Solvency and Financial Condition Report of Generali Group 2017

GENERALI

186th year | **generali.com**

Solvency and Financial Condition Report 2017 Generali Group

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Group highlights

Solvency II ratio

Regulatory
+29 pps

207 %

Solvency Capital Requirement (SCR)

22,190 mln (+4.4%)

Minimum Capital Requirement (MCR)

17,318 mln (-6.2%)

Group Own Funds

+11.1%

€ 45,880 mln

Group Own Funds to meet the SCR

€ 45,880 mln

Group Own Funds to meet the MCR

€ 42,862 mln

Gross written premiums

-0.2%

€ 68,537 mln

Operating result
+2.3%

€ 4,895 mln

Operating return on equity
+0.0 pps

13.4%

Net profit

+1.4%

€ 2,110 mln

Asset Under Management (AUM)

+5.0%

€ 542 bln

Our people

71,327 (-3.3%)

Our clients

57 mln (+4.9%)

Our exclusive distributors

155 thousand (+3.3%)

Life

Increasing operating result thanks to the investment performance.
The trend in premiums continued to embed the approach in the offering that is even more disciplined. Life net cash inflows of more than € 9.7 bln, remaining at the highest levels in the market.

Gross written premiums

-1.0%

€ 47,788 mln

Life net cash inflows € 9,718 mln (-17.1%)

NBV

+53.8%

€ 1,820 mln

Operating result

+1.8%

€ 3,141 mln

P&C

Positive trend in premiums thanks to both lines of business.
Operating result including € 416 mln CAT claims. Group Cor is confirmed at best level.

Gross written premiums

+1.7%

€ 20,749 mln

Cor

+0.5 pps

92.8%

Operating result

-4.9%

€ 1,972 mln

Summary

Introduction

The Generali Group - falling under the scope of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (hereinafter Solvency II Directive) - is required to predispose its own Solvency and Financial Condition Report (SFCR).

This is in accordance with the Solvency II Directive as implemented by the Legislative Decree 209/2005 as well as with the Delegated Regulation 2015/35/EC ('Delegated Act') and related Guidelines. In addition to the European Regulation requirements, the report also contains information pertinent to IVASS Regulation no. 33/2016.

SFCR specific content is defined by primary legislation and its implementing measures - which provide detailed information on the essential aspects of its businesses, such as a description of the activity and performance of the undertaking, the system of governance, risk profile, evaluation of assets and liabilities and capital management - for solvency purposes.

The objective of the SFCR is to increase transparency in the insurance market, requiring insurance and reinsurance undertakings to disclose publicly, at least on an annual basis, a report on their solvency and financial condition.

Policyholders and beneficiaries are the main addressees of SFCR benefitting from an increased market discipline that encourages best practices as well as from a higher market confidence that leads to an improved understanding of the business.

Where possible, consistency was guaranteed with the public information already made available in order to ensure an integrated and consistent vision of the Generali Group.

Section D “Valuation for Solvency Purposes” and paragraph E.1. “Own funds” have been audited by EY S.p.A. pursuant to article 47-septies, paragraph 7 of the Legislative Decree 209/2005 by IVASS with Letter to the market dated 7 December 2016.

The present document follows the structure required by the Delegated Acts.

All the amounts commented in the text and in the tables are presented in million euro (€ millions), if not differently stated. The Quantitative Reporting Templates (QRT) defined by the regulation are in thousand euro (€ thousand). Due to rounding, the single line amounts may not add up to the total in some cases.

At the end of this report you can find the terms and acronyms used within the Glossary.

This report was approved by the Board of Directors on 18 June 2018.

A. Business and Performance

Since 1831 we are an Italian, independent Group, with a strong international presence. We are one of the largest global players in the insurance industry, a strategic and highly relevant sector for the growth, development and welfare of modern societies. In almost 200 years we have built a Group that operates in over 60 countries through more than 400 companies and over 71 thousand employees.

Our activities span the Life Business (savings, family protection and unit-linked policies, etc.) and the P&C business (car, home, accident and health insurance, etc.). We are among the leaders in the retail sector and over time have strengthened our position in the corporate sector with a dedicated international unit. We are also an active global player in asset management, with more than 500 billion euro of assets.

We operate through a multichannel strategy to meet our customers' different needs. Alongside our international network of agents and financial advisors, we have added brokers, bancassurance and direct phone and web channels, in which we have become the European leader.

From a management and organisational perspective, the Group organisation fully reflects Group country managers' responsibilities and consists of business units operating in three principal markets – Italy, France and Germany, and the following regional structures:

- CEE - Central and Eastern European countries members of the EU[1];
- International - consisting of EMEA, Americas, Asia, Europ Assistance and Other companies;
- Investments, Asset & Wealth Management - which includes the main Group entities operating in investment advisory, asset management and financial planning.

Finally, the cluster Holding and other businesses includes the Parent Company's management and coordination activities, including Group reinsurance, other financial holding companies and suppliers of international services not included in the previous geographic areas.

The Group closed the year 2017 with strong results and excellent capital position. In particular, the operating result and net profit both increase. There is improvement of the quality of life net cash inflows and strongly increased new business margins. They confirm the full implementation of the strategy presented in 2016 that will be completed by year-end.

The Group's operating result reaches the record level of € 4,895 million, up 2.3% thanks primarily to the positive performance of the life segment and the Investments, Asset & Wealth Management business. The 1.8% increase in the Life result is due to a better investment performance; the growth in the result of the segment Holding and Other Activities, reaching € 59 million, reflects the excellent results of Banca Generali and the enhanced performance of Asset Management Europe. Both segments balance the decrease of the P&C operating result (€ 1,972 million, -4.9%) affected by €416 million in natural catastrophe claims that mainly came from the US hurricanes and the storms that swept Central Europe, as well as by the lower contribution of investment returns in a low interest rate context. Excluding the impact of natural catastrophe claims in both years under comparison, the P&C operating result would have been stable.

The operating return on equity, the Group's main economic profitability indicator, come to 13.4% (unchanged compared with the 31 December 2016 figure), confirming the strategic objective (>13%).

The net profit reaches € 2,110 million, up 1.4%, due to the cited improvement in the operating result, as well as in the non-operating result, which benefited from lower impairment losses, and notwithstanding the impact of the discontinued operations and the increase in fiscal obligations.

Gross written premiums are over € 68,537 million (-0.2%), with an increase in the P&C business (+1.7%). Life net cash inflows stood at € 9,718 million, an leading industry levels.

With reference to the lines of business, Life gross written premiums amount to € 47,788 million (-1.0%). In line with the strategic goal of pursuing a more selective underwriting policy, premiums from savings products decreased by 11.6%, especially in Italy, Asia, Germany, Spain and France. The above-mentioned targeted rebalancing in favour of products offering better risk-return terms bright about an increase in both unit-linked products (+22.4%), throughout the Group's areas of operations and especially in Italy (+57.3%) and France (+52.1%), and protection products (+7.0%).

1 Starting from 1st January 2018, the whole cluster Austria shall be considered among CEE countries and not in the EMEA perimeter.

P&C premiums amount to € 20,749 million, 1.7% higher because of the positive performance of both the Motor and Non-Motor lines. The Development of the Motor segment (+3.0%) is driven primarily by the growth recorded in Germany (+4.2%), CEE countries (+3.2%), Spain (+3.8%), the Americas region (+25.7%) and France (+2.6%), which more than offset the drop in Italy (-4.5%) on account of a reduction in the average premium and of the measures taken to protect the profitability of the portfolio. Non-Motor premiums also grow (+0.9%), mainly supported by the development in the CEE countries (+3.6%), the EMEA region (+2.6%) and Europ Assistance (+14.0%); Italy, even if recovering from the drop seen in 2017, is down 1.8%, mostly due to the reduction in the Global Corporate & Commercial lines, while France falls 2.0% because of the weak market conditions in commercial and construction lines.

Save for the aforementioned changes in the breakdown by geography, there are no further changes to the business model adopted by the Group.

B. System of Governance

Assicurazioni Generali S.p.A. (AG), in its role as the Parent Company of the Generali Group, has issued internal regulations for its system of governance, with a view to ensuring an appropriate level of consistency within the Group. In particular, these internal regulations include rules on: the qualitative and quantitative composition of the Administrative, Management or Supervisory Body (the AMSB), its competences and relevant committees; the roles and responsibilities to be assigned to senior management and management committees; the way in which the internal control and risk management system must be structured and implemented; and the main principles governing remuneration, fit and proper requirements and outsourcing.

No material changes to the system of governance occurred during the reference period.

C. Risk Profile

The Generali Group is mostly exposed to financial, credit, underwriting and operational risks. The nature of these risk and the overall Generali's risk profile description are provided in Section C.

The Generali Group measures its risks by means of the Group's Partial Internal Model (PIM) for financial, credit, life and non-life underwriting risks. Operational risks are measured by means of a Standard Formula, complemented by quantitative and qualitative risk assessments. The PIM provides an accurate representation of the main risks to which the Group is exposed, measuring not only the impact of each risk taken individually but also their combined impact on the Group's own funds.

The sensitivity analyses conducted confirm that the Group is mostly vulnerable to financial market trends (ultra-low/negative interest rates and credit spread widening, mostly on Italian government bonds). Even in case of unfavourable market conditions (decrease in interest rates or equity values, increase in spreads), the Generali Group would still show a solid position, mainly due to a business profile characterised by a limited duration gap, a good loss absorption capacity of technical provisions and an average minimum guarantee steadily lower than the average portfolio return.

No material changes to the risk profile occurred during the reference period.

D. Valuation for Solvency Purposes

Section D includes a complete overview on the valuation of Solvency II assets and liabilities. The general principle for the valuation is an economic, market-consistent approach using assumptions that market participants would use in valuing the same asset or liability (article 75 of the Solvency II Directive).

In particular, assets and liabilities other than technical provisions are recognised in compliance with IFRS standards and interpretations of the IFRS Interpretations Committee approved by the European Union before the balance sheet date, provided they include valuation methods that are consistent with the market approach.

The consolidated Solvency II technical provisions of the Generali Group at 31 December 2017 have been calculated according to the Solvency II regulation, as the sum of the best estimate of liabilities and the risk margin, adopting the same methodologies used at 31 December 2016.

Moreover, the main adjustments between IFRS and Solvency II assets and liabilities relate to:
- differences in the consolidation method of some entities included in the scope of consolidation;
- the elimination of the intangible assets including deferred acquisition costs and goodwill;
- the re-measurement of assets and liabilities different from technical provisions that are not measured at fair value in the IFRS financial statements;
- the re-measurement at fair value of financial liabilities excluding the change in own credit standing;
- the measurement of technical provisions, including reinsurance recoverables, according to Solvency II specifications;
- the recognition of contingent liabilities in case of specified conditions are met;
- the tax impacts related to the adjustments above.

Hereafter, the main evidences of the Market Value Balance Sheet are reported. For further details please refer to the chapter D.

MVBS	IFRS homogeneous perimeter (a)	Solvency II (b)	Change (b-a)
Goodwill, DAC and intangible assets	10,790	0	-10,790
Deferred tax assets	2,078	1,317	-760
Investments (other than assets held for index-linked and unit-linked contracts)	378,773	387,645	8,872
Government bonds	*174,770*	*174,816*	*45*
Corporate bonds, structured notes and collateralised securities	*138,219*	*139,544*	*1,324*
Property (other than for own use)	*14,025*	*20,823*	*6,798*
Participations	*2,987*	*4,185*	*1,197*
Other Investments	*48,771*	*48,277*	*-493*
Assets held for index-linked and unit-linked contracts	86,978	86,978	0
Reinsurance recoverables	4,491	3,617	-874
Non-life business	*3,181*	*2,486*	*-695*
Life business	*1,310*	*1,130*	*-179*
Other Assets	33,308	34,303	995
Total assets	**516,416**	**513,860**	**-2,557**
Technical provisions	452,051	428,710	-23,342
Life business	*420,704*	*402,547*	*-18,157*
Non-life business	*31,347*	*26,163*	*-5,184*
Subordinated liabilities	8,379	8,931	552
Financial liabilities	5,946	6,385	439
Deferred tax liabilities	2,653	9,296	6,644
Other liabilities	21,211	21,017	-193
Total liabilities	**490,239**	**474,340**	**-15,900**
Excess of assets over liabilities	**26,177**	**39,520**	**13,343**

In particular, the Solvency II life technical provisions increase from 31 December 2016 to 31 December 2017 (+2.2%) is explained mainly by the higher volumes and by the positive economic variances deriving from the revaluation of policyholders' benefits which have been higher than those expected within the Solvency II market consistent framework. The decrease in non-life technical provisions from 31 December 2016 to 31 December 2017 (-7.1%) is mainly due to change in scope (for example, the outward reinsurance of UK branch Asbestos, Pollution and Health Hazard portfolio to extra Group reinsurer via 100% quota share treaty) and updates in model assumptions in some Group companies. Compared to previous year-end valuation, the total technical provisions have not been significantly impacted by the updates in the best estimate operating assumptions.

There are no significant changes to be reported with regard to the valuation of assets and liabilities.

E. Capital management

The Group defines principles for capital management activities of the Parent company and Group Legal Entities.

Capital management activities aim to establish common guiding principles and standards for carrying out management and control procedures of own funds in accordance with the relevant regulatory requirements and legislative frameworks at both Group and Local level, and in line with the level of risk appetite and strategy of the Generali Group. The capital position as of 31.12.2017 is presented in Section E which provides a detailed overview of the structure of Own Funds, as well as components related to Solvency Capital Requirements.

Regulatory Solvency ratio

The strengthening of the solvency ratio of the Generali Group from 178% at YE16 to 207% at YE17 reflects both the increase in the Group own funds (GOF) by 11.1% and the reduction in the SCR reduction by -4.4%, driven by the generation of Solvency II capital and positive financial market trends (in terms of interest rate increase, credit spread reduction and positive equity trend).

Solvency Ratio (Regulatory View)

(€ million)	31/12/2017	31/12/2016	Change
Group Own Funds (GOF)	45,880	41,308	11.1%
Solvency Capital Requirement (SCR)	22,191	23,222	-4.4%
Excess of GOF over SCR	23,689	18,087	31.0%
Solvency Ratio	**207%**	**178%**	**29 pp**

Group Own Funds

The Group Own Funds amount to 45,880 million at 31 December 2017. Compared to the result at 31 December 2016, the Group Own Funds increased by +11.1%, benefitting from the normalised earnings generated by the Group, the positive impact of the financial market conditions, as well as operating variances, both in terms of experience and change in assumptions in the projection model of technical items.

The Generali Group Own Funds are mainly composed by high-quality capital (Tier 1).

Tier 1 counts for 88% of the total (+1 p.p. vs. Year End 2016), Tier 2 represents 12% (-1 p.p. vs Year End 2016), while Tier 3 is basically nil (0.2% at Year End 2017).

Group Own funds by tiering

(€ million)	Total	Tier 1 – unrestricted*	Tier 1 - restricted	Tier 2	Tier 3
Group Own Funds to meet the SCR - 31/12/2017	45,880	36,870	3,603	5,328	79
Group Own Funds to meet the SCR - 31/12/2016	41,308	32,025	3,736	5,407	141
Change	11.1%	15.1%	-3.6%	-1.5%	-44.1%

* Tier 1 includes also Available capital of sectoral entities and the unrealised gains and losses on French Institutions for Occupational Retirement Provision (IORP) business as agreed with the Supervisory Authority.

Solvency Capital Requirement

The Solvency Capital Requirement amounts to € 22,191 mln (€ 23,222 mln at YE16). Main risks are represented by financial and credit risks, which count for 43.4% (38.7% as at YE2016) and 30.0% (35.4% as at YE2016). Life and non-life underwriting risk incidence after diversification is equal to 5.1% (4.4% as at YE2016) and 12.3% (11.9% as at YE2016), respectively.

Regulatory Solvency Ratio without application of Volatility Adjustment

Among possible long-term guarantee measures allowed within the Solvency II framework, Generali Group adjusts the valuation curve used in the technical provisions calculation with the volatility adjustment, to consider the additional return that can be achieved in a risk-free manner by the assets backing insurance liabilities.

The impacts due to the change to zero of the volatility adjustment on solvency position of the Generali Group are reported below.

SCR coverage without application of Volatility Adjustment as of 31.12.2017

(€ million)	SCR Coverage	Impact of VA	SCR Coverage w/o VA
Group Own Funds	45,880	-248	45,632
Solvency Capital Requirement	22,191	5,464	27,654
Solvency Ratio	**207%**		**165%**

Minimum Capital Requirement Coverage

Hereafter the details on the Minimum Capital Requirements coverage at Year End 2017 are reported:

MCR Coverage

(€ million)	31/12/2017	31/12/2016	Change
Group Own Funds to meet the MCR	42,862	38,456	11.5%
Minimum Capital Requirement	17,318	18,460	-6.2%
Excess over the MCR	25,545	19,996	27.8%
Ratio of GOF to MCR	**248%**	**208%**	**39 pp**

In the following table the split by tiering for Eligible Own Funds to meet the MCR is reported:

Group Own Funds to meet the MCR by tiering

(€ million)	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2
Group Own Funds to meet the MCR - 31/12/2017	42,862	35,796	3,603	3,464
Group Own Funds to meet the MCR - 31/12/2016	38,456	31,028	3,736	3,692
Change	11.5%	15.4%	-3.6%	-6.2%

* Tier 1 includes also the unrealised gains and losses on French Institutions for Occupational Retirement Provision (IORP) business as agreed with the Supervisory Authority.

Tier 1 makes up for 92% of the total Own Funds covering the MCR (+2 p.p. vs. Year End 2016) while the remaining 8% comes from Tier 2 capital (-2 p.p. vs YE 2016, reflecting the decrease in the subordinated liabilities).

An indication of the Minimum Capital Requirement Coverage without the Volatility Adjustment is hereafter reported:

MCR coverage without application of Volatility Adjustment as of 31.12.2017

(€ million)	MCR Coverage	Impact of VA	MCR Coverage w/o VA
Group Own Funds to meet the MCR	42,862	-189	42,673
Minimum Capital Requirement	17,318	294	17,611
Ratio of GOF to MCR	**248%**		**242%**

There are no significant changes in the calculation of the capital requirements as well as in the calculation of the own funds for their coverage.

A. Business and Performance

A.1. Business

A.1.1. INFORMATION ON THE GROUP

Assicurazioni Generali S.p.A. is the parent company of the Generali Group, an independent Italian Group, with a strong international presence, established in Trieste in 1831. We are one of the largest global players in the insurance industry, a strategic and highly relevant sector for the growth, development and welfare of modern societies. In almost 200 years, we have built a Group that operates in over 60 countries through more than 400 companies and over 71 thousand employees.

Vision, Mission, Values

Our purpose is to

actively protect and **enhance people's lives**

Actively
We play a proactive and leading role in improving people's lives through insurance.

Protect
We are dedicated to the heart of insurance - managing and mitigating risks of individuals and institutions.

Enhance
Generali is also committed to creating value.

People
We deeply care about our clients' and our people's future and lives.

Lives
Ultimately, we have an impact on the quality of people's lives: wealth, safety, advice and service are instrumental in improving people's chosen way of life for the long term.

Our mission is to be

the **first choice** by **delivering** relevant and **accessible insurance solutions**

First choice
Logical and natural action that acknowledges the best offer in the market based on clear advantages and benefits.

Delivering
We ensure achievement striving for the highest performance.

Relevant
Anticipating or fulfilling a real life need or opportunity, tailored to local and personal needs and habits, perceived as valuable.

Accessible
Simple, first of all, and easy to find, to understand and to use; always available, at a competitive value for money.

Insurance solutions
We aim at offering and tailoring a bright combination of protection, advice and service..

Our **Values**

Deliver on the promise
We tie a long-term contract of mutual trust with our people, clients and stakeholders; all of our work is about improving the lives of our clients. We commit with discipline and integrity to bringing this promise to life and making an impact within a long lasting relationship.

Value our people
We value our people, encourage diversity and invest in continuous learning and growth by creating a transparent, cohesive and accessible working environment. Developing our people will ensure our company's long term future.

Live the community
We are proud to belong to a global Group with strong, sustainable and long lasting relationships in every market in which we operate. Our markets are our homes.

Be open
We are curious, approachable and empowered people with open and diverse mindsets who want to look at things from a different perspective.

Our strategy[2]

2015
SIMPLER AND SMARTER

Increasingly challenging external context

Accelerate

Improve operating performance*

Optimise international footprint

We aim to maintain a diversified global presence by focusing on markets in which we can achieve a significant position and excellent performance. We will therefore dispose of the companies that do not meet specific profitability and future growth requirements in order to invest in those activities that generate higher returns.

Rationalize the operating machine

We are committed to constantly improving the operating machine to maximize the Group's potential, by implementing optimization initiatives such as streamlining the product portfolio, simplifying processes and integrating IT platforms. At the same time, we will invest in new competences enhance those activities that have higher value for stakeholders.

Enhance technical capabilities

We already have strong technical capabilities but to become the best player we will continue with price sophistication, risk selection and claims management in the P&C business while with the continuous improvement in the quality of our products and the capital return optimization in the Life business.

At least € 1 bln
cash proceeds from disposals

€ 200 mln
net reduction in nominal OpEx cost base in mature markets

Best combined ratio
further improvement in outperformance vs peers

Guarantees maximum 0%
on new retail business

Our people

2 All information reported in the document refers to 31 December 2017. Please refer to the Annual Integrated Report and Consolidated Financial Statements 2017 for further information.

2016-2018
SIMPLER, SMARTER. FASTER

> € 7 bln cumulative net operating cash 2015-2018
> € 5 bln cumulative dividends 2015-2018
> 13 % Operating ROE on average 2015-2018

to excellence

Long-term value creation*

Rebalance the insurance portfolio

The share of products with low capital absorption and commission income will be increased so as to generate long-term value while protecting portfolio sustainability and increasing resilience in the face of market volatility.
We aim through the new Asset Management strategy to enhance investment capabilities and offer bespoke investment solutions to European companies and individual savings products.

~30 bp reduction in average portfolio guarantee to 1.5%

+6 pps on the total capital-light reserves

+150 mln Group net profit from Asset Management

Customer and distribution innovation

We will continue to be committed to our laser-like focus on customers and distributors with the introduction of specific, targeted innovations with clear added value.

+ 2 pps
increase in retention

Strengthen the brand

We aim to become the first choice for consumers.
We are focusing on strengthening brand preference in four areas: provide a delighting experience to our customers and distributors; shift to digital marketing channels (web, mobile and social); provide content on how to live a healthier, safer life; enhance the look & feel of our brand, to make it more straightforward, dynamic and likeable.

+ 3%
brand preference in mature markets

Innovation

* The achievement of the targets reported in this chapter is expected by 2018, with the exception of the Asset Management target that is expected by 2020.
The target about the € 200 net reduction in nominal Opex cost base in mature markets has been achieved a year in advance, in 2017.

Group organisation and activities

Group organisation

Generali's organisational model consolidates the role of Group Head Office (GHO) and simplifies its approach to the management and coordination of the Business Units at global level. In line with the Group strategy, it promotes a greater focus on customers in the creation of new products, design of services and activation of distribution channels. The model:

- promotes entrepreneurial skills and local independence;
- promotes the integration of best practices as regards insurance, financial and investment methods, together with activation of Group synergies and focus on operational efficiency at global level;
- pursues functional excellence through the Centers of Expertise set up to support the whole organisation.

The Group's organisational system is based on two pillars: GHO and the Business Units.

GHO provides strategic management at global level and maximises synergies, taking every opportunity to support the business. In particular the GHO functions:

- direct, lead and coordinate the Business Units;
- act as a competence center, ensuring functional excellence and promoting key skills and synergies at Group level;
- lead Group projects.

The Business Units promote entrepreneurship and local independence, providing monitoring at international level based on:

- geographical areas, which lead local strategies and establish a more targeted approach by customer segments in the creation of products, implementation of distribution channels and provision of services;
- global lines, which leverage business opportunities by developing insurance solutions at global level.

The 6 Business Units are represented by:

- 3 main countries (Italy, France and Germany);
- CEE & Russia[3];
- International - consisting of EMEA, Americas, Asia, Europ Assistance and Other companies;
- Investments, Asset & Wealth Management - which includes the main Group entities operating in investment advisory, asset management and financial planning.

Finally, the cluster Holding and other businesses includes the Parent Company's management and coordination activities, including Group reinsurance, other financial holding companies and suppliers of international services not included in the previous geographic areas.

Group activities

The Group operates in the following segments, offering the range of products described below:

Life

In the Life segment, the offer ranges from savings and family protection policies to unit-linked policies and complex plans for multinationals.

Property & Casualty

In the Property & Casualty segment, the well-balanced portfolio goes from mass-market coverage such as Car, Home, Accident & Health, to sophisticated commercial and industrial risk coverage.

The Group is committed to achieving the optimal customer segmentation and enhancing product innovation in order to deliver a targeted approach to customers. Generali aims to be best-in-class for customer retention and satisfaction.

3 Starting from 1st January 2018, the whole cluster Austria shall be considered among CEE countries and not in the EMEA perimeter.

Global business lines & international

Global Corporate & Commercial

GC&C is the new Generali Group unit that develops the P&C business and insurance services for medium and large companies. The unit acts on a global scale and deploys an integrated approach at Group level with a central management team and specialised teams active in individual countries. Through the new unit, Generali aims to become a key world player in this segment.

Generali employee benefits

GEB is the strategic business unit of the Generali Group dealing exclusively with Employee Benefits, offering sophisticated solutions to multinational companies that wish to provide Life, Accident, Disability, Health and Pension cover to their employees. GEB is the global market leader in its business segment with more than 1,500 multinational customers. The GEB network is present in more than 100 countries.

Generali global health

Generali Global Health is a Generali Group business unit that offers health insurance solutions that are valid worldwide, dedicated to international companies, organisations and bodies, and expatriate and travelling employees. With particular focus on multinational customers Generali Global Health offers: modular and flexible health products, insurance management with the broadest geographic coverage, a widespread network of hospitals and outpatient care in the major world markets, and personalised and multilingual customer service.

Europ assistance

Europ Assistance offers Care services with a focus on innovation. Europ Assistance serves more than 300 million people around the world through 8,000 staff and 44 companies and branches in 33 countries. It is the leading global brand for care services.

Investments, Asset & Wealth Management

Coherently with the Group Asset Management Strategy, the Business Unit was established to unify in a single entity the Group's units operating investments, asset management and wealth management.

The new business unit operates in three areas:
- Investment Management: implementation of Asset Liability Management (ALM) and Strategic Asset Allocation (SAA) models for Group Insurance Companies;
- Asset Management: asset management services targeted mainly at insurance customers, with the goal to widen the customer base to third-party customers, both institutional (such as pension funds and foundations) and retail;
- Wealth Management: financial advisory and wealth protection services offered to private customers, mainly through Banca Generali Group.

Holding and other business segment

The holding and other businesses cluster includes the Parent Company's management and coordination activities, including Group reinsurance, other financial holding companies and suppliers of international services not included in the previous geographic areas.

Our reference markets

We are one of the leading insurance companies worldwide, with more than €70 billion in premium income, 66% of which from outside Italy. We offer an extensive line of products in the Life and Property & Casualty segments to meet all the customers' needs, with a multichannel distribution strategy through a global proprietary sales network of agents and financial advisors, supported by brokers, bancassurance and direct channels.

Distribution

The Generali Group operates in the insurance sector with a multichannel distribution strategy through a global proprietary sales network of agents and financial advisors, supported by brokers, bancassurance and direct channels.

Traditional channels

Traditional channels account for most of the Group's premium collection. Generali relies on agencies, financial advisors, brokers and other partners to distribute its products and solutions with a view to providing a convenient and excellent service to customers. Generali adopts optimised sales processes to increase sales effectiveness and profitability. In particular, the Group is streamlining the structure with simplified and modern processes tailored to the customers' needs.

Direct channels

Generali is Europe's leader in direct channels (Internet and telephone) and intends to further improve its position by launching new initiatives in high-growth markets.

- Leader in Italy, where it created, through Genertel, the first Italian online Life, P&C and Pension insurance portal
- Leader in Germany, where it has been present since 1982 through COSMOS Direkt
- Leader in France in the online Life insurance segment
- First operator in Hungary, where Genertel.hu was launched in 2007
- Rapidly growing in Slovakia, where Genertel.sk was launched in 2010, and in Turkey, where the multi-access platform started in 2014.

Bancassurance

Generali plans to enhance its bancassurance channel by maximising the full potential of the existing partnerships as well as exploring new initiatives. Bancassurance will be key in the Life segment to increase the share of capital-light products and in the P&C segment to boost sales.

Global presence

Since the very beginning, our strong international vocation has set us apart and is one of our greatest strengths. Our geographical diversification is balanced between mature countries such as Italy, Germany and France, markets with high growth prospects (Eastern Europe), and emerging countries in Asia and Latin America.

Our international presence is our greatest strength: Generali is a major, Europe-centric company that however is continuing to build its presence selectively, also in Asia and South America.

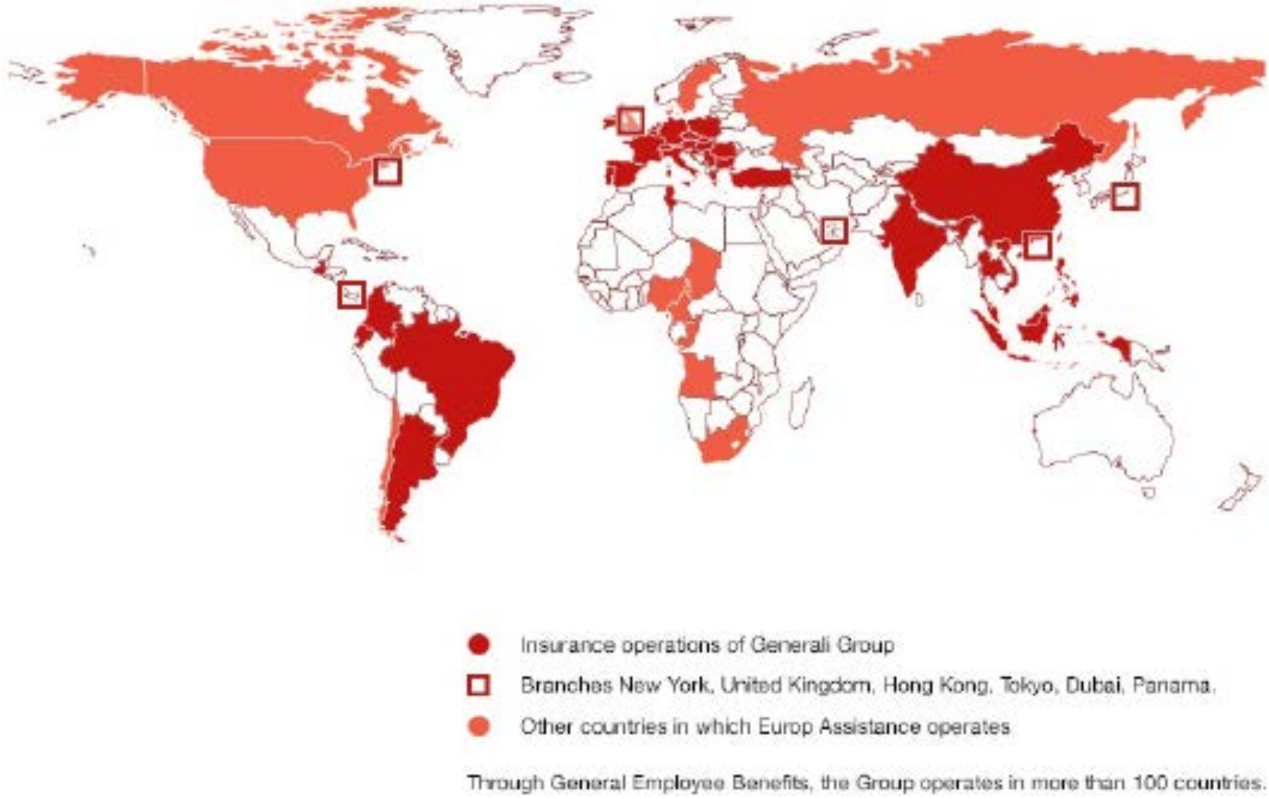
In particular, we are the leading insurer in Italy, the second largest in Germany, and in France we are seventh in the life insurance segment (4.9% of the market) and sixth in the P&C segment (4.6%).

We have a diversified presence in CEE & Russia, where the Group is an undisputed leader in terms of profitability, with a combined ratio among the best in the sector. We are among the top three market leaders in the Czech Republic, Hungary and Slovakia.

Since January 2018 the reorganised Global Lines & International Regions and Countries Unit includes Austria, Spain, Switzerland, Ireland, Guernsey, Dubai, Belgium, Netherlands, and the Asia and Americas & Southern Europe Regions.

With the aim of developing the businesses with global outreach Global Business Lines provide access to integrated insurance and assistance solutions to cover the business risks regarding employees and assets linked to property and people, comprising four units: Generali Global Corporate & Commercial, Generali Employee Benefits, Generali Global Health, and Europ Assistance.

Finally, the Group also operates in the described segments both via legal entities and branches[4] of Assicurazioni Generali.



In the Annex you can find a simplified Group structure.

4 The significant branch - accordingly with article 354 of Delegated Acts - of Assicurazioni Generali is the United Kingdom branch. A description of its activity and main source of income is included in the SFCR of Assicurazioni Generali SpA.

The main indicators for the most important countries and aggregations of countries are presented below:

Italy

Gross written premiums	Total operating result	Life market share	P&C market share	Ranking	Our people
€ 22,836 mln (-3.3%)	€ 1,841 mln (-5.5%)	16.8%	15.3%	1°	12,970

Generali confirms its leadership in the Italian insurance market with a total market share of 16.4% thanks to a complete range of insurance solutions for its customers in both the Life and the P&C segments. At distribution level, over the years Generali has perfected a multi-channel strategy heavily concentrated on agents. It also has a strong position in the P&C and Life direct channel, through Genertel and Genertellife, the first online insurance launched in Italy. Lastly, its partnership with Banca Generali allows it to offer a complete variety of insurance, pension and savings products to its customers.

The Group presents itself to the Italian market with three distinct brands having clear strategic positioning – Generali (retail and SME market), Alleanza (families) and Genertel and Genertellife (alternative channels). During 2017, Generali Italia further developed its simplification programme with the goal of improving the customer experience by simplifying the relationship between customers and agents for the entire process from pre-sales to assistance - and providing more accessible and innovative services.

Germany

Gross written premiums	Total operating result	Life market share	P&C market share	Ranking	Our people
€ 16,005 mln (-1.4%)	€ 827 mln (-2.4%)	9.6%	5.5%	2°	11,467

Generali Deutschland is the second insurance group in Germany in terms of total premium income. Its market share is 5.5% in the P&C segment and 9.6% in the Life segment (also including the healthcare business), with leadership positions particularly in the unit-linked and protection and corporate pension plans business lines, and in the direct channel.

France

Gross written premiums	Total operating result	Market share	Ranking	Our people
€ 11,799 mln (+8.1%)	€ 744 mln (+6.0%)	Life 5.1% P&C 4.7% A&H 6.3%	Life 7° P&C 6° A&H 5°	7,145

Generali France is a major player on the French market, with a multi-channel distribution network approach of agents, employed sales persons, brokers, financial advisors, banks, direct channels and affinity groups. The variety of the distribution channels reflects the features of the market and of the type of products distributed. This approach gained momentum after the Customer centric reorganisation occurred in 2014, based on the creation of 4 separate customer areas (Individual, Affluent, Professional & SME and Commercial). Another distinguishing element of Generali in the territory is its leadership in the Internet savings segment thanks to the excellence of the services provided and its important partnerships.

CEE includes Czech Republic (Cz), Poland (Pl), Hungary (Hu), Slovakia (Sk), Serbia, Montenegro, Romania, Slovenia, Bulgaria and Croatia.

Gross written premiums	Total operating result	Life market share	P&C market share	Ranking	Our people
€ 3,600 mln (+1.3%)	€ 481 mln (+4.3%)	Cz: 24.8% Hu: 10.2% Sk: 7.7% Pl: 3.9%	Cz: 32.4% Hu: 19.1% Sk: 11.2% Pl: 3.7%	Cz: 2° Hu: 1° Sk: 3° Pl: 8°	11,626

Generali CEE Holding is one of the biggest insurers in the Central Eastern European market. The Group ranks first in Hungary, second in the Czech Republic and Serbia, third in Slovakia and among the top ten in the other countries.

In terms of volumes, main insurance markets are Czech Republic, Poland, Hungary and Slovakia. The contribution of the minor markets has improved during the last years, resulting in an increase of the premium income on the total volume of the area.

Generali CEE is the best in the entire region and of the Group by technical profitability, with a medium-long term Combined Ratio at below 90%.

Global Business Lines & International

In 2017, this business unit realises premiums amounting to € 16.3 billion and an operating result of € 1.2 billion. It is also the largest in terms of size, comprising over 20 countries grouped into three regions (Asia, Americas and EMEA) and four global business lines (GBL) of the Generali Group. The approach best suited to satisfying specific clusters of our customers is developed through GBL, in particular:

- Global Corporate and Commercial (GC&C): offers P&C insurance and services solutions to medium-large companies and brokers in over 160 countries around the world. Thanks to its solid global experience, knowledge of the local markets and the corporate sector, the unit offers integrated and personalisable solutions in property, casualty, engineering, marine, aviation and speciality risks. Through its experts in Multinational Programs, Claims and Loss Prevention, GC&C guarantees companies the same level of assistance and protection over the world.
- Generali Employee Benefits (GEB): strategic business unit of the Group present in more than 100 markets that deals with benefits for employees (local and expatriate), offering sophisticated solutions to multinational companies that want to protect their human capital with Life, accident, disability and health coverage and pension products.
- Generali Global Health (GGH): offers health insurance coverage all over the world to companies, international organisations and individuals needing to gain access to the best medical treatment without geographical boundaries. The products offered are distinguished by direct benefits and compensation, without prior disbursement by the policyholder, a modular and flexible structure and access to its network of over 1 million healthcare facilities;
- Europ Assistance (EA): major global brand for the assistance services focussed on innovation.

Global Business Lines & International is one of the growth engines for the Generali Group. The sections regarding the single regions are presented below.

EMEA includes Austria (At), Belgium, Greece, Guernsey, Ireland, Portugal, Spain (Es), Switzerland (Ch), Tunisia, Turkey and Dubai.

Gross written premiums	Total operating result	Life market share	P&C market share	Ranking	Our people
€ 8,688 mln (-2.5%)	**€ 896** mln (+8.6%)	Es: **3.3%** Ch: **3.7%** At: **13.8%**	Es: **4.5%** Ch: **5%** At: **16.2%**	Es: **8°** Ch: **8°** At: **3°**	**9,693**

The Group's main EMEA markets are Spain, Switzerland and Austria. In these territories the implementation of strategic initiatives focused on improving customer centricity and the quality of service offered is on-going, with the aim to develop smart and innovative solutions in coherence with the Group strategy. An agreement to sell the entire stake in Generali PanEurope was signed in December, and the sale of the assets that the Group held in the Netherlands was finalised in February 2018. These transactions are part of the Generali Group's strategy to readjust its geographical presence.

Americas includes Argentina, Brazil, Colombia, Chile, Ecuador, Panama and the USA.

Gross written premiums	Total operating result	Life market share (Argentina)	P&C market share (Argentina)	Ranking (Argentina)	Our people
€ 1,420 mln (+8.3%)	€ 62 mln (-36.5%)	5.8%	5.9%	Life 3rd P&C 4th	3,432

Argentina, where Generali ranks as the fourth operator, is the major market for the Group in this region. Brazil is the second most important country. The Group also operates in Chile, Ecuador and the USA. During 2017, agreements were reached to sell Colombia and Panama and they will be finalised in 2018.

Asia includes China, Indonesia, India, Hong Kong, Vietnam, Thailand, the Philippines, Malaysia and Japan.

Gross written premiums	Total operating result	Life market share (Cina)	P&C market share (Cina)	Ranking (Cina)	Our people
€ 2,359 mln (-3.8%)	€ 39 mln (+21.0%)	7%	2.6%	Life 4th P&C 10th	4,738

The group has been present in Asia since the 1980s. It is currently operating in China, Indonesia, the Philippines, Hong Kong, Japan, Thailand, Vietnam, India and Malaysia. The companies present in these last two countries, as well as the Chinese company operating in the P&C segment, are not consolidated line-by-line as the relative shareholdings are not controlling. Hong Kong is also home to the regional office, which coordinates the entire area's activities.

The Life income comes from China, Indonesia, Hong Kong, the Philippines, Thailand, Vietnam and India, and is concentrated primarily in the savings and protection segments and, to a lesser extent, the unit-linked segment. The P&C income, on the other hand, comes from China, India, Malaysia, Hong Kong, Thailand and Japan, with a premium volume which is in any event limited with respect to total income in the Region.

The banking and agency channels are enjoying rapid development, especially in China, and are the main distribution channels. The direct channel is still in the initial phases of development in China and Thailand. The main contributor in terms of sales and profit in the Region is the Chinese Life company, Generali China Life, a joint venture with the local partner CNPC, which today has become one of the top foreign insurance groups on the market.

Consolidation perimeter

The Group operates in over 60 countries through 423 companies. For Group IFRS consolidation purposes 388 companies are consolidated line by line and 35 valued at equity method.

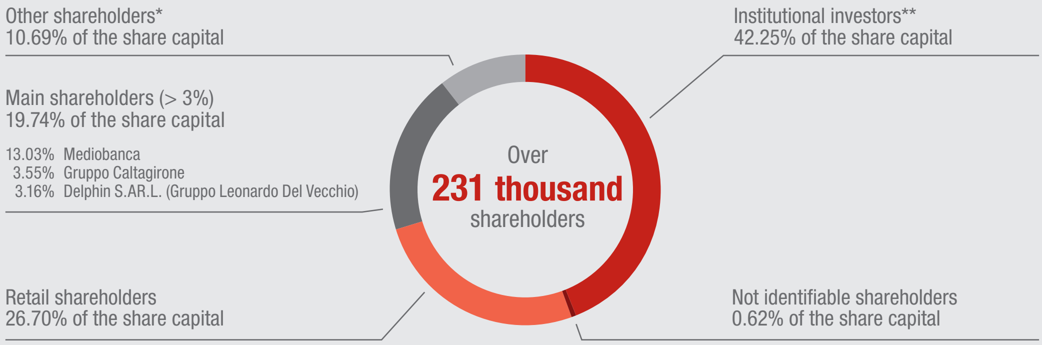
The consolidation perimeter for the Solvency II Balance Sheet is different reflecting the presentation rules mainly for the entities of other financial sectors (financial and credit institutions, IORP and UCITS) which are not consolidated line by line but classified as participations valued at:

- quoted market price for listed entities (currently only Banca Generali); or
- adjusted IFRS equity method.

For more detailed information please refer to Group QRT S.32.01.22 'Undertakings in the scope of the Group', in the Annex section of this document.

A.1.2. Ownership structure

Our shareholder structure as of 31 December 2017 as well as a list of our significant shareholders is reported below.



* The category takes account of legal entities including Foundations, Trust Companies, Religious Institutions.
** The category includes Asset managers, Sovereign Funds, Pension Funds, Life Insurers.

The data are updated as at 31 December 2017.

List of significant shareholders (exceeding 3% of the capital)

Group	n° shares	% shareholders' equity	Registered office
MEDIOBANCA	**203,544,760**	**13.030%**	**Piazzetta Enrico Cuccia 1 20121 Milano**
Gruppo Caltagirone	**55,500,000**	**3.550%**	
CALTAGIRONE EDITORE S.P.A.	3,350,000	0.210%	Via Barberini 28 Roma 00187
ECHETLO S.R.L.	400,000	0.030%	Via Barberini 28 Roma 00187
F G C S.P.A.	520,000	0.030%	Via Barberini 28 Roma 00187
FINANZIARIA ITALIA 2005 S.P.A.	2,650,000	0.170%	Via Barberini 28 Roma 00187
FINCAL S.P.A.	17,450,000	1.120%	Via Barberini 28 Roma 00187
FINCED S.R.L.	2,350,000	0.150%	Via Barberini 28 Roma 00187
Francesco Gaetano CALTAGIRONE	115,000	0.010%	Via Ulisse Aldrovandi 25 Roma 00197
GAMMA S.R.L.	6,365,000	0.410%	Via Barberini 28 Roma 00187
MANTEGNA 87 S.R.L.	2,700,000	0.170%	Via Montello 10 Roma 00195
PANTHEON 2000 S.P.A.	4,100,000	0.260%	Via Barberini 28 Roma 00187
QUARTA IBERICA S.R.L.	1,650,000	0.110%	Via Barberini 28 Roma 00187
SO.CO.GE.IM. S.P.A.	100,000	0.010%	Via Barberini 28 Roma 00187
SO.FI.COS. S.r.l.	4,750,000	0.300%	Via Montello 10 Roma 00195
Viapar S.r.l.	1,100,000	0.070%	Via Montello 10 Roma 00195
VM 2006 S.R.L.	7,900,000	0.510%	Via Barberini 28 Roma 00187
DELFIN S.A.R.L.	**49,342,000**	**3.160%**	**7 Rue de la Chapelle, 1325 Luxembourg, Lussemburgo**

A.1.3. Detailed information on the Group, supervisory authority and external auditor

Parent Company References:
Assicurazioni Generali S.p.A.

Parent Company of Generali Group, entered in the Register of Italian Insurance groups under no. 026.
Company established in Trieste in 1831, with share capital of €1,559,883,538.00 fully paid-up.
Registered Office in Trieste (Italy), Piazza Duca degli Abruzzi 2.
Register of Italian Insurance and Reinsurance Companies under no. 1.00003.
Tax code, VAT reg. no. and Trieste Companies' Register no. 00079760328
Phone: +39 040 671111
Fax: +39 040 671600
E-mail: contact@generali.com

Name and contact details of the supervisory authority:
IVASS – Istituto per la vigilanza sulle assicurazioni

Address: Via del Quirinale 21, 00187 Rome
Phone number: +39 06 421331
e-mail: scrivi@ivass.it

Name and contact details of the external auditor:
EY S.p.A.

Registered office: Via Po, 32 - 00198 Rome
Share capital €3,250,000.00 underwritten and €2,950,000.00 fully paid-up
Registered in the Ordinary Section of the Chamber of Commerce Business Register in Rome
Tax code and registration number 00434000584 - R.E.A. number 250904
VAT number 00891231003
Company registered in the Register of external auditors under no. 70945 published in Suppl. 13 - IV Special Series of the Official Gazette dated 12/17/1998.
Company registered in the Special Register of Consob external auditors under no. 2, pursuant to resolution no. 10831 dated 07/16/1997.

A.1.4. Important events

January

On 25 January, the Board of Directors of Assicurazioni Generali terminated its employment contract with Alberto Minali and appointed Luigi Lubelli as Group CFO, who also joined the Group Management Committee. It also decided that the Investments Committee would expand its responsibilities to strategically relevant operations, so its name was changed to the Investments and Strategic Operations Committee.

Marco Sesana, Country Manager of Italy, and Timothy Ryan, incoming Group Chief Investment Officer, became members of the Group Management Committee.

On 23 January, Assicurazioni Generali communicated that it had acquired voting rights on 505 million shares of Intesa Sanpaolo S.p.A., equal to 3.01% of the share capital, through a securities lending transaction.

February

Generali Finance B.V. exercised the early redemption option on the perpetual subordinated bond on 8 February for an amount totalling € 869 million. This debt had already been refinanced through the subordinated bond, concluded on 8 June 2016, for an overall amount of € 850 million, targeting institutional investors.

March

On 15 March, the Board of Directors of Assicurazioni Generali approved the appointment of Aldo Mazzocco as the new CEO and General Manager of Generali Real Estate; he became a member of the Board of Directors of Generali Real Estate in June.

The new Charter of Sustainability Commitments of the Group was approved by the Board of Directors of Assicurazioni Generali. This document outlines the position of Generali with respect to sustainability as well as its commitments to stakeholders.

April

On 20 April, Assicurazioni Generali completed the share capital increase in execution of the Long Term Incentive Plan approved by the Shareholders' Meeting of the Company on 30 April 2014. The share capital of Assicurazioni Generali, fully subscribed and paid up, is subdivided into 1,561,808,262 ordinary shares of € 1 each (par value).

On 26 April - and following Fitch's recent downgrade of Italy's sovereign rating to 'BBB' from 'BBB+', with Stable Outlook - the agency announced that it has affirmed Generali's and its subsidiaries' IFS ratings at A-. The Outlooks are Stable. Fitch explained that the ratings are two notches higher than Italy's sovereign rating (BBB/ Stable), "in recognition of Generali's resilient capital position and strong geographical diversification (with around 60% of operating result from outside Italy), including significant operations in France and Germany with strong market positions".

On 27 April, the ordinary and extraordinary Shareholders' Meeting of Assicurazioni Generali appointed the Board of Statutory Auditors for the three-year period 2017-2019, electing Carolyn Dittmeier (Chairwoman), Lorenzo Pozza and Antonia Di Bella as auditors and Francesco Di Carlo and Silvia Olivotto as substitute auditors. The members of the Board of Statutory Auditors declared that they met the conditions of professionalism, respectability and independence.

May

The new strategy for the Asset Management division was announced on 11 May. The objective is to address the needs of insurance companies and individuals in a low interest rate environment and supporting Generali's shift towards a greater contribution from fee-based business. The new Asset Management strategy is based on two pillars: broadening the investment capabilities and offering bespoke investment solutions to European companies and savings products to individual clients. This division will broaden investment capabilities and enlarge product offering to reach € 500 billion of assets under management by 2020.

On 30 May, Assicurazioni Generali sold 510 million ordinary shares of Intesa Sanpaolo S.p.A., amounting to 3.04% of the share capital, and which had been acquired in January. At the same time, Generali ended the collateralized derivative transaction, settled on 17 February, in order to fully hedge the economic risk related to the acquisition of these shares. The Generali Group maintains a marginal exposure to Intesa Sanpaolo shares as an ordinary financial investment.

June

Effective as of 1 June, Jean-Laurent Granier joined the Generali Group as Country Manager and Président Directeur Général (PDG) of Generali France. He also joined the Group Management Committee. Eric Lombard resigned from the Group.

July

Generali returned to the Insurance Linked Securities (ILS) market with a € 200 million catastrophe bond on floods and windstorms in Europe and earthquakes in Italy, through a reinsurance agreement with Lion II Re DAC, an Irish special purpose company, providing per occurrence cover in respect to any mentioned events which occur to the Generali Group over a four-year period. The Lion II Re transaction transfers part of these risk to the bond investors allowing for a more optimized protection for the Group against catastrophes.

On 19 July, an agreement was signed for the transfer of the shareholding in the Colombian companies*, equivalent to 91.3% of Generali Seguros and to 93.3% of Generali Vida. The operation is subject to approval from the competent authorities. The sale of the shareholding in the Guatemala subsidiary* was also completed.

August

On 1 August, the Board of Directors of Assicurazioni Generali appointed Nora Gürtler as Head of Group Audit as from 1 October.

On 7 August, an agreement for the sale of its assets in Panama* was undersigned. The operation is subject to approval from the competent authorities.

September

On 13 September, an agreement for the transfer of the entire shareholding in Generali Nederland N.V.* was undersigned with an initial compensation of € 143 million, subject to adjustment on the closing date of the operation as well as approval, inter alia, from the competent authorities. The operation was completed in February 2018.

On 28 September, the subsequent phase of industrial transformation of Generali Deutschland was initiated in order to strengthen operational performance and increase value creation in the long term.

October

On 18 October, the Board of Directors of Assicurazioni Generali deliberated in favour of the entry - within the Group Management Committee - of Isabelle Conner, Group Chief Marketing & Customer Officer, and of Monica Alessandra Possa, Group Chief HR & Organization Officer; it also deliberated in favour of the mutually agreed resignation of Valter Trevisani, Group Chief Insurance Officer.

The Human Safety Net, a new Group initiative for the community, was launched.

November

In Paris, the Argus de l'Assurance digitale award within the "Best mobile strategy" category was received for the Mobile Hub product, a mobile app launched internationally and known in France as Mon Generali. The award, assigned by one of the most prestigious specialized magazines, L'Argus de l'Assurance, is in recognition of the Group's commitment to realize its strategic plan with an increasingly digital and innovative approach which will render Generali simpler, smarter, faster.

December

On 18 December, an agreement for the transfer of the entire shareholding in Generali PanEurope* was undersigned with an initial compensation of € 230 million, subject to adjustment on the closing date of the operation. The operation is subordinate, inter alia, to approval from the competent authorities and its completion is expected within the first half of 2018.

An agreement for the transfer of the run off P&C portfolio of the British subsidiary was signed on 19 December.

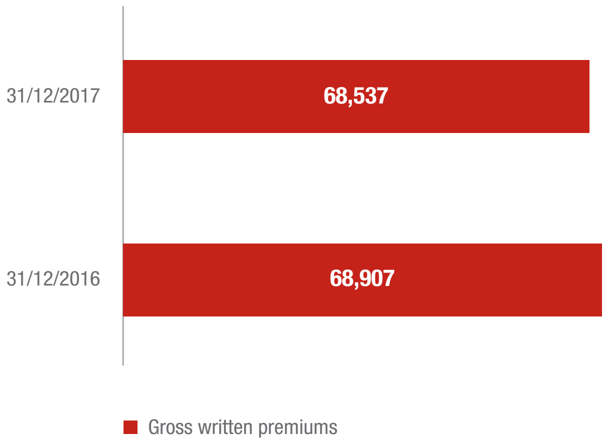
The Board of Directors approved the creation of a new position, the Group Chief Operations & Insurance Officer, effective as of 1 January 2018. The responsibility for this function - which integrates the activities of the Operations division with those of the Insurance Officer, in addition to directly reporting to the Group CEO - has been entrusted to Jaime Anchustegui Melgarejo, previously manager of the EMEA division; he will therefore become a member of the Group Management Committee.

* The operation is part of the Group's strategy to optimize its geographic presence as well as improve operational efficiency and the allocation of capital.

A.2. Underwriting performance

A.2.1. Our performance[5]

Total gross written premiums



The **Group's gross written premiums** total € 68,537 million (-0.2%), reflecting performance of the Life segment (-1.0%), while P&C (+1.7%) confirms the development observed in 2017.

With reference to the lines of business, **Life gross written premiums** amount to € 47,788 million (-1.0%); in line with the strategic goal of pursuing the more selective underwriting policy, premiums of savings products decrease by 11.6%, especially in Italy, Asia, Germany, Spain and France. The above-mentioned targeted rebalancing in favour of products offering better risk-return terms bright about an increase in both unit-linked products (+22.4%) widespread in the Group's areas of operations and especially in Italy (+57.3%) and France (+52.1%), and in the protection line (+7.0%).

P&C premiums amount to € 20,749 million, 1.7% higher because of the positive performance of both business lines. Development of the motor segment (+3.0%) is driven by the growth recorded in Germany (+4.2%), CEE Countries (+3.2%), Spain (+3.8%), the Americas region (+25.7%) and France (+2.6%), which more than offset the drop in motor premium income in Italy (-4.5%) after the average premium fell and after the measures taken to recover the returns of the portfolio. Also non-motor premium income is up (+0.9%) as it is mainly supported by development in the CEE Countries (+3.6%), in the EMEA region (+2.6%) and by Europ Assistance (+14.0%), while Italy, even if it is recovering from the drop seen in 2017, is down by 1.8%, mostly due to the reduction in income of the Global Corporate & Commercial lines, and France falls 2.0% because of the weak market conditions in the commercial and construction.

5 This figures are based on IFRS accounting principles. For definition of operating segments, please refer to Group Integrated Report 2017, available on the corporate web page.

Total gross written premiums

(€ million)	Total gross written premiums	
	31/12/2017	31/12/2016
Italy	22,836	23,612
France	11,799	10,920
Germany	16,005	16,227
Central and Eastern Europe	3,600	3,490
International*	14,215	14,576
EMEA	8,688	8,960
Spain	2,427	2,502
Austria	2,592	2,568
Switzerland	1,817	1,883
Other EMEA	1,852	2,007
Americas	1,420	1,308
Asia	2,359	2,578
Europ Assistance	753	681
Other	996	1,048
Group holding and other companies	82	83
Total gross written premiums	**68,537**	**68,907**

* Total gross written premium for GBL &International, taking into consideration the Global Business Lines business underwritten in the various countries amounted to € 16,324 million. Overall, the Global Business Lines recorded € 4,102 million in premiums from:
- Global Corporate&Commercial € 1,887 million;
- Generali Employee Benefits and Generali Global Health € 1,362 million; and
- Europ Assistance € 753 million.

Operating result[6]

The **Group's operating result** amounts to € 4,895 million, up by 2.3% (€ 4,783 million at 31 December 2016), which reflects the positive performance of the Life and Holding and other businesses segments. The operating result of the P&C segment is confirmed solid regardless of the bigger impact of catastrophe claims.

The **operating return on equity**, the Group's main economic profitability target, come to 13.4% (unchanged compared with the 31 December 2016 figure), confirming the achievement of the strategic target (>13%).

Total operating result by segment

(€ million)	31/12/2017	31/12/2016
Total operating result	**4,895**	**4,783**
Life segment	3,141	3,084
Property&Casualty segment	1,972	2,073
Holding and other business	59	-74
Consolidation adjustments	-278	-300

6 For operating result definition please refer to the Group Integrated Report 2017, available on the corporate web page. The 2016 comparative figures were likewise reclassified. For further information, refer to the paragraph Changes in the presentation of the performance indicators of the Group in the Notes on the Management Report.

In particular, the Life result, € 3,141 million, increases by 1.8% due to the performance of the investment result that benefits from higher realised gains and lower impairments. Technical performance net of insurance and other operating expenses instead fall.

The P&C operating result, which amounts to € 1,972 million, drops by 4.9% as it reflects on the one hand the bigger impact of the catastrophe for € 124 million (including the US hurricanes in August and September and the storms that struck central Europe in July and August) and, on the other, the lower contribution of financial result in a context of a continuing low level of interest rates. The combined ratio come to 92.8%, ranking number one amongst our peers, consistent with the Group's strategic policy of technical excellence.

Improvement of the operating result of the Holding and other businesses segment, which totals € 59 million (€ -74 million at 31 December 2016), reflects the excellent performance of Banca Generali, the reduction in holding operating costs and the positive result of the other asset management and real estate businesses.

Operating result by country

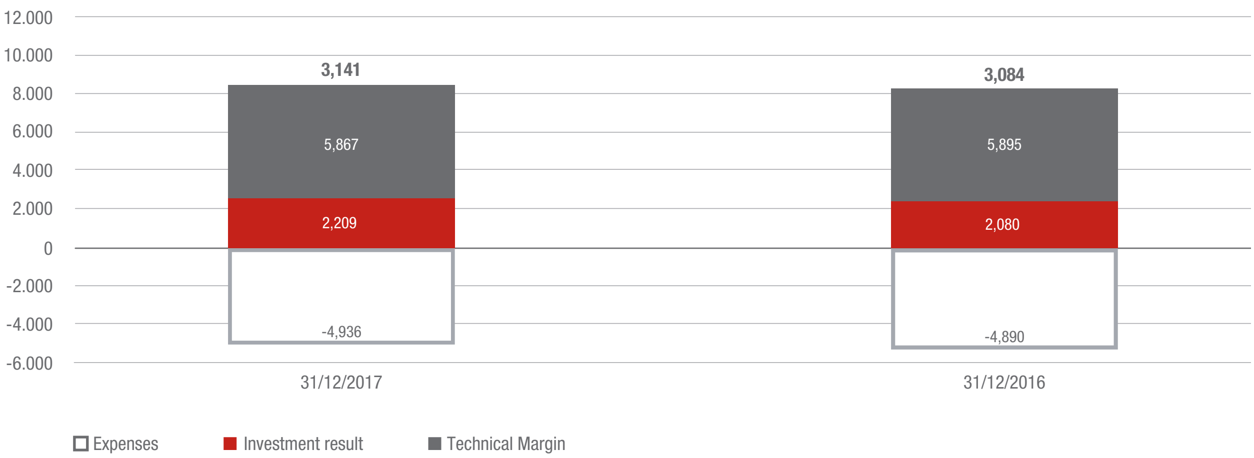
(€ million)	31/12/2017	31/12/2016
Italy	1,841	1,948
France	744	701
Germany	827	847
Central and Eastern Europe	481	461
International*	1,067	1,120
EMEA	896	825
Americas	62	98
Asia	39	32
Europ Assistance	88	90
Other	-18	76
Investments, Asset & Wealth Management **	468	321
Group holding and other companies	-532	-615
Total Group	**4,895**	**4,783**

* Adding to the abovementioned total International the part of the business related to the Global Business Lines "Global Business and Commercial" also signed in the countries, the total operating result for GBL & International amounts to € 1,19 1 million.

** Adding to the abovementioned total Investments, Asset & Wealth Management also the result of AM of the Central and Eastern European countries, the total operating amounts to € 482 million.

Life operating result

The **Life operating result** come to € 3,141 million, up 1.8% over the € 3,084 million of year-end 2016. The development of the investment result is particularly positive. It is offset in part by the decrease of the technical margin net of acquisition and administration costs.



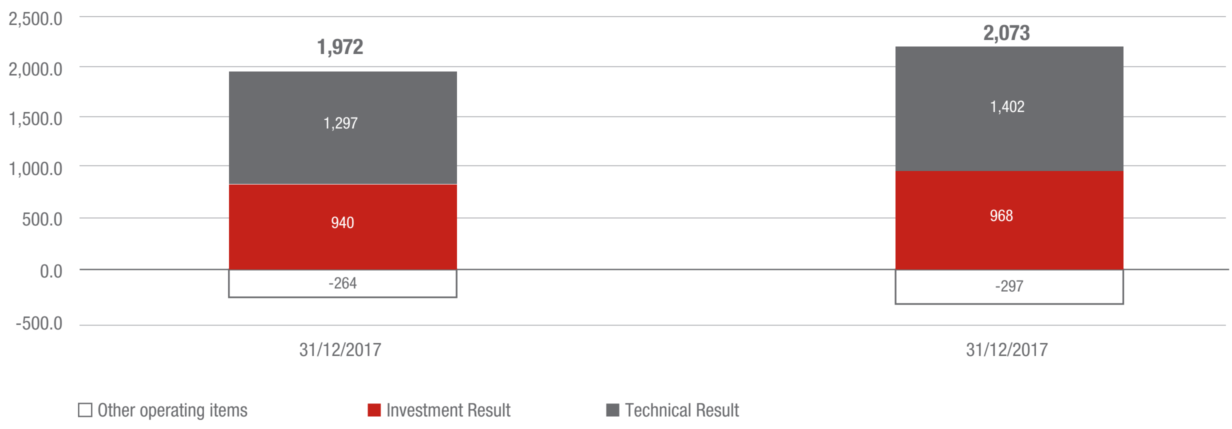
The **technical margin**, which totals € 5,867 million, shows a slight decrease due to the positive results on some portfolios recorded in 2016 and not repeated this year. This margin does not include the insurance and other operating expenses, reported under the item total operating expenses.

The **net investment result**, amounting to € 2,209 million, is up (+6.2%) on the € 2,080 million recorded at 31 December 2016. This performance was particularly bright about by the growth in net realized gains and reduced net impairment losses. This is partially offset by the decrease in current income from investments in equity and bonds due to continuation of the low interest rates in general.

The **acquisition and administration costs** related to insurance business and the other operating expenses have increased from € -4,890 million at 31 December 2016 to € -4,936 million. More specifically, acquisition and administration costs related to insurance business stands at € -4,817 million, basically in line with last year. Acquisition costs, which totals € -3,803 million, fall by -1.3%, reflecting the general decrease in the different countries where the Group operates. They are particularly rising in France consistently with the trend in premiums, and in Asia following the targeted changed business mix of the portfolio, while they are decreasing in Germany, CEE and EMEA. Administration costs rise, amounting to € -1,014 million (+4.8%).

Property and casualty Operating result

The **P&C operating result** stands at € 1,972 million (€ 2,073 million at 31 December 2016). The decrease observed (-4.9%) is mainly influenced by the increased impact of catastrophe claims for € 124 million.



The **technical result** stands at € 1,297 million, down compared to 31 December 2016 (-7.5%). This result includes the impact of catastrophe claims for about € 416 million, which mainly come from the US hurricanes and from the storms that struck Central Europe. Similar events had an impact of approximately € 293 million at 31 December 2016. The technical margin is negatively affected also by the increase in the acquisition costs following development of the premium volume previously remarked on, while the maintenance expenses decrease.

The **investment result** in the P&C segment amounts to € 940 million, down compared to 31 December 2016 (-2.9%). In particular the current income from investments amounts to € 1,224 million (€ 1,252 million at 31 December 2016); this decrease is mainly attributable to the continuing context of low interest rates. However, the actions by the Group meant that it could achieve a current return of 3.1% (3.2% at 31 December 2016).

Other operating items of the Property&Casualty segment, which primarily include non-insurance operating expenses, depreciation and amortisation of tangible assets and multi-annual costs, provisions for recurring risks and other taxes, are down to € -264 million (€ -297 million at 31 December 2016) mainly due to lower operating allocation to the risk provisions.

Non-operating result

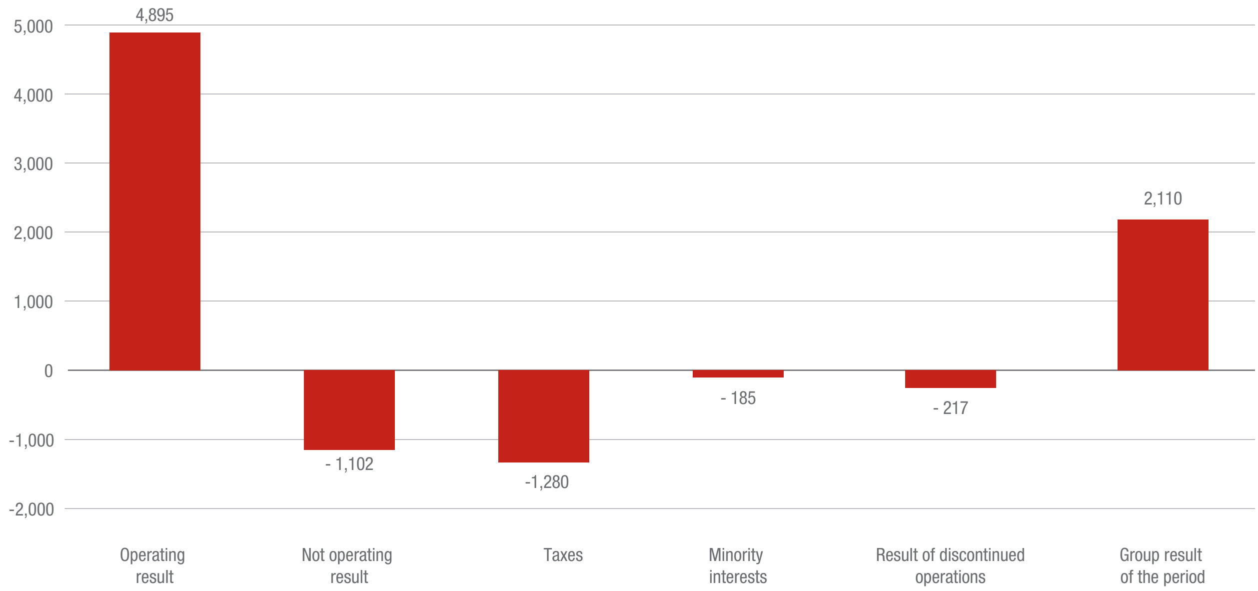
The non-operating result of the Group goes up to € -1,102 million (€ -1,526 million at 31 December 2016). In particular:

- **net impairment losses** drop to € -271 million (€ -543 million del 31 December 2016) due to lower impairments on equities and bonds;
- **net realised gains** stand at € 331 million (€ 425 million at 31 December 2016), down mainly due to the lower profits from real estate and equity portfolios;
- **net non-operating income from financial instruments at fair value** increases to € 26 million (€ -96 million at 31 December 2016);
- **other net non-operating expenses** decreases to € -432 million (€ -518 million al 31 December 2016). This item consists of € -106 million relating to the amortization of the value of acquired portfolios

(€ -139 at 31 December 2016), € -297 million in restructuring costs (€ -176 at 31 December 2016), of which about € 170 million regarding the announced phase of industrial transformation to strengthen the operating performance in Germany, and € -29 million in other net non-operating expenses (€ -204 million at 31 December 2016), which benefits from € 196 million in income from the sale of the P&C portfolio in run-off of the UK branch that took place in December;

- **non-operating holding expenses** amount to € -756 million (€ -794 million at 31 December 2016), reflecting the drop in interest expense on financial debt which went from € -723 million to € -673 million.

Group result

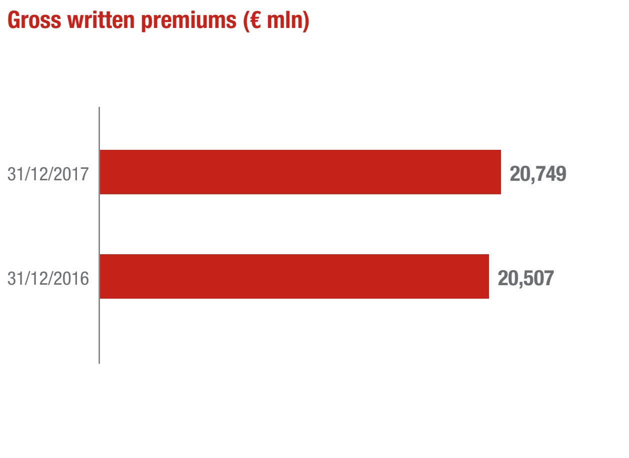


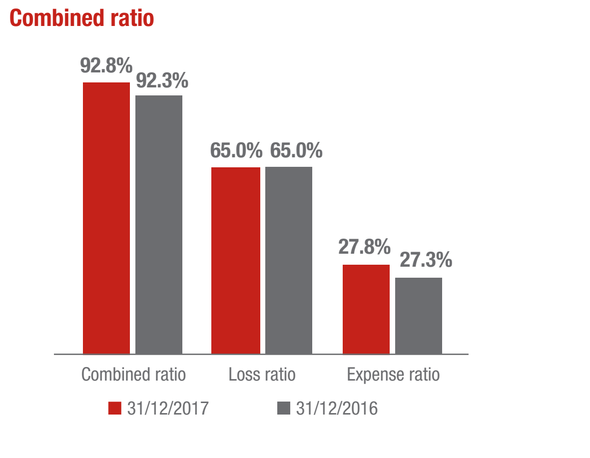
The **result for the period attributable to the Group** stands at € 2,110 million, showing an increase of 1.4% over the € 2,081 million recorded at 31 December 2016 and reflects:

- the improvement of the operating result and the development of the non-operating result noted above;
- the result of discontinued operations of € -217 million which includes the impairment of Dutch operations and the profit for the period deriving from said activities, plus the profit coming from the Irish company being discontinued;
- the increase in taxes, the tax rate of which come to 31.8% (29.4% at 31 December 2016), basically caused by the extraordinary additional tax introduced in France for 2017 for about € 40 million and the one-off substitute tax imposed by the US government on undistributed profits of the foreign investees of € 52 million. Last year the tax rate benefitted from the reduced nominal tax rate on corporate income in Spain, as well as extraordinary income recognised in Germany against lower taxes on previous years;
- the **result attributable to minority interests**, amounting to € 185 million, which corresponds to a minority rate of 8.1% (7.1% at 31 December 2016), an increase when compared to € 158 million in the previous year due to the results of Banca Generali.

A.2.2. Underwriting performance[7]

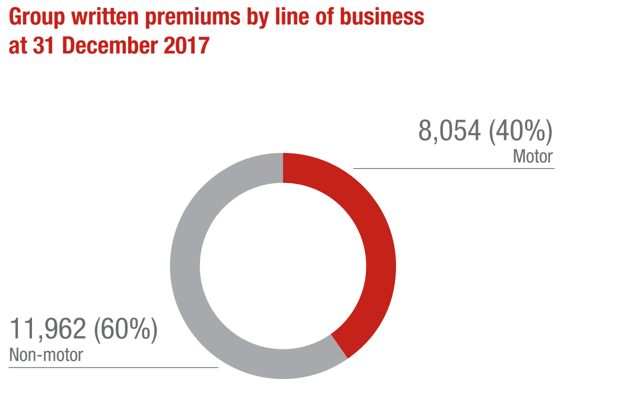
Property & Casualty segment

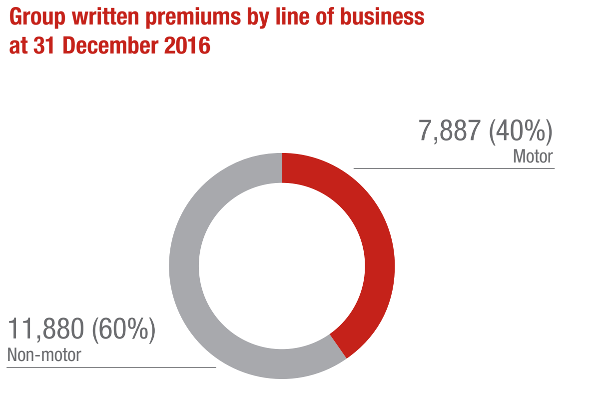




Property & Casualty gross written premiums

P&C premiums amount to € 20,749 million, 1.7% higher because of the positive performance of both business lines. Development of the motor segment (+3.0%) is driven by the growth recorded in Germany (+4.2%), CEE countries (+3.2%), Spain (+3.8%), the Americas region (+25.7%) and France (+2.6%), which more than offset the drop in motor premium income in Italy (-4.5%) after the average premium fell and after the measures taken to recover the returns of the portfolio. Also non-motor premium income is up (+0.9%) as it is mainly supported by development in the CEE countries (+3.6%), in the EMEA region (+2.6%) and by Europ Assistance (+14.0%), while Italy, even if recovering from the drop seen in 2017, is down by 1.8%, mostly due to the reduction in the Global Corporate & Commercial lines. France falls 2.0% because of the weak market conditions in commercial and construction.





7 Figures reported are based on IFRS standards. For the definition of operating segments, please refer to the Annual Integrated Report 2017, available on the Group web site.

The geographical footprint of the Property & Casualty premium income is summarised in the table below:

(€ million)	Gross written premiums		Gross direct written premiums			
			Motor		Non Motor	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Italy	5,537	5,701	2,086	2,184	3,330	3,390
France	2,520	2,514	862	840	1,591	1,624
Germany	3,708	3,651	1,489	1,429	2,215	2,219
Central and Eastern Europe	2,145	2,041	1,103	1,052	1,003	952
International	6,775	6,539	2,511	2,374	3,781	3,662
EMEA	4,332	4,262	1,629	1,608	2,651	2,597
Spain	1,490	1,461	465	448	986	972
Austria	1,481	1,441	576	561	897	871
Switzerland	744	761	291	310	451	449
Other EMEA	617	600	297	290	317	305
Americas	1,128	1,036	848	749	277	278
Asia	204	198	13	16	90	90
Europ Assistance	753	681	21	0	610	551
Other	359	361	0	0	153	145
Group holding and other companies	63	60	3	8	41	33
Total Group	**20,749**	**20,507**	**8,054**	**7,887**	**11,962**	**11,880**

In **Italy**, premium income decreases mainly because of the motor segment (-4.5%), which suffered the drop in new business linked to the profitability recovery policy in a market still going through a profitability crisis. The negative trend of non-motor segment (-1.8%) has to be entirely conducted to the Corporate and SME sector which is affected by strong competition on a soft market. The healthcare line grow thanks to the development initiatives that also led to the creation of Welion, a new company active in corporate welfare.

The increase in **Germany** is attributable to the positive performance of the motor segment (+4.2%) that mainly benefits from the tariff policies on the existing portfolio, while the non-motor segment records a slight drop (-0.2%) linked to the reduction seen in the accident, healthcare and disability line.

France records a slight increase in P&C income thanks to the motor segment (+2.6%) by virtue of the actions aimed at increasing both the number of policies in the portfolio and the average premium. The non-motor segment (-2.0%) instead suffers from the weak market conditions in commercial and construction.

The 3.4% increase in P&C income in **Central and Eastern Europe** is attributable to both segments. The motor segment (+3.2%) benefits from the tariff policies on the existing portfolio, while the nonmotor segment records 3.6% growth, in line with the Group strategy thanks to introduction of new home and travel products in the major markets of the area.

P&C premiums recorded slight growth in both segments in **EMEA region**, primarily due to Spain (+2.2%) and Austria (+2.8%). A drop in the motor business (-4.4%) is recorded in Switzerland, partly due to the reduction of the average premium, in line with the market context, and growth in the non-motor lines (+2.6%).

P&C income in **Americas**, 75% of which comes from motor policies, goes up 19.2% mostly thanks to Argentina (representing about 70% of the region) due to both the tariff adjustments resulting from the inflation and the higher number of policies.

Property & Casualty underwriting combined ratio

Combined ratio

	31/12/2017	31/12/2016	Change
Combined ratio	**92.8%**	**92.3%**	**0.5**
Loss ratio	65.%	65.0%	0.0
current year loss ratio excluding natural catastrophes	68.6%	69.3%	-0.8
natural catastrophes impact	2.1%	1.5%	0.6
prior year loss ratio	-5.6%	-5.8%	0.2
Expense ratio	27.8%	27.3%	0.5
Acquisition cost ratio	22.3%	21.5%	0.8
Administration cost ratio	5.5%	5.8%	-0.3

The Group combined ratio stands at 92.8% (+0.5 pps compared to 31 December 2016); the change is entirely due to the performance of the acquisition costs rate. With reference to overall claims, which remains steady at 65%, current non-catastrophe claims improve 0.8 pps due to the improvement recorded in both business segments. The prior year loss ratio stood at -5.6%, down 0.2 pps compared to 31 December 2016. As usual, the Group maintains its prudent reserving approach, confirmed by the reserving ratio of 150%. The percentage of catastrophic claims is 2.1% compared to 1.5% in 2016.

Net acquisition and administration costs amounts to € 5,469 million (€ 5,316 million at 31 December 2016). In detail, the acquisition costs increases to € 4,381 million (+4.6%), reflecting the increased costs resulting from the growth in premiums recorded in the Central-Eastern European countries and in France, and the increase in Germany, in the Americas and in EA following higher commissions in the travel business in Ireland and Spain. The ratio of acquisition costs to net earned premiums therefore increases to 22.3% (21.5% at 31 December 2016).

The administration costs of € 1,089 million on the other hand drops by 3.7%, thanks to the reductions seen in EA and the Americas. The ratio of costs to net earned premiums is down at 5.5% (-0.3 pps). Therefore, the expense ratio stands at 27.8% (27.3% at 31 December 2016).

The development of combined ratio through the Group is summarised in the table below:

Combined ratio by country

	Combined ratio		Loss ratio		Expense ratio	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Italy	90.0%	89.9%	65.2%	66.0%	24.8%	23.9%
France	98.4%	99.4%	70.8%	71.5%	27.6%	27.9%
Germany	92.6%	90.0%	65.1%	63.0%	27.5%	27.0%
Central and Eastern Europe	87.8%	89.5%	56.8%	58.6%	31.0%	30.9%
International	96.2%	94.8%	66.8%	65.3%	29.4%	29.5%
EMEA	92.1%	92.8%	64.2%	64.7%	27.9%	28.1%
Spain	92.7%	92.3%	65.3%	64.5%	27.4%	27.9%
Austria	90.8%	91.9%	63.5%	64.3%	27.4%	27.7%
Switzerland	92.4%	92.8%	66.3%	67.5%	26.1%	25.3%
Other EMEA	93.9%	97.0%	59.5%	62.4%	34.4%	34.6%
Americas	105.5%	102.7%	68.0%	64.0%	37.5%	38.8%
Asia	103.8%	100.5%	68.4%	58.9%	35.4%	41.7%
Europ Assistance	89.4%	89.6%	60.8%	62.1%	28.7%	27.4%
Other	115.2%	102.5%	89.4%	77.8%	25.8%	24.7%
Group holding and other companies	52.6%	68.7%	42.1%	59.6%	10.5%	9.1%
Total Group	**92.8%**	**92.3%**	**65.0%**	**65.0%**	**27.8%**	**27.3%**

In **Italy** the combined ratio is basically stable and the increase in the expense ratio, mainly linked to development of the non-motor portfolio, is almost entirely offset by the improvement in the current year loss ratio, while the contribution to the loss ratio from previous times is basically at the same levels of last year.

The combined ratio in **Germany** shows a 2.6 pps worsening arising from the increase in claims following both the greater impact of major claims and the increase in claims tied to bad weather.

The reduction of the combined ratio in **France** reflects both improvement of claims and that of the expense ratio because of the measures taken in recent years, aimed at improving the technical profitability of the segment. Compared to 2016, the impact of CAT claims remained unchanged.

In **Central and Eastern Europe** the improvement of the combined ratio, which decreased 1.7 pps compared to 2016, is mostly due to the lower net claims (-1.8 pps), thanks to the positive performance of prior years. The expense ratio is stable compared to the previous year (+0.1 pps), also benefiting from the lasting cost reduction measures.

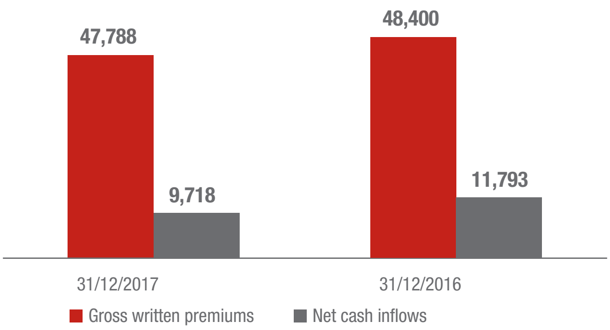
The improvement of the combined ratio of **EMEA region** is the result of the fewer claims recorded, in particular in Austria and Switzerland, and of the fewer costs, mainly in Spain.

The combined ratio of **Americas** is 105.5%, 2.8 pps worse than the previous year; this performance is attributable mainly to the strengthening of the reserves carried out in Argentina.

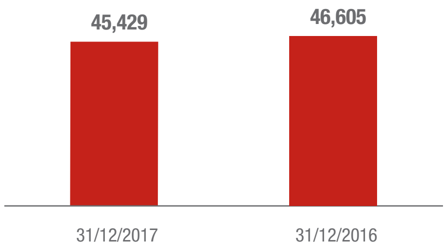
The full overview of all Solvency II lines of business premium income, claims and expenses for P&C segment is shown in the reporting template S.05.01.02 (see annex).

Life segment

Gross written premiums and net cash inflows (€ mln)



PVNBP (€ mln)



NBV (€ mln)

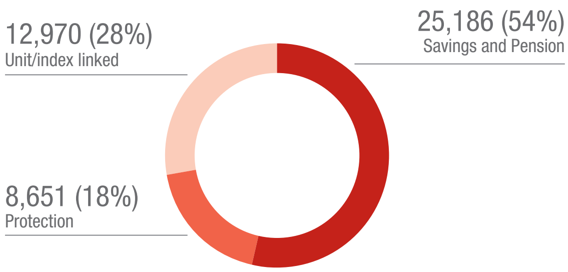
Life gross written premiums[8]

Gross written premiums in the Life segment, including premiums related to investment contracts, amounts to € 47,788 million, a 1% decrease over the previous year. In line with the strategic objective of continuing the more selective underwriting policy, the sale of savings products decreases 11.6%, above all in Italy (-13.5%), Asia (-23.4%), Germany (-10%), Spain (-18.2%) and France (-2.5%).

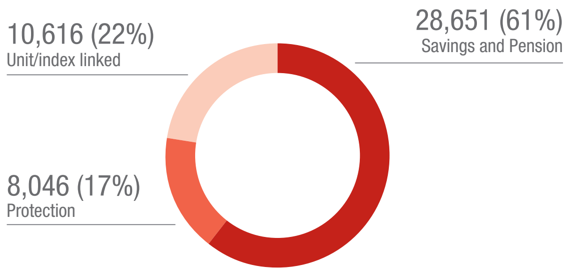
The scheduled rebalancing in favour of products offering better risk-return terms bright about an increase in both unit-linked products (+22.4%) widespread in the Group's areas of operations and especially in Italy (+57.3%) and France (+52.1%) and in the protection line (+7.0%), which show an overall increase in the Group countries.

8 Including €2,126 million of premiums related to investment contracts.

Group written premiums by line of business at 31 December 2017



Group written premiums by line of business at 31 December 2016



The geographical footprint of Life premium income is summarised in the table below:

(€ million)	Gross written premiums		Gross direct written premiums					
			Savings and Pension		Protection		Unit/Index Linked	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Italy	17,299	17,911	13,181	15,232	264	230	3,854	2,450
France	9,279	8,405	4,291	4,400	1,867	1,759	2,696	1,773
Germany	12,297	12,576	3,951	4,392	4,326	4,191	4,020	3,993
Central and Eastern Europe	1,454	1,448	695	705	335	335	425	409
International	7,440	8,037	3,065	3,921	1,851	1,524	1,975	1,991
EMEA	4,356	4,698	1,738	2,018	885	861	1,728	1,814
Spain	936	1,041	656	801	223	215	58	25
Austria	1,111	1,127	522	541	369	352	221	234
Switzerland	1,073	1,122	203	217	139	146	730	759
Other EMEA	1,236	1,408	357	459	154	147	719	797
Americas	292	272	27	33	263	236	0	0
Asia	2,155	2,380	1,301	1,799	608	403	247	177
Europ Assistance	0	0	0	0	0	0	0	0
Other	637	687	0	71	95	24	0	0
Group holding and other companies	19	23	3	3	9	8	0	0
Total Group	**47,788**	**48,400**	**25,186**	**28,651**	**8,651**	**8,046**	**12,970**	**10,616**

Protection (+14.9%) and unit-linked (+52.1%) premiums in **Italy** record outstanding performance thanks to the new forms of hybrid investment that also benefited from the introduction of products having controlled volatility able to guarantee better investment stability. Traditional savings products go down (-13.5%), particularly the single premium ones, and this is in line with the strategic goal that prefers an underwriting policy more attentive to the absorption of capital.

In **Germany**, life income shows a decrease of savings products (-10.0%), in particular the single premium one, consistently with the strategic actions implemented for the reduction of this product category in favour of the healthcare and unit-linked lines.

In line with the Group's strategy, the growth in premiums in **France** is due to the dynamics of the unit-linked products (+52.1%) and of the protection line (+6.1%) that more than offset the decrease in traditional savings policies (-2.5%), in a market context made difficult by the low interest rate level.

With reference to the Life premiums of the **CEE countries**, savings products drops (-3.6%, due to the performance of single premium policies), only partly offset by the positive development of the unit-linked products (+1.9%, supported by the growth in single premium policies). The trend of the Life premiums is explained by the slowdown in income in the Czech Republic (-3.4%, due to the strong competition between the main players of the market) and in Poland (-1.0%, linked to the complex legislative context and the company's constant focus on greater profitability of the insurance business). Premium income in Slovakia is progressively growing (+7.7%), driven by protection products, in line with Group strategy.

For what concerns **EMEA region**, the trend in Life premiums is mainly explained by the slow-down of income in Spain (-10.1%) and in Switzerland (-2.4%), and this is for the most part attributable to the fall in traditional savings products, in line with the Group's commercial strategy. Income from pure risk premiums experienced slight growth, especially in Spain and Austria.

In **Americas**, life volumes, mainly represented by protection products corresponding to 90% of total income, reported growth over 2016 (+14.7%) that was driven by Brazil's performance (+37% owing to the contribution of new projects) and that of Argentina (+20% arising from increased insured sums consequent to the impact of inflation on wages).

Life Net inflows

Net cash inflows remain at the top market levels, reaching € 9,718 million. The performance (-17.1%) particularly reflects the decrease recorded in Italy (-20.8%) that is mainly due to the greater payments coming from surrenders, together with the above-mentioned decrease in premium income caused by the underwriting and rebalancing policies mentioned above. International income is also down (-57.9%), demonstrating a reduction in income, particularly in Asia and EMEA, together with greater payments.

Life net inflows

(€ million)	31/12/2017	31/12/2016
Italy	5,703	7,197
France	959	438
Germany	1,784	1,560
Central and Eastern Europe	434	501
International	838	2,102
EMEA	185	664
Spain	-232	-68
Austria	-107	-256
Switzerland	457	481
Other EMEA	67	508
Americas	121	114
Asia	494	1,256
Europ Assistance	0	0
Other	37	67
Group holding and other companies	0	-5
Total Group	**9,718**	**11,793**

Life new business development

New business in terms of present value of new business premiums (PVNBP) amounts to € 45,429 million, down by 2.3%, in both the single premium (-2.8%) and the annual premium policies (-2.6%). With reference to the business lines, unit-linked production rise sharply (+28.7%) and the protection line improved slightly (+3.0%). Savings and pension line premiums records a significant decrease (-19.0%) due to the Group's scheduled actions aimed at reducing business subject to financial guarantees.

The new business value (NBV) improves significantly (+53.8%), standing at € 1,820 million (€ 1,193 million at 31 December 2016).

Profitability (margin on PVNBP) rise significantly by 1.46 pps to 4.01% (2.56% at 31 December 2016), of which +1.12 pps primarily due to the refocusing of sales towards the unit-linked and pure risk business and the effective recalibration of financial guarantees, and +0.34 pps arising from the economic environment better than last year.

The full overview of all Solvency II lines of business premium income, claims and expenses for Life segment is shown in the reporting template S.05.01.02 (see annex).

A.3. Investment performance

Investment performance

Generali Group aims at maximising investment returns for a given risk appetite and to achieve the Strategic Plan objectives through portfolio diversification and an accurate liability-driven investment strategy. Over the last few years, financial market conditions have not been very favourable. The crisis that started in 2008 led to a very low interest rate environment that has been still persisting within the Eurozone. Macroeconomic factors, monetary policy actions and the race for yield have impacted the level of interest rates on government bonds and other key market segments such as corporate bonds.

Considering the very low yield environment, in order to sustain investment performance also for the benefit of Life policyholders, the pursued strategy consisted in an increase of asset and geographical diversification, in particular of exposures towards private market, alternative debt and private equity investments, offering attractive risk-adjusted return also under the Solvency II framework.

This chapter will give an overview of the invested Assets of the Generali Group, with a break-down of asset classes and return on investments.

Asset class analysis

At 31 December 2017, total investments amounts to € 474,502 million, up by 3.1% over the previous year. Group investments amounts to € 399,130 million (+1.6%) and unit/index linked investments amounts to € 75,372 million (+11.9%).

Asset allocation

(€ million)	Total		Life		Property&Casualty	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Fixed income investments	347,834	346,145	312,976	311,323	28,224	28,889
Government bonds	180,905	172,647	162,150	155,102	12,825	12,166
Corporate bonds	136,579	142,528	125,170	129,834	12,574	13,415
Other fixed income	30,350	30,971	25,656	26,387	2,825	3,308
Equity instruments	18,403	17,680	12,685	13,089	2,254	2,151
Real estate investments	15,018	14,488	10,154	10,023	3,828	3,778
Cash & cash like	13,390	10,668	9,787	6,910	2,551	2,891
Other investments	4,487	3,673	5,815	4,743	1,782	1,475
Total investments - General account	**399,130**	**392,654**	**351,417**	**346,090**	**38,639**	**39,183**
Investment back to unit and index-linked policies	75,372	67,340	75,372	67,340	0	0
Total investments	**474,502**	**459,994**	**426,789**	**413,430**	**38,639**	**39,183**

With respect to the ratio of the main investment categories, the incidence of fixed income instruments slightly decreases to 87.1% (88.2% at 31 December 2016). The ratio of investment properties has registered a moderate increase reaching 3.8% (3.7% at 31 December 2016), as well as the incidence of the equity instruments which increases to 4.6% (4.5% at 31 December 2016). The residual category of Other investments has registered a moderate increase too, increasing its overall incidence from 0.9% to 1.1% (+814 € million in absolute terms). Other investments mainly include receivables from banks or banking customers, equity investments and derivatives. Finally, the liquidity ratio increases to 3.4% from 2.7% due to a current economic environment which does not offer satisfactory reinvestment opportunities.

With reference to the bond portfolio, government bonds - which represent 52.0% (49.9% at 31 December 2016) - are up, standing at € 180,905 million (€ 172,647 million at 31 December 2017) with Italian government representing the 35.6% of the overall total. The change during the period is primarily due to purchases made during 2017 in line with the Group investment strategy. It is worth noting that the exposure to individual government bonds is mainly allocated to the respective countries of operation, in line with the Group's ALM policy.

The corporate component decreases in absolute terms to € 136,579 million (€ 142,528 million at 31 December 2016), equal to 39.3% of the bond portfolio (41.2% at 31 December 2016). The change is due to the net sales made during the year, notwithstanding a moderate increase in value resulting from the decrease in the credit spread. The corporate component includes financial sector bonds and bonds issued by industrial companies. With reference to the new investments those in the non-financial sector re preferred in order to increase diversification.

Equity securities increase in both absolute and relative terms, standing at € 18,403 million (€ 17,680 million at 31 December 2016). The change during the period is attributable to the increase in the Available for Sale reserve and to a minor extent to net acquisitions and conversion of bonds from credit sector issuers. Exposure to Industrial companies is the category that has benefitted to the largest extent from the first aforementioned trend.

Return on Investment

Investment yields

%	Total		Life		Property&Casualty	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Fixed Income						
Current return	3.0%	3.1%	3.1%	3.2%	2.7%	2.9%
Total P&L return	3.4%	3.4%	3.4%	3.4%	3.0%	3.7%
Comprehensive return	2.5%	4.0%	2.5%	4.0%	3.1%	4.1%
Equity & Equity-like						
Current return	3.8%	4.0%	3.5%	3.9%	4.7%	3.9%
Total P&L return	6.8%	2.2%	7.2%	2.4%	8.1%	-1.4%
Comprehensive return	9.3%	2.5%	9.1%	2.3%	9.9%	1.7%
Real Estate						
Current return	5.5%	5.5%	5.6%	5.7%	5.9%	5.6%
Total P&L return	5.0%	5.2%	5.2%	4.9%	5.8%	7.0%
Comprehensive return	4.9%	5.3%	5.1%	5.0%	5.8%	7.1%
TOTAL						
Current return	3.1%	3.2%	3.1%	3.2%	3.0%	3.1%
Total P&L return	3.4%	3.3%	3.4%	3.3%	3.2%	3.2%
Comprehensive return	2.7%	3.8%	2.6%	3.8%	3.4%	3.7%

The current return records a modest decline, standing at 3.1% (3.2% at 31 December 2016), with a slight decrease in absolute terms in current income, amounting to € 12,089 million (€ 12,386 million at 31 December 2016). Group current return is mainly influenced by the current return of fixed income category, which have slightly decreased mainly because of the persistent low interest rate environment. The slight decrease of current incomes is registered in all the other asset classes with the exception of Real Estate, which experienced a moderate increase (€ +27 million compared to 2016).

P&L return has improved its result compared to YE16, mainly thanks to the harvesting rate (increased to 0.7% from the 0.2% registered at 31 December 2016). This increase is attributable to an acceleration in realised gains in the life segment particularly focused on equity securities and on fixed income in USD currency, in order to maintain an overall satisfactory level of profitability of the Group investments.

The comprehensive return, that adds to the P&L return unrealised gains and losses recognised in OCI, has been impacted mainly by bond component performance, which has negatively reacted to the yields trend.

Information about investments in securitisation

The Group investments in securitisation represents less than 0.8% of Group Total Fixed income. Securitisations are subject to internal limits defined at single legal entity level and are monitored on a monthly basis across the Group.

A.4. Performance of other activities

Performance of other activities

The holding and other businesses segment includes activities of Group companies in the banking and asset management sectors, the costs incurred for the direction, coordination and financing activities, as well as all other operations that the Group considers to be ancillary to the core insurance business.

The operating result of the aforementioned business sectors is summarised in the table below:

(€ million)	31/12/2017	31/12/2016
Holding and other business Operating result	**59**	**-74**
Financial and other businesses	513	384
Holding operating expenses	-454	-458

More specifically, the operating result of the **Holding and other businesses segment** amounts to € 59 million, considerably up compared to the € -74 million at 31 December 2016. This performance is mainly caused by the financial segment, particularly the excellent results of Banca Generali due to higher performance fees, as well as the positive results of the other asset management and real estate companies.

The operating result of the **financial and other businesses segment** grow to € 513 million (€ 384 million at 31 December 2016). The increase (33.6%) mainly reflects the above-mentioned result of Banca Generali, which rise from € 190 million to € 241 million at 31 December 2017, and due to the higher net commissions of Asset Management in Europe.

At 31 December 2017, the third-party assets managed by the Group banks and the asset management companies amounts to € 67,474 million (€ 56,324 million at 31 December 2016), up by 19.8%.

The **net holding operating expenses** stand at € -454 million (€ -458 million at 31 December 2016), down 0.9% owing to the € 12 million decrease in the holding expenses. Brand royalties are down.

Agreements resulting from leasing operations

In the course of ordinary business, the Group companies normally enter into leasing agreements as lessees. Mentioned agreements are nearly exclusively related to operating leases for use of real estate properties used for business, company cars and office furniture and equipment.

In some cases Group companies acts also as lessor, mainly related to real estate rentals through operating lease, involving part of Generali's real estate portfolio.

A.5. Any other information

A.5.1. Significant operations and transactions within the group

There are many different intragroup arrangements in the Group, spanning from assets management services, real-estate management services and bancassurance agreements to internal reinsurance and risk pooling arrangements, intragroup financing and centralised liquidity management, as well as claims management and similar services. In addition, there are also specific financing arrangements, servicing both operational liquidity and capital needs.

The Parent Company acts as holding company and ultimate Group reinsurer, and together with local holding companies supports different local unit needs, among which capital solidity and soundness.

Consequently there are numerous transactions within the Group, of which the most material can be grouped as follows:
- intragroup dividends and capital movements;
- intragroup financing servicing both operational financing needs and capital needs (representing local legal entity basic own funds);
- intragroup liquidity management and cash-pooling arrangements;
- intragroup reinsurance;
- guarantees and similar arrangements;
- shared services;
- other transactions.

Considering the size and the structure of the Group, there are numerous dividend payments/transactions and capital transfers, mainly towards specific Group companies specialised in investment and asset management.

Intragroup financing was approximately €16.7 billion, contributing to both local legal entities operational financing needs and also as additional capital buffer to Group insurance companies. The latter was of approximately €4.5 billion.

Intragroup liquidity management and cash-pooling arrangements were created to service operational liquidity needs and to optimise liquidity management and liquidity buffer at Group level.

Intragroup reinsurance activities aim to optimise single company and single country risk retention and also to optimise overall group risk retention and reinsurance activity. Local reinsurers or local holding usually act as first risk pooling, later on passed to the Parent Company, which defines the external reinsurance structure. Of approximately €66.4 billion of gross written premiums collected, €5.0 billion are ceded in intragroup reinsurance.

Within the Group, guarantees and similar arrangements are put in place, mainly to facilitate specific activities such as real-estate construction and similar projects, to facilitate specific operations and also to optimise capital structure. Some guarantees are also made to guarantee external debt issuances by a specialised Group company Generali Finance B.V.

Shared services and similar arrangements consist mainly of investment management, bancassurance, IT and claims management.

Operations in derivatives as well as material intragroup asset sales were observed to a very limited extent.

"Other Transactions" includes investment commitments in Group companies. These are mainly commitments associated with alternative investments (private equity), predominantly towards a specialised Group company managing this type of investments, and are funding commitments the same company has towards third parties. Some commitments were also made for other investment opportunities, in particular to real estate investment funds.

There are also two intragroup commitments between Assicurazioni Generali and Generali Vie, the Group's most important French life insurance operation, put in place at the end of December 2016 in order to optimise its capital structure. These arrangements are considered ancillary own funds strengthening Generali Vie's capital position. Details are as follows:
- Assicurazioni Generali subscribed an "equity commitment letter" by which it commits to subscribe, at fair market value, a capital increase up to €250 million. This arrangement, approved by the French regulator, qualifies as Tier 2 Ancillary Own Funds of Generali Vie. In the event the commitment is called and subsequently paid, it will be classified as Unrestricted Tier 1 Basic Own Funds;

- Assicurazioni Generali subscribed a “Commitment letter to pay and subscribe in a full T2 item” by which it commits to subscribe at fair market value a Tier 2 subordinated bond issued by Generali Vie for an amount up to €250 million. This arrangement, approved by the French regulator, qualifies as Tier 3 Ancillary Own Funds of Generali Vie. In the event the commitment is called and subsequently paid, it will be classified as Tier 2 Basic Own Funds.

In addition there is a similar commitment between Generali Deutschland Holding and Generali Lebensversicherung Aktiengesellschaft, two subsidiaries of the German sub-group. Generali Deutschland Holding is committed to paying a capital increase of the latter. This arrangement has been approved by the German Regulator as Tier 2 Ancillary Own Funds of Generali Lebensversicherung Aktiengesellschaft.

B. System of Governance

B.1. General information on the system of Governance

The corporate governance system of the Group

Assicurazioni Generali S.p.A. (AG), in its capacity as parent company of the Generali Group, has issued internal provisions applicable to all the most relevant Group companies (insurance, reinsurance, asset management, banking and other significant entities) that have to be followed in the definition of the corporate governance system, with a view of ensuring an adequate level of consistency among the Group.

This paragraph details the main contents of the above-mentioned internal provisions while any detail on the corporate governance system of AG is included under the SFCR solo, available on the website at www.generali.com.

Rules on AMSB composition

As a general rule, the Administrative, Management or Supervisory Body (the AMSB) of each Group company must have a number of members proportional to the dimension and complexity of the relevant Group company and their composition must follow specific functional perspective criteria. Candidates for nomination to AMSB, including executive roles, must not hold other positions, including within the Group, which might generate a conflict of role or a conflict of interest.

In addition, each Group company must ensure that candidates for non-executive roles are normally selected among employees of the Group, with the exception of listed subsidiaries. Executive roles must not be attributed to the chairmen of AMSB. AMSB's member, and the AMSB as a whole, must fulfil the fit & proper requirements defined by the Group Fit & Proper Policy and detailed in Section B.2.

AMSB general competences

The AMSB holds the ultimate responsibility for compliance with applicable laws, regulations and administrative provisions, including those adopted pursuant the Solvency II Directive for insurance and reinsurance Group companies.

Specific rules concern “reserved matters”, meaning matters that all Group companies' AMSB must reserve to their exclusive competence. In this respect, the reserved matters must be on top of those provided for by the local laws and regulations and, in the implementation of those matters, each Group company must also take into account the scope, nature and complexity of the risks and business it carries out.

In particular, the reserved matters include the followings:
- approval of the organisational structure and set-up of possible internal committees within the AMSB;
- definition and approval of the internal control system and of the risk management framework;
- grant, amend and revoke delegated powers to AMSB member(s);
- approval of the remuneration policies in favour of employees and corporate bodies members (including remuneration plans based on financial instruments);
- appointment and revocation of the lines reporting to the CEO as well as the heads of control functions and approval of the relevant remuneration;
- approval of the asset allocation strategy;
- approval of outsourcing of critical or important functions/activities, including the general terms and conditions of the outsourcing agreement;
- approval of infra-group transactions, when performed at conditions other than market standards (not arm's length);
- approval of the draft financial statements to be submitted for approval to the competent corporate body, proposal upon allocation of profits, distribution of any interim dividends;
- approval of any shareholders' agreement of particular strategic importance as well as any agreement setting forth and/or amending terms and conditions of the investment and/or divestment in any participated company and the relevant rights and obligations as shareholder (e.g.: put and call options);
- opening and closing of secondary offices or branches;
- investments related matters not performed under asset management agreements, merger and demerger, provision of goods and services, cooperation agreements, issuance of financial instruments, granting loans, execution (as borrower) of loan agreements and guarantees (not pertaining the insurance activity), or similar transactions and settlement agreements, provided that specific requirements and thresholds are respectively met.

AMSB competences in connection with the internal control and risk management system

Furthermore, Group companies must comply with specific internal provisions regarding the role of the AMSB in connection with internal control and risk management system. In particular, AMSB of Group companies must ensure that the abovementioned system as well as the other elements of the system of governance are at all times consistent with a number of relevant Group policies. To this end, the AMSB reassesses the consistency periodically and at least once a year.

In particular, the AMSB competences in connection with the internal control and risk management system include the followings:

- establish the control functions ("key functions" according to Solvency II framework), defining their mandate and reporting lines as well as, where appropriate, any support committee. The establishment of support committees does not relieve the AMSB from its own responsibilities;
- adopt the relevant Group policies and define the means by which the Senior Management (comprising the CEO, the General Manager, the Financial Reporting Officer and the Heads of those functions that carry out management supervision duties) implements the internal control system and keeps it suitable and effective;
- determine the scope and the frequency of the internal review of the system of governance taking into account the nature, scale and complexity of the business as well as the structure of the Group, ensuring in any case that such internal review is made on a regular basis;
- ensure that adequate decision-making processes are adopted and formalised and that functions are appropriately separated;
- approve the system of delegated powers and responsibilities, making sure that it remains adequate over time; taking care in avoiding excessive concentration of powers on one person and set up instruments for assessing the exercise of delegated powers, with the consequent possibility of providing adequate contingency arrangements if it decides to reserve the delegated powers for itself;
- approve the Own Risk and Solvency Assessment (ORSA) Report and, based on its results, set the Group company's risk appetite and overall risk tolerance limits;
- approve the main risk management strategies and policies;
- check that Senior Management correctly implements the system of internal controls and risk management in accordance with its issued directives and assesses its functionality and adequacy;
- require to be periodically informed about the effectiveness and adequacy of the system of internal control and risk management and that the most significant critical situations are promptly brought to its attention, whether they are detected by Senior Management, internal audit, risk management, actuarial and compliance functions or personnel, promptly issuing the directives for the adoption of corrective measures, whose effectiveness it subsequently assesses;
- identify certain events or circumstances that require prompt intervention by Senior Management;
- ensure that there is appropriate interaction between all the committees established within the AMSB, the Senior Management and risk management, actuarial, compliance and internal audit functions, also proactively, to ensure its effectiveness;
- carry out, at least once a year, an assessment of the size, composition and functioning of the AMSB as a whole and of its committees, advising on the experts whose presence in the administrative body is considered appropriate and proposing possible corrective actions.

The decisions taken by the AMSB must be appropriately documented. Evidence must be given on how the information from the risk management system has been taken into account.

AMSB Committees

The AMSB must evaluate whether to establish an internal control committee, composed by non-executive directors, or designate one of its members to oversee the internal control and risk management system.

The internal control committee or the designated AMSB member assists the AMSB by providing advice and making proposals, in determining policy and guidelines in relation to the system of internal controls, periodical checks on its adequacy and its effective functioning, the identification and management of main corporate risks.

The AMSB must also evaluate whether to establish a remuneration committee composed by non-executive directors to perform a competent and independent judgment on the remuneration policy and its oversight.

This evaluation must consider various factors, including the size, nature and scope of the business, the internal organisation and resulting complexity of the remuneration policy, as well as its link with the Group company's risk profile.

If a remuneration committee is not established, the AMSB must assume the tasks that would otherwise have been assigned to the remuneration committee, in a way that avoids conflicts of interest.

The tasks of the remuneration committee include: a) supporting the AMSB on the design of the Group company's overall remuneration policy; b) preparing decisions regarding remuneration; c) reviewing the policy regularly to ensure it remains appropriate even in case of changes to the Group company's operations or business environment; d) identifying potential conflicts of interest and the steps to be taken to address them; and e) providing adequate information to the AMSB regarding the performance of the remuneration policy.

The remuneration committee or the person designated to assume its tasks needs to have access to all the data and information necessary to advise on the design and maintenance of an effective remuneration policy. To secure proper governance, the committee ensures proper involvement of the persons responsible for the Control Functions.

Senior management and management committees

The AMSB appoints a CEO and defines its mandate and responsibilities.

For branches of Group companies, the branch manager, regardless of the title, plays the role of the CEO, as described here below.

The CEO is responsible for the implementation, maintenance and monitoring of the system of internal controls and risk management, including risks arising from non-compliance with regulations, in accordance with the directives of the AMSB. The Senior Management supports the CEO in the performance of its mandate.

In particular, the CEO:

- defines in detail the organisational set-up of the Group company, the tasks and responsibilities of the operational units and their staff, as well as the decision-making processes in line with the directives issued by the AMSB; within this sphere it implements the appropriate separation of tasks between individuals and functions so as to avoid, as far as possible, conflicts of interest;
- implements the policies relating to the assessment, even on a forward-looking basis, and management of risks as established by the AMSB, ensuring the definition of operational limits and prompt checks on those limits, as well as the monitoring of exposures to risks and compliance with the levels of tolerance;
- implements, taking into account the strategic objectives and consistently with the risk management policy, the underwriting, reserving, reinsurance and other risk mitigation techniques as well as of operational risk management policies;
- oversees the maintenance of the functionality and overall adequacy of the organisational set-up, the internal control and risk management system, including risks arising from non-compliance with regulations;
- checks that the AMSB is informed about the effectiveness and adequacy of the internal control and risk management system periodically and, in any event, promptly every time significant critical situations occur;
- implements the instructions given by the AMSB on the measures to be adopted in order to correct faults that have come to light and make improvements;
- proposes to the AMSB initiatives aimed at adjusting and reinforcing the system of internal controls and risk management.

On the basis of the applicable system of delegated powers, each Group company (including the branches) must establish a managerial risk committee, or equivalent, to support the CEO in the implementation, maintenance and monitoring of the internal controls and risk management system. The control functions must participate in the committee meetings providing their evaluation of the adequacy of the internal control system.

The risk committee: a) identifies, evaluates and addresses the actions to mitigate the significant risks; b) monitors the adequacy of the main policies, procedures and processes to mitigate risks; c) monitors the effective implementation of the Group risk policies; d) challenges and evaluates the results of the risk assessments.

The control functions

The Group internal control and risk management system is founded on the establishment of the three lines of defence:

- the operating functions (the risk owners), which represent the first line of defence and have ultimate responsibility for risks relating to their area of expertise;
- actuarial (for insurance and reinsurance entities only), compliance and risk management functions, which represent the second line of defence;
- internal audit, which represents the third line of defence.

Actuarial, compliance, risk management and internal audit functions are the control functions. These functions must be independent from the operational functions and, as a consequence, they must: (i) retain the responsibility for taking the decisions necessary for the proper performance of their duties without interference from others and (ii) be able to report their results and any concerns and suggestions to the AMSB without restrictions as to their scope or content from anybody else.

Actuarial Function

According to Solvency II provisions, the actuarial function has the responsibility to:

- coordinate the calculation of technical provisions;
- ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- assess the sufficiency and quality of the data used in the calculation of technical provisions;
- compare best estimates against experience;
- inform the AMSB of the reliability and adequacy of the calculation of technical provisions;
- oversee the calculation of technical provisions in the cases where there are insufficient data or appropriate quality to apply a reliable actuarial method;
- express an opinion on the overall underwriting policy;
- express an opinion on the adequacy of reinsurance arrangements; and
- contribute to the effective implementation of the risk management system.

The head of the actuarial function reports to the AMSB.

Compliance Function

The compliance function has the responsibility to advice the AMSB on compliance with laws, regulations and administrative provisions, including those adopted pursuant to the Solvency II Directive for insurance and reinsurance Group companies.

The compliance function also advices on other laws, regulations and administrative provisions, including the Group Code of Conduct and Group policies.

Moreover, the compliance function has the responsibility to assess the possible impact of any changes in the legal environment on the operation of the relevant Group company and to identify and assess the compliance risks, including the adequacy of the measures adopted to prevent non-compliance.

While the compliance function established at entity level is responsible for the identification and assessment of the compliance risks embedded in the operations of the Group company concerned, the Group Compliance Function, established at parent company level, is also responsible to ensure that adequate resources, methodologies and tools are in place and used across the Group to manage the compliance activities and an adequate consolidated reporting is provided to the Board of Directors of AG.

The compliance officer reports to the AMSB.

Risk Management Function

The risk management function guarantees the accurate implementation of the risk management system in accordance with the Solvency II Directive, the other applicable legal and regulatory provisions, the directions given by the AMSB and the provisions of the Group policies.

This function supports the AMSB and Senior Management in defining the risk management strategies and tools for identifying, monitoring, managing and measuring risks. It also provides the information needed to evaluate the adequacy of the risk management system as a whole, through an adequate reporting system.

The risk management function is responsible to report to the AMSB on risks that have been identified as potentially material. The risk management function should also report on other specific areas of risks both on its own initiative and following requests from the AMSB.

The risk management function has the responsibility to:

- assist the AMSB and other functions in the effective operation of the risk management system;
- monitor the risk management system and the implementation of the risk management policy;
- monitor the general risk profile of the Group company and provide the reporting defined in the Group Risk Appetite Framework, including the reporting in case of tolerances breaches;
- coordinate a detailed reporting on risks exposures and, in particular, coordinate ORSA Report preparation;
- advise AMSB on risk management matters, including in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments and, in general, foster risk management embedding with business decision making processes;
- as part of the broader risk identification process, identify and assess emerging risks.

The chief risk officer reports to the AMSB.

Internal Audit Function

The internal audit function has the responsibility to evaluate the adequacy and effectiveness of the internal control system of the Group company and to report to the AMSB any finding or recommendation.

The internal audit function has the responsibility to:

- establish, implement and maintain an audit plan setting out the audit work to be undertaken in the upcoming years, taking into account all activities and the complete system of governance of the Group company;
- take a risk-based approach in deciding its priorities;
- issue audit reports with agreed (with the auditee) actions (to mitigate the identified risks) based on the result of the audit work and submit a written report to the AMSB at least on a semi-annual basis on activities and significant issues during the period and a proposal of action plan. The AMSB determines the actions to be taken with respect to each of the issues presented in the report to the AMSB and ensures that those actions are carried out;
- significant issues reported in the audits will be closely monitored to ensure a proper closing of the agreed actions and then tested for effectiveness. The progress of this and the outstanding issues will at least annually be reported to the AMSB.

The head of internal audit reports to the AMSB.

Interactions among the control functions

An effective interaction and coordination among control functions increases the efficacy of their role in supporting the Senior Management and the AMSB in maintaining a clear and integrated view on the Group company's risk exposure.

In this context, the control functions act according to a clear interaction framework, based on the following pillars:

- the control functions plan their activities in a coordinated manner in order to ensure consistency and avoid duplications in their initiatives;
- the control functions meet regularly and share any outcome, finding or information that can be useful to better perform their respective activities (e.g. audit findings related to risks falling under the scope of activity of the other control functions; outcomes of the monitoring activities performed by risk management and compliance functions, outcomes of the risk assessments, scenario analysis and testing activities performed by risk management and compliance functions);
- the risk management and the compliance functions provide the organisation with common risk assessment methodologies, processes and tools in order to obtain a comprehensive evaluation and representation of the operational and compliance risks. The compliance function contributes to the drafting of the ORSA Report and the risk appetite framework and participate in the scenario analysis as far as the compliance risk is concerned;
- the actuarial and risk management functions define a common governance to effectively manage, from a methodological and technical standpoint, processes and tools supporting the calculation of both the technical provisions and solvency capital requirement;
- the internal audit, acting as independent third line of defence, performs an independent overall evaluation of the second level control functions' operating model, methodologies, tools and procedures;
- any disagreement among the local control functions on the above subjects will be submitted to the relevant Group control functions. Any disagreement among the Group Control Functions will be submit-

ted to the Board of Directors of AG;
- any disagreement among the local control functions that can affect the calculation of the technical provisions or solvency capital requirement will be submitted to the relevant local AMSB. Any disagreement among the Group Control Functions that can affect the calculation of the Group technical provisions or Group solvency capital requirement will be submitted to the Board of Directors of AG.

Material changes to the system of governance of the Group occurred in 2017

No material changes to the Group system of governance occurred in 2017.

Remuneration policy general principles

As a general principle, according to the Group Directives on the internal control and risk management system, the remuneration awards recognised by Group companies must not threaten their ability to maintain an adequate capital base.

Remuneration practices must be established, implemented and maintained in line with the business carried out and the risk management strategy, the risk profile, objectives, risk management practices and the long-term interests and performance of the Group Legal Entity and must incorporate measures aimed at avoiding conflicts of interest.

The Remuneration Policy adopted by the Board of Directors of Assicurazioni Generali S.p.A. sets out the principles and requirements that Group companies must comply with, within the requirements set out by the local regulatory framework, including special requirements provided for banking and financial business, with a view to ensuring consistency among the Group.

The general principles which the abovementioned remuneration policy is based on are the followings:
- equity and consistency of remuneration in relation to the assigned responsibilities and capabilities demonstrated;
- alignment with corporate strategy and goals defined;
- competitiveness with respect to market trends and practices;
- value merit and performance, in terms of results, behaviours and values;
- clear governance and compliance with the regulatory framework.

Beside this, with reference to the values established in the remuneration policy, particular importance is given to:
- the meritocratic alignment of the remuneration systems with sustainable long-term business results, in constant compliance with corporate values that represent the main pillars of remuneration systems and of a prudent risk management;
- the alignment with the overall business strategy based, among others, on a significant international integration of the Group, so that the principles and policies are applied in a coherent manner to all Group key executives, thus favouring the overall alignment with the Group's goals.

The remuneration package consists of a fixed component, a variable component and benefits, structured in a balanced way. Such remuneration must be consistent with each role, the responsibilities assigned and the skills and abilities demonstrated and must also be aligned with the reference market. This applies both for the Group executive roles as well as for other employees, and complies with the requirements of current national and company labour contracts.

The fixed component of the remuneration rewards the role held and the responsibilities assigned, also taking into account the expertise and the competences of the relevant person as well as the quality of the contribution in terms of achieving business results. The variable component is defined on the basis of short and long term incentive plans aimed at motivating the management to achieve business targets by creating a direct link between incentives and quantitative and qualitative targets set at Group, Region, Country, Business/Function and individual level. A relevance impact is assigned to the variable component of the remuneration linked to the long term incentive plan. Caps to the maximum amount of both the overall and the individual variable remuneration are always set, linked to the effective achievement of the performance conditions and the target set.

Benefits include, in particular, supplementary pensions and health care for employees and their families, as well as a company car and other benefits, including those related to internal and international mobility in line with market practices.

The remuneration package structure is analysed in order to ensure that the fixed remuneration is balanced with respect to the short and long-term variable remuneration and benefits, in order to encourage managers to commit fully to achieving sustainable results. In particular the fixed remuneration is determined as an amount that does not incentivise the undertaking of inappropriate risks by the manager and that allows the effective enforceability, in the theoretical event the relevant conditions are met, of specific ex post correctional mechanisms (malus and clawback) on variable compensation. The weighting and structure of the variable remuneration components are balanced so as to incentivise the achievement of sustainable results over time, while taking due consideration of the Group's risk framework and discourage conduct that would lead to excessive exposure.

Remuneration of Group companies' AMSB members

Group companies have to take into consideration and implement local rules on remuneration for the members of their AMSB consistent with those set out under the remuneration policy of the parent company. The latter remuneration policy provides, for all non-executive directors (independent or not independent), that remuneration must consist of a fixed component and of an attendance fee which will be issued for each attended meeting of the Board of Directors, in addition to the reimbursement of expenses incurred for attendance and, in general terms, for the discharge of their tasks. This role must also entail the assignment of certain non-monetary benefits, such as insurance coverage against professional liability. Consistently with the best international market practice, no variable component nor any supplementary pensions are provided for such non-executive directors.

Directors who are also members of board committees (but not at the same time managers of the Generali Group) are rewarded, on top of the remuneration they receive as members of the Board of Directors, with an additional emolument related to the competences assigned to the relevant committees and to the effort and time required for attending such committees, in terms of the number of meetings and preparation required.

Remuneration policy for the chief executive officer, the general manager and the other managers with strategic responsibilities

The chief executive officer, the general manager and the other managers with strategic responsibilities receive a total remuneration package consisting of a fixed component, a variable component (short- and long-term) and benefits.

In terms of total target remuneration, the Group's intention is to align the remuneration at a competitive level, between the median and the upper quartile of the reference market, with an individual positioning linked to the assessment of performance, of the potential and the strategic relevance of the person considered according to a segmented approach.

In particular, the variable component of the remuneration includes a short-term and a long-term variable component and may be respectively achieved on the basis of the criteria provided for the Short-Term Incentive (STI) plan and the Long-Term Incentive (LTI) plan. Such components reward the achievement of qualitative and quantitative performance objectives.

The Short-Term Incentive (STI) plan provides for the assignment of an annual cash bonus, comprised between 0% and 200% of the individual target baseline and is defined on the basis of:

- the Group funding, related to the results achieved in terms of operating results and net profit adjusted of the Group;
- the achievement of a minimum level of Economic Solvency Ratio equal to 130% consistently with the hard limit of the Risk Appetite Framework approved by the Board of Directors of Assicurazioni Generali;
- the achievement of individual goals, defined in terms of value creation, risk adjusted profitability, effectiveness, strategic initiatives, customer centricity and people empowerment. The final assessment of the level of achievement of such goals is also based on an individual assessment concerning the consistency with compliance value and control culture as well as compliance with code of conduct rules and governance processes; such assessment may also be used as a malus/clawback clause, if necessary.

The Long-Term Incentive (LTI) plan provides for the assignment of shares of Assicurazioni Generali S.p.A. and presents the following characteristics:

- it is based on a total time frame of 6 years;
- is linked to specific performance objectives (Return on Equity and Relative Total Shareholder Return);
- is conditioned upon the achievement of a minimum level of Economic Solvency Ratio equal to 130%;
- provides a three-year performance cycle and further lock-up periods of the assigned shares up to two years (so called minimum holding period).

All the objectives the incentive system makes reference to are defined on an ex ante basis, with a view of ensuring that the annual performance indicators are consistent with those used as reference for the long-term incentive plans.

No incentive will be paid in the event of wilful misconduct or gross negligence or in case of significant worsening of the capital and financial situation of the Company or of the Group. Any amount disbursed will be subject to claw-back in case the considered performances should later be found to be unsustainable or ineffective as a result of wilful misconduct or gross negligence. Moreover, specific thresholds and malus clauses are envisaged for the variable compensation, both for short- and medium/long-term, defining limits below which a reduction/zeroing of any incentive is made, subject to the evaluation of the Board of Directors.

In line with the applicable law, it is required to the employees not to use any personal coverage or insurance strategies (so-called hedging) that could alter or undermine the risk alignment effects embedded in variable remuneration mechanisms.

It is provided that the supplementary pension schemes are governed by individual contracts, applicable collective bargaining agreements and the additional regulations of the Generali Group.

Remuneration policy for the heads of the control functions and the managers directly reporting to them

The overall remuneration package for the heads of the control functions and their first reporting line managers consists of a fixed and a variable component plus additional benefits. The fixed component is established according to the level of the responsibilities and duties assigned to such persons and is designed to guarantee the independence and autonomy required for such roles. The variable component is linked to the participation in a specific deferred monetary incentive system that has multi-year time goals which relate exclusively to the effectiveness and quality of controls, with the exclusion of any form of financial indicators and financial instruments which may give rise as a conflict of interests source.

It is provided that the supplementary pension schemes are governed by individual contracts, applicable collective bargaining agreements and the additional regulations of the Generali Group.

Material transactions executed in 2017

No material transactions have been executed during the reporting period by any of the Group companies with shareholders, persons who exercise a significant influence on Assicurazioni Generali S.p.A. or with the members of Assicurazioni Generali S.p.A. Board of Directors.

B.2. Fit and proper requirements

Assicurazioni Generali, in its capacity as parent company of the Generali Group, has adopted the "Group Fit & Proper Policy", according to which Group companies must evaluate the fitness and propriety of the "Relevant personnel", composed by:

- members of the AMSB;
- members of the Board of Statutory Auditors, if any (meaning the board of persons with a control and auditing role, whose appointment is required by applicable legislation or by-laws, excluding external auditing firms);
- key managers (meaning the persons effectively running the business, responsible for high level decision making and for the implementation of the strategies devised and the policies approved by the AMSB);
- personnel of the control functions,
- personnel exerting control over certain outsourced activities (meaning at least the persons exerting control over the outsourced activities in case such activities are internal audit, risk management, compliance, actuarial function or anti-money laundering).

Fitness requirements

The AMSB of Group insurance and reinsurance companies must collectively possess appropriate experience and knowledge about at least:

- the market in which the company operates, meaning an awareness and understanding of the broader relevant business, economic and market environment and an awareness of the level of knowledge and needs of customers;
- business strategy and business model, meaning a detailed understanding of the company's business strategy and model;
- system of governance, meaning awareness and understanding of the risks that the company is facing and the capability to manage them as well as the ability to assess the effectiveness of the company's arrangements to deliver effective governance, oversight and controls in the business and, if necessary, oversee changes in these areas;
- actuarial and financial analysis, meaning the ability to assess the company's actuarial and financial information, identify and assess key issues and take any necessary measures (including appropriate controls) based on this information;
- regulatory framework and requirements, meaning awareness and understanding of the regulatory framework in which the company operates, in terms of both regulatory requirements and expectations and ability to adapt to changes in the regulatory framework without delay.

The AMSB of the Group companies other than insurance and reinsurance companies must collectively possess appropriate experience and knowledge on the above fields depending on the specific business sector in which they operate.

The members of the Board of Statutory Auditors (if any) must comply with the fitness requirements provided by the applicable local legislation.

Each Key Manager as well as the personnel of the control functions must possess the professional qualifications, knowledge and experience which are appropriate and adequate to hold all the roles he/she is in charge of.

The personnel exerting control over outsourced activities must possess sufficient professional qualifications, knowledge and expertise to discharge such control activity. In particular, at a minimum level, the person who has overall responsibility for the outsourced activities must possess enough knowledge and experience regarding the outsourced function to be able to challenge the performance and the results of the service provider.

Proper requirements

In addition to the professional requirements, Group companies must evaluate if the Relevant personnel is suitable to perform the role and responsibilities assigned to them based on local legislation, and is reliable with a good reputation.

The professional integrity of the Relevant personnel is assessed on the basis of evidence regarding the following:

- criminal convictions;
- negative assessments by competent supervisory authorities stating the inadequacy of the person to hold the relevant office;
- serious disciplinary or administrative measures applied as a consequence of wilful misconduct or gross negligence, also related to relevant breaches of the Group Code of Conduct and the implementing provisions.

Criminal convictions and disciplinary measures should be assessed in relation to laws governing banking, financial, securities or insurance activity, or concerning securities markets or securities or payment instruments, including, but not limited to, laws on money laundering, market manipulation, or insider dealing and usury, as well as any offences of dishonesty such as fraud or financial crime. They also include any other serious criminal offences under legislation relating to companies, bankruptcy, insolvency or consumer protection.

The following situations will automatically preclude Relevant personnel from being appointed or continuing in their current role:
- a definitive conviction in relation to the above mentioned laws, or
- a definitive conviction providing for a detention period of at least two years for any offence with criminal intent, or
- the existence of any of the other situations under b) and c) mentioned above.

Negative information other than that listed above, including non-definitive criminal convictions, will not automatically preclude Relevant personnel from being appointed or continuing in their current role. Unless otherwise provided by the applicable legislation, previous infringements do not automatically result in the person not being assessed as proper for the duties he/she has to perform. While criminal, disciplinary or administrative convictions or past misconduct are significant factors, the assessment of the proper requirements is to be done on a case by case basis. Hence, consideration needs to be given to the type of misconduct or conviction, the level of appeal (definitive vs. non-definitive convictions), the lapse of time since the misconduct or conviction, and its severity, as well as the person's subsequent conduct.

Subject to local laws, the content of the labour contracts of the Relevant personnel must ensure the enforcement of the Group Policy provisions mentioned above and compel Relevant personnel to notify their Group company if any of the above situations have arisen.

Evaluation of fit and proper requirements

The evaluation of the AMSB members must be executed by the AMSB itself in one of the first meetings after their appointment, at least once a year (as a general rule, when approving the annual financial statements) and whenever a change in the composition of the AMSB occurs (e.g. in the event of replacement of one of the members of the corporate body, following the revocation or withdrawal of such member). When a sole director is appointed, the evaluation is performed by the subject (within the Group) who has the power to appoint him/her (in most cases the shareholders).

The evaluation of Key Managers must be executed by the subject or the collective body in charge of their appointment according to the applicable corporate governance rules.

The evaluation of the Heads of the control functions must be executed by the AMSB of each Group company when appointing the Heads of the relevant control functions and on an ongoing basis (at least annually). The evaluation of the personnel must be executed by the Head of the control function.

The evaluation of the personnel exerting control over outsourced activities must be executed by the person in charge of appointing such personnel.

Moreover, the HR Department of the relevant Group company must request to key managers, all personnel of the control functions and all personnel exerting control over outsourced activities a written self-declaration, at least on an annual basis, confirming the adherence of such persons to the current fit & proper standards.

The relevant personnel must promptly communicate any fact and/or circumstance that leads to the loss of their fit &/or proper requirements to the person or body in charge of the evaluation of their fit and proper requirements.

B.3. Risk management system including the own risk and solvency assessment

B.3.1. Risk management system

Group Risk Management Policy

The principles defining the Group risk management system, including strategies, processes and reporting procedures, are provided in the Generali Group Risk Management Policy, which is the cornerstone of all risk-related policies and guidelines. The Group Risk Management Policy covers all risks on a current and forward-looking basis and is implemented in a consistent manner across the Group.

Generali Group’s risk management process is defined in the following phases:

1. Risk identification

The purpose of risk identification is to ensure that all material risks to which the Group is exposed are properly identified. To this end, the Risk Management Function interacts with the main business functions in order to identify the main risks, assess their importance and ensure that adequate measures are taken to mitigate them according to a sound governance process. Within this process also emerging risks[9] related to new risks and developing trends, characterised by uncertain evolution and often of systemic nature, are considered.

Hence the Group main risks identification process is based on the results of the above local risk identification processes.

2. Risk measurement

Identified risks can be measured through their contribution to the Solvency Capital Requirement (SCR), complemented by other modelling techniques deemed appropriate and proportionate to better reflect the Group risk profile. Using the same metric for measuring the risks and the capital requirements ensures that each risk is covered by an adequate amount of capital that could absorb the loss incurred if the risk materialises. For SCR calculation purposes 1 in 200 years events are considered.

The SCR is calculated by means of the Group’s PIM[10] for financial, credit, life and non-life underwriting risks. Operational risks are measured by means of standard formula, complemented by qualitative risk assessments. The PIM provides an accurate representation of the main risks to which the Group is exposed to, measuring not only the impact of each risk taken individually but also their combined impact on the Group’s own funds.

For the scope of the Group PIM in terms of companies please refer to section E.4. Entities not included in the PIM scope calculate the capital requirement based on standard formula.

Other risks, for which no SCR is calculated, such as liquidity, reputational, strategic, contagion, emerging and additional Group specific risks (i.e. risks from intragroup transactions, risk concentrations), are evaluated on the basis of quantitative and qualitative techniques, models and additional stress testing or scenario analysis.

3. Risk management and control

The risks which the Group is exposed to are managed on the basis of the Group Risk Appetite Framework (RAF), defined by the Board of Directors of Assicurazioni Generali S.p.A. The Group RAF defines the level of risk the Group is willing to accept in conducting business and thus provides the overall framework for embedding risk management into business processes. In particular, the RAF includes the statement of risk appetite, the risk preferences, the risk metrics and the levels of tolerances.

The purpose of the Group RAF is to set the desired level of risk exposure on the basis of the Group strategy. The Group RAF statement is complemented by qualitative assertions (risk preferences) supporting the decision-making processes as well as by risk tolerances providing quantitative boundaries, limiting excessive risk-taking. These are expressed in terms of hard and soft tolerances. Tolerance levels are set on the basis of capital and liquidity metrics.

The Group RAF governance provides a framework for embedding risk management into day-to-day and extraordinary business operations and control mechanisms as well as the escalation and reporting to be applied in case of risk tolerance breaches. Should an indicator approach or breach the defined tolerance levels, escalation mechanisms are activated.

4. Risk reporting

The purpose of risk reporting is to keep business functions, Senior Management and AMSB aware and informed on the development of the risk profile, the trends of single risks and about the breaches of risk tolerances on an ongoing basis.

The main risk reporting tool, being the Own Risk and Solvency Assessment (ORSA), is described in section B.3.3.

9 Major details on emerging risk definition are provided in section C.7.

10 For the list of companies applying the Group PIM please refer to section E.4. For the other entities the standard formula is applied. Other financially regulated entities apply local sectorial requirements.

Risk Management Function

The Risk Management Function supports the AMSB and Senior Management in ensuring the effectiveness of the risk management system and provides advice and support to the main business decision-making processes (in particular for the strategic planning process, the strategic asset allocation, the product development process, as well as for extraordinary operations management).

In terms of risk governance, a description of how the above Risk Management Function is implemented and integrated into the organisational structure and decision-taking processes is provided in the section B.1. General Information on System of Governance.

B.3.2. Internal model framework: governance and validation

Internal model governance

As anticipated, underwriting, financial and credit risks are measured by means of the PIM, which has been approved by the Supervisory Authority for the calculation of the SCR.

The Group PIM is structured around a Risk Map, which contains all quantifiable risks that Generali Group has identified as relevant to its business, allowing for the calculation of the SCR at single risk level and at higher aggregation levels.

Governance and processes regarding the Group PIM are defined in the Group Internal Model Governance Policy, ensuring that:

- models and components are appropriate for their purpose;
- procedures are in place to design, implement, use and validate new models and model changes;
- the appropriateness of models on an ongoing basis is verified.

To rule the activities related to the Internal Model developments necessary to ensure its appropriateness over time and, more in general, to support the Internal Model change process, the Group Internal Model Change Policy has been also defined with the aim to specify roles and responsibilities in the implementation of major and minor changes.

A dedicated committee, the Internal Model Committee, has been established to approve Group PIM calibrations, to support the Group CRO in the decision-making process on Group PIM developments or model changes and to control the full model lifecycle, assuring proper compliance with the Group Internal Model Governance Policy. This Committee is chaired by the Model Design Authority, in the person of the Head of Group Enterprise Risk Management, responsible for ensuring the overall consistency and reliability of the Group PIM. The members of the Internal Model Committee are all the Model Owners and the Model Design Authority and possibly further participants required by the Model Design Authority.

The Internal Model Committee is in charge of providing proposals/advice on the Internal Model matters before the submission to Group CRO and ensures the escalation process from Model Owner to the Board of Directors of Assicurazioni Generali S.p.A., if there are not resolved issues.

The Group CRO defines the processes and controls to ensure the ongoing appropriateness of the design and operations of the Group PIM, so that it continues to appropriately reflect the Group risk profile. The Group CRO is also responsible for defining the methodology of each model component, on the basis of the Group Internal Model Committee's proposals, as well as for the results production and ultimately for submitting the relevant Internal Model supporting documentation to the Board of Directors of Assicurazioni Generali S.p.A.

The Group CEO reviews with the support of the Balance Sheet Committee the relevant Internal Model supporting documentation before the submission to the Board of Directors of Assicurazioni Generali S.p.A. by the Group CRO. The Board of Directors, assisted by the Risk and Control Committee, ensures the ongoing appropriateness of the design and operations, the ongoing compliance of the Group PIM and also that the Group PIM continues to appropriately reflect the risk profile of the Group.

These roles are generally mirrored within the organisational structure of each Group company within the PIM scope.

No material changes have occurred during the period with reference to the PIM governance.

Internal model validation

The Group PIM is subject to regular independent validation, which aims to gain independent assurance of the completeness, robustness and reliability of the processes and results of the Group PIM as well as their compliance with the Solvency II regulatory requirements.

The validation process follows the principles and procedures defined within the Group Internal Model Validation Policy and related guidelines.

In particular, the validation outputs are designed to support Senior Management and Board of Directors in understanding the appropriateness of the Group PIM, including areas of weaknesses and limitations, especially with regard to its use.

To ensure an adequate level of independence, the resources performing the validation activities are not involved in the development and operation of the Group PIM.

Within the validation process results obtained during previous validation cycles are also taken into account, as well as developments within internal and external business environment, financial market trends and Group PIM changes. The Internal Model validation process excludes those aspects covered by the assurance work of the Group Actuarial Function (i.e. technical provisions and related IT systems, actuarial platforms and their governance).

Furthermore, the validation process also serves as an incentive mechanism to ensure timely and accurate incorporation of modelling refinements.

In order to warrant the appropriateness of the array of elements contained within the Group PIM, the validation covers both the quantitative and qualitative aspects of the Model, and is therefore not limited to the calculation engine and methodology. Other important items such as data quality, documentation and uses of the Model are validated accordingly.

The validation process is carried out on regular annual basis and when requested by the Board of Directors or Senior Management (e.g. in case of PIM changes).

B.3.3. ORSA Process

The purpose of the ORSA is to provide the assessment of risks and of the overall solvency needs on a current and forward-looking basis.

The ORSA includes the assessment and reporting of all risks on the basis of the strategic plan. The ORSA process includes the assessment of all risks, both quantifiable in terms of SCR and other risks that are not included in the SCR calculation (for example, the liquidity risk). Within the ORSA process, stress tests and sensitivity analyses are also performed to assess the resilience of the solvency position and risk profile to changed market conditions or specific factors.

Generali Group applies a Group-wide process, which implies that each Group company is responsible for the preparation of its own ORSA Report and the Parent Company coordinates the Group ORSA reporting process.

At Group level, the process is coordinated by the Group Risk Management Function, supported by other functions for what concerns own funds, technical provisions and other risks. The Group ORSA Report, documenting main results of this process, is produced on an annual basis. A non-regular ORSA Report can also be produced in case of significant changes of the risk profile. The Group Compliance review of the Report is also foreseen. The Group ORSA Report is reviewed by the Senior Management and after the discussion and approval by the Board of Directors of Assicurazioni Generali S.p.A., assisted by the Risk and Control Committee, it is submitted to the Supervisory Authority.

The ORSA process ensures an ongoing assessment of the solvency position based on the Strategic Plan and the Group Capital Management Plan. In particular, during the strategic plan finalisation phase, the forward-looking risk assessment is also updated in line with the Group Capital Management Plan.

Risk and capital management are closely integrated processes. This integration is deemed essential in order to align capital and business management processes.

The ORSA relies on the Capital Management Plan as well to assess the adequacy and quality of own funds to cover the overall solvency needs during the planning period.

To grant risk and business strategy alignment on ongoing basis, the Risk Management Function actively supports the strategic planning and the plan definition processes.

B.4. Internal control system

As already stated in paragraph B.1, Assicurazioni Generali S.p.A., in its capacity as parent company of the Generali Group, has adopted the “Group Directives on Internal Control and Risk Management System”, with a view of ensuring that the internal control system of each relevant Group company is based on the same key elements, roles and responsibilities.

According to the aforementioned policy, the internal control system of Group companies must be founded on the set-up of the following three lines of defence:
- operating functions (risk owners), which represent the first line of defence and have ultimate responsibility for risks related to their area of expertise;
- actuarial, compliance and risk management functions, which represent the second line of defence;
- internal audit, which represents the third line of defence.

The internal control system must be effective and well integrated into the organisational structure and in the decision-making processes, thereby ensuring compliance with applicable laws, regulations and administrative provisions as well as operational effectiveness and efficiency of Group companies.

Controls are an integral part of every business process. Therefore, the heads of operational departments (i.e. the risk owners) have direct responsibility to take charge for risks falling under their respective competence, manage them and implement appropriate control measures. To this end, they must provide the Senior Management with the information needed to define the policies, methods and tools for the management and control of the risks for which they are responsible, oversee their implementation and ensure their adequacy over time. They also ensure that the operational departments under their responsibility comply with their objectives and policies, implement corrective actions within the scope of their autonomy, while on a higher hierarchical level, they submit specific recommendations or proposals to the Senior Management.

In addition, Group companies must establish actuarial, compliance and risk management functions as second line of defence and the internal audit function as third line of defence according to the provisions of the relevant Group policies.

Control functions must be independent from operational functions and, as a consequence, they must: (i) retain the responsibility for taking the decisions necessary for the proper performance of their duties without interference from others and (ii) be able to report their results and any concerns and suggestions to the AMSB without restrictions as to their scope or content.

Compliance operating model

Assicurazioni Generali S.p.A., in its capacity as parent company of the Generali Group, has adopted the “Group Compliance Management System Policy” which includes the fundamental rules on how compliance must be embedded in the daily operations and how the compliance function must be implemented. In this respect, the above-mentioned policy defines the operating model of the global compliance function across the Group.

In particular, the core processes included under the compliance operating model are the following:
- risk identification;
- risk evaluation;
- risk mitigation;
- risk monitoring;
- reporting and planning.

The risk identification process is aimed at ensuring that the requirements arising in connection with both the internal and the external regulations are identified and allocated under the responsibility of the relevant operational functions.

The risk evaluation process is aimed at assessing, also under a forward-looking perspective, the risks which each Group company is exposed to and the level of adequacy of the internal control system to achieve its goals. The compliance function, together with the risk management function, performs and supports risk owners in risk assessment activities and ensures that Group methodologies are applied.

The risk mitigation process aims to ensure the adoption of all actions necessary for the correct implementation of the requirements set out by the internal and external regulations. In particular, the compliance function ensures that appropriate training programs for all employees are delivered on a regular basis, internal regulations and procedures are defined and minimum standard for controls identified, in cooperation with the operational functions.

The risk monitoring process aims to achieve an updated picture on the ability of the Group company to manage compliance risks. Such process consists in the collection and periodical analysis of specific data and indicators that ensure the effective deployment of such risk monitoring.

The reporting process aims to ensure that appropriate information flows towards senior management and the AMSB of each Group company in such a way as to allow these parties to make decisions that take into account the level of exposure of the Group company to compliance risks and to assess the adequacy and effectiveness of their internal control systems to manage such risks.

B.5. Internal audit function

Within the Generali Group, the internal audit activities are performed by Group Audit, consisting of the totality of the Internal Audit Functions in all companies belonging to the Generali Group, as per the organisational rules defined in the Group Audit Policy, approved by the Board of Directors of Assicurazioni Generali.

In particular, as provided by the Group Audit Policy, each Group company shall be subject to an audit activity guaranteed by a function set up in accordance with the principles stated in the above Policy. The Internal Audit Function is generally located within the company responsible for the development of the business in the country. Additional Internal Audit Functions are set up in the same country only when audit activities need to be carried out in sectors that are not related to the insurance sector.

Based on this model, the Head of the local Internal Audit Function reports to the local AMSB and, in addition, has a solid reporting line, to the Head of Group Audit.

The reporting structure that has been implemented ensures autonomy to act and independence from operational management as well as more effective communication flows. The model covers the methodologies to be used, the organisational structure to be adopted, the objectives set and the year-end appraisal, the reporting methods, as well as the proposed audit activities to be included in the local internal audit plan to be submitted to the local AMSB for approval.

In addition to the audit activity carried out by the local Internal Audit Functions, in any moment Group Audit carries out specific audits on Group companies either independently in agreement with local AMSB or working alongside the local Internal Audit Functions.

Each local Internal Audit Function is an independent, effective and objective function established by the local AMSB to examine and evaluate the adequacy, functioning, effectiveness and efficiency of the internal control system and all other elements of the system of governance, with a view of improving the efficacy and efficiency of the internal control system of the organisation and its governance processes.

The local Internal Audit Function has full, free, unrestricted and timely access to any and all of the organisation's records, physical properties and personnel pertinent to carry out any audit activity, with strict accountability for confidentiality and safeguarding records and information. The Head of the local Internal Audit Function has free and unrestricted access to the AMSB.

Group Audit governs itself by adherence to the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. The Head of the Internal Audit Function should have an open, constructive and cooperative relationship with regulators, which supports sharing of information relevant to carry out their respective responsibilities.

The activity of the local Internal Audit Function remains free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal Auditors do not have operational responsibility or authority over any of the activities audited. Accordingly, they are not involved in operational organisation of the company or in developing, introducing or implementing organisational or internal control measures. However, the need of impartiality does not exclude the possibility to request from the local Internal Audit Function an opinion on specific matters related to the internal control principles to be complied with.

At least annually, the Head of local Internal Audit Function proposes to the local Risk and Control Committee an internal audit plan before submitting it for approval to the local AMSB.

The internal audit plan is developed based on a prioritisation of the audit universe using a risk-based methodology, taking into account all activities, the system of governance, the expected development of activities and innovation, including input from local management and the AMSB. Planning takes into account any deficiencies found during audits already performed as well as any new or emerging risks detected.

Each internal audit plan submitted includes timing as well as budget and resource requirements. The Head of the local Internal Audit Function communicates the impact of any resource limitations and significant interim changes to the AMSB.

The internal audit plan is reviewed at least on a bi-annual basis and it is also possibly adjusted in response to changes in the organisation's business, risks, operations, programs, systems, controls and findings. Where necessary, the local Internal Audit Function may carry out audits which are not included in the internal audit plan or advisory services related to governance, risk management and control as appropriate for the organisation.

All audit activities are carried out following a consistent methodology common at Group Level. The scope of auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives.

Following the conclusion of each audit activity, a written audit report is prepared and issued to the auditee and the auditee's hierarchy. This report indicates the significance of the issues found and covers at least any issues regarding the efficiency and suitability of the internal control system, as well as major shortcomings regarding compliance with internal policies, procedures and processes. It includes the agreed corrective actions to be taken concerning the issues identified and also the agreed deadlines for the implementation of these corrective actions.

The Head of the local Internal Audit Function, at least on a bi-annual basis, provides the local AMSB with a report on activities performed and significant issues found during the period and a proposal of an action plan. The local AMSB determines what actions are to be taken with respect to each issue and ensures that these actions are carried out. However, in the event of any particularly serious situations, the Head of local Internal Audit will immediately inform the local Risk and Control Committee and the AMSB.

Group Audit is responsible for monitoring appropriate follow-up on issues raised and agreed actions.

Group Audit maintains a quality assurance and improvement program that covers all aspects of audit activities and involves local Internal Audit functions. The program includes an evaluation of the audit activity's conformance with the Group Audit Manual, the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the audit activity and identifies opportunities for improvement.

B.6. Actuarial function

The Generali Group's actuarial function, called Group Actuarial Function, was created in 2015 to comply with the Solvency II regulation.

The main responsibilities of the function are the following:
- coordinate the calculation of Group technical provisions;
- ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of Group technical provisions;
- assess the sufficiency and quality of the data used in the calculation of Group technical provisions;
- compare best estimates against experience;
- inform the Board of Directors of the reliability and adequacy of the calculation of Group technical provisions;
- express an opinion on the overall Group underwriting policy;
- express an opinion on the adequacy of Group reinsurance arrangements; and
- contribute to the effective implementation of the risk-management system.

In addition, the Group Actuarial Function also defines the common reference framework to be followed by the local actuarial functions of the Generali Group companies, with reference to the calculation and the assessment of the adequacy of the technical provisions (in terms of methodology, process, monitoring and reporting procedure) and in forming and expressing the opinion on the local underwriting policy and reinsurance arrangements. The local actuarial functions apply the common reference framework to fulfil the above listened responsibilities with reference to the technical provisions, underwriting policy and reinsurance arrangements at local level.

The Group Actuarial Function is located under the Chief Financial Officer area to ensure an effective coordination for the calculation of technical provisions. To preserve the independence in carrying out his activities, the head of the actuarial function functionally reports to the Board of Directors, to which he has independent and direct access. Moreover, his performance management, which does not include business objectives, is evaluated by the Board of Directors.

Within this framework and as required by the Solvency II regulation, the head of the actuarial function produces a written report to be submitted to the Board of Directors at least annually. This report provides with the opinions on the reliability and adequacy of the calculation of Group technical provisions, on the overall Group underwriting policy and on the adequacy of Group reinsurance arrangements and documents all tasks that have been undertaken by the actuarial function and their results, reports possible remarks and suggested remediation actions.

The function is provided with a number of resources proportionate to the nature, scale and complexity of the assigned tasks. The personnel hold appropriate actuarial qualifications (with a degree in actuarial sciences, statistics or mathematics, or other finance/insurance-specific post-graduate qualifications) and with the knowledge and skills necessary to the proper exercise of the relevant responsibilities.

B.7. Outsourcing

The Group Outsourcing Policy is intended to set consistent minimum mandatory outsourcing standards at Group level, assign main outsourcing responsibilities and ensure that appropriate controls and governance structures are established within any outsourcing initiative.

The Policy applies to all Group legal entities, outlining the main principles to be followed when implementing outsourcing.

The Policy introduces a risk-based approach, adopting a proportionality principle to apply requirements according to the risk profile (distinguishing between critical and non critical outsourcing), the materiality of each outsourcing agreement and the extent which the Generali Group controls service providers.

The Group Outsourcing Policy implemented in the Generali Group defined a set of qualitative and quantitative criteria to be adopted in each Group Legal Entity in order to identify critical or important operational functions or activities outsourced. The Policy criteria are:

Qualitative criteria

- Regulatory criteria: functions / activities without which the Group legal entity's ability to maintain its business authorization would be compromised shall be considered critical;
- Internal control system criteria: control functions, i.e. internal audit, compliance, risk management and actuarial functions, shall be considered critical;
- Business criteria: functions / activities that are essential to the operation of the business shall be considered critical (i.e. the Group legal entity, without the function, would be unable to deliver its services to customers, achieve its business strategy and objectives, or would face serious reputation issues).

Quantitative criteria (if applied)

- Materiality criteria: are to be defined giving consideration to the size of the agreement, the volume and / or value of functions / activities to be outsourced and the potential financial impacts generated if those functions / activities were performed unsatisfactorily or not performed.

Each Legal Entity adopted the criteria and classified its outsourcing contract portfolio as well as defined new processes in order to capture and classify new outsourcing initiatives.

The Policy requires for each outsourcing agreement the appointment of a specific business referent. The business referent is responsible for the overall execution of the outsourcing lifecycle, from risk assessment to the final management of the agreement and subsequent monitoring activities of Service Level Agreements defined in each contract.

The outsourcing of critical or important operational functions or activities is implemented mainly through an "in-country" model, in which the supplier is resident in the same country as the Group company client.

Main outsourced critical or important functions or activities are listed in the table below (based on the number of active contracts) and they are outsourced mainly to Intra Group companies.

Outsourced Activity (services provided to Group Entities)
IT Infrastructure and Software Management
Accounting and Balance Sheet Management
Control Functions
Investments
Portfolio Management
Claims Management
Anti money laundering

B.8. Any other information

Assessment on the adequacy of the system of governance

The Risk and Control Committee supports the Board of Directors of Assicurazioni Generali S.p.A. in the assessment of the adequacy and effectiveness of the internal control and risk management system across the Group, based on the relevant Group policies. In the course of 2017, such assessment was completed in March and July.

Afterwards, in March 2018, the Board of Directors of Assicurazioni Generali S.p.A., based on the opinions of the Risk and Control Committee, the Group CEO (in his capacity as Director in charge of the internal control and risk management system) and the Group heads of the control functions, expressed its positive opinion as to the overall adequacy and effectiveness of the internal control and risk management system across the Group.

Other material information on the system of governance of the Group

No other material information on the system of governance of the Group have to be reported.

C. Risk Profile

C.1. Underwriting Risk

C.1.1. Life Underwriting Risk

Risk exposure

Life and health underwriting risks derive from the Group's core insurance business in the life and health segment. The major part of the business and the related risks derive from direct business underwritten by the Group. Health business represents a minor component of the portfolio.

Life and health underwriting risks can be distinguished in biometric and operating risks embedded in the life and health insurance policies. Biometric risks derive from the uncertainty in the assumptions regarding mortality, longevity, health, morbidity and disability rates taken into account in the insurance liability valuations. Operating risks derive from the uncertainty regarding the amount of expenses and the adverse exercise of contractual options by policyholders. Policy lapse is the main contractual option held by the policyholders, together with the possibility to reduce, suspend or partially surrender the insurance coverage.

Life and health underwriting risks are:

- mortality risk, defined as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in mortality rates, where an increase in mortality rates leads to an increase in the value of insurance liabilities. Mortality risk also includes mortality catastrophe risk, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events;
- longevity risk that, similarly to mortality, is defined as the risk resulting from changes in mortality rates, where a decrease in mortality rates leads to an increase in the value of insurance liabilities;
- disability and morbidity risks derive from changes in the disability, sickness, morbidity and recovery rates;
- lapse risk is linked to the loss or adverse change in liabilities due to a change in the expected exercise rates of policyholder options. The relevant options are all legal or contractual policyholder rights to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover or permit the insurance policy to lapse. Mass lapse events are also considered;
- expense risk results from changes in the expenses incurred in servicing insurance or reinsurance contracts;
- health risk results from changes in health claims and also includes health catastrophe risk.

The life portfolio is given by traditional business, which mainly includes insurance with profit participation, and unit linked products which incidence is progressively increasing along the Group business mix rebalancing process. The prevailing component of traditional business includes products with insurance coverage linked to the policyholders' life and health. It also includes pure risk covers, with related mortality risk, and some annuity portfolios, with the presence of longevity risk. The vast majority of the insurance coverage includes legal or contractual policyholder rights to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover or permit the insurance policy to lapse, or to fully or partially establish, renew, increase, extend or resume the insurance or reinsurance cover. For this reason, the products are subject to lapse risk.

Risk measurement

The approach underlying the life underwriting risk measurement is based on the calculation of the loss resulting from unexpected changes in biometric and/or operating assumptions. Capital requirements for life underwriting risks are calculated on the basis of the difference between the Solvency II technical provisions before and after the application of the stress.

Life underwriting risks are measured by means of the Group PIM[11].

The SCR for life underwriting risks amounts to €4,119 million before diversification (equal to 12.2% of total SCR before diversification) and €1,349 million after the diversification with other risks (equal to 5.1% of total SCR after diversification). In terms of contribution to the risk profile, it is to be noted that life underwriting risks are well diversified with other risk categories, the overall contribution to the risk profile therefore remains limited. There are no substantial changes to be reported over the reporting period.

Risk management and mitigation

Life underwriting risk management is based on two main processes:

- accurate pricing;
- ex-ante selection of risks through underwriting.

11 For the scope of the Group PIM please refer to section E.4. Entities not included in the PIM scope calculate the capital requirement based on standard formula.

Product pricing consists of setting product features and assumptions regarding expenses, biometric and policyholders' behaviour to allow the Group to withstand any adverse development in the realisation of these assumptions.

For savings business, this is mainly achieved through profit testing, while for protection business with a biometric component, it is achieved by setting prudent assumptions.

For insurance portfolios with a biometric risk component, comprehensive reviews of the mortality experience are compared with expected mortality of the portfolio, determined according to the most up-to-date mortality tables available in each market. To this end, mortality by sex, age, policy year, sum assured and other underwriting criteria are taken into consideration to ensure mortality assumptions remain adequate and avoid the risk of misestimating for the next underwriting years.

The same annual assessment of the adequacy of the mortality tables used in the pricing is performed for longevity risk. In this case, not only biometric risks are considered but also the financial risks related to the minimum interest rate guarantee and any potential mismatch between the liabilities and the corresponding assets.

Lapse risk, related to voluntary withdrawal from the contract, and expense risk, related to the uncertainty around the expenses that the Group expects to incur in the future, are evaluated in a prudential manner in the pricing of new products. This evaluation is taken into account in the construction and profit testing of a new tariff, considering the underlying assumptions derived from the Group's experience.

As part of the underwriting process, Generali Group adopts underwriting guidelines and a Risk Management Function review on the product approval process is foreseen.

Moreover, a particular emphasis is placed on the underwriting of new contracts with reference to medical, financial and moral hazard risks. The Group has defined clear underwriting standards through manuals, forms, medical and financial underwriting requirements. For insurance riders, which are most exposed to moral hazard, maximum insurability levels are also set, lower than those applied for death covers. In order to mitigate these risks, policy exclusions are also defined.

Regular risk exposure monitoring and adherence to the operative limits, reporting and escalation processes are also in place, allowing for potential remedial actions to be undertaken.

Finally, reinsurance represents the main risk mitigating technique. The Parent Company acts as a core reinsurer for the Group companies and cedes part of the business to external reinsurers.

The Group reinsurance strategy is developed consistently with the risk appetite and with the risk preferences defined in the Group Risk Appetite Framework (RAF), and with the reinsurance market cycle. The definition of a reinsurance arrangement is based on the process managed by Reinsurance Function in constant interaction with Risk Management and Actuarial Functions.

No transfers of life underwriting risks to SPVs are reported at YE2017.

Risk concentrations

No significant risk concentrations within life underwriting risks are to be reported.

C.1.2. Non-life underwriting risk

Risk exposure

Non-life underwriting risks arise from the Group's insurance business in the P&C segment. Non-life underwriting risks include the risk of underestimating the frequency and/or severity of the claims in defining pricing and reserves (respectively pricing risk and reserving risk), the risk of losses arising from extreme or exceptional events (catastrophe risk) and the risk of policyholder lapses from P&C insurance contracts. In particular:

- pricing and catastrophe risks derive from the possibility that premiums are not sufficient to cover future claims, also in connection with extremely volatile events and contract expenses;
- reserving risk relates to the uncertainty of the claims reserves (in a one-year time horizon);
- lapse risk arises from the uncertainty of the underwriting profits recognised in the premium provisions.

Risk measurement

Non-life underwriting risks are measured by means of the Group PIM[12]. For the majority of risks assessed through the PIM, the assessments are based on in-house developed models and external models that are primarily used

12 For the scope of the Group PIM please refer to section E.4. Entities not included in the PIM scope calculate the capital requirement based on standard formula.

to assess the catastrophic events, for which broad market experience is considered beneficial.

The SCR for non-life underwriting risks amounts to €5,145 million before diversification (equal to 15.2% of total SCR before diversification) and €3,270 million after the diversification with other risks (equal to 12.3% of total SCR after diversification).

There are no substantial changes to be reported over the reporting period.

Moreover, the Group uses additional indicators for risk concentrations. This is specifically the case for catastrophe risks and commercial risks, which are both coordinated at central level as they generally represent a key source of concentration.

Risk management and mitigation
Based on the Group RAF, P&C risk selection starts with an overall proposal in terms of underwriting strategy and corresponding business selection criteria. During the strategic planning process, targets are established and translated into underwriting limits to ensure business is underwritten according to the Plan. Underwriting limits define the maximum size of risks and classes of business that Group companies shall be allowed to write without seeking any additional or prior approval. The limits may be set based on value, risk type, product exposure or class of occupancy. The purpose of these limits is to attain a coherent and profitable book of business founded on the expertise of each company.

Additional indicators such as relevant exposures, risk concentration and risk capital figures are used for the purpose of P&C underwriting risk monitoring. The indicators are calculated on a quarterly basis to ensure alignment with the Group RAF.

Reinsurance is the key mitigating technique for balancing the P&C portfolio. It aims to optimise the use of risk capital by ceding part of the underwriting risk to selected counterparties, whilst simultaneously minimising the credit risk associated with such operations.

The P&C Group Reinsurance Strategy is developed consistently with the risk appetite and the risk preferences defined in the Group RAF on one side and taking into account the reinsurance market on the other.

The Group has historically preferred traditional reinsurance as a tool for mitigating catastrophe risk resulting from its P&C portfolio, adopting a centralised approach where the placement of reinsurance towards the market is managed through a central Group Reinsurance Function.

Given the trend of increasing weight of European windstorm exposures in the protected portfolio in the past years, part of these exposures have been carved out from the main reinsurance protection and placed in the Insurance Linked Securities (ILS) market, offering more competitive terms, whilst keeping the dominant Italian exposure in the traditional reinsurance market with a consequent optimisation of the overall pricing. This approach has been extended during 2017 also to other CAT risks (earthquakes in Italy and floods).

Alternative risk transfer solutions are continuously analysed and implemented. As an example, in addition to traditional reinsurance, a protection was placed during the year on the capital market to reduce the impact of an unexpectedly high Loss Ratio for the Group Motor liability portfolio. Such transfer represents a partial transfer of pricing risk to the special purpose vehicle named Horse.

The process described and the regular assessment performed enable to confirm the adequacy of the risk mitigation techniques. These are carried out by the Risk Management Function which is responsible for the validation of the limits proposed by the Insurance and Reinsurance Function and for the measurement, monitoring and reporting of the Group underwriting risk profile.

Risk concentrations
In terms of CAT risk, the Group's largest exposures are earthquakes in Italy, European windstorms and European floods. Less material catastrophe risks are also taken into account and assessed by means of additional scenario analysis.

The management of risk concentrations referred to CAT events (man-made events and natural disasters) follows the principles defined in the Group Risk Concentrations Management Policy, further described in section C.6.1.

C.2. Market risk[13]

Risk exposure

The Group is exposed to the market risks due to its investments in financial assets and is driven by asset prices volatility.

Moreover, there are the risks that either:

- invested assets not performing as expected because of falling or volatile market prices;
- reinvested proceeds of existing assets being exposed to unfavourable market conditions, such as lower interest rates.

Generali Group traditional life savings business is a long-term business, therefore the Group holds mostly long-term investments which have the ability to withstand short-term decreases and fluctuations in the market value of assets.

Nonetheless, the Group manages its investments in a prudent way according to the so-called Prudent Person Principle[14], and strives to optimise the return of its assets while minimising the negative impact of short-term market fluctuations on its solvency position.

Under Solvency II, the Group is also required to hold a capital buffer, with the purpose of maintaining a sound solvency position even in the circumstances of adverse market movements.

Within the life business, the Group assumes a considerable financial risk when it guarantees policyholders with a minimum return on the accumulated capital over a, potentially, long period. Should the yields generated by the financial investments be lower than the guaranteed return, then the Group shall compensate the shortfall for those contractual guarantees. In addition, independently on the achieved asset returns, the Group has to secure that the value of the financial investments backing the insurance contracts remains sufficient to meet the value of its obligations.

Unit linked business typically does not represent a source of financial risk for insurers (except when there are guarantees embedded in the contracts), although market fluctuations typically have profitability implications.

Regarding P&C business, the Group has to ensure that the benefits can be paid on a timely basis when claims occur.

The description of the assets portfolio is provided in section A.3. In respect to off-balance sheet items, it has to be noted that in the internal model the value of collaterals held to hedge the counterparty risk produced by contracts with third parties, are subject to a haircut accounting for the potential losses that might be originated from market and credit risks.

In more detail, the Group is exposed to the following generic financial risk types:

- equity risk deriving from the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the level of equity market prices which can lead to financial losses;
- equity volatility risk deriving from changes in the volatility of equity markets. Exposure to equity volatility is typically related to equity option contracts or to insurance products sold with embedded guarantees whose market consistent value is sensitive to the level of equity volatility;
- interest rate risk, defined as the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the level of interest rates in the market. The Group is mostly exposed to downward changes in interest rates as lower interest rates increase the present value of the promises made to policyholders more than the value of the assets backing those promises. As a result, it may become increasingly costly for the Group to maintain its promises, thereby leading to financial losses. Linked to that, interest rate volatility risk derives from changes in the level of interest rate implied volatilities. This comes, for example, from insurance products sold with embedded minimum interest rate guarantees whose market consistent value is sensitive to the level of interest rates volatility;
- property risk deriving from changes in the level of property market prices. Exposure to property risk arises from property asset positions;
- currency risk deriving from adverse changes in exchange rates;
- concentration risk deriving from asset portfolio concentration to a small number of counterparties.

13 This section focuses on financial risks which better represent the taxonomy of the Generali Group.

14 The “Prudent Person Principle” set out in Article 132 of Directive 2009/138/EC requires the company to only invest in assets and instruments whose risk can be identified, measured, monitored, control and reported as well as taken into account in the company overall solvency needs. The adoption of this principle is ruled in the Group Investment Governance Policy (GIGP).

Risk measurement

Financial risks are measured by means of the Group PIM[15]. In particular, losses are modelled as follows:

- equity risk is modelled by associating each equity exposure to a market index representative of its industrial sector and/or geography. Potential changes in market value of the equities are then estimated based on past shocks observed for the selected indices;
- equity volatility risk models the impact that changes in the equity implied volatility can have on the market values of derivatives;
- interest rate risk models the changes in the term structure of the interest rates for various currencies and the impact of these changes on any interest rate sensitive assets and also on the value of future liability cash-flows. With respect to the previous year, the interest rate model has been updated in order to provide a better risk description in a current low-rates market environment;
- interest rate volatility risk models the impact that the variability in interest rate curves can have on both the market value of derivatives and on the value of liabilities sensitive to interest rate volatility assumptions (such as minimum pension guarantees). With respect to the previous year, the interest rate volatility model has been updated in order to provide a better risk description in the current low-rates market environment;
- property risk models returns on a selection of published property investment indices and the associated impact on the value of the Group's property assets. These are mapped to various indices based on property location and type of use;
- for currency risk the plausible movements in exchange rate of the reporting currency of the Group in respect to foreign currencies are modelled, as well as the consequent impact on the value of asset holdings not denominated in the domestic currency;
- for concentration risk the extent of additional risk borne by the Group due to insufficient diversification in its equity, property and bond portfolios is assessed.

The SCR for financial risks amounts to €13,156 million before diversification (equal to 38.8% of total SCR before diversification) and €11,522 million after the diversification with other risks (equal to 43.4% of total SCR after diversification).

The most material market risk for the Group is equity risk, followed by interest rate and property risks. With respect to the previous year, equity risk has slightly increased due to the increased assets value in a positive market environment and interest rate risk has decreased as a consequence of higher interest rates (as compared to the very low levels at YE2016).

Risk management and mitigation (Prudent Person Principle)

As anticipated, assets are invested, and more generally the investment activity is performed in a sound and prudent manner in accordance with the Prudent Person Principle, following the provisions set in the Group Investment Governance Policy (GIGP).

To ensure a comprehensive management of the impact of financial and credit risks on assets and liabilities, the Group Strategic Asset Allocation (SAA) process needs to be liability-driven and strongly interdependent with insurance-specific targets and constraints. For this reason the Group has integrated the Strategic Asset Allocation (SAA) and the Asset Liability Management (ALM) within the same process.

The aim of the SAA&ALM process is to define the most efficient combination of asset classes which, according to the Prudent Person Principle, maximises the investment contribution to value creation, taking into account solvency, actuarial and accounting indicators. The aim is not just to mitigate risks but also to define an optimal risk-return profile that satisfies both the return target and the risk appetite of the Group over the business planning period.

The asset portfolio is then invested and rebalanced according to the asset class and duration weights. One of the main risk mitigation techniques used by the Group is liability-driven management of the assets and the regular use of rebalancing.

The liability driven investment helps granting the comprehensive management of assets whilst taking into account the liability structure; while, at the same time, the regular rebalancing redefines target weights for the different assets classes and durations, alongside the related tolerance ranges defined as investment limits. This technique contributes to an appropriate mitigation of financial risks.

15 For the scope of the Group PIM please refer to section E.4. Entities not included in the PIM scope calculate the capital requirement based on standard formula.

ALM&SAA activities aim at ensuring that the Group holds sufficient and adequate assets in order to reach defined targets and meet liability obligations. For this purpose, analyses of the asset-liability relationship under a range of market scenarios and expected/stressed investment conditions are undertaken.

Close interaction between the Investment, Finance (incl. Treasury), Actuarial and Risk Management Functions is pursued in order to ensure that the ALM&SAA process remains consistent with the Group RAF, the strategic planning and the capital allocation processes.

The annual SAA proposal:
- defines target exposure and limits for each relevant asset class, in terms of minimum and maximum exposure allowed;
- embeds the asset and liabilities duration mismatches permitted and potential mitigation actions that can be enabled on the investment side.

Regarding specific asset classes, such as (i) private equity, (ii) alternative fixed income, (iii) hedge funds, (iv) derivatives and structured products, the Group has mainly centralised their management and monitoring.

These kinds of investments are subject to accurate due diligence in order to assess their quality, the level of risk related to the investment and its consistency with the approved liability-driven SAA.

In addition to the risk tolerance limits set on the Group solvency position within the Group RAF, the current Group risk monitoring process is also integrated by the application of the Group Investments Risk Guidelines (GIRG). The GIRG include general principles, quantitative risk limits (with a strong focus on credit and market concentration), authorisation processes and prohibitions that Group entities need to adhere to.

The Group also uses derivatives with the aim of mitigating the risk present in the asset and/or liability portfolios. The derivatives help the Group to improve the quality, liquidity and profitability of the portfolio, according to the business planning targets. Operations in derivatives are likewise subject to a regular monitoring and reporting process.

No transfer of market risk to special purpose vehicles is reported at YE2017.

Risk concentrations

Due to the good diversification of the investment portfolio, the Group is not exposed to significant concentration.

The management of risk concentrations referred to investment exposures follows the principles defined in the Group Risk Concentrations Management Policy, further described in section C.6.1.

Sensitivity analysis

Sensitivity analyses have been conducted on the main risk drivers to which the Group is exposed, which include increases and reductions of the interest rates (+/- 50bps), reductions in the long-term interest rates (Ultimate forward rate -15bps) and equity shocks of 25%. Under these stressed conditions, the Group solvency position showed the following variations:
- +4 percentage points in case of increase of interest rates by 50bps;
- -7 percentage points in case of decrease of interest rates by 50bps;
- -1 percentage point in case of decrease of Ultimate forward rate by 15bps;
- +5 percentage points in case of increase of equity price by 25%;
- -6 percentage points in case of decrease of equity price by 25%.

Details on the impact of such analyses are provided in section C.7.

C.3. Credit risk

Risk exposure

The Group is exposed to credit risks related to invested assets and also arising from other counterparties (e.g. cash, reinsurance).

Credit risks include the following two categories:
- spread widening risk, defined as the risk of adverse changes in the market value of debt security assets. Spread widening can be linked either to the market's assessment of the creditworthiness of the specific obligor (often implying also a decrease in rating) or to a market-wide systemic reduction in the price of credit assets;
- default risk, defined as the risk of incurring in losses because of the inability of a counterparty to honour its financial obligations.

An overview on assets portfolio is provided in section A.3. In respect to off-balance sheet items, it has to be noted that in the internal model the value of collaterals held to hedge the counterparty risk produced by contracts with third parties, are subject to a haircut accounting for the potential losses that might be originated from market and credit risks.

The Prudent Person Principle is also applied in the optimisation of the portfolio allocation with respect to credit risks, following the process already described in the section C.2. Market risk.

Risk measurement

Credit risks are measured by means of the Group PIM[16]. In particular:

- credit spread risk models the possible movement of the credit spread levels for bond exposures of different rating, industrial sector and geography based on the historical analysis of a set of representative bond indices. Spread-sensitive assets held by the Group are associated with specific indices based on the characteristics of their issuer and currency;
- default risk models the impact of default of bond issuers or counterparties to derivatives, reinsurance and other transactions on the value of the Group's assets. Distinct modelling approaches have been implemented to model default risk for the bond portfolio (i.e. credit default risk) and the risk arising from the default of counterparties in cash deposits, risk mitigation contracts (such as reinsurance), and other types of exposures (e.g. counterparty default risk).

The Group PIM's credit risk model evaluates spread risk and default risk also for sovereign bond exposures. This approach is more prudent than the standard formula, which treats bonds issued by EU Central Governments and denominated in domestic currency as exempt from credit risk.

The SCR for credit risks amounts to €9,196 million before diversification (equal to 27.1% of total SCR before diversification) and €7,965 million after the diversification with other risks (equal to 30.0% of total SCR after diversification).

The most material credit risk for the Group is spread widening risk, followed by default risk in the bond portfolio. With respect to the previous year, the risk has been slightly reduced thanks to the positive market trend resulting in slightly lower default probabilities and spread shocks.

The credit risk assessment is based on the credit rating assigned to counterparties and financial instruments. To limit the reliance on external rating assessments provided by rating agencies, an internal credit rating assignment framework has been set within the Group Risk Management Policy.

Within this framework additional rating assessments can be performed at counterparty and/or financial instrument level and ratings need to be renewed at least annually. This process applies even where an external rating is available. Moreover, additional assessments shall be performed each time the parties involved in the process possess any information, coming from reliable sources, that may affect the creditworthiness of the issuer/issues.

Risk management and mitigation

The most important strategy for the managing of credit risk used by the Group is the application of a liability-driven SAA, which can limit the impact of the market spread volatility. In addition, the Group is actively mitigating counterparty default risk by using a collateralisation strategy that strongly alleviates the losses that the Group might suffer as a result of the default of one or more of its counterparties.

The credit risk monitoring process also relies on the Group Investments Risk Guidelines (GIRG), already described in section C.2. Market Risk.

No credit risk mitigation strategy based on derivatives and no transfer of credit risk to special purpose vehicles are reported at YE2017.

Risk concentrations

In terms of credit risk concentration, the largest exposures are towards sovereign and supranational counterparties, among which the most significant are Italy, France and Spain.

The management of risk concentrations referred to reinsurance counterparty default risk stemming from ceded reinsurance follows the principles defined in the Group Risk Concentrations Management Policy, further described in section C.6.1.

16 For the scope of the Group PIM please refer to section E.4. Entities not included in the PIM scope calculate the capital requirement based on standard formula.

Sensitivity analysis
Sensitivity analyses have been conducted on the main risk drivers to which the Group is exposed, which include the increase of Italian government bonds spread (in the amount of 100bps) and corporate spreads (in the amount of 50bps). Under these stressed conditions, the Group solvency position showed the following variations:

- -12 percentage points in case of spread widening on Italian government bonds (BTP) by 100bps;
- -3 percentage points in case of spread widening on corporate bonds by 50bps.

Details on the impact of such analyses are provided in section C.7.

C.4. Liquidity risk

Risk exposure
Liquidity risk is defined as the uncertainty, emanating from business operations, investment or financing activities, over the ability of the Group and its companies to meet payment obligations in a full and timely manner, in a current or stressed environment.

The Group is exposed to liquidity risk from its insurance and reinsurance operating activity, due to the potential mismatches between the cash inflows and the cash outflows deriving from the business.

Liquidity risk can also stem from investing activity, due to potential liquidity gaps deriving from the management of the asset portfolio as well as from a potentially insufficient level of liquidity in case of disposals (e.g. capacity to sell adequate amounts at a fair price and within a reasonable timeframe).

Liquidity risk from financing activity is related to the potential difficulties in accessing the primary market of debt or in paying excessive financing costs.

The Group can be also exposed to liquidity outflows related to issued guarantees, commitments, derivative contract margin calls, or regulatory constraints.

Risk measurement
The Group liquidity risk management framework relies on projecting cash obligations and available cash resources over defined time horizons, to monitor that available liquid resources are at all times sufficient to cover cash obligations that will become due in the same horizons.

A set of liquidity risk metrics (liquidity indicators) has been defined to monitor the liquidity situation of each Group insurance company on a regular basis. All such metrics are forward-looking, i.e. they are calculated at a future date based on projections of cash flows, assets and liabilities and on the assessment of the level of liquidity of the asset portfolio.

The metrics are calculated under both the so-called “base scenario”, in which the values of cash flows, assets and liabilities correspond to those projected according to each company’s Strategic Plan scenario, and a set of so-called “stress scenarios”, in which the projected cash inflows and outflows, the market price of assets and the amount of technical provisions are calculated to take into account unlikely but plausible circumstances that would adversely impact the liquidity of each company.

Liquidity risk limits have been defined in terms of value of the above-mentioned liquidity indicators. The limit framework is designed to ensure that each Group company holds a “buffer” of liquidity in excess of the amount required to withstand the adverse circumstances described in the stress scenarios.

Generali Group has defined a set of metrics to measure liquidity risk at Group level, based on the liquidity metrics calculated at company level. The Group manages expected cash inflows and outflows in order to maintain a sufficient available level of liquid resources to meet its medium-term needs. The Group metrics are forward-looking and are calculated under both the base and stress scenarios.

The annual assessment shows a solid liquidity profile for Generali Group, without substantial changes compared to the previous year.

Risk management and mitigation
The Group has established clear governance for liquidity risk management, including specific limit setting, as mentioned above, and the escalation process in case of limit breaches or other liquidity issues.

The principles for liquidity risk management designed at Group level are fully embedded in strategic and business processes, including investments and product development.

Since Generali Group explicitly identifies liquidity risk as one of the main risks connected with investments, indicators as cash flow duration mismatch are embedded in the Strategic Asset Allocation process. Investment limits are set to ensure that the share of illiquid assets remains within the level that does not impair the Group's asset liquidity.

The Group has defined in its Life and P&C Underwriting Policies the principles to be applied to mitigate the impact on liquidity from surrenders in life business and claims in non-life business.

Generali Group has set investment limits that the companies must adhere to that limit risk concentrations by taking into consideration a number of dimensions, including asset class, counterparty, credit rating and geography. In fact, material liquidity risk concentrations could arise from large exposures to individual counterparties and/or groups. In case of default or other liquidity issue of a counterparty towards which a significant risk concentration exists, this may negatively affect the value or the liquidity of the Group's investment portfolio and hence its ability to promptly raise cash by selling the portfolio to the market in case of need.

C.4.1. Expected profit included in future premiums

The Expected Profit Included in Future Premiums (EPIFP) represents the expected present value of future cash-flows which result from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts, that are expected to be received in the future, but that may not be received for any reason, other than the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the Policy.

The amount of EPIFP for the life business written by the Group has been calculated in accordance with article 260(2) of the Delegated Acts and amounts to €12,897 million (gross of reinsurance) at YE2017.

The amount of EPIFP for the non-life business written by the Group has been calculated in accordance with article 260(2) of the Delegated Acts and amounts to €1,167 million (gross of reinsurance) at YE2017.

The total amount of EPIFP is equal to €14,063 million (gross of reinsurance) at YE2017.

C.5. Operational risk

Risk exposure

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Losses from events such as fraud, litigation, damages to Generali premises, cyber-attacks and failure to comply with regulations are therefore covered in the definition. It also includes financial reporting risk but excludes strategic and reputational risks.

Risk measurement

Operational risks are measured following the standard formula approach.

The SCR for operational risks amounts to €2,261 million (equal to 6.7% of total SCR before diversification and 8.5% of total SCR after diversification).

There are no substantial changes to be reported over the reporting period.

Risk management and mitigation

Although ultimate responsibility for managing the risk sits in the first line, the so-called risk owners, the Risk Management Function with its methodologies and processes ensures an early identification of the most severe threats across the Group. In doing so, it provides management at all levels with a holistic view of the broad operational risk spectrum that is essential for prioritising actions and allocating resources in most risk related critical areas.

The target is achieved by adopting methodologies and tools in line with industry best practices and by establishing a strong dialogue with the first line of defence.

Furthermore, since 2015, the Group has been exchanging operational risk data in an anonymous fashion through the “Operational Risk data eXchange Association (ORX)”, a global association of operational risk practitioners where main industry players also participate. The aim is to use the data to improve internal controls and to anticipate emerging trends. In addition, since losses are collected by the first line, the process contributes to create awareness among the risk owners upon risks that actually impact the Group. In this sense, a primary role is played by Group-wide forward-looking assessments that aim to estimate the evolution of the operational risk exposure in a given time horizon, supporting in the anticipation of potential threats, in the efficient allocation of resources and related initiatives.

Based on the last assessments, the most relevant scenarios at Group level are related to cyber-attacks and non-compliance risks, with respect to sectorial regulatory developments.

To further strengthen the internal control systems and in addition to the usual risk owners' responsibilities for managing their risks, the Group established specialised units within the first line of defence with the scope of dealing with specific threats (e.g. cyber risk, fraud, financial reporting risk) and that act as a key partner for the Risk Management Function.

Another benefit from this cooperation is constituted by a series of risk mitigating measures triggered across the Group as a result of control testing, assessments, and the collection of operational risk events.

An example is the creation of a dedicated unit for the management and coordination of the Group-wide IT Security that steers the evolution of the IT security strategy and operating model, ensuring a timely detection and fixing of the vulnerabilities that may affect the business. This initiative helps the Group to better cope with the growing threat represented by cyber risk.

C.6. Other material risks

C.6.1. Risk concentrations

Concentration risk is the risk stemming from all risk exposures with a potential loss which is large enough to threaten the solvency or the financial position. Risk concentrations are significant when they can threaten the solvency or the liquidity position of the Group, thus substantially impacting the Group risk profile. Significant risk concentrations, in the case of financial conglomerates, can only arise from risk exposures towards counterparties which are not part of the financial conglomerate. Such exposures may cause concentrations of counterparty risk/credit risk, investment risk, insurance risk, market risk, other risks or a combination or interaction of these risks.

Generali identifies three categories of exposures in terms of main sources of concentration risk for the Group:

- investment exposure stemming from investment activity;
- exposure to reinsurance counterparty default risk stemming from ceded reinsurance;
- non-life underwriting exposure, specifically natural disasters or man-made catastrophes.

As a financial conglomerate, Generali is subject to supplementary supervision. In this context, Generali Group is required to report on a regular basis and at least annually any significant risk concentration at financial conglomerate level.

The annual assessment has outlined no significant risk concentrations at YE2017 that could undermine the solvency or liquidity situation of the Group.

C.7. Any other information

C.7.1. Emerging risks

Although not included in the calculation of SCR, as part of the Group risk identification process, emerging risks are also assessed. These risks arise from new trends or evolving risks, which are difficult to perceive and quantify, although typically systemic. These typically refer to technological changes (big data, blockchains, autonomous machines), environmental trends (climate change), geopolitical developments, regulatory developments. For the assessment of these risks and to raise the awareness on the implications of the emerging trends, Group Risk Management Function engages with a dedicated network, including specialists from business functions (e.g. Insurance, Investment, Actuarial, Sustainability and Social Responsibility, Marketing, etc.). The Group also participates to the Emerging Risk Initiative (ERI), a dedicated working group of the CRO Forum. Within ERI emerging risks common to the insurance industry are discussed and specific studies are conducted.

C.7.2. Sensitivity analyses

In addition to the calculation of the Solvency Capital Requirement, the Group regularly performs sensitivity analyses of the variability of its Solvency Ratio to changes in specific risk factors. The aim of these analyses is to assess the resilience of Generali Group capital position to the main risk drivers and evaluate the impact of a wide range of shocks.

For this purpose, several sensitivity analyses have been performed on YE2017, in particular:

- increase and decrease of interest rates by 50bps;
- decrease of the Ultimate Forward Rate (UFR) by 15bps;
- increase of Italian government bonds spread (*Buoni del Tesoro Poliennali* - BTP) by 100bps;
- increase of corporate bonds spread by 50bps;
- increase and decrease of equity values by 25%.

Related impacts are reported as follows:

Sensitivity analysis on main financial risk drivers

(€ million)	Base at YE2017	Interest rates +50bps	Interest rates -50bps	UFR -15bps	BTP spread +100bps	Corporate spread +50bps	Equity +25%	Equity -25%
Group own funds	45,880	46,465	45,168	45,701	43,876	45,650	48,321	43,443
Solvency Capital Requirement	22,191	22,011	22,572	22,257	22,574	22,428	22,794	21,597
Solvency Ratio	**207%**	**211%**	**200%**	**205%**	**194%**	**204%**	**212%**	**201%**
Delta on Group own funds		585	-711	-178	-2,004	-230	2,442	-2,437
Delta on Solvency Capital Requirement		-180	381	66	383	237	603	-594
Delta on Solvency Ratio		**+4p.p.**	**-7p.p.**	**-1p.p.**	**-12p.p.**	**-3p.p.**	**+5p.p.**	**-6p.p.**

The analyses here reported show how Generali Group results are affected by changes in the above mentioned financial risk factors.

Even in case of unfavourable market conditions (decrease in interest rates or equity values, increase in spreads), Generali Group would still show a solid position, mainly due to a business profile characterised by a limited duration gap, a good loss absorption capacity of technical provisions and an average minimum guarantee steadily lower than the average portfolio return.

D. Valuation for Solvency Purposes

General valuation principles

In the present section a complete overview on the valuation of Solvency II items is provided, describing the criteria adopted for the fair value measurement as well as the methods and the assumptions used for the valuation of each class of asset and liability. The same valuation criteria for assets and liabilities are applied by all the undertakings in the Generali Group for the determination of their individual solvency position.

The general principles for the valuation of assets and liabilities are based on the Solvency II regulatory framework. The primary objective of the directive is the standardization of valuations and measurements for Solvency II balance sheet. As set out in Article 75 of Directive 2009/138/EC, Solvency II regulatory framework requires an economic, market-consistent approach to the valuation of assets and liabilities using assumptions that market participants would use in valuing the same asset or liability.

In order to define the Solvency II figures, all assets and liabilities on the balance sheet must be valued at fair value.

The valuation criteria adopted by Solvency II largely refer to and are developed in conformity with IFRS principles adopted by the European Commission. In broadly accepting valuation methods defined in IFRS, there are cases where IFRS valuation methods are not consistent with article 75 requirements. For this reason, in Solvency II environment specific balance sheet items have to be treated differently from relevant IFRS principle.

The main adjustments between IFRS and Solvency II assets and liabilities relate to:

- differences in the consolidation method of some entities included in the scope of consolidation;
- the elimination of the intangible assets including deferred acquisition costs and goodwill;
- the re-measurement of assets and liabilities different from technical provisions that are not measured at fair value in the IFRS financial statements;
- the re-measurement at fair value of financial liabilities excluding the change in own credit standing;
- the measurement of technical provisions, including reinsurance recoverables, according to Solvency II specifications;
- the recognition of contingent liabilities in case of specified conditions are met;
- the tax impacts related to the adjustments above.

In the following table, a comparison between Solvency II balance sheet and IFRS statutory balance sheet is provided.

A step-by-step approach is hereafter followed:

- the column “IFRS carrying amount” reports the official IFRS Balance Sheet figures aligned with the Solvency II required disclosure (in terms of assets and liabilities);
- the columns “ Reclassification” and “IFRS homogeneous perimeter” considers a reclassification of the IFRS amounts, to properly reflect the different Solvency II consolidation perimeter (in particular the treatment of Financial & Credit, Pension entities[17], as well as the Solvency II definition of specific balance sheet positions[18]) and the specific Solvency II rules[19] for presenting asset and liabilities;
- The last column “Solvency II value” reports the Market Value Balance Sheet (MVBS) in accordance with the Solvency II approach.

17 Reported as “Holding in related undertakings” within the Investments other than assets held for index-linked and unit-linked contracts.

18 In particular financial liabilities related to investment contracts are reclassified into Technical Provisions.

19 To take into consideration the non applicability of the IFRS 5 principles; at year end 17, the Dutch group was classified as discontinued operation.

Reconciliation between IFRS and Solvency II balance sheet

(€ million)	IFRS carrying amount	Reclassification (b - a)	IFRS homogeneous perimeter (b)	Change to SII value (c - b)	Solvency II value (c)
Goodwill, DAC and intangible assets	10,901	-111	10,790	-10,790	0
Deferred tax assets	2,091	-14	2,078	-760	1,317
Property, plant & equipment held for own use	2,969	-227	2,742	701	3,443
Investments (other than assets held for index-linked and unit-linked contracts)	377,154	1,619	378,773	8,872	387,645
Assets held for index-linked and unit-linked contracts	74,780	12,198	86,978	0	86,978
Loans and mortgages	12,299	-5,960	6,340	357	6,697
Reinsurance recoverables	4,259	232	4,491	-874	3,617
Deposits to cedants	766	504	1,270	1	1,271
Receivables	14,514	270	14,785	25	14,810
Own shares	0	0	0	3	3
Cash and cash equivalents	6,781	-491	6,290	0	6,289
Any other assets, not elsewhere shown *	30,558	-28,677	1,881	-90	1,791
Total assets	**537,073**	**-20,656**	**516,416**	**-2,557**	**513,860**

(€ million)	IFRS carrying amount (a)	Reclassification (b - a)	IIFRS homogeneous perimeter (b)	Change to SII value (c - b)	Solvency II value (c)
Technical provisions	425,099	26,952	452,051	-23,342	428,710
Contingent liabilities	0	0	0	8	8
Provisions other than technical provisions	1,930	-45	1,885	-282	1,603
Pension benefit obligations	3,943	191	4,133	0	4,134
Deposits from reinsurers	578	32	610	92	702
Deferred tax liabilities	2,533	120	2,653	6,644	9,296
Liabilities derivatives	1,423	26	1,449	-5	1,444
Financial liabilities	31,317	-25,371	5,946	439	6,385
Payables	11,761	-145	11,616	0	11,615
Subordinated liabilities	8,378	1	8,379	552	8,931
Any other liabilities, not elsewhere shown	23,934	-22,416	1,518	-6	1,512
Total liabilities	**510,896**	**-20,656**	**490,239**	**-15,900**	**474,340**
Excess of assets over liabilities	**26,177**	**0**	**26,177**	**13,343**	**39,520**

* The item “Any other assets, not elsewhere sown” includes also the amount of Pension benefit surplus.

Reconciliation between IFRS and Solvency II balance sheet

The Generali Group applies the “method 1” as consolidation method, as foreseen by the Solvency II directive.

This approach entails the full line by line consolidation for insurance and reinsurance undertakings, while, for sectoral entities (investment firms, financial institutions, institutions for occupational retirement provision and non-regulated entities carrying out financial activities), the ‘deduction and aggregation‘ method is applied. According to this method, the fair value of participation in sectoral entities, originally accounted for as investment in related undertakings, is deducted and substituted by the available capital calculated in accordance with the sectoral rules (i.e.: Basel III for banking institutions) for the definition of Group solvency position. In any case, the Group Solvency is not affected by any reciprocal financing among undertakings of the Group.

In the following table, a comparison between Year End 2016 and Year End 2017 Market Value Balance Sheet (Solvency II values) is provided.

Market Value Balance Sheet

(€ million)	31/12/2017	31/12/2016
Goodwill, DAC and intangible assets	0	0
Deferred tax assets	1,317	1,723
Property, plant & equipment held for own use	3,443	3,545
Investments (other than assets held for index-linked and unit-linked contracts)	387,645	380,491
Assets held for index-linked and unit-linked contracts	86,978	78,382
Loans and mortgages	6,697	7,187
Reinsurance recoverables	3,617	3,176
Deposits to cedants	1,271	1,727
Receivables	14,810	14,390
Own shares	3	3
Cash and cash equivalents	6,289	6,723
Any other assets, not elsewhere shown	1,791	1,783
Total assets	**513,860**	**499,130**

(€ million)	31/12/2017	31/12/2016
Technical provisions	428,710	421,497
Contingent liabilities	8	24
Provisions other than technical provisions	1,603	1,416
Pension benefit obligations	4,134	4,238
Deposits from reinsurers	702	481
Deferred tax liabilities	9,296	7,334
Liabilities derivatives	1,444	1,908
Financial liabilities	6,385	5,892
Payables	11,615	10,526
Subordinated liabilities	8,931	9,892
Any other liabilities, not elsewhere shown	1,512	1,572
Total liabilities	**474,340**	**464,780**

(€ million)	31/12/2017	31/12/2016
Excess of assets over liabilities	**39,520**	**34,350**

From year end 2016 to the year end 2017 the excess of asset over liabilities rise by +5.2 billion to 39.5 billion. The increase is mainly attributable to the positive normalised earnings generated by the Group, the positive impact of market conditions as well as to the operating variances, the latter reflecting positive experience and change in assumption of projecting model for the technical items.

For further details please refer to the section “E1 Own Funds”.

Fair value measurement

In the regulation it is clearly indicated the fair value hierarchy to be adopted in the valuation of assets and liabilities other than technical provisions. This approach leads insurance and reinsurance undertakings to value assets and liabilities at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

On this basis, the undertaking applies the following hierarchy of high level principles for valuation of assets and liabilities at the measurement date:

Level 1: use of quoted market prices in active markets for the same assets and liability[20];

Level 2: where the use of quoted market prices for the same assets or liability is not possible, different approaches can be adopted always leveraging on market data:
- the use of quoted market prices in active markets for similar assets or liability with adjustments to reflect differences or
- quoted prices for identical or similar assets or liability in markets that are not active or
- using valuation techniques based on inputs that are observable in the market;

Level 3: if there are no quoted market prices in active markets nor market input available, use of mark-to-model techniques. Those alternative valuation techniques have to be benchmarked, extrapolated or otherwise calculated as far as possible from a market input; an entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

In any case when a valuation technique has to be utilised to measure fair value, the entity shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Single or multiple valuation will be appropriate. If multiple valuation techniques are used to measure fair value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

Three widely used valuation techniques are:
- market approach: uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities;
- income approach: converts future amounts to a single current (i.e. discounted) amount using discounted cash flow analysis, option pricing models, and other present value techniques
- cost approach: reflects the amount that would be required currently to replace the service capacity of an asset.

D.1. Assets

This chapter outlines Solvency II valuation methods for the main classes of asset other than reinsurance recoverables, reporting the following information:
- description of the basis, methods and main assumptions used for valuation for solvency purposes;
- quantitative and qualitative explanation of any material differences between the basis, methods and main assumptions used by the undertaking for the valuation for solvency purposes and those used for their valuation in financial statements;
- the simplified aggregation of regulatory Asset classes into less granular clusters based on applicable law.

A description of the Solvency II valuation methods for the most relevant classes of assets other than reinsurance recoverables is given, complementary to the general valuation for Solvency purposes and the balance sheet template illustrated in the introduction.

The table below focuses on the differences between:
- Solvency II values;
- statutory accounts figures, based on IAS/IFRS principles driving the determination of the Generali Group consolidated IFRS financial statement.

20 An active market is a market where all the following conditions exist in accordance to the principles defined by the IFRS:
- the items traded within the market are homogeneous,
- willing buyers and sellers can normally be found at any time,
- prices are available to the public.

On the contrary, to determine whether the market is not active, an analysis of the significance and relevance of the following factors shall be performed on the basis of the evidence available:
- significant decline in trading volume and level of trading activity,
- available prices vary significantly over time or between market participants,
- available prices are not current or are mark-to-model,
- a significant trading volume is between related parties,
- trading has restrictions

Total Assets - 31.12.2017

(€ million)	IFRS carrying amount (a)	Reclassification (b - a)	IFRS homogeneous perimeter (b)	Change to SII value (c - b)	Solvency II value (c)
Goodwill, DAC and intangible assets	10,901	-111	10,790	-10,790	0
Deferred tax assets	2,091	-14	2,078	-760	1,317
Property, plant & equipment held for own use	2,969	-227	2,742	701	3,443
Investments (other than assets held for index-linked and unit-linked contracts)	377,154	1,619	378,773	8,872	387,645
Property (other than for own use)	12,865	1,161	14,025	6,798	20,823
Holdings in related undertakings	1,165	1,823	2,987	1,197	4,185
Equities	13,259	-2,977	10,282	-88	10,193
Government bonds	177,092	-2,322	174,770	45	174,816
Corporate bonds, structured notes and collateralized securities	137,487	732	138,219	1,324	139,544
Collective investments undertakings	31,677	2,957	34,634	-74	34,561
Assets derivatives	2,264	-22	2,242	-332	1,910
Deposits other than cash equivalents	785	265	1,050	0	1,050
Other investments	560	3	563	0	563
Assets held for index-linked and unit-linked contracts	74,780	12,198	86,978	0	86,978
Loans and mortgages	12,299	-5,960	6,340	357	6,697
Reinsurance recoverables	4,259	232	4,491	-874	3,617
Non-life business	3,180	1	3,181	-695	2,486
Life business	1,079	231	1,310	-179	1,130
Deposits to cedants	766	504	1,270	1	1,271
Receivables	14,514	270	14,785	25	14,810
Own shares	0	0	0	3	3
Cash and cash equivalents	6,781	-491	6,290	0	6,289
Any other assets, not elsewhere shown	30,558	-28,677	1,881	-90	1,791
Total assets	**537,073**	**-20,656**	**516,416**	**-2,557**	**513,860**

Solvency II values reflect the adoption of the transitional measure allowed for the pension business portfolio (RPS: retraite professionnelle supplémentaire) of the life entity Generali Vie and both assets and Technical Provisions of this portfolio are valued according to French accounting standards on a historical basis determining valuation differences between IFRS and Solvency II balance sheet. See chapter E for further details.

Goodwill, DAC and intangible assets

A different valuation from IAS/IFRS measurement is required for goodwill, DAC and intangible assets. For Solvency II purposes, Group entities value at zero goodwill, deferred acquisition costs and intangible assets other than goodwill, unless the intangible assets can be sold separately and the insurance and reinsurance undertaking can demonstrate that there is a quoted market price for the same or similar assets.

Currently, the amount of intangible assets for the Generali Group Solvency II balance sheet is set to nil.

Deferred taxes

In this section, the net position between Deferred Tax Assets and Deferred Tax Liability is commented.

Solvency II deferred taxes (DT) are based on the difference between the Solvency II value of assets and liabilities and the value for tax purposes on an item by item basis, using the expected tax rate to be applied when assets (liabilities) are realised (settled) and considering potential impact of any announcement of amendment to tax rate. The discounting of DT is not allowed.

According to the Solvency II framework, deferred taxes emerge from temporary differences with tax values of assets and liabilities, and, when applicable, from tax losses/credits carry-forwards.

A positive value is ascribed to deferred tax assets when it is probable that future taxable profit will be available against which the deferred tax asset can be utilised, taking into account any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits.

Different from a deferred tax liability (DTL), the recognition of a deferred tax asset (DTA) is subject to a recoverability test, which aims at showing that sufficient taxable income will be available in the future to absorb the tax credit, since a DTA can only be recognised to the extent that it is probable that future taxable profit will be available against which the DTA can be used, taking into account the existence of tax groups and any legal or regulatory requirements on the limits (in terms of amounts or timing) related to the carry forward of unused tax losses or the carry forward of unused tax credits. DTA can be offset against a DTL at fiscal entity (or tax group if any) level[21], provided that those deferred tax assets and associated deferred tax liabilities both arise from the tax law of one Member State or third country and the taxation authority of that Member State or third country permits such offsetting.

As far the Market Value Balance Sheet, the netting between deferred tax assets and deferred tax liabilities is applied. In particular the Deferred Tax Liabilities (DTL) exceed the amount of Deferred Tax Assets (DTA): the net amount counts for Euro 7,979 million at year end 2017.

The major part of DTA and DTL arise from the Solvency II valuation of financial instruments and properties as well as technical provisions compared to their tax base and IFRS valuation.

In the following table a detail of Net deferred Taxes by relevant Asset/Liabilities classes is provided with a focus on the expiry date for each item. DTL exceed the DTA for each expiry date.

21 Generali group performs the netting between DTA and DTL according to IAS 12 § 74 and in consideration of IVASS regulation n. 34/2017 (cfr. art.20). In addition to that, for the determination of Solvency II Own Funds, the Delegated Acts 2015/35 art.76 (a) states that only the net position of Deferred Taxes can be classified as Tier 3.

Net Deferred Taxes by Expiry Date - 31.12.2017

		Expiry Date			
	Total	Up to 1 year	Between 2 and 5 years	More than 5 years	Unlimited
DAC & Intangible assets	954	209	371	252	121
Investments (including Real Estate self used)	-8,364	-258	-802	-2,706	-4,598
Land and buildings (investment properties, self-used, property inventries and held for sale), plant & equipement held for own use	-1,360	-4	-2	-129	-1,226
Investments in subsidiaries, associated companies, joint ventures and investment vehicles	-1,235	-2	0	-1	-1,232
Equities	-385	2	8	71	-466
Other investments, loans and mortgages, assets held for index-linked and unit-linked funds	-5,384	-254	-808	-2,648	-1,674
Net Insurance Provision and Reinsurance Deposits	-2,126	-194	63	-361	-1,635
Financial Liabilities	373	3	147	59	165
Other Items	1,183	-7	12	58	1,120
Net Deferred Taxes	**-7,979**	**-247**	**-208**	**-2,698**	**-4,826**

Investments

In the table below reported, the total of investments split by valuation level is reported:

	1 - Quoted market price in active markets for the same assets	2 - Quoted market price in active markets for similar assets	3 - Alternative valuation methods
Total Investments	74.8%	15.6%	9.6%

Level 1 in the FV hierarchy, “Quoted market price in active markets for the same assets”, is mainly used in the valuation of Government Bonds, Corporate Bonds and Equities. Level 2 in the FV hierarchy is the category applied in case a quoted market price is not available and similar assets are considered as standard for a fair valuation. Alternative valuation methods, level 3 in the FV hierarchy, are mainly used for the valuation of Real Estate Investments, Derivatives and Deposits other than cash equivalents.

Property (held for own use and for investment), plant & equipment

In this section, Properties held for own used and Property for Investments are considered together with Plant and Equipment since the valuation method applied is substantially consistent.

Properties are recognised at amortised cost for statutory accounts, while Solvency II measurement is at fair value.

In terms of valuation, properties are mainly valuated on the basis of inputs of similar assets in active markets or of discounted cash flows of future income and expenses of the rental considered as part of the higher and best use by a market participant. In particular, the valuation takes into consideration not only the discounted net future income but also the peculiarities of the properties such as intended use and location as well as the entity of the vacancy rate.

In addition:
- for residential properties, the best evidence of fair value is normally given by current prices on an active market for similar property in the same location and condition and subject to similar lease and other contracts, with adjustments to reflect differences;
- for properties used by the tenant for production or administrative purposes (commercial,office), the best evidence of fair value is normally given by discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms or any existing lease and other contracts and (where possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the flows;
- for property inventories, net realisable value[22] is a consistent option that should be amended if the estimated costs of completion and necessary to make the sale are material.

Investments – holdings in related undertakings

A holding (participation) in related undertakings is constituted by share ownership or by the full use of a dominant or significant influence over another undertaking. When classifying a participation based on share ownership, directly or by way of control, the participating undertaking identify:
- its percentage holding of voting rights and whether this represents at least 20% of the potential related undertaking's voting rights (paid-in ordinary share capital); and
- its percentage holding of all classes of share capital issued by the related undertaking and whether this represents at least 20% of the potential related undertaking's issued share capital (paid-in ordinary share capital and paid-in preference shares).

Where the participating undertaking's holding represents at least 20% in either case its investment should be treated as a participation.

The hierarchy used by the Generali Group to value holdings in related undertakings for Solvency purposes is the following:
- Quoted market price
- Adjusted equity method (if no active market)
- IFRS equity method (if non-insurance)
- Alternative techniques (if associates or joint controlled entities)

Moving from IFRS to Solvency II valuation, the change in value of holdings in related undertakings is mainly due to the different treatment of financial sector entities (financial and credit institutions, IORP and UCITS) and other residual subsidiaries performing not homogeneous business. Specifically, applying Solvency II rules, financial sector entities are not consolidated line by line but classified as participations; whereas, for IFRS purposes, these are consolidated line by line.

Investments – Equities

In this section, Equities listed and unlisted are aggregated.

The Solvency II valuation method for equity is in line with IFRS measurement. Therefore, no material differences arise between statutory accounts and Solvency II value. Some minor differences are attributable to the treatment of the French IORP business.

Investments – Government Bonds

According to Solvency II regulation, all bonds are recognised at IFRS fair value; while, for statutory accounts a part of bond portfolio, specifically the IFRS categories of loans and held to maturity, is recognised at IAS/IFRS amortised cost. This difference determines the change in values.

22 As stated by IAS 2, net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of business while fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. As the net realizable value is an entity-specific value, may not equal fair value less costs to sell.

Investments – Bonds (Corporate, Structured notes, Collateralised securities)

In this section, Corporate Bonds are aggregated with Structured notes and Collateralised securities.

According to Solvency II regulation, all bonds are recognised at IFRS fair value; while, for statutory accounts a part of bond portfolio, specifically the IFRS categories of loans and held to maturity, is recognised at IAS/IFRS amortised cost. This difference determines the change in values.

Investments – Asset Derivatives

The valuation method for derivatives is in line with IAS/IFRS fair value measurement. The difference that occurs moving from IFRS to Solvency II valuation for the Generali Group figures is ascribed to the different accounting treatment applied to the derivatives belonging to the French IORP business.

Loans and mortgages

In this section, Loans on policies, Loans and mortgages to individual so as Other loans and mortgages are aggregated.

According to IFRS valuation, loans are measured at amortised cost rather than at fair value. This implies a different valuation moving from IFRS to MVBS metrics: loans and mortgages are recognised at IAS/IFRS amortised cost for IFRS statutory accounts, while at fair value for Solvency II purpose

Deposits to cedants

The change to Solvency II value is due to the different accounting approach: deposits to cedants are recognised at IAS/IFRS amortised cost for statutory accounts, while Solvency II value recognised them at fair value. In dependence on the reinsurance agreement (if for instance the return of the deposit is the variable risk free return) the cost could represent an acceptable proxy of the fair value of the cash deposits; in some cases more enhanced models are used, based on cash flows related to the deposit and regulated by the reinsurance agreement itself.

Receivables

In this section, Reinsurance receivables, Insurance and intermediaries receivables and Receivables trade not insurance are aggregated.

Due to short duration and maturity and to the absence of expected interest cash-flows, receivables do not present relevant change to Solvency II value moving from statutory to Solvency II values as the IFRS values is considered a good approximation of fair value and therefore receivables are classified within level 3 of the fair value hierarchy. If appropriate, receivables are valued at market value, considering observable inputs.

Cash and cash equivalents

Due to short duration and maturity, cash and cash equivalents are not subject to relevant change for Solvency II purposes.

Any other assets, not elsewhere shown

In this section, pension benefit surplus is also aggregated.

All other assets are recorded at fair value under Solvency II, but by default the IFRS value is kept. This class of assets mainly include prepaid interest, deferrals and other accrued income.

D.2. Technical provisions

The Solvency II Group technical provisions at 31 December 2017 have been calculated according to the Solvency II regulation, as the sum of the best estimate of liabilities (BEL) and the risk margin (RM).

The BEL corresponds to the probability weighted average of the present values of future cash flows related to insurance and reinsurance obligations in force at the valuation date; therefore, it includes both a probabilistic assessment of their occurrence and an appropriate assessment of the time value of money, obtained for each relevant currency on the basis of the risk-free interest rate term structure at 31 December 2017, observed in the market and officially provided by EIOPA. The basic risk-free interest rate curves are derived, for the main currencies, from interbank swap rates and include an adjustment to consider the residual default risk of these instruments, the so-called credit risk adjustment. For Euro-denominated liabilities, representing more than 92% of the Generali Group's life technical provisions and 88% of the non-life technical provisions, the credit risk adjustment at 31 December 2017 is -10bps. Moreover, the valuation curve used for the BEL calculation can be further adjusted by means of the so-called volatility adjustment, to consider the additional return that can be achieved in a risk-free manner by the assets backing insurance liabilities. The currency specific volatility adjustment is provided by EIOPA (for Euro currency equal to +4bps at 31 December 2017) and is used for the valuation of most of the Group's portfolios.

The method used to derive the **BEL** is based on the projection and discounting of all expected future cash flows for the entire contract duration, in line with the contract boundaries defined by the regulation. In particular, the projections consider all cash in-flows related to future premiums and cash out-flows due to the occurrence of insured events (e.g. benefits and claims), the possible exercise of contractual options (e.g. surrender or paid-up options) and the expenses incurred in servicing insurance and reinsurance obligations.

In detail, in calculating the life technical provisions, the expected future cash flows are valued either in a deterministic scenario (i.e. certainty equivalent – methodology used for the valuation of contracts without any financial asymmetry) or as the mean value of a set of stochastic projections, to allow the calculation of the cost of financial guarantees and contractual options. The actuarial platforms also include specific assumptions on future management actions (e.g. management of asset allocation, of unrealised gains and losses, and of profit sharing funds) and on the dynamic policyholder behaviour (i.e. the variation of the policyholders' propensity to the exercise of contractual options at predefined terms depending on the different economic conditions).

In calculating the non-life technical provisions, a distinction is made for the outstanding claims, whether reported or not, occurred before the valuation date whose costs and related expenses have not been completely paid by that date (claims provisions) and the future claims of contracts that are either in force at the valuation date or for which a legal obligation exists to provide coverage (premium provisions). The BEL calculation of the claims provisions is based on actuarial methods commonly used in international practice, among which the most common are the Link Ratio, the Bornhuetter-Ferguson and the Average Cost per Claim methods. The BEL for premium provisions is calculated taking into account the cash in-flows related to future premiums and the cash out-flows related to future claims and expenses applying appropriate loss ratio and expense ratio (calculated according to a best estimate view) to the IFRS premiums reserves.

The Generali Group's BEL gross of reinsurance is determined on the basis of consolidated data, i.e. it is the sum of the BEL gross of reinsurance of the individual entities after the elimination of any intra-group reinsurance transaction, and no other consolidation or top-up adjustment is applied.

The **risk margin** is the part of technical provisions that ensures that the overall value of the technical provisions is equivalent to the amount a third party would theoretically require to take over and meet the insurance liabilities, taking into account the cost of capital required to support those liabilities over their remaining future lifetime and regarding non-hedgeable risks, i.e. underwriting risks, credit risks related to reinsurance contracts and operational risks.

In line with the regulation, the risk margin is calculated on a net of reinsurance basis separately for each entity of the Group and then aggregated to obtain the risk margin at Group level (i.e. no diversification benefit between entities and between life and non-life segment is considered). In detail, for each entity of the Group, the capital requirement needed to cover the non-hedgeable risks is determined using the internal model for the entities where it is approved and using the standard formula for all other entities of the Group. In both cases, as required by the regulation, risk capitals are calculated without the use of the volatility adjustment and considering the diversification benefits among different risks affecting the business of each entity. The projection of risk capitals and their allocation by line of business is performed using risk drivers specific to each risk. The yearly rate used to determine the cost of capital is 6%. The cost of capital of each projection year is discounted at the valuation date using the interest rate term structure at 31 December 2017 provided by EIOPA, without the volatility adjustment, for each relevant currency.

The technical provisions associated with a residual part of the portfolio (relating to non-material third country business) are valued via a simplified method. The adopted approach is considered proportionate to the nature, scale and complexity of the underlying risks.

Since the Group technical provisions are the result of the full consolidation of the technical provisions of the individual entities after the elimination of any intragroup reinsurance transaction and without any other consolidation or top-up adjustment, the bases, methods and assumptions used at Group level are the same as those used by the individual entities.

The consolidated **reinsurance recoverables**, i.e. the amounts expected to be recovered from reinsurance contracts, are obtained as the sum of the reinsurance recoverables associated with the extra-group reinsurance arrangements of each Group entity. They are valued either by means of precise projections of cash flows expected from extra-group reinsurance contracts or using a simplified method. The adopted approach is considered proportionate to the nature, scale and complexity of the underlying risks. In addition, as required by the Solvency II regulation, all reinsurance recoverables are reduced by the counterparty default adjustment to reflect the reinsurer's default risk.

Life technical provisions

SII Group life technical provisions: overview and details by component

The following table shows the amount of Solvency II Group life technical provisions at 31 December 2017 and at 31 December 2016, broken down by main components: best estimate of liabilities, risk margin and reinsurance recoverables net of the counterparty default adjustment.

SII life technical provisions

(€ million)	31/12/2017	31/12/2016
Best estimate of liabilities - gross of reinsurance	397,907	388,977
Risk margin	4,640	4,965
Technical provisions - gross of reinsurance	**402,547**	**393,942**
Reinsurance recoverables	1,130	1,113
Technical provisions - net of reinsurance	**401,417**	**392,829**

The life technical provisions increase from 31 December 2016 to 31 December 2017 (+2.2%) is explained mainly by the higher volumes and by the positive economic variances deriving from the revaluation of policyholders' benefits which have been higher than those expected within the Solvency II market consistent framework.

SII Group life technical provisions: details by line of business

The following table reports the amount of Solvency II Group life technical provisions (and of its main components) at 31 December 2017 with breakdown by main lines of business.

SII life technical provisions at 31/12/2017

(€ million)	BEL gross of reins.	Risk margin	SII TP gross of reins.
Life insurance other than index and unit linked	293,512	2,765	296,277
Index and unit linked	86,838	974	87,812
Health insurance similar to life	17,558	901	18,459
Total	**397,907**	**4,640**	**402,547**

With reference to technical provisions gross of reinsurance, the Group's portfolio is composed as follows:

- 74% of the portfolio is made up of traditional insurance, of which 96% is business with profit participation, mainly deriving from business underwritten in Italy, France, and Germany, whereas the remaining 4% is made up of business without profit participation;
- about 22% of the business refers to unit-linked contracts, mainly deriving from business underwritten in Italy, France, Germany, Ireland and Switzerland;
- the remaining business (less than 5%) is made up of health similar to life products, mainly deriving from business underwritten in Germany.

SII Group life technical provisions: comparison with IFRS reserves

The following table compares IFRS Group life reserves (inclusive of DPL, i.e. the liability for future profit sharing on unrealised capital gains/losses at valuation date) with Solvency II Group life technical provisions at 31 December 2017.

Life IFRS reserves and SII technical provisions at 31/12/2017

(€ million)	IFRS reserves gross of reins.	SII TP gross of reins.
Life insurance other than index and unit linked	304,342	296,277
Index and unit linked	97,235	87,812
Health insurance similar to life	19,127	18,459
Total	**420,704**	**402,547**

The difference between IFRS life reserves and Solvency II life technical provisions is due to the substantial methodological differences between their respective valuation approaches. The valuation of the IFRS reserves is based on technical provisions calculated in accordance with local accounting principles and thus generally uses demographic pricing assumptions, discounts the contractual flows at the technical interest rate defined at the issue of the contract and considers, via the DPL, only the financial profit sharing on unrealised gains/losses existing at the valuation date. The Solvency II valuation, instead, is based on the projection of future cash flows performed using best estimate operating assumptions, considering future profit sharing (both technical and financial), including the cost of contractual options and financial guarantees, and discounting using the current interest rate term structure. Moreover, under the Solvency II framework, the valuation of technical provisions includes the risk margin, whilst this component is not included in the valuation of IFRS reserves.

SII Group life technical provisions: source of uncertainty

In addition to methods, models and data used, the valuation of Solvency II life technical provisions depends on the assumptions made on a number of operating and economic factors whose future realisation might differ from the expectations at the valuation date, regardless of how accurate these might be.

The main operating assumptions affecting the Generali Group business are longevity, mortality, morbidity, lapses and expenses. Among these operating factors, expenses and surrenders are the most significant; in particular, a 10% increase in projected expenses produces a technical provisions variation of about 0.3% and a 10% increase in the surrender assumptions leads to a technical provisions increase of about 0.2% For the other operating factors, a 10% variation with respect to the best estimate assumptions lead to impacts on technical provisions of about 0.1%.

Compared to the previous year-end valuation, the Solvency II Group life technical provisions have not been significantly impacted by the updates of the best estimate operating assumptions.

Non-life technical provisions

SII Group non-life technical provisions: overview and details by component

The following table shows the amount of Solvency II Group non-life technical provisions at 31 December 2017 and at 31 December 2016, broken down by main components: best estimate of liabilities, risk margin and reinsurance recoverables net of the counterparty default adjustment, separately for claims provisions and premium provisions.

SII non-life technical provisions - Claims provisions

(€ million)	31/12/2017	31/12/2016
Best estimate of liabilities - gross of reinsurance	21,422	22,094
Risk margin	891	1,179
Technical provisions - gross of reinsurance	**22,313**	**23,272**
Reinsurance recoverables	2,377	1,858
Technical provisions - net of reinsurance	**19,937**	**21,414**

SII non-life technical provisions - Premium provisions

(€ million)	31/12/2017	31/12/2016
Best estimate of liabilities - gross of reinsurance	3,262	3,850
Risk margin	587	434
Technical provisions - gross of reinsurance	**3,849**	**4,283**
Reinsurance recoverables	110	205
Technical provisions - net of reinsurance	**3,740**	**4,078**

The decrease in non-life technical provisions from 31 December 2016 to 31 December 2017 (-7,1%) is mainly due to change in scope (for example, the outward reinsurance of UK branch Asbestos, Pollution and Health Hazard portfolio to extra Group reinsurer via 100% quota share treaty) and update in model assumptions in some Group companies.

SII Group non-life technical provisions: details by line of business

The following table reports the amount of Solvency II Group non-life technical provisions (and of its main components) at 31 December 2017 with breakdown by main lines of business.

SII non-life technical provisions - Claims provisions at 31/12/2017

(€ million)	BEL gross of reins. .	Risk margin	SII TP gross of reins.
Direct and accepted proportional	**18,449**	**805**	**19,254**
Medical expense insurance	379	5	384
Income protection insurance	957	12	969
Workers compensation insurance	199	18	217
Motor vehicle liability insurance	7,553	455	8,008
Other motor insurance	490	11	501
Marine, aviation and transport insurance	617	16	632
Fire and other damage to property insurance	2,955	71	3,026
General liability insurance	4,427	193	4,620
Credit and suretyship insurance	209	4	213
Legal expenses insurance	501	15	517
Assistance	58	2	60
Miscellaneous financial loss	104	3	107
Accepted non-proportional	**2,973**	**86**	**3,059**
Non-proportional health reinsurance	219	4	223
Non-proportional casualty reinsurance	503	18	521
Non-proportional marine, aviation and transport reinsurance	1,171	47	1,217
Non-proportional property reinsurance	1,080	18	1,098
Total	**21,422**	**891**	**22,313**

SII non-life technical provisions - Premium provisions at 31/12/2017

(€ million)	BEL gross of reins.	Risk margin	SII TP gross of reins.
Direct and accepted proportional	**2,938**	**556**	**3,494**
Medical expense insurance	199	6	205
Income protection insurance	-35	49	14
Workers compensation insurance	2	0	2
Motor vehicle liability insurance	1,057	73	1,130
Other motor insurance	404	34	438
Marine, aviation and transport insurance	93	13	106
Fire and other damage to property insurance	939	261	1,200
General liability insurance	182	89	271
Credit and suretyship insurance	29	2	30
Legal expenses insurance	-67	24	-42
Assistance	81	2	83
Miscellaneous financial loss	56	2	58
Accepted non-proportional	**324**	**31**	**355**
Non-proportional health reinsurance	54	1	55
Non-proportional casualty reinsurance	24	7	31
Non-proportional marine, aviation and transport reinsurance	111	9	120
Non-proportional property reinsurance	135	13	148
Total	**3,262**	**587**	**3,849**

SII Group non-life technical provisions: comparison with IFRS reserves

The following table compares IFRS Group non-life reserves with Solvency II Group non-life technical provisions at 31 December 2017.

Non-life IFRS reserves and SII TP - Claims and premium provisions at 31/12/2017

(€ million)	IFRS reserves gross of reins.	SII TP gross of reins.
Non-life (excluding health)	28,328	24,094
Health (similar to non-life)	3,019	2,069
Total	**31,347**	**26,163**

The difference between IFRS non-life reserves and Solvency II non-life technical provisions is due to the substantial methodological differences between their respective valuation approaches. The valuation of IFRS reserves is based on technical provisions calculated in accordance with local accounting principles as ultimate cost without discounting the future cash-flows. The Solvency II valuation is instead based on the projection of future cash flows performed using best estimate assumptions, considering contract boundaries and discounting using the current interest rate term structure. Moreover, under the Solvency II framework, the valuation of technical provisions includes the risk margin, whilst, this component is not included in the valuation of IFRS reserves.

SII Group non-life technical provisions: source of uncertainty.

The evaluation of the non-life technical provisions of Generali Group depends on the assumptions made on a number of operating and economic factors whose future realisations might differ from the expectations at the valuation date, regardless of how accurate these might be. These uncertainties are managed according to the standard international approaches and in particular in the projection of future claims and expenses related to very volatile portfolios discussing expected trends with claims, loss adjusters and underwriting experts.

Compared to the previous year-end valuation, the update of the best estimate assumptions for some Group companies contributed to the reduction of the Solvency II Group non-life technical provisions.

Use of long-term guarantee measures

96% of the Solvency II Group life technical provisions and 92% of the Group non-life total portfolio are calculated using the volatility adjustment. A change to zero of the volatility adjustment for each currency would correspond to an increase of €536.6 million in the life technical provisions net of reinsurance and an increase of €36.4 in the non-life technical provisions net of reinsurance.

The impacts due to the change to zero of the volatility adjustment on technical provisions, own funds and Solvency capital requirement are reported below.

Impacts of a change to zero of the volatility adjustment - at 31/12/2017

(€ million)	Amount with volatility adjustment	Impact of change to zero of the volatility adjustment
Technical provisions - net of reinsurance	425,093	573
Basic own funds after deduction	44,806	-248
Group Own Funds to meet the SCR	45,880	-248
Solvency capital requirement (SCR)	22,191	5,464
Group Own Funds to meet the MCR	42,862	-189
Minimum Capital Requirement (MCR)	17,318	294

The change to zero of the volatility adjustment on the own funds is due to the negative impact on technical provisions, partially compensated by the impact of deferred taxes (€157.6 million) and non-availability filters (€167.7 million).

For the Generali Group, the application of the volatility adjustment has limited impacts and does not result in non-compliance with the Solvency capital requirement.

The matching adjustment is not used for the calculation of Solvency II Group life and non-life technical provisions.

The transitional measure on the risk-free interest rate-term structure and the transitional measure on technical provisions are not used in the calculation of Solvency II Group life and non-life technical provisions.

D.3. Other liabilities

This chapter outlines Solvency II valuation methods for the main classes of liabilities other than technical provisions, reporting the following information:

- description of the valuation basis, methods and main assumptions used for solvency purposes;
- quantitative and qualitative explanation of any material differences in the valuation basis, methods and main assumptions used by the undertaking for solvency purposes and those used in financial statement valuations.

A description of the Solvency II valuation methods for the most relevant classes of liabilities other than technical provisions is given, complementary to the general valuation for Solvency purposes and the balance sheet template illustrated in the introduction.

The table below focuses on the differences between:

- Solvency II values; and
- statutory accounts figures, based on IAS/IFRS principles driving the determination of the Generali Group consolidated IFRS financial statements

Total Liabilities - 31.12.2017

(€ million)	IFRS carrying amount (a)	Reclassification (b - a)	IFRS homogeneous perimeter (b)	Change to SII value (c - b)	Solvency II value (c)
Technical provisions	425,099	26,952	452,051	-23,342	428,710
Non-life business	32,011	-664	31,347	-5,184	26,163
Life business	393,088	27,616	420,704	-18,157	402,547
Contingent liabilities	0	0	0	8	8
Provisions other than technical provisions	1,930	-45	1,885	-282	1,603
Pension benefit obligations	3,943	191	4,133	0	4,134
Deposits from reinsurers	578	32	610	92	702
Deferred tax liabilities	2,533	120	2,653	6,644	9,296
Liabilities derivatives	1,423	26	1,449	-5	1,444
Financial liabilities	31,317	-25,371	5,946	439	6,385
Payables	11,761	-145	11,616	0	11,615
Subordinated liabilities	8,378	1	8,379	552	8,931
Subordinated liabilities not in Basic Own Funds	0	1	1	-1	0
Subordinated liabilities in Basic Own Funds	8,378	0	8,378	553	8,931
Any other liabilities, not elsewhere shown	23,934	-22,416	1,518	-6	1,512
Total liabilities	**510,896**	**-20,656**	**490,239**	**-15,900**	**474,340**

Contingent liabilities

Both for IFRS and Solvency II purposes, contingent liabilities valuation criteria are defined by IAS 37, with different reporting rules: while for IFRS they are only disclosed but not reported, in Solvency II they are recognised in the balance sheet if material[23] and if the possibility of outflow is not remote.

IAS 37 defines that the value of contingent liabilities is equal to the expected present value of future cash flows required to settle the contingent liability over the lifetime of that contingent liability, using the basic risk-free interest rate term structure. Moreover, when valuing liabilities, no adjustment to take account of the own credit standings of the insurance or reinsurance undertaking shall be made.

The expected present value of future cash-flows required to settle the contingent liability over the lifetime of that contingent liability shall capture the following elements at the measurement date:

- an estimate of future cash flows, reflecting the expectations about possible variations in the amount

23 Contingent liabilities are material if information about the current or potential size or nature of that liability that may influence the decision-making or judgment of the intended user of that information.

and/or timing of the cash flows representing the uncertainty inherent in the cash flows;
- the time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by cash flows and pose neither uncertainty in timing nor risk of default to the holder (risk-free interest rate); and
- the price for bearing the uncertainty inherent in the cash flows (risk premium).

The amount and range of possible cash flows considered in the calculation of the probability weighted cash flows shall reflect all expectations about possible cash flows and not the single most likely or the expected maximum or minimum cash flow. However, the more likely it is that any particular outcome will occur, the greater the effect that the outcome has on the expected value.

Finally, an entity shall consider the risk that the actual outflows of resources might ultimately differ from those expected. A risk adjustment measures the amount, if any, that the entity would rationally pay in excess of the expected present value of the outflows for bearing this risk.

With reference to contingent liabilities not recognised in balance sheet, at 31 December 2017 the Generali Group is involved in an arbitration proceedings promoted by Banco BTG Pactual S.A.

In particular, Banco BTG Pactual SA, within the deadline set by the Arbitral Tribunal, on 30 November 2017, filed its first brief, containing the allegations supporting its claims for damages. These claims, strongly challenged by Generali, would be based, according to the counterparty, on the alleged violation of the representations, warranties and covenants assumed by the seller in the context of the sale of BSI S.A.

Generali is currently engaged in the analysis both in fact and in law of the complex litigation, as well as in the preparation of its first reply brief without prejudice to the preliminary objections already raised, which will be filed within the deadline set by the Arbitral Tribunal.

Taking into account the status of the arbitration proceedings and the legal opinions acquired in this regard, it is considered that the conditions of the probability and of the ability to make a reliable estimate that are required by IAS 37 to make any provisions for risks related to the abovementioned request for damages are not met.

It is therefore confirmed that, at present, it is not possible to reliably estimate both the outcome of the aforementioned arbitration proceedings and its timing.

Provisions other than technical provisions

The amount recognised as provision represents the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time (best estimate approach)[24]. In reaching the best estimate of a non-technical provision, the following elements are considered:

- circumstances to be taken into account for the calculation of the amount to be recognised as a provision;
- risks surrounding many events related to the obligation are included in the valuation model;
- uncertainties as well as period of incurrence of the obligation and different expected cash-flows are estimated based on model assumptions;
- discount rate used to determine the best estimate of provisions other than technical provisions (before tax impact) reflects market conditions of the time value of money and the risks specific to the liability at valuation date and does not include risks for which future cash flow estimates have been already adjusted.

The difference between IFRS statutory accounts and Solvency II values is mainly due to the impairment of Dutch operation considered as provision in IFRS and within other technical balance sheet position in Solvency II balance sheet.

24 Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount, while where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Pension benefit obligations

The valuation method for pension benefit obligation is in line with IAS 19. Therefore, no difference arises between statutory accounts and Solvency II value.

Pension benefits of the Generali Group's employees are mainly in the form of defined benefit plans and defined contribution plans. As for defined benefit plans, participants are granted defined pension benefits either by the employers or via external entities.

The main defined benefit plans are concentrated in Germany, Austria and Switzerland, while in Italy, the provision for Trattamento di fine rapporto (employee severance pay) matured to 1 January 2007 is included in this type of plan.

Deposits from reinsurers

The change to Solvency II value is due to the different accounting approach: deposits to reinsurers are recognized at IAS/IFRS amortised cost for statutory accounts, while Solvency II value recognised them at IFRS fair value. In dependence on the reinsurance agreement (if for instance the return of the deposit is the variable risk free return) the cost represents an acceptable proxy of the fair value of the cash deposits; in some cases more enhanced model are used, based on cash flows related to the deposit and regulated by the reinsurance agreement itself.

Deferred tax liabilities

The valuation methods for Deferred Tax Liabilities coincide with those used for Deferred Tax Assets, described in chapter D1 of this report.

Financial Liabilities (Including Subordinated liabilities)

In order to ensure compliance with Solvency II principles, the financial liabilities are valued at fair value without any adjustment for change in own credit standing of the insurance/reinsurance undertaking.

The difference in comparison with IFRS fair value is given by the different own credit standing applied on top of the risk-free rate curve used for pricing liabilities. Indeed, while IFRS fair value is determined considering the credit standing of the borrower at the reporting date, to avoid any artificial benefit in determining excess of assets over liabilities[25], the Solvency II value is determined considering the credit standing of the borrower at issue.

The following table outlines the main Senior bond issues:

Financial Liabilities as of 31.12.2017

Company	SII valuation	Currency	Issue date	Maturity	Coupon
Assicurazioni Generali	2,109	EUR	16/09/2009	16/09/2024	5.12%
Assicurazioni Generali	1,288	EUR	14/01/2014	14/01/2020	2.88%

In addition to the Senior bond issues reported above, it is also present in the Generali Group a senior bond issued in May 2010 (Solvency II value equal to €191.9 million at 31 December 2017), to refund the tax recognition of goodwill related to the unusual transaction Alleanza Toro.

The Solvency II value of bonds issued amounted to €3,589.1 million.

For additional information on Subordinated Liabilities, please refer to section "Subordinated Liabilities" in chapter E.1.2."Eligible Own Funds".

25 Deterioration of the rating of the borrower leads to a decrease of the fair value of liabilities that, without application of correction, would bring to a higher excess of assets over liabilities calculated as difference between SII value of assets and liabilities. To avoid this kind of contradiction given by lower rating and better SII position, any change in the own credit standing of the borrower occurred from the issue till the valuation date is nullified.

Payables

In this section, Payables to insurance & intermediaries, Reinsurance Payables and Payables (trade not insurance) are aggregated.

Due to short duration and maturity and to the absence of expected interest cash-flows, reinsurance payables do not present relevant change to Solvency II value from statutory to Solvency II accounts. As general assumption, the IFRS amortised cost is used for the Solvency II valuation.

Any other liabilities, not elsewhere shown

All other liabilities are recorded at fair value under Solvency II, but by default the IFRS value is kept. This class of liabilities includes mainly accruals and deferrals.

D.4. Alternative methods for valuation

For information on alternative methods used for valuation of assets and liabilities other than technical provisions, please refer to the subchapter “Fair value measurement” for assets and liabilities not quoted in an active market where a valuation technique is used.

D.5. Any other information

No additional information to be reported in this section.

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E. Capital Management

E.1. Own funds

The Solvency Ratio for the Generali Group stands at 207% at 31 December 2017. Compared to the result at 31 December 2016, the Solvency Ratio increased by +29 p.p.

Solvency Ratio (Regulatory View)

(€ million)	31/12/2017	31/12/2016	Change
Group Own Funds (GOF)	45,880	41,308	11.1%
Solvency Capital Requirement (SCR)	22,191	23,222	-4.4%
Excess over the SCR	23,689	18,087	31.0%
Solvency Ratio	**207%**	**178%**	**29 pp**

The strengthening of the Solvency position of the Group reflects the increase of the GOF (+11.1% to € 45,880 million) and the SCR decrease (-4.4% to € 22,191 million), mainly driven by the generation of Solvency II Capital and positive financial market trends (in terms of interest rate increase, credit spread reduction and positive equity trend). A further analysis of the SCR movement is provided in the chapter E2.

Group Own Funds Roll Forward

(€ million)	Own Fund
Group Own Funds - 31.12.2016	**41,308**
Normalised Own Funds Generation	3,332
Variances and other movements	2,569
Foreseeable dividend	-1,330
Group Own Funds - 31.12.2017	**45,880**

From year end 2016 to year end 2017 Group Own Funds moves from € 41.3 billion to € 45.9 billion. The expected and recurring Own Funds generation (normalised Own funds Generation) is equal to € 3.3 billion, leading to a solid 8.1% normalised return on GOF. Total Own Funds increase amounts to € 5.9 billion (corresponding to an overall 14.3% total return on GOF) and is affected by the variation of experience compared to the expectation at the beginning of the period (experience variance) so as by all the changes in the assumptions in the projection models to evaluate the technical obligation.

Precisely as far as technical experience variance and change in assumption are concerned, the impact is amounting at € 1.7 billion, while for the economic variances and exchange rates, the impact is € 1.8 billion. In relation to the economic variances, the increase in interest rates and the narrowing of spreads on corporate bonds, even if mitigated by the slight decrease of volatility adjustment, generate € 0.6 billion of positive variances; the good performance of equities and real estate investments leads to an increase in GOF of € 1.0 billion and the decrease in volatilities contributes to an increase in GOF of € 0.3 billion. In addition, € -0.2 billion are attributable to the movement of foreign exchange rates.

Other variances, which amount to € -0.9 billion, complement the movement from one year to the other and are mainly attributable to refinements in the projection model of technical items and to other non economic events.

MCR Coverage

(€ million)	31/12/2017	31/12/2016	Change
Group Own Funds to meet the MCR	42,862	38,456	11.5%
Minimum Capital Requirement	17,318	18,460	-6.2%
Excess over the MCR	25,545	19,996	27.8%
Ratio of GOF to MCR	**248%**	**208%**	**39 pp**

The coverage of the Minimum Capital Requirement rose by +39 p.p. from year end 2016, to 248% at 31/12/2017.

E.1.1. Capital Management policies

The Group and Local Capital Management Policy define principles for Capital Management activities to which the Assicurazioni Generali S.p.A. and the Group Legal Entities within the scope must adhere.

Capital management activities refer to Own Funds management and control and in particular to procedures to:

- classify and periodically review Own Funds in order to guarantee that Own Funds items meet the requirements of the applicable capital regime both at issuance and subsequently;
- regulate issuances of Own Funds according to the medium-term Capital Management Plan and the three years Strategic Plan also to guarantee
  - that Own Funds are not encumbered,
  - that all actions required or permitted related to the governance of Own Funds are timely completed,
  - that ancillary Own Funds are timely called,
  - that terms and conditions are clear and unambiguous, including instances in which distributions on an Own Funds item are expected to be deferred or cancelled;
- ensure that any policy or statement in respect of ordinary share dividends is taken into account when analysing the capital position;
- establish driving principles and common standards to carry out these activities efficiently, in compliance with the relevant regulatory requirements and legislative frameworks at Group and Local level, and in line with the stated risk appetite and strategy of the Generali Group.

The Group Capital Management Policy, which was approved by the Board of Directors of Assicurazioni Generali S.p.A. has to be approved by the relevant body at entity level.

The Capital Management Plan represents a part of the overall three-year Strategic Plan and this ensures the consistency of the CMP with three-year Strategic Plan assumptions, which include inter alia:

- financial scenarios;
- strategic asset allocation;
- business mix.

The Capital Management Plan includes a detailed description of the development of Own Funds and Regulatory Solvency Ratio from the latest available actual figures to the last plan's year figures.

Local CFOs are responsible for producing Local CMP and Local CEOs are responsible submitting them to the relevant AMSB. Furthermore Local Entities include the Capital Management Plan in the information package to be delivered to the Group CFO function in the planning process. The main elements of the Capital Management Plan are discussed and challenged in specific meetings (Deep Dives on Capital) and within the regular business review process.

If extraordinary operations (i.e. M&A, Own Funds issuance) are foreseen in the plan period, their impact is explicitly included in Own Funds and Regulatory Solvency Ratio development and further details are included in the relevant documentation. Own Funds issuances are explicitly included in the CMP with a detailed description of the rationale.

The description of the development of Own Funds explicitly includes the issuance, redemption or repayment (earlier or at maturity) of Own Funds items and their impacts on the limits on tiers. Any variation in the valuation of Own Funds items is also indicated, with additional qualitative details in terms of limits on tiers when needed.

The CMP is defined taking into account limits and tolerances set in the Risk Appetite Framework.

In the CMP any transitional measure has to be reported in terms of impact on the solvency position current and at the end of the transitional period (both at Group and Local level), duration and general features including their absorption capacity in times of stress.

No material changes occurred during the reference period.

E.1.2. Group own funds

To satisfy legislative requirements, Solvency II Basic Own Funds after deduction are calculated as the sum of:

- the excess of assets over liabilities as defined in chapter D;
- less deduction for foreseeable dividends and distributions;
- plus Subordinated Liabilities eligible in Basic Own Funds;
- plus additional own funds relating to unrealised capital gains from French pension activities benefiting from IORP transitory regime[26]. These additional own funds are authorised by the Supervisory Authority for the years between 2016 to 2022, a period during which the proportion of the eligible unrealised capital gains will decrease gradually;
- less deductions for shares of the parent company, restricted own fund items, regulatory filters because of non-available items at Group level and other sectoral entities treatment.

The Group Own Funds to meet SCR are then obtained from Basic own funds after deduction considering the available capital of sectoral entities[27].

Group Own Funds details

(€ million)	31/12/2017	31/12/2016	Change
Total assets	513,860	499,130	3.0%
Total Liabilities	474,340	464,780	2.1%
Excess of assets over liabilities	**39,520**	**34,350**	**15.1%**
Subordinated liabilities in BOF	8,931	9,142	-2.3%
Foreseeable dividend	-1,330	-1,249	6.5%
Unrealised gains on French pension business under IORP transitional measures, authorized by Supervisor*	1,703	1,785	-4.6%
Impact of other deduction	-4,018	-3,716	8.1%
Basic Own Funds after deductions	**44,806**	**40,312**	**11.2%**
Impact of Sectorial and Equivalent entities	1,074	997	7.7%
Group Own Funds	**45,880**	**41,308**	**11.1%**

* Unrealised capital gains on activities according to art. 308b § 15 of the amended Solvency II directive 2009/138/EC; the eligibility of these unrealised capital gains is authorised by the Supervisory Authority with a progressively decreasing proportion over the duration of the transitional period up to 2022.

The increase of € 4.6 billion in the Group Own Funds is mainly due to the increase of Excess of Assets over Liabilities (€ 5.2 billion) reflecting the total assets growth of € 14.7 billion (+3%) only partially mitigated by the rise of Liabilities by € 9.6 billion. For further detail please refer to chapter D.

26 As per art. 308b § 15 of the amended Solvency II directive 2009/138/EC.

27 In Generali Group, no Ancillary Own Funds are considered and eligibility limits are not triggered.

Basic Own Funds

Basic Own Funds are defined as the sum of the excess of assets over liabilities and subordinated debt.

The items that compose Basic Own Funds are classified into three tiers, depending on the extent they possess the ability to absorb losses due to adverse business fluctuations on a going-concern basis and in the case of winding-up.

In the Generali Group, Basic Own Funds is mainly composed of high-quality capital. Indeed, Tier 1 counts for about 88% of the total, Tier 2 represents 12% and Tier 3 only 0.2% of the total.

The classification by tiers of Basic Own Funds is composed as follows:

- Tier 1 Unrestricted Basic Own Funds includes the following items:
  - Ordinary share capital and the related share premium account
  - Surplus funds (from German business)
  - Reconciliation reserve
  - Additional Own Funds from French pension activities
- Tier 1 restricted is composed of an amount of €3,603 million of undated subordinated liabilities eligible in Basic Own Funds.
- Tier 2 Basic Own Funds includes the remaining part of subordinated liabilities eligible in basic Own Funds, which is classified as dated.
- Tier 3 Basic Own Funds is composed of net deferred tax assets, which are characterised by lower capital quality being not immediately available to absorb losses.

The following table reports Basic Own Funds items split by tiering:

Own Funds by Tiers 31.12.2017

(€ million)	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ordinary share capital (gross of own shares)	1,562	1,562	0	0	0
Share premium account related to ordinary share capital	3,568	3,568	0	0	0
Surplus funds	2,585	2,585	0	0	0
Reconciliation reserve	30,391	30,391	0	0	0
Subordinated liabilities	8,931	0	3,603	5,328	0
An amount equal to the value of net deferred tax assets	79	0	0	0	79
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	-138	-138	0	0	0
Unrealised capital gains from French pension activities benefitting from IORP transitory regime, authorised by the Supervisory Authority*	1,703	1,703	0	0	0
Impact of Minorities and other filters	-1,339	-1,339	0	0	0
Deductions for participations in financial and credit institutions	-2,535	-2,535	0	0	0
Total basic own funds after deductions	**44,806**	**35,796**	**3,603**	**5,328**	**79**

* Unrealised capital gains on activities according to art. 308ter § 15 of the amended Solvency II directive 2009/138/EC; the eligibility of these unrealised capital gains is authorised by the Supervisory Authority with a progressively decreasing proportion over the duration of the transitional period up to 2022..

Reconciliation Reserve

The excess of assets over liabilities is composed of capital items and the reconciliation reserve. In the Generali Group, the reconciliation reserve at year end 2017 amounts to €30,391 million.

The following table provides the calculation of the reconciliation reserve:

Reconciliation reserve

(€ million)	31/12/2017	31/12/2016	Change
Excess of assets over liabilities	39,520	34,350	15.1%
(-) Own shares	-3	-3	8.4%
(-) Foreseeable dividends and distributions	-1,330	-1,249	6.5%
(-) Other basic own fund items	-7,794	-8,029	-2.9%
(-) Restricted own fund items due to ring fencing	-2	-7	-69.9%
Reconciliation Reserve	**30,391**	**25,062**	**21.3%**

According to the definition of reconciliation reserve, other basic own fund items are the sum of ordinary share capital and related share premium account, surplus funds and deferred tax assets as reported in the previous table of Own Funds by Tiers.

Subordinated Liabilities

The Solvency II subordinated liabilities eligible in Basic Own Funds amount to €8,931 million and are entirely available to cover Group SCR.

During Fiscal Year 2017, the Group repaid a subordinated bond for an amount of nominal €869 million in the first part of 2017 through the issue during the 2016 of the subordinated liability of €850 million classified as Tier 2, which was placed with the institutional investors.

In the following table, the main positions of Subordinated Liabilities eligible in Basic Own Funds are reported:

Subordinated Liabilities as of 31.12.2017

Compagnia	SII valuation in €	Currency	Issue date	Call date	Maturity	Coupon	Tiering	Transitional
Assicurazioni Generali	505	GBP	16/06/2006	16/06/2026	PERP	6,27%	TIER1	Y
Assicurazioni Generali	650	GBP	8/2/2007	8/2/2022	PERP	6,42%	TIER1	Y
Assicurazioni Generali	797	EUR	10/7/2012	10/7/2022	7/10/2042	10,13%	TIER2	Y
Assicurazioni Generali	1,321	EUR	12/12/2012	12/12/2022	12/12/2042	7,75%	TIER2	Y
Assicurazioni Generali	1,088	EUR	2/5/2014	na	5/4/2026	4,13%	TIER2	Y
Generali Finance B.V.	1,383	EUR	21/11/2014	21/11/2025	PERP	4,60%	TIER1	Y
Assicurazioni Generali	1,285	EUR	27/10/2015	27/10/2027	10/27/2047	5,50%	TIER2	N
Assicurazioni Generali	837	EUR	8/6/2016	8/6/2028	6/8/2048	5,00%	TIER2	N
Assicurazioni Generali	364	EUR	4/3/2009	4/3/2019	PERP	7,24%	TIER1	Y
Assicurazioni Generali	364	EUR	6/3/2009	6/3/2019	PERP	8,50%	TIER1	Y

Transitional Subordinated Liabilities

According to what is defined in art. 308 b) paragraph 9 and 10 of Omnibus II Directive, subordinated liabilities in BOF are subject to the following tiering classification:

- The total amount of €3,603 million of Tier 1 restricted Basic Own Funds subordinated liabilities benefit from grandfathering considering that, these items were issued before the entry into force of the DA and as at 31 December 2015 covered the Solvency margin up to 50% according to Solvency 1 Directive;
- An amount of €3,206 million, out of the total of €5,328 million of subordinated liabilities in BOF classified as Tier 2 Basic Own Funds, benefits from grandfathering. This recognition is due in consideration that these items were issued before the entry into force of the DA and as at 31 December 2015 covered the Solvency margin up to 25% according to Solvency 1 Directive.

Loss Absorption capacity

With regards to the loss absorbing capacity of the subordinated liabilities, the following has to be considered:

- Subordinated liabilities recognised within the Restricted Tier1 basic own funds have loss absorption capacity in line with grandfathering provisions;
- Subordinated liabilities classified in Tier 2 Basic own funds: in terms of loss absorption features it should be noted that as described above part of these amounts are recognise by way of grandfathering and therefore the loss absorption features are in line with grandfathering provisions. For the Subordinated liabilities included in the Tier 2 Basic own funds issued in 2015 and 2016 these are fully Solvency 2, compliant with art. 73 of DA.

Restrictions to own funds and deductions

For the correct definition of Eligible Own Funds, specific restrictions and deductions have been applied, affecting the availability and transferability of own funds at group level. Specifically:

- Restrictions due to Ring Fenced Funds deriving from Deposit Administration funds in Guernsey;
- Additional restrictions are ascribed to Surplus Funds not available at group level deriving from German life business;
- Minority filters represent the final deduction.

Own funds are then additionally reduced for the necessary neutralisation of fiscal impact on Solvency II valuation of Subordinated Liabilities eligible as basic Own Fund items.

Ancillary own funds

For what concerns Group figures, no Ancillary Own Funds items are present.

E.1.3. Group own funds to meet the solvency capital requirement

The final step for the calculation of Group Own Funds is related to eligibility constraints. In the Group Own Funds to meet the SCR, the sum of Tier 2 and Tier 3 should not exceed 50% of the SCR. In the Generali Group, no eligibility filters are triggered due to the high quality tiering.

In the following table the split by tiers for Group Own Funds to meet the SCR is reported:

Group Own funds by tiering

(€ million)	Total	Tier 1 – unrestricted*	Tier 1 - restricted	Tier 2	Tier 3
Group Own Funds to meet the SCR - 31/12/2017	**45,880**	**36,870**	**3,603**	**5,328**	**79**
Group Own Funds to meet the SCR - 31/12/2016	41,308	32,025	3,736	5,407	141
Change	11.1%	15.1%	-3.6%	-1.5%	-44.1%

* Tier 1 includes also Available capital of sectoral entities and the unrealised gains and losses on French Institutions for Occupational Retirement Provision (IORP) business as agreed with the Supervisory Authority

The Generali Group Own Funds are mainly composed of high-quality capital. Tier 1 counts for 88% of the total (+1 p.p. vs. Year End 2016), Tier 2 represents 12% (-1 p.p. vs YE 2016), while Tier 3 is basically nil (0.2% at YE17).

E.1.4. Group own funds to meet the minimum capital requirement

Regarding Group Own Funds coverage of the MCR, this amount should be composed of Tier 1 for at least 80% of the MCR and Tier 2 shall not exceed 20%. No Tier 3 items nor Ancillary Own Funds are eligible to cover the MCR. Available capital of other sectoral entities is not available to cover MCR.

In the following table the split by tiering for Group Own Funds to meet the MCR is reported:

Group Own Funds to meet the MCR by tiering

(€ million)	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2
Group Own Funds to meet the MCR - 31/12/2017	**42,862**	**35,796**	**3,603**	**3,464**
Group Own Funds to meet the MCR - 31/12/2016	38,456	31,028	3,736	3,692
Change	11.5%	15.4%	-3.6%	-6.2%

* Tier 1 includes also the unrealised gains and losses on French Institutions for Occupational Retirement Provision (IORP) business as agreed with the Supervisory Authority.

Tier 1 counts for 92% of the total Own Funds to meet the MCR (+2 p.p. vs. year end 2016) while Tier 2 counts for 8% (-2 p.p. vs YE 2016, reflecting the decrease of the subordinated liabilities).

E.1.5. Reconciliation between IFRS shareholder equity and group own funds for solvency purposes

In this section, the reconciliation between Shareholders' Equity and Solvency II Own Funds is reported. The variation between the Shareholders' Equity and the Excess of Assets over Liabilities derives from the different valuation metrics defined in chapter D – Valuation for Solvency purposes.

The reconciliation between Shareholders' Equity and Solvency II Own Funds is reported in the following table :

Reconciliation of IFRS Equity to Group Own Funds

(€ million)	31/12/2017	31/12/2016
IFRS Equity (Gross of Minorities)	**26,177**	**25,668**
Intangibles	**-10,790**	**-10,801**
Goodwill	-6,662	-6,647
DAC	-2,141	-2,083
Other Intangibles	-1,987	-2,071
MtM Assets	**9,867**	**8,810**
Bonds	1,370	2,074
Real estates	7,499	6,464
Loans	357	445
Participations	964	450
Other Assets	-322	-623
MtM Liabilities	**21,669**	**16,105**
Net Technical provision	22,467	17,087
Financial Debt	-439	-492
Subordinated Debt	-552	-731
Other Liabilities	193	241
Impact Net deferred Taxes	**-7,404**	**-5,432**
Subordinated Liabilites in Basic Own Funds	**8,931**	**9,142**
Foreseeable dividend	**-1,330**	**-1,249**
Sectoral, Fungibility Filters and Other Deductions	**-2,944**	**-2,719**
Deductions for Participations in sectoral Entities	-2,535	-2,188
Available Capital Sectorals	1,074	997
Impact of filter for Non availability & Minorities and other deduction	-1,483	-1,529
Unrealised gains on French pension business under IORP transitional measures, authorized by Supervisory Authority*	**1,703**	**1,785**
Group Own Funds	**45,880**	**41,308**

* Unrealised capital gains on activities according to art. 308b § 15 of the amended Solvency II directive 2009/138/EC; the eligibility of these unrealised capital gains is authorised by the Supervisory Authority with a progressively decreasing proportion over the duration of the transitional period up to 2022.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. SCR and MCR Values

This section presents the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR) of the Generali Group.

The SCR is calculated as the Value at Risk (VaR) of own funds subject to a confidence level of 99.5% over a one-year period.

The SCR is calculated with the Partial Internal Model (PIM)[28] of the Generali Group which covers financial, credit, life and non-life underwriting risks of the entities that had received the approval from the Supervisory Authority, as well as with the standard formula for the other (re-)insurance entities and applying other regulatory regimes (i.e. banking as well as pension business).

Operational risks are measured following a standard formula for all insurance entities of the Group.

The PIM provides an accurate representation of the main risks, measuring both the impact of each risk individually and their combined impact on the Group's own funds, as described in greater detail in section E.4.

The Group does not use simplified calculations for the definition of SCR.

Undertaking Specific Parameters (USP) are used for the calculation of the SCR of Europe Assistance entities and Italian entity DAS (*Difesa Automobilistica Sinistri*). The use of these USP has been approved by the Supervisory Authority[29].

Details on the Volatility Adjustment are provided in section D. Matching Adjustments are not applied.

Group SCR amounts to €22,191 million (€23,222 million as at YE2016). The decrease is mostly explained by improved market conditions, which have both positive effects on reduced stresses on assets as well as improved Liability Absorption Capacity of the life segment policyholders.

The following template provides the SCR by segment[30].

SCR by segment

(€ million)	Life		Non-life		Other		Total	
	Total	Impact	Total	Impact	Total	Impact	Total	Impact
YE2017	12,921	58.2%	8,126	36.6%	1,144	5.2%	22,191	100.0%

SCR by segment

(€ million)	Life		Non-life		Other		Total	
	Total	Impact	Total	Impact	Total	Impact	Total	Impact
YE2016	13,983	60.2%	8,171	35.2%	1,067	4.6%	23,222	100.0%

28 Solvency II allows the use of internal models, subject to Supervisory Authority approval, to calculate capital requirements to better reflect the risk profile.

29 For the company EA Spain the authorization process is under discussion with local supervisors.

30 Model Adjustments indicated in the following templates are allocated by segment.

The following template provides the Total SCR as a sum of the capital requirements for the below categories of entities, among which no diversification is calculated:

- Companies authorised to use the PIM for SCR calculation based on the Internal Model;
- Other EEA insurance entities, based on standard formula calculation;
- Non-EEA and other minor entities, based on standard formula calculation;
- Credit and other financial services, based on sectorial rules;
- IORP pension funds, based on Solvency I.

Total SCR by scope

(€ million)	YE2017	
	Total	Impact
Partial Internal Model	14,321	64.5%
EEA insurance entities	14,321	64.5%
Non-EEA and other minor entities	0	0.0%
Standard formula	7,247	32.7%
EEA insurance entities	5,365	24.2%
Non-EEA and other minor entities	1,882	8.5%
Other Regimes	623	2.8%
Credit and other financial services	535	2.4%
Pension funds (IORPs)	88	0.4%
Total SCR	**22,191**	**100.0%**

Total SCR by scope

(€ million)	YE2016	
	Total	Impact
Partial Internal Model	15,766	67.9%
EEA insurance entities	15,766	67.9%
Non-EEA and other minor entities	0	0.0%
Standard formula	6,888	29.7%
EEA insurance entities	5,240	22.6%
Non-EEA and other minor entities	1,648	7.1%
Other Regimes	568	2.4%
Credit and other financial services	485	2.1%
Pension funds (IORPs)	83	0.4%
Total SCR	**23,222**	**100.0%**

For the purpose of Group consolidated minimum SCR[31], the calculation is based on the MCR of Group companies, following the indications provided by EIOPA. The results are reported in the following tables.

MCR Value

(€ million)	Total
YE2017	17,318

31 Under Solvency II, the MCR calculation is required to determine the minimum level of capital, under which the Group would be exposed to an unacceptable level of risk when allowed to continue its operations. For the purpose of the MCR calculation, premiums and reserves (net of reinsurance) are used for non-life while only reserves are used for life entities.

MCR Value

(€ million)	Totale
YE2016	18,460

The reduction of MCR from €18,460 million to €17,318 million is in line with SCR movements in the same period, despite the fact that MCR measurement is not necessarily linear with respect to SCR.

E.2.2. SCR breakdown

The SCR breakdown is provided as follows, highlighting also the contribution of the risks to the total SCR and the impact of the diversification among risks:

Total SCR YE2017 split by risks before and after diversification among risks (*)

(€ million)	Before diversification		After diversification	
	Total	Impact	Total	Impact
SCR as a sum (before diversification)	**33,877**	**100.0%**		
Financial risks	13,156	38.8%	11,522	43.4%
Credit risks	9,196	27.1%	7,965	30.0%
Life underwriting risks	3,484	10.3%	1,134	4.3%
Health underwriting risks	635	1.9%	215	0.8%
Non-life underwriting risks	5,145	15.2%	3,270	12.3%
Intangible risk		0.0%		0.0%
Operational risk	2,261	6.7%	2,261	8.5%
Diversification benefit	-7,510			
Non linearity adjustments	168		168	0.6%
SCR after diversification	**26,535**		**26,535**	**100.0%**
Unmodelled	7			
Adjustment due to RFF/MAP nSCR aggregation	5			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (IORP)	522			
Sectorial rules & Equivalent Regime	623			
SCR before taxes	**27,692**			
Tax absorption	-5,908			
SCR before Model Adjustment	**21,784**			
Model Adjustment	407			
Total SCR	**22,191**			

(*) For what concerns risk modules, differently from the official QRT template S.25.02, the table shows amounts “before tax absorption effects”. This representation better reflects the risk profile breakdown currently used within the business, in line with internal risk reporting procedures.

Total SCR YE2016 split by risks before and after diversification among risks (*)

(€ million)	Before diversification		After diversification	
	Total	Impact	Total	Impact
SCR as a sum (before diversification)	**34,818**	**100.0%**		
Financial risks	12,613	36.2%	10,629	38.7%
Credit risks	10,931	31.4%	9,726	35.4%
Life underwriting risks	3,292	9.5%	1,012	3.7%
Health underwriting risks	564	1.6%	191	0.7%
Non-life underwriting risks	5,144	14.8%	3,271	11.9%
Intangible risk	3	0.0%	3	0.0%
Operational risk	2,270	6.5%	2,270	8.3%
Diversification benefit	-7,714			
Non linearity adjustments	379		379	1.4%
SCR after diversification	**27,482**		**27,482**	**100.0%**
Unmodelled	8			
Adjustment due to RFF/MAP nSCR aggregation	1			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (IORP)	517			
Sectorial rules & Equivalent Regime	568			
SCR before taxes	**28,575**			
Tax absorption	-5,946			
SCR before Model Adjustment	**22,629**			
Model Adjustment	593			
Total SCR	**23,222**			

(*) For what concerns risk modules, differently from the official QRT template S.25.02, the table shows amounts "before tax absorption effects". This representation better reflects the risk profile breakdown currently used within the business, in line with internal risk reporting procedures.

The most relevant risks are financial/market risks that count for 38.8% (36.2% as at YE2016) of the total and credit/counterparty risks that count for 27.1% (31.4% as at YE2016), while life/health and non-life underwriting count respectively for 12.2% (11.1% as at YE2016) and for 15.2% (14.8% as at YE2016).

In terms of incidence, financial and credit risk weights after diversification further increase to 43.4% (38.7% as at YE2016) and to 30.0% (35.4% as at YE2016), respectively. As a consequence, the life/health risks count for 5.1% (4.4% as at YE2016) and non-life risks count for 12.3% (11.9% as at YE2016).

The Model Adjustment represents an additional voluntary margin allocated for planned modelling improvements in a medium time horizon.

The row Adjustment due to RFF (ring-fenced funds)/MAP (matching adjustment portfolio) notional SCR aggregation represents the adjustment to correct the bias on SCR calculation due to aggregation of ring fenced funds, while the Group does not apply the matching adjustment.

E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

This section is not applicable, since the duration-based equity risk sub-module set out in Article 304 of Solvency II Directive is not applicable to the Generali Group.

E.4. Differences between the standard formula and any internal model used

This section provides an overview of the PIM in terms of

- purpose;
- scope;
- methods used for the main risk categories with focus on the key differences between standard formula and Partial Internal Model.

E.4.1. Internal model purpose

For the purpose of SCR calculation, the PIM is used to better capture the Group's risk profile. The PIM allows a more precise connection between the effective exposures and the capital requirements correlated to the specific business and activities of the Group companies within the scope.

The PIM allows to better capture the effective risk profile in terms of granularity, calibration and correlation of the various risk factors.

The PIM is developed based on the Group's specific portfolios and considers the experience gained in relation to each of them. Based on the observed interdependencies, the correlations matrices among risks are also defined.

E.4.2. Internal model scope

The companies included in the PIM scope which have received the authorisation for PIM use for SCR calculations are the Italian, German and French entities as well as the Czech company Ceska Pojistovna a.s.[32]. These entities have been authorised to use the PIM for the calculation of the SCR.

All the remaining insurance entities contribute to the Group SCR by means of the standard formula. Other financially regulated entities (i.e. banks, pension funds, etc.) contribute to the Group SCR by means of their local sectorial capital requirements.

The Group PIM is structured around a Risk Map, which contains all quantifiable risks that Generali has identified as relevant to its business, allowing for the calculation of the SCR at single risk level and at higher aggregation levels. The PIM scope includes credit and financial risks, life underwriting risks and non-life underwriting risks.

In terms of risks, the contribution of operational risks to the SCR is measured by means of the standard formula.

E.4.3. Methods used in the internal model

Probability Distribution Forecast

In implementing the Partial Internal Model, the Group has adopted the so called Monte-Carlo approach with "proxy functions" to determine the Probability Distribution Forecasts (PDF) of the changes in the Basic own funds over a 1-year horizon.

The own funds probability distribution allows to determine the potential losses at any percentile for risks in scope and, in particular, the SCR corresponding to the 99.5th percentile. The risk measure applied is the VaR (Value at Risk). Monte-Carlo methods are used in the industry to obtain sound numerical results using the embedded characteristics of repeated random sampling to simulate the more complex real-world events. Proxy functions are mathematical functions that mimic the interaction between risk drivers and insurance portfolios to obtain the most reliable results.

The calibration procedure involves quantitative and qualitative aspects. The aggregation process uses advanced mathematical techniques following market best practices. Dependencies among risks are defined through the use of a so called 'Copula approach' that simulates the interaction between several risk drivers (elements that mimic the underlying sources of risk) throughout the simulations generated by the Monte-Carlo stochastic method.

Data used in the PIM

For the purpose of SCR calculation the PIM relies on market data (mostly for what concerns asset features), accounting data as well as statistical portfolios data, such to jointly consider both market evidence and business drivers. This information provides a comprehensive data set for the PIM stochastic modelling of the Group own funds.

32 The Group applied for the use of its own Partial Internal Model (PIM) to calculate the SCR under Solvency II. The PIM scope as at YE2017 includes the following entities: Assicurazioni Generali S.p.A., Generali Italia S.p.A., Alleanza S.p.A., Genertel S.p.A., Genertellife S.p.A., Dialog Lebensversicherungs AG, Generali Deutschland Holding AG, AachenMünchener Lebensversicherung AG, AachenMünchener Versicherung AG, Generali Lebensversicherung AG, Generali Versicherung AG, AdvoCard Rechtsschutzversicherung AG, Cosmos Versicherung AG, Cosmos Lebensversicherungs AG, Central Krankenversicherung AG, Generali Beteiligungs-GmbH, Generali Vie S.A., Generali IARD S.A., Equité S.A. Cie d'Assurances et Réass.contre les risques de toute nature, GFA Caraïbes, Prudence Creole, Generali France S.A., Ceska Pojistovna a.s. and CZI Holdings N.V. For the purpose of better capturing the Group's risk profile, the PIM scope is planned to be extended to other European insurance entities.

The quality of data used in the PIM is granted on the basis of the process defined in the Group Data Quality Policy. Within this policy, the Group defines the data in scope based on proportionality and materiality principles, assesses the quality of data through controls aimed at verifying accuracy, completeness and appropriateness.

The Partial Internal Model (PIM) SCR calculation is subject to the independent validation process, on the basis of the principles defined in the Group Internal Model Validation Policy (see also section B).

Diversification benefits

For what concerns the underlying implicit diversification generated by the assumptions of the correlation matrix and the relevant marginal distributions, this can be originated by:

- different market indexes (e.g. equity market holds a degree of diversification between sectorial and geographical indexes);
- different segments (diversification generates from the joint presence of life business, with medium to long-term cash flows and relevant interactions between market realisations and policyholders behaviour, and non-life business, with short-term exposures and generally speaking opposite effects deriving from interest rates movements);
- different geographies (non-life and life businesses sold in different regions with limited propagation/interaction effects);
- different business models (for example, the level of profit sharing with policyholders and the relevant management actions of the portfolios);
- different risks (e.g. the probability of occurrence of different risks is not the same and consequently the joint events have a correlation lower than 100%: as an example Natural CAT events are independent from financial market events, while the opposite is not true).

All of these elements contribute to the Group SCR in a consistent manner generating relevant diversification benefits.

Finally the Group Partial Internal Model makes use of the “two world” approach for assessing the interaction between Internal Model scope and standard formula scope. This approach, as defined by the regulation does not allow for any diversification benefit between the “two worlds” granting a layer of prudency (for example, where the interest rate SCR of Internal Model scope and standard formula scope are generated by opposite economic scenarios).

In terms of quantitative results, based on the information provided in section E.2., the following table summarises the diversification benefits occurring across the main risk categories, taking into account that the diversification among geographies, segments, business models and granular risk modules is already embedded in the SCR risk categories:

Diversification benefits YE2017 split by risk

(%)	Diversification across risks
Financial risks	-12.4%
Credit risks	-13.4%
Life underwriting risks	-67.5%
Health underwriting risks	-66.1%
Non-life underwriting risks	-36.4%
Intangible risk	0.0%
Operational risk	0.0%
Overall diversification benefit	**-21.7%**

In general terms it is evident that financial and credit events are strongly correlated with each other, providing a limited diversification (i.e. the probability that financial and credit stressed events occur at the same time is high). Life and health underwriting risks are weakly correlated with the other risk categories, considering they are mostly driven by biometric events. Non-life underwriting risks are materially correlated with financial events (e.g. yield curve movements, inflation, credit worthiness of counterparties), this explaining the diversification benefit shown. Finally, operational risk is not diversified with any other risk category in line with the mentioned "*two world*" approach chosen by the Group. The final overall diversification benefit is the result of having the majority of the exposures subject to financial and credit risks more than to underwriting risks.

Different approaches applied for the calculation of the SCR at legal entity level

The use of Group PIM has been authorised both for the calculation of the SCR at Group level and of the SCR of the entities within the PIM scope. To this end, the Local Suitability Assessment grants that the modelling and calibrations remain adequate also for the entities in scope. In terms of local specific calibrations, it is to be noted that for Italian entities, differently than for the calculation at Group level and other PIM entities, stress is neither applied to Italian government bonds nor to the Stochastic Volatility Adjustments.

Main differences between standard formula and the PIM for each risk category

Main differences between standard formula and the PIM for each risk category are the following:

1. With reference to life underwriting risks:

- the PIM life underwriting stress calibration is based on historical portfolio data, rather than on stress levels defined by the regulation as required by the standard formula approach. In particular, the calculation is based on the impact on technical provisions, of the potential deviations in the underlying calculation assumptions, arising from adverse events, defined through:
  - a combination of market data and exposures for the calibration of catastrophe risks (mortality and health);
  - single company historical portfolio data for all other life risks.

2. With reference to non-life underwriting risks:

- a bottom-up calibration approach on the underwritten business for pricing and reserving risks within PIM, while the standard formula approach is based on standard deviation;
- regarding catastrophe (CAT) risks, standard formula calibration uses predefined EIOPA ratios based on the geography of exposures, while the PIM uses advanced methods based on market best practices;
- for what concerns reinsurance, the standard formula adopts simplified approaches, while PIM considers a specific modelling for forward looking reinsurance treaties with residual simplifications on past treaties and facultative reinsurance.

3. With reference to financial and credit risks:

- for market risk, the standard formula approach is based either on the application of standardised stress levels applied directly on assets or, in case of interest rate risk, on the application of a standardised and simplified stress on the curves used to discount the future cash flows;
- the PIM adopts more sophisticated modelling techniques, based on a more granular risk map (for example, the interest and equity volatility risks are considered in the PIM, while they are not considered in standard formula, and the calculation of the default risk is extended also to the bond portfolio);
- moreover, the PIM aims at a more accurate representation of the risk profile, also within the same risk module. The PIM approach calibrates specific stress distributions related to the peculiarities of each financial instrument, instead of applying the same stress coefficients on large asset classes. Calibrations are reviewed on yearly basis;
- finally, it is worth noting that credit spread widening risk is classified within credit risk module under the PIM, differently from the standard formula.

E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

This section is not applicable.

E.6. Any other information

E.6.1. Full Internal Model view

The Generali Group received formal approval from IVASS to use its Partial Internal Model for the calculation of its regulatory SCR for a limited scope in terms of countries and excluding operational risk.

In order to reach a full coverage, the Group plans to extend the use of its PIM:
- To a broader scope of insurance entities, starting with Spain, Austria and Switzerland;
- To operational risks.

For this reason, Generali deems appropriate, considering this process of Internal Model extension, to measure its risk profile by using its Internal Model for the other material entities of the Group, as it better captures the granularity, calibration of the risk factors and their interdependencies. In terms of Own Funds, this impacts the Technical Provisions (specifically, Risk Margin) and Taxes.

The table below provides the Economic Solvency Ratio calculated following this Full Internal Model view. The Economic Solvency Ratio stands to 230%[35].

Full Internal Model view as of 31.12.2017

(€ million)	Full Internal Model view	Regulatory view	Change
Group Own Funds	**46,806**	**45,880**	**926**
Solvency Capital Requirement	20,352	22,191	-1,838
Solvency Ratio	230%	207%	23 pp

35 Data communicated during Analyst Meeting presentation.

Annex

Annex

Glossary

Basic own funds: According to art. 88 of Solvency II Directive 2009/138/CE, Basic Own Funds are defined as the sum of the excess of assets over liabilities measured on market consistent principles in accordance with art. 75 of Solvency II Directive 2009/138/CE and reduced by the amount of own shares held by the insurance or reinsurance undertaking, and subordinated liabilities.

Best estimate liability: The best estimate liability represents the expected present value of future cash-flows related to insurance and reinsurance obligations in force at valuation date. The best estimate liability is calculated on a gross of reinsurance basis, i.e. without any deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles.

Best estimate operating assumptions: The assumptions on all those non-financial factors which can have an impact on future cash-flows, including not only the most common operating factors (i.e. mortality/longevity, disability/morbidity, lapses, expenses), but also those contractual policyholders' options that can be exercised by policyholders at pre-determined conditions (e.g. annuity take-up rates, voluntary premium increases, maturity extensions…).

Cash and cash equivalents: the item includes cash and highly-liquid short-term financial investments (readily convertible in specific amounts of cash which are subject to an irrelevant risk of change in value). Furthermore this asset class includes also short term deposits and money-market investment funds, which are included in the Group liquidity management.

Combined Ratio (COR): It is a technical performance indicator of the P&C segment, calculated as the weight of the loss ratio and the acquisition and general expenses (expense ratio) on the earned premiums.

Contract boundaries: This is the limit beyond which relevant cash flows are excluded from the calculation of technical provisions. It is defined in line with Article 18 of the Delegated Acts, and refers to future dates where the insurance undertaking has a unilateral right either to terminate the contract, or to reject payable premiums or to amend the payable premiums or the benefits in such a way that the premiums fully reflect the risks.

Counterparty default risk adjustment: The counterparty default adjustment is the amount of reinsurance recoverables that the Company expects not to be able to recover as a consequence of the possible default of the reinsurance counterparty at any point in time in the future.

Equivalent consolidation area: Refers to equivalent consolidation scope.

Equity investments: direct investments in quoted and unquoted equity instruments. Moreover, this asset class includes also investments funds mainly exposed to investments or risks similar to direct investments presented within this asset class, including also private equity and hedge funds.

Equivalent terms: Refers to equivalent exchange rates and equivalent consolidation scope.

Expected Profit Included in Future Premiums (EPIFP): it is the expected present value of future cash flows, if positive, which results from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.

Fixed income instruments: direct investments in government and corporate bonds, loans, term deposits other than those presented as cash and cash equivalents, and reinsurance deposits. Moreover, this asset class includes also investments funds mainly exposed to investments or risks similar to direct investments presented within this asset class.

Gross written premiums: Equal to gross written premiums of direct business and accepted by third parties.

Gross direct premiums: Equal to gross written premiums of direct business.

(Partial) Internal Model: The Internal Model refers to the Generali Group's Partial Internal Model approved by the Supervisory Authority for the calculation of the Solvency Capital Requirement under Solvency II. This model has been developed to better capture the risk profile of the Group and of the companies in scope. It covers all risk categories except operational risks.

Insurance contracts: a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary [Appendix A, IFRS4].

Investments back to unit and index-linked policies: includes various types of investments backing insurance liabilities related to unit and index-linked policies.

Investment contracts: investment contracts that have the legal form of insurance contracts but as they substantially expose the insurer to significant insurance risk (such as the mortality risk or similar insurance risks cannot be classified as insurance contracts. In accordance with the definitions of FRS 4 and IAS 39 these contracts are recognized as financial liabilities. Investment contracts that have the legal form of an insurance contract but as they substantially expose the insurer to significant insurance risk (such as the mortality risk or similar insurance risks) cannot be classified as such. In line with the definitions of FRS 4 and IAS 39 these contracts are recognized as financial liabilities.

Investments properties: direct investments in real-estates. Moreover, this asset class includes also investments funds mainly exposed to real-estate investments.

Long term guarantee adjustments and transitional measures: This expression refers to the matching adjustment (as set out in article 77b of Solvency II Directive 2009/138/CE), the volatility adjustment (as set out in article 77d of Solvency II Directive 2009/138/CE), the transitional measure on the risk-free interest rates (as set out in article 308c of Solvency II Directive 2009/138/CE) and the transitional measure on technical provisions (as set out in article 308d of Solvency II Directive 2009/138/CE).

Minimum Capital Requirement (MCR): The Minimum Capital Requirement corresponds to an amount of eligible basic own funds below which policyholders and beneficiaries are exposed to an unacceptable level of risk were insurance and reinsurance undertakings allowed to continue their operations. It corresponds to the Value-at-Risk of the basic own funds subject to a confidence level of 85% over a one-year period (Solvency II Directive 2009/138/CE, Art. 129).

Net cash inflows: it is an indicator of cash flows generation of the life segment. It is equal to the amount of premiums collected net of benefits paid.

Other investments: includes participations in non-consolidated Group companies, derivative investments and receivables form banks and customers, the latter mainly related to Group banking operations.

Outstanding Claims Reserves: The Outstanding Claims Reserves (or Claims Provisions) are reserves for the outstanding claims, whether reported or not, occurred before the evaluation date whose costs and related expenses have not been completely paid by that date.

Own funds: According to art. 87 of Solvency II Directive 2009/138/CE, Own Funds are defined as the sum of basic own funds and ancillary own funds.

Premiums Reserves: The Premiums Reserves (or Premium Provisions) are reserves for contracts that are either in force at the valuation date or for which a legal obligation exists to provide coverage.

Reinsurance recoverables: Reinsurance recoverables represent the amount of best estimate liability expected to be recovered via reinsurance treaties or special purpose reinsurance vehicles and correspond to the expected present value of the future cash flows referring to the in force reinsurance agreements.

Return on investments: The indicators for the return on investments are presented, obtained as the ratio:

a) Current return: between interest and other income, including income from financial instruments at fair value through profit and loss (excluding income from financial instruments related to linked contracts) net of depreciation on real estate investments and the average investments calculated on IAS book value);
b) The profit and loss return is equal to the current return plus the harvesting rate (net realized gains, net impairment losses and realized and unrealized gains and losses from financial instruments at fair value through profit and loss (excluding those from financial instruments related to linked contracts) net of investment management expenses and foreign exchange impact recorded within the consolidated profit or loss and the average investments calculated on IAS book value);
c) The comprehensive return is equal to the profit and loss return plus fair value and other movement recorder within OCI on available for sale financial assets and the average investments calculated on IAS book value).

The average investments (calculated on IAS book value) included land and buildings (investment properties), investments in subsidiaries, associated companies and joint ventures, loans and receivables, available for sale financial assets, financial assets at fair value through profit or loss less financial assets and liabilities related to linked contracts, derivatives classified as financial liabilities at fair value through profit or loss and cash and cash equivalents. Total investments are adjusted for derivative instruments classified as financial liabilities at fair value through profit of loss and REPOs classified as other financial liabilities. The average is calculated on the average asset base of each quarter of the reporting period.

Risk Adjusted Capital (RAC): The Risk Adjusted Capital is defined as the one-year change in basic own funds calculated at various percentiles (e.g. 1-in-10, 1-in-200). It is derived by reading the points from the full Probability Distribution Forecast (PDF) of the one-year changes in own funds, generated by the Partial Internal Model.

Risk Appetite Framework (RAF): The Risk Appetite Framework sets the overall risk strategy in terms of aggregate level of risk that the Generali Group is willing to accept or avoid in order to achieve its business objectives.

Risk Margin: The risk margin is the part of technical provisions that should ensure that the overall value of the technical provisions is equivalent to the amount a third party would theoretically require in order to take over and meet the insurance liabilities, taking into account the cost of capital required to support those liabilities over their remaining future lifetime and regarding non-hedgeable risks such as underwriting and operational risks.

Solvency II ratio: defined as the ratio between the Eligible Own Funds and the Group Solvency Capital requirement, both calculated according to the definitions of the Solvency II regime. Own funds are determined net of proposed dividend.

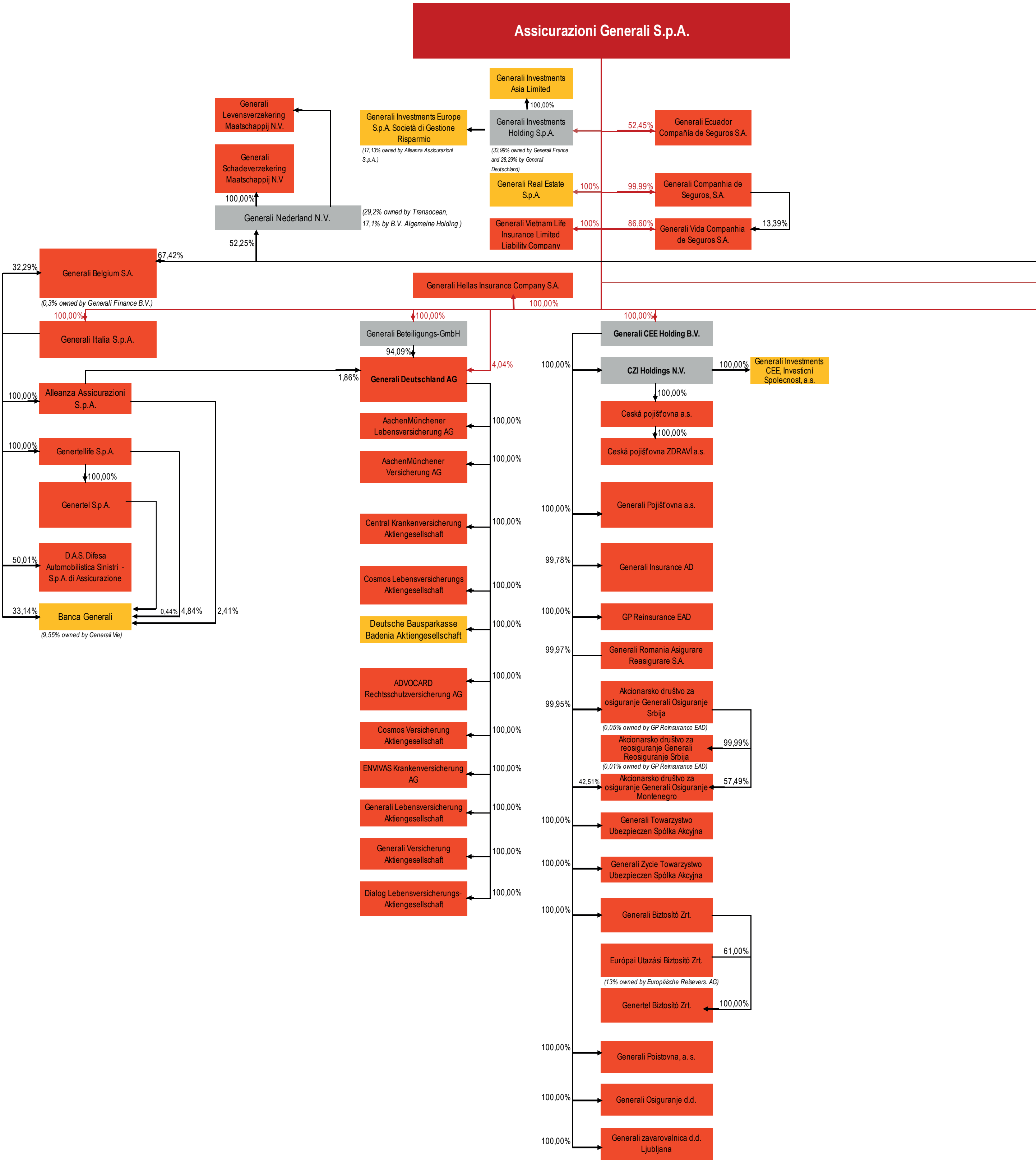
Solvency Capital Requirement (SCR): The Solvency Capital Requirement is determined as the economic capital to be held by insurance and reinsurance undertakings in order to ensure that ruin occurs no more often than once in every 200 cases or, alternatively, that those undertakings will still be in a position, with a probability of at least 99.5%, to meet their obligations to policyholders and beneficiaries over the following 12 months (Solvency II Directive 2009/138/CE, Introduction, c. 64).

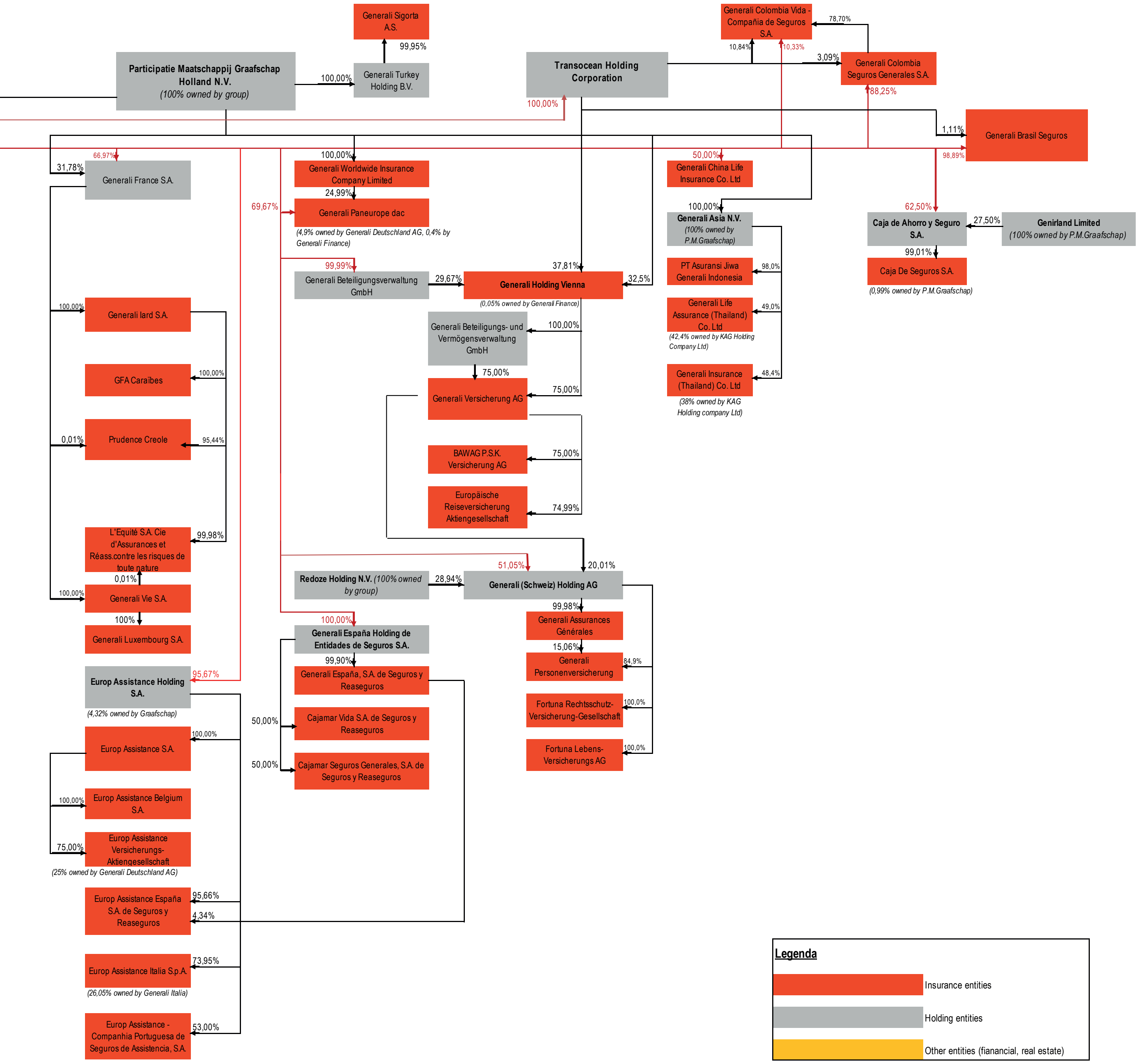
Standard formula: The standard formula is a standard method defined by Solvency II Directive for the calculation of the Solvency Capital Requirement. The standard formula covers the following risks: non-life underwriting risk, life underwriting risk, health underwriting risk, market risk, counterparty default risk and operational risk.

Technical provisions: The technical provisions correspond to the sum of the best estimate liability and risk margin. In case technical provisions are considered on a net of reinsurance basis, the amount of reinsurance recoverables net of the counterparty default adjustment is deducted from the technical provisions.

Volatility Adjustment (VA): Volatility Adjustment (VA) allows insurance and reinsurance undertakings to adjust the relevant risk-free interest rate term structure used for the calculation of the best estimate of technical provisions to mitigate the effect of bond spreads widening. The VA is calculated by EIOPA and amounts to 65% of the risk-corrected spread between the interest rate that could be earned from bonds included in a reference portfolio and the basic risk-free interest rates. The VA is derived for each relevant currency (based on currency specific reference portfolios) and, where relevant, for national insurance markets (based on country specific reference portfolios).

Simplified Group structure





Generali Sigorta A.S.
99,95%
Participatie Maatschappij Graafschap Holland N.V.
(100% owned by group)
100,00%
Generali Turkey Holding B.V.
Transocean Holding Corporation
100,00%
Generali Colombia Vida - Compañia de Seguros S.A.
78,70%
10,84%
10,33%
3,09%
Generali Colombia Seguros Generales S.A.
88,25%
1,11%
Generali Brasil Seguros
98,89%
66,97%
31,78%
Generali France S.A.
100,00%
Generali Worldwide Insurance Company Limited
24,99%
69,67%
Generali Paneurope dac
(4,9% owned by Generali Deutschland AG, 0,4% by Generali Finance)
50,00%
Generali China Life Insurance Co. Ltd
100,00%
Generali Asia N.V.
(100% owned by P.M.Graafschap)
62,50%
Caja de Ahorro y Seguro S.A.
27,50%
Genirland Limited
(100% owned by P.M.Graafschap)
99,01%
Caja De Seguros S.A.
(0,99% owned by P.M.Graafschap)
PT Asuransi Jiwa Generali Indonesia
98,0%
Generali Life Assurance (Thailand) Co. Ltd
49,0%
(42,4% owned by KAG Holding Company Ltd)
Generali Insurance (Thailand) Co. Ltd
48,4%
(38% owned by KAG Holding company Ltd)
99,99%
Generali Beteiligungsverwaltung GmbH
29,67%
37,81%
Generali Holding Vienna
32,5%
(0,05% owned by Generali Finance)
100,00%
Generali Iard S.A.
100,00%
GFA Caraïbes
0,01%
Prudence Creole
95,44%
Generali Beteiligungs- und Vermögensverwaltung GmbH
100,00%
75,00%
Generali Versicherung AG
75,00%
BAWAG P.S.K. Versicherung AG
75,00%
Europäische Reiseversicherung Aktiengesellschaft
74,99%
L'Equité S.A. Cie d'Assurances et Réass.contre les risques de toute nature
99,98%
0,01%
100,00%
Generali Vie S.A.
100%
Generali Luxembourg S.A.
Redoze Holding N.V. (100% owned by group)
28,94%
51,05%
20,01%
Generali (Schweiz) Holding AG
99,98%
Generali Assurances Générales
15,06%
Generali Personenversicherung
84,9%
Fortuna Rechtsschutz-Versicherung-Gesellschaft
100,0%
Fortuna Lebens-Versicherungs AG
100,0%
100,00%
Generali España Holding de Entidades de Seguros S.A.
99,90%
Generali España, S.A. de Seguros y Reaseguros
50,00%
Cajamar Vida S.A. de Seguros y Reaseguros
50,00%
Cajamar Seguros Generales, S.A. de Seguros y Reaseguros
Europ Assistance Holding S.A.
95,67%
(4,32% owned by Graafschap)
100,00%
Europ Assistance S.A.
100,00%
Europ Assistance Belgium S.A.
75,00%
Europ Assistance Versicherungs-Aktiengesellschaft
(25% owned by Generali Deutschland AG)
95,66%
Europ Assistance España S.A. de Seguros y Reaseguros
4,34%
73,95%
Europ Assistance Italia S.p.A.
(26,05% owned by Generali Italia)
53,00%
Europ Assistance - Companhia Portuguesa de Seguros de Assistencia, S.A.
Legenda
Insurance entities
Holding entities
Other entities (fianancial, real estate)

Undertakings in the scope of the Group

Company	Country	Group Equity Ratio
Assicurazioni Generali S.p.A.	Italy	100.00
Genertel S.p.A.	Italy	100.00
Generali CyberSecurTech S.r.l.	Italy	100.00
UMS Immobiliare Genova S.p.A.	Italy	99.90
Risparmio Assicurazioni S.p.A. in liquidazione	Italy	100.00
Europ Assistance Italia S.p.A.	Italy	99.99
Europ Assistance Trade S.p.A.	Italy	99.99
Europ Assistance VAI S.p.A.	Italy	99.99
Generali Welion S.c.a.r.l.	Italy	100.00
Generali Properties S.p.A.	Italy	100.00
Assitimm S.r.l.	Italy	100.00
Initium S.r.l. in liquidazione (*)	Italy	49.00
Alleanza Assicurazioni S.p.A.	Italy	100.00
Genagricola - Generali Agricoltura S.p.A.	Italy	100.00
Agricola San Giorgio S.p.A.	Italy	100.00
Sementi Dom Dotto S.p.A.	Italy	100.00
GenerFid S.p.A.	Italy	50.26
Finagen S.p.A. in liquidazione	Italy	100.00
Banca Generali S.p.A.	Italy	50.26
Fondo Scarlatti - Fondo Immobiliare chiuso	Italy	67.28
Generali Real Estate S.p.A.	Italy	100.00
Investimenti Marittimi S.p.A.	Italy	30.00
Servizi Tecnologici Avanzati S.p.A.	Italy	25.00
Fondo Immobiliare Mascagni	Italy	100.00
Fondo Immobiliare Toscanini	Italy	99.98
GSS - Generali Shared Services S.c.a.r.l.	Italy	99.84
Generali Business Solutions S.c.p.A.	Italy	99.70
Tiberina S.r.l. Unipersonale	Italy	100.00
Telco S.p.A. (*)	Italy	19.30
CityLife S.p.A.	Italy	100.00
Residenze CYL S.p.A.	Italy	66.67
CityLife Sviluppo 2 S.r.l.	Italy	100.00
CityLife Sviluppo 3 S.r.l.	Italy	100.00
CityLife Sviluppo 4 S.r.l.	Italy	100.00
CityLife Sviluppo 5 S.r.l.	Italy	100.00
CityLife Sviluppo 6 S.r.l.	Italy	100.00
D.A.S. Difesa Automobilistica Sinistri - S.p.A. di Assicurazione	Italy	50.01
D.A.S. Legal Services S.r.l.	Italy	50.01

Company	Country	Group Equity Ratio
Alfuturo Servizi Assicurativi s.r.l.	Italy	100.00
Fondo Canaletto	Italy	98.95
Fondo Yielding (*)	Italy	44.53
BG Fiduciaria - Società di Intermediazione Mobiliare S.p.A.	Italy	50.26
Generali Real Estate S.p.A. SGR	Italy	100.00
Generali Investments Holding S.p.A.	Italy	99.58
Solaris S.r.l. in liquidazione	Italy	50.00
Fondo Sammartini (*)	Italy	48.00
Fondo Donizetti	Italy	100.00
Genertellife S.p.A.	Italy	100.00
Generali Innovation Center for Automobile Repairs S.c.a.r.l.	Italy	100.00
Generali Italia S.p.A.	Italy	100.00
Generali Investments Europe S.p.A. Società di Gestione Risparmio	Italy	99.65
Donatello Intermediazione S.r.l.	Italy	100.00
Dialog Lebensversicherungs-Aktiengesellschaft	Germany	100.00
Generali Deutschland Alternative Investments GmbH & Co. KG	Germany	100.00
Generali Deutschland Alternative Investments Verwaltungs GmbH	Germany	100.00
vSPS Management GmbH	Germany	100.00
Generali Deutschland AG	Germany	100.00
AachenMünchener Lebensversicherung AG	Germany	100.00
AachenMünchener Versicherung AG	Germany	100.00
Generali Lebensversicherung Aktiengesellschaft	Germany	100.00
Generali Versicherung Aktiengesellschaft	Germany	100.00
Central Krankenversicherung Aktiengesellschaft	Germany	100.00
Europ Assistance Versicherungs-Aktiengesellschaft	Germany	99.99
Europ Assistance Services GmbH	Germany	99.99
Cosmos Lebensversicherungs Aktiengesellschaft	Germany	100.00
Cosmos Versicherung Aktiengesellschaft	Germany	100.00
ENVIVAS Krankenversicherung AG	Germany	100.00
ADVOCARD Rechtsschutzversicherung AG	Germany	100.00
Generali Deutschland Pensionskasse AG	Germany	100.00
BBG Beteiligungsgesellschaft m.b.H.	Germany	100.00
Generali Beteiligungs-GmbH	Germany	100.00
Alstercampus Verwaltungsgesellschaft mbH	Germany	50.00
Generali Partner GmbH	Germany	100.00
Generali Deutschland Finanzierungs-GmbH	Germany	100.00
Generali 3. Immobilien AG & Co. KG	Germany	100.00
VVS Vertriebsservice für Vermögensberatung GmbH	Germany	74.00
GLL GmbH & Co. Retail KG i.L.	Germany	52.49
Generali Pensionsfonds AG	Germany	100.00

Company	Country	Group Equity Ratio
Generali European Real Estate Income Investments GmbH & Co. Geschlossene Investment KG	Germany	99.99
Generali Northern America Real Estate Investments GmbH & Co. KG	Germany	99.94
Generali Deutschland Immobilien Verwaltungs GmbH	Germany	100.00
AM Erste Immobilien AG & Co. KG	Germany	100.00
CENTRAL Erste Immobilien AG & Co. KG	Germany	100.00
CENTRAL Zweite Immobilien AG & Co. KG	Germany	100.00
Deutsche Bausparkasse Badenia Aktiengesellschaft	Germany	100.00
BA1 Alstercampus Grundstücksgesellschaft mbH & Co. KG	Germany	50.00
Volksfürsorge 1.Immobilien AG & Co. KG	Germany	100.00
Thuringia Generali 1.Immobilien AG & Co. KG	Germany	100.00
Thuringia Generali 2.Immoblien AG & Co. KG	Germany	100.00
AM Vers Erste Immobilien AG & Co. KG	Germany	100.00
Zweite AM RE Verwaltungs GmbH	Germany	100.00
Generali Akademie GmbH	Germany	100.00
Versicherungs-Planer-Vermittlungs GmbH	Germany	100.00
Thuringia Versicherungsvermittlungs-GmbH	Germany	100.00
MLV Beteiligungverwaltungsgesellschaft mbH	Germany	100.00
Generali Finanz Service GmbH	Germany	100.00
Deutsche Vermögensberatung Aktiengesellschaft DVAG (*)	Germany	40.00
MPC Real Value Fund GmbH & Co. KG	Germany	100.00
AM Sechste Immobilien AG & Co. KG	Germany	100.00
DBB Vermögensverwaltung GmbH & Co. KG	Germany	100.00
Generali Deutschland Services GmbH	Germany	100.00
Generali Deutschland Schadenmanagement GmbH	Germany	100.00
Generali Deutschland Finanzdienstleistung GmbH	Germany	100.00
Generali SicherungsTreuhand GmbH	Germany	100.00
Generali Deutschland Informatik Services GmbH	Germany	100.00
ATLAS Dienstleistungen für Vermögensberatung GmbH	Germany	74.00
AM Gesellschaft für betriebliche Altersversorgung mbH	Germany	100.00
Cosmos Finanzservice GmbH	Germany	100.00
Volksfürsorge Fixed Assets GmbH	Germany	100.00
Generali Vitality GmbH	Germany	100.00
FPS GmbH	Germany	98.95
FLI GmbH	Germany	98.95
Central Fixed Assets GmbH	Germany	100.00
AVW Versicherungsmakler GmbH	Germany	26.00
AM RE Verwaltungs GmbH	Germany	100.00
AM Versicherungsvermittlung GmbH	Germany	100.00
FFDTV GmbH	Germany	98.95
ver.di Service GmbH	Germany	50.00

Company	Country	Group Equity Ratio
Dein Plus GmbH - Vorteile für Gewerkschaftsmitglieder	Germany	60.00
VOV GmbH	Germany	43.00
Generali Pensions- und SicherungsManagement GmbH	Germany	100.00
Volksfürsorge 5.Immobilien AG & Co. KG	Germany	100.00
Louisen-Center Bad Homburg Verwaltungsgesellschaft mbH	Germany	94.90
Grundstücksgesellschaft Einkaufszentrum Marienplatz-Galerie Schwerin mbH & Co. KG	Germany	100.00
Verwaltungsgesellschaft Marienplatz-Galerie Schwerin mbH	Germany	100.00
Grundstücksgesellschaft Einkaufszentrum Louisen-Center Bad Homburg mbH & Co. KG	Germany	100.00
GID Fonds AAREC	Germany	100.00
GID Fonds ALAOT	Germany	100.00
GID Fonds CLAOT	Germany	100.00
GID Fonds AVAOT	Germany	100.00
GID Fonds CEAOT	Germany	100.00
GID Fonds VLAOT	Germany	100.00
GID Fonds GLLAE	Germany	100.00
GID Fonds GDRET	Germany	100.00
GID Fonds AMLRET	Germany	100.00
GID Fonds GVMET	Germany	100.00
GID Fonds GLMET	Germany	100.00
GID Fonds GLRET 3	Germany	100.00
GID Fonds GLRET 2	Germany	100.00
GID Fonds GLRET 4	Germany	100.00
Vofü Fonds I Hamburgische Grundbesitz und Anlage GmbH & Co.KG	Germany	54.19
GID-Fonds GPRET	Germany	91.31
GLL AMB Generali Properties Fund I GmbH & Co. KG	Germany	99.90
GLL AMB Generali Properties Fund II GmbH & Co. KG	Germany	100.00
GLL Properties Fund I LP	United States	99.90
GLL Properties Fund II LP	United States	100.00
GLL Properties 444 Noth Michig. LP	United States	100.00
GLL AMB Generali 200 State Street	Germany	100.00
GID Fonds AVAOT II	Germany	100.00
GID Fonds AVAOT III	Germany	100.00
GID Fonds ALRET	Germany	100.00
GID Fonds CERET	Germany	100.00
GID-Fonds CLRET	Germany	100.00
GID Fonds GLRET	Germany	100.00
GID Fonds DLRET	Germany	100.00
GID Fonds GDPRET	Germany	100.00
GID Fonds GVRET	Germany	100.00
Gentum Nr. 1	Germany	100.00

Company	Country	Group Equity Ratio
GID Fonds AVRET	Germany	100.00
GID Fonds GLAKOR	Germany	100.00
GID-Fonds GLRET 5	Germany	100.00
GID Fonds DLAET	Germany	100.00
GID-Fonds AAINF	Germany	100.00
GID-Fonds AAHYSL	Germany	98.20
GID-Fonds CLRET 2	Germany	100.00
GID-Fonds AACBGS	Germany	96.95
GID-Fonds ALAET	Germany	100.00
GID-Fonds CLTGP	Germany	100.00
GID-Fonds ALAET II	Germany	100.00
Blitz 17-628 AG	Germany	100.00
Allfinanz Aktiengesellschaft DVAG	Germany	100.00
Generali IARD S.A.	France	98.75
Association pour La Location du Moncey	France	98.75
Generali Vie S.A.	France	98.75
L'Equité S.A. Cie d'Assurances et Réass.contre les risques de toute nature	France	98.75
GFA Caraïbes	Martinique	98.75
Prudence Creole	Reunion Island	94.26
SAS Lonthènes	France	98.75
Europ Assistance France S.A.	France	99.99
Europ Assistance Océanie S.A.S.	French Polynesia	99.99
Ocealis S.A.S.	France	74.99
Generali France S.A.	France	98.75
Europ Assistance Holding S.A.	France	99.99
Cofifo S.A.S.	France	98.75
Cabinet Berat et Fils S.A.S.	France	98.75
ASSERCAR SAS	France	29.36
Suresnes Immobilier S.A.S.	France	98.75
COSEV@D Société par actions simplifiée	France	98.75
SCI Terra Nova Montreuil	France	98.75
Trieste Courtage S.A.	France	98.73
Generali 7 S.A.	France	98.64
GEII Rivoli Holding SAS	France	98.95
PMC Treize Montluçon S.A.S.	France	98.75
Generali 9 S.A.S.	France	98.75
Generali 10 S.A.S.	France	98.75
Immobiliere Commerciale des Indes Orientales IMMOCIO	France	98.75
SAS IMMOCIO CBI	France	98.75
EAP France SAS (*)	France	50.99

Company	Country	Group Equity Ratio
Bien Être Assistance S.A.S. (*)	France	50.99
Europ Assistance S.A.	France	99.99
Europ Assistance Brokerage Solutions S.a.r.l.	France	99.99
Risque et Sérénité S.A.	France	60.39
Europ Téléassistance S.A.S.	France	99.99
SCI Generali Reaumur	France	98.75
MAPREG	France	24.95
GF Sante S.A.S.	France	98.75
ABT SAS	France	24.69
Metropole Assurances S.à r.l.	France	98.75
Gconcierges S.A.S.	France	99.99
Reunion Aerienne & Spatiale SAS	France	32.92
GEIH France OPCI	France	98.95
SCI GRE PAN-EU 74 Rivoli	France	98.95
SCI GRE PAN-EU 146 Haussmann	France	98.95
SAS 100 CE (*)	France	49.47
SCI du 68 Pierre Charron	France	98.95
SCI du 54 Avenue Hoche	France	98.75
SCI 42 Notre Dame Des Victoires	France	98.75
SCI Generali Pyramides	France	98.75
SCI Generali Wagram	France	98.75
SCI du Coq	France	98.75
SCI Espace Seine-Generali	France	98.75
SCI GF Pierre	France	98.75
SCI Landy-Novatis	France	98.75
SCI Les 3 Collines Le Ferandou	France	47.70
SCI Cogipar	France	98.75
SCI Font Romeu Neige et Soleil	France	98.75
SC Commerce Paris	France	98.75
SCI Landy-Wilo	France	98.75
SCI Generali Carnot	France	98.75
SCI Generali Commerce 1	France	98.75
SCI Generali Commerce 2	France	98.75
SCI Generali le Moncey	France	98.75
SC Generali Logistique	France	98.75
SCI Parcolog Lille Hénin Beaumont 2	France	98.75
SCI Iris La Défense	France	98.75
OPCI Parcolog Invest	France	98.75
SCI Parcolog Isle d'Abeau Gestion	France	98.75
SCI Parc Logistique Maisonneuve 1	France	98.75

Company	Country	Group Equity Ratio
SCI Parc Logistique Maisonneuve 2	France	98.75
SCI Parc Logistique Maisonneuve 3	France	98.75
SCI Parc Logistique Maisonneuve 4	France	98.75
SCI Parcolog Isle D'Abeau 1	France	98.75
SCI Parcolog Isle D'Abeau 2	France	98.75
SCI Parcolog Isle D'Abeau 3	France	98.75
SCI Parcolog Combs La Ville 1	France	98.75
SCI Parcolog Bordeaux Cestas	France	98.75
SCI Parcolog Marly	France	98.75
SC Parcolog Messageries	France	98.75
SCI Commerces Regions	France	98.75
SCI Thiers Lyon	France	98.75
SCI Iliade Massy	France	98.75
SCE Château La Pointe	France	98.75
Bois Colombes Europe Avenue SCI (*)	France	49.38
SAS Parcolog Lille Henin Beaumont 1	France	98.75
OPCI Generali Bureaux	France	98.75
OPCI Generali Residentiel	France	98.75
SCI 11/15 Pasquier (*)	France	49.38
SCI 9 Messine (*)	France	49.38
OPCI GB1	France	98.75
OPCI GR1	France	98.75
SCI Daumesnil (*)	France	49.38
SCI Malesherbes (*)	France	49.38
SCI 15 Scribe (*)	France	49.38
SCI 18-20 Paix	France	98.75
SCI Berges de Seine	France	98.75
SCI 6 MESSINE	France	98.75
SCI 204 Pereire	France	98.75
SCI du 33 avenue Montaigne	France	98.75
SCI 5/7 MONCEY	France	98.75
SCI 28 Cours Albert 1er	France	98.75
SC Novatis	France	98.75
SCI Bureaux Paris	France	98.75
SCI CIC	Martinique	98.75
SCI GFA Caraibes	Martinique	98.75
Generali Holding Vienna AG	Austria	100.00
Lead Equities II. Auslandsbeteiligungs AG	Austria	21.59
Europäische Reiseversicherung Aktiengesellschaft	Austria	74.99
Lead Equities II. Private Equity Mittelstandsfinanzierungs AG	Austria	21.59

Company	Country	Group Equity Ratio
HSR Verpachtung GmbH	Austria	85.00
SK Versicherung AG (*)	Austria	39.66
Generali Versicherung AG	Austria	100.00
Drei Banken Versicherungsagentur GmbH	Austria	20.00
BAWAG P.S.K. Versicherung AG	Austria	75.00
Bonus Pensionskassen AG (*)	Austria	50.00
Europ Assistance Gesellschaft mbH	Austria	99.99
Car Care Consult Versicherungsvermittlung GmbH	Austria	100.00
Generali 3 Banken Holding AG (*)	Austria	49.30
Generali Beteiligungs- und Vermögensverwaltung GmbH	Austria	100.00
Allgemeine Immobilien-Verwaltungs GmbH & Co. KG	Austria	100.00
Generali Immobilien GmbH	Austria	100.00
M.O.F. Immobilien AG	Austria	20.00
Generali Beteiligungsverwaltung GmbH	Austria	100.00
3 Banken-Generali Investment-Gesellschaft m.b.H. (*)	Austria	48.57
SW 13	Austria	98.95
Risk-Aktiv Versicherungsservice GmbH	Austria	100.00
BONUS Vorsorgekasse AG (*)	Austria	25.00
Generali Telefon- und Auftragsservice GmbH	Austria	100.00
Generali Bank AG	Austria	100.00
Generali Betriebsrestaurants GmbH	Austria	100.00
Generali Leasing GmbH	Austria	100.00
TTC - Training Center Unternehmensberatung GmbH	Austria	74.99
Care Consult Versicherungsmakler GmbH	Austria	74.99
3 Banken-Generali-GLStock	Austria	100.00
3 Banken Generali GLBond Spezialfonds	Austria	100.00
3 Banken-Generali-GSBond	Austria	100.00
3 Banken-Generali - GEN4A Spezialfonds	Austria	100.00
BAWAG Spezialfonds 6	Austria	75.00
3 Banken-Generali - GNLStock	Austria	100.00
3 Banken-Generali-GHStock	Austria	100.00
Generali European Retail Investments Holdings S.A.	Luxembourg	99.47
Generali Luxembourg S.A.	Luxembourg	98.75
Point Partners GP Holdco S.à r.l. (*)	Luxembourg	24.87
Point Partners Special Limited Partnership (*)	Luxembourg	24.87
Generali Investments Luxembourg S.A.	Luxembourg	99.58
Generali Real Estate Luxembourg S.à r.l.	Luxembourg	100.00
Generali North American Holding 1 S.A.	Luxembourg	98.85
Generali North American Holding 2 S.A.	Luxembourg	99.94
Generali North American Holding S.A.	Luxembourg	100.00

Company	Country	Group Equity Ratio
Generali Europe Income Holding S.A.	Luxembourg	98.95
GRE PAN-EU Munich 1 S.à r.l.	Luxembourg	98.95
GRE PAN-EU Hamburg 1 S.à r.l.	Luxembourg	98.95
GRE PAN-EU Hamburg 2 S.à r.l.	Luxembourg	98.95
GRE PAN-EU Frankfurt 1 S.à r.l.	Luxembourg	98.95
Generali European Real Estate Investments S.A.	Luxembourg	99.47
Frescobaldi S.à.r.l.	Luxembourg	99.47
GLL AMB Generali Cross-Border Property Fund FCP	Luxembourg	100.00
BG Fund Management Luxembourg S.A.	Luxembourg	50.26
GLL AMB Generali City22 S.à.r.l.	Luxembourg	100.00
Corelli S.à.r.l.	Luxembourg	99.47
Torelli S.à.r.l.	Luxembourg	99.47
GLL AMB Generali Bankcenter S.à.r.l.	Luxembourg	100.00
Holding Klege S.à.r.l. (*)	Luxembourg	49.73
Generali Diversification Corporate Opportunities	Luxembourg	98.50
GARBE Logistic European Strategic Fund II (*)	Luxembourg	39.73
Generali Financial Holding FCP-FIS - Sub-Fund 2	Luxembourg	99.88
Generali España, S.A. de Seguros y Reaseguros	Spain	99.90
Cajamar Vida S.A. de Seguros y Reaseguros	Spain	50.00
Cajamar Seguros Generales, S.A. de Seguros y Reaseguros	Spain	50.00
Europ Assistance España S.A. de Seguros y Reaseguros	Spain	99.98
Europ Assistance Travel S.A.	Spain	99.98
Europ Assistance Servicios Integrales de Gestion, S.A.	Spain	99.98
Coris Gestión de Riesgos, S.L.	Spain	99.98
Generali España Holding de Entidades de Seguros S.A.	Spain	100.00
Hermes Sociedad Limitada de Servicios Inmobiliarios y Generales	Spain	99.90
Vitalicio Torre Cerdà S.l.	Spain	99.90
Grupo Generali España Agrupación de Interés Económico	Spain	99.90
GLL City22 S.L.	Spain	100.00
Generali Vida Companhia de Seguros S.A.	Portugal	99.99
Generali Companhia de Seguros, S.A.	Portugal	100.00
Keviana – Empreendimentos Imobiliários, S.A.	Portugal	98.75
Europ Assistance - Companhia Portuguesa de Seguros de Assistencia, S.A.	Portugal	52.99
Europ Assistance - Serviços de Assistencia Personalizados S.A.	Portugal	52.97
Ponte Alta - Consultoria e Assistência, Lda	Portugal	52.99
Generali Belgium S.A.	Belgium	99.99
Dedale S.A.	Belgium	99.98
Generali Real Estate Investments B.V.	Netherlands	99.99
Europ Assistance Belgium S.A.	Belgium	99.99
Europ Assistance Services S.A.	Belgium	99.99

Company	Country	Group Equity Ratio
B&C Assurance S.A.	Belgium	99.99
Webbroker S.A.	Belgium	99.99
Robert PREVOT SPRL	Belgium	99.98
GRE PAN-EU Brussels 1 s.p.r.l.	Belgium	98.95
Verzekeringskantoor Soenen N.V.	Belgium	99.79
Groupe Vervietois d'Assureurs S.A.	Belgium	99.94
Generali Levensverzekering Maatschappij N.V.	Netherlands	98.54
Generali Schadeverzekering Maatschappij N.V.	Netherlands	98.54
Generali Real Estate Investments Netherlands B.V.	Netherlands	98.54
Participatie Maatschappij Graafschap Holland N.V.	Netherlands	100.00
Generali Nederland N.V.	Netherlands	98.54
B.V. Algemene Holding en Financierings Maatschappij	Netherlands	100.00
Generali Finance B.V.	Netherlands	100.00
Redoze Holding N.V.	Netherlands	100.00
Generali Asia N.V.	Netherlands	100.00
Generali Turkey Holding B.V.	Netherlands	100.00
Saxon Land B.V.	Netherlands	99.63
Admirant Beheer B.V. (*)	Netherlands	49.27
C.V. Admirant (*)	Netherlands	49.27
Lion River I N.V.	Netherlands	99.63
Generali Horizon B.V.	Netherlands	100.00
Lion River II N.V.	Netherlands	99.97
Amulio Governance B.V.	Netherlands	49.99
Sigma Real Estate B.V. (*)	Netherlands	22.22
Nederlands Algemeen Verzekeringskantoor B.V.	Netherlands	98.54
Anac All-Finance Nederland Advies Combinatie B.V.	Netherlands	98.54
Anac B.V.	Netherlands	98.54
Stoutenburgh Adviesgroep B.V.	Netherlands	98.54
Generali CEE Holding B.V.	Czech Republic	100.00
CZI Holdings N.V.	Czech Republic	100.00
CP Strategic Investments N.V.	Netherlands	100.00
La Reunion Aerienne London Limited	United Kingdom	32.92
MyDrive Solutions Limited	United Kingdom	100.00
Ioca Entertainment Limited (*)	United Kingdom	17.59
Generali Saxon Land Development Company Ltd	United Kingdom	99.63
Generali Worldwide Insurance Company Limited	Guernsey	100.00
Generali Portfolio Management (CI) Ltd	Guernsey	100.00
Generali PanEurope dac	Ireland	100.00
Generali Link Limited	Ireland	100.00
Genirland Limited	Ireland	100.00

Company	Country	Group Equity Ratio
Europ Assistance A/S	Denmark	99.99
Citadel Insurance plc	Malta	20.16
Generali Hellas Insurance Company S.A.	Greece	100.00
Generali Biztosító Zrt.	Hungary	100.00
Európai Utazási Biztosító Zrt.	Hungary	70.75
Europ Assistance Magyarorszag Kft	Hungary	99.99
Roar Biztosítási és Pénzügyi Közvetíto Kft.	Hungary	100.00
Vàci utca Center Uzletközpont Kft	Hungary	100.00
Generali-Ingatlan Vagyonkezelo és Szolgáltató Kft.	Hungary	100.00
Generali Alapkezelo Zártköruen Muködo Részvénytársaság	Hungary	100.00
Genertel Biztosító Zrt.	Hungary	100.00
GP Consulting Pénzügyi Tanácsadó Kft.	Hungary	100.00
AUTOTÁL Biztosítási Szolgáltató Kft	Hungary	100.00
Top Torony Zrt. (*)	Hungary	50.00
Generali Pojišt'ovna a.s.	Czech Republic	100.00
Europ Assistance s.r.o.	Czech Republic	99.99
Generali Velky Spalicek S.r.o.	Czech Republic	100.00
CP Distribuce s.r.o.	Czech Republic	100.00
GRE PAN-EU Prague 1 s.r.o.	Czech Republic	98.95
PCS Praha Center Spol.s.r.o.	Czech Republic	100.00
Direct Care s.r.o.	Czech Republic	100.00
Parížská 26, s.r.o.	Czech Republic	100.00
Palac Krizik a.s.	Czech Republic	100.00
IDEE s.r.o.	Czech Republic	100.00
Small GREF a.s.	Czech Republic	100.00
Námestí Republiky 3a, s.r.o.	Czech Republic	100.00
Mustek Properties s.r.o.	Czech Republic	100.00
Office Center Purkynova, a.s.	Czech Republic	100.00
Ceská pojišt'ovna a.s.	Czech Republic	100.00
Penzijní spolecnost Ceské Pojištovny, a.s.	Czech Republic	100.00
Ceská pojišt'ovna ZDRAVÍ a.s.	Czech Republic	100.00
Generali Investments CEE, Investicní Spolecnost, a.s.	Czech Republic	100.00
FINHAUS a.s.	Czech Republic	100.00
Acredité s.r.o.	Czech Republic	100.00
Generali Real Estate Fund CEE a.s., investicní fond	Czech Republic	100.00
City Empiria a.s.	Czech Republic	100.00
Solitaire Real Estate, a.s.	Czech Republic	100.00
Nadace GCP	Czech Republic	100.00
Transformovaný fond Penzijní spolecnosti Ceské Pojištovny, a.s.	Czech Republic	100.00
Generali Poistovna, a. s.	Slovakia	100.00

Company	Country	Group Equity Ratio
Green Point Offices a.s.	Slovakia	100.00
VUB Generali dôchodková správcovská spolocnost', a.s. (*)	Slovakia	50.00
Generali IT S.r.o.	Slovakia	100.00
GSL Services s.r.o.	Slovakia	100.00
Generali Towarzystwo Ubezpieczen Spólka Akcyjna	Poland	100.00
Generali Zycie Towarzystwo Ubezpieczen Spólka Akcyjna	Poland	100.00
Europ Assistance Polska Sp.zo.o.	Poland	99.99
Generali Finance spólka z ograniczona odpowiedzialnoscia	Poland	100.00
Generali Powszechne Towarzystwo Emerytalne S.A.	Poland	100.00
PL Investment Jerozolimskie I SP. Z o.o.	Poland	100.00
PL Investment Jerozolimskie II SP. Z o.o.	Poland	100.00
Cleha Invest Sp. z o.o.	Poland	100.00
Generali zavarovalnica d.d. Ljubljana	Slovenia	100.00
LEV Registracija, registracija vozil, d.o.o.	Slovenia	100.00
FATA Asigurari S.A.	Romania	100.00
Generali Societate de Administrare a Fondurilor de Pensii Private S.A.	Romania	100.00
S.C. Genagricola Romania S.r.l.	Romania	100.00
S.C. Vignadoro S.r.l.	Romania	100.00
Generali Romania Asigurare Reasigurare S.A.	Romania	99.97
Generali Insurance AD	Bulgaria	99.78
Generali Zakrila Medical and Dental Centre EOOD	Bulgaria	99.78
GP Reinsurance EAD	Bulgaria	100.00
Generali Osiguranje d.d.	Croatia	100.00
Generali Assurances Générales SA	Switzerland	99.98
Generali Personenversicherungen AG	Switzerland	100.00
Fortuna Rechtsschutz-Versicherung-Gesellschaft AG	Switzerland	100.00
Europ Assistance (Suisse) S.A.	Switzerland	69.99
Europ Assistance (Suisse) Assurances S.A.	Switzerland	69.99
Europ Assistance (Suisse) Holding S.A.	Switzerland	69.99
Generali (Schweiz) Holding AG	Switzerland	100.00
Fortuna Investment AG	Switzerland	100.00
Generali Group Partner AG	Switzerland	100.00
Fortuna Lebens-Versicherungs AG	Liechtenstein	100.00
GW Beta	Jersey	100.00
Generali Sigorta A.S.	Turkey	99.95
Europ Assistance Yardim ve Destek Hizmetleri Ticaret Anonim Sirketi	Turkey	99.99
Akcionarsko društvo za osiguranje Generali Osiguranje Montenegro	Montenegro	100.00
Akcionarsko društvo za osiguranje Generali Osiguranje Srbija	Serbia	100.00
Akcionarsko društvo za reosiguranje Generali Reosiguranje Srbija	Serbia	100.00
Akcionarsko društvo za upravljanje dobrovoljnim penzijskim fondom Generali	Serbia	100.00

Company	Country	Group Equity Ratio
Generali Development d.o.o.	Serbia	100.00
Europ Assistance CEI OOO	Russian Federetion	99.99
Generali Realties Ltd	Israel	100.00
Generali Global Assistance Inc.	United States	99.99
Europ Assistance North America, Inc.	United States	99.99
Customized Services Administrators Inc.	United States	99.99
GMMI Inc.	United States	99.99
CareLinx Inc.	United States	72.77
Transocean Holding Corporation	United States	100.00
General Securities Corporation of North America	United States	99.57
Montcalm Wine Importers Ltd	United States	100.00
GNAREH 1 Farragut LLC	United States	99.57
GNAREI 1 Farragut LLC	United States	99.57
Genamerica Management Corporation	United States	100.00
Generali Consulting Solutions LLC	United States	100.00
Generali Claims Solutions LLC	United States	100.00
GLL 200 State Street L.P. (*)	United States	49.99
CMN Global Inc.	Canada	100.00
Caja de Seguros S.A.	Argentina	90.09
Pluria Productores de Seguros S.A. en liquidación	Argentina	86.41
Europ Assistance Argentina S.A.	Argentina	69.28
Caja de Ahorro y Seguro S.A.	Argentina	90.00
Ritenere S.A.	Argentina	90.00
Generali Brasil Seguros S.A.	Brazil	100.00
Europ Assistance Brasil Serviços de Assistência S.A.	Brazil	26.50
EABS Serviços de Assistencia e Partecipaçoes S.A.	Brazil	26.50
CEABS Serviços S.A.	Brazil	26.50
Generali Latam Prestação de Serviços e Partecipações Ltda.	Brazil	100.00
Asesoria e Inversiones Los Olmos SA	Chile	44.57
AFP Planvital S.A.	Chile	38.38
Europ Servicios S.p.A.	Chile	38.98
Europ Assistance SA	Chile	38.98
Care Management Network Inc.	Bahamas	99.98
Europ Assistance (Bahamas) Ltd	Bahamas	99.98
Generali Colombia Vida - Compañia de Seguros S.A.	Colombia	93.05
Generali Colombia Seguros Generales S.A.	Colombia	91.34
Generali Ecuador Compañía de Seguros S.A.	Ecuador	52.45
Atacama Investments Ltd	Virgin Islands (British)	44.06
Generali Pacifique NC	New Caledonia	98.75
Europ Assistance Pacifique	New Caledonia	74.99

Company	Country	Group Equity Ratio
PT Asuransi Jiwa Generali Indonesia	Indonesia	98.00
PT Generali Services Indonesia	Indonesia	98.75
MPI Generali Insurans Berhad (*)	Malaysia	49.00
Future Generali India Life Insurance Company Ltd (*)	India	25.50
Future Generali India Insurance Company Ltd (*)	India	25.51
Europ Assistance India Private Ltd	India	99.99
Europ Assistance (Taiwan) Ltd	Taiwan	99.99
Generali Life Assurance Philippines, Inc.	Philippines	100.00
Generali Life Assurance (Thailand) Co. Ltd	Thailand	89.30
Generali Insurance (Thailand) Co. Ltd	Thailand	84.52
IWF Holding Company Ltd	Thailand	94.67
KAG Holding Company Ltd	Thailand	94.98
FTW Company Limited	Thailand	90.57
MGD Company Limited	Thailand	90.57
DWP Partnership	Thailand	90.57
Generali Vietnam Life Insurance Limited Liability Company	Vietnam	100.00
Generali China Life Insurance Co. Ltd	China	50.00
Generali China Insurance Co. Ltd (*)	China	49.00
Europ Assistance Travel Assistance Services (Beijing) Co Ltd	China	99.99
Guotai Asset Management Company (*)	China	30.00
Generali China Assets Management Company Co. Ltd	China	40.00
GIAF Financial Limited	China	100.00
Shanghai Sinodrink Trading Company, Ltd	China	45.00
Europ Assistance Worldwide Services Pte Ltd	Singapore	99.99
Generali Services Pte Ltd	Singapore	100.00
Generali Financial Asia Limited	Hong Kong	100.00
Generali Life (Hong Kong) Limited	Hong Kong	100.00
Generali Investments Asia Limited	Hong Kong	99.58
NKFE Insurance Agency Company Limited	Hong Kong	100.00
Europ Assistance (Macau) - Serviços De Assistência Personalizados, Lda.	Macao	37.10
Assurances Maghrebia S.A.	Tunisia	44.17
Assurances Maghrebia Vie S.A.	Tunisia	22.08
Europ Assistance Worldwide Services (South Africa) (Pty) Ltd	South Africa, Republic	87.49
EASA Training Academy (Pty) Ltd	South Africa, Republic	87.49

(*) Partecipations valued at equity

Quantitative reporting template

The following public QRTs are provided in excel format and are available on the Generali Group website:

S.02.01 Balance Sheet

S.05.01 Premiums, claims and expenses by line of business

S.05.02 Premiums, claims and expenses by country

S.22.01 Impact of long term guarantees and transitionals measures

S.23.01 Own funds

S.25.02 Solvency Capital Requirement – for undertakings using the standard formula and partial internal model

S.32.01 Undertakings in the scope of the group

Independent Auditor's Report

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Independent auditor's report pursuant to article 47-septies, comma 7 of Legislative Decree n. 209, dated 7 September 2005, and paragraph n. 10 of IVASS Letter to the market, dated 7 December 2016

(Translation from the original Italian text)

To the board of directors of
Assicurazioni Generali S.p.A.

Opinion

We have audited the following elements of the Solvency and Financial Condition Report (the "SFCR") of Generali Group as at December 31, 2017, prepared pursuant to article 47-septies of Legislative Decree n. 209, dated 7 September 2005:

- reporting templates "S.02.01.02 Balance Sheet" and "S.23.01.22 Own funds" (the "reporting templates");
- sections "D. Valuation for solvency purposes" and "E.1. Own funds" (the "disclosures").

As required by paragraphs n. 9 and n. 10 of IVASS Letter to the market dated 7 December 2016, our procedures do not extend to:

- the components of technical provisions related to risk margin (items R0550, R0590, R0640, R0680 and R0720) of the reporting template "S.02.01.02 Balance Sheet";
- the group Solvency Capital Requirement (item R0680) and to the Minimum Consolidated Group Capital Requirement (item R0610) of the reporting template "S.23.01.22 Own funds";

consequently, they are excluded from our opinion.

The reporting templates and the disclosures, with the exclusions abovementioned, constitute "the reporting templates and related disclosures" as a whole.

In our opinion, the reporting templates and related disclosures included in the SFCR of Generali Group as at December 31, 2017 have been prepared, in all material respects, in accordance with the applicable European Union regulations and the national sectoral regulation.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the reporting templates and related disclosures* section of our report.

We are independent of Assicurazioni Generali S.p.A. ("the Company") in accordance with the regulations and standards on ethics and independence of the Code of Ethics for Professional Accountants (IESBA Code) issued by the International Ethics Standards Board for Accountants applicable to the audit of reporting templates and related disclosures.

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

Emphasis of Matter – Basis of preparation, purpose and restriction on use

We draw attention to section "D. Valuation for solvency purposes" which describes the basis of preparation. The reporting templates and related disclosures have been prepared for solvency supervision purposes in accordance with the applicable European Union regulations and the national sectoral regulation, which results in a special purpose framework. As a result, they may not be suitable for other purposes. Our opinion is not modified in respect of this matter.

Other matters

The Company has prepared the consolidated financial statements as at December 31, 2017 in accordance with International Financial Reporting Standards as adopted by the European Union and the Regulation issued to implement article 90 of Legislative Decree n. 209, dated 7 September 2005, on which we issued our independent auditor's report to the shareholders of the Company dated March 27, 2018.

Other Information included in the SFCR

The Directors are responsible for the preparation of the other information included in the SFCR in accordance with the applicable laws and regulations governing the basis of preparation.
The other information included in the SFRC are:

- reporting templates "S.05.01.02 Premiums, claims and expenses by line of business", "S.05.02.01 Premiums, claims and expenses by country", "S.22.01.22 Impact of long term guarantees and transitional measures", "S.25.02.22 Solvency Capital Requirement – for undertakings using the standard formula and partial internal model", "S.32.01.22 Undertakings in the scope of the group";
- sections "A. Business and performance", "B. System of governance", "C. Risk profile", "E.2. Solvency Capital Requirement and Minimum Capital Requirement", "E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement", "E.4. Differences between the standard formula and any internal model used", "E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement" e "E.6. Any other information".

Our opinion on the reporting templates and related disclosures does not cover the other information.
In connection with our audit of the reporting templates and related disclosures, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the reporting templates and related disclosures or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify possible inconsistencies or material misstatement, we are required to determine if there is a material misstatement in the reporting templates and related disclosures or in the other information. If, based on the work we have performed, we conclude that there is a material misstatement, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the reporting templates and related disclosures

The Directors are responsible for the preparation and presentation of the reporting templates and related disclosures in accordance with the applicable laws and regulations governing the basis of preparation, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of reporting templates and related disclosures that are free from material misstatement, whether due to fraud or error.

In preparing the reporting templates and related disclosures, the Directors are responsible for assessing the Group'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 they either intend to liquidate the Parent Company Assicurazioni Generali S.p.A. or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the reporting templates and related disclosures

Our objectives are to obtain reasonable assurance about whether the reporting templates and related disclosures 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 International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these reporting templates and related disclosures.

As part of an audit in accordance with International Standards on Auditing (ISAs), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the reporting templates and related disclosures, whether due to fraud or error; have 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;
- we have obtained an understanding of internal control relevant to the audit of the reporting templates and related disclosures 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 Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' 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 Group'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 SFCR 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 Group to cease to continue as a going concern.

We have communicated with those charged with governance regarding, 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 provided those charged with governance with a statement that we have complied with regulations and standards on ethics and independence of the Code of Ethics for Professional Accountants (IESBA Code) issued by the International Ethics Standards Board for Accountants, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Trieste, 18 June 2018

EY S.p.A.
Signed by: Matteo Brusatori, Partner

This report has been translated into the English language solely for the convenience of international readers.

Editing
Group Integrated Reporting

Coordination
**Group Communications
& Public Affairs**

The document is
available on
www.generali.com