence.

The Internal Audit Department conducts independent controls (third-level controls) of the operations performed by the Departments/Functions involved in the management of strategic risk, in accordance with the provisions of Parent company's Internal Rules and Regulations. The Internal Audit Department performs controls on the strategic risk management process not only for the Parent Company, but also for Banking Group Companies, both under specific outsourcing agreements that govern the provision of audit service, and in an institutional capacity as a function of the Parent Company of the Banking Group.

### 1.10.3 Compliance Risk

With regard to the compliance risk management process, the Group has adopted a risk management policy, duly approved by the Board of Directors, which defines the bodies, functions and guidelines for the management of said risk.

Compliance rules and procedures, which identify all of the entities involved in the management of compliance risk, with a focus on the Compliance Function's activities, have also been drafted with the aim of ensuring adequate management of compliance risk.

In the interest of allowing adequate coordination of activities, Banca Generali and the other Group Companies decided to centralise the second-tier compliance control function with the Compliance and Anti-Money Laundering Department directly reporting to the body with managing functions, in line with industry regulations<sup>19</sup>.

A contact person has also been identified for each Group Company. This person is charged with providing support to the Group's Compliance Function, particularly regarding the application of the management policies set at the Group level to individual companies.

In accordance with industry regulations<sup>20</sup>, among other tasks, the Compliance Function has to verify that internal procedures are consistent with the goal of preventing breaches of external provisions (laws and regulations) and internal provisions (codes of conduct, codes of ethics) applicable to the Group.

The Function is responsible for<sup>21</sup>:

- checking and assessing — on the basis of the action plan — the appropriateness and effectiveness of organisational processes and administrative and accounting procedures, with a view to ensuring compliance with any and all applicable regulatory provisions governing the performance of any and all the banking and investment services offered by the Banking Group, especially so as to minimise the risk of non-compliance;
- fostering and supporting the development of a culture of compliance within the Banking Group;

<sup>19</sup> Cf. Circular Letter No. 285 dated 17 December 2013 "Supervisory Provisions for Banks".

<sup>20</sup> Cf. Circular Letter No. 285 dated 17 December 2013 "Supervisory Provisions for Banks".

<sup>21</sup> Cf. Banca Generali S.p.A.'s Internal Rules.



- collaborating in staff training with a view to preventing risks of non-compliance by promoting awareness of the rules and regulations to be followed in the performance of tasks, and encouraging a corporate culture based on principles of honesty, integrity and respect for both the spirit and the letter of the law;
- presenting the Company Bodies, with at least annual frequency, with a programme of activity, identifying and assessing the main compliance risks and laying out the related management activities;
- periodically submitting reports to the Internal Audit and Risk Committee, the Chief Executive Officer, the Board of Directors and the Board of Statutory Auditors in respect of its activities, especially the process testing carried out and related findings, as well as measures to be taken to remedy shortcomings and the concrete implementation thereof;
- reporting on the results of the processes outsourced by Banking Group companies by drafting reports for their Boards of Directors and Boards of Statutory Auditors;
- authorising the issue and implementation of internal rules and regulations;
- defining the overall activity of selecting, arranging and analysing inspections of the distribution Network;
- overseeing the activities undertaken by the Distribution Network of Financial Planners/Private Bankers/Relationship Managers, with a view to identifying, including in respect of specific irregularities, any and all abnormal behaviour, breaches of organisational processes and applicable regulations, including through inspections of the Organisational Units and Structures of the Main and Branch Offices, Private Centres and Branches, and any and all authorised Outsources, as well as subsequently monitoring the elimination of the anomalies found;
- periodically reporting to corporate bodies the overall situation regarding complaints received as per the information provided in such regard by the corporate function in charge of processing complaints.

Moreover, the Function is tasked with generally overseeing activities related to the Supervisory Board set up to monitor and maintain the Organisational and Management Model contemplated in Legislative Decree No. 231/2001<sup>22</sup>.

Chief among the activities assigned to the Compliance Function is the attribution of control functions aimed at managing the risk of non-compliance. Specifically, such functions take the form of:

- (prior) verification of the suitability of internal procedures to ensure compliance with applicable legislation (ex-ante verification);

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<sup>22</sup> Cf. Banca Generali SpA's Internal Rules.

- (ongoing) verification of the compliance of company processes (ex-post verification);
- input for defining and implementing any corrective measures and evaluating such measures.

The scope of the Compliance Service's control activity also extends to evaluating the suitability and efficacy of compliance procedures. It follows that the Compliance Service is obliged to perform a proposal-related role for the updating of the compliance policy and the compliance regulations.

The control model, which the Compliance Service follows for the performance of the activities it is responsible for, is characterised by the following phases:

- identification of the other-regulation norms (laws and regulations) and self-regulation norms (code of conduct, codes of ethics) which lead to the exposure to non-compliance risks;
- identification and assessment, at least annually, of the main compliance risks;
- definition of an annual programme of checks, including those on the distribution network comprising Financial Planner, Private Banker and Relationship Manager, which takes into account the compliance risks previously identified;
- performance of checks relating to the processes on the basis of the assessments of the risks previously carried out for the purpose of checking the effectiveness of the envisaged safeguards;
- monitoring of the intervention plans in which the corrective action to be undertaken is summarised and via which timescales, priorities and those responsible for the activities are defined;
- activation of a reporting system suitable for presenting the compliance risks to the Board of Directors, the Internal Audit and Risk Committee, the Board of Statutory Auditors, the Chief Executive Office, General Management, the Risk Committee and the Supervisory Authority, or the individual units concerned.

The Compliance Function constantly identifies the rules applicable to Banking Group companies in order to identify the non-compliance risks associated with the processes developed.

To this end, the Compliance Function constantly monitors new developments concerning:

- external provisions (laws and regulations);
- self-regulatory provisions (codes of conduct, codes of ethics);
- opinions and interpretations of Supervisory Authorities (Bank of Italy, Consob), Ministries and Trade Associations.

#### *1.10.4 Residual risk*

With regard to the residual risk management process, the Group has adopted a Single risk management policy, approved by the Parent Company's Board of Directors, which defines the bodies and functions involved in the management of residual risk and describes the guidelines for identifying, measuring, controlling and reporting the said risk.

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The process of obtaining, finalising and managing guarantees is fundamental to preventing and monitoring residual risk.

The portfolio of Loans to Customers is primarily secured by guarantees in the form of collateral, financial guarantees and mortgages.

First- and second-level control systems are in effect for these types of guarantees.

The Lending Department:

- during the approval and disbursement of loans, it supervises the process of acquiring and finalising guarantees, as laid down in the Lending Rules and Procedures;
- during first-level controls:
  - it periodically requests a massive update of the properties that represent the collateral for outstanding mortgage loans;
  - it has established mid-monthly controls to monitor changes in the value of guarantees with respect to the amount when the loan is approved, in consideration of the volatility typical of financial instruments.

The Risk and Capital Adequacy Department, responsible for second-level controls:

- monitors the qualitative and quantitative oversight performed by the first-level control function;
- has implemented a specific reporting process to monitor:
  - the change in the value of real guarantees (financial and real-estate) with respect to their value at approval;
  - the level of coverage of the guarantees of the exposure by individual relationship and class of counterparty, for both the performing and non-performing portfolios.

In addition, the Group has implemented the guidelines for the credit risk mitigation (CRM) technique management system and the methods aimed at ensuring compliance with requirements that CRM techniques must satisfy in order to be used to calculate capital requirements for credit risk. It has also prepared a specific document in which it has defined and formally stated all of the activities performed by the various Departments/Services involved in the analysis of guarantees employed as CRM techniques.

The Compliance function performs second-level controls, specific assessments of compliance with the requirements and company processes that oversee the adoption of credit risk mitigation techniques for prudential purposes.

The Risk and Capital Adequacy Department is responsible for:

- identifying residual risk of the Group;
- measuring/assessing and monitoring the exposure to reputational risk;
- generating and transmitting reports in its area of competence.
- preparing and assessing residual risk evaluation models and implementing and maintaining these models within calculation applications.

The Internal Audit Department (responsible for third-level controls) conducts independent controls of the operations performed by the Departments/Functions involved in the management of residual risk.

#### *1.10.5 Equity investment risk*

With regard to the equity investment risk management process, the Group has implemented a policy for managing this type of risk, duly approved by the Parent Company's Board of Directors. That policy:

- lays down the control activities for managing the limits prescribed by the Bank of Italy both at a general level and specifically to each investment;
- lays down the criteria and methods whereby Banca Generali decides upon and then manages its equity investments in other companies.

In first-level controls of equity investment risk, the Administration Department is charged with managing and updating the list of the Bank's equity investments by obtaining periodic information from the Finance Department concerning the presence, if any, in proprietary portfolios of shares and other equity instruments issued by the Bank's investees.

In second-level controls, the Compliance function constantly verifies the existence and reliability of procedures and systems suited to ensuring compliance with all legal obligations and requirements of the Equity Investment Management Policy concerning investments in non-financial companies.

Third-level controls are the responsibility of the Internal Audit Department, which verifies compliance with the Equity Investment Management Policy with respect to investments in non-financial companies and reports any anomalies in a timely manner.

#### *1.10.6 Risk arising on related party transactions*

With reference to the management process of the risk arising on related party transactions, the Banca Generali Group adopted a specific risk management policy, duly approved by the Board of Directors of Banca Generali S.p.A., with the goal of:

- defining risk appetite levels in terms of a maximum amount of risk assets in relation to Connected Parties deemed acceptable with respect to Own Funds, in reference to total exposures to all Connected Parties;
- identifying, in regard to transactions with Connected Parties, the sectors of activity and types of dealings of an economic nature, in relation to which conflicts of interest may arise;
- governing organisational processes made for thoroughly identifying and cataloguing Connected Parties, and identifying and quantifying the pertinent transactions throughout all phases of the relationship;
- governing control processes meant for ensuring that the risks assumed in relation to Connected Parties are properly measured and managed and verifying that internal policies have been properly designed and effectively applied.

With reference to second-level controls:

- the Risk and Capital Adequacy Department is responsible for measuring risks — including market risks — underlying dealings with Connected Parties, verifies observance of the limits assigned to the various departments and operating units, and checks the transactions undertaken by each of them for consistency with the various risk appetite levels set out in the Policies;
- the Compliance function verifies the existence and reliability, on an ongoing basis, of procedures and systems suited to ensuring observance of all regulatory obligations, as well as those established by internal rules and procedures.

The Internal Audit Department is responsible for third-level controls, verifies compliance with the Policies, and reports any anomalies in a timely manner.

The Bank's Independent Directors play a role of evaluation, support and proposition in the area of the organisation and performance of internal controls on the overall activity of assuming and managing risks in relation to Connected Parties, as well as a general review of the consistency of activity with strategic and managerial guidelines.

### 1.10.7 Risk of money-laundering and terrorist financing

With reference to the risk of **money-laundering and terrorist financing**, the Group has adopted a specific risk management policy, approved by the Parent Company's Board of Directors, which defines the bodies, functions and guidelines for the management of said risk.

In the interest of allowing adequate coordination of activities, Banca Generali and the other Group Companies decided to centralise the second-tier compliance control function for said risk with Banca Generali's Anti Money Laundering function, in line with industry regulations<sup>23</sup>.

The head of the Anti-money Laundering Function is therefore the Head of Anti-money Laundering and also in charge of the reporting of suspect transactions to the Financial Information Unit (pursuant to Article 41 of Italian Legislative Decree No. 231/2007) for the Subsidiary Companies of the Banking Group with headquarters in Italy.

With reference to the subsidiary BG Fund Management Luxembourg S.A., without prejudice to the observance of the specific fulfilments laid down by the Luxembourg legal system, it is obliged to adopt procedures and safeguards in keeping with the standards of the Banking Group. Despite taking into account the transversal nature of the anti-money laundering legislation (Third European Directive), the specificities associated with the acknowledgement of the legislation in each country of the European Union favoured the solution of not outsourcing the risk management and supervision activities in question to the Parent Company's anti-money laundering services for this company as well.

In this connection, as also requested by the Luxembourg Supervisory Authority, in October 2015 an Anti-money Laundering Referent was also appointed on the Board of Directors of BG Fund Management Luxembourg S.A., responsible for the supervision of the controls carried out with regard to anti-money laundering by the Company's Referent Compliance Officer.

In accordance with industry regulations<sup>24</sup>, among other tasks, the Anti Money Laundering function has to verify that internal procedures are consistent with the goal of preventing the risk of exposure to phenomena of money-laundering and terrorist financing.

Among the tasks entrusted to the Anti Money Laundering function a significant role is played by the assignment of control functions aimed at managing risk in question. In detail, the Anti Money Laundering function:

- prevents and combats money laundering and terrorist financing transactions;
- continuously monitors that business practices are consistent with the objective of preventing and combating the infringement of external laws and regulations and of self-regulations on money laundering and terrorist financing;

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<sup>23</sup> Ref. Bank of Italy Provision of 10 March 2011.

<sup>24</sup> Ref. Bank of Italy Provision of 10 March 2011.

- takes part in the identification of the internal control system and the procedures aimed at preventing and combating the risks in question;
- is responsible for managing, evaluating and reporting suspect transactions, effectively identifying other situations that trigger reporting obligations and supervising the anti-money laundering obligations within its purview (pursuant to Legislative Decree No. 231/2007);
- acts in a manner consistent with the compliance risk management policy, and in particular with the policy for managing the risk of money-laundering and terrorist financing approved by the Board of Directors.

The Internal Audit Department conducts independent controls (third-level controls) of the operations performed by the Anti Money Laundering function.

#### *1.10.8 Information technology risk*

In light of the close correlation with the operating risk, the Group has expanded its framework for managing operating risks by implementing a specific method of analysing information technology risk within that same framework.

In particular, risk factors relating to technological components (management, operation and security of systems) are assumed when assessing IT risk.

The information technology risk management process involves:

- the responsible user, i.e., an individual within the company identified for each system or application who formally assumes responsibility for that system or application, as a representative of users, and in dealings with functions charged with development and technical management;
- the System Co-ordination and Processes Department, that ensures the efficient operation of application procedures and IT systems, in support of organisational processes for the entire Banking Group;
- the Risk and Capital Adequacy Department, whose second-level control activities include qualitative assessment of information technology risk, conducted in the context of the operating risk management framework;
- the Internal Audit Department, responsible for third-level controls and tasked with verifying the adequacy of the banking group's information technology systems and procedures, including where provided by outsourcers, and with periodically certifying that information technology risk is properly managed.

In the information technology risk management process, in addition to the indications of the Single risk management policy, the Group has adopted an Information Technology Security Policy, which has also been approved by the Board of Directors and contains:

- the objectives of the information technology security management process, in accordance with the information technology risk appetite set at the company level;

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- general security principles on the use and management of the information technology system;
  - roles and responsibilities related to the information technology security function;
  - the organisational and methodological framework of reference for ICT management processes charged with ensuring the appropriate level of protection;
  - guidelines for communication, training and awareness-raising activities.



## 2 SCOPE OF APPLICATION

The public disclosure obligations apply to the Banca Generali Group. Banca Generali S.p.A. is the Parent Company.

The following table shows the Subsidiaries and scope of consolidation relevant for prudential and financial reporting purposes.

| Companies in consolidated accounts | Registered office | Investor              | % held | % of voted in GSM | Treatment for supervisory purposes | Treatment for financial statements purposes |
|------------------------------------|-------------------|-----------------------|--------|-------------------|------------------------------------|---|
| Bg Fiduciaria Sim S.p.A.           | Trieste (Italy)   | Banca Generali S.p.A. | 100%   | 100%              | Line-by-line                       | Line-by-line                                |
| BG Fund Management Luxembourg S.A. | Luxembourg        | Banca Generali S.p.A. | 100%   | 100%              | Line-by-line                       | Line-by-line                                |
| Generfid S.p.A.                    | Milan (Italy)     | Banca Generali S.p.A. | 100%   | 100%              | Line-by-line                       | Line-by-line                                |

The consolidated accounts include the separate financial statements of the Parent Company and the subsidiaries at 31 December 2016, reclassified and adjusted where necessary, to take account of consolidation requirements.

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.

The carrying amount of equity investments in fully consolidated companies is eliminated against the bank's share of net equity in the respective subsidiary.

The resulting differences are allocated to the assets or liabilities 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 inter-company transactions, affecting both the balance sheet and income statement, were eliminated. Unreconciled amounts were recognised in other assets/liabilities and other revenues/expenses, respectively.

Dividends distributed by subsidiaries were eliminated from the consolidated profit and loss account and a corresponding adjustment was made to income reserves.

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The following is a description of the Banca Generali Group's organisational structure at 31 December 2016:

- **Banca Generali S.p.A.**, the Parent Company, engages primarily in the offering of traditional banking products and the offering and placing of investment and insurance products.
- **BG Fiduciaria SIM S.p.A.** is a company specialised in portfolio management both in the form of funds and securities, primarily in a custodial capacity.
- **Generfid S.p.A.** is a company specialised in setting up and managing trusts.
- **BG Fund Management Luxembourg SA** is a Luxembourg company specialised in the management of SICAVs.

There are no current or foreseeable legal or substantial obstacles that would prevent the rapid transfer of capital or funds within the Group.

### 3 OWN FUNDS

Own funds are the central element of Pillar 1 and are calculated according to the Basel 3 rules adopted in the European Union through a set of regulations including European Regulation No. 575/2013 (CRR - Capital Requirements Regulation), Directive 2013/36/EU (CRD IV - Capital Requirements Directive), Regulatory Technical Standards (RTSs) and the Implementing Technical Standards (ITSs) drafted by the EBA and issued by the European Commission.

The regulations cited above have been transposed into the Italian system by the following circular letters:

- Bank of Italy's Circular Letter No. 285 on Supervisory Provisions for Banks;
- Bank of Italy's Circular Letter No. 286; Instructions for the Preparation of Prudential Reports for Banks and Securities Brokerage Companies;
- Update to Bank of Italy's Circular Letter No. 154: Supervisory Reporting by Credit and Financial Institutions. Reporting Templates and Instructions for Submitting Data Streams.

Own funds differ from book equity in accordance with IASs/IFRSs because prudential regulations aim to safeguard asset quality, while reducing the potential volatility caused by the application of IASs/IFRSs. The constituent elements of own funds thus must be fully available to the Group, so that they may be used without limitation to cover company risks and losses. Institutions must demonstrate that they possess own funds of a quality and quantity compliant with the requirements imposed by current European legislation.

#### QUALITATIVE INFORMATION

As in the previous regulations, own funds are calculated as the sum of positive components, included with some limitations, and negative items, based on their capital quality. They consist of the following aggregates:

- Common Equity Tier 1 capital (CET1);
- Additional Tier 1 capital (AT1);
- Tier 2 capital (T2).

The introduction of the Basel 3 rules is being phased in gradually, with full application being achieved between 2019 and 2023; in the phase-in period, the new rules will be applied at an increasing rate.

The complete terms and conditions of Tier 1 and Tier 2 equity instruments are presented in Annex 1 to this document. Annex 2 includes the transitional own funds disclosure template provided for in the EBA's instructions.

### 3.1 Common Equity Tier 1 capital (CET1)

#### 3.1.1 Common Equity Tier 1 capital (CET1)

CET1 includes paid-in capital, additional paid-in capital, earnings reserves, valuation reserves (AFS valuation reserve, IAS19 actuarial losses reserve), with the exception of the cash flow hedge reserve.

CET1 own instruments (own shares) and loss for the period are deducted from this aggregate.

Net profit for the period may be calculated, net of the provision for dividends (retained earnings) in compliance with Article 26 of the CRR and national discretionary measures provided for by the Bank of Italy.

#### 3.1.2 Elements to be deducted from CET1

CET1 is then subject to the following deductions:

- a) intangible assets, including goodwill;
- b) deferred tax assets (DTAs) that are based on future profitability and do not arise on temporary differences, or differences involving tax losses;
- c) deferred tax assets that rely on future profitability and arise on temporary differences (net of the corresponding deferred tax liabilities); deferred tax assets convertible to credits pursuant to Law No. 214/2011 calculated in risk weighted assets (RWAs) with a 100% weighting are not however deducted;
- d) deferred tax assets relating to multiple reliefs on the same goodwill for the portion that has not yet been reflected in the current tax position;
- e) direct, indirect and synthetic non-significant investments (<10%) in CET 1 instruments issued by financial institutions;
- f) direct, indirect and synthetic significant investments (>10%) in CET1 instruments issued by financial institutions;
- g) any deductions exceeding AT1 capital instruments.

Deductions relating to equity investments in financial institutions and deferred tax assets apply only to amounts exceeding given CET1 thresholds, known as **allowances**, according to a particular mechanism described below:

1. **non-significant investments** in CET1, AT1 and T2 instruments issued by financial institutions are deducted for the portion exceeding 10% of the amount of CET1 obtained after applying prudential filters and all the deductions, other than those relating to deferred tax assets, that rely on future profitability and derive from temporary differences, direct, indirect and synthetic investments in CET1 instruments issued by financial institutions, any deductions exceeding AT1 capital instruments and deductions of qualified investments in financial instruments;

2. **net deferred tax assets** that rely on future profitability and arise on temporary differences are deducted for the portion exceeding 10% of CET1 obtained after applying prudential filters and all the deductions, other than those relating to deferred tax assets, that rely on future profitability and arise on temporary differences, any deductions exceeding AT1 capital instruments and deductions of qualified investments in financial institutions;
3. **significant investments in CET1 instruments** issued by financial institutions are deducted for the portion exceeding 10% of CET1 obtained after applying prudential filters and all the deductions, other than those relating to deferred tax assets, that rely on future profitability and arise on temporary differences, any deductions exceeding AT1 capital instruments and deductions of qualified investments in financial institutions;
4. amounts not deducted due to the 10% allowance relating to significant investments in CET1 instruments issued by financial institutions and net deferred tax assets that rely on future profitability and derive from temporary differences, added together, are deducted only **for the amount exceeding 17.65%** of CET1 obtained after applying prudential filters and all the deductions, including investments in financial institutions and deferred tax assets calculated in their entirety without taking account of the aforementioned thresholds, except for any deductions exceeding AT1 capital instruments;
5. amounts not deducted due to the allowances are included in risk-weighted assets and subject to a 250% weighting.

### 3.1.3 Phase in — Impact on CET1

The main **phase-in** aspects are set out below:

1. the AFS portfolio's positive and negative valuation reserves relating to central EU administration exposures may be excluded from CET1 up to the date the European Commission approves the new IFRS 9; this exemption was introduced by the Bank of Italy under the national discretionary measures provided for by the CRR;
2. the AFS portfolio's positive valuation reserves, other than those relating to central administration exposures, are calculated in CET1 only from 2015 for 40% and then with the gradual introduction of 20% per annum (60% in 2016 and 100% in 2018);
3. the AFS portfolio's negative valuation reserves, other than those relating to central administration exposures, are calculated in CET1 with the gradual introduction of 20% per annum (60% in 2016 and 100% in 2018);
4. actuarial gains/losses deriving from the IAS 19 valuation of Termination Indemnity (TFR) (and defined-benefit pension funds) are reported, net of the prudential filter activated by the Bank of Italy for 2013 in order to sterilise the effects of the new IAS19 with the gradual introduction of 20% per annum as from 2015 (80% in 2015, 60% in 2016 and 20% in 2018);

5. deferred tax assets (DTAs) that rely on future profitability and do not arise on temporary differences (tax losses) are deducted at 60% for 2016 (100% from 2018);
6. deferred tax assets (DTAs) that rely on future profitability and arise on temporary differences existing at 1 January 2014 are deducted from CET1 with the gradual introduction of 10% per annum as from 2015 (20% in 2016 and 100% in 2024);
7. other deferred tax assets (DTAs) that rely on future profitability and derive from temporary differences, generated after 1 January 2014 are deducted from CET1 with the gradual introduction of 20% per annum as from 2014 (60% in 2016 and 100% in 2018);
8. non-significant investments in CET1 capital instruments issued by financial institutions held directly, indirectly or synthetically exceeding the aforementioned allowances, are deducted from CET1 with the gradual introduction of 20% per annum as from 2014 (60% in 2016 and 100% in 2018); direct investments in financial institutions not deducted transitionally from CET1 are deducted for 50% from AT1 and for 50% from T2; indirect investments and synthetic investments are subject to capital requirements and included in risk weighted assets;
9. significant investments in CET1 capital instruments issued by financial institutions held directly, indirectly or synthetically exceeding the aforementioned allowances, are deducted from CET1 with the gradual introduction of 20% per annum as from 2014 (60% in 2016 and 100% in 2018); direct investments in financial institutions not deducted transitionally from CET1 are deducted for 50% from AT1 and for 50% from T2; indirect investments and synthetic investments are subject to capital requirements and included in risk weighted assets;

It should be noted that Banca Generali has exercised the sterilisation option for own funds purposes of capital gains and losses deriving from the fair value valuation of AFS financial assets belonging to the Euro area government bond sector, as provided for by the Bank of Italy Order of 18 May 2010. This option was also renewed in the new Basel III prudential supervisory provisions, in force since 1 January 2014, as allowed by the Bank of Italy, until the new IFRS9 becomes effective, scheduled for 2018.

The phase-in of provisions for IAS 19 actuarial loss reserves, provided for in Article 473, paragraph 3, of the CRR and adopted amongst the national discretionary measures by Bank of Italy's Circular Letter No. 285/2013, is designed to sterilise the impact on own funds of the amendments to IAS19, which came into force on 1 January 2013, and provide for actuarial gains and losses relating to defined-benefit plans to be recognised in full in "other comprehensive income" and offset by an equity reserve (actuarial gains and losses valuation reserve).

IAS 19 previously also recognised the alternative accounting treatment known as the "corridor method," which allowed:

- the amount of the actuarial gains and losses in excess of the 10% significance threshold of the present value of the defined benefit obligation (the “over corridor”) to be recognised in profit and loss; and
- the actuarial gains and losses below that threshold to be deferred, without recognising them in the financial statements.

Since for entities that previously adopted the corridor method the new equity reserve would have had a negative impact on capital for regulatory purposes, and considering the stance taken at the Community level in conjunction with the approval of the new prudential regulations implementing Basel 3 (the CRR/CRD IV Package) in favour of the gradual recognition over five years of the difference in net equity between the old and new approach, the Bank of Italy had introduced for 2013 a prudential filter to neutralise the effects of the revision of IAS 19. Based on the CRR provisions, the effects of such filter should now be fully reabsorbed in the 2015-2018 transition period.

|                                     | <b>31 December<br/>2016</b> |
|-------------------------------------|-----------------------------|
| Termination indemnity IAS 19R       | -5,129                      |
| Termination indemnity IAS 19 (2012) | -4,640                      |
| gross difference                    | 489                         |
| tax effect                          | -134                        |
| <b>Positive filter</b>              | <b>354</b>                  |

#### 3.1.4 CET1 prudential filters

In addition, “prudential filters” are applied to CET1, with the purpose of safeguarding the quality of the regulatory capital and reducing its potential volatility caused by application of the new IAS/IFRS standards. These filters consist of corrections to accounting data before they are used for regulatory purposes and are regulated directly by the CRR or provided for by national discretionary measures.

With reference to the prudential filters introduced directly by the CRR, the **prudent valuation** filter is applied to Banca Generali for the portfolio of financial assets and liabilities valued at fair value in the balance sheet.

This filter is determined as 0.1% of total net exposures shown in the balance sheet at fair value in order to take account of the uncertainty of the parameters used for the valuation (risk model, costs of closure, etc.).

On the other hand, with reference to national discretionary measures, only the prudential filter relating to **multiple goodwill** is applied to Banca Generali.

This filter is aimed at neutralising the benefits at the level of capital for regulatory purposes due to the DTAs recognised in connection with the multiple prepayment of taxes on the same goodwill within a single group or intermediary.

In further detail, the procedures of tax redemption in question were carried out in accordance with Article 10 of Legislative Decree No. 185/2010 or ordinary rules governing successive business combinations within a single group that have also entailed the transfer of portions of goodwill.

To this end, it has been specified that the share of DTAs recognised at the level of the intermediary or group is to be deducted from core Tier 1 capital, as limited to the portion associated with the DTAs recognised after the initial one.

In addition, for years ending on or before 31 December 2012, intermediaries may distribute the neutralisation over a period of five years, including one-fifth of the value of those DTAs at 31 December 2012, net of the amount that, each year, is to be reversed to the profit and loss account or transformed into a tax credit, among the negative items of Tier 1 capital.

In the Banking Group's case, the above filter only affects the share of goodwill associated with the acquisition of Banca del Gottardo Italia S.p.A., originally subject to the prepayment of taxes on goodwill by Banca BSI Italia and subsequently once more by BG SGR S.p.A. following the contribution by the former of its portfolio management business unit. Both companies were then merged into the Parent Company, Banca Generali.

The tax value of the goodwill subject to tax alignment amounted to 4,932 thousand euros, of which deferred tax assets for Italian corporate income tax (IRES) and regional production taxes (IRAP) of 1,410 thousand euros had been allocated at 31 December 2012. The amount of the filter as at 31 December 2016 thus amounted to 1,057 thousand euros.

### **3.2 Additional Tier 1 capital (AT1)**

Additional Tier 1 capital includes capital instruments regulated under Articles 51 et seqq. of CRR.

This aggregate is not present in the Banking Group's Own funds.



### 3.3 Tier 2 capital (T2)

#### 3.3.1 Tier 2 capital (T2)

Tier 2 capital includes Tier 2 capital instruments and subordinated liabilities, regulated by Articles 63 et seqq. of the CRR and having the following characteristics:

- the original term is not less than 5 years and no incentives are envisaged for early repayment;
- call options, where applicable, may be exercised at the issuer's sole discretion and in any event no earlier than 5 years, subject to the authorisation of the supervisory authority granted in special circumstances;
- early repayment is also allowed before 5 years only in the event of significant changes to the tax or regulatory regime and always with the prior authorisation of the Supervisory Authority;
- subscription and purchase must not be financed by the Parent Company or its subsidiaries;
- they are not subject to guarantees issued by the Parent Company, its subsidiaries or other companies that have close links with them, which increase their seniority;
- interest does not change based on the Parent Company's credit rating;
- these instruments are amortised pro-rata over the past 5 years for T2 calculation purposes.

The following Tier 2 subordinated liability is included in the year-end Tier 2 capital of the parent company Banca Generali:

|  | Effective as<br>of | Expiry     | Amount | Remaining<br>amount |
|--|--------------------|------------|--------|---------------------|
| Generali Beteiligungs GMBH subordinated loan | 30/10/2014         | 30/10/2024 | 43,000 | 43,000              |

The subordinated loan agreed with the German company Generali Beteiligungs GMBH relates to the acquisition of the Credit Suisse (Italy) S.p.A. business unit.

The loan disbursed on 30 October 2014, for the amount of 43 million euros, has a ten-year term and is repayable on maturity in one instalment.

Provision is also made for an early repayment option, as from the sixth year, subject to the Supervisory Authority's prior approval.

The interest rate for the first 5 years is fixed and equal to 3.481% per annum, corresponding to the 5-year mid swap rate identified at the contract execution date, plus a spread of 300 bps; from the start of the sixth year the rate will be reparametrized 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.

### 3.3.2 Elements to be deducted from T2

T2 is subject to the following main deductions:

- direct, indirect and synthetic investments in T2 own instruments;
- direct, indirect and synthetic investments in T2 instruments of financial sector entities.

These cases do not appear in Banca Generali's financial statements particularly since there are no investments in T2 instruments of financial sector entities exceeding the relevant thresholds for purposes of the deduction from own funds.

### 3.3.3 Phase in — Impact on T2

The main aspects of the phase-in provisions for 2016 are as follows:

1. **positive AFS reserves**, other than those relating to EU country government bonds, are recognised transitionally for 2016 at the rate of 50% provided by previous legislation, with a gradual reduction of 20% per annum from 2014 (60% in 2016 and 0% in 2018);
2. **non-significant investments** in CET1 capital instruments issued by financial institutions exceeding the 10% allowance and the general allowance, transitionally not deducted from CET1, are deducted for 50% from T2;
3. **significant investments** in CET1 capital instruments issued by financial institutions exceeding the 10% allowance and the general allowance, transitionally not deducted from CET1, are deducted for 50% from T2;
4. non-significant investments in T2 capital instruments issued by financial institutions held directly are deducted 100% from T2; non-significant investments in Tier 2 capital instruments issued by financial institutions held indirectly or synthetically are phased in as a deduction of 20% per annum as from 2014 (60% in 2016 and 100% in 2018). Indirect and synthetic investments not deducted transitionally are subject to capital requirements and included in risk-weighted assets;
5. significant investments in Tier 2 capital instruments issued by financial institutions held directly are 100% deducted from T2; significant investments in Tier 2 capital instruments issued by financial institutions held indirectly or synthetically are phased in as a deduction of 20% per annum as from 2014 (60% in 2016 and 100% in 2018). Indirect and synthetic investments not deducted transitionally are subject to capital requirements and included in risk-weighted assets.

## QUANTITATIVE INFORMATION

**Consolidated own funds**, calculated in accordance with the new Basel 3 rules in effect since 1 January 2014, and net of the expected dividend pay-out, amounted to 462.9 million euros, up by 35.0 million euros compared to the year-end 2014.

| Items/Values                         | 31 December 2016 |                | 31 December 2015 |  | Change<br>(%) |
|--------------------------------------|------------------|----------------|------------------|--|---------------|
|                                      |                  |                | Amount           |  |               |
| Common Equity Tier 1 capital (CET 1) | 419,073          | 384,178        | 34,895           |  | 9.08%         |
| Additional Tier 1 capital (AT1)      | 0                | 0              | 0                |  | n.a.          |
| Tier 2 capital (Tier 2)              | 43,854           | 43,698         | 156              |  | 0.36%         |
| <b>Own funds</b>                     | <b>462,927</b>   | <b>427,876</b> | <b>35,051</b>    |  | <b>8.19%</b>  |
| <b>Consolidated net equity</b>       | <b>646,521</b>   | <b>636,798</b> | <b>9,723</b>     |  | <b>1.53%</b>  |

### Reconciliation statement between consolidated book net equity and Tier 1 capital

| (€ thousand)  | 31 December 2016 |
|---|------------------|
| <b>Consolidated net equity</b>  | <b>646,521</b>   |
| Dividend for shareholders   | -124,439         |
| Adjustments for instruments that may be included in AT1 or T2             | 0                |
| Profit for the year, not included   | 0                |
| Treasury shares included in regulatory adjustments                        | 0                |
| Other items that may not be included upon full application                | 0                |
| <b>Tier 1 capital before regulatory adjustments</b>                       | <b>522,082</b>   |
| Regulatory adjustments (including adjustments of the transitional period) | -103,009         |
| <b>Tier 1 capital net of regulatory adjustments</b>                       | <b>419,073</b>   |

A full reconciliation of items of Tier 1 capital, Additional Tier 1 and Tier 2 capital, as well as filters and deductions applied to Own funds and consolidated balance sheet is provided in Annex 3 hereto.

## Composition of Own funds

The composition of Own funds is illustrated below, illustrating the effects of the prudential filters and the changes linked to the phase-in provisions.

|  | 31 December 2016 |
|--|------------------|
| <b>A. Tier 1 capital before application of prudential filters</b>                                      | 522,082          |
| <i>of which CET1 instruments covered by transitional provisions</i>                                    | 0                |
| B. CET1 prudential filters (+/-)   | -4,449           |
| <b>C. CET1 gross of elements to be deducted and effects of the phase in</b>                            | 517,633          |
| D. Elements to be deducted from CET1   | -90,574          |
| E. Phase-in provisions — Impact on CET1  | -7,986           |
| <b>F. Total Common Equity Tier 1 capital - CET1 (C - D +/- E)</b>                                      | 419,073          |
| <b>G. Additional Tier 1 capital (AT1) gross of elements to be deducted and the phase-in provisions</b> | 0                |
| <i>of which AT1 instruments covered by transitional provisions</i>                                     | 0                |
| H. Elements to be deducted from AT1  | 0                |
| I. Phase-in provisions — Impact on AT1   | 0                |
| <b>L. Total additional Tier 1 (AT1)</b>  | 0                |
| M. Tier 2 capital (T2) gross of elements to be deducted and the phase-in provisions                    | 43,000           |
| <i>of which T2 instruments covered by transitional provisions</i>                                      | 0                |
| N. Elements to be deducted from T2   | 0                |
| O. Phase-in provisions — Impact on T2  | 854              |
| <b>P. Total Tier 2 capital (T2)</b>  | 43,854           |
| <b>Q. TOTAL OWN FUNDS</b>  | 462,927          |

In detail, own funds are composed as follows.

| OWN FUNDS   | 31 December 2016 |               |                |
|---|------------------|---------------|----------------|
|   | full application | phase in      | total          |
| <b>TIER 1 CAPITAL</b>   |                  |               |                |
| Share capital   | 116,425          | 0             | 116,425        |
| Additional paid-in capital  | 53,803           |               | 53,803         |
| Treasury shares   | -2,933           |               | -2,933         |
| <b>CET1 instruments</b>   | <b>167,295</b>   | <b>0</b>      | <b>167,295</b> |
| Reserves  | 314,353          | 0             | 314,353        |
| Net profit (loss) for the period  | 155,894          | 0             | 155,894        |
| Share of net profit for the period not included in CET1   | -124,439         | 0             | -124,439       |
| <b>Earnings reserves</b>  | <b>345,808</b>   | <b>0</b>      | <b>345,808</b> |
| AFS reserves – equity securities and UCITs  | 3,618            | -1,447        | 2,171          |
| AFS reserves – EU government securities – neutralisation option up to 2017                        | 6,492            | -6,492        | 0              |
| AFS reserves – debt securities  | 650              | -260          | 390            |
| Reserve for exchange differences  | -96              |               | -96            |
| Actuarial reserves IAS 19   | -1,685           |               | -1,685         |
| Other (neutralisation of actuarial losses IAS 19)   | 0                | 213           | 213            |
| <b>Other components of other comprehensive income (OCI)</b>                                       | <b>8,979</b>     | <b>-7,986</b> | <b>993</b>     |
| Prudent valuation   | -4,449           |               | -4,449         |
| Cash flow hedge   | 0                |               | 0              |
| <b>Negative prudential filters</b>  | <b>-4,449</b>    | <b>0</b>      | <b>-4,449</b>  |
| Goodwill  | -66,065          | 0             | -66,065        |
| Goodwill DTLs   | 1,964            | 0             | 1,964          |
| Intangible assets   | -25,415          | 0             | -25,415        |
| DTAs to P&L not arising from temporary differences (tax losses)                                   | 0                | 0             | 0              |
| Other negative items (neutralisation of DTAs arising on multiple prepayment of taxes on goodwill) | -1,058           | 0             | -1,058         |
| <b>Total negative items</b>   | <b>-90,574</b>   | <b>0</b>      | <b>-90,574</b> |
| <b>Adjust. of DTAs/DTLs through PL arising on temporary differences</b>                           | <b>0</b>         | <b>0</b>      | <b>0</b>       |
| <b>Portion exceeding non-significant investments (&lt;10%) in CET 1 instruments</b>               | <b>0</b>         | <b>0</b>      | <b>0</b>       |
| <b>Portion exceeding significant investments (&gt;10%) in CET 1 instruments</b>                   | <b>0</b>         | <b>0</b>      | <b>0</b>       |
| Gen. deduction — portion exceeding DTAs   | 0                | 0             | 0              |
| Gen. deduction – portion exceeding significant investments  | 0                | 0             | 0              |
| <b>General deduction with threshold 17.65% - 15%</b>  | <b>0</b>         | <b>0</b>      | <b>0</b>       |
| Phase-in provisions — DTAs — Impact on CET1   | 0                | 0             | 0              |
| Significant investments: phase-in provisions — Impact on CET1                                     | 0                | 0             | 0              |
| Significant investments: 50% of items to be deducted from CET1                                    | 0                | 0             | 0              |
| <b>Phase-in provisions</b>  | <b>0</b>         | <b>0</b>      | <b>0</b>       |
| <b>Total Common Equity Tier 1 capital (CET 1)</b>   | <b>427,059</b>   | <b>-7,986</b> | <b>419,073</b> |
| Significant investments: phase-in provisions — Impact on AT1                                      | 0                | 0             | 0              |
| Significant investments: excess to be subtracted from AT1   | 0                | 0             | 0              |
| <b>Total Additional Tier 1 capital (AT1)</b>  | <b>0</b>         | <b>0</b>      | <b>0</b>       |
| <b>TOTAL TIER 1 CAPITAL</b>   | <b>427,059</b>   | <b>-7,986</b> | <b>419,073</b> |
| T2 instruments (subordinated liabilities)   | 43,000           | 0             | 43,000         |
| Significant investments: 50% excess portion deducted from Tier 1 capital                          | 0                | 0             | 0              |
| 50% positive AFS reserves — phase-in provisions — Impact on T2 (80%)                              | 0                | 854           | 854            |
| <b>Total Tier 2 capital</b>   | <b>43,000</b>    | <b>854</b>    | <b>43,854</b>  |
| <b>TOTAL OWN FUNDS</b>  | <b>470,059</b>   | <b>-7,132</b> | <b>462,927</b> |

In the year under review, CET 1 performance was chiefly attributable to the contribution of net profit for the year which was not allocated as dividend to be distributed to shareholders (31.4 million euros), equal to about 20% of the net profit for the year.

In addition, the positive effects of the previous and new stock-option plans also contributed to the performance, partially offset by the buy-back of own shares and the decrease in intangible assets.

|  |                |
|--|----------------|
| <b>Own funds at 31 December 2015</b>                                       | <b>427,876</b> |
| <b>Change in Tier 1 capital</b>  |                |
| Purchase of treasury shares and repurchase commitments of CET1 instruments | -1,466         |
| Changes in reserves for payments based on shares (IFRS2)                   | 7,977          |
| 2015 dividend pay-out  | -42            |
| Regulatory provisions for retained earnings 2016                           | 31,455         |
| Transitional provisions: change in AFS positive and negative reserves      | 1,541          |
| Change in IAS 19 reserves (net of the filter)                              | -194           |
| Change in goodwill and intangibles   | -2,895         |
| Negative prudential filters  | -1,481         |
| Deductions for sign. investments , DTAs; general deductions                | 0              |
| Phase-in provisions CET1   | 0              |
| <b>Total changes in TIER 1 capital</b>                                     | <b>34,895</b>  |
| <b>Change in Tier 2 capital</b>  |                |
| Tier 2 subordinated loans (regulatory amortisation)                        | 0              |
| Phase-in provisions: change in AFS positive reserves                       | 156            |
| Other effects  | 0              |
| <b>Total change in TIER 2 capital</b>                                      | <b>156</b>     |
| <b>Own funds at 31 December 2016</b>                                       | <b>462,927</b> |
| <b>Change</b>  | <b>35,051</b>  |

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## 4 CAPITAL REQUIREMENTS

### QUALITATIVE INFORMATION

The adequacy of internal capital is constantly monitored by the Parent Company for the purposes of both current assessments and prospective planning.

Assessment and planning are closely connected inasmuch as the forecasting phase must involve awareness of the current situation, especially as regards the measurement of risk-weighted assets (RWAs), market risk, operating risk and balance sheet items.

The management of the Group's capital, at both the current and prospective level, aims to ensure that Banca Generali's capital and ratios, as well as those of its subsidiaries, are consistent with the risk profile assumed and comply with regulatory requirements.

Banca Generali Group and the banks and financial companies belonging to it are subject to the capital adequacy requirements established by the Basel Committee in accordance with the rules defined by the EU (CRR/CRD IV) and applied by the Bank of Italy.

The Bank of Italy verifies compliance with said requirements on a quarterly basis.

For example, at 31 December 2016 the Banca Generali Group had a Total Capital Ratio<sup>25</sup> of **18.4%** compared to a minimum requirement of 10.4% indicated by the Supervisory authority following the SREP.

Ongoing compliance with minimum capital requirements is monitored by the Risk and Capital Adequacy Department, whereas the Administration Department, is tasked with drafting all of the reports to the Regulatory Bodies required under applicable legislation, ensuring they are accurate and ensuring observance of deadlines, requesting support from the organisational units directly involved, where necessary. It is also responsible for the related databases (historical regulatory archive).

Within the Risk Appetite Framework, the Risk and Capital Adequacy Department performs, throughout the year and on a quarterly basis, second-level controls on Compliance with capital adequacy ratios and the necessary measures are taken to ensure control over the balance sheet items. Additional analysis and control of the Group's capital adequacy is also carried out any time the Group performs extraordinary transactions (e.g., acquisitions, transfers, etc.). In this case, information concerning the transaction is used to estimate its impact on the capital ratios, and any actions that may be necessary to comply with the requirements of the supervisory authorities are planned.

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<sup>25</sup>Ratio of total own funds to risk-weighted assets.

Compliance with capital adequacy is also guaranteed by the adoption of a pay-out policy defined in accordance with the ECB's recommendations issued on 28 January 2015, aimed at observing minimum capital requirements in the medium-/long-term and detecting the potential effects of any adverse market situation.

## QUANTITATIVE INFORMATION

The following table shows the details of the Group's capital adequacy at 31 December 2016 in thousands of euros.

|   | 31 December 2016     |                  |
|---|----------------------|------------------|
|   | Non-weighted amounts | Weighted amounts |
| <b>A. RISK ASSETS</b>   | 9,214,187            | 1,655,816        |
| <b>A.1 Credit and counterparty risk</b>                           |                      |                  |
| 1. Standardised method  | 9,214,187            | 1,655,816        |
| 2. Internal rating method   |                      |                  |
| 2.1 basic   | 0                    | 0                |
| 2.2 advanced  | 0                    | 0                |
| 3. Securitisations  | 0                    | 0                |
| <b>B. REGULATORY CAPITAL REQUIREMENTS</b>                         |                      |                  |
| <b>B.1 CREDIT RISK</b>  | X                    | <b>132,424</b>   |
| <b>B.2 RISK OF CREDIT VALUATION ADJUSTMENT</b>                    | X                    | <b>45</b>        |
| <b>B.3 REGULATION RISK</b>  | X                    | <b>0</b>         |
| <b>B.4 MARKET RISKS</b>   | X                    | <b>2,681</b>     |
| 1. Standard methodology   | X                    | 2,681            |
| 2. Internal models  | X                    | 0                |
| 3. Concentration risk   |                      | 0                |
| <b>B.5 OPERATING RISK</b>   | X                    | <b>65,863</b>    |
| 1. Basic method   | X                    | 65,863           |
| 2. Standardised method  | X                    | 0                |
| 3. Advanced method  | X                    | 0                |
| <b>B.6 OTHER VARIABLES</b>  | X                    | <b>0</b>         |
| <b>B.7 TOTAL PRUDENTIAL REQUIREMENTS</b>                          | X                    | <b>201,012</b>   |
| <b>C. RISK-WEIGHTED ASSETS AND REGULATORY CAPITAL RATIOS</b>      |                      |                  |
| C.1 Risk-weighted assets  | X                    | <b>2,512,654</b> |
| C.2 Tier 1 capital/Risk-weighted assets<br>(CET1 capital ratio)   | X                    | <b>16.7%</b>     |
| C.3 Tier 1 capital/Risk-weighted assets<br>(Tier 1 capital ratio) | X                    | <b>16.7%</b>     |
| C.4 Total own funds/Risk-weighted assets<br>(Total capital ratio) | X                    | <b>18.4%</b>     |



The following table shows capital requirements in thousands of euros for each of the regulatory classes of assets possessed by the Banca Generali Group.

| <b>Credit risk</b>                        |                      |                |
|---|----------------------|----------------|
| Regulatory portfolio                      | Risk weighted assets | Requirement    |
| Central administrations and central banks | 69,170               | 5,534          |
| Supervised intermediaries                 | 207,970              | 16,638         |
| Corporate                                 | 861,261              | 68,901         |
| Detail                                    | 285,114              | 22,809         |
| Exposures secured by real property        | 131,743              | 10,539         |
| Past due                                  | 5,131                | 410            |
| UCITs                                     | 13,929               | 1,114          |
| Equity instruments                        | 44,230               | 3,538          |
| Other                                     | 36,709               | 2,937          |
| Securitisation                            | 0                    | 0              |
| <b>Total</b>                              | <b>1,655,257</b>     | <b>132,421</b> |

The risk of credit valuation adjustment, identified by the Banking Group based on the standard method, has also been included in the credit risk.

| <b>Risk of credit valuation adjustment</b> |                      |             |
|--|----------------------|-------------|
| Standard method                            | Risk weighted assets | Requirement |
| SFTs transactions and OTC derivatives      | 560                  | 45          |

The capital requirement for **counterparty risk alone** amounted to 184 thousand euros at 31 December 2016.

At 31 December 2016, the capital requirement for credit risk amounted to **132,421** thousand euros, consisting of the sum of all requirements for the Group's regulatory asset classes.

For measurement purposes, the Group used Moody's as its ECAI, and Moody's, S&P and Fitch as its ECAIs for securitisation positions only.

The following table shows capital requirements (in thousands of euros) for market risk, by type of risk.

| <b>Market risk – standardised method</b>      |                      |              |
|---|----------------------|--------------|
| Position risk – regulatory portfolio          | Risk weighted assets | Requirement  |
| Generic risk on debt securities               | 6,888                | 551          |
| Generic risk on equity securities             | 1,963                | 157          |
| Specific risk on debt securities              | 3,525                | 282          |
| Specific risk on equity securities            | 1,963                | 157          |
| Specific securitisation risk                  | 12,800               | 1,024        |
| UCITS position risk                           | 6,374                | 510          |
| Additional risk options (Delta-plus approach) | 1                    | 0            |
| <b>Total</b>                                  | <b>33,513</b>        | <b>2,681</b> |

The capital requirement for market risk amounted to approximately **2,681** thousand euros.

At 31 December 2016, the capital requirement for operating risk was **65,863** thousand euros, as shown in the previous table, calculated by the Group using the basic model (BIA – Basic Indicator Approach) proposed by the Bank of Italy for determining the capital requirement for Operating Risk.

At 31 December 2016, consolidated Tier 1 capital ratio was **16.7%** and consolidated total capital ratio was **18.4%**, as shown in the previous table.

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## 5 CREDIT RISK: GENERAL INFORMATION

### QUALITATIVE INFORMATION

At annual and interim reporting dates, an impairment test is performed on loans to determine if there is objective evidence of possible loss in value as a result of events that occurred after their initial recognition.

Impaired or non-performing exposures are classified in accordance with the instructions issued by the Supervisory Authority (Bank of Italy's Circular Letter No. 272), which envisages the following categories:

- 1) bad loans: this category refers to formally impaired loans, consisting of cash and off-balance sheet exposures to customers who are in a state of insolvency, regardless of whether confirmed by a court, or in similar situations, irrespective of the loss forecasts made by the Bank;
- 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 made 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) past due in reference to the individual borrower: loans past due by more than 90 consecutive days, where the amount of the exposure past due and/or expired is greater than 5% (of the entire exposure), during the quarter or on the date of classification of the counterparty.

When the appropriate conditions have been met, non-performing exposures are assigned the forbearance attribute.

Loans classified as bad loans or unlikely to pay are normally subject to an analytical assessment process.

The amount of the impairment for each loan is equal to the difference between its book value at the time of assessment (amortised cost) and the current value of the expected future cash flows, calculated by applying the original effective interest rate.

Expected cash flows take account of anticipated collection times, the presumed realisable value of any underlying guarantees and costs that are expected to be incurred to recover the credit exposure. Cash flows relating to short-term loans are not discounted.

The original effective interest rate of each loan remains unchanged over time, even if a renegotiation of the terms results in a change of the contractual rate, including if the loan becomes non-interest-bearing.

Adjustments are recognised in profit or loss.

The original value of loans is reinstated in subsequent periods, if the circumstances that gave rise to the value adjustment cease to exist and such adjustment is objectively related to an event that occurred after the adjustment was made. The reversal is recognised in profit or loss and should not exceed what the amortised cost would have been, had the impairment not been recognised.

In light of the method employed to determine the recoverable value of non-performing loans, the mere passage of time, and the ensuing increased proximity to the projected date of recovery, implies an automatic decrease in the notional financial expenses previously charged against the loans.

Write-backs due to the passage of time are taken among reversals.

The total amount of loans classified as impaired, net of write-down, is a small percentage of total loans to customers and consists almost entirely of loans backed by a guarantee issued by the subsidiary Banca BSI S.A. upon the acquisition of Banca del Gottardo S.p.A. and Banca BSI Italia S.p.A.

The process of identifying doubtful loan positions requires constant monitoring of expired positions: after sending an initial request to comply with the commitment, the next step is to turn the matter over to top national credit collection companies. The classification as bad loans occurs when the Bank receives a negative report from the credit collection company.

Performing loans for which there is no objective evidence of loss are tested collectively for impairment. Collective evaluation is carried out on categories of loans with similar risk characteristics; the related loss percentages are estimated using historical data and other elements that can be observed at the measurement date, allowing the probable loss to be estimated for each category of loan.

In further detail, a deterioration rate is associated with each class of assets with similar characteristics in terms of exposure, the borrower's industry, type of collateral, deriving from the Bank of Italy's Credit Reference Bureau, along with a loss given default.

Adjustments resulting from collective evaluation are recognised in Profit or loss. At annual or interim reporting dates, impairment losses or reversals are recalculated on a differential basis with reference to the entire portfolio of performing loans at that date.

## QUANTITATIVE INFORMATION

The following table shows the distribution of financial assets by portfolio and credit quality (in thousands of euros, at book values) and the value of average credit exposures for the reporting period.

| Portfolios/quality                | Bad loans     | Unlikely to pay | Non-performing past-due exposures | Other performing past due exposures | Performing exposures | Total            |
|-----------------------------------|---------------|-----------------|-----------------------------------|-------------------------------------|----------------------|------------------|
| 1. AFS financial assets           | -             | -               | -                                 | -                                   | 4,349,914            | 4,349,914        |
| 2. HTM financial assets           | -             | -               | -                                 | -                                   | 731,362              | 731,362          |
| 3. Loans to banks                 | -             | -               | -                                 | -                                   | 326,688              | 326,688          |
| 4. Loans to customers             | 23,024        | 6,771           | 2,064                             | 23,078                              | 1,826,990            | 1,881,927        |
| 5. Financial assets at fair value | -             | -               | -                                 | -                                   | -                    | -                |
| 6. Financial assets held for sale | -             | -               | -                                 | -                                   | -                    | -                |
| <b>Total at 31 December 2016</b>  | <b>23,024</b> | <b>6,771</b>    | <b>2,064</b>                      | <b>23,078</b>                       | <b>7,234,954</b>     | <b>7,289,891</b> |
| <b>Average exposures</b>          | <b>23,877</b> | <b>5,938</b>    | <b>2,718</b>                      | <b>24,006</b>                       | <b>6,372,709</b>     | <b>6,429,246</b> |
| <b>Total at 31 December 2015</b>  | <b>24,729</b> | <b>5,104</b>    | <b>3,371</b>                      | <b>24,934</b>                       | <b>5,510,463</b>     | <b>5,568,601</b> |

The following table shows the distribution of financial assets by portfolio and credit quality (gross and net values).

| Portfolios/quality                | Non-performing assets |                     |               | Performing assets |                       |                  | Total (net exposure) |
|-----------------------------------|-----------------------|---------------------|---------------|-------------------|-----------------------|------------------|----------------------|
|                                   | Gross exposure        | Special adjustments | Net exposure  | Gross exposure    | Portfolio adjustments | Net exposure     |                      |
| 1. AFS financial assets           | -                     | -                   | -             | 4,349,914         | -                     | 4,349,914        | 4,349,914            |
| 2. HTM financial assets           | -                     | -                   | -             | 734,276           | 2,914                 | 731,362          | 731,362              |
| 3. Loans to banks                 | -                     | -                   | -             | 327,811           | 1,123                 | 326,688          | 326,688              |
| 4. Loans to customers             | 44,354                | 12,495              | 31,859        | 1,853,864         | 3,796                 | 1,850,068        | 1,881,927            |
| 5. Financial assets at fair value |                       |                     | -             | X                 | X                     | -                | -                    |
| 6. Financial assets held for sale |                       |                     | -             | -                 | -                     | -                | -                    |
| <b>Total at 31 December 2016</b>  | <b>44,354</b>         | <b>12,495</b>       | <b>31,859</b> | <b>7,265,865</b>  | <b>7,833</b>          | <b>7,258,032</b> | <b>7,289,891</b>     |
| <b>Average exposures</b>          | <b>45,800</b>         | <b>13,268</b>       | <b>32,532</b> | <b>6,405,301</b>  | <b>8,587</b>          | <b>6,396,715</b> | <b>6,429,246</b>     |
| <b>Total at 31 December 2015</b>  | <b>47,245</b>         | <b>14,041</b>       | <b>33,204</b> | <b>5,544,737</b>  | <b>9,340</b>          | <b>5,535,397</b> | <b>5,568,601</b>     |

| Portfolios/quality               | Assets with obviously poor credit quality |              | Other assets  |
|----------------------------------|---|--------------|---------------|
|                                  | Cumulative capital losses                 | Net exposure | Net exposure  |
| 1. HFT financial assets          | -   | -            | 34,997        |
| 2. Hedging derivatives           | -   | -            | -             |
| <b>Total at 31 December 2016</b> | <b>-</b>                                  | <b>-</b>     | <b>34,997</b> |
| <b>Average exposures</b>         | <b>-</b>                                  | <b>-</b>     | <b>29,401</b> |
| <b>Total at 31 December 2015</b> | <b>-</b>                                  | <b>-</b>     | <b>23,805</b> |

An illustration of exposures broken down by geographical area is given hereunder.

The following tables show the geographical distribution of cash and "off-balance sheet" exposures to customers and banks, respectively, in thousands of euros.

| Exposure/Geographical area             | Italy            |               | Other European countries |              | America       |             | Asia         |             | Rest of the world |             |
|--|------------------|---------------|--------------------------|--------------|---------------|-------------|--------------|-------------|-------------------|-------------|
|  | Net              | Total Value   | Net                      | Total Value  | Net           | Total Value | Net          | Total Value | Net               | Total Value |
|  | Exposure         | Adjustments   | Exposure                 | Adjustments  | Exposure      | Adjustments | Exposure     | Adjustments | Exposure          | Adjustments |
| <b>A. Cash exposures</b>               |                  |               |                          |              |               |             |              |             |                   |             |
| A.1 Bad loans                          | 23,024           | 11,328        | -                        | 596          | -             | -           | -            | -           | -                 | -           |
| A.2 Unlikely to pay                    | 6,771            | 140           | -                        | -            | -             | -           | -            | -           | -                 | -           |
| A.3. Non-performing past-due exposures | 2,064            | 429           | -                        | 2            | -             | -           | -            | -           | -                 | -           |
| A.4. Other performing exposures        | 6,491,415        | 3,273         | 184,321                  | 2,944        | 74,378        | 72          | 1,495        | -           | 2,611             | 24          |
| <b>Total A</b>                         | <b>6,523,274</b> | <b>15,170</b> | <b>184,321</b>           | <b>3,542</b> | <b>74,378</b> | <b>72</b>   | <b>1,495</b> | <b>-</b>    | <b>2,611</b>      | <b>24</b>   |
| <b>B. Off-balance sheet exposure</b>   |                  |               |                          |              |               |             |              |             |                   |             |
| B.1 Bad loans                          | 68               | -             | -                        | -            | -             | -           | -            | -           | -                 | -           |
| B.2 Unlikely to pay                    | 2,851            | -             | -                        | -            | -             | -           | -            | -           | -                 | -           |
| B.3 Other non-performing assets        | -                | -             | -                        | -            | -             | -           | -            | -           | -                 | -           |
| B.4. Other performing exposures        | 119,692          | -             | 495                      | -            | -             | -           | -            | -           | -                 | -           |
| <b>Total B</b>                         | <b>122,611</b>   | <b>-</b>      | <b>495</b>               | <b>-</b>     | <b>-</b>      | <b>-</b>    | <b>-</b>     | <b>-</b>    | <b>-</b>          | <b>-</b>    |
| <b>Total at 31 December 2016</b>       | <b>6,645,885</b> | <b>15,170</b> | <b>184,816</b>           | <b>3,542</b> | <b>74,378</b> | <b>72</b>   | <b>1,495</b> | <b>-</b>    | <b>2,611</b>      | <b>24</b>   |
| <b>Average exposures</b>               | <b>5,766,111</b> | <b>15,299</b> | <b>199,377</b>           | <b>2,275</b> | <b>59,684</b> | <b>39</b>   | <b>1,564</b> | <b>-</b>    | <b>1,306</b>      | <b>12</b>   |
| <b>Total at 31 December 2015</b>       | <b>4,886,336</b> | <b>15,427</b> | <b>213,938</b>           | <b>1,008</b> | <b>44,989</b> | <b>6</b>    | <b>1,632</b> | <b>-</b>    | <b>-</b>          | <b>-</b>    |

| Exposure/Geographical area             | Italy          |              | Other European countries |             | America       |             | Asia         |             | Rest of the world |             |
|--|----------------|--------------|--------------------------|-------------|---------------|-------------|--------------|-------------|-------------------|-------------|
|  | Net            | Total Value  | Net                      | Total Value | Net           | Total Value | Net          | Total Value | Net               | Total Value |
|  | Exposure       | Adjustments  | Exposure                 | Adjustments | Exposure      | Adjustments | Exposure     | Adjustments | Exposure          | Adjustments |
| <b>A. Cash exposures</b>               |                |              |                          |             |               |             |              |             |                   |             |
| A.1 Bad loans                          | -              | -            | -                        | -           | -             | -           | -            | -           | -                 | -           |
| A.2 Unlikely to pay                    | -              | -            | -                        | -           | -             | -           | -            | -           | -                 | -           |
| A.3. Non-performing past-due exposures | -              | -            | -                        | -           | -             | -           | -            | -           | -                 | -           |
| A.4. Other performing exposures        | 370,979        | 1,303        | 89,261                   | 173         | 57,103        | -           | 7,526        | 29          | 13,062            | 15          |
| <b>Total A</b>                         | <b>370,979</b> | <b>1,303</b> | <b>89,261</b>            | <b>173</b>  | <b>57,103</b> | <b>-</b>    | <b>7,526</b> | <b>29</b>   | <b>13,062</b>     | <b>15</b>   |
| <b>B. Off-balance sheet exposure</b>   |                |              |                          |             |               |             |              |             |                   |             |
| B.1 Bad loans                          | -              | -            | -                        | -           | -             | -           | -            | -           | -                 | -           |
| B.2 Unlikely to pay                    | -              | -            | -                        | -           | -             | -           | -            | -           | -                 | -           |
| B.3 Other non-performing assets        | -              | -            | -                        | -           | -             | -           | -            | -           | -                 | -           |
| B.4. Other performing exposures        | 2,526          | -            | 240                      | -           | -             | -           | -            | -           | -                 | -           |

|                                  |                |              |                |            |               |          |              |           |               |
|----------------------------------|----------------|--------------|----------------|------------|---------------|----------|--------------|-----------|---------------|
| <b>Total B</b>                   | <b>2,526</b>   | <b>-</b>     | <b>240</b>     | <b>-</b>   | <b>-</b>      | <b>-</b> | <b>-</b>     | <b>-</b>  | <b>-</b>      |
| <b>Total at 31 December 2016</b> | <b>373,505</b> | <b>1,303</b> | <b>89,501</b>  | <b>173</b> | <b>57,103</b> | <b>-</b> | <b>7,526</b> | <b>29</b> | <b>13,062</b> |
| <b>Average exposures</b>         | <b>385,982</b> | <b>2,588</b> | <b>101,617</b> | <b>113</b> | <b>54,575</b> | <b>-</b> | <b>3,763</b> | <b>15</b> | <b>6,531</b>  |
| <b>Total at 31 December 2015</b> | <b>398,458</b> | <b>3,872</b> | <b>113,733</b> | <b>53</b>  | <b>52,046</b> | <b>-</b> | <b>-</b>     | <b>-</b>  | <b>-</b>      |

The following tables illustrate the Banking Group's exposure by business segment (governments and central banks, other public entities, financial companies, insurance companies, non-financial companies, and other entities) in thousands of euros.

A breakdown of net exposures and value adjustments (specific and portfolio-related) in thousands of euros is also provided for each individual business segment.

Lastly, a breakdown of bad loans, unlikely to pay, expired exposures, performing and non-performing exposures in thousands of euros is also provided.

| Exposure/counterparty                  | Net<br>Exposure  | Specific<br>Value<br>Adjustments | Portfolio<br>Value<br>Adjustments |
|--|------------------|----------------------------------|-----------------------------------|
| <b>A. Cash exposures</b>               |                  |                                  |                                   |
| <b>1. Governments</b>                  | <b>4,728,691</b> | <b>-</b>                         | <b>-</b>                          |
| A.1 Bad loans                          | -                | -                                | -                                 |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| A.2 Unlikely to pay                    | -                | -                                | -                                 |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| A.3. Non-performing past-due exposures | -                | -                                | -                                 |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| A.4. Performing exposures              | 4,728,691        | -                                | -                                 |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| <b>2. Other public institutions</b>    | <b>-</b>         | <b>-</b>                         | <b>-</b>                          |
| A.1 Bad loans                          | -                | -                                | -                                 |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| A.2 Unlikely to pay                    | -                | -                                | -                                 |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| A.3. Non-performing past-due exposures | -                | -                                | -                                 |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| A.4. Performing exposures              | -                | -                                | -                                 |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| <b>3. Financial companies</b>          | <b>277,700</b>   | <b>105</b>                       | <b>1,187</b>                      |
| A.1 Bad loans                          | 4,655            | 89                               | -                                 |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| A.2 Unlikely to pay                    | 1                | 12                               | -                                 |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| A.3. Non-performing past-due exposures | 3                | 4                                | -                                 |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| A.4. Performing exposures              | 273,041          | -                                | 1,187                             |
| - of which: with forbearance measures  | -                | -                                | -                                 |
| <b>4. Insurance companies</b>          | <b>18,937</b>    | <b>-</b>                         | <b>-</b>                          |
| A.1 Bad loans                          | -                | -                                | -                                 |



|  |                  |               |              |
|--|------------------|---------------|--------------|
| - of which: with forbearance measures  | -                | -             | -            |
| A.2 Unlikely to pay                    | -                | -             | -            |
| - of which: with forbearance measures  | -                | -             | -            |
| A.3. Non-performing past-due exposures | -                | -             | -            |
| - of which: with forbearance measures  | -                | -             | -            |
| A.4. Performing exposures              | 18,937           | -             | -            |
| - of which: with forbearance measures  | -                | -             | -            |
| <b>5. Non-financial companies</b>      | <b>527,796</b>   | <b>10,598</b> | <b>5,126</b> |
| A.1 Bad loans                          | 13,193           | 10,461        | -            |
| - of which: with forbearance measures  | -                | -             | -            |
| A.2 Unlikely to pay                    | 5,188            | 24            | -            |
| - of which: with forbearance measures  | 5,183            | 10            | -            |
| A.3. Non-performing past-due exposures | 103              | 113           | -            |
| - of which: with forbearance measures  | -                | -             | -            |
| A.4. Performing exposures              | 509,312          | -             | 5,126        |
| - of which: with forbearance measures  | 32               | -             | -            |
| <b>6. Other entities</b>               | <b>1,232,955</b> | <b>1,792</b>  | <b>-</b>     |
| A.1 Bad loans                          | 5,176            | 1,374         | -            |
| - of which: with forbearance measures  | -                | -             | -            |
| A.2 Unlikely to pay                    | 1,582            | 104           | -            |
| - of which: with forbearance measures  | 601              | -             | -            |
| A.3. Non-performing past-due exposures | 1,958            | 314           | -            |
| - of which: with forbearance measures  | -                | -             | -            |
| A.4. Performing exposures              | 1,224,239        | -             | -            |
| - of which: with forbearance measures  | 19               | -             | -            |
| <b>TOTAL A - CASH EXPOSURE</b>         | <b>6,786,079</b> | <b>12,495</b> | <b>6,313</b> |

| Exposure/counterparty                 | Net          | Specific    | Portfolio   |
|---------------------------------------|--------------|-------------|-------------|
|                                       | Exposure     | Value       | Value       |
|                                       |              | Adjustments | Adjustments |
| <b>B. Off-balance sheet exposures</b> |              |             |             |
| <b>1. Governments</b>                 | <b>3,352</b> | <b>-</b>    | <b>-</b>    |
| B.1 Bad loans                         | -            | -           | -           |
| B.2 Unlikely to pay                   | -            | -           | -           |
| B.3 Other non-performing assets       | -            | -           | -           |
| B. 4 Performing exposures             | 3,352        | -           | -           |
| <b>2. Other public institutions</b>   | <b>-</b>     | <b>-</b>    | <b>-</b>    |
| B.1 Bad loans                         | -            | -           | -           |
| B.2 Unlikely to pay                   | -            | -           | -           |
| B.3 Other non-performing assets       | -            | -           | -           |
| B. 4 Performing exposures             | -            | -           | -           |
| <b>3. Financial companies</b>         | <b>461</b>   | <b>-</b>    | <b>-</b>    |
| B.1 Bad loans                         | -            | -           | -           |
| B.2 Unlikely to pay                   | -            | -           | -           |
| B.3 Other non-performing assets       | -            | -           | -           |
| B. 4 Performing exposures             | 461          | -           | -           |
| <b>4. Insurance companies</b>         | <b>4,224</b> | <b>-</b>    | <b>-</b>    |
| B.1 Bad loans                         | -            | -           | -           |
| B.2 Unlikely to pay                   | -            | -           | -           |

|   |                |          |          |
|---|----------------|----------|----------|
| B.3 Other non-performing assets                 | -              | -        | -        |
| B. 4 Performing exposures                       | 4,224          | -        | -        |
| <b>5. Non-financial companies</b>               | <b>70,160</b>  | <b>-</b> | <b>-</b> |
| B.1 Bad loans                                   | 68             | -        | -        |
| B.2 Unlikely to pay                             | 2,851          | -        | -        |
| B.3 Other non-performing assets                 | -              | -        | -        |
| B. 4 Performing exposures                       | 67,241         | -        | -        |
| <b>6. Other entities</b>                        | <b>44,909</b>  | <b>-</b> | <b>-</b> |
| B.1 Bad loans                                   | -              | -        | -        |
| B.2 Unlikely to pay                             | -              | -        | -        |
| B.3 Other non-performing assets                 | -              | -        | -        |
| B. 4 Performing exposures                       | 44,909         | -        | -        |
| <b>TOTAL B - OFF-BALANCE SHEET<br/>EXPOSURE</b> | <b>123,106</b> | <b>-</b> | <b>-</b> |

|  | Net<br>Exposure  | Portfolio<br>Value<br>Adjustments | Portfolio<br>Value<br>Adjustments |
|--|------------------|-----------------------------------|-----------------------------------|
| Governments                              | 4,732,043        | -                                 | -                                 |
| Public institutions                      | -                | -                                 | -                                 |
| Financial companies                      | 278,161          | 105                               | 1,187                             |
| Insurance companies                      | 23,161           | -                                 | -                                 |
| Non-financial companies                  | 597,956          | 10,598                            | 5,126                             |
| Other entities                           | 1,277,864        | 1,792                             | -                                 |
| <b>Overall total (A+B) at 31.12.2016</b> | <b>6,909,185</b> | <b>12,495</b>                     | <b>6,313</b>                      |

The following table shows a breakdown of the entire portfolio by type of exposure in thousands of euros.

| Type/Time-to-Maturity         | Repayable<br>on demand | Up to 3<br>months | Over 3<br>months, up<br>to 6<br>months | Over 6<br>months,<br>up to 1<br>year | Over 1<br>year, up to<br>5 years | Over 5<br>years, up<br>to 10<br>years | Over<br>10<br>years | Unspecified<br>maturity | Total            |
|-------------------------------|------------------------|-------------------|--|--------------------------------------|----------------------------------|---------------------------------------|---------------------|-------------------------|------------------|
| <b>1. Cash assets</b>         | <b>1,901,387</b>       | <b>1,259,995</b>  | <b>2,069,963</b>                       | <b>45,520</b>                        | <b>1,433,826</b>                 | <b>578,957</b>                        | <b>242</b>          | <b>-</b>                | <b>7,289,890</b> |
| 1.1 Debt securities           |                        |                   |  |                                      |                                  |                                       |                     |                         |                  |
| - with early repayment option | -                      | 12,743            | 3,049                                  | 5,060                                | 17,032                           | 10,102                                | -                   | -                       | 47,986           |
| - other                       | -                      | 1,108,695         | 2,065,411                              | 40,396                               | 1,416,325                        | 568,609                               | -                   | -                       | 5,199,436        |
| 1.2 Loans to banks            | 112,327                | 91,314            | -                                      | -                                    | -                                | -                                     | -                   | -                       | 203,641          |
| 1.3 Loans to customers        |                        |                   |  |                                      |                                  |                                       |                     |                         |                  |
| - current accounts            | 906,970                | 3                 | 3                                      | 5                                    | 51                               | -                                     | -                   | -                       | 907,032          |
| - other loans                 | 882,090                | 47,240            | 1,500                                  | 59                                   | 418                              | 246                                   | 242                 | -                       | 931,795          |
| - with early repayment option | 773,494                | 268               | 28                                     | 59                                   | 329                              | 246                                   | 242                 | -                       | 774,666          |
| - other                       | 108,596                | 46,972            | 1,472                                  | -                                    | 89                               | -                                     | -                   | -                       | 157,129          |
| <b>2. Cash liabilities</b>    | <b>6,619,321</b>       | <b>163,727</b>    | <b>99,817</b>                          | <b>99,493</b>                        | <b>400,000</b>                   | <b>43,282</b>                         | <b>-</b>            | <b>-</b>                | <b>7,425,640</b> |
| 2.1 Due to customers          |                        |                   |  |                                      |                                  |                                       |                     |                         |                  |
| - current accounts            | 6,466,672              | -                 | -                                      | -                                    | -                                | -                                     | -                   | -                       | 6,466,672        |
| - other payables              | 106,132                | 6,845             | -                                      | -                                    | -                                | 43,282                                | -                   | -                       | 156,259          |
| - with early repayment option |                        |                   |  |                                      |                                  |                                       |                     |                         |                  |
| - other                       | 106,132                | 6,845             | -                                      | -                                    | -                                | 43,282                                | -                   | -                       | 156,259          |

|                               |        |         |        |        |         |   |   |   |         |
|-------------------------------|--------|---------|--------|--------|---------|---|---|---|---------|
| 2.2 Due to banks              |        |         |        |        |         |   |   |   | -       |
| - current accounts            | 22,308 | -       | -      | -      | -       | - | - | - | 22,308  |
| - other payables              | 24,209 | 156,882 | 99,817 | 99,493 | 400,000 |   |   |   | 780,401 |
| 2.3 Debt securities           |        |         |        |        |         |   |   |   | -       |
| - with early repayment option | -      | -       | -      | -      | -       | - | - | - | -       |
| - other                       | -      | -       | -      | -      | -       | - | - | - | -       |
| 2.4 Other liabilities         |        |         |        |        |         |   |   |   | -       |
| - with early repayment option | -      | -       | -      | -      | -       | - | - | - | -       |
| - other                       | -      | -       | -      | -      | -       | - | - | - | -       |

The following table shows total non-performing and expired exposures, specific value adjustments and portfolio adjustments for loans to customers and loans to banks, respectively, in thousands of euros.

| Types of exposure/values             | Gross exposure        |                               |                             |               |                   | Specific adjustments | Portfolio adjustments | Net exposure     |
|--------------------------------------|-----------------------|-------------------------------|-----------------------------|---------------|-------------------|----------------------|-----------------------|------------------|
|                                      | Non-performing assets |                               |                             |               | Performing assets |                      |                       |                  |
|                                      | Up to 3 months        | Over 3 months, up to 6 months | Over 6 months, up to 1 year | Beyond 1 year |                   |                      |                       |                  |
| <b>A. CASH EXPOSURES</b>             |                       |                               |                             |               |                   |                      |                       |                  |
| a) Bad loans                         | -                     | -                             | -                           | 34,948        | X                 | 11,924               | X                     | 23,024           |
| of which: with forbearance measures  | -                     | -                             | -                           | -             | X                 | 0                    | X                     | -                |
| b) Unlikely to pay                   | 1,375                 | 229                           | 13                          | 5,294         | X                 | 140                  | X                     | 6,771            |
| of which: with forbearance measures  | 636                   | -                             | 13                          | 5,145         | X                 | 10                   | X                     | 5,784            |
| c) Non-performing past-due exposures | -                     | 152                           | 1,469                       | 874           | X                 | 431                  | X                     | 2,064            |
| of which: with forbearance measures  | -                     | -                             | -                           | -             | X                 | -                    | X                     | -                |
| d) Performing past-due exposures     | X                     | X                             | X                           | X             | 23,078            | X                    | -                     | 23,078           |
| of which: with forbearance measures  | X                     | X                             | X                           | X             | 10                | X                    | -                     | 10               |
| e) Other performing exposures        | X                     | X                             | X                           | X             | 6,737,455         | X                    | 6,313                 | 6,731,142        |
| of which: with forbearance measures  | X                     | X                             | X                           | X             | 42                | X                    | -                     | 42               |
| <b>TOTAL A</b>                       | <b>1,375</b>          | <b>381</b>                    | <b>1,482</b>                | <b>41,116</b> | <b>6,760,533</b>  | <b>12,495</b>        | <b>6,313</b>          | <b>6,786,079</b> |
| <b>B. OFF-BALANCE SHEET EXPOSURE</b> |                       |                               |                             |               |                   |                      |                       |                  |
| a) Non-performing                    | 2,919                 | -                             | -                           | -             | X                 | -                    | X                     | 2,919            |
| b) Performing                        | X                     | X                             | X                           | X             | 120,187           | X                    | -                     | 120,187          |
| <b>TOTAL B</b>                       | <b>2,919</b>          | <b>-</b>                      | <b>-</b>                    | <b>-</b>      | <b>120,187</b>    | <b>-</b>             | <b>-</b>              | <b>123,106</b>   |
| <b>TOTAL (A+B)</b>                   | <b>4,294</b>          | <b>381</b>                    | <b>1,482</b>                | <b>41,116</b> | <b>6,880,720</b>  | <b>12,495</b>        | <b>6,313</b>          | <b>6,909,185</b> |

| Types of exposure/values             | Gross exposure        |                               |                             |               |                   | Specific adjustments | Portfolio adjustments | Net exposure   |
|--------------------------------------|-----------------------|-------------------------------|-----------------------------|---------------|-------------------|----------------------|-----------------------|----------------|
|                                      | Non-performing assets |                               |                             |               | Performing assets |                      |                       |                |
|                                      | Up to 3 months        | Over 3 months, up to 6 months | Over 6 months, up to 1 year | Beyond 1 year |                   |                      |                       |                |
| <b>A. CASH EXPOSURES</b>             |                       |                               |                             |               |                   |                      |                       |                |
| a) Bad loans                         | -                     | -                             | -                           | -             | X                 | -                    | X                     | -              |
| of which: with forbearance measures  | -                     | -                             | -                           | -             | X                 | -                    | X                     | -              |
| b) Unlikely to pay                   | -                     | -                             | -                           | -             | X                 | -                    | X                     | -              |
| of which: with forbearance measures  | -                     | -                             | -                           | -             | X                 | -                    | X                     | -              |
| c) Non-performing past-due exposures | -                     | -                             | -                           | -             | X                 | -                    | X                     | -              |
| of which: with forbearance measures  | -                     | -                             | -                           | -             | X                 | -                    | X                     | -              |
| d) Performing past-due exposures     | X                     | X                             | X                           | X             | -                 | X                    | -                     | -              |
| of which: with forbearance measures  | X                     | X                             | X                           | X             | -                 | X                    | -                     | -              |
| e) Other performing exposures        | X                     | X                             | X                           | X             | 539,451           | X                    | 1,520                 | 537,931        |
| of which: with forbearance measures  | X                     | X                             | X                           | X             | -                 | X                    | -                     | -              |
| <b>TOTAL A</b>                       | -                     | -                             | -                           | -             | <b>539,451</b>    | -                    | <b>1,520</b>          | <b>537,931</b> |
| <b>B. OFF-BALANCE SHEET EXPOSURE</b> |                       |                               |                             |               |                   |                      |                       |                |
| a) Non-performing                    | -                     | -                             | -                           | -             | X                 | -                    | X                     | -              |
| b) Performing                        | X                     | X                             | X                           | X             | 2,766             | X                    | -                     | 2,766          |
| <b>TOTAL B</b>                       | -                     | -                             | -                           | -             | <b>2,766</b>      | -                    | -                     | <b>2,766</b>   |
| <b>TOTAL (A+B)</b>                   | -                     | -                             | -                           | -             | <b>542,217</b>    | -                    | <b>1,520</b>          | <b>540,697</b> |

The following table shows the trend in total value adjustments for cash exposures to customers, in thousands of euros.

No value adjustment was made on exposures to banks at 31 December 2016.

| Causes/Categories  | Bad loans     |                                     | Unlikely to pay |                                     | Non-performing past-due exposures |                                     |
|--|---------------|-------------------------------------|-----------------|-------------------------------------|-----------------------------------|-------------------------------------|
|  | Totals        | Of which: with forbearance measures | Totals          | Of which: with forbearance measures | Totals                            | Of which: with forbearance measures |
| <b>A. Opening total adjustments</b>                            | <b>13,450</b> | <b>967</b>                          | <b>202</b>      | <b>11</b>                           | <b>388</b>                        | <b>-</b>                            |
| <i>- of which: exposures transferred but not written off</i>   | -             | -                                   | -               | -                                   | -                                 | -                                   |
| <b>B. Increases</b>  | <b>1,288</b>  | <b>-</b>                            | <b>31</b>       | <b>6</b>                            | <b>385</b>                        | <b>-</b>                            |
| B.1. Adjustments   | 1,270         | -                                   | 29              | 4                                   | 385                               | -                                   |
| B.2. Losses from disposals                                     | -             | -                                   | -               | -                                   | -                                 | -                                   |
| B.3 Transfer from other categories of non-performing exposures | 18            | -                                   | 2               | 2                                   | -                                 | -                                   |
| B.4. Other increases   | -             | -                                   | -               | -                                   | -                                 | -                                   |
| <b>C. Decreases</b>  | <b>2,814</b>  | <b>967</b>                          | <b>93</b>       | <b>7</b>                            | <b>342</b>                        | <b>-</b>                            |
| C.1. Reversal of adjustments                                   | 12            | -                                   | 17              | -                                   | 292                               | -                                   |
| C.2. Reversal of collections                                   | 710           | 593                                 | 31              | 7                                   | 31                                | -                                   |
| C.3. Gains from disposals                                      | -             | -                                   | -               | -                                   | -                                 | -                                   |
| C.4. Write-offs  | 2,092         | 374                                 | 27              | -                                   | 17                                | -                                   |
| C.5. Transfer to other categories of non-performing exposures  | -             | -                                   | 18              | -                                   | 2                                 | -                                   |
| C.6. Other decreases   | -             | -                                   | -               | -                                   | -                                 | -                                   |
| <b>D. Total adjustments at year-end</b>                        | <b>11,924</b> | <b>-</b>                            | <b>140</b>      | <b>10</b>                           | <b>431</b>                        | <b>-</b>                            |
| <i>- of which: exposures transferred but not written off</i>   |               |                                     |                 |                                     |                                   |                                     |

Consolidated net adjustments amounted to 0.8 million euros for 2016, disclosing a decrease of 5.7 million euros (-88.0%) compared with the previous year, and include 1.3 million euros referring to adjustments on the financial assets segment and 0.5 million euros referring to recoveries on loans.

The recoveries on loans are mainly attributable to the positive closure of a significant bad loan position. This aggregate therefore presents a significant improvement with respect to the corresponding period in the previous year, which had also been penalised by the write-down of the Maritime Investments position for an amount of 1.7 million euros. Moreover, further reduced prudential changes were made to covering risks associated with recovery of fee advances provided to former Financial Advisors who left service (0.1 million euros).

The impairment losses on the portfolio of AFS equity securities (2.9 million euros) refer to:

- 0.9 million euros of impairment losses in addition to those recognised in previous years on the investment in Veneto Banca, which was measured on the basis of the outcome of the share capital increase carried out in June and fully subscribed by Fondo Atlante at a price of 0.1 euro per share;
- 1.6 million euros concerning investments in newly-listed entities on the AIM Italia (Alternative Investment Market) and minor bank equity investments;

- 
- 0.3 million euros concerning the write-down of the indirect equity investment recognised following the intervention of the FITD's Voluntary Scheme in the transaction for recapitalising Cassa di Risparmio di Cesena.

Furthermore, net recoveries were recognised on the collective reserves on performing debt securities allocated in the portfolios carried at amortised cost (1.5 million euros) in relation to the freeing up, in the third quarter, of a significant portion of the Loans portfolio and to the risk profile (rating/residual life) of the new investments made.

## 6 CREDIT RISK: USE OF ECAIS

### QUALITATIVE INFORMATION

The Banca Generali Group adopts the ratings provided by the following external rating agencies in determining the credit risk weightings under the standardised method:

- Moody's Investors Service for all regulatory portfolios;
- Standard & Poor's Ratings Service for the portfolio "securitisation positions";
- Fitch Ratings for the portfolio "securitisation positions".

The following table shows the regulatory asset classes for which each external rating agency or agency for export credits is used, along with the respective ratings characteristics.

| Portfolios   | ECA/ECAI  | Types of rating         |
|--|---|-------------------------|
| Exposures to central administrations and central banks                                 | Moody's Investors Service   | Solicited/ unsolicited. |
| Long-term exposures to supervised intermediaries, public entities and local entities   | Moody's Investors Service   | Solicited               |
| Short-term exposures to supervised intermediaries and companies                        | Moody's Investors Service   | Solicited               |
| Exposures to international organisations   | Moody's Investors Service   | Solicited               |
| Exposures to multilateral development banks  | Moody's Investors Service   | Solicited               |
| Long-term exposures to companies and other entities                                    | Moody's Investors Service   | Solicited               |
| Exposures to Undertakings for Collective Investment in Transferable Securities (UCITS) | Moody's Investors Service   | Solicited               |
| Positions with securitisations with short-time rating                                  | Moody's Investors Service<br>Standard & Poor's Rating Services<br>Fitch Ratings | Solicited               |
| Positions with securitisations other than securitisations with short-time rating       | Moody's Investors Service<br>Standard & Poor's Rating Services<br>Fitch Ratings | Solicited               |

### QUANTITATIVE INFORMATION

The following table shows, in thousands of euro, the values of exposures, with and without credit risk mitigation, along with the respective weightings and the values of the exposures deducted from regulatory capital, for each regulatory asset class.



| Standardised method regulatory portfolio       | Exposure with credit risk mitigation | Exposures without credit risk mitigation |    |         |         |         |         |         |           |        |        |                | Exp. deducted from regulatory capital |
|--|--------------------------------------|--|----|---------|---------|---------|---------|---------|-----------|--------|--------|----------------|---------------------------------------|
|  |                                      | weightings                               |    |         |         |         |         |         |           |        |        | Exposure value |                                       |
|  |                                      | 0  | 10 | 20      | 35      | 50      | 70      | 75      | 100       | 150    | 250    |                |                                       |
| Central administrations and central banks      | 5,440,787                            | 5,407,266                                |    |         |         |         |         |         | 9,755     |        | 23,766 | 5,440,787      | 0                                     |
| Non-profit entities and public sector entities | 0                                    |  |    |         |         |         |         |         | 0         |        |        | 0              | 0                                     |
| Supervised intermediaries                      | 494,799                              |  |    | 249,534 |         | 167,634 |         |         | 421,309   |        | 0      | 838,477        | 0                                     |
| Corporate and other parties                    | 1,133,522                            |  |    |         |         | 55,173  | 199,247 |         | 1,120,036 | 2,029  |        | 1,376,485      | 0                                     |
| Detail   | 650,354                              |  |    |         |         |         |         | 922,321 |           |        |        | 922,321        | 0                                     |
| Secured by property                            | 372,351                              |  |    |         | 361,111 | 12,204  |         |         |           |        |        | 373,315        | 0                                     |
| Past due                                       | 5,000                                |  |    |         |         |         |         |         | 1,640     | 27,596 |        | 29,236         | 0                                     |
| Equity instruments                             | 44,230                               |  |    |         |         |         |         |         | 44,230    |        | 0      | 44,230         | 0                                     |
| UCITs  | 13,929                               |  |    |         |         |         |         |         | 13,929    |        |        | 13,929         | 0                                     |
| Other  | 149,055                              | 16,052                                   |    | 120,368 |         |         |         |         | 12,636    |        |        | 149,056        | 0                                     |
| Securitisation                                 | 0                                    |  |    |         |         |         |         |         |           |        |        | 0              | 0                                     |
| Totals   | 8,304,027                            | 5,423,318                                | 0  | 369,902 | 361,111 | 235,011 | 199,247 | 922,321 | 1,623,535 | 29,625 | 23,766 | 9,187,836      | 0                                     |

## 7. CREDIT RISK MITIGATION TECHNIQUES

### QUALITATIVE INFORMATION

The Banca Generali Group does not use on- or off-balance sheet offsetting techniques.

The Group uses certain guarantees such as credit risk mitigation (CRM) techniques. The Group uses the instruments shown in the following table as guarantees in rem (table 21).

#### Secured guarantees used by the Group

| Guarantee description  | Category Circular Letter No. 285/2013          |
|--|--|
| First lien on real property                                  | Mortgages on real property - Secured guarantee |
| Second or inferior lien on real property                     | Mortgages on real property - Secured guarantee |
| Legal mortgages on real property                             | Mortgages on real property - Secured guarantee |
| Pledge on listed shares                                      | Financial collateral                           |
| Pledge on cash   | Financial collateral                           |
| Pledge on Government Securities and listed third party bonds | Financial collateral                           |
| Pledge on Securities   | Financial collateral                           |
| Pledge on fund / SICAV units                                 | Financial collateral                           |
| Revolving pledge of assets under administration              | Financial collateral                           |
| Pledge of Asset under Management                             | Financial collateral                           |
| Pledge on Genertellife Class 1 life policies                 | Financial collateral                           |
| Surety   | Unsecured guarantee                            |
| Risk Participation Parent Company                            | Unsecured guarantee                            |
| Indemnity  | Unsecured guarantee                            |

In the hypothesis of proposal of a new mitigation instrument, the following checks are carried out to define the admissibility or otherwise of the instrument in observance of the legislative requirements:

- the Legal Department, if necessary, checks the contracts to evaluate the observance of the requisites regarding legal certainty and promptness in terms of achievement and goes ahead with up-dating or drafting the contracts;
- the Lending Department:
  - provides support to the Legal Department when drawing up non-standard contracts associated with the technical guarantee form;
  - checks that the general and specific requirements envisaged by the legislation have been observed;
  - ensures the consistency and effectiveness of the lending processes existing for the acquisition, handling and realisation of the guarantee instruments subject to analysis.

The Risk and Capital Adequacy Department, availing itself of the contribution of the Compliance Service, in the capacity as second level control unit, examines the audit activities carried out by the

afore-mentioned structures for the purpose of validating the observance of the general and specific requirements laid down by legislation.

Annually, the Lending Department checks the technical guarantee forms registered in the system and, subject to discussion with the Risk and Capital Adequacy Department and possibly with the Compliance Service, requests the Systems Co-ordination and Processes Department to up-date the same in the procedure.

Generally, it is the task of each structure involved in the process to take steps to report the changes to the reference legislation, which require a check of the technical guarantee forms registered, and their admissibility for CRM purposes.

The Group attaches extreme importance to reviewing the proper acquisition and management of collateral and personal guarantees owing to their role in safeguarding credit and reducing the associated risk, which is reflected in the mitigation of the capital requirements imposed by banking supervisory regulations.

The process of acquiring and managing guarantees, under the Lending Department, ensures:

- the correct, complete and prompt recognition/registration in the appointed applications and the control of the individual guarantee contracts and the related information set necessary;
- the correct acquisition and archiving of the documentation of the individual guarantees.
- the values indicated upon approval on the basis of the guarantee are consistent with current market values; this review is carried out with variable frequency depending on the type of guarantee. In further detail, review of pledges is carried out on at least a monthly basis, unless particular market phases require more frequent controls;
- action is taken where there are discrepancies between the initial value of the guarantee and its market value (net of allowed disparities) in excess of the pre-determined threshold, with the twofold goal of requesting and obtaining from the pledgor the replenishment of the guarantee and proportionally reducing the credit granted.

In the case of mortgages of property, it particularly bears considering that the Bank normally grants loans intended solely for the purchase of first homes; all other cases are marginal. To determine the precautionary prudential value of the property to be mortgaged, Banca Generali draws on support from CRIF S.p.A., a leading Italian provider of credit information, business information and decision-making support systems. Through a formal process, channelled through the information technology procedures made available by the information technology outsourcer CSE, the Bank requests evaluations of the properties to be mortgaged in each case. Through its network of over 600

independent experts<sup>26</sup>, CRIF provides the Bank with a full, thorough appraisal, accompanied by complete checks of the property's urban planning and administrative compliance, culminating in an indication of the property's value on a prudent and conservative basis. Loans may not exceed 80% of the resulting property value and, in any case, in accordance with instalment/revenue ratios compliant with best practices.

The appraisal is part of a guaranty management process that also includes the acquisition, control and enforcement of guarantees.

In the case of a mortgage, once the loan is approved a preliminary notary's report is requested to verify the degree of mortgage registered and establish the actual extent and ownership of the property to be mortgaged. This report, produced by a Notary Public, certifies the existence or otherwise of encumbrances (mortgages, foreclosures, etc.) and/or detrimental transactions on the property to be mortgaged.

Following the actual deed of sale and the subsequent mortgage financing, the Notary issues an executive copy of the deed and registers the mortgage, delivering the mortgage registration note to the Bank.

The executive copy of the mortgage deed is the document that, if it becomes necessary to enforce the mortgage, allows the Bank to exercise its rights by initiating the foreclosure procedure. The registration note represents confirmation that the mortgage has been registered with the property register archive.

The Bank draws on the support of CRIF, which verifies the value of mortgaged properties. Residential properties are appraised every three years, whereas non-residential properties are appraised annually.

The organisational units within the Lending Department select the properties to be appraised; CRIF then proceeds to the appraisal using statistical methods or drawing on a network of independent experts.

Forms of collateral other than mortgages used by the Group as credit risk mitigation techniques are managed similarly, albeit with slight differences related to the diversity of the underlying security.

Once the documentation is approved, the Lending Department's organisational units prepare the deed of pledge to be signed by the customer. The subject matter of the guarantee to be acquired is specified in the document.

The customer signs the deed of pledge. The Lending Department's organisational units verify that the customer has placed his signatures on the deed and establish the certified date. The pledge securities portfolio is then opened under the Securities Procedure.

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<sup>26</sup> "Independent expert" is defined as a person having the necessary qualifications, skills and experience to conduct an appraisal, not having taken part in the loan approval process and not being involved in the monitoring thereof.

The creation of the pledge securities portfolio automatically prevents the customer from undertaking transactions involving the financial instruments subject to the pledge, considering that direct purchase and sale transactions on this portfolio is not allowed. Any requests to unfreeze the pledged securities portfolio must be authorised by the Lending Department's organisational units.

Said organisational units then enter the date on which the deed of pledge was signed and the certified date into the Credit Limits and Guarantees Procedure.

Financial instruments in the Securities Procedure portfolio are assigned values on a daily basis (by an overnight batch) using figures automatically downloaded from Ced Borsa (Italian securities) and/or Telekurs (foreign securities) for listed securities.

The market value of the guarantee may be viewed in a management table.

The value of each financial instrument provided as collateral is subject to a prudential haircut, at a percentage that varies according to the underlying risk level, normally ranging from 10% to 40%; in some cases, on consideration of particular elements, this percentage might also be higher. Monitoring is conducted monthly through the use of several tables extracted from the Credit Limits and Guarantees Procedure, which interacts with the Securities Procedure.

The tables produced by the Banking Services Consortium (CSE) IT outsourcer for the Bank contain a daily summary of the following information:

- the debtor's identification code;
- the debtor's name;
- the number of the pledged securities portfolio;
- the value of the guarantee upon approval;
- the market value of the guarantee;
- the amount of the loan.

The control performed by the organisational units under the Lending Department's responsibility consists of verifying that the amount of the pledged securities is sufficient to cover the total amount borrowed by each individual debtor.

If the guarantees presented are not sufficient, said Offices indicate the positions to be revised. The positions are then analysed and an operating decision is reached for each as to whether to "request an additional guarantee or decrease the credit limit."

When a guarantee is changed, the agreement explicitly states that "should the value of the pledged securities decrease from the initially established level for any reason and the guarantee fail to be integrated with other rights of enjoyment by the bank, the bank may either reduce the credit limit proportionally, effective immediately, informing the debtor thereof, including solely in verbal form, or revoke the line of credit granted, effective immediately."

Any increases in the value of the pledged securities exceeding the value of the pledge, without prejudice to the efficacy of the pledge as limited to said value, do not entitle the pledgor to dispose of the securities presenting value in excess.

In terms of enforcement, if the debtor defaults, the Bank may enforce the guarantee with advance written notice of five days, or fifteen days if the pledgor is an entity separate from the debtor.

Enforcement results in the sale on the market of the pledged financial instruments, and the bank uses the proceeds to satisfy its credit claims.

At 31 December 2015, the Banca Generali Group had not made any use of credit derivatives.

## QUANTITATIVE INFORMATION

The following tables contain the following information for each regulatory asset class:

- the value of the total exposure covered by financial collateral and other admitted collateral, after applying adjustments to account for volatility;
- the value of the total exposure covered by personal guarantees.

### Value of the total exposure covered by financial collateral and other admitted collateral

| metodologia standardizzata: tecniche di attenuazione del rischio di credito : ammontare protetto |         |                  |                                   |
|--|---------|------------------|-----------------------------------|
| esposizioni garantite: attività di rischio per cassa   |         |                  |                                   |
| valore garanzia reale  | 196.382 | Portafoglio S.A. | imprese e altri soggetti          |
| valore garanzia reale  | 174.349 | Portafoglio S.A. | esposizioni al dettaglio          |
| valore garanzia reale  | 965     | Portafoglio S.A. | esposizioni garantite da immobili |
| valore garanzia reale  | 22.658  | Portafoglio S.A. | esposizioni scadute               |
| garanzie rilasciate e impegni a erogare fondi  |         |                  |                                   |
| valore garanzia reale  | 46.581  | Portafoglio S.A. | imprese e altri soggetti          |
| valore garanzia reale  | 97.618  | Portafoglio S.A. | esposizioni al dettaglio          |
| valore garanzia reale  | 1.578   | Portafoglio S.A. | esposizioni scadute               |
| operazioni SFT e operazioni con regolamento a lungo termine                                      |         |                  |                                   |
| valore garanzia reale  | 352.842 | Portafoglio S.A. | intermediari vigilati             |

### Value of the total exposure covered by personal guarantees

| metodologia standardizzata: tecniche di attenuazione del rischio di credito : ammontare protetto |        |                  |                          |
|--|--------|------------------|--------------------------|
| esposizioni garantite: attività di rischio per cassa   |        |                  |                          |
| valore garanzie reali assimilate alle personali  | 51.238 | Portafoglio S.A. | imprese e altri soggetti |
| valore garanzie reali assimilate alle personali  | 82.338 | Portafoglio S.A. | esposizioni al dettaglio |
| valore garanzie reali assimilate alle personali  | 197    | Portafoglio S.A. | esposizioni scadute      |
| valore garanzia personale  | 1.494  | Portafoglio S.A. | imprese e altri soggetti |
| valore garanzia personale  | 96     | Portafoglio S.A. | esposizioni al dettaglio |
| valore garanzia personale  | 5.145  | Portafoglio S.A. | esposizioni scadute      |
| garanzie rilasciate e impegni a erogare fondi  |        |                  |                          |
| valore garanzie reali assimilate alle personali  | 16.189 | Portafoglio S.A. | imprese e altri soggetti |
| valore garanzie reali assimilate alle personali  | 49.285 | Portafoglio S.A. | esposizioni al dettaglio |
| valore garanzia personale  | 331    | Portafoglio S.A. | imprese e altri soggetti |
| valore garanzia personale  | 1.341  | Portafoglio S.A. | esposizioni scadute      |

The credit risk mitigation tools used by the banking Group refer solely to loans to customers.

## **8 COUNTERPARTY RISK**

### **QUALITATIVE INFORMATION**

The Group uses the current value approach to determine an accurate assessment of the level of risk inherent in transactions with long-term settlement and transactions involving over-the-counter (OTC) derivatives.

The Group uses the integral method, with regulatory adjustments for volatility, to calculate the regulatory requirement to be held for the counterparty risk generated by repurchase agreements.

With regard to the counterparty risk management process, the Group has implemented a Single Risk Management Policy, duly approved by the Board of Directors of the Parent Company, which defines the bodies and functions involved in the management of said risk and describes the identification, measurement, control and reporting of counterparty risk.

The counterparty risk management and monitoring systems prepared by the Group take account of the limited extent of transactions concerning derivative instruments, both proprietary and on behalf of clients, and the limited number of financial instruments in which it deals.

The Finance Rules and Procedures of Banca Generali S.p.A. set out and formally define the guidelines concerning securities transactions that may generate counterparty risk and state that a credit limit must be established for such transactions incorporating a specific analysis of the counterparty's creditworthiness. This creditworthiness assessment is based on the ratings provided by the major external ratings agencies (Moody's, S&P and Fitch), which are periodically verified, with at least annual frequency, to evaluate their consistency with internally generated management ratings.

The current loan granting process for borrowers without external ratings involves the Risk and Capital Adequacy Department, which expresses an opinion of the potential borrower's creditworthiness with binding effect in the review conducted by the Finance Department.

Approved credit limits are reviewed with a frequency of no more than one year.

The containment of counterparty risk within the assigned limits is pursued primarily through the limited recourse by the Finance Department to transactions that could generate said risk for the Group.

The Group also accompanies said limited operation with specific second-level control and monitoring activity, assigned to the Risk and Capital Adequacy Department, for all positions that present exposure to counterparty risk.

## QUANTITATIVE INFORMATION

The following table contains a breakdown of over-the-counter financial derivatives having a positive and negative fair value, and which therefore generate counterparty risk, in thousands of euros.

At 31 December 2015, the Group had not undertaken any credit derivatives transactions.

| Contracts other than netting arrangements      | Government and central banks | Other public entities | Banks  | Financial companies | Insurance companies | Non-financial companies | Other entities |
|--|------------------------------|-----------------------|--------|---------------------|---------------------|-------------------------|----------------|
| <b>1) Debt securities and interest rates</b>   |                              |                       |        |                     |                     |                         |                |
| - notional value                               | -                            | -                     | -      | -                   | -                   | -                       | -              |
| - positive fair value                          | -                            | -                     | -      | -                   | -                   | -                       | -              |
| - negative fair value                          | -                            | -                     | -      | -                   | -                   | -                       | -              |
| - future exposure                              | -                            | -                     | -      | -                   | -                   | -                       | -              |
| <b>2) Equity securities and equity indices</b> |                              |                       |        |                     |                     |                         |                |
| - notional value                               | -                            | -                     | -      | 6,902               | -                   | -                       | -              |
| - positive fair value                          | -                            | -                     | -      | 104                 | -                   | -                       | -              |
| - negative fair value                          | -                            | -                     | -      | 409                 | -                   | -                       | -              |
| - future exposure                              | -                            | -                     | -      | 181                 | -                   | -                       | -              |
| <b>3) Currencies and gold</b>                  |                              |                       |        |                     |                     |                         |                |
| - notional value                               | -                            | -                     | 20,127 | -                   | -                   | 6,155                   | 13,972         |
| - positive fair value                          | -                            | -                     | 193    | -                   | -                   | 300                     | 280            |
| - negative fair value                          | -                            | -                     | 572    | -                   | -                   | -                       | 188            |
| - future exposure                              | -                            | -                     | 201    | -                   | -                   | 62                      | 140            |
| <b>4) Other values</b>                         |                              |                       |        |                     |                     |                         |                |
| - notional value                               | -                            | -                     | -      | -                   | -                   | -                       | -              |
| - positive fair value                          | -                            | -                     | -      | -                   | -                   | -                       | -              |
| - negative fair value                          | -                            | -                     | -      | -                   | -                   | -                       | -              |
| - future exposure                              | -                            | -                     | -      | -                   | -                   | -                       | -              |
|  |                              |                       |        |                     |                     |                         |                |



The following table illustrates the values of the exposures, calculated according to the methods illustrated above, in thousands of euros.

| Derivative contracts                            | Amount  |
|---|---------|
| Weighted amount                                 | 249     |
| Appropriate value of the exposure               | 249     |
| credit equivalent of guarantees and commitments | 249     |
| Capital requirement                             | 20      |
| SFTs and transactions with long-term settlement | Amount  |
| Weighted amount                                 | 2,046   |
| Value of the exposure                           | 349,371 |
| Appropriate value of the exposure               | 5,693   |
| Capital requirement                             | 164     |
| Capital requirement for counterparty risk       | 184     |

The capital requirement for counterparty risk alone amounted to 184 thousand euros at 31 December 2016.

## 9 SECURITISATION

### QUALITATIVE INFORMATION

The Group does not hold proprietary securitisations, but rather deals exclusively as an investor in third-party securitisations.

The Group takes account of third-party securitisations when measuring regulatory and internal capital requirements for credit risk.

In order to measure the credit risk of securitisation exposures, the ECAIs used by the Group are:

- Moody's Investors Service;
- Standard & Poor's Ratings Services;
- Fitch Ratings.

### QUANTITATIVE INFORMATION

At their book values, third-party<sup>27</sup> securitisation assets amounted to 12,009 thousand euros, all of which are senior cash exposures (there are no guarantees issued or lines of credit), as shown in the following tables expressed in thousands of euros

| Type of underlying assets/Exposures           | Cash exposures |               |                |              |                |              | Total net exposure |
|---|----------------|---------------|----------------|--------------|----------------|--------------|--------------------|
|   | Senior         |               | Mezzanine      |              | Junior         |              |                    |
|   | Gross exposure | Net exposure  | Gross exposure | Net exposure | Gross exposure | Net exposure |                    |
| <b>A. With own underlying assets:</b>         | -              | -             | -              | -            | -              | -            |                    |
| a) Non-performing                             | -              | -             | -              | -            | -              | -            |                    |
| b) Other                                      | -              | -             | -              | -            | -              | -            |                    |
| <b>B. With third-party underlying assets:</b> | <b>12,473</b>  | <b>12,009</b> | -              | -            | -              | -            | <b>12,009</b>      |
| a) Non-performing                             | -              | -             | -              | -            | -              | -            | -                  |
| b) Other                                      | 12,473         | 12,009        | -              | -            | -              | -            | 12,009             |

| Type of underlying assets/Exposures  | Cash exposures |                |            |                |            |                |
|--|----------------|----------------|------------|----------------|------------|----------------|
|  | Senior         |                | Mezzanine  |                | Junior     |                |
|  | book value     | adj. Reversals | book value | adj. Reversals | book value | adj. Reversals |
| <b>A. Cash exposures</b>   |                |                |            |                |            |                |
| QUARZO CL1 FRN 31.12.2019 ABS<br>Trading portfolio ISIN IT0004284706<br>underlying RMBS/CMBS | 12,009         | - 464          | -          | -              | -          | -              |
| <b>B. Guarantees issued</b>  | -              | -              | -          | -              | -          | -              |
| <b>C. Lines of credit</b>  | -              | -              | -          | -              | -          | -              |

<sup>27</sup>The Group does not hold proprietary securitisations.

The following table provides a breakdown of third-party securitisation transactions by type of financial asset portfolio. The values shown in the table are in thousands of euros.

| Exposure/Portfolio                    | Type of financial-asset portfolio |                                |                 |                    |       |                  |                  |
|---------------------------------------|-----------------------------------|--------------------------------|-----------------|--------------------|-------|------------------|------------------|
|                                       | HFT financial assets              | Financial assets at fair value | AFS fin. assets | HTMAFS fin. assets | Loans | 31 December 2016 | 31 December 2015 |
| <b>1. Cash exposures</b>              | <b>12,009</b>                     | -                              | -               | -                  | -     | <b>12,009</b>    | <b>13,027</b>    |
| - senior                              | 12,009                            | -                              | -               | -                  | -     | 12,009           | 13,027           |
| - mezzanine                           | -                                 | -                              | -               | -                  | -     | -                | -                |
| - junior                              | -                                 | -                              | -               | -                  | -     | -                | -                |
| <b>2. Off-balance sheet exposures</b> | -                                 | -                              | -               | -                  | -     | -                | -                |
| - senior                              | -                                 | -                              | -               | -                  | -     | -                | -                |
| - mezzanine                           | -                                 | -                              | -               | -                  | -     | -                | -                |
| - junior                              | -                                 | -                              | -               | -                  | -     | -                | -                |

## 10 OPERATING RISK

### QUALITATIVE INFORMATION

The Group ensures prudent management of operating risk in accordance with the established limits through an effective and efficient system for measuring, monitoring and reporting such risk (known as the Operational Risk Framework).

The Risk and Capital Adequacy Department is responsible for applying the Operational Risk Framework adopted by the Banking Group, primarily consisting of the following activities:

- process analysis and identification of operating risks according to the legal classification;
- risk assessment for the qualitative evaluation of the risks identified;
- application of the method for scoring and identifying significant risks;
- monitoring of action plans to mitigate significant risks;
- application of the LDC (i.e., loss data collection) process;
- monitoring of KRIs (i.e., key risk indicators).

### QUANTITATIVE INFORMATION

In order to determine the capital requirements to be held for Operating Risk, the Group adopted the Basic Indicator Approach (BIA) method.

Under the BIA method, the capital requirement is commensurate to an economic indicator (the so-called 'relevant indicator'), to which a risk coefficient ( $\alpha$ ) is applied, conventionally 15%.

This indicator, calculated in accordance with Article 316 of Regulation (EU) No. 575/2015 (CRR), is equal to the sum of the following components:

- Interest and similar expenses/income;
- Fee and commission expenses/income;
- Income from shares and other variable/fixed-yield securities;
- Profits (losses) from financial transactions<sup>28</sup>
- Other operating income<sup>29</sup>.

<sup>28</sup>The following components are excluded from the calculation of the indicator:

- profits and losses realised through the sale of "items" not included in the trading book;
- income from extraordinary or irregular items;
- income from insurance products

<sup>29</sup> Fees paid for outsourced services may not be deducted from the relevant indicator if they are acknowledged to "third" parties other than:

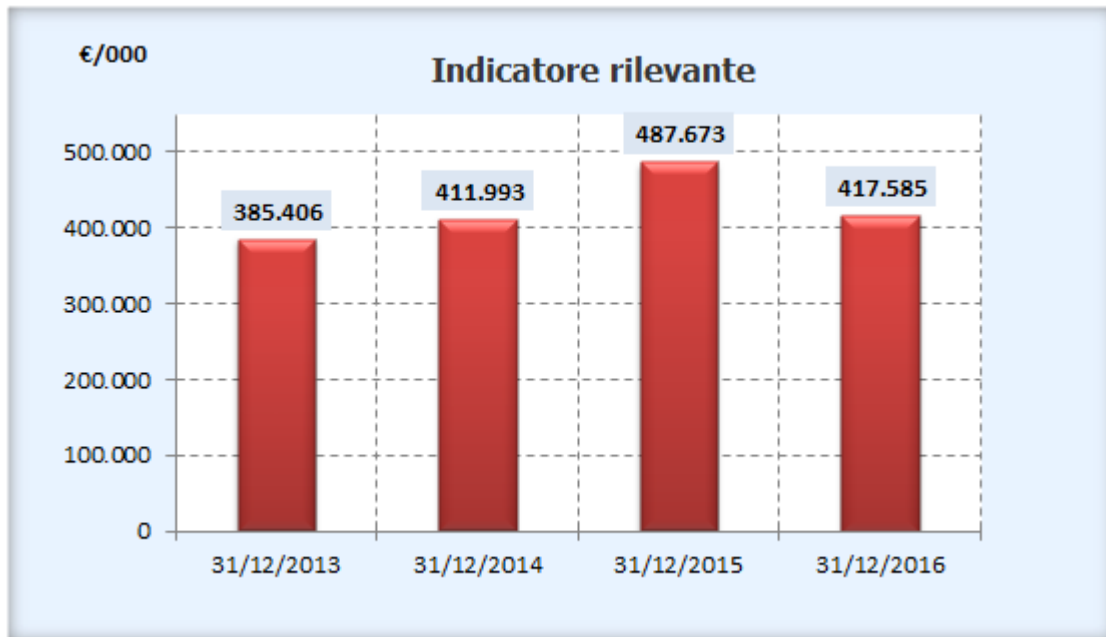
- the Parent company, subsidiaries and other companies belonging to the same banking group.
- third parties subjected to oversight pursuant to EU Regulation No. 575/2013 or equivalent provisions;

In order to calculate the capital requirement for operating risk, the average value of the observations of the relevant indicator in the previous three years (if positive) is weighted according to the risk coefficient  $\alpha$ .

At 31 December 2016, the capital requirement for Operating Risk was approximately 65.9 million euros.

The figure below shows an exact breakdown of the Relevant indicator of the Banca Generali Group.

Graph 1: Banca Generali Group — Relevant indicator (€ thousand)



Source: Administration Department analysis

The relevant indicator at 31 December 2016 fell compared to 31 December 2015, increasing from about 488 to about 418 million euros.

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## **11 CAPITAL INSTRUMENT EXPOSURES NOT INCLUDED IN THE TRADING PORTFOLIO**

### **QUALITATIVE INFORMATION**

The Group's equity investments are held for strategic purposes, institutional purposes, and purposes instrumental to its operations.

#### **Financial assets available for sale**

##### **Classification**

This category includes non-derivative financial assets not otherwise classified as Loans, Assets held for trading, Assets at fair value or Assets held to maturity.

In further detail, the equities that fall into this category are:

- equity investments not held for trading;
- other equity interests and quotas not considered as establishing a relationship of control, association, or joint control, such as minority-interest equity investments and private-equity investments.

##### **Recognition**

The initial recognition of the AFS financial asset takes place on the settlement date.

Upon initial recognition, these assets are measured at cost, defined as the fair value of the instrument, which normally corresponds with the consideration paid, including the transaction income or expenses directly attributable to the instrument itself.

Such assets may also be recognised upon reclassification from held-to-maturity assets, or, in rare circumstances, from held-for-trading assets; in this case, they are recognised at their fair value at the time of the transfer.

##### **Measurement**

After initial recognition, available-for-sale assets are measured at fair value, as follows:

- the amortised cost is recognised in profit or loss;
- gains and losses arising from changes in fair value are recognised in a special reserve in equity (net of the related tax effects) until the financial instrument is sold or impairment occurs.

Upon derecognition or impairment, cumulative gains and losses are recognised in profit or loss.

Fair value is determined according to the same criteria as indicated above for held-for-trading assets.

Equity securities and related derivatives with no reliable fair value measurement are measured at cost.

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Available-for-sale financial assets are tested in order to determine whether there is objective evidence of impairment (impairment testing).

If such evidence is found, the amount of the loss is measured as the difference between the carrying amount of the asset and the current value of estimated future cash flows, discounted at the original effective interest rate, or by using specific valuation methods for equity securities.

If the reasons for impairment loss cease to exist due to an event occurring after the impairment is recognised, the loss is reversed and recognised under net equity.

The amount of the reversal should not exceed what the amortised cost would have been, had the past adjustments not been made.

### **Derecognition**

Equities are derecognised when they are sold and substantially all of the related risks and rewards are 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.

## QUANTITATIVE INFORMATION

The following table shows the Group's equity exposures in thousands of euros:

| Items/Values                      | L1           | L2       | L3            | Total         | Fair Value   | AFS reserves | Gains/losses  |
|-----------------------------------|--------------|----------|---------------|---------------|--------------|--------------|---------------|
| AFS portfolio – Equity securities |              |          |               |               |              |              |               |
| - valued at fair value            | 6,832        | 0        | 1,941         | 8,773         | 8,773        | 2,297        | -2,719        |
| - valued at cost                  | 0            | 0        | 7,100         | 7,100         | n.a.         | n.a.         | 0             |
| Investments in associates         |              |          |               |               |              |              |               |
| - valued at equity                | 0            | 0        | 1,988         | 1,988         | n.a.         | n.a.         | -75           |
| <b>Total</b>                      | <b>6,832</b> | <b>0</b> | <b>11,029</b> | <b>17,861</b> | <b>8,773</b> | <b>2,297</b> | <b>-2,794</b> |

|  | L1           | L2       | L3            | Total         | Fair Value   | AFS reserves | Gains/losses  |
|--|--------------|----------|---------------|---------------|--------------|--------------|---------------|
| <b>Equity investments</b>                                      | <b>0</b>     | <b>0</b> | <b>6,589</b>  | <b>6,589</b>  | <b>0</b>     | <b>0</b>     | <b>0</b>      |
| - CSE – 7.00%  | 0            | 0        | 5,280         | 5,280         | 0            | 0            | 0             |
| - Generali Business Solutions Scpa (GBS) and CGS               | 0            | 0        | 245           | 245           | 0            | 0            | 0             |
| - Tosetti Value – 9.9%   | 0            | 0        | 1,000         | 1,000         | 0            | 0            | 0             |
| - Other minor equity investments (Caricese, Swift, Eu-ra etc.) | 0            | 0        | 64            | 64            | 0            | 0            | 0             |
| <b>Private-equity investments</b>                              | <b>0</b>     | <b>0</b> | <b>922</b>    | <b>922</b>    | <b>922</b>   | <b>0</b>     | <b>0</b>      |
| - Athena Private Equity S.A. – 4.66%                           | 0            | 0        | 922           | 922           | 922          | 0            | 0             |
| <b>Other securities available for sale</b>                     | <b>6,832</b> | <b>0</b> | <b>1,019</b>  | <b>7,851</b>  | <b>7,851</b> | <b>2,297</b> | <b>-2,719</b> |
| - Assicurazioni Generali                                       | 652          | 0        | 0             | 652           | 652          | 170          | 0             |
| - Enel S.p.A   | 3,804        | 0        | 0             | 3,804         | 3,804        | 1,591        | 0             |
| - Veneto Banca   | 0            | 0        | 13            | 13            | 13           | 0            | -907          |
| - Axelero, Gambero Rosso                                       | 880          | 0        | 0             | 880           | 880          | 238          | -1,196        |
| - Other equity securities from reclassification IAS 39         | 1,496        | 0        | 0             | 1,496         | 1,496        | 298          | -288          |
| - FITD SV contribution - Caricesena                            |              |          | 1,006         | 1,006         | 1,006        | 0            | -328          |
| <b>Capital contribution in joint ventures</b>                  | <b>0</b>     | <b>0</b> | <b>511</b>    | <b>511</b>    | <b>0</b>     | <b>0</b>     | <b>0</b>      |
| - Medusa Film  | 0            | 0        | 1             | 1             | 0            | 0            | 0             |
| -Tico Film   | 0            | 0        | 250           | 250           | 0            | 0            | 0             |
| - Fabula Pictures  | 0            | 0        | 130           | 130           | 0            | 0            | 0             |
| - Eskimo Srl   | 0            | 0        | 130           | 130           | 0            | 0            | 0             |
| <b>Investments in associates</b>                               | <b>0</b>     | <b>0</b> | <b>1,988</b>  | <b>1,988</b>  | <b>0</b>     | <b>0</b>     | <b>-75</b>    |
| - IOCA Entertainment Ltd                                       | 0            | 0        | 1,988         | 1,988         | 0            | 0            | -75           |
| <b>Total equity securities</b>                                 | <b>6,832</b> | <b>0</b> | <b>11,029</b> | <b>17,861</b> | <b>8,773</b> | <b>2,297</b> | <b>-2,794</b> |

Total unrealised capital gains on the AFS portfolio recognised in the balance sheet in the reserves for the fair value measurement of financial instruments held for sale totalled 2,297 thousand euros. This positive amount, net of the tax effect, contributes to the calculation of additional Tier 1 capital by 50%. In 2015, the Banking Group acquired an investment in an associate through the parent company Banca Generali S.p.A., within the sphere of an innovative project in the mobile payment & savings sectors (so-called “Appy Life”), aimed at creating an app for smartphones capable of integrating within a entertainment/gaming environment, monitoring and training functions, suitable for achieving savings objectives.



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The target was IOCA ENTERTAINMENT LIMITED, a company under the UK law, in which Banca Generali subscribed a 35% interest, in the form of 3,500 shares with a par value of 1.00 pound sterling, for a total of 1,616,125 pounds sterling, equivalent to approximately 2.2 million euros at the acquisition date, 19 October 2015.

In accordance with the Shareholders' Agreement, the company's Board of directors is composed of three directors, one of whom is a representative of Banca Generali.

The remaining 65% interest (6,500 shares) is held by the UK-based IOCA Ventures Ltd (Jersey), which is entitled to appoint the other two directors.

The company is an e-commerce/social-networking start-up currently engaged in commercial development of an app for smartphones and tablets entitled "Dishball".

The company was consolidated using the equity method, with a loss of approximately 75 thousand euros.

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## **12 EXPOSURE TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING PORTFOLIO**

### **QUALITATIVE INFORMATION**

The interest rate risk to which the banking portfolio is exposed consists of the risk of incurring losses due to potential fluctuations in interest rates.

This risk is generated by the gaps between the maturities and time required to reset the interest rate on the Group's assets and liabilities. Where such gaps are present, fluctuations in interest rates result in variations of net income, and therefore projected profit, as well as variations in the market value of the assets and liabilities, and, in turn, net equity.

The Group has established a specific policy, duly approved by the Board of Directors of the Parent Company, for managing interest rate risk on the banking portfolio.

The Finance Department and Lending Department conduct first-level controls on the management of interest rate risk.

The Risk and Capital Adequacy Department is responsible for second-level controls and in particular for the following activities (including the implementations of stress tests):

- identifying the Group's interest rate risk;
- measuring exposure to interest rate risk;
- verification of compliance with limits;
- generating and transmitting reports in its area of competence;
- preparation and verification of methods of measuring interest rate risk and implementation and maintenance of said methods within calculation applications.

The Department conducts a series of management analyses aimed at monitoring the risk of incurring losses over time as a consequence of potential changes in interest rates. The impact of fluctuations in interest rates is quantified both in terms of the change in current profits, i.e., the impact on current profits over a time horizon of twelve months, and in terms of a change in the market value of assets and liabilities, and thus of the economic value of net equity.

The Internal Audit Department is responsible for third-level controls of interest rate risk and performs said controls not only for the Parent Company, but also for Banking Group Companies, both under specific outsourcing agreements that govern the provision of audit service, and in an institutional capacity as a function of the Parent Company of the Banking Group.

To measure interest rate risk and determine the corresponding internal capital requirement, the Group applies the standardised method identified in supervisory regulations<sup>30</sup>, which provides for all assets and liabilities to be classified into 14 time bands by residual time to maturity, from demand positions to positions maturing beyond 20 years; the current accounts of the Assicurazioni Generali S.p.A. Group used in the Parent Company's operations — volatile from a structural standpoint (i.e., non-core) — have been classified as “demand”.

The net exposure for each time band is calculated by setting off assets against liabilities according to a cash flow analysis. The net exposures for each band are then multiplied by the weighting factors, which are obtained by multiplying the hypothetical change in the rates used by the modified duration indicator for each band.

In addition to monitoring risk according to the foregoing method, the Bank also performs operational management through sensitivity analyses that estimate the impact of the present value of the items and the expected net interest resulting from various yield curve shift scenarios, with a focus on the proprietary securities portfolio.

#### **QUANTITATIVE INFORMATION**

A shift of +100/-100 basis points in the rate curve would have an effect on the fair value of the securities in the banking portfolio (AFS, HTM and L&R) amounting to -108.8/+108.8 million euros, or approximately 71% of the fair value delta of the entire banking book. The same shift in the rate curve (+100/-100 basis points) would generate an effect of +40/-40 million euros in the net banking income of the entire banking book, consisting of available-for-sale assets (AFS), held-to-maturity assets (HTM), loans and receivables (L&R) and loans (Loans).

The following tables show the gap between assets and liabilities in terms of interest rate risk on assets other than those held for trading at 31 December 2016, considering respectively relevant currencies (euro and non-euro) in thousands classified based on Prudential Supervisory Provisions for ICAAP purposes.<sup>31</sup>

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<sup>30</sup> Cf. Circular Letter No. 285 “Prudential Supervisory Provisions Concerning Banks” issued by the Bank of Italy on 17 December 2013 and subsequent up-dates.

<sup>31</sup> Cf. Circular Letter No. 285 “Prudential Supervisory Provisions Concerning Banks” issued by the Bank of Italy on 17 December 2013 and subsequent up-dates.

**Gap between assets and liabilities - euro (€/000)**

| <b>Euro (€/000)</b>                | <b>Assets</b>    | <b>Liabilities</b> | <b>Gap</b>      |
|------------------------------------|------------------|--------------------|-----------------|
| on demand and non-revolving        | 1,878,610        | -2,215,392         | -336,782        |
| up to 1 month                      | 642,586          | -72,829            | 569,758         |
| from over 1 month to 3 months      | 570,554          | -297,784           | 272,770         |
| over 3 months, up to 6 months      | 2,068,735        | -318,303           | 1,750,432       |
| over 6 months, up to 1 year        | 45,517           | -536,465           | -490,949        |
| between 1 and 2 years              | 303,265          | -873,945           | -570,679        |
| from over 2 years, up to 3 years   | 88,396           | -873,945           | -785,549        |
| from over 3 years, up to 4 years   | 236,388          | -1,273,945         | -1,037,556      |
| from over 4 years, up to 5 years   | 805,726          | -873,945           | -68,219         |
| from over 5 years, up to 7 years   | 411,907          | -                  | 411,907         |
| from over 7 years, up to 10 years  | 167,049          | -43,282            | 123,768         |
| from over 10 years, up to 15 years | 116              | -                  | 116             |
| from over 15 years, up to 20 years | 48               | -                  | 48              |
| Over 20 years                      | 78               | -                  | 78              |
| <b>Total</b>                       | <b>7,218,975</b> | <b>-7,379,833</b>  | <b>-160,858</b> |

**Gap between assets and liabilities – non-euro (€/000)**

| <b>Non-Euro (€/000)</b>            | <b>Assets</b> | <b>Liabilities</b> | <b>Gap</b>  |
|------------------------------------|---------------|--------------------|-------------|
| on demand and non-revolving        | 66,169        | -19,723            | 46,447      |
| up to 1 month                      | 546           | -777               | -231        |
| from over 1 month to 3 months      | 2,977         | -6,301             | -3,324      |
| over 3 months, up to 6 months      | 1,225         | -2,330             | -1,106      |
| over 6 months, up to 1 year        | -             | -4,661             | -4,661      |
| between 1 and 2 years              | -             | -9,322             | -9,322      |
| from over 2 years, up to 3 years   | -             | -9,322             | -9,322      |
| from over 3 years, up to 4 years   | -             | -9,322             | -9,322      |
| from over 4 years, up to 5 years   | -             | -9,322             | -9,322      |
| from over 5 years, up to 7 years   | -             | -                  | -           |
| from over 7 years, up to 10 years  | -             | -                  | -           |
| from over 10 years, up to 15 years | -             | -                  | -           |
| from over 15 years, up to 20 years | -             | -                  | -           |
| Over 20 years                      | -             | -                  | -           |
| <b>Total</b>                       | <b>70,917</b> | <b>-71,079</b>     | <b>-162</b> |

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## 13 ENCUMBERED AND UNENCUMBERED ASSETS

### QUALITATIVE INFORMATION

In the course of its operations, Banca Generali Group undertakes certain types of transactions that entail encumbrances of its assets.

The types of transactions that may entail the formation of this type of encumbrance are:

- repurchase agreements;
- collateral deposited with netting systems, central counterparty clearing houses (CCP) and other infrastructure institutions as a condition for access to the service, including initial margins and incremental margins;
- instruments provided as collateral in various capacities for funding from central banks;
- collateralised financial guarantees;
- collateralisation agreements, formed, for example, by collateral provided on the basis of the market value of derivatives transactions.

Activities of this nature are performed either to allow the Group to access forms of funding regarded as advantageous at the time of the transaction or because providing collateral is a standard condition for access to certain markets or types of activity (for example, transactions with central counterparties).

Assets sold but not derecognised, carried in connection with repurchase agreements with banking counterparties, amount to approximately 350 million euros.

Finally, own financial instruments deposited with Cassa Compensazione e Garanzia (CC&G) as collateral for transactions on the collateralised interbank market (E.Mid) managed by CC&G and current transactions (settlement) amount to 200 million euros.

The Bank does not engage in transactions involving the use of collateral received from third parties.

### QUANTITATIVE INFORMATION

Based on EBA provisions, institutions have to recognise the amount of encumbered and unencumbered assets by type of asset<sup>32</sup>.

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<sup>32</sup> Provisions concerning encumbered and unencumbered assets (Article 443 of CRR) have been endorsed in the 8th update to Bank of Italy's Circular Letter No. 285 dated 10 March 2015, with full reference to EBA provisions issued in June 2014 (ABE/GL/2014/03).

Encumbered assets are balance sheet assets that have been pledged as guarantee or sold without being derecognised, or are otherwise encumbered, as well as guarantees received that meet the requirements for recognition in the transferee's balance sheet.

The information presented below refers to figures at 31 December 2016:

**A. Encumbered and unencumbered assets at 31 December 2016**

| Technical types           | Pledged          |                  | Not pledged      |                  | 31/12/2016       |
|---------------------------|------------------|------------------|------------------|------------------|------------------|
|                           | BV               | FV               | BV               | FV               |                  |
| 1. Cash and deposits      | 0                | X                | 583,361          | X                | 583,361          |
| 2. Debt securities        | 1,409,430        | 1,445,467        | 3,871,655        | 3,878,267        | 5,281,085        |
| 3. Equity securities      | 0                | 0                | 63,230           | 63,700           | 63,230           |
| 4. Loans                  | 6,833            | X                | 1,990,233        | X                | 1,990,233        |
| 5. Other financial assets | 0                | X                | 103,227          | X                | 103,227          |
| 6. Non-financial assets   | 0                | X                | 328,766          | X                | 328,766          |
| <b>Total (T)</b>          | <b>1,416,263</b> | <b>1,445,467</b> | <b>6,940,472</b> | <b>3,941,967</b> | <b>8,356,735</b> |

**B. Guarantees received at 31 December 2016**

|                              | FV   | FV   | 31/12/2016       |
|------------------------------|--|--|------------------|
|                              | Collateral or encumbered own securities issued | Collateral or unencumbered own securities issued |                  |
| Guarantees received          | 0  | 1,845,125  | 1,845,125        |
| 1. Equity securities         | 0  | 765,801  | 765,801          |
| Debt securities              | 0  | 358,980  | 358,980          |
| 3. Other guarantees received | 0  | 720,344  | 720,344          |
| Debt securities issued       | 0  | 0  | 0                |
| <b>Total</b>                 | <b>0</b>                                       | <b>1,845,125</b>                                 | <b>1,845,125</b> |

**C. Liabilities associated to encumbered assets, guarantees received or own securities at 31 December 2016**

|   | Associated liabilities | Encumbered assets, collateral or own securities |
|---|------------------------|---|
| Liabilities associated to encumbered assets, guarantees received or own securities issued | 751,437                | 1,409,430                                       |

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## 14 FINANCIAL LEVERAGE

### QUALITATIVE INFORMATION

The risk of excessive financial leverage is the risk that a particularly high level of debt to equity may render the Bank vulnerable, requiring corrections to its business plan, including the sale of assets at a loss, potentially necessitating impairment of the remaining assets.

The Group's business (lending financed using funding from clients and the interbank market) exposes it to the risk that an impairment of its assets may result in a decrease in its equity.

With reference to the excessive leverage risk management process, the Group has formally defined a Single risk management policy that specifies the bodies and functions involved in the management of this type of risk and sets out the guidelines for the identification, assessment/measurement, control and reporting of this risk.

The propensity to the risk of excessive leverage is periodically monitored based on target levels, which are defined with reference to normal conditions (Risk Appetite) and stress conditions (Risk Tolerance), as well as for the purposes of compliance with legal constraints (Risk Capacity) and are adopted within the Risk Appetite Framework approved by the Parent Company's Board of Directors.

The Risk and Capital Adequacy Department carries out second-level controls and has the following specific duties:

- quarterly assessment of the Leverage Ratio, calculated by the Administration Department both at individual and consolidated level, as part of its activities to prepare and transmission of Supervisory Warnings;
- stress tests to better assess the exposure to excessive leverage risk and identify relevant mitigation and control measures;
- observance of the established limits and, in the event of divergence, initiating of the recovery/adjustment process, informing the responsible functions thereof, or verifying that specific authorisation has been granted to maintain the risk position;
- generating and transmitting reports in its area of competence;

Third-level controls on the risk of excessive leverage are carried out by the Internal Audit Department.

### QUANTITATIVE INFORMATION

The Group uses the Basel 3 leverage ratio as indicator of the risk of excessive leverage. The indicator consists of the ratio of regulatory capital (Tier 1) to total adjusted balance sheet assets.

In particular, Article 329, paragraph 2, of the CRR defines the leverage ratio as the simple average of the monthly ratio for the quarter of reference; the ratio must exceed a threshold, currently set at 3%.

Pursuant to Article 499(3) CRR, during the period from 1 January 2014 to 31 December 2017 banks calculate their leverage indicators at the end of the quarter, in lieu of the simple arithmetic average of monthly leverage measurements for the quarter of reference<sup>33</sup>.

The regulatory leverage requirement, as a Pillar One requirement, will enter into effect on 1 January 2018, contingent on the approval by the European Council and Parliament of a specific legislative proposal based on a report that the European Commission is to present by the end of 2016. As from 1 January 2015, the obligation to disclose one's leverage index is envisaged for banks.

As part of this process, Banca Generali has calculated its leverage ratio as at 31 December 2016, resulting in a level of 5.02%.

This value was estimated comparing Tier 1 capital with total consolidated adjusted assets. This latter figure includes cash exposures, net of the other items already deducted from capital (such as intangible assets) and off-balance sheet exposures (guarantees and commitments, derivatives, securities financing transactions and transactions with long-term settlement, etc.).

|  | 31/12/2016   | 31/12/2015   |
|--|--------------|--------------|
| tier 1 capital when fully implemented                      | 427,060      | 406,956      |
| value of the exposure when fully implemented               | 8,357,292    | 6,123,778    |
| <b>financial leverage indicator when fully implemented</b> | <b>5,110</b> | <b>6,646</b> |

|  | 31/12/2016   | 31/12/2015   |
|--|--------------|--------------|
| transitory Tier 1 capital                                  | 419,073      | 384,178      |
| transitory value of the exposure                           | 8,349,305    | 6,100,999    |
| <b>financial leverage indicator when fully implemented</b> | <b>5,019</b> | <b>6,297</b> |

<sup>33</sup> Bank of Italy Circular No. 285/2013, Part Two, Application in Italy of the CRR, Chapter 12 – Leverage indicator, Section III – Exercise of national discretion, Section III.



The following tables provide the details of the elements considered when calculating the leverage ratio at 31 December 2016, in accordance with EBA/ITS/2014/04, drawn up pursuant to Art. 451(2) of CRR and subsequently adopted by the European Commission.<sup>34</sup>

| <b>LRSum Table</b>   | <b>Summary reconciliation of accounting assets and leverage ratio exposures</b>  |                  |
|--|--|------------------|
| 1  | Total assets as per the published financial statements   | 8,356,735        |
| 2  | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation   | 0                |
| 3  | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Art 429(13) of Regulation (EU) No. 575/2013) | 0                |
| 4  | Adjustment for derivative financial instruments  | 249              |
| 5  | Adjustment for securities financing transactions (SFTs)  | 197              |
| 6  | Adjustment for off-balance sheet elements (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)  | 157,550          |
| EU-6a  | (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Art. 429(7) of Regulation (EU) No. 575/2013)   | 0                |
| EU-6b  | (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Art. 429(14) of Regulation (EU) No. 575/2013)   | 0                |
| 7  | Other adjustments  | -165,426         |
| 8  | <b>Leverage ratio total exposure measure</b>   | <b>8,349,305</b> |
| <b>LRCom Table</b>   | <b>Leverage ratio common disclosure</b>  |                  |
| <b>On-balance sheet exposures (excluding derivatives and SFTs)</b> |  |                  |
| 1  | On-balance sheet items (excluding derivatives, SFTs and trust assets, but including collateral)  | 8,204,801        |
| 2  | (Asset amounts deducted in determining Tier 1 capital)   | -13,492          |
| 3  | <b>Total on-balance sheet exposures (excluding derivatives, SFTs and trust assets) (sum of lines 1 and 2)</b>  | <b>8,191,309</b> |
| <b>Derivative exposures</b>  |  |                  |
| 4  | Replacement cost associated with <i>all</i> derivatives transactions (i.e. net of eligible cash variation margin)  | 102              |
| 5  | Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)   | 147              |
| EU-5a  | Exposure determined under Original Exposure Method   |                  |
| 6  | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework  |                  |
| 7  | (Deductions of receivables assets for cash variation margin provided in derivatives transactions)  |                  |
| 8  | (Exempted CCP leg of client-cleared trade exposure)  |                  |
| 9  | Adjusted effective notional amount of written credit derivatives   |                  |
| 10   | (Adjusted effective notional offsets and add-on deductions for written credit derivatives)   |                  |
| 11   | <b>Total derivative exposures (sum of lines 4 to 10)</b>   | <b>249</b>       |
| <b>SFT exposures</b>   |  |                  |
| 12   | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions   | 0                |

<sup>34</sup> Cf. Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council.

|  |   |                             |
|--|---|-----------------------------|
| 13   | (Netted amounts of cash payables and cash receivables of gross SFT assets)  | 0                           |
| 14   | Counterparty credit risk exposure for SFT assets  | 197                         |
| UE-14a   | Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429-ter(4) and 222 of Regulation (EU) No. 575/2013     | 0                           |
| 15   | Agent transaction exposures   | 0                           |
| UE-15a   | (Exempted CCP leg of client-cleared trade exposure)   | 0                           |
| <b>16</b>  | <b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>  | <b>197</b>                  |
| <b>Other off-balance sheet exposures</b>   |   |                             |
| 17   | Off-balance sheet exposures at gross notional amount  | 157,550                     |
| 18   | (Adjustments for conversion to credit equivalent amounts)   | 0                           |
| <b>19</b>  | <b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>  | <b>157,550</b>              |
| <b>(Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No. 575/2013 (on and off balance sheet)</b> |   |                             |
| UE-19a   | (Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No. 575/2013 (on and off balance sheet)  | 0                           |
| EU-19b   | (Intragroup exposures (solo basis) exempted in accordance with Article 429(14) of Regulation (EU) No. 575/2013 (on and off balance sheet) | 0                           |
| <b>Capital and total exposure measure</b>  |   |                             |
| <b>20</b>  | <b>Tier 1 capital</b>   | <b>419,073</b>              |
| <b>21</b>  | <b>Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>  | <b>8,349,305</b>            |
| <b>Leverage ratio</b>  |   |                             |
| <b>22</b>  | <b>Leverage ratio</b>   | <b>5.019%</b>               |
| <b>Choice on transitional arrangements and amount of derecognised trust items</b>  |   |                             |
| UE-23  | Choice on transitional arrangements for the definition of the capital measure   | "transitional arrangements" |
| EU-24  | Amount of derecognised trust items in accordance with Article 429(11) of Regulation (EU) No. 575/2013                                     |                             |
| <b>LRSpl Table</b>   | <b>Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)</b>  |                             |
| EU-1   | Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:  | 8,204,801                   |
| EU-2   | Trading book exposures  | 38,485                      |
| EU-3   | Banking book exposures, of which:   | 8,166,316                   |
| EU-4   | Covered bonds   |                             |
| EU-5   | Exposures treated as sovereigns   | 5,433,400                   |
| EU-6   | Exposures to regional governments, MDBs, international organisations and PSEs not treated as sovereigns                                   |                             |
| EU-7   | Institutions  | 465,387                     |
| EU-8   | secured by mortgages of immovable properties  | 373,315                     |
| EU-9   | Retail exposures  | 620,105                     |
| EU-10  | Corporate   | 1,024,746                   |
| EU-11  | Exposures in default  | 31,966                      |
| EU-12  | Other exposures (e.g., equity, securitisations, and other non-credit obligations assets)  | 217,397                     |

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## 15 REMUNERATION POLICIES

### 1. The objectives of the remuneration policy

The Banca Generali Group's remuneration policies are aimed at ensuring the best possible alignment of the interests of the Banking Group's Shareholders and those of the Management, through careful risk management and the consistent pursuit of long-term goals.

Appropriate systems of rewards and incentives for the Bank's Directors and Management are deemed key to boosting competitiveness and ensuring corporate governance. Moreover, remuneration, especially with regard to Key Personnel, is useful in terms of attracting and retaining people with the talent and skills best suited to the Company's needs.

With this objective in mind, the Banca Generali Group's remuneration policy is determined in compliance with:

- **the Banking Group's Mission ("To be the first private bank in terms of value of the service and innovation")**, especially with regard to its commitment to generating consistently excellent results for all its stakeholders in both the short and the medium/long term, whilst also ensuring sound and prudent risk management, well-balanced corporate organisation, and the constant pursuit of strategic goals;
- **the Banking Group's values**, and more specifically, **responsibility, reliability and commitment**, to which not only the Top management team, but all the banking group's personnel must always adhere, especially in their endeavours to meet their assigned objectives;
- **the Banking Group's governance**, as the banking group's corporate/organisational model, and internal regulatory framework orienting all business operations towards:
  - scrupulous and constant **regulatory compliance**;
  - **strict application of the procedures** regulating interaction between management functions, as well as amongst the different company structures;
  - **the proper implementation of appropriately designed processes** underlying the prevailing risk management and control system;
- **the sustainability strategy**, especially through policies prioritising growth that is sustainable over time, and enhancing the potential of the Group's personnel by rewarding individual contributions to the organisation's success, including through appropriate remuneration, whilst discouraging conduct conducive to excess risk-taking.

The resulting remuneration policy promotes the aforesaid mission, values, governance and sustainability objectives, thereby giving rise to a virtuous cycle that leads to constant fine-tuning of remuneration practices on the one hand, and the consolidation of the above-mentioned elements, on the other.

Accordingly, against this background the **primary objective** of the remuneration policies is to adequately reward sustainable performance. Towards such end, any action taken as part of the remuneration policies is informed and shaped by the following guiding principles:

- **internal fairness:** remuneration must be commensurate with the job description in question, taking due account of the attendant burden of responsibility, and the competence and skill with which related duties are discharged. This applies to both Top Management and other personnel, it being understood that the remuneration of the latter must always be determined in strict compliance with all applicable national and corporate collective bargaining labour agreements;
- **competitiveness:** the assigned remuneration must be in line with remuneration levels prevailing on reference markets; towards this end, trends in remuneration levels prevailing in the industry of reference are monitored through general and industry-specific surveys of remuneration practices;
- **coherence:** meaning the transversal application of similar remuneration policies to comparable levels of job responsibility throughout the Banking Group, taking due account of the industrial sector and geographical area of reference, as well as other factors that could impact remuneration levels from time to time. These policies also promote staff development including through intercompany secondments;
- **meritocracy:** meaning a system that commensurately reward the results obtained and the level of commitment and effort involved in attaining the same, which must constantly comply with applicable regulations and procedures, as well as an appropriate risk assessment.

## Regulatory framework

From a regulatory point of view, remuneration and incentive Policies are drafted in compliance with regulatory contents and provisions:

1. the **Provisions governing remuneration and incentivisation policies and practices** (7th update of Circular Letter No. 285 dated 17 December 2013<sup>35</sup>, as subsequently updated), by applying, in certain cases, the principle of proportionality, as defined therein, while taking into

<sup>35</sup> This update is largely aimed at adopting the changes introduced by Directive No. 2013/36/EU (known as CRD 4), approved on 26 June 2013. The provisions call for the implementation of measures chiefly aimed at: 1) the introduction, for Key Personnel only, of a maximum 1:1 ratio of the variable to fixed component of remuneration; ii) the power granted to the General Shareholders' Meeting for raising the said ratio above the level established in the preceding point, provided that certain conditions are met and in any event, up to no more than 2:1; iii) the reinforcement of the provisions governing ex-post adjustment mechanisms for risk (malus and claw-back) and, on the basis of which, the addition to quantitative indicators, tied to the achievement of results, of qualitative indicators, tied to the conduct by personnel; iv) the establishment of limits on variable remuneration where banks fail to observe specific capital requirements; v) the application of regulatory technical standards (hereinafter also "RTSs") issued by the European Commission, by proposal from the EBA, concerning: (i) the qualitative and quantitative criteria for identifying Key Personnel; (ii) the characteristics of the financial instruments to be used for the payment of variable remuneration; vi) the rules regarding remuneration policies applicable, among other persons, to Financial Advisors; and vii) the revision of other rules set forth in CRD III, such as, for instance, clarifications on the option to pay guaranteed variable remuneration, and the updating of public disclosure and reporting obligations.

account the characteristics, size, risk level and complexity of the business conducted by the Bank and Banking Group.

2. **Article 84 quater of the Rules for Issuers** (Consob Resolution No. 11971/1999) introduced with Consob Resolution No. 18049 of 23 December 2011, which laid down a comprehensive and systematic regulatory framework governing transparency, as required under Article 123 *ter* of the Finance Consolidation Law (TUF). Under the said rules, issuers are required to draw up a detailed report on remuneration, without prejudice to the remuneration-related obligations imposed under industry-specific regulations applicable by reason of the business of the listed corporation.
3. the **Corporate Governance Code for Listed Companies**, most recently updated in July 2015, requires the approval of a remuneration policy for Directors and Key Management Personnel.

This document has been therefore drawn up with a view to ensuring **simultaneous compliance** with both the provisions governing remuneration policies within the banking industry and the regulatory governance provisions applicable to issuers.

## 2. Persons to whom remuneration and incentive policies apply

### Key Personnel

The Bank of Italy's Provisions refer to "personnel", a category that includes: *i*) all officers of company bodies vested with strategic oversight, management and control responsibilities; and *ii*) all employees and collaborators. In this context, the bank identifies the **Key Personnel** to whom the more detailed rules are to apply. Financial Advisors, with whom the company has agency contracts, are subject not only to the general principles, but also to the rules laid down in Section IV of the Provisions ("Remuneration Policy for Special Categories").

#### 2.1 Identification of Key Personnel

In line with the applicable Provisions, the Company's Board of Directors shall carry out a self-assessment, in compliance with the provisions set forth in the Delegated Regulation (EU) No. 604 of 4 March 2014 and with the support of the Remuneration Committee, for the specific purpose of identifying "Key Personnel", whose professional activity exert or could exert a significant impact on the risk profile of the Bank and the Banking Group, and therefore warrant the application of the more detailed rules. The aforementioned self-assessment regards the organisational structure approved by the Board of Directors on 20 March 2017, and effective on 20 March 2017.

In this context, the assessment for identifying the Key Personnel was performed by applying the so-called Regulatory Technical standards (RTS) for Identified Staff provided for by the above-mentioned Regulation and complementing Directive No. 2013/36/EU.

Accounts was also taken of the matters emerging within the sphere of the talks launched with the Bank of Italy in April 2015 and concluded in July 2016 with the approval, by the Supervisory Authority, of the requested made by Banca Generali for the purposes of the exclusion from the scope of “key personnel” of the financial consultants with remuneration equal to or greater than 750,000 euros identified specifically.

Said self-assessment led to the identification of the following as belonging to the category of key personnel:

- A. **Senior Management:** Chief Executive Officer/General Manager and Deputy Managers (Products, Markets and Wealth Management Deputy General Manager, Distribution Channels Deputy General Manager).
- B. **Other Key Personnel:** this category has been determined to include **(i) the heads of key operating/company units** (main lines of business): Head of the CFO & Strategy Service, the Head of the Financial Department, Head of the Lending Department, General Manager of BG Fund Management Luxembourg S.A. (hereinafter BG FML), Executive Director of BG FML, also holding the role of Head of the AM Service of Banca Generali; **(ii) the persons in charge, directly reporting to the personnel indicated in point (i) above, who are regarded as having an impact on company risk due to their activities, autonomy and powers:** Head of the Private Banking Service, Head of the Financial Planner Service, Head of the Private Relationship Manager Service, Head of the Alternative Channels and Support Service; **(iii) the heads of units** listed in point 9) of Article 3 of the delegated Regulation (EU), **which due to activities/autonomies/powers are considered as having an impact on the business risk:** Head of the COO Service, Head of the General Counsel Division.
- C. **Managers in charge of company control functions:** Head of the Compliance and Anti-Money Laundering Department, Head of the Internal Audit Department, Head of Human Resources Department, Head of Risk Management and Capital Adequacy Department.
- D. **Main managers operating in the Bank’s distribution networks:** Sales Manager, Area Manager and Private Banking Manager, Senior Private Banking Recruitment Manager.
- E. Financial Advisors authorised to make off-premises offers who at the end of the previous financial year received an overall remuneration (inclusive of fixed and variable components), excluding remuneration arising from participation in entry plans, in excess of 1,000,000.00 euros, in accordance with the provisions of Commission Delegated Regulation (EU) No. 604/2014.

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In determining its Key Personnel, the Bank intended to subject certain of its Financial Advisors authorised to make off-premises offers whose remuneration in 2016 exceeded 750,000 euros, to the provisions of Article 4, paragraph 2, of Commission Delegated Regulation (EU) No. 604/2014 in relation to the criterion in point (a) of paragraph 1, of the same article 4, so as to obtain approval from the Bank of Italy in compliance with paragraph 5 of the cited article. Should such approval be denied, the Financial Advisors in question shall also be placed within the category of Key Personnel.

## **2.2 Identification of Key Management Personnel**

Pursuant to CONSOB Resolution No. 18049 of 23 December 2011, the term Key Management Personnel is to be construed in line with the definition set forth in Annex 1 to Consob Regulation No. 17221 of 12 March 2010, as further amended. Against this background, those persons having authority and direct or indirect responsibility for planning, directing, and controlling the activities of the company fall in the category of Key Management Personnel. In line with Company's corporate policy, this category shall include all the Company's directors (whether executive or otherwise), the acting members of the Board of Statutory Auditors, the members of the Senior Management, as previously identified.

For the intents and purposes of this document, the generic term "managers" must be construed in its technical sense, and therefore, may not be deemed to refer to company directors and acting members of the Board of Statutory Auditors, it being understood that where the context demands, the meaning to be attributed to the said term will be appropriately specified.

### 2.3 Principle of proportionality

The Bank of Italy's Provisions apply to all "personnel", save for the rules detailing the remuneration structure designed solely for Key Personnel. In addition, in application of the principle of proportionality, banks establish their remuneration and incentivisation policies while taking account of their characteristics and size, as well as the risk level and complexity of the business they conduct, so as to achieve the objectives pursued by the regulations. The regulations divide banking groups into three categories for the purposes of application of the **principle of proportionality**: larger or more complex banks, smaller or less complex banks and medium-size banks.

In this classification scheme, Banca Generali falls into the category of medium-size banks (and is near in size to the lower limit of its class). For these banks, Provisions establish that the more detailed rules, pertaining to Key Personnel, may be applied subject to the percentages, and deferment and retention periods equivalent to at least half those established, on an increasing scale based on the Bank's or Banking Group's features.

### 3. Bodies involved in defining the remuneration and incentivisation policy

The roles of the various corporate functions involved in defining, approving, implementing and subsequently assessing the remuneration policy are outlined below.

#### 3.1 General Shareholders' Meeting

Pursuant to the Bank of Italy Provisions, the General Shareholders' Meeting: **i)** establishes the remuneration due to the bodies it appoints; **ii) approves the remuneration and incentivisation policies and share-based remuneration plans** for bodies with roles of oversight, management and control, as well as the remaining personnel, in addition to the criteria for determining the compensation to be provided in the event of early termination of the contract or the post (so-called "**golden parachute**"); **and iii)** upon reasoned proposal submitted by the Board of Directors, sets a limit on the ratio of the variable to fixed component of individual remuneration **in excess of 1:1**, in accordance with Section III, paragraph 1, of the Provisions.

#### 3.2 Board of Directors

The Board of Directors draws up, submits to the General Shareholders' Meeting and reviews at least annually the remuneration and incentivisation policy. Moreover, it bears responsibility for its proper implementation; in detail, it determines — in line with the provisions of relevant Shareholders' resolutions, with the support of the Remuneration and Nomination Committee, and after hearing the opinion of the Board of Statutory Auditors — **the remuneration due to Directors holding special offices** (including the members of Board Committees), **as well as the overall remuneration of the General Manager**, any other members of **Senior Management** and **the heads of the main**



**business lines and of control functions.** It also sets the individual performance objectives to be attained by the said company functions.

Within the context of the decisions of the Shareholders' Meeting, it is then the responsibility of the Board of Directors to draw up guidelines for the recruitment and internal placement of personnel belonging to the Company's managerial category and carry out checks to ensure that the remuneration and incentivisation systems applicable to Key Personnel take due account of **risk containment** policies and are consistent with the Company's remuneration policy, long-term objectives of the Bank and the Banking Group, corporate culture and overall internal control and corporate governance system.

The Board of Directors also submits to the General Shareholders' Meeting an **annual report** on the implementation of remuneration policies, duly accompanied by an overview of the related **quantitative data**. The Board of Directors is supported in its work by the Remuneration Committee and, for the purposes of a correct application of the principles and criteria envisaged by the regulation, by the relevant company functions, i.e., the Human Resources Department, the Legal Department, the Compliance and Anti-Money Laundering Department, the Planning & Control Department, the Risk Management and Capital Adequacy Department.

### **3.3 Remuneration Committee**

Banca Generali has instituted a Remuneration Committee within the Board of Directors. The Remuneration Committee is tasked with assisting the Board of Directors in laying down Company's policies in respect of the determination of the remuneration of the Company's key personnel holding the highest offices and those responsible for control functions. The above-mentioned Committee is currently composed of three non-executive, independent members of the Board of Directors, and is responsible for advising and making recommendations and proposals to the Board of Directors on matters pertaining to remuneration.

The Remuneration Committee is afforded unhindered access to any and all the corporate information and functions it may deem necessary or useful for the proper discharge of its assigned tasks. The Committee puts forward advisory opinions and recommendations on matters falling within its purview, on a regular basis, and draws up the minutes of meetings and the reports required to ensure the conduct of the Bank's business.

The current Committee was appointed by the Board of Directors on 23 April 2015 and will remain in office until the approval of the Financial Statements for the year ended on 31 December 2017. It is made up as follows:

| Name and Surname   | Position  |
|--------------------|---|
| Giovanni Brugnoli  | Chairman of the Committee<br>Non-executive and independent Director pursuant to the Corporate Governance Code and Article 37, paragraph 1(d) of Consob Regulation No. 16191/2007. |
| Anna Gervasoni     | Member of the Committee<br>Non-executive and independent Director pursuant to the Corporate Governance Code and Article 37, paragraph 1(d) of Consob Regulation No. 16191/2007.   |
| Annalisa Pescatori | Member of the Committee<br>Non-executive and independent Director pursuant to the Corporate Governance Code and Article 37, paragraph 1(d) of Consob Regulation No. 16191/2007.   |

### Tasks of the remuneration committee

I) providing the Board of Directors with non-binding opinions and recommendations on the determination of the remuneration of the Chairman of the Board of Directors and Chief Executive Officer and any other Executives, expressing opinions also on the setting of performance targets linked to the variable component of remuneration; II) providing the Board of Directors with non-binding opinions and recommendations on the determination of the remuneration of personnel, whose remuneration and incentive systems are decided by the Board of Directors — in accordance with statutory and regulatory provisions in effect from time to time, as well as with the Remuneration and Incentivisation Policy adopted by the Company — expressing opinions also on the setting of performance targets linked to the variable component of remuneration; III) being consulted on issues concerning the determination of criteria to be applied for the remuneration of all Key Personnel, as defined by the Remuneration and Incentivisation Policy adopted by the Company; IV) periodically assessing the appropriateness, overall coherence and concrete implementation of the remuneration policy applicable to Directors, Key Management Personnel and, on the basis of the information provided by the Chief Executive Officer, all personnel whose remuneration and incentive systems are decided by the Board of Directors — in accordance with statutory and regulatory provisions in effect from time to time, as well as with the Remuneration and Incentivisation Policy adopted by the Company, in addition to submitting its relevant proposals to the Board of Directors; V) monitoring the implementation of decisions adopted by the Board of Directors, also providing the Board with general recommendations on the matter; VI) directly overseeing on the correct implementation of rules governing the remuneration of the Head of corporate control functions; in close collaboration with the control function VII) providing opinions on the determination of severance indemnities to be offered in

the event of early termination of the contract or the post (so-called “golden parachutes”); assessing, where necessary, the effects of such termination on the rights accrued under share-based incentive plans; **VIII)** expressing opinions, also on the basis of the information received from the competent company functions, on the achievement of the performance objectives to which incentive plans are tied, and on the review of the other conditions established for the disbursement of remuneration; **IX)** expressing non-binding opinions and proposals for any stock options plans and shares allotment or other share-based incentive systems, also suggesting the objectives associated with the provision of such benefits and the criteria for assessing the achievement of those objectives; monitoring the evolution and application over time of any plans approved by the General Shareholders' Meeting on the Board's proposal; **X)** expressing an opinion to the Board of Directors of the Parent Company on proposals relating to the remuneration of Directors holding special offices in strategic subsidiaries, pursuant to Article 2389 of the Italian Civil Code, as well as the general managers and key management personnel of those companies; **XI)** preparing all documents to be submitted to the Board of Directors for the relevant resolutions; **XII)** duly reporting on the activities performed by the company bodies, including the General Shareholders' Meeting, with the timeliness necessary to allow for due preparation of meetings called to examine matters pertaining to remuneration; **XIII)** participating into the General Shareholders' Meetings through its Chairman or another Committee's member; **XIV)** ensuring appropriate functional and operational links with the relevant company structures in charge of preparing and monitoring remuneration and incentivisation policies and practices; **XV)** working with the other Board committees, in particular with the Internal Audit and Risk Committee, which is tasked with assessing that the incentives granted through the remuneration system duly reflect risks and are commensurate with capital and liquidity levels; **XVI)** carrying out any and all other tasks and duties entrusted to the Committee by the Board through specific resolutions.

### **3.4 Governing Body or Officer**

Identifying the objectives to be assigned to individual Managers, other than those for which the Board of Directors is responsible as part of the policy determined by the Shareholders' Meeting and the parameters identified by the Board of Directors is the responsibility of the governing body or officer (identified based on the powers granted), supported by the Human Resources Department, the Legal Department, the Compliance and Anti-Money Laundering Department, the Planning & Control Department, the Risk Management and Capital Adequacy Department, each for the parts within their respective remit.

The process of assigning the targets to be met in order to receive variable remuneration and determining the maximum amount of such variable pay is formally conducted and documented.

### 3.5 Board of Statutory Auditors

The Board of Statutory Auditors is tasked with expressing opinions on the remuneration of Directors holding special offices, it being pointed out that the said opinions are provided even with regard to the remuneration of the General Manager.

The Board of Statutory Auditors also expresses an opinion on the remuneration of heads of control functions.

### 3.6 Internal Audit Functions

Without, in any event, exceeding the bounds of their respective spheres of competence, the Bank's control functions collaborate to ensure the appropriateness, regulatory conformity and proper implementation of all remuneration policies and practices.

More specifically:

- the Compliance function, ensured by the **Compliance and Anti-money Laundering Department**, is tasked, *inter alia*, with verifying that the corporate incentive system is in line with objectives of compliance with applicable regulations, the Articles of Association and the self-regulatory provisions, with a view to appropriately containing the legal and reputational risks that arise, above all, in the course of dealings and relationships with customers. The Compliance function submits the results of its assessments to the relevant company boards, recommending corrective action where appropriate, it being understood that the said results are also reported to the General Shareholders' Meeting on an annual basis;
- the Internal Audit function, ensured by the **Internal Audit Department**, is in charge, *inter alia*, of verifying, at least once a year, the compatibility of remuneration practices with approved policies and industry-specific regulations. This function also submits the results of its assessments to the relevant company boards and officers, recommending corrective actions where appropriate, it being understood that the said results are also reported to the General Shareholders' Meeting on an annual basis;
- the Risk Management function, ensured by the **Risk Management and Capital Adequacy Department**, is responsible for checking the appropriateness of not only the risk indicators of reference but also the related parameters to which performance levels are to be linked when establishing objectives.

### 3.7 Human Resources and Other Functions

The **Human Resources Department** provides **technical assistance and prepares the support materials** that inform remuneration policies and their implementation.

The **Planning & Controlling Department** is involved in defining remuneration policies, identifying the quantitative parameters pertaining to the strategic objectives to which the variable component of remuneration is to be correlated, and determining the expense budget.

Other company departments are from time to time involved for the identification and control of the **qualitative parameters** relating to the strategic objectives to be linked to the variable component.

#### **4. Remuneration and Mechanisms for Linking Remuneration to Performance**

Overall remuneration is made of fixed and variable components which, in the case of certain managers, may include participation in Stock Option Plans and Long Term Incentive Plans designed to link remuneration to the long-term performance of the Banking Group and the Assicurazioni Generali Group to which it belongs.

##### **4.1 Ratio of the Variable to Fixed Component of Remuneration**

In the above-mentioned Bank of Italy's Provisions, the introduction for Key Personnel of a cap of 1:1 ratio of the variable to fixed component of remuneration is particularly important. The Bank has taken the following measures to ensure that this ratio is maintained:

- a. variable remuneration less than or equal to this threshold for personnel in general;
- b. with regard only to individual and specific company functions (Chief Executive Officer/General Manager, Deputy General Managers, Head of the Alternative Channels and Support Divisions, the Head of the COO Division, Head of the AM Division, BG FML General Manager, Head of the Private RM Division, Head of the Private Banking Division, Head of the FP Division, 2 Sales Managers, 5 Area Managers, 6 Private Banking Managers and a Senior Private Banking Recruitment Manager), a motion, duly supported by a statement of grounds, to be submitted to the General Shareholders' Meeting to depart from the ratio of 1:1 of the variable to fixed component of remuneration, raising the same **up to a maximum of 2:1**. This proposal – based on the grounds set out in the specific report, and in particular on the consideration that in a specialist market such as that in which the Bank operates, where it must compete with international players, a remuneration package competitive with those of its competitors, for individuals in key roles in its company organisation or managerial roles in its sales departments, allows the bank to attract and retain individuals with the professionalism and skills suited to the company's needs and ensure that its business results are achieved, in a manner consistent with applicable regulations – was submitted by the deadline set by the Bank of Italy.

For the remaining personnel, the ratio of the variable to total fixed components of remuneration is commensurate with the employee's job description and the strategic responsibilities inherent to his or her position within the organisational structure: as a general rule, this ratio does not exceed 40% for executive and professional areas, but may reach 100% for specific categories of staff. More specifically:

- the individual who operate within the sphere of the commercial operating units may achieve the level of 100% (or higher in the presence of entry or term plans based on funding/revenue objectives and lacking guaranteed minimums);
- the “managers” within the sphere of asset management activities may achieve the level of 100%, in the event of full achievement of the assigned result.

Point 8.2 below provides an itemised breakdown of the components of the compensation packages of the other Financial Advisors authorised to make off-premises offers, distinguishing between fixed and variable components.

#### **4.2 Fixed Components of Remuneration for Employees**

The fixed components refer to the remuneration of the role, responsibilities and managerial and technical skills of employees used to perform the roles assigned to them, in order to ensure managerial continuity and pursue effective and fair internal remuneration policies that are competitive in respect of the external market.

The fixed component must account for a sufficient proportion of overall remuneration to attract and retain executive talent and provide adequate remuneration for job responsibilities even in the absence of additional bonuses or other incentives in light of substandard performance, so as to discourage risk-taking in excess of the company's capabilities, with a view to meeting short and medium-to-long term targets.

Among the fixed components of remuneration, the bank has introduced a “**service allowance**” to the configuration of remuneration packages for some managers with supervisory functions and the Manager responsible for preparing the company's financial and corporate reports. The allowance is a component of fixed remuneration that is in addition to traditional gross annual remuneration and is tied to some specific roles (the allowance is assigned to compensate a specific role and/or the related responsibilities; it may be renegotiated, with annual or other frequency, according to changes in the specific requirements of the role, but entitlement to collect it ceases if the beneficiary is assigned to a role within the company to which a service allowance does not apply).

The total fixed remuneration provided to personnel includes not only gross annual remuneration, but also service allowances, Director's remuneration, housing allowances (or sublease agreements),

company collective supplementary pension benefits, health cover, and company life insurance and policies entailing an indemnity in the event of death or permanent disability.

Therefore, a significant portion of fixed remuneration components consists of the benefits package, which represents a significant element in terms of fixed remuneration (about 15% for Executives and Professional areas, and around 25% on average for Managers). In detail, for Managers this includes health cover, supplementary pension benefits, life insurance, as well as insurance for accidents at work and outside work and a company car.

The National Collective Labour Agreement for Credit Institutions, supplemented by the Supplementary Company Contract, is applied for Executives and Professional areas. Social security coverage and pension benefits are therefore uniformly regulated for each different category of staff, in strict compliance with the provisions set forth in applicable collective bargaining labour agreements.

#### **4.3 Variable Components of Remuneration for Employees**

Variable components are intended to reward short, as well as medium-to-long term results. Performance is assessed — taking due account of the population segment and time-span in question — on the basis of the results attained by individuals and the corporate structures they serve, as well as, with reference to top managers, the results achieved by the company/group as a whole.

The aim of the recurring variable components of remuneration and long-term incentives (such as, for example, long term incentive plans, stock option plans and deferred bonus systems, as defined hereinafter) is to balance directly the interests of the shareholders and those of management.

Moreover, variable components of remuneration includes stability and non-competition agreements and specific one-off guaranteed payments at the time of recruitment.

As a result, variable remuneration linked to the performance of the Bank and the Banking Group is determined taking due account of the risks assumed and the liquidity required to cover ongoing business operations, and with a view to avoiding conflicts of interest.

These envisage **access gates**, whereby failure to meet pre-set stability targets entails forfeiture of the related bonus, but also **malus and claw-back mechanisms**, as described below.

#### **Short-term incentive: Management by Objectives and Balanced Scorecards**

Short-term variable remuneration is based on the **Management by Objectives (MBO)**, which is consistent with the achievement of the earnings and financial results indicated by the budget for the reference year. The Management by Objectives system is linked to the use of **Balanced Scorecards**.

This tool is intended to translate the strategies set forth in the Group's industrial plan into a set of objectives that, taking due account of company risks, are able to materially influence the banking Group's overall performance. The objectives are assigned to the relevant persons on an annual basis on individual Scorecards. The purpose of this tool is to achieve maximum strategic alignment of management, as all the managerial positions help to create shareholder value by achieving objectives that are both quantitative and qualitative, but are in any event measurable.

The variable remuneration is linked on a straight-line basis to the degree to which the individual objectives are achieved. The objectives and the relevant targets are defined based on the guidelines, differentiated according to the sphere of work and responsibility attributed to the Manager, and identifying the impact of individual positions on the achievement of the respective objectives.

### **General scope of application**

The MBO mechanism is used to define the variable remuneration of the Chief Executive Officer/General Manager, the Managers and certain Executives. This rule does not apply to Relationship Managers and Asset Managers serving the AM Division, BG FML and BG Fiduciaria. This is because, with a view to measuring performance and risks through variables that are consistent with the decision-making powers vested in each of these functions, quantitative objectives established in terms of the results carried in the consolidated financial statements of the Banking Group may be replaced by individual quantitative objectives associated with the individual function discharged within the Group.

The variable remuneration is linked on a straight-line basis to the degree to which the individual objectives are achieved or the assessment on an annual and non-recurrent basis of special projects with a high impact on the development of the business and the company performance.

### **Medium-to-long Term Incentive: Stock Options and Long Term Incentive Plans**

On a consistent basis with last year, a new long-term incentive plan based on Assicurazioni Generali shares - Long Term Incentive of the Assicurazioni Generali Group (LTI) 2017 - will be submitted for the approval of the shareholders' meeting of the parent company Assicurazioni Generali. For the purpose of observing the specific sector and country rules, the regulations of the plan for Banca Generali will be assimilated with specific adjustments.



In line with the market practices and with the expectations of the Investors, it is envisaged that the shares will be assigned and made available to the beneficiaries over an overall timescale of 6 years, dependent of the achievement of:

- Assicurazioni Generali **Group performance conditions** involving a percentage of no more than 40% and Banca Generali Group performance conditions for a percentage of no less than 60%;
- verification of the achievement of a **minimum Economic Solvency Ratio level** of the Assicurazioni Generali Group and exceeding of the **specific gates of the Banking Group: Total Capital Ratio and Liquidity Coverage Ratio**.

The plan is based on the following fundamental aspects:

- the incentive linked to the achievement of the objectives is disbursed by means of the assignment of Assicurazioni Generali S.p.A. ordinary shares;
- the right to receive the shares is linked to the verification of achievement of specific access thresholds which in this sense represent a condition precedent;
- the objectives which the payment of the incentive must be subject to are financial for the Assicurazioni Generali Group and the Banca Generali Group and are defined at the beginning of the three-year performance period on a consistent basis with the group's long-term strategic plans;

In detail, the maximum number of shares, which can be assigned, is established at the start of the plan. The maximum potential bonus to be paid in shares corresponds to 175% of the gross annual remuneration of those participating in the plan for the members of Senior Management forming part of the group of the Global Leadership Group (GLG) of the Assicurazioni Generali Group, while it is equal to 87.5% for any other beneficiaries. Therefore, the maximum number of shares which can be assigned is provided by the ratio between the maximum bonus amounts and the value of the shares, the latter calculated as the average of the price of said share in the three months prior to the Board meeting of Assicurazioni Generali called to resolve on the draft financial statements of the Parent Company and the consolidated financial statements relating to the year prior to that when the plan was launched.

These objectives are identified and fixed, on commencement of the three-year cycle of the plan, in coherence with the Group's long-term objectives and strategies, and are subject to an initial measurement at the end of each year of the cycle. On conclusion of the first measurement, a tranche of the maximum number of shares potentially assignable on conclusion of the three-year period is set aside (but not assigned to the beneficiaries): specifically, the first tranche refers to 30% of the

maximum number of shares which can be assigned, the second tranche to another 30%, while the third tranche concerns the remaining 40%.

At the end of the three-year period, a final assessment is therefore made on the effective achievement of the defined objectives (both on an annual and overall three-year basis).

This measurement mechanism make it possible to combine the need, on the one hand, to further the achievement of the long-term objectives (by means of fixing targets consistent with the three-year strategic plans, the assessment on an overall three-year basis and the subsequent holding period) and, on the other hand, to assess and monitor the achievement of the objectives annually.

With regard to the holding period subsequent to the three-year performance period, at the time of assignment 50% of the shares assigned is immediately available (to permit the beneficiaries to meet the tax liabilities associated with the assignment); the remaining 50% is subject to an unavailability restriction lasting two years, subject to the obligation of the Directors who participate the plan to maintain a suitable number of shares assigned until the end of the mandate underway as of the date of release.

Furthermore, the plan envisages - on a consistent basis with that which already took place in 2015 and 2016 - a recognition mechanism for the dividends distributed in the three-year reference period, (so-called dividend equivalent). In detail, if the shareholders' meeting should resolve the distribution of dividends in favour of the shareholders during the three-year reference period, on expiry of the same, a number of additional shares will be disbursed to the beneficiaries established on the basis of the amount of the dividends distributed overall in said period. The additional shares will be assigned at the same time and in relation to the other shares assigned to each beneficiary, they will also be subject to unavailability restrictions (holding period) as described above and will be established considering the value of the share at the time of allocation, calculated as the average in the three months prior to the Board meeting called to resolve on the draft financial statements of the Parent Company and the consolidated financial statements relating to the year prior to that when the Plan was launched.

### **Plans currently underway**

The following long-term plans are currently underway:

- a stock option plan reserved for Relationship Managers of the Private Banking Area, Financial Advisors and Network Managers terminating during 2017;

- an LTI plan, which is reserved for specific Managers of Key Personnel and links the variable remuneration to the achievement of long-term objectives, set by the Banking Group and the Assicurazioni Generali Group for the three-year period in question.

The Plan is based on the following fundamental aspects:

- it is rolling and divided into cycles, each of which lasts three years;
- requires that the incentive deriving from the satisfaction of objectives be disbursed through the assignment of shares;
- defines the objectives on which to render the disbursement of the incentive contingent at the beginning of the three years of reference of each cycle;
- establishes the number of shares to be assigned at the beginning of each three-year period.

### **Stability and non-competition agreements**

In a specific, defined number of situations, and mainly for retention purposes, employees, including Key Personnel, and Financial Advisors authorised to make off-premise offers can be required to enter into non-competition agreements, whose term cannot exceed the limits provided for by law, and stability agreements, in compliance with the Bank of Italy's provisions.

### **Entry bonuses**

On an exceptional basis, so as to attract key figures from the market, specific one-off incentive payments may also be permitted at the time of recruitment. These incentive payments, that are envisaged in exceptional cases only, may be granted exclusively in case of recruitment of new staff, and solely during the first year of service.

### **Framework Loyalty Retention Programme for the Sales Network**

The purpose of the Framework Loyalty Retention Programme is to create a loyalty retention instrument for the sales network as well as an incentive instrument for the achievement of the company objectives, ensuring the customers increasingly better assistance, and with a view to valorisation of Banca Generali, by means of participation, subject to approval year by year by the competent corporate bodies, of a maximum of eight individual plans which envisage the possibility for the related participants to accrue the right to disbursement of a bonus for each effective individual participation.

Each Plan can be accessed by the Financial Advisors qualified to carry out cold calling and the Relationship Managers of Banca Generali who have accrued at least 5 years of company seniority by 31 December of the financial year prior to that referring to the Plan in question.

The individual bonuses will be subject to deferral over time with an increasing duration clearly defined in the specific document, which disciplines the Framework Loyalty Retention Programme for the Sales Network, in line with the current Provisions.

The Bonus and, on a more general note, each benefit deriving from the Framework Loyalty Retention Programme will represent an extraordinary, discretionary, non-contractual disbursement and cannot in any way be considered to be an integral part of the normal remuneration of each of the Beneficiaries.

During the financial year referring to each Plan, Banca Generali's Board of Directors will decide whether to submit the payment of part of the bonus, in any event no more than 50%, in Banca Generali shares, for the approval of the shareholders' meeting, provided that the remaining part of the Bonus will be paid in cash.

With regard to 2017, the decision was made to pay 50% of the bonus in shares (see Disclosure document drafted in accordance with Article 84 *bis* of Consob Regulation No. 11971 dated 14 May 1999 and subsequent amendments and additions) relating to the 2017 network Loyalty Retention Programme within the sphere of the Banca Generali framework loyalty retention programme.

The disbursement and the effective payment will be subject to the **Malus and claw-back** clauses existing in the current Remuneration Policy.

With reference to the Key Personnel, in compliance with the matters which will be resolved by the shareholders' meeting in terms of limit to the ratio between variable and fixed component of the remuneration, as of the Accrual Date of each Plan the "**Cap Mechanism**" envisaged by the Policy on remuneration and incentive will be applied, if necessary.

#### **4.4 Determination of the Bonus Pool**

Each year, the Board of Directors determines a total bonus pool, in keeping with the remuneration policies to be disbursed provided that the necessary financial stability and liquidity conditions have been satisfied and the requirements for each position have been met.

The total bonus pool therefore may not be increased based on the Company's performance, but it may be eliminated if the access gates discussed in the following section are not reached.

#### **4.5 Access Gates**

For all personnel, the right to receive the bonus is linked not only to the results actually achieved, but also to the attainment of a common access gate, and set by the Banking Group with a view to **(i)** linking bonus entitlements to multi-year performance indicators, and **(ii)** taking due account of current

and potential risks, interest-rates and the cash flow required to cover the Banking Group's business operations.

The Banking Group's access gates consists of the following two indicators:

- a. **capital ratio:** Total Capital Ratio<sup>36</sup>, aimed at measuring the extent of the Bank's capital in relation to the degree of risk of the assets held — minimum target ratio of 11.6%;
- b. **liquidity ratio:** Liquidity Coverage Ratio<sup>37</sup>, to increase short-term resilience of the liquidity risk profile of the bank, while ensuring it has sufficient, high-quality liquid assets to overcome any 30-day long acute stress situation — minimum ratio of 105%.

The access gate thus consists of two ratios indicative of the Bank's solidity and liquidity and, accordingly, its capacity to pay out the variable component of the remuneration (so-called "sustainability").

**An on/off threshold** is set for each ratio. The requirement for access to the bonus accrued during the year is that both ratios are above the minimum threshold set when the final earnings figures for the year are recorded. The access gate does not only condition the bonus for the year in question, but also, from one year to the next, the portions of bonuses accrued in previous years and paid out on a deferred basis in subsequent years.

#### 4.6 Deferral and Share-based Variable Remuneration

As a general rule, and without prejudice to the more stringent provisions applicable to Key Personnel and, as specified in greater detail, all employees with a variable remuneration based on the Management by Objectives mechanism and/or on a discretionary basis, and for the Banking Group's key Network Managers, who accrue, within any given financial year, a bonus **in excess of 75,000.00 euros**, are subject to deferral of a portion of their variable remuneration for a period determined, pursuant to the principle of proportionality, as follows: **60%** — provided that the access gate conditions described above are met — in the following financial year, subject to Board verification of the earnings results and the adequacy of capital levels for the year in which the said bonuses were earned; **20%** subject to verification of the results in terms of capital adequacy for the following

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<sup>36</sup> Total Capital Ratio: meaning the Regulatory Capital / Risk Weighted Assets (RWAs) (both the variables are subject to regulatory disclosure and are specified in the Notes and Comments to the Financial Statements, Part F — Information on Net Equity; the figures used for calculation purposes are those reported to the Bank of Italy and drawn from the consolidated financial statements as at the end of the year).

<sup>37</sup> Liquidity Coverage Ratio: meaning the Ratio between the stock of (i) highly liquid assets (that is to say, easily disposed of for cash on the open market, even during periods of tension, and ideally, subject to placement with a central bank) and (ii) the sum total of net outflows during the 30 calendar days following a specified stress scenario; the figure sent to the Bank of Italy on the database consolidated at year end is considered.

financial year; and the remaining **20%**, after a further year, subject to verification of full satisfaction of capital solidity results.

Any and all deferred bonus instalments shall be deemed to bear interest at the mean 6-month Euribor rate recorded during the calendar year preceding the year in which the related instalment is paid, increased by 0.85%.

If the actual bonus accrued falls below or equals the stated threshold of 75,000.00 euros, it is paid in full after the Board of Directors verifies the profit or loss results for the year in question and determines that the Banking Group's access gate targets have been met.

For **Key Personnel**, **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.

In calculating the number of shares to be assigned, a method is applied where: the numerator is defined as 25% of variable remuneration accrued for the actual achievement of objectives set for the year of reference, and the denominator consists of the share price (calculated as the average price of the stock over the three months preceding the Board of Directors' meeting called to approve the draft Financial Statements and the Consolidated Financial Statements for the year prior to that in which starts the cycle in question).

If the actual bonus accrued, also by Key Personnel, is below the indicated threshold of 75,000.00 euros, it will be paid in full up front during the year after that of reference (part in cash and part in shares), once the Board of Directors has verified earnings results during the year of accrual and satisfaction of the access gates.

### **The regulation of share-based remuneration**

Supplementing the information provided above and in summary form with respect to the Disclosure Document (drawn up in accordance with Article 84 *bis* of Consob Regulation No. 11971 dated 14 May 1999 and subsequent amendments and additions) relating to the share-based incentive system in favour of the personnel of the Banca Generali Banking Group, the following is specified:

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**Beneficiaries**

Potential beneficiaries include all the Banking Group's Key Personnel, as defined in paragraph 2.1, a category that currently covers 34 positions.

**Reasons for the share assignment**

In accordance with the Supervisory Provisions set forth in the 7th update of Bank of Italy's Circular Letter No. 285/2013 issued on 18 November 2014, the remuneration package for Key Management Personnel (as defined above) shall be made up of fixed and variable components.

In this regard, the regulatory framework requires a portion of the variable component of remuneration to be paid in the form of financial instruments. Banca Generali S.p.A. has therefore opted to meet this requirement through assignment of its ordinary shares.

**Share assignment approval procedure and timing**

The remuneration and incentivisation policies of the Banca Generali Group are subject to approval by the General Shareholders' Meeting scheduled for **20 April 2017**.

The Human Resources Division and the Planning and Control Division, with the support of the competent operating units, oversee the assignment of the shares, each in relation to their sphere of competence.

The tasks incumbent on the Board of Directors, the Remuneration Committee and the Chief Executive Officer and the General Manager in respect of the attainment of targets and the satisfaction of applicable conditions, are addressed in point 3 above.

The mechanism involves the use of a number of treasury shares held by Banca Generali (with the related cost being imputed to the companies served by the beneficiary) as may be required to cover the maximum amount due in monetary terms.

The method applied to determine the number of treasury shares is outlined in this paragraph 4.6 above.

Upon verification of entitlement to the bonus or tranche thereof, the shares assigned to each beneficiary will be registered in the latter's accounts with the bank and frozen through to the end of the applicable retention period applicable. No dividend rights whatsoever shall be deemed to arise in respect of the shares throughout the retention period.

Taking due account of the assessment conducted by the Remuneration Committee on 17 March 2017, the following day, 20 March 2017, Banca Generali's Board of Directors approved the Company's Remuneration and Incentivisation Policy under which a portion of the variable remuneration is payable in the form of assignment of shares.

**Features of the instruments subject to assignment**

Under Banca Generali's Remuneration and Incentivisation Policy, a portion of the variable remuneration (incentive) of Key Personnel may be disbursed in the form of assignment of ordinary shares in Banca Generali pursuant to the procedures set forth in paragraph 4.6 above, provided that all the related targets and conditions specified in the Policy itself, have been met. As highlighted in this paragraph 4.6, the assignment of shares will be effected in 2018, 2019 and 2020, subject to a series of conditions.

No more than 192,000 shares shall be subject to award (joined by 232,000 shares relating to the annual plan of the Framework Loyalty Retention Programme for the sales network, with related disclosure document).

The assignment of shares is subject to the attainment of the performance targets and the fulfilment of the other conditions specified in this Remuneration and Incentivisation Policy.

Shares shall be subject to a retention period of one year.

In the event of termination of service with the Banca Generali Group for reasons other than retirement, death or permanent disability, re-recruitment by the Generali Group or at the Company's initiative pursuant to corporate restructuring, any and all assigned shares yet to be actually awarded are deemed forfeited.

The cost to the Company is limited to the use of the number of treasury shares required to cover the maximum cash amount of the bonus payable in shares, upon fulfilment of applicable conditions.

The dilutory effect on equity is equivalent to the number of treasury shares acquired and awarded.

Voting and dividend rights are unrestricted, although no dividends are payable on assigned shares during the retention period.

#### **4.7 Cap Mechanism to Ensure Compliance with the Ratio of Variable to Fixed Remuneration**

The company has established a cap mechanism, applicable to its Key Personnel, on the ratio of total variable to fixed total remuneration (including all forms of payment or benefit disbursed, directly or indirectly, in cash, financial instruments, or assets in kind not linked to the achievement of individual or company performance results, or the award of which is subject to annual qualitative assessment or other parameters, such as term of service).

The cap mechanism ensures that the ratio of total variable compensation paid in relation to a given year (including both up-front and deferred payments) to total fixed remuneration in that same year does not exceed 1:1 (or, where expressly authorised, 2:1). Accordingly, this mechanism, which is applied on a cash basis, also takes account of the effects of bonuses accrued in years prior to the introduction of the cap, as well as of deferred bonuses.



The mechanism refers to the variable remuneration instruments awarded from the year in which the cap mechanism was introduced. Consequently, all shares of variable remuneration accrued in years prior to 2015, but not yet disbursed due to deferral, are sterilised for the purposes of this calculation.

Likewise, if the 1:1 (or, where expressly authorised, 2:1) ratio of variable to fixed remuneration is in future modified, in an unfavourable manner for one or more individuals, having regard to the year in which the ratio of variable to fixed remuneration is changed, all shares of variable remuneration accrued in years prior to the year concerned, but not yet disbursed due to deferral, will be sterilised for the purposes of the calculation.

#### **4.8 Malus and Claw-back Mechanisms**

Variable remuneration is subject to a specific **malus** mechanism, under which bonuses are not paid in the event of **i)** proven engagement in fraudulent or seriously negligent misconduct to the customers' or the Bank's detriment, **ii)** engagement in behaviour that resulted in a significant loss for the Bank, or **iii)** disciplinary measures or extraordinary inspections being carried out and **iv)** failure to comply with rules concerning banking transparency and remuneration policies, in accordance with the Supervisory Provisions for Banks. In addition, the variable remuneration of all personnel is subject to a claw-back mechanism, under which the Bank may demand the return of bonuses paid during the current year or previous year in the event of **i)** proven engagement in fraudulent or seriously negligent misconduct to the customers' or the Bank's detriment, **ii)** engagement in behaviour that resulted in a significant loss for the Bank, or **iii)** failure to comply with rules concerning banking transparency, anti-money laundering and remuneration policies, in accordance with the Supervisory Provisions for Banks. Likewise, the Bank may demand the return of bonuses paid during the current or previous year in cases of material errors in figuring the items used to calculate the Group's access gates.

#### **4.9 Principle of Propriety and the Containment of Reputational Risks**

Remuneration and incentive structures for distribution staff are designed to ensure compliance with the principle of propriety in customer relations, as well as to contain legal and reputational risks, through the implementation of policies entailing the application of specific, formally stated, quantifiable and verifiable rules and parameters (e.g., number of complaints) which have an impact on the right to collect the incentivisation.

#### **Remuneration benchmarking**

The remuneration patterns of high-level executives and managers are monitored, taking due account of trends recorded on reference markets and analysing the fixed and variable remuneration components, availing of the service of external independent advisors. More specifically:

- with regard to Key Personnel, specific analyses in relation to a group of peers, determined on the basis of Banca Generali's profile, are carried out. The peer group is regularly revised so as to guarantee its consistency. In 2016, the peer group included: Allianz Bank (Allianz Group), Azimut Holding, Banca Fideuram – Intesa Sanpaolo Private Banking (Intesa Sanpaolo Group), Banca Mediolanum (Mediolanum Group), Credit Suisse Italia, Eurizon Capital (Intesa Sanpaolo Group), Fineco Bank (UniCredit Group), UBS Italia, Unipol Banca (Unipol Group);
- the ABI's annual industry-wide study is used for all other personnel.

With reference to job grading, a model incorporating Towers Watson job levelling methodology is currently under implementation. The main managerial positions have already been weighted using the aforesaid methodology.

Lastly, the main benefits of the Group's Managers, Executives and employees (specified, where applicable, in their respective supplementary employment contracts) have been established in light of policies defined by the Group to which they belong.

## **5. Other Features of the Remuneration System**

### **5.1 Directors' and Officers' (D&O) Liability Insurance**

In line with generally accepted best practices on financial markets and taking due account of the features of the Bank's and Group's business operations, on 24 April 2007, the General Shareholders' Meeting authorised the Board of Directors to provide general liability insurance cover to the Company's Directors, the members of the Board of Statutory Auditors and General Manager (D&O Liability Insurance), featuring the following main terms and conditions:

- a. duration: 12 months renewable on an annual basis, until the General Shareholders' Meeting resolves to revoke its previous authorisation;
- b. maximum insured amount: 10 million euros per claim/year, for all the insured persons, with sub-limits for claims based on labour law violations;
- c. non-applicability of cover in the event of wilful misconduct or gross negligence.

The parent company Assicurazioni Generali took out a D&O policy covering the members of the Board of Directors, as illustrated in the document presenting the remuneration policies for 2015 extended as from 2016 to all the companies in the insurance group. This policy observes the requirements envisaged by the shareholders' resolution dated 24 April 2007.

### **5.2 Early Termination Package**

Severance benefits are defined pursuant to the applicable regulatory framework, with the exception of the possibility of an agreement with individual corporate managers, regarding an early termination

package in case their relationship is terminated or otherwise modified and subjected to more unfavourable terms, at the Bank's initiative, based on the guidelines illustrated below.

In the event of **early termination of the contract**, the benefits that may be accorded to the interested party, in compliance with current provisions of laws and contracts, shall be as **envisaged by way of notice** in the applicable provisions of laws and/or the national collective labour contract, **plus a all-inclusive forfeit indemnity for an amount equivalent to 24 months of recurring remuneration** (defined as gross annual remuneration increased by the average amount actually collected by way of the short-term component of variable remuneration in the past three years).

In the event the same person holds the positions of Chief Executive Officer and General Manager, when calculating the amount that may be accorded to the interested party, account shall be taken of the total sum of amounts due by way of gross annual remuneration, compensation for the office of Director and the average amount actually collected by way of the short-term component of variable remuneration in the past three years for each of the offices concerned.

The agreement governing the payment of that sum shall include clauses calling for a general waiver of all rights related in any manner, directly and/or indirectly, to the employment relationship or the office of Chief Executive Officer and the severance thereof, as well as of all rights, claims and/or actions against the company and other Group companies in any capacity directly or indirectly related to the employment relationship or the office of Chief Executive Officer and the definitive, accepted severance thereof. The waiver shall be extended to rights relating to compensation for damages, as well as rights of an economic nature associated with the above relationships and the severance thereof.

The aforesaid amount must be paid in accordance with the above-mentioned Bank of Italy Provisions in force from time to time and by the Bank's remuneration policies, with particular regard to provisions governing the connection between performance objective compensation and risks, and parameterised to the risk and stability indicators, the deferral of disbursement and the payment of compensation partly in cash and partly in financial instruments.

## **6. Performance Indicators and the Main Benchmarks Used**

As mentioned previously, the variable remuneration is hence linked on a straight-line basis to the degree to which the individual objectives are achieved. The Management by Objectives mechanism — and the Balanced Scorecard system in particular — which forms the basis of the variable remuneration (hereunder also referred to as “bonus”) of Managers and certain Executives, is based

on defining and allocating to each manager **specific objectives**, each one of which is attributed a **target**, and each with a special **weighting**.

The objectives and the relevant targets are defined based on the guidelines described below, differentiated according to the sphere of work and responsibility attributed to the manager.

A percentage of the variable remuneration, as stated below, is linked to **quantitative objectives** (with possible standardisation of the performance fee component) pertaining to the results of the Banking Group. Specifically, some of the following can be assigned:

**1. Income statement/profitability objectives**

- Operating profit
- Net profit
- RORC
- Costs control objective

**2. Sales development objectives**

- Net funding
- Evolved funding
- Commission-based growth

These objectives contribute to determining no less than 70% of the short-term variable remuneration of the Chief Executive Officer/General Manager, and 35% to 50% of the short-term variable remuneration of the Deputy General Managers, and up to a maximum of 35% for the other Managers and Executives. The same may also rise for the commercial personnel where the funding objectives represent specific function objectives.

This rule does not apply to Managers and Executives serving as Relationship Managers of the Private RM Area and Asset Managers of the AM Area, BG Fiduciaria and BG FML. This is because, with a view to measuring performance and risks through variables that are as consistent as possible with the decision-making powers vested in each of these functions, quantitative objectives established in terms of the results carried in the consolidated financial statements of the Banking Group may be replaced by individual quantitative objectives associated with the individual function discharged within the Group.

The remaining portion of the short-term variable remuneration is linked to the attainment of quantitative and qualitative objectives established in light of the job description of each beneficiary, with a view to ensuring that the related bonuses are based, as far as possible, on performance and risk indicators that are as consistent as possible with the decision-making powers vested in each manager.

In particular, in relation to the position filled, the quantitative objectives refer to net inflows, revenues and/or cost objectives for which the manager is responsible based on the company budget for the reference year.

The **qualitative objectives**, which usually set valuation criteria, refer to projects concerning the Banking Group and require the collaboration of all the managers, each one regarding the area within his/her remit, or projects falling under the responsibility of individual departments but which are of general importance.

The exceptions to these general criteria are the objectives assigned to the Manager in charge of preparing the Company's financial reports, the Heads of control functions, and the Head of the Human Resources Department, who are not linked to economic results of the Bank and/or Banking Group.

The quantitative and qualitative objectives are formalised in personal Scorecards on an annual basis. Each objective is assigned a "**weight**" indicating its level of priority when compared to the others, as well as **performance levels** (minimum, target and maximum) expressed through appropriate indicators. Expected levels of performance are indicated, for each objective, together with the **minimum threshold** to be achieved to qualify for bonus entitlements, the **ceiling** above which results are to be considered over performance, and **any and all caps** on bonuses, where applicable.

With regard to the **criteria for the assessment** of the performance levels achieved for bonus assignment purposes, in the year subsequent to that of reference, the **performance level achieved** in relation to each objective is checked and then **weighted for the related weight**. The sum of the weighted results achieved in respect of each objective then constitutes the overall performance level, which serves as the basis for quantifying the bonus due, subject to satisfaction of the pre-established access gates to be met in order to qualify for bonuses (attainment of the minimum threshold affording access to bonus entitlements). The foregoing procedure is designed to ensure a **direct correlation between results obtained and bonuses earned**.

The performance levels identified in the objectives are directly linked to the forecasts of the budget approved by the Board of Directors and the achievement of the results, when linked to the earnings results, is verified based on the consolidated financial statements of the Banking Group.

As regards the variable remuneration of most of Executives and employees belonging to the professional areas (other than those included in any of the categories specified below), the system

used for the calculation of the bonuses, which takes place at annual intervals, is also linked to the performance appraisal process and decided on a discretionary basis, with the exception of the Management by Objectives plan reserved for Relationship Managers who work in the Private Relationship Manager Area, as well as a Management by Objectives plan reserved for Asset Managers working in the AM Area, BG Fiduciaria and BG FML.

Variable remuneration linked to long-term performance, and LTIs in particular, are determined in function of objectives established in terms of the results achieved by the Bank and the Group for the three-year period of reference. In addition, the actual appropriation of the shares is contingent upon annual verification of access gates.

## **7. Information on Remuneration by Role and Functions**

### **7.1 Members of the Board of Directors**

Board member's remuneration is determined at the time of appointment by the General Shareholders' Meeting, in accordance with Article 2389, Paragraph 1, of the Italian Civil Code, as a fixed sum plus refund of any out-of-pocket expenses incurred in the performance of their duties, also taking due account of industry-specific surveys and analyses.

Non-executive Directors (including the Chairman) and independent members of the Board of Directors are entitled only to fixed remuneration, in addition to a refund of out-of-pocket expenses incurred for the performance of their duties, and, accordingly, are not entitled to any form of variable remuneration linked to the attainment of specific objectives. Directors who are not vested with delegated executive powers (including the Chairman) are not entitled to any form of share-based incentives.

Directors who also sit on Board Committees are entitled to additional emoluments — in the form of a pre-established lump-sum and/or attendance fees for each Board meeting they attend — over and above the remuneration they receive as Board members, in light of the tasks assigned to the Board Committees in question, and the commitment that membership of such committees entails, especially in terms of attendance at meetings and preparatory activities to be completed ahead of committee meetings; said additional emoluments must be established taking due account of industry-specific surveys and analysis of the remuneration of Directors, and more specifically, Directors sitting on Board Committees.

The remuneration policy applicable to the Chairman provides for fixed annual remuneration, determined also on the basis of comparative analysis of the remunerative practices prevailing within the industry for such positions.

The policy applicable to the Chief Financial Officer is discussed in the relevant point of this document.

Lastly, it must be pointed out that all Board of Directors' members are covered by D&O liability insurance, as illustrated above.

## **7.2 Members of the Board of Statutory Auditors**

The remuneration of the Chairman of the Board of Statutory Auditors and other members of the Board of Statutory Auditors is set by the General Shareholders' Meeting at the time of appointment and for the whole term of office. Acting members of the Board of Statutory Auditors are **not entitled to any form of variable remuneration**.

Statutory Auditors are entitled to refund of the expenses incurred in performance of their duties.

The members of the Board of Statutory Auditors also receive further remuneration, in addition to their compensation as members of the Company's control board, pursuant to currently applicable regulations, in consideration of the fact that the said Board also discharges the tasks and functions of the Supervisory Board instituted pursuant to Legislative Decree No. 231/2001.

Lastly, members of the Board of Statutory Auditors are covered by D&O liability insurance, as illustrated above.

## **7.3 Key Personnel**

Further to all that has already been illustrated above in respect of the identification of "Key Personnel", the salient features of the remuneration structures applicable to each category falling within the said classification are indicated below. With reference to the Key Personnel category consisting of Financial Advisors authorise to off-premises offers, reference should be made to point 8 below.

### *7.3.1 Key Management Personnel*

The variable component of Key Management Personnel is established pursuant to mechanisms that not only comply with all the regulatory requirements set forth above, but also provide for **(i)** the deferred payment of a significant portion of variable remuneration; and **(ii)** a portion of variable share-based remuneration.

### *Chief Executive Officer/General Manager*

The offices of Chief Executive Officer and General Manager are covered by the same person.

The overall remuneration is made up of:

- a recurrent fixed fee in the capacity of Chief Executive Officer and all-inclusive annual remuneration (RAL) in the capacity of General Manager;
- short-term variable remuneration (Short Term Incentive), linked to the degree to which the performance objectives — expressed in the relevant Balanced Scorecard — are achieved, as well as to the access gate scheme, the bonus deferral scheme and the payment in Banca Generali shares, as well as the malus and claw-back mechanisms. The variable remuneration may reach a maximum of 75% of the RAL (equal to a 60% ratio of the short-term variable remuneration to the total fixed remuneration), if the maximum level of total performance is achieved and does not provide for any guaranteed minimum.
- a long-term variable component (Long Term Incentive), whose related bonus range is fixed between 0% and 175% of the fixed component. Moreover, participation in retention and/or loyalty plans may also be approved by resolution duly supported by a statement of grounds.

The ratio of the variable to fixed component of the remuneration, subject to Shareholders' approval, shall not exceed 2:1; any amount in excess shall be subjected to the cap mechanism described above.

With regard to the position of Chief Executive Officer/General Manager, an indemnity has been agreed in the event of early termination of the contract, in accordance with the principles set forth in point 5.2 above.

As General Manager, he also enjoys supplementary pension benefits equal to 13% of the RAL and the benefits package provided for the Banking Group's Managers.



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### *Deputy General Managers*

The remuneration of the Deputy General Managers consists of all-inclusive annual remuneration (RAL) and variable remuneration, linked to the degree to which the performance objectives — expressed in the relevant Balanced Scorecard — are achieved. It is subject to the **access gate scheme**, the bonus deferral scheme and the payment in Banca Generali shares, as well as the **malus** and **claw-back** mechanisms.

The variable remuneration may reach a maximum of 80% (which can be raised to 100% for the sales positions) of the total fixed remuneration if the maximum level of total performance is achieved and does not provide for any guaranteed minimum.

The presence of entry or term plans based on sales targets (e.g. funding/revenue) may lead to the exceeding of this threshold but always in observance of the maximum ratio of 2:1 possibly assigned.

Moreover, a portion of the variable remuneration may be determined on the basis of a Long Term Incentive (LTI) plan. Bonus entitlements under the said LTI plan range from 0% to 175% of the fixed component of remuneration. Moreover, participation in retention and/or loyalty plans may also be approved by resolution duly supported by a statement of grounds.

The ratio of the variable to fixed component of the remuneration paid to the Deputy General Managers, subject to Shareholders' approval, shall not exceed 2:1; any amount in excess shall be subjected to the cap mechanism described above.

The Deputy General Managers also enjoy supplementary pension benefits up to a maximum of 13% of the RAL and the benefits package provided for the Banking Group's managers. The current early termination package meets applicable regulatory requirements. Severance benefits accruing in the event of early termination of the contract may be agreed subject to compliance with the principles set forth in point 5.2 above.

### *7.3.2 Other Key Personnel*

The remuneration of the Managers included in this category consists of an all-inclusive annual gross remuneration (RAL) and a variable remuneration, linked to the degree to which the performance objectives indicated in the relevant Balanced Scorecards are achieved. The principles of **deferral**, payment in Banca Generali shares, achievement of the **access gates**, as well as the **malus and claw-back mechanisms** illustrated above apply to such variable remuneration.

Depending on the strategic weight and complexity of the job description in question, the variable component of remuneration may reach no more than 70% of annual gross remuneration (RAL) (equal

to a maximum 55% ratio of the short-term variable remuneration to the total fixed remuneration) in the case of Banca Generali's managers. It may reach 100% of annual gross remuneration (equal to a maximum 85% ratio of the short-term variable remuneration to the total fixed remuneration) for the Heads of the AM Area, the Private Area, the Private RM Area and the Financial Planner Area.

Under no circumstances, a guaranteed minimum is provided.

In addition, for some of the aforesaid managers the Board of Directors may also extend the variable component of remuneration to include participation in a Long Term Incentive plan. Bonus entitlements under the said LTI plan range from 0% to 87.5% of the fixed component of remuneration. Moreover, participation in retention and/or loyalty plans may also be approved by resolution duly supported by a statement of grounds.

The ratio of the variable to fixed component of the remuneration of those managers shall not exceed 1:1; however, the Shareholders' Meeting has the power to raise the aforesaid ratio to 2:1 for some of these managers, who are also included among Key Personnel (properly identified under point 4 above). Any amount in excess shall be subjected to the cap mechanism described above.

Managers also receive supplementary pension benefits up to 13% of their RAL and the benefit package provided for the Banking Group's managers. The current early termination package meets applicable regulatory requirements. Severance benefits accruing in the event of early termination of the contract may be agreed subject to compliance with the principles set forth in point 5.2 above.

### *7.3.3 Heads of Control Functions*

The remuneration of Managers falling within this category is made up of annual gross remuneration (RAL) (all-inclusive for managers) supplemented by a variable component linked to the achievement of the performance objectives specified in the relevant Balanced Scorecards. This variable component of remuneration is conditional upon the achievement of **access gates**, and is subject to **deferral**, as well as to the **malus and claw-back mechanisms** illustrated above.

According to the weight and complexity of the position filled, variable remuneration may be equal to no more than 33.3% of total fixed remuneration, provided the maximum level of performance objectives be attained. No guaranteed minimum is provided for.

The established objectives for the Heads of control functions are consistent with the tasks assigned and are independent of the results achieved by the Bank; rather, they consist of project and service completion objectives, as well as company sustainability objectives.

Participation in retention and/or loyalty plans may also be approved by resolution duly supported by a statement of grounds.

Managers belonging to this category also receive supplementary pension benefits up to 13% of their RAL and the benefit package provided for the Banking Group's managers. The current early termination package meets applicable regulatory requirements. Severance benefits accruing in the event of early termination of the contract may be agreed subject to compliance with the principles set forth in point 5.2 above.

## **7.4 Other Personnel**

### *7.4.1 Other Managers*

The remuneration of other Managers consists of an all-inclusive annual gross remuneration (RAL) and a variable remuneration, linked to the degree to which the performance objectives indicated in the relevant Balanced Scorecards are achieved. This variable component of remuneration is conditional upon the achievement of **access gates**, and is subject to **deferral**, as well as to the **malus and claw-back mechanisms** illustrated above. According to the weight and complexity of the position filled, variable remuneration may range from a minimum of 20% to a maximum of 80% of the gross annual remuneration, provided the maximum level of performance objectives has been attained. No fixed guaranteed minimum is provided for.

In addition, for some of the aforesaid managers the Board of Directors may also extend the variable component of remuneration to include participation in a Long Term Incentive plan. Participation in retention and/or loyalty plans may also be approved by resolution duly supported by a statement of grounds.

They also enjoy supplementary pension benefits up to 13% of the RAL and the benefits package provided for the Banking Group's managers. The current early termination package meets applicable regulatory requirements. Severance benefits accruing in the event of early termination of the contract, may be agreed with managers belonging to this category subject to compliance with the principles set forth in point 5.2 above.

#### 7.4.2 Other Employees (Executives and Professional Areas)

The remuneration of other employees is regulated pursuant to the collective bargaining labour agreements applicable to credit companies, supplemented by the Supplementary Company Contract with specific regard to remuneration, as well as the Additional Agreements, entered into on the same date, on regulatory and other benefits. Moreover, participation in retention and/or loyalty plans may also be approved by resolution duly supported by a statement of grounds.

Some Executives can be assigned a short-term variable remuneration, linked to the degree of satisfaction of performance objectives expressed in the relevant Balanced Scorecards. This variable component of remuneration is conditional upon the achievement of **access gates**, and is subject to **deferral**, as well as to the **malus and claw-back mechanisms** illustrated above. According to the weight and complexity of the position filled, variable remuneration may range from a minimum of 10% to a maximum of 40% of the gross annual remuneration, provided the maximum level of performance objectives has been attained. No fixed guaranteed minimum is provided for.

#### 7.4.3 Relationship Managers

Relationship Managers (whether Managers or otherwise) serving the Private RM Area are covered under a Management by Objectives Plan.

Their remuneration is accordingly made up of fixed annual remuneration (RAL, all-inclusive for managers) and a variable component determined on the basis of the extent to which the performance objectives specified in the relevant Balanced Scorecards have been attained. This variable component of remuneration is conditional upon the achievement of **access gates**, and is subject to **deferral**, as illustrated above.

The variable component of remuneration may reach a maximum of **100%** of the annual gross remuneration (or higher in the presence of entry or term plans based on funding/revenues targets). No guaranteed minimum is provided for.

Participation in retention and/or loyalty plans may also be approved by resolution duly supported by a statement of grounds.

Given that the most significant aspect of the job description of Relationship Managers involves the pursuit of the best interests of customers in strict compliance with the rules and regulations governing the distribution of investment products and services, any and all business activities on which incentive portions of remuneration may be earned, must be conducted scrupulously in accordance with all applicable principles of professionalism and propriety in all customer relations, including with a view to

enhancing customer loyalty. Towards such end, alongside traditional targets set in terms of net inflows and revenues, additional targets of propriety and regulatory compliance in all transactions, as well as **specific malus and claw-back** mechanisms, have been introduced.

Managers belonging to this category also enjoy supplementary pension benefits equal to 13% of RAL and the benefits package provided for the Banking Group's managers.

The current early termination package meets applicable regulatory requirements. Severance benefits accruing in the event of early termination of the contract, may be agreed with managers belonging to this category subject to compliance with the principles set forth in point 5.2 above.

#### *7.4.4 Asset Managers of the AM Area, BG Fiduciaria SIM and BG Fund Management Luxembourg*

A specific incentive plan based on Management by Objectives has been instituted in favour of employees falling within the category of Asset Managers of the AM Area (whether Managers or otherwise), BG Fiduciaria and BG Fund Management Luxembourg.

Their remuneration is accordingly made up of fixed annual remuneration (RAL, all-inclusive for managers) and a variable component determined on the basis of the extent to which the performance objectives specified in the relevant Balanced Scorecards have been attained.

This variable component of remuneration is conditional upon the achievement of **access gates**, and is subject to **deferral**, as well as to the **malus and claw-back mechanisms** illustrated above.

The variable component of remuneration may reach a maximum of **100%** of the annual gross remuneration. No guaranteed minimum is provided for.

Participation in retention and/or loyalty plans may also be approved by resolution duly supported by a statement of grounds.

## **8. Financial Advisors qualified for cold calling**

### **8.1 Information on the type of relationship**

The Financial Advisors authorised for cold calling (hereinafter also "Financial Advisors"), with the exception of Relationship Managers, are linked to the company by an agency contract whereby the Financial Advisor is appointed permanently (and without representation) to promote and place in Italy, as part of their advisory service, and in an autonomous manner — on the Company's behalf and, on the Company's instructions, also in the interest of third party principal companies — financial instruments and services, banking products and services, insurance products and other products

indicated in the contract, and also to provide customer service for customers acquired and/or assigned — with all the due diligence required to achieve company objectives.

The relationship may come to an end (as well as due to the occurrence of termination events provided for by the law) as a result of consensual resolution or a declaration of withdrawal of one of the two parties, in accordance with the notice periods specified, unless a breach of such gravity occurs that prevents the relationship continuing even on a temporary basis.

The distribution structure is organised hierarchically with two divisions, one of which is specifically dedicated to private customers.

Within the Financial Planner Area, Financial Advisors are classified according to rising levels of experience as **Junior Financial Planner**, **Financial Planner**, **Professional Financial Planner** and **Private Financial Planner**. The allocation to each one of the categories takes into account both the experience and the assets under management. Coordination of the Financial Advisors is delegated to a second-tier managerial structure consisting of the **District Managers** — responsible for individual local operating points and the related groups of Financial Advisors, who are assisted in some cases by supervisors, the **Executive Managers** — and a first-tier structure, **Area Managers**, who report to the Head of the Financial Planner Area. This structure operates in parallel to an additional structure consisting of Financial Advisors known as **Financial Planner Agents**, who carry out also insurance business on behalf of Generali Group companies, and who report in some cases to a second level managerial structure represented by an **FPA Manager** and on other cases directly to a first-tier managerial structure represented by a **Sales Manager**, who in turn reports to the Head of the Financial Planner Division.

Within the **Private Banking** Area, individual Financial Advisors are coordinated by a first-tier managerial structure, consisting of **Private Banking Managers** — assisted by supervisors, i.e., **Private Team Managers** —, who report to the **Sales Manager**, who in turn reports to the Head of Private Banking Area.

These professional posts receive a special remuneration package as part of a common system of rules. The general principles are set out below.

## **8.2 Remuneration of Financial Advisors and Managers**

The remuneration of Financial Advisors — who, unlike employees, serve the Bank pursuant, not to employment contracts, but to independent agency agreements — is by definition subject to fluctuation over time, with the result that past remuneration is no guarantee of future reward in all such cases, and even more so, in respect of temporary entry plans.

The remuneration of Financial Advisors consists of fees of various kinds, which are influenced by the type of activity performed, the range of products placed, and the distribution agreements in place with the product companies.

A Financial Advisor's remuneration is considered business income, which is figured by deducting variable or fixed business expenses (consider, for example, the costs of remunerating the advisor's own employees), and is subject to an entirely different tax treatment from salaries, to which it is not easily comparable.

The remuneration system is established at a general level, for all Financial Advisors belonging to a given category, and is not therefore directly tied to the share of the intermediary's risk profile attributable to the individual Financial Advisor. It has to combine the need to pay the Financial Advisors a remuneration proportionate to the Company's revenues, in line with rates commonly applied in the reference market, with the need to avoid situations of potential conflict of interest.

The remuneration of the Financial Advisors consists of the following main items:

1. **sales fees:** the Bank pays the Financial Advisor a portion of the fees paid by the customer at the time the financial products are subscribed. These fees differ according to the various types of product and may vary in relation to the amount paid and/or the customer's assets. A fixed percentage of these fees is generally paid back to the Financial Advisor, on the basis of their professional roles;
2. **management and maintenance fees:** advisory and after-sales services rendered to customers are remunerated by way of monthly fees established not only in light of the value of the investments held by the customers in question, but also in function of the type of investment product involved and the professional roles covered by each Financial Advisor;
3. **recurring fees:** these are similar to the previous fees, but relate specifically to the management fees paid by customers for the portfolios managed;
4. **consultancy fees:** these are similar to the above, but refer to the specific consultancy services rendered against payment.

The fees in question are recurring and thus are not regarded as incentives.

Given that the most significant aspect of the job description of Financial Advisors involves the pursuit of the best interests of customers in strict compliance with the rules and regulations governing the distribution of investment products and services, all the related professional activities must be conducted scrupulously in accordance with the relevant principles of professionalism and propriety in respect of customer relations, including with a view to building customer loyalty. Towards such end, objectives of propriety and regulatory compliance have been introduced, with each Financial Advisor being subjected to the obligation to provide customers with adequate after-sales services. The contract regulating the relationship between the Financial Advisor and the Bank therefore includes

**mechanisms of fee reduction** in the case when the Financial Advisor does not carry out this activity as required.

With reference to the remuneration of the direct promotion activities carried out by the Managers, the fees are apportioned in a manner similar to that of Financial Advisors mentioned above; the same general rules apply, with specific percentages, to the calculation of the fees they are entitled to for their promotion activities carried out through their supervision.

Given that also the Managers' activity is aimed at meeting the needs of customers in strict compliance with the rules and regulations governing the distribution of investment products and services, all the related professional activities must be conducted scrupulously in accordance with the relevant principles of professionalism and propriety in respect of customer relations, with a view to building customer loyalty. Towards such end, objectives of propriety and regulatory compliance have been introduced for Managers as well, with the obligation to ensuring that all Financial Advisors they supervise provide customers with adequate after-sales services. The contract regulating the relationship between the Manager and the Bank therefore includes **recurrent mechanisms of fee reduction** if the Financial Advisors placed under their supervision do not carry out this activity as required. Moreover, within the framework of a process of gradually increasing the responsibilities of Managers in coordination and supervision activity, there are economic mechanisms aimed at contemplating any **specific risks** that emerge in the area being coordinated, including for the purpose of determining recurring remuneration.

Incentive systems are also provided for the Financial Advisors and Managers, based on identified **individual objectives** for Financial Advisors and group objectives for Managers. These systems focus on net funding and on services and products designed to promote risk diversification/containment, with distinctions being drawn on the basis of the various service levels through which the said goals are pursued.

The goals in question must always be achieved while observing the need to maintain **proper relations** with customers and **contain legal and reputational risks**.

All the incentives are paid out only on condition that, on the dates scheduled for the payments, the agency relationship is properly in place, the notice period is not running and all the conditions required for achieving the result objectives set have occurred.

Moreover, given that the most significant aspect of the job description involves the pursuit of the best interests of customers in strict compliance with the rules and regulations governing the distribution of investment products and services, any and all business activities on which **bonuses and/or fees** may



be earned must be conducted scrupulously in accordance with all applicable principles of professionalism and propriety in all customer relations, including with a view to enhancing customer loyalty. Towards such end, alongside traditional targets set in terms of net inflows and revenues, **additional targets of propriety and regulatory compliance in all transactions, as well as specific malus and claw-back mechanisms**, have been introduced.

The right to collect the bonuses deriving from the aforementioned systems is contingent not only on the actual result achieved, but also on the reaching of the Banking Group's **access gates**, as discussed in point 4.1 above.

Financial Advisors' and Managers' participation in retention and/or loyalty plans may also be approved by resolution duly supported by a statement of grounds.

In light of the Bank of Italy's Supervisory Provisions, for the intents and purposes of this document, the remuneration components included under items (i) through (iv) are to be deemed fixed compensation components, whilst bonuses disbursed under incentive programmes and/or stock option plans, where applicable, are to be considered equivalent to the variable salary component of employees.

### **8.3 Positions Falling within Key Personnel**

As mentioned above, the coordination of the networks of Financial Advisors within the Financial Planner Area is entrusted to **Area Managers**, or a **Sales Manager**, while that of the Financial Advisors within the Private Area is entrusted to one **Sales Manager**, to whom the **Private Banking Managers** report.

Managers in these categories are subject to the same remuneration and incentivisation policies and rules outlined above.

However, given the importance of the role of oversight and coordination assigned to Sales Managers, Area Managers and Private Banking Managers, these positions are regarded as **Key Personnel**. Accordingly, their variable remuneration, linked to incentive plans, is subject to the same **bonus deferral schemes, payment in Banca Generali shares, access gates** and the **malus and claw-back mechanisms** — specific for this category — illustrated above, as applicable to Key Personnel.

Participation in retention and/or loyalty plans may be approved for these parties also by resolution duly supported by a statement of grounds.

The ratio of the recurring and incentivisation components of the remuneration paid to such individuals, with the approval of the General Shareholders' Meeting, may not exceed 2:1. Any amount in excess shall be subjected to the **cap mechanism** described above.

Moreover, pursuant to the quantitative criteria imposed by the Commission Delegated Regulation (EU) No. 604/2014, the category of Key Personnel was extended to include the 2 Financial Advisors whose remuneration in 2016 exceeded 1,000,000.00 euros and who were not beneficiaries of the entry plans concluded in the two-year period 2015-2016.

Their variable remuneration, linked to incentive plans, is subject to the same bonus deferral schemes, payment in Banca Generali shares and access gates as applicable to Key Personnel, illustrated above, as well as malus and claw-back mechanisms specifically established for this category.

The ratio of fixed to variable components of the remuneration paid to such individuals shall not exceed 1:1; any amount in excess shall be subjected to the **cap mechanism** described above.

#### **8.4 Additional Benefits to the Recurring Remuneration**

The Financial Advisors and Managers benefit from **accident, health and permanent disability insurance coverage** and receive social security and early termination benefits provided for under legislation. The above package is supplemented by a specific insurance policy covering the costs of **Long Term Care** in the event of disability or infirmity.

These measures are aimed at ensuring that, in addition to ordinary remuneration, Financial Advisors and Managers are also provided with a series of protections and insurance covers designed to consolidate their professional relationship with the Bank, whilst also encouraging consistent results over time, in line with the Bank's conviction that these supplementary benefits are conducive to a more effective and less stressful relationship with customers.

#### **8.5 Personnel Retention Policies**

A number of alternative retention schemes are used for Financial Advisors, as described below:

- a. **stock option** plans related to the achievement of specific objectives;
- b. the **deferred loyalty bonuses**, under which a predetermined amount is invested in a **capitalisation policy** and may be paid out **five or seven years** after the recruitment date and on condition that, on the settlement date, the Financial Advisor has maintained his professional relationship with the Banking Group and has achieved a significant objective in terms of the quantity and quality of the assets managed;

- c. participation in a **Framework Loyalty Retention Programme** in favour of the Financial Advisors provided that they meet determinate minimum length-of-service requisites and annually achieve the results linked to productivity. The Framework Loyalty Retention Programme permits the accrual of a bonus quantified year by year, in relation to the 8 plan cycles with a decreasing duration, which may be disbursed only on expiry of same Framework Programme.

## QUANTITATIVE INFORMATION

### 1. Goals Pursued Through Remuneration Policies and Criteria Applied

As illustrated in the document entitled “The Banking Group’s Remuneration Policies” approved by the General Shareholders’ Meeting on 21 April 2016, policies were defined and implemented in accordance with:

- the 7th update to Circular Letter No. 285 of 17 December 2013, to which Chapter 2, entitled “Remuneration and Incentivisation Policies and Practices” (hereinafter also the “Provisions”), was added in Part I, Title IV, “Corporate Governance, Internal Controls, Risk Management”. This update, which repealed the Order of March 2011, is largely aimed at adopting the changes introduced by Directive No. 2013/36/EU (known as CRD 4);
- the provisions of Article 84-quater of the regulation implementing Legislative Decree No. 58 of 24 February 1998 (Finance Consolidation Law) concerning rules for issuers, as amended pursuant to Consob Resolution No. 18049 of 23 December 2011;
- the Corporate Governance Code for Listed Companies, updated in July 2015, which requires the approval of a remuneration policy for Directors and Key management Personnel.

This document has thus been drawn up with a view to ensuring simultaneous compliance with both the provisions governing remuneration policies within the banking industry and the regulations applicable to Issuers.

The remuneration system was applied on the basis of the Bank’s corporate values and objectives, long-term strategies and risk management policies.

The policies adopted by Bank ensures compliance with the regulatory capital requirements set forth in Regulation (EU) No. 575/2013 (CRR) and Circular Letter No. 285 of 17 December 2013, in line with the European Central Bank’s recommendations (Letter dated 26 November 2015 concerning variable remuneration policies).

More specifically, overall remuneration is made of fixed and variable components, the weight of which is correlated with the strategic weight of the position held, and, in the case of certain managers,

includes benefits arising under Long Term Incentive (LTI) plans envisaging long-term performance of the company or corporate group to which it belongs.

All types of variable remuneration, defined both based on incentive plans through objectives linked to the performance of the Bank and the Banking Group, and on a discretionary basis through a process linked to that of performance assessment, are correlated with indicators, which aim at appreciating the weighting of risks of the company or corporate group to which they belong, and are determined taking due account of the risks assumed and the liquidity required to cover ongoing business operations, and with a view to avoiding conflicts of interest based on the following principles:

**a) access gates**

In order to (i) ensure that the variable component of remuneration is linked to multi-year performance indicators, as well as (ii) take due account of current and future risks, the cost of capital and the liquidity required to finance the Banking Group's operations, the bonus entitlements of all employees receiving variable remuneration under the Management by Objectives plan, as well as those of all staff receiving bonus on a discretionary basis, together with those of Financial Advisors and Network Managers serving the Banking Group, shall be subject not only to the actual result attained, but also to the satisfaction of access gates tied to specific results of the Banking Group.

The afore-mentioned access gate of the Banking Group is made up of the following two indicators: **(i)** the Total Capital Ratio, measuring the extent of the Bank's capital in relation to the degree of risk of the assets held — minimum target ratio of 11.4%, and the **(ii)** Liquidity Coverage Ratio, aimed at increasing short-term resilience of the Bank's liquidity risk profile, while ensuring it has sufficient, high-quality liquid assets to overcome any 30-day long acute stress situation — minimum ratio of 105%.

The Banking Group's access gate also plays a role in the cycles of the LTI plans, pursuant to the same mechanism and subject to the same thresholds imposed for entitlement to short-term variable compensation.

Moreover, each cycle of the Generali Group's LTI plans is also subject to a specific access gate. The Banking Group's ratios, as defined above, have all been achieved for the year 2016; in fact, the following values result from the final figures as at 31 December 2016:

- Total Capital Ratio of the Banca Generali Group: 18.4% (threshold: 11.4%)
- Liquidity Coverage Ratio of the Banca Generali Group: 363.4% (threshold: 105%)

As a consequence of those ratios:

- bonus entitlements have been accrued for the year in question;
- payment of the 2016 share of the 2014 and 2015 bonuses, which had been deferred in 2016, has come due;
- accrual of cycles of LTI plans that fall due only upon satisfaction of the access gates for the financial year 2016, and described in greater detail below.

**b) deferral and share-based payment of variable remuneration**

A portion of the variable component of the remuneration of all the Banking Group’s employees and the main Network Managers who, during the year, have accrued bonuses in excess of 75,000.00 euros, shall be subject to deferral, differentiated by: i) Key Personnel (including main Network Managers), and ii) all Other Employees, defined as follows..

**Key Personnel:** variable remuneration (starting with variable remuneration accrued in 2015) is partly disbursed through assignment of Banca Generali shares, based on the following assignment and retention mechanism:

- 60% paid up-front; 75% in cash, and 25% in Banca Generali shares, 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, 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, subject to a retention period of one year.

If the effective bonus accrued by the key personnel is lower than 75,000.00 euros, it is paid up-front in full during the year after that of reference, 75% in cash and 25% in Banca Generali shares.

**Other employees:**

- 60% of the bonus is paid up-front, in cash;
- 20% of the bonus will be deferred by one year and paid in cash;
- the remaining 20% of the bonus will be deferred by two years and paid in cash.

In both cases, assignment of shares subject to deferral will be conditional upon verification of satisfaction of access gates.

The shares of bonuses accrued in 2014 will be disbursed in cash pursuant to the relevant assignment rules.

Upon payment, the individual deferred bonus instalments to be paid in cash will bear interest calculated at the mean 6-month EURIBOR rate recorded during the calendar year preceding the year in which related instalment is paid, increased by 0.85pps.

**KEY PERSONNEL**

|            | Year of payment |                 |                      |            |                 |                      |            |                 |                      | TOTAL      |                 |                      |            |                 |                      |            |                 |                      |  |
|------------|-----------------|-----------------|----------------------|------------|-----------------|----------------------|------------|-----------------|----------------------|------------|-----------------|----------------------|------------|-----------------|----------------------|------------|-----------------|----------------------|--|
|            | 2015            |                 | 2016                 |            |                 | 2017                 |            |                 | 2018                 |            |                 | 2019                 |            |                 |                      |            |                 |                      |  |
|            | % of bonus      | which % in cash | of which % in shares | % of bonus | which % in cash | of which % in shares | % of bonus | which % in cash | of which % in shares | % of bonus | which % in cash | of which % in shares | % of bonus | which % in cash | of which % in shares | % of bonus | which % in cash | of which % in shares |  |
| BONUS 2014 | 60              | 100             |                      | 20         | 100             |                      | 20         | 100             |                      |            |                 |                      | 100        | 100             |                      |            |                 |                      |  |
| BONUS 2015 |                 |                 |                      | 60         | 75              | 25                   | 20         | 75              | 25                   | 20         | 75              | 25                   |            |                 |                      | 100        | 75              | 25                   |  |

|            |  |  |    |    |    |    |    |    |    |    |    |     |    |    |
|------------|--|--|----|----|----|----|----|----|----|----|----|-----|----|----|
| BONUS 2016 |  |  | 60 | 75 | 25 | 20 | 75 | 25 | 20 | 75 | 25 | 100 | 75 | 25 |
|------------|--|--|----|----|----|----|----|----|----|----|----|-----|----|----|

## OTHER EMPLOYEES

|            | Year of payment |                    |                      |         |                    |                      |         |                    |                      |         |                    |                      | % bonus of which % in cash % in shares |                    |                      |
|------------|-----------------|--------------------|----------------------|---------|--------------------|----------------------|---------|--------------------|----------------------|---------|--------------------|----------------------|--|--------------------|----------------------|
|            | 2015            |                    |                      | 2016    |                    |                      | 2017    |                    |                      | 2018    |                    |                      |  |                    |                      |
|            | % bonus         | of which % in cash | of which % in shares | % bonus | of which % in cash | of which % in shares | % bonus | of which % in cash | of which % in shares | % bonus | of which % in cash | of which % in shares | % bonus                                | of which % in cash | of which % in shares |
| BONUS 2014 | 60              | 100                |                      | 20      | 100                |                      | 20      | 100                |                      |         |                    |                      | 100                                    | 100                |                      |
| BONUS 2015 |                 |                    |                      | 60      | 100                |                      | 20      | 100                |                      | 20      | 100                |                      |  |                    |                      |
| BONUS 2016 |                 |                    |                      |         |                    |                      | 60      | 100                |                      | 20      | 100                |                      | 20                                     | 100                |                      |

### c) Malus and claw-back mechanisms

Variable remuneration earned by all staff under the Management by Objectives plan and/or on a discretionary basis, as well as by Network Managers and Financial Advisors serving the Banking Group, shall be subject to specific malus and claw-back mechanism entailing the non-payment and/or the restitution of bonuses already paid, upon the occurrence of certain specific conditions set forth in the approved remuneration policies.

### d) Principle of propriety and the containment of reputational risks

The remuneration and incentivisation systems for the distribution networks have also been formalised according to criteria of propriety in dealings with customers and the containment of legal and reputational risks through the inclusion of specific malus and claw-back clauses, which also called for the evaluation of the number of complaints attributable to the activity of each Relationship Manager and each Financial Advisor when determining the bonus accrued, in addition to the assessment of special situations in cases of disciplinary measures, extraordinary inspections and reputational damages.

## 2. Information on Remuneration by Role and Functions

This section provides a brief overview of remuneration accrued in financial year 2016 in implementation of the remuneration policies approved.

### 2.1 Remuneration of Company Directors

The remuneration for members of the Board of Directors, including members of the Board Committees, was determined by following the procedures defined and described in the presentation of remuneration policies for 2016. Non-executive Directors, including the Chairman of the Board of Directors, were not entitled to any form of variable remuneration linked to the attainment of specific objectives nor to share-based incentivisation plans.

In particular, remuneration of the Chairman of the Board of Directors is paid back to the company in question.

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The relevant year-end figures — including the information concerning the position of the Chairman of the Board of Directors — are set forth in detail in Table 1 – Remuneration Paid to Members of the Governing and Control Bodies, General Managers and Other Key Management Personnel, to which the reader is referred.

A D&O policy has been contracted covering the members of the Board of Directors, as illustrated in the document presenting the remuneration policies for 2016.

## **2.2 Remuneration of Members of the Board of Statutory Auditors**

The remuneration of the members of the Board of Statutory Auditors was established by the General Shareholders' Meeting at the time of the appointment of the said Board. The members of the Board of Statutory Auditors also receive further and different remuneration, in addition to their compensation as members of the Company's control board, in consideration of the fact that the said Board also discharges the tasks and functions of the Supervisory Board instituted pursuant to Legislative Decree No. 231/2001.

Acting Auditors were not entitled to any form of variable remuneration.

The relevant year-end figures are set forth in detail in Table 1 – Remuneration Paid to Members of the Governing and Control Bodies, General Managers and Other Key Management Personnel, to which the reader is referred.

A D&O policy has been contracted covering the members of the Board of Auditors, as illustrated in the document presenting the remuneration policies for 2016.

## 2.3 Remuneration of the Chief Executive Officer, General Manager and Other Key Management Personnel

### 2.3.1 Chief Executive Officer and General Manager

The office of Chief Executive Officer was covered by Piermario Motta until 26 March 2016.

The remuneration, which was paid for the role of Chief Executive Officer is comprised of an overall fixed component in the amount of 155,277.79 euros; no short-term variable remuneration accrued.

The amounts relating to the discretionary pension benefit policy were also paid, up until the date of termination from office, for a total of 71,750.01 euros.

The office of General Manager was covered by Piermario Motta until 26 March 2016.

The General Manager's remuneration is comprised of (i) all-inclusive gross annual remuneration amounting which in 2016 came to 87,500.91 euros; and (ii) sundry benefits envisaged for the manager of the Banking Group for a total of 107,567 euros. No short-term variable fee accrued.

The notice period indemnity relating to the termination of the employment relationship envisaged by the pertinent National Collective Labour Agreement was paid for a total of 276,749.09.

With regard to both positions, the short-term variables accrued in previous years and not yet disbursed because they are subject to deferral were paid to the heirs during 2016.

With regard to the long-term variable remuneration, in relation to the demise of Mr. Motta, Assicurazioni Generali and Banca Generali resolved - for the parts they are respectively responsible for - the application of the regulatory provision which envisages, in the event of demise, the maintenance of the rights relating to the plans with assignment of the share incentives on the basis of the effective performance achieved without application of the pro rate calculation.

The plans still open and the accrual of the shares pertaining to the period on the basis of the performances achieved are detailed below:

#### Long-term variable remuneration of Piermario Motta

| PLAN           | NO. OF SHARES SET ASIDE    |                 |                             |                             |
|----------------|----------------------------|-----------------|-----------------------------|-----------------------------|
|                | max No. in the three years | accrued in 2016 | since beginning of the plan | years ended/remaining years |
| 2014-2016 LTIP | 105,755                    | 18,129          | 74,331                      | 3/3                         |
| 2015-2017 LTIP | 98,463                     | 20,002          | 45,777                      | 2/3                         |

The sum of the shares set aside during each of the three years of the cycle will be actually assigned only at the end of the three-year period, following verification of the satisfaction of objectives in the third year.



### 2.3.2 General Manager

The remuneration paid to Mr. Gian Maria Mossa, who has covered the role of General Manager since 1 April 2016, is comprised of (i) all-inclusive gross annual remuneration in 2016 amounting to 453,846.16 euros; (ii) a short-term variable remuneration accrued on the basis of the results achieved and totalling 253,175.22 euros; and (iii) the long-term variable components indicated below, as well as (iv) other emoluments and benefits related to the position of Manager of the Banking Group for a total of 141,191.87 euros.

With regard to the long-term variable remuneration, Mr. Moss participates in the following LTI plans:

Long-term variable remuneration of Mr. Mossa

| PLAN          | NO. OF SHARES SET ASIDE    |                 |                             |                             |
|---------------|----------------------------|-----------------|-----------------------------|-----------------------------|
|               | max No. in the three years | accrued in 2016 | since beginning of the plan | years ended/remaining years |
| 2014-2016 LTI | 31,726                     | 5,439           | 22,299                      | 3/3                         |
| 2015-2017 LTI | 34,462                     | 7,001           | 16,023                      | 2/3                         |
| 2016-2018 LTI | 62,581                     | 15,019          | 15,019                      | 1/3                         |

The sum of the shares set aside during each of the three years of the cycle will be actually assigned only at the end of the three-year period, following verification of the satisfaction of objectives in the third year.

### 2.3.3 Other Key Management Personnel for 2016

This category of personnel includes:

- Andrea Ragaini, since 1 July 2016 VDG Wealth Management Markets and Products, who until 30 June 2016 covered the office of Head of the Private Relationship Manager Division; Stefano Grassi, who since 1 July 2016 has covered the office of VDG Finance & Operations, previously Central Manager, head of the CFO Area;
- Cristina Rustignoli, until 30 June 2016, in the capacity of Central Manager, head of the Governance Area;
- Stefano Insaghi, who until 30 June 2016 covered the role of Central Manager, head of the Bank Area, appointed on 1 July 2016, Head of the Alternative Channels and Support Area.

Their remuneration consists of all-inclusive annual remuneration (RAL), a position-related indemnity, a variable remuneration linked to the degree of satisfaction of performance objectives as explained below, and other remuneration and benefits related to the position of Managers of the Banking Group. The overall fixed remuneration, consisting of the gross annual remuneration (RAL) and the service allowance, where applicable, totalled 994,807.77 euros in 2016.

Short-term performance-based bonuses, accrued on the basis of results achieved, totalled 486,948.98 euros.

The total remuneration of the personnel included in this category also includes 209,556.94 euros for other benefits envisaged for the Managers of the Banking Group.

With reference to long-term remuneration, one individual is the beneficiary of the LTI plans as indicated below:

#### *Long-term variable remuneration*

| PLAN          | No. of beneficiaries | NO. OF SHARES SET ASIDE    |                 |                             |                             |
|---------------|----------------------|----------------------------|-----------------|-----------------------------|-----------------------------|
|               |                      | max No. in the three years | accrued in 2016 | since beginning of the plan | years ended/remaining years |
| 2014-2016 LTI | No. 1                | 21,151                     | 3,626           | 14,866                      | 3/3                         |
| 2015-2017 LTI | No. 1                | 19,693                     | 4,001           | 9,156                       | 2/3                         |
| 2015-2017 LTI | No. 1                | 25,032                     | 6,008           | 6,008                       | 1/3                         |

The sum of the shares set aside during each of the three years of the cycle will be actually assigned only at the end of the three-year period, following verification of the satisfaction of objectives in the third year.

The information provided above relates to the whole of 2016 also for those who during the year changed positions from/to positions not falling within the sphere of Senior Management.

#### **2.4 Breakdown of Remuneration by Lines of Business of Key Personnel**

In application of Article 450 of the CRR (Reg. EU No. 575/213), letter g), aggregate quantitative information on remuneration, broken down by lines of business related to Key Personnel, is set out in the Attachment Article 450 CRR, letter g) Aggregate Quantitative Information on Remuneration, Broken Down by Business Area, Concerning “Key Personnel”.

#### **2.5 Breakdown of Remuneration by Category of Key Personnel**

A breakdown of remuneration by category of Key Personnel for financial year 2016 is presented in Annex Article 450 CRR, letter h) Aggregate Quantitative Information on Remuneration, Broken Down by Category of “Key Personnel” which refers to the remuneration of personnel that, pursuant to the Company’s internal self-assessment process, has been identified as belonging to such category.

More specifically:

- a. Senior Management: Chief Executive Officer, General Manager, Central Managers until 30 June 2016, Deputy General Managers as from 1 July 2016 further to the change of the organisational structure which took place as from that latter date. The Managers included in

- this group represent the Bank's Top Management and are also the Bank's Key Management Personnel;
- b. Other Key Personnel: this category has been determined to include (i) the heads of key operating/company units (main lines of business): these are the Head of the Finance Department, the Head of the Lending Department, and the Executive Director of BG Fund Management Luxembourg S.A. (hereinafter also "BG FML") who also covers the office of Head of the AM Area of Banca Generali and General Manager of BG FML; and (ii) persons who report directly to the personnel indicated in point (i) above and who are regarded as having an impact on company risk due to their activities, autonomy and powers: these are the Heads of the Private Banking Area, the Financial Planner Area and the Private Relationship Manager Area. This category has also been determined to include the Head of the COO Area, the Head of the CFO Area and the Head of the Alternative Channels and Support Area, since the activities, autonomy and powers assigned to this position have been regarded as having a substantial impact on the company's risk;
  - c. Heads of Control Functions: Head of the Risk and Capital Adequacy Department, of the Internal Audit Department, of Human Resources Department and of Compliance and Anti-Money Laundering Department.
  - d. Main managers operating in the Bank's distribution networks and other financial advisors identified in accordance with Article 4 of the Delegated Regulation (EU) No. 604/2014: Sales Manager Italy, Area Manager of the Financial Planner Area, Private Banking Manager of the Private Banking Area, Senior Private Banking Recruitment Manager and 2 Financial Advisors.

Members of Key Personnel with remuneration exceeding 1 million euros are a total of fourteen, of whom eleven in the bracket from 1 to 1.5 million euros and three in the bracket from 1.5 to 2 million euros.

## 2.6 Remuneration for Other Employees

Turning to the remuneration of employees not considered Key Personnel, the following is an account of the main aggregates for the professional families Relationship Managers, Asset Managers (Asset Managers from the AM Area, BG Fund Management Luxembourg, and BG Fiduciaria SIM) and other employees.

In particular, in the following figures the fixed portion refers to the gross annual remuneration collected, whereas the variable portion refers to the estimate of variable remuneration based on the management by objectives (MBO) mechanisms and of the discretionary variable remuneration also linked to the annual evaluation for those not benefiting from MBO mechanisms.

| No. of beneficiaries | Fixed remuneration | Variable remuneration |
|----------------------|--------------------|-----------------------|
|----------------------|--------------------|-----------------------|

|                       |     |               |              |
|-----------------------|-----|---------------|--------------|
| Relationship Managers | 77  | 5,133,085.22  | 1,009,882.72 |
| Asset Managers        | 28  | 2,413,452.34  | 986,328.07   |
| Other Employees       | 788 | 30,874,821.20 | 2,361,506.14 |

The variable remuneration of the Relationship Managers does not include the entry plans.

### 3. Information on the Remuneration of Financial Advisors

The remuneration policies applicable to Financial Advisors were consistently implemented, in both qualitative and quantitative terms, as described in the document “Banking Group’s Remuneration Policies” approved by the General Shareholders’ Meeting on 21 April 2016.

Financial Advisors serve the Bank pursuant to an agency agreement providing for, inter alia, variable remuneration directly linked to various types of revenues, on a percentage basis. The said variable remuneration is however recurrent, insofar as it is directly linked to the assets entrusted to each Financial Advisor and the related advisory and placing activities. A small proportion also derives from fees on individual sale transactions. Moreover, Financial Advisors may also qualify for further remuneration under various incentive plans implemented by the company at its discretion, primarily with a view to rewarding excellence in professional performance during the relevant period.

By way of general information, it is worth noting that the weight of fee expense in 2016 (almost entirely related to fees in favour of Financial Advisors) on overall fee income increased compared to figures for 2015.

|  | 2016  | 2015  |
|--|-------|-------|
| Total <b>pay-out</b> (with <b>performance</b> fees)    | 48.9% | 43.1% |
| Total <b>pay-out</b> (without <b>performance</b> fees) | 55.0% | 53.6% |

With regard to the substantially recurrent component of the remuneration of the network, the following factors have been confirmed: (i) the mechanisms aimed at reducing the fees payable to Financial Advisors and their Managers in the event of substandard after-sales services to customers during 2016; (ii) within the framework of a process of gradually increasing the responsibilities of Network Managers in coordination and oversight activity, the mechanisms aimed at contemplating any specific risks that emerge in the area being coordinated, including for the purpose of determining recurring remuneration.

Turning to the fee component tied to incentive systems, based on the identification of individual objectives (and group objectives, for Managers), it is confirmed that it accounts for a relatively modest overall percentage of the Financial Advisors’ total remuneration that rises as a function of the managerial position filled, and that the sales objectives rewarded for Financial Advisors related to inflows associated with macro-aggregates. The use of such macro-aggregates allows incentivisation

policies to be prevented from fostering the distribution of the Group's products over the products of third parties and from resulting in efforts to sell single products.

More specifically, in the case of Financial Advisors serving in managerial positions at the end of 2016, incentives accounted for about 11% of total pay-out.

On the other hand, in light of their crucial coordination and supervisory responsibilities, the variable remuneration of Sales Managers, Area Managers and Private Banking Managers determined pursuant to incentive plans has been subjected to both access gates relating to the Banking Group and the partial deferral of bonus payments.

As a result, the aforesaid variable remuneration accrued for 2016 in the amount of 6,485,234 euros overall for such functions was as follows: 60% paid in 2016; 20% will be paid after verification of satisfaction of the access gate for the following year; and the remaining 20%, after a further year, again subject to satisfaction of the access gate applicable for that year.

Financial Advisors and Managers who are found to have wilfully engaged in conduct harmful to the Bank or its customers will lose all entitlements to pay-outs due under incentive plans. Moreover, the Bank reserves the discretionary right to refuse to make bonus pay-outs to Financial Advisors who (i) are subjected to disciplinary measures or pending non-routine inspections; and/or (ii) as a result of their conduct, manifestly occasion reputational harm to the Bank. Furthermore, pursuant to specific provisions, in the event of malfeasance on the part of a Financial Advisor that results in monetary liability for the Bank for any reason or cause whatsoever, the Bank is entitled to claw back bonus payments made during the year in which the malfeasance was committed, as well as the preceding year.

## QUANTITATIVE INFORMATION

### AGGREGATE QUANTITATIVE INFORMATION ON THE REMUNERATION, BROKEN DOWN BY LINES OF BUSINESS RELATING TO KEY PERSONNEL

| Company               | Lines of business (*)     | No. of beneficiaries | Fixed remuneration (**) | Variable remuneration 2016 (***) | Notes |
|-----------------------|---------------------------|----------------------|-------------------------|----------------------------------|-------|
| Banca Generali        | Member of management body | 1                    | 723,251                 | 0                                | (1)   |
| Banca Generali        | Control functions         | 3                    | 419,178                 | 93,031                           | (2)   |
| Banca Generali        | Corporate functions       | 9                    | 1,851,793               | 718,285                          | (3)   |
| Banca Generali        | Investment Banking        | 22                   | 12,507,867              | 7,978,251                        | (4)   |
| Banca Generali        | Retail Banking            | 2                    | 291,257                 | 120,887                          |       |
| Banca Generali/BG FML | Asset Management          | 2                    | 563,746                 | 331,783                          |       |

(\*) Business lines envisaged by the Bank of Italy/EBA data collections

(\*\*) The item also includes fringe benefits.

(\*\*\*) The “2016 variable” component is represented by i) MBO mechanisms applied using the Balanced scorecard (BSC) method with application of the deferral mechanism if applicable and ii) various bonuses/one-off payments.

- Information relating to Mr. Motta, who covered the role of Chief Executive Officer and General Manager until 26 March 2016.
- Information relating to the Head of the Risk and Capital Adequacy Department, of the Compliance and Anti-Money Laundering Department and of the Internal Audit Department.
- Information relating to: i) up until 31 March 2016: Joint General Manager of the Sales Area who ii) as from 1 April 2016 covered the role of GM, iii) until 30 June 2016: Central Manager Head of the Governance Area, central Manager Head of the CFO Area (as from 1 July 2016 became DGM Finance & Operations), Central Manager Head of the Bank Area (as from 1 July 2016 head of the Alternative Channels and Support Area) and Head of Resource Division; iv) as from 1 July 2016: DGM Wealth Management Markets and Products, DGM Finance & Operations (who until 30 June 2016 covered the role of Central Manager Head of the CFO Area), Head of the COO Area, Head of the CFO Area (position covered on 1 September 2016), Head of the HR Division (position covered on 1 September 2016).
- Information relating to: Head of the Financial Planner Area, Head of the Private Banking Area, Head of the Private Relationship Manager Area (position covered by 2 resources), Head of the Finance Division, and to the following lead network managers: 2 Sales Manager Italy, 6 Area Managers of the Financial Planner Division, 6 Private Banking Managers of the Private Banking Division, 1 Senior Private Banking Recruitment Manager and 2 Financial Advisors.

**AGGREGATE QUANTITATIVE INFORMATION ON THE REMUNERATION, BROKEN DOWN BETWEEN THE VARIOUS CATEGORIES OF KEY PERSONNEL with indication of:**

- I. the amounts of the remuneration for the period, divided up into fixed and variable remuneration and the number of beneficiaries;
- II. the amounts and the forms of the variable component of the remuneration, divided up into cash, shares, instruments associated with the shares and other types;
- III. the amounts of the deferred remuneration existing, divided up into assigned and unassigned portions;
- IV. the amounts of the deferred remuneration acknowledge during the period, paid and reduced by means of corrections of the performances;
- V. the new payments for start and end of employment relationship indemnities made during the period and the number of the related beneficiaries;
- VI. the amounts of the payments for send of employment relationship indemnities acknowledged during the period, the number of the related beneficiaries and the higher amounts acknowledged per person.

**A. SENIOR MANAGEMENT**

Banca Generali: Chief Executive Officer (Mr. Motta) until 26 March 2016; Senior management: General Manager (Mr. Motta) until 26 March 2016 and Mr. Mossa as from 1 April 2016, previously Joint General Manager); Central Managers until 30 June 2016 and Deputy General Managers as from 1 July 2016 further to the change of the organisational structure which took place as from that latter date.

| Company        | Category of personnel | No. of beneficiaries | i) Remuneration |               |           | ii) Amounts and variable component forms (**) |         |                                    |             | iii) Deferred remuneration (***) |            | iv) Remuneration (***) (****) |      |         | v) Benefits |                      |     | vi) Leaving indemnity |              |                      |               |
|----------------|-----------------------|----------------------|-----------------|---------------|-----------|---|---------|------------------------------------|-------------|----------------------------------|------------|-------------------------------|------|---------|-------------|----------------------|-----|-----------------------|--------------|----------------------|---------------|
|                |                       |                      | Fixed (*)       | 2016 variable | Total     | Cash  | Shares  | Instruments associated with shares | Other types | Assigned                         | Unassigned | Acknowledged                  | Paid | Reduced | Start       | No. of beneficiaries | End | No. of beneficiaries  | Acknowledged | No. of beneficiaries | Higher amount |
| Banca Generali | CEO                   | 1                    | 227,028         | 0             | 227,028   | 0   | -       | -                                  | -           | 0                                | 0          | 0                             | -    | -       | -           | -                    | -   | -                     | -            | -                    | -             |
| Banca Generali | Senior Management     | 6                    | 2,028,967       | 571,079       | 2,600,046 | 466,244                                       | 104,835 | -                                  | -           | 169,591                          | 243,809    | 169,591                       | -    | -       | -           | -                    | -   | -                     | -            | -                    | -             |

In relation to the 2014-2016 LTIP, upon verification, the attainment of pre-set targets and the satisfaction of access gates of the third period led to the determination of the shares to be set aside for the period amounting respectively to 18,219 for Mr. Motta and 5,439 for Mr. Mossa and 3,626 for a manager belonging to Senior Management. The sum of the shares set aside during each of the three years of the cycle will be assigned during 2017, or rather at the end of the three-year period.

In relation to the 2015-2017 LTIP, upon verification, the attainment of pre-set targets and the satisfaction of access gates of the second period led to the determination of the shares to be set aside for the period amounting respectively to 20,002 for Mr. Motta and 7,001 for Mr. Mossa and 4,001 for a manager belonging to Senior Management. The sum of the shares set aside during each of the three years of the cycle will be actually assigned only at the end of the three-year period, following verification of the level of satisfaction of the objectives in the third year.

In relation to the 2016-2018 LTIP, upon verification, the attainment of pre-set targets and the satisfaction of access gates of the first period led to the determination of the shares to be set aside for the period amounting respectively to 15,019 for Mr. Mossa and 6,008 for a manager belonging to Senior Management. The sum of the shares set aside during each of the three years of the cycle will be actually assigned only at the end of the three-year period, following verification of the level of satisfaction of the objectives in the third year.

**B. OTHER KEY PERSONNEL**

General Manager and heads of the key corporate/operating units (main business lines): Head of the Finance Division, of the Lending Division, Executive Director of BG FML who also covers the role of Head of the AM Area and General Manager of BG FML.

Parties, which due to activities/autonomies/powers are considered to have an impact on the business risk: Head of the Private Banking Area (ceased office in 2016), of the Financial Planner Area, of the PRM Area (covered during 2016 by 2 resources, of the COO Area (as from 1 July 2016), of the CFO Area (position covered on 1 September 2016) and the Alternative Channels and Support Area (as from 1 July 2016).

| Company                     | No. of beneficiaries | i) Remuneration |               |           | ii) Amounts and variable component forms (**) |         |                                    |             | iii) Deferred remuneration (***) |            | iv) Remuneration (***) (****) |      |         | v) Benefits |                      |     | vi) Leaving indemnity |              |                      |               |
|-----------------------------|----------------------|-----------------|---------------|-----------|---|---------|------------------------------------|-------------|----------------------------------|------------|-------------------------------|------|---------|-------------|----------------------|-----|-----------------------|--------------|----------------------|---------------|
|                             |                      | Fixed (*)       | 2016 variable | Total     | Cash  | Shares  | Instruments associated with shares | Other types | Assigned                         | Unassigned | Acknowledged                  | Paid | Reduced | Start       | No. of beneficiaries | End | No. of beneficiaries  | Acknowledged | No. of beneficiaries | Higher amount |
| Banca Generali / BG FML (a) | 11                   | 1,657,019       | 1,468,368     | 3,125,387 | 1,223,545                                     | 244,823 | -                                  | -           | 185,722                          | 432,154    | 185,722                       | -    | -       | -           | -                    | -   | -                     | -            | -                    | -             |

a) The values also include i) the fee and the variable remuneration, which is received by the Executive Director of BG FML, by virtue of the role of Head of the AM Area.

In relation to the 2016-2018 LTIP, upon verification, the attainment of pre-set targets and the satisfaction of access gates of the first period led to the determination of the shares to be set aside for the period amounting respectively to 4,129 in favour of 2 managers falling in the category of "Other key personnel". The sum of the shares set aside during each of the three years of the cycle will be actually assigned only at the end of the three-year period, following verification of the level of satisfaction of the objectives in the third year.

**C. HEADS OF CONTROL FUNCTIONS**

Banca Generali: Head of the Risk and Capital Adequacy Division, of the Internal Audit Division, of the HR Division (office covered by 2 resources in 2016) and of the Compliance and Anti-money Laundering Division.

| Company        | No. of beneficiaries | i) Remuneration |               |         | ii) Amounts and variable component forms (**) |           |                                    |             | iii) Deferred Remuneration (***) |            | iv) Remuneration (***) (****) |      |         | v) Benefits |                      |     | vi) Leaving indemnity |              |
|----------------|----------------------|-----------------|---------------|---------|---|-----------|------------------------------------|-------------|----------------------------------|------------|-------------------------------|------|---------|-------------|----------------------|-----|-----------------------|--------------|
|                |                      | Fixed (*)       | 2016 variable | Total   | Cash  | Shares    | Instruments associated with shares | Other types | Assigned                         | Unassigned | Acknowledged                  | Paid | Reduced | Start       | No. of beneficiaries | End | No. of beneficiaries  | Acknowledged |
| Banca Generali | 5                    | 576,448         | 164,808       | 741,256 | 129,106                                       | 35,702.02 | -                                  | -           | -                                | -          | -                             | -    | -       | -           | -                    | -   | -                     | -            |

**D. MAIN MANAGERS OPERATING IN THE BANK'S DISTRIBUTION NETWORKS:**

Banca Generali: 2 Sales Manager Italy, 6 Area Managers of the Financial Planner Area, 6 Private Banking Managers of the Private Banking Area, 1 Senior Private Banking Recruitment Manager and 2 Financial Advisors.

| Company        | No. of beneficiaries | i) Remuneration |               |            | ii) Amounts and variable component forms |         |                                    |             | iii) Deferred remuneration (***) |            | iv) Remuneration (***) (****) |      |         | v) Benefits |                      |     | vi) Leaving indemnity |              |                      |
|----------------|----------------------|-----------------|---------------|------------|--|---------|------------------------------------|-------------|----------------------------------|------------|-------------------------------|------|---------|-------------|----------------------|-----|-----------------------|--------------|----------------------|
|                |                      | Fixed           | 2016 variable | Total      | Cash                                     | Shares  | Instruments associated with shares | Other types | Assigned                         | Unassigned | Acknowledged                  | Paid | Reduced | Start       | No. of beneficiaries | End | No. of beneficiaries  | Acknowledged | No. of beneficiaries |
| Banca Generali | 17                   | 11,867,631      | 7,037,983     | 18,905,614 | 3,298,826                                | 915,359 | -                                  | -           | 1,808,139                        | 2,116,617  | 1,808,139                     | -    | -       | -           | -                    | -   | -                     | -            | -                    |

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\*) For 2016, the fixed remuneration is represented by the gross annual remuneration, emoluments, office indemnity and fringe benefits.

\*\*\*) The 2016 variable component is represented by i) MBO mechanisms applied using the Balanced scorecard (BSC) method with application of the deferral mechanism if applicable and ii) various bonuses/agreements/one-off payments.

\*\*\*\*) "Assigned"/"Acknowledged": deferred portions of the variable remuneration pertaining to 2014 and 2015 in relation to which the exceeding of the access gates for payment has been ascertained and which will be disbursed in 2017 for the personnel on the workforce; "Unassigned": deferred portions of the variable remuneration pertaining to 2015 and 2016.

\*\*\*\*\*) The portions present in the same item in the tables of the previous year have been duly paid in 2016 in observance of the deadlines envisaged contractually for the personnel on the workforce.

A return calculated using the average return of the 6-month Euribor for the last calendar year, increased by a spread of 0.85%, will be paid on the individual tranches subject to deferral.



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**DECLARATION OF THE MANAGER IN CHARGE OF PREPARING THE COMPANY'S FINANCIAL REPORTS**

The Manager responsible for preparing the company's financial reports, Tommaso Di Russo, declares, pursuant to Article 154 *bis*, section 2 of the Italian Consolidated Law on Finance, that the accounting information contained in this document "Pillar 3 - Disclosure to the general public as at 31 December 2016" corresponds to the documentary results, books and accounting records.

Trieste, Italy, 20 April 2017

## ANNEX 1 - OWN FUNDS: TERMS AND CONDITIONS OF TIER 1 AND TIER 2 CAPITAL INSTRUMENTS

|                                  |  |                                 |
|----------------------------------|--|---------------------------------|
| 1                                | Issuer   | Banca Generali Spa              |
| 2                                | Identification code  | IT0001031084                    |
| 3                                | Legislation applicable to the instrument   | Italian Law                     |
| <b>REGULATORY TREATMENT</b>      |  |                                 |
| 4                                | Transitional provisions of the CRR   | Common Equity Tier 1 capital    |
| 5                                | Post-transitory provisions of the CRR  | Common Equity Tier 1 capital    |
| 6                                | Admissible at level: of single entity; consolidated; of single entity and consolidated             | Single entity and consolidation |
| 7                                | Type of instrument   | Ordinary shares - Art. 28 CRR   |
| 8                                | Amount reckoned in own funds (euros/000)   | 116,425                         |
|                                  | Nominal amount of the instruments: original amount of the issue currency (euros/000)               | 116,425                         |
| 9                                | Nominal amount of the instruments: original amount - issue currency                                | Eur                             |
|                                  | Nominal amount of the instruments: conversion in euros of the original amounts (euros/000)         | 116,425                         |
| 9a                               | Issue price  | N/A                             |
| 9b                               | Repayment price  | N/A                             |
| 10                               | Accounting classification  | Net equity                      |
| 11                               | Original issue date  | N/A                             |
| 12                               | Irredeemable or on expiry  | N/A                             |
| 13                               | Original expiry date   | N/A                             |
| 14                               | Early repayment subject to prior authorisation of the Supervisory Authority                        | No                              |
|                                  | Optional early repayment date  | N/A                             |
| 15                               | Possible early repayment date and repayment amount   | N/A                             |
| 16                               | Subsequent early repayment dates, if applicable  | N/A                             |
| <b>COUPONS / DIVIDENDS</b>       |  |                                 |
| 17                               | Fixed or variable coupons/dividends  | N/A                             |
| 18                               | Rate of the coupon and any correlated index  | N/A                             |
| 19                               | Presence of a "dividend stopper" mechanism   | N/A                             |
|                                  | Fully discretionary, partly discretionary or mandatory - in terms of time                          | N/A                             |
| 20a                              | Fully discretionary, partly discretionary or mandatory - in terms of time - reasons for discretion | N/A                             |
|                                  |  | N/A                             |
| 20b                              | Fully discretionary, partly discretionary or mandatory - with reference to the amount              | N/A                             |
| 21                               | Presence of step ups or other repayment incentive  | N/A                             |
| 22                               | Cumulative or non-cumulative   | N/A                             |
| 23                               | Convertible or non-convertible   | N/A                             |
| 24                               | If convertible, event/events which lead to conversion  | N/A                             |
| 25                               | If convertible, in full or in part   | N/A                             |
| 26                               | If convertible, conversion rate  | N/A                             |
| 27                               | If convertible, mandatory or optional conversion   | N/A                             |
| 28                               | If convertible, state type of instrument into which the conversion is possible                     | N/A                             |
| 29                               | If convertible, state the issuer of the instrument into which it is converted                      | N/A                             |
| 30                               | Write-down mechanisms  | N/A                             |
| 31                               | In the event of write-down, events which lead to the same  | N/A                             |
| 32                               | In the event of write-down, total or partial write-down  | N/A                             |
| 33                               | In the event of write-down, permanent or temporary write-down                                      | N/A                             |
| 34                               | In the event of temporary write-down, description of the revaluation mechanism                     | N/A                             |
| 35                               | Position in the subordination hierarchy in the event of liquidation                                | N/A                             |
| 36                               | Non-compliant features of the instruments which benefit from the transitory provisions             | N/A                             |
| 37                               | If affirmative, state the non-compliant features   | N/A                             |
| N/A = Information not applicable |  |                                 |

|                                  |  |   |
|----------------------------------|--|---|
| 1                                | Issuer   | Banca Generali Spa  |
| 2                                | Identification code  | N/A   |
| 3                                | Legislation applicable to the instrument   | German Law  |
| REGULATORY TREATMENT             |  |   |
| 4                                | Transitional provisions of the CRR   | Tier 2 capital  |
| 5                                | Post-transitory provisions of the CRR  | Tier 2 capital  |
| 6                                | Admissible at level: of single entity; consolidated; of single entity and consolidated             | Single entity and consolidation   |
| 7                                | Type of instrument   | Subordinated loan (*) - Art. 62 CRR   |
| 8                                | Amount reckoned in own funds (euros/000)   | 43,000  |
|                                  | Nominal amount of the instruments: original amount of the issue currency (euros/000)               | 43,000  |
| 9                                | Nominal amount of the instruments: original amount - issue currency                                | Eur   |
|                                  | Nominal amount of the instruments: conversion in euros of the original amounts (euros/000)         | 43,000  |
| 9a                               | Issue price  | 100   |
| 9b                               | Repayment price  | 100   |
| 10                               | Accounting classification  | Liabilities - amortised costs   |
| 11                               | Original issue date  | 30/10/2014  |
| 12                               | Irredeemable or on expiry  | On expiry   |
| 13                               | Original expiry date   | 30/10/2024  |
| 14                               | Early repayment subject to prior authorisation of the Supervisory Authority                        | YES   |
|                                  | Optional early repayment date  | 30/10/2019  |
| 15                               | Possible early repayment date and repayment amount   | N/A   |
| 16                               | Subsequent early repayment dates, if applicable  | on each date of payment of the interests after 30/10/2019   |
| COUPONS / DIVIDENDS              |  |   |
| 17                               | Fixed or variable coupons/dividends  | fixed and subsequently variable   |
| 18                               | Rate of the coupon and any correlated index  | 3.481% until 30/10/2019: 3-month Euribor + 300 bps from 6th year                                      |
| 19                               | Presence of a "dividend stopper" mechanism   | No  |
| 20a                              | Fully discretionary, partly discretionary or mandatory - in terms of time                          | N/A   |
|                                  | Fully discretionary, partly discretionary or mandatory - in terms of time - reasons for discretion | N/A   |
| 20b                              | Fully discretionary, partly discretionary or mandatory - with reference to the amount              | N/A   |
| 21                               | Presence of step ups or other repayment incentive  | No  |
| 22                               | Cumulative or non-cumulative   | N/A   |
| 23                               | Convertible or non-convertible   | non-convertible   |
| 24                               | If convertible, event/events which lead to conversion  | N/A   |
| 25                               | If convertible, in full or in part   | N/A   |
| 26                               | If convertible, conversion rate  | N/A   |
| 27                               | If convertible, mandatory or optional conversion   | N/A   |
| 28                               | If convertible, state type of instrument into which the conversion is possible                     | N/A   |
| 29                               | If convertible, state the issuer of the instrument into which it is converted                      | N/A   |
| 30                               | Write-down mechanisms  | N/A   |
| 31                               | In the event of write-down, events which lead to the same  | N/A   |
| 32                               | In the event of write-down, total or partial write-down  | N/A   |
| 33                               | In the event of write-down, permanent or temporary write-down                                      | N/A   |
| 34                               | In the event of temporary write-down, description of the revaluation mechanism                     | N/A   |
| 35                               | Position in the subordination hierarchy in the event of liquidation                                | senior with respect to tier 1 capital and junior with respect to all the unsecured senior instruments |
| 36                               | Non-compliant features of the instruments which benefit from the transitory provisions             | N/A   |
| 37                               | If affirmative, state the non-compliant features   | N/A   |
| N/A = Information not applicable |  |   |

(\*) loan granted by Generali Beteiligungs AG

**ANNEX 2 - OWN FUNDS: TRANSITIONAL OWN FUNDS DISCLOSURE TEMPLATE**

| (euros/000)   | Amounts as of<br>the date of the<br>disclosure   | Amounts subject to pre-<br>regulation treatment (EU) No.<br>575/2013 or residual amounts<br>laid down by the Regulation<br>(EU) No. 575/2013 |
|---|--|--|
| <b>Common Equity Tier 1 capital (CET 1): instruments and reserves</b> |  |  |
| 1   | Equity instruments and related share premiums reserves<br>of which: Ordinary shares  | 170,227<br>116,425   |
| 2   | Undistributed profits  | 314,353  |
| 3   | Other accumulated comprehensive income components (and other reserves, include the unrealised profits and losses as per the applicable accounting regulations)   | 8,979  |
| 3a  | Provisions for general banking risks   | 0  |
| 4   | Amounts of the admissible elements as per Article 484 and the related share premium reserves, subject to progressive elimination from the Common Equity Tier 1 capital   | 0  |
| 5   | Conferrals of public capital, which benefit the grandfathering clause up to 1 January 2018   | 0  |
| 5a  | Minority interests (amounts permitted in the consolidated Common Equity Tier 1 capital)  | 0  |
| 5a  | Profits for the period checked by independent parties net of all the foreseeable dividends or charges  | 31,455   |
| <b>6</b>  | <b>Common Equity Tier 1 capital (CET1) before regulatory adjustments</b>   | <b>525,014</b>   |
| <b>Common Equity Tier 1 capital (CET1): regulatory adjustments</b>    |  |  |
| 7   | Supplementary adjustments (negative amount)  | -4,449   |
| 8   | Intangible assets (net of the related tax liabilities) (negative amount)   | -89,515  |
| 9   | Transitory adjustment associated with IAS 19   | 213  |
| 10  | Deferred tax assets which depend on the future profitability, excluding those deriving from timing differences (net of the related tax liabilities in relation to which the conditions as per Article 38.3 are satisfied) (negative amount)  | 0  |
| 11  | Fair value reserves relating to the profits and losses generated by the hedging of cash flows  | 0  |
| 12  | Negative amounts emerging from the calculation of the amounts of the expected losses   | 0  |
| 13  | Any increase in shareholders' equity emerging from securitised assets (negative amount)  | 0  |
| 14  | Gains or losses on liabilities valued at fair value due to the evolution of the creditworthiness   | 0  |
| 15  | Assets of the defined-benefit pension funds (negative amount)  | 0  |
| 16  | Common Equity Tier 1 capital instruments held by the entity directly or indirectly (negative amount)   | -2,933   |
| 17  | Common Equity Tier 1 capital instruments of parties in the financial sector held by the entity, when these parties hold with the entity a reciprocal cross investment to artificially increase the own funds of the entity (negative amount)   | 0  |
| 18  | Common Equity Tier 1 capital instruments of parties in the financial sector held by the entity directly, indirectly or briefly, when the entity does not have a significant investment in these parties (amount greater than the threshold of -10% and net of admissible short positions) (negative amount)  | 0  |
| 19  | Common Equity Tier 1 capital instruments of parties in the financial sector held by the entity directly, indirectly or briefly, when the entity has a significant investment in these parties (amount greater than the threshold of 10% and net of admissible short positions) (negative amount)   | 0  |
| 20  | [not pertinent in EU legislation]  |  |
| 20a   | Amount of the exposure of the following elements, which have the requirements for receiving a weighting factor of the risk equal to 1.250%, when the body opts for the deduction   | 0  |
| 20b   | of which: qualified investments outside the financial sector (negative amount)   |  |
| 20c   | of which: positions towards the securitisation (negative amount)   |  |
| 20d   | of which: transactions with non-simultaneous settlement (negative amount)  |  |
| 21  | Deferred tax assets which derive from timing differences (amounts greater than the threshold of 10%, net of the related tax liabilities in relation to which the conditions as per Article 38.3 are satisfied) (negative amount)   |  |
| 22  | Amount, which exceeds the threshold of 15% (negative amount)   |  |
| 23  | of which: common Equity Tier 1 capital instruments of parties in the financial sector held by the entity directly or indirectly, when the entity has a significant investment in these parties   |  |
| 24  | [not pertinent in EU legislation]  |  |
| 25  | of which: deferred tax assets, which derive from timing differences  |  |
| 25a   | Losses relating to the period underway   |  |
| 25b   | Foreseeable taxes relating to the elements of the Common Equity Tier 1 capital (negative amount)   |  |
| 26  | Regulatory adjustments applied to the Common Equity Tier 1 capital in relation to the amounts subject to the pre-CRR treatment   | 0  |
| 26a   | Regulatory adjustments relating to the unrealised profits and losses pursuant to Articles 467 and 468  | -8,200   |
|   | of which: Unrealised products on debt securities issued to central administration authorities belonging to the European Union  | -6,493   |
|   | of which: Unrealised products on debt securities referring to issuers other than central administration authorities belonging to the European Union  | -260   |
|   | of which: Unrealised profits on equity securities and UCIT units   | -1,447   |
| 26b   | Amount to be deducted from or to be added to the Common Equity Tier 1 capital in relation to the filters and the additional deductions envisaged for the pre-CRR treatment   | -1,057   |
|   | of which deduction of the deferred tax assets, which depend on the future profitability and do not derive from timing differences (Articles 469. 1, letter a), 36. 1, letter c) and 478. 1 of the CRR)   |  |
|   | of which deduction of the negative amounts emerging from the calculation of the expected losses as per Article 158 and 159 of the CRR (Articles 469. 1, letter a), 36. 1, letter d) and 478. 1 of the CRR)   |  |
|   | of which deduction of the applicable amounts of the common Equity Tier 1 capital instruments of parties in the financial sector held by the bank directly, indirectly or briefly, when the bank has a significant investment in these parties and of the deferred tax assets, which depend on the future profitability and derive from timing differences (Articles 469. 1, letter c), 36. 1, letter c) and i) and 478, sections 1 and 2 of the CRR) |  |
|   | of which impacts deriving from excesses with Transitional adjustments  | -1,057   |
| 27  | Admissible deduction from the additional Tier 1 capital which exceeds the additional Tier 1 capital of the entity (negative amount)  |  |
| <b>28</b>   | <b>Total regulatory adjustments to Common Equity Tier 1 capital (CET1)</b>   | <b>-105,941</b>  |
| <b>29</b>   | <b>Common Equity Tier 1 capital (CET1)</b>   | <b>419,073</b>   |

| (euros/000)  |  | Amounts as of the date of the disclosure | Amounts subject to pre-regulation treatment (EU) No. 575/2013 or residual amounts laid down by the Regulation (EU) No. 575/2013 |
|--|--|--|---|
| <b>Additional Tier 1 capital (AT1): instruments</b>            |  |  |   |
| 30   | Equity instruments and related share premiums reserves   |  | 0   |
| 31   | <i>of which: classified as shareholders' equity in accordance with applicable accounting rules</i>   |  | 0   |
| 32   | <i>of which: classified as liabilities in accordance with applicable accounting rules</i>  |  | 0   |
| 33   | Amount of the admissible elements as per Article 484.4, and the related share premium reserves, subject to progressive elimination from the additional Tier 1 capital  |  | 0   |
|  | Conferrals of public capital, which benefit the grandfathering clause up to 1 January 2018   |  | 0   |
| 34   | Admissible Tier 1 capital included in the consolidated additional Tier 1 capital (including the minority interests not included in line 5) issued by filiations and held by third parties  |  | 0   |
| 35   | of which: instruments issued by filiations subject to progressive elimination  |  | 0   |
| <b>36</b>  | <b>Additional Tier 1 capital (AT1) before regulatory adjustments</b>   |  | <b>0</b>  |
| <b>Additional Tier 1 capital (AT1): regulatory adjustments</b> |  |  |   |
| 37   | Additional Tier 1 capital instruments held by the entity directly or indirectly (negative amount)  |  | 0   |
| 38   | Additional Tier 1 capital instruments of parties in the financial sector held by the entity, when these parties hold with the entity a reciprocal cross investment to artificially increase the own funds of the entity (negative amount)  |  | 0   |
| 39   | Additional Tier 1 capital instruments of parties in the financial sector held directly or indirectly, when the entity does not have a significant investment in these parties (amount greater than the threshold of 10% and net of admissible short positions) (negative amount)   |  | 0   |
| 40   | Additional Tier 1 capital instruments of parties in the financial sector held directly or indirectly, when the entity has a significant investment in these parties (amount greater than the threshold of 10% and net of admissible short positions) (negative amount)   |  | 0   |
| 41   | Regulatory adjustments applied to the additional Tier 1 capital in relation to the amounts subject to the pre-CRR treatment and transitory treatments, subject to progressive elimination in accordance with regulation (EU) No. 575/2013 (or rather amounts - residuals CRR)  |  | 0   |
| 41a  | Residual amounts deducted from the additional Tier 1 capital in relation to the deduction from the Common Equity Tier 1 capital during the transitory period pursuant to Article 472 of regulation (EU) No. 575/2013   |  | 0   |
|  | of which residual amounts relating to the surplus of expected losses compared to value adjustments for IRB positions   |  | 0   |
| 41b  | Residual amounts deducted from the additional Tier 1 capital in relation to the deduction from the Tier 2 capital during the transitory period pursuant to Article 475 of regulation (EU) No. 575/2013   |  | 0   |
|  | of which deduction of the applicable amounts of the common Equity Tier 1 capital instruments of parties in the financial sector held by the bank directly, indirectly or briefly, when the bank has a significant investment in these parties and of the deferred tax assets, which depend on the future profitability and derive from timing differences (Articles 469. 1, letter c), 36. 1, letter c) and i) and 478, sections 1 and 2 of the CRR) |  | 0   |
|  | of which impacts deriving from excesses with Transitional adjustments  |  | 0   |
| 41c  | Amount to be deducted from or to be added to the additional Tier 1 capital in relation to the filters and the additional deductions envisaged for the pre-CRR treatment  |  | 0   |
|  | of which: possible filter for unrealised losses  |  | 0   |
|  | of which: possible filter for unrealised profits   |  | 0   |
|  | of which: other filter   |  | 0   |
| 42   | Admissible deductions from the Tier 2 capital, which exceed the Tier 2 capital of the entity (negative amount)   |  | 0   |
| <b>43</b>  | <b>Total regulatory adjustments to additional Tier 1 capital (AT1)</b>   |  | <b>0</b>  |
| <b>44</b>  | <b>Additional Tier 1 capital (AT1)</b>   |  | <b>0</b>  |
| <b>45</b>  | <b>Tier 1 capital (T1 = CET1 + AT1)</b>  |  | <b>419,073</b>  |

| (euros/000)  |   | Amounts as of the date of the disclosure | Amounts subject to pre-regulation treatment (EU) No. 575/2013 or residual amounts laid down by the Regulation (EU) No. 575/2013 |
|--|---|--|---|
| <b>Tier 2 capital (T2): instruments and provisions</b> |   |  |   |
| 46   | Equity instruments and related share premiums reserves  | 43,000                                   |   |
| 47   | Amount of the admissible elements as per Article 484.5, and the related share premium reserves, subject to progressive elimination from the Tier 2 capital  | 0  |   |
| 48   | Conferrals of public capital, which benefit the grandfathering clause up to 1 January 2018  | 0  |   |
| 48   | Admissible own funds instruments included in the consolidated Tier 2 capital (including the minority interests and additional Tier 1 capital instruments not included in line 5 or in line 34) issued by filiations and held by third parties   | 0  |   |
| 49   | <i>of which: instruments issued by filiations subject to progressive elimination</i>  | 0  |   |
| 50   | Value adjustments on loans  | 0  |   |
| <b>51</b>  | <b>Tier 2 capital (T2) before regulatory adjustments</b>  | <b>43,000</b>                            |   |
| <b>Tier 2 capital (T2): regulatory adjustments</b>     |   |  |   |
| 52   | Tier 2 capital instruments held by the entity directly or indirectly and subordinated loans (negative amount)   | 0  |   |
| 53   | Tier 2 capital instruments and subordinated loans of parties in the financial sector held by the entity, when these parties hold with the entity a reciprocal cross investment to artificially increase the own funds of the entity (negative amount)   | 0  |   |
| 54   | Tier 2 capital instruments and subordinated loans of parties in the financial sector held directly or indirectly, when the entity does not have a significant investment in these parties (amount greater than the threshold of 10% and net of admissible short positions) (negative amount)  | 0  |   |
| 54a  | <i>of which new investment not subject to transitory provisions</i>   | 0  |   |
| 54b  | <i>of which investments existing before 1 January 2013 and subject to transitory provisions</i>   | 0  |   |
| 55   | Tier 2 capital instruments and subordinated loans of parties in the financial sector held directly or indirectly, when the entity has a significant investment in these parties (net of admissible short positions) (negative amount)   | 0  |   |
| 56   | Regulatory adjustments applied to the Tier 2 capital in relation to the amounts subject to the pre-CRR treatment and transitory treatments, subject to progressive elimination in accordance with regulation (EU) No. 575/2013 (or rather amounts - residuals CRR)  | 0  |   |
| 56a  | Residual amounts deducted from the Tier 2 capital in relation to the deduction from the Common Equity Tier 1 capital during the transitory period pursuant to Article 472 of regulation (EU) No. 575/2013   | 0  |   |
|  | <i>of which residual amount relating to the surplus of expected losses compared to value adjustments for IRB positions</i>  | 0  |   |
| 56b  | Residual amounts deducted from the Tier 2 capital in relation to the deduction from the additional Tier 1 capital during the transitory period pursuant to Article 475 of regulation (EU) No. 575/2013  | 0  |   |
|  | <i>of which deduction of the applicable amounts of the common Equity Tier 1 capital instruments of parties in the financial sector held by the bank directly, indirectly or briefly, when the bank has a significant investment in these parties and of the deferred tax assets, which depend on the future profitability and derive from timing differences (Articles 469. 1, letter c), 36. 1, letter c) and i) and 478, sections 1 and 2 of the CRR)</i> | 0  |   |
|  | <i>of which impacts deriving from excesses with Transitional adjustments</i>  | 0  |   |
| 56c  | Amount to be deducted from or to be added to the Tier 2 capital in relation to the filters and the additional deductions envisaged for the pre-CRR treatment  | 854                                      |   |
|  | <i>of which: possible filter for unrealised losses</i>  | 0  |   |
|  | <i>of which: profits not realised on AFS securities subject to additional national filter</i>   | 854                                      |   |
|  | <i>of which: other filter</i>   | 0  |   |
| <b>57</b>  | <b>Total regulatory adjustments to Tier 2 capital (T2)</b>  | <b>854</b>                               |   |
| <b>58</b>  | <b>Tier 2 capital (T2)</b>  | <b>43,854</b>                            |   |
| <b>59</b>  | <b>Total capital (TC = T1 + T2)</b>   | <b>462,927</b>                           |   |

| (euros/000)                        |  | Amounts as of the date of the disclosure | Amounts subject to pre-regulation treatment (EU) No. 575/2013 or residual amounts laid down by the Regulation (EU) No. 575/2013 |
|------------------------------------|--|--|---|
| 59a                                | Risk-weighted assets in relation to the amounts subject to the pre-CRR treatment and transitory treatments, subject to progressive elimination in accordance with regulation (EU) No. 575/2013 (or rather amounts - residuals CRR)<br><i>of which: elements not deducted from the Common Equity Tier 1 capital (regulation (EU) No. 575/2013 residual amounts) (items to be detailed line-by-line, for example deferred tax assets which are based on the future profitability net of the related tax liabilities, own Common Equity Tier 1 capital instruments held indirectly, etc.)</i><br><i>of which: elements not deducted from the additional Tier 1 capital (regulation (EU) No. 575/2013 residual amounts) (items to be detailed line-by-line, for example reciprocal cross investments in Tier 2 capital instruments, insignificant investments held directly in the share capital of other parties in the financial sector, etc.)</i><br>Element not deducted from the Tier 2 capital elements (regulation (EU) No. 575/2013 - residual amounts)<br>(items to be detailed line-by-line, for example own Tier 2 capital instruments held indirectly, insignificant investments in the share capital of other parties in the financial sector held indirectly, significant investments in the share capital of third parties in the financial sector held indirectly, etc.) | 0  |   |
| 60                                 | <b>Total of the risk-weighted assets</b>   | <b>2,688,303</b>                         |   |
| <b>Capital reserves and ratios</b> |  |  |   |
| 61                                 | Common Equity Tier 1 capital (as a percentage of the amount of the risk exposure)  | 15.6%                                    |   |
| 62                                 | Tier 1 capital (as a percentage of the amount of the risk exposure)  | 15.6%                                    |   |
| 63                                 | Total capital (as a percentage of the amount of the risk exposure)   | 17.2%                                    |   |
| 64                                 | Requirement of the specific capital reserve of the entity<br>(requirements relating to the Common Equity Tier 1 capital in accordance with Article 92.1, letter a), requirements of the capital conservation reserve, of the anti-cyclical capital reserves, of the capital reserve for systemic risk, of the capital reserve for the entities of systemic importance (capital reserve of the G-SIIs or O-SII), as a percentage of the amounts of the risk exposure)<br><i>of which: requirement of the capital conservation reserve</i><br><i>of which: requirement of the anti-cyclical capital reserve</i><br><i>of which: requirement of the capital reserve for systemic risk</i>   | 7.0%                                     | 2.5%  |
| 67a                                | <i>of which: Capital reserve of the Globally Systemically Important Institutions (G-SII) - or the Other Systemically Important Institutions (O-SII).</i>   |  |   |
| 68                                 | Common Equity Tier 1 capital available for the reserves (as a percentage of the amount of the risk exposure)   | 8.6%                                     |   |
| 69                                 | [not pertinent in EU legislation]  |  |   |
| 70                                 | [not pertinent in EU legislation]  |  |   |
| 71                                 | [not pertinent in EU legislation]  |  |   |
| <b>Capital reserves and ratios</b> |  |  |   |
| 72                                 | Capital of parties in the financial sector held directly or indirectly, when the entity does not have a significant investment in these parties (amount lower than the threshold of 10% and net of admissible short positions)   | 10,839                                   |   |
| 73                                 | Common Equity Tier 1 capital instruments of parties in the financial sector held by the entity directly or indirectly, when the entity has a significant investment in these parties (amount lower than the threshold of 10% and net of admissible short positions)  | 0  |   |
| 74                                 | [not pertinent in EU legislation]  |  |   |
| 75                                 | Deferred tax assets which derive from timing differences (amount lower than the threshold of 10%, net of the related tax liabilities in relation to which the conditions as per Article 38.3 are satisfied)<br>Ceilings applicable for the inclusion of provisions in the Tier 2 capital   | 17,497                                   |   |
| 76                                 | Value adjustments on loans included in the Tier 2 capital in relation to the exposures subject to the standardised method - (before the application of the ceiling)  |  |   |
| 77                                 | Ceiling for the inclusion of value adjustments on loans in the Tier 2 capital within the sphere of the standardised method   |  |   |
| 78                                 | Value adjustments on loans included in the Tier 2 capital in relation to the exposures subject to the method based on internal ratings (before the application of the ceiling)   |  |   |
| 79                                 | Ceiling for the inclusion of value adjustments on loans in the Tier 2 capital within the sphere of the method based on internal ratings<br>Capital instruments subject to progressive elimination (applicable only between 1 January 2013 and 2 January 2022)  |  |   |
| 80                                 | Current ceiling on the Common Equity Tier 1 capital instruments subject to progressive elimination   |  |   |
| 81                                 | Amount excluded from the Common Equity Tier 1 capital due to the ceiling (exceeding of the ceiling after the repayments and the expiries)  |  |   |
| 82                                 | Current ceiling on the additional Tier 1 capital instruments subject to progressive elimination  |  |   |
| 83                                 | Amount excluded from the additional Tier 1 capital due to the ceiling (exceeding of the ceiling after the repayments and the expiries)   |  |   |
| 84                                 | Current ceiling on the Tier 2 capital instruments subject to progressive elimination   |  |   |
| 85                                 | Amount excluded from the Tier 2 capital due to the ceiling (exceeding of the ceiling after the repayments and the expiries)  |  |   |

**ANNEX 3: OWN FUNDS: FULL RECONCILIATION OF ITEMS OF CET 1, TIER 2 CAPITAL, AS WELL AS FILTERS AND DEDUCTIONS APPLIED TO OWN FUNDS AND THE CORRESPONDING ITEMS OF THE FINANCIAL STATEMENT BALANCE SHEET**

| ASSETS   | accounting data                |                      | amount relevant for own funds purposes | Reference to the item "Transitional Own Funds Disclosure Template" |
|--|--------------------------------|----------------------|--|--|
|  | Financial Statements perimeter | Regulatory perimeter |  |  |
| 130. Intangible assets   | 91,480                         | 91,480               | -91,480                                | 8  |
| <i>of which goodwill</i>   | 66,065                         | 66,065               | -66,065                                | 8  |
| <i>of which other intangible assets</i>                              | 25,415                         | 25,415               | -25,415                                | 8  |
| 140. Tax assets  | 44,538                         | 44,538               | 0                                      | 8  |
| a) Tax assets - current  | 3,836                          | 3,836                | n.a.                                   | 8  |
| b) Tax assets - deferred   | 40,702                         | 40,702               | 0                                      | 8  |
| <i>of which: tax assets eligible for conversion into tax credits</i> | 9,755                          | 9,755                | 0                                      | 8  |

| LIABILITIES AND SHAREHOLDERS' EQUITY  | accounting data                |                      | amount relevant for own funds purposes | Reference to the item "Transitional Own Funds Disclosure Template" |
|---|--------------------------------|----------------------|--|--|
|   | Financial Statements perimeter | Regulatory perimeter |  |  |
| 20. Due to customers  | 6,648,202                      | 6,648,202            | 43,000                                 | 46   |
| <i>of which: subordinated instruments not covered by transitory provisions</i>                                    | 43,000                         | 43,000               | 43,000                                 | 46   |
| 80. Tax liabilities   | 17,118                         | 17,118               | 1,965                                  | 8  |
| a) Tax liabilities - current  | 7,792                          | 7,792                | n.a.                                   |  |
| b) Tax liabilities - deferred   | 9,326                          | 9,326                | 1,965                                  | 8  |
| <i>of which: tax liabilities associated with goodwill and intangible assets</i>                                   | 1,965                          | 1,965                | 1,965                                  | 8  |
| 140. Valuation reserves   | 8,979                          | 8,979                | 1,846                                  | 3, 9, 26a, 56c   |
| <i>of which: valuation reserves of available-for-sale securities</i>  | 10,664                         | 10,664               | 3,415                                  | 26a, 56c   |
| <i>of which: net actuarial loss valuation reserves</i>  | -1,685                         | -1,685               | -1,472                                 | 3.9  |
| 170. Reserves   | 314,353                        | 314,353              | 314,353                                | 2  |
| 180. Share premium reserve  | 53,803                         | 53,803               | 53,803                                 | 1  |
| 190. Share capital  | 116,425                        | 116,425              | 116,425                                | 1  |
| <i>of which: ordinary shares</i>  | 116,425                        | 116,425              | 116,425                                | 1  |
| 200. Treasury shares (-)  | -2,933                         | -2,933               | -2,933                                 | 16   |
| 210. Minority interests (+/-)   | 0                              | 0                    | 0                                      | 5, 34, 48  |
| 220. Net profit (loss) for the period (+/-)   | 155,894                        | 155,894              | 31,455                                 | 5a   |
| <i>of which profit for the period net of the dividend to be distributed calculated on the profit for the year</i> | 31,455                         | 31,455               | 31,455                                 | 5a   |

| OTHER ELEMENTS FOR BALANCING OWN FUNDS  | amount relevant for own funds purposes | Reference to the item "Transitional Own Funds Disclosure Template" |
|---|--|--|
| Total other elements, of which:   | -5,506                                 |  |
| Fair value profits or losses deriving from the own credit risk of the entity associated with derivative liabilities | 0                                      | 14   |
| Regulatory value adjustments (Prudent Valuation)  | -4,449                                 | 7  |
| Surplus of expected losses compared to total value adjustments (IRB models)   | 0                                      | 12, 41a, 56a   |
| Surplus of total value adjustments compared to expected losses (IRB models)   | 0                                      | 50   |
| Filter on unrealised property-related capital gains   | 0                                      | 26   |
| Filter for double redemption  | -1,057                                 | 26b  |