



Banca Generali S.p.A.

Independent auditor's report pursuant
to article 14 of Legislative Decree n. 39,
dated January 27 2010 and article 10 of
EU Regulation n. 537/2014

Financial statements at December 31, 2018

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

Independent auditor's Report

pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

To the shareholders of Banca Generali S.p.A.

Report on the financial statements

Opinion

We have audited the financial statements of Banca Generali S.p.A. (the Company), which comprise the balance sheet as at December 31, 2018, the profit and loss account, the statement of other comprehensive income, statement of changes in net equity, the cash flow statement for the year then ended and notes and comments to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 as well and article 43 of Legislative Decree NO. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

Audit responses

VALUATION OF GOODWILL

Notes: Part B) Information on the balance sheet assets - Section 9; Part G) Business combinations of entities or branches - Section 3.

The entity recorded in the financial statements goodwill/intangible at indefinite life for Euro 66,1 million.

We focused on this area due to the significance of its amount and the significant judgement and complexity of the evaluation process; the recoverable amount of goodwill is based on the realisation of the assumptions of the plan, discount rates and expected future growth rates and other subjective assumptions.

Our main audit procedures performed, also with the support of our specialists, in response to the key audit matter regarding the valuation of goodwill, included the following:

- we challenged the reasonableness of the key underlying assumptions of the plan;
- we assessed and challenged the adequacy of the impairment model adopted;
- we assessed the key underlying assumptions for the impairment model, in particular the ones related to cash flow projections, discount rates, long term growth rates.
- we verified the clerical accuracy of the impairment model adopted.
- we performed sensitivity analysis of the control model of impairment when key assumptions change;
- we verified the disclosures provided.

VALUATION OF THE PROVISIONS REGARDING THE INDEMNITY OF THE NETWORK AND LEGAL DISPUTES

Notes: Part B) Information on the balance sheet liabilities - Section 10.

Provisions for liabilities and contingencies at December 31, 2018 show a balance of Euro 159,7 million. The item includes Provisions for termination indemnity of Financial Advisors, which are equal to Euro 81,6 million, Provisions for network incentives, which are equal to Euro 46,1 million, Provisions for legal disputes are equal to Euro 14,3 million and Provisions for staff expenses are equal to Euro 14,8 million.

We focused on these items due to the significance of their amount, the complexity of the algorithms of actuarial statistical calculation adopted and significant judgement in the evaluation process, based on various assumptions and factors.

Our main audit procedures performed in response to the key audit matter regarding the valuation of the provisions regarding the indemnity to the network and legal disputes included the following:

- we analysed the methodology used by the Group to estimate the provisions;
- we performed test of details on the completeness and accuracy of data used to determine the provisions for risks and charges;
- we performed an actuarial review of the approach and assumptions adopted for the evaluations at December 31, 2018;
- we obtained an external confirmation from legal experts of the Group on their evaluation about the existing disputes' development and the chance of losing;
- we verified the disclosures provided.

Key audit matters

Audit responses

VALUATION OF THE ASSETS RECORDED IN RELATION TO INCREMENTAL COSTS OF OBTAINING A CONTRACT AND COSTS TO FULFIL THE CONTRACTS WITH CUSTOMERS

Notes: Part A) Accounting policies - Section 4; Part B) Information on the consolidated balance sheet assets - Section 12.

Prepayments at December 31, 2018 show a balance of Euro 173,2 million. The item includes prepayments for the new supplementary fees for sales network represented by incremental fees of obtaining new customers for Euro 123,6 million while prepayments for ordinary incentives qualified as costs to fulfil the contracts are equal to Euro 26,3 million.

At the end of 2018 the Group modified the amortisation period of incremental costs and costs of obtaining a contract, moving from a period based on the payback criteria to a period aligned to the average life of contractual relationships with customers, determined on a five years period.

This intervention had a particular effect on recognition measures of incentives for sales. The variation, that represents a change in accounting estimates related to the amortisation period of incentives, has been applied prospectively in compliance with IAS 8 and determined a gross incremental profit on income statement of Euro 20,1 million and Euro 13,5 million net of fiscal effect.

We focused on these items due to the significance of their amount and significant judgement in the evaluation process, based on various assumptions and factors, as well as in consideration of the change of amortisation criteria.

Our main audit procedures performed in response to the key audit matter regarding the valuation of assets recorded in relation to incremental costs of obtaining a contract and costs to fulfil the contracts, included the following:

- we obtained an understanding of the methodology adopted by the Group on the management process to incentive the network;
- we obtained a comprehension of the results of the assessment performed by the Group, also with the support of an external specialist;
- we obtained a comprehension of underlying assumptions to the strategic decision to modify the evaluation criteria, also conducting discussion with the Management and analysis of relevant documentation;
- we obtained and verified the meetings' minutes of the Board Of Directors regarding the discussions and deliberations on this matter;
- we verified, also with the support of our specialists, the correct application of accounting standards;
- we performed substantive procedures on the completeness and accuracy of information used to determine accrued income;
- we verified the disclosures provided.

Key audit matters**Audit responses**

FIRST TIME APPLICATION OF INTERNATIONAL ACCOUNTING STANDARD IFRS 9 "FINANCIAL INSTRUMENTS"

Disclosure on the effects from the first time application of IFRS 9 included in the "IFRS 9 and IFRS 15 Transition Report", attached to the financial statements.

Beginning from January 1 2018, date of first time application of IFRS 9 "financial instruments", balance sheet amounts existing at the end of the prior period have been subject to reclassification and measurement processes, required by the new accounting standard, based on the management of these financial assets (Business Model) and the characteristics of the cash flows characteristics of the contract of the financial instrument; furthermore, regarding the evaluation of financial assets that are not measured at fair value through profit and loss, the assessment of a new methodology to measure the value adjustments (impairment) under the expected losses model (Expected Credit Losses).

As required by IAS 8 and by the provisions provided for in the 5th update of Circular 262 of December 22, 2005, the Company provided disclosure on the effects produced by the application of the new accounting standard on the Group net equity, showing a decrease of evaluation reserves for Euro 7,6 million and the recognition of a positive reserve of earnings for FTA for Euro 2 million, with a net total effect, included the fiscal effect, negative for Euro 5,6 million.

For purposes of audit activities, the effects of the introduction of this new accounting standard are considered significant with respect to the complexity of the first application.

Our main audit procedures performed in response to the key audit matter regarding the application of IFRS 9, included the following:

- we analysed the procedures and processes related to classification and measurement of financial assets, specifically regarding the business model definition for the management; of financial instruments and the policy related to the characteristics of cash flows of financial instruments (SPPI test);
- we analysed the procedures and processes related to the impairment model of receivables, specifically regarding the comprehension of the significant increase in credit risk for the movement from stage 1 to stage 2 and understanding the models adopted to measure the expected losses ("Expected Credit Losses", "ECL") and methodologies for the assessment of parameters of the impairment model (PD, LGD, EAD);
- we verified the matching procedures and the data included in the schemes of reconciliation between balances as of December 31 ,2017 closing as for the last approved financial statements and the opening balances as of January 1 2018 as for the first financial statements prepared in accordance with IFRS 9;
- we analysed the matching procedures between items included in the management systems and the information included in the reconciliation schemes;
- we verified the disclosures provided.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree NO. 38/05, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 and article 43 of Legislative Decree NO. 136/15 and, within the terms provided by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Banca Generali S.p.A. on April 23, 2015 to perform the audits of the financial statements of each fiscal year starting from December 31, 2015 to December 31, 2023.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Banca Generali S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Banca Generali S.p.A. as at December 31, 2018, including their consistency with the financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the financial statements of Banca Generali S.p.A. as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the financial statements of Banca Generali S.p.A. as at December 31, 2018 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 25, 2019

BDO Italia S.p.A.
(signed in the original)
Rosanna Vicari
Partner