

# Banca Generali Group

## PILLAR 3 DISCLOSURES

Situation at 31 December 2017

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## Key regulatory indicators

(€million)	31.12.2017	31.12.2016	Change %
Net equity	736.1	646.5	13.9
Common Equity Tier 1 capital (CET1)	475.2	419.1	13.4
Tier 1 capital (T1)	475.2	419.1	13.4
Own funds	518.6	462.9	12.0
Excess capital	313.5	261.9	19.7
Risk-weighted assets (RWAs)	2,563.2	2,512.7	2.0
Tier 1 Capital Ratio (Tier 1 capital /Risk-weighted assets)	18.5%	16.7%	11.2
Total Capital Ratio (Total own funds/Risk-weighted assets)	20.2%	18.4%	9.8

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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 No. 285 “*Supervisory Provisions for Banks*”, repeatedly updated in 2014, and Circular 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 retained the approach based on three pillars underlying the previous Capital Accord (Basel 2), while complementing and reinforcing that approach with the aim of improving the quantity and quality of intermediaries’ capital, introducing countercyclical regulatory instruments and rules concerning liquidity risk management and the containment of leverage.

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

Basel 3 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.

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

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

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It also provided for more stringent regulatory capital requirements to more accurately capture potential risks from securitisation positions and trading book and introduces DTAs, which were previously not included.

The minimum overall requirement remained set at 8% of risk-weighted assets, but more than half of this, or 4.5%, is to be met by Common Equity capital. 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 capital in relation to risk-weighted assets<sup>3</sup>.

Banks that do not have such capital conservation buffer are in any event required to comply with limits on the distribution of dividends and the award of bonuses, which become increasingly stringent as the buffer shrinks.

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 1 January 2018 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;

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<sup>3</sup> The level of the capital 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 phase-in regulations, with repositioning at 2.5% in 2019 - 18<sup>th</sup> update of the Circular No. 285 dated 4 October 2016).

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

This pillar, too, has 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.

Bank of Italy's Circular 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 the light of the relevant characteristics of their businesses<sup>7</sup>.

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<sup>4</sup> Accordingly, the previous provisions (Bank of Italy's Circular No. 263/06, Title IV) and all the schemes and rules envisaged therein 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 of CRR) and “Capital requirements” (Article 438 of CRR), as well as information concerning risk exposure or other elements which may be subject to swift changes.

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 as complete as possible an overview 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 disclosures are drafted at the **consolidated level** by the Banking Parent Company. Unless otherwise specified, all amounts are in **thousands of euros**.

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 governing public disclosure have been revised both within the framework of a review of the capital requirements regulation and directive (CRR/CRD IV), which culminated in the “CRR2 package” proposed by the Commission on 23 November 2016, and in the light of the final guidelines on regulatory disclosure requirements published by the EBA in December 2016<sup>8</sup>.

The latest changes, which entered into effect in 2017 according to the proportionality principle, primarily relate to **(i)** identification of a set of key indicators for assessing each financial institution’s regulatory capital position; **(ii)** publication of hypothetical RWAs calculated according to the standard approach; **(iii)** increased granularity of reporting of adjustments to the regulatory assessment; **(iv)** new disclosure requirements relating to TLAC (Total Loss-Absorbing Capacity) for systemically important institutions, market risk, counterparty risk and liquidity risk; and **(v)** publication of new tables with detailed information regarding credit and counterparty risk — including techniques for mitigating risk and credit quality — in addition to market risk.

The EBA has also extended the above positions by issuing, in June 2017, its “Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No. 575/2013” (EBA/GL/2017/01) containing additional disclosure requirements relating to liquidity risk measured through the Liquidity Coverage Ratio.

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<sup>8</sup> “Guidelines on disclosure requirements under Part Eight of Regulation (EU) No. 575/2013” (EBA/GL/2016/11).

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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)<sup>9</sup> techniques for prudential purposes.

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 financial reports. In accordance with Article 154-*bis* of Legislative Decree No. 58/98 (TUF), the document is then submitted for the required 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.

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 2017, 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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<sup>9</sup> Compliance with public disclosure obligations is also a necessary condition for the recognition, n for prudential purposes, of internal capital adequacy calculation systems.



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## 1 RISK MANAGEMENT OBJECTIVES AND POLICIES

### 1.1 GENERAL INFORMATION

#### **Business model and risk governance**

In the light of its **business model**, in addition to being exposed to the risks typically associated with banking (due not only to secured lending, but also to the financial instruments in the Bank's securities portfolio), the Bank is exposed to risks of a reputational/operational and strategic nature relating to industry trends/external events that are capable of influencing the performance of the market of reference (mainly the Italian asset management and asset custody and administration market).

At Banca Generali, risk management is based on an understanding of the risks borne by the Bank and how these risks are managed, on the definition of a governance system capable of ensuring that there is a constant connection between risk objectives and the risk appetite and on the definition of an effective risk reporting system.

The identification, measurement and assessment of the main risks to which the Bank is exposed are among the fundamental elements of ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process), whereby the Bank verifies the adequacy of its capital and liquidity positions.

Both ICAAP and ILAAP are based on the **Risk Appetite Framework (RAF)**, in which the Board of Directors sets its risk/return targets in accordance with the guidelines established in the Group's Strategic Plan.

Through the RAF, the Bank:

- determines its risk appetite in terms of both its overall risk profile and at the level of the main risks identified, and sets risk/return targets in its Budget and Strategic Plan;
- determines the level of oversight suited to ensuring that the Bank functions properly, including in conditions of stress, through a structure based on limits.

The general principles that inform **risk management in view of the Group's risk profile** may be identified as follows:

- maintenance of adequate capital levels, including in stress conditions, by monitoring the levels of the Common Equity ratio, Total Capital Ratio, ICAAP Total Capital Ratio and leverage ratio and individual risk assumption limits;
- suitable coverage of liquidity needs, including during periods of stress, through the monitoring of short-term indicators such as the Liquidity Coverage Ratio, and long-term indicators such as the Net Stable Funding Ratio;
- the reliability and sustainability of risk-adjusted returns, including in conditions of stress, through the monitoring of RORAC levels;
- absence of exposure to reputational risk.

### **Stress Test**

The Risk and Capital Adequacy Department conducted analyses and stress tests with a focus on specific areas of vulnerability of the business model, based on a hypothetical adverse macroeconomic scenario, with the aim of analysing the Group's current and prospective sustainability.

The scenario assumed involves a combination of particularly adverse events, classifiable as:

- events of a systemic nature, i.e., events (or combinations of events) involving specific macroeconomic variables, the occurrence of which gives rise to/entails adverse consequences for the entire financial system and/or for the real economy, and thus for the Banca Generali Group;
- specific (idiosyncratic) events, i.e., events (or combinations of events) the occurrence of which gives rise to/entails severe adverse consequences for the Banca Generali Group.

The main risk events assumed in the **systemic scenario** are:

- an interest rate shock: **(i)** a rise in the interest rate curve accompanied by a gradual widening of spreads in the Euro Area; and **(ii)** a rapid increase in the yields on U.S. government bonds;
- an equity market shock: a fall in stock market prices in the Euro Area;
- a domestic demand and consumption shock: a decline in GDP growth in the Euro Area and the U.S.;
- an interbank market shock: non-renewal of interbank funding in euro and foreign currencies and funding on the collateralised interbank market (CIM).

In defining the **idiosyncratic scenario**, a specific analysis was conducted, taking account of the Group's specific organisational, operational and risk profiles, such as:

- reduction of the net inflows with respect to plan levels due to the activity of the existing sales network, new recruits or both;
- reduction/loss of performance fees;
- deposit run-off: reduction of direct net inflows as a function of the percent run-off identified by the Bank's historical analysis and broken down into retail and institutional customers;
- operating loss: an event involving fraud committed by a financial advisor belonging to the sales network, considered the worst such incident of recent years;
- deterioration of exposure level: at the level of each exposure by geographical area and sector.

### **Risk governance**

The Banca Generali Group has structured its **risk governance and management processes** so as to ensure reliable, sustainable creation of value, protect the Group's financial solidity and reputation and permit an appropriate understanding of the risk level assumed.

The above processes are an integral part of the Group's more general internal control structure, aimed at ensuring that business is always conducted in accordance with company strategies and policies and informed by the values of sound and prudent management. Their key principles and components are governed by the Risk Policies approved by the Parent Company's Board of Directors.

Risk management extends to executive bodies, operating units and control units at both the Parent Company and subsidiaries — each with their various tasks and attributes — with the goal of identifying, preventing, measuring, assessing, monitoring, mitigating and reporting to the various appropriate hierarchy levels the exposure to the various types of risk actually or potentially assumed by the Group's various operating segments, while analysing, within an integrated framework, the relationships between them and the trend in the external scenario. In general terms, Banca Generali supervises the implementation of effective risk management in its Group within the framework of the powers of management and coordination that the Bank exercises as Parent Company.

Strategic risk exposure guidelines are established by the Parent Company's Top Management bodies based on a global assessment of the Group's operations and the underlying actual or potential risk exposure, taking account of the specific areas of activity and risk profiles of each component.

The equivalent governing bodies of subsidiaries — each within its remit — are tasked with implementing the risk management strategies and policies set by the Parent Company, adapting them to suit the circumstances of the company concerned, while also ensuring that there are functional,

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appropriate internal control procedures and a full, systematic flow of information to the Parent Company regarding the types of risks relevant to the company's situation. In particular, the governing bodies involved are:

- the **Board of Directors (BoD)**, responsible for setting and approving corporate risk governance policies within the framework of the risk appetite system, as well as for designing guidelines for applying and supervising such policies;
- the **Chief Executive Officer**, responsible for implementing the Risk Appetite Framework<sup>10</sup> and corporate risk governance policies;
- the **General Manager**, who contributes, within his or her remit and functions, to implement the Risk Appetite Framework and the corporate risk management policies;
- the **Board of Statutory Auditors**, which supervises compliance with laws, regulations and the Articles of Association, sound governance, the adequacy of the Bank's organisational and accounting structure and the completeness, adequacy, functionality and reliability of the internal control system and Risk Appetite Framework.

The main company **committees** involved are:

- **Internal Audit and Risk Committee:** it supports the Board of Directors with setting strategic guidelines, the guidelines for the internal control system and risk governance policies, periodically verifying that the internal control and risk management system is adequate in light of the characteristics of the company and the risk profile assumed, as well as that it is effective; within the context of the Risk Appetite Framework, it is responsible for the assessments and proposals necessary to ensure that the Board of Directors can set and approve risk targets (Risk Appetite) and the tolerance threshold (Risk Tolerance);
- **Risk Committee:** it is the body charged with ensuring coordinated coverage of the system for managing and controlling the risks assumed by the Group. The Risks Committee receives specific periodic information from the company control functions to perform the functions assigned to it;
- **Nomination, Governance and Sustainability Committee:** it is the corporate body that provides advice and submits proposals to the Board of Directors on matters related to nominations, governance and sustainability issues. It has the necessary competencies and independence to formulate its assessments concerning Banca Generali's nominations, governance and sustainability.

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<sup>10</sup> Please refer to paragraph 4.1 "RAF definition and implementation process"

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The **Functions** to which the Risk Policies are addressed are those involved in risk management, namely, the departments and services that perform first-, second- and third-tier checks on risk management processes.<sup>11</sup>

The **Functions** involved in risk-taking also bear primary responsibility for the risk management process, since they are tasked with concretely apply the company risk strategies and policies and ensuring the conduct of operations through the performance of “line checks”. They are also bound to comply with any operating limits set for them in accordance with the established risk targets.

### Internal Control System

Within the framework of the risk management process, and of the Bank's corporate governance more generally, the internal control system plays a key role in the risk management process.

The Banca Generali Banking Group has designed an internal control model consistent with national and international best practices, minimising the risks of inefficiency, overlapping of roles and sub-optimal system performance. The system is structured on three different levels:

- **first-tier checks:** they are performed by production or back-office company areas and organisational units, with the support of information technology procedures, where envisaged, and take the form of hierarchical or line checks;
- **second-tier checks:** they aim at preventing and mitigating risks of different nature through prior risk assessment of products and business practices, and the development of *ex-ante* support to operating activities. The aforementioned checks are performed by the following functions:
  - the **Risk and Capital Adequacy Department**, which is tasked with identifying, measuring/evaluating and monitoring all the types of risks to which the Banking Group is exposed in terms of its own assets (excluding the risks of non-compliance, money laundering and financing of terrorism), providing relevant information and thereby contributing to the definition and implementation of the Risk Appetite Framework, as well as all related risk management policies. The Department acts with a view to maintaining risk levels within the limits and tolerance thresholds indicated in the exposure profile and strategies established by the Board of Directors in the Risk Appetite Framework. It assures that risks are fully and transversally analysed, and to this end it applies a strategic, consistent and prospective approach and duly provides periodic reports;
  - the **Compliance Service**, which is tasked with verifying the observance of obligations relating to the provision of services for Banking Group Companies and preventing and managing the risk of non-compliance with applicable legislation;

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<sup>11</sup> For further information on roles and responsibilities assigned to the bodies and Functions involved in the risk management process, reference should be made to the Risk Management Policies.

- the **Anti-Money Laundering Service**, which is responsible within the Banking Group for preventing and combating the transactions involving money laundering and financing of terrorism.
- **third-tier checks**: they are conducted by the Internal Audit Department and are aimed at an independent verification of the operating efficacy and quality of control systems and the verification of any conduct departing from the established rules.

The proper functioning of the risk governance system adopted by the Banca Generali Group is ensured by consistency from the standpoint of organisational structure, competencies and a guarantee of the independence of functions.

### **Risk culture**

Within the internal control system, it is possible to identify the second tier as the home to an internal risk management culture that then effectively translates into company behaviour and choices.

Accordingly, considerable attention is devoted to preparing and circulating the relevant reports (**Tableau de Bord**, **ICAAP**, **ILAAP** and **Risk Appetite Framework**) and the set of information needed to monitor operating limits.

In order to ensure that the Top Management receives a constant stream of timely information regarding the status of the Bank's risk profile, the Risk and Capital Adequacy Department has also planned and circulated weekly reports (known as "**Dashboards**") containing an analysis of the trend in the Bank's exposure in terms of the characteristics of the securities portfolio (duration, maturity, and % corporate/financials), loans to customers (new NPLs, financial duration) and net inflows (divided into captive and retail). Reports are a useful supporting tool in **(i)** monitoring the main indicators for interest rate risk (i.e., sensitivity), credit risk, operational and reputational risk, liquidity risk and leverage, and **(ii)** assessing capital adequacy and variance from the RAF targets.

It should also be noted that during the year **induction** sessions were held for members of the Board of Directors and Board of Statutory Auditors.

In accordance with the Corporate Governance Code, the induction sessions were aimed at equipping the directors and statutory auditors with an adequate understanding of the Bank's business model and major strategic decisions, with support, where needed, from company control functions, depending on the matter at issue.

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## 1.2 GOVERNANCE STRUCTURE BY RISK CATEGORY

### 1.2.1 CREDIT RISK

Considering that lending is instrumental to the Group's core business, such activity essentially consists 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 implemented a Single Risk Management Policy, duly approved by the Board of Directors of Banca Generali S.p.A. This Policy specifies the bodies and functions involved and describes the guidelines for the identification, measurement, control and reporting of credit risk.

The Group has also formally defined lending policy guidelines within the Lending Rules 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.

#### **Loans to customers**

Exposures to Corporate 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 granted loans and pursuing the risk/return targets established by the Board of Directors;
- is responsible for supervising and verifying the proper execution of the entire lending process within the Bank, while constantly monitoring the Bank's overall credit position; specifically, it regularly monitors the performances of the Bank's credit positions, with a particular focus on those that show an anomalous performance.

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

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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-tier 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 loan portfolio, the development of its quality, and lists of irregularities, if any. In addition, the Risk and Capital Adequacy Department conducts a monthly performance analysis to monitor the composition and value of the guarantees securing credit in the form of both on-balance sheet loans and commitments to lend.

As part of its loan monitoring and review, in accordance with Bank of Italy's Circular No. 285, the Risk and Capital Adequacy Department, through the Credit Risk Service, is also responsible for the above activities for individual positions, and in particular it:

- conducts assessments, at the overall level and by specific exposure drivers and coverage levels, with a particular focus on monitoring the value of guarantees over time;
- conducts an assessment of the degree of concentration of the portfolio at the level of individual borrowers;
- assesses individual non-performing exposures;
- assesses the consistency of classifications, with particular regard to the proper classifications of non-performing exposures;
- conducts an assessment of the adequacy of provisions, in coordination with the competent departments (Lending Department, Administration Department and Legal Department);
- assesses the adequacy of the process of recovering non-performing exposures, the adequacy of the degree of non-recoverability of such exposures and their potential recoverable amounts, in the event that the creditworthiness of the borrowers declines;
- formulates proposals, based on the findings and results of second-tier checks, for operational recommendations relating to the revision of processes and credit performance assessment models in view of ongoing improvement over time;
- prepares advance opinions regarding credit risk in Transactions of Greater Importance.



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**Loans to banks and financial investments**

In addition to the Lending and Operations Departments, first-tier 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 finalise the guidelines concerning securities transactions with institutional counterparties that may generate credit 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) and that 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 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)** operationally, on the basis of the system of loans approved by the Parent Company's Board of Directors and the organisational measures adopted.

The Risk and Capital Adequacy Department is responsible for second-tier 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 *ex-ante* and *ex-post* 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 instruments that contribute to define the amount drawn down.

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

- in collaboration with relevant corporate functions, identifying and monitoring credit risk exposure of the Banking 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 limits, whilst ensuring that any and all breaches of the said limits, as well as increases in risk exposure levels, are promptly reported to Top 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 credit risk mitigation (CRM) techniques employed .

Third-tier 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.

The Group has decided to adopt the standard method for measuring credit risk, using Moody's as the ECAI, as well as S&P and Fitch (solely for Moody's securitisations).

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## 1.2.2 COUNTERPARTY RISK

With respect 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. This Policy defines the bodies and functions involved in the management of said risk and describes the activities associated with identifying, measuring, controlling and reporting 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 of Banca Generali S.p.A. set out and finalise 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) and that 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 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)** operationally, on the basis of the system of loans 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-tier 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.

Second-tier control activities are the responsibility of the Risk and Capital Adequacy Department, which is tasked with specific activities relating to the identification, measurement, control and reporting of the counterparty risk.

With reference to the main instruments used for monitoring, the Risk and Capital Adequacy Department has adopted appropriate IT solutions allowing for *ex-ante* and *ex-post* 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 instruments that contribute to the amount drawn down.

The third-tier controls of operations performed 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 to be held for 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.

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

With respect to the CVA **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 laid down for counterparty risk apply.

The requirement is measured by applying the standard method.

### **1.2.4 MARKET RISK**

With regard to the market risk management process, the Group has adopted a Single Risk Management Policy, duly approved by the Parent Company's Board of Directors. This Policy defines the bodies and functions involved in the management of market risk and describes the guidelines for identifying, measuring, controlling and reporting 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 positions for exposures in foreign currency 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 Customers' account".

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)** operationally, on

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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-tier controls. 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:

- in collaboration with relevant corporate functions, identifying and monitoring market risks which the Banking Group is exposed to by means of developing suitable methods for measuring these risks and the verification of the implementation of actions 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 any and all breaches of said limits, as well as increases in risk exposure levels, are promptly reported to Top 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;
- 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.

The Department adopts appropriate IT solutions to monitor all market limits set in the Finance Rules and in the form of sensitivity limits, defined as variations in price in response to changes in the underlying risk factors, attributable to the Bank's more management-related needs.

In further detail:

- the Department conducts daily monitoring of duration and allocation limits, foreign currency position limits, alert and stop-loss limits for IAS portfolios and individual financial instruments;
- in order to mitigate the exposure to country risk, in 2017 the Department implemented analyses for management purposes based on the guidelines of the "Fundamental Review of Trading Book (FRTB)" regulations, in which sensitivity is adopted as the metric for assessing the exposures

monitored. The purpose of these analyses is to render the risk management process more risk-sensitive so as to best capture the dynamism of the markets and the volatility of country risk;

- with reference to the activities carried out, the Department draws up all necessary reports to be submitted to the Risk Committee. It makes a reporting package available to the affected functions through a shared network.

In connection with market risks, in addition to a shared vision of the global performance of the risk management and control system of such risks, decisions may be reached as to what actions are to be taken in response to any critical situations, deficiencies and/or anomalies that emerge from analyses and/or assessments carried out by the Risk and Capital Adequacy Department.

The Internal Audit Department conducts independent controls (third-tier 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.

To determine the capital requirement to be held for market risks, the Group uses the standard method, whereas it uses the delta-plus method for regulatory prudential requirements in respect of options.

### **1.2.5 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. This Policy defines the bodies and functions involved in the management of operating risk and describes the activities associated with identifying, measuring, controlling and reporting the same.

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 COO Area 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 Department, the Legal Department contributes to the management of operating risks by handling disputes and complaints, while the Compliance Service determines second-tier 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 safeguards identified, the Parent Company's Board of Directors has approved a Business Continuity Plan (BCP).

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

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

Moreover, Banca Generali Group entered insurance coverage for operating risks deriving from acts of third parties or caused to third parties and adopted 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)** operationally, on the basis of the organisational measures adopted.

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

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;

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- promptly notifying the Regulations and 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)** the definition of emergency plans, with the aim of ensuring the continuity of fundamental operations, and in particular of processes classified as critical to business continuity.

The Internal Audit Department is responsible for third-tier 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.

### 1.2.6 INTEREST RATE RISK ON THE BANKING BOOK

With reference to the **management process** of this risk, the Lending Department of Banca Generali S.p.A. and the Finance Department of the Parent Company are responsible for first-tier controls.

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.<sup>12</sup> 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 Risk and Capital Adequacy Department is responsible for second-tier controls, namely for the following activities (including the implementation of stress tests):

- identifying the Group's interest rate risk;

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<sup>12</sup> Cf. "Internal Rules and Procedures" of Banca Generali S.p.A.



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- measuring exposure to interest rate risk;
  - verifying compliance with limits;
  - generating and transmitting reports in the area within its remit;
  - preparing and verifying 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 interest income, 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-tier 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 determine the exposure to interest rate risk on the banking book, the Group, in accordance with regulations, measures potential changes in economic value, net interest income or expected earnings<sup>13</sup>.

In particular, to measure the internal capital covering interest rate risk on the banking book, the Group has adopted the method set out in Schedule C to Circular No. 285/2013<sup>14</sup> of the Bank of Italy and the recent guidelines on the subject from the European Banking Authority (EBA)<sup>15</sup>; a method developed internally by the Bank is instead used to measure interest rate risk in terms of changes in net interest income or expected earnings.

### **1.2.7 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. This Policy specifies the bodies and functions involved in the management of concentration risk and describes the guidelines for the identification, measurement, control and reporting of said risk.

The Banca Generali Lending Rules 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

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<sup>13</sup> Cf. Bank of Italy's Circular No. 285/2013, Part I, Title III, Chapter 1.

<sup>14</sup> Cf. Part I, Title III, Chapter I.

<sup>15</sup> EBA/GL/2015/08: "Guidelines on the management of interest rate risk arising from non-trading activities; EBA/CP/2017/19: "Consultation paper on the draft guidelines on the management of interest rate risk arising from non-trading activities".

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particular sectors of the economy, while nonetheless considering that most of the loans granted to ordinary customers are secured by pledges on financial instruments. In this regard, the issue of the concentration of residual risk, net of the value of collateral, is not material and is of modest importance.

Furthermore, the Lending Rules of Banca Generali S.p.A. set additional operating limits relating to the total exposure to each customer, including linked positions<sup>16</sup> (i.e., up to the limit of 1% of own funds on an unsecured basis; this percentage may be increased depending on the collateral provided in proportion to the weights envisaged in the Supervisory Instructions, up to a maximum of 9.9% of own funds — the threshold for classification among large risks).

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

The Finance Department is responsible for lending to institutional counterparties (loans to banks) and investment in financial instruments 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)** operationally, 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-tier 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 the area within its remit;

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<sup>16</sup> Regarding associated positions, the legislation defines "groups of related clients" as two or more entities that constitute a single unit in terms of risk profile inasmuch as: a) one has the power to control the other or others ("legal" connection);

b) regardless of the existence of the relationships of control set out in a) above, there exist links between the entities in question such that, in all probability, if one of them were in financial difficulties, the other or all the others could also encounter difficulties in repaying the debt ("financial" connection).

- preparing and verifying methods of measuring and monitoring concentration risk, as well as implementing and maintaining said methods within calculation applications.

Third-tier 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 reference to the concentration risk, the Group takes into account 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, and then presented to and shared with the Bank of Italy.

### **1.2.8 LIQUIDITY RISK**

With regard to the liquidity risk management process, the Group has formally defined a Single Risk Management Policy specifying the bodies and functions involved in the management of the liquidity risk and setting out the guidelines for the identification, assessment/measurement, control and reporting of said risk. The policies for governance of the liquidity risk are defined within the aforementioned Policy.

In particular, the liquidity risk management and monitoring policy implemented by the Group at the consolidated level is divided into:

- managing operating liquidity risk, i.e., events that affect the Group’s liquidity position on the short-term time horizon, with the primary objective of maintaining the Group’s capacity to meet its ordinary and extraordinary payment obligations, while minimising the related costs;
- managing structural liquidity risk, i.e., all events that affect the Group’s liquidity position, including in the medium/long term, with the primary objective of maintaining an adequate dynamic relationship between liabilities and assets on the various time horizons. In particular, the management of structural liquidity allows:
  - pressure on current and prospective sources of liquidity to be avoided;
  - the cost of funding to be optimised.

In keeping with the content of the Risk Appetite Framework approved by the Parent Company’s Board of Directors, the liquidity risk appetite is periodically monitored on the basis of:

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- the additional 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, 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, aimed at monitoring changes in risk exposure, by anticipating that the limits of the operational indicators defined above are being reached.

First-tier controls on operations are the responsibility of the Parent Company's Finance Department.

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

- identifying the Group's liquidity risk;
- supporting the definition of policies and processes for liquidity risk management;
- measuring and assessing exposure to liquidity risk both on a going concern basis and in stress scenarios;
- verifying compliance with limits;
- working with the involved functions to prepare and formally draft a Contingency Funding Plan;
- generating and transmitting reports in the area within its remit;
- 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-tier 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.

In terms of regulatory metrics, the Group adopts the liquidity coverage ratio (LCR) as its short-term indicator and the NSFR as its structural capital balance indicator, while also adopting additional liquidity monitoring metrics (ALMMs).

Below is the value of the LCR calculated according to the guidelines EBA/GL/2017/01 “on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No. 575/2013”.

Euro	Liquidity Coverage Ratio
Liquidity buffer	4,728,524,681
Total net cash outflows	1,221,640,471
Liquidity Coverage Ratio (%)	387%

Note: The LCR is calculated as the simple average of the month-end measurements for the twelve months prior to the reference period.

### 1.2.9 RISK OF EXCESSIVE LEVERAGE

With reference to the excessive leverage risk management process, the Group has formally defined a Single Risk Management Policy specifying the bodies and functions involved in the management of this type of risk and setting 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-tier controls and has the following specific duties:

- quarterly assessing the Leverage Ratio, calculated by the Administration Department both at individual and consolidated level, as part of its activities to prepare and transmit Supervisory Warnings;
- conducting stress tests to better assess the exposure to excessive leverage risk and identify relevant mitigation and control measures;
- ensuring compliance with the established limits and, in the event of divergence, initiating 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 the area within its remit.

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Third-tier 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.

#### **1.2.10 RESIDUAL RISK**

With regard to the residual risk management process, the Group has adopted a Single Risk Management Policy, duly approved by the Parent Company's Board of Directors. This Policy 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.

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 collaterals, financial guarantees and mortgages.

First- and second-tier control systems are implemented for these types of guarantees.

The Lending Department shall:

- during the approval and disbursement of loans, supervise the process of acquiring and finalising guarantees, as laid down in the Lending Rules;
- during first-tier controls:
  - periodically request a massive update of the properties that represent the collateral for outstanding mortgage loans;
  - establish mid-monthly controls to monitor changes in the value of guarantees with respect to the value at their approval, in consideration of the volatility typical of financial instruments.

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### 1.2.11 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. This Policy defines the bodies and functions involved in the management of reputational risk and describes the guidelines for identifying, measuring, controlling and reporting the 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 the protection and disclosure of inside information;
- Procedure for Related Party and Connected Party Transactions;
- Insider Trading Policy;
- 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 risks:

- 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 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 Service is in charge of disseminating 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.



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

In particular, the Risk and Capital Adequacy Department has launched a “Reputational Risk Management” process with the aim of implementing a systematic process for proactively managing reputational risk based on a method aimed at identifying and qualitatively assessing exposure to this risk, in view of *ex-ante* identification of potential reputational risks relevant to its scenario, while also improving the ability to prevent and mitigate such risks.

In particular, the approach requires that the Risk and Capital Adequacy Department, with an active contribution from the Competence Centres, identify reputational risks, maintain the Repository of Reputational Risks and assess such risks with the involvement of company “Assessor” functions<sup>17</sup>.

In detail, Assessors are tasked with formulating qualitative estimates of potential frequencies and impacts of future reputational risk events based on their own observations and within their remit.

The functions concerned are also responsible for contributing to the identification of possible additional measures for reinforcing the safeguards mitigating specific reputational risks, where they deem it necessary to do so by virtue of the Bank’s potential exposure to the various risk scenarios.

The findings of the process of analysis conducted with the involvement of the internal stakeholders are used to identify the main reputational risks, which are brought to the attention of the Bank’s Top Management through a dedicated reporting system managed by the Risk and Capital Adequacy Department.

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 litigation that derives from processes that are not compliant with the law and that may generate impacts, It 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

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<sup>17</sup> The Bank’s main operating and business functions responsible for monitoring the consequences of the possible occurrence of reputational risk.

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Centres and Branches, and any and all authorised Outsourcers, as well as for 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 financing of terrorism.

The Internal Audit Department conducts independent controls (third-tier 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.

#### **1.2.12 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. This Policy 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 and monitoring 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-tier controls.

The CFO & 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 with the aim 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 CFO & Strategy Area performs specific analyses in terms of expected value,

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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 CFO & 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-tier 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 the area within its remit.

The Internal Audit Department conducts independent controls (third-tier controls) on the operations performed by the Departments/Functions involved in the management of strategic risk in accordance with the Parent Company's Internal Rules and Procedures. 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.

### **1.2.13 COMPLIANCE RISK**

The following are considered when assessing compliance risk resulting from non-compliance with laws, regulations and internal policies: the **Group's operations**<sup>18</sup> and the **risk management process**.

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<sup>18</sup> The Group's operations are diversified in that the legal entities within the Group's scope of consolidation each have their own specialisations: traditional banking (deposit-taking and lending), integrated investment services and products and asset management. The Group's organisational structure appears complex both in terms of the Group's composition and the presence of the network of financial

With regard to the compliance risk **management process**, the Group has adopted a Risk Management Policy, duly approved by the Parent Company's Board of Directors. The Policy 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 such risk, with a focus on the Compliance Function's activities, have also been drafted.

The compliance control function has been centralised within the Compliance and Anti-Money Laundering Department<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.

Chief among the activities assigned to the Compliance Function is thus the definition 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);
- (ongoing) verification of the compliance of company processes (*ex-post* verification);
- input for defining and implementing any corrective measures and evaluating such measures.

In order to perform these activities, the Group has drawn up a Compliance Risk Matrix, which thus represents the main tool used in compliance risk assessment, adopted for *ex-ante* mapping of exposure to non-compliance risks for all significant processes of Banking Group Companies.

Compliance risk management is supported by the Multicompliance Evolution application, an IT tool that aids the compliance function in monitoring, assessing and thus containing compliance risk.

In addition, the dashboard of Key Risk Indicators (KRIs) identified by the compliance function has been fully operational since 2017 with the aim of permitting the identification of anomalous tendencies and potential discrepancies.

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 Function is tasked with playing a propositional role with regard to the updating of the compliance policy and compliance regulations.

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advisors on which the Group relies for the distribution of its financial products. These elements give rise to the Group's adoption of stringent rules of various kinds in order to prevent compliance risk resulting from non-compliance with laws, regulations and internal policies.

<sup>19</sup> 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 Banca Generali's Compliance and Anti-Money Laundering Department directly reporting to the body with managing functions, in line with industry regulations (Cf. Circular No. 285 dated 17 December 2013 "Supervisory Provisions for Banks").

### 1.2.14 OTHER RISKS

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

- equity investment risks: risk 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 financing of terrorism: 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).

#### *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.

With reference to first-tier 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 respect to second-tier 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.

#### *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-tier 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-tier controls, verifies compliance with the Policies and reports any anomalies in a timely manner.

The Bank's Independent Directors play a role in providing evaluation, support and advice 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.

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### *Risk of money-laundering and financing of terrorism*

The Group has adopted specific internal rules, procedures, training programmes, monitoring activities and checks aimed at ensuring compliance with laws and regulations and mitigating the risk that an activity or transaction may be linked to phenomena of money-laundering or financing of terrorism, as defined in Legislative Decree No. 231/2007, as amended.

Strategic decisions regarding the risk of money-laundering and financing of terrorism<sup>20</sup> fall within the remit of the Parent Company's Board of Directors, whereas the governing bodies of individual Group Companies are responsible for implementing such decisions within the framework of their specific company situations.

To this end, the Banking Group has adopted a specific "Policy for Managing the Risk of Money-Laundering and Financing of Terrorism", the most recent update to which was approved by the Parent Company's Board of Directors on 26 June 2013 and then implemented by all Banking Group Companies.

This Policy lays down the principles and guidelines that the entire Banking Group must follow when preventing and managing the risk in question.

The Anti-Money Laundering Function (the Parent Company's Anti-Money Laundering Service) is responsible for preventing and combating money-laundering and operations for financing of terrorism with respect to the Banking Group Companies based in Italy. It collaborates with the Compliance Service on matters within its purview and on *ex-ante* assessment of the residual risk associated with company processes, availing itself of the same information technology tools used in support of efficacy assessment, reporting, and monitoring of remedial measures.

### *Information technology risk*

In an integrated view of company risks for prudential purposes (ICAAP), this type of risk is considered, according to the specific aspects, among operational risks (Pillar 1), as well as among reputational and strategic risks (Pillar 2). 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, when assessing information technology risk, the risk factors assumed are based on technological components (system administration, operation and security), appropriately correlated with the event types identified for operational risk (i.e., the events of "Interruption of business and malfunctions of information technology systems", "Internal fraud", "External fraud", "Damages to property" and "Execution, delivery and management of processes").

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<sup>20</sup> In the classification of risks for regulatory purposes, the risk of money laundering is primarily placed among risks of a legal and reputational nature, although it is possible that losses may be sustained on loans or financial instruments due to the unknown financing of criminal activities. Legal risk is included among operating risks and as such contributes to determining the capital requirement envisaged by what is known as the "first pillar"; reputational risk is handled in the context of what is known as the "second pillar" and thus contributes to estimating the degree of adequacy of the intermediary's total capital.

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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 Systems and Technologies Governance 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-tier 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-tier 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 provisions 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;
- 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	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	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 2017, reclassified and adjusted where necessary, to take account of consolidation requirements.

Subsidiaries are included in the accounts using the gross 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 said 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 intra-Group transactions, influencing both the balance sheet and profit and loss account, are eliminated. Unreconciled amounts are recognised in other assets/liabilities and other revenues/expenses, respectively.

Dividends distributed by subsidiaries are eliminated from the consolidated profit and loss account and a corresponding adjustment is made to prior years' income reserves.

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The following is a description of the Banca Generali Group's organisational structure at 31 December 2017:

- **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 S.A.** 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.

It should be noted that the merger of the subsidiary BG Fiduciaria SIM S.p.A. into the Parent Company, Banca Generali, became effective 1 January 2018.

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

As this business combination qualifies as a transaction between entities under common control, it has been accounted for in accordance with the principle of the continuity of the values of the transferred assets and liabilities on the basis of the book values indicated in Banca Generali's 2017 Consolidated Financial Statements.

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### 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 circulars:

- Bank of Italy's Circular No. 285: Supervisory Provisions for Banks;
- Bank of Italy's Circular No. 286: Instructions for the Preparation of Prudential Reports for Banks and Securities Brokerage Companies;
- Update to Bank of Italy's Circular 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 components 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 phase-in own funds disclosure template provided for in the EBA's instructions.

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## 3.1 COMMON EQUITY TIER 1 – CET1

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

CET1 includes paid-in capital, additional paid-in capital, earnings reserves, valuation reserves (AFS valuation reserve, IAS 19 actuarial losses reserve), with the exception of the cash flow hedge reserve. CET1 own instruments (treasury 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 are however not deducted but calculated in risk weighted assets (RWAs) with a 100% weighting;
- d) deferred tax assets relating to multiple redemptions on the same goodwill for the portion that has not yet been reflected in the current tax position;
- e) direct, indirect and synthetic non-significant investments (<10%) in CET1 instruments issued by financial 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 institutions;

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 aspects of the **phase-in** are set out below:

1. the AFS portfolio's positive and negative valuation reserves relating to central EU administration exposures may be excluded from CET1 up to the date the European Commission approves the new IFRS 9; this exemption was introduced by the Bank of Italy under the national discretionary measures provided for by the CRR;
2. the AFS portfolio's positive valuation reserves, other than those relating to central administration exposures, are calculated in CET1 from 2015 for 40% and then through a progressive phase-in of 20% per annum (60% in 2016, 80% in 2017, and 100% in 2018);
3. the AFS portfolio's negative valuation reserves, other than those relating to central administration exposures, are calculated in CET1 through a progressive phase-in of 20% per annum (60% in 2016, 80% in 2017, and 100% in 2018);
4. actuarial gains/losses deriving from the IAS 19 valuation of Termination Indemnity (TFR) (and defined benefit pension funds) are reported, net of the prudential filter activated by the Bank of Italy for 2013 in order to sterilise the effects of the new IAS 19, through a progressive phase-in of 20% per annum as from 2015 (80% in 2015, 60% in 2016, 40% in 2017 and 20% in 2018);

5. deferred tax assets (DTAs) that rely on future profitability and do not arise on temporary differences (tax losses) are deducted at 80% for 2017 (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 progressive phase-in of 10% per annum as from 2015 (20% in 2016, 30% in 2017 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 progressive phase-in of 20% per annum as from 2014 (60% in 2016, 80% in 2017 and 100% in 2018);
8. non-significant investments in CET1 capital instruments issued by financial institutions held directly, indirectly or synthetically exceeding the aforementioned allowances, are deducted from CET1 through a progressive phase-in of 20% per annum as from 2014 (60% in 2016, 80% in 2017 and 100% in 2018); direct investments in financial institutions not deducted from CET1 in the phase-in are deducted for 50% from AT1 and for 50% from T2; indirect and synthetic investments are subject to capital requirements and included in risk weighted-assets;
9. significant investments in CET1 capital instruments issued by financial institutions held directly, indirectly or synthetically exceeding the aforementioned allowances are deducted from CET1 through a progressive phase-in of 20% per annum as from 2014 (60% in 2016, 80% in 2017 and 100% in 2018); direct investments in financial institutions not deducted from CET1 in the phase-in are deducted for 50% from AT1 and for 50% from T2; indirect and synthetic investments are subject to capital requirements and included in risk weighted-assets.

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 IFRS 9 becomes effective, scheduled for 2018.

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

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

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

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

	31.12.2017
Termination indemnity IAS 19R	-4,859
Termination indemnity IAS 19 (2012)	-4,346
Gross difference	513
Tax effect	-141
<b>Positive filter</b>	<b>372</b>

### 3.1.4 CET1 prudential filters

In addition, “prudential filters” are also 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 IASs/IFRSs. 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 closing, etc.).

On the other hand, with reference to national discretionary measures, only the prudential filter relating to **multiple goodwill redemption** 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 redemption 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 2017 thus amounted to 969 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 of	Expiry	Amount	Remaining amount
Generali Beteiligungs GmbH subordinated loan	30.10.2014	30.10.2024	43,000	43,000

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

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

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

The interest rate for the first 5 years is fixed and equal to 3.481% per annum, corresponding to the 5-year mid swap rate identified at the contract execution date, plus a spread of 300 bps; from the start of the sixth year the rate will be reparameterised to the 3-month Euribor, plus the same spread identified when the original fixed rate was determined. The loan is subordinated for repayment in the event of a default by the Bank.

### 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 entities.

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

### 3.3.3 Phase in — Impact on T2

The main aspects of the phase-in provisions for 2017 are as follows:

1. **positive AFS reserves**, other than those relating to EU country government bonds, are recognised as part of the phase-in for 2017 at the rate of 50% provided by previous regulation, with a progressive reduction of 20% per annum from 2014 (60% in 2016, 80% in 2017);
2. **non-significant investments** in CET1 capital instruments issued by financial institutions exceeding the 10% allowance and the general allowance, not deducted from CET1 in the phase-in, are deducted for 50% from T2;
3. **significant investments** in CET1 capital instruments issued by financial institutions exceeding the 10% allowance and the general allowance, not deducted from CET1 in the phase-in, are deducted for 50% from T2;
4. non-significant investments in 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 (80% in 2017 and 100% in 2018). Indirect and synthetic investments not deducted in the phase-in are subject to capital requirements and included in risk-weighted assets;
5. significant investments in Tier 2 capital instruments issued by financial institutions held directly are deducted 100% from T2; significant investments in Tier 2 capital instruments issued by financial institutions held indirectly or synthetically are phase in as a deduction of 20% per annum as from 2014 (80% in 2017 and 100% in 2018). Indirect and synthetic investments not deducted in the phase-in are subject to capital requirements and included in risk-weighted assets.

## 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 payout, amounted to 518.6 million euros, up by 55.7 million euros compared to the end of the previous year.

Items/Values	31.12.2017	31.12.2016	Change	
			Amount	%
Common Equity Tier 1 capital (CET1)	475,232	419,073	56,159	13.40%
Additional Tier 1 capital (AT1)	0	0	0	n.a
Tier 2 capital (T2)	43,370	43,854	-484	-1.10%
<b>Own funds</b>	<b>518,602</b>	<b>462,927</b>	<b>55,675</b>	<b>12.03%</b>
<b>Consolidated net equity</b>	<b>736,070</b>	<b>646,521</b>	<b>89,549</b>	<b>13.85%</b>

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

(€ thousand)	31.12.2017
<b>Consolidated net equity</b>	<b>736,070</b>
Dividend for shareholders	-145,474
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>590,596</b>
Regulatory adjustments (including adjustments of the phase-in period)	-115,364
<b>Tier 1 capital net of regulatory adjustments</b>	<b>475,232</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 shown synthetically below, illustrating the effects of the prudential filters and the changes linked to the phase-in provisions.

	<b>31.12.2017</b>
<b>A. Tier 1 capital before application of prudential filters</b>	590,596
<i>of which: CET1 instruments covered by phase-in provisions</i>	0
B. CET1 prudential filters (+/-)	-4,663
<b>C. CET1 gross of elements to be deducted and effects of the phase-in</b>	<b>585,933</b>
D. Elements to be deducted from CET1	-90,258
E. Phase-in provisions – impact on CET1	-20,443
<b>F. Total Common Equity Tier 1 capital - CET1 (C - D +/- E)</b>	<b>475,232</b>
<b>G. Additional Tier 1 capital (AT1) gross of elements to be deducted and the phase-in provisions</b>	<b>0</b>
<i>of which: AT1 instruments covered by phase-in provisions</i>	0
H. Elements to be deducted from AT1	0
I. Phase-in — impact on AT1	0
<b>L. Total additional Tier 1 capital (AT1)</b>	<b>0</b>
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 phase-in provisions</i>	0
N. Elements to be deducted from T2	0
O. Phase-in provisions — impact on Tier 2	370
<b>P. Total Tier 2 capital (T2)</b>	<b>43,370</b>
<b>Q. TOTAL OWN FUNDS</b>	<b>518,602</b>

More in detail, own funds are composed as follows.

OWN FUNDS	31.12.2017		
	full application	adjustment	phase in
<b>TIER 1 CAPITAL</b>			
Share capital	116,852	0	116,852
Additional paid-in capital	58,219	0	58,219
Treasury shares	-13,271	0	-13,271
<b>CET1 instruments</b>	<b>161,800</b>	<b>0</b>	<b>161,800</b>
Reserves	348,519	0	348,519
Net profit (loss) for the period	204,105	0	204,105
Share of net profit for the period not included in CET1	-145,474	0	-145,474
<b>Earnings reserves</b>	<b>407,150</b>	<b>0</b>	<b>407,150</b>
AFS reserves – equity securities and UCITS	3,224	-645	2,579
AFS reserves – EU government securities – neutralisation option up to 2017	19,851	-19,851	0
AFS reserves – debt securities	480	-96	384
Reserve for exchange rate differences	-113	0	-113
Actuarial reserves IAS 19	-1,796	0	-1,796
Other (neutralisation of actuarial losses – IAS 19)	0	149	149
<b>Other components of other comprehensive income (OCI)</b>	<b>21,646</b>	<b>-20,443</b>	<b>1,203</b>
Prudent valuation	-4,663	0	-4,663
Cash flow hedge	0	0	0
<b>Negative prudential filters</b>	<b>-4,663</b>	<b>0</b>	<b>-4,663</b>
Goodwill	-66,065	0	-66,065
Goodwill DTLs	2,521	0	2,521
Intangible assets	-25,745	0	-25,745
DTAs to P&L not arising from temporary differences (tax losses)	0	0	0
Other negative items (neutralisation of DTAs arising on multiple goodwill tax redemption)	-969	0	-969
<b>Total negative items</b>	<b>-90,258</b>	<b>0</b>	<b>-90,258</b>
<b>Adjustments of DTAs/DTLs through P&amp;L arising on temporary differences</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Portion exceeding non-significant investments (&lt;10%) in CET1 instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Portion exceeding non-significant investments (&gt;10%) in CET1 instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>
General deduction – portion exceeding DTAs	0	0	0
General 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 (CET1)</b>	<b>495,675</b>	<b>-20,443</b>	<b>475,232</b>
Significant investments: phase-in provisions – impact on AT1	0	0	0
Significant investments: excess to be deducted 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>495,675</b>	<b>-20,443</b>	<b>475,232</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	370	370

<b>Total Tier 2 capital</b>	<b>43,000</b>	<b>370</b>	<b>43,370</b>
<b>TOTAL OWN FUNDS</b>	<b>538,675</b>	<b>-20,073</b>	<b>518,602</b>

In the year under review, CET1 performance was chiefly attributable to the contribution of net profit for the year which was not allocated as dividend to be distributed to shareholders (58.6 million euros), equal to about 28% of the consolidated net profit.

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

<b>Own funds at 31 December 2016</b>	<b>462,927</b>
<b>Change in Tier 1 capital</b>	
Purchase of treasury shares and repurchase commitments of CET1 instruments	-10,338
Change in reserves for share-based payments (IFRS 2)	7,789
2016 dividend payout	-235
Regulatory provisions for retained earnings 2017	58,631
Phase-in provisions: change in AFS positive and negative reserves	385
Change in IAS 19 reserves (net of the filter)	-175
Change in goodwill and intangibles	316
Negative prudential filters	-214
Deductions for significant investments, DTAs; general deductions	0
Phase-in provisions - CET1	0
<b>Total changes in TIER 1 capital</b>	<b>56,159</b>
<b>Change in Tier 2 capital</b>	
Tier 2 subordinated loans (regulatory amortisation)	0
Phase-in provisions: change in AFS positive reserves	-484
Other effects	0
<b>Total change in TIER 2 capital</b>	<b>-484</b>
<b>Own funds at 31 December 2017</b>	<b>518,602</b>
<b>Change</b>	<b>55,675</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.

At 31 December 2017, the Banca Generali Group had a Total Capital Ratio<sup>21</sup> of **20.2%** 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 be submitted to the Supervisory Bodies required under applicable legislation, ensuring their accuracy and compliance with 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-tier 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 these cases, information concerning the transaction is used to estimate its impact on the capital ratios, and any

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<sup>21</sup> Ratio of total Own funds to risk-weighted assets.

actions that may be necessary to comply with the requirements of the Supervisory Boards are planned.

Compliance with capital adequacy is also guaranteed by the adoption of a payout 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 2017 in thousands of euros.

	31.12.2017	
	Non-weighted amounts	Weighted amounts
<b>A. RISK ASSETS</b>	9,747,479	1,642,626
<b>A.1 Credit and counterparty risk</b>		
1. Standardised method	9,747,479	1,642,626
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	131,365
<b>B.2 RISK OF CREDIT VALUATION ADJUSTMENT</b>	X	45
<b>B.3 REGULATION RISK</b>	X	0
<b>B.4 MARKET RISKS</b>	X	1,735
1. Standard methodology	X	1,735
2. Internal models	X	0
3. Concentration risk		0
<b>B.5 OPERATING RISK</b>	X	71,914
1. Basic method	X	71,914
2. Standardised method	X	0
3. Advanced method	X	0
<b>B.6 OTHER VARIABLES</b>	X	0
<b>B.7 TOTAL PRUDENTIAL REQUIREMENTS</b>	X	205,059
<b>C. RISK-WEIGHTED ASSETS AND REGULATORY CAPITAL RATIOS</b>		
<b>C.1 Risk-weighted assets</b>	X	2,563,242
<b>C.2 Tier 1 capital/Risk-weighted assets (CET1 capital ratio)</b>	X	18.5%
<b>C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)</b>	X	18.5%
<b>C.4 Total own funds/Risk-weighted assets (Total Capital Ratio)</b>	X	20.2%



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	70,189	5,615
Supervised intermediaries	150,323	12,026
Companies	834,919	66,794
Detail	296,788	23,743
Exposures secured by immovable	133,707	10,697
Past due	46,304	3,704
UCITS	18,737	1,499
Equity instruments	38,809	3,105
Other	52,462	4,197
Securitisation	0	0
<b>Total</b>	<b>1,642,238</b>	<b>131,379</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	388	31

The capital requirement for **counterparty risk alone** amounted to 241 thousand euros at 31 December 2017.

At 31 December 2017, the capital requirement for credit risk amounted to **131,379** 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	4,825	386
Generic risk on equity securities	800	64
Specific risk on debt securities	5,900	472
Specific risk on equity securities	813	65
Specific securitisation risk	9,325	746
UCITS position risk	13	1
Additional risk options	13	1
<b>Total</b>	<b>21,688</b>	<b>1,735</b>

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The capital requirement for market risk amounted to approximately **1,735** thousand euros.

At 31 December 2017, the capital requirement for operating risk was **71,914** 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 2017, consolidated Tier 1 capital ratio was **18.5%** and consolidated Total Capital Ratio was **20.2%**, as shown in the previous table.

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## 5 CREDIT RISK: GENERAL INFORMATION

### QUALITATIVE INFORMATION

Each quarter the Bank updates the impairment losses recognised on on-balance sheet loans to take account of the development of the situation, the guarantees covering the risk and the time horizon for recovering its loans.

Non-performing exposures are classified into the following categories according to the instructions provided by the Supervisory Authority (Bank of Italy Circular No. 272):

- 1) bad loans: formally non-performing loans, consisting of cash/on- 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, and regardless of the Bank loss projections;
- 2) unlikely to pay: cash/on- and off-balance sheet exposures 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 necessarily tied to the explicit presence of anomalies (non-payment), but rather is linked to the existence of elements indicative of a situation of risk of default of the borrower and concerns the overall cash/on- and off-balance sheet exposures toward the same borrower;
- 3) non performing past-due exposures: these are cash on-balance sheet exposures other than those classified as bad debts or unlikely to pay loans that are past due, on an ongoing basis, by more than 90 days at the reporting date. Non performing past-due exposures may identified in reference to either the individual borrower or individual transaction. Banca Generali adopts an approach by individual debtor, and thus assigns positions to this category when the amount past due has exceeded 5% of the total exposure to the borrower concerned for more than 90 days.

Forborne positions are assigned the “forbearance” attribute.

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

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

Expected cash flows take account of anticipated collection times, the presumed realisable value of any underlying guarantees and costs that are expected to be incurred to recover the credit exposure.

Cash flows relating to short-term loans are not discounted.

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

Adjustments are recognised in profit or loss.

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

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

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

The total amount of loans classified as impaired, net of write-downs, is a small percentage of total loans to customers and consists partly (38% or 27,233 thousand euros) of loans backed by a guarantee issued by the former Banca BSI S.A., now EFG Bank AG (as a result of the merger of the two banks in 2017) upon the acquisition of Banca del Gottardo S.p.A. and Banca BSI Italia S.p.A.

Net of the positions covered by indemnities, the remainder of non-performing loans amounted to 45,217 thousand euros, equal to 2.35% of total net loans to customers.

However, considering positions secured by collateral or similar guarantees, which at 44,269 thousand euros make up approximately 98% of total net non-performing loans, 948 thousand euros of net non-performing loans are not secured by collateral, representing 1.3% of total net non-performing loans and an entirely marginal fraction of total net loans to customers (0.05%).

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, as a general rule, to turn the matter over to top national credit collection companies. A position is classified as non-performing when it is no longer possible to recover the exposure from the borrower within a period of time deemed reasonable.

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.

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In further detail, a deterioration rate is associated with each class of assets with similar characteristics in terms of credit risk, type of exposure, the borrower's industry, type of collateral or other significant factors, along with a loss given default.

Portfolio impairment losses are recognised in the profit and loss account and until 31 December 2017 were based on calculation rules consistent with accounting standard IAS 39. With effect from 1 January 2018, the Bank has adopted impairment criteria compliant with the new accounting standard IFRS 9.

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	-	-	-	-	4,557,000	4,557,000
2. HTM financial assets	-	-	-	-	979,786	979,786
3. Loans to banks	-	-	-	-	335,314	335,314
4. Loans to customers	23,892	39,232	9,326	41,949	1,855,973	1,970,372
5. Financial assets measured at fair value	-	-	-	-	-	-
6. HFS financial assets	-	-	-	-	-	-
<b>Total at 31 December 2017</b>	<b>23,892</b>	<b>39,232</b>	<b>9,326</b>	<b>41,949</b>	<b>7,728,073</b>	<b>7,842,472</b>
<b>Average exposures</b>	<b>23,458</b>	<b>23,002</b>	<b>5,695</b>	<b>32,514</b>	<b>7,481,514</b>	<b>7,566,182</b>
<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>

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	-	-	-	4,557,000	-	4,557,000	4,557,000
2. HTM financial assets	2,642	2,642	-	981,548	1,762	979,786	979,786
3. Loans to banks	-	-	-	335,610	296	335,314	335,314
4. Loans to customers	86,368	13,918	72,450	1,901,084	3,162	1,897,922	1,970,372
5. Financial assets measured at fair value	-	-	-	X	X	-	-
6. HFS financial assets	-	-	-	-	-	-	-
<b>Total at 31 December 2017</b>	<b>89,010</b>	<b>16,560</b>	<b>72,450</b>	<b>7,775,242</b>	<b>5,220</b>	<b>7,770,022</b>	<b>7,842,472</b>
<b>Average exposures</b>	<b>66,682</b>	<b>14,528</b>	<b>52,155</b>	<b>7,520,554</b>	<b>6,527</b>	<b>7,514,027</b>	<b>7,566,182</b>
<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>

Portfolios/Quality	Assets with obviously poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. HFT financial assets	-	-	49,015
2. Hedging derivatives	-	-	-
<b>Total at 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>49,015</b>
<b>Average exposures</b>	<b>-</b>	<b>-</b>	<b>42,006</b>
<b>Total at 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>34,997</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 exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. Cash exposures</b>										
A.1 Bad loans	23,892	14,347	-	613	-	-	-	-	-	-
A.2 Unlikely to pay	39,232	1,191	-	-	-	-	-	-	-	-
A.3. Non-performing past-due exposures	9,315	407	11	2	-	-	-	-	-	-
A.4. Other performing exposures	7,123,540	2,800	201,452	1,871	17,235	42	1,479	-	3,640	13
<b>Total A</b>	<b>7,195,979</b>	<b>18,745</b>	<b>201,463</b>	<b>2,486</b>	<b>17,235</b>	<b>42</b>	<b>1,479</b>	<b>-</b>	<b>3,640</b>	<b>13</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Bad loans	68	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	3,275	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	102	-	-	-	-	-	-	-	-	-
B.4. Other performing exposures	208,601	-	1,218	-	-	-	-	-	-	-
<b>Total B</b>	<b>212,046</b>	<b>-</b>	<b>1,218</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total at 31 December 2017</b>	<b>7,408,025</b>	<b>18,745</b>	<b>202,681</b>	<b>2,486</b>	<b>17,235</b>	<b>42</b>	<b>1,479</b>	<b>-</b>	<b>3,640</b>	<b>13</b>
<b>Average exposures</b>	<b>7,026,955</b>	<b>16,958</b>	<b>193,749</b>	<b>3,014</b>	<b>45,807</b>	<b>57</b>	<b>1,487</b>	<b>-</b>	<b>3,126</b>	<b>19</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>

Exposure/Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. Cash exposures</b>										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3. Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4. Other performing exposures	381,493	374	62,870	94	14,107	-	7,539	17	4,996	9
<b>Total A</b>	<b>381,493</b>	<b>374</b>	<b>62,870</b>	<b>94</b>	<b>14,107</b>	<b>-</b>	<b>7,539</b>	<b>17</b>	<b>4,996</b>	<b>9</b>
<b>B. Off-balance sheet exposures</b>										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4. Other performing exposures	461	-	93	-	-	-	-	-	-	-
<b>Total B</b>	<b>461</b>	<b>-</b>	<b>93</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total at 31 December 2017</b>	<b>381,954</b>	<b>374</b>	<b>62,963</b>	<b>94</b>	<b>14,107</b>	<b>-</b>	<b>7,539</b>	<b>17</b>	<b>4,996</b>	<b>9</b>
<b>Average exposures</b>	<b>377,730</b>	<b>839</b>	<b>76,232</b>	<b>134</b>	<b>35,605</b>	<b>-</b>	<b>7,533</b>	<b>23</b>	<b>9,029</b>	<b>12</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>15</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, non-performing past-due exposures, performing exposures in thousands of euros is also provided.

Exposure/counterparty	Net exposure	Specific value adjustments	Portfolio value adjustments
<b>A. Cash exposures</b>			
<b>1. Governments</b>	<b>5,316,611</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	5,316,611	-	-
- of which: with forbearance measures	-	-	-
<b>2. Other public institutions</b>	<b>8,283</b>	<b>1</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	-	1	-
- of which: with forbearance measures	-	-	-
A.4. Performing exposures	8,283	-	-
- of which: with forbearance measures	-	-	-
<b>3. Financial companies</b>	<b>251,602</b>	<b>171</b>	<b>707</b>
A.1 Bad loans	4,865	78	-
- of which: with forbearance measures	-	-	-
A.2 Unlikely to pay	1,632	38	-
- of which: with forbearance measures	-	-	-
A.3. Non-performing past-due exposures	404	55	-
- of which: with forbearance measures	-	-	-
A.4. Performing exposures	244,701	-	707
- of which: with forbearance measures	1	-	-
<b>4. Insurance companies</b>	<b>20,458</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	20,458	-	-
- of which: with forbearance measures	-	-	-
<b>5. Non-financial companies</b>	<b>520,200</b>	<b>14,318</b>	<b>4,019</b>
A.1 Bad loans	14,706	13,650	-
- of which: with forbearance measures	-	-	-
A.2 Unlikely to pay	16,358	613	-
- of which: with forbearance measures	5,315	35	-
A.3. Non-performing past-due exposures	3,969	55	-
- of which: with forbearance measures	982	5	-
A.4. Performing exposures	485,167	-	4,019
- of which: with forbearance measures	24,877	-	-
<b>6. Other entities</b>	<b>1,302,642</b>	<b>2,070</b>	<b>-</b>



A.1 Bad loans	4,321	1,232	-
- of which: with forbearance measures	-	-	-
A.2 Unlikely to pay	21,242	540	-
- of which: with forbearance measures	1,484	13	-
A.3. Non-performing past-due exposures	4,953	298	-
- of which: with forbearance measures	-	-	-
A.4. Performing exposures	1,272,126	-	-
- of which: with forbearance measures	80,003	-	-
<b>TOTAL A - CASH EXPOSURES</b>	<b>7,419,796</b>	<b>16,560</b>	<b>4,726</b>

Exposure/counterparty	Net exposure	Specific value adjustments	Portfolio value adjustments
<b>B. Off-balance sheet exposures</b>			
<b>1. Governments</b>	<b>100,560</b>	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4. Performing exposures	100,560	-	-
<b>2. Other public institutions</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>5,533</b>	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4. Performing exposures	5,533	-	-
<b>4. Insurance companies</b>	<b>4,254</b>	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	-	-	-
B.4. Performing exposures	4,254	-	-
<b>5. Non-financial companies</b>	<b>68,949</b>	-	-
B.1 Bad loans	68	-	-
B.2 Unlikely to pay	3,275	-	-
B.3 Other non-performing assets	-	-	-
B.4. Performing exposures	65,606	-	-
<b>6. Other entities</b>	<b>33,968</b>	-	-
B.1 Bad loans	-	-	-
B.2 Unlikely to pay	-	-	-
B.3 Other non-performing assets	102	-	-
B.4. Performing exposures	33,866	-	-
<b>TOTAL B - OFF-BALANCE SHEET EXPOSURES</b>	<b>213,264</b>	-	-

	Net exposure	Specific value adjustments	Portfolio value adjustments
Governments	5,417,171	-	-
Public institutions	8,283	1	-
Financial companies	257,135	171	707
Insurance companies	24,712	-	-
Non-financial companies	589,149	14,318	4,019
Other entities	1,336,610	2,070	-
<b>Overall total (A+B) at 31 December 2017</b>	<b>7,633,060</b>	<b>16,560</b>	<b>4,726</b>
<b>Overall total (A+B) at 31 December 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 on demand	Up to 3 months	Over 3 months, up to 6 months	Over 6 months, up to 1 year	Over 1 year, up to 5 years	Over 5 years, up to 10 years	Over 10 years	Unspecified maturity	Total
<b>1. Cash assets</b>	<b>2,004,057</b>	<b>1,032,963</b>	<b>2,354,451</b>	<b>236,924</b>	<b>1,702,392</b>	<b>490,993</b>	<b>209</b>	<b>-</b>	<b>7,821,989</b>
1.1 Debt securities									
- with early repayment option	-	-	3,054	-	3,796	14,659	-	-	21,509
- other	-	853,456	2,346,119	236,879	1,696,802	476,130	-	-	5,609,386
1.2 Loans to banks	130,764	128,465	5,000	-	-	-	-	-	264,229
1.3 Loans to customers									
- current accounts	895,310	2	3	5	49	-	-	-	895,369
- other loans	977,983	51,040	275	40	1,745	204	209	-	1,031,496
- with early repayment option	854,500	277	28	40	276	204	209	-	855,534
- other	123,483	50,763	247	-	1,469	-	-	-	175,962
<b>2. Cash liabilities</b>	<b>7,124,524</b>	<b>244,164</b>	<b>-</b>	<b>-</b>	<b>400,000</b>	<b>43,278</b>	<b>-</b>	<b>-</b>	<b>7,811,966</b>
2.1 Due to customers									
- current accounts	6,903,451	-	-	-	-	-	-	-	6,903,451
- other payables	132,000	50,706	-	-	-	43,278	-	-	225,984
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	132,000	50,706	-	-	-	43,278	-	-	225,984
2.2 Due to banks									
- current accounts	55,795	-	-	-	-	-	-	-	55,795
- other payables	33,278	193,458	-	-	400,000	-	-	-	626,736
2.3 Debt securities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
2.4 Other liabilities									
- with early repayment option	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
3.1 With underlying securities									
- Options	-	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
3.2 Without underlying securities									
- Options	-	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-
<b>4. Other off-balance sheet transactions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
+ long positions	-	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-	-

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 exposures/values	Gross exposure				Performing assets	Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing assets							
	Up to 3 months	Over 3 months, up to 6 months	Over 6 months, up to 1 year	Over 1 year				
<b>A. CASH EXPOSURES</b>								
a) Bad loans	-	-	-	38,852	X	14,960	X	23,892
of which: with forbearance measures	-	-	-	-	X	-	X	-
b) Unlikely to pay	34,029	-	215	6,179	X	1,191	X	39,232
of which: with forbearance measures	1,560	-	18	5,269	X	48	X	6,799
c) Non-performing past-due exposures	1,272	6,274	2,020	169	X	409	X	9,326
of which: with forbearance measures	989	-	-	-	X	5	X	984
d) Performing past-due exposures	X	X	X	X	41,949	X	-	41,949
of which: with forbearance measures	X	X	X	X	7,912	X	-	7,912
e) Other performing exposures	X	X	X	X	7,310,123	X	4,726	7,305,397
of which: with forbearance measures	X	X	X	X	96,968	X	-	96,968
<b>TOTAL A</b>	<b>35,301</b>	<b>6,274</b>	<b>2,235</b>	<b>45,200</b>	<b>7,352,072</b>	<b>16,560</b>	<b>4,726</b>	<b>7,419,796</b>
<b>B. OFF-BALANCE SHEET EXPOSURES</b>								
a) Non-performing	3,445	-	-	-	X	-	X	3,445
b) Performing	X	X	X	X	209,819	X	-	209,819
<b>TOTAL B</b>	<b>3,445</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>209,819</b>	<b>-</b>	<b>-</b>	<b>213,264</b>
<b>TOTAL (A+B)</b>	<b>38,746</b>	<b>6,274</b>	<b>2,235</b>	<b>45,200</b>	<b>7,561,891</b>	<b>16,560</b>	<b>4,726</b>	<b>7,633,060</b>

Types of exposure/values	Gross exposure				Performing assets	Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing assets							
	Up to 3 months	Over 3 months, up to 6 months	Over 6 months, up to 1 year	Over 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	471,499	X	494	471,005
of which: with forbearance measures	X	X	X	X	-	X	-	-
<b>TOTAL A</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>471,499</b>	<b>-</b>	<b>494</b>	<b>471,005</b>
<b>B. OFF-BALANCE SHEET EXPOSURES</b>								
a) Non-performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	11,195	X	-	11,195
<b>TOTAL B</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,195</b>	<b>-</b>	<b>-</b>	<b>11,195</b>
<b>TOTAL (A+B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>482,694</b>	<b>-</b>	<b>494</b>	<b>482,200</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 2017.

Causes/Categories	Bad loans		Unlikely to pay		Non-performing past-due exposures	
	Total	Of which: with forbearance measures	Total	Of which: with forbearance measures	Total	Of which: with forbearance measures
<b>A. Total adjustments at year-start</b>	<b>11,924</b>	<b>-</b>	<b>140</b>	<b>10</b>	<b>431</b>	<b>-</b>
- of which: exposures transferred but not written off	-	-	-	-	-	-
<b>B. Increases</b>	<b>3,296</b>	<b>-</b>	<b>1,104</b>	<b>39</b>	<b>322</b>	<b>5</b>
B.1. Adjustments	3,193	-	1,025	39	322	5
B.2. Losses from disposals	-	-	-	-	-	-
B.3 Transfer from other categories of non-performing exposures	103	-	79	-	-	-
B.4. Other increases	-	-	-	-	-	-
<b>C. Decreases</b>	<b>260</b>	<b>-</b>	<b>53</b>	<b>1</b>	<b>344</b>	<b>-</b>
C.1. Reversal of adjustments	3	-	21	-	121	-
C.2. Reversal of collections	70	-	16	1	21	-
C.3. Gains from disposals	-	-	-	-	-	-
C.4. Write-offs	187	-	11	-	26	-
C.5. Transfer to other categories of non-performing exposures	-	-	5	-	176	-
C.6. Other decreases	-	-	-	-	-	-
<b>D. Total adjustments at year-end</b>	<b>14,960</b>	<b>-</b>	<b>1,191</b>	<b>48</b>	<b>409</b>	<b>5</b>
- of which: exposures transferred but not written off	-	-	-	-	-	-

Consolidated net impairment losses amounted to 5.4 million euros, up by 4.7 million euros on the previous year, and break down into 0.7 million euros of impairment losses on financial assets, 1.7 million euros of impairment losses on loans and the remaining 3.0 million euros of charges in support of the interventions taken by the Interbank Deposit Protection Fund's Voluntary Scheme.

Value adjustments on loans to customers, recognised through profit or loss for 1.7 million euros, are mainly due to a thorough review of loan positions undertaken in the second quarter of the year with the aim of bringing measurement policies into compliance with the more stringent principles set out in the most recent edition (March 2017) of the ECB Guidance on non-performing loans, and in relation to which provisions were recognised on new positions mostly classified as unlikely to pay and on bad loans for a total amount of 1.5 million euros.

Moreover, further reduced prudential changes were made covering risks associated with recovery of fee advances provided to former Financial Advisors who left service (0.2 million euros).

The impairment losses on the portfolio of AFS equity securities (0.6 million euros) refer nearly entirely to the integration of the impairment recognised in previous year on the private-equity special purpose entity Athena Private Equity.

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The impairment losses on the portfolio of debt securities amounted to 2.6 million euros and refer solely to the write-off of the Alitalia bond known as “Dolce Vita”, allocated to the HTM portfolio and deemed no longer recoverable due to the airline’s serious state of crisis, which resulted in a court declaration of the company’s insolvency and the commencement of the extraordinary administration procedure.

Collective portfolio reserves on performing debt securities benefited from net reversals of 2.6 million euros due to an improvement in risk profiles.

## 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.

Portfolio	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 Standard & Poor's Rating Services Fitch Ratings	Solicited
Positions with securitisations other than securitisations with short-time rating	Moody's Investors Service Standard & Poor's Rating Services Fitch Ratings	Solicited

## QUANTITATIVE INFORMATION

The following table shows, in thousands of euros, 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	6,088,108	6,055,168							8,107		24,833	6,088,108	0
Non-profit entities and public sector entities	0								0			0	0
Supervised intermediaries	418,589		1,492	498,871		93,019			48,909		0	642,291	0
Companies and other entities	1,101,144					6,259	252,200		1,049,394			1,307,853	0
Detail	706,010							946,171				946,171	0
Secured by property	377,876				367,465	11,144						378,609	0
Past due	34,777								3,968	66,398		70,366	0
Equity instruments	38,809								38,809		0	38,809	0
UCITS	18,736								18,736			18,736	0
Other	74,079	17,865		189,888					14,483			222,236	0
Securitisation	0											0	0
<b>Total</b>	<b>8,858,128</b>	<b>6,073,033</b>	<b>1,492</b>	<b>688,759</b>	<b>367,465</b>	<b>110,422</b>	<b>252,200</b>	<b>946,171</b>	<b>1,182,406</b>	<b>66,398</b>	<b>24,833</b>	<b>9,713,179</b>	<b>0</b>

## 7. CREDIT RISK MITIGATION TECHNIQUES

### QUALITATIVE INFORMATION

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

Within the framework of the various credit risk mitigation techniques envisaged in applicable supervisory regulations, the Banca Generali Group favours the adoption of the following credit protection instruments:

- collateral consisting of instruments such as shares, government and other bonds, and units of UCITS, including those held within the framework of portfolio management schemes;
- mortgages;
- personal guarantees.

The Group uses the instruments shown in the following table as secured guarantees.

Secured guarantees used by the Group

Guarantee description	Category Circular No. 285/2013
First lien on property	Mortgages on property-secured guarantee
Second or inferior lien on real property	Mortgages on property - secured guarantee
Legal mortgages on property	Mortgages on property - secured guarantee
Pledge on listed shares	Financial collateral
Pledge on cash	Financial collateral
Pledge on government securities and third-party bonds	Financial collateral
Pledge on securities	Financial collateral
Pledge on funds/Sicav units	Financial collateral
Revolving pledge on securities account under administration	Financial collateral
Pledge on assets under management	Financial collateral
Pledge on Genertellife LOB 1 policies	Financial collateral
Surety	Unsecured guarantee
Risk Participation - Parent Company	Unsecured guarantee
Indemnity	Unsecured guarantee

When a new mitigation instrument is proposed, the following checks are performed to determine whether the instrument is admissible in accordance with legislative requirements:

- where necessary, the Legal Department examines the contractual documentation to assess whether the requirements of legal certainty and promptness of liquidation have been satisfied and updates or drafts the contractual documentation;



- the Lending Department:
  - supports the Legal Department with drafting non-standard contracts associated with the collateral type;
  - verifies that the general and specific requirements imposed by law have been met;
  - ensures that existing credit processes involving the acquisition, management and enforcement of the collateral types being analysed are consistent and effective.

The Risk and Capital Adequacy Department, with support from the Compliance Function, as second-tier control function, examines the checks performed by the above departments in order to validate satisfaction of the general and specific legislative requirements.

Each year the Lending Department verifies the types of collateral included in the system and, following consultation with the Risk and Capital Adequacy Department, as well as with the Compliance Function, where appropriate, requests that the Processes and Systems Coordination Department update the collateral types included the procedure.

Each department involved in the process is generally responsible for reporting changes in applicable legislation that require verification of the types of collateral admitted and their eligibility 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, which is reported to the Lending Department, ensures that:

- proper, thorough and prompt recognition/recording in the dedicated applications of the review of individual collateral contracts and the associated set of necessary information;
- the proper acquisition and filing of documentation regarding specific collateral;
- the values indicated upon approval on the basis of the guarantee are consistent with current market values; this review is conducted on a monthly basis and, for some technical forms, on a weekly basis;
- 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>22</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. The maximum amount of mortgage loans is 80% of the value of the property as appraised through the above process, in accordance with the instalment/income ratios consistent with best practice.

The appraisal is part of a guarantee 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 — issued by a Notary — certifies whether the property to be mortgaged is encumbered (by mortgages, foreclosures, etc.) and/or subject to detrimental transactions.

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.

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<sup>22</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 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 deed specifies the guarantee to be acquired.

The customer signs the deed of pledge. The Lending Department's organisational units then verify that the customer has placed his signatures on the deed and establish the certified date of execution of the deed.

The type of collateral determines the statutes that govern the legal consummation of the pledge. For example, when a static pledge on securities is used, a specific securities account is created within the Securities Procedure.

The creation of a collateral securities account automatically prevents the client from trading the pledged financial instruments, since it is no longer possible to perform trades directly involving such accounts, with the exception of revolving collateral, in which the client may replace the pledged assets in view of optimal asset allocation, but may not under any circumstances release collateral or transfer financial instruments (in such cases, the value of the entire securities account is posted as collateral). Except for revolving pledges, 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 securities account 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, in most cases ranging from 10% to 40%; in some cases, this percentage may even be higher, in consideration of particular circumstances. Monitoring is performed monthly or more frequently for certain categories of credit products.

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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 of them 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 whatsoever 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 2017, the Banca Generali Group had not made any use of credit derivatives.

## QUANTITATIVE INFORMATION

The tables hereunder contain the following information for each regulatory asset class, in thousands of euro:

- 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 unsecured guarantees.

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

Standardised method: credit risk mitigation techniques: amount protected			
	Value of the guarantee		Loan recipient
<b>Guaranteed exposures: cash assets at risk</b>			
Value of collateral	166,310	S.A. portfolio <sup>(1)</sup>	Companies and other entities
Value of collateral	167,811	S.A. portfolio <sup>(1)</sup>	Individual exposures
Value of collateral	733	S.A. portfolio <sup>(1)</sup>	Exposures secured by property
Value of collateral	33,891	S.A. portfolio <sup>(1)</sup>	Past-due exposures
Value of collateral	136	S.A. portfolio <sup>(1)</sup>	Supervised intermediaries
<b>Total guaranteed exposures: cash assets at risk</b>	<b>368,881</b>		
<b>Guarantees provided and commitments to disburse funds</b>			
Value of collateral	40,399	S.A. portfolio <sup>(1)</sup>	Companies and other entities
Value of collateral	72,360	S.A. portfolio <sup>(1)</sup>	Individual exposures
Value of collateral	1,698	S.A. portfolio <sup>(1)</sup>	Past-due exposures
<b>Total guarantees provided and commitments to disburse funds</b>	<b>114,457</b>		
<b>SFT transactions and transactions with long-term settlement</b>			
Value of collateral	232,615	S.A. portfolio <sup>(1)</sup>	Supervised intermediaries
<b>Total SFT transactions and transactions with long-term settlement</b>	<b>232,615</b>		
<b>Total</b>	<b>715,953</b>		

(1) S.A.: Standard Approach

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

Standardised method: credit risk mitigation techniques: amount protected			
	Value of the guarantee		Loan recipient
<b>Guaranteed exposures: cash assets at risk</b>			
Value of collateral covered by personal guarantee	60,227	S.A. portfolio <sup>(1)</sup>	Companies and other entities
Value of collateral covered by personal guarantee	107,406	S.A. portfolio <sup>(1)</sup>	Individual exposures
Value of collateral covered by personal guarantee	1,387	S.A. portfolio <sup>(1)</sup>	Past-due exposures
Value of personal guarantee	81	S.A. portfolio <sup>(1)</sup>	Individual exposures
Value of personal guarantee	5,255	S.A. portfolio <sup>(1)</sup>	Past-due exposures
Value of personal guarantee	136	S.A. portfolio <sup>(1)</sup>	Exposures secured by property
<b>Total guaranteed exposures: cash assets at risk</b>	<b>174,492</b>		
<b>Guarantees provided and commitments to disburse funds</b>			
Value of collateral covered by personal guarantee	18,005	S.A. portfolio <sup>(1)</sup>	Companies and other entities
Value of collateral covered by personal guarantee	65,175	S.A. portfolio <sup>(1)</sup>	Individual exposures
Value of personal guarantee	1,534	S.A. portfolio <sup>(1)</sup>	Past-due exposures
<b>Total guarantees provided and commitments to disburse funds</b>	<b>84,714</b>		
<b>Total</b>	<b>259,206</b>		

(1) S.A.: Standard Approach

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

## **8 COUNTERPARTY RISK**

### **QUALITATIVE INFORMATION**

In accordance with applicable legislation, counterparty risk is calculated for the following categories of transactions:

- derivative financial and credit instruments traded over the counter (OTC);
- securities financing transactions (“SFTs”, i.e., repurchase agreements and securities lending);
- transactions with medium-to-long term settlement.

Each counterparty is assigned an operating limit set at the level of the credit facility, identified based on a specific assessment, authorisation and approval process carried out by the competent bodies.

The Risk and Capital Adequacy Department is responsible for ensuring second-tier checks on the proper use of the credit facilities approved, as well as for monitoring changes in the ratings of borrowers in order to take action where a change results in a credit rating that is no longer consistent with the amount of the existing credit facility.

Any breaches detected are promptly reported to the liaisons identified by the process (according to a specific escalation sequence) for timely remedial action.

With regard to repurchase agreement transactions, the Bank has global market purchase agreements (GMRAs) in place, in addition to MTS Repo transactions with central counterparties. With regard to the impact in terms of the collateral that the Group would need to provide in the event of a downgrading of its credit rating, the agreements do not require the Bank to increase the amount of collateral to be provided in the event of a downgrading of Assicurazioni Generali.

## 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 2017, the Group had not undertaken any credit derivatives transactions.

Contracts other than netting arrangements	Government and central banks	Other public institutions	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
<b>1) Debt securities and interest-rates</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>2) Equity securities and equity indices</b>							
- notional value	-	-	-	15,948	-	-	-
- positive fair value	-	-	-	605	-	-	-
- negative fair value	-	-	-	128	-	-	-
- future exposure	-	-	-	1,058	-	-	-
<b>3) Currencies and gold</b>							
- notional value	-	-	4,612	-	-	-	4,596
- positive fair value	-	-	72	-	-	-	9
- negative fair value	-	-	8	-	-	-	70
- future exposure	-	-	46	-	-	-	46
<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.

<b>Derivative contracts</b>	<b>Amount</b>
Weighted amount	352
Appropriate value of the exposure	704
Credit equivalent of guarantees and commitments	704
Capital requirement	28
<b>SFTs and transactions with long-term settlement</b>	<b>Amount</b>
Weighted amount	2,665
Value of the exposure	238,231
Appropriate value of the exposure	14,665
Capital requirement	213
Capital requirement for counterparty risk	241

The capital requirement for counterparty risk alone amounted to 241 thousand euros at 31 December 2017.

## 9. SECURITISATION

### QUALITATIVE INFORMATION

The Group does not hold own 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 ECAs used by the Group are:

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

### QUANTITATIVE INFORMATION

At their book values, third-party securitisation assets<sup>23</sup> amounted to 9,466 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>9,466</b>	<b>9,466</b>	-	-	-	-	<b>9,466</b>
a) Non-performing	-	-	-	-	-	-	-
b) Other	9,466	9,466	-	-	-	-	9,466

<sup>23</sup> The Group does not hold proprietary securitisations.



Type of underlying assets/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjustments of reversals	Book value	Adjustments of reversals	Book value	Adjustments of reversals
<b>A. Cash exposures</b>						
A.1. QUARZO CL1 FRN 31.12.2019 ABS Portfolio trading ISIN IT0004284706 underlying RMBS/CMBS	9,466	242	-	-	-	-
<b>B. Guarantees issued</b>	-	-	-	-	-	-
<b>C. Lines of credit</b>	-	-	-	-	-	-

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						31.12.2017	31.12.2016
	HFT financial assets	Financial assets at fair value option	AFS fin. assets	HTM fin. assets	Loans			
<b>1. Cash exposures</b>	<b>9,466</b>	-	-	-	-	<b>9,466</b>	<b>12,009</b>	
- Senior	9,466	-	-	-	-	9,466	12,009	
- 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 expense/income;
- Income from shares, units and other variable/fixed-yield securities;
- Profit (loss) from financial transactions<sup>24</sup>
- Other operating income<sup>25</sup>

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<sup>24</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>25</sup> Fees paid for outsourced services may not be deducted from the Relevant indicator if they are awarded to “third” parties other than:

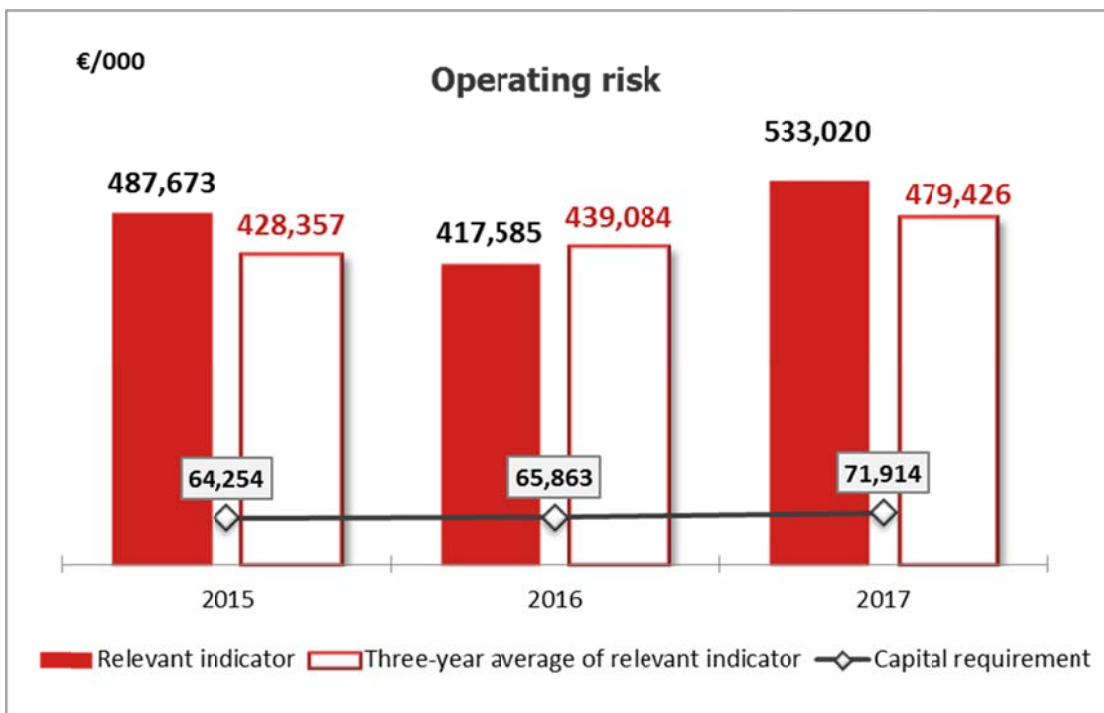
- the Parent company, subsidiaries and other companies belonging to the same banking group;
- third parties subjected to oversight pursuant to EU Regulation No. 575/2013 or equivalent provisions.

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 2017, the capital requirement for Operating Risk was approximately 71.9 million euros.

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

Graph 1: Banca Generali Group — Operating risk (€ thousand)



Source: Administration Department analysis

The value of the Relevant indicator over the three years increased at 31 December 2017 compared to 31 December 2016, growing from about 439 million euros to about 479 million euros.

## 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.

#### AFS financial assets

##### Classification

This category includes non-derivative financial assets other than those classified as Loans, Assets held for trading (HFT assets), Assets at fair value or Assets held to maturity (HTM assets).

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

- equity investments not held for trading;
- other equity interests and units 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 equity securities 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.

##### 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.

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

Available-for-sale financial assets are subjected to impairment testing through specific valuation methods.

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

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

**Derecognition**

Equity securities 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	1,493	0	792	2,285	2,285	474	-200
- valued at cost	0	0	7,315	7,315	n.a.	n.a.	0
Investments in associates							
- valued at equity	0	0	1,820	1,820	n.a.	n.a.	-151
<b>Total</b>	<b>1,493</b>	<b>0</b>	<b>9,927</b>	<b>11,420</b>	<b>2,285</b>	<b>474</b>	<b>-351</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>4</b>
- CSE – 7.00%	0	0	5,280	5,280	0	0	0
- Generali Business Solutions Scpa (GBS)	0	0	245	245	0	0	4
- 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>621</b>	<b>621</b>	<b>621</b>	<b>0</b>	<b>-580</b>
- Athena Private Equity S.A. - 4.66%	0	0	621	621	621	0	-580
<b>Other securities available for sale</b>	<b>1,493</b>	<b>0</b>	<b>171</b>	<b>1,664</b>	<b>1,664</b>	<b>474</b>	<b>375</b>
- Assicurazioni Generali	699	0	0	699	699	217	0
- Enel S.p.A	0	0	0	0	-	0	1621
- Veneto Banca	0	0	0	0	-	0	-13
- Axelero, Gambero Rosso	794	0	0	794	794	257	169
- Other equity securities from IAS 39 reclassification	0	0	0	0	-	0	487
- FITD SV contribution - Caricesena and NPL			171	171	171	0	-1889
<b>Capital contribution in joint ventures</b>	<b>0</b>	<b>0</b>	<b>726</b>	<b>726</b>	<b>0</b>	<b>0</b>	<b>1</b>
- Medusa Film	0	0	0	0	0	0	1
-Tico Film	0	0	245	245	0	0	0
-Fabula Pictures	0	0	231	231	0	0	0
-Eskimo S.r.l.	0	0	250	250	0	0	0
<b>Investments in associates</b>	<b>0</b>	<b>0</b>	<b>1,820</b>	<b>1,820</b>	<b>0</b>	<b>0</b>	<b>-151</b>
- IOCA Entertainment Ltd.	0	0	1,820	1,820	0	0	-151
<b>Total equity securities</b>	<b>1,493</b>	<b>0</b>	<b>9,927</b>	<b>11,420</b>	<b>2,285</b>	<b>474</b>	<b>-351</b>

Total unrealised capital gains recognised on the AFS portfolio recognised in the balance sheet in the fair value reserves of financial assets available for sale totalled 474 thousand euros. This positive amount, net of the tax effect, contributes to the calculation of additional Tier 1 capital by 50%.

In 2015, through the Parent Company, Banca Generali S.p.A., the Banking Group acquired an equity interest in an associate within the framework of an innovative project in the mobile payment and saving sector (known as “Appy Life”), aimed at creating a smartphone application capable of

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integrating monitoring and educational features supporting savings goals into a game/entertainment environment.

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 company IOCA Ventures Ltd. (Jersey), which is entitled to appoint the other two directors.

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

The company was consolidated using the equity method, with a loss of approximately 151 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 re-set the interest rate on the Group's assets and liabilities. Where such gaps are present, fluctuations in interest rates result in variations of net profit, and therefore projected profit, as well as variations in the market value of the assets and liabilities, and, in turn, net equity.

To measure interest rate risk and determine the corresponding internal capital requirement, the Group applies the standardised method identified in supervisory regulations<sup>26</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 net exposure for each time band is calculated by netting 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 own 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 -104.7/+106.2 million euros, or approximately 90% 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 +44.7/-36.7 million euros in the net banking income of the entire banking book, consisting of debt securities classified as available-for-sale assets (AFS), held-to-maturity assets (HTM), loans and receivables (L&R) and loans (Loans).

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<sup>26</sup> Cf. Circular No. 285 "Supervisory Provisions for Banks" issued by the Bank of Italy on 17 December 2013, as subsequently amended.



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 2017, considering respectively relevant currencies (euro and non-euro) in thousands classified based on Prudential Supervisory Provisions<sup>27</sup> for ICAAP purposes.

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

<b>EURO (€/000)</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Gap</b>
on demand and uncommitted	2,383,675	1,795,583	588,092
up to 1 month	452,710	206,614	246,096
from over 1 month up to 3 months	509,018	366,379	142,639
over 3 months up to 6 months	2,354,590	261,271	2,093,320
over 6 months up to 1 year	237,189	522,440	-285,251
between 1 and 2 years	502,157	1,044,865	-542,709
from over 2 years up to 3 years	480,041	1,444,865	-964,825
from over 3 years up to 4 years	637,413	1,044,865	-407,453
from over 4 years up to 5 years	153,511	1,044,865	-891,354
from over 5 years up to 7 years	291,858	43,251	248,607
from over 7 years up to 10 years	201,723	-	201,723
over 10 year up to 15 years	194	-	194
from over 15 years up to 20 years	71	-	71
Over 20 years	84	-	84
<b>Total</b>	<b>8,204,233</b>	<b>7,774,998</b>	<b>429,234</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 uncommitted	56,309	21,946	34,364
up to 1 month	22,474	1,097	21,377
from over 1 month up to 3 months	2,177	5,991	-3,814
over 3 months up to 6 months	-	3,291	-3,291
over 6 months up to 1 year	-	6,583	-6,583
between 1 and 2 years	8,283	13,165	-4,882
from over 2 years up to 3 years	-	13,165	-13,165
from over 3 years up to 4 years	-	13,165	-13,165
from over 4 years up to 5 years	-	13,165	-13,165
from over 5 years up to 7 years	3	-	3
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>89,246</b>	<b>91,568</b>	<b>-2,322</b>

<sup>27</sup> Cf. Circular No. 285 “Supervisory Provisions for Banks” issued by the Bank of Italy on 17 December 2013, as subsequently amended.

## **13 ENCUMBERED AND UNENCUMBERED ASSETS**

### **QUALITATIVE INFORMATION**

In the course of its operations, the 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 written off, carried in connection with repurchase agreements with banking counterparties, amounted to approximately 236 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) amounted to 309 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>28</sup>.

Encumbered assets are balance sheet assets that have been pledged as guarantee or sold without being written off, 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 2017:

### A. Encumbered and unencumbered assets at 31 December 2017

Technical types	Pledged		Not pledged		31.12.2017
	BV	FV	BV	FV	
1. Cash and deposits	-	X	563,498	X	563,498
2. Debt securities	1,278,993	1,311,765	4,400,232	4,410,648	5,679,225
3. Equity securities	-	-	10,399	10,399	10,399
4. Loans	4,681	X	2,206,895	X	2,211,576
5. Other financial assets	-	X	48,634	X	48,634
6. Non-financial assets	-	X	477,679	X	477,679
<b>Total (T)</b>	<b>1,283,674</b>	<b>1,311,765</b>	<b>7,707,337</b>	<b>4,421,047</b>	<b>8,991,011</b>

### B. Guarantees received at 31 December 2017

	FV	FV	31.12.2017
	Collateral or encumbered own securities issued	Collateral or unencumbered own securities issued	
Guarantees received	0	1,776,658	1,776,658
1. Equity securities	0	755,461	755,461
2. Debt securities	0	280,700	280,700
3. Other guarantees received	0	740,497	740,497
Debt securities issued	0	0	0
<b>Total</b>	<b>0</b>	<b>1,776,658</b>	<b>1,776,658</b>

### C. Liabilities associated to encumbered assets, guarantees received or own securities at 31 December 2017

	Associated liabilities	Encumbered assets, collateral or own securities

<sup>28</sup> Provisions regarding encumbered and unencumbered assets (Article 443 CRR) were adopted by the Bank of Italy through the eight update to Circular No. 285 dated 10 March 2015, including total reference to the EBA guidelines of June 2014 (ABE/GL/2014/03).

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Liabilities associated to encumbered assets,		
guarantees received	630,224	1,280,870
or own securities issued		

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

## 14 LEVERAGE

### QUALITATIVE INFORMATION

The risk of excessive 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, and the recognition of a loss, potentially necessitating impairment of the remaining assets.

The Group's business (lending transactions financed using inflows 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.

### 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) of CRR, during the period from 1 January 2014 to 31 December 2017, banks calculated 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>29</sup>.

The regulatory leverage requirement, as a Pillar 1 requirement, will enter into effect on 1 January 2018.

As part of this process, Banca Generali has calculated its leverage ratio as at 31 December 2017, resulting in a level of 5.285%.

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.).

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<sup>29</sup> Bank of Italy Circular No. 285/2013, Part 2, Application in Italy of the CRR, Chapter 12 – Leverage indicator, Section III – Exercise of national discretion, Section III.

	31.12.2017	31.12.2016
Tier 1 capital when fully implemented	495,574	427,060
Value of the exposure when fully implemented	9,012,843	8,357,292
<b>Leverage indicator when fully implemented</b>	<b>5.499</b>	<b>5.110</b>

	31.12.2017	31.12.2016
Phase-in Tier 1 capital	475,232	419,073
Phase-in value of the exposure	8,992,401	8,349,305
<b>Phase-in leverage indicator</b>	<b>5.285</b>	<b>5.019</b>

The following tables provide the details of the elements considered when calculating the leverage ratio at 31 December 2017, in accordance with EBA/ITS/2014/04, drawn up pursuant to Article 451(2) of CRR and subsequently adopted by the European Commission<sup>30</sup>.

LRSum Table	Summary reconciliation of accounting assets and leverage ratio exposures	
1	Total assets as per the published financial statements	8,991,011
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 Article 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 Article 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 Article 429(14) of Regulation (EU) No. 575/2013)	0
7	Other adjustments	-156,606
<b>8</b>	<b>Leverage ratio total exposure measure</b>	<b>8,992,401</b>

<sup>30</sup> Cf. Commission Implementing Regulation (EU) No. 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.

LRCom Table	Leverage ratio common disclosure	
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
1	On-balance sheet items (excluding derivatives, SFTs and trust assets, but including collateral)	8,789,162
2	(Asset amounts deducted in determining Tier 1 capital)	-26,075
3	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and trust assets) (sum of lines 1 and 2)</b>	<b>8,763,087</b>
<b>Derivative exposures</b>		
4	Replacement cost associated with <i>all</i> derivatives transactions (i.e. net of eligible cash variation margin)	126
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	578
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>704</b>
<b>SFT exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	5,837
EU-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
EU-15a	(Exempted CCP leg of client-cleared trade exposure)	0
16	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>5,837</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross notional amount	222,773
18	(Adjustments for conversion to credit equivalent amounts)	0
19	<b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>	<b>222,773</b>
<b>(Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No. 575/2013 (on and off balance sheet)</b>		
EU-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>		
20	<b>Tier 1 capital</b>	<b>475,232</b>
21	<b>Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>	<b>8,992,401</b>
<b>Leverage ratio</b>		
22	<b>Leverage ratio</b>	<b>5.285%</b>
<b>Choice on transitional arrangements and amount of derecognised trust items</b>		

EU-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	

LRSpl Table	Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	8,789,162
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



## 15 REMUNERATION POLICIES

### 1. The objectives of the Remuneration Policy

Banca Generali'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 regards to Key Personnel, is useful in terms of attracting and retaining people with the talent and skills best suited to the Company's needs.

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

- **the Banking Group's mission** ("**Being the No.1 private bank in terms of service value 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 governing functions, as well as amongst the different company structures;
  - **the proper implementation of adequately 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, and 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 Bank's underlying corporate culture, 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 burden of responsibility, and the competence and skill with which related duties are discharged. This applies both to 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 the 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:** that is to say, the transversal application of similar remuneration policies to comparable levels of job responsibility ("equal pay for equal work") throughout the 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 rewards the results obtained and the level of commitment and effort involved in attaining the same, which must constantly comply with applicable regulations and procedures and envisage an appropriate risk assessment.

## Regulatory Framework

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

- the **Provisions governing remuneration and incentivisation policies and practices** (7<sup>th</sup> update of Circular No. 285 dated 17 December 2013, as subsequently updated), by applying, in certain cases, the principle of proportionality, as defined therein, while taking into account the characteristics, size, risk level and complexity of the business conducted by the Bank and Banking Group;

- **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 Consolidated Finance 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;
- the **Corporate Governance Code for Listed Companies**, most recently updated in July 2015, which requires the approval of a remuneration policy for Directors and Key Management Personnel.

The document Remuneration and Incentivisation Policies ensure simultaneous compliance with both the provisions governing remuneration policies within the banking industry and the regulatory governance provisions applicable to issuers.

In addition, in order to ensure the consistent implementation of remuneration policies within the Generali Group, the principles and guidelines set out in the Group Remuneration Internal Policy drafted by Assicurazioni Generali in accordance with applicable legislation have been taken into account when preparing this document, without prejudice to the peculiarities dictated by legislation applicable to the banking sector.

## 2. Persons to whom remuneration and incentivisation 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 exerts or could exert a significant impact on the risk profile of the Bank and the Banking Group, and therefore warrants the application of the more detailed rules. The aforementioned self-assessment regards the organisational structure approved by the Board of Directors on 13 December 2017, and effective 1 January 2018.

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

According to this self-assessment, the above-mentioned category of Key Personnel includes:

- **Top Management:** Chief Executive Officer/General Manager, Deputy General Manager Wealth Management Markets and Products, Deputy General Manager Commercial Networks, Alternative and Support Channels (hereinafter also referred to as “DGMs”);
- **Other Key Personnel:** this category includes:
  - i) the heads of key operating/company units: Head of the CFO & Strategy Area, Chief Financial Officer, Head of the Lending Department, Head of the AM Area, who also holds the position of Executive Director of BG FML, General Manager of BG FML;
  - 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 profile due to their activities, autonomy and powers: Head of the Private Relationship Manager Area and Head of the Alternative and Support Channels Area;
  - iii) the Heads of the functions listed in point 9) of Article 3 of the Commission Delegated Regulation (EU), who are regarded as having an impact on company risk profile due to their activities, autonomy and powers: Head of the COO Area, Head of the General Counsel Department and Head of the Wealth Management Area;
- **Managers in charge of company control functions:** Head of the Compliance and Anti-Money Laundering Department, Head of the Internal Audit Department, Head of Risk and Capital Adequacy Department, Head of Human Resources Department (pursuant to Title IV, Chapter 2, of Bank of Italy's Circular No. 285 of 2013);
- **Main managers operating in the Bank's distribution networks:** Sales Managers, Area Managers, Head of Business Development Top Wealth Advisor/Top Private Banker, Head of Recruiting;
- **Financial Advisors authorised to make off-premises offers, who at the end of the previous year had collected total remuneration** (including both the recurring and

incentivisation components) **equal to or greater than 750,000.00 euros and less than 1,000,000.00 euros**, in accordance with the provisions of Commission Delegated Regulation (EU) No. 604/2014, the structural characteristics of which were sufficient to reach or exceed the threshold of 750,000.00 euros in the following year as well (assessment of the continuity of remuneration);

- **Financial Advisors who at the end of the previous year had collected total remuneration** (including both the recurring and incentivisation components) **equal to or greater than 1,000,000.00 euros**, in accordance with the provisions of Commission Delegated Regulation (EU) No. 604/2014.

The assessment process aimed at identifying Key Personnel resulted in the identification of 65 individuals at the level of the Banking Group (also including Financial Advisors authorised to make off-premises offers).

In determining its Key Personnel, the Bank intended to subject certain of its Financial Advisors authorised to make off-premises offers whose remuneration in 2017 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 Top Management as specified above.

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 more complex banks, smaller less complex banks and medium-size banks.

In this classification scheme, Banca Generali falls into the category of medium-sized 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's 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 payment 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 **the remuneration due to directors vested with specific tasks and duties** (including the members of Board Committees), as well as the **overall remuneration of the Chief Executive Officer/General Manager**, any other members of **Top Management**, the **Heads of the main business lines** and the **Heads of control functions**, in line with the provisions of relevant Shareholders' resolutions, with the support of the Remuneration Committee, and after hearing the opinion of the Board of Statutory Auditors in such regard. 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 a **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 General Counsel Department, the Compliance and Anti-Money Laundering Department, the CFO & Strategy Area (the Planning and Control Department, the Sales Planning and Control Service), the Risk 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
	Chairman of the Committee
Giovanni Brugnoli	Non-executive and independent Director pursuant to the Corporate Governance Code and Article 37, paragraph 1(d), of Consob Regulation No. 16191/2007.
	Member of the Committee
Anna Gervasoni	Non-executive and independent Director pursuant to the Corporate Governance Code and Article 37, paragraph 1(d), of Consob Regulation No. 16191/2007.
	Member of the Committee
Annalisa Pescatori	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, Chief Executive Officer, and any other executive directors, expressing opinions also on the setting of performance objectives 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 incentivisation systems are decided by the Board of Directors — in accordance with laws and regulations 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 objectives 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 adequacy, overall consistency and concrete application 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 incentivisation systems are decided by the Board of Directors — in accordance with laws and regulations 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 Heads 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 incentive 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 General 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 assigned), supported by the Human Resources Department, the General Counsel Department, the and Anti-Money Laundering Department, the Planning and Control Department, the Risk Management and Capital Adequacy Department, each for the areas 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 remuneration is conducted formally 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 Chief Executive Officer and 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 the areas within their respective remit, the Bank's control functions collaborate to ensure the appropriateness, regulatory compliance and proper implementation of all remuneration policies and practices.

More specifically:

- the Compliance function, supported 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, supported by the **Internal Audit Department**, is in charge, *inter alia*, of verifying, at least once a year, the compatibility of remuneration practices with approved policy 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, supported by the **Risk 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 & Control Department** and the **Sales Planning & Control Service** are 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, determining the expense budget, and defining the policies relating to Financial Advisors.

Other company departments are from time to time involved in identifying and monitoring **qualitative parameters** relating to the strategic objectives to be associated with 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 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 Area, Head of the Asset Management Area, Private Relationship Manager Area, Head of the Wealth Management Area, two Sales Managers, ten Area Managers and one Head of Business Development Top Wealth Advisor/Top Private Banker, as well as one Head of Recruiting), 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 motion was 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. This motion 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: for the professional areas and executives, it generally does not exceed 40%, but it may reach 100% for certain categories of personnel. In particular, it may reach:

- the level of 100% (or higher in cases of start- or end-of-employment plans based on net inflow/revenue targets and without guaranteed minimums) for persons serving in operating units of a commercial nature;
- the level of 100% for "managers" within the framework of asset management activities, if the assigned results are achieved in full.

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 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 cover 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 and, with particular 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, 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 include 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 to **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)** mechanism, 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, yet 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. With a view to measuring performance and risks through variables that are as consistent as possible with the decision-making powers vested in each manager, quantitative objectives established in terms of the results carried in the consolidated financial statements of the Banking Group may not apply to Relationship Managers and Asset Managers serving the AM Area and BG FML and may be replaced by individual quantitative objectives, associated with the individual function discharged within the Group.

Variable remuneration is tied on a straight-line basis to the degree of achievement of the targets established for individual objectives or the annual and non-recurring assessment of special projects with a significant impact on the development of the business and company performance.

### **Long Term Incentive plans**

#### **Plans currently underway**

The **medium-to-long term** variable remuneration provided by Banca Generali, as governed by ongoing plans launched in previous years, consists of long-term plans based on shares of Assicurazioni Generali: the Assicurazioni Generali Group's Long Term Incentive plans approved from time to time by the competent bodies, the beneficiaries of which are the Chief Executive Officer/General Manager, several key management personnel and other managers identified by virtue of the significance of their roles within the Banking Group, provided that their roles are also significant at the level of the Generali Group.

Since 2013, Banca Generali has been participating in the Assicurazioni Generali plans based on a single three-year cycle, at the end of which free shares may be assigned, subject to certain holding/lock-up periods. In particular, the 2015, 2016 and 2017 LTI plans are currently in progress.



The assignment of shares in connection with the 2015 LTI plan – the performance cycle for which concluded at the end of 2017 — will take place in April 2018 (see Section III of this Report), whereas the assignment of shares relating to the 2016 and 2017 LTI plans will occur in 2019 and 2020, respectively.

The current plans tie the variable component of remuneration to the long-term objectives of the Banking Group and Assicurazioni Generali Group for the three years concerned. These plans are based on the following fundamental aspects:

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

## 2018 LTI Plan

A **new long-term incentive plan** based on shares of Banca Generali, the 2018 Banca Generali Group Long Term Incentive (2018 LTI Plan), is in place for 2018.

In accordance with applicable laws and regulations, and with best practice in this area, the plan aims to pursue the goal of increasing the value of Banca Generali's shares, while also aligning the economic interests of the beneficiaries with those of shareholders.

The plan's goals are thus as follows:

- to establish a correlation between the variable component of remuneration tied to medium-to-long term objectives and the creation of value for shareholders, with an eye, in any event, to the sustainability of the Group and its actual results;
- to develop a culture of performance according to a group approach;
- to contribute to the creation of a balanced mix of fixed and variable components of the beneficiaries' remuneration;
- to increase the retention of the management at the level of the Banking Group.

In keeping with market practice and investors' expectations, the shares are to be assigned and vest for the beneficiaries over a total period of six years. The Plan states that the number of shares

actually assigned is directly correlated with the achievement of the Banking Group Objectives and Generali Group Objectives, and with verification that specific access gate conditions have been satisfied.

In the light of the use of Banca Generali treasury shares, it was deemed necessary to assign a greater weight to the Banking Group's performance, i.e., 80% for the indicators of the Banca Generali Group and 20% for those of the Generali Group.

A total of four objectives were identified:

- two Banking Group objectives, linked to objectively measurable indicators such as, for example, the tROE<sup>31</sup> and EVAs<sup>32</sup>, and
- two Generali Group objectives, linked to objectively measurable indicators such as, for example, the Relative TSR<sup>33</sup> and Return on Equity (ROE)<sup>34</sup>.

The access gate conditions consist of:

- two indicators representing the specific access thresholds for the Banking Group tied to the Total Capital Ratio and Liquidity Capital Ratio, on which the right to the assignment of the shares (100%) is contingent;
- an indicator representing an access threshold for the Generali Group linked to the Regulatory Solvency Ratio, on which the right to the assignment of the part of the shares tied to the satisfaction of the Generali Group Objectives (20%) is contingent.

<sup>31</sup> In the case of the Banking Group, it is calculated by dividing the net profit by average net equity, less intangible assets, net profit and revaluation reserves.

<sup>32</sup> In the case of the Banking Group, it is calculated as the difference between the net profit for the period of reference and the cost of capital (ke \* average absorbed capital).

<sup>33</sup> With reference to the Generali Group, the relative TSR compared with that of companies that are included in the STOXX Euro Insurance index (peer group). The STOXX Euro Insurance index (*peer group*) currently includes:

Allianz;  
Axa;  
Muenchener Rueck;  
Sampo;  
NN Group;  
Aegon;  
Ageas;  
Hannover Rueck;  
Scor;  
Mapfre;  
Poste Italiane;  
CNP Assurances;  
Delta Lloyd;  
Unipolsai.

<sup>34</sup> With reference to the Generali Group, the operating result net of financial expenses and taxes divided by the average of the adjusted capital, as defined in the "Methodological note on alternative performance indicators" in the Group's Report on Operations.

At the end of the three-year period covered by the Plan, the Shares set aside will be definitively assigned to the Beneficiaries in a single instalment.

The Plan is based on the following fundamental aspects:

- the incentive linked to the satisfaction of objectives is disbursed through the assignment of ordinary shares of Banca Generali S.p.A.;
- the right to receive the shares is linked to verification of satisfaction of an access gate set yearly by the Board of Directors and constituting a condition precedent in this sense;
- the overall assessment of performance is based on two Banca Generali Group Objectives (with a weight of 80%) and an additional two Generali Group Objectives (with a weight of 20%), as shown in the tables below. Actual vesting percentages will be calculated by linear interpolation between the various levels of the indicators — to which equal weight is assigned — and the actual performances.

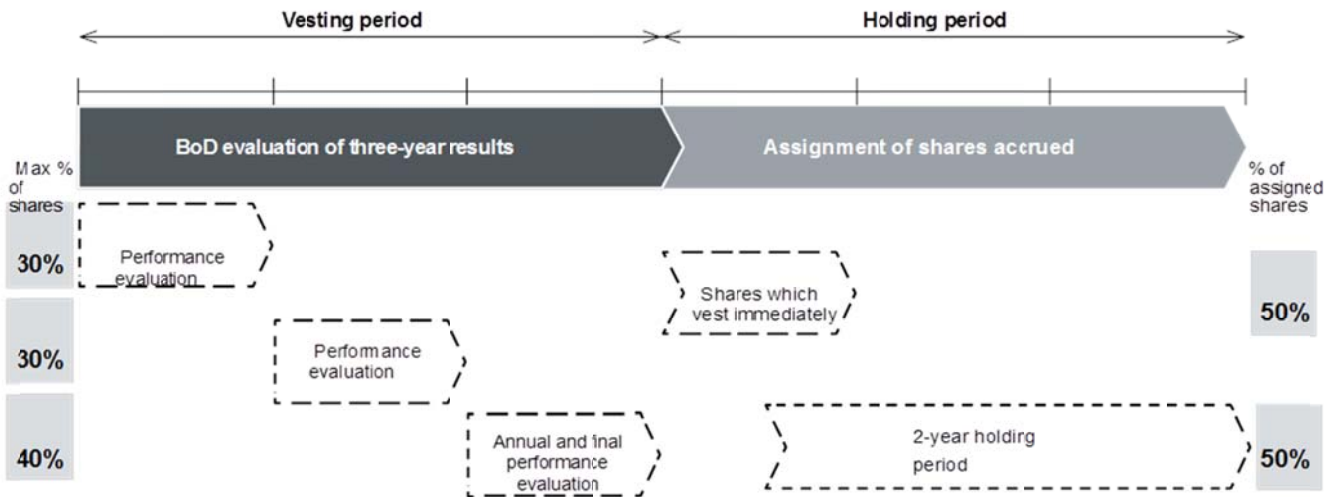
ENTITY	ACCESS GATES AND MECHANISM THRESHOLD NOT ACHIEVED	THRESHOLD ACHIEVED	KPIs	KPI WEIGHT
Banca Generali Group	Total Capital Ratio < 13.50% Liquidity Capital Ratio < 130% <b>No access to vesting opportunity</b>	Total Capital Ratio ≥ 13.50% Liquidity Capital Ratio ≥ 130% <b>Access to vesting opportunity</b>	tROE EVAs	<b>80%</b>
Generali Group	Regulatory Solvency Ratio < 120% <b>A -20% correction is applied to vesting opportunity</b>	Regulatory Solvency Ratio ≥ 120%	ROErTSR (Eurostoxx Insurance)	<b>20%</b>

### Beneficiaries

The beneficiaries of the Long Term Incentive (LTI) plan include the Chief Executive Officer/General Manager, the Deputy General Managers, the General Managers of the Banca Generali Group's subsidiaries, the department heads reporting to the Chief Executive Officer and the Deputy General Managers, excluding control functions, which will be identified by the Board of Directors, in view of the significance of the role played within the Banking Group, provided that this role is also significant at the level of the Generali Group.

### Plan structure and mechanisms

The plan's structure is as follows:



During the vesting period, in each year of the plan and until the end of the three-year period, the Board of Directors assesses the level of satisfaction of the access gate conditions for the Banking Group, as set from time to time, and of the Generali Group access gate, based on the Regulatory Solvency Ratio and set at 120%, or a different percentage determined by the Board of Directors from time to time.

Once it has been determined that the access gate conditions have been met, it is then verified — each year and for the three years as a whole — that the financial objectives for the Banking Group (80% weight), represented by tROE and EVAs, have been met, along with those for the Generali Group (20% weight), represented by ROE and relative TSR, compared with the companies that make up the index of reference (STOXX Euro Insurance).

Performance levels are expressed as percent satisfaction of the tROE and EVAs objectives for the Banking Group, and of the ROE and rTSR for the Generali Group, and are calculated in reference to four independent baskets. The final results of the individual baskets are calculated using the linear interpolation method. In the specific case of the TSR, the ranking always requires a positive result for any payments.

## Assignment of shares

The maximum number of shares that may be assigned is determined at the start of the plan.

The potential maximum bonus to be paid in shares corresponds to 175% of the gross annual remuneration of the plan participants for top managers and to 87.5% for other beneficiaries.

Consequently, the maximum number of shares that may be assigned is calculated as the ratio of the maximum amount of the bonus to share value, the latter calculated as the average price of the share during the three months prior to the session of the Board of Directors called to approve Banca Generali's draft financial statements and the consolidated financial statements for the year prior to the start of the plan.

At the end of each year of the cycle, following an initial measurement of the level of satisfaction of each objective and verification of the achievement of the threshold levels of the Total Capital Ratio, Liquidity Capital Ratio and Regulatory Solvency Ratio (for the Shares tied to the achievement of Generali Group Objectives only), a portion of the maximum number of shares that may potentially be assigned at the end of the three-year period is set aside (but not assigned to the beneficiaries): in particular, the first tranche is 30% of the maximum number of shares that may be assigned, the second is an additional 30%, and the third is the remaining 40%.

It is only at the end of the three-year period — when the final assessment of actual achievement of the pre-defined objectives (on an annual basis or for the three years overall) is performed — that the individual tranches of shares are assigned — provided that the beneficiary is still in the employment of the Company or another Banking Group Company at the end of the three-year period, without prejudice to conditions expressly established by the Plan regulations and except where otherwise determined by the Board of Directors or its delegate.

If, in particular, the Chief Executive Officer/General Manager's employment is terminated at the Company's initiative (due to non-renewal or otherwise), without just cause, he is to retain the right to receive the share-based incentive governed by the plan (subject to satisfaction of the related performance objectives and to all other terms and conditions of the plan).

In respect of the holding period following the three-year performance period, 50% of the shares assigned vest immediately upon assignment (to allow the beneficiaries to cover the tax liability resulting from assignment), whereas the remaining 50% do not vest for an additional two years,

subject to the requirement that the Chief Executive Officer retain an adequate number of the shares assigned until the end of the term in office in progress on the vesting date.

The plan does not include dividend equivalent mechanisms, in accordance with the law and common practice in the banking sector.

For the purposes of implementation of the plan, the ordinary shares assigned at no cost to the beneficiaries of the plan will derive, in whole or in part, from the treasury shares that the Company purchases under specific authorisation from the shareholders pursuant to Articles 2357 and 2357-ter of the Italian Civil Code.

If there are factors that may influence the constituent components of the plan (including, without limitation, mergers or acquisitions involving Banca Generali and/or the Banking Group and/or the Generali Group, capital transactions, amendments to the Articles of Association or changes in the scope of the Banking Group and/or the Generali Group, compliance with specific industry legislation, changes to long-term strategic plans, etc.), the Board of Directors may make the amendments and additions to the structure of the plan deemed necessary or appropriate in order to maintain its substantive and economic content unchanged, within the limits of the legislation in force from time to time.

In addition, in the event of severe market disruption (such as material changes in macroeconomic conditions and international monetary policy), the Board of Directors may reassess the incentive system's fairness and overall consistency within the framework of its remuneration governance processes.

In accordance with applicable industry legislation, the Company may also pay individual plan beneficiaries — in lieu and in replacement of part or all of the assignment of the shares — a cash payment calculated on the basis of the value of the shares in the month prior to the assignment date, without prejudice to satisfaction of the other relevant terms and conditions of the plan.

Award and actual payment will be subject to **malus** and **claw-back** clauses.

As resolved by the Shareholders' Meeting with regard to the limit on the ratio of the variable to fixed component of remuneration, the **cap mechanism** provided for in the Remuneration and Incentivisation Policies is applied to key personnel, where appropriate.

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

In specific 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 — envisaged in exceptional cases only — may be granted exclusively in case of recruitment of new staff, and solely during the first year of service.

## **Network Framework Loyalty Programme**

The purposes of the Framework Loyalty Programme are to create a loyalty-building tool aimed at the sales network and provide incentives for the achievement of the Company's objectives, while ensuring that customers receive increasingly strong service, in view of the enhancement of the value of Banca Generali. The achievement of these purposes is ensured through participation, following approval from one year to the next by the competent company bodies, in a maximum of eight individual plans that allow participants to accrue the right to payment of a bonus for each individual Plan in which they participate.

Financial Advisors authorised to make off-premises offers and Relationship Managers of Banca Generali who have at least five years of company seniority by 31 December of the financial year before that of reference of the Plan in question may access the said Plan.

Individual bonuses will be subject to an increasing period of deferral, as clearly defined in the specific document that governs the Network Framework Loyalty Programme, in accordance with applicable provisions.

The Bonus and, more generally, all benefits deriving from the Framework Loyalty Programme will constitute a payment of an extraordinary, discretionary and non-contractual nature and under no



circumstances may be considered an integral part of the normal remuneration of each of the Beneficiaries.

During the financial year of reference of each Plan, Banca Generali's Board of Directors will decide whether to request the Shareholders' Meeting to approve the settlement of a part of the bonus in Banca Generali shares, in any event not to exceed 50% and provided that the remainder of the bonus will be paid in cash.

For financial year 2018, it was decided that 50% of the bonus related to the 2018 Network Loyalty Plan regulated under the Framework Loyalty Programme of Banca Generali be settled in shares (see the Information Document drafted pursuant to Article 84-*bis* of Consob Regulation No. 11971 of 14 May 1999, as amended and extended).

Disbursement and actual payment will be subject to the **malus** and **claw-back** clauses set out in the current Remuneration Policy.

With regard to Key Personnel, in accordance with the decision of the Shareholders' Meeting concerning the limit on the ratio of the variable to fixed components of remuneration, the "**cap mechanism**" set out in the Remuneration and Incentivisation Policies will be applied, where appropriate, at the Accrual Date of each Plan.

#### **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.

Therefore, the total bonus pool 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 an access gate, common to all the personnel, and set by the Banking Group with a view to **(i)** linking bonus entitlements to multi-year performance indicators, and **(ii)** taking

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

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

- **capital ratio:** *Total Capital Ratio*<sup>35</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 13.5%;
- **liquidity ratio:** *Liquidity Coverage Ratio*<sup>36</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 130%.

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, 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 the Banking Group's main 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:

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<sup>35</sup> Total Capital Ratio — meaning the Regulatory Capital/Risk weighted assets (RWAs) (both variables are subject to regulatory disclosure and 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>36</sup> Liquidity Coverage Ratio – meaning the Ratio between the stock of [1] 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 [2] the sum total of net outflows during the 30 calendar days following a specified stress scenario; the figures used are those reported to the Bank of Italy and drawn from the consolidated financial statements as at the end of the year.

- **60%** — provided that the access gate conditions described above are met — in the following financial year, subject to Board verification of the P&L 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 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%.

In the event of death or total disability with respect to the agreed employment services, by way of partial exception to the foregoing, any deferred bonus payments due will be paid immediately, without waiting until the access gate conditions for subsequent years are met.

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 P&L results for the year in question and determines that the 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 the 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 (a portion in cash and a portion in shares) once the Board of Directors has verified the P&L results for the year of accrual and satisfaction of the access gates.

### **Regulatory provisions concerning share-based payments**

With specific reference to the incentive system based on financial instruments, in addition to the information indicated above, and to recap the Information Document (drafted pursuant to Article 84-*bis* of Consob Regulation No. 11971 of 14 May 1999, as amended and extended) concerning the incentive system based on financial instruments for personnel of the Banca Generali Banking Group, the following should be noted:

#### **Recipients**

Potential beneficiaries include all the Banking Group's Key Personnel, as defined in paragraph 2.1.

#### **Reasons for the assignment of shares**

In accordance with the Supervisory Provisions set forth in the 7<sup>th</sup> update to Bank of Italy's Circular No. 285/2013 issued on 18 November 2014, the remuneration package for Key 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 12 April 2018.

With the support of the competent operating functions, the Human Resources Department and the Sales Planning and Control Service supervise the assignment of the shares, each within its area of responsibility.

The tasks incumbent on the Board of Directors, the Remuneration Committee and the Chief Executive Officer and 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.

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. No dividend rights whatsoever shall be deemed to arise in respect of the shares throughout the retention period.

#### **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 this paragraph 4.6, 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 2019, 2020 and 2021, subject to the prerequisites and conditions.

No more than 240,000 shares shall be subject to award.

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

The Shares shall be subject to a retention period of one year from the end of the accrual period.

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.

In the event of death or total disability with respect to the agreed employment services, by way of partial exception to the foregoing, any deferred tranches of shares will be paid immediately, without waiting until the access gate conditions for subsequent years are met.

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 assigned.

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

With reference to the ratio of variable to fixed component of remuneration of key personnel, the company has established a cap mechanism on the ratio of total variable to total fixed remuneration (i.e., 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 remuneration 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.

This mechanism refers to the variable remuneration instruments assigned starting in the year in which the cap mechanism was introduced. All instalments of variable remuneration accrued in years prior to the introduction of the cap mechanism but not yet paid due to deferral will thus be excluded from the calculation mechanism.

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)** proved engagement in malfeasance or wilful misconduct to the detriment of customers or the Bank, **ii)** engagement in behaviour that resulted in a significant loss for the Bank, or **iii)** disciplinary measures or pending non-routine inspections, 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)** proved engagement in malfeasance or wilful misconduct to the

detriment of the customers or the Bank, **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 incentivisation structures for sales 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 **group of peers** is regularly revised so as to guarantee its consistency. In 2017, the group of peers 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), Banca Cesare Ponti (Carige Group), Credem, Anima SGR;
- 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 corporate 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:

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

A D&O liability insurance has been contracted by the Parent Company covering the members of the Board of Directors, as illustrated in the document presenting the remuneration policies for 2015, which was extended as of 2016 to all the companies of the Insurance Group. The policy complies with the requirements as per the Shareholders' resolution of 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 individual agreement with personnel falling within the category of Key Personnel, 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 and/or collaboration relationship**, 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 an all-inclusive lump-sum indemnity for an amount equivalent to no more than 24 monthly installments of the so-called recurring remuneration** (defined as gross annual remuneration increased by the average amount actually collected by way of



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the short-term component of variable remuneration in the past three years or, in the case of Financial Advisors, the average recurring remuneration of the last period).

In the event that the positions of Chief Executive Officer and General Manager are filled by the same person, 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 amount must be paid in accordance with the aforementioned Bank of Italy Provisions, as in effect from time to time, and the Bank's remuneration policies, with particular regard to the provisions concerning the association of remuneration with performance objectives, and based on risk and stability indicators, deferred disbursement and payment partly in cash and partly in financial instruments.

Non-competition or confidentiality agreements extending into the post-severance period may also be entered into upon hiring, in the course of employment or upon severance. Consideration for such agreements — which must always be of limited duration — is calculated in proportion to the duration and geographical scope of the covenant and the potential harm to the Company and/or the Banking Group if the person concerned were to compete with the Company and/or with the Banking Group or were to divulge information that might also cause harm to the Company and/or the Banking Group, while also taking account of the previous role and responsibilities of the person concerned.

## 6. Performance Indicators and the Main Benchmarks Used

As described above, 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 Balance Scorecard system in particular — which forms the basis of the variable remuneration (hereunder also referred to as “bonus”) of the Managers and certain Executives is based on defining and allocating to each of them **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 normalisation of the performance fee component) pertaining to the results of the Banking Group.

In particular, the objectives that may be assigned included, but are not limited to: **P&L/profitability objectives** such as operating profit, net profit, RORC, cost control objectives and **commercial development objectives** such as net inflows, net inflows from asset under advisory and fee and commission growth, supplemented by risk correction measures.

These objectives contribute to determining no less than 70% of the short-term variable remuneration of the Chief Executive Officer/General Manager, no less than 50% of the short-term variable remuneration of the Deputy General Managers, and up to a maximum of 35% of that of the other Managers and Executives. The percentage in question may also be higher for sales personnel for whom commercial development objectives represent function-specific objectives.

This rule does not apply to Managers and Executives serving as Relationship Managers of the Private Relationship Manager Area and assets managers of the Asset Management Area and of 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 consistent 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 the P&L results of the Bank and/or of the Banking Group.

The quantitative and qualitative objectives are formalised in personal Scorecards on an annual basis. Each objective is assigned a **"weight"** defining 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, the results obtained in respect of each objective are verified and duly **weighted** in the financial year following the year of reference. 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 for 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 P&L 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 in this paragraph), 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 and in BG FML.

Variable remuneration linked to long-term performance, and LTI plans in particular, are determined in function of objectives established in terms of the results achieved by the Banking Group and the Generali Group for the three-year period of reference. In addition, the actual allotment 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 incentive.

Directors who also sit on Board Committees are entitled to additional emoluments — in the form of either 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 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 out-of-pocket 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 authorised to make 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 positions of Chief Executive Officer and General Manager are filled by the same person. Total remuneration consists of:

- a recurring fixed remuneration component as Chief Executive Officer and all-inclusive annual remuneration (RAL) as General Manager;
- a 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 incentive, the bonus range for which is set at between 0% and 175% of the fixed component. In addition, 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 the Chief Executive Officer/General Manager, an indemnity and a non-competition agreement have been agreed upon in the event of early termination of the contract, in accordance with the principles set forth in point 5.2 above.

Moreover, the General Manager enjoys supplementary pension benefits equal to 13% of the RAL and the benefits package provided for the Banking Group's executives.

## Deputy General Managers

The remuneration of Deputy General Managers consists of all-inclusive annual remuneration (RAL) and variable remuneration, linked to the degree of satisfaction of performance objectives, expressed in the relevant Balanced Scorecard, the **access gate scheme** and the **bonus** deferral scheme, the payment based on Banca Generali shares, as well as the **malus** and **claw-back** mechanisms.

The variable remuneration may reach a maximum of 100% of the RAL (equal to a 85% 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.

In the presence of recruitment incentives and end-of-employment plans based on net inflows/revenue objectives, this amount may be exceeded, but in any event it shall not exceed the 2:1 ratio assigned, where applicable.

Moreover, a portion of the variable remuneration may be determined on the basis of a Long Term Incentive Plan (LTIP). Bonus entitlements under the said LTIP range from 0% to 175% of the fixed component of remuneration. In addition, 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 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.

Deputy General Managers also enjoy supplementary pension benefits up to a maximum of 13% of the RAL and the benefits package provided from time to time for the Banking Group's managers. The current treatment in the event of severance of employment is based on applicable legislation. Indemnity mechanisms, non-competition agreements or guaranteed minimum clauses in the event of early severance of employment, in addition to those currently in place, may be agreed in accordance with the principles laid down in points 5.2 and 4.3 above.

### 7.3.2 Other Key Personnel

The remuneration of the Managers included in this category consists of an all-inclusive annual 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 weight and complexity of the job description in question, the variable component of remuneration may reach no more than 80% of annual gross remuneration (RAL) (equal to a maximum 65% ratio of the short-term variable remuneration to the total fixed remuneration) in the case of Banca Generali 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 positions in the sales area and/or linked to the asset management business.

In 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. In addition, 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 the said 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 (and properly identified under point 4.1 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 from time to time for the Banking Group managers. The current treatment in the event of severance of employment is based on applicable legislation. Indemnity mechanisms, non-competition agreements or guaranteed minimum clauses in the event of early severance of employment, in addition to those currently in place, may be agreed in accordance with the principles laid down in points 5.2 and 4.3 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 component of remuneration is conditional upon the achievement of the **access gates**, and 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 RAL, provided that 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 enjoy supplementary pension benefits equal to 13% of the RAL and the benefits package provided from time to time for the Banking Group's managers.

The current treatment in the event of severance of employment is based on applicable legislation. Indemnity mechanisms, non-competition agreements or guaranteed minimum clauses in the event of early severance of employment, in addition to those currently in place, may be agreed in accordance with the principles laid down in points 5.2 and 4.3 above.

## 7.4 Other employees

### 7.4.1 Other Managers

The remuneration of the other managers consists of an all-inclusive annual remuneration (RAL) and a variable remuneration, linked to the degree to which the performance objectives indicated in the relevant Balanced Scorecards are achieved. This component of remuneration is conditional upon the achievement of the **access gates**, and 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 approximately 20% to a maximum of 80% of the RAL (which may be increased to 100% in limited cases relating to internal transfers), provided that 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 treatment in the event of severance of employment is based on applicable legislation. Indemnity mechanisms, non-competition agreements or guaranteed minimum clauses in the event of early severance of employment, in addition to those currently in place, may be agreed in accordance with the principles laid down in points 5.2 and 4.3 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. In addition, 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 component of remuneration is conditional upon the achievement of the **access gates**, and 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 RAL, provided that 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.

Variable remuneration may extend to a maximum of **100%** of gross annual remuneration (or higher levels in cases of start- or end-of-employment plans based on net inflow/revenue objectives) and is not subject to any guaranteed minimum.

Participation in retention and/or loyalty plans may also be approved by resolution duly supported by a statement of grounds and the use of guaranteed minimum and/or non-competition clauses in the event of early severance of employment is widespread. 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 bonuses and/or commissions 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 the RAL and the benefits package provided for the Banking Group's managers.

The current treatment in the event of severance of employment is based on applicable legislation. Indemnity mechanisms, non-competition agreements or guaranteed minimum clauses in the event of early severance of employment, in addition to those currently in place, may be agreed in accordance with the principles laid down in points 5.2 and 4.3 above.

#### 7.4.4 Asset managers of the AM Area 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) 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 component of remuneration is conditional upon the achievement of the **access gates**, and 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.

The current treatment in the event of severance of employment is based on applicable legislation. Indemnity mechanisms, non-competition agreements or guaranteed minimum clauses in the event of early severance of employment, in addition to those currently in place, may be agreed in accordance with the principles laid down in points 5.2 and 4.3 above.

## 8 Financial Advisors Authorised to Make Off-Premises Offers

### 8.1 Information on the type of relationship

The Financial Advisors authorised to make off-premises offers (hereinafter also “Financial Advisors”), with the exception of Relationship Managers, are linked to the company by an agency contract whereby Financial Advisors are 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, upon 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 Deputy General Manager Commercial Networks, Alternative and Support Channels is responsible for the activities of the Private Banker and Financial Planner Networks, Wealth Management and Financial Planner Agents.

Within the Private Banker and Financial Planner Networks, Financial Advisors are classified according to rising levels of experience as **Junior Financial Planner, Financial Planner, Private Banker, Senior Private Banker** and **Top Private Banker**. 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, the **Area Managers**. The Financial Advisor network known as **Financial Planner Agent** network carries out also insurance business on behalf of Generali Group Companies, which report to a second-tier managerial structure represented by **FPA Managers**, who in turn report to a first-tier managerial structure represented by a **Sales Manager**.

Within the **Wealth Management** network, individual Financial Advisors are coordinated by a first-tier managerial structure, consisting of **Area Managers** — assisted by **Deputy Area Managers** — who report to the **Sales Manager**.

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 not by virtue of employment contracts, but of 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 corporate income, which is calculated also based on variable or fixed business expenses (eg., costs of remunerating financial 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:

- **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 Advisors, on the basis of their professional roles and responsibilities;
- **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 and responsibilities covered by each Financial Advisor;
- **recurring fees:** these are similar to the previous fees, but relate specifically to the management fees paid by customers for the portfolios managed;
- **advisory fees:** these are similar to the above, but refer to the specific advisory 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, in addition to conventional objectives in terms of net inflows, 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 direct promotion activities carried out by 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 commissions they are entitled to for the 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, in addition to conventional objectives in terms of net inflows, objectives of propriety and regulatory compliance have been introduced for Managers as well, with the obligation of 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 include **recurring 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.

Incentivisation 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 inflows and 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 P&L 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 respect of 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 attainment of the Banking Group's **access gates**, as discussed in point 4.5 above.

Financial Advisors' and Managers' participation in retention and/or loyalty plans (see also paragraph 8.5 below) 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 incentivisation 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 Financial Advisors, the Private Banker and Financial Planner Networks is entrusted to **Area Managers**, whereas that of the Financial Advisors of the Wealth Management Area is entrusted to a **Sales Manager**, to whom Area Managers Wealth Management 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 and Area 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 and access gates**, as well as the **malus and claw-back mechanisms** specific for this category and illustrated above, as applicable to Key Personnel.

Participation in retention and/or loyalty plans may also be approved for these functions by resolution duly supported by a statement of grounds.

The ratio of the recurring and incentive components of the remuneration paid to such individuals, conditional upon 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, 34 Financial Advisors falling into the following categories were included among key personnel, with the provisions set out in paragraph 2.1:

- 1) Financial Advisors who at the end of the previous year have collected total remuneration (including both recurring and incentive components) equal to or greater than 750,000 euros and less than 1,000,000 euros, the structural characteristics of which is sufficient to reach or exceed the threshold of 750,000 euros in the following year as well (assessment of the continuity of remuneration);
- 2) Financial Advisors who at the end of the previous year have collected total remuneration (including both recurring and incentive components) equal to or greater than 1,000,000 euros.

Their variable remuneration, linked to incentive plans, is subject to the same bonus deferral schemes, payment in Banca Generali shares and access gates, as well as malus and claw-back mechanisms — specific for this category — illustrated above, as applicable to Key Personnel.

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 Benefits additional to the recurring remuneration

The Financial Advisors and Managers benefit from **accident, health and permanent disability insurance covers** and receive social security and termination benefits provided for under legislation. These covers are 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 cover 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:

- the **deferred loyalty bonuses**, under which a predetermined amount is invested in a **capitalisation policy** and may be paid out **5 or 7 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;
- participation in a **Framework Loyalty Programme** for Financial Advisors provided that they meet certain minimum company seniority requirements and reach annual productivity targets. The Framework Loyalty Programme allows for the accrual of a bonus determined from one year to the next, in respect of the eight plan cycles of decreasing duration, which may only be disbursed at the end of the Framework Programme.

In addition to the above retention programmes, specific loyalty-building mechanisms may apply to managers.

### QUANTITATIVE INFORMATION

#### 1. Goals Pursued Through Remuneration Policies and Criteria Applied

As illustrated in the Banking Group's Remuneration Policies approved by the Shareholders' Meeting on 20 April 2017, policies were defined and implemented in accordance with:

- the 7<sup>th</sup> update to Circular 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 (Italian Consolidated Law on Finance) concerning rules for issuers, as amended by 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.

The Policies have been thus drawn up with a view to ensuring contemporaneous 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 the Bank ensure compliance with the regulatory capital requirements set forth in Regulation (EU) No. 575/2013 (CRR) and Circular 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, the remuneration package 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 governing the long-term objectives of the Company or the 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 the Group to which it belongs, 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 Banking Group's access gate consists of the following two ratios: **(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 11.6%), 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 remuneration.

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 2017; in fact, the following values result from the final figures at 31 December 2017:

- *Total Capital Ratio* of the Banca Generali Group: 21.0% (threshold: 11.6%)
- *Liquidity Coverage Ratio* of the Banca Generali Group: 414.0% (threshold: 105%).

As a consequence of those ratios:

- accrual of the bonus entitlements for the year in question;
- payment of the 2017 share of the 2015 and 2016 bonuses, which had been deferred to 2017;
- accrual of cycles of LTI plans that fall due only upon satisfaction of the access gates for the financial year 2017, 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 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 actual bonus accrued by key personnel is less 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 shares of Banca Generali.

**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.

If the actual bonus accrued to key personnel is less than €75,000.00, the amount is paid out up-front in full.

Upon payment, the individual deferred bonus instalment 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																	
	2016			2017			2018			2019			2020			TOTAL		
	bonus %	of which cash %	of which shares %	bonus %	of which cash %	of which shares %	bonus %	of which cash %	of which shares %	bonus %	of which cash %	of which shares %	bonus %	of which cash %	of which shares %	bonus %	of which cash %	of which shares %
2015 BONUS	60	75	25	20	75	25	20	75	25							100	75	25
2016 BONUS				60	75	25	20	75	25	20	75	25				100	75	25
2017 BONUS							60	75	25	20	75	25	20	75	25	100	75	25

## Other employees

	Year of payment																	
	2016			2017			2018			2019			2020			TOTAL		
	bonus %	of which cash %	of which shares %	bonus %	of which cash %	of which shares %	bonus %	of which cash %	of which shares %	bonus %	of which cash %	of which shares %	bonus %	of which cash %	of which shares %	bonus %	of which cash %	of which shares %
2015 BONUS	60	100		20	100		20	100								100	100	
2016 BONUS				60	100		20	100		20	100					100	100	
2017 BONUS							60	100		20	100		20	100		100	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 return 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 call 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 2017 in implementation of the remuneration policies approved in respect of:

### 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 2017. 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 incentive plans.

In detail, the remuneration of the Chairman of the Board of Directors is paid back to the company by which he is employed.

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 liability insurance was contracted covering the members of the Board of Directors, as illustrated in the document presenting the remuneration policies for 2017.

## **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 liability insurance was contracted covering the members of the Board of Statutory Auditors, as illustrated in the document presenting the remuneration policies for 2017.

## 2.3 Remuneration of the Chief Executive Officer and General Manager and Other Key Management Personnel

### 2.3.1 Chief Executive Officer and General Manager

The position of Chief Executive Officer is filled by Gian Maria Mossa.

The remuneration granted for the position of Chief Executive Officer consisted of a total fixed remuneration paid of 37,500.00 euros. No short-term variable remuneration is envisaged.

The position of General Manager is also filled by Gian Maria Mossa. The remuneration granted to Gian Maria Mossa for the role of General Manager consisted of **(i)** all-inclusive gross annual remuneration of 500,000 euros in 2017; **(ii)** a short-term variable remuneration of 350,000.00 euros accrued as a result of the results achieved; **(iii)** variable long-term remuneration as indicated below, and **(iv)** other sundry remuneration and benefits provided for his position of manager of the Banking Group for an overall amount of 164,250.47 euros.

With reference to long-term variable remuneration, Gian Maria Mossa is included in the following LTI plans:

#### Long-term variable remuneration of Gian Maria Mossa

PLAN	No. OF SHARES SET ASIDE			
	Max No. in the three years	Accrued in 2017	Since beginning of the plan	Years ended/remaining years
2015-2017 LTI	34,462	12,319	28,342	3/3
2016-2018 LTI	62,581	16,779	31,798	2/3
2017-2019 LTI	67,119	17,996	17,996	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.

### 2.3.2 Other Key Management Personnel for 2017

This personnel category includes:

- Andrea Ragaini, DGM Wealth Management Markets and Products;



- Stefano Grassi, who was DGM Finance and Operations until 19 February 2017.

Their remuneration consists of all-inclusive annual remuneration (RAL), a service allowance, where applicable, 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 284,615.40 euros in 2017.

Short-term performance bonuses, accrued on the basis of results achieved with regard to Key Management Personnel, totalled 180,000.00 euros. The total remuneration of personnel included in this category was also comprised of 374,569.89 euros of other remuneration and benefits provided for the managers of the Banking Group.

With reference to long-term remuneration, 1 person is a beneficiary of LTI plans, as shown below:

#### Long-term variable remuneration

PLAN	No. OF SHARES SET ASIDE			
	Max No. in the three years	Accrued in 2017	Since beginning of the plan	Years ended/remaining years
2017-2019 LTI	30,509	8,180	8,180	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.

In addition, Andrea Ragaini received fixed compensation of 40,000.00 euros for his services as Chairman of Board of Directors of Generfid.

#### 2.4 Breakdown of remuneration by lines of business relating to Key Personnel

In application of Article 450 of the CRR (Regulation 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 “Annex Article 450 (g) of CRR, Aggregate Quantitative Information on Remuneration, Broken Down by Lines of Business 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 2017 is presented in “Annex, Article 450 (h) of CRR, 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:

- Top Management: the Chief Executive Officer/General Manager, the Deputy General Manager Wealth Management Markets and Products and the Deputy General Manager Finance & Operations, who remained in office until 19 February 2017;
- Other Key Personnel: this category has been determined to include **(i)** the heads of key operating/company units (main lines of business): the Head of the CFO & Strategy Area (since 10 April 2017), the Head of the Finance Department, the Head of the Lending Department, the Executive Director of BG Fund Management Luxembourg S.A. (hereinafter BG FML) also holding the role of Head of the AM Area of Banca Generali and General Manager of BG FML; **(ii)** the persons 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: these are the Heads of the Financial Planner Area, the Managers of the Private Relationship Area and of the Alternative Channels and Support Area. This category also includes: the Head of the COO Area and the Head of the General Counsel Department, in that the activities, autonomy and powers assigned to these positions have been regarded as having a substantial impact on the company's risk;
- Managers in charge of control functions: the Head of the Risk and Capital Adequacy Department, the Internal Audit Department, the HR Department and the Compliance and Anti-Money Laundering Department (position held by two persons who succeeded one another during the year);
- Main managers operating within the distribution networks of the Bank and other Financial Advisors identified pursuant to Article 4 of the Delegated Regulation (EU) No. 604/2014: the Sales Manager Italy, the Area Manager of the Financial Planner Area, the Private Banking Manager of the Private Banking Area, the Senior Private Banking Recruitment Manager and the Financial Advisors included in this category.

Members of Key Personnel with remuneration exceeding 1 million euros are a total of 15, of whom 8 in the bracket from 1 to 1.5 million euros, 5 in the bracket from 1.5 to 2 million euros, and 2 in the bracket from 2 to 2.5 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, Managers (managers from the AM Area, BG Fund Management Luxembourg, and BG Fiduciaria SIM) and other employees.

In particular, the following figures refer to the fixed portion of gross annual remuneration earned, whereas the variable portion refers to the estimate of variable remuneration based on the management by objectives (MBO) mechanisms and, for those not benefiting from MBO mechanisms; of the discretionary variable remuneration also linked to the annual evaluation.

	No. of beneficiaries	Fixed remuneration	Variable remuneration
Relationship Managers	77	5,578,726.20	1,322,572.96
Asset Managers	23	2,071,522.89	986,328.07
Other employees	840	31,472,385.90	2,607,702.38

Relationship Manager's variable remuneration does not include recruitment incentives.

## 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 20 April 2017.

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 recurring, 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 accounting period.

By way of general information, it should be noted that the weight of fees expense in 2017 (almost entirely related to fees in favour of Financial Advisors) on overall fee income was as shown in the table below:

	2017
Total <b>payout</b> (with <b>performance</b> fees)	45.7%
Total <b>payout</b> (without <b>performance</b> fees)	53.8%

(\*) Payout including the provisions for incentive fees and recruitment.

With regard to the substantially recurring component of the network's remuneration, 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 2017; **(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 incentivisation systems, based on the identification of individual objectives (and group objectives, for Managers), it is confirmed that it accounts on the whole for a modest overall percentage of the Financial Advisors' total remuneration — gradually increasing 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 2017, incentives accounted for about 11% of overall payout.

On the other hand, in light of their crucial coordination and supervisory responsibilities, the variable remuneration of Sales Managers and Area Managers determined pursuant to incentivisation plans has been subjected both to access gates relating to the Banking Group and the partial deferral of bonus payments.

As a result, the aforesaid variable remuneration accrued for 2017 in the amount of 8,490,301 euros overall for such functions was as follows: 60% paid in 2017; 20% will be paid after verification of

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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 payouts due under incentive plans. Moreover, the Bank reserves the discretionary right to refuse to make bonus payouts 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 REMUNERATION, BROKEN DOWN BY LINES OF BUSINESS CONCERNING KEY PERSONNEL

Social area	Business Lines (*)	No. of beneficiaries	Fixed remuneration (**)	Variable remuneration 2017 (***)	Notes
Banca Generali	Member of the governing body	1	693,280	358,471	(1)
Banca Generali	Control functions	4	464,777	100,833	(2)
Banca Generali	Corporate functions	6	1,269,713	1,090,657	(3)
Banca Generali	Investment Banking	32	19,646,436	12,673,128	(4)
Banca Generali	Retail Banking	2	418,375	196,295	
Banca Generali/BG FML	Asset management	2	585,872	389,510	

(\*) Business lines envisaged by the Bank of Italy/EBA data collections.

(\*\*) The item also includes fringe benefits.

(\*\*\*) The “2017 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 Gian Maria Mossa, who holds the position of Chief Executive Officer and General Manager.
- Information relating to the Head of the Risk and Capital Adequacy Department, the Compliance and Anti-Money Laundering Department (position held by two persons in 2017) and the Internal Audit Department.
- Information relating to Deputy General Manager Wealth Management Markets and Products, Head of the CFO & Strategy Area, Head of the COO Area, Head of the General Counsel Department, Head of Human Resources Department and DGM Finance & Operations (position covered up to 19 February 2017).
- Information relating to: Head of the Financial Planner Area, Head of the Private Relationship Manager Area, Head of the Finance Department, and the following lead network managers: 2 Sales Managers Italy, 5 Area Managers of the Financial Planner Division, 5 Private Banking Managers of the Private Banking Division, 1 Senior Private Banking Recruitment Manager and 16 Financial Advisors.

**ANNEX, ARTICLE 450 (h) of CRR, AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION BROKEN DOWN BY CATEGORY OF KEY PERSONNEL**

with indication of:

- I. the amounts of remuneration for the year, divided up into fixed and variable remuneration and number of beneficiaries;
- II. the amounts and the forms of the variable component of remuneration, divided up into cash, shares, instruments associated with the shares and other types;
- III. the amounts of the current deferred remuneration, divided up into assigned and unassigned portions;
- IV. the amounts of deferred remuneration acknowledged during the year, paid and reduced by means of corrections of performance;
- V. the new payments for start- and end-of-employment indemnities made in the year and number of relevant beneficiaries;
- VI. the amounts of the payments for end-of-employment indemnities acknowledged during the year, the number of relevant beneficiaries and the higher amount acknowledged per person.

**A. TOP MANAGEMENT**

Banca Generali: Chief Executive Officer; Top Management: General Manager, Deputy General Manager Wealth Management Markets and Products and Deputy General Manager Finance & Operations (position covered until 19 February 2017).

Company	Personnel category	No. of beneficiaries	i) Remuneration			ii) Amounts and variable component forms (**)				iii) Deferred remuneration (***)		iv) Deferred remuneration (***) (****)			v) Benefits				vi) Leaving indemnity		
			Fixed (*)	2017 variable	Total	Cash	Shares	Instruments associated with shares	Other types	Assigned	Unassigned	Acknowledged	Paid	Reduced	Start of employment	No. of beneficiaries	End of employment	No. of beneficiaries	Acknowledged	No. of beneficiaries	Higher amount
Banca Generali	CEO	1	37,500	0	37,500	0	-	-	-	0	0	0	-	-	-	-	-	-	-	-	-
Banca Generali	Top Management	3	1,026,811	1,026,625	2,053,436	894,125	132,500	-	-	218,882	412,124	218,882	-	-	-	-	-	-	-	-	-

In relation to the 2015-2017 LTIP, upon verification, the attainment of pre-set targets and the satisfaction of the access gates for the third year led to the determination of shares to be set aside for the year amounting to 12,319 for Gian Maria Mossa. The sum of the shares set aside during each of the three years of the cycle will be actually assigned in 2018, i.e., at the end of the three-year period.

In relation to the 2016-2018 LTIP, upon verification, the attainment of pre-set targets and the satisfaction of the access gates for the second year led to the determination of shares to be set aside for the year amounting to 16,779 for Gian Maria Mossa. 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 2017-2019 LTIP, upon verification, the attainment of pre-set targets and the satisfaction of the access gates for the first year led to the determination of shares to be set aside for the year amounting respectively to 17,996 for Gian Maria Mossa, and 8,180 for a manager belonging to Top 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**

Heads of key operating/corporate units (main business lines): Head of CFO & Strategy Area, of the Finance Department, of the Lending Department, 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 Financial Planner Area, of the PRM Area, of the Alternative Channels and Support Area, of the COO Area and the General Counsel Department.

Company	No. of beneficiaries	i) Remuneration			ii) Amounts and variable component forms (**)				iii) Deferred remuneration (***)		iv) Deferred remuneration (***) (****)			v) Benefits				vi) Leaving indemnity		
		Fixed (*)	2017 variable	Total	Cash	Shares	Instruments associated with shares	Other types	Assigned	Unassigned	Acknowledged	Paid	Reduced	Start of employment	No. of beneficiaries	End of employment	No. of beneficiaries	Acknowledged	No. of beneficiaries	Higher amount
Banca Generali/BG FML (a)	10	2,274,687	1,476,971	3,751,658	1,216,413	260,559	-	-	223,756	442,241	223,756	-	-	-	-	-	-	-	-	-

(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 2015-2017 LTIP, upon verification, the attainment of pre-set targets and the satisfaction of the access gates for the third year led to the determination of shares to be set aside for the year amounting to 7,040 in favour of 1 manager 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 in 2018, i.e., at the end of the three-year period.

In relation to the 2016-2018 LTIP, upon verification, the attainment of pre-set targets and the satisfaction of the access gates for the second year led to the determination of shares to be set aside for the year amounting to a total of 11,326 in favour of 3 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.

In relation to the 2017-2019 LTIP, upon verification, the attainment of pre-set targets and the satisfaction of the access gates for the first year led to the determination of shares to be set aside for the year amounting to a total of 8,180 in favour of 3 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. HEAD OF CONTROL FUNCTIONS**

Banca Generali: Head of the Risk and Capital Adequacy Department, of the Internal Audit Department, of the HR Department and of the Compliance and Anti-Money Laundering Department (position covered by 2 persons in 2017).

Social area	No. of beneficiaries	i) Remuneration			ii) Amounts and variable component forms (**)				iii) Deferred remuneration (***)		iv) Deferred remuneration (***) (****)			v) Benefits				vi) Leaving indemnity		
		Fixed (*)	2017 variable	Total	Cash	Shares	Instruments associated with shares	Other types	Assigned	Unassigned	Acknowledged	Paid	Reduced	Start of employment	No. of beneficiaries	End of employment	No. of beneficiaries	Acknowledged	No. of beneficiaries	Higher amount

Banca Generali	5	679,232	215,154	894,385	173,961	41,192,71	-	-	-	6,500,00	-	-	-	-	-	-	-	-	-
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**D. MAIN MANAGERS OPERATING IN THE BANK'S DISTRIBUTION NETWORKS**

Banca Generali: 2 Sales Managers Italy, 5 Area Managers of the Financial Planner Area, 5 Private Banking Managers of the Private Banking Area, 1 Senior Private Banking Recruitment Manager and 16 Financial Advisors.

Social area	No. of beneficiaries	i) Remuneration			ii) Amounts and variable component forms (**)				iii) Deferred remuneration (***)		iv) Deferred remuneration (***) (****)			v) Benefits			vi) Leaving indemnity			
		Fixed (*)	2017 variable	Total	Cash	Shares	Instruments associated with shares	Other types	Assigned	Unassigned	Acknowledged	Paid	Reduced	Start of employment	No. of beneficiaries	End of employment	No. of beneficiaries	Acknowledged	No. of beneficiaries	Higher amount
Banca Generali	29	19,060,223	12,090,146	31,150,368	6,573,363	1,740,546	-	-	1,998,973	3,035,597	1,998,973	-	-	-	-	-	-	-	-	-

\*) For 2017, the fixed remuneration is represented by gross annual remuneration, emoluments, service allowance and fringe benefits.

\*\*) The 2017 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 2015 and 2016 in relation to which the exceeding of the access gates for payment has been ascertained and which will be disbursed in 2018 for the personnel on the workforce; "Unassigned": deferred portion of the variable remuneration pertaining to 2016 and 2017.

\*\*\*\*) 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 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*, paragraph 2, of the Italian Consolidated Law on Finance, that the accounting information contained in this document, "Pillar 3 – Disclosures – Situation at 31 December 2017", corresponds to the documentary results, books and accounting records.

Trieste, 23 April 2018

## ANNEX 1 - OWN FUNDS: TERMS AND CONDITIONS OF TIER 1 AND TIER 2 CAPITAL INSTRUMENTS

1	Issuer	Banca Generali Spa
2	Unique identifier	IT0001031084
3	Governing law(s) of the instrument	Italian law
<b>REGULATORY TREATMENT</b>		
4	Transitional CRR rules	Tier 1 Capital
5	Post-transitional CRR rules	Tier 1 Capital
6	Eligible at solo/(sub-) consolidated/solo and (sub-) consolidated	Solo and consolidated
7	Instrument type	Ordinary shares — Article 28 CRR
8	Amount recognised in regulatory capital (€/000)	116,852
	Nominal amount of instrument: original amount — currency of issue (€/000)	116,852
9	Nominal amount of instrument : original amount — currency of issue	EUR
	Nominal amount of instruments: translation into euro of original amount (€/000)	116,852
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Net equity
11	Original maturity date	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
	Optional call date	N/A
15	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
<b>COUPONS/DIVIDENDS</b>		
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate ad any related index	N/A
19	Existence of a dividend stopper	N/A
	Fully discretionary, partly discretionary or mandatory (in terms of timing)	N/A
20a	Fully discretionary, partly discretionary or mandatory (in terms of timing - reasons for discretionality)	N/A
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Cumulative or non-cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of the instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, fully or partially	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
N/A = information not applicable		

<b>1</b>	<b>Issuer</b>	<b>Banca Generali Spa</b>
<b>2</b>	<b>Unique identifier</b>	<b>N/A</b>
<b>3</b>	Governing law(s) of the instrument	German law
<b>REGULATORY TREATMENT</b>		
<b>4</b>	Transitional CRR rules	Tier 2 capital
<b>5</b>	Post-transitional CRR rules	Tier 2 capital
<b>6</b>	Eligible at solo/(sub-) consolidated/solo and (sub-) consolidated	Solo and consolidated
<b>7</b>	Instrument type	Subordinated loan (*) — Article 62 CRR
<b>8</b>	Amount recognised in regulatory capital (€/000)	43,000
	Nominal amount of instrument: original amount — currency of issue (€/000)	43,000
<b>9</b>	Nominal amount of instrument : original amount — currency of issue	EUR
	Nominal amount of instruments: translation into euro of original amount (€/000)	43,000
<b>9a</b>	Issue price	100
<b>9b</b>	Redemption price	100
<b>10</b>	Accounting classification	Liabilities — amortised cost
<b>11</b>	Original maturity date	30.10.2014
<b>12</b>	Perpetual or dated	Dated
<b>13</b>	Original maturity date	30.10.2024
<b>14</b>	Issuer call subject to prior supervisory approval	YES
	Optional call date	30.10.2019
<b>15</b>	Contingent call dates and redemption amount	N/A
<b>16</b>	Subsequent call dates, if applicable	at each interest payment date after 30.10.2020
<b>COUPONS/DIVIDENDS</b>		
<b>17</b>	Fixed or floating dividend/coupon	Fixed, then floating
<b>18</b>	Coupon rate ad any related index	3.481% up to 30.10.2019: 3M Euribor + 300 bps starting on the 6 <sup>th</sup> year
<b>19</b>	Existence of a dividend stopper	No
<b>20a</b>	Fully discretionary, partly discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partly discretionary or mandatory (in terms of timing - reasons for discretionality)	N/A
<b>20b</b>	Fully discretionary, partly discretionary or mandatory (in terms of amount)	N/A
<b>21</b>	Existence of step up or other incentive to redeem	No
<b>22</b>	Cumulative or non-cumulative	N/A
<b>23</b>	Convertible or non-convertible	Non-convertible
<b>24</b>	If convertible, conversion trigger(s)	N/A
<b>25</b>	If convertible, fully or partially	N/A
<b>26</b>	If convertible, conversion rate	N/A
<b>27</b>	If convertible, mandatory or optional conversion	N/A
<b>28</b>	If convertible, specify instrument type convertible into	N/A
<b>29</b>	If convertible, specify issuer of the instrument it converts into	N/A
<b>30</b>	Write-down features	N/A
<b>31</b>	If write-down, write-down trigger(s)	N/A
<b>32</b>	If write-down, fully or partially	N/A
<b>33</b>	If write-down, permanent or temporary	N/A
<b>34</b>	If temporary write-down, description of write-up mechanism	N/A
<b>35</b>	Position in subordination hierarchy in liquidation	Senior with respect to Tier 1 Capital instruments; junior with respect to all unsecured senior

	instruments
36 Non-compliant transitioned features	N/A
37 If yes, specify non-compliant features	N/A
N/A = information not applicable	

(\*) loan issued by Generali Beteiligungs AG

**ANNEX 2 — OWN FUNDS: TRANSITIONAL OWN FUNDS DISCLOSURE TEMPLATE**

(€/000)	Amount at disclosure date	Amounts subject to pre-Regulation (EU) No. 575/2013 treatment or prescribed residual amount of Regulation (EU) No. 575/2013
<b>Common Equity Tier 1 Capital (CET1): instruments and reserves</b>		
1	Capital instruments and the related share premium accounts	175,071
	of which: Ordinary shares	116,852
2	Retained earnings	348,519
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	21,646
3a	Funds for general banking risk	0
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1	0
	Contribution of public capital benefiting of the grandfathering clause up to 1 January 2018	0
5	Minority interests (amount allowed in consolidated CET1)	0
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	58,631
<b>6</b>	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>603,867</b>

<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
7	Additional value adjustments (negative amount)	-4,663
8	Intangible assets (net of related tax liability) (negative amount)	-89,289
9	Regulatory adjustments for IAS 19	149
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0
11	Fair value reserves related to gains or losses on cash flow hedges	0
12	Negative amounts resulting from the calculation of expected loss amounts	0
13	Any increase in equity that results from securitised assets (negative amount)	0
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0
15	Defined benefit pension fund assets (negative amount)	0
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-13,271
17	Holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
20	[Empty set in the EU Regulation]	
20a	Exposure amount of the following items which qualify for a RW of 1.250%, where the institution opts for the deduction alternative	0
20b	of which: qualifying holdings outside the financial sector (negative amount)	
20c	of which: securitisation positions (negative amount)	
20d	of which: free deliveries (negative amount)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	
22	Amount exceeding the 15% threshold (negative amount)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	
24	[Empty set in the EU Regulation]	
25	of which: deferred tax assets arising from temporary differences	
25a	Losses for the current financial year (negative amount)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	
26	Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	0
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-20,592
	of which: Unrealised gains on bonds issued by central governments within the European Union	-19,851
	of which: Unrealised gains on bonds issued by issuers other than central governments within the European Union	-96
	of which: Unrealised gains on equity securities and UCITS units	-645
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	-969
	of which: deduction of deferred tax assets associated with future profitability and not arising from temporary differences (Articles 469, para. 1a; 36, para. 1c; and 478, para. 1, of CRR)	
	of which: deduction of negative amounts resulting from the calculation of expected losses as per Articles 158 and 159 of CRR (Articles 469, para. 1a; 36, para. 1d; and 478, para. 1, of CRR)	
	of which: deduction of amount applicable to direct, indirect and synthetic holdings by the bank of the CET1 instruments of financial sector entities where the bank has a significant investment in those entities, and applicable to deferred tax assets associated to future profitability and arising on temporary differences (Articles 469, para. 1c; 36, paras. 1c and i; and 478, paras. 1 and 2, of CRR)	
	of which: impacts due to excess with transitional adjustments	-969
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	
<b>28</b>	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-128,635</b>
<b>29</b>	<b>Common Equity Tier 1 (CET1) capital</b>	<b>475,232</b>

	Amount at disclosure date	Amounts subject to pre- Regulation (EU) No. 575/2013 treatment or prescribed residual amount of Regulation (EU) No. 575/2013
<b>Additional Tier 1 (AT1) capital: instruments</b>		
30	Capital instruments and the related share premium accounts	0
31	<i>of which: classified as equity under applicable accounting standards</i>	0
32	<i>of which: classified as liabilities under applicable accounting standards</i>	0
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	0
	Contribution of public capital benefiting of the grandfathering clause up to 1 January 2018	0
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0
35	of which: instruments issued by subsidiaries subject to phase-out	0
<b>36</b>	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	<b>0</b>
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0
39	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
41	Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e., CRR residual amounts)	0
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No. 575/2013	0
	of which: residual amount associated with excess of expected losses compared to value adjustment for IRB positions	0
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No. 575/2013	0
	of which: deduction of amount applicable to direct, indirect and synthetic holdings by the bank of the CET1 instruments of financial sector entities where the bank has a significant investment in those entities, and applicable to deferred tax assets associated to future profitability and arising on temporary differences (Articles 469, para. 1c; 36, paras. 1c and i; and 478, paras. 1 and 2, of CRR)	0
	of which: impacts due to excess with transitional adjustments	0
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	0
	of which: possible filter for unrealised losses	0
	of which: possible filter for unrealised gains	0
	of which: other filters	0
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	<b>0</b>
<b>44</b>	<b>Additional Tier 1 (AT1) capital</b>	<b>0</b>
<b>45</b>	<b>Tier 1 Capital (T1 = CET1 + AT1)</b>	<b>475,232</b>

		Amount at disclosure date	Amounts subject to pre- Regulation (EU) No. 575/2013 treatment or prescribed residual amount of Regulation (EU) No. 575/2013
<b>Tier 2 (T2) capital: instruments and provisions</b>			
46	Capital instruments and the related share premium accounts	43,000	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	0	
	Contribution of public capital benefiting of the grandfathering clause up to 1 January 2018	0	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0	
49	<i>of which: instruments issued by subsidiaries subject to phase-out</i>	0	
50	Credit risk adjustments	0	
<b>51</b>	<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>43,000</b>	
<b>Tier 2 (T2) capital: regulatory adjustments</b>			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
54a	<i>Of which, new holdings not subject to transitional arrangements</i>	0	
54b	<i>Of which, holdings existing before 1 January 2013 and subject to transitional arrangements</i>	0	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No. 575/2013 (i.e., CRR residual amounts)	0	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No. 575/2013	0	
	<i>of which: residual amount associated with excess of expected losses compared to value adjustment for IRB positions</i>	0	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No. 575/2013	0	
	<i>of which: deduction of amount applicable to direct, indirect and synthetic holdings by the bank of the CET1 instruments of financial sector entities where the bank has a significant investment in those entities, and applicable to deferred tax assets associated to future profitability and arising on temporary differences (Articles 469, para. 1c; 36, paras. 1c and i; and 478, paras. 1 and 2, of CRR)</i>	0	
	<i>of which: impacts due to excess with transitional adjustments</i>	0	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	370	
	<i>of which: possible filter for unrealised losses</i>	0	
	<i>of which: unrealised gains on AFS assets subject to additional filter applicable nationally</i>	370	
	<i>of which: other filters</i>	0	
<b>57</b>	<b>Total regulatory adjustments to Tier 2 (T2) Capital</b>	<b>370</b>	
<b>58</b>	<b>Tier 2 (T2) Capital</b>	<b>43,370</b>	
<b>59</b>	<b>Total Capital (TC = T1 + T2)</b>	<b>518,602</b>	



		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No. 575/2013 treatment or prescribed residual amount of Regulation (EU) No. 575/2013
59a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e., CRR residual amounts) <i>of which: items not deducted from CET1 (EU Regulation No. 575/2013, residual amounts) (items to be broken down line by line; eg.: deferred tax assets associated with future profitability net of relevant tax liabilities, indirect holdings of own CET1 instruments, etc.)</i> <i>of which: items not deducted from AT1 (EU Regulation No. 575/2013, residual amounts) (items to be broken down line by line; eg.: reciprocal cross holdings of T2 instruments, non-significant investments in other financial sector entities, etc.)</i>	0	
	Items not deducted from T2 capital items (EU Regulation No. 575/2013, residual amounts) (items to be broken down line by line; eg.: indirect holdings of the T2 instruments, indirect non-significant investments in other financial sector entities, indirect significant investments in other financial sector entities, etc.)	0	
60	<b>Total risk-weighted assets</b>	<b>2,563,242</b>	
<b>Capital ratios and buffers</b>			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	18.5%	
62	Tier 1 (as a percentage of total risk exposure amount)	18.5%	
63	Total capital (as a percentage of total risk exposure amount)	20.2%	
64	Institution-specific buffer requirement (CET1 requirement in accordance with Article 92 (1a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount) <i>of which: capital conservation buffer requirement</i> <i>of which: countercyclical capital buffer requirement</i> <i>of which: systemic risk buffer requirement</i>	7.0%	
67a	<i>of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer</i>	2.5%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	11.5%	
69	[Empty set in the EU Regulation]		
70	[Empty set in the EU Regulation]		
71	[Empty set in the EU Regulation]		
<b>Capital ratios and buffers</b>			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	4,610	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	
74	[Empty set in the EU Regulation]		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) Applicable caps on the inclusion of provisions in Tier 2	24,833	
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach		
80	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)		
81	Current cap on CET1 instruments subject to phase-out arrangements		
82	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		
83	Current cap on AT1 instruments subject to phase-out arrangements		
84	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		
85	Current cap on T2 instruments subject to phase-out arrangements		
86	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		

### ANNEX 3 - OWN FUNDS: OVERALL RECONCILIATION OF CET1, TIER 2 ELEMENTS, AS WELL AS FILTERS AND DEDUCTIONS APPLIED TO OWN FUNDS AND THE CORRESPONDING BALANCE SHEET ITEMS

ASSETS	Accounting data		Amount relevant for own funds purposes	Reference to the item "Transitional Own Funds Disclosure Template"
	Financial Statements perimeter	Regulatory perimeter		
<b>130. Intangible assets</b>	91,810	91,810	-91,810	8
<i>of which goodwill</i>	66,065	66,065	-66,065	8
<i>of which other intangible assets</i>	25,745	25,745	-25,745	8
<b>140. Tax receivables</b>	45,735	45,735	0	8
a) Tax receivables - current	776	776	n.a.	8
b) Tax receivables- deferred	44,959	44,959	0	8
<i>of which: tax receivables eligible for conversion into tax credits</i>	8,107	8,107	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		
<b>20. Due to customers</b>	7,197,248	7,197,248	43,000	46
<i>of which: subordinated instruments not covered by transitional provisions</i>	43,000	43,000	43,000	46
<b>80. Tax liabilities</b>	35,564	35,564	2,521	8
a) Tax liabilities - current	21,024	21,024	n.a.	
b) Tax liabilities - deferred	14,540	14,540	2,521	8
<i>of which: tax liabilities associated with goodwill and intangible assets</i>	2,521	2,521	2,521	8
<b>140. Valuation reserves</b>	21,646	21,646	1,573	3, 9, 26a, 56c
<i>of which: valuation reserves of available-for-sale securities</i>	23,442	23,442	3,220	26a, 56c
<i>of which: net actuarial loss valuation reserves</i>	-1,796	-1,796	-1,647	3.9
<b>170. Reserves</b>	348,519	348,519	348,519	2
<b>180. Additional paid-in capital</b>	58,219	58,219	58,219	1
<b>190. Share capital</b>	116,852	116,852	116,852	1
<i>of which: ordinary shares</i>	116,852	116,852	116,852	1
<b>200. Treasury shares (-)</b>	-13,271	-13,271	-13,271	16
<b>210. Minority interests (+/-)</b>	0	0	0	5, 34, 48
<b>220. Net profit (loss) for the period (+/-)</b>	204,105	204,105	58,631	5a
<i>of which profit for the period net of the dividend to be distributed calculated on the profit for the year</i>	58,631	58,631	58,631	5a

OTHER ELEMENTS FOR BALANCING OWN FUNDS	Amount relevant for own funds purposes	Reference to the item "Transitional Own Funds Disclosure Template"
<b>Total other elements, of which:</b>	-5,632	
Fair value gains or losses arising on the entity's credit risk associated with derivative liabilities	0	14
Regulatory value adjustments (Prudent Valuation)	-4,663	7
Excess of expected losses over total value adjustments (IRB models)	0	12, 41a, 56a
Excess of total value adjustments over expected losses (IRB models)	0	50
Filter for unrealised real estate capital gains	0	26
Filter for double redemption	-969	26b