



**Generali Belgium S.A.**

**SOLVENCY AND FINANCIAL  
CONDITION REPORT**

Integrated Reporting

[www.generali.be](http://www.generali.be)

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# Introduction

Generali Belgium, falling under the scope of Solvency II Directive reporting, is required to disclose its own Solvency and Financial Condition Report (SFCR).

This is in accordance with the Directive 2009/138/EC ('Solvency II Directive') as well as with the Delegated Regulation 2015/35/EC ('Delegated Act') and related Guidelines.

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

The document has been approved by the Board of Directors of Generali Belgium.

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

The Solvency and Financial Condition Report provides detailed information on the essential aspects of its businesses, such as a description of the activity and performance of the undertaking, the system of governance, risk profile, evaluation of assets and liabilities and capital management for solvency purposes.

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# Glossary

**Attritional Claims:** The claims triangles used to evaluate the best estimate liability relative to the Outstanding Claims reserve are usually split by claims size in: Attritional, Large and Extremely Large Claims. The definition of Attritional and Large Claims is customized according to claims and portfolio peculiarities (in most of the cases qualitative criteria are adopted to split attritional and large claims). The Extremely Large Claims are defined as those claims that, have, or might have, a great social and/or economic impact and a high relevance within the mass media.

**Basic own funds:** According to art. 88 of Solvency II Directive 2009/138/CE, Basic Own Funds are defined as the sum of the excess of assets over liabilities measured on market consistent principles in accordance with art. 75 of Solvency II Directive 2009/138/CE and reduced by the amount of own shares held by the insurance or reinsurance undertaking, and subordinated liabilities.

**Best estimate liability:** The best estimate liability represents the expected present value of future cash-flows related to insurance and reinsurance obligations in force at valuation date. The best estimate liability is calculated on a gross of reinsurance basis, i.e. without any deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles.

**Best estimate operating assumptions:** The assumptions on all those non-financial factors which can have an impact on future cash-flows, including not only the most common operating factors (i.e. mortality/longevity, disability/morbidity, lapses, expenses), but also those contractual policyholders' options that can be exercised by policyholders at pre-determined conditions (e.g. annuity take-up rates, voluntary premium increases, maturity extensions...).

**Cash and cash equivalents:** the item includes cash and highly-liquid short-term financial investments (readily convertible in specific amounts of cash which are subject to an irrelevant risk of change in value). Furthermore this asset class includes also short term deposits and money-market investment funds.

**Combined Ratio (COR):** It is a technical performance indicator of the Properties & Casualties segment, calculated as the weight of the loss ratio and the acquisition and general expenses (expense ratio) on the earned premiums.

**Contract boundaries:** This is the limit beyond which relevant cash flows are excluded from the calculation of technical provisions. It is defined in line with Article 18 of the Delegated Acts, and refers to future dates where the insurance undertaking has a unilateral right either to terminate the contract, or to reject payable premiums or to amend the payable premiums or the benefits in such a way that the premiums fully reflect the risks.

**Counterparty default risk adjustment:** The counterparty default adjustment is the amount of reinsurance recoverables that the Company expects not to be able to recover as a consequence of the possible default of the reinsurance counterparty at any point in time in the future.

**Equity investments:** shares and other securities equivalent to share representing corporations' capital, i.e. representing ownership in a corporation.

**Equivalent consolidation area:** Refers to equivalent consolidation scope.

**Equity investments:** direct investments in quoted and unquoted equity instruments. Moreover, this asset class includes also investments funds mainly exposed to investments or risks similar to direct investments presented within this asset class, including also private equity and hedge funds.

**Equivalent terms:** Refers to equivalent exchange rates and equivalent consolidation scope.

**Expected Profit Included in Future Premiums (EPIFP):** it is the expected present value of future cash flows, if positive, which results from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.

**Extremely Large Claims:** The claims triangles used to evaluate the best estimate liability relative to the Outstanding Claims reserve are usually split by claims size in: Attritional, Large and Extremely Large Claims. The definition of Attritional and Large Claims is customized according to claims and portfolio peculiarities (in most of the cases qualitative criteria are adopted to split attritional and large claims). The Extremely Large Claims are defined as those claims that, have, or might have, a great social and/or economic impact and a high relevance within the mass media.

**Fixed income instruments:** direct investments in government and corporate bonds, loans, term deposits other than those presented as cash and cash equivalents, and reinsurance deposits. Moreover, this asset class includes also investments funds mainly exposed to investments or risks similar to direct investments presented within this asset class.

**Gross written premiums:** Equal to gross written premiums of direct business and accepted by third parties.

**Gross direct premiums:** Equal to gross written premiums of direct business.

**Insurance contracts:** a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary [Appendix A, IFRS4].

**Investments back to unit and index-linked policies:** includes various types of investments backing insurance liabilities related to unit and index-linked policies

**Investment contracts:** investment contracts that have the legal form of insurance contracts but as they substantially expose the insurer to significant insurance risk (such as the mortality risk or similar insurance risks cannot be classified as insurance contracts. In accordance with the definitions of FRS 4 and IAS 39 these contracts are recognized as financial liabilities. investment contracts that have the legal form of an insurance contract but as they substantially expose the insurer to significant insurance risk (such as the mortality risk or similar insurance risks) cannot be classified as such. In line with the definitions of FRS 4 and IAS 39 these contracts are recognized as financial liabilities.

**Investments properties:** direct investments in real-estates. Moreover, this asset class includes also investments funds mainly exposed to real-estate investments.

**Large Claims:** The claims triangles used to evaluate the best estimate liability relative to the Outstanding Claims reserve are usually split by claims size in: Attritional, Large and Extremely Large Claims. The definition of Attritional and Large Claims is customized according to claims and portfolio peculiarities (in most of the cases qualitative criteria are adopted to split attritional and large claims). The Extremely Large Claims are defined as those claims that, have, or might have, a great social and/or economic impact and a high relevance within the mass media.

**Long term guarantee adjustments and transitional measures:** This expression refers to the matching adjustment (as set out in article 77b of Solvency II Directive 2009/138/CE), the volatility adjustment (as set out in article 77d of Solvency II Directive 2009/138/CE), the transitional measure on the risk-free interest rates (as set out in article 308c of Solvency II Directive 2009/138/CE) and the transitional measure on technical provisions (as set out in article 308d of Solvency II Directive 2009/138/CE).

**Matching adjustment:** it refers to an adjustment applicable on top of the risk free rate curve. The application of such an adjustment is subject to prior supervisory approval and to strict requirements on the related portfolio of assets and liabilities. In particular, this adjustment can be applied for the valuation of matched business, i.e. in case of business where asset cash flows match (in terms of timing and amounts) liability cash flows. The calculation of the adjustment reflects the spread over the risk free rate of the assigned portfolio of assets, after a deduction for default and downgrade.

**Minimum Capital Requirement (MCR):** The Minimum Capital Requirement corresponds to an amount of eligible basic own funds below which policyholders and beneficiaries are exposed to an unacceptable level of risk were insurance and reinsurance undertakings allowed to continue their operations. It corresponds to the Value-at-Risk of the basic own funds subject to a confidence level of 85% over a one-year period (Solvency II Directive 2009/138/CE, Art. 129).

**Net cash inflows:** it is an indicator of cash flows generation of the life segment. It is equal to the amount of premiums collected net of benefits paid.

**Other investments:** includes participations in non-consolidated Group companies, derivative investments and receivables from banks and customers, the latter mainly related to Group banking operations.

**Outstanding Claims Reserves:** The Outstanding Claims Reserves (or Claims Provisions) are reserves for the outstanding claims, whether reported or not, occurred before the evaluation date whose costs and related expenses have not been completely paid by that date.

**Own funds:** According to art. 87 of Solvency II Directive 2009/138/CE, Own Funds are defined as the sum of basic own funds and ancillary own funds.

**Premiums Reserves:** The Premiums Reserves (or Premium Provisions) are reserves for contracts that are either in force at the valuation date or for which a legal obligation exists to provide coverage.

**Reinsurance recoverables:** Reinsurance recoverables represent the amount of best estimate liability expected to be recovered via reinsurance treaties or special purpose reinsurance vehicles and correspond to the expected present value of the future cash flows referring to the in force reinsurance agreements.

**Reserves for loss adjustment expenses:** As part of the overall Loss Adjustment Expense reserves, payments to experts and lawyers and payments for loss assessment, as well as other expenses directly arising from a particular compensation case, constitute the reserve for Allocated Loss Adjustment Expenses (ALAE). The funds drawn for expenses not directly arising from a particular compensation case constitutes the reserve for Unallocated Loss Adjustment Expenses (ULAE). These payments are related to the whole package of services offered by an Insurance Company (overhead expenses) and often do not have an automatic association with specific individual claims.

**Return on investments:** The indicators for the return on investments are presented, obtained as the ratio:

- a) Current return: between interest and other income, including income from financial instruments at fair value through profit and loss (excluding income from financial instruments related to linked contracts) net of depreciation on real estate investments and the average investments calculated on IAS book value);
- b) The profit and loss return is equal to the current return plus the harvesting rate (net realized gains, net impairment losses and realized and unrealized gains and losses from financial instruments at fair value through profit and loss (excluding those from financial instruments related to linked contracts) net of investment management expenses and foreign exchange impact recorded within the consolidated profit or loss and the average investments calculated on IAS book value);
- c) The comprehensive return is equal to the profit and loss return plus fair value and other movement recorder within OCI on available for sale financial assets and the average investments calculated on IAS book value).

The average investments (calculated on IAS book value) included land and buildings (investment properties), investments in subsidiaries, associated companies and joint ventures, loans and receivables, available for sale financial assets, financial assets at fair value through profit or loss less financial assets and liabilities related to linked contracts, derivatives classified as financial liabilities at fair value through profit or loss and cash and cash equivalents. Total investments are adjusted for derivative instruments classified as financial liabilities at fair value through profit or loss and REPOs classified as other financial liabilities. The average is calculated on the average asset base of each quarter of the reporting period.

**Risk Adjusted Capital (RAC):** The Risk Adjusted Capital is defined as the one-year change in basic own funds calculated at various percentiles (e.g. 1-in-10, 1-in-200). It is derived by reading the points from the full Probability Distribution Forecast (PDF) of the one-year changes in own funds, generated by the Partial Internal Model.

**Risk Appetite Framework (RAF):** The Risk Appetite Framework sets the overall risk strategy in terms of aggregate level of risk that Generali Group is willing to accept or avoid in order to achieve its business objectives.

**Risk margin:** The risk margin is the part of technical provisions that should ensure that the overall value of the technical provisions is equivalent to the amount a third party would theoretically require in order to take over and meet the insurance liabilities, taking into account the cost of capital required to support those liabilities over their remaining future lifetime and regarding non-hedgeable risks such as underwriting and operational risks.

**Solvency II ratio:** defined as the ratio between the Eligible Own Funds and the Group Solvency Capital requirement, both calculated according to the definitions of the SII regime. Own funds are determined net of proposed dividend. The ratio has to be intended as preliminary since the definitive Regulatory Solvency Ratio will be submitted to the supervisory authority in accordance with the timing provided by the Solvency II regulations for the official reporting.

**Solvency Capital Requirement (SCR):** The Solvency Capital Requirement is determined as the economic capital to be held by insurance and reinsurance undertakings in order to ensure that ruin occurs no more often than once in every 200 cases or, alternatively, that those undertakings will still be in a position, with a probability of at least 99.5%, to meet their obligations to policyholders and beneficiaries over the following 12 months (Solvency II Directive 2009/138/CE, Introduction, c. 64).

**Standard formula:** The standard formula is a standard method defined by Solvency II Directive for the calculation of the Solvency Capital Requirement. The standard formula covers the following risks: non-life underwriting risk, life underwriting risk, health underwriting risk, market risk, counterparty default risk and operational risk.

**Technical provisions:** The technical provisions correspond to the algebraic sum of the best estimate liability and risk margin. In case technical provisions are considered on a net of reinsurance basis, the amount of reinsurance recoverables after counterparty default adjustment is deducted from the technical provisions.

**Volatility Adjustment (VA):** Volatility Adjustment (VA) allows insurance and reinsurance undertakings to adjust the relevant risk-free interest rate term structure used for the calculation of the best estimate of technical provisions to mitigate the effect of bond spreads widening. The VA is calculated by EIOPA and amounts to 65% of the risk-corrected spread between the interest rate that could be earned from bonds included in a reference portfolio and the basic risk-free interest rates. The VA is derived for each relevant currency (based on currency specific reference portfolios) and, where relevant, for national insurance markets (based on country specific reference portfolios).

# Executive summary

## ü Generali Belgium

Generali Belgium is established in Belgium since 1901 and is a composite undertaking part of the Generali Group, one of the insurance leaders in Europe. Generali Belgium is providing solutions to retail and corporate clients through a broad network of independent brokers with a focus on Unit Linked, Non-Life and Protection products.

Generali Belgium mission is to be the first choice by delivering relevant and accessible insurance solutions. Its purpose is to actively protect and enhance people's lives. Company values are articulated around delivering on the promise, valuing our people, living the community and being open.

In terms of strategy, Generali Belgium aims at working in a simple, smart and fast way in order to best serve the clients. It's therefore key to launch new solutions meeting customers' expectations, fitted to their needs and providing more than a guarantee.

Generali Belgium operations are supported by an efficient and agile organization at the forefront of digital innovation.

## ü 2017 Business and Performance:

Generali Belgium is still presenting a significant turnaround in 2017 leading in Life to a double digit growth in both Unit Linked (+11,7% ) and Protection (+12,9%), with total Gross Written Premiums of € 747.861,1 thousand compared to € 800.234,8 thousand in 2016. This decrease is explained by our product mix shift from guaranteed rate products towards capital light products. In total the Life segment decreased by 11,1% and accounted for € 488.411,5 thousand whereas Non-Life segment grew by 3,6% to reach € 259.449,6 thousand.

The total Operating Result amounted to € 44.142,5 thousand for 2017 compared to € 51.663,3 thousand in 2016. This represents a decrease of 14,6% in comparison to last year which is driven by the fact that 2016 was impacted by the GREI demerger operation.

The Life Operating Result remained quite stable between 2017 and 2016 (€ 22.765,3 thousand vs. € 22.918,7 thousand last year) whereas the Non-Life segment reached a total of € 21.377,2 thousand compared to € 28.744,6 thousand in 2016 (- 25,6%).

The total Non-Operating result decreased by € 62.656,4 thousand to reach € -17.995,5 thousand in 2017. This drop is mainly driven by the fact that 2016 was impacted by the realized gains during the GREI demerger operation and the change in the consolidation scope.

The Net Result is therefore decreasing from € 88.947,6 thousand in 2016 to € 18.177,4 thousand in 2017. Taxes amounted to € 7.969,6 thousand compared to € 9.720,6 thousand a year ago.

## ü 2017 Solvency and Capital Management:

As from 2016, Generali Belgium is reporting according to the Solvency II framework. For Capital Requirements measurement, Generali Belgium is reporting based on the Standard Formula approach. Based on the own assessment made, this approach is deemed safe although a better representation of the risk profile is captured in the Own Risk and Solvency Assessment.

The Solvency Capital Requirement coverage ratio at Year End 2017 amounts to 151,9% what means that Generali Belgium owns about 1,5 time what is needed to cover its capital needs. This ratio is deemed appropriate according to the Risk Appetite Framework of the Company and Generali Belgium keeps continuously focusing on optimizing the couple risk-return. A set of initiatives have been implemented over 2017, fully integrated with the new strategy, to grant more resilience to the coverage ratio. The improvement of the business mix is a clear evidence of the sound management in place.

### Generali Belgium S.A. Solvency Ratio in standard formula

(€ thousand)	31/12/2017
Own Funds	531.953,3
Solvency Capital Requirement	350.216,8
Surplus	181.736,4
<b>Solvency Ratio</b>	<b>151,9%</b>

The Minimum Capital Requirement ratio at Year End 2017 amounts to 335,6% which means that Generali Belgium owns more than 3 times what is required as absolute minimum in term of capital needs.

At the same time, governance kept continuously improving by further embedding risk management in the decision making process of the company.

#### ü Outlook 2018

According to the Federal Planning Bureau, while the growth of the euro area as a whole is expected to reach 2.2% in 2018 (against 2.3% in 2017), growth in Belgian GDP would accelerate slightly to reach 1.8% in 2018. Supported by the confidence of entrepreneurs and consumers, which has increased further in early 2018, the Belgian economy should again record a good performance in 2018, with average quarterly growth of 0.5% in the first half and 0.4% in the second half. It is mainly consumer spending that will strengthen this year, with a slight acceleration of GDP growth from 1.7% in 2017 to 1.8% in 2018. For 2018, analysts expect to a greater increase in purchasing power, thanks in particular to the numerous job creations, the additional reductions in personal income tax, a slightly more substantial increase in gross wages and property investment revenue.

Belgian inflation stood at 2.1% in 2017 and is expected to slow to 1.7% in 2018. The slowdown in inflation in 2018 can be explained almost exclusively by the fall in the price of electricity, which had increased significantly in recent years. The more sustained dynamics of wage costs would lead to a gradual rise in underlying inflation, even if the appreciation of the euro somewhat mitigates this trend.

Finally, as explained in the previous sections, employment growth has been almost as strong as that of value added. For 2018, the Federal Planning Bureau expects employment growth of 1.2%, which is lower than in 2017 and comes against a backdrop of rising wage costs. The number of employees in the commercial sector would also increase in 2018. The number of self-employed workers would also continue to increase while public employment, for its part, should stabilize. The number of unemployed people would decrease in 2018, a sharp decline for the fourth year in a row. As a result, the harmonized unemployment rate would fall to 6.7% (compared to 7.2% in 2017).

In 2018, within the insurance sector the Eurozone is expected to show a good performance in the Properties & Casualties business, although this growth will take place within an environment of strong competitive pressure. The life segment, influenced by low interest rates, will show signs of difficulty once again in 2018.

For the next three years (2018-2020), Generali Belgium has drawn up a strategic plan based on three pillars:

- Reinvent the Non-Life business: The priority is the optimization of customer's experience. Generali Belgium will market innovative products, which make the difference. At the same time, we will actively seek new independent brokers.
- Boost the life activity: Generali Belgium are determined to strengthen during the next 3 years our remarkable growth in branch 23. To do this, we will expand our range (new funds, solutions for independent, extension of the protection ...). In Life too, new brokers will be onboard.
- 'Radical digitalization' and increased efficiency. To be able to absorb the anticipated growth, we will have to continue our transition to digital. The goal is to get the interaction with the brokers and customers at a higher level. A first initiative was done in late December 2017, with the launch of Quick Quote (motor insurance and pricing in less than 60 seconds).

Investment management will continue to be based on an asset allocation strategy aimed at consolidating current returns and safeguarding the liabilities forwards the policyholders.

The investment strategy for fixed-income investments aims at portfolio diversification, in both government and corporate bonds. This is in order to ensure adequate profitability for the policyholders and a satisfactory return on capital while maintaining a controlled risk profile. Equity exposure will be kept stable.

# A. Business and Performance

## A.1. Business

### A.1.1. General overview

The undertaking's name and legal form is Generali Belgium SA and its supervisory authority responsible for its financial supervision is the National Bank of Belgium (NBB). Generali Belgium is part of international insurance Group Assicurazioni Generali S.p.A. based in Italy with supervisory authority Istituto per la Vigilanza sulle Assicurazioni (IVASS). The contact details thereof are:

**IVASS**  
Istituto per la Vigilanza sulle Assicurazioni  
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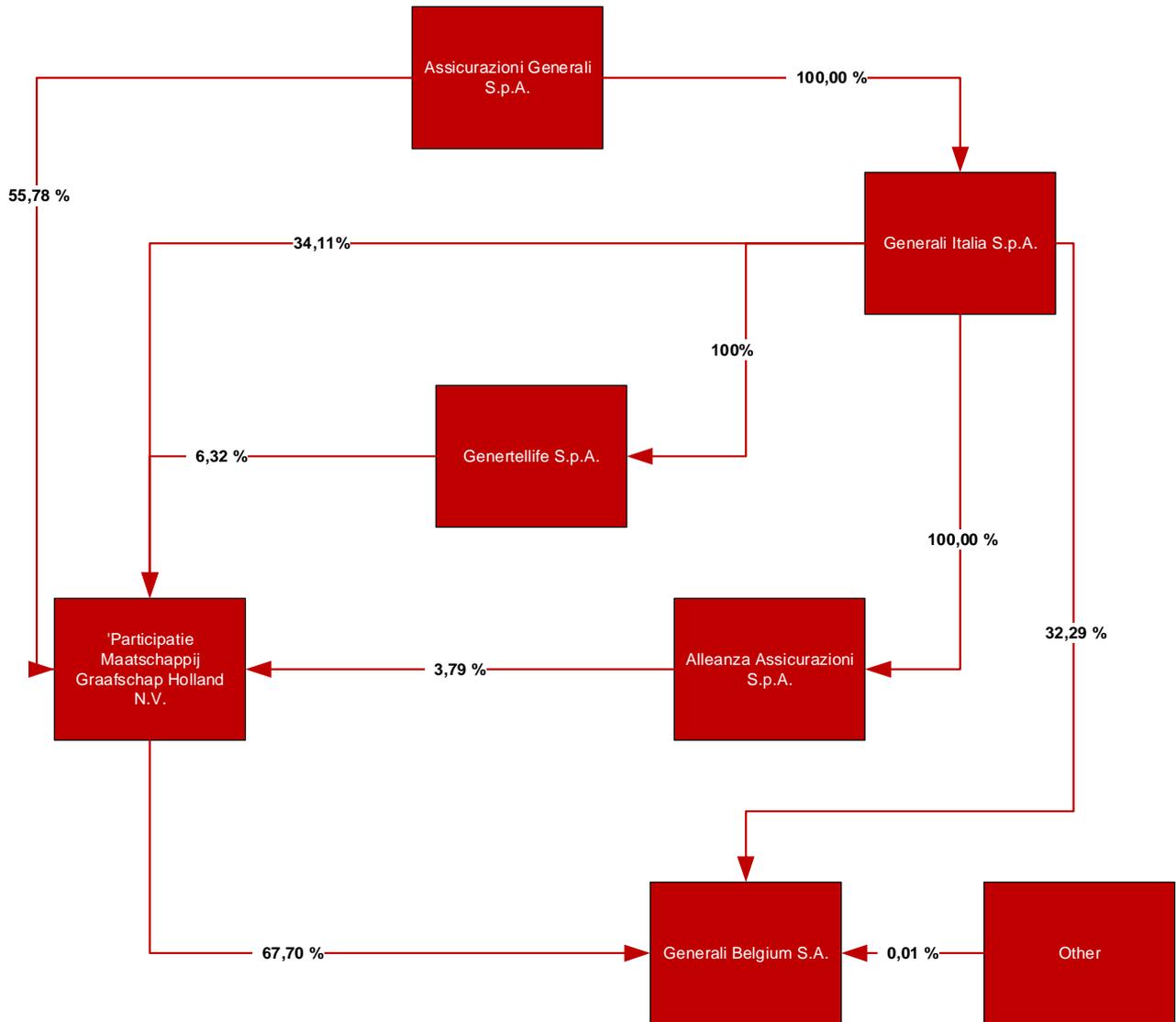
Generali Belgium SA is being audited by Ernst & Young Réviseurs d'Entreprises scrl, represented by Christel Weymeersch, Audit Partner. Contact details are below:

**Ernst & Young**  
De Kleetlaan 2  
BE-1831 Diegem  
Belgium

The holders of qualifying holdings of Generali Belgium SA are:

Name	% of share	Location
Participatie Maatschappij Graafschap Holland B.V.	67,7%	The Netherlands
Generali Italia S.p.A.	32,3%	Italy
Other - Individual	0,0%	Belgium
<b>Total</b>	<b>100,0%</b>	

Below the position of Generali Belgium SA within the legal structure of the Group Assicurazioni Generali S.p.A.:

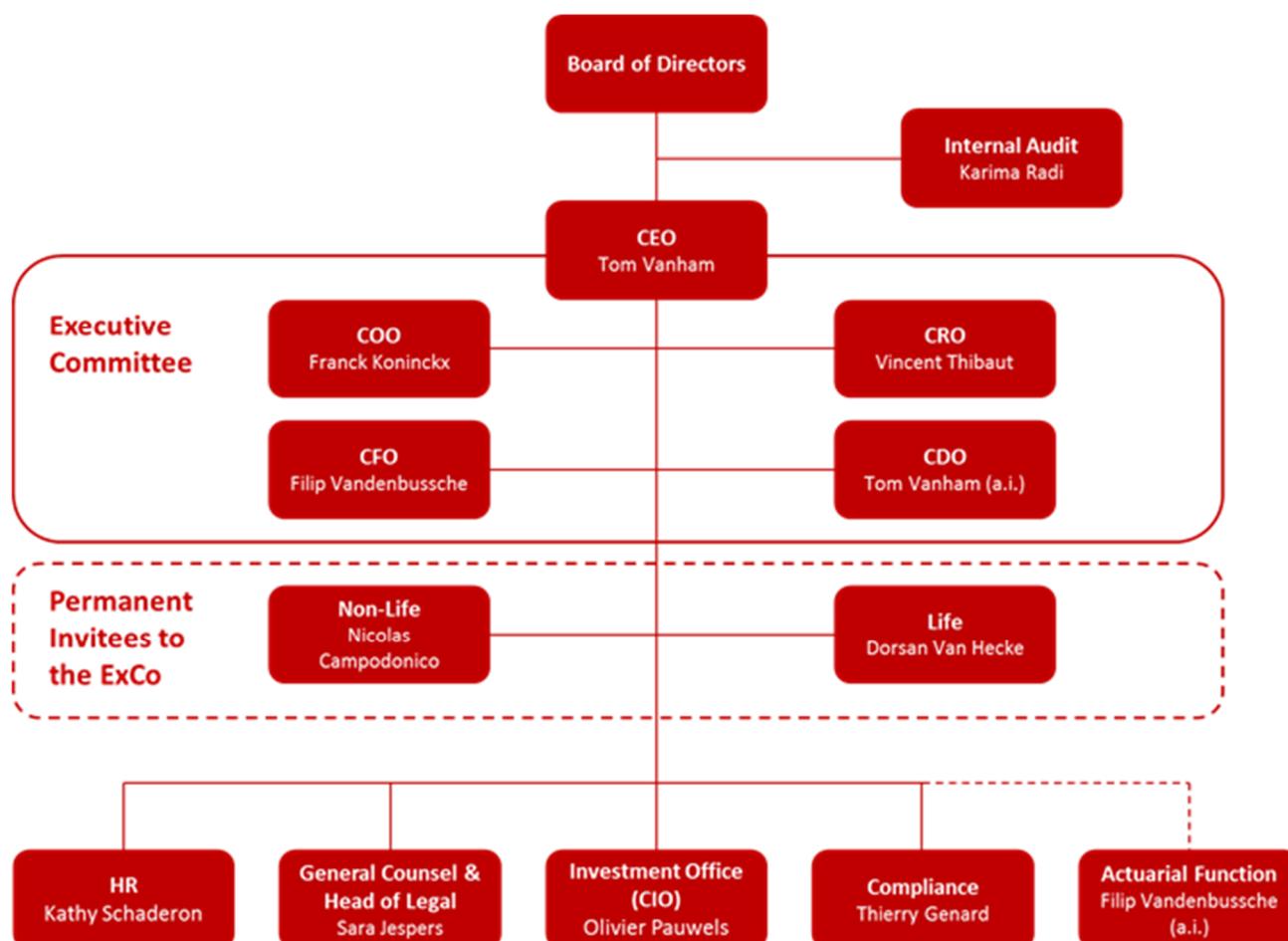


The company Assicurazioni Generali S.p.A. with share Capital of € 1.561.808,3 thousands fully paid-up is registered in Trieste, Italy, Piazza Duca degli Abruzzi, 2. Its tax code and Company Register number is 00079760328.

Generali Belgium SA's main participations are the following:

Name	Relationship	Activity	Country	Total share	SII Market Value
Generali Real Estate Investments B.V.	Participation	Real Estate	Belgium	100,0%	276.024
Dedale S.A.	Participation	Brokerage	Belgium	100,0%	2.008
B&C Assurance S.A.	Participation	Brokerage	Belgium	100,0%	982
Webbroker S.A.	Participation	Brokerage	Belgium	100,0%	1.123
Verzekeringkantoor Soenen N.V.	Participation	Brokerage	Belgium	100,0%	2.016
Groupe Vervietoits d'Assureurs S.A.	Participation	Brokerage	Belgium	100,0%	571

The organizational structure of Generali Belgium SA (31<sup>st</sup> of December 2017 view) is as follow:



Generali Belgium operates mainly in Belgium and France selling both Life and Non-Life Insurance products.

In Life segment, Generali Belgium is active in the following Line of Business:

- ü Saving & Pension (“Branche 21 & 26”)
- ü Protection

ü Unit Linked (“Branche 23”)

In Non-Life segment, Generali Belgium is active in the following Line of Business:

- ü Motor, both third party liability and material damage
- ü Personal, including multi risk household, general liability and legal Expenses
- ü Commercial, mainly commercial fire and commercial general liability
- ü Accidents, including Workmen’s Compensation & Passengers insurance

### **A.1.2. Major events**

No major events impacted Belgium and Generali Belgium during 2017.

### **A.1.3. Overall performance**

Generali Belgium is still presenting a significant turnaround in 2017 leading in Life to a double digit growth in both Unit Linked (+11,7% ) and Protection (+12,9%), with total Gross Written Premiums of € 747.861,1 thousand compared to € 800.234,8 thousand in 2016. This decrease is explained by our product mix shift from guaranteed rate products towards capital light products. In total the Life segment decreased by 11,1% and accounted for € 488.411,5 thousand whereas Non-Life segment grew by 3,6% to reach € 259.449,6 thousand.

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The total Non-Operating result decreased by € 62.656,4 thousand to reach € -17.995,5 thousand in 2017. This drop is mainly driven by the fact that 2016 was impacted by the realized gains during the GREI demerger operation and the change in the consolidation scope.

The Net Result is therefore decreasing from € 88.947,6 thousand in 2016 to € 18.177,4 thousand in 2017. Taxes amounted to € 7.969,6 thousand compared to € 9.720,6 thousand a year ago.

## **A.2. Underwriting performance**

### **A.2.1. Life**

For the fourth quarter in a row, Generali Belgium exhibits strong New Business Value results; the NBV amounts to € 16.275,5 thousand and the NBM reaches 41,0% for the full year 2017 significantly increasing compared to last year (NBM FY 2016 of 2,1%).

In terms of Annual Premiums Equivalent, volumes are equivalent to the ones of 2016 (€ 39.698,8 thousand) with this year more than 50% of these volumes in Unit Linked and Protection business (€ 22.066,0 thousand). Unit Linked business Premium volumes are increasing (+€ 1.314,0 thousand). At the same time, fully in line with the strategy (business mix shift), Saving business Premium volumes are decreasing (- € 2.449,2 thousand).

In terms of NBV, only the Group Saving & Pension annual premiums still have a negative contribution (although Group is now becoming positive when taking also into account Group Protection business). This comes from the new affiliates in existing Group business schemes that Generali Belgium is legally compelled to accept. As from October 1st, the guaranteed rate has been decreased to 0,01% what will support the NBV and get it back to positive amounts in the coming quarters (knowing that effect is only applicable as from the renewal date). Mitigation of Group NBV is thus also fully on-going and perceivable in the results. For Saving business Single premiums, thanks to the guaranteed rates decrease achieved in 2016, value creation reaches € 12.277,9 thousand. Protection keeps supporting the NBV with € 6.497,9 thousand. Unit Linked continues meeting (and exceeding) profitability thresholds (and this despite the significant growth in Unit Linked recurring premiums business) and contributes to the NBV with € 4.097,1 thousand while continuously increasing in terms of volumes flowing in

Overall, the 2017 fourth quarter results are exceeding the previous ones with a steady increase in terms of profitability over the year what highlights the successful implementation of a clear strategy aiming at shifting business towards capital light products while safeguarding value and partnerships on the Saving part thanks to an adequate management of guaranteed rates.

### **A.2.2. Non-Life**

In non-life, gross direct premiums increased by 3.5% to € 259.449,6 thousand.

- ü In Motor, premiums increased by 5.2% thanks to the evolution of our French entity. Considering only Generali Belgium, we observe a slight decrease of the premiums (-0.5%). The average premiums on our portfolio is stable. In 2017, the number of policies of the new business decreased by 9,8%.
- ü In Commercial, direct premiums increased by 5.8% thanks to a change in our business approach (pro-active customer oriented).
- ü In Personal, premiums are slowly decreasing compared to 2016 (-0,4%). The new business is down by 8,2% with a stable average premium (from € 172 to € 171). On the portfolio the average premium increased by 3,6% thanks mainly to the indexation and the evolution of the ABEX. Competition with banks in Fire remains intense as this product is linked to mortgage loans.
- ü In Accidents, the reduction of 4.5% in direct premiums is due to our market positioning in workmen's compensation.

In non-life business, our claims reserves and other technical reserves have been set up in accordance with the usual requirements of sound management and regulatory requirements.

The effect of the increase of the net loss ratio which goes from 56,5 % à 58,0% is reduced by the expense ratio which decrease from 37,5% to 35,7%. This improvement enabled Generali Belgium to maintain a net combined ratio of less than 100%, particularly in the line of business Motor.

### **A.3. Investment performance**

Regarding financial markets, there was still a number of uncertainties in 2017 linked to the consequences of important geo-political events that occurred past years such as the policy conducted by the new American government towards international exchanges. Besides, despite a recovery in confidence, the Euro area could be impacted by a degradation in commercial relations in case of "hard" Brexit. In brief, all these events had consequences on the volatility of financial markets in 2017. Recently, North Korea's nuclear threat sent a wave of nervousness through the worldwide financial markets. Finally, the worldwide financial markets remained also cautious because of the slowdown of the Chinese economic growth due to its high level of debt.

Despite these events, the Q4 2017 current income of Generali Belgium is higher than the planned current income of the year. This is explained by the good performance of the markets during the fourth quarter (inflation linked to bonds and received dividends).

Due to the expected interest rate increase and the need of liquidity for 2018, Generali Belgium kept the liquidities coming from the investments arrived at maturity end 2017, which explains the increase of liquidity and the decrease of "Fixed income instruments" in 2017 compared to 2016.

Below the different element of the financial income and expenses of Generali Belgium:

(€ Thousand )	31/12/2017	31/12/2016
Income from Fixed Income Instruments	153.163	157.564
Income from Equity	5.648	5.428
Income from Real Estate	12.730	13.470
Realized Gains & Losses	1.179	69.111
Reversals & Write-offs	-5.595	-1.630
Unrealized (excluding Write-offs)	1.374	-1.187
Investment Portfolio	5.127.962	4.950.274
Portfolio Return	3,4%	3,6%

For 2018, we expect the general context to remain very difficult, with high volatility in the markets and non-optimal economic prospects (fear of terrorism, ongoing negotiations about Brexit, difficult economic relations between China and USA, tense diplomatic relations between Russia and some European countries, etc.). In the light of all this environment, Generali Belgium will approach the markets with caution and look for stable investments generating income.

#### **A.4. Performance of other activities**

Generali Belgium has no other activities to be disclosed.

#### **A.5. Any other information**

Generali Belgium received services from other Generali group companies :

- ü GSS (Generali Shared Services), a subsidiary of the Generali Group, is the service provider for IT infrastructure for the entire group. The main objective is to provide high quality and comprehensive services with regard to IT infrastructure.
- ü GIE (Generali Investment Europe S.p.A.) is a management company of the Generali Group in Europe and provides asset portfolio management services, providing asset management services for Generali Belgium
- ü GRE (Generali Real Estate S.p.A.) is a Generali Group company whose main purpose is property management for its own account as well as for third parties, including the sales, the purchases, the administration, the valuation, the restructuring and the renovation of residential and industrial buildings.

**ANNEX****Premiums, claims and expenses by line of business (1/3)**

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)

	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
<b>Premiums written</b>									
Gross - Direct Business	371	4.865	4.101	81.959	93.488	0	54.101	14.974	0
Gross - Proportional reinsurance	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance	0	0	0	0	0	0	0	0	0
Reinsurers' share	0	1.131	4.022	38.280	68.846	0	10.344	795	0
<b>Net</b>	<b>371</b>	<b>3.734</b>	<b>79</b>	<b>43.679</b>	<b>24.642</b>	<b>0</b>	<b>43.757</b>	<b>14.179</b>	<b>0</b>
<b>Premiums earned</b>									
Gross - Direct Business	379	4.889	4.088	86.559	92.889	0	54.203	15.199	0
Gross - Proportional reinsurance	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance	0	0	0	0	0	0	0	0	0
Reinsurers' share	0	1.131	4.022	42.488	68.277	0	10.284	794	0
<b>Net</b>	<b>379</b>	<b>3.759</b>	<b>66</b>	<b>44.071</b>	<b>24.612</b>	<b>0</b>	<b>43.919</b>	<b>14.406</b>	<b>0</b>
<b>Claims incurred</b>									
Gross - Direct Business	314	2.763	97	48.576	44.114	0	20.737	6.964	0
Gross - Proportional reinsurance	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance	0	0	0	0	0	0	0	0	0
Reinsurers' share	0	399	2.138	23.834	27.605	0	4.869	-15	0
<b>Net</b>	<b>314</b>	<b>2.364</b>	<b>-2.041</b>	<b>24.742</b>	<b>16.509</b>	<b>0</b>	<b>15.868</b>	<b>6.978</b>	<b>0</b>
<b>Changes in other technical provisions</b>									
Gross - Direct Business	-31	-58	-22	0	0	0	-3.697	-247	0
Gross - Proportional reinsurance	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance	0	0	0	0	0	0	0	0	0
Reinsurers' share	0	0	0	0	0	0	0	0	0
<b>Net</b>	<b>-31</b>	<b>-58</b>	<b>-22</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-3.697</b>	<b>-247</b>	<b>0</b>
<b>Expenses incurred</b>	<b>137</b>	<b>1.058</b>	<b>1.686</b>	<b>19.687</b>	<b>7.332</b>	<b>0</b>	<b>22.593</b>	<b>7.750</b>	<b>0</b>
<b>Other expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Generali Belgium S.A. - SOLVENCY AND FINANCIAL CONDITION REPORT

**Premiums, claims and expenses by line of business (2/3)**

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of Business for: accepted non-proportional reinsurance				Total
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
<b>Premiums written</b>								
Gross - Direct Business	4.598	0	893	0	0	0	0	
Gross - Proportional reinsurance	0	0	6	0	0	0	0	
Gross - Non-proportional reinsurance	0	0	0	0	93	0	0	
Reinsurers' share	0	0	751	0	53	0	0	
<b>Net</b>	<b>4.598</b>	<b>0</b>	<b>148</b>	<b>0</b>	<b>41</b>	<b>0</b>	<b>0</b>	
<b>Premiums earned</b>								
Gross - Direct Business	4.653	0	945	0	0	0	0	
Gross - Proportional reinsurance	0	0	10	0	0	0	0	
Gross - Non-proportional reinsurance	0	0	0	0	93	0	0	
Reinsurers' share	0	0	828	0	53	0	0	
<b>Net</b>	<b>4.653</b>	<b>0</b>	<b>127</b>	<b>0</b>	<b>41</b>	<b>0</b>	<b>0</b>	
<b>Claims incurred</b>								
Gross - Direct Business	2.576	0	370	0	0	0	0	
Gross - Proportional reinsurance	0	0	-16	0	0	0	0	
Gross - Non-proportional reinsurance	0	0	0	0	113	0	0	
Reinsurers' share	-13	0	78	0	23	0	0	
<b>Net</b>	<b>2.589</b>	<b>0</b>	<b>275</b>	<b>0</b>	<b>90</b>	<b>0</b>	<b>0</b>	
<b>Changes in other technical provisions</b>								
Gross - Direct Business	0	0	0	0	0	0	0	
Gross - Proportional reinsurance	0	0	0	0	0	0	0	
Gross - Non-proportional reinsurance	0	0	0	0	0	0	0	
Reinsurers' share	0	0	0	0	0	0	0	
<b>Net</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Expenses incurred</b>	<b>2.645</b>	<b>0</b>	<b>198</b>	<b>0</b>	<b>-10</b>	<b>0</b>	<b>0</b>	
<b>Other expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>63.077</b>

**Premiums, claims and expenses by line of business (3/3)**

	Line of Business for: life insurance obligations						Life reinsurance obligations		Total
	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance	Annuities stemming from non-life insurance contracts and relating to insurance obligations	Health reinsurance	Life reinsurance	
<b>Premiums written</b>									
Gross	0	244.930	195.756	42.559	0	0	0	5.166	
Reinsurers' share	0	0	0	30.199	0	0	0	4.138	
<b>Net</b>	<b>0</b>	<b>244.930</b>	<b>195.756</b>	<b>12.360</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1.028</b>	
<b>Premiums earned</b>									
Gross	0	244.930	195.756	42.559	0	0	0	5.166	
Reinsurers' share	0	0	0	30.199	0	0	0	4.138	
<b>Net</b>	<b>0</b>	<b>244.930</b>	<b>195.756</b>	<b>12.360</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1.028</b>	
<b>Claims incurred</b>									
Gross	0	336.475	9.919	25.738	0	0	0	3.529	
Reinsurers' share	0	0	0	18.300	0	0	0	2.819	
<b>Net</b>	<b>0</b>	<b>336.475</b>	<b>9.919</b>	<b>7.439</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>710</b>	
<b>Changes in other technical provisions</b>									
Gross	0	-836	-200.307	491	0	0	0	-13	
Reinsurers' share	0	0	0	615	0	0	0	26	
<b>Net</b>	<b>0</b>	<b>-836</b>	<b>-200.307</b>	<b>-125</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-39</b>	
<b>Other expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>54.297</b>

Generali Belgium S.A. - SOLVENCY AND FINANCIAL CONDITION REPORT

Premiums, claims and expenses by country (1/2)

	Home Country		Top 5 countries (by amount of gross premiums written) - non-life obligations				Total Top 5 and home country
	BE	FR	0	0	0	0	0
<b>Premium written</b>							
Gross - Direct Business	153.617	105.365	0	0	0	0	258.982
Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
Reinsurers' share	18.655	105.324	0	0	0	0	123.979
<b>Net</b>	<b>134.962</b>	<b>41</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>135.003</b>
<b>Premium earned</b>							
Gross - Direct Business	154.429	109.007	0	0	0	0	263.437
Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
Reinsurers' share	18.715	108.960	0	0	0	0	127.675
<b>Net</b>	<b>135.714</b>	<b>48</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>135.761</b>
<b>Claims paid</b>							
Gross - Direct Business	68.593	49.468	0	0	0	0	118.061
Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
Reinsurers' share	9.860	49.462	0	0	0	0	59.322
<b>Net</b>	<b>58.733</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>58.739</b>
<b>Changes in other technical provisions</b>							
Gross - Direct Business	53	0	0	0	0	0	53
Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
Reinsurers' share	0	0	0	0	0	0	0
<b>Net</b>	<b>53</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>53</b>

**Premiums, claims and expenses by country (2/2)**

	Home Country		Top 5 countries (by amount of gross premiums written) - non-life obligations				Total Top 5 and home country
	BE	NL	0	0	0	0	
<b>Premium written</b>							
Gross	487.992	419	0	0	0	0	488.411
Reinsurers' share	34.337	0	0	0	0	0	34.337
<b>Net</b>	<b>453.655</b>	<b>419</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>454.074</b>
<b>Premium earned</b>							
Gross	487.992	419	0	0	0	0	488.411
Reinsurers' share	34.337	0	0	0	0	0	34.337
<b>Net</b>	<b>453.655</b>	<b>419</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>454.074</b>
<b>Claims paid</b>							
Gross	372.796	2.865	0	0	0	0	375.661
Reinsurers' share	21.119	0	0	0	0	0	21.119
<b>Net</b>	<b>351.677</b>	<b>2.865</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>354.542</b>
<b>Changes in other technical provisions</b>							
Gross	-202.740	2.075	0	0	0	0	-200.665
Reinsurers' share	641	0	0	0	0	0	641
<b>Net</b>	<b>-203.381</b>	<b>2.075</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-201.306</b>
<b>Expenses incurred</b>	<b>54.275</b>	<b>22</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>54.297</b>
<b>Other expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>54.297</b>

# B. System of Governance

## B.1. General information on the system of governance

### B.1.1. Information on general governance: structure of administrative, management or supervisory bodies, description of roles and responsibilities, details on the segregation of responsibilities

Generali Belgium roles and responsibilities are divided in 3 functions :

- ü Board of Directors
- ü Executive Committee
- ü Key Function

#### The Board of Directors

The Board of Directors, which acts collegially, is the highest decision-making body of Generali Belgium, except in matters which the Companies Code or the (Group) guidelines reserve for the General Meeting or for another body. The Board of Directors holds the final responsibility of the insurance company.

In general, the Board of Directors has two specific functions:

- ü Determination of the general policy of the strategy and the risk policy;
- ü Supervision of management.

#### Ø Strategy and Risk Policy function

In accordance with Article 44 of the Solvency II law, the Board of Directors defines ‘

- ü The general strategy and the objectives of the Generali Belgium: this mainly includes defining the objectives of the Generali Belgium and the main axes of the organizational structure, validation of the main policies
- ü The risk policy, including the general limits on risks’: this mainly includes approval of the Own Risk Self-Assessment Report and set the Risk Appetite level and the limits of the general risk tolerance and in general of the risk management system, approval of the main risk management policies.

#### Ø Supervision function

The supervision of activities and regular evaluation of the effectiveness of the Generali Belgium’s governance system is the other main axis of responsibilities allocated to the Board of Directors. The supervision must cover all the areas of activity of the Generali Belgium and focus in particular on the Executive Committee and compliancy with the risk policy.

This mainly includes: assessment of the effectiveness of the governance system, check periodically the proper functioning of the four independent monitoring functions and determine what actions must be taken further to their conclusions and recommendations, reporting to the regulators, being responsible for the integrity of the accounting and declaration of financial information systems.

#### Ø Committees within the Board of Directors

In order to reinforce the effectiveness of the supervision and monitoring of activities, the functioning and risk profile of the Generali Belgium, the Board of Directors has established two specialized committees :

### *The Audit & Risk committee*

- ü In accordance with the Solvency II regulations, the Audit & Risk Committee assists the Board of Directors in its supervisory role in the following domains: financial reporting, internal control, internal audit and the statutory auditor.
- ü The Audit & Risk Committee advises the Board of Directors in all aspects concerning the actual and future risk strategy and risk tolerance level and assists the Board of Directors in the supervision on the implementation of the strategy by the Executive Committee.

The Board of Directors has opted for a merged Audit & Risk instead of a separate Audit and separate Risk Committee, because of the scale of the Board of Directors and because the roles and responsibilities of both committees are so much linked that it is more appropriate that the topics are discussed in the same company organ

### *The Nomination and Remuneration Committee:*

- ü The remuneration related role comprises mainly an advisory task to avoid that the remuneration policy and its incentives would encourage to take excessive risks within the Generali Belgium or to lead to behavior that is not in the interest of the Generali Belgium of its stakeholders. For the preparation of the decisions on remuneration, the N&R Committee shall take into account the long-term interests of the shareholders, investors and other interested parties of the Company, as well as the general interest
- ü The nomination related role comprises mainly an advisory task to prepare the nominations of new Board of Directors or Executive Committee members and Head of independent control functions

These committees are given the task of preparing the decisions taken by the Board of Directors in their respective areas, but do not deprive the Board of Directors of its areas of competence.

## **The Executive Committee**

The Board of Directors of Generali Belgium has decided on September 24th , 2014 to delegate some of its powers to an Executive Committee within the meaning of Article 524bis of the Companies Code.

### **Ø In general**

The Executive Committee is a decision-making and collegial body basically charged with the task of managing the operational activities of Generali Belgium (the management function). The delegation of powers from the Board of Directors to the Executive Committee does not, however, relate either to the determination of the general strategy of the Generali Belgium or to the acts reserved by law for the Board of Directors.

### **Ø Management function**

The management role of the Executive Committee comprises the following activities and responsibilities:

### *Execution of the strategy defined by the Board of Directors and managing the Generali Belgium: this mainly includes:*

- ü Including the strategy in processes and procedures,
- ü Ensuring the day to day management of the Generali Belgium accordance with the strategic goals and the risk tolerance limits,
- ü Installing an adequate management structure, drawing up plans and budgets,
- ü Ensuring the development of a corporate culture characterized by strict ethics, impeccable integrity and a pronounced sense of responsibility;

***Execution of the risk management system: this mainly includes:***

- ü Translating in processes and procedures of the risk management framework as defined by the Board of Directors,
- ü Taking measures necessary to mitigate the risks, ensuring that all relevant risks of the Generali Belgium (financial risks, insurance risks, operational and other risks) were properly identified, measured, managed, controlled and reported;

***Implementing, follow up and evaluation of the organizational- and operational structure: this mainly includes***

- ü Setting up an organizational- and operational structure to support the strategic goals and to ensure the coherence with the framework of risk appetite
- ü Setting up adequate internal control mechanism at all levels of the Generali Belgium and assess the adequacy of these mechanism;
- ü Executing the framework necessary for the organization and the proper functioning of the independent control functions;
- ü Approval of the outsourcing of critical or important functions/activities;
- ü Organizing an internal reporting system so as to establish with a reasonable degree of certainty the reliability of the financial information and the prudential reporting;

***The Executive Committee should decide on the following matters***

- ü Investments related matters outside of the asset management framework
- ü Approval of the infra-group transactions
- ü Provision of goods and services, having a value higher than €5.000 thousand
- ü Cooperation agreements for the exercise and development of Generali Belgium's business above €15.000 thousand
- ü Issuance of financial instruments, having a value higher than €5.000 thousand
- ü Granting loans, execution (as borrower) of loan agreements and guarantees (not pertaining the insurance activity )or similar transactions, having a value higher than €5.000 thousand
- ü Settlement agreements, having a value higher than €5.000 thousand

***Reporting to the Board of Directors and the NBB***

- ü Passing on all relevant information and data to enable the Board of Directors (or its subcommittees) to monitor the activities of the Generali Belgium;
- ü Providing the prudential reporting to the National Bank of Belgium
- ü Providing the report on the adequacy of the governance system to the Board of Directors, the external auditor and the National Bank of Belgium.

**Ø Division of powers and committees within the Executive Committee**

The Executive Committee is above all a collegial body in which all the responsibilities are assumed by the body.

Without prejudice to this general rule, specific (though not exclusive) responsibilities are allocated individually to the members and permanent guest members of the Executive Committee. This internal distribution of responsibilities (which must be balanced) makes it possible to improve the efficiency of the day-to-day management of the Generali Belgium and to adequately manage conflicts of interest, arising from the Generali Belgium's various fields of operation.

These specific areas of competence are established in line with the scope covered by each member individually in terms of the day-to-day management and the activities and responsibilities are therefore set out in more detail in their job description.

The Executive Committee has established the following advisory and preparatory committees:

- ü **Investment Committee:** the investment committee advises the Executive Committee on investment decisions by analyzing the investment proposals and the investment results. Furthermore it does the follow up of the investment policies.
- ü **Risk Management Committee:** this is an advisory body to provide support to the Executive Committee in defining the Generali Belgium's target risk and according levels of economic capital.
- ü **Product and Underwriting Committees** Life and Non-Life: these Committees monitor the strategies, principles and processes to be followed in performing underwriting, reinsurance and reserving activities related to life/non-life business. They also follow up the measures in place to identify, assess and manage present and forward-looking risks with regards to underwriting and reserving to which the Generali Belgium is exposed to.

## Key Functions

Sound governance implies the set-up of independent control functions, more particularly: compliance, risk management, internal audit, and the actuarial function.

### Ø The Compliance function

The Compliance function is a permanent and independent function within the Generali Belgium, centered on observance of the rules in connection with:

- ü The integrity of the activities specific to Generali Belgium, and
- ü Control of its main Compliance risks: the risk of legal or regulatory sanctions, financial loss or harm to its good reputation that an insurance Generali Belgium or its members of staff runs further to a case of non-observance of the law, regulations and administrative provisions applicable to its activities.

The compliance function informs the Board of Directors and Executive Committee on a regular basis on the compliancy with the legal and regulatory rules that are applicable on the insurance activity, more in particular, the rules concerning integrity, and behavior in these activities. The compliance function also gives recommendations on these topics to these organs.

### Ø The Risk Management Function

The Risk Management Function guarantees the accurate implementation of the risk management system in accordance with the Solvency II Directive, the other applicable legal and regulatory provisions, the directions given by the Board of Directors and the provisions of the Group Risk Management Policy.

The Risk Management function is responsible for the overall risk profile monitoring and reporting to the Board of Directors, Senior Management and Risk Owners (within the limits of their competencies), as defined in the regulatory framework and in the Internal Control and Risk Management system.

This Function supports the Board of Directors and Executive Committee in defining the risk management strategies and tools for identifying, monitoring, managing and measuring risks. It also provides the information needed to evaluate the adequacy of the risk management system as a whole, through an adequate reporting system.

### **Ø The Actuarial Function**

The Actuarial function provides quality assurance for the actuarial calculations and the underlying hypothesis. In this respect, the function regularly reports to the Board of Directors (as the case may be via the Audit & Risk Committee) and the Executive Committee on its activities, including its findings, the possible shortcomings and its recommendations to solve these.

The Actuarial Function should in any case inform the Board of Directors and the Executive Committee if specific risk developments could have a negative impact on the Generali Belgium or could harm its reputation.

With regards to the technical provisions, the information provided by the Actuarial Function to the Board of Directors and to the Executive Committee should include a reasoned analysis on the accuracy and adequacy of the calculations of these, and on the sources and the level of uncertainty of the estimation of the technical provisions. This reasoned analysis is substantiated by a sensitivity analysis in which the sensitivity of the technical provisions is assessed for each of the major risks linked to the obligations that are covered by the technical provisions. The actuarial function mentions and explains any point of concern with regards to the adequacy of the technical provision

### **Ø The Internal Audit Function**

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

The Internal Audit function supports the Board of Directors in identifying the strategies and guidelines on internal control and risk management, ensuring they are appropriate and valid over time and provides the Board of Directors with analysis, appraisals, recommendations and information concerning the activities reviewed; it also carries out assurance and advisory activities for the benefit of the Board of Directors, the Executive Committee and other departments.

### **B.1.2. Changes in the system of governance (only material changes that have taken place over the reporting period must be disclosed)**

During the reporting period, there were no major changes in the system of governance that should be disclosed.

### **B.1.3. Remuneration policy (fixed and variable components, performance criteria, supplementary pensions)**

Our policy is based on the following principles that guide our remuneration program and consequent actions:

- ü Equity & consistency of remuneration in relation to the assigned responsibilities and capabilities demonstrated;
- ü Alignment with Generali Belgium strategy and goals defined;
- ü Competitiveness with respect to the market trends and practices;
- ü Value merit and performance in terms of results, behaviors and values;
- ü Clear governance and compliance with the regulatory framework.

The total remuneration package of people working at Generali can potentially comprise a fixed component, a variable component and benefits.

The fixed salary remunerates the role held and responsibilities assigned. The weight of the fixed remuneration must be such as to attract and retain our people and at the same time must also sufficiently remunerate the role even if the variable component should not be disbursed due to failure to achieve individual or company targets; this reduces the possibility of conduct that is not in line with Generali Belgium's risk appetite framework.

The variable remuneration seeks to motivate our collaborators to achieve business targets by creating a direct link between incentives and quantitative and qualitative targets.

When a performance-based remuneration (variable remuneration) is awarded, Generali Belgium pays particular attention to the following rules:

- An appropriate and fair balance between the fixed and performance-based components of the remuneration is ensured;
- A maximum amount is foreseen as for the variable component of the remuneration taking into account the position of the beneficiary within Generali Belgium;
- The performance-based component of the remuneration takes into account the performances of the person itself as well as Generali Belgium results; the variable part of the remuneration is foreseen so that it does not reward failure; the variable component of the remuneration can be null in case the situation of Generali Belgium worsens significantly (excl. sales profiles);
- When a performance-based remuneration is awarded, the payment of the main fraction of this remuneration is postponed until the month of June of the year following the one it refers to, possibly taking into account the pending risks at this time; (excl. sales profiles)
- The variable component of the remuneration may contain options, shares, cash or other funds whose payment will be deferred until the end of the deferral period;
- Generali Belgium commits to adopt the necessary measures to obtain, from the concerned staff members, that they refund (partially or totally) the variable remunerations when these remunerations were awarded to them on the basis of data that eventually turned out to be false, misleading or that resulted from fraudulent activities;
- Generali Belgium will check if the person to achieve his targets has acted honestly, fairly and professionally to serve the best interests of the client, as mentioned in the fundamental rule of conduct Assur-MIFID

The present disposition is periodically updated, at the initiative of the Nomination and Remuneration Committee

For Sales profiles, the variable remuneration can be more important than for other functions and relies on different axis, being:

- A quantitative axis (mainly linked to production)
- A qualitative axis: season objectives
- A profitability axis
- A "sales competencies" axis

Their variable part of remuneration is limited to each axis compared to the reference bonuses

For non-Sales profiles, the variable remuneration is based on performances that have a long-term impact

As far as the supplementary pension is concerned, Generali has a classic Defined Contribution plan for all its employees funded partially by the Employee, partially by the Employer. The rates depend on the age of the Employee at renewal date.

Should an executive member of the Board, Executive Committee or Head Of Control Functions leave Generali Belgium, the legal provisions on this matter is applied. There are no specific rules applicable on this population.

### **B.1.4. Information on Risk management, internal audit, compliance and actuarial functions integration into the organizational structure and the decision making processes of the undertaking. Status and resources of the four functions within the undertaking**

#### **Integration in the organizational structure and decision making process**

The independent control functions will report on their activities, findings to the Board of Directors and the Executive Committee and will give recommendations.

The frequency and content of the reporting and the planning of the activities is steered by the legal and regulatory requirements and the Group guidelines.

The Board of Directors and the Executive Committee take note of these findings and decides on the measure to be taken based on this information and to supervise the execution of these measures. These measures aim to reinforce the governance structure, organization or internal control systems

In order to strengthen the cooperation and synergies between the different control functions, coordination meetings are held once or twice a quarter between the responsible officers of the different control functions.

This coordination makes it possible to take stock of the assignments/activities carried out and to appraise any warning signs (issues or risks) that a control function has detected during the course of its work. It also makes it possible to coordinate the presentations to be made to the Audit and Risk Committee.

#### **Status and resources of the independent control functions**

The 4 control functions are all functions of the Executive level (CRO) or reporting to an Executive Committee member. The control function departments have the following structure (situation at 31st of December 2017):

##### *Compliance Department*

- ü Head of Compliance + 3 compliance experts

##### *Risk Department*

- ü Chief Risk officer +
  - o Risk & Value - Model & Strategy Department: 1 manager and 7 experts
  - o Risk & Value – Management & Controlling Department: 1 manager + 2 experts
  - o Internal Control & Operational Risk Department: 1 manager + 5 experts

##### *Internal Audit Department*

- ü Head of Internal Audit + 2 experts

##### *Actuarial Function*

- ü Head of Actuarial Function

## **B.1.5. Information on authorities, resources, professional qualifications, knowledge, experience and operational independence of the functions and how they report to and advise the administrative, management or supervisory body of the insurance or reinsurance undertaking**

### **Authority**

In order to guarantee their integrity and independence in the fulfilment of their mission, the independent control functions have been accorded certain specific rights, namely:

- ü They have the right of initiative and authorization to intervene in all structures, access all documents needed for the performance of their duties (establishment procedures, files and information, minutes of the meetings,...) and obtain any assistance they need from the members of staff of the Generali Belgium where the missions are being carried out as well as ad-hoc assistance from other specialized in-house departments or services external to the Generali Belgium,
- ü They have been given the guarantee to be able to express itself and freely make known all findings and assessments in the framework of their mission to the Executive Committee and, if necessary, to the Audit & Risk Committee, the Board of Directors, the external auditor or the supervisory authorities,

In order to guarantee their independence, the heads of the independent control functions have direct access to the Board of Directors, as the case may be via the Audit & Risk Committee. This direct access (which means that these functions does not have to pass via the Executive Committee) enables the Board of Directors to exercise in a strict way its supervision function on the execution of the strategy and the working of the Generali Belgium.

### **Resources**

The information on the resources of the independent control departments is given above in chapter B.1.4.

### **Professional qualifications, knowledge and experience**

The Heads of the Control Functions are persons which meet the requirements of the local Regulation Authority's Regime and Solvency II Regulation as well as the Generali Group requirements. They must have a solid relevant experience within areas like audit, control, insurance, finance, risk or in the auditing of financial statements.

Also the other personnel belonging to the Independent control departments shall have skills and a proven track record commensurate with the degree of complexity of the activities to be carried out. They must behave in an impeccable manner at all times, making proof of high integrity standards, and information coming to their knowledge when carrying out their tasks and duties must always be kept completely confidential.

The Nomination and Remuneration Committee assesses the candidates on their appropriate knowledge, skills and experience (general and specific dedicated professional expertise). Each Head of Control Function must possess specific dedicated professional expertise according to the Control Function he works for. The specific dedicated professional expertise must be completed in the Self-Assessment form and an evaluation of this specific professional expertise must occur in accordance with the job function as determined by Generali Belgium.

The guidelines on the Fit and Proper assessment and monitoring (see chapter B.2.) are also applicable to nomination of the independent control functions.

### **Operational independence**

The Control Functions are independent functions within Generali Belgium. This means that:

- ü The members of the control functions do not have direct operational responsibility or authority over any of the activities controlled. Accordingly, they are not involved in operational organization of the Generali Belgium or in developing, introducing or implementing organizational or internal control measures. However, the need of impartiality does not exclude the possibility to request from the control function an opinion on specific matters related to the control principles to be complied with;
- ü The members of the control functions must be protected against any possible conflict of interests between their responsibility as control function and other responsibilities (particularly of a commercial nature);

- ü The members of the control functions must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- ü To prevent potential conflicts of interest from arising, it is necessary to ensure that the provider of the control activities has not previously been charged with an advisory function in the area for which it is sought unless adequate measures have been taken to ensure the objectivity of the supplier, such as long enough cooling-off period. Attention should also be paid to other factors that could prejudice the objectivity of the expert, such as financial interests and personal and business relationships.

## **Reporting and advising to the Board of Directors and the Executive Committee**

The following reporting's are foreseen by the independent control functions:

At least once a year, the independent control functions report on the execution of their mission

The **Compliance Function** informs the Board of Directors and the Executive Committee on a regular basis on the compliancy with the legal and regulatory rules that are applicable on the insurance activity, more in particular, the rules concerning integrity, and behavior in these activities. The compliance function also gives recommendations on these topics to these organs.

The **Risk Management Function** regularly reports to the Board of Directors in a detailed way on the risk management matters such as those related to strategic questions (Generali Belgium strategy, mergers and acquisitions, projects and investments). The function reports in this case on the risks that have been identified as potentially material and gives information on other risk domains. If the Generali Belgium applies an internal model, the Risk Management functions inform the Board of Directors (and the Executive Committee) on the functioning of this model and on the necessary enhancements and on the progress made to remedy the weaknesses.

The **Internal Audit Function** informs the Board of Directors (this can be done via the Audit & Risk Committee) and the Executive Committee on its assessment and recommendations on the quality of the internal control. It is the task of the Board of Directors to decide on the measure to be taken based on this information and to supervise the execution of these measures.

The **Actuarial Function** regularly reports (as the case may be via the Audit & Risk Committee) on its activities regarding the quality assurance for the actuarial calculations and the underlying hypothesis. This reporting includes findings, the possible shortcomings and its recommendations to solve these. With regards to the technical provisions, the Actuarial functions provides for the Board of Directors (and the Executive Committee) a reasoned analysis on the accuracy and adequacy of the calculations of these, and on the sources and the level of uncertainty of the estimation of the technical provisions.

The **independent control functions** inform the Board of Directors and the Executive Committee at their own initiative, on their concerns and warn the Board of Directors and the Executive Committee if specific risk developments (could) have a negative impact on the Generali Belgium and could harm its reputation;

## **B.2. Fit and proper requirements**

### **B.2.1. Description of skills, knowledge and expertise required for persons who effectively run the undertaking or have other key functions**

Generali Belgium fit and proper requirements apply first to the members of the Board of Directors and of the Executive Committee as well as to the members of the control function, referred herein after together as "Relevant personnel".

Generali Belgium considers that, in accordance with the circular letter, an assessment of expertise, in theory, always deals with an individual. However, when the assessment relates to a directorship (whether executive or not) on a Board of Directors made up of a number of persons, account must also be taken of the composition and operation of the management Board of Directors as a whole. This means that there must be checks on whether the expertise within the Board of Directors made up of a number of persons is sufficiently guaranteed with this person, in view of his or her knowledge and specific experience, skills and professional behavior.

The aim of Generali Belgium is to have a Board of Director and Executive Committee which is effective and efficient, taking decisions within the social interest of the company. Therefore, the composition is based on a necessary diversity as well as a complementariness of experiences, knowledge and competencies. This objective is also applicable when selecting the members of the Executive Committee.

In this respect, Generali Belgium details the various domains of expertise that must be represented in the Board of Director and the Executive Committee. These domains are assessed in combination with the data completed in the applicant's file in order to assess the "fit & proper" status of the candidate.

### **Collective expertise of the Board of Directors**

It is the aim to have directors who have the individual skills and expertise to fulfil their respective tasks and to have a Board of Directors that has a diversity in qualifications, knowledge and relevant experience to steer and control the company in a professional way.

The Board of Director as a whole has the appropriate qualifications, experience and knowledge in the following domains:

- ü Insurance and financial markets
- ü The company strategy and business model
- ü The governance system
- ü Financial and actuarial analyses
- ü The regulatory framework and regulatory requirements

### **Collective expertise of the Audit & Risk Committee**

Generali Belgium as opted to have a merged Audit & Risk Committee and this means that the legally required collective expertise for this committee is the following:

- ü At least one member has the individual expertise in the domain of accountancy and/or audit;
- ü All members have individually the appropriate knowledge, expertise, experience or skills to understand and comprehend the risk strategy and the risk tolerance of an insurance company.(this does not exclude certain certificates or backgrounds but this means that the members need the professional or academically background to understand and treat the audit and risk topics with a critical mind.
- ü The Audit and Risk Committee has collectively the expertise on the activities of the company and accountancy and audit.

### **Definitions of the specific criteria for the selection of members of the Board of Directors**

#### **Ø Appropriate knowledge and experience**

A member of the Board of Director needs to have an appropriate knowledge and professional experience in a sufficient number of the following areas:

- ü Corporate governance, incl. compliance;
- ü Planning, control and reporting (strategic and multi-annual plans, budgets, quarterly reports, annual accounts);
- ü Life and Non-Life insurance technique;
- ü Asset management, incl. real estate;
- ü Accounting, internal control, risk-management and audit;
- ü Marketing and sale of insurance products;
- ü Information and Communication Technology;
- ü Organization and change management;
- ü Human Resources Management;
- ü Law (insurance, tax)

## **Ø Skills**

A member of the Board of Director needs to have personal skills that allow him/her to function effectively and efficiently, such as:

- ü Managerial attitude;
- ü Ability to function in a multinational environment;
- ü Business orientation;
- ü Team-player;
- ü Active and open in communication;
- ü Independent judgement;
- ü Balanced/prudent decision-making.

## **Definitions of the specific criteria for the selection of members of the Executive Committee**

The members of the Executive Committee shall be assessed as members of the Board of Director and as members of the Executive Committee. As a consequence, the members of the Executive Committee complete the questionnaire for members of the Board of Director and the questionnaire for the members of the Executive Committee. This Fit & Proper assessment is independent from the assessment of specific knowledge and experience required for the exercise of the function these Relevant personnel occupy.

## **Ø Appropriate knowledge and experience**

In addition to the knowledge and experience required for a member of the Board of Director, a member of the Executive Committee needs to have an appropriate knowledge and professional experience in a sufficient number of the following areas:

- ü Strategic planning & understanding of business strategy;
- ü Operational planning & management;
- ü Group Objectives focus;
- ü Financial planning & management;
- ü Internal control & Risk management;
- ü Delegation of powers;
- ü Program planning and management;
- ü Team & People management;
- ü Human resources planning and management;
- ü Community relations.

## **Ø Skills**

The skills required for the members of the Executive Committee are defined as follows:

- ü Leadership;
- ü Adaptability;
- ü Integrity;
- ü Solve problems;
- ü Think strategically;
- ü Focus on client needs;
- ü Creativity/innovation;
- ü Communication ability.

## Definitions of the specific criteria for the selection of responsible of the control functions

This Fit & Proper assessment is independent from the assessment of specific knowledge and experience required for the exercise of the function these Relevant personnel occupy in accordance with the regulatory requirements. With respect to the Fit & Proper requirements, it is expected that the following topics are considered:

### Ø **Appropriate knowledge and experience**

The Heads of the control functions need to have an appropriate knowledge and professional experience in a sufficient number of the following areas:

- ù Life and Non-Life insurance technique
- ù Team & People management;
- ù Internal control & Risk
- ù Understanding of business strategy;
- ù Understanding of financial statements;
- ù Specific dedicated professional expertise for each Head of Control Function (according to the control function)

As regards the professional expertise, a clear distinction is made between general and specific dedicated professional expertise. Each Head of Control Function must possess specific dedicated professional expertise according to the Control Function he works for. The specific dedicated professional expertise must be completed in the Self-Assessment form and an evaluation of this specific professional expertise must occur in accordance with the job function as determined by Generali Belgium.

Each of the control functions has also to fulfil specific knowledge on their own domain. These are detailed in their Charters or specified by the Law.

### Ø **Skills**

The skills required for the Heads of Control functions are defined as follows:

- ù Management experience and Leadership;
- ù Adaptability;
- ù Integrity;
- ù Independence;
- ù Solve problems;
- ù Creativity/innovation;
- ù Communication ability;
- ù Ability to work at the executive level;
- ù Ability to work with other departments.

## Definitions of the Common criteria for the selection of the Relevant personnel

### Ø Professional behavior

The professional behavior of the candidate shall be assessed by the Nomination.

In this respect, and based on the information available, the following points should be taken into consideration when assessing the professional behavior of the candidate:

- ü A member/candidate to a function qualified as being in the scope of this policy ought to have enough time to fulfil his function. In this context, the following aspects are to be taken into consideration:
  - o Number of other mandates or time-consuming professional obligations;
  - o Must be in compliance with the amount of time which has been determined as the amount of time which probably will be the minimum time needed to carry out the function (taking into account the fact that the president of the Board of Director will have to invest more time);
- ü For the evaluation of independence the following potential reasons for conflicts of interest need to be disclosed:
  - o Functions previously assumed within Generali Belgium and positions previously held in other companies;
  - o Personal, professional and economic connections with majority shareholders of Generali Belgium or its affiliates, personal or economic connections with key position holders of the credit institute or its affiliates.

### Ø Background

The background, as defined by Generali Belgium, is assessed on the basis of. Information about the professional integrity of the person subject to the assessment.

### Ø Professional integrity

Apart from the professional criteria, personal reliability and a good reputation are also prerequisites for a person to be eligible. A candidate is considered to have a good reputation if there is no reason to assume anything to the contrary. Any indications that may give rise to well-founded doubts about the ability of the candidate to ensure a reliable and prudent management of the company are detrimental to a good reputation.

The professional integrity of the person is assessed on the basis of indications in the following areas:

- ü Criminal convictions (either in Belgium or abroad);
- ü Negative assessments by financial supervisory authorities (either in Belgium or abroad);
- ü Administrative or disciplinary measures (either in Belgium or abroad);
- ü Dismissal or termination of contract on grounds of serious misconduct (either in Belgium or abroad);
- ü Companies / institutions / Board of Directories at which positions are or were held which falls within the scope of the law, or where policy is or was influenced in another significant way, or in which significant interests are or were held;
- ü Public aid received by a company in which positions are or were held which falls within the scope of the law, or where policy is or was influenced in another significant way, or in which significant interests are or were held;
- ü Settlements or agreements involving the candidate or a company in which positions are or were held which falls within the scope of the law, or where policy is or was influenced in another significant way, or in which significant interests are or were held by the candidate;
- ü Adjustment or discharge of either personal debts or a company's debts;
- ü Bankruptcy;
- ü Refusal by external auditors to certify company accounts of a company in which positions are or were held which falls within the scope of the law, or where policy is or was influenced in another significant way, or in which significant interests are or were held.

The following criteria should be taken into account when assessing convictions, proceedings, previous professional activities and bankruptcy.

If there were convictions or if proceedings are pending, further information shall be gathered and additional investigations shall be carried out. In addition, the person concerned shall be contacted personally to get more detailed information about the actual circumstances of the case at hand.

Whether the facts are relevant for a specific position or not shall be determined on the basis of a case-by-case evaluation taking into consideration the following criteria:

- Type of conviction;
- Amount of penalty;
- Degree of wrongdoing;
- Instance which pronounced the sentence;
- Time elapsed since the sentence;
- Mitigating circumstances;
- Repeated offences;
- Impacts on the reputation.

If several not serious offences are ascertained which per se do not cast any doubt on the personal reliability and the good reputation of a person, these offences shall be taken together and be analyzed as to their impact on the reliability and good reputation.

When evaluating the previous professional activities of a person, the following circumstances are to be considered as particularly serious and as such detrimental to the personal reliability and the good reputation of the candidate:

- Exclusion from a managerial function by a regulatory authority;
- Proof that the person concerned has not behaved in an open and cooperative way during procedures of regulatory authorities;
- Refusal to be awarded a license or professional permit and withdrawal, termination or revocation of such permits as well as dismissals from government positions or positions held with regulatory authorities;
- Discharge from managerial functions and positions which are based on a fiduciary authority or similar professional authority and which involve a high degree of trust, with such discharge being due to issues with regard to the integrity, sincerity and honesty of the person;
- Same reasons for the withdrawal of a person from the above-mentioned positions if such withdrawal was not originally initiated by the person concerned.

With respect to bankruptcy, further investigations should be performed aimed at obtaining information about the declaration of bankruptcy from the relevant local authority in order to assess whether the candidate does not handle his/her financial affairs in a prudent manner and/or has assumed unreasonably high financial obligations.

## **B.2.2. Process for assessing the fitness and the propriety of the persons**

### **Process for the evaluation of suitability of the members of the Board of Director**

#### **Ø Responsibility**

The Board of Directors in charge of the assessment of the members of the Board of Director is the Nomination and Remuneration Committee (hereafter "Nomination Committee") as stipulated in the Charter of the Nomination Committee of the company.

However, and as stated in this principle, the Nomination Committee assesses all applicant's files and gives a formal opinion and recommendation for the attention of the members of the Board of Director. On the basis of these opinions and recommendations, the Board of Director shall then finalize the list of candidates that will be subject to final approval by the General Meeting.

The Nomination Committee is made up of non-executive members of the Board of Director which have to be at least two.

The results of the assessments shall be submitted to the members of the General Meeting.

## **Ø Evaluation and decision-making process**

### ***In General***

The suitability of potential new member(s) or current member(s) of the Board of Director must be assessed by the Nomination Committee prior to the entry into function on the basis of the documents to be obtained (see below). The results of this assessment are submitted to the members of the Board of Director which will then finalize the list of candidates that will be subject to final approval by the General Meeting. The suitability of a potential new candidate must be assessed by the Nomination Committee prior to the entry into function on the basis of the documents to be obtained (see below). The results of this assessment are submitted to the members of the Board of Director for final approbation and appointment.

On the basis of the assessment of the new candidate(s) made by the Nomination Committee, and as stated in point 9 of the Charter of the Board of Director, the Board of Director will assess whether the expertise within the Board of Director is sufficiently guaranteed with this new candidate, in view of his or her knowledge and specific experience, skills and professional behavior. This assessment must be stated in the meeting minutes of the Board of Director meeting during which this global assessment takes place.

Once the members of the Board of Director finalize the list of candidates to be presented to the General Meeting, the applicant's files as well as the assessments are sent to the National Bank of Belgium in due time for their appraisal.

In theory the appointment may not become effective and may not be made public until the National Bank of Belgium has made a ruling except in exceptional circumstances where the appointment may take place subject to a condition precedent, and may be made public provided that this condition is mentioned.

### ***Particular cases***

The members of the Nomination Committee carry out the assessment of the candidates to the Board of Director and of the members of the Board of Director.

When a member of the Nomination Committee happens to be in a situation of potential conflict of interest, the procedure foresees that this member of the Nomination Committee must withdraw from the assessment process in order to preserve a maximum objectivity and legitimacy of the assessment.

In the eventuality where a member of the Nomination Committee in charge of the assessment of the candidates or members of the Board of Director is him/herself subject to a suitability assessment, the procedure foresees temporary withdrawal of the member subject to the assessment for the duration of said assessment in order to ensure the highest level of impartiality and legitimacy to the assessment exercise. Should this situation lead to an assessment to be performed by only one member (or none), the procedure foresees to contact the Generali Group (e.g. the Regional Officer who is in charge of Belgium) in order to obtain a complementary and independent opinion on the assessment or to nominate another representative of the Generali Group to provide a complementary and independent opinion.

## **Ø Documents to be obtained**

Generali Belgium's procedure, under Annex I of the circular letter, contains all documents to be submitted by the candidate and the questionnaire to be filled in by him for the appraisal by the National Bank of Belgium. These documents also have to be put at the disposal of the company in order to perform its own assessment.

Hence, and as a minimum, Generali Belgium decided that the following documents have to be submitted within the framework of the evaluation of suitability:

- ü The applicable standard application file drafted by the National Bank of Belgium;
- ü Curriculum vitae;
- ü Extract from the judicial record;
- ü Any degree or certificate of attendance to trainings that can demonstrate a sufficient aptitude for the required competencies;
- ü Any other document that can show a certain aptitude for the required competencies (i.e. recommendation letters, ...)
- ü Generali Belgium assessment questionnaire.

These documents are required for new appointments and re-appointments.

Generali Belgium developed its own assessment questionnaires in order to perform its own evaluation of suitability. These questionnaires are built in order to meet the requirements stated under principle 2 of the Governance Charter of Generali Belgium.

In line with Generali Belgium's privacy policy, the extract from the judicial record will be consulted for the evaluation and kept the time required for preparation of the candidate's file. Once the preparation of the file is closed, the extract from the judicial record has to be sent to the NBB. The extract from the judicial record cannot be older than three months.

## Ø Execution

The candidate/member of the Board of Director must complete a questionnaire to assess his/her competences. The Nomination Committee reviews and confirms or amends the assessment for an advice to the Board of Director on the candidate. The Board of Director is responsible for the communication of the findings to the shareholders during the General Meeting.

The competence in each area of knowledge and experience is assessed separately. The result can be 'very good' (in-depth expert competency), 'good' (broad generalist competency), 'satisfactory' (generalist competency) or 'to improve' (competency with minor gaps). In all other cases the competence is 'inadequate'.

The assessment for a non-executive director has to be 'good' in at least five areas – including at any rate Planning, control and reporting – while only for two areas the assessment 'to improve' or 'inadequate' can be accepted provided that there will be a remedial action (see below).

The contribution of the individual members has to result in a board having at least 75% of its members with a 'very good' or 'good' contribution in the first five areas listed in (Knowledge and Experience of Board members).

For the other areas the Board of Director needs to have at least two members with a 'very good' or 'good' contribution.

The assessment of individual skills ((Skills of Board of Director) is not done one-by-one, but will be done by the candidate based on an overall approach using the list as a framework. The outcome has to be at least 'good'.

The assessment is based on the documents obtained in accordance as well as on the assessment questionnaire of Generali Belgium. Besides, the Nomination Committee can interview the candidates to or current members of the Board of Director. All fields on this questionnaire are mandatory and even fully satisfactory assessments require comments.

The members of the Nomination Committee must finalize their assessment by means of a global assessment of the fit & proper character of the candidate by assessing whether he is:

- ü "fit & proper";
- ü "fit & proper subject to the fulfilment of conditions"; or
- ü "not meeting up the fit & proper legal requirements" to a sufficient extent".

If the professional suitability, the personal reliability, the good reputation and the governance criteria meet the requirements, a positive overall evaluation can be given and such evaluation is then to be confirmed by a notice in the meeting minutes of the Nomination Committee and a completed assessment questionnaire.

These assessments are hence presented to the Board of Director who will finalize the list of candidates before presenting them for final approval to the shareholders.

## **Process for the evaluation of suitability of the members of the Executive Committee**

### **Ø Responsibility**

The Board of Directors in charge of the assessment of the members of the Executive Committee is the Nomination Committee for the assessment of the candidates or members of the Executive Committee.

As stated in this principle, the Nomination Committee assesses all applicants' files and gives a formal opinion and recommendation for the attention of the members of the Board of Director. On the basis of these opinions and recommendations, the Board of Director shall then finalize the list of candidates and determines the members of the Executive Committee.

The Nomination Committee is made up of non-executive members of the Board of Director which have to be at least two.

### **Ø Evaluation and decision-making process**

#### ***In General***

The suitability of potential new member(s) or current member(s) of the Executive Committee must be assessed by the Nomination Committee prior to the entry into function on the basis of the documents to be obtained (see below). However, as stated in principle 6 of the Governance Charter of the Company, the results of this assessment are submitted to the members of the Board of Director which will then finalize the list of candidates. The suitability of the potential new candidate must be already assessed by the Nomination Committee prior to the entry into function on the basis of the documents to be obtained (see below). As stated in principle 7 of the Charter of the Board of Director, the suitability of the current members is also assessed by the Nomination Committee and these results are submitted to the members of the Board of Director for decision-making. The results of this assessment are submitted to the members of the Board of Director for final approbation and appointment.

On the basis of the assessment of the new candidate(s) made by the Nomination Committee, the Board of Director will assess whether the expertise within the Executive Committee is sufficiently guaranteed with this new candidate, in view of his or her knowledge and specific experience, skills and professional behavior. This assessment must be stated in the meeting minutes of the Board of Director meeting during which this global assessment takes place.

Once the members of the Board of Director finalize the list of candidates to the Executive Committee, the applicant's files as well as the assessments are sent to the NBB in due time for their appraisal.

In theory the appointment may not become effective and may not be made public until the NBB has made a ruling except in exceptional circumstances where the appointment may take place subject to a condition precedent, and may be made public provided that this condition is mentioned.

### **Ø Documents to be obtained**

Generali Belgium's procedure, under Annex I of the circular letter, contains all documents to be submitted by the candidate and the questionnaire to be filled in by him for the appraisal by the NBB. These documents also have to be put at the disposal of the company in order to perform its own assessment.

Hence, and as a minimum, Generali Belgium decided that the following documents have to be submitted within the framework of the evaluation of suitability:

- ü The applicable standard application file drafted by the NBB;
- ü Curriculum vitae;
- ü Extract from the judicial record;
- ü Any degree or certificate of attendance to trainings that can demonstrate a sufficient aptitude for the required competencies;
- ü Any other document that can show a certain aptitude for the required competencies (i.e. recommendation letters, ...)
- ü Generali Belgium assessment questionnaire.

These documents are required for new appointments and re-appointments.

Generali Belgium developed its own assessment questionnaires in order to perform its own evaluation of suitability. These questionnaires are built in order to meet the requirements stated under principle 2 of the Governance Charter of Generali Belgium.

In line with Generali Belgium's privacy policy, the extract from the judicial record will be consulted for the evaluation and kept the time required for preparation of the candidate's file. Once the preparation of the file is closed, the extract from the judicial record has to be sent to the National Bank of Belgium. The extract from the judicial record cannot be older than three months.

## Ø Execution

For the assessment of the selection criteria detailed above (criteria for the selection of Executive Committee members) the candidate/member of the Executive Committee must complete a questionnaire to assess his/her competences. The Nomination Committee reviews and confirms or amends the assessment for an advice to the Board of Director on the candidate.

The competence in each area of knowledge and experience is assessed separately. The result can be 'very good' (in-depth expert competency), 'good' (broad generalist competency), 'satisfactory' (generalist competency) or 'to improve' (competency with minor gaps). In all other cases the competence is 'inadequate'.

In addition to the results obtained in the questionnaires as members of the Board of Director, the assessment for an executive director has to be 'good' in at least five areas – including at any rate financial planning & management – while only for two areas the assessment 'to improve' or 'inadequate' can be accepted provided that there will be a remedial action

The contribution of the individual members has to result in a Executive Committee having 75% of its members with a 'very good' or 'good' contribution in the first five areas (Knowledge and Experience of Executive Committee members).

For the other areas the Executive Committee needs to have at least two members with a 'very good' or 'good' contribution.

The assessment of individual skills (Skills of Executive Committee members) is not done on-by-one, but will be done by the candidate based on an overall approach using the list as a framework. The outcome has to be at least 'good'.

The assessment is based on the documents obtained as well as on the assessment questionnaire of Generali Belgium. Besides, the Nomination Committee can interview the candidates to or current members of the Executive Committee. All fields on this questionnaire are mandatory and even fully satisfactory assessments require comments.

The members of the Nomination Committee must finalize their assessment by means of a global assessment of the fit & proper character of the candidate by assessing whether he is:

- ü "fit & proper";
- ü "fit & proper subject to the fulfilment of conditions"; or
- ü "not meeting up the fit & proper legal requirements" to a sufficient extent".

If the professional suitability, the personal reliability, the good reputation and the governance criteria meet the requirements, a positive overall evaluation can be given and such evaluation is then to be confirmed by a notice in the meeting minutes of the Nomination Committee and a completed assessment questionnaire.

These assessments are hence presented to the Board of Director who will finalize the list of candidates and decide the final composition of the Executive Committee.

## Process for the evaluation of suitability of the Head of Control Functions

### Ø Responsibility

The Board of Directors in charge of the assessment of the Head of Control functions in scope of Circular Letter NBB\_2013\_02 is the Nomination Committee, whereas the other Heads of Control functions are assessed by the Executive Committee.

The Nomination Committee assesses all applicants' files and gives a formal opinion and recommendation for the attention of the members of the Board of Director. On the basis of these opinions and recommendations, the Board of Director shall then finalize the appointment of the Head of the Control function subject to the appraisal of the NBB.

The files of the other Heads of control functions are assessed by the Executive Committee.

## **Ø Evaluation and decision-making process**

### ***In General***

The suitability of the candidates to the Heads of control functions must be assessed by the Nomination Committee prior to the entry into function on the basis of the documents to be obtained (see below). The results of this assessment are submitted to the members of the Board of Director which will then finalize the list of candidates. The suitability of the potential new candidate must be already assessed by the Nomination Committee prior to the entry into function on the basis of the documents to be obtained (see below). The results of this assessment are submitted to the members of the Board of Director for final approbation and appointment.

On the basis of the assessment of the new candidate(s) made by the Nomination Committee, the Board of Director will assess whether the requested expertise is sufficiently guaranteed with this new candidate, in view of his or her knowledge and specific experience, skills and professional behavior. This assessment must be stated in the meeting minutes of the Board of Director meeting during which this global assessment takes place.

Once the members of the Board of Director finalize their review and appointment, the applicant's files as well as the assessments are sent to the National Bank of Belgium in due time for their appraisal.

In theory the appointment may not become effective and may not be made public until the NBB has made a ruling except in exceptional circumstances where the appointment may take place subject to a condition precedent, and may be made public provided that this condition is mentioned.

## **Ø Documents to be obtained**

Generali Belgium's procedure, contains all documents to be submitted by the candidate and the questionnaire to be filled in by him for the appraisal by the NBB. These documents also have to be put at the disposal of the company in order to perform its own assessment.

Hence, and as a minimum, Generali Belgium decided that the following documents have to be submitted within the framework of the evaluation of suitability:

- ü The applicable standard application file drafted by the NBB for the control functions in scope of circular letter NBB\_2013\_02;
- ü Curriculum vitae;
- ü Extract from the judicial record;
- ü any degree or certificate of attendance to trainings that can demonstrate a sufficient aptitude for the required competencies;
- ü Any other document that can show a certain aptitude for the required competencies (i.e. recommendation letters, ...)
- ü Generali Belgium assessment questionnaire.

These documents are required for new appointments and re-appointments.

In line with the Group Fit & Proper policy attached to this policy, the members of the Board of Director and Executive Committee also complete form Annex A containing the Fit & Proper declaration and the heads of control functions complete form Annex B.

Generali Belgium developed its own assessment questionnaires in order to perform its own evaluation of suitability. These questionnaires are built in order to meet the requirements stated under principle 2 of the Governance Charter of Generali Belgium.

In line with Generali Belgium's privacy policy, the extract from the judicial record will be consulted for the evaluation and kept the time required for preparation of the candidate's file. Once the preparation of the file is closed, the extract from the judicial record has to be sent to the National Bank of Belgium. The extract from the judicial record cannot be older than three months.

## Ø Execution

For the assessment of the selection criteria detailed (criteria for the selection of the Head of Control Functions) the candidate/member as Head of the considered control function must complete a questionnaire to assess his/her competences. The Nomination Committee reviews and confirms or amends the assessment for an advice to the Board of Director on the candidate. Ongoing monitoring of the Heads of the control functions is performed by the members of the Audit Risk Committee.

The competence in each area of knowledge and experience is assessed separately. The result can be 'very good' (in-depth expert competency), 'good' (broad generalist competency), 'satisfactory' (generalist competency) or 'to improve' (competency with minor gaps). In all other cases the competence is 'inadequate'.

The assessment for a Head of a Control function has to be 'good' in at least five areas – including at any rate Internal control & Risk management and Understanding of business strategy – while only for two areas the assessment 'to improve' or 'inadequate' can be accepted provided that there will be a remedial action.

The assessment of individual skills is not done on-by-one, but will be done by the candidate based on an overall approach using the list as a framework. The outcome has to be at least 'good'.

The assessment is based on the documents obtained in accordance as well as on the assessment questionnaire of Generali Belgium. Besides, the Nomination Committee can interview the candidates to or current members of the Heads of control functions. All fields on this questionnaire are mandatory and even fully satisfactory assessments require comments.

The members of the Nomination Committee must finalize their assessment by means of a global assessment of the fit & proper character of the candidate by assessing whether he is:

- ù "fit & proper";
- ù "fit & proper subject to the fulfilment of conditions"; or
- ù "not meeting up the fit & proper legal requirements" to a sufficient extent".

If the professional suitability, the personal reliability, the good reputation and the governance criteria meet the requirements, a positive overall evaluation can be given and such evaluation is then to be confirmed by a notice in the meeting minutes of the Nomination Committee and a completed assessment questionnaire.

These assessments are hence presented to the Board of Director who will finalize the review of the candidate's file and decide the final appointment of the candidate.

## **Common Criteria applicable for the evaluation of suitability of all the categories of Relevant personnel**

### Ø Measures in case of "fit & proper"

In case the candidate is assessed as meeting the required "fit & proper" criteria by the Nomination Committee or the Executive Committee, he shall then be considered as appointed by the Nomination Committee as a potential occupant of the function under consideration.

Should the assessed function be in the scope of Circular Letter NBB\_2013\_02, the final appointment is subject to the appraisal of the National Bank of Belgium.

### **Ø Measures in case of “fit & proper subject to the fulfilment of conditions”**

If individual sections only partly meet the criteria and if, in addition, there is no accumulation of only partially complying criteria, the Nomination Committee may suggest and the Board of Director may at its own discretion determine conditions (e. g. training measures) which the candidate has to fulfil within a specific period of time. During this allocated period of time to comply, the candidate may occupy the relevant position for the time being (“fit & proper conditions”).

For the collegial Board of Director, this is only possible if the collective suitability of the Board of Directors is guaranteed. However for candidates to the Board of Director, in such cases, these action plans are subject to the approval of the shareholders.

At the end of the specific period of time, the assessment is performed again on the points to be improved identified during the first assessment in order to assess whether the candidate has become “fit & proper” or not. If the candidate has become “fit & proper” and the member of the Relevant personnel is subject to the requirements of Circular Letter NBB\_2013\_02, the NBB is informed hereof.

### **Ø Measures in case of a negative evaluation “not fit & proper”**

In any case a candidate is assessed as “not meeting up the fit & proper legal requirements to a sufficient extent” if he fails to fulfil clearly defined legal requirements (see e.g. the grounds for exclusion pursuant to art 526ter of the Company Code or serious criminal convictions).

Besides, if a candidate who has been evaluated as “fit & proper subject to the fulfilment of conditions” does not fulfil the conditions within the prescribed period of time and if it does not seem to be reasonable to extend the period for the fulfilment of the conditions imposed, this candidate shall be evaluated as “not fit & proper” and the company shall file form Annex 2 – Exit of the circular letter at the National Bank of Belgium if the function under assessment is subject to the requirements of Circular Letter NBB\_2013\_02.

If a future member of the Board of Director has received a negative evaluation (“not fit & proper”), he must not be appointed. If the member already fulfils his functions, Generali Belgium shall replace him with a suitable person.

If the assessment of the Relevant personnel is negative (“not fit & proper”) and the function falls in the scope of Circular Letter NBB\_2013\_02, the NBB shall be informed thereof by completing Annex 2 – Exit of the circular letter. At the same time Generali Belgium shall take measures in order to ensure that the suitability of the collegial Board of Director as a whole is restored.

### **Ø Frequency of the suitability assessment**

The assessment of candidates to functions occupied by Relevant personnel shall be operated prior to the taking up of the position.

For candidates to the Board of Director, following this assessment, the required application file and documentary evidence together with the assessment questionnaire shall be provided to the National Bank of Belgium at the latest one month before the General Meeting appointing the candidates to the Board of Director.

For the other candidates to functions comprised in the Relevant personnel functions, should the function fall in the scope of Circular Letter NBB\_2013\_02, the required application file and documentary evidence together with the assessment questionnaire shall be provided to the National Bank of Belgium in the briefest delays following their assessments by the Board of Director. The other Relevant functions may consider their appointment finalized upon validation by the Executive Committee.

All occupants of functions identified in this policy shall be reminded yearly, by means of a written declaration, that she/he confirms that she/he will unreservedly abide by the current fit & proper standards for this position and that she/he will give immediate notice of any events which might turn out to be important in this respect. As a general rule, this yearly declaration shall be performed when approving the annual financial statements and shall be requested by the Human Resource Department.

### **Ø New elements**

Any new element which might have an impact upon the “fit & proper” status of a person who falls within the scope of the law must be sent to the supervisory authority without delay.

Generali Belgium considers that any new element having an impact on the information previously provided under “Annex 1 – Title VI. Information about the professional integrity of the person in question”, must be considered as a triggering moment for a re-assessment of the suitability of the member of the Relevant personnel.

Therefore, should it happen that new elements might have an impact upon the “fit & proper” status of a person in function and falling within the scope of the circular letter, the concerned member must notify this without delay to the president of the Nomination Committee.

The Nomination Committee or the Executive Committee performs an assessment of the impact of the new element on the “fit & proper” status of the person. Should the impact of this new element jeopardies the fit & proper status of the person occupying a Relevant function in the scope of Circular letter NBB\_2013\_02, this must be mentioned in the assessment of the Nomination Committee and be submitted to the Board of Director for final decision and “Annex 3 – New elements “of the circular letter must be sent, duly completed and signed, to the National Bank of Belgium without delay.

Moreover, all members of the Relevant personnel shall be reminded yearly, by means of a written declaration, that she/he confirms that she/he will unreservedly abide by the current fit & proper standards for this position and that she/he will give immediate notice of any events which might turn out to be important in this respect.

### **Ø Exit**

As stated in the circular letter, when an occupant of a Relevant function leaves the company and the Relevant function falls in the scope of Circular Letter NBB\_2013\_02, the company must file Annex 2 – Exit of the circular letter informing the National Bank of Belgium of the reason for leaving (no renewal of an expiring mandate, internal reorganization, voluntary redundancy, dismissal on grounds of serious misconduct, expiry of contract, retirement or other reasons).

### **Ø Documentary evidence**

All assessments and declarations by the occupants of Relevant functions shall be dated and signed by the person performing the assessment. A copy of all assessment documents (except the extract from the judicial record), a copy of the candidate's file and meeting minutes of the Nomination Committee, the Board of Director, the General Meeting and the Executive Committee shall be stored by the General Counsel. These documents must be easily gathered upon request of the supervisory authorities or any independent control function which is required to assess the compliance of the company with the “fit and proper” legal requirements.

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

### **B.3.1. Risk management system**

The purpose of the Risk Management system is to ensure that all risks to which the Company is exposed to are properly and effectively managed on the basis of the risk strategy defined, following a set of processes and procedures and based on clear governance provisions.

The principles defining the Risk Management system are provided in the Risk Management Policy which is the cornerstone of all risk-related policies and guidelines. The Risk Management Policy covers all risks the Company is exposed to, on a current basis or on forward-looking basis.

The Risk Management Policy covers all Solvency II risk categories and, in order to adequately deal with each specific risk category and underlying business processes, it is complemented by the following Risk Policies or Guidelines:

- Group Directives on Internal Control and Risk Management System;
- Group Life Underwriting and Reserving Policy;
- Group P&C Underwriting and Reserving Policy;
- Group Investment Governance Policy;
- Group Operational Risk Management Policy;
- Group Liquidity Risk Management Policy;
- Group Risk Guidelines;
- Group Investments Risk Guidelines;
- Group Liquidity Risk Limit Monitoring Guideline;
- ORSA Reporting Operating Procedure;
- Group Internal Model Governance Policy;
- Group Internal Model Change Policy;
- Group Internal Model Validation Policy;
- Group Capital Management Policy;
- Group Data Quality Policy
- Group Supervisory Reporting and Public Disclosure Policy
- Group Fit & Proper Policy
- Group Volatility Adjustment Policy
- Group Treasury Policy.
- Group Risk Management and Actuarial Function Joint Guidelines;
- Group Non-Life Underwriting Risk Guidelines.

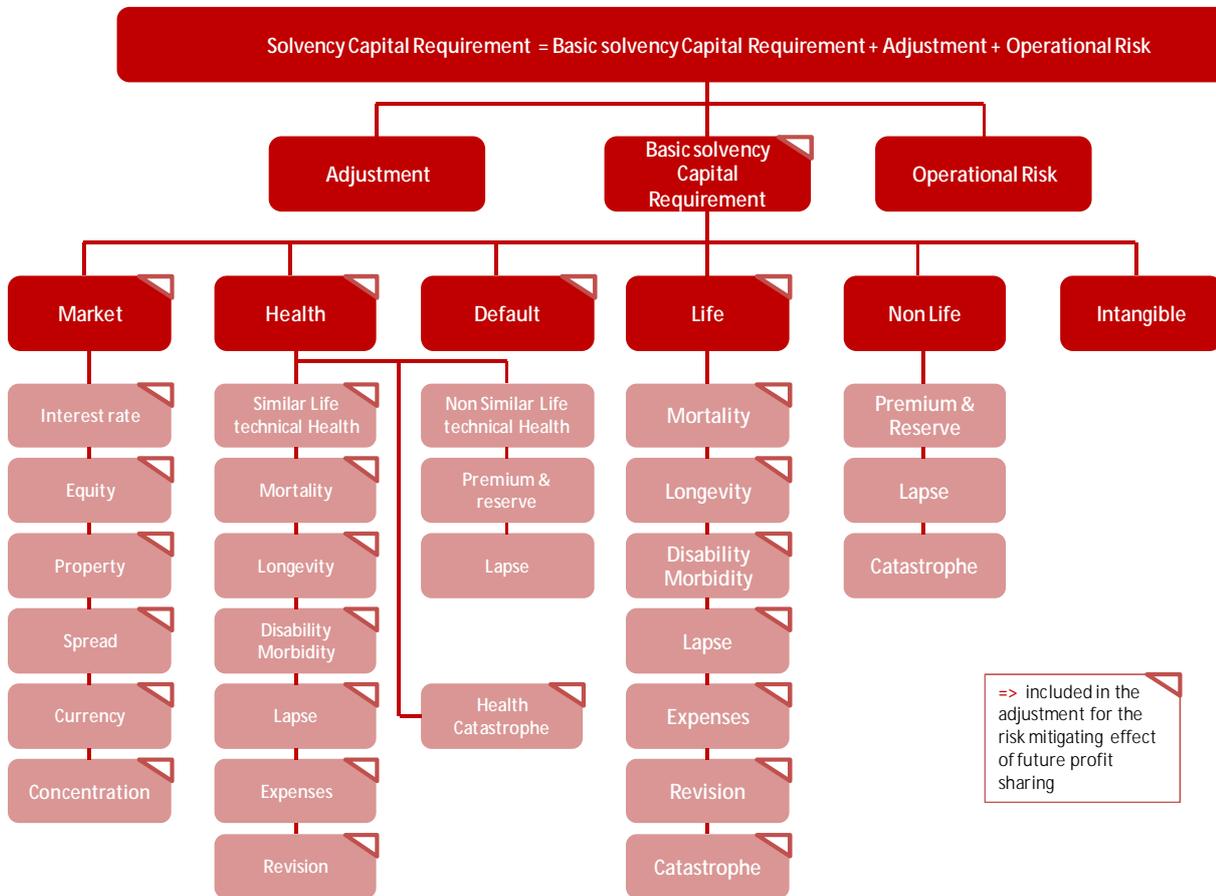
Risk Management process is defined on the following phases:



#### **1. Risk identification**

The purpose of the Risk Management system is to ensure that all material risks to which the Company is exposed to are properly and effectively managed on the basis of the risk strategy defined, following a set of processes and procedures and based on clear governance provisions.

The principles defining the Risk Management system are provided in the Risk Management Policy which is the cornerstone of all risk-related policies and guidelines. The Risk Management Policy covers all risks the Company is exposed to on a current basis or on forward-looking basis.



The Company has also developed an effective Risk Management system for those risks which are not included in the Solvency Capital Requirement calculation, such as Liquidity Risk and Other Risks (so called 'non-quantifiable risks', i.e. Reputational Risk, Contagion Risk and Emerging Risks).

Please see sections C.4 Liquidity Risk and C.6 Other Material Risks for further details.

## 2. Risk measurement

The risks identified during this 1st phase are then measured through their contributions to the Solvency Capital Requirement, eventually complemented by other modelling techniques deemed appropriate and proportionate to better reflect the Company risk profile. Using the same metric for measuring the risks and the Solvency Capital Requirement ensures that each risk is covered by an adequate amount of Solvency Capital which could absorb the loss incurred if the risk went to materialize.

In compliance with Solvency II regulation, the Solvency Capital Requirement is calculated based on the EIOPA Standard Formula.

Risks not included in the Solvency Capital Requirement calculation, such as Liquidity Risk and the Other Risks are evaluated based on quantitative and qualitative techniques and models.

### **3. Risk Management and control**

Generali Belgium operates under a sound Risk Management system in line with the processes and the strategy set in place. To ensure that the risks are managed according to the risk strategy, Generali Belgium follows the governance defined in the Risk Appetite Framework which provides a framework for risk management embedding in day-to-day and extraordinary business operations, control mechanisms as well as escalation and reporting processes.

The purpose of the Risk Appetite Framework is to set the desired level of risk on the basis of the Company strategy. The Risk Appetite Framework statement is complemented by qualitative assertions (risk preferences) supporting the decision-making processes as well as by risk tolerances providing quantitative boundaries, limiting excessive risk-taking. These are expressed in terms of hard and soft tolerances.

Without Group intervention, Generali Belgium aims at maintaining a capital position enabling, given its risk exposure, to support a one on ten shock and remain solvent, and actively pursues the diversification of its risks.

The integration of the Risk Appetite Framework in the business process is in particular foreseen for the strategic planning process, the strategic asset allocation, the product development process, as well as for extraordinary operations management.

Generali embeds its Risk Appetite into the key decision making processes looking at two main dimensions and has defined consistent risk metrics to ensure that its risk profile is managed within the stated appetite and regulatory requirements, triggering actions whenever tolerance levels breached.

The Risk Appetite framework is developed on the basis of the Generali Group Risk Appetite Framework, embedding the following Belgian specificities:

- ü The definition of a Generali Belgium limit for Soft Tolerance on Solvency Position.
- ü The inclusion of specific underlying limits on the investment strategy concerning the Credit Risk and the Market Concentration Risk, the Collateralized positions and vehicles management and the derivatives and structured products investment strategy.

### **4. Risk reporting**

The purpose of risk reporting is to keep business Functions, Senior Management, Board of Directors and also the Supervisory Authority aware and informed on the development of the risk profile, on the risk trends and on the breaches of risk tolerances.

A description of how the Risk Management Function is implemented and integrated into the organizational structure and decision-taking processes of the undertaking is provided under paragraph B.1.

The Own Risk and Solvency Assessment (ORSA) is the main risk reporting process, coordinated by the Risk Management Function. Its purpose is to provide the assessment of risks and of the overall solvency needs on a current and forward-looking basis. The Own Risk and Solvency Assessment process ensures ongoing assessment of the solvency position in line with the Strategic Plan and Capital Management Plan, followed by a regular communication of Own Risk and Solvency Assessment Results to the Supervisory Authority after Board of Directors approval. More details are provided on the Own Risk Solvency Assessment in section B.3.3.

#### **Risk governance**

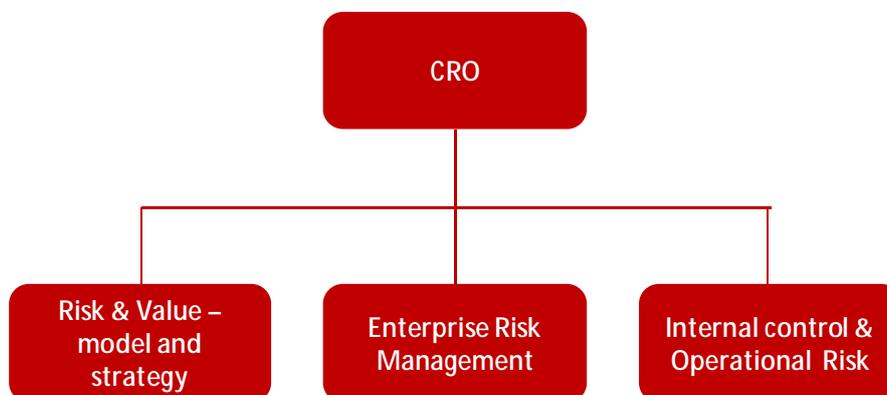
The Integrated Risk Management Policy states that the Risk Management function acts as guarantor for the effective implementation of the risk management system, as required by law and as established by the Board of Directors.

The function supports the Board of Directors and Executive Committee in the definition of the risk management strategy and the development of tools. During the year, the Risk Management Function worked on the further strengthening of the Risk Governance and operating model, supported by the Group Risk Management framework and following the circular on Governance as well as the local Solvency II regulatory framework..

Risk Management is led by CRO, in charge of performing risk management activities.

Solid reporting lines are in place among the Group CRO and Regional CROs and, similarly, solid reporting lines have been established among Regional CRO (Global Business Lines) and Generali Belgium CRO.

The current operating structure of the Risk Management is the following:



The current Risk Management function is compound of 3 different units: Enterprise Risk Management, Risk & Value – Model & Strategy and Internal Control & Operational Risk which main responsibilities are described here under.

**The Enterprise Risk Management** team is composed of 3 FTE's. Its objectives are the following:

- ü The Standard Formula results are reviewed by an independent control function, issuing review reports and recommendations when relevant;
- ü The Own Risk Solvency Assessment process is run in Generali Belgium and the outcomes are regularly reported to the Top Management and to the Supervisor;
- ü The Risk Profile assessment is reviewed and challenged by an independent party;
- ü The Risk indicators are defined, measured, monitored and reported, as well as their limits, within the risk appetite framework;
- ü The Risk Appetite Framework is monitored and translated into operational limits embedding the risk profile in the business;
- ü Policies and guidelines on pillar I and other risks are approved, implemented and monitored according to the Risk Appetite Framework;
- ü The assumptions underlying the Capital requirement projections are reviewed and challenged;

**The Internal Control & Operational Risk** team is composed of 5 FTE's. Its objectives are the following:

- ü The policies & guidelines on operational and other risks (non-pillar I) are approved, implemented and monitored;
- ü The operational risks are assessed based on a forward-looking risk assessment performed jointly with the Compliance function and which consists in evaluating the gross exposure of Generali Belgium to operational risks and, taking into account the mitigation actions in force, the residual risk;
- ü An incident database is created, continuously updated and alimented in order to allow for a better comprehension of the risk profile of Generali Belgium and the definition and implementation of adequate mitigation actions ;
- ü A scenario analysis on the most critical identified risks was performed for 2017;
- ü The Loss Data Collection process was effectively in place and the monitoring performed for the year 2017;
- ü The Internal Control is implemented in the main process of Generali Belgium, and integrated in the day to day business activities;
- ü The Operational Key Risk Indicators are embedded in the Risk Dashboard as part of the quarterly ORSA reporting process;
- ü The financial reporting risks are under control and are monitored constantly.

**The Risk and Value, Model and Strategy** is composed out of 6 FTE's. Its objectives are the following:

- ü The Risk measures are calculated according to the legal framework (EIOPA Standard Formula) for all required reporting periods;
- ü The Risk profile is measured according to the local methodology foreseen in the Own Risk Solvency Assessment process;
- ü The impact of new products on the risk profile is analysed;

- ü The Risk measures are performed when required for ad-hoc analysis;
- ü The projected Risk measures are calculated on the Strategic Plan horizon to assure the alignment between the Company strategy and the Risk Appetite Framework;
- ü The Risk calculations embed the required level of first line controls and documentation;
- ü The internal methodology is understood and suitability is analysed.

The Risk Management, relying on the framework set through the Group Risk Management Governance, focuses on a sized and materiality fitted approach to embed the Risk Management System in the Company. Moreover, the Risk Management ensure a proper deployment of the Risk Management System in full compliance with the Belgian regulatory framework and aligned on the market practice.

### **B.3.2. Own Risk Solvency Assessment Process**

The Own Risk and Solvency Assessment process is a key component of the Risk Management system which aims at assessing the adequacy of the solvency position and the risk profile on a current and forward-looking basis.

The Own Risk and Solvency Assessment process documents and properly assess the main risks Generali Belgium is exposed to, or might be exposed on the basis of its Strategic Plan. It includes the assessment of the risks in scope of the Solvency Capital Requirement calculation, but also the Other Risks not included in Solvency Capital Requirement calculation. In terms of risk assessment techniques, stress test and sensitivity analysis are also performed with the purpose to assess the resilience of Generali Belgium risk profile to changed market conditions or specific risk factors.

The Own Risk and Solvency Assessment Reporting process is implemented according to the requirements provided by the National Bank of Belgium (NBB\_2017\_13 circular) and following the Risk Management Policy and the Own Risk and Solvency Assessment Reporting Guideline

The Chief Risk Officer coordinates the Own Risk and Solvency Assessment process within his area and with the contribution of other departments (mainly Finance, Actuarial Function and Business). The results are mainly produced by the Actuarial Platform (actuarial tools used within Generali).

The Local Own Risk and Solvency Assessment Report is prepared at least annually as required by the local Belgian regulator. The Own Risk and Solvency Assessment Yearly Report is presented and validated by the Executive Committee and by the Board of Directors of Generali Belgium before being sent to the regulator.

On a quarterly basis, a light Own Risk and Solvency Assessment report (presented under the form of a Risk Dashboard), focusing on the key risk and performance indicators is shared by the Chief Risk Officer with the Executive Committee and the Board of Directors, aiming at keeping their members continuously and properly informed about the risk profile development and thus, supporting the decision-making process of the Company.

During the strategic plan finalization phase, the forward looking risk assessment is also updated in line with the Capital Management Plan.

A non-regular Own Risk and Solvency Assessment report is also produced in case of significant change of the risk profile.

The Own Risk and Solvency Assessment results are presented to and challenged and approved by the Board of Directors. The Company submits the approved report to the National Bank of Belgium within the 15 days following the Board of Directors approval, and this in compliance with the Belgian Circular NBB\_2017\_13.

### **B.3.3. Risk embedding in capital management process**

Risk and capital management processes are closely integrated processes. This integration is deemed essential in order to align business and capital management processes. Through its Own Risk and Solvency Assessment Process, Generali Belgium aims at achieving the assessment of its risk profile under a short or long term perspective according to its business planning. This will, on a continuous manner, aim for the inclusion of the risk strategy into the operating business and enhancement of a common risk mindset fully embedded within Generali Belgium system of Governance.

The integration of the Own Risk and Solvency Assessment process with business planning is particularly needed in order to enable Own Risk and Solvency Assessment outputs to feed the business strategy update and to constructively contribute to the planning. Moreover, the Strategic Planning exercise is used as input underlying the Solvency projections aiming at giving a risk and return perspective on the mid-term strategy of Generali Belgium.

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

The Own Risk Self-Assessment relies on the capital management plan to assess the adequacy and quality of own funds to cover the overall solvency needs during the planning period.

## **B.4. Internal control system**

### **B.4.1. Internal control system**

Generali Belgium has set up an organizational and operational structure aiming at supporting its strategic objectives and operations.

To that aim, Generali Belgium has set its own strategies and policies, consistently with Generali Group strategies and policies, as well as implementing procedures and appropriate internal control framework to ensure adherence to these policies

The Generali Belgium internal control and risk management system is founded on the establishment of the three lines of defense:

- ü The operating functions (the "Risk Owners"), which represent the first line of defense and have ultimate responsibility for risks relating to their area of expertise;
- ü Actuarial, compliance and risk management functions, which represent the second line of defense;
- ü Internal audit, which represents the third line of defense (together with actuarial, compliance and risk management functions the "Control Functions").

### **B.4.2. Information on Internal Control function: organizational structure and the decision making processes of the undertaking. Status and resources of the internal control function within the undertaking**

The second line control function depends on the Chief Risk Officer (CRO), who hierarchically depends on the Chief Executive Officer while keeping a direct access to the Board of Directors and having a complete access to all information. For further information please refer to section B3 of the Solvency Condition Financial Report.

Generali Belgium created a centralized department dedicated to the monitoring of the internal control system put in place through out of Generali Belgium. The main goal is to ensure that:

- ü Internal controls are adequately implemented in each significant process of the company in accordance with its risk appetite and are included in the day-to-day activities;
- ü The controls are defined in an efficient way to cover the addressed risks and maintain them at a target level, and are also performed in an adequate way;

Each business unit understands the objectives of implementing an internal control system: creating value and improving the process performance. To this aim, the methodology adopted has been to:

- ü Define an internal methodology and standards allowing the team to support the first line of defense in the implementation of internal controls, in consistency with the group directives;
- ü Iteratively evaluate the control activities performed by the different organizational units, in order to assess their adequacy for the risk coverage. Also, the team can provide suggestion for the improvement of the internal control activities in place and support the risk owner in the remediation actions.

Generali Belgium considers the following as minimum requirements for the establishment of an adequate internal control system.

Internal control combines the following aspects:

- ü Internal control environment;
- ü Internal control activities;
- ü Awareness;
- ü Monitoring and reporting.

Therefore, Generali Belgium has established a Board of Directors. The Board of Directors ensures that Generali Belgium internal control and risk management system as well as the other elements of the system of governance are consistent with European and Belgian Directives and the internal Risk Policies at all times. To this end, the Board of Directors reassesses the consistency of Internal Control System periodically and at least once a year.

The Board of Directors holds the ultimate responsibility for the compliance with applicable laws, regulations and administrative provisions, including those adopted pursuant the Solvency II Directive .

### **Bodies responsible for Internal Control System (ICS)**

The main bodies responsible for the implementation of the Internal Control Systems are

- ü Board of directors
- ü Audit and Risk Committee
- ü The Executive Committee
- ü Risk Management Committee

More explanation are available in chapter B.1 (above)

### **Responsibilities in terms of Internal Control Risk Management at operating Level (1st line of Defense)**

The final responsibility of the internal control system relies on the executive management ; however, they mainly delegate the activities to executives, managers and risk observers, as presented below:

<b>Functions</b>	<b>Responsibility</b>	<b>Role in the Internal Control Risk Management</b>
Effectives Director’s members	Accountable	Ultimate accountable Risk Owner
Directors	Accountable	Accountable Risk Owner
Managers	Responsibility	Responsible Risk Owner

To this aim, each actor has his own roles and responsibility.

The **accountable risk Owner (ARO)** is the final person responsible for a process. He identifies the significant risks inherent to his activities, controls all the activities included in the process, as well as the objectives, the scope, and relevant indicators for that process. His responsibilities are:

- ü Ensuring the proper documentation of the process;
- ü Implementing the necessary actions to cover the main risks, from risk identification, description, measurement and management to risk monitoring;
- ü Ensuring the implementation of a proper internal control system in his area of responsibility;
- ü Validating and steering the implementation of new controls;
- ü Ensuing the timely and adequate communication of the information related to internal control system.

The **Responsible Risk Owner (RRO)** is in charge of the day to day risk management in his area of responsibility. He is in charge of ensuring the proper follow up of risk and control procedures and to take the necessary measures – after ARO's validation. He also has to keep the Accountable Risk Owner informed about the general internal control situation in his scope. His responsibilities are therefore:

- Ù Document, formalize and describe the processes selected by the Accountable Risk Owner and make sure that this description is regularly updated;
- Ù Identify the risks of the defined scope of activity and describe the existing and effective mitigating actions for those risks' coverage;
- Ù Assess the risks, propose improvement solutions to the Accountable Risk Owner for the risk mitigation and define action plans with him;
- Ù Monitor the implementation of these mitigating actions by monitoring the progression of the action plans;
- Ù Assess the controls identified for the risk coverage with the help of the Internal Control Officers;
- Ù Periodically reassess the mitigating actions regarding their effectiveness for the risks' coverage;
- Ù Propose remediation plans to the Accountable Risk Owner if a major incident occurs and monitor their implementation;
- Ù Assist the Accountable Risk Owner with change management, train and communicate to the Internal Control system's actors;
- Ù Monitor and implement the recommendations made by all the internal control functions (Internal Audit, Compliance Officer, etc.) or external control functions (Auditors, etc.).

Within the first organizational level of control, the Risk Owners have been entrusted by the effective management with responsibility for risk taking, managing and controlling in their respective operational units. To this end, they provide the entire effective management with the input needed to define the policies, methods and tools used for the management and control of the risks in their area of responsibility, in order to coordinate their implementation and ensure their suitability over time. They also ensure compliance with the objectives and policies by the employees under their responsibility and take corrective measures independently.

Control activities are an integral part of every business process and primarily fall under the responsibility of the manager of each organizational unit. According to the 'Risk self-assessment' principle, each process owner is directly responsible for and therefore aware of the imperative need to achieve the objectives in terms of effectiveness, efficiency and quality of the activities related to risk management and control mechanisms inherent to its own activities. These responsibilities are defined for each operational unit, each service and each function, in accordance with the company's organizational structure.

Therefore, each employee of Generali Belgium must comply, at his/her level, with the guidelines derived from the internal control policy, which have been drawn up to facilitate understanding and promote the importance of deploying the internal control system efficiently and effectively.

The management in charge of preparing Generali Belgium's financial statements is subject to a particular attention. In collaboration with the General Management, it must certify that the financial statements have been prepared in accordance with the appropriate administrative and accounting procedures, that the financial statements are completely consistent with the accounting records made during the year and that they also represent a true and fair view of the economic reality of Generali Belgium. To this aim, a specific role is given to the Chief Financial Officer - though the Dirigente Preposto policy – who is the ultimate responsible for the consistency of the financial statement with the economic situation of the company. Therefore, he uses the internal control system monitoring results for getting assurance on the completeness, valuation and adequacy of the financial data related to processes feeding the most significant accounts. This statement is also used by the Group Head Office for certifying its consolidated financial statements.

### **B.4.3. Information on authorities, resources, professional qualifications, knowledge, experience and operational independence of the internal control function**

To ensure independence of the second line control function, the team reports to the Chief Risk Officer (CRO) who hierarchically depends on the Chief Executive Officer (CEO) while keeping a direct access to the Board of Directors and having a complete access to all information.

The internal control function is then a centralized department dedicated to the monitoring of the internal control system put in place throughout the company.

The team is composed by 4 full time employee and 1 Manager. During the personnel selection, the skills of the internal control and operational risk officer directly involved in the internal controls activities are clearly defined (knowledge, attitudes, previous professional experiences, etc.) and assessed to ensure the qualification adequacy with regards to the function,

Moreover, appropriate powers and resources are assigned to the Internal control and operational risk function in order to carry out the assigned tasks.

Generali Belgium puts in place the Compliance Management System based on the following principles:

### **Correctness and honesty are key values**

Generali Belgium works in compliance with the current legislation, professional ethics and internal rules. The pursuit of Generali Belgium interests cannot justify a conduct violating the principles of correctness and honesty.

It is focused on maintaining the highest level of integrity and reputation at all times, hence requires all entities to demonstrate a good understanding of applicable laws, regulations and standards in the markets and jurisdictions in which they operate and fully comply with them.

### **Compliance starts at the top**

Compliance is most effective in a corporate culture that emphasizes standards of honesty and integrity and in which the Board of Directors and Executive Committee with the permanent invitees lead by example.

The Board of Directors and Executive Committee of Generali Belgium are firmly committed to the achievement of high standards of compliance throughout the business, promote the values of correctness and honesty and hold responsibility for the implementation of this Policy, with the support and advice of its Compliance Officers.

The Board of Directors has the ultimate responsibility for the compliance with the laws, regulations and administrative provisions applicable to their entities.

It is the Board of Directors and Executive Committee responsibility to ensure that their Compliance Function has the necessary authority, resources and expertise to carry out its duties, among which to enforce the requirements of this Policy.

### **Compliance is every employee's responsibility**

Regardless of their seniority within the organization, every employee is required to exercise a strong commitment towards compliance. Compliance is an integral part of the business activities and each individual must accept responsibility for compliance in their job and pursue compliance with the spirit as well as the letter of all applicable rules and legal requirements. Employees are required to familiarize themselves with their compliance obligations and meet them in their day-to-day business activities, acting with due skill, care and diligence.

## **COMPLIANCE FUNCTION**

In accordance with the joint National Bank of Belgium and Financial Service and Market Authority (FSMA) Circular of 4th of December 2012 on the Compliance function, the 2016\_31 NBB Circular on governance and the Generali Group's Group Compliance Management System Policy, Generali Belgium has adopted the necessary measures to be able to have, on a permanent basis, a suitable independent Compliance function aimed at ensuring observance by the company and its directors, Executive members, employees and authorized agents, of the principles of integrity and rules of good conduct relating to its activities, and sufficient control of the main Compliance risks .

In this context the Compliance function has been created. The main roles and responsibilities of are defined in the Compliance Charter.

The Governance of the Compliance function is described in 3 main documents: Integrity Policy, Compliance Charter and the Group Compliance Management System Policy.

The Executive Committee is responsible for taking the necessary measures for the Company to be able to have, on a permanent basis, an independent and suitable Compliance function aimed at ensuring observance by the Company (and its Employees) of the rules governing the integrity of its activity.

The Compliance function is a permanent and independent function within the company, centered on observance of the rules in connection with:

- ü the integrity of the activities specific to Generali Belgium, and
- ü control of its main Compliance risks.

It is part of the company's internal control system (consisting of a system of rules, procedures and organizational structures taking in all levels of the company and aimed at ensuring compliance with the applicable laws, regulations and administrative provisions) based on the principle of the three lines of defense of which it represents one of the three second-line control functions.

## **TASKS AND EXECUTION OF THE COMPLIANCE FUNCTION**

### **Perimeter of action of the Compliance function**

Compliance shall be part of the culture of the organization; it is not exclusive responsibility of the compliance staff. Nevertheless, an entity will be able to manage its compliance risks more effectively if it has a Compliance Function in place.

The Compliance Function participates in protecting the Company from losses and damages, improving the way business is done.

The Compliance Function's mission are explain in the chapter B.1

The Compliance Function assists in identifying, assessing, and monitoring compliance risks arising from failure to comply with the applicable laws and regulations and internal rules and participates, in an independent way, to the effective management of risks.

In accordance with the regulatory expectations, Generali Belgium Compliance function is responsible in particular for overseeing observance of the legal rules, the detail of those activities and responsibilities are clearly define in in point 3.2 (principle 1) of the NBB\_2012\_14\_4 circular.

### **Compliance Risk Management System**

The Compliance Function acts according to the applicable laws and regulations, to the directions provided by the Board of Director and to the Compliance Operating Model which provides for the following five core processes:

- ü Risk identification;
- ü Risk measurement;
- ü Risk mitigation;
- ü Risk monitoring;
- ü Reporting
- ü Planning.

#### **Risk identification**

The Risk identification process is aimed at identifying the compliance obligations applicable to the organization. The Compliance Function ensures that adequate processes for the identification of the key compliance obligations and the relevant Risk Owners are in place.

#### **Risk measurement**

The Risk measurement process is aimed at evaluating the compliance risks to which the organization is exposed and the level of adequacy of the Compliance Risk Management System to achieve its intended outcomes.

The Compliance Function, together with the Risk Management function, performs and supports the risk owners in the assessment activities and ensures that the Group Risk Assessment Methodology is applied.

## **Risk mitigation**

The risk mitigation process is aimed at adopting all the initiatives that are useful to improve the Compliance Management System.

In this context, the Compliance Function:

- ü Verifies that the compliance obligations are integrated into existing policies, procedures and processes defining minimum key controls when needed,
- ü Verifies that ongoing training support for employees is delivered to ensure that all relevant employees are trained on a regular basis,
- ü Delivers communication and specific training on compliance related topics to enhance to compliance culture of employees,
- ü Promotes the inclusion of compliance responsibilities into job descriptions and employees performance management process,
- ü Manages the allegations,
- ü Provides objective advice on compliance related matters,
- ü Ensures that the organization is supported by appropriate professional advice in the establishment, implementation and maintenance of the compliance management system,
- ü Evaluates the compliance risk exposure of strategic projects, significant transactions and new products before they are approved.

## **Risk monitoring and control assurance**

Risk monitoring is the process of gathering information for the purpose of assessing the effectiveness of the Compliance Management System.

The Compliance Function:

- ü Verifies that adequate compliance performance indicators are set up, collected and analyzed in order to monitor and measure compliance performance,
- ü Analyses performance to identify the need for corrective actions,
- ü Ensures that the compliance risk management system is reviewed at planned intervals,
- ü Performs tests on the effective capacity of Compliance Management System to mitigate the compliance risks,
- ü Follow-up the initiatives aimed at addressing compliance failures.

## **Reporting and planning**

The reporting process is aimed at ensuring that appropriate information flows on the performance of the Generali Belgium Compliance Management System and of its continuing adequacy, including all relevant non compliances, is provided to the Board of Directors and to the Executive Committee as well as to the Group Compliance Function through Generali Belgium Compliance Officer.

At least twice a year the Compliance Officer reports to the Board of Directors on the state of execution of the annual plan of activities.

The Compliance Officer provides regular updates to the Board of Directors and Executive Committee and any times material changes to the compliance officer of Generali Group.

## **ANNUAL PLAN**

The annual plan is drafted taking into account the results of the risk assessment activities, .

The aim of this annual plan is to focus and prioritize the activities of the Compliance function based on a risk based approach methodology, taking into consideration the principle of proportionality and in accordance with the resources allocated by the top management.

Finally, the plan provides further details of advisory activities, controls and other activities within the scope of the Compliance function.

The Compliance Officer must submit to the Board of Directors for approval the annual plan of activities together with the annual budget of the Compliance Function.

## **OTHER ACTIVITIES**

### **Monitoring of legislation and regulations in the fields of compliance (legal watch)**

The Compliance function takes part in the legal watch in the field of Compliance: in cooperation with the legal function, the Compliance function takes care of the monitoring of (new) laws and regulations (as well as their interpretation) linked with Compliance risks and draws up an inventory to ensure the necessary follow-up in order to implement them effectively within the Company. It may issue an opinion on the implications and impacts that these new regulations will have on the company and will assess the (new) Compliance risks associated therewith.

When an internal project is initiated within Generali Belgium in order to respond to a (new) law, the Compliance function assesses the solution proposed by the Business (i.e. the proposed procedures, developments and control measures), identifies any breaches and if necessary makes proposals for modification.

### **Advisory activity**

The Compliance function advises the actual Management and operational departments on the laws, regulations, standards and codes falling directly under its remit. In particular, it takes part in the drafting of the integrity policy with the Executive Committee and in the transposition of the Group rules of conduct within Generali Belgium. It also participates in deliberations on new products and services/markets and on changes in the company's organization within the bounds of its responsibilities. It answers the various questions the Business may put to it on the subject of Compliance and gives an opinion on any Compliance-related initiatives the Company decides to take. It may also be consulted when failings or "issues" have been noted by the Business or another control function on the subject of Compliance risk in order to mitigate the effects thereof.

### **Awareness-raising, information and training**

The Compliance function assists the Executive Committee in the organization of staff training on matters related to Compliance and integrity (mainly as regards the rules of good conduct). It also positions itself as a reference and special point of contact for any question or query having to do with the specific fields of Compliance. It is one of the privileged contacts for any staff member wishing to report problems and/or incorrect behavior within the Company.

The Compliance function is also the privileged contact for the different local supervisory bodies and for instructions received from the Group on the subject of Compliance and integrity.

### **Activities linked to specific requests made by the Generali Group**

As part of an international group, the Compliance function must also include within its working perimeter activities defined by the parent company that are applicable to all the Compliance functions in the Group, be they recurring (such as validation from a local compliance point of view of all the policies from the parent company and having to be implemented at local level) or one-off (such as the group compliance programs or the conducting of various surveys, etc.). Based on the information from the Group, the Compliance function will also enter its activities in its annual plan in order to provide an overall view of the capacity needed to successfully meet the objectives for the year.

With regard to the requests made by the Group, certain subsidiaries will have to call on the services of Generali Belgium's Compliance function to help them fulfil these. This cooperation will have to be clearly defined as regards both scope and workload so as to enable the Compliance function to take account of its ad-hoc activities in its overall schedule and to estimate the feasibility thereof on the basis of the resources granted to the Compliance function.

### **Activities linked to specific requests made by the Board of Directors and/or Executive Committee**

The Executive Committee, like the Board of Directors, can assign additional activities to the Compliance function whilst making sure that any conflicts of interests that could compromise the independence required of the function are avoided. Once these activities have been defined, they are included in the annual Compliance Plan and are also incorporated in the risk-based approach exercise.

## **Policies and guidelines management and monitoring**

To ensure the proper and efficient management, Generali Belgium is putting the necessary policies and guidelines in place, using the methodology supplied by the Group, i.e. the GIRS (Generali Internal Regulation System) (which sets out the hierarchy of the rules of Governance).

All policies and guidelines are listed in an inventory which, aside from the name of each policy/guideline, contains the date at which it was last implemented, the need for annual renewal, the Policy owner, the function/committee in charge of its implementation, the function/committee tasked with monitoring.

This inventory is updated whenever the Secretariat-General reports that one of the committees has approved another policy/guideline document and followed up by the Compliance function who presents it to the Audit & Risk Committee once every quarter.

The Compliance Function monitors all the policies and Guidelines regarding their structure as required by the NBB\_2016\_31 Governance and the implementation of those in its scope.

### **B.5. Internal audit function**

Generali Belgium, as part of the Generali Group, shall be subjected to an Audit activity guaranteed by a function set up in accordance with the principles stated in the Audit Policy. In particular, the Internal Audit Function shall generally be located within the company responsible for the development of the business in the country. Additional Internal Audit Functions can be set up in the same country only when audit activities need to be carried out in sectors that are not related to the insurance sector. Whenever a subsidiary company's scale and activities do not justify the existence of an Internal Audit Function, then audit activities can be carried out on a non-continuous basis.

Therefore Group Audit within the Generali Group includes:

- ü Internal Audit Function of Assicurazioni Generali, headed by Head of Group Audit;
- ü Main Country/Region/Division Audit Function (BU Audit), headed by Main Country/Region/Division Head of Audit (referred also as Head of BU Audit);
- ü Local entity Audit Function, headed by Head of the Local Audit Function.

The Head of Group Audit reports to the Board of Director of Assicurazioni Generali and a Solid Line reporting model is established between the Head of Group Audit, the head of Internal audit regional office the Heads of the Generali Belgium Internal Audit.

Based on this model, the Head of the Generali Belgium Internal Audit reports to the Board of Directors of Generali Belgium and ultimately to the Head of Group Audit

That ensures autonomy to act and independence from operational management as well as more effective communication flows. This covers the methodologies to be used, the organizational structure to be adopted (recruiting, appointment, dismissal, remuneration and budget in agreement with the Board of Directors of Generali Belgium), the objectives setting and the year-end appraisal, the reporting methods, as well as the proposed audit activities to be included in the Internal Audit Plan to be submitted to the Board of Directors of Generali Belgium for approval.

Duties related to reporting to the CEO shall include the following:

- ü Submission and approval of the annual audit plan; and any significant changes to this plan
- ü Audit Plan must be reported to and approved by the CEO and the Audit Risk Committee;
- ü Approval of the budget and resource plan;
- ü Impact of resource limitations;
- ü Regular direct interaction at least once every 2 weeks with the CEO on status of plan fulfillment, audit results, new developments and other relevant matters; and
- ü Annual confirmation of the organizational independence to the CEO.

In addition to the reporting duties to the CEO, Internal Audit Departments shall stay in regular contact with Group Internal Audit Department concerning the status of the audit plan, special investigations, and special incidents.

The Head of Internal Audit should participate in all the Audit Risk Committee meetings, where he/she presents the current status of audits, risks and issues.

At least annually, the Head of Internal Audit department proposes to the Risk and Control Committee of Generali Belgium an internal audit plan before being submitted for the approval of the Board of Directors of Generali Belgium..

The Plan is developed based on a prioritization of the audit universe using a risk-based methodology, taking into account all the activities, the complete system of governance, the expected developments of activities and innovations and including input of Top management and the Board of Directors of Generali Belgium. The planning shall take account of any deficiencies found during the audits already made and of any new risk detected. The Audit plan will include timing as well as budget and resource requirements for the next calendar year.

In each Audit plan submitted by the Head of Internal Audit department for the approval of the Board of Directors of Generali Belgium, timing as well as budget and resource requirements for the next calendar year is included. The Head of Internal Audit department communicates the impact of any resource limitations and significant interim changes to the Board of Directors of Generali Belgium.

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

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

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

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

The Head of Internal Audit department, at least on a bi-annual basis, provides the Board of Directors of Generali Belgium with a report on activities and significant issues during the period and a proposal of an action plan. The Board of Directors of Generali Belgium determines what actions are to be taken with respect to each issue and ensure that those actions are carried out. However, in the event of any particularly serious situations the Head of Internal Audit department will immediately inform the Risk and Control Committee, Board of Directors of Generali Belgium.

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

### **B.5.1. Information on authorities, resources, professional qualifications, knowledge, experience and operational independence of the Internal Audit function**

In Generali Belgium, the internal audit activities are performed by Internal Audit department in line with the organizational rules defined in the Group Audit Policy approved by the Board of Directors of Generali Belgium on the 30/11/2016.

Internal Audit department is an independent, effective and objective function established by the Board of Directors of Generali Belgium to examine and evaluate the adequacy, functioning, effectiveness and efficiency of the internal control system and all other elements of the system of governance, with a view of improving the efficacy and efficiency of the internal control system of the organization and of the governance processes.

It supports the Board of Directors of Generali Belgium, in identifying the strategies and guidelines on internal control and risk management, ensuring they are appropriate and valid over time and provides the Board with analysis, appraisals, recommendations and information concerning the activities reviewed; it also carries out assurance and advisory activities for the benefit of the Board of Directors of Generali Belgium, the Top Management and other departments.

As provided by the Group Audit Policy, a Solid Line reporting model is established between the Head of Group Audit in Assicurazioni Generali, the Head of the Business Unit Audit and the Heads of Internal Audit Department.

Based on this model, the Head of the Local Audit Function reports to the Board of Directors of Generali Belgium and ultimately to the Head of Group Audit, through the Heads of Business Unit Audit.

That ensures autonomy to act and independence from operational management as well as more effective communication flows. This covers the methodologies to be used, the organizational structure to be adopted (recruiting, appointment, dismissal, remuneration and

budget in agreement with the Board of Directors of Generali Belgium), the objectives setting and the year-end appraisal, the reporting methods, as well as the proposed audit activities to be included in the Internal Audit Plan to be submitted to the Board of Directors of Generali Belgium for approval.

Internal Audit department is provided with appropriate budget and resources and its staff possesses the knowledge, skills and competencies required to carry out their work with proficiency and due professional care.

Internal Audit department has full, free, unrestricted and timely access to any and all of the organization's records, physical properties, and personnel pertinent to carry out any engagement, with strict accountability for confidentiality and safeguarding records and information. The Head of Internal Audit department has free and unrestricted access to the Board of Directors of Generali Belgium.

It governs itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. Given the delicate and important nature of the assurance role carried out within the business, all the personnel must have specific fit and proper requirements as requested by the Group Fit & Proper Policy approved by the Board of Directors of Generali Belgium.

In particular, the Head of Internal Audit department is a person which meets the requirements of the Belgian Regulation Authority's Regime and Solvency II Regulation as well as the Generali Group requirements and has extensive relevant experience within areas including audit, control, insurance, risk and compliance.

The Head of Internal Audit department shall not assume any responsibility for any other operational function and should have an open, constructive and cooperative relationship with regulators, which supports sharing of information relevant to carry out their respective responsibilities.

All personnel belonging to Internal Audit department have skills and a proven track record commensurate with the degree of complexity of the activities to be carried out and must avoid, to the maximum extent possible, activities that could create conflicts of interest or the appearance of conflicts of interest. They behave in an impeccable manner at all times, and information coming to their knowledge when carrying out their tasks and duties must always be kept completely confidential.

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

Internal Auditors do not have direct operational responsibility or authority over any of the activities audited. Accordingly, they are not involved in operational organization of the undertaking or in developing, introducing or implementing organizational or internal control measures. However, the need of impartiality does not exclude the possibility to request from the Internal Audit Function an opinion on specific matters related to the internal control principles to be complied with. At least annually, the Head of Internal Audit department proposes to the Risk and Control Committee of Generali Belgium an internal audit plan before being submitted for the approval of the Board of Directors of Generali Belgium.

The Plan is developed based on a prioritization of the audit universe using a risk-based methodology, taking into account all the activities, the complete system of governance, the expected developments of activities and innovations and including input of Top management and the Board of Directors of Generali Belgium.. The planning shall take account of any deficiencies found during the audits already made and of any new risk detected. The Audit plan will include timing as well as budget and resource requirements for the next calendar year.

In each Audit plan submitted by the Head of Internal Audit department for the approval of the Board of Directors of Generali Belgium, timing as well as budget and resource requirements for the next calendar year is included. The Head of Internal Audit department communicates the impact of any resource limitations and significant interim changes to the Board of Directors of Generali Belgium..

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

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

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

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

The Head of Internal Audit department, at least on a bi-annual basis, provides the Board of Directors of Generali Belgium. with a report on activities and significant issues during the period and a proposal of an action plan. The Board of Directors of Generali Belgium. determines what actions are to be taken with respect to each issue and ensure that those actions are carried out. However, in the event of any particularly serious situations the Head of Internal Audit department will immediately inform the Risk and Control Committee, Board of Directors of Generali Belgium and Board of Auditors of Generali Belgium.

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

At the beginning of 2017, the Internal Audit department of Generali Belgium. was initially composed by:

- ü A Head of Internal Audit (ad interim)
- ü 2 Auditors for Operational and financial domains
- ü 1 IT Auditor (external service provider agreement – end of contract on 30/06/2017)

During the year 2017, the following changes occur in the organization of the Internal Audit department of Generali Belgium:

- ü The Head of Internal Audit ad interim was nominated Head of Internal Audit on 01/06/2017
- ü 1 Auditor for Operational and financial domains left the company on 31/05/2017
- ü The IT Auditor (external service provider agreement) left the company at the end of its contract on 30/06/2017
- ü To cover this gap, Generali Belgium solicited the services of an external provider in Q4 2017.

The Internal Audit department is integrated within the organization of Generali Belgium (see organizational chart above in chapter A.1)

Internal Audit, due to its independent and objective role, supports the company's Management to mitigate risks as well as to assist in strengthening the organization's governance processes and structures by reviewing activities and procedures in all areas, without scope limitation, with the objectives of:

- ü Safeguarding of the company's assets;
- ü Strengthening effective Internal Control and Risk Management/Controlling Systems by assessing and evaluating their adequacy and effectiveness;
- ü Strengthening compliance with legal and supervisory regulations, as well as corporate principles and guidelines;
- ü Fostering the appropriate and efficient use of resources.

Internal Audit department of Generali Belgium acts in a coordinated way in order to ensure the fulfillment of the task explained above, following a common audit methodology and in adherence with the principles of the Group Audit Policy.

## **B.6. Actuarial function**

The main responsibilities of Generali Belgium's Actuarial Function, as required by the Solvency II principles (article 48 of Directive 2009/138/EC) and by the National Belgian Bank circular on the system of governance (NBB\_2016\_31), are the following:

- ü Coordinate the calculation and validate the technical provisions;
- ü Express an opinion on the overall underwriting policy;
- ü Express an opinion on the adequacy of the reinsurance arrangements;
- ü Contribute to the effective implementation of the risk-management system.
- ü Inform the Board of Directors of Generali Belgium on the reliability and adequacy of the calculation of the Technical Provisions.

To ensure the Actuarial Function department meets its objectives, it has been organized in 2 units being the Coordination of calculation unit and the Validation unit.

The responsibilities of the Coordination of calculation unit are the following:

- Û Coordinate all the calculation activities for the Technical Provisions Life & Non-Life within the Solvency II framework, that is:
  - Set-up of Actuarial Platform and Methodology
  - Validation of relevant inputs
  - Analysis
  - Presentation to dedicated committee;
- Û Contribute in the management of the current Actuarial platform Life and Non-Life, that is:
  - Coordinate the implementation of all the approved Model changes with respect the local governance;
- Û Support and interact with the Validation Team [Within Actuarial Function] in their validation activities, notably by producing the necessary documentation (of assumptions);
- Û Ensure a Data Quality assessment for Life & Non-Life Technical Provisions Process, in interaction with the Validation Team;
- Û Support and interact with the Risk Management for the Solvency Required Capital Calculation [Pricing and Catastrophe Risk] as well as for the Own Risk Self-Assessment Process;
- Û Support and interact with the Business for the launch of new products as well as for the profitability analysis;
- Û Support and interact with the Finance for the definition of Strategic Assets Allocation – Capital management/Projection – Investment strategies.

The responsibilities of the Validation Unit are the following:

- Û Perform all the validation activities for the Technical Provisions Life and Non-Life within the Solvency II framework, that is:
  - Calibration process
  - Assumption
  - Expert Judgment
  - Analysis & Reporting
  - Countersigning calculation results
- Û Perform all the validation activities for the Actuarial Platform Life and Non-Life, that is:
  - Governance
  - Challenging and approval of model changes
  - IT securitization and improvement
  - Providing solutions for business and Chief Risk Officer (CRO)
- Û Perform all the validation activities for the Embedded Value, New Business Value and Value in Force, that is:
  - Readiness of Actuarial Platform and Suitability of the methodology
  - Calibration process
  - Analysis & Reporting
  - Countersigning calculation results
- Û Ensure a Data Quality assessment for Technical Provisions Process, in interaction with the Calculation Team.

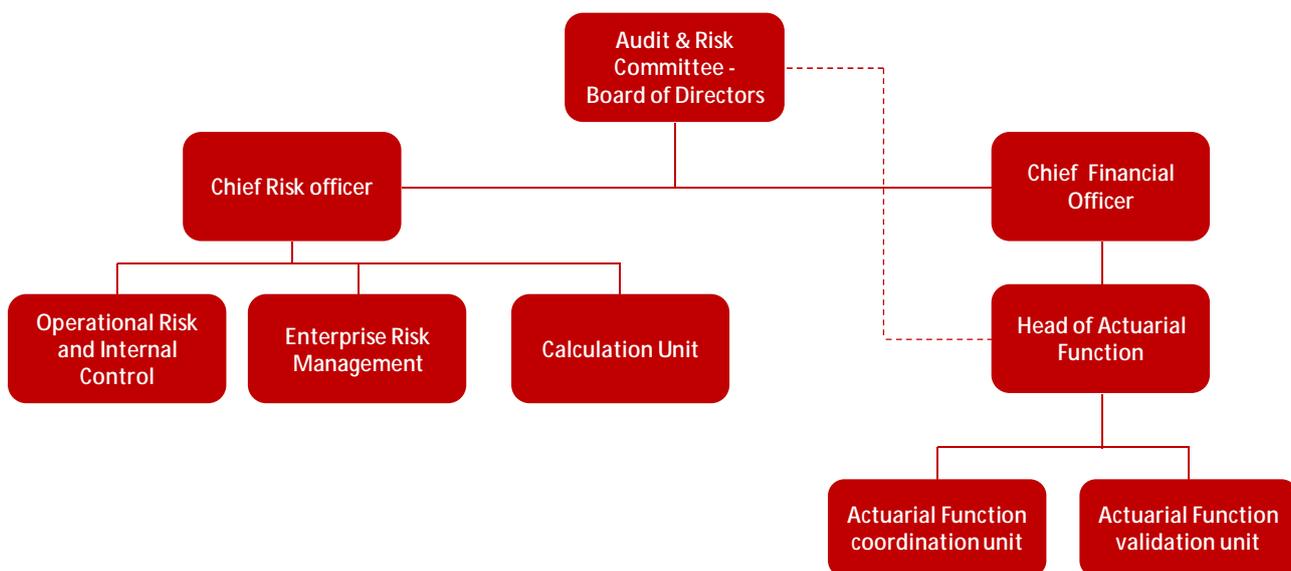
The Head of the Actuarial Function is therefore the ultimate responsible for

- Û Providing his opinion to the Board on Technical Provision, Underwriting and Reinsurance
- Û Informing the Board of Directors and the Executive Committee of the reliability / adequacy of the calculation

### B.6.1. Organization

In line with the organizational model defined by Generali Group, the Actuarial Function is located under the Chief Financial Officer (CFO) area to ensure an effective coordination for the calculation of technical provisions. In addition, to preserve the independence in carrying out his activities, the head of Actuarial Function functionally reports to the Board of Directors, to which he has independent and direct access.

Actually, in order to fulfil the above responsibilities in an efficient way, the target operating model of the Actuarial Function at Generali Belgium has been defined as follows:



In this set-up, the Calculation Unit falls under the Chief Risk Officer department, meaning that all the calculation activities as well as the management of the Actuarial Platform are performed within the Chief Risk Officer department. However, in order to guarantee the application of the Solvency II Directive 2009/138/EC (art. 48, 75-86), and more specifically the point aiming to allow the Actuarial Function to coordinate the calculation process, an Actuarial Function “Calculation Coordination Unit” was created to play this role.

With reference to the current organization, the Actuarial Function coordinates the calculation of the technical provisions and performs the validation activities. The calculations are performed by the Calculation Unit, which belongs to the Chief Risk Officer department. Keeping thus the independence stated above.

Within the Actuarial function independence is further achieved by the segregation of the activities in two separate units, in line with the Head-Office governance:

- ü Actuarial Function Coordination Unit;
- ü Actuarial Function Validation Unit.

Finally, the Head of Actuarial Function, while being hierarchically dependent of the Chief Financial Officer, has a direct access to the Board in order to provide them with his independent opinions.

## **B.7. Outsourcing**

### **B.7.1. Information on outsourcing policy**

Regarding the Policy and the defined criteria, Generali Belgium doesn't outsource any critical or important activities.

Nevertheless the Board of Directors of Generali Belgium has adopted the outsourcing policy ("Policy").

Outsourcing in this Policy refers to an arrangement of any form between a legal entity and another entity providing, on a continuous basis, a function and / or activity, which:

- ü Otherwise would be performed by the single company: i.e. outsourcing perimeter includes only functions or activities typically performed by the legal entity as part of its value chain ;
- ü Contains the decision making-power concerning the relevant function / activity .

The Policy scope includes outsourcing arrangements with both third parties and other legal entities.

Agreements excluded from the outsourcing definitions are:

- ü Commercial agreements: pure distribution agreements with intermediaries, agents, financial advisors, banks, brokers, etc. (without any underwriting component or delegation to the third party). Agreements with aggregators;
- ü Professional services agreements: agreements with consultants and other experts who deliver specific services to Generali. Contracts can be master agreements or standalone agreements, but they should always refer to «one-off» projects. Those agreements should be managed according to in force procurement practices and existing guidelines;
- ü Other agreements: agreements with third parties providing services different from typical activities of Generali Belgium;
- ü Reinsurance agreements.

Finally, in determining whether an agreement is included in the outsourcing definition, Generali Belgium has to take into account any definition or list of outsourcing agreement categories provided under national law or regulations, i.e. 2016\_31 National Belgian Bank Circular on Governance.

#### **Definitions of Functions and Activities**

The Policy refers to the outsourcing of functions as well as activities.

Function includes more than one connected activity of a specific company area (i.e. outsourcing of IT infrastructure).

Activity includes more than one connected task (i.e. claims settlement) configuring a clear process with end-to-end responsibility.

To give adequate consideration to the potential risk impact on the financial, reputational and operational profile of the business and the Group, Functions and Activities are distinguished into:

- ü Critical or important Functions / Activities;
- ü Non critical or non-important Functions / Activities.

#### **Definitions of critical or important Functions and Activities**

Generali Belgium classifies the function/activity to be outsourced as critical or non-critical, being the final classification a combination of business specific qualitative and quantitative criteria and, in general, according to the principle of proportionality.

Classification criteria shall be properly formalized and applied consistently to all outsourcing agreements.

When classifying the critical functions / activities, each legal entity shall follow the principles listed below.

Qualitative criteria

- ü Regulatory criteria: functions / activities without which the legal entity's ability to maintain its business authorization would be compromised shall be considered critical;
- ü Internal control system criteria: control functions, i.e. internal audit, compliance, risk management and actuarial functions, shall be considered critical;

- ü Business criteria: functions / activities that are essential to the operation of the business shall be considered critical (i.e. the legal entity, without the function, would be unable to deliver its services to customers, achieve its business strategy and objectives, or would face serious reputation issues).

#### Quantitative criteria

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

#### Outsourcing agreement: outsourcing business referent

The Company shall appoint for each outsourcing agreement the respective business referent. The business referent is responsible for the overall execution of the outsourcing lifecycle, from the risk assessment to the final management of the agreement and subsequent monitoring activities, as described in the following paragraphs.

The outsourcing business referent identification shall be performed according to the fitness and proper requirements defined in the Fit & Proper Policy.

Outsourcing business referent can be different from the outsourcing initiative approver.

In case of outsourcing initiatives led by the Group, outsourcing lifecycle steps shall be executed in coordination between the relevant Head Office Function and the outsourcing business referent.

The following basic principles are to be applied when evaluating outsourcing of functions / activities:

#### Outsourcing exclusions

Outsourcing cannot be undertaken in case of:

- ü Legal or regulatory exclusions: according to local requirements the outsourcing of specific business functions (i.e. risk underwriting for insurance business) may not be allowed.
- ü Underwriting (Life and Properties & Casualties): outsourcing of underwriting activities to third parties outside the Group is allowed only with prior approval of the relevant Group Head Office Function;
- ü Management functions: management functions for which the Board of Director is directly accountable, according to local laws;
- ü Control functions: full outsourcing of Audit, Risk Management and Compliance Functions cannot be assigned to third parties that do not belong to Generali Group. Full outsourcing of the Local Actuarial Function to third parties not belonging to the Generali Group is allowed only with prior approval of the Group Actuarial Function
- ü Accountability, i.e. the outsourcing must not result in the delegation by senior management of its responsibility. It is not possible to outsource the managerial responsibilities of the senior management. Accountability shall be exercised also by means of appropriate controls.

#### Outsourcing lifecycle

Outsourcing lifecycle shall encompass at least the following steps:

- ü Risk assessment;
- ü Outsourcer sourcing and due diligence;
- ü Agreement negotiation and management;
- ü Migration plan;
- ü Monitoring and Reporting;
- ü Exit strategy.

The outsourcing business referent shall involve all relevant departments and ensures adequate formalization of all outsourcing lifecycle steps, as deemed necessary.

All outsourcing lifecycle steps shall be applied for each new outsourcing initiative.

In case of outsourcing agreement renewals, it is not required to re-perform all outsourcing lifecycle steps, if they have been performed initially, but it shall be verified whether significant change in circumstances occurred thereby potentially deteriorating the conditions required to execute the outsourcing agreement (i.e. changes in risk profile, changes in service provider structure, ability or capabilities, etc.).

### **Compliance**

- ü Compliance to legal and regulatory requirements (including, but not only, early notification to the Regulator (National Bank of Belgium, reporting, privacy and data protection – i.e. definition of privacy roles -, etc.) and Group regulations, including Group Code of Conduct, is to be ensured across the entire process. Notwithstanding the outsourcing of an activity, Generali Belgium must remain compliant with Generali Group internal regulations. Therefore, Generali Belgium contractually bind their service providers with every relevant internal rule and, in case of a change of such an internal rule, amend their outsourcing agreements accordingly;
- ü Operational Risks, including Legal and Compliance risks, shall always be evaluated and monitored;
- ü Related Party Transactions: the outsourcing legal entity shall always ensure compliance to the Related Party Transaction Procedure adopted by Assicurazioni Generali's Board of Directors and the relevant "RPT Operating Guidelines". In particular, if the outsourcing service provider is identified as a Related Party of Assicurazioni Generali (other than Group and Associated Companies), the Compliance Department shall immediately be contacted for the necessary controls/disclosure procedure;
- ü Anti-Money Laundering (AML) / Counter Terrorism Financing (CTF) and International Sanctions: in case of third party outsourcing, Procurement team shall ensure that the relevant Anti Money Laundering / Counter Terrorism Financing and International Sanctions controls are correctly performed and documented;
- ü Independence check: outsourcing cannot be assigned to any service provider belonging to the Generali Group External Audit Firm network.

### **Approval**

- ü Outsourcing of critical or important functions / activities, including the general terms and conditions of the outsourcing agreement, shall be submitted to the Board of Directors for approval;
- ü Outsourcing of non-critical or non-important function / activities shall be approved by the Executive Committee according to the organization structure and mandates; Outsourcing agreements, related annexes and compulsory Service Level Agreement shall be in written form and duly signed according to Generali Belgium relevant power of attorney.

### **Tax**

- ü Blacklisted countries: off-shore outsourcing providers established or resident in blacklisted countries are to be avoided. Their engagement, if not at all avoidable, shall in any case be agreed upon with Group Tax Affairs and Group Compliance;
- ü Group framework agreements: in case of an outsourcing agreement between one single service provider (intra-group or third party) and multiple Group legal entities, the charging and invoice model shall be agreed upon with the Group Tax Affairs function.

## **B.8. Any other information**

### **B.8.1. Assessment of the adequacy of their system of governance to the nature, scale and complexity of the risks inherent in their business**

The governance system of Generali Belgium is in line with and compliant to the requirements as stated in the National Belgian Bank circular on Governance and in the Solvency II regulation. We believe that the governance system is adequate compared to the nature, scale and complexity of the risks of Generali Belgium.

### **B.8.2. Other material information regarding the system of governance**

There is no other material information to be given regarding the system of governance of Generali Belgium

# C. Risk Profile

## C.1. Underwriting risk

### C.1.1. Life Underwriting Risk

#### Risk exposure and assessment

Life and Health Underwriting Risks include Biometric and Operating Risks embedded in the Life and Health insurance policies. Biometric Risks derive from the uncertainty in the assumptions regarding mortality, longevity, health, morbidity and disability rates taken into account in the insurance liability valuations. Operating Risks derive from the uncertainty regarding the amount of expenses and from the adverse exercise by the policyholders of their contractual options. Along with the premium payment, the lapse of the policy is the most significant contractual option held by the policyholders.

The Life and Health Underwriting Risks identified in Generali Belgium the Risk Map are:

- ü Mortality Risk, defined as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the mortality rates, where an increase in the mortality rates leads to an increase in the value of insurance liabilities. Mortality Risk include also Mortality Catastrophe Risk, as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events;
- ü Longevity Risk that, similarly to Mortality, is defined as the risk resulting from changes in the mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities;
- ü Disability and Morbidity Risks are defined as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the disability, sickness, morbidity and recovery rates;
- ü Lapse Risk is linked to the loss or adverse change in liabilities due to a change in the expected exercise rates of policyholder options. The relevant options are all legal or contractual policyholder rights to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover or permit the insurance policy to lapse. This includes also the catastrophic event on lapse;
- ü Expense Risk, as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the expenses incurred in servicing insurance or reinsurance contracts;
- ü Health, as the risk of loss, or of adverse change in the value of annuities stemming from Non-life. The annuities stemming from Non-life are subject to mortality, longevity and morbidity-disability risks, expense risk, lapse risk and revision risk

The main Underwriting Risks in Generali Belgium portfolio are Expense, Lapse, Longevity and Mortality Risks.

The Generali Belgium Life portfolio has a prevailing component of saving and pension business that is exposed to Lapse Risk.

Life portfolio also includes pure risk covers, with related Mortality Risk, and some annuity portfolios (including annuities stemming from Non-life), with the presence of Longevity Risk.

Finally, Expense Risk is present on all the products in portfolio.

The following underwriting risks have increased from Year End 2016 to Year End 2017: Expense, Longevity, Mortality and Disability/Morbidity. The increase of the Expense Risk is mainly explained by the increase of Investment Fees imposed by Generali Investment Europe (GIE, Group Assets Manager). The other risks have increased as an indirect impact of the increase of the reserves.

The following underwriting risks have decreased from Year End 2016 to Year End 2017: Lapse and CAT. The decrease of the lapse risk is mainly explained by the review of the best estimates lapse rates for group products following the forbidding of early termination.

The approach underlying the Life Underwriting Risk measurement is based on the calculation of the loss for Generali Belgium the resulting from unexpected changes in biometric/operating assumptions. In particular, the capital requirements for Life Underwriting Risks are calculated on the basis of the difference between the Solvency II Technical Provisions after the application of a stress to the biometric/operating assumptions and the Solvency II Technical Provisions under best-estimate expected conditions.

Life technical provisions that are the base for the underwriting risk measurement are reported in section D.3.

The Life Underwriting Risks are measured through a quantitative model aimed at determining the Solvency Capital Requirement, based on the methodology and parameters defined in the Standard Formula approach.

The risk measurement derives from the application of a pre-defined stress to the best estimate biometric/operating assumptions with a probability of occurrence equal to 0.5%.

For the Mortality and Longevity Risks, the uncertainty in insured population mortality and its impact on Generali Belgium is measured applying permanent and catastrophe stresses to the policyholders' death rates.

For the Morbidity and Disability Risks, the uncertainty in insured population sickness or morbidity and its impact on Generali Belgium is measured applying permanent or catastrophe stresses to the policyholders' morbidity, disability and recovery rates.

For the Health Risks, the uncertainty in insured population sickness or morbidity that are not captured in the Morbidity and Disability and its impact on Generali Belgium is measured applying stresses to the policyholders' claims and to the medical expenses.

In case of Lapse Risk, risk calibration and loss modelling aims at measuring the uncertainty in policyholder behavior with respect to legal or contractual options that give them the rights to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover or permit the insurance policy to lapse. Similarly to Biometric Risks, the measurement is done via the application of permanent and catastrophe stresses to these policyholders behavior.

Expense Risk is measured through the application of stresses to the amount of expenses and expense inflation that the Company expects to incur in the future.

## **Risk Management and Mitigation**

The techniques for mitigating, monitoring and managing the Life Underwriting Risks are based on quantitative and qualitative assessments embedded in the processes that are carefully defined and monitored both at Generali Belgium and Group level (such as Life product approval and underwriting limits process).

### **Risk mitigation**

Robust pricing and ex-ante selection of the risks through underwriting are the main two defenses against Life Underwriting Risks.

#### *Product pricing*

An effective product pricing consists in setting product features and assumptions regarding expenses, biometric, policyholders' behaviour assumptions so as to allow Generali Belgium to withstand any adverse development in the realization of these assumptions.

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

For example, Lapse Risk, related to voluntary withdrawal from the contract, or Expense Risk, related to the uncertainty around the expenses that Generali Belgium expects to incur in the future, are evaluated in a prudential manner in the pricing of new products. This evaluation is taken into account in the construction and the profit testing of a new tariff, considering the underlying assumptions derived from the experience of Generali Belgium.

For insurance portfolios with a Biometric Risk component, the mortality tables used in the pricing include prudential margins. The standard approach is to use population or experience tables with adequate safety loadings. For these portfolios, comprehensive reviews of the mortality experience are performed at Head Office level, every year, which involve a comparison with the expected mortality of the portfolio, determined according to the most up-to-date mortality tables available in each market. This analysis, that takes into consideration the mortality by sex, age, policy year, sum assured and other underwriting criteria, allows to continuously check the adequacy of the mortality assumptions taken into account in the product pricing and to address the risk of misestimating for the next underwriting years.

Similarly to Mortality Risk, for Longevity Risk, an annual assessment of the adequacy of the mortality tables used in the pricing is performed, that not only considers the Biometric Risks but also the Financial Risks related to the minimum Interest Rate guarantee and any potential mismatch between the liabilities and the corresponding assets. Also in this case, the analysis allows to continuously check the adequacy of the longevity assumptions taken into account in the product pricing and to address the risk of misestimating for the next

underwriting years. Should this not be sufficiently reliable or suitable, the experience of the other Companies of the same Country or the general experiences of the local market are used.

Furthermore, to ensure full alignment with Generali's strategy on product approval, the process includes an on-going monitoring of the products to be launched by Generali Belgium and a biannual update of the profitability review, done at Head Office level.

#### ***Underwriting process***

The Assicurazioni Generali (Head Office) issues underwriting guidelines, determines operating limits to be followed by Generali Belgium and defines the standard process to request exemptions in order to maintain the risk exposure between the pre-set limits and ensure a coherent use of the capital.

There is a particular emphasis put on the underwriting of new contracts that considers both the Medical, Financial and Moral Hazard Risks. The Head Office has defined clear underwritings standards through manuals, forms and medical and financial underwriting requirements. The autonomy of Generali Belgium in underwriting policies depends on its structure.

For insurance riders (add-on to the primary policy, which offers benefits over and above the policy subject to certain conditions), which are most exposed to moral hazard, maximum insurability levels by Generali Belgium are set, lower than those applied for death covers. In order to mitigate these risks, policy exclusions are also defined.

Generali Belgium monitors regularly the risk exposures and the adherence to the operative limits, reports any abnormal situation and follows an escalation process proportionate to the nature of the breach in order to ensure that remediation actions are swiftly undertaken.

#### **Role of Risk Management in pricing and product approval processes**

The CRO supports the pricing process as a member of the Product & Underwriting Committee.

The product approval process foresees a review by the Risk Management Function that the new products are in line with the Risk Appetite Statement (both in regards to quantitative and qualitative dimensions) and that risk-capital is considered as part of the risk-adjusted performance management.

Underwriting Risk can also be transferred through reinsurance to another (re)insurance undertaking in order to reduce the financial impact of these risks on Generali Belgium, and thus reduce the Solvency Capital Requirement held to cover them.

The Life Reinsurance Function at Group level supports, steers and coordinates the reinsurance activity done by Generali Belgium by defining appropriate guidelines aimed at ensuring a tight control of risk, in line with the Generali Group Risk Appetite, and at fully leveraging opportunities that reinsurance offers in each market.

The Assicurazioni Generali acts as the main reinsurer for Generali Belgium. Nevertheless, with the Group's head office agreement and when justified by specific business reasons, Generali Belgium can also transact with another Reinsurance Company on the open reinsurance market.

In subscribing reinsurance contracts with market reinsurers, Generali Belgium agrees and relies on the above-mentioned guidelines that indicate also the admissible reinsurance transactions, the relevant maximum allowed cession and the counterparties selection on the basis of their financial strength.

The reinsurance program is subject to the Life Actuarial Function opinion regarding its adequacy in accordance with the Actuarial Function Policy and related guidelines.

## C.1.2. Non-life Underwriting Risk

### Risk exposure and assessment

Properties and Casualties Underwriting Risk is the risk arising from Properties and Casualties insurance obligations, in relation to the perils covered and the processes used in the conduct of business. It includes the risk of underestimating the frequency and severity of the claims in defining pricing and reserves (respectively Pricing Risk and Reserving Risk) and the risk of losses arising from extreme or exceptional events (Catastrophe Risk).

Generali Belgium cannot avoid exposure to potential losses stemming from the risks intrinsically related to the nature of its core businesses. However, properly defining standards and recognizing, measuring, setting limits to these risks is of critical importance to ensure Generali Belgium resilience under adverse circumstances and to align Properties and Casualties underwriting activities with Generali Belgium Risk Appetite.

Generali Belgium, in line with Generali Group risk strategy, writes and accepts risks that are known and understood, where the available information and the transparency of exposure enables the businesses to achieve a high level of professional underwriting, with consistent development. Moreover, risks are underwritten with quality standards in the underwriting procedures in order to secure profitability and limit moral hazard.

The exposures of Generali Belgium to the underwritten risks are described in the other corresponding sections (sections D2.2 and D3.2) of the documentation, related to the Technical Provisions and the Market Value Balance Sheet.

The Solvency Capital Requirement for Non-Life Underwriting Risks is measured through the Standard Formula framework. The Properties and Casualties Underwriting Risks are measured through a quantitative model aimed at determining the Solvency Capital Requirement, based on the methodology and parameters defined in the Standard Formula approach. The risk measurement derives from the application of a pre-defined stress to the best estimate with a probability of occurrence equal to 0.5%. Moreover, in addition to capital metrics, the Risk Management Function defines risk indicators, such as relevant exposures, risk concentration and other metrics to monitor on a quarterly basis the development of the Properties and Casualties Underwriting Risks. This ensures on-going alignment with the Risk Appetite Framework.

The Risk Management Function also checks the appropriateness of the parameters used in the Solvency Capital Requirement calculation by performing sensitivity analysis.

Nevertheless, within its Own Risk Solvency Assessment framework, Generali Belgium also assessed its risk profile relying on the Partial Internal Model of Generali Group. This measurement methodology is used as a Risk Management tool to assess the risk profile in a more company-specific view as it makes use of locally defined parameters. As well, the suitability of the Standard Formula parameters is also analysed thanks to sensitivity analysis. The outcome of these analysis demonstrates that the Standard Formula methodology is a prudent measurement approach.

For the assessment of Properties and Casualties Underwriting risks in terms of Solvency Capital Requirement, please refer to chapter E.

As in 2016, Generali Belgium focuses its underwriting strategy on the retail Lines of Business and more specifically on the Motor and Fire business. An increase of the building exposure for the Commercial Fire is also observed in 2017 and implied an increase of the total sum insured impacting the Cat Nat for which the related reinsurance treaties have been adapted accordingly.

The underwritten exposures are geographically homogeneously allocated over the kingdom of Belgium and diversified over the main Properties and Casualties businesses. This has for consequence a good mitigation of the risk by avoiding concentration of the underwritten risk geographically but also on its business types.

A material proportion of the motor business is subscribed in France but is fully reinsured by "L'Equité". Furthermore, Generali Belgium has defined accurate securities to mitigate the risk in case of default and therefore, the impact of "L'Equité" on the net exposition of Generali Belgium is marginal. Generali Belgium in France represents 41% of the Non-Life Gross Earned Premium of Generali Belgium.

## Risk management and mitigation

Properties and Casualties Risk selection starts with an overall proposal in terms of underwriting strategy and corresponding business selection criteria in agreement with Generali Group Head Office. The underwriting strategy is formulated consistently with the Risk Preferences defined by the Board of Directors within the Risk Appetite Framework.

A framework to select the risks and to maintain Properties and Casualties risk exposure within the stated risk profile is provided by the Group Properties and Casualties Underwriting Guidelines. Generali Belgium has to embed these Guidelines into an Operating Limits Handbook (OLH) to be approved by the Group and acknowledged by the Generali Belgium Product and Underwriting department. The limits may be set based on value limits, risk type, product exposure or class of occupancy. The purpose of these limits is to attain a coherent and profitable book of business that is founded on the expertise of Generali Belgium.

The Risk Management is also involved in the launch of all any new product or modification of the risk profile of Generali Belgium via risk analyses. The risk profile of Generali Belgium is also followed via a Risk Dashboard regularly updated. As previously mentioned, the risk profile is also managed through an Internal Model used to assess the different risks existing.

The Risk Management department monitors the risks through tools and Key Performance and Risk Indicators (Key Performance Indicator & Key Risk Indicator) to notably support and advice the reinsurance department during the renewal period of the reinsurance treaties. The objective of this monitoring is mainly to be a sound support to the management when revising the reinsurance strategy on one hand and optimizing the capital allocation through the reinsurance mitigation effect on the other.

Reinsurance is the key risk mitigation technique for the Properties and Casualties portfolio. It aims at optimizing, via a Reinsurance Efficiency Program, the use of risk capital by ceding part of the Underwriting Risk to selected counterparties simultaneously minimizing the Credit Risk associated with such operation.

The Company places the reinsurance treaties to the Assicurazioni Generali though as follow:

- ù An excess of loss for the Third Party Liability Lines of Business and Natural Catastrophes
- ù A stop loss for the Natural Catastrophes as second treaty layer
- ù And a surplus for Property Lines of Business.

The Property Catastrophe Reinsurance Program for 2017 is designed as follows:

- ù Protection aims to cover single occurrence losses up to a return period of at least 250 years;
- ù Protection proved capable in all recent major cat losses;
- ù Substantial risk capital saved by means of the protection;
- ù An additional aggregate Excess of Loss program is protecting the Company balance sheet in case of multiple events in a year.

The same level of return period protection and risk capital savings are guaranteed for other Non-Catastrophe protections, i.e. related to single extreme risks in Liability and Motor Third Party Liability Lines of Business.

The Company has historically preferred traditional reinsurance as a tool for mitigating Catastrophe Risk resulting from its Properties and Casualties portfolio, and has shown no appetite for other mitigating techniques.

## C.2. Market risk

### C.2.1. Risk exposure and assessment

As a composite insurer, Generali Belgium collects premiums from policyholders in exchange of payment promises contingent on pre-determined events.

Generali Belgium invests the collected premiums in a wide variety of financial assets, with the purpose of honouring future promises to policyholders and generating value for its shareholders.

Generali Belgium is then exposed to the following Market Risks, that:

- ü Invested assets do not perform as expected because of falling or volatile market prices;
- ü Cash of maturing bonds are reinvested at unfavorable market conditions, typically lower interest rates.

Because it holds its assets until they are needed to redeem the promises to policyholders, Generali Belgium is quite immune to short-term decrease and fluctuations in the market value of its assets.

Nonetheless, Generali Belgium is required by the Solvency II regulation to hold a capital buffer, with the purpose of maintaining a sound solvency position even in the circumstances of adverse market movements. Please refer to section E.2.

For this purpose, Generali Belgium manages its investments in a prudent way according to the so-called 'Prudent Person Principle', and strives to optimize the return of its assets while minimizing the negative impact of short term market fluctuations on its solvency.

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

Here below a short description of the major types of business Generali Belgium operates in : traditional life business with guarantees, non-life and unit-linked.

- ü **Traditional with guarantees and protection Life business:** Generali Belgium assumes a considerable Market Risk when it guarantees policyholders with a minimum return of the accumulated capital over a long period of time. If during the contractual period the return generated by the financial investment is below the guaranteed return for a prolonged period of time, Generali Belgium shall compensate itself the contractual guarantees. In addition, independently on their realization, Generali Belgium has to ensure that the value of the financial investments backing the insurance contracts do not fall below the value of its obligations.
- ü **Non-life business :** Generali Belgium invests the premiums collected in financial instruments ensuring that benefits to policyholders can be timely paid. If the value of the financial investments sufficiently decreases at the moment when benefits to policyholders need to be paid, Generali Belgium may fail to maintain its promises to policyholders. Therefore Generali Belgium must ensure that the value of the financial investments backing the insurance contracts do not fall below the value of its obligations.
- ü **Unit-linked business :** Generali Belgium typically invests the premiums collected in financial instruments but does not bear Market Risk. However, Generali Belgium is exposed with respect to its earnings: fees are the main source of profits for Generali Belgium and they are directly linked to the performance of the underlying assets, therefore adverse developments of markets directly affect the profitability of Generali Belgium, when contract fees become insufficient to cover costs.

For the evaluation of its Market Risk, Generali makes use of the EIOPA Standard Formula, as ruled by the Solvency II Directive, complemented by additional measurement techniques deemed appropriate and proportionate. More in detail, Generali Belgium is exposed to the following risks that are a direct consequence of Generali Belgium's investments in the prevailing asset classes. This follows the Prudent Person Principle approach where Generali Belgium invests in a diversified way :

- ü **Equity Risk:** is defined as the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the level of equity market prices which can lead to financial losses. Exposure to Equity Risk arises from positions that are sensitive to equity prices, e.g. shares that Generali Belgium has invested in or embedded derivatives in a Life product that invests parts of the policyholder assets in equity;

- ü **Interest Rate Risk:** is defined as the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the level of interest rates in the market. Generali Belgium is mostly exposed to downward changes in interest rates as lower interest rates increase the present value of the promises made to policyholders more than the value of the assets backing those promises. As result it may become increasingly expensive for Generali Belgium to maintain its promises thereby also leading to financial losses;
- ü **Currency Risk:** is defined as the possibility of adverse changes in the market value of the assets or the value of liabilities due to changes in exchange rates. Exposure to Currency Risk arises from direct or indirect asset or liability positions that are sensitive to changes in exchange rates;
- ü **Property Risk:** is then defined as the possibility of adverse changes in the market value of the assets or the value of liabilities due to changes in the level of property market prices. Exposure to Property Risk arises from property asset positions;
- ü **Spread Risk:** is defined as the risk of adverse changes in the market value of the assets due to changes in the market value of non-defaulted credit assets. The market value of an asset can decrease because of spread widening risk either because the market's assessment of the creditworthiness of the specific obligor decreases, which is typically accompanied by a credit rating downgrade, or because there is a market-wide systemic reduction in the price of credit assets;

The current allocation to the above mentioned risks by Generali Belgium's is deemed appropriate. The asset allocation is mainly oriented towards fixed income instruments such as government and corporate bonds. This is explained by the high level of predictability of cash flows coming from these asset classes. As a result the risks related to fixed income assets are more prominent than those linked to other asset classes. Due to the appropriateness of the current risk allocation the current strategic asset allocation is considered fitting to the current business mix and market context. No major changes to the allocation are expected in the near future.

More in detail, Generali Belgium is exposed mainly to the following asset classes:

#### Exposition by classes of Assets

Government Bonds	64 %
Corporate Bonds	24 %
Mortgage and other	5 %
Real Estate	5 %
Equity	3 %

Common risk measurement methodologies (both qualitative and quantitative) are applied in order to provide an integrated measurement of the risks borne by Generali Belgium. For the evaluation of its Market Risks, Generali Belgium makes use of the EIOPA Standard Formula, as ruled by the Solvency II Directive, complemented by additional measurement techniques deemed appropriate and proportionate.

Based on this methodology, the breakdown of the Solvency Capital Requirement originating from Market Risks can be seen in section E.

Also, the methodology used to evaluate the Market Risks is unchanged, with respect to the previous reporting period.

Market Risk concentration is explicitly modelled by the Standard Formula approach. Based on the results of the model and on the composition of the balance sheet Generali Belgium has no material risk concentration.

It has to be noted that Generali Belgium doesn't own any material Off Balance Sheet item contributing to Market Risk.

## C.2.2. Risk management and mitigation

The Market Risks borne by Generali Belgium are managed in many different ways.

The 'Prudent Person Principle' is the main cornerstone of Generali Belgium investment management process. To ensure a comprehensive management of Market Risks impacts on assets and liabilities, Generali Belgium Strategic Asset Allocation process needs to be liability-driven and strongly inter-dependent with insurance-specific targets and constraints. Generali Belgium, following the Generali Group approach, has integrated Strategic Asset Allocation and Asset Liability Management within the same process.

One of the main risk mitigation techniques used by Generali Belgium consists in liability driven management of the assets, which aims at granting a comprehensive management of assets taking into account Generali Belgium liabilities structure. Interest Rate and Currency Risk are for example mitigated when to a movement observed on the asset side would correspond an offsetting movement on the liability side of the balance sheet.

The asset portfolio is invested and rebalanced according to the asset class and duration weights defined through the Investment Management process described above and based on the 'Prudent Person Principle'. The aim is not just to eliminate the risk but to define an optimal risk-return profile satisfying the return target and the Risk Appetite of Generali Belgium over the Business Planning period.

Generali Belgium uses also derivatives with the aim to mitigate the risk present in the asset or/and liability portfolios. The derivatives help Generali Belgium to improve the quality, liquidity and profitability of the portfolio, according to the Business Planning targets.

Asset Liability Management & Strategic Asset Allocation activities aim at ensuring that Generali Belgium holds sufficient and adequate assets in order to reach defined targets and meet liability obligations. This implies detailed analyses of asset-liability relationship under a range of market scenarios and expected/stressed investment conditions.

The Asset Liability Management & Strategic Asset Allocation process relies on a close interaction between Investment, Finance, Actuarial, Treasury and Risk Management Functions. The inputs and targets received from the above-mentioned Functions guarantee that the Asset Liability Management & Strategic Asset Allocation process is consistent with the Risk Appetite Framework, Strategic Planning and Capital Allocation processes.

The aim of the Strategic Asset Allocation process is to define the most efficient combination of asset classes which, according to 'Prudent Person Principle' set out in the Solvency II Directive and related relevant implementation measures, maximizes the investment contribution to value creation, taking into account solvency, actuarial and accounting indicators.

The annual Strategic Assets Allocation proposal:

- Defines target exposure and limits, in term of minimum and maximum exposure allowed, for each relevant asset class;
- Embeds the deliberate Assets Liabilities Management mismatches permitted and potential mitigation actions that can be enabled on the investment side.

Regarding specific asset classes such as

- Private Equity,
- Alternative Fixed Income,
- Hedge Funds,
- Derivatives and Structured Products,

The Generali Group has centralized their management and monitoring, in particular:

- This kind of investments is subject to accurate due diligence aiming at assessing the quality of the investments, the level of risk related to the investment, its consistency with the approved liability-driven Strategic Assets Allocation;
- The extent and thoroughness of the analysis may vary according to criteria such as the investment structure under evaluation, volume of investments and regulatory framework.

In addition to risk tolerance limits set on Generali Belgium solvency position defined within the Risk Appetite Framework, the current risk monitoring process of Generali Belgium is also integrated by the application of the Generali Group Risk Guidelines provided by Head Office.

The Generali Group Risk Guideline include general principles, quantitative risk limits (with a strong focus on credit and market concentration), authorization processes and prohibitions.

Furthermore, Generali Belgium is also actively implementing Market Risk mitigation strategies:

- ü A first action has been the reduction of exposure to spread risk. This was done through a selection process of identifying and selling fixed income instruments (mainly corporate bonds) that did not yield a sufficient risk-adjusted return. By doing so we optimized the spread risk consumption based on the risk-adjusted return.
- ü A second mitigating strategy has been to eliminate the vast majority of currency risk in the investment portfolio. As our liabilities are in euro it is logic to avoid any risk related to currency fluctuations. Here again based on a risk-adjusted return analysis including the cost of currency risk we decided to decrease in an important way our exposure to non-euro assets.
- ü In order to avoid reinvestment risk in the current low yield environment we have implemented a strategy of bond forward contracts in order to hedge the reinvestment risk on bonds that came at maturity during the year. This mitigation actions locks the reinvestment yield at the moment of concluding the forward contract.
- ü Further hedging strategies are in place via an interest rate swap that allows Generali Belgium to swap the indexed coupon rate on a portfolio of Italian inflation-linked government bonds into a fixed rate payout structure. This hedging strategy offsets market risk by reducing the exposure to interest rate risk and interest rate volatility risk. Indeed by swapping the indexed coupon into a fixed rate Generali Belgium increases the predictability of our cash flows on the underlying assets. This allows for a better alignment with the embedded guaranteed options on our traditional guaranteed life products.
- ü Another hedging strategy is accomplished via a portfolio of forward swaptions. This strategy aims at protecting Generali Belgium against a future interest rate increase (interest rate risk). The rationale behind this trade is to compensate potential losses on the fixed income portfolio following interest rate increases. This would be especially effective in case the interest rate increases would trigger high surrender on the traditional guaranteed life business. Indeed in case interest rate increases would encourage policyholders to surrender their policy this hedging strategy helps to offset the impact of potential sales of fixed income assets that are subject to value losses following the above mentioned interest rate increase.

### **C.3. Credit risk**

#### **C.3.1. Risk exposure and assessment**

As a composite insurer, Generali Belgium collects premiums from policyholders in exchange of payment promises contingent on pre-determined events.

Generali Belgium invests the collected premiums in a wide variety of financial assets, with the purpose of honouring future promises to policyholders and generating value for its shareholders.

Some of these financial investments are subject to the following Credit Risks:

- ü Invested assets do not perform as expected because of perceived or actual deterioration of the credit worthiness of the issuer;
- ü Derivative or reinsurance contracts do not perform as expected because of perceived or actual deterioration of the credit worthiness of the counterparty.

Regarding its invested assets, Generali Belgium holds them until they are needed to redeem the promises to policyholders and therefore it is quite immune to short-term decrease and fluctuations in their market values. Nonetheless, Generali Belgium is required by the Solvency II regulation to hold a capital buffer, with the purpose of maintaining a sound solvency position even in the circumstances of adverse market movements. For more details about this point, please refer to section E.2.

Generali Belgium manages its investments in a prudent way according to the so-called 'Prudent Person Principle, and strives to optimize the return of its assets while minimizing the negative impact of short term market fluctuations on its solvency. Nevertheless, in Traditional Life Business, for example, Generali Belgium assumes a considerable Credit Risk when it guarantees policyholders with a minimum return of the accumulated capital over a long period of time. If during the contractual period the return generated by the financial investment is below the guaranteed return for a prolonged period of time, Generali Belgium shall compensate itself the contractual guarantees. In addition, independently on their realization, Generali Belgium has to ensure that the value of the financial investments backing the insurance contracts do not fall below the value of its obligations.

In Non-Life business, Generali Belgium invests the premiums collected in financial instruments paying attention that benefits to policyholders can be timely paid. If the value of the financial investments sufficiently decreases at the moment when claims to policyholders need to be paid, Generali Belgium may fail to maintain its promises to policyholders. Therefore Generali Belgium must ensure that the value of the financial investments backing the insurance contracts do not fall below the value of its obligations.

In the case of Unit-Linked business Generali Belgium typically invests the premiums collected in financial instruments but does not bear Credit Risk. However, Generali Belgium is exposed with respect to its earnings: fees are the main source of profits for Generali Belgium and they are directly linked to the performance of the underlying assets, therefore adverse developments directly affect the profitability of Generali Belgium, when contract fees become insufficient to cover costs.

Under the Standard Formula perspective, the Credit Risks are only related to Counterparty Default Risk as Spread Risk is captured within the Market Risk module.

The Counterparty Default Risk is defined as the risk of incurring in losses because of the inability of a counterparty to honor its financial obligations. Distinct modelling approaches have been implemented to model default risk in the bond portfolio (referred to as Credit Default Risk) and the default risk arising from the default of counterparties in cash deposits, risk mitigation contracts (including reinsurance), and other type of exposures subject to credit risk (referred to as Counterparty Default Risk).

In order to ensure that the level of Credit Risks deriving from the invested assets are adequate to the business run by Generali Belgium and to the obligations taken with the policyholders, the investment activity is performed in a sound and prudent manner in accordance with the 'Prudent Person Principle' set out in Article 132 of Directive 2009/138/EC, as ruled in the Investment Governance Policy, that approved by Generali Belgium Board of Directors.

The practical implementation of the 'Prudent Person Principle' is applied independently of the fact that assets are subject to Market Risks, Credit Risks or both, so the same principles and processes described in section C.2.2. applies also to the optimization of the portfolio allocation with respect to Credit Risks.

Common risk measurement methodologies (both qualitative and quantitative) are applied in order to provide an integrated measurement of the risks borne by Generali Belgium. For the evaluation of its Credit Risks, Generali Belgium makes use of the EIOPA Standard Formula, as ruled by the Solvency II Directive, complemented by additional measurement techniques deemed appropriate and proportionate.

Based on this methodology, the breakdown of the SCR originating from Credit Risks, which can be seen in Section E, shows a decrease of counterparty default risk, mainly thanks to a change in rating for some exposures which decreased the probability of default and resulting from the treatment of the mortgage loans portfolio under the spread risk module instead of counterparty default risk module as for previous year.

.Credit Risk concentration is explicitly modelled by the Standard Formula. Based on the results of the model and on the composition of the balance sheet Generali Belgium has no material risk concentrations.

Regarding Off-Balance Sheet items, Generali Belgium is exposed to Counterparty Default Risk on its Securities Lending program. However, thanks to a strong collateralization of these exposures, the Counterparty Default Risk related to these assets is efficiently mitigated.

### **C.3.2. Risk management and mitigation**

The Credit Risks borne by Generali Belgium are managed in many concurrent ways. One of the main risk mitigation techniques used by Generali Belgium consists in liability driven management of the assets. The asset portfolio is invested and rebalanced according to the asset class and duration weights defined through the Investment Management process described above and based on the 'Prudent Person Principle'. The aim is not just to eliminate the risk but to define an optimal risk-return profile satisfying the return target and the Risk Appetite of Generali Belgium over the Business Planning period.

Generali Belgium uses also derivatives with the aim to mitigate the risk present in the asset or/and liability portfolios. The derivatives help Generali Belgium to improve the quality, liquidity and profitability of the portfolio, according to the Business Planning targets. Moreover, the application of the Standard Formula produces a set of quantitative Risk Metrics that allow the definition of risk tolerance levels and to perform sensitivities analysis on selected risk scenarios.

In addition to the framework illustrated above, the current risk monitoring process of Generali Belgium is also integrated by the application of the Generali Group Investment Risk Guidelines provided by the Group Head Office. The Investment Risk Guideline include general principles, quantitative risk limits (with a strong focus on Credit and Market concentration), authorization processes and prohibitions that are adapted to fit the Company Risk Appetite while supporting its strategy.

## C.4. Liquidity risk

### C.4.1. Risk exposure and assessment

Liquidity Risk is defined as the uncertainty, emanating from business operations, investment or financing activities, over the ability of the insurer to meet payment obligations in a full and timely manner, in a current or stressed environment. This could include meeting commitments only through a credit market access at unfavourable conditions or through the sale of financial assets incurring in additional costs due to illiquidity of (or difficulties in liquidating) the assets.

Generali Belgium is exposed to Liquidity Risk as a result of insurance operating activity, depending on the cash-flow profile of the expected new business, due to the potential mismatches between the cash inflows and the cash outflows deriving from the business. Liquidity Risk can additionally stem from investing activity, due to potential liquidity gaps deriving from the management of Generali Belgium's assets portfolio as well as from a potentially insufficient level of liquidity (i.e. capacity of being sold at a fair price in adequate amounts and within a reasonable timeframe) in case of disposal. Finally, Generali Belgium can be exposed to liquidity outflows related to issued guarantees, commitments, derivative contract margin calls, or regulatory constraints regarding Insurance Provisions Coverage Ratio and capital position.

Generali Belgium's Liquidity Risk Management relies on projecting cash obligations and available cash resources into the future, so as to monitor that available liquid resources are at all times sufficient to cover the cash obligations that will come due in the same period.

Generali Belgium has defined a set of Liquidity Risk Metrics that are used to regularly monitor the liquidity situation. All such metrics are forward-looking, i.e. they are calculated at a future date based on projections of cash-flows, assets and liabilities and an estimation of the level of liquidity of the asset portfolio. The ratios are aimed at measuring the ability of Generali Belgium to ensure the fulfilment of its regulatory Technical Reserves Coverage Requirement as well as its cash obligations towards customers and other stakeholders.

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

Liquidity Risk limits have been defined in terms of values of the above-mentioned metrics that cannot be exceeded. The limit framework is designed so as to ensure that Generali Belgium holds a 'buffer' of liquidity in excess of the amount required to withstand the adverse circumstances depicted in the stress scenarios.

Generali Belgium's results in the above mentioned Liquidity Risk Metrics are evaluated adequate and above the established minimum thresholds. This shows that Generali Belgium is able to face its requirements in both the base scenario but also under projected stress scenarios. Indeed the strategic asset allocation of Generali Belgium aims at investing the majority of its assets in quoted and liquid financial instruments. This strategy is applied in order to meet both foreseen or unforeseen needs for cash that might arise through the lifecycle of Generali Belgium's business strategy. Compared to the previous year we do not observe any material changes to the asset allocation and its liquidity.

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

### **C.4.2. Risk management and mitigation**

Generali Belgium manages and mitigates Liquidity Risk in consistency with the framework set in the Group internal regulations. Generali Belgium aims at ensuring the capacity to meet its commitments also in case of adverse scenarios, while achieving its profitability and growth objectives. To that end, it manages expected cash inflows and outflows so as to maintain a sufficient available cash level to meet the short and medium term needs and by investing in instruments that can be quickly and easily converted into cash with minimum capital losses. Generali Belgium considers the prospect liquidity situation in plausible market conditions as well as under stressed scenarios.

Generali Belgium has established clear governance for Liquidity Risk measurement, management, mitigation and reporting in consistency with Group regulations, including the setting of specific limits and escalation process in case of limits breach or other liquidity issues.

The principles for Liquidity Risk Management designed in the Group Risk Appetite Framework are fully embedded in the Strategic Planning as well as in business processes including investments and product development. As far as the investment process is concerned, Generali Belgium has explicitly identified Liquidity Risk as one of the main risks connected with investments and has stipulated that the Strategic Asset Allocation process must rely on indicators strictly related to Liquidity Risk, including the mismatch of duration and cash-flows between assets and liabilities. Investment limits have been imposed to Generali Belgium in order to ensure that the share of illiquid assets is kept within a level that does not impair Generali Belgium's asset liquidity. As far as product development is concerned, the Group has defined in its Life and Properties and Casualties Underwriting Policies the principles to be applied to mitigate the impact on liquidity from lapses and surrenders in respect of the Life business and claims in respect of Non-Life business.

### **C.4.3. Expected profit included in future premiums**

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

The amount of Expected Profit Included in Future Premiums for the Life business written by Generali Belgium has been calculated in accordance with article 260(2) of the Delegated Acts and amounts to €38.344 thousand at year-end 2017 (net of reinsurance).

The amount of Expected Profit Included in Future Premiums for the Properties and Casualties business written by Generali Belgium has been calculated in accordance with article 260(2) of the Delegated Acts and amounts to €13.373 thousand at year-end 2017 (net of reinsurance). These amount are the consequence of the contract boundaries of Properties and Casualties contracts. Generali Belgium has considered the two components of the contract boundaries: the tacit renewal and the premium instalment of Properties and Casualties contract.

## C.5. Operational risk

### C.5.1. Risk exposure and assessment

Operational Risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Compliance and Financial Reporting Risks fall within this category.

In line with the industry practices, Generali Belgium adopts the following classification categories:

- ü Internal fraud defined as the losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or Company Policy, excluding diversity/discrimination events, which involves at least one internal party;
- ü External fraud defined as the losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party;
- ü Employment Practices and Workplace Safety defined as the losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events;
- ü Clients, Products and Business Practices defined as the losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product;
- ü Damage to Physical Assets defined as the losses arising from loss or damage to physical assets from natural disaster or other events;
- ü Business disruption and system failures defined as the losses arising from disruption of business or system failures;
- ü Execution, Delivery and Process Management defined as the losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

Following best industry practices, Generali's framework for Operational Risk Management includes as main activities the Loss Data Collection and the risk assessment made by the control functions.

The Loss Data Collection is the process of collection of losses suffered as result of the occurrence of Operational Risk events with an impact evaluated as higher than €8 thousand and provides a backward-looking view of the historical losses suffered due to Operational Risk events.

Since 2015, and through the Group, Generali Belgium exchanges with other worldwide financial institutions internal loss data in an anonymized way through the 'Operational Risk data eXchange Association (ORX)', a global association of Operational Risk practitioners and with the participation of the main industry players. The aim is to use the data from the peers to learn from their loss experiences, improving the internal controls and preventing the occurrence of identified emerging risks.

The Risk assessment provides a forward-looking view on the risks Generali Belgium is exposed to and require a deeper analysis of the risks performed, jointly with the business owners. It provides a high-level evaluation of the forward-looking inherent and residual risk exposure of Generali Belgium. The outcomes of the assessment will drive, as from 2017, the execution of the scenario analysis.

Here are the outcomes of the risk assessment performed in 2017, considering the foreseen exposure of 2018:

**Residual Risk Heatmap**

Potential Risk Exposure	High	(1)	(2)	(3)	(4)
	Medium- high	(5)	(6)	(7)	(8)
	Medium- Low	(9)	(10)	(11)	(12)
	Low	(13)	(14)	(15)	(16)
		Adequate	Mainly-Adequate	Partially-Adequate	Inadequate
		Control System Adequacy			

- ü (1) Employees management, Internal claims fraud
- ü (2) Reinsurance, market disclosure, SCR, client assets, data entry, investment limits, AML, distribution, fraud by clients, tax law, capital management, software breakdown, product flaws, terrorism financing, cyber-attack, loss of key staff
- ü (3) Outsourcing, error/delay in operations
- ü (4) Nihil
- ü (5) sales network relation, fit & proper, remuneration, investment, antitrust, internal control framework, internal fraud, bribery & corruption
- ü (6) accounting standards, portfolio management, utilities interruption, social event, fraud by supplier, corporate ethics, fraud intermediaries, commercial counterparty relation, technical provision, record keeping, business continuity, IT system regulation, related parties transactions
- ü (7) IT data loss, inadequate information to clients, marketing & advertising, employee data privacy, assets & business data protection, customer data privacy, outsourcers management, tax evasion
- ü (8) Nihil
- ü (9) advisory activities, diversity & inclusion, pandemic, non-authorized transaction, market abuse
- ü (10) IT infrastructure breakdown, natural incidents, international sanctions, workspace environment, client selection
- ü (11) Nihil
- ü (12) Nihil
- ü (13) Nihil
- ü (14) Nihil
- ü (15) Nihil
- ü (16) Nihil

Regarding actual loss collected during 2017 through the Loss Data Collection process, none has been significant enough in terms of amounts to be published.

### C.5.2. Risk management and mitigation

In order to identify, measure, monitor and mitigate the Operational Risk, Generali Belgium formed a specialized unit within the Risk Management department, responsible for steering the Operational Risk program..

The risks related to compliance are monitored by a dedicated and independent Compliance Function, which description is provided in SFCR section B1

Furthermore, other specific risks are investigated and managed jointly with specialized units within the first line of defence such as Financial Reporting Risk, IT Risk, Anti-Fraud and Corporate Security.

As a result of this cooperation, a series of risk-mitigating measures are undertaken in each part of Generali Belgium with the aim to further improve our control environment, reducing risk exposure and reaching a better operational efficiency.

The operational risk team being also in charge of the monitoring of the internal control system across the company, all the dysfunctions and the attention points identified during the exercises are fully integrated in the internal control activities described in section B4.

## C.6. Other material risk

### C.6.1. Emerging Risks

Emerging risks are the risks related to potential changes in the internal and external environment Generali Belgium evolves in, and that could lead to an increase in Generali Belgium exposure to other risks mentioned before. Since these risks are not fully understood – because they never occurred before, the impacts are not easily quantifiable.

For Generali Belgium, those risks are assessed (identification and measurement) during the Main Risk Self-Assessment (identifies risk which may potentially challenge the strategic planning results achievements) process for the identification of the most significant risks Generali Belgium is exposed to. In order to perform this assessment, the directors – supported by the local risk management team – based their analysis on the PESTLE model (The PESTLE is an approach is a method in which emerging risks are classified by type (i.e. Political, Economic, Social, Technological, Legal or Environmental) and got to the following assessment, from initial concern to broad industry action:

#### Emerging Risk Register

Ranking	PESTLE	Name	No immediate concern	Initial concern	Active concern	Broad Industry action
1	Economical + Legal	Negative (guaranteed) interest rates				
2	Political	Elections, and other governmental uncertainties				
3	Legal	Fraudulous brokers / fund managers				
4	Legal	Increasing regulatory requirements (“regulatory tsunami”)				
5	Technical	IT Systems adaptations to serve foreign clients				
6	Economical + Social	Sector restructurings (i.e. layoffs)				
7	Economical + Legal	Premium pricing + legal framework for self-driving cars				
8	Political	Tax change on (i.e. pensions) products				
9	Political	Tax change on investment instruments				
10	Legal	Client taking legal action due to underperforming Unit Linked product and lack of product information				
11	Economical	Predatory pricing initiated by large competitors				

Evolution of the Emerging risks from YE2016 to YE2017:

- ü Negative guaranteed interest rates went from being an initial concern at YE2016 to being no immediate concern at YE2017 thanks to risk mitigation initiatives implemented during the year such as the general lowering of the interest rates on guaranteed products.
- ü Increasing regulatory requirements are considered more severe this year due to the increase of EIOPA powers on the one hand and the increasing requests from the National Regulator on the other hand (e.g.: Transversal analysis of expenses communication, new Data Quality circular, Stress Tests, Long Term Guarantee assessment, etc.).
- ü Sector restructurings are less severe than last year thanks to overall economic conditions.
- ü Solvency II results disclosure was taken out of the Emerging Risks list as it becomes a non-pillar 1 risk (Reputational/Compliance) and fully submitted without errors.
- ü Tax change on investment instruments has become less relevant as the recently issued law does not foresee any change in the near future. However, in a mid to long term horizon, this topic could reappear.

Other emerging risks such as elections and other governmental uncertainties or potential fraud from brokers are dealt with accordingly. For example, Generali Belgium pursues actively its investment strategy relying on a continuous Assets-Liabilities Management perspective, aiming at optimizing the return while mitigating the risk related to potential spreads increase. This investment strategy monitoring relies on a regular follow up and monitoring of the market environment as well as the analysis of new investment strategies

aiming at diversifying the exposure on corporate bonds and lowering the exposure to countries being impacted by governmental change.

Here below is an overview of former emerging risks including the reason they are not considered as “emerging” anymore and their respective mitigating actions:

Name	Why not Emerging risk anymore	Mitigating actions
Terrorism	Materialized in March 2016 through Brussels terrorist attacks	(TRIP) pooling at market level, increased security in building (doors, mandatory wear of ID with picture, etc.), and implementation of a BCP.
Cyber attack	Materialized in October 2016 through the Ransomware Locky incident.	Launch of the 2017 Security plan focused on cyber risk and of a company awareness campaign.
Concentration risk (of the affluents in the north of country)		New tariff, higher portfolio diversification
IT failure	Followed up in operational risk reporting	Several actions ensuring higher availability of systems
Several Cat Nat (simultaneous)	Appropriateness of reinsurance structure in place	Generali Belgium’s current reinsurance structure provides sufficient cover in case of simultaneous Cat nat.
Solvency II results disclosure	Classified as compliance risk since 1st disclosure (May 2017)	

## C.6.2. Reputational Risks

The reputational risk is defined as a potential decrease in Generali Belgium value or a deterioration of its risk profile because of a deterioration of its reputation or a negative perception of its image by its stakeholders. It is the current or foreseen risk of decrease in Generali Belgium’s revenues or capital if the consumers, shareholders, investors, supervisory authorities or other counterparties would adopt a negative view on Generali Belgium’s activities.

The risk profile of Generali Belgium includes an exposure to the reputational risk if there are discrepancies between the stakeholder’s needs and Generali Belgium’s actions, the diffusion of this mismatch and/or a media effect. Those events could lead to a significant level of exposure to the reputational risk.

There are two potential impacts: the direct impact (the stakeholders are directly affected by the occurrence of the event) and the indirect impact (modification of the perception of Generali Belgium by its stakeholders after the occurrence of the event).

At Generali Belgium, the reputational risk is managed through two different approaches: proactive and reactive.

The **proactive management** of the reputational risk is the continuous management of the relationship with the stakeholders, independently from the occurrence of particular events, in order to build a certain level of reputation. It implies the identification and the evaluation of the different main stakeholders and an adequate process for the management of the reputation with each of these stakeholders. Among them, the press, the customers, the brokers and the supervisory authorities have been assessed as the most significant.

- ü **The press:** each staff member who is contacted by a media has to inform the director of Marketing and Communication in order to adopt the right behavior. Furthermore, each week the director of Marketing & Communication receives a file which summarizes all the articles that were published in the media mentioning Generali Belgium.
- ü **Clients & other public:** a reporting process from the compliance function to the marketing team is put in place each time a complaint is received from a client which could have an impact on the image of Generali Belgium – based on pre-defined keywords in the complaints.
- ü **Brokers:** the information communicated to the brokers are monitored in order to avoid a false image they got and then avoid a wrong or spoiled evaluation of the economic health and performance of Generali Belgium.
- ü **Supervisory authority:** the compliance team is in charge of all the communication to the regulator.

The **reactive management** is the way Generali Belgium is organized to evaluate and monitor its exposure to the reputational risk, and to give an adequate response to the risk after the occurrence of an event.

**Direct impact:** in case of occurrence of an event with a potential reputational impact, Generali Belgium has to react immediately by making a communication campaign to the impacted stakeholders and to put in place an action plan in order for the event not to recur. The cause has been directly identified and an action plan put in place to reduce the potential impact of this event.

**Indirect impact:** the amplitude of the event and its propagation are analysed so that Generali Belgium can react as soon as the criticality is too high.

The reactive management of reputational risks includes crisis management by putting an action and communication plan in place with the purpose of limiting the damage after the occurrence of a reputation-linked event.

## **C.7. ANY OTHER INFORMATION**

To test Generali Belgium solvency position resilience to adverse market conditions or shocks a set of stress test and scenario analyses are performed. These are defined considering unexpected, potentially severe, but plausible events. The outcome, in terms of impact on financial and capital position, prepares Generali Belgium to take appropriate management actions if such events were to materialize.

The sensitivity analysis considers simple changes in specific risk drivers (e.g. Interest Rates, equity shock, credit spreads and Interest Rate volatility). Their main purpose is to measure the variability of the Own Funds and Solvency Ratio to variations in specific risk factors. The set chosen aims to provide the assessment of resilience to the most significant risks.

In order to verify the adequacy of solvency capital position to the changing of the market conditions, following main sensitivity analyses have been performed:

Own Funds sensitivity analysis according to the Standard Formula at Company level at Year End 2017 of which the main sensitivities performed are summarized in the table below:

<b>Sensitivities on Excess of assets over liabilities</b>	<b>Assumption 2017</b>
Equity markets	+ 25 %
Equity markets	- 25 %
Risk free rate : interest rate change	+ 20 bps
Risk free rate : interest rate change	- 20 bps
Corporate bond spreads	+ 50 bps
Government bond spreads	- 50 bps
Interest rate	no volatility adjustments
Ultimate forward rate	- 150 bps

The results of these sensitivities analysis are disclosed in the chapter E.6 of this report

Additional analysis of sensitivities, taking into account both changes in Own Funds and Solvency Capital Requirements, are performed within the Own Risk Solvency Assessment itself, including a new sensitivity on Government bond spreads.

## D. Valuation for Solvency Purposes

As far as Assets and Other liabilities units concerned (respectively in sub-chapter D1 and D3), it is worthwhile mentioning that the general framework of both disclosures is based on the SII regulatory framework that standardizes valuations and measurements of Market Value Balance Sheet assets and liabilities, largely referring to and in conformity with IFRS principles adopted by the European Commission.

For the sake of clarity, common relevant regulatory reference and disclosure notes have been described both in Assets and Other liabilities, while specific regulatory statements to be applied only on asset or other liability items have been disclosed in the appropriate valuation and measurement section of sub-chapter D.1. and D.3.

In chapter E.1 'Own fund, detailed information on legislative and methodological definition of Eligible Own funds are given, with the numerical info.

In order to define the Market Value Balance Sheet, all assets and liabilities on the balance sheet must be stated at fair value in accordance with Art 75 of Directive 2009/138/EC (L1 – Dir).

The primary objective for valuation as set out in Article 75 of L1 - Dir requires an economic, market-consistent approach to the valuation of assets and liabilities. According to the approach of Solvency II, when valuing balance sheet items on an economic basis, undertakings need to consider the risks that arise from a particular balance sheet item, using assumptions that market participants would use in valuing the same asset or liability.

This approach leads insurance and reinsurance undertakings to value assets and liabilities at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction; in addition, in case of liabilities valuation, parties shouldn't make any adjustment to take account of the change of the own credit standing of the insurance or reinsurance undertaking occurred from the recognition of the liability to the valuation date.

According to the Commission delegated regulation (L2-DR = Article 9(Article 75(1) of Directive 2009/138/EC) Valuation methodology – general principles) insurance and reinsurance undertakings shall value assets, unless otherwise clearly stated in the regulation, in conformity with:

- ü International accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002 provided that those standards include valuation methods that are consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC.
- ü If those standards allow for the use of more than one valuation method, insurance and reinsurance undertakings shall only use valuation methods that are consistent with Article 75 of Directive 2009/138/EC;
- ü Other valuation methods that are deemed to be consistent with Article 75 of Directive 2009/138/EC, when the valuation methods included in international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002 are either temporarily or permanently not consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC.

By way of derogation from the 2 points above, insurance and reinsurance undertakings may value an asset or a liability using an alternative valuation method which is proportionate to the nature, scale and complexity of the risks inherent in the business of the undertaking, provided that:

- ü The valuation method is:
  - o consistent with Article 75 of Directive 2009/138/EC; and
  - o proportionate with respect to the nature, scale and complexity inherent in the business of the undertaking;
- ü The undertaking does not value that asset or liability using international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002 in its financial statements;
- ü Valuing assets and liability using international accounting standards would impose costs on the undertaking that would be disproportionate with respect to the total administrative expenses.

The IFRSs' accounting bases, such as the definitions of assets and liability and the recognition / derecognition criteria, are applicable as the default accounting framework, unless otherwise stated. IFRSs also refer to a few basic presumptions, which are equally applicable:

- ü Going concern assumption.
- ü Individual assets and liability are valued separately.

- ü The application of materiality, whereby the omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the Solvency II balance sheet. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

## Fair value hierarchy

In Technical Specification version 6, it is clearly indicated the fair value hierarchy to be adopted in valuating assets and other liabilities than technical provision. On this basis, the undertaking applied the following hierarchy of high level principles for valuation of assets and liabilities:

- ü Use of quoted market prices in active markets for the same assets and liability;
- ü Where the use of quoted market prices for the same assets or liability is not possible, use of quoted market prices in active markets for similar assets or liability with adjustments to reflect differences;
- ü If there are no quoted market prices in active markets available, use of mark-to-model techniques. Those alternative valuation techniques have to be benchmarked, extrapolated or otherwise calculated as far as possible from a market input;
- ü Maximum use of relevant observable inputs and market inputs is recommended, while use of undertaking-specific inputs and unobservable inputs should be minimize;
- ü Valuing liabilities at IFRS fair value, the adjustment to take account of the own credit standing as required by IFRS 13 Fair Value Measurement has to be eliminated. In addition, when valuing financial liabilities subsequently after initial recognition, the adjustment to take account of the own credit standing as required by IFRS 13 Fair Value Measurement and as defined by IFRS 7 Financial Instruments: Disclosures, has to be eliminated.

The definition of fair value in IFRS 13 is based on an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement. Being basic concept from IFRS13 imported into SII environment, inputs used in valuation techniques are classified into three levels, giving the highest priority to (unadjusted) quoted prices in active markets for identical asset or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorized into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgment).

### Level 1 inputs

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

A quoted market price in an active market provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available, with limited exceptions.

If an entity holds a position in a single asset or liability and the asset or liability is traded in an active market, the fair value of the asset or liability is measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity, even if the market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

### Level 2 inputs

Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly.

They include:

- ü Quoted prices for similar assets or liabilities in active markets;
- ü Quoted prices for identical or similar assets or liability in markets that are not active;
- ü Inputs other than quoted prices that are observable for the asset or liability, for example:
  - Interest rates and yield curves observable at commonly quoted intervals;
  - Implied volatilities;
  - Credit spreads;
- ü Inputs that are derived principally from or corroborated by observable market data by correlation or other means ('market-corroborated inputs').

### Level 3 inputs

Level 3 inputs are unobservable inputs for the asset.

Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

## **Fair value measurement approach**

The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

A fair value measurement requires an entity to determine all of the following:

- ü The particular asset or liability that is the subject of the measurement (consistently with its unit of account);
- ü For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use);
- ü The principal (or most advantageous) market for the asset or for the liability;
- ü The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or the liability and the level of the fair value hierarchy within which the inputs are categorized.

## **Guidance on measurement**

IFRS 13 provides the guidance on the measurement of fair value, including the following:

- ü An entity takes into account the characteristics of the asset or the liability being measured that a market participant would take into account when pricing the asset or the liability at measurement date (e.g. the condition and location of the asset and any restrictions on the sale and use of the asset);
- ü Fair value measurement assumes an orderly transaction between market participants at the measurement date under current market conditions;
- ü Fair value measurement assumes a transaction taking place in the principal market for the asset or the liability, or in the absence of a principal market, the most advantageous market for the asset or the liability;
- ü Fair value measurement of a non-financial asset takes into account its highest and best use;
- ü Fair value measurement of a financial or non-financial liability or an entity's own equity instruments assumes it is transferred to a market participant at the measurement date, without settlement, extinguishment, or cancellation at the measurement date;
- ü Fair value of a liability reflects non-performance risk (the risk the entity will not fulfil an obligation), including an entity's own credit risk and assuming the same non-performance risk before and after the transfer of the liability;
- ü An optional exception applies for certain financial assets with offsetting positions in market risks or counterparty credit risk, provided conditions are met (additional disclosure is required).

## **Valuation techniques**

An entity uses valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset would take place between market participants and the measurement date under current market conditions. Three used valuation techniques are:

- ü Market approach – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets/liability or a group of assets/liabilities (e.g. a business);
- ü Cost approach – reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost);
- ü Income approach – converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

In some cases, a single valuation technique will be appropriate, whereas in others multiple valuation techniques will be appropriate.

SII legislation clearly states the similarity of the approach, with particular regards to Article 10 L2-DR Valuation methodology – valuation hierarchy.

### **D.1. Assets**

#### **D.1.1. Valuation of Assets for Solvency II Balance Sheet**

#### **Exclusion of IFRS valuation methods**

In this chapter, an overall description of the Solvency II valuation methods for Assets is given, complementary to the general Valuation for Solvency Purposes (paragraph D - introduction).

L2-DR, in accepting valuation methods defined in IFRS, anticipates that there are cases where IFRS valuation methods are not consistent with article 75 requirements.

Despite the valuation principles described in previous paragraph D1, specific balance sheet items have to be treated differently form relevant IFRS principle or valuation methods have been excluded from Solvency II environment.

L2-DR states the exclusion of specific valuation methods such as cost or amortized cost and models where value is determined at the lower of the carrying amount and fair value less costs to sell.

Furthermore, other valuation methods usually applied for specific assets are to be excluded in Solvency II environment or are to be adjusted:

- ü Properties, investment properties, plant and equipment shall not be valued at cost less depreciation and impairment;

#### **Solvency II Specificities**

L2-DR specifies the treatment of the assets listed below, for which a valuation different from IFRS measurement is required:

- ü Goodwill and intangible assets;
- ü Related undertakings ( or participations);
- ü Deferred taxes.

All three points are analyzed in the next dedicated sections.

### Goodwill and intangible assets

According to L2-DR Article 12 (Valuation methods for goodwill and intangible assets), insurance and reinsurance undertakings shall value at zero goodwill, deferred acquisition costs and intangible assets other than goodwill, unless the intangible asset can be sold separately and the insurance and reinsurance undertaking can demonstrate that there is a quoted market price for the same or similar assets. Computer software tailored to the needs of the undertaking and “off the shelf” software licenses that cannot be sold to another user shall be valued at zero.

In the Technical Specification version 1.4 it is mentioned the possibility to use the revaluation model<sup>10</sup> defined in IAS 38, being in consistency with Article 75 of Directive 2009/138/EC for the intangible items recognized in the Solvency II balance sheet.

### Related undertakings (or participations)

A participation is constituted by share ownership or by the full use of a dominant or significant influence over another undertaking. In this respect the IFRS concept of control and significant influence applies and as a result holdings are not limited to equity instruments.

When classifying a participation based on share ownership, directly or by way of control, the participating undertaking has to identify:

- ü Its percentage holding of voting rights and whether this represents at least 20% of the potential related undertaking's voting rights (paid-in ordinary share capital); and
- ü Its percentage holding of all classes of share capital issued by the related undertaking and whether this represents at least 20% of the potential related undertaking's issued share capital (paid-in ordinary share capital and paid-in preference shares).

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

### Valuation

In the L2 –DA, Article 13 provides a hierarchy that shall be used to value holdings in related undertakings for Solvency purposes:

- ü Quoted market price
- ü Adjusted equity method (if no active market)
- ü IFRS equity method (if non-insurance)
- ü Alternative techniques (if associates or joint controlled entities)

Measurement principles in IAS 27, IAS 28 and IAS 31 do not apply for the Solvency balance sheet, since they do not reflect the economic valuation required by Solvency II Directive (Article 75).

The economic value of holdings shall correspond to the quoted market price in an active market, if available. When there exists an active market for the instrument which constitutes the insurer's holding in a related undertaking it is assumed that the holding can be disposed for a price equal to the quoted price on that market. The quoted price will include market participants assessment of elements in the related undertaking that otherwise would not be included in a Solvency II balance sheet, e.g. goodwill and intangible assets. However, the fact that the equity instruments have a quoted price in an active market and presumably could be sold on that market justifies this valuation.

Many related undertakings are not be listed on securities markets. This will particularly be the case for subsidiary and joint venture undertakings. If there is no observable quoted price from an active market available, the adjusted equity method – representing insurer's or reinsurer's share of the excess of assets over liabilities valued in accordance with articles 75 - should be applied to insurance and reinsurance related undertakings.

In case of non-insurance related undertakings, alternatively the Adjusted IFRS equity method - equity method as prescribed in IFRS with the deduction of the value of goodwill and intangible assets - could be applied.

For associates it is also allowed, where an adjusted equity method /adjusted IFRS equity method is not possible, to use an alternative valuation method provided that this method is consistent with the valuation approach set out in article 75. The general approach for associated entities is the following:

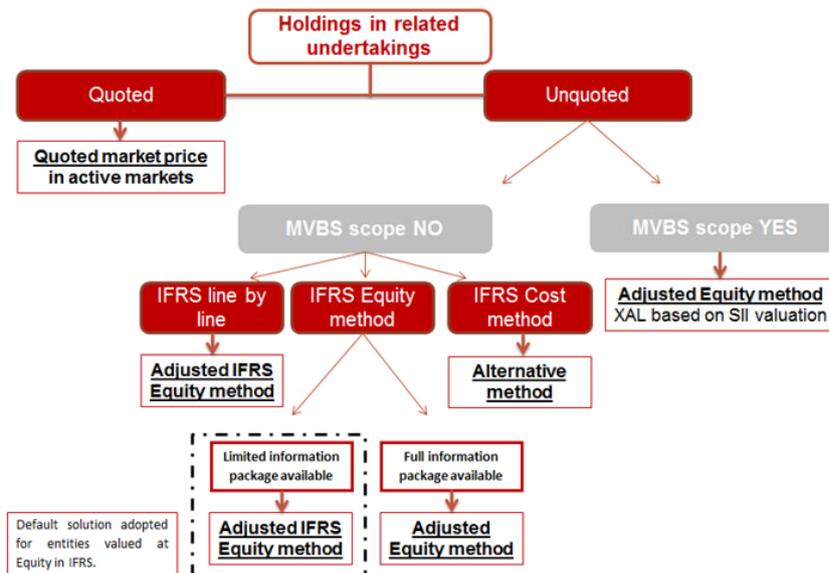
- ü If the associated undertaking is valued at cost for Generali Belgium IFRS purposes an alternative method is adopted (IFRS book value equals to Market Value Balance Sheet Fair Value);
- ü If the associated undertaking is valued at Equity for Generali Belgium IFRS purposes, entity is valued using:
  - o Adjusted IFRS equity method (default approach); or
  - o Adjusted Equity method. This option is applicable only for some types of undertakings (i.e. not for Solvency II sectoral entities).

In general terms, using the Adjusted IFRS equity method instead of the adjusted equity method based on Solvency II valuation principles may not lead to a proper economic value because, in many cases, not all balance items will be measured at fair value. However, this method is introduced to facilitate and harmonize the valuation in cases where it is difficult to revalue the complete balance sheet of the related undertaking based on Solvency II principles. Therefore, it only can be applied when the same method has been applied in the financial statements – meaning that the information is available already. To have consistency with the adjusted equity method based on Solvency II principles, goodwill and intangible assets shall be deducted.

Normally it will be possible for the insurer or reinsurer to recognize and value the individual assets and liabilities in the related undertakings in accordance with the Solvency II approaches applied on its directly owned assets and liabilities. In some cases, however, when the related undertaking is not controlled by the insurer or reinsurer (i.e. the related undertaking is not a subsidiary) the parent undertaking may not have sufficient knowledge of the individual assets and liabilities in the related undertaking to apply an economic valuation on them. In such cases the insurer or reinsurer can apply an alternative valuation.

As far as adjusted equity method and adjusted IFRS equity method are concerned, it has to be highlighted that negative Solvency II generated by the application of one of the two methods above mentioned are not floor to zero. The only peculiarity that differs related undertaking with negative Solvency II value from the general participations having a positive Solvency II value is the Market Value Balance Sheet classification: related undertaking with negative Solvency II value are not classified as participation asset, but on liability side as provisions other than technical provisions.

The following decisional tree reports drivers and triggers adopted to properly associate different alternative method to each related undertaking.



### Strategic nature of participation

An important feature of participation is its strategic nature. According to Article 171 L2 – DA, equity investments of a strategic nature shall mean equity investments for which the participating insurance or reinsurance undertaking demonstrates the following:

- ü That the value of the equity investment is likely to be materially less volatile for the following 12 months than the value of other equities over the same period as a result of both the nature of the investment and the influence exercised by the participating undertaking in the related undertaking;
- ü That the nature of the investment is strategic, taking into account all relevant factors, including:
  - ü The existence of a clear decisive strategy to continue holding the participation for long period;
  - ü The consistency of the strategy referred to in point (a) with the main policies guiding or limiting the actions of the undertaking;
  - ü The participating undertaking's ability to continue holding the participation in the related undertaking;
  - ü The existence of a durable link;
  - ü Where the insurance or reinsurance participating company is part of a group, the consistency of such strategy with the main policies guiding or limiting the actions of the group.

The absence of this feature when related with the type of activity of the participation will impact the basic own funds of the parent undertaking.

It is worthwhile to underline the fact that the Generali Belgium approach is to consider all participations as strategic and for this reason no deduction shall be performed.

### Deferred taxes

Although recalling the IAS 12 principles in the current Solvency II regulatory framework, in order to avoid any possible misunderstanding about IAS 12 interpretation and application, Solvency II legislation clarifies explicitly that all the reference amounts on which determination of deferred taxes is based on should be calculated in accordance with Solvency II valuation instead of IFRS rules.

Mutatis mutandis the IFRS assessment with Solvency II valuation of assets and liabilities, IAS 12 is fully applicable for Solvency II regulations.

## D.1.2. MVBS – DETAILS ON ASSETS OTHER THAN REINSURANCE RECOVERABLES

€ in thousands	Solvency II value (a)	Statutory accounts value (b)	Change to Solvency II value (a-b)	Notes
Intangible assets	0	2.281	-2.281	For Solvency II purposes, only intangible asset that can be sold separately should be recognized in MVBS (insurance and reinsurance undertaking should demonstrate that there is a quoted market price for the same or similar assets), while computer software tailored to the needs of the undertaking and “off the shelf” software licenses that cannot be sold to another user are valued at zero.
Property, plant & equipment held for own use	816	816	0	
<b>Investments (other than assets held for index-linked and unit-linked contracts)</b>				
Holdings in related undertakings, including participations	282.724	266.066	16.658	Change to Solvency II value due to the different accounting approach: IFRS participations value principles are not recognized for Solvency II purposes (see explanation above)
<b>Equities</b>				
Equities - listed	127.563	119.881	7.682	Change to Solvency II value due to the different accounting approach: Equities are recognized at amortized cost for statutory accounts, while Solvency II value recognized at IFRS fair value.
Equities - unlisted	22.663	20.711	1.952	
<b>Bonds</b>				
Government Bonds	3.873.107	3.206.374	666.733	Change to Solvency II value due to the different accounting approach: Bonds and similar product are recognized at amortized cost for statutory accounts, while Solvency II value recognized at IFRS fair value.
Corporate Bonds	1.238.270	1.150.228	88.042	
Structured notes	92.567	32.458	60.109	
Collective Investments Undertakings	16.526	16.016	510	
Derivatives	247.519	250.097	-2.578	Change to Solvency II value due to the different accounting approach: Collective Investments

€ in thousands	Solvency II value (a)	Statutory accounts value (b)	Change to Solvency II value (a-b)	Notes
				Undertakings are recognized at amortized cost for statutory accounts, while Solvency II value recognized at IFRS fair value.
Deposits other than cash equivalents	1.779	825	954	The difference comes from the market value of the derivatives used as hedge accounting
Assets held for index-linked and unit-linked contracts	33.016	33.016	0	Generally, no relevant change to Solvency II value moving from statutory to Market Value Balance Sheet accounts due to close duration and maturity
<b>Loans and mortgages</b>				
Loans on policies	53.630	53.631	-1	Generally, no relevant change to Solvency II value moving from statutory to Market Value Balance Sheet accounts due to close duration and maturity
Loans and mortgages to individuals	11.500	11.500	0	
Other loans and mortgages	453	453	0	
Deposits to cedants	109	109	0	
Insurance and intermediaries receivables	78.754	78.754	0	No relevant change to Solvency II value moving from statutory to Market Value Balance Sheet accounts due to close duration and maturity and to the absence of expected interest cash-flows. As general assumptions.
Reinsurance receivables	4.851	4.851	0	
Receivables (trade, not insurance)	36.467	36.467	0	
Cash and cash equivalents	58.749	58.749	0	Generally, no relevant change to Solvency II value moving from statutory to Market Value Balance Sheet accounts due to close duration and maturity
Any other assets, not elsewhere shown	2.958	2.958	0	Residual class of asset items, included prepaid interests, deferrals and other accrued income. Generally, no relevant change to Solvency II value moving from statutory to Market Value Balance Sheet accounts due to close duration and maturity
<b>Total assets</b>				

The template above refers to the scheme required for Pillar III reporting (QRT: S\_02\_01) and focuses on the differences between:

- ü MVBS Solvency II values; and
- ü Statutory accounts figures

#### Holdings in related undertakings

NAME	Relationship	Valuation Method for the participation	Direct Share	Solvency II Market Value
Dedale S.A.	Participation	Alternative valuation methods	99,97%	2.008
Generali Real Estate Investments B.V.	Participation	Adjusted equity methods	100,00%	276.024
B&C Assurance S.A.	Participation	Alternative valuation methods	99,00%	982
Webbroker S.A.	Participation	Alternative valuation methods	99,99%	1.123
Verzekeringkantoor Soenen N.V.	Participation	Alternative valuation methods	99,80%	2.016
Groupe Vervietois d'Assureurs S.A.	Participation	Alternative valuation methods	99,95%	571

The valuation method applied has been adopted in accordance with the decisional tree about holding in related undertakings valuation above reported.

More in details it has to be highlighted that when available quoted market prices in active markets has always been used, while for all other entities included in the Generali Group Market Value Balance Sheet perimeter it has been applied the adjusted equity method.

For the group entities excluded from Generali Group Market Value Balance Sheet scope and not quoted in active markets, an internal valuation to support the choice of method adopted is provided. Indeed, using the adjusted IFRS equity method instead of the adjusted equity method based on Solvency II valuation principles may not lead to a proper economic value because, in many cases, not all balance items will be measured at fair value. However, this method is introduced to facilitate and harmonize the valuation in cases where it is difficult to revalue the complete balance sheet of the related undertaking based on Solvency II principles. Therefore, it only can be applied when the same method has been applied in the financial statements – meaning that the information is available already. To have consistency with the adjusted equity method based on Solvency II principles, goodwill and intangible assets are deducted.

The choice of method used is driven by the information available at group level. In particular:

- ü For Solvency II sectoral entities adjusted IFRS equity method has been adopted. Considering that entities of other financial sectors (e.g. financial and credit institutions) are treated according to sectoral rules in determining Group Own Funds, adjusted IFRS equity method has been chosen because own funds calculated according to sectoral rules are often more in line with the IFRS tangible Net Asset Value than the “pure” Solvency II valuation;
- ü For other entities consolidated line by line or valued at equity for group purposes, adjusted equity method or adjusted IFRS equity method is adopted triggering the decision with reference to the materiality of the differences on the amounts resulting from the application of two methods;
- ü For all the other group entities that are not consolidated line by line or valued at equity for group purposes, an alternative valuation method assuming the IFRS book value as proxy of Solvency II value is adopted. Even in this case, the decision is triggered with reference to the materiality of the expected negligible differences on the amounts generated by the application of this method or adjusted (IFRS) equity methods.

### Deferred tax assets information

Solvency II regulatory framework states that in the Market Value Balance Sheet deferred tax assets, representing the amounts of income taxes recoverable in future periods, shall be recognized in respect of:

- ü Deductible temporary differences (A temporary difference is a difference between the carrying amount of an asset or liability in the balance sheet and its tax base);
- ü The carry-forward of unused tax losses; and
- ü The carry-forward of unused tax credits;

and determined on the basis of the difference between the values ascribed to assets and liabilities (recognized and valued in accordance with Articles 75-86 of L1 -Dir) and the values ascribed to assets and liabilities as recognized and valued for tax purposes.

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

Furthermore, IAS 12 provides that the enterprise shall recognize a deferred tax asset with respect to the carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. In evaluating the probability that future taxable profits will be realized against which unused tax losses and unused tax credits can be utilized, IAS 12 points out that the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognizes a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity.

While a Deferred Tax Liabilities can be recognized in the balance sheet without further justification, the recognition of a Deferred Tax Assets is subject to a recoverability test, which aims at showing that sufficient profits will be available in the future to absorb the tax credit, since a Deferred Tax Assets can only be recognized “to the extent that it is probable that future taxable profit will be available against which the Deferred Tax Assets can be utilized”. Therefore it is necessary to. In case the deferred taxes after shock (= initial deferred taxes + adjustment) result in a situation of Deferred Tax Assets a recoverability test will be needed to verify if the whole tax can be recognized. In order to test this recoverability, it is necessary not only to take into account any sources of future profits, including the ones which are not already recognized in the balance sheet, but also “any legal or regulatory requirements on the time limits relating to the carry forward of unused tax losses / credits”.

## **D.2. Technical provisions**

### **D.2.1. Life technical provisions**

#### **Overview of Life technical provisions**

The Solvency II Life Technical Provisions at the end of 2016 have been calculated according to articles 77 to 83 of the Solvency II Directive 2009/138/EC.

The following table shows the amount of Life Technical Provision at the end of 2016, split by main components: the best estimate of liabilities, the reinsurance recoverable net of the counterparty default adjustment and the Risk Margin.

#### **YE17 Life Technical Provisions**

(€ Thousand )	31/12/2017
Best Estimate Liabilities gross of reinsurance	5.557.727
Recoverable from reinsurance	-76
Best Estimate Liabilities net of reinsurance	5.557.651
Risk Margin	58.958
Technical Provisions net	5.616.609

The best estimate of liabilities corresponds to the average of the present values of expected future cash flows generated from contracts present in the company portfolio, and therefore include both a probabilistic assessment of their occurrence and an appropriate assessment of the time value of money, obtained on the basis of the risk-free interest rates as at 31<sup>st</sup> of December 2017, as observed in the market and officially communicated by EIOPA. This curve (derived, for the main markets, from interbank swap rates) includes both an adjustment to consider the residual default risk of these instruments (the so-called "credit risk adjustment", amounting for Euro to -10bps) and an adjustment to consider the excess return achieved in a risk-free manner by the assets covering the insurance liabilities (the so-called "volatility adjustment", equal to +4bps in the Euro area).

The method used to derive the best estimate of liabilities is based on a direct approach that involves the projection and discounting of all future expected incoming and outgoing cash flows for the duration of the policyholder's liabilities, in line with the contractual limits defined by regulations (contract boundaries). In particular, the projections consider all future premiums and all outflows associated with both the occurrence of insured events (e.g. claims and capital payable in case of survival of the insured when the contract expires) and the possible exercise of contractual options (for example surrender or paid-up options).

The expected future cash flows have been assessed as the mean value of a set of stochastic scenarios, to allow the calculation of the cost of financial guarantees and contractual options. Therefore, in the actuarial platform were also implemented specific assumptions on future management decisions (so-called "management actions", relating for example to future profit sharing) and the rational behavior of the insured (the so-called "dynamic policyholder's behavior", which can impact the propensity to the exercise of options such as the surrender option).

The best estimate of liabilities of a residual part of the portfolio were evaluated using a simplified approach and assumed equal to the IFRS reserves.

As shown in the above table, the best estimate of liabilities gross of reinsurance amounted €5.557.727 thousands and mainly refers to direct business written in the Belgian branch.

Less than 0.01% of gross Best Estimate Liabilities is transferred via reinsurance outside the Group. All reinsurance recoverable were evaluated by means of appropriate projections of cash flows expected from reinsurance contracts and they were adjusted using the counterparty default adjustment to take account of the risk of default of the reinsurer.

The risk margin represents an allowance to take account of the inevitable uncertainty linked to the volatility of the operating assumptions and inherent in future cash flows. The risk margin is calculated by means of a cost of capital approach which considers the cost associated with the non-hedgeable risks.

The capital requirement needed to cover the non-hedgeable risk was determined using the standard formula approach. The rate used to determine the cost of capital is 6% per annum. The cost of capital of each projection year was discounted at the valuation date using the term structure of interest rates, without the volatility adjustment. In line with the regulation, the risk margin is calculated net of reinsurance. The future projection of the capital requirement needed to cover the non-hedgeable risks and its allocation by business lines was carried out by means of suitable risk drivers applied to the capital required in respect of each risk included in the calculation of risk margin.

At 31<sup>st</sup> of December 2017, the risk margin associated with Generali Belgium life insurance contracts is equal to € 58.958 thousands.

In conclusion, the total value of the Solvency II Life Technical Provisions of Generali Belgium at 31<sup>st</sup> of December 2017, calculated as the sum of the best estimate of liabilities net of reinsurance and risk margin, amounted to € 5.616.609 thousands.

The following table reports the amount of the Solvency II Life Technical Provisions split by lines of business.

The Generali Belgium Solvency II Life Technical Provisions net of reinsurance mainly consists of accepted insurance with profit participation products (86,4 %) and of accepted unit linked products (9.9%).

<b>(€ Thousand)</b>	<b>Statutory Reserves</b>	<b>Best estimates Liabilities Net of Reinsurance</b>	<b>Risk Margin</b>	<b>Technical Provision Net of Reinsurance</b>
<b>TOTAL</b>	<b>5.128.796</b>	<b>5.557.651</b>	<b>58.958</b>	<b>5.616.609</b>
<b>Life Total</b>		<b>5.513.683</b>	<b>58.161</b>	<b>5.571.844</b>
<b>LIFE Direct</b>		<b>5.513.683</b>	<b>58.161</b>	<b>5.571.844</b>
Insurance with profit participation		4.800.609	51.376	4.851.986
UL - Contracts without options and guarantees		0	0	0
UL - Contracts with options and guarantees		552.223	3.121	555.344
Other - Contracts without options and guarantees		0	0	0
Other - Contracts with options and guarantees		159.846	2.788	162.634
Annuities stemming from non-life obligations		1.005	875	1.880
<b>LIFE Accepted</b>		<b>0</b>	<b>0</b>	<b>0</b>
Accepted reinsurance with profit participation		0	0	0
Accepted reinsurance UL contracts		0	0	0
Accepted reinsurance Other contract		0	0	0
Accepted reinsurance Annuities stemming from non-life obligations		0	0	0
<b>SLT HEALTH - total</b>		<b>43.968</b>	<b>797</b>	<b>44.765</b>
<b>SLT HEALTH - Direct</b>		<b>43.968</b>	<b>797</b>	<b>44.765</b>
SLT HEALTH - with options and guarantees		0	0	0
SLT HEALTH - without options and guarantees		0	0	0
SLT HEALTH - Annuities stemming from non-life obligations		43.968	797	44.765
<b>SLT HEALTH - Accepted reinsurance</b>		<b>0</b>	<b>0</b>	<b>0</b>

There are two significant changes in assumptions compared to the previous reporting period. Surrender assumptions were reviewed (with the highest impact in corporate business). Together with the expense increase in investment fees, they contribute for € 73.184 thousands in the operating change in assumptions. Concerning experience variances, lower surrender and paid-up rates than expected were experienced (again mainly in corporate business). They account for € 65.254 thousands out of € 78.275 thousands of operating expense variances

The following table compares the technical provisions reported in the financial statements with the Solvency II Life Technical Provisions at the end of 2017.

<b>(€Thousand)</b>	<b>Statutory Reserves</b>	<b>Solvency II</b>	<b>Delta</b>
Gross reserves / Best estimate of liabilities gross	5.128.796	5.557.727	-428.931
Ceded reserves / Reinsurance recoverable		-76	
Risk Margin		58.958	
Net reserves / Technical provisions		5.616.609	

The difference between the statutory reserves and Solvency II Life Technical Provisions is due to substantial methodological differences between the two approaches making the comparison between the two amounts not informative of the adequacy of the current reserving basis. The Solvency II assessment, in fact, considers the future cash flows projected taking account of best estimate assumptions, future profit sharing (financial and technical) and the financial cost of the guarantees, using as the discount rate the current structure of interest rates. The evaluation of the technical liabilities in the statutory balance sheet, instead, uses the assessments of the technical provisions calculated in accordance with local accounting principles and thus uses tariff-based pricing assumptions (e.g. lapse is not included), discounts the contractual flows at the technical rate defined at the issue of the contract, and does not consider any future financial profit sharing at the valuation date.

More specifically, the main differences between the two evaluations are attributable to the following items:

- ü Cash flows resulting from premiums, futures expenses and contractual options:
  - o Premiums: statutory reserves are usually calculated using pure premiums (i.e. loadings are excluded from the calculation); conversely, in Solvency II valuation, all premiums collected are considered;
  - o Expenses: typically future costs are excluded from the assessment of statutory; on the contrary the Solvency II valuation includes the best estimate of the present value of the costs that will be incurred by the company to fulfil all the contractual obligations;
  - o Contractual options: typically the calculation of statutory reserves does not consider the probability of exercise by the insured of contractual options such surrenders or failure to pay premiums; conversely, these elements are appropriately considered in Solvency II.
- ü Operating assumptions: the reserves reported in the statutory financial statements are valued using conservative (tariff based) operating assumptions (or first order), and the technical reserves of Solvency II are valued using best estimate assumptions (or second order).
- ü Economic assumptions: the Solvency II technical provisions are valued using the current economic framework both in terms of interest rate curves and market values of backing assets. In practice, this impacts:
  - o projected economic returns and, consequently, future policyholder bonuses included in future cash flows;
  - o interest rates used for discounting.
  - o On the contrary, financial statement reserves cash flows typically do not consider future policyholder bonuses and are discounted by means of technical interest rates defined at the inception of the contract.
- ü Methodology used to evaluate the business with profit sharing and guarantees: for this type of contract, the Solvency II technical reserves are valued using stochastic actuarial platforms that capture a wide spectrum of possible financial scenarios and thus allow an explicit assessment of the cost options and guarantees held by the insured. In contrast, statutory reserves do not include the assessment of that cost.
- ü Counterparty Default Adjustment: unlike the statutory valuation, the amount of reinsurance recoverable of Solvency II is adjusted to take into account the probability of default of the counterparty.
- ü Risk Margin: unlike the statutory reserves, Solvency II includes an explicit assessment of the amount to be held against the non-hedgeable risks.

## Sources of Uncertainty

The evaluation of the Solvency II Life Technical Provisions depends not only on the methods, models, and data used, but also on the assumptions on a number of economic and operational factors whose future realizations might differ from the expectations at the valuation date.

The underwriting parameters impact only slightly the Life portfolio of Generali Belgium. The most relevant operating factor is expense risk. An increase of 10% in the expense assumptions increases the best estimate of liabilities by about € 12.660 thousands

On the other hand, the impact on the best estimate of liabilities resulting from possible changes regarding the economic environment is reported in the dedicated section E of this document.

## Long-term guarantee measures (volatility adjustment, matching adjustment and transitional measures)

The valuation of the best estimate of liabilities has been performed using the volatility adjustment (as referred to in Article 77d of the Directive 2014/51/EU) provided by EIOPA for EURO currency and equal to 4 bps at year end 2017.

A change to zero of the volatility adjustment would correspond to an increase of € 19.071 thousands in the Life Technical Provisions of Generali Belgium.

The matching adjustment (as referred to in Article 77b of the Directive 2014/51/EU) has not been applied.

The transitional measure on the risk-free interest rate-term structure (as referred to Article 308c of the Directive 2014/51/EU) and the transitional measure on technical provisions (as referred to in Article 308d of the Directive 2014/51/EU) have not been used.

## D.2.2. P&C Technical Provisions

### Overview of Properties and Casualties Technical Provisions

The Properties and Casualties Technical Provisions, both related to

- ü outstanding claims, whether reported or not, occurred before the evaluation date whose costs and related expenses have not been completely paid by that date (Outstanding Claims Reserve)
- ü future claims of contracts that are either in force at the valuation date or for which a legal obligation exists to provide coverage (Premiums Reserve),

are calculated as the sum of the Discounted Best Estimate of Liabilities and the Risk Margin.

Technical Provision = Best Estimate Liabilities + Risk Margin

The Discounted Best Estimate of Liabilities (Best Estimate Liabilities) is calculated applying the methods and assumptions that are briefly described in the following, separately for Outstanding Claims Reserve and Premiums Reserve.

#### Outstanding Claims Reserve

The approach to derive the Best Estimate Liabilities for the Outstanding Claims Reserve depends on the possibility to apply the actuarial methods.

- ü The Best Estimate Liabilities of the Un-modelled and Semi-modelled Business (the line of business or the part of a line of business that, due to lack of adequate, appropriate and complete data or inhomogeneity of the business herein included, has not been analyzed with the actuarial methods) has been calculated using the IFRS figures:

The un-modelled business consists of the 3 Line of Business Medical Expenses, Marine Aviation & Transport and Miscellaneous Financial Losses. For those Line of Business, the Undiscounted Best Estimate Liabilities is set equal to the IFRS reserve and the payment pattern of cash flow is defined with group benchmarks. The semi-modelled business is mainly due to claims which occurred before 1993, manual operations, claims to recover and the provision for unallocated loss adjustment expense- these payments are related to the whole package of services offered by an Insurance Company and do not have an automatic association with a specific claims. The Cash flow payment pattern used for the semi-modelled business related to a Line of Business is taken from the modelled part of this Line of business of Generali Belgium. The Unallocated Loss Adjustment Expenses reserves are taken over from the IFRS value. These accounting provisions are determined by use of an actuarial methodology: applying an average cost for managing the open claims and an average cost for closing the claims. In order to do so, the closing pattern of the open claims is modelled based on past experience. The amount obtained for the non-life portfolio on a global level is split between the Lobs proportionally to a repartition key.

In terms of materiality, the un/semi-modelled business perimeter is less than 8% of the total gross IFRS reserves.

- ü The Best Estimate Liabilities of the Modelled Business (the business which, has been analyzed in detail by means of actuarial methods) has been assessed through the following steps:

#### Ø **Claims and Grouping**

In order to perform an appropriate actuarial analysis of the Technical Provisions and to carry out the projections to ultimate cost, historical claims data on a paid and incurred basis (gross of Contractual and Facultative Reinsurance) have been taken into account. Development data used for these purposes fulfil appropriate quality attributes of proportionality, materiality and completeness.

Each portfolio is selected in order to identify homogeneous groups of risks, type of coverage and other specificities, such as the length and the variability of the claims run-off. The level of granularity adopted considers the split between types (direct business, proportional accepted business, non-proportional accepted business) and, in each category, identifies twelve Lines of Business :

- ü Workers compensation
- ü Medical expense
- ü Income protection
- ü Motor vehicle liability
- ü Other motor
- ü Marine, aviation and transport
- ü Fire and other damage to property
- ü General liability
- ü Credit and suretyship
- ü Legal expenses
- ü Assistance
- ü Miscellaneous financial loss

The claims have been split depending on their size into attritional, large and extremely large claims and the analysis has been done separately for each claims type.

#### Ø **Expenses**

The reserve for expenses directly arising from a particular compensation case (Allocated Loss Adjustment Expenses) is calculated apportioning the payments related to these expenses directly to each claim and performing the projection on the total payments triangle. The reserve for expenses not directly arising from a particular compensation case constitutes the reserve for Unallocated Loss Adjustment Expenses are calculated as semi-modelled business.

## Ø Inflation

The historical data on claims paid and outstanding include the outcomes of the observed inflation, in its two components exogenous and endogenous. The evolution of the consumers prices (exogenous inflation) is thus taken into account when projecting the future payments. This inflation has been rather stable and low during the last decade and same behavior can be expected and extrapolated to the future. One event impacted the endogenous inflation in the recent history: due to a change in legislation the fees to be paid to the lawyers are no more exempted from Value Tax Added and increased the amounts paid in the Line of Business "Legal Expenses". No modification of the triangles resulted from this. A revision of indicative tables used by judges to fix the indemnities in Bodily injuries is foreseen in 2017 (already foreseen last year). This revision will impact Motor Third Parties Liabilities, Personal Third Parties Liabilities and Commercial Third Parties Liabilities. An estimation of impact has been made, which has driven to the constitution of an Incurred But Not Reported (Incurred But Not Enough Reported) provision of € 4.650 thousands.

The historical data in the triangles (paid & incurred) includes the observed inflation (no retreatments) in its two components exogenous and endogenous. The evolution of the consumers' prices (exogenous inflation) is thus taken into account when projecting the future payments. This inflation has been rather stable and low during the last decade and same behavior can be expected and extrapolated to the future. One event impacted the endogenous inflation in the recent history: due to a change in legislation the fees to be paid to the lawyers are no more exempted from Value added Tax (VAT) and increased the amounts paid in the Line of Business "Legal Expenses". No modification of the triangles resulted from this.

In the same register, a revision of indicative tables used by judges to fix the indemnities in Bodily injuries is foreseen in 2017 (already foreseen last year). This revision will impact the following lobs: Motor Third Parties Liabilities, Personal Third Parties Liabilities and Commercial Third Parties Liabilities. An estimation of impact has been made, which has driven to the constitution of an Incurred But Not Reported (Incurred But Not Enough Reported) provision of € 5.800 thousands.

## Ø Actuarial Methods

The actuarial methods used for projecting the experienced history of claims and reserves are the ones implemented in the reserving tool (ResQ) and described in the methodology paper. In this tool, the following chain ladder methods are used to assess the ultimate claims amount and the Undiscounted Best Estimate Liabilities:

- ü Link Ratio Methods on Paid (or Development Factor Models) are a generalization of the Chain Ladder Method, based on the analysis of the cumulative payments along the years. This class of methods is based on the hypothesis that the settlement process is stable across the origin periods.
- ü Link Ratio Methods on Incurred technically work as the previous ones but are based on incurred developments, i.e. the sum of cumulative paid and outstanding amounts.

The analysis is done by using more than one of the methods listed above in order to confirm the results. These methods are applied separately on the attritional and large claims.

The best estimate assessment for the annuities stemming from Properties and Casualties contracts is performed separately for annuities in payment (i.e. RBNS – Reported But Not Settled - Annuities), treated as Similar to Life Technic business and reported within the Line of Business 'Annuities stemming from Non-life contracts'. The assessment is performed by the mean of a local tool developed by the local calculation unit inside the actuarial function team, based on cash flow forecasting per annuity. The annuities related to the Line of business Motor Third Parties Liabilities and Third Parties Liabilities are included in the triangles and treated as the other reserves. These annuities have nevertheless a low materiality.

## Ø Net Evaluation

The net Undiscounted Best Estimate Liabilities Outstanding Claims Reserve is obtained by using a gross to net ratio per Accounting Year on the Undiscounted Best Estimate Liabilities Outstanding Claims gross. Generali Belgium has considered two ratios for each Line of Business: one on the current year (2017) and one on all previous year (1993-2016). The ratios are based on the IFRS outstanding reserve Current Year and Previous Year of Year End 2017. The valuation of the Best Estimate net of reinsurance is performed taking into account an adjustment for the expected losses due to default of the reinsurance counterparties (Counterparty Default Risk Adjustment).

### **Premiums Reserve**

For the contracts with already written premiums, the Undiscounted Best Estimate Liabilities of the Premium Reserves is defined as the sum of the following two components (considering gross and net inputs to obtain gross and net results):

- ü Claims related component: the amount of the Unearned Premium Reserves derived from IFRS is multiplied by a specific measure of current year Loss Ratio, aiming to take out the effect of the adequacy of the estimated Undiscounted Best Estimate Liabilities of the Outstanding Claims Reserve.
- ü Administration expenses related component: the amount of the Unearned Premium Reserves derived from IFRS is multiplied by a specific measure of the Administration Expense Ratio, to represent the expected part due to expenses stemming from existing contracts.

For future premiums under the scope the contract boundaries, the Undiscounted Best Estimate Liabilities of the Premium Reserve is defined as the sum of the following cash flows:

- ü Cash in-flows arising from future premiums
- ü Cash out-flows arising from future claims, net of salvage and subrogation
- ü Cash out-flows arising administration expense and acquisition cost for the un-incepted business (tacit renewal).

As for the Outstanding Claims Reserve, the net Premiums Reserve is adjusted to take into account the default risk of the counterparties (CDA).

The Premium provision (Best Estimate Liabilities UP) have been calculated in Year End 2017 with the effect of the contract boundaries.

### **Discounting**

The discount of the Best Estimate Liabilities (BEL), Counterparty Default Adjustment (CDA) and the Market Value Margin (MVM) are based on the payment pattern Outstanding Claims (OC) & Unearned Premium (UP) calculated during the reserve assessment and the risk free rate curve from the EIOPA.

The Best Estimate Liabilities and the Counterparty Default Adjustment are considered with volatility adjuster but not for the MVM as requested by Solvency II. Generali Belgium strictly followed the Group guidelines.

### **Risk Margin**

The Risk Margin is added to the Best Estimate Liabilities to get a market consistent value of the liabilities. It captures the economic value of "non-hedgeable" risks (as Reserving, Pricing, Catastrophe, Lapse, Counterparty Default and Operational) in order to ensure that the value of technical provisions is equivalent to the amount that an insurance company would be expected to require to take over and meet the insurance obligations. The Risk Margin is calculated with a Cost of Capital approach at Line of Business level taking the diversification benefits between risk types and Line of Business into account.

### Fair Value of Outstanding Claims Reserve

(€Thousand)

	Statutory Reserves	Best estimates Liabilities	Risk Margin	Technical Provision Net of Reinsurance
Workers compensation		18.292	1.407	19.766
Medical expense		233	3	236
Income protection		2.040	130	2.177
Motor vehicle liability		107.108	8.164	115.280
Other motor		5.473	120	5.593
Marine, aviation and transport		3	0	4
Fire and other damage to property		16.592	584	17.176
General liability		45.637	3.398	49.067
Credit and suretyship		0	0	0
Legal expenses		9.822	531	10.353
Assistance		0	0	0
Workers compensation		2.990	128	3.122
<b>Total</b>	<b>238.825</b>	<b>208.190</b>	<b>14.463</b>	<b>222.773</b>

### Fair Value of Premium Reserve

(€Thousand )

	Statutory Reserves	Best estimates Liabilities	Risk Margin	Technical Provision Net of Reinsurance
Workers compensation		-69	1	-68
Medical expense		114	4	117
Income protection		-185	50	-135
Motor vehicle liability		8.754	1.887	11.349
Other motor		4.910	259	5.391
Marine, aviation and transport		0	0	0
Fire and other damage to property		6.870	1.915	8.792
General liability		2.363	1.197	3.560
Credit and suretyship		0	0	0
Legal expenses		1.241	122	1.362
Assistance		0	0	0
Miscellaneous financial loss		93	1	94
<b>Total</b>	<b>35.394</b>	<b>24.090</b>	<b>5.433</b>	<b>30.462</b>

### Long term guarantees measures (volatility adjustment and transitional measures)

The Best Estimate Liabilities and the Counterparty Default Adjustment are considered with volatility adjustment, but not the Market Value Margin as requested by Solvency II. No transitional measures are applied, neither on the risk-free interest rate-term structure nor on the technical provisions.

## **D.3. Other liabilities**

### **D.3.1. Valuation of Liabilities for Solvency II Balance Sheet**

#### **Exclusion of IFRS valuation methods**

In this chapter, an overall description of the Solvency II valuation methods for Liabilities other than technical provision is given, complementary to the general Valuation for Solvency Purposes (paragraph D - introduction).

L2-DR, in accepting valuation methods defined in IFRS, anticipates that there are cases where IFRS valuation methods are not consistent with Art 75 requirements.

L2-DR states the exclusion of specific valuation methods such as cost or amortized cost and models where value is determined at the lower of the carrying amount and fair value less costs to sell.

#### **Solvency II Specificities**

L2-DR specifies the treatment of the liabilities listed below, for which a valuation different from IFRS measurement is required:

- ü Technical liabilities;
- ü Contingent liabilities not applicable for Generali Belgium;
- ü Financial liabilities not applicable for Generali Belgium;
- ü Deferred taxes.

Except for technical liabilities (that have been already disclosed in the previous D.2. Technical provisions), all the remaining four points are analyzed in the next dedicated sections.

#### **Deferred taxes**

Deferred taxes recognized on liability side follows the same assumptions of deferred taxes recognized on assets side. Consequently, the same consideration provided in D.1. Assets could be replied for liabilities purposes.

Although recalling the IAS 12 principles are accepted in the current Solvency II regulatory framework, in order to avoid any possible misunderstanding about IAS 12 interpretation and application, Solvency II legislation clarifies explicitly that all the reference amounts on which determination of deferred taxes is based on should be calculated in accordance with Solvency II valuation instead of IFRS rules.

Mutatis mutandis the IFRS assessment with Solvency II valuation of assets and liabilities, IAS 12 is fully applicable for Solvency II regulations.

### D.3.2. Market Value Balance Sheet – details on Liabilities other than technical provisions

(€ Thousand)	Solvency II value (a)	Statutory accounts value (b)	Change to Solvency II value (a-b)	Notes
Provisions other than technical provisions	19.843	18.754	1.089	The difference comes from IAS 19 (recognized in accordance with IAS 37 at fair value that is deemed to be compliant with Art 75 L1 – Dir.)
Pension benefit obligations	60.401	46.406	13.995	Difference between statutory accounts and Solvency II value (recognized in accordance with IAS 19 at fair value)
Deposits from reinsurers	74.433	74.433	0	No relevant change to Solvency II value moving from statutory to Market Value Balance Sheet accounts due to close duration and maturity and to the absence of expected interest cash-flows. As general assumptions, we expect that amortized cost could be equal to the Solvency II value
Deferred tax liabilities	13.238	0	23.839	Solvency II Deferred Tax Liabilities are based on the difference between the Solvency II value of assets and liabilities and the value for tax purposes on a item by item basis, using the expected tax rate to be applied when assets (liabilities) are realized (settled) and considering potential impact of any announcement of amendment to tax rate. Discount of Deferred Tax Liabilities is not allowed. Carrying amount of deferred tax liabilities is reviewed at each balance sheet date (recovery test based on estimation of future taxable profits).
Derivatives	19.580	22.107	-2.527	The difference comes from the market value of the derivatives used as hedge accounting
Debts owed to credit institutions	0	0	0	No difference between statutory accounts and Solvency II value due to the different accounting approach: large part of debts owed to credit institutions is recognized for statutory accounts at amortized cost.
Insurance & intermediaries payables	54.609	54.609	0	No relevant change to Solvency II value moving from statutory to Market Value Balance Sheet accounts due to close duration and maturity and to the absence of expected interest cash-flows. As general assumptions, we expect that amortized cost could be equal to the Solvency II value
Reinsurance payables	44.070	44.070	0	
Payables (trade, not insurance)	58.707	58.707	0	
<b>Subordinated liabilities</b>				
Subordinated liabilities in Basic Own Funds	34.588	35.415	-827	Change to Solvency II value due to the different accounting approach: subordinated liabilities in Basic Own Fund are recognized for statutory accounts at amortized cost , while the Solvency II value is calculated using the own credit standing of borrower constant at issue
Any other liabilities, not elsewhere shown	15.014	16.219	-1.205	Residual class of liability items, included mainly accruals and deferrals. Generally, no relevant change to Solvency II value moving from statutory to Market Value Balance Sheet accounts due to close duration and maturity
<b>Total liabilities</b>				

The template above refers to the scheme required for Pillar III reporting (QRT: S\_02\_01) and focuses on the differences between:

- ü Market Value Balance Sheet Solvency II values;
- ü Statutory accounts figures

### Provisions other than technical provisions

(€ Thousands)	Solvency II value
Provision for pensions and similar obligations	86
Provision for risk and payroll costs	4.589
Provision for financial charges	208
Provision for exceptional charges	42
Provision à for insurance expenses	14.917
<b>Total Market Value Balance Sheet Other provision than technical provision</b>	<b>19.843</b>

IAS 37 is regulating provision other than technical provision and it is deemed to be compliant with Art 75 L1 – Dir. For this reason, there are no differences on this item between IFRS statutory account and MVBS value being the valuation models adopted the same in both scenarios.

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

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

### Employee benefits liabilities

(€ Thousands)	Solvency II value
Opening balances	56.157
Service costs	3.801
Interest costs	792
Profits paid	-2.836
Actuarial gains and losses on demographic changes	210
Actuarial gains and losses on financial changes	2.167
<b>Total Market Value Balance Sheet Employee benefits liabilities</b>	<b>60.401</b>

Valuation in IFRS accounts is in compliance with Solvency II requirements and based on IAS 19 statement. The amount recognized as a liability represents the net total of the followings:

- ü The present value of the obligation at valuation date; minus
- ü The fair value at the valuation date of plan assets (if any) out of which the obligations are to be settled directly.

This amount may be negative (and recognized as an asset), in this case the amount recognized as an assets represents the lower of:

- ü The amount above determined; and
- ü The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. This present value is determined using the discount rate used in the calculation of the benefit obligation (high quality corporate bond).

Currently, at the moment all the employee benefits related to staff pension scheme is entirely classified as a liability (net obligation).

The valuation method adopted called projected unit credit method is based on an actuarial approach with regards to:

- ü Estimation of the benefit that employees will earn in return for their service, valued at the moment in which it will fall due (The ultimate cost of a defined benefit plan or another long term employee benefit may be influenced by many variables, such as final salaries, employee turnover and mortality, medical cost trends and the investment earnings on the related assets (the last only for a defined benefit plan or another long term employee benefit, both funded);
- ü Identification of the part of the benefit evaluated above, related to current and prior periods;
- ü Determination of the present value of that part of the benefit identified in b., split into:
  - o current service cost (present value of the part of future benefit earned in the current year which is the cost of the period); and
  - o benefit obligation (present value of future benefit earned in the current and previous periods which is the final liability of the period).

The basic instruction to determine assumptions to evaluate both ultimate cost and present values are:

- ü Actuarial assumptions are entity's best estimates of the demographic and financial variables that will determine the ultimate cost of providing long-term benefits;
- ü The rate used to discount long term benefit obligations, determined by reference to market yields at the balance sheet date on high quality corporate bonds.

The projected unit credit method assumes that each period of service gives rise to an additional unit of benefit entitlement. Each unit is separately measured to build up the final obligation.

In the table below the assumption used in for the calculation

	Assumption
Discount rate for evaluation at reporting date	0,843%
Rate of salary increase	2,35%(inflation =1,08%, Wage increase.=0,55%)
Average duration of DBP obligation at reporting date	10,00
Life expectancy of insured population	40,43
Average age of active employees	44,44
Tax rate	13,26%
Withdrawal rate	5,39%
Discount rate used for net interest expenses/income	0,843%

## Deferred tax liabilities

(€ Thousands)	Solvency II value
Intangible assets	570
Investment in subsidiaries, associated companies, joint ventures and investment vehicles	-89.058
Equities	-80
Other investments, loans and mortgages, assets held for index-linked and unit-linked funds	-4.318
Receivables, payables	-36.813
Insurance provision and amount ceded to reinsurers from insurance provisions	123.201
Other provisions	-8.548
Defined benefit plans	1.354
Financial Liabilities	0
Reinsurance deposits	0
Subordinated and other similar liabilities in basic own funds	-103
Any Other assets and liabilities no elsewhere show	557
<b>Total deferred tax liabilities</b>	<b>-13.238</b>

Solvency II regulatory framework states that Market Value Balance Sheet deferred tax liabilities, representing the amounts of income taxes payable in future periods in respect of taxable temporary differences, are recognized in respect of deductible temporary differences (A temporary difference is a difference between the carrying amount of an asset or liability in the balance sheet and its tax base) and determined on the basis of the difference between the values ascribed to assets and liabilities (recognized and valued in accordance with Articles 75-86 of L1 -Dir) and the values ascribed to assets and liabilities as recognized and valued for tax purposes.

In the Market Value Balance Sheet, deferred tax liabilities arise on differences between:

- ü The value ascribed to an asset or a liability for tax purposes, and
- ü Its value in accordance to the Solvency II principles.

For calculating the amount of deferred taxes, any mismatch between the Market Value Balance Sheet value of assets /liabilities under analysis and their related carrying value for tax purposes should be considered.

A deferred tax liability is the recognition of a tax debt to be paid later on because of a future profit which is already anticipated in the economic balance sheet. This profit (i.e. the difference between the market value and the book value) leads to an increase of the net asset value. A Deferred Tax Liabilities will be recognized for unrealized taxable gains such as an increase of a financial asset value, or a decrease of the value of technical provisions when shifting from book value to market value.

With reference to taxable temporary differences, IAS 12 provides that the entity shall recognize a deferred tax liability for all taxable temporary differences with some exceptions.

In particular, with reference to investments in group subsidiaries, associated companies, joint ventures and investment vehicles and in accordance with IAS 12, paragraph 39, group entities recognize a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- ü The parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and
- ü It is probable that the temporary difference will not reverse in foreseeable future.

Indeed, as a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed accounting profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses. Therefore, when the parent determines that those profits will not be distributed in the foreseeable future, the parent does not recognize a deferred tax liability in Market Value Balance Sheet scenario.

In other words, group insurance and reinsurance undertakings generally do not recognize any deferred tax liability associated with investments in group entities if the participating entity deems that unrealized gains on group participations will not be realized in the

foreseeable future. This approach is generally adopted for all the Generali group investments (subsidiaries, associated entities and joint ventures), but valuations at local level are supported in accordance with the different business case.

## **D.4. Alternative methods for valuation**

### **D.4.1. Assets**

In respect of the official Solvency II data valuation, there are no significant changes to valuation models used and to model inputs. In general terms, it has to be noticed that the vast majority of assets portfolio owned by European insurance and reinsurance undertakings is recognized at IFRS fair value determined centrally by Generali Investments Europe in application of the official group asset pricing policy.

Despite the general framework for assets valuation, it has worthwhile to mention one area for which dedicated Solvency II valuations, partially diverting from the policies above described, are provided:

#### **Solvency II receivables**

As general supposition, it is accepted to assume as Solvency II value of receivables an amount equals to the IFRS book value of receivables, based on the IFRS amortized cost. This approach is coherent with the overall Solvency II metrics considering the non-materiality of the change to fair value of those assets usually having very brief duration and maturity and no expected cash-flows generation. It has to be worthwhile to mention that if the simplified assumption is not reflecting properly the economic valuation of receivables, this approach is not adopted and a full Solvency II economic valuation is provided to determine the fair value of receivables.

### **D.4.2. Liabilities**

In respect of the previous official Solvency II data submission, at reporting date there are no any significant changes to valuation models used and to model inputs.

Despite the general framework for liabilities valuation, it is worthwhile to mention that - as general supposition -, it is accepted to assume as Solvency II value of payables an amount equals to the IFRS book value of payables, based on the IFRS amortized cost. This approach is coherent with the overall Solvency II metrics considering the non-materiality of the change to fair value of those liabilities usually having very brief duration and maturity and no expected cash-flows generation. It has to be worthwhile to mention that if the simplified assumption is not reflecting properly the economic valuation of payables, this approach is not adopted and a full Solvency II economic valuation is provided to determine the fair value of payables.

## **D.5. ANY OTHER INFORMATION**

Generali Belgium has no other information to disclose

**ANNEX****Balance sheet – Assets**

	Solvency II value	Statutory accounts value
<b>Assets</b>		
Intangible assets	0	2.281
Deferred tax assets	0	0
Pension benefit surplus	0	0
Property, plant & equipment held for own use	816	816
<b>Investments (other than assets held for index-linked and unit-linked contracts)</b>	<b>5.935.733</b>	<b>5.095.671</b>
Property (other than for own use)	0	0
Holdings in related undertakings, including participations	282.724	266.066
Equities	150.225	140.592
Equities - listed	127.563	119.881
Equities - unlisted	22.663	20.711
Bonds	5.220.470	4.405.076
Government Bonds	3.873.107	3.206.374
Corporate Bonds	1.238.270	1.150.228
Structured notes	92.567	32.458
Collateralised securities	16.526	16.016
Collective Investments Undertakings	247.519	250.097
Derivatives	1.779	825
Deposits other than cash equivalents	33.016	33.016
Other investments	0	0
Assets held for index-linked and unit-linked contracts	591.974	591.974
<b>Loans and mortgages</b>	<b>65.583</b>	<b>65.584</b>
Loans on policies	53.630	53.631
Loans and mortgages to individuals	11.500	11.500
Other loans and mortgages	453	453
<b>Reinsurance recoverables from:</b>	<b>296.349</b>	<b>457.470</b>
Non-life and health similar to non-life	296.273	427.684
Non-life excluding health	292.178	426.228
Health similar to non-life	4.095	1.456
Life and health similar to life, excluding health and index-linked and unit-linked	76	29.786
Health similar to life	0	0
Life excluding health and index-linked and unit-linked	76	29.786
Life index-linked and unit-linked	-1	0

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Deposits to cedants	109	109
Insurance and intermediaries receivables	78.754	78.754
Reinsurance receivables	4.851	4.851
Receivables (trade, not insurance)	36.467	36.467
Own shares (held directly)	0	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	0
Cash and cash equivalents	58.749	58.749
Any other assets, not elsewhere shown	2.958	2.958
<b>Total assets</b>	<b>7.072.342</b>	<b>6.395.684</b>

**Balance sheet – Liabilities**

	Solvency II value	Statutory accounts value
<b>Liabilities</b>		
<b>Technical provisions - non-life</b>	553.805	753.943
<b>Technical provisions - non-life (excluding health)</b>	523.321	748.936
TP calculated as a whole		748.936
Best estimate	505.016	
Risk margin	18.305	
<b>Technical provisions - health (similar to non-life)</b>	30.485	5.007
TP calculated as a whole		5.007
Best estimate	28.892	
Risk margin	1.593	
<b>TP - life (excluding index-linked and unit-linked)</b>	5.061.341	4.427.305
<b>Technical provisions - health (similar to life)</b>	44.765	
TP calculated as a whole		
Best estimate	43.968	
Risk margin	797	
<b>TP - life (excluding health and index-linked and unit-linked)</b>	5.016.576	4.427.305
TP calculated as a whole		4.427.305
Best estimate	4.961.536	
Risk margin	55.040	
<b>TP - index-linked and unit-linked</b>	555.344	591.974
TP calculated as a whole		591.974
Best estimate	552.223	
Risk margin	3.121	
Contingent liabilities		0
Provisions other than technical provisions	19.843	18.754
Pension benefit obligations	60.401	46.406
Deposits from reinsurers	74.433	74.433
Deferred tax liabilities	13.238	0
Derivatives	19.580	22.107
Debts owed to credit institutions	0	0
Financial liabilities other than debts owed to credit institutions		
Insurance & intermediaries payables	54.609	54.609
Reinsurance payables	44.070	44.070
Payables (trade, not insurance)	58.707	58.707
<b>Subordinated liabilities</b>	34.588	35.415
Subordinated liabilities not in BOF		0
Subordinated liabilities in BOF	34.588	35.415
Any other liabilities, not elsewhere shown	15.014	16.219
<b>Total liabilities</b>	<b>6.564.972</b>	<b>6.189.138</b>
<b>Excess of assets over liabilities</b>	<b>507.370</b>	<b>206.546</b>

**Life and Health SLT Technical Provisions (1/2)**

	Index-linked and unit-linked insurance		Other life insurance		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	
	Insurance with profit participation	Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees				Contracts with options or guarantees
Technical provisions calculated as a whole	0	0		0		0	0	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0		0		0	0	
Technical provisions calculated as a sum of BE and RM								
<b>Best Estimate</b>								
Gross Best Estimate	4.792.685	0	363.941	0	131.097	60.846	-4.590	5.343.978
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-1.430	0	-1	0	-24.538	25.693	-4.590	-4.866
Best estimate minus recoverables from reinsurance/SPV and Finite Re	4.794.115	0	363.941	0	155.635	35.153	0	5.348.844
<b>Risk Margin</b>	65.731	2.884		3.910		413	0	72.937
<b>Amount of the transitional on Technical Provisions</b>								
Technical Provisions calculated as a whole	0	0		0		0	0	0
Best estimate	0	0	0	0	0	0	0	0
Risk margin	0	0		0		0	0	0
<b>Technical provisions - total</b>	<b>4.858.415</b>	<b>366.824</b>		<b>135.006</b>		<b>61.259</b>	<b>-4.590</b>	<b>5.416.914</b>

**Life and Health SLT Technical Provisions (2/2)**

	Health insurance (direct business)		Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
	Contracts without options and guarantees	Contracts with options or guarantees			
Technical provisions calculated as a whole	0		0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0		0	0	0
<b>Technical provisions calculated as a sum of BE and RM</b>					
<b>Best Estimate</b>					
Gross Best Estimate	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	0	0	0
Best estimate minus recoverables from reinsurance/SPV and Finite Re	0	0	0	0	0
Risk Margin	0		0	0	0
<b>Amount of the transitional on Technical Provisions</b>					
Technical Provisions calculated as a whole	0		0	0	0
Best estimate	0	0	0	0	0
Risk margin	0		0	0	0
Technical provisions - total	0		0	0	0

**Non-life Technical Provisions (1/2)**

	Direct business and accepted proportional reinsurance								
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
<b>Technical provisions calculated as a whole</b>	0	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0	0	0	0	0	0	0	0
<b>Technical Provisions calculated as a sum of BE and RM</b>									
<b>Best estimate</b>									
<b>Premium provisions</b>									
Gross - Total	114	-370	-286	23.119	2.758	0	8.435	2.164	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	-186	-218	13.657	-2.374	0	1.558	-200	0
<b>Net Best Estimate of Premium Provisions</b>	<b>114</b>	<b>-185</b>	<b>-69</b>	<b>9.462</b>	<b>5.132</b>	<b>0</b>	<b>6.877</b>	<b>2.364</b>	<b>0</b>
<b>Claims provisions</b>									
Gross - Total	926	2.403	26.105	362.291	12.705	34	24.921	52.995	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	356	4.142	255.175	7.233	30	8.329	7.326	0
<b>Net Best Estimate of Claims Provisions</b>	<b>926</b>	<b>2.047</b>	<b>21.963</b>	<b>107.116</b>	<b>5.473</b>	<b>3</b>	<b>16.592</b>	<b>45.670</b>	<b>0</b>
<b>Total Best estimate - gross</b>	<b>1.039</b>	<b>2.033</b>	<b>25.819</b>	<b>385.410</b>	<b>15.463</b>	<b>34</b>	<b>33.357</b>	<b>55.159</b>	<b>0</b>
<b>Total Best estimate - net</b>	<b>1.039</b>	<b>1.862</b>	<b>21.895</b>	<b>116.578</b>	<b>10.605</b>	<b>3</b>	<b>23.469</b>	<b>48.033</b>	<b>0</b>
<b>Risk margin</b>	<b>6</b>	<b>180</b>	<b>1.407</b>	<b>10.051</b>	<b>380</b>	<b>0</b>	<b>2.499</b>	<b>4.594</b>	<b>0</b>
<b>Amount of the transitional on Technical Provisions</b>									
TP as a whole	0	0	0	0	0	0	0	0	0
Best estimate	0	0	0	0	0	0	0	0	0
Risk margin	0	0	0	0	0	0	0	0	0
<b>Technical provisions - total</b>									
Technical provisions - total	1.046	2.213	27.226	395.461	15.843	34	35.855	59.753	0
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	0	171	3.924	268.832	4.859	30	9.888	7.126	0
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	1.046	2.042	23.302	126.629	10.984	4	25.967	52.628	0

**Non-life Technical Provisions (2/2)**

	Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance:				Total Non-Life obligations
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
<b>Technical provisions calculated as a whole</b>	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0	0	0	0	0	0	0
<b>Technical Provisions calculated as a sum of BE and RM</b>								
<b>Best estimate</b>								
<b>Premium provisions</b>								
Gross - Total	1.241	0	107	0	0	0	0	37.281
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	14	0	0	0	0	12.252
<b>Net Best Estimate of Premium Provisions</b>	<b>1.241</b>	<b>0</b>	<b>93</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25.029</b>
<b>Claims provisions</b>								
Gross - Total	9.822	0	4.284	0	0	0	139	496.627
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	1.532	0	0	0	-102	284.021
<b>Net Best Estimate of Claims Provisions</b>	<b>9.822</b>	<b>0</b>	<b>2.753</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>241</b>	<b>212.606</b>
<b>Total Best estimate - gross</b>	<b>11.063</b>	<b>0</b>	<b>4.391</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>139</b>	<b>533.908</b>
<b>Total Best estimate - net</b>	<b>11.063</b>	<b>0</b>	<b>2.845</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>241</b>	<b>237.635</b>
<b>Risk margin</b>	<b>652</b>	<b>0</b>	<b>113</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>16</b>	<b>19.898</b>
<b>Amount of the transitional on Technical Provisions</b>								
TP as a whole	0	0	0	0	0	0	0	0
Best estimate	0	0	0	0	0	0	0	0
Risk margin	0	0	0	0	0	0	0	0
<b>Technical provisions - total</b>								
Technical provisions - total	11.715	0	4.504	0	0	0	155	553.805
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	0	0	1.546	0	0	0	-102	296.273
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	<b>11.715</b>	<b>0</b>	<b>2.958</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>257</b>	<b>257.532</b>

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**Gross Claims Paid (non-cumulative) (absolute amount)**

	Anno di sviluppo										In Current year	Sum of years (cumulative)	
	0	1	2	3	4	5	6	7	8	9			10 & +
Prior											0	5.336	595.035
2008	59.521	33.522	9.564	6.426	9.197	2.602	2.355	-1.594	951	1.010		1.010	123.554
2009	60.555	35.207	9.369	5.461	4.479	3.392	3.923	1.516	1.200			1.200	125.102
2010	67.419	36.404	9.433	4.607	3.670	4.066	2.497	3.073				3.073	131.169
2011	64.932	38.936	7.747	4.963	4.982	5.019	3.312					3.312	129.890
2012	63.836	35.341	8.047	4.573	4.916	4.014						4.014	120.727
2013	60.001	33.918	8.867	5.944	4.425							4.425	113.154
2014	68.928	43.723	7.790	5.167								5.167	125.608
2015	62.327	37.462	9.408									9.408	109.196
2016	63.172	41.250										41.250	104.422
2017	65.783											65.783	65.783
<b>Total</b>												<b>143.977</b>	<b>1.743.639</b>

**Gross undiscounted Best Estimate Claims Provisions (absolute amount)**

	Development year (absolute amount)										Year end (discounted data)	
	0	1	2	3	4	5	6	7	8	9		10 & +
Prior											78.481	83.612
2008	0	0	0	0	0	0	0	0	0	15.875		16.906
2009	0	0	0	0	0	0	0	0	14.684			15.648
2010	0	0	0	0	0	0	0	22.930				24.437
2011	0	0	0	0	0	0	33.397					35.588
2012	0	0	0	0	0	26.193						27.879
2013	0	0	0	0	29.410							31.375
2014	0	0	0	29.491								31.441
2015	0	0	47.807									50.969
2016	0	45.956										49.014
2017	95.005											99.714
Total												466.582

# E. Capital Management

## E.1. Own Funds

Planning and managing Own Funds is a core part of Chief Financial Officer - Strategic Planning responsibilities. The Capital Management Policy refers to capital planning as well as structuring procedures to implement capital injections and optimization.

Specifically the Own Funds management comprises five core components:

- ü Medium-term Capital Management Plan.
- ü Classification of Own Funds.
- ü Management of capital needs.
- ü Consistency with policy and statements on dividends.
- ü Reporting and regulatory communication.

The **Capital Management Plan** represents a part of overall three-year Strategic Plan and includes a detailed description of the development of Own Funds and Regulatory Solvency Ratio from the latest available actual figures to the last plan year figures.

The Capital Management Plan is produced by Strategic Planning and Control & Integrated Reporting under the responsibility of the Chief Financial Officer at least once a year; the Capital Management plan is discussed and analyzed and the Chief Executive Officer is responsible to submit it to the Board of Directors for its approval along with the three-year Strategic Plan. This ensures the consistency of the Capital Management Plan with three-year Strategic Plan assumptions, which include inter alia:

- ü Financial scenarios;
- ü Strategic asset allocation;
- ü Business mix.

If extraordinary operations (i.e. Merger and Acquisition , Own Funds issuance) are foreseen in the plan period, their impact is explicitly included in the Own Funds and Regulatory Solvency Ratio development and further details are included in the relevant documentation. Own Funds issuances are explicitly included in the Capital Management Plan with a detailed description of the rationale.

The Forward Looking Assessment of Own Risk (part of the Own Risk and Solvency Assessment process under the responsibility of the CRO) provides the Capital Management Plan with the projection of Solvency Capital Requirement, consistent with strategic plan assumptions.

On the other hand, the Own Risk and Solvency Assessment report may leverage on the Capital Management Plan to verify the adequacy, including the quality, of the Eligible Own Funds to cover the overall solvency needs on the basis of the plan assumptions.

The description of the development of Own Funds explicitly includes the issuance, redemption or repayment (earlier or at maturity) of Own Funds items and their impacts on the limits on tiers. Any variation in the valuation of Own Funds items is also indicated, with additional qualitative details in terms of limits on tiers when needed.

The Capital Management Plan is defined taking into account limits and tolerances set in the Risk Appetite Framework.

In the Capital Management Plan any transitional measure has to be reported in terms of impact on the solvency position current and at the end of the transitional period, duration and general features including their absorption capacity in times of stress.

Capital Management Plan takes into consideration any dividend policy or public statements concerning dividend payment in the planned development of Own Funds.

The Chief Financial Officer is responsible to ensure the appropriate **valuation, classification and periodical review of Own Funds** items according to the methodology and the instructions both for actual and forecast/plan data.

In particular, Chief Financial Officer:

- ù Is required, taking sector specificities into account, to produce, review and report a Market Value Balance Sheet in the Finance Platform where assets and liabilities are valuated according to the methodology and instructions. The excess of assets over liabilities, together with hybrid capital (e.g. subordinated debt) and any other Ancillary Own Funds represent the Eligible Own Funds available to meet the Solvency Capital Requirement;
- ù Is required, to classify properly their Own Funds items into the appropriate tier, to indicate which are the Own Funds items that are potentially not available to cover capital requirements;
- ù Is responsible for submitting quantitative templates and related qualitative documentation required by Solvency II Pillar 3 regarding Market Value Balance Sheet and Own Funds to the supervisor (National Bank of Belgium)

The procedures (in accordance with legal requirements) aimed at identifying, documenting and enforcing the instances in which distribution of:

- ù Own-funds item classified as Tier 1 Own Funds is cancelled; and
- ù Own-funds item classified as Tier 2 Own Funds is deferred

The **need of capital** derives, among others, from the refinancing of Own Funds, the need to finance M&A transactions; the need to strengthen the solvency position in particular when a Soft or Hard Tolerance as defined within the Risk Appetite Framework is breached.

The Chief Financial Officer has to inform the Group Strategic Planning and Control about potential capital needs the company should have. The communication must be complemented by adequate supporting documentation, both in terms of the underlying justification and of the relevant quantitative information.

After analysis and approval, Group Chief Financial Officer and local Chief Financial Officer are responsible for the actual issuance of the identified Own Funds item. In particular they gather, when necessary, the approval of the competent Supervisory Authority.

### **E.1.1. Own Funds: legislative framework and definition**

According to the Article 87 of the Directive 2009/138/EC (the Directive), own funds comprise the "...sum of basic own funds, referred to in Article 88 and ancillary own funds referred to in Article 89".

## BASIC OWN FUNDS

(€ thousand)	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	0	0	0	0	0
Ordinary share capital (gross of own shares)	40.000	40.000	0	0	0
Share premium account related to ordinary share capital	18.773	18.773	0	0	0
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0	0	0	0
Subordinated mutual member accounts	0	0	0	0	0
Surplus funds	0	0	0	0	0
Preference shares	0	0	0	0	0
Share premium account related to preference shares	0	0	0	0	0
Reconciliation reserve	438.593	438.593	0	0	0
Subordinated liabilities	34.587	0	0	34.588	0
An amount equal to the value of net deferred tax assets	0	0	0	0	0
Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0	0	0	0	0
Deductions	0	0	0	0	0
Deductions for participations in financial and credit institutions	0	0	0	0	0
<b>Total basic own funds after deductions</b>	<b>531.953</b>	<b>497.365</b>	<b>0</b>	<b>34.588</b>	<b>0</b>

According to Article 88 of L1-Dir, Basic Own Fund are defined as the sum of the excess of assets over liabilities (reduced by the amount of own shares held by the insurance or reinsurance undertaking) and subordinated liabilities.

The components of the excess of assets over liabilities are valued in accordance with Article 75 and Section 2 of the Directive, which states that all assets and liabilities must be measured on market consistent principles. These principles are the basis for definitions reported in chapter D Valuation for Solvency Purposes.

According to Article 69, Article 72 and Article 76 of L2-DR, Basic Own Fund items shall include the following:

- ü Ordinary share capital and the related share premium account
- ü Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
- ü Subordinated mutual member accounts
- ü Surplus funds that fall under L1 Article 91 (2)
- ü Preference shares and the related share premium account
- ü Reconciliation reserve
- ü Subordinated liabilities valued in accordance with L1 Article 75
- ü Net deferred tax assets

From a practical perspective, the reconciliation reserve is a calculated item; it is obtained from excess of assets less liabilities lowered by any other item required to be identified separately by regulation.

Basic Own Fund items shall be classified into three tiers, depending on the extent to which they possess specific characteristics, explained in the next paragraph. Generally, assets which are free from any foreseeable liabilities are available to absorb losses due to adverse business fluctuations on a going-concern basis and in the case of winding-up. Therefore the vast majority of the excess of assets over liabilities, as valued in accordance with the principles set out in L1 - Dir, should be treated as high-quality capital (Tier 1).

For classification purposes, it is worthwhile anticipating that in accordance with previous comment, the reconciliation reserve is Tier 1 while deferred tax assets are, instead, Tier 3.

### Ø **Classification scheme**

According to L1 - Dir, article 93, to grant the quality of available capital, Basic Own Fund items shall be classified into tiers depending on whether they satisfy the following characteristics:

- ü The item is available, or can be called up on demand, to fully absorb losses on a going-concern basis, as well as in the case of winding-up (permanent availability);
- ü In the case of winding-up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policy holders and beneficiaries of insurance and reinsurance contracts, have been met (subordination);
- ü Consideration shall be given to the duration of the item, in particular whether the item is dated or not. Where an own-fund item is dated, the relative duration of the item as compared to the duration of the insurance and reinsurance obligations of the undertaking shall be considered (sufficient duration);
- ü Whether the item is free from requirements or incentives to redeem the nominal sum (absence of incentives to redeem);
- ü Whether the item is free from mandatory fixed charges (absence of mandatory servicing costs);
- ü Whether the item is clear of encumbrances (absence of encumbrances).

The different own funds items shall be classified into Tiers considering if they possess specific characteristics according to the following scheme:

	<b>permanent availability to cover losses</b>	<b>subordination of the holder</b>	<b>sufficient duration</b>	<b>absence of incentive to redeem</b>	<b>absence of mandatory servicing costs</b>	<b>absence of encumbrances</b>
<b>Tier 1</b>	X	X	X	X	X	X
<b>Tier 2</b>		X	X	X	X	X
<b>Tier 3</b>	<b>Residual</b>					

## Ø List of tier 1 Basic Own Fund

Article 69 of L2-DR lists Tier 1 Basic Own Fund items, assuming they substantially possess the Tier 1 characteristics; notice that :

- Ù the part of excess of assets over liabilities, valued in accordance with Article 75 and Section 2 of Chapter VI of Directive 2009/138/EC, comprising the following items:
  - Paid-in ordinary share capital and the related share premium account;
  - Paid-in initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings;
  - Paid-in subordinated mutual member accounts;
  - Surplus funds that are not considered insurance and reinsurance liabilities in accordance with Article 91(2) of Level 1 Directive;
  - Paid-in preference shares and the related share premium account;
  - Reconciliation reserve;
  
- Ù Paid-in subordinated liabilities valued in accordance with Article 75 of Directive 2009/138/EC when they possess Tier 1 features.

In the following, some specific guidelines with regard to Tier 1 items are given excluding items described in points II. and III. that are not applicable for Generali Group entities:

### **Paid-in ordinary share capital**

According to Section II B of L3 Guidelines (Guideline 1), undertakings should identify paid-in ordinary share capital by the following properties:

- Ù The shares are issued directly by the undertaking with the prior approval of its shareholders or, where permitted under national law, its Board of Directors
- Ù The shares entitle the owner to a claim on the residual assets of the undertaking in the event of winding-up proceedings, which is proportionate to the amount of the items issued, and is neither fixed nor subject to a cap.

Where an undertaking describes more than one class of shares as ordinary share capital:

- Ù It should assess the features for determining classification as ordinary share capital set out in Article 71 of L2-DR (Tier 1 Features determining classification) in relation to each class of shares separately;
- Ù It should identify the differences between classes which provide for one class to rank ahead of another or which create any preference as to distributions, and only consider as possible Tier 1 ordinary share capital the class which ranks after all other claims and has no preferential rights;
- Ù It should consider as possible Tier 1 preference shares, any share classes ranking ahead of the most subordinated class or which have other preferential features which prevent them from being classified as Tier 1 ordinary share capital in accordance with 2 points above.

### **Surplus funds**

Article 91 of L1-Dir states that surplus funds "...shall be deemed to be accumulated profits which have not been made available for distribution to policy holders and beneficiaries". Moreover "In so far authorized under national law, surplus funds shall not be considered as insurance and reinsurance liabilities to the extent that they fulfil the criteria set out in Article 94 (1)".

### **Reconciliation reserve**

According with Recital 35 of L2-DR, "Insurance and reinsurance undertakings should divide the excess of assets over liabilities into amounts that correspond to capital items in their financial statements and a reconciliation reserve. The reconciliation reserve may be positive or negative".

Article 70 of L2-DR states that 'The determination of whether, and to what extent, the reconciliation reserve displays the features of Tier 1 Basic Own Fund shall not assess the features of the assets and liabilities that are included in computing the excess of assets over liabilities or the underlying items in the undertakings' financial statements'.

It is worthwhile noting that this last paragraph according to Generali Belgium, de facto waiving some of the classification criteria for the reconciliation reserve, can be interpreted as recognizing the specific nature of this residual item which is represented by the reconciliation reserve. Furthermore, the limited applicability of the other classification criteria (sufficient duration, absence of encumbrances, absence of mandatory servicing costs and absence of incentives to redeem) to the reconciliation reserve might lead to the conclusion that the reconciliation reserve is to be considered as Tier 1, unless specific evidence of the contrary exists.

The Article 70 of L2-DR specifies some definitions with regard to the reconciliation reserve.

More in detail, the reconciliation reserve shall equal the total excess of assets over liabilities reduced by:

- ü The amount of own shares held by the insurance and reinsurance undertaking;
- ü Foreseeable dividends, distributions and charges;
- ü The basic own-fund items included in other Basic Own Fund items (Tier1, Tier 2 or Tier 3);
- ü The basic own-fund items not mentioned in the lists of DA, which have been approved by the supervisory authority in accordance with Article 79 of L2-DR;
- ü The restricted own-fund items that meet one of the following requirements:
- ü Exceed the notional Solvency Capital Requirement in the case of matching adjustment portfolios and ring-fenced funds determined in accordance with Article 81(1) of L2-DR ;
- ü That are excluded in accordance with Article 81 (2) of L2-DR ;
- ü The amount of participations held in financial and credit institutions deducted in accordance with the treatment of participations in the determination of Basic Own Fund (Article 68 of L2-DR), to the extent that this is not already included in previous points .

Section II B of L3 Guidelines (Guideline 2) gives some details on point b, i.e. on the identification of the own shares and of the foreseeable dividends and distributions to be considered:

- ü Own shares that reduce the reconciliation reserves are both own shares held directly and indirectly.
- ü As far as the feature 'foreseeable', a dividend or distribution has to be considered to be foreseeable at the latest when it is declared or approved by the supervisory or management body, or the other persons who effectively run the undertaking, regardless of any requirement for approval at the annual general meeting;
- ü Moreover, where a participating undertaking holds a participation in another undertaking, which has a foreseeable dividend, the participating undertaking should make no reduction to its reconciliation reserve for that foreseeable dividend.
- ü In the same guideline it is stated that amount of foreseeable charges to be taken into account in deduction of reconciliation reserve are:
- ü The amount of taxes;
- ü The amount of any obligations or circumstances arising during the related reporting period which are likely to reduce the profits of the undertaking and for which the supervisory authority is not satisfied that they have been appropriately captured by the valuation of assets and liabilities.

To introduce the limitations due to ring fenced funds, it is worthwhile mentioning that not all assets within an undertaking are unrestricted. In some Member States, specific products result in ring-fenced fund structures which give one class of policy holders greater rights to assets within their own fund. Although those assets are included in computing the excess of assets over liabilities for own-fund purposes they cannot in fact be made available to meet the risks outside the ring-fenced fund. To be consistent with the economic approach, the assessment of own funds needs to be adjusted to reflect the different nature of assets, which form part of a ring-fenced arrangement. Similarly, the Solvency Capital Requirement calculation should reflect the reduction in pooling or diversification related to those ring-fenced funds. With regard to the ring fenced funds (RFF), Recital 37 of L2- DA provides the following definition "Ring-fenced funds are arrangements where an identified set of assets and liabilities are managed as though they were a separate undertaking, and should not include conventional index-linked, unit-linked or reinsurance business. The reduced transferability

of the assets of a ring-fenced fund should be reflected in the calculation of the excess of assets over the liabilities of the insurance or reinsurance undertaking”.

The precise definition can be taken by Article 80 of the L2-DR that aims to regulate the adjustments to companies Basic Own Fund. Article 80 states that “A reduction of the reconciliation reserve shall be required where own-fund items within a ring-fenced fund have a reduced capacity to fully absorb losses on a going-concern basis due to their lack of transferability within the insurance or reinsurance undertaking for any of the following reasons:

- ü The items can only be used to cover losses on a defined portion of the insurance or reinsurance undertaking's insurance or reinsurance contracts;
- ü The items can only be used to cover losses in respect of certain policy holders or beneficiaries; or
- ü The items can only be used to cover losses arising from particular risks or liabilities.”

Please note that the recital 39 of L2- DA states explicitly that:

“Ring-fenced funds should be limited to those arrangements that reduce the capacity of certain own fund items to absorb losses on a going concern basis. Arrangements that only affect loss absorbency in the case of winding-up should not be considered as ring-fenced funds.”

### **Subordinated liabilities**

With regard to subordinated liabilities, item which meet requirements to be classified as Basic Own Fund, should be valued according to Article 75 of the L1 – Dir (“...b) liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm’s length transaction. When valuing liabilities under point b), no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made”). For a more detailed description of the valuation methods, please refer to the related “Valuation” section. For a description of the applicability of grandfathering rules, please refer to the “Transitional arrangements” section.

### **Ø List of tier 2 Basic Own Fund**

Article 72 of L2-DR lists the Tier 2 basic own-fund items:

- ü The part excess of assets over liabilities, valued in accordance with Article 75 and Section 2 of Chapter VI of Directive 2009/138/EC, comprising the following items:
  - o Ordinary share capital and the related share premium account;
  - o Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings;
  - o Subordinated mutual member accounts;
  - o Preference shares and the related share premium account;
- ü Subordinated liabilities valued in accordance with Article 75 of Directive 2009/138/EC.

### **Ø TIER 3 Basic Own Fund and their features**

Tier 3 represents the residual category of own funds. According to L1- Dir, Article 94 (Main criteria for the classification into tiers), after having detected if own funds items do not possess the feature to be classified into Tier 1 or Tier 2, the own fund item shall be classified in Tier 3..

**ELIGIBLE OWN FUNDS**

€ in thousand	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total available own funds to meet the Solvency Capital Requirement	531.953	497.366	34.588	0
Total available own funds to meet the Minimum Capital Requirement	528.885	497.366	31.520	

Article 69 of DA, states the following quantitative limitations, with regard to the tiering of Own Funds:

- ü As far as compliance with the Solvency Capital Requirement is concerned, the eligible amounts of Tier 2 and Tier 3 items shall be subject to all of the following quantitative limits:
  - o The eligible amount of Tier 1 items shall be at least one half of the Solvency Capital Requirement;
  - o The eligible amount of Tier 3 items shall be less than 15 % of the Solvency Capital Requirement;
  - o The sum of the eligible amounts of Tier 2 and Tier 3 items shall not exceed 50 % of the Solvency Capital Requirement.
- ü As far as compliance with the Solvency Capital Requirement is concerned, the eligible amounts of Tier 2 and Tier 3 items shall be subject to all of the following quantitative limits:
  - o The eligible amount of Tier 1 items shall be at least 80 % of the Minimum Capital Requirement;
  - o The sum of the eligible amounts of Tier 2 items, excluding Ancillary own Funds, shall not exceed 20% of the Minimum Capital Requirement .
- ü Within the limit referred to in point (a) of paragraph 1 and point (a) of paragraph 2, the sum of the following basic own-fund items shall make up less than 20 % of the total amount of Tier 1 items:
  - o Items referred to in point (a)(iii) of Article 69;
  - o Items referred to in point (a)(v) of Article 69;
  - o Items referred to in point (b) of Article 69;
  - o Items that are included in Tier 1 basic own funds under the transitional arrangement set out in Article 308b(9) of Directive 2009/138/EC.

With regard to the quantitative limit defined by Article 69 (2) above, the Guidelines on Solvency II relating to Pillar 1 requirements (the Guidelines) state under guideline 20.1.80, that entities can "...consider those restricted Tier 1 items in excess of the 20% limit as available as Tier 2 basic own funds."

## E.1.2. Amount and quality of Eligible Own Funds

### Eligible Own Funds to meet Solvency Capital Requirement

In the tables below, Generali Belgium is reporting its Basic and Ancillary own funds:

#### Eligible Own funds by tiering

(€ thousand)	Total eligible own funds to meet the SCR	Tier 1 – unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Current Year	497.365	497.365	0	0	0
Previous Year	497.321	497.321	0	0	0
Change	44	44	0	0	0

The final step is related to Eligible own funds, after eligibility constraints.

#### Solvency Ratio

(€ thousand)	Current year	Previous year
Own Funds	531.953	531.884
Solvency Capital Requirement	350.217	358.319
<b>Solvency Ratio</b>	<b>151,9%</b>	<b>148,4%</b>

At this stage, since eligibility filters are dependent from Solvency Capital Requirement, it is necessary to disclose it in terms of ratio.

#### Solvency Ratio

(€ thousand)	Current year	Previous year
Own Funds	531.953	531.884
Solvency Capital Requirement	350.217	358.319
<b>Solvency Ratio</b>	<b>151,9%</b>	<b>148,4%</b>

Generali Belgium improved its Solvency II ratio un 2017 at 151,9% compare to 148,4% in 2016

## Own funds by Tiers

(€ thousand)	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ordinary share capital (gross of own shares)	40.000	40.000	0	0	0
Share premium account related to ordinary share capital	18.773	18.772	0	0	0
Surplus funds	0	0	0	0	0
Preference shares	0	0	0	0	0
Share premium account related to preference shares	0	0	0	0	0
Reconciliation reserve (see below table)	438.593	438.593	0	0	0
Subordinated liabilities	34.588	0	0	34.588	0
An amount equal to the value of net deferred tax assets	0	0	0	0	0
Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0	0	0	0	0
Deductions for participations in financial and credit institutions	0	0	0	0	0
<b>Total basic own funds after deductions</b>	<b>531.953</b>	<b>497.366</b>	<b>0</b>	<b>34.588</b>	<b>0</b>

## Subordinated Liabilities

During Q3 2016, Generali Belgium, in order to improve its Solvency II position, issued a intercompany subordinated loan of € 35.000 thousands with Generali Spain for a period of 10 years. The features of the loan are the following:

- ü Total amount: € 35.000,0 thousands
- ü Duration: 10 years
- ü Interest Rate: 4,45%
- ü No default trigger

This liabilities answer to all criteria for a Tier 2 classification :

- ü Redemption
  - o If the Issuer Supervisory Authority has previously approved the redemption
  - o The redemption of the Bond will not result in the Issuer becoming insolvent
  - o The Issuer is in compliance with solo solvency capital requirement; and (the solo minimum capital requirement
- ü Interest deferral
  - o The Issuer shall defer payment of all the interest accrued on the Bond if the Issuer is not in compliance with solo solvency capital requirement; and/or solo/minimum capital requirement
  - o The Issuer shall not pay any interest accrued on the Bond if payment of the relevant interest would result in the Issuer becoming insolvent

## Reconciliation between Statutory Shareholder funds and Own Funds for solvency purposes

In the table is include the reconciliation of Own Fund between the statutory account and the Market value Balance Sheet of Generali Belgium.

€ thousand	Current Year	Previous Year
<b>Excess of assets over liabilities Statutory</b>	<b>206.546</b>	<b>205.918</b>
- (-) Elimination of intangibles:	-2.281	-3.269
a) Goodwill	0	0
b) Deferred acquisition costs	0	0
c) Other intangible assets (include mainly value of business acquired and software)	-2.281	-3.269
- (+)/(-) Mark to market of assets:	809.150	890.437
a) Properties (includes own used real estate)	0	0
b) Bonds	815.394	884.142
c) Loans & Receivables	0	2.680
d) Participations	16.658	9.036
e) Equities	9.634	-1.962
f) Other assets	-32.535	-3.439
- (+)/(-) SII valuation of Technical Provisions	-513.195	-556.614
- (+)/(-) Mark to market of non-technical liabilities:	20.388	-15.312
a) Subordinated liabilities	828	853
b) Financial and other liabilities (does not include change in own credit standing)	0	0
c) Employee benefit	-13.994	-12.154
d) Other liabilities	33.555	-4.011
- (+)/(-) Deferred taxes (please refer to IAS 12)	-13.238	-23.839
<b>Excess of assets over liabilities Solvency II</b>	<b>507.370</b>	<b>497.321</b>

### E.1.3. Eligible of Own Funds to meet the Minimum Capital Requirement

In the tables below, Generali Belgium is reporting its Eligible Own Fund to meet the Minimum Capital Requirement, split by tiering

Eligible Own funds by tiering				
(€ thousand)	Total eligible own funds to meet the MCR	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2
Current Year	528.885	497.366	0	31.520
Previous Year	529.570	497.321	0	32.249
Change	-685	45	0	-729

## **E.2. Solvency Capital Requirement and Minimum Capital Requirement**

### **E.2.1. Solvency Capital Requirement and Minimum Capital Requirement values**

The Directive 2009/138/EC and the Delegated Regulation (EU) 2015/35 describe the process to be followed by the companies applying the Standard Formula approach, defined by EIOPA.

Generali Belgium makes use of the Standard Formula with Volatility Adjustment (VA) on the Risk Free Rate issued by EIOPA for the relevant referring period.

Generali Belgium, as Composite undertaking does not make use of any Transitional Measures. The Company issues its Solvency II results calculated according to the Standard Formula without use of any Undertaking Specific Parameters.

The Solvency Capital Requirement figures presented here below relate to Generali Belgium's Standard Formula results (with volatility adjustment) as at 31<sup>st</sup> of December 2017 and as at 31<sup>st</sup> of December 2016:

#### **SCR Values**

(€ thousands)	Total
Current Year	350.217
Previous Year	358.319

The Minimum Capital Requirement figures presented here below relate to Generali Belgium's Standard Formula results (with volatility adjustment) as at 31<sup>st</sup> of December 2017 and as at 31<sup>st</sup> of December 2016.

#### **MCR Values**

(€ thousands)	Total
Current Year	157.598
Previous Year	161.254

Solvency Capital Requirement and Minimum Capital Requirement are calculated in composite view as Generali Belgium is an insurance company exercising both Life and Non-Life insurance activities.

Thanks to its sound risk management system, the risk identification and measurement was deemed as sufficiently complete and accurate to exclude any capital add-on to the Solvency Capital Requirement based on the EIOPA Standard Formula Risk Map.

The overall risk profile of the company decreased from 2016 to 2017, relying on the outcomes of the Risk Management System and the Capital Management. This decrease of the Solvency Capital Requirement (and Minimum Capital Requirement) compared to previous year is mainly driven by :

- ü The decrease of market risk mainly thanks to de-risking activities on the one hand and the shift in the Company's strategy centering its Life activities on the development of the Unit Linked portfolio, which requires much less capital than the traditional Savings & Pension portfolio's;
- ü The decrease of Non-Life underwriting risk, due to a decrease of the best estimate of Outstanding Claims.

Although this is partially mitigated by the following effects on Solvency Capital Requirement:

- ü The increase of Life Underwriting Risk, mainly due to the lower interest rate environment which increases lapse and expense risk.
- ü The slight increase of operational risk, in line with the increase in business volume.

## E.2.2. Solvency Capital Requirement breakdown

The total Solvency Capital Requirement split by Risk before and after diversification at Year End 2017 and at Year End 2016 is given here below.

The table below shows the Standard Formula modules before and after diversification with each other. The diversification effect is calculated according to the EIOPA Standard Formula correlation tables and equals €113.689 thousands or 25% of the total Solvency Capital Requirement after diversification. The table also shows the contribution of each risk (module) to the Solvency Capital Requirement and thus to the overall Solvency position.

Market risk is the most significant risk as it includes spread risk which is the largest risk the Company is exposed to due to its large exposure to fixed income bonds. Over 2017, Generali Belgium continued on the investment strategy initiated in 2016, always looking for optimizing the risk-return leveraging on the most appropriate capital allocation according to the Company's Risk Appetite Framework. This strategy is also based on a continuous monitoring of market risk and performance indicators. In addition to this, market spreads have decreased over 2017. Equity risk also constitutes to a large part of the market risk. Although the increase in equity exposure has increased equity risk in 2017, the shift from a Traditional Savings & Pensions portfolio to more Unit Linked activities (as mentioned in the former section) has somewhat mitigated this effect as the market risk of these products is supported by the policyholder. Overall, the shift to Unit Linked allows for significantly more market risk absorption given the increase in Unit Linked business volume.

Life underwriting risk also contributes significantly to the Solvency Capital Requirement, mainly through lapse risk and expense risk, according to the significant materiality of the Life insurance activities in the Market Value Balance Sheet of the Company. Its evolution over the year 2017, being a significant decrease, is a combined effect of a strong decrease in Lapse Risk partly offset by an increase in Expense Risk, both following the evolution of the underlying assumptions under a best estimate view.

Non-Life Underwriting Risk is the third most significant risk although it decreases slightly in function of the evolution of the premiums and claims portfolio.

Operational Risk is the fourth largest contributor to Solvency Capital Requirement and is defined as a function of the Company's business volume under the Standard Formula. Operational Risk remains quite stable in function of overall business volume, relying on a compensation of the volume increase in Unit linked versus a volume decrease of Life Traditional business while the Non-Life components remained stable. Nevertheless, there has been more focus (which is not reflected by the Standard Formula) on closer management and mitigation of these risks.

Finally, the tax absorption effect, which is a function of the net Deferred Tax Liabilities and of an additional notional Deferred Tax Assets (itself being a function of the pre-tax SII ratio and recoverable future profits) as prescribed by the local regulation, positively impacts the Solvency Capital Requirement and thus the overall Solvency position. The increase of the Loss Absorbing Capacity of Deferred Taxes compared to last year is driven by the methodological change of the calculation applied in 2017.

**Total SCR split by Risk before and after diversification (YE 2017)**

(€ thousands)	Before Diversification		After Diversification	
	Total	Impact (%)	Total	Impact (%)
<b>nSCR before Diversification</b>	<b>454.664</b>	<b>129,8%</b>	<b>340.974</b>	<b>97,4%</b>
Market Risks	279.313	61,4%	264.713	58,2%
Counterparty Default Risks	24.196	5,3%	10.580	2,3%
Life Underwriting Risks	72.884	16,0%	32.286	7,1%
Health Underwriting Risks	9.133	2,0%	2.765	0,6%
Non-Life Underwriting Risks	69.137	15,2%	30.630	6,7%
Diversification benefit	-113.689	-25,0%		
<b>nBSCR after Diversification</b>	<b>340.974</b>	<b>97,4%</b>	<b>340.974</b>	<b>97,4%</b>
Operational Risk	40.415	11,5%	40.415	11,5%
<b>Total SCR before Taxes</b>	<b>381.390</b>	<b>108,9%</b>	<b>381.390</b>	<b>108,9%</b>
Tax absorption	-31.173	-8,9%	-31.173	-8,9%
<b>Total SCR</b>	<b>350.217</b>	<b>100,0%</b>	<b>350.217</b>	<b>100,0%</b>

**Total SCR split by Risk before and after diversification (YE 2016)**

(€ thousands)	Before Diversification		After Diversification	
	Total	Impact (%)	Total	Impact (%)
<b>nSCR before Diversification</b>	<b>472.059</b>	<b>131,7%</b>	<b>341.665</b>	<b>95,4%</b>
Market Risks	263.751	55,9%	243.806	71,4%
Counterparty Default Risks	26.170	5,5%	11.935	3,5%
Life Underwriting Risks	98.750	20,9%	50.261	14,7%
Health Underwriting Risks	10.673	2,3%	3.369	1,0%
Non-Life Underwriting Risks	72.715	15,4%	32.293	9,5%
Diversification benefit	-130.394	-36,4%		
<b>nBSCR after Diversification</b>	<b>341.665</b>	<b>95,3%</b>	<b>341.665</b>	<b>95,4%</b>
Operational Risk	40.493	11,3%	40.493	11,3%
<b>Total SCR before Taxes</b>	<b>382.158</b>	<b>106,6%</b>	<b>382.158</b>	<b>100%</b>
Tax absorption	-23.839	-6,6%	-23.839	-6,6%
<b>Total SCR</b>	<b>358.319</b>	<b>100%</b>	<b>358.319</b>	<b>100%</b>

### E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company don't use the duration-based equity risk sub-module approach in the calculation of the solvency Capital Requirement.

### E.4. Differences between the standard formula and any internal model used

The company don't use an internal model and apply only the standard formula as explained in previous chapter.

### E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

Generali Belgium has a sound solvency position, no issues related to the compliance neither with the Minimum Capital Requirements nor with the Solvency Capital Requirement.

### E.6. Any other information

#### Sensitivities

As anticipated in chapter C.7, the sensitivity analyses of simple changes in specific risk drivers (e.g. Interest Rates, equity shock, credit spreads and Interest Rate volatility) measuring the variability of the Own Funds and Solvency Ratio to variations in specific risk factors are here reported. The set chosen aims to provide the assessment of resilience to the most significant risks.

Sensitivities on Excess of assets over liabilities	Excess of assets over liabilities after sensitivities	Sensitivity change
Excess of assets over liabilities as at YE17	507.370	0
Equity markets +25%	529.326	21.956
Equity markets -25%	484.653	--22.717
Risk free rates: interest rates change (+20bps)	514.606	7.236
Risk free rates: interest rates change (-20bps)	506.047	-1.323
Corporate bond spreads +50bps	524.760	+17.389
Government bond spreads +50bps	376.082	-131.288
Interest rate no volatility adjustments	492.697	-14.674
Ultimate Forward rate (-15 bps)	507.370	0

**ANNEX****Impact of long term guarantees measures and transitional**

	Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
Technical provisions	6.170.490	0	0	-5.679.658	0
Basic own funds	531.953	0	0	-75.684	0
Eligible own funds to meet Solvency Capital Requirement	531.953	0	0	-41.122	0
Solvency Capital Requirement	350.217	0	0	44.836	0
Eligible own funds to meet Minimum Capital Requirement	528.885	0	0	-38.054	0
Minimum Capital Requirement	157.598	0	0	20.176	0

SFCR RSR CDM configuration entity - Annex

Own funds – Solo (1/3)

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
<b>Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35</b>					
Ordinary share capital (gross of own shares)	40.000	40.000		0	
Share premium account related to ordinary share capital	18.773	18.773		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0		0	
Subordinated mutual member accounts	0	0	0	0	0
Surplus funds	0	0			
Preference shares	0		0	0	0
Share premium account related to preference shares	0		0	0	0
Reconciliation reserve	438.593	438.593			
Subordinated liabilities	34.588		0	34.588	0
An amount equal to the value of net deferred tax assets	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
<b>Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds</b>					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
<b>Deductions</b>					
Deductions for participations in financial and credit institutions	0	0	0	0	0
<b>Total basic own funds after deductions</b>	<b>531.953</b>	<b>497.366</b>	<b>0</b>	<b>34.588</b>	<b>0</b>

SFCR RSR CDM configuration entity - **SOLVENCY AND FINANCIAL CONDITION REPORT**

**Own funds – Solo (2/3)**

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
<b>Ancillary own funds</b>					
Unpaid and uncalled ordinary share capital callable on demand	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
Unpaid and uncalled preference shares callable on demand	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
Other ancillary own funds	0			0	0
<b>Total ancillary own funds</b>	<b>0</b>			<b>0</b>	<b>0</b>
<b>Available and eligible own funds</b>					
Total available own funds to meet the SCR	531.953	497.366	0	34.588	0
Total available own funds to meet the MCR	531.953	497.366	0	34.588	
Total eligible own funds to meet the SCR	531.953	497.366	0	34.588	0
Total eligible own funds to meet the MCR	528.885	497.366	0	31.520	

**Own funds – Solo (3/3)**

	<b>Total</b>
SCR	350.217
MCR	157.598
Ratio of Eligible own funds to SCR	151,9%
Ratio of Eligible own funds to MCR	335,6%
Reconciliation reserve	0
Excess of assets over liabilities	507.370
Own shares (held directly and indirectly)	0
Foreseeable dividends, distributions and charges	10.005
Other basic own fund items	58.773
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
Reconciliation reserve	438.593
Expected profits	0
Expected profits included in future premiums (EPIFP) - Life Business	38.344
Expected profits included in future premiums (EPIFP) - Non- life business	13.373
<b>Total Expected profits included in future premiums (EPIFP)</b>	<b>51.717</b>

**Solvency Capital Requirement — for undertakings using the standard formula (1/2)**

	Gross solvency capital requirement	USP	Simplifications
Market risk	349.947	0	0
Counterparty default risk	24.196	0	0
Life underwriting risk	76.882	0	0
Health underwriting risk	9.133	0	0
Non-life underwriting risk	69.137	0	0
Diversification	-119.090	0	0
Intangible asset risk	0	0	0
<b>Basic Solvency Capital Requirement</b>	<b>410.205</b>	<b>0</b>	<b>0</b>

**Solvency Capital Requirement — for undertakings using the standard formula (2/2)**

<b>Calculation of Solvency Capital Requirement</b>	
Operational risk	40.415
Loss-absorbing capacity of technical provisions	-69.231
<b>Loss-absorbing capacity of deferred taxes</b>	<b>-31.173</b>
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
Solvency capital requirement excluding capital add-on	350.217
Capital add-on already set	0
Solvency capital requirement	350.217
Other information on SCR	0
Capital requirement for duration-based equity risk sub-module	0
Total amount of Notional Solvency Capital Requirements for remaining part	350.217
Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
Diversification effects due to RFF nSCR aggregation for article 304	0

**MCR Result for non-life activities**

	Non-life activities	Life activities
	MCR <sub>(NL,NL)</sub> Result	MCR <sub>(NL,L)</sub> Result
Linear formula component for non-life insurance and reinsurance obligations	34.066	0

**Linear formula component for non-life insurance and reinsurance obligations**

MCR calculation Non Life	Non-life activities		Life activities	
	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance	1.039	371	0	0
Income protection insurance and proportional reinsurance	1.862	3.734	0	0
Workers' compensation insurance and proportional reinsurance	21.895	79	0	0
Motor vehicle liability insurance and proportional reinsurance	116.578	43.679	0	0
Other motor insurance and proportional reinsurance	10.605	24.642	0	0
Marine, aviation and transport insurance and proportional reinsurance	3	0	0	0
Fire and other damage to property insurance and proportional reinsurance	23.469	43.757	0	0
General liability insurance and proportional reinsurance	48.033	14.321	0	0
Credit and suretyship insurance and proportional reinsurance	0	0	0	0
Legal expenses insurance and proportional reinsurance	11.063	4.598	0	0
Assistance and proportional reinsurance	0	0	0	0
Miscellaneous financial loss insurance and proportional reinsurance	2.845	0	0	0
Non-proportional health reinsurance	0	0	0	0
Non-proportional casualty reinsurance	0	0	0	0
Non-proportional marine, aviation and transport reinsurance	0	0	0	0
Non-proportional property reinsurance	241	0	0	0

**MCR Result for life activities**

	Non-life activities	Life activities
	MCR <sub>(L,NL)</sub> Result	MCR <sub>(L,L)</sub> Result
Linear formula component for life insurance and reinsurance obligations	944	182.545

**Linear formula component for life insurance and reinsurance obligations**

MCR calculation Life	Non-life activities		Life activities	
	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
Obligations with profit participation - guaranteed benefits	0	0	4.729.635	0
Obligations with profit participation - future discretionary benefits	0	0	70.974	0
Index-linked and unit-linked insurance obligations	0	0	552.223	0
Other life (re)insurance and health (re)insurance obligations	44.973	0	159.846	0
Total capital at risk for all life (re)insurance obligations	0	0	0	5.737.927

**Overall MCR**

Overall MCR calculation	Non-life activities	Life activities
Linear MCR	0	217.555
SCR	0	350.217
MCR cap	0	157.598
MCR floor	0	87.554
Combined MCR	0	157.598
Absolute floor of the MCR	0	7.400
<b>Minimum Capital Requirement</b>	<b>0,00</b>	<b>157.598</b>

**Notional non-life and life MCR calculation**

Notional non-life and life MCR calculation	Non-life activities	Life activities
Notional linear MCR	34.066	183.489
Notional SCR excluding add-on (annual or latest calculation)	67.988	282.229
Notional MCR cap	30.594	127.003
Notional MCR floor	16.997	70.557
Notional Combined MCR	30.594	127.003
Absolute floor of the notional MCR	3.700	3.700
Notional MCR	30.594	127.003