2017 Own Funds & New Business
Supplementary Information

Assicurazioni Generali

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Assicurazioni Generali

2017 Own Funds & New Business Supplementary Information

1 Introduction

Assicurazioni Generali S.p.A (Generali) has reviewed its public disclosure moving from "Life Embedded Value Supplementary Information" to "Own Funds & New Business Supplementary Information", following the evolution of the regulatory requirements introduced by the Solvency II regime.

With this report, Generali provides a complete disclosure on Group Own Funds (hereinafter, GOF) and New Business (hereinafter, NB) indicators, presenting the key profitability elements together with their variation analyses from year-end 2016 to year-end 2017, their sensitivities to a range of financial shocks and operating assumptions and their contributions by country and segment.

In addition, the link between Group Own Funds and IFRS shareholders' equity and the reconciliation between New Business Value (hereinafter, NBV), based on the MCEV principles, and Solvency II Value of New Production (hereinafter, Solvency II VNP) are provided and commented in this report.

1.1. Group Own Funds Key Figures

In this document, the Group Own Funds are evaluated according to the Regulatory View, i.e. the Risk Margin in Technical Provisions is based on regulatory Solvency Capital Requirement (SCR). The regulatory SCR is evaluated by each company in accordance with either Internal Model or Standard Formula methodology, depending on whether the Partial Internal Model has been approved for the specific company.

The results reported in this document are based on preliminary figures consistent with the disclosure of the full year results of the Group. Differences may arise in comparison to the official GOF which will be finalized for the year-end 2017 Solvency and Financial Condition Report (SFCR) and Quantitative Reporting Templates (QRT) submitted later during the course of 2018.

Group Own Funds

€ mln, %	2017*	2016	Change
Group Own Funds	**46,309**	**41,308**	**12.1%**
Normalised Own Funds Generation	3,332	2,985	11.6%
Total Own Funds Generation**	6,331	1,927	228.5%
Normalised Own Funds Return	*8.1%*	*7.3%*	*0.7 pts*
Total Own Funds Return	*15.3%*	*4.7%*	*10.6 pts*

(*) Preliminary figures.

(**) Before dividend

From year-end 2016 to year-end 2017 GOF moves from € 41.3 billion to € 46.3 billion.

The **Normalised Own Funds generation** is equal to € 3.3 billion, leading to a solid 8.1% normalised return on GOF.

Total Own Funds generation amounts to € 6.3 billion (corresponding to an overall 15.3% total return on GOF) and is affected by operating variances both in terms of experience and change in assumptions (€ 1.7 billion) and by the positive impact of economic variances and exchange rates (€ 1.8 billion), mainly due to the favorable financial situation over 2017. Other variances, which amount to € -0.5 billion, are complementing the movement from one year to the other and are mainly attributable to refinements in the projection model of technical items and to other non economic events.

As far as economic variances are concerned, the increase in interest rates and spreads on corporate bonds, even if mitigated by the slight decrease of Volatility Adjustment, generate € 0.6 billion of positive variances; the good performance of equities and real estate investments leads to an increase in GOF of € 1.0 billion and the decrease in volatilities contributes to an increase in GOF of € 0.3 billion. In addition, € -0.2 billion are attributable to the movement of foreign exchange rates.

1.2. New Business Key Figures

In this report, the NB indicators are calculated according to MCEV methodology. Starting from the 1st quarter 2017 the Solvency II contract boundaries rules have been introduced in the quarterly NBV calculation. As a consequence, the 2016 NB figures have been restated accordingly to provide prior year comparative figures.

The following table reports the main NB indicators.

New Business Value

€ mln	2017	2016	Change
New Business Value	1,820	1,193	53.8%
PVNBP	45,429	46,605	-2.3%
Profitability on PVNBP	4.01%	2.56%	1.46 pts
APE	4,645	4,803	-2.7%
Profitability on APE	39.2%	24.8%	14.4 pts
IRR	19.4%	14.5%	5.0 pts

changes are on a comparable basis

On a comparable basis, Present Value New Business Premiums (hereinafter, PVNBP) falls (-2.3%), due to both the reduction in single premiums (-2.8%) for all the main countries, except for France, and in regular premiums (-2.6%), despite the positive contribution in France, CEE and Asia.

The profitability in terms of PVNBP is equal to 4.01% with an excellent increase of 1.46 pts from 2016. This has been driven by the numerous management actions carried out by Generali in restructuring the product catalogue and steering the business mix towards more profitable lines of business together with a slight recovery in the economic conditions.

As a consequence, the NBV strongly increases by 53.8%, reaching € 1.8 billion, mostly generated by Italy, France and International business.

The IRR increases by 5.0 pts, reaching 19.4%, as a combination of the reduction in strain, the strong growth in profitability and the slight recovery in the economic conditions also in the Real-World financial assumptions.

2 Group Own Funds

2.1. Group Own Funds Results

In compliance with the requirements for the Insurance Entities, Group Own Funds are calculated as the sum of:

– the excess of assets over liabilities as defined in accordance to art. 75 of Directive 2009/138/EC;
– plus Subordinated Liabilities eligible in Own Funds;
– less foreseeable dividends[1];
– less deductions for shares of the parent company, restricted own fund items, regulatory filters applied to non-available items at Group level.

Then, the Group Own Funds are obtained considering the impact of sectoral entities and additional Own Funds related to unrealized capital gains from French pension activities arising from the application of the IORP transitory regime. The recognition of the latter was authorized by the French Supervisor from 2016 to 2022, a period during which the proportion of the eligible unrealized capital gains will decrease gradually.

Group Own Funds

€ mln	2017*	2016	Change
Total Assets	**513,879**	**499,130**	***3.0%***
Total Liabilities	**-473,985**	**-464,780**	***2.0%***
Excess of Assets over Liabilities	**39,894**	**34,350**	***16.1%***
Subordinated liabilities eligible in Group Own Funds	8,931	9,142	*-2.3%*
Foreseeable dividend	-1,330	-1,249	*6.5%*
Impact of filters and other deductions	-1,426	-1,529	*-6.7%*
Net impact of Sectorals	-1,462	-1,191	*22.7%*
Unrealised gains on French pension business under IORP transitional measures, authorized by Supervisor	1,703	1,785	*-4.6%*
Group Own Funds	**46,309**	**41,308**	***12.1%***

(*) Preliminary figures.

The increase of € 5.0 billion in GOF is mainly due to the increase of Excess of Assets over Liabilities (€ 5.5 billion) generated by a growth in Assets of € 14.7 billion (+3%) compared to a growth in Liabilities of € 9.2 billion (+2%).

2.2. Group Own Funds Roll Forward

From year-end 2016 to year-end 2017, the GOF increase is driven by normalised earnings generated by the Group, the positive impact of the financial market conditions, as well as by operating variances, both in terms of experience and change in assumptions in the projection model of technical items.

[1] 2017 dividends are proposed by the Board of Directors and approved during the 2018 Shareholders' Annual meeting (19th April 2018).

The following table presents the development of the Group Own Funds in 2017.

Group Own Funds Roll Forward

€ mln	
Group Own Funds (YE16)	**41,308**
Normalised Own Funds Generation	3,332
Life	*3,232*
Non-Life	*1,001*
Holdings & Other	*-901*
Operating Variances	1,693
Economic variances & exchange rates	1,775
Other Variances	-469
Model refinements	*-81*
Non recurring expenses, taxes & Other	*-388*
Foreseeable dividend	-1,330
Group Own Funds (YE17)*	**46,309**

(*) Preliminary figures.

2017 Group Own Funds increase by € 5.0 billion compared to the opening GOF of € 41.3 billion. The contribution of normalised Own Funds generation and the technical operating variances amount respectively to € 3.3 billion and to € 1.7 billion. The favorable financial market conditions and the exchange rates determine a further positive impact of € 1.8 billion. This is offset by other variances which reduce the GOF by € -0.5 billion. The net movement in GOF also allows for a proposed 2017 dividend (to be paid in 2018) which amounts to € 1.3 billion.

2017 Normalised Own Funds generation is driven by the solid performance of Life and Non-Life segments, while the Holding segment, which is affected by the interest costs on external subordinated debt, has a negative impact. In particular:

- **Life normalised Own Funds generation** (€ 3.2 billion): the positive impact from the unwinding of the Life GOF and the expected release of the prudence implicitly considered in the Technical Provisions valuation (Risk Margin release and difference between the stochastic Market Consistent and Real-World financial returns impact) generates € 1.6 billion of Own Funds. Additionally the Solvency II Value of New Production[2] (€ 1.6 billion) contributes for the residual part of Life normalised Own Funds generation.

- **Non-Life normalised Own Funds generation** (€ 1.0 billion): the technical result based on best estimate assumptions before any change in assumptions and the unwinding of investments and liabilities are the main contributors to the result of Non-Life segment.

- **Holdings and Other normalised Own Funds generation** (€ -0.9 billion) mainly relates to the payment of the interest recognized to external subordinated debt and to recurring holding costs.

2017 Operating variances have an impact of € 1.7 billion and are determined by both experience variances and changes in the assumptions underlying the models for calculating Technical Provisions. In particular, in Life business, significant impacts are attributable to the optimization of organizational structure of the Group, especially in Germany and in Austria, and the decrease of existing business guarantees for the pension

[2] Refer to §3.6 for the reconciliation between NBV and Solvency II VNP.

business (PIP) in Italy; in Non-Life business, positive impact is attributed to the refinements in best estimate assumptions.

2017 Economic variances (before the impact of exchange rates) has an impact of € 2.0 billion, mainly driven by:

- Interest rates (€ 0.5 billion), due to the increase of swap curve (i.e.: Eur swap +23 bps on 10y par rate);
- Spreads and VA (€ 0.1 billion): the almost unvaried spread on government bonds and the more relevant reduction in the spread on corporates, impacting positively the value of the investments, more than compensate the slight decrease in the VA (-9 bps) used in valuation of the Technical Provisions;
- Equities and real estate (€ 1.0 billion) due to the good performance of the equity portfolio during 2017 (i.e. EUROSTOXX +6.5%), and the positive increase in value of the real estate portfolio;
- Volatilities (€ 0.3 billion) related to decrease of both interest rate and equity volatilities.

2017 changes in exchange rate has an impact of € -0.2 billion, mainly driven by the movements in the exchange rates of the CHF, CNY, ARS and USD against EUR.

2017 Other variances (€ -0.5 billion) are capturing the effect of other non economic factors affecting the change in value of GOF. The improvement of the models in evaluating Technical Provisions are negatively impacting GOF by € -0.1 billion. The remaining impacts are driven by non operating recurring holding expenses and restructuring costs and the yearly haircut of the supervisory allowance on unrealized gains on assets related to IORP pension business in France. Other minor impacts are attributable to fiscal relief in France mitigating the impact of taxes other than income taxes, to change in filters and results of sectoral entities.

2017 proposed dividend to be paid in 2018 amounts to € -1.3 billion. The ratio of normalised OF generation to 2017 proposed dividend is 2.5.

According to regulatory requirements, the changes in the UFR[3] and the additional downward haircut of unrealised gains on IORP French business assets will impact the 1Q2018 Group Own Funds respectively by € -0.2 and € -0.7 billion.

2.3. 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 2017 the following sensitivity analyses are reported (see §5.1.4 for further explanations):

- increase and decrease of equity values by 25%;
- increase and decrease of interest rates by 50 bps;
- widening of spread related to corporate bonds by 50 bps;
- widening of spread related to Italian government bonds by 100 bps;
- decrease of the Ultimate Forward Rate (UFR) by 15 bps.

[3] for EUR, CZK, PLN, GBP and USD, the UFR will decrease by 15bps, from 4.20% to 4.05% while for HUF and CNY the UFR is increasing by 15bps (from 4.20% to 4.35%)

The following table presents the impact of the Group Own Funds sensitivities to various shocks.

Group Own Funds - Sensitivities

€ mln, %	**2017***	impact (in %)
Group Own Funds	**46,309**	
Equity market + 25%	2,442	**5.3%**
Equity market - 25%	-2,437	**-5.3%**
Interest rate +50bps	585	**1.3%**
Interest rate -50bps	-711	**-1.5%**
Credit spread corporate bonds +50 bps	-230	**-0.5%**
Credit spread on BTP +100 bps	-2,004	**-4.3%**
Ultimate Forward rates -15 bps	-178	**-0.4%**

(*) Preliminary figures.

Even in case of unfavorable market conditions (decrease in interest rates or equity values, increase in spreads), Group Own Funds are not heavily penalized, mainly due to a business profile characterized by a limited duration gap, a good loss absorption capacity of Life Technical Provisions and an average minimum guarantee steadily lower than the average projected investment return.

Sensitivity on equity (€ +2.4 / € -2.4 billion): the impact reflects both the changes in the fair value of equity and the impact on Technical Provisions (change in cash flows).

The impacts in the two scenarios (equities up and equities down) are symmetric, since the sensitivities are mostly linear with regard to changes in equity markets (the main differences are related to the fair value of derivatives, which are however not very material, if compared to other effects).

Sensitivity on interest rates (€ +0.6 / € -0.7 billion): the impact reflects both the changes in the fair value of investments and non-technical liabilities (senior debt and defined benefit plans obligations) and the impact on Technical Provisions (change in cash flows and different discount rate).

The asymmetry of the impacts between +50 bps and -50 bps mainly reflects the different absorption capacity of Technical Provisions in the case of different interest rates scenarios.

Sensitivity on credit spread on corporate bonds (€ -0.2 billion) and BTP (€ -2.0 billion): the impact reflects both the changes in the fair value of investments and defined benefit plans obligations and the impact on Technical Provisions (change in cash flows and impact on Volatility Adjustment).

The higher negative impact of the stress on BTP is due to the high concentration of this type of asset in the Italian companies and to the limited variation in the Volatility Adjustment not compensating the stress impact. According to the current regulatory framework, while the corporate spread increase is substantially reflected in a corresponding increase of the Volatility Adjustment, this is not the case with respect to one single government bond spread increase, that has a far bigger impact in terms of asset reduction rather than in terms of Technical Provisions reduction.

Ultimate Forward Rate (€ -0.2 billion): the impact reported here considers an overall decrease of the UFR by 15bps, with no exceptions (see footnote 3 in §2.2).

2.4. Group Own Funds Tiering

According to Solvency II regulation, Group Own Funds items are classified into three Tiers representing different level 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 Own Funds classification by tiers is composed as follows:

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

In the following table the split by tiers for Group Own Funds is reported:

Group Own Funds by Tiering

(€ million)	Total	Tier 1	Tier 1 (restricted)	Tier 2	Tier 3
Group Own Funds (YE17)*	**46,309**	**37,279**	**3,603**	**5,328**	**99**
Group Own Funds (YE16)	41,308	32,025	3,736	5,407	141
Change (%)	12.1%	16.4%	-3.6%	-1.5%	-29.5%

(*) Preliminary figures.

Group Own Funds are mainly composed by high-quality capital. Tier 1 counts for about 88% of the total, Tier 2 represents 12% and Tier 3 less than 1% of the total.

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

2.5. Reconciliation between IFRS Shareholders' Capital and Group Own Funds

Under the Solvency II regime, Group Own Funds are evaluated starting from IFRS 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 fair value of financial liabilities and recognizing material contingent liabilities;
- recalculating the impact of net deferred taxes on the above adjustments.

The excess of assets over liabilities, which derives from the above listed adjustments, is then integrated by:

- Subordinated Liabilities eligible in Group Own Funds;
- deduction for foreseeable dividends and distributions;

– deductions for shares of the parent company, restricted Own Funds items, regulatory filters because of non-available items at Group level;
– impact of sectoral entities;
– unrealized gains on assets from French pension activities related to IORP transitory regime.

The following table presents the reconciliation between IFRS Shareholder Capital and Group Own Funds.

Reconciliation between IFRS Equity and Group Own Funds

€ mln	2017*	2016
IFRS Equity (Gross of Minorities)	**26,177**	**25,668**
Intangibles	**-10,767**	**-10,801**
Goodwill	-6,662	-6,647
DAC	-2,119	-2,083
Other Intangibles	-1,987	-2,071
MtM Assets	**9,884**	**8,810**
Bonds	1,386	2,074
Real estate	7,499	6,464
Loans	357	445
Participations	964	450
Other Assets	-322	-623
MtM Liabilities	**21,807**	**16,105**
Net Technical provision	22,400	17,087
Financial Debt	-439	-492
Subordinated Debt	-552	-731
Other Liabilities	397	241
Impact Net deferred Taxes	**-7,207**	**-5,432**
Subordinated Liabilites	**8,931**	**9,142**
Foreseeable dividend	**-1,330**	**-1,249**
Sectoral, Fungibility Filters and Other Deductions	**-2,887**	**-2,719**
Deductions for Participations in sectoral Entities	-2,535	-2,188
Available Capital Sectorals	1,074	997
Impact of filter for Non availability & Minorities and other deduction	-1,426	-1,529
Unrealised gains on French pension business under IORP transitional measures	**1,703**	**1,785**
Group Own Funds	**46,309**	**41,308**

(*) Preliminary figures.

The main elements of reconciliation from the IFRS shareholder capital (€ 26.2 billion) to the Group Own Funds (€ 46.3 billion) are the following:

– **Intangibles** (€ -10.8 billion), not recognized under Solvency II,
– **Mark to market of Assets:** this adjustment (€ 9.9 billion) is primarily due to the fair valuation of real estate,
– **Mark to market of Liabilities**: this adjustment (€ 21.8 billion) is primarily due to net Technical Provisions (€ 22.4 billion deriving from the difference between IFRS and Solvency II evaluation),
– **Impact of net deferred Taxes** (€ -7.2 billion) is a consequence of the change to fair value of other items reported above,

- **Subordinated Liabilities** (€ 8.9 billion), included in Group Own Funds in line with Solvency II directive,
- **Foreseeable dividends** (€ -1.3 billion),
- **Sectoral, Fungibility Filters and Other Deductions** (€ -2.9 billion) include fungibility and transferability filters that apply mainly in Germany and the impact of sectoral entities that translate their Solvency II value (quoted market price for listed sectoral entities or adjusted net asset value for the non listed) into the corresponding Own Funds calculated according to the relevant sectoral rules,
- **Unrealized capital gains from French pension activities benefiting from IORP transitory regime** (€ 1.7 billion). These additional Own Funds are authorized by the Supervisor for the years from 2016 to 2022, a period during which the proportion of the eligible unrealized capital gains will decrease gradually.

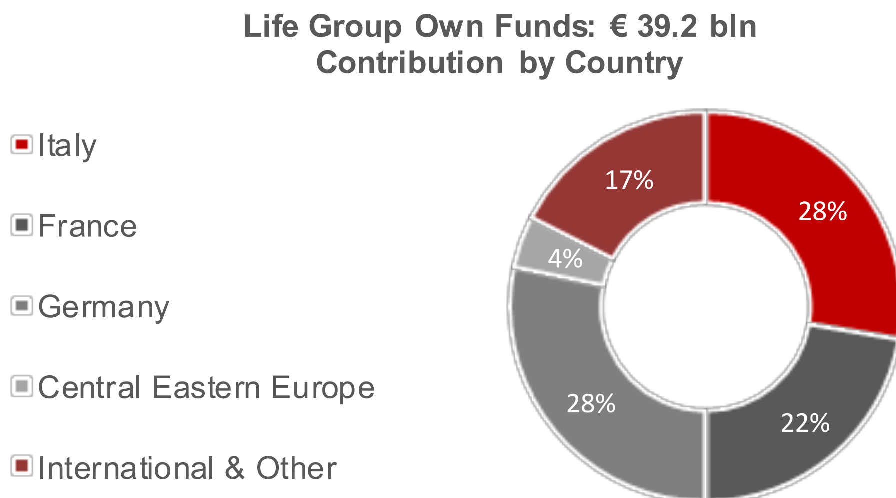
2.6. Group Own Funds by Segment and by Country

The following chart provides the highlights on the Life and Non-Life segments in Group Own Funds.

The Own Funds of the Life segment consist mainly[4] of the contribution of all Life companies of the Generali Group and Life legal segments of the Group Composite companies; an analogous definition is applied to the reported Group Own Funds of the Non-Life segment.

Life

The Group Own Funds are mainly attributable to the Life segment and amount to € 39.2 billion at 31 December 2017. In the following chart the breakdown by country of the Life GOF is reported.



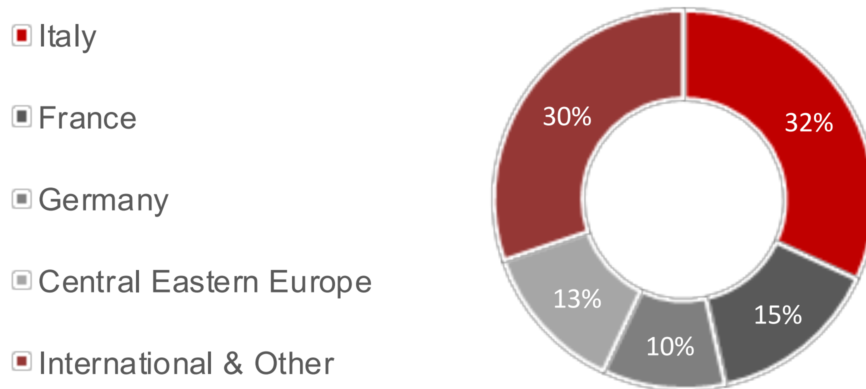
The main contributors to the Life GOF are Germany, Italy and France, representing 78% of the Life GOF.

[4] See §5.1.1 for further details on the definition of the segment.

Non-Life

The Own Funds of the Non-Life segment amount to € 14.4 billion at 31 December 2017. In the following chart the breakdown by country of the Non-Life GOF is reported.

Non-Life Group Own Funds: € 14.4 bln
Contribution by Country



In Non-Life GOF, Germany, Italy and France represent 57% of the Non-Life GOF, and International & Other, where Austria contributes the most, and Central-Eastern Europe make up the remaining 43%.

3 New Business Value

3.1. New Business Value Results

The following table shows the development of NBV from 2016 to 2017, together with the 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 changes in the covered perimeter and foreign exchange rates.

New Business Value

€ mln	2017	2016	Change
Annual premiums	2,212	2,296	-2.6%
Single premiums	24,325	25,070	-2.8%
PVNBP	**45,429**	**46,605**	**-2.3%**
Cap Factor	9.5	9.4	0.1
APE	**4,645**	**4,803**	**-2.7%**
NBV	**1,820**	**1,193**	**53.8%**
Profitability			
- on PVNBP	4.01%	2.56%	1.46 pts
- on APE	39.2%	24.8%	14.4 pts
IRR	19.4%	14.5%	5.0 pts

changes are on a comparable basis

PVNBP decreases (-2.3%) as a result of the reduction in both the annual premiums (-2.6%) and in the single premiums (-2.8%).

The NB profitability in 2017 reaches 4.01% with an increase of 1.46 pts mainly coming from the change in the business mix towards more profitable business lines (the weight of Saving business reduced from 55% to 45%, while the weight of Unit-Linked business moved from 26% to 35%), from the widespread products refinement and from the reduction of the financial guarantees (average annual guarantees on new products have fallen from 0.45% to 0.22% in terms of NB Premiums).

In addition, also the improved economic framework contributes to the rise of profitability. Compared to the corresponding 2016 framework, the average 2017 scenario (the NBV is calculated as the sum of each quarter value, based on each beginning of period economic assumptions), highlights an increase of the reference rates for all the main countries of around 20 bps in the Euro area (refer to §4.3 for more details).

The IRR increases by 5.0 pts, reaching 19.4%, as a combination of the reduction in strain (-0.44 pts, from 2.99% to 2.55%, in terms of strain on PVNBP), the strong growth in profitability and the slight recovery in the economic conditions also in the Real-World financial assumptions (refer to §4.4 for more details).

3.2. New Business Value and Profitability Movement

Movement of New Business Value and Profitability

€ mln	NBV	Profitability on PVNBP
New business Value 2016	**1,193**	**2.56%**
Change in perimeter/Exchange rate fluct.	-8	-0.01 pts
Products mix/volume	284	0.66 pts
Economic Variance	138	0.34 pts
Products features and others	213	0.46 pts
New business Value 2017	**1,820**	**4.01%**

As shown in the table above the evolution of the profitability from 2016 to 2017 is primarily driven by Generali's initiatives (1.12 pts) aimed at strengthening the penetration of Unit-Linked and Protection business (0.66 pts) relative to Saving business and improving the products features (0.46 pts) in terms of financial guarantees, fees and other characteristics. The main contributors in shifting from Saving to Unit-Linked business are Italy and International countries, where the profitability increases respectively by 0.96 pts and 1.28 pts. In France and the CEE countries the focus has been on restructuring the product catalogues which has led to an increase in profitability of 1.37 pts and 1.67 pts respectively. The financial guarantees offered to the policyholder in the Euro area have been reduced from 0.30% to 0.12%, driven by France, Italy and International (mostly coming from Spain, Austria and Switzerland).

The overall improvement of the financial assumptions in all the main currencies complements the already excellent profitability with a further increase of 0.34 pts.

The following table represents the components of the NBV.

Breakdown of New Business Value

€ mln	2017	2016
PVFP before Time Value of FG&O	2,329	1,795
Time Value of FG&O	-234	-350
PVFP after Time Value of FG&O	**2,095**	**1,445**
Cost of Capital	-60	-50
Cost of NHR	-216	-201
New Business Value	**1,820**	**1,193**

The strong improvement in NBV is attributable to the growth (€ 650 mln) in Present Value of Future Profits, PVFP, after Time Value of Financial Guarantees and Options, FG&O. This increase reflects the increase in the PVFP before Time Value of FG&O (€ 534 mln) due to the improved business mix and product refinement, and the reduction in Time Value of FG&O (€ 116 mln) as a result of the lower level of the financial guarantees offered to the policyholders. The Cost of Capital (CoC) and the Cost of Non Hedgeable Risk (Cost of NHR) slightly increased.

3.3. New Business Value by Line of Business

New Business Value by Lobs

€ mln	2017	2016	Change
PVNBP	**45,429**	**46,605**	**-2.3%**
o/w Saving	20,611	25,503	-19.0%
o/w Protection	9,122	8,850	3.0%
o/w Unit-Linked	15,696	12,252	28.7%
NBV	**1,820**	**1,193**	**53.8%**
o/w Saving	516	231	128.2%
o/w Protection	715	549	30.2%
o/w Unit-Linked	588	413	44.3%
PROFITABILITY on PVNBP	**4.01%**	**2.56%**	**1.46 pts**
o/w Saving	2.50%	0.90%	1.62 pts
o/w Protection	7.84%	6.20%	1.64 pts
o/w Unit-Linked	3.75%	3.37%	0.41 pts

changes are on a comparable basis

The table above represents the split of PVNBP, NBV and Profitability by the line of business (Saving, Protection and Unit-Linked).

The decrease of -2.3% in terms of PVNBP results from the change in Generali business strategy of boosting the sale of capital light products (such as Unit-Linked and Protection) instead of capital consuming products (i.e. Saving business, even with reduced financial guarantees).

Thus, in terms of PVNBP:

- Saving business reduces by -19%. Consequently, the weight of this line of business in 2017 is 45% (falling from 55% in 2016 and for the first time ever going below 50%). The reduction has been observed in all countries;
- Protection business grows by +3% and its weight increases from 19.0% to 20.1% in almost all countries;
- Unit-Linked business grows by +28.7% and its weight increases from 26.3% to 34.5% (with a particularly strong increase in Italy 12.6 pts and France 9.3 pts).

In terms of profitability on PVNBP:

- Savings business strongly increases (1.62 pts) mainly thanks to the higher profitability of the saving part of Hybrid products in Italy, the strong financial guarantees reduction and product refinements in France, China and Austria;
- Protection business improves (1.64 pts) as a consequence of the new profitable products in China, the positive experience variance of protection products in France, the improvement in Czech Republic and Slovakia and the good performance of Cajamar Vida in Spain;
- Unit-Linked business slightly increases (0.41 pts) driven by the contribution from the Unit-Linked part of Hybrid products in Italy and the revised level of guarantees of Unit-Linked pension products in France.

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 future NB might be affected by a different market environment.

The following table reports the sensitivity analyses for the NB, expressed in terms of changes in profitability. The sensitivities have been derived from a specific NBV run set with financial and operating assumptions based on the latest beginning of period assumptions, i.e. at the end of September 2017.

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 a 15 bps reduction of the Ultimate Forward Rate (UFR) has been calculated to give an insight to the impact expected, starting from the first quarter 2018, when the new UFR will be adopted. The impact is negligible and affects only long-term businesses.

NBV Sensitivity Analysis

	Total	Italy	France	Germany	CEE	International
Base - Profitability on PVNBP (%)	**4.01%**	**4.72%**	**2.26%**	**2.85%**	**10.98%**	**4.83%**
Yield Curve +0,5%	0.43 pts	0.73 pts	0.24 pts	0.08 pts	0.04 pts	0.30 pts
Yield Curve -0,5%	-0.51 pts	-0.85 pts	-0.41 pts	-0.07 pts	-0.07 pts	-0.36 pts
Equity Implied Volatilities +25%	-0.04 pts	-0.02 pts	-0.15 pts	0.00 pts	0.00 pts	0.00 pts
Swaption Implied Volatilities +25%	-0.04 pts	-0.07 pts	-0.01 pts	-0.03 pts	0.00 pts	-0.03 pts
Ultimate Forward Rate -15	-0.02 pts	0.00 pts	-0.03 pts	-0.02 pts	-0.01 pts	-0.05 pts
Administrative & Invest.Manag. expenses -10%	0.14 pts	0.08 pts	0.18 pts	0.03 pts	0.52 pts	0.30 pts
Lapse rate +10%	-0.22 pts	-0.23 pts	-0.19 pts	-0.12 pts	-0.22 pts	-0.32 pts
Lapse rate -10%	0.24 pts	0.24 pts	0.24 pts	0.12 pts	0.24 pts	0.37 pts
Mortality/Morbidity for Risk Business -5%	0.19 pts	0.02 pts	0.48 pts	0.05 pts	0.53 pts	0.37 pts
Mortality for Annuity Business -5%	-0.01 pts	0.00 pts	-0.03 pts	-0.02 pts	0.00 pts	0.00 pts

3.5. New Business Industrial Profits

The following table shows the expected future emergence of undiscounted industrial profits stemming from the NB, estimated using Real-World financial assumptions.

New Business Expected undiscounted value

	Industrial Profits	
€ mln	2017	2016
Year 0	-806	-791
Year 1 - 5	1,371	1,218
Year 6 - 10	857	744
Year 11 - 15	593	481
Year 16 - 20	424	327
Year 21 - 25	280	201
Year 26 - 30	188	124
Year 31 onwards	449	181

The cumulative undiscounted industrial profits in 2017 amount to € 3.4 billion and are 35% higher than the total amount of 2016, confirming also with the Real-World assumptions the strong increase in value generation.

For the 2017 New Business, more than 81% of the industrial profits are generated in the first 25 years of the projection.

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

The following table shows the main elements of the reconciliation between the NBV and the Solvency II VNP. The latter is defined as the value generated at issue by the Life new production in the Solvency II Own Funds.

In order to move from NBV to Solvency II VNP, the following adjustments are considered:

– Gross up of the minorities in line with Own Funds requirements;
– Alternative approach of CoC and Cost of 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 not recognized under the Solvency II framework and to the removal of French NB pensions products which are treated under the IORP transitory regime.

NBV pro Own Funds

€ mln	Total
NBV	**1,820**
Minority Impact	193
NBV Gross up of the minorities	**2,013**
Alternative approach of CoC&NHR	-176
Other	-222
SOLVENCY II VNP	**1,615**

3.7. New Business Value by Country

3.7.1. Italy

New Business - Italy

New Business Production

€ mln	2017	2016	Change
Annual premiums	997	1,037	-3.8%
Single premiums	10,063	10,922	-7.9%
PVNBP	**19,116**	**19,758**	**-3.3%**
Cap Factor	9.1	8.5	0.6
APE	**2,004**	**2,129**	**-5.9%**

changes are on a comparable basis

Breakdown of New Business Value

€ mln	2017	2016
PVFP before Time Value of FG&O	1,203	943
Time Value of FG&O	-194	-306
PVFP after Time Value of FG&O	**1,009**	**637**
Cost of Capital	-36	-21
Cost of NHR	-70	-38
New Business Value	**903**	**579**

New Business Value and Profitability

€ mln	2017	2016	Change
New Business Value	**903**	**579**	**56.0%**
Profitability			
-on PVNBP	4.72%	2.93%	1.79 pts
-on APE	45.1%	27.2%	17.9 pts
IRR	20.5%	18.1%	2.4 pts

changes are on a comparable basis

Movement of New Business Value and Profitability

€ mln	NBV	Profitability on PVNBP
New business value 2016	**579**	**2.93%**
Change in perimeter/Exchange rate fluct.	0	0.00 pts
Products mix/volume	170	0.96 pts
Economic Variance	84	0.47 pts
Products features and others	69	0.36 pts
New business value 2017	**903**	**4.72%**

NB Production decreases due to the reduction of both Annual (-3.8%) and Single premiums (-7.9%).

In terms of **PVNBP** by business line, the slowdown is mainly due to the planned reduction of Saving business (-18.8%), its weight now representing 68.7% of PVNBP (it was 81.9% at FY16). The emphasis of increasing the production towards Unit-Linked business has led to a strong increase (+71.3%) on PVNBP, with its weight rising from 16.4% at FY16 to 29.1% at FY17. This increase is given by Hybrid products with a higher Unit-Linked component. Furthermore, Protection business has also registered a good evolution (+28.0%, with a weight of 2.2%).

The New Business **profitability** shows a remarkable improvement of 1.79 pts, with the margin on PVNBP moving from 2.93% in 2016 to 4.72% in 2017. This increase is mainly driven by the improved business mix, linked to increase in the weight of Unit-Linked products with high marginality, by the further reduction of the guarantees (from 0.18% at FY16 to 0.12% at FY17) and by the improved financial environment that contributes positively by 0.36 pts.

Despite the lower volumes, the higher margins explain the increase of NBV (+56.0%), amounting to € 903 mln. Analyzing its components, the good progression is mainly driven by the growth of the PVFP before Time Value of FG&O as a consequence of more profitable products sold and the increase in reference rates. The reduction of the Time Value of FG&O reflects the decrease of the average guarantees. As a result, the PVFP after Time Value of FG&O increases from € 637 mln to € 1,009 mln. On the other hand, the Cost of Capital and the Cost of Non Hedgeable Risk slightly increase.

The IRR improves from 18.1% in 2016 to 20.5% in 2017 as a result of the reduction of New Business strain (from -3.28% to -2.31% in percentage of PVNBP), mainly thanks to the drop of the capital absorbed.

3.7.2. France

New Business - France

New Business Production

€ mln	2017	2016	Change
Annual premiums	154	141	9.1%
Single premiums	7,938	7,233	9.8%
PVNBP	**9,306**	**8,482**	**9.7%**
Cap Factor	8.6	8.9	-0.3
APE	**948**	**865**	**9.7%**

changes are on a comparable basis

Breakdown of New Business Value

€ mln	2017	2016
PVFP before Time Value of FG&O	287	117
Time Value of FG&O	-24	-17
PVFP after Time Value of FG&O	**263**	**101**
Cost of Capital	-8	-15
Cost of NHR	-44	-58
New Business Value	**211**	**28**

New Business Value and Profitability

€ mln	2017	2016	Change
New Business Value	**211**	**28**	**649.5%**
Profitability			
-on PVNBP	2.26%	0.33%	1.93 pts
-on APE	22.2%	3.3%	19.0 pts
IRR	10.5%	1.8%	8.7 pts

changes are on a comparable basis

Movement of New Business Value and Profitability

€ mln	NBV	Profitability on PVNBP
New business value 2016	**28**	**0.33%**
Change in perimeter/Exchange rate fluct.	0	0.00 pts
Products mix/volume	34	0.35 pts
Economic Variance	25	0.21 pts
Products features and others	124	1.37 pts
New business value 2017	**211**	**2.26%**

NB Production increases on account of the increase of both Annual (+9.1%) and Single premiums (+9.8%).

In terms of **PVNBP** by business line, the Unit-Linked business shows a remarkable increase (+55.7%, with a change in terms of weight from 22.1% to 31.4%), Protection business slightly increases (+3.0%, with a change in terms of weight from 30.3% to 28.4%), whereas Saving business decreases (-7.3%, with a change in terms of weight from 47.6% to 40.2%).

The New Business **profitability** considerably increases, from 0.33% in 2016 to 2.26% in 2017, thanks to the more profitable business mix with an higher weight of Unit-Linked business, to the improved products features as consequence of the strong Group actions (guarantee at “0% minus fee”, revised conditions for premiums coming from old generations for pension products included in New Business pursuant to the Contract Boundaries rules), to the positive operating experience variances in terms of loss ratios and expenses and to the new progressive reduction of ordinary taxation (from the current 34.43% to 28.92% in 2020). Whereas the improved financial assumptions contribute for 0.21 pts to the increase of profitability, all the management actions impact the profitability by 1.72 pts.

The 2017 New Business Value increases more than six times compared to 2016 and amounts to € 211 mln, where the rise is particularly significant in terms of future profits (PVFP before Time Value of FG&O from € 117 mln to € 287 mln). Furthermore, despite the increase of the volumes of New Business production, the Cost of Capital decreases, from € -15 mln to € -8 mln, both on account of the improved profitability and the reduced capital strain.

The IRR shows a remarkable increase from 1.8% in 2016 to 10.5% 2017 driven by the reduction of New Business strain (in terms of ratio on the PVNBP, from -4.27% to -2.94%), mainly driven by the capital strain reduction.

3.7.3. Germany

New Business - Germany

New Business Production

€ mln	2017	2016	Change
Annual premiums	456	502	-9.1%
Single premiums	1,730	2,069	-16.4%
PVNBP	**8,529**	**9,447**	**-9.7%**
Cap Factor	14.9	14.7	0.2
APE	**629**	**708**	**-11.2%**

changes are on a comparable basis

Breakdown of New Business Value

€ mln	2017	2016
PVFP before Time Value of FG&O	280	307
Time Value of FG&O	-5	-7
PVFP after Time Value of FG&O	**274**	**300**
Cost of Capital	0	0
Cost of NHR	-31	-27
New Business Value	**243**	**273**

New Business Value and Profitability

€ mln	2017	2016	Change
New Business Value	**243**	**273**	**-11.1%**
Profitability			
-on PVNBP	2.85%	2.89%	-0.04 pts
-on APE	38.6%	38.5%	0.1 pts
IRR	34.8%	34.6%	0.2 pts

changes are on a comparable basis

Movement of New Business Value and Profitability

€ mln	NBV	Profitability on PVNBP
New business value 2016	**273**	**2.89%**
Change in perimeter/Exchange rate fluct.	0	0.00 pts
Products mix/volume	-20	0.00 pts
Economic Variance	-8	-0.01 pts
Products features and others	-3	-0.04 pts
New business value 2017	**243**	**2.85%**

NB Production falls both in terms of Annual (-9.1%) and Single Premiums (-16.4%).

Concerning **PVNBP**, the NB production in characterized by the decrease of Life business (-10.7%) and the increase of Health production (+10.9%) while in terms of business lines, Saving business continues to decrease (-33.0%) with a weight of 18.5% in 2017 (25.0% in 2016). Protection business falls as well (-9.0%) while Unit-Linked, which represents the main business sold, increases by 5.1% respectively with weights of 38.0% and 43.4%.

Despite an overall reduction in production, following the restructuring process in Generali Leben, the **profitability** remains at good level (2.85%) thanks to the good business composition and to reduced guarantees. Although the change in economic framework and the increase in discount rates slightly disadvantages the Protection business and the Unit-Linked, where profitability moves respectively from 5.01% to 4.83% and from 1.85% to 1.54%, the recovery of the profitability of the reoriented Saving business (from 1.24% to 1.85%) acts as a counterbalance leading to stability in the overall profitability.

The lower volumes of premiums associated to lower profitability lead to the decrease of NBV (-11.1%), amounting to € 243 mln, where the fall is mostly due to PVFP before Time Value of FG&O.

The IRR remains quite stable, from 34.6% to 34.8%, driven by an almost unchanged New Business strain of 0.27% in terms of ratio on the PVNBP.

3.7.4. Central and Eastern Europe

New Business - Central Eastern Europe

New Business Production

€ mln	2017	2016	Change
Annual premiums	74	69	6.2%
Single premiums	514	518	-3.1%
PVNBP	**881**	**865**	**0.0%**
Cap Factor	5.0	5.0	-0.1
APE	**125**	**120**	**2.2%**

changes are on a comparable basis

Breakdown of New Business Value

€ mln	2017	2016
PVFP before Time Value of FG&O	107	88
Time Value of FG&O	0	0
PVFP after Time Value of FG&O	**107**	**87**
Cost of Capital	-1	-1
Cost of NHR	-9	-8
New Business Value	**97**	**78**

New Business Value and Profitability

€ mln	2017	2016	Change
New Business Value	**97**	**78**	**20.9%**
Profitability			
-on PVNBP	10.98%	9.05%	1.90 pts
-on APE	77.3%	65.0%	12.0 pts
IRR	36.4%	35.2%	0.9 pts

changes are on a comparable basis

Movement of New Business Value and Profitability

€ mln	NBV	Profitability on PVNBP
New business value 2016	**78**	**9.05%**
Change in perimeter/Exchange rate fluct.	1	0.03 pts
Products mix/volume	4	0.44 pts
Economic Variance	-2	-0.21 pts
Products features and others	15	1.67 pts
New business value 2017	**97**	**10.98%**

In **CEE** countries the **NB production** reduces on account of the reduction in Single premiums (-3.1% with a reduction in all countries except in Poland) and the increase in Regular premiums (+6.2% with an increase in all countries except Hungary).

The **PVNBP** remains stable. In terms of lines of business, the Protection business increases (+4.3%) while the Saving business and Unit-Linked business decrease (respectively -3.6% and -4.1%). All companies are aligned with Group Strategy by offering mainly Protection coverages, reinforcing their weights from 48.3% to 50.6%. In particular, the increase of Protection business is due to well-established business of Czech Republic being the mainly contributor with a 50% of production on overall CEE; furthermore, following an increase of 30% of Protection business Slovakia is now the second contributor.

The Unit-Linked business weight moves from 40.3% to 38.4% and the Saving business remains quite stable, from 11.5% to 11.1%.

The New Business **profitability** shows a notable improvement (1.9 pts), with the margin on PVNBP moving from 9.05% in 2016 to 10.98% in 2017. This increase is driven by the improved business mix (0.44 pts, largely driven by pure risk and protection riders) and by product refinements in some countries (for example in Hungary where new Unit-Linked products have been launched) together with the lowering of expenses (total impact equal to 1.67 pts), which more than compensate the negative impact on profitability due to the financial assumptions (-0.21 pts).

The increase in profitability leads to an increase of NBV from € 78 mln to € 97 mln, mainly driven by the expected future profits.

The IRR slightly increases from 35.2% to 36.4% as a consequence of both the increased profitability and the improvement of the Real-World curves.

3.7.5. International

New Business - International

New Business Production

€ mln	2017	2016	Change
Annual premiums	531	548	1.6%
Single premiums	4,079	4,327	-4.6%
PVNBP	**7,598**	**8,053**	**-4.2%**
Cap Factor	6.6	6.8	-0.3
APE	**939**	**981**	**-1.2%**

changes are on a comparable basis

Breakdown of New Business Value

€ mln	2017	2016
PVFP before Time Value of FG&O	451	339
Time Value of FG&O	-9	-20
PVFP after Time Value of FG&O	**442**	**319**
Cost of Capital	-14	-13
Cost of NHR	-61	-71
New Business Value	**367**	**235**

New Business Value and Profitability

€ mln	2017	2016	Change
New Business Value	**367**	**235**	**64.7%**
Profitability			
-on PVNBP	4.83%	2.91%	2.02 pts
-on APE	39.1%	23.9%	15.7 pts
IRR	20.8%	16.6%	4.9 pts

changes are on a comparable basis

Movement of New Business Value and Profitability

€ mln	NBV	Profitability on PVNBP
New business value 2016	**235**	**2.91%**
Change in perimeter/Exchange rate fluct.	-10	-0.10 pts
Products mix/volume	95	1.28 pts
Economic Variance	38	0.68 pts
Products features and others	8	0.06 pts
New business value 2017	**367**	**4.83%**

The International region includes Group companies in EMEA, ASIA, Americas regions and Other Global Business Lines.

The **NB Production** slightly increases in terms of Annual Premiums (+1.6%) while declines in terms of Single Premiums (-4.6%).

The **PVNBP** decreases by -4.2%, resulting from the strategic reduction of Saving business (-25.4%, representing 27.1% of the total PVNBP), mainly in China (-39.0%), Spain (-24.5%) and Austria (-22.4%), and the good progression of Protection business (+20.6% with a weight of 31.1%) driven by China (+349.5%) and Spain (+18.8%). Unit-Linked business remains stable (-0.9%, with a weight of 41.8%) on account of the decrease in Switzerland (-38.7%) and Guernsey (-24.6%) and the increase in Ireland (+14.3%).

The **profitability** increases from 2.91% in 2016 to 4.83% in 2017, thanks to the improved business mix where Saving business reduces its weight from 35.1% to 27.1%, to the benefit of the Protection business (weight from 24.5% to 31.1%) with higher profitability (margin from 8.04% in 2016 to 11.56% in 2017). The impact of the economic variances counts for 0.68 pts on overall profitability increase, while the steering actions on the products in this region impact the profitability by 1.34 pts.

The higher margins lead to an increase of NBV (+64.7%), amounting to € 367 mln, with all elements of the value improving.

The IRR shows an increase from 16.6% in 2016 to 20.8% 2017; the higher overall profitability more than compensates the increase of New Business strain from -3.76% to -4.36% in terms of ratio on the PVNBP.

In the following tables, some further analyses are reported for the main area of the International region: EMEA and Asia.

New Business - International - o/w EMEA

New Business Production				*New Business Value and Profitability*			
€ mln	**2017**	**2016**	**Change**	€ mln	**2017**	**2016**	**Change**
Annual premiums	192	218	-11.1%	**New Business Value**	**218**	**181**	**22.8%**
Single premiums	3,246	3,336	-2.7%	**Profitability**			
PVNBP	**5,283**	**5,717**	**-7.1%**	-on PVNBP	4.13%	3.16%	1.0 pts
Cap Factor	10.6	10.9	-0.3	-on APE	42.2%	32.8%	9.9 pts
APE	**516**	**551**	**-6.0%**	**IRR**	18.4%	17.4%	1.0 pts

changes are on a comparable basis

In EMEA region, the Annual Premiums decreases (-11.1%), as well as Single Premiums (-2.7%).

The **PVNBP** decreases (-7.1%) in all Countries, mainly in Switzerland (-36.1%) and Guernsey (-22.5%), except for Ireland (+15.5%); the decrease is more evident for Saving business (-23.1%, with a weight of 22.8%), while Unit-Linked business slows down slightly (-2.7%, weight at 55.0%) and Protection business shows a small increase (+3.4%, coming from the good trend in Spain where Cajamar Vida increases by 154.5%, representing the 22.1% of total PVNBP).

The **profitability** increases from 3.16% in 2016 to 4.13% in 2017, thanks to the strategic actions aimed at reducing the weight of Saving business (decreased by 4.6 pts) and its financial guarantees (from 0.90% to 0.45%, mainly in Austria, Switzerland and Spain) and at increasing the weight of Protection business (increased by 2.2 pts) with higher profitability on PVNBP (14.31% in 2017, 11.50% in 2016).

The higher profitability leads to an increase of NBV (+22.8%), amounting to € 218 mln.

New Business - International - o/w ASIA

New Business Production				*New Business Value and Profitability*			
€ mln	**2017**	**2016**	**Change**	€ mln	**2017**	**2016**	**Change**
Annual premiums	287	264	18.1%	**New Business Value**	**140**	**46**	**285.6%**
Single premiums	691	854	-15.9%	**Profitability**			
PVNBP	**2,001**	**1,988**	**6.0%**	-on PVNBP	7.00%	2.31%	5.09 pts
Cap Factor	4.6	4.3	0.2	-on APE	39.3%	13.2%	28.3 pts
APE	**356**	**349**	**9.5%**	**IRR**	23.1%	15.3%	9.4 pts

changes are on a comparable basis

In ASIA region, the Annual Premiums increase (+18.1%) while Single Premiums slows down (-15.9%).

The **PVNBP** increases (+6.0%) in all Countries, mainly in China (+14.1%) and Thailand (+58.9%), except for Hong Kong (-62.8%) where a slowdown of High Net Worth products is registered; there is an extraordinary increase of the Protection business (+75.1%, representing the 45.7% of total PVNBP) and a good increase for Unit-Linked business (+24.0%, with a weight at 13.5%), while Saving business slows down (-28.7%, weight of 40.9%) following the Group action aimed at reducing the high guarantee products in China.

The **profitability** positively increases from 2.31% in 2016 to 7.00% in 2017, thanks to the steering actions aimed at improving the business mix and the product characteristics in China and Thailand (2.20 pts) and the positive economic variance (2.89 pts) mainly coming from the more favorable financial assumptions in China.

The 2017 NBV exceptionally increases by 285.6% and amounts to € 140 mln.

4 Assumptions

The calculation makes use of various assumptions with respect to economic conditions, operating conditions, and other factors, many of which are beyond Generali's control. Although all the assumptions represent estimates that Generali regards as reasonable, 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 operating and economic assumptions are related to the end of year), for NB calculations, whose yearly results are calculated as the sum of the four quarters NB calculation, the financial assumptions are related to the beginning of each quarterly valuation and the operating assumptions are updated generally on an annual basis. Therefore, in this paragraph also a yearly weighted average of financial assumptions is reported to facilitate the yearly NB comparison.

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 provided by Moody's Analytics UK Limited.

At year-end 2017 valuation, consistently with year-end 2016, the nominal yield curves for each considered economy are modelled using the Libor Market Model plus (LMM+), which allows for simulations with negative interest rates. Real yield curves are generated with a two-factor Vasicek model in order to implicitly model inflation rates. Corporate credit spreads are modelled stochastically. To reduce Monte-Carlo error, antithetic variables are used.

The key economic assumptions for the risk-neutral 2017 valuation, for each economy, are:

- the reference rates (swap curve, adjusted with the Credit Risk Adjustment (CRA) and the Volatility Adjustment (VA) as defined by EIOPA);
- the implied volatilities for each asset class;
- the correlations between different asset classes.

4.1.1. Reference Rates

The reference rates are based on EIOPA curve in all countries: swap rates adjusted for CRA and VA with the exception of some countries (e.g. Hungary and Poland), where the local swap curve is not considered by EIOPA a robust basis for producing reference rates and the government bond rates have been used. In addition, in accordance with EIOPA guidelines, for maturities beyond the last term where the market is deemed to be fully deep, liquid and transparent (last liquid point, LLP), reference rates have been extrapolated. In particular, starting from the LLP, reference rates are assumed to gradually converge to a certain ultimate long-term forward rate (UFR) in a certain number of years (the convergence period).

The following table summarises Generali's reference rates assumptions for its main currencies.

Reference Rate – Technical specification

				Extrapolation	
	Base	LLP	UFR	Convergence period	Model
EUR	Swap	20 yrs	4.20%	40 yrs	Smith-Wilson
CHF	Swap	25 yrs	3.20%	40 yrs	Smith-Wilson
CNY	Swap	10 yrs	4.20%	50 yrs	Smith-Wilson
CZK	Swap	15 yrs	4.20%	45 yrs	Smith-Wilson
HUF	Govt	15 yrs	4.20%	45 yrs	Smith-Wilson
PLN	Govt	10 yrs	4.20%	50 yrs	Smith-Wilson

The VA and the CRA used at year-end 2017 and 2016 valuation has been taken, where available, from the official EIOPA publication for each relevant currency/country.

The following table summarizes the appropriate adjustments adopted at year-end 2017 and 2016 valuation on top of the risk free rate for the main currencies with the exception of Hungary and Poland where the VA is available but not used in the valuation[5].

Volatility & Credit Risk adjustment

Currency	@ dd.mm.yyyy	VA	CRA	Currency	@ dd.mm.yyyy	VA	CRA
EUR	31.12.2017	4 bps	-10 bps	CZK	31.12.2017	4 bps	-10 bps
(swap)	31.12.2016	13 bps	-10 bps	(swap)	31.12.2016	1 bps	-10 bps
CHF	31.12.2017	-3 bps	-10 bps	HUF	31.12.2017	2 bps	-10 bps
(swap)	31.12.2016	5 bps	-10 bps	(govt)	31.12.2016	17 bps	-10 bps
CNY	31.12.2017	45 bps	-17 bps	PLN	31.12.2017	11 bps	-10 bps
(swap)	31.12.2016	7 bps	-32 bps	(govt)	31.12.2016	17 bps	-10 bps

The following table summarises Generali's par reference rates applied in the valuation for its main currencies.

Reference Rates (including all adjustments)

Currency	@ dd.mm.yyyy	1 Year	2 Year	5 Year	10 Year	20 Year	30 Year
EUR	31.12.2017	-0.32%	-0.21%	0.25%	0.83%	1.34%	1.82%
(swap)	31.12.2016	-0.17%	-0.13%	0.11%	0.69%	1.20%	1.70%
CHF	31.12.2017	-0.75%	-0.61%	-0.27%	0.15%	0.52%	0.75%
(swap)	31.12.2016	-0.72%	-0.65%	-0.37%	0.10%	0.49%	0.75%
CNY	31.12.2017	4.08%	4.12%	4.37%	4.46%	4.46%	4.43%
(swap)	31.12.2016	3.13%	3.24%	3.60%	4.15%	4.35%	4.36%
CZK	31.12.2017	1.02%	1.25%	1.56%	1.78%	2.18%	2.54%
(swap)	31.12.2016	0.07%	0.14%	0.41%	0.77%	1.29%	1.85%
HUF	31.12.2017	0.00%	0.32%	1.06%	2.00%	3.18%	3.48%
(govt)	31.12.2016	0.26%	0.62%	1.66%	2.91%	3.78%	3.96%
PLN	31.12.2017	1.40%	1.65%	2.54%	3.14%	3.30%	3.44%
(govt)	31.12.2016	1.48%	1.96%	2.81%	3.47%	3.78%	3.88%

[5] The VA for CNY currency is not provided by EIOPA and it has been estimated by Generali.

4.1.2. Implied Volatilities

To model equity and property, a range of indices are considered, and a log excess return above nominal short rate model is used in order to generate returns from fixed income dynamics. A time-varying volatility model is adopted for modelling the equity index and it is calibrated on Lognormal implied volatilities of At The Money forward equity index quoted options. Concerning property, a constant volatility model is used, with Lognormal implied volatilities calibrated on Real-World assumptions.

Fixed income volatilities are based on Normal implied volatilities of At The Money swaptions. Swaption implied volatility and equity option implied volatility used for year-end 2017 valuation have been based on observable market data as at 31 December 2017. All available market data have been used, without any smoothing or anchoring techniques.

The following table[6] compares 2016 and 2017 volatilities based on Normal volatilities for Swaption implied volatilies (SIV):

Swaption Implied volatilities

Currency	@ dd.mm.yyyy	1 Year	2 Year	5 Year	10 Year	20 Year
EUR	31.12.2017	0.46%	0.53%	0.62%	0.65%	0.57%
(swap)	31.12.2016	0.65%	0.68%	0.74%	0.73%	0.65%
CHF	31.12.2017	0.49%	0.58%	0.72%	0.73%	0.52%
(swap)	31.12.2016	0.53%	0.63%	0.77%	0.78%	0.69%
CZK	31.12.2017	0.59%	0.63%	0.63%	0.70%	0.50%
(swap)	31.12.2016	0.53%	0.58%	0.61%	0.71%	0.50%
HUF	31.12.2017	1.56%	1.48%	1.40%	1.30%	0.80%
(govt)	31.12.2016	1.54%	1.45%	1.35%	1.22%	0.86%

The following table compares 2016 and 2017 volatilities based on Lognormal volatilities for Equity option implied volatilities (EIV):

Equity option implied volatilities

Currency	@ dd.mm.yyyy	1 Year	2 Year	5 Year	7 Year	10 Year
EUR	31.12.2017	15.11%	16.17%	18.31%	19.22%	19.98%
(swap)	31.12.2016	19.44%	20.26%	21.26%	21.68%	21.95%
CHF	31.12.2017	13.48%	14.02%	14.28%	14.35%	14.41%
(swap)	31.12.2016	16.03%	16.08%	16.13%	16.53%	16.77%
CZK	31.12.2017	12.25%	12.32%	13.84%	14.48%	14.94%
(swap)	31.12.2016	16.96%	17.40%	17.69%	18.50%	19.08%
HUF	31.12.2017	17.70%	17.99%	18.39%	18.55%	18.67%
(govt)	31.12.2016	16.82%	14.88%	13.61%	13.35%	13.15%

The Swaption implied volatilities illustrated above refer to 10-year swap at the money options. The equity indices are calibrated on at the money option of the Euro Stoxx 50 for the EUR economy, SMI for the CHF economy and PX for the CZK economy.

[6] The CNY and PLN currencies are not included in these tables (SIV and EIV) because they are not valuated with a stochastic approach but through a deterministic approach.

4.1.3. Correlations

Correlations between asset returns, which are not directly observable metrics, are inferred using an analysis of historical data, expert opinions and expectations implied by market prices.

4.2. Other Economic Assumptions

4.2.1. Assumption on Taxation

In defining GOF, the appropriate nominal tax rate is applied by country and by balance sheet item on the difference between value recognized for Solvency II purposes and fiscal recognized 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. In Italy, allowance has also been made for the loss of interest that is associated with the taxes payable in advance on reserves according to DL. 168/2004 and subsequent amendments and the “Legge di stabilità 2016” that allowed for the reduction of IRES from 27.5% to 24% starting from 1st January 2017. In France, following the approval by the local government before the end of 2016, a progressive reduction of taxes is applied moving from the actual ordinary tax rates 34.43% to 28.92% in 2020.

4.2.2. Exchange Rates

The GOF related values have been calculated using local currencies, converted to EUR using year-end exchange rates. The 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 as at 31 December 2017 and 2016

	2017	2016
CHF	1.17	1.07
CNY	7.82	7.33
CZK	25.53	27.02
HUF	310.21	308.86
PLN	4.17	4.40

4.2.3. Inflation Rates

Inflation rates are stochastically modelled using two-factor Vasicek model and are calibrated based on market inflation swap or consensus economic forecast depending on data availability. To inflate expenses, country specific allowance has also been made for the additional inflation related to salaries and medical costs.

4.3. Average New Business Yearly Economic Assumptions

The year-end 2017 and 2016 NB figures are obtained as the sum of four quarters, each quarter calculated with beginning of period financial assumptions. To allow for 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 after all the adjustments.

Average Reference Rates (including all adjustments)

	2017	2016
EUR	0.81%	0.63%
CHF	0.12%	-0.21%
CNY	4.17%	3.34%
CZK	1.12%	0.59%
HUF	2.82%	2.82%
PLN	3.26%	2.82%

The following table reports the average of both SIV(5/5) and EIV(5/5), with regard to the currency where a stocastich scenario is used.

Average Volatility - (5/5 Normal)

	Swaption		Equity	
	2017	2016	2017	2016
EUR	0.67%	0.67%	19.91%	20.86%
CHF	0.75%	0.75%	15.20%	16.56%
CZK	0.63%	0.67%	15.81%	17.85%
HUF	1.30%	1.30%	16.24%	14.66%

Here below, the table with the average currency exchange rates.

Average exchange rates

	2017	2016
CHF	1.10	1.09
CNY	7.55	7.18
CZK	26.53	27.04
HUF	309.41	313.20
PLN	4.29	4.31

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.

The structure of the economic assumptions used in Real-World projections is based on the following methodology:

- Government bonds return are based on market return, at the evaluation date, according to their average duration;
- Corporate bonds return are based on market average spread, at the evaluation date, according to their average duration and rating.

In addition, country-specific benchmark rates are set equal to the 10-year par yield of local government bonds in order to define equity and property returns as follows:

- Equity total returns are set by adding an equity risk premium of 2.90% over the country-specific benchmark rates, with the exception of companies belonging to the Euro-Zone, for which the 2.90% spread is over the benchmark rates of a country with rating AAA (i.e. 10-year German bund);

– Property total returns are set by adding a property risk premium of 1.15% over the country-specific benchmark rates, with the exception of companies belonging to the Euro-Zone, for which the 1.15% is over the benchmark rates of a country with rating AAA (i.e. 10-year German bund).

The main economic assumptions, reported as weighted average (based on NB premiums), are summarised in the following table:

Average Real-World economic assumption

	10 y Government Bond		***Equity Total Returns***		***Property Total Returns***	
	2017	2016	2017	2016	2017	2016
Italy	2.07%	1.34%	3.28%	3.03%	1.53%	1.28%
France	0.81%	0.57%	3.31%	3.16%	1.56%	1.41%
Germany	0.37%	0.15%	3.27%	3.05%	1.52%	1.30%
Central Eastern Euro	2.22%	1.87%	5.05%	4.73%	3.30%	2.98%
International	2.27%	1.83%	4.67%	4.20%	2.92%	2.45%

5 Annex A: Methodology

5.1. Group Own Funds

5.1.1. Group Own Funds Covered Business

In this document, the Group Own Funds are evaluated according to the Regulatory View, i.e. the Risk Margin in Technical Provisions is based on regulatory Solvency Capital Requirement (SCR). The regulatory SCR is evaluated by each company in accordance with either Internal Model or Standard Formula methodology, depending on whether the Partial Internal Model has been approved for the specific company.

The results reported in this document are based on preliminary figures consistent with the disclosure of the full year results of the Group. Differences may arise in comparison to the official GOF which will be finalized for the year-end 2017 Solvency and Financial Condition Report (SFCR) and year-end 2017 Quantitative Reporting Templates (QRT) submitted later during the course of 2018 upon approval of Assicurazioni Generali Board of Directors.

The Group Own Funds are evaluated on the basis of the whole IFRS consolidation scope and in accordance with the current legislation, as stated in the Commission Delegated Regulation (EU) 2015/35, considering the requirements of the Art. 229 of Directive 2009/138/EC.

More in detail, the consolidation process leading to the Group Own Funds, is based on the following rules:

a) all Group insurance and reinsurance undertakings, third-country insurance or reinsurance undertakings, insurance holding companies, mixed financial holding companies and ancillary services undertakings which are subsidiaries of Assicurazioni Generali S.p.A. are fully consolidated;

b) Group credit institutions, investment firms and financial institutions, alternative investment fund managers, UCITS management companies, institutions for occupational retirement provision, non-regulated undertakings carrying out financial activities 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) the remaining Group entities are evaluated within the parent undertaking on the basis of valuation methods compliant with current regulation.

In this document, further analyses are reported with highlights on the following segments:

1) **Life.** The Life Group Own Funds consist of:
    - the Own Funds contribution of all Group Life companies;
    - the Own Funds contribution of all Life legal segment of the Group Composite companies;
    - the contribution of assets and liabilities of all investment vehicles consolidated in the above mentioned companies, according to their quota share of participation;
    - the Own Funds contribution of Life business component of the insurance holdings (Assicurazioni Generali and Generali Deutschland Holding).

2) **Non-Life.** The Non-Life Group Own Funds consist of:
    - the Own Funds contribution of all Group Non-Life companies;
    - the Own Funds contribution of all Non-Life legal segment of the Group Composite companies;
    - the contribution of assets and liabilities of all investment vehicles consolidated in the above mentioned companies, according to their quota share of participation;

- the Own Funds contribution of Non-Life business component of the insurance holdings (Assicurazioni Generali and Generali Deutschland Holding).

3) **Holdings and other.** The Holdings and other Group Own Funds consist of:
   - the Own Funds contribution of all other non insurance Group (sub-)Holdings;
   - the relevant Solvency II sectoral available capital in Group 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.

Life and Non-Life segments are then split by country, according to the classification used for reporting purposes, except for consolidated Investment vehicles that are considered in the region of the parent company.

5.1.2. Group Own Funds Methodology

In this document, the Group Own Funds are defined as the sum of the excess of assets over liabilities and subordinated debt, net of foreseeable dividend, including the contribution of financial sector and own shares and the allowance for regulatory restrictions such as minorities and availability filters. Generali benefits from additional Own Funds relating to unrealized capital gains from French pension activities subject to IORP transitory regime[7] . These additional Own Funds are authorized by the Supervisor for the years between 2016 to 2022, a period during which the proportion of the eligible unrealized capital gains will decrease gradually.

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, Surplus funds from German and Austrian business, the Reconciliation reserve and additional Own Funds from French pension activities. The Reconciliation Reserve is net of Foreseeable Dividends;
- Tier 1 Restricted Group Own Funds is composed by Undated Subordinated Liabilities eligible in Group Own Funds;
- Tier 2 Group Own Funds includes the remaining part of Subordinated Liabilities eligible in Group Own Funds, which is classified as dated;
- Tier 3 Group Own Funds is composed by net deferred tax assets, which are characterized by lower capital quality, being not immediately available to absorb losses.

Regarding the Group Own Funds coverage of the SCR, the following eligibility filters apply:

- 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;
- the eligible amount of Tier 3 Own Funds cannot exceed 15% of SCR.

In Group Own Funds no eligibility filters are triggered due to the high quality capital tiering.

[7] As per art. 308b §15 of the amended Solvency II directive 2009/138/CE

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 accounting principles to evaluate assets and liabilities, with some exceptions here below described.

Assets

Intangible assets (goodwill, deferred acquisition costs and other intangible assets) in Generali 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 recognized at fair value. Most investment assets (such as Equities, Bonds, Investment funds etc.) in IFRS are subject to the same valuation, therefore no adjustments are performed moving from IFRS to Solvency II balance sheet. For real estate, IFRS categories of loans and held to maturity assets, 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 insurance/reinsurance undertaking.

Subordinated Debt eligible in Group Own Funds: according to art. 73 of Solvency II Delegated Acts, Subordinated Debt which is characterized 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 realized (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.

5.1.3. Group Own Funds Roll Forward

The purpose of the GOF Roll Forward 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, normalised Own Funds generation, variances and capital movements are considered. In addition, the normalised Own Funds generation is split by line of business.

Normalised Own Funds generation

The normalised Own Funds generation represents the increase or decrease in Own Funds expected at the beginning of the period or attributable to activities under managerial control or influence.

Each segment is characterized by its specific economic drivers.

1) **Life business**

   Life business normalised Own Funds generation is mainly driven by:

   Unwinding of assets and liabilities

   Unwinding is defined as the roll-forward of the value from the beginning to the end of the reference period and it is calculated by capitalizing the value at the beginning of the year over the whole period with the appropriate expected market return of each Group Own Funds item. It includes also the expected release of the prudence implicitly considered in the Technical Provisions valuation (Risk Margin release and difference between the stochastic Market Consistent and Real-World financial returns impact).

   Solvency II Value of New Production

   In the GOF movement, the contribution of New Business, Solvency II Value of New Production, is determined according to Solvency II rules and it is presented at issue date. For the reconciliation between the Solvency II VNP and the NBV refer to the table in §3.6.

2) **Non-Life business**

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

   Unwinding of assets and liabilities

   As for Life business, the roll forward of assets and liabilities is considered in the normalised Own Funds generation and it is calculated with the appropriate expected market return of each Own Funds item.

   Non-Life contribution

   Technical result based on best estimate assumptions before any change in assumptions.

3) **Holdings and other**

In this segment, normalised Own Funds generation is mainly driven by: paid interest on subordinated debt, operating holding costs, interest expenses on defined benefit obligations (IAS19 obligations) and unwinding of residual assets and liabilities included in this segment.

Economic, Operating and other variances

Economic variance is defined as the Own Funds movement attributed to the change during the period of all the different financial market conditions.

Operating variance is defined as the Own Funds movement attributed to experience or change in assumptions related to operating assumptions.

The residual part of the movement can be attributable to other extraordinary and variation in the value of the Group Own Funds, including model refinements, change in filters and results of sectoral entities.

5.1.4. Group Own Funds Sensitivity Analysis

Sensitivities on GOF are applied in isolation, i.e. the single impacts of each sensitivity on Group Own Funds are evaluated, applying separately each identified sensitivity factor to all relevant assets and liabilities of the Solvency II balance sheet.

All sensitivity impacts are performed in light of a *what-if* analysis, i.e. all changes are assumed to occur instantly after the closing date. Each sensitivity test is considered individually, the starting point for each test has to be the fair value at closing date.

All other assumptions remain unchanged when applying sensitivities, except where such assumptions are directly impacted by the application of one or the other sensitivity; 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.

Standard financial scenarios have been identified to be representative for the exposure of the Group.

Interest rates upward shift of 50 basis computes the effect of an instantaneous upward parallel shock of the reference rates until the Last Liquid Point with extrapolation performed in line with EIOPA methodology.

This stress affects the market value of the following instruments:

- Fixed income (change in discount factors and indexed coupon);
- Derivatives (change in discount factors and derivative underlying value);
- Investment funds and investment vehicles fully or partially invested in the aforementioned asset classes.

This sensitivity has also an impact on Technical Provisions, both Life and Non-Life, affecting their evaluation curve 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 above mentioned 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%.

25% higher value of equity markets 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 and investment vehicles 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 above mentioned stressed assets.

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

50 basis point instantaneous increase in credit spreads added to the market corporate spreads. This stress affects the market value of the following instruments:

- Fixed income (changes in discount factors);
- Derivatives (changes in the underlying asset price);
- Investment funds and investment vehicles 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 evaluation 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 above mentioned stressed assets.

100 basis point instantaneous increase in Italian government bonds credit spread: same methodologies 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. As a consequence the Technical Provisions are also affected according to their capacity to absorb the corresponding changes of the above mentioned stressed assets.

Sensitivity on Ultimate Forward Rate: -15 bps This scenario is designed to indicate the impact on OF of a decrease of the Ultimate Forward Rate by 15 basis points.

5.2. New Business Value

5.2.1. 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 limited to the profits/losses arising from the management of the Life business (look through profit, reinsurance results,…).

5.2.2. 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 fall under the terms of the Contract Boundaries rules. Accordingly, the New Business Value excludes the value related to future obligations which do not belong to the new issued contracts and includes, on the other hand, the value coming from obligations that - although related to pre-existing contracts - should be considered as New Business since they could be refused or fully re-priced by the company. 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, without taking into account the impact of existing business, 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 industrial 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.

The breakdown by country of the NBV is presented according to the country in which the Life insurance business is generated. In particular:

- 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 (in contrast to the GOF approach, where the relative value emerges in the accepting undertaking);
- 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, emerge in the relevant Life undertaking owner of the business (in contrast to the GOF approach, where a associated P&L impact is considered within the Holding, sectoral and financial debts segment).

The full-year NBV is defined as the algebraic sum of the NBV of each quarter where each quarterly NBV is consolidated 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 98% 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 before Time Value of Financial Guarantees and Options

It is equal to the present value at issue of future after tax industrial 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 industrial profits over a range of risk-neutral economic scenarios, appropriately allowing for the impact of financial guarantees and options. 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 of 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 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 agreed business plans.

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). These sensitivities have been derived from an additional NBV run based on operating and economic assumptions related to the end of September framework (e.g. the central value, stressed in each sensitivities, is calculated using the reference rates and the operating assumptions as at 30 September 2017).

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, 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 unrealized losses.
- **Interest rate downward shift of 50 basis points**: sensitivity to a downward parallel shift of 50 basis points in the underlying reference rates, 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 unrealized gains.
- **Equity Implied Volatilities +25%**: sensitivity to a 25% increase of the equity implied volatility across all maturities, resulting in a change of the time value of financial options and guarantees.
- **Swaption Implied Volatilities +25%**: sensitivity to a 25% increase of the swaption implied volatility across all option maturities and swap tenors, resulting in a change of the time value of financial options and guarantees.
- **Ultimate Forward Rate -15bps**: sensitivity to a decrease of 15bps of UFR.

- **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

New Business Value (NBV): the NBV is the present value, at the point of sale, of the projected stream of after tax industrial 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.

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 industrial strain and required capital absorption) calculated using Real-World best estimate assumptions is equal to zero.

Group Own Funds (GOF): the Group Own Funds are defined as the sum of the excess of assets over liabilities and subordinated debt, net of foreseeable dividend, including the contribution of financial sector and own shares and regulatory restriction such as minorities and availability filters.

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 a rate specified under Solvency II regulation which is defined by currency zone and is equal to the sum of a long-term inflation and an expected real rate of interest defined by EIOPA.