189th year

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2020 OWN FUNDS & LIFE NEW BUSINESS SUPPLEMENTARY INFORMATION

ASSICURAZIONI GENERALI

GENERALI

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Assicurazioni Generali

2020 Own Funds & Life New Business Supplementary Information

1 Introduction and key results

This document reports the main results, methodology and assumptions concerning the valuation of 2020 Group Own Funds (hereinafter, GOF) and Life New Business (hereinafter, NB).

GOF results presented in Section 2 are based on preliminary regulatory figures consistent with the Group's external disclosure of full year results: differences may arise in comparison to the official GOF which will be finalised later during 2021 for the year-end 2020 Solvency and Financial Condition Report (SFCR) and Quantitative Reporting Templates (QRT).

GOF results include the analyses of GOF economic movement from 2019 to 2020 (§2.1), GOF regulatory components (§2.2), GOF reconciliation from IFRS shareholders' equity (§2.3), GOF split by tiers (§2.4), GOF split by segment and region (§2.5), and GOF sensitivity to selected economic variables (§2.6).

NB results presented in Section 3 are calculated as the sum of separate quarterly valuations, based on the Market Consistent Embedded Value (hereinafter, MCEV) principles.

NB results include the analysis of NB main results (§3.1), NB profitability movement (§3.2), NB split by main lines of business (§3.3), NB sensitivity to economic and operating factors (§3.4) and NB profits expected release (§3.5). The split of NB results by region is reported in §3.6, and finally the reconciliation between MCEV NB Value (hereinafter, NBV) and the Solvency II Value of New Production included within GOF is described in §3.7.

The main financial assumptions and the methodology underlying the valuation of GOF and NBV are described in Section 4 and Annex A respectively. Finally, Annex B contains the main definitions and acronyms used in the document.

Monetary terms reported in the tables included in this document are in € million.

1.1. Group Own Funds key results

The following table reports the 2020 GOF key preliminary results, compared with 2019 official results.

Group Own Funds

€ mln	2020	2019	Change
Group Own Funds	**44,428**	**45,516**	-2.4%
Normalised Own Funds generation	3,902	3,286	18.7%
Total Own Funds generation	578	3,525	n/m

From year-end 2019 to year-end 2020 GOF moves from € 45.5 billion to € 44.4 billion.

The total Own Funds generation, defined as the variation of GOF before capital movements (foreseeable dividend and the buyback of part of the outstanding subordinated debt eligible in Basic Own Funds), amounts to € 0.6 billion.

The negative impact of market variances, regulatory changes and M&A operations is in fact offset by the extraordinary contribution of normalised Own Fund generation (€ 3.9 billion, corresponding to 8.6% return on initial GOF), which is supported by the resilient Life new business profitability, the excellent current year Non-Life technical result, the improved contribution from the Financial entities and the lower interest costs and expenses in the Holdings segment.

1.2. Life New Business key results

The following table reports the 2020 NB key results, compared with 2019 results.

New Business Value

€ mln	2020	2019	Change
New Business Value	**1,856**	**1,777**	4.9%
PVNBP	47,091	45,664	3.3%
NBM	3.94%	3.89%	0.06 pts

changes are on a comparable basis

The value of New Business written in 2020 amounts to € 1.9 billion and increases (+4.9% on homogeneous basis, i.e. neutralising the impacts of variations in perimeter and exchange rates) compared to 2019, benefiting from the combined effect of the increase of volumes (measured in terms of Present Value of New Business Premiums, hereinafter PVNBP) and the resilient profitability.

The growth of PVNBP (+3.3%) mainly comes from Germany and Italy offsetting the contraction registered in France, and is significantly supported by the growth of Protection and Unit-linked business.

The NB profitability (measured in term of New Business Value on PVNBP, hereinafter NBM) at 3.94% remains stable compared to 2019, thanks to the successful combination of an improved business mix (with a further growth of Protection and Unit-linked business) and the continuous enhancement of Saving business new products' features that offset the impact from sharp decrease of interest rates.

2 Group Own Funds

2.1. Group Own Funds analysis of movement

The **2020 total Own Funds generation** (total variation of GOF from 2019 to 2020, before capital movements) amounts to € 0.6 billion: the excellent contribution of the normalised Own Fund generation (€ 3.9 billion) is only partially offset by the negative impact of economic variances (€ -2.6 billion), of M&A operations (€ -0.4 billion), of regulatory changes (€ -0.3 billion), and by the other variances of the period (€ -0.1 billion, where the positive operating variances have almost entirely compensated the other variances).

The impact of the capital movements of € -1.7 billion leads to the overall € -1.1 billion net variation of GOF from 2019 to 2020.

The following table presents the development of the Group Own Funds from 2019 to 2020, on a net of tax basis, together with 2019 comparative figures.

Group Own Funds analysis of movement

€ mln	2020	2019
Group Own Funds - beginning of period	**45,516**	**44,191**
Regulatory changes	-267	-257
Normalised Own Funds generation	**3,902**	**3,286**
Life	*2,671*	*3,024*
Non-Life	*1,657*	*858*
Holdings & Financials	*-427*	*-596*
Economic variances	-2,590	1,281
Non-economic variances	-98	717
Operating variances	*668*	*587*
Other variances	*-766*	*130*
M&A	-370	-1,501
Total Own Funds generation	**578**	**3,525**
Capital movements	-1,666	-2,201
Derecognition of the second tranche of 2019 dividend	*722*	-
Foreseeable dividend	*-2,315*	*-1,513*
Redemption of subordinated debt eligible in BOF	*-73*	*-688*
Group Own Funds - end of period	**44,428**	**45,516**

2020 Regulatory changes (€ -0.3 billion) are due to:

- the positive impact on Risk Margin stemming from the extension of Generali's risk capital Partial Internal Model to operational risk, and from other minor model changes agreed with the Regulators and affecting actuarial models (€ 0.5 billion);
- the further haircut prescribed by the French Regulator on the amount of eligible unrealised gains on IORP pension business (€ -0.5 billion, see §5.1.1);
- the changes adopted by EIOPA concerning the level of the UFR and the composition of the reference portfolio used for the calculation of VA (€ -0.3 billion);
- the adoption of the volatility adjustment also for insurance operations in China (€ 0.1 billion).

2020 Normalised Own Fund generation (€ 3.9 billion) is strongly supported by the solid contribution of the Life business and by the exceptional Non-Life technical result, partially offset by the contribution of Holdings and Financials segment, which includes also the interest costs on subordinated debt.

More in detail:

- **Life normalised Own Fund generation** (€ 2.7 billion) components are:
  - the Solvency II Value of New Production (€ 1.4 billion), representing the contribution to GOF originated by the new business sold during the year, calculated according to Solvency II principles (refer to §3.7 for the reconciliation of such value with the € 1.9 billion NBV calculated on MCEV basis);
  - the expected release, from the business in-force at the beginning of the year, of the prudence included in the Solvency II framework (€ 1.2 billion), deriving from the expected release of the Risk Margin and from the impact on GOF (in terms of higher profit release expected in the year and related impact on the PVFP at the end of the year), originated by the difference between the Real-World financial return expected by the shareholder (see §4.4) and the Risk-Neutral return adopted within Solvency II valuation;
  - the unwinding of beginning of period assets and liabilities attributed to the Life segment (€ 0.1 billion), net of related assets management expenses.
- **Non-Life normalised Own Fund generation** (€ 1.7 billion) stems from the extraordinary contribution of the current year generation based on best estimate assumptions (€ 1.6 billion), in line with the movement of the IFRS current year combined ratio. The residual contribution (€ 0.1 billion) comes from the expected movement of the Risk Margin and the unwinding of assets and liabilities attributed to the Non-Life segment, with allowance of related assets management expenses.
- **Holdings and Financials normalised Own Fund generation** (€ -0.4 billion) mainly relates to the payment of the interest on the subordinated debt (€ -0.3 billion), to the recurring holding costs (€ -0.4 billion) and to the unwinding of assets and liabilities (€ -0.1 billion, including senior debt and allowance of assets management expenses), partially offset by the net result of the financial segment (€ 0.4 billion).

2020 Economic variances, largely related to the Covid-19 pandemic influence on the financial market conditions, have a negative impact of € -2.6 billion and can be split into the following main sources:

- Interest rates (€ -1.7 billion), due to the sharp decrease of swap curve (e.g. -48 bps on Euro swap 10 years par rate);
- Spreads and Volatility Adjustment (€ 0.6 billion), mainly driven by the positive impact of the significant spread narrowing of the Italian government bonds (e.g. -33 bps on BTP 10 years spread);
- Equities and real estate (€ -0.9 billion), mainly due to the fall of equity market observed in the first part of the year, only partially recovered in the last months of 2020;
- Impact of FX rate (€ -0.3 billion), following a general appreciation of Euro against the other currencies;
- Other economic variances (€ -0.2 billion) that include movement in volatilities and residual cross-effects among factors.

2020 Non-economic variances have a minor impact (€ - 0.1 billion) and can be split in:

- Operating variances, which positively contribute to the GOF movement (€ 0.7 billion) and mainly come from the Life segment (€ 0.6 billion). The positive variances in Germany (mostly arising from updated future sales assumptions underlying the calculation of the Going Concern Reserve, and from the update of future profit sharing quotas) and France (mainly coming from the update in surplus fund and favourable variances on expenses) are partly compensated by the negative variances in Italy (mostly on account of higher investment management expenses);
- Other variances, with an impact of € -0.8 billion, reflecting the non-recurring holding expenses of the period (€ -0.1 billion), the increase of Solvency II filters (€ -0.1 billion, related to the increase of Surplus Funds filters in Germany), and several extraordinary one-off effects observed during the period such the creation of the Covid–19 emergency fund (€ -0.1 billion), the share buyback for the share plan for Generali Group employees (€ -0.1 billion), the settlement of the BSI arbitration (€ -0.2 billion).

2020 M&A (€ -0.4 billion) represents the impact on GOF stemming from the M&A activities in 2020, including the acquisition of Seguradoras Unidas in Portugal and of a minority stake in Cattolica.

The movement of GOF from 2019 to 2020 is completed with the impacts of the capital movements (€ -1.7 billion), stemming from the cancellation of the payment of the second tranche of the 2019 dividend (€ 0.7 billion, which was deducted from the GOF at the end of 2019), the new **proposed dividend to be paid in 2021**[1] (€ -2.3 billion that includes both the second tranche of 2019 dividend and the foreseeable dividend on 2020 Group results), and the buyback of part of the Group's subordinated debt eligible in the GOF (€ -0.1 billion).

2.2. Group Own Funds results by component

In compliance with the Solvency II regulatory requirements, Group Own Funds are defined as the sum of consolidated Basic Own Funds related to insurance entities, holding and ancillary undertakings attributable to insurance activity and the Own Funds attributable to financial entities, defined according to their sectoral regulatory regimes.

Basic Own Funds, in turn, can be further analysed as the sum of the following components:

- the Excess of Assets over Liabilities as defined in accordance to art. 75 of Directive 2009/138/EC;
- plus subordinated debt eligible in Basic Own Funds;
- less foreseeable dividend;
- plus additional Own Funds related to unrealised capital gains from French pension activities arising from the application of the IORP transitory regime (see §5.1.1);
- less deductions for participations in financial entities;
- less deductions for regulatory filters applied to non-available items at Group level, restricted Own Fund items and shares of the parent company.

The contribution to the Group Own Funds of each element listed above is detailed in the following table.

[1] 2020 dividends are proposed by the Board of Directors and approved during the 2021 Shareholders' Annual meeting.

Group Own Funds components

€ mln	2020	2019
Excess of Assets over Liabilities	**40,734**	**40,756**
Subordinated debt eligible in BOF	8,285	8,259
Foreseeable dividend	-2,315	-1,513
Unrealised gains on French IORP business	483	696
Deductions for participations in financial entities	-2,732	-2,752
Impact of filter for non availability & minorities and other deductions	-1,303	-1,011
Basic Own Funds after deductions	**43,151**	**44,434**
Contribution of financial entities	1,276	1,081
Group Own Funds	**44,428**	**45,516**

Commenting on the items contributing to the GOF, it can be noted that:

- the Excess of Assets over Liabilities amounts at € 40.7 billion, in line with the previous year-end position. The total Own Funds generation of € 0.6 billion, adjusted to exclude the movement of items not recognised in the Market Value Balance Sheet (i.e.: unrealised gains on IORP business, Solvency II filters and other components), is offset by the payment of the first tranche of dividend of 2019 (€ -0.8 billion);
- the amount of subordinated debt eligible in Basic Own Funds (€ 8.3 billion), stands at the same level of previous year;
- the foreseeable dividend amounts to € -2.3 billion (including the € -0.7 billion of the second tranche of 2019 dividend);
- the reduced contribution of the unrealised gains on IORP business stems from their progressive yearly haircut required by the French regulator (see §5.1.1);
- the deductions for participations in financial entities (€ -2.7 billion, that include the quoted market price of the participation in Banca Generali), remains on the same level of 2019;
- the change of the impact of filters for minorities and non-available items (€ -0.3 billion) mainly comes from the share buyback for the share plan for Generali Group employees (€ -0.1 billion), and from the increase of filters on Surplus Funds in Germany (€ -0.1 billion);
- the increased contribution of financial entities (€ 0.2 billion) reflects the growth of the available capital of financial entities, defined in accordance with their sectoral regulatory regime when applicable also for Solvency II purposes. This item is particularly relevant for Banca Generali and Group asset management business units.

2.3. Reconciliation between IFRS equity and Solvency II Excess of Assets over Liabilities

Under the Solvency II regime, Solvency II Excess of Assets over Liabilities is valuated starting from IFRS shareholders' equity and by adjusting at fair value consolidated assets and liabilities in accordance with Article 75 and Section 2 of the Solvency II Directive.

More precisely, these adjustments consist of:

- eliminating intangible assets (e.g. goodwill);
- revaluating investments not accounted at fair value, such as loans, held to maturity investments and real estate;
- accounting for the Technical Provisions according to Solvency II rules as a sum of Best Estimate of Labilities and Risk Margin;
- including the Solvency II evaluation of financial liabilities and recognizing material contingent liabilities;

– recalculating the impact of net deferred taxes on the above adjustments.

The following table presents the reconciliation between IFRS shareholders' equity and Solvency II Excess of Assets over Liabilities at year-end 2020 and, for comparative purposes, at year-end 2019.

Differently from previous year-end closing, and in line with the SFCR representation of Market Value Balance Sheet, the goodwill deducted from the intangibles relates only to insurance operations, while the cancellation of the goodwill activated on non-insurance entities is now included in the change to fair value of participations. For illustrative purposes, 2019 values of goodwill and participations have been adjusted accordingly.

Reconciliation between IFRS Shareholders' Equity and Solvency II Excess of Assets over Liabilities

€ mln	2020	2019
IFRS Shareholders' Equity (gross of minorities)*	**31,234**	**29,386**
Intangibles	**-11,074**	**-10,837**
Goodwill	-7,116	-6,781
DAC	-2,117	-2,121
Other intangibles	-1,842	-1,935
Mark to market of Assets	**8,246**	**8,537**
Bonds	-1,750	-901
Real estate	10,350	9,352
Loans	186	149
Participations	87	807
Other assets	-626	-871
Mark to market of Liabilities	**18,601**	**20,374**
Net Technical Provisions	19,892	21,385
Financial debt	-368	-265
Subordinated debt	-605	-541
Other liabilities	-318	-205
Impact of net deferred taxes	**-6,273**	**-6,704**
Excess of Assets over Liabilities	**40,734**	**40,756**

** IFRS Equity adjusted (for illustrative purpose) for the proportional consolidation of China operations within Solvency II (see §5.1.1)*

The elements of reconciliation from the IFRS shareholders' equity (€ 31.2 billion) to the Solvency II Excess of Assets over Liabilities (€ 40.7 billion) are the following:

- **Intangibles** related to insurance operations (€ -11.1 billion), that are not recognised under Solvency II;
- **Mark to market of Assets:** this adjustment (€ 8.2 billion) is primarily due to the change to fair value of real estate assets. The negative mark to market of bonds and other assets is due to the impact of French IORP bonds, equities, investment fund units and derivatives that are recognised at fair value for IFRS purposes and kept at cost in the Solvency II balance sheet (the IORP eligible unrealised gains emerge in the movement from Excess of Assets over Liabilities to Basic Own Funds);
- **Mark to market of Liabilities**: this adjustment (€ 18.6 billion) is primarily due to net Technical Provisions (€ 19.9 billion deriving from the difference between IFRS and Solvency II valuation);
- **Impact of net deferred taxes** (€ -6.3 billion) is a consequence of the change to fair value of the items reported above.

2.4. Group Own Funds tiering

According to Solvency II regulation, Group Own Funds items are classified into three Tiers representing different levels of quality, depending on the ability to absorb losses due to adverse business fluctuations on a going-concern basis and in the case of winding-up.

The Group's tiering is described below.

- Tier 1 unrestricted Own Funds includes the following items:
  - ordinary share capital and the related share premium account;
  - available surplus funds (from German, French and Austrian business);
  - reconciliation reserve;
  - additional Own Funds from French pension activities
- Tier 1 restricted is composed of undated subordinated debt
- Tier 2 includes the remaining part of subordinated debt which is classified as dated
- Tier 3 is composed by net deferred tax assets, which are characterised by lower capital quality being not immediately available to absorb losses.

The GOF split by tiers is reported in the following table.

Group Own Funds by Tiering

€ mln	**Total**	**Total Tier 1**	***o/w Tier 1 unrestricted***	***o/w Tier 1 restricted***	**Tier 2**	**Tier 3**
2020 Group Own Funds	**44,428**	**38,190**	**36,048**	**2,142**	**6,142**	**95**
% on total GOF 2020	**100.0%**	***86.0%***	***81.1%***	***4.8%***	**13.8%**	**0.2%**
2019 Group Own Funds	45,516	**39,457**	**37,186**	***2,271***	**5,987**	**71**
% on total GOF 2019	100.0%	86.7%	*81.7%*	*5.0%*	13.2%	0.2%

2020 Group Own Funds remains composed by high-quality capital. Tier 1 counts for about 86.0% of the total (86.7% in 2019), Tier 2 represents 13.8% (13.2% in 2019) and Tier 3 only 0.2% of the total (0.2% in 2019).

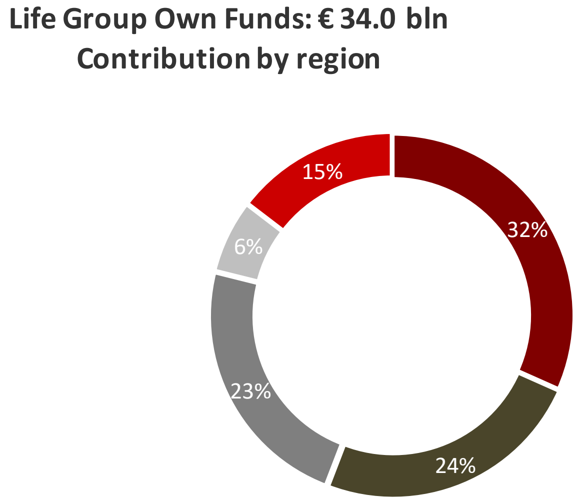
No eligibility filters are triggered thanks to the high-quality of the capital-tiering.

2.5. Group Own Funds by segment and by region

The following charts describe the contribution of the Life and Non-Life segment to 2020 GOF, and their split by the main regions where the Group operates.

Life segment

2020 GOF are mainly attributable to the Life segment, which accounts for € 34.0 billion. The main contributors to the Life segment are Italy and Germany, representing 56% of the Life GOF.



Within 2020 Life GOF, the contribution of the **Solvency II Life Value in-force** to the Excess of Assets over Liabilities (i.e. the after-tax value, before minorities[2] and non-availability filters, expected to emerge from the management of the Life contracts existing at valuation date, calculated according to the Solvency II framework and excluding shareholders' equity components) amounts to € 20.1 billion. This amount can be further split as follows:

- **PVFP** (€ 23.3 billion), representing the present value of future profits expected to flow into shareholders' funds, based on Solvency II market consistent methodology (including the regulatory application of contract boundaries), plus the value deriving from specific Solvency II valuation allowances (such as the value of Surplus Funds in Germany and France, Going Concern Reserves in Germany and transitional measures in Portugal);
- **Risk Margin and Counterparty Default Adjustment** (€ -3.1 billion), which is the prudential allowance prescribed by Solvency II to take account of the volatility of operating assumptions.

The following table shows the expected future emergence of the PVFP after tax profits stemming from the portfolio in force at year-end 2020 (i.e. excluding future new business) on an undiscounted basis, estimated using Real-World financial assumptions (see §4.4) instead of Solvency II Risk-Neutral assumptions, together with previous year comparative figures. The cumulative future undiscounted profits amount to € 26.4 billion, with 84% of profits generated in the first 25 years of the projection. The decrease in projected profits,

[2] Contribution of Solvency II Life Value in-force to the Excess of Asset over Liabilities is determined after minorities only for China operations that are evaluated with the proportional method (see §5.1.1).

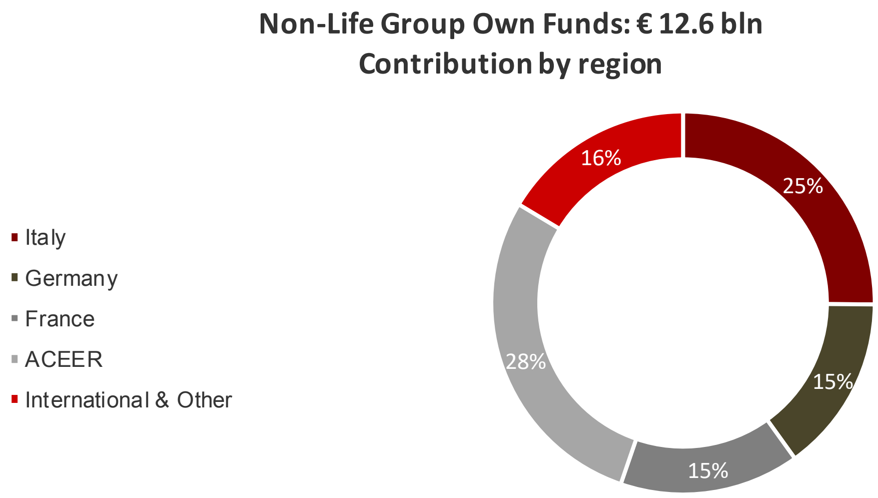
compared to last year, reflect the sharp decrease in the underlying Real-World financial assumptions (see §4.4).

Life PVFP
Expected undiscounted profits with Real-World assumptions

€ mln	**2020**	**2019**
Years 1-5	9,716	9,728
Years 6-10	5,586	6,164
Years 11-15	3,584	3,893
Years 16-20	2,634	2,727
Years 21-25	1,754	1,664
Years 26-30	971	1,186
Years 31 onwards	3,447	3,492

Non-Life segment

The Own Funds of the Non-Life segment amount to € 12.6 billion at year-end 2020. The main contributors of the segment are Italy and ACEER, representing 53% of the Non-Life GOF.



Within 2020 Non-Life GOF, the contribution of the **Solvency II Non-Life Value in-force** to the Excess of Assets over Liabilities, defined as the after-tax difference between IFRS reserves and Solvency II Technical Provisions, amounts to € 2.5 billion. This amount can be further split as follows:

– **PVFP** (€ 3.4 billion), representing the difference between IFRS reserves and the Best Estimate of Liabilities component of Non-Life Technical Provisions;
– **Risk Margin and Counterparty Default Adjustment** (€ -1.0 billion), which is the prudential allowance prescribed by Solvency II to take account of the volatility of operating assumptions.

2.6. Group Own Funds sensitivity analysis

Generali regularly performs sensitivity analyses of the capital position to changes in specific risk factors (e.g. interest rates, equity shock, credit spreads and interest rate volatility).

The aim of this analysis 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. As at year-end 2020 the following sensitivity analyses are reported (see §5.1.4 for further explanations):

- increase and decrease of interest rates by 50 bps;
- increase and decrease of equity values by 25%;
- widening of spread related to corporate bonds by 50 bps;
- widening of spread related to Italian government bonds by 100 bps;
- regulatory change of 2021 Ultimate Forward Rate (UFR), as required by EIOPA.

The impact of these sensitivities on year-end 2020 GOF are reported in the following table, together with 2019 comparative figures

Group Own Funds - Impact of Sensitivities

€ mln	2020	2020 variation	2019 variation
Group Own Funds	**44,428**		
Interest rate +50 bps	868	2.0%	2.8%
Interest rate -50 bps	-1,292	-2.9%	-3.8%
Equity market + 25%	3,063	6.9%	7.4%
Equity market - 25%	-3,093	-7.0%	-7.6%
Credit spread corporate bonds +50 bps	270	0.6%	0.2%
Credit spread on BTP +100 bps	-1,614	-3.6%	-3.6%
Ultimate forward rate (regulatory change)	-233	-0.5%	-0.4%

Sensitivity on interest rates (€ +0.9 / € -1.3 billion): the impact reflects both the changes in the fair value of investments and non-technical liabilities (such as senior debt, subordinated debt and defined benefit plans obligations) and the changes of Technical Provisions (change of Life cash flows and change of discount rates).
The asymmetry of the impacts in the two scenarios mainly reflects the reduced absorption capacity of Life Technical Provisions in the case of lower interest rates, because of the presence of financial guarantees.

The lower impact of 2020 interest rates sensitivities compared to 2019 is due to the asset and liability management actions performed during the year on the Life segment, with the aim of further improving the cash flows matching and reduce the duration gap between assets and liabilities.

Sensitivity on equity (€ +3.1 / € -3.1 billion): the impact reflects both the changes in the fair value of equity and the changes of Life Technical Provisions (change of cash flows).

The impacts in the two scenarios are almost symmetric, because of the presence of derivatives and because of the possibility to manage the unrealised losses over the future projection horizon.

The lower impact of 2020 sensitivity on equity compared to 2019 reflects the lower exposure of the Group to equity instruments, also as a consequence of the de-risking actions taken during the year.

Sensitivity on credit spread on corporate bonds (€ 0.3 billion): the impact reflects both the changes in the fair value of investments and defined benefit plans obligations and the changes of Technical Provisions (change of Life cash flows and impact on Volatility Adjustment).

In this sensitivity, the negative impact on the assets side is counter-balanced on the liability side by the associated increase of the VA (recalculated according to EIOPA's formula and reference portfolio), which for Euro increases from 7 bps to 20 bps.

Compared to 2019, the 2020 sensitivity confirms a positive impact: the increase compared to last year is mainly due to the higher impact of VA in a lower interest rates environment.

Sensitivity on credit spread on Italian government bonds (€ -1.6 billion): the impact reflects both the changes in the fair value of investments and the changes of Technical Provisions (change of Life cash flows and impact on VA).

In this sensitivity, the Italian government bond spread's widening triggers an increase of the VA adopted by European countries (from 7 bps to 11 bps), without triggering the activation of the Country-specific VA.

Compared to 2019, the 2020 impact is stable.

Sensitivity on EIOPA UFR (€ -0.2 billion): the impact reflects the forthcoming changes in UFR required by EIOPA over 2021. In particular, as a consequence of the revised assumptions adopted by EIOPA for the determination of the Ultimate Forward Rate used in the definition of the long-term tail of risk-free curves, a reduction of 15 bps is required for all major countries where the Group operates (for Euro area, the UFR will move from 3.75% to 3.60% over 2021).

Also in this case, the 2020 impact is higher than 2019 because of the lower interest rates in the base scenario.

Finally, it can be noted that no further haircut is prescribed by the French Regulator on the amount of eligible unrealised gains on IORP pension business (see §5.1.1).

3 Life New Business Value

3.1. New Business Value results

The following table shows the development of Life New Business Value (hereinafter, NBV) from 2019 to 2020, together with the related main profitability indicators. The results are reported after tax and after minorities and the changes are shown on a comparable basis, neutralising the impact of variations in the covered perimeter and foreign exchange rates.

New Business Value

€ mln	2020	2019	Change
Annual premiums	2,239	2,100	7.1%
Single premiums	24,314	24,682	-1.1%
PVNBP	**47,091**	**45,664**	**3.3%**
Cap Factor	10.2	10.0	0.1
APE	4,671	4,569	2.7%
NBV	**1,856**	**1,777**	**4.9%**
Profitability			
- on PVNBP	**3.94%**	**3.89%**	**0.06 pts**
- on APE	39.7%	38.9%	0.8 pts
IRR	22.3%	20.2%	2.1 pts

changes are on a comparable basis

From 2019 to 2020, the PVNBP increases by 3.3% to € 47.1 billion, with a good growth of Annual premiums (+7.1%) and a slight slowdown (-1.1%) of Single premiums.

The increase of PVNBP mainly comes from Germany (+13.4%, with an increase in all lines of business) and from Italy (+6.4%, thanks to the one-off Unit-linked production from Cometa group pension business acquisition) offsetting the contraction registered in France (-10.0%, linked to the strong saving business decrease).

Despite the further drop of interest rates compared to 2019, the NBM remains stable (+0.06 pts) thanks to the successful combination of an improved business mix and the enhanced product features in the 2020 production.

The higher weight of more profitable Protection and Unit-linked business, although with a moderate marginality decrease, and the resilient Saving profitability (+0.08 pts, driven by the increased weight of Italian products with guarantee only in case of death) have allowed the NBM to remain solid at 3.94%, leading to a NBV increase of +4.9% to € 1.9 billion.

The IRR increases by 2.1 pts to 22.3%, mainly on account of a lower first year strain, which more than offset the impact of lower Real-World financial assumptions underlying its calculation (refer to §4.4 for more details).

3.2. New Business profitability movement and New Business Value components

Movement of New Business Value and profitability

€ mln	NBV	NBM
2019 New Business Value	**1,777**	**3.89%**
Change in perimeter/Exchange rate fluct.	-7	-0.01 pts
Products mix/volume	89	0.13 pts
Economic variance	-64	-0.20 pts
Products features and others	61	0.13 pts
2020 New Business Value	**1,856**	**3.94%**

The overall NB profitability, neutralising the negligible impact (-0.01 pts) of the variations in perimeter occurred during 2020 (mainly the acquisition of Seguradoras Unidas in Portugal), increases by 0.06 pts to 3.94%.

The positive impact of Product mix/volumes (+0.13 pts) is mainly driven by the improved product mix (+0.18 pts), stemming from the higher weight of the profitable Protection business (in terms of PVNBP, weight up from 21.8% to 24.3%) and, more in general, from the higher weight (from 90.6% to 92.5% in terms of NB premiums) of capital light products which also include Unit-linked and Saving business without guarantees or with guarantees equal to or lower than 0%. The effect of the more favourable product mix is only partially offset by the impact (-0.05 pts) of the higher weight (in terms of PVNBP) of countries/companies with a lower profitability.

The unfavourable economic framework adversely affects the profitability (-0.20 pts): in the Euro area, from 2019 to 2020 the reference rates underlying the valuation of NB dropped by 27 bps on an average cumulative yearly basis (refer to §4.3 for more details).

Finally, the change in products features (together with other elements such as changes in operating assumptions) has a positive impact (+0.13 pts) on NB profitability. This includes the actions carried out to limit the exposure of the traditional Saving business to interest rates, maintaining a low average financial guarantee (-0.08% in the Euro area in 2020) and further promoting the sale of products with guarantee in case of death only (in Italy, their weight on total NB Saving premiums increases from 21.6% in 2019 to 49.7% in 2020).

The following table, reports the development of the NBV from 2019 to 2020 by its MCEV component. The reduction of the Time Value of FG&O reflects the lower weight and improved features of Saving business, whilst the decrease of the Cost of Non Hedgeable Risks also benefits from the extension of the Internal Model to Generali Espana.

Breakdown of New Business Value

€ mln	2020	2019
PVFP before Time Value of FG&O	2,282	2,288
Time Value of FG&O	-179	-233
PVFP after Time Value of FG&O	**2,103**	**2,055**
Cost of Capital	-16	-19
Cost of NHR	-230	-258
New Business Value	**1,856**	**1,777**

3.3. New Business Value by line of business

New Business Value by lines of business

€ mln	2020	2019	Change
PVNBP	**47,091**	**45,664**	**3.3%**
o/w Saving	20,918	23,901	-12.0%
o/w Protection	11,436	9,965	13.7%
o/w Unit-Linked	14,737	11,797	25.1%
NBV	**1,856**	**1,777**	**4.9%**
o/w Saving	487	539	-9.0%
o/w Protection	854	816	5.2%
o/w Unit-Linked	515	423	21.9%
NBM	**3.94%**	**3.89%**	**0.06 pts**
o/w Saving	2.33%	2.25%	0.08 pts
o/w Protection	7.47%	8.19%	-0.60 pts
o/w Unit-Linked	3.49%	3.58%	-0.09 pts

changes are on a comparable basis

In alignment with the Group's strategy, the aggregate growth of PVNBP (+3.3%) mainly comes from the more profitable Unit-linked and Protection business which show a significant progress compared to 2019 (+25.1% and +13.7% respectively) with positive development in all regions.

In terms of profitability on PVNBP, the slight contraction on Unit-linked (from 3.58% to 3.49%) and Protection business (from 8.19% to 7.47%) mainly comes from the impact of one-offs deals (respectively, the Cometa group pension business in Italy and the reinsurance agreement with Klesia in France).

Saving business reports a contraction (-12.0% in terms of PVNBP), linked to the unfavourable financial situation and to the strategic rebalancing of the business mix (especially in France), reducing its weight on total PVNBP from 52.3% to 44.4%.

At the same time, the increased weight of Italian products with financial guarantees only in case of death allow to preserve the Saving business profitability (NBM from 2.25% to 2.33%), offsetting the contraction in almost all other regions caused by the drop of interest rates.

3.4. New Business Value sensitivity analysis

The NBV sensitivities are assumed to occur before the sale of the contract. Therefore, the NBV sensitivities give an indication of how the profitability of the same contracts might be affected by a different market environment.

The following table reports the impacts of the sensitivity analyses on NBV. The sensitivities have been derived from a specific NBV run set with the latest beginning of period operating assumptions (i.e. end of September 2020) and average 2020 financial assumptions. The related NBV results have been adjusted (for presentational purposes) to better represent and match official 2020 figures.

Each sensitivity test is performed in isolation, i.e. all assumptions remain unchanged except the one directly impacted by the changed assumption.

The NB sensitivity to the EIOPA Ultimate Forward Rate (UFR) reflects the impact of the forthcoming change in the UFR (e.g. -15 bps on Euro area) required by EIOPA during 2021. The impact is not material and affects only long-term businesses.

On average, the impact of economic stresses on 2020 NBV is lower than in 2019, reflecting the lower exposure (both in terms of volumes and financial guarantees) to Saving business.

NBV Sensitivity Analysis

€ mln	2020	2020 variation	2019 variation
Base - NBV	**1,856**		
Yield Curve +0,5%	95	5.1%	9.1%
Yield Curve -0,5%	-116	-6.2%	-9.7%
EIOPA Ultimate Forward Rate	-12	-0.6%	-0.9%
Administrative & Invest.Manag. expenses -10%	65	3.5%	4.1%
Lapse rate +10%	-156	-8.4%	-10.0%
Lapse rate -10%	176	9.5%	11.2%
Mortality/Morbidity for Risk Business -5%	62	3.3%	4.6%
Mortality for Annuity Business -5%	-3	-0.1%	-0.3%

3.5. New Business profits

The following table shows the expected future emergence of undiscounted after-tax profits stemming from the NB, estimated using Real-World financial assumptions (see §4.4) instead of Solvency II Risk Neutral assumptions.

New Business expected undiscounted profits with Real-World assumptions

€ mln	2020	2019
Year 0	-717	-760
Year 1 - 5	1,201	1,242
Year 6 - 10	741	786
Year 11 - 15	489	559
Year 16 - 20	403	447
Year 21 - 25	278	300
Year 26 - 30	188	188
Year 31 onwards	460	392

The cumulative undiscounted profits in 2020 amount to € 3.0 billion, slightly reduced in respect of the total 2019 amount, mainly due to the lower Real-World financial assumptions. Almost 79% of the profits are generated in the first 25 years of the projection. Profits from year 31 onwards increase compared to 2019, mainly as a result of the higher volumes of long-term business (health products in Germany and pension products in France).

3.6. New Business Value by region

3.6.1. Italy

New Business - Italy

New Business Production

€ mln	2020	2019	Change
Annual premiums	987	916	7.7%
Single premiums	12,426	11,450	8.5%
PVNBP	**20,754**	**19,510**	**6.4%**
Cap Factor	8.4	8.8	-0.4
APE	**2,230**	**2,061**	**8.2%**

changes are on a comparable basis

Breakdown of New Business Value

€ mln	2020	2019
PVFP before Time Value of FG&O	1,099	1,131
Time Value of FG&O	-107	-128
PVFP after Time Value of FG&O	**993**	**1,003**
Cost of Capital	0	-1
Cost of NHR	-66	-83
New Business Value	**926**	**920**

New Business Value and Profitability

€ mln	2020	2019	Change
New Business Value	**926**	**920**	**0.7%**
Profitability			
-on PVNBP	4.46%	4.71%	-0.25 pts
-on APE	41.5%	44.6%	-3.1 pts
IRR	30.1%	26.5%	3.6 pts

changes are on a comparable basis

Movement of New Business Value and Profitability

€ mln	NBV	NBM
New business value 2019	**920**	**4.71%**
Change in perimeter/Exchange rate fluct.	0	0.00 pts
Products mix/volume	31	-0.11 pts
Economic Variance	-49	-0.27 pts
Products features and others	25	0.12 pts
New business value 2020	**926**	**4.46%**

NB Production (measured in terms of PVNBP) increases by 6.4%, thanks to the one-off Unit-linked production from Cometa group pension business acquisition, with good progress on both Single premiums (+8.5%) and Annual premiums (+7.7%).

In terms of lines of business, the PVNBP increase is mainly driven by the excellent growth of Unit-linked business (+55.9%) thanks to Cometa deal (excluding Cometa PVNBP -5.3%) and by the further progress of Protection business (+17.3%). The traditional Saving business decrease by 8.9% in line with business strategy. Furthermore, the weight on total NB Saving premiums of new products offering financial guarantees only in case of death increases from 21.6% in 2019 to 49.7% in 2020.

The New Business **profitability** remains high, despite its moderate decrease (-0.25 pts), with the margin on PVNBP moving from 4.71% in 2019 to 4.46% in 2020. This slowdown is mainly driven by the lower marginality of Cometa business (excluding Cometa, NBM up 0.15 pts to 4.87%) and by the worse economic situation (-0.27 pts), partially offset by new product features on Saving business.

The 2020 NBV amounts to € 926 million, up by 0.7% compared to 2019. In terms of NBV components, it can be noted that the slightly lower PVFP value (reflecting lower interest rates, partially mitigated by the decrease of Time Value) is offset by the lower Cost of NHR deriving from a lower incidence of lapse risk.

Despite the drop of Real-World financial assumptions (see §4.4) the IRR increase from 26.5% to 30.1% mainly thanks to the reduction of the New Business strain (from -2.19% to -1.81% in percentage of PVNBP) as a result of less capital-intensive new products together with a reduced incidence of acquisition costs.

3.6.2. France

New Business - France

New Business Production

€ mln	2020	2019	Change
Annual premiums	139	144	-3.0%
Single premiums	8,167	9,240	-11.6%
PVNBP	**9,472**	**10,525**	**-10.0%**
Cap Factor	9.4	9.0	0.4
APE	**956**	**1,068**	**-10.4%**

changes are on a comparable basis

Breakdown of New Business Value

€ mln	2020	2019
PVFP before Time Value of FG&O	304	330
Time Value of FG&O	-49	-84
PVFP after Time Value of FG&O	**254**	**247**
Cost of Capital	-1	-3
Cost of NHR	-58	-56
New Business Value	**196**	**188**

New Business Value and Profitability

€ mln	2020	2019	Change
New Business Value	**196**	**188**	**4.2%**
Profitability			
-on PVNBP	2.06%	1.78%	0.28 pts
-on APE	20.5%	17.6%	2.9 pts
IRR	10.7%	10.1%	0.6 pts

changes are on a comparable basis

Movement of New Business Value and Profitability

€ mln	NBV	NBM
New business value 2019	**188**	**1.78%**
Change in perimeter/Exchange rate fluct.	0	0.00 pts
Products mix/volume	28	0.50 pts
Economic Variance	-8	-0.09 pts
Products features and others	-12	-0.13 pts
New business value 2020	**196**	**2.06%**

NB Production decreases by 10.0% in terms of PVNBP, with a contraction on both Annual premiums (-3.0%) and Single premiums (-11.6%).

The PVNBP slowdown is entirely due to the Saving business (-44.5%), reflecting the strategic decision to rebalance the business mix towards more profitable and less capital-intensive lines. In fact, Protection business increases by 18.1% (representing 37.4% of total PVNBP) and Unit-linked business by 10.0% (with an equal weight of 37.4% on total PVNBP).

The New Business **profitability** increases from 1.78% in 2019 to 2.06% in 2020. The progress of NBM stems from the more favourable product mix (+0.50 pts, mainly thanks to the higher proportion of Unit-linked business), only partially offset by the negative impact from the economic conditions as well as by the new Group Protection reinsurance agreement with Klesia, whose profitability was affected by the prudential assumptions adopted in view of the pandemic framework.

The increased profitability leads to an increase of NBV (+4.2%), amounting to € 196 million, where the growth mainly comes from the reduction of Time Value of FG&O, thanks to the contraction of Saving component (now present only as bundled element within hybrid products).

Despite the decrease of the Real-World financial assumptions used in the projection and the increase of the first year strain (in terms of ratio on the PVNBP, from -2.98% to -3.49%), IRR slightly increases from 10.1% in 2019 to 10.7% in 2020 thanks to the higher weight of Unit-linked business.

3.6.3. Germany

New Business - Germany

New Business Production

€ mln	2020	2019	Change
Annual premiums	478	470	4.3%
Single premiums	1,841	1,739	7.5%
PVNBP	**10,867**	**9,587**	**13.4%**
Cap Factor	18.9	16.7	1.7
APE	**662**	**644**	**5.2%**

changes are on a comparable basis

Breakdown of New Business Value

€ mln	2020	2019
PVFP before Time Value of FG&O	354	319
Time Value of FG&O	-13	-11
PVFP after Time Value of FG&O	**341**	**307**
Cost of Capital	0	-2
Cost of NHR	-43	-44
New Business Value	**298**	**261**

New Business Value and Profitability

€ mln	2020	2019	Change
New Business Value	**298**	**261**	**14.8%**
Profitability			
-on PVNBP	2.75%	2.73%	0.03 pts
-on APE	45.1%	40.6%	3.8 pts
IRR	32.9%	46.6%	-13.7 pts

changes are on a comparable basis

Movement of New Business Value and Profitability

€ mln	NBV	NBM
New business value 2019	**261**	**2.73%**
Change in perimeter/Exchange rate fluct.	-2	-0.01 pts
Products mix/volume	31	0.06 pts
Economic Variance	5	-0.05 pts
Products features and others	3	0.02 pts
New business value 2020	**298**	**2.75%**

NB Production (measured in terms of PVNBP) improves by 13.4% with progress of both Single premiums (+7.5%) and Annual premiums (+4.3%).

The PVNBP progress affects all segments: Protection business increases by +18.5% (where the contribution of Health business is positive as well, up 11.8%) representing 39.1% of the total PVNBP, Saving business progresses by +16.9% (with a stable weight at 33.3%) and Unit-linked business also register a positive trend (+3.4%).

The New Business **profitability** slightly increases at 2.75% in 2020, where the more favourable product mix (higher growth of Protection business) and the revised new products features (e.g. lower financial guarantees) more than offset the limited negative impact stemming from lower interest rates.

Thanks to higher volumes and higher profitability, the NBV increases compared to 2019 (+14.8%) and amounts to € 298 million.

The negative impact of the lower Real-World financial assumptions together with the increase of the New Business first year strain (from -0.23% to -0.28% in terms of ratio on the PVNBP) on account of the higher shareholder's quota in the first projection year, lead to a reduction of the IRR from 46.6% to 32.9%.

3.6.4. Austria and Central Eastern Europe (ACEER)

New Business - ACEER

New Business Production

€ mln	2020	2019	Change
Annual premiums	131	145	-7.5%
Single premiums	588	607	0.1%
PVNBP	**2,073**	**2,146**	**-1.7%**
Cap Factor	11.3	10.7	0.6
APE	**190**	**205**	**-5.2%**

changes are on a comparable basis

Breakdown of New Business Value

€ mln	2020	2019
PVFP before Time Value of FG&O	169	178
Time Value of FG&O	-1	-1
PVFP after Time Value of FG&O	**168**	**177**
Cost of Capital	-2	-2
Cost of NHR	-24	-25
New Business Value	**142**	**150**

New Business Value and Profitability

€ mln	2020	2019	Change
New Business Value	**142**	**150**	**-2.7%**
Profitability			
-on PVNBP	6.86%	6.97%	-0.07 pts
-on APE	74.7%	72.8%	1.9 pts
IRR	15.9%	16.8%	-0.6 pts

changes are on a comparable basis

Movement of New Business Value and Profitability

€ mln	NBV	NBM
New business value 2019	**150**	**6.97%**
Change in perimeter/Exchange rate fluct.	-3	-0.04 pts
Products mix/volume	0	0.33 pts
Economic Variance	-2	-0.32 pts
Products features and others	-2	-0.08 pts
New business value 2020	**142**	**6.86%**

The ACEER region includes Group companies operating in Austria and Central Eastern Europe.

NB production (measured in terms of PVNBP) reduces by 1.7% on account of the decrease in Annual premiums (-7.5%), both in Austria (-6.9%) and in CEE region (-8.0%). The production of Single premiums (+0.1%) is almost stable, with a good contribution of Austria (+9.6%) and Poland (+7.9%).

In terms of lines of business, the significant contraction of Saving business (-22.8%) is only partially offset by the good progress of Unit-linked business (+7.8%), especially in Austria (+23.0%), together with the slight growth of the Protection business (+1.9%) increasing its weight on total PVNBP from 50.8% to 52.6%.

The New Business **profitability** decreases by 7 pts on a comparable basis, driven by the lower profitability of Protection business in Austria (-1.94 pts, mainly health business) offsetting the good increase of Protection business in CEE region (+1.62 pts).

The 2020 NBV amounts to € 142 million, down by 2.7% compared to 2019.

The IRR decreases from 16.8% to 15.9%, mainly on account of the lower Real-World financial assumptions.

3.6.5. International

New Business - International

New Business Production

€ mln	2020	2019	Change
Annual premiums	503	425	17.2%
Single premiums	1,292	1,645	-19.8%
PVNBP	**3,925**	**3,895**	**1.2%**
Cap Factor	5.2	5.3	-0.1
APE	**632**	**590**	**7.1%**

changes are on a comparable basis

Breakdown of New Business Value

€ mln	2020	2019
PVFP before Time Value of FG&O	356	330
Time Value of FG&O	-9	-9
PVFP after Time Value of FG&O	**347**	**321**
Cost of Capital	-14	-12
Cost of NHR	-39	-50
New Business Value	**294**	**259**

New Business Value and Profitability

€ mln	2020	2019	Change
New Business Value	**294**	**259**	**14.9%**
Profitability			
-on PVNBP	7.50%	6.65%	0.90 pts
-on APE	46.6%	43.9%	3.2 pts
IRR	23.1%	16.4%	6.7 pts

changes are on a comparable basis

Movement of New Business Value and Profitability

€ mln	NBV	NBM
New business value 2019	**259**	**6.65%**
Change in perimeter/Exchange rate fluct.	-2	-0.05 pts
Products mix/volume	0	0.15 pts
Economic Variance	-10	-0.52 pts
Products features and others	47	1.27 pts
New business value 2020	**294**	**7.50%**

The International region includes Group companies operating in Spain, Switzerland, Asia and Americas&Southern Europe and the business written by Assicurazioni Generali through its international branches.

NB Production (measured in terms of PVNBP) increases by 1.2%, thanks to the good progression of Annual premiums (+17.2%) offsetting the contraction of Single premiums (-19.8%). In terms of regional development, the good growth registered in Asia (+9.1%) and Switzerland (+14.1%) offset the slowdown in Spain (-23.7%).

In terms of lines of business, the PVNBP increase mainly stems from the Unit-Linked business (+8.9%, especially in Asia and Switzerland), increasing its weight from 19.0% to 20.6%, and from Protection business (+2.0%). Traditional Saving business registers a slowdown of 4.2%, mainly coming from Spain (following a rebalancing of the product offering), only partially mitigated by China (following a new group pension product with the local partner CNPC).

The New Business **profitability** moves from 6.65% to 7.50%, increasing by 0.90 pts on a comparable basis, driven by a more favourable business mix and by the enhanced new products' features, particularly in Asia, that more than offset the negative impact of the economic variance.

The higher margins and volumes, lead to an increase of NBV (+14.9%), amounting to € 294 million.

Despite the lower Real-World financial assumptions used in the projection, the IRR shows an increase from 16.4% in 2019 to 23.1%, on account of the significant reduction of the New Business first year strain (from -8.54% to -6.99% in terms of ratio on the PVNBP), mainly in Asia and Spain.

In the following tables, some further analyses are reported for the main areas of the International region: Spain, Switzerland and Asia.

New Business - International - o/w Spain

New Business Production

€ mln	2020	2019	Change
Annual premiums	14	26	-44.6%
Single premiums	435	591	-26.4%
PVNBP	**679**	**890**	**-23.7%**
APE	**58**	**85**	**-32.0%**

New Business Value and Profitability

€ mln	2020	2019	Change
New Business Value	**118**	**115**	**2.1%**
Profitability			
-on PVNBP	17.34%	12.96%	4.38 pts
-on APE	203.0%	135.3%	67.7 pts

changes are on a comparable basis

In Spain, the sharp decrease of **PVNBP** (-23.7%) is mainly driven by the strategic drop of less profitable traditional Saving business (-45.0%). The decrease of Unit-linked (-37.0%) is explained by the strong Index-Linked production witnessed in 2019, while the protection business, despite its moderate reduction (-1.9%), continues to be the main line of business, increasing its weight from 46.6% to 59.9%.

The New Business **profitability** increases by +4.38 pts, thanks to the higher weight of the very profitable Protection products, leading to an overall NBM of 17.34%. The NBV amounts to € 118 million (+2.1% compared to 2019).

New Business - International - o/w Switzerland

New Business Production

€ mln	2020	2019	Change
Annual premiums	40	37	4.4%
Single premiums	45	33	33.1%
PVNBP	**639**	**546**	**14.1%**
APE	**44**	**40**	**6.7%**

New Business Value and Profitability

€ mln	2020	2019	Change
New Business Value	**43**	**30**	**40.9%**
Profitability			
-on PVNBP	6.75%	5.47%	1.28 pts
-on APE	97.7%	74.0%	23.7 pts

changes are on a comparable basis

In Switzerland, the good increase of **PVNBP** (14.1%) mainly reflects the good development of the new Unit-linked business (+16.0%), which represents the main part of the production (with a weight of 84.6% on total PVNBP), together with the growth of Protection business (+5.0%).

The New Business **profitability** improves from 5.47% in 2019 to 6.75% in 2020, thanks to the increased weight and profitability of Unit-linked business. The NBV amounts to € 43 million (+40.9% compared to 2019).

New Business - International - o/w ASIA

New Business Production

€ mln	2020	2019	Change
Annual premiums	356	285	30.6%
Single premiums	616	796	-19.8%
PVNBP	**2,154**	**2,054**	**9.1%**
APE	**418**	**365**	**19.6%**

New Business Value and Profitability

€ mln	2020	2019	Change
New Business Value	**124**	**107**	**20.9%**
Profitability			
-on PVNBP	5.77%	5.19%	0.57 pts
-on APE	29.8%	29.2%	0.3 pts

changes are on a comparable basis

In Asia, the **PVNBP** increases by 9.1%, with a good contribution of Annual premiums (+30.6%) that more than offset the decrease of Single premiums (-19.8%). Saving (+13.7%) and Unit-linked business (+40.5%) report a good growth, whilst the Protection remains stable (+0.2%).

In terms of regional development, the PVNBP increase is mainly attributable to China (+15.0%, boosted by Saving, thanks to the new CNPC Pension agreement), Vietnam (+35.3%, driven by Unit-linked and Protection business) and Thailand (+13.9%, thanks to the excellent production of Unit-linked business), only partially offset by the decrease registered in India (-33.4%), Indonesia (-15.8%) and Hong Kong (-12.2%).

The New Business **profitability** increases from 5.19% in 2019 to 5.77% in 2020, mainly driven by the NBM increase in Vietnam (+5.89 pts, moving from 9.14% to 14.99% thanks to the new Universal Life products in the Protection line of business and to the Unit-linked business), in China (+0.57 pts, on account of a better product mix within the Saving business +1.18%) and in Thailand (+2.12 pts). The overall 2020 NBV amounts to € 124 million (+20.9%).

3.7. Reconciliation between New Business Value and Solvency II Value of New Production

The Solvency II Value of New Production is defined as the value generated at issue by the Life new production within Solvency II Own Funds, and represents an important element of the normalised Own Fund generation.

In order to move from NBV to Solvency II Value of New Production, the following adjustments are considered:

- Scope: gross up of the minorities in line with Own Funds requirements;
- Alternative approach of Cost of Capital (CoC) and Cost of Non Hedgeable Risks (NHR): removal of MCEV CoC and Cost of NHR (under MCEV based on a 4% net of tax charge) and inclusion of Solvency II Risk Margin (under Solvency II based on 6% charge);
- Other: this is mainly due to removal of look-through profits (e.g. asset management fees emerging in Group entities outside the Life perimeter) not recognised under the Solvency II framework, the removal of French NB pensions products which are treated under the IORP transitory regime and the removal of the impact of VA for Asian Countries where it is not yet recognised within Solvency II.

No adjustment is needed regarding the definition and application of contract boundaries, as both NBV and Solvency II Value of New Production are aligned to the approach prescribed by Solvency II.

The following table shows the main elements of the reconciliation between NBV and Solvency II Value of New Production.

From NBV to Solvency II VNP

€ mln	2020	2019
NBV	**1,856**	**1,777**
Minority impact	59	140
NBV gross up of the minorities	**1,916**	**1,917**
Alternative approach of CoC&NHR	-226	-261
Other	-272	-264
Solvency II Value of New Production	**1,418**	**1,393**

4 Assumptions

The calculation of GOF and NBV makes use of various assumptions with respect to economic conditions, operating factors and other variables, many of which are beyond Generali's control. Although all the assumptions represent estimates that Generali regards as reasonable best estimates, future developments may vary from those assumed in the calculations and such variations could have a significant impact on results.

Economic assumptions have been set consistently with observable market data. Taxation assumptions are based on current tax legislation. Operating assumptions (including profit sharing mechanisms) are based on each company's current experience and practice, where available and otherwise credible.

Differently from GOF calculations (where economic assumptions are related to the end of year), for NB calculations, whose yearly results are calculated as the sum of the four quarterly NB valuations, the financial assumptions are related to the beginning of each quarterly valuation. Therefore, to facilitate the yearly NB comparison, in the next paragraphs NB financial assumptions are reported as weighted average over the four quarters.

4.1. Financial assumptions

Generali has adopted a market consistent methodology based on a risk-neutral approach for the vast majority of its business.

The Time Value of FG&O is modelled by means of a set of 1,000 stochastic simulations, calibrated reflecting observable market data as at the valuation date and generated centrally by an Economic Scenario Generator (ESG) provided by Moody's Analytics UK Limited.

At year-end 2020 valuation, consistently with previous year-end, the following models have been considered:

- Libor Market Model plus (LMM+) for nominal risk-free yield curves, which allows for negative interest rates;
- Two-Factor Vasicek model for real yield curves;
- G2 model (an extension of JLT model) for Corporate bonds' credit spreads;
- Time Varying Deterministic Volatility model for equity indexes;
- Constant Volatility model for real estate indexes;
- Mean reverting process for equity dividend yields and real estate income return.

The ESG is a structural model where the risky assets are defined as the risk-free return plus a risky excess return component. As a consequence:

- nominal and real rates are explicitly modelled;
- all other assets (Corporate Bonds, Equity, Property) are derived by means of log excess return on the nominal rates.

The key economic assumptions, for each currency, are:

- the reference nominal interest rates (as defined by EIOPA);
- the implied volatilities for nominal yield curve, equity, real estate and real estate;
- transition matrix, recovery rate and spreads over risk-free rates for corporate bonds;
- inflation rates;
- correlations between different asset classes.

Such assumptions are described in more detail in the following paragraphs.

4.1.1. Risk-free interest rates term structure

The nominal risk-free interest rate term structures used by Generali for the calculation of both GOF and NBV is fully compliant with EIOPA technical specification where the key component are:

- identification of the "base" relevant financial instruments (swap or government bonds);
- adjustment capturing the embedded credit risk (Credit Risk Adjustment - CRA);
- adjustment reflecting the portion of government and corporate bonds spreads which is assumed to be earned in a risk-free manner (Volatility Adjustment – VA);
- assessment of the Last Liquid Point (LLP) until which the observed market rates are used;
- assessment of the long-term target (Ultimate Forward Rate - UFR) used in the extrapolation of market data (based on the Smith Wilson methodology) after the LLP;
- maturity at which the extrapolated forward rate converges to the UFR (Convergence point).

The following table summarises the EIOPA calibration concerning the construction of the risk-free interest rate structures used by Generali for its main currencies.

EIOPA - Risk-free rates construction

Currency	@ dd.mm.yyyy	Base	CRA	VA	LLP	UFR	Convergence point
EUR	31.12.2020	Swap	-10 bps	7 bps	20 yrs	3.75%	60 yrs
	31.12.2019	Swap	-10 bps	7 bps	20 yrs	3.90%	60 yrs
CHF	31.12.2020	Swap	-10 bps	9 bps	25 yrs	2.75%	65 yrs
	31.12.2019	Swap	-10 bps	5 bps	25 yrs	2.90%	65 yrs
CNY	31.12.2020	Swap	-35 bps	47 bps	10 yrs	4.50%	60 yrs
	31.12.2019	Swap	-22 bps	n/a	10 yrs	4.50%	60 yrs
CZK	31.12.2020	Swap	-10 bps	10 bps	15 yrs	3.75%	60 yrs
	31.12.2019	Swap	-10 bps	13 bps	15 yrs	3.90%	60 yrs
HUF	31.12.2020	Govt	-10 bps	2 bps	15 yrs	4.50%	60 yrs
	31.12.2019	Govt	-10 bps	1 bps	15 yrs	4.50%	60 yrs
PLN	31.12.2020	Govt	-10 bps	4 bps	10 yrs	3.75%	60 yrs
	31.12.2019	Govt	-10 bps	8 bps	10 yrs	3.90%	60 yrs

Finally, the following table summarises the risk-free rates provided by EIOPA and applied by Generali for its main currencies[3].

[3] For materiality reasons, VA has not been adopted in the valuation of entities operating in Hungary and Poland.

Risk-free rates (par rates including all adopted adjustments)

Currency	@ dd.mm.yyyy	1 Years	2 Years	5 Years	10 Years	20 Years	30 Years
EUR	31.12.2020	-0.55%	-0.55%	-0.49%	-0.30%	-0.02%	0.68%
	31.12.2019	-0.35%	-0.32%	-0.16%	0.18%	0.56%	1.15%
CHF	31.12.2020	-0.74%	-0.72%	-0.57%	-0.29%	-0.28%	0.16%
	31.12.2019	-0.68%	-0.66%	-0.47%	-0.15%	0.13%	0.33%
CNY	31.12.2020	2.62%	2.72%	2.97%	3.37%	3.71%	3.85%
	31.12.2019	2.45%	2.52%	2.79%	3.08%	3.42%	3.60%
CZK	31.12.2020	0.48%	0.70%	1.11%	1.28%	1.71%	2.10%
	31.12.2019	2.28%	2.29%	2.09%	1.76%	2.04%	2.38%
HUF	31.12.2020	0.29%	0.53%	1.19%	1.88%	2.45%	2.82%
	31.12.2019	0.02%	0.15%	0.95%	1.88%	2.82%	3.16%
PLN	31.12.2020	-0.15%	-0.07%	0.42%	1.16%	1.95%	2.32%
	31.12.2019	1.02%	1.40%	1.73%	2.01%	2.35%	2.63%

4.1.2. Implied volatilities

Nominal yield curves are calibrated on the volatility implied by the market prices of the at the money (ATM) swaption based on the Normal pricing model.

As for the previous valuation, the ATM Normal Swaption Implied Volatilities (SIV) are based on the last observable market data (31 December); all available market data have been used, without any smoothing or anchoring techniques.

The following table[4] compares Normal ATM SIV related to the 10-year swap maturity considered for the 2020 and 2019 valuations.

Swaption Implied Volatilities - 10yr swap maturity ATM Normal

Currency	@ dd.mm.yyyy	Option Tenor				
		1 Years	2 Years	5 Years	10 Years	20 Years
EUR	31.12.2020	0.37%	0.41%	0.47%	0.52%	0.50%
	31.12.2019	0.45%	0.47%	0.52%	0.56%	0.52%
CHF	31.12.2020	0.41%	0.46%	0.53%	0.56%	0.56%
	31.12.2019	0.45%	0.48%	0.57%	0.58%	0.58%
CZK	31.12.2020	0.46%	0.52%	0.48%	0.54%	0.54%
	31.12.2019	0.58%	0.63%	0.63%	0.63%	0.63%
HUF	31.12.2020	1.01%	1.08%	1.15%	0.69%	0.69%
	31.12.2019	1.54%	1.45%	1.35%	1.35%	1.35%

[4] The CNY and PLN currencies are not included in this (SIV) and next table (EIV) because they are valuated with a certainty equivalent approach.

Regarding equity, for each currency a specific index (Euro Stoxx 50 for EUR, SMI for CHF, PX for CZK, BUX for HUF) has been selected, and the calibration is performed on the volatility implied by the market prices of the ATM option based on Black-Scholes pricing model.

The following table compares Black-Scholes Equity Implied Volatilities (EIV) considered for the 2020 and 2019 valuations.

Equity Implied Volatilities - ATM Black-Scholes

Currency	@ dd.mm.yyyy	Option Term				
		1 Years	2 Years	5 Years	7 Years	10 Years
EUR	31.12.2020	18.76%	18.15%	17.85%	17.88%	18.06%
	31.12.2019	14.23%	14.98%	16.41%	16.93%	17.33%
CHF	31.12.2020	14.79%	14.78%	15.32%	15.97%	16.42%
	31.12.2019	13.01%	13.50%	13.73%	13.88%	14.00%
CZK	31.12.2020	15.03%	13.71%	13.59%	13.85%	14.04%
	31.12.2019	11.40%	11.03%	11.80%	11.90%	11.98%
HUF	31.12.2020	23.97%	22.85%	22.38%	22.57%	22.72%
	31.12.2019	18.75%	18.33%	18.19%	18.25%	18.29%

Concerning real estate, due to the lack of market prices options, the calibration is based on country historical data; for EUR the calibration outcomes are clustered into 2 indexes (High, Low volatility) reflecting the local specificities.

Real estate Implied Volatilities - ATM Black-Scholes

Currenc	@ dd.mm.yyyy	All	High	Low
EUR	31.12.2020		6.61%	2.92%
	31.12.2019		7.38%	2.81%
CHF	31.12.2020	4.07%		
	31.12.2019	4.17%		
CZK	31.12.2020	6.68%		
	31.12.2019	7.49%		
HUF	31.12.2020	6.91%		
	31.12.2019	6.82%		

4.1.3. Transition matrix, recovery rate and spreads over reference rates for corporate bonds

Credit Transition matrix and recovery rate are based on historical average evidences provided by Moody's within the most representative Corporate bond markets (USD), in particular:

- Transition matrix covers the rating change, including default, in the period 1920-2019;
- Recovery rate is based on post-default trading prices of the senior subordinated seniority in the period 1983-2019.

Corporate spreads over reference rate are referred to currency market spreads and, in case no market data is considered adequate, are based on historical average market spreads registered in the most liquid markets (USD, EUR, GBP).

4.1.4. Inflation rates

Inflation rates are stochastically modelled as the difference between Nominal and Real Yield curves and are calibrated based on market inflation swaps or economic consensus forecast depending on data availability.

Inflation rates

Currency	@ dd.mm.yyyy	1 Year	5 Years	10 Years	30 Years
EUR	31.12.2020	1.22%	1.16%	1.37%	1.89%
	31.12.2019	1.05%	1.19%	1.46%	1.90%
CHF	31.12.2020	0.10%	0.50%	0.50%	0.69%
	31.12.2019	0.50%	0.70%	0.70%	0.80%
CNY	31.12.2020	1.61%	2.30%	2.30%	2.87%
	31.12.2019	3.06%	2.10%	2.10%	2.85%
CZK	31.12.2020	2.30%	2.10%	2.10%	2.05%
	31.12.2019	2.40%	2.00%	2.00%	2.00%
HUF	31.12.2020	3.10%	3.20%	3.20%	3.08%
	31.12.2019	3.20%	3.10%	3.10%	3.05%
PLN	31.12.2020	2.40%	2.50%	2.50%	2.11%
	31.12.2019	2.80%	2.50%	2.50%	2.11%

To inflate expenses, country specific allowance has also been made for the additional inflation related to salaries and medical costs.

4.1.5. Correlations

Correlations between asset returns, which are not directly observable metrics, are inferred using:

- an analysis of historical data covering a significant number of currencies;
- expert opinions.

In the table below the most relevant correlations (representing a common target set for all the economies) are reported.

Relevant correlation among assets

	Nominal Short rate	Equity (excess return)	Real estate (excess return)
Nominal Short rate		-11%	-10%
Equity (excess return)	-11%		35%
Real estate (excess return)	-10%	37%	

Upper right value referred to YE20, Lower left values referred to YE19

4.2. Other economic assumptions

4.2.1. Assumptions on taxation

In defining GOF, the appropriate nominal tax rate is applied by Country and by balance sheet item on the difference between value recognised for Solvency II purposes and fiscal recognised amount. When a pattern for the realization of the values is needed, the tax rate referred to a specific future fiscal year is applied.

For the NB calculation, the assumptions for future taxation are based on the prevailing local tax rates as at the respective valuation dates. Where applicable, account has been taken of the specific tax treatment of income on certain asset classes backing both technical reserves and required capital, including tax credits or exemptions on dividend income, tax credits on investment returns and tax exemptions on certain qualifying participations.

4.2.2. Exchange rates

GOF and NB values have been calculated using local currencies: GOF figures have been converted to EUR using year-end exchange rates, while quarterly NB values have been converted to EUR using the exchange rates valid at the end of each quarter.

The following table shows the assumed year-end exchange rates (foreign currency against 1 EUR) for selected currencies.

Exchange rates

	31.12.2020	31.12.2019
CHF	1.08	1.09
CNY	8.00	7.82
CZK	26.26	25.41
HUF	362.69	330.71
PLN	4.56	4.25

4.3. Average New Business yearly economic assumptions

The year-end 2020 and 2019 NB figures are obtained as the sum of four quarters, each quarter being calculated with beginning of period financial assumptions. To facilitate a comparison between the economic assumptions adopted along the two years, weighted averages of the main economic assumptions, based on quarterly NB premiums, are reported below.

The following table reports the average 10 years par reference rates, inclusive of CRA and VA.

Average Reference Rates (including all adopted adjust.)

	2020	2019
EUR	0.05%	0.31%
CHF	-0.19%	-0.13%
CNY	3.29%	3.43%
CZK	1.06%	1.66%
HUF	2.09%	2.42%
PLN	1.58%	2.38%

4.4. Real-World financial assumptions

Real-World best estimate financial assumptions are used by companies, performing market consistent valuations, to calculate the distributable profits used to derive the NB Internal Rate of Return (IRR) at each quarter. They are also used to determine the financial returns expected by the shareholder, basis for the calculation of the related elements within the normalised Own Funds generation (see §5.1.3).

The main economic assumptions used in the Real-World framework are the following:

- Government bonds return are based on market return, at the valuation date;
- Corporate bonds returns are based on market average spread, at the valuation date;
- Equity total returns are set by adding an equity risk premium of 2.90% over the 10-year par-yield of local government bond, with the exception of companies belonging to the Euro-Zone, for which the 2.90% spread is applied over the 10-year German bund;
- Real estate total returns are set by adding a risk premium of 1.15% over the 10-year par-yield of local government bond, with the exception of companies belonging to the Euro-Zone, for which the 1.15% spread is applied over the 10-year German bund.

The main Real-World economic assumptions adopted for GOF (at year-end 2020 and 2019) and for NB (as weighted average across quarters, based on NB premiums) are summarised in the following tables:

OF Year-End RW assumptions

	10 y Government Bond		*Equity Total Returns*		*Property Total Returns*	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Italy	0.57%	1.37%	2.17%	2.74%	0.99%	1.42%
France	-0.34%	0.12%	2.17%	2.74%	0.99%	1.42%
Germany	-0.73%	-0.16%	2.17%	2.74%	0.99%	1.42%
ACEER-Austria	-0.41%	0.09%	2.17%	2.74%	0.99%	1.42%
ACEER-Czech Rep.	1.24%	1.61%	4.14%	4.51%	2.76%	3.07%
Intern. - Spain	0.05%	0.48%	2.17%	2.74%	0.99%	1.42%
Intern. - Switzerland	-0.53%	-0.46%	2.37%	2.44%	0.69%	0.96%
Intern. - China	3.53%	3.58%	6.43%	6.48%	4.73%	4.79%

NB average RW assumptions

	10 y Government Bond		*Equity Total Returns*		*Property Total Returns*	
	avg 2020	**avg 2019**	**avg 2020**	**avg 2019**	**avg 2020**	**avg 2019**
Italy	1.30%	1.95%	2.48%	2.72%	0.73%	0.97%
France	-0.13%	0.09%	2.46%	2.65%	0.71%	0.90%
Germany	-0.38%	-0.17%	2.52%	2.73%	0.77%	0.98%
ACEER-Austria	-0.12%	0.12%	2.50%	2.72%	0.75%	0.97%
ACEER-Czech Rep.	1.11%	1.64%	4.01%	4.54%	2.26%	2.79%
Intern. - Spain	0.46%	0.80%	2.52%	2.75%	0.77%	1.00%
Intern. - Switzerland	-0.47%	-0.49%	2.43%	2.41%	0.68%	0.66%
Intern. - China	3.41%	3.61%	6.31%	6.51%	4.56%	4.76%

5 Annex A: Methodology

5.1. Group Own Funds

5.1.1. Group Own Funds methodology

Group Own Funds are valuated in accordance with the current Solvency II provisions of the Directive 2009/138/EC, as well as the 'Delegated Regulation' 2015/35/EC and related Guidelines.

Group Own Funds reported in this document are calculated in the "regulatory view" scenario, according to which the Solvency Capital Requirement (SCR) of each company, mainly affecting the calculation of the Risk Margin, is determined with either Internal Model or Standard Formula methodology, depending on whether the Partial Internal Model has been approved or not for the specific company.

The Group Own Funds are defined by the aggregation of the:

a) Basic Own Funds (after deduction), representing the sum of

   - Solvency II Excess of Assets over Liabilities[5];
   - contribution of subordinated debt eligible in Basic Own Funds;
   - deduction for foreseeable dividend and distributions;
   - additional OF related to unrealised capital gains from French pension activities arising from the application of the IORP transitory regime[6];
   - deductions for participations in financial entities,
   - deductions for regulatory filters applied to non-available items at Group level, restricted Own Funds items and shares of the parent company

and

b) the contribution of the available capital of financial entities, according to their regulatory regimes as referred to in Article 2(7) of Directive 2002/87/EC.

The items composing Group Own Funds are classified into three tiers of capital, depending on the extent to which they can absorb losses due to adverse business fluctuations on a going-concern basis or in case of winding-up. The classification by tiers of Group Own Funds is the following:

- Tier 1 Unrestricted Group Own Funds includes Ordinary share capital and the related share premium account, Available Surplus funds from German, French and Austrian business, the Reconciliation reserve and additional Own Funds from French pension activities. The Reconciliation reserve is net of Foreseeable Dividend, restricted Own Funds items and shares of the parent company;
- Tier 1 Restricted Group Own Funds is composed by undated subordinated debt eligible in Group Own Funds;
- Tier 2 Group Own Funds includes the remaining part of subordinated debt eligible in Group Own Funds, which is classified as dated;
- Tier 3 Group Own Funds is composed by net deferred tax assets, which are characterised by lower capital quality, being not immediately available to absorb losses.

[5] Net of minority interest for China operations that are evaluated with the proportional consolidation method, according to article 335 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014.
[6] These additional Own Funds are authorised by the Supervisor for the years between 2016 and 2022, a period during which the proportion of the eligible unrealised capital gains gradually decrease, remaining stable from 2020 onwards

Regarding the Group Own Funds coverage of the SCR, the following eligibility filters apply according to art. 82 of the 'Delegated Regulation' 2015/35/EC:

– the eligible amount of Tier 1 restricted should not exceed 20% of total Tier 1;
– the sum of Tier 2 and Tier 3 should not exceed 50% of the SCR of insurance entities;
– the eligible amount of Tier 3 Own Funds cannot exceed 15% of SCR of insurance entities.

As set out in Article 75 of Directive 2009/138/EC, the Solvency II regulatory framework requires an economic, market-consistent approach to the valuation of assets and liabilities adopting assumptions that market participants would use in valuing the same assets and liabilities.

In order to define the Solvency II figures, all assets and liabilities in the balance sheet must be valued at fair value. Broadly, Solvency II is referring to IAS/IFRS accounting principles to evaluate assets and liabilities, with the main exceptions described below.

Assets

Intangible assets (goodwill, deferred acquisition costs and other intangible assets) in Solvency II balance sheet are valued at zero. An exception to this treatment is allowed by the regulation when it is possible to demonstrate that the intangible assets (typically software) have a market price and can be exchanged in the market on an arm's length basis.

Investment assets: according to art. 75 of the Directive, these items are recognised at fair value. Most investment assets (such as Equities, Bonds, Investment funds etc.) are subject to the same valuation also for IFRS purposes, therefore no adjustments are performed moving from IFRS to Solvency II balance sheet. For real estate, IAS loans and held to maturity assets categories, and all the other items that are not classified at fair value in IFRS, the marked-to-market approach is applied for the purposes of the Solvency II balance sheet.

For **Participations,** which are not consolidated and are not represented on a line-by-line approach in the Solvency II balance sheet, a valuation hierarchy is defined where the preferable approach is the quoted market price and, if the quoted market price is not available, a mark-to-model approach can be adopted starting from the Adjusted Equity method.

Reinsurance assets: for Solvency II purposes, recoverables from reinsurance contracts are calculated consistently with the boundaries of the contracts to which those amounts relate and taking into account the expected losses due to default of the counterparty; the remaining reinsurance assets are adjusted from their IFRS value due to the risk of default of the reinsurer.

Liabilities

Best Estimate Liabilities: the best estimate corresponds to the probability-weighted average of the present value of future cash-flows related to insurance and reinsurance obligations in force at the valuation date taking into account all options and financial guarantees. 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, observed in the market and officially provided by EIOPA.

Risk Margin: 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 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, i.e. underwriting risks, credit risks related to reinsurance contracts and operational risks.

Financial Debt: in order to ensure compliance with Solvency II principles, financial liabilities are valued at fair value without any adjustment for change in own credit standing of the borrower.

Subordinated debt eligible in Group Own Funds: according to art. 73 of Solvency II Delegated Acts, subordinated debt which is characterised by specific features (primarily, the loss absorbing capacity) are eligible to be considered as capital and therefore contributes to the Group Own Funds at their nominal value.

Deferred tax assets and liabilities: according to the Solvency II framework, Solvency II deferred taxes are based on the temporary 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 any potential impact of any announcement of amendment to tax rate. Unlike any deferred tax liability, the recognition of a deferred tax asset 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.

5.1.2. Group Own Funds covered business

For the definition of the consolidation scope of Group Own Funds, the following rules apply for the entities that are consolidated line by line in the Group IFRS Consolidated Financial Statement:

a) all Group insurance and reinsurance undertakings, insurance holding companies, mixed financial holding companies and ancillary services undertakings which are subsidiaries of Assicurazioni Generali S.p.A. are consolidated also for Own Funds purposes;

b) Group financial sector undertakings[7] contribute with their quota share of the Own Funds calculated according to the relevant sectoral rules, as referred to in Article 2(7) of Directive 2002/87/EC;

c) Investment vehicles associated to insurance activities are consolidated in the parent company, according to their quota share of participation.

Remaining Group entities are valuated within the parent undertaking on the basis of valuation methods compliant with current regulation (quoted market price for listed entities, adjusted IFRS equity method or other alternative techniques for IFRS participations valued at cost).

In this document, further analyses are reported with reference to the following segments:

1) **Life.** The Life Group Own Funds includes the Own Funds contribution of all the Solvency II Life lines of business and consist of:
    - the Own Funds contribution of all Group Life companies;
    - the Own Funds contribution of the Solvency II Life segment of the Group Composite companies;
    - the contribution of investment vehicles owned by entities classified in the Solvency II Life segment, according to the quota share of participation;
    - the Own Funds contribution of Life business component of Assicurazioni Generali and Generali Deutschland Holding.

[7] Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies, institutions for occupational retirement provision, non-regulated undertakings carrying out financial activities.

2) **Non-Life.** The Non-Life Group Own Funds segment includes the Own Funds contribution of all the Solvency II Non-Life lines of business and consists of:
    - the Own Funds contribution of all Group Non-Life companies;
    - the Own Funds contribution of the Solvency II Non-Life segment of the Group Composite companies;
    - the contribution of investment vehicles owned by entities classified in the Non-life segment, according to the quota share of participation;
    - the Own Funds contribution of Non-Life business component of Assicurazioni Generali and Generali Deutschland Holding.

3) **Holdings and Financials.** The Holdings and Financials Group Own Funds segment consist of:
    - the Own Funds contribution of all other non-insurance Group (sub-)Holdings;
    - the sectoral available capital (as recognised within Solvency II, in Group's share) of all other Group Financial companies and credit institution, including Banca Generali Group;
    - the residual assets and liabilities of Assicurazioni Generali and Generali Deutschland Holding, not attributed to Life and Non-Life segment.

Life and Non-Life segments are then split by region in accordance with the classification used for reporting purposes.

5.1.3. Group Own Funds analysis of movement

The purpose of the GOF analysis of movement is to determine the sources of movements driving the development of GOF. In order to provide an economic explanation to the movement of the GOF from the beginning to the end of the reference period, the following macro drivers are considered:

- Regulatory changes,
- Normalised Own Funds generation,
- Economic variances,
- Non-economic variances,
- M&A,
- Capital movements.

Regulatory changes

The regulatory changes represent the impact on the Own Funds analysis of movement of changes required by or agreed with Regulators.

Normalised Own Funds generation

The normalised Own Funds generation represents the increase or decrease in Own Funds attributable to activities under managerial control or influence or expected at the beginning of the period, and is split by line of business. Together with the normalised variation of the Solvency Capital Requirement, it contributes to the determination of the Solvency II normalised capital generation.

1) **Life business contribution**

    Life business normalised Own Funds generation is driven by:

Life SII Value of New Production (SII VNP)

Referring to Life business, Solvency II VNP represents the contribution to GOF of the Life New Business, determined at issue according to Solvency II rules. For the reconciliation between the Solvency II Value of New Production and the NBV refer to §3.7.

Expected release of prudence

This is the expected release, from the business in-force at the beginning of the year, of the prudence included in the Solvency II framework, deriving from the expected release of the Risk Margin and from the impact on GOF (in terms of higher profit release expected in the year and related impact on the PVFP at the end of the year) originated in the year by the difference between the Real-World financial return expected by the shareholder (see §4.4) and the Risk-Neutral return adopted within Solvency II valuation.

Life Unwinding

Unwinding is defined as the roll-forward of the value from the beginning to the end of the reference period. On a yearly basis, this represents the effect that the estimated cash-flows are one period closer to the valuation date, considering that moving from period t-1 to period t OF items are discounted one year less compared to the opening official valuation.

It is calculated by capitalizing the value at the beginning of the year over the whole period with the appropriate expected return of each Own Funds item. More in detail:

- Solvency II Life Value in-force unwinding is determined with Risk-Neutral assumptions and includes also the unwinding of SII VNP, which represents the roll-forward of quarterly SII VNP from point of sale to end of the year,
- for the remaining life assets and non-technical liabilities that are not included in the Solvency II Life Value in-force, unwinding is determined with Real-World assumptions, with allowance of related assets management expenses.

2) **Non-Life business**

Non-Life business normalised Own Funds generation is driven by:

- the technical result of the current year generation, evaluated using best estimate assumptions,
- the expected movement of Risk Margin (expected release from the business in-force at the beginning of the year, offset by the Risk Margin absorbed by the current year generation),
- unwinding of assets and liabilities attributed to the Non-life segment and defined as for Life business. It is calculated by capitalizing the value at the beginning of the year over the whole period with the appropriate expected return of each Own Funds item. More in detail, Non-life Solvency II technical provisions unwinding is determined with Risk-Neutral assumptions, while assets and non-technical liabilities unwinding is determined with Real-World expected returns, with allowance of related assets management expenses.

3) **Holdings and Financials**

In this segment, normalised Own Funds generation is driven by:

- interest expenses paid on external subordinated debt eligible in BOF,

- IFRS recurring holding costs of entities consolidated line by line for GOF purposes that are not modelled in the Solvency II Life Value in-force,
- unwinding of assets and liabilities attributed to the Holding segment and defined as for Life and Non-life business. It is calculated by capitalizing the value at the beginning of the year over the whole period with the appropriate expected return of each Own Funds item. More in detail, assets and non-technical liabilities unwinding is determined with Real-World expected returns, with allowance of related assets management expenses,
- the contribution to Group P&L result of the period of financial entities, according to their quota share.

Economic variances

Economic variance is defined as the Own Funds movement attributed to the experience variance on the expected returns over the period and to the change in assumptions of all the different financial market conditions.

Non-economic variances

Operating variance is defined as the Own Funds movement attributed to experience or change in assumptions related to operating factors, or to refinements of the Life and Non-Life projection models.

Other variances can be attributable to extraordinary and non-recurring items (such as non-recurring expenses or settlements) and to other non-operating variations in GOF (such as tax variances and changes in regulatory filters).

M&A

This driver of the Own Funds analysis of movements reports the impacts of M&A operations such as acquisitions and/or sales of business portfolios and other acquisitions or disposal operations.

Capital Movements

This driver includes net capital injections, net impact of issues or pay-backs of subordinated debt eligible in Basic Own Funds, foreseeable dividend and other capital distributions.

5.1.4. Group Own Funds sensitivity analysis

The impacts of each sensitivity on Group Own Funds are valuated, applying separately each identified sensitivity factor to all relevant assets and liabilities of the Solvency II balance sheet.

Sensitivities on GOF are applied in isolation rather than in combination and are performed in light of a *what-if* analysis, i.e. all changes are assumed to occur instantly after the valuation date. When running a specific sensitivity, all other assumptions remain unchanged, except when certain assumptions are directly impacted by the application of the sensitivity being run: this is the case of management actions, such as the rebalancing of asset portfolios, that are typically included in the calculation of Technical Provisions or the Volatility Adjustment which can be recalibrated under specific sensitivity scenarios.

The sensitivity analyses reported in this document are the following.

Interest rates upward shift of 50 basis points computes the effect of an instantaneous upward parallel shock of market interest rates, affecting the market value of the main following instruments:

- Government and corporate bonds (change in discount factors and indexed coupon);
- Derivatives (change in discount factors and derivative underlying value);
- Investment funds fully or partially invested in the aforementioned asset classes.

This sensitivity has also an impact on senior and subordinated financial liabilities, pension benefit obligations and on Technical Provisions, both Life and Non-Life, affecting their valuation curve (recalculated in line with EIOPA methodology) and, where relevant, the cash flows. For Life Technical Provisions the extent of such impact depends on their capacity to absorb the corresponding changes of the stressed assets.

Interest rates downward shift of 50 basis points is the same as above but with a shift downward. No floor is applied where the shift of 50 basis points drops rates below 0%.

Equity markets higher value of 25% simulates an increase of the current market prices of equity. This stress affects the following instruments:

- Equity (change in price);
- Convertible bonds (change in underlying asset price);
- Equity derivatives (change in underlying price);
  Investment funds fully or partially invested in the aforementioned asset classes.

This sensitivity has also an impact on Life Technical Provisions; the extent of such impact depends on their capacity to absorb the corresponding changes of the stressed assets.

Equity markets lower value of 25%: same methodology as mentioned above assuming a decrease.

Credit spreads instantaneous increase of 50 basis points added to the market corporate spreads. This stress affects the market value of the following main instruments:

- Corporate bonds (changes in discount factors);
- Derivatives (changes in the underlying asset price);
- Investment funds fully or partially invested in the aforementioned asset classes.

Moreover, this shock causes an increase to the Volatility Adjustment, thus entailing also a change to the interest rate curve adopted for the valuation of Technical Provisions, both Life and Non-Life. For Life Technical Provisions the extent of such impact depends on their capacity to absorb the corresponding changes of the stressed assets.

Italian government bonds credit spread instantaneous increase of 100 basis point: same methodology as above, adding 100 basis points and applying the shock only to fixed income instruments issued by Italian government or Italian government related entities. Also in this case the Volatility Adjustment adopted for this sensitivity is modified for the indirect impact of the increase in the Italian Government bond spread. In addition, allowance is made for the possible activation of the Italian Country-specific VA. As a consequence, the Technical Provisions are also affected according to their capacity to absorb the corresponding changes of the stressed assets.

EIOPA Ultimate Forward Rate: impact of the change in UFR required by EIOPA during 2021 (i.e. -15 bps on all countries where the Group operates, except for China, Vietnam, Indonesia, Hungary, Brazil and Turkey, where the UFR target has already been achieved).

5.2. Life New Business Value

5.2.1. New Business Value methodology

NBV arises from premiums written during the reporting period on new contracts issued in the current year and on existing contracts acquired in prior periods which, according to the Solvency II Contract Boundaries rules, are excluded from the projection of in-force liabilities (e.g. yearly renewable risk contracts, where the Company has the right to re-price the premiums).

Voluntary additional premiums stemming from existing contracts, if made at terms and conditions predefined at the inception of the contract, are not recognised as new business (their projection is included in the in-force business).

No value is attributed in respect of future New Business.

The Generali Life NBV includes inwards reinsurance written, and is net of the impact of reinsurance ceded out of the Group.

NBV is calculated, on a stand-alone basis, on a quarterly basis with beginning of quarter operating and economic assumptions and actual expenses (acquisition costs and first year commissions).

NBV is determined as the present value, at the point of sale (i.e. taking account of the first year New Business strain) of the projected stream of after tax profits that are expected to be generated by the covered New Business written in the year, net of the cost of financial guarantees and options granted to policyholders, the frictional costs of setting up and holding required capital and the cost of non hedgeable risks. NBV includes the stream of profits generated in the financial undertakings which are directly associated with Life insurance business, after deduction of all related expenses on a look through basis.

The breakdown by region of the NBV is presented according to the region in which the Life insurance business is generated (i.e. the value attributed to the stream of profits that are expected to be generated in Holding undertakings, through intra-Group Life reinsurance, is reattributed to the ceding undertaking).

The full-year NBV is defined as the algebraic sum of the NBV of each quarter where each quarterly NBV is aggregated after consideration of end of quarter minorities, and converted to Euro using end of quarter exchange rates.

Generali's "bottom-up" market consistent methodology covers 99% of Life and Health business of the Group in terms of New Business Premiums. The residual business is valued using a traditional deterministic valuation based on the Real-World financial assumptions described in §4.4.

NBV can be broken down into the components illustrated below.

Present Value of Future Profits (PVFP) before Time Value of Financial Guarantees and Options

It is equal to the present value at issue of future after tax profits calculated according to a certainty-equivalent approach, i.e. projecting cash flows in a scenario in which the market return of all assets is set equal to the reference rate and discounting at the same reference rate.

It represents the value of the business without taking credit for any future asset risk premium over the reference rate and it captures the intrinsic value of financial guarantees and options.

Time Value of Financial Guarantees and Options (Time Value of FG&O)

It represents the additional cost to shareholders associated with financial guarantees and options, including dynamic policyholder behaviour, over and above the intrinsic value that is already reflected in the PVFP defined above; it is calculated on a market consistent basis.

For the vast majority of business with financial guarantees and options, stochastic models are used to project future profits over a range of risk-neutral economic scenarios. The mean of the PVFPs arising in the different economic scenarios represents the value of the business allowing for the market consistent value of the financial guarantees and options, determined in line with the way cash flows with similar optionality would be valued in the financial markets. The Time Value of Financial Guarantees and Options is then calculated as the difference between the PVFP before the Time Value of FG&O defined above and the mean of the stochastic PVFPs.

Stochastic models are set up appropriately allowing for the business-specific structure of financial guarantees and profit sharing, and also allowing for management actions and for the corresponding behaviour of policyholders. Management actions mainly consist of decisions regarding asset investment and disinvestment according to scenario specific cash flow positions, payments to and withdrawals from profit sharing funds, and the determination of crediting rates. The target asset allocation is consistent with the asset mix of the Existing Business at the year-end prior to the quarterly NB valuation date and the principles underlying management actions are in line with the regulatory requirements and with actual strategies as executed in recent years. The stochastic models also allow for policyholder behaviour linked to the development of the capital markets, so that the propensity for lapses increases when market yield is more competitive than the crediting rate offered by the insurer.

The most material financial guarantees and options offered by the covered business are guaranteed interest rates, minimum maturity values, guaranteed minimum surrender values and, where appropriate, inflation guarantees and guaranteed take-up rates on traditional business, and guaranteed maturity values on Unit-linked business.

Frictional costs of required capital

The required capital for each EEA company is defined as the local regulatory Solvency Capital Requirement. It is presented net of the impact of relevant eligible items (such as the PVFP) that can be used to support capital requirements with no associated cost to shareholders. For non-EEA it is defined as the maximum between the 100% of the local regulatory required capital and the Solvency II capital based on Standard Formula, net of the relevant free coverage.

Frictional costs of required capital reflect the economic costs incurred by shareholders through investing in the required capital in an insurance company rather than directly. They are mainly represented by taxation and any policyholder interest in the investment income of assets backing the required capital plus the investment expenses incurred for the management of these assets (where these have not been already allowed for in the PVFP).

Frictional costs of required capital are independent from the cost of non hedgeable risks.

Frictional costs are calculated by projecting the future levels of required capital over the lifetime of the business, using appropriate risk drivers.

Cost of Non Hedgeable Risks (Cost of NHR)

The Cost of Non Hedgeable Risks is an explicit, additional and separate allowance that covers non hedgeable risks not already allowed for in the PVFP and the Time Value of FG&O. As a general principle, non hedgeable risks refer to both financial and non-financial risks. Since the assumptions for non hedgeable risks used in calculating the PVFP and the Time Value of FG&O are best estimate and company specific, the Cost of NHR reflects the fact that:

- experience may vary from projection assumptions and hence a charge for uncertainty in the setting of the best estimate assumptions could be needed;
- the single best estimate assumptions may not fully capture the asymmetry in shareholder's results;
- allowance should be made for any risks that are not included in the PVFP and the Time Value of FG&O (e.g. operational risks).

The Cost of NHR is calculated using a "cost of capital" approach, based on Solvency II SCR for non hedgeable risks projected across all projection years with appropriate drivers. The annual charge applied is equal to 4%, before the application of taxes at the local ordinary taxation level.

Operating assumptions

Operating assumptions such as expenses and commissions, mortality, morbidity, lapses and annuity take-up rates, have been determined by each company on the basis of their best estimates as of the beginning of period date, referring to the current experience when available or to appropriate industry benchmarks.

The value of New Business at point of sale is shown after the deduction of all acquisition costs. Maintenance expenses, generally expressed as per-policy amounts, are assumed to increase at the inflation rate, with specific allowance for the inflation of salaries and medical costs.

Commissions and other payments to distribution channels have been projected based on the agreements in-force at the valuation date.

Life insurance and asset management contract charges, terms and conditions, including surrender value bases, management fees and other charges, have been assumed to remain unaltered at the levels prevailing at the valuation date.

Allowance for management actions (mainly consisting of decisions regarding asset investment and disinvestment, payments to and withdrawals from profit sharing funds, and the determination of crediting rates) are in line with the regulatory requirements and with actual strategies as executed in recent years and as expected in business plans.

5.2.2. New Business Value covered business

The NB results cover the business related to:

- Life insurance undertakings;
- Health undertakings in Germany and Austria which sell business that has characteristics closely related to Life insurance business (i.e. long-term health);
- Non-Life undertakings in Spain limited to the business which has characteristics closely related to Life insurance business (i.e. Decesos);
- Holding and Financial undertakings, in relation to the profits/losses arising from the management of the Life business (look through profit and reinsurance results).

5.2.3. New Business Value sensitivity analysis

The NB sensitivities are performed in isolation rather than in combination (i.e. all other assumptions remain unchanged except where they are directly impacted by the changed assumptions). The sensitivities have been derived from a specific NBV run set with the latest beginning of period operating assumptions (i.e. end of September 2020) and average 2020 financial assumptions. The related NBV results have been adjusted (for presentational purposes) to better represent and match official 2020 figures.

The NBV sensitivities are assumed to occur before the sale of the contract. Therefore, the NBV sensitivities give an indication of how the profitability of future NB might be in a different market environment.

- **Interest rate upward shift of 50 basis points**: sensitivity to an upward shift of 50 basis points in the underlying reference rates (in line with EIOPA methodology), accompanied by an upward shift of 50 basis points in all other dependent economic assumptions. According to the framework of the NBV sensitivities where the sensitivities are assumed to occur before the sale of the contract, the increase of interest rates will be applied to the entire product life without generating any unrealised losses.
- **Interest rate downward shift of 50 basis points**: sensitivity to a downward parallel shift of 50 basis points in the underlying reference rates (in line with EIOPA methodology), accompanied by a downward shift of 50 basis points in all other dependent economic assumptions. According to the framework of the NBV sensitivities where the sensitivities are assumed to occur before the sale of the contract, the decrease of interest rates will be applied to the entire product life without generating any unrealised gains.
- **EIOPA Ultimate Forward Rate**: sensitivity to a change of UFR as required by EIOPA in 2021 (i.e. -15 bps for all countries where the Group operates, except for China, Vietnam, Indonesia and Hungary where the UFR target has already been achieved).
- **Administrative & Investment Management expenses -10%**: sensitivity to a 10% decrease of administrative and investment management expenses.
- **Lapse Rate -10%**: sensitivity to a 10% decrease of lapse rates (multiplicative, i.e. 90% of best estimate lapse rates).
- **Lapse Rate +10%**: sensitivity to a 10% increase of lapse rates (multiplicative, i.e. 110% of best estimate lapse rates).
- **Mortality/morbidity for risk business -5%**: sensitivity to a 5% decrease of mortality/morbidity (multiplicative, i.e. 95% of best estimate mortality/morbidity rates), including the effect of possible related re-pricing, for all product lines subject to mortality risk, i.e. where the present value of future profits decreases when the mortality rates increase (e.g. term assurance, whole life, annuity during the accumulation period).
- **Mortality for annuity business -5%**: sensitivity to a 5% decrease of mortality (multiplicative, i.e. 95% of best estimate mortality rates) for business subject to longevity risk, i.e. where the present value of future profits decreases when the mortality rates decrease (e.g. annuities in payment).

6 Annex B: Definitions and abbreviations

New Business Value (NBV): the NBV is the present value, at the point of sale, of the projected stream of after tax profits expected to be generated by the New Business written in the year, after allowance for:

- the Cost of Financial Guarantees and Options granted to policyholders;
- the frictional costs of setting up and holding required capital;
- the Cost of Non Hedgeable Risks.

Full year NBV is calculated as the algebraic sum of the NBV of each quarter, each of them calculated with beginning of period operating and economic assumptions.

Annual Premium Equivalent (APE): the APE is defined as New Business annualised regular premiums plus 10% of single premiums.

Present Value of New Business Premiums (PVNBP): the PVNBP is defined as the present value of the expected future New Business premiums, allowing for lapses and other exits, discounted to point of sale using the reference rates.

Capitalization Factor (cap factor): the cap factor is defined as the present value of regular premiums divided by the amount of regular premiums, and provides a measure of the expected duration of regular premiums future payments.

Present Value of Future Profits (PVFP): the PVFP is defined as present value at issue of future after tax profits calculated according to a market consistent methodology.

Internal Rate of Return (IRR): the IRR is defined as the rate at which the present value of New Business distributable profits (therefore allowing for New Business first year strain and required capital absorption) calculated using Real-World best estimate assumptions is equal to zero.

Basic Own Funds after deduction (BOF): Group Basic Own Funds after deduction represents the contribution of insurance and reinsurance undertakings and other entities not subject to other solvency sectoral rules to the Group Own Funds.

Group Own Funds (GOF): Group Own Funds are defined as the sum of the Group BOF and the contribution of financial entities, according to their regulatory regimes.

Technical Provisions (TP): the Technical Provisions correspond to the sum of the best estimate liability (probability-weighted average of the present value of future cash-flows related to insurance and reinsurance obligations in force at the valuation date) and Risk Margin (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 in order to take over and meet the insurance liabilities).

Volatility Adjustment (VA): the VA allows insurance and reinsurance undertakings to adjust the relevant risk-free interest rate term structure used for the calculation of the 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).

Ultimate Forward Rate (UFR): the UFR is the long-term risk-free rate defined for each currency by EIOPA as the sum of a long-term inflation and an expected real interest rate.