# 2017

## SFCR Generali levensverzekeringen maatschappij N.V.

**a.s.r.**
Archimedeslaan 10
P.O. Box 2072
3500 HB Utrecht

**www.generali.nl**

# 2017
# SFCR Generali levensverzekeringen maatschappij N.V.

# Glossary

| | |
|---|---|
| AF | Actuarial Function |
| AFM | Autoriteit Financiële Markten |
| ALM | Assets and Liabilities Management |
| AoC | Analysis of Change |
| AOW | Old Age Pension Act |
| BoD | Board of Directors of Assicurazioni Generali S.p.A. |
| BOF | Basic Own Funds |
| BSCR | Basic Solvency Capital Requirement |
| CBS | Centraal Bureau voor de Statistiek |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CIO | Chief Investment Officer |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| DAC | Deferred Acquisition Costs |
| DB | Pension Defined Benefit |
| DNB | De Nederlandsche Bank, Supervisory Authority |
| DT | Deferred Taxes |
| DTA | Deferred Tax Assets |
| DTL | Deferred Tax Liabilities |
| ECB | European Central Bank |
| EIOPA | European Insurance and Occupational Pensions Authority |
| ESG | Environmental, Social and corporate Governance |
| EU | European Union |
| FCP | collective investment undertaking |
| FRM | Financial Risk Management |
| FTE | Full Time Equivalent |
| GHO | Generali Group Head Office |
| GREI | Generali Real Estate Investment bv |
| GREI NL | Generali Real Estate Investments Netherlands bv |
| GTPL | General Third Party Liability |
| GWP | Gross written premium |
| HR | Human Resources |
| IAS | International Accounting Standards |
| IBNR | Incurred but not reported |
| IFRS | International Financial Reporting Standards |
| KKV | Keurmerk Klantgericht Verzekeren |
| LAT | Liability Adequacy Test |
| LTIP | Long Term Incentive Plan |
| MA | Matching Adjustment |
| MAD | Market Abuse Directive |
| MAR | Market Abuse Regulation |
| Market yield of an investment | The yield is the income return on an investment, such as the interest or dividends received from holding a particular security |
| MCR | Minimum Capital Requirement |
| MRSA | Main Risk Self-Assessment |
| NCR | The sum of incurred losses and expenses and divided by earned premium |
| NHG | National Mortgage Guarantee program |
| NHT | Terrorismepool |
| Nrgfo | nadere regeling gedragstoezicht financiële ondernemingen |
| ORM | Operational Risk Management |
| ORSA | Own Risk and Solvency Assessment |
| OTC | Over-the-counter |
| PARP | Product Approval and Review Process |
| PESTLE | Method to analyse the impact of external developments based on: Political, Economic, Social, Technological, Legal and Environmental events |

| | |
|---|---|
| PRA | Process Risk Assessments |
| PRI | Principles for Responsible Investments |
| R&C | Risk & Control |
| RSR | Regular Supervisory Report |
| SA | Scenario Analysis |
| SCR | Solvency Capital Requirement |
| SFCR | Solvency Financial Condition Report |
| SIRA | Systematic Integrity Risk Analysis |
| SLR | Service Level Report |
| SLT | Similar to Life Technical Provisions |
| SME | Small and medium-sized enterprises |
| TP | Technical Provisions |
| UFR | Ultimate Forward Rate |
| VA | Volatility Adjustment |
| Verbond | Verbond van Verzekeraars |
| WFT | Wet op het financieel toezicht |

# Introduction

The new, harmonised EU-wide regulatory regime for insurance companies, known as Solvency II, came into force with effect from 1 January 2016. Solvency I used liability volumes to calculate capital requirements. Solvency II takes into account all balance sheet and operational risks. It measures balance sheet assets, liabilities and risk exposures based on economic principles and the capital requirements relate directly to these risk exposures. This means insurance companies have to review their internal risk management and control environment, (risk) governance and to test existing processes and implement improvements.
The Solvency II framework consists of three main pillars:
- Pillar I: Quantitative requirements (such as the amount of capital an insurer must hold);
- Pillar II: Governance and risk management requirements, as well as effective supervision;
- Pillar III: Disclosure and transparency requirements.

As part of Pillar III, Solvency II requires reporting and public disclosure: the Solvency and Financial Condition Report (SFCR) including the Quantitative Reporting Templates (QRTs).

Although the content of the SFCR has to be decided on by the insurance company, the structure of the report is given and set as obligatory by EIOPA. The structure of this SFCR has been described in annex XX of the delegated acts and is as follows:
A. Business and Performance
B. System of Governance
C. Risk Profile
D. Valuation for Solvency Purposes
E. Capital Management

The prescribed public disclosure QRTs applicable to Generali levensverzekering maatschappij n.v. (Generali Leven) are:
- S.02.01 Balance Sheet
- S.05.01 Premium, Claims and expenses by lines of business
- S.12.01 Life and Health SLT Technical Provisions
- S.22.01 Impact of Long Term Guarantees measures and transitionals
- S.23.01 Own funds
- S.25.01 SCR - Only Standard Formula
- S.28.01 MCR - Only life or only non-life insurance or reinsurance activity

The figures and explanations included in this report are in line with both the public disclosure QRTs (included in this reports), and with the other annual (non-public disclosure) QRTs not included in this report but reported separately to the Dutch supervisor, De Nederlandsche Bank.

All amounts in this report are presented in euros, being the functional currency of Generali Leven. All amounts quoted in the tables contained in this report are in thousands of euros (€ thousand), unless otherwise stated.

# Summary

This executive summary highlights the insurance and reinsurance activities of Generali Leven over the reporting period 2017, related to the following topics: Generali Leven in a nutshell, Subsequent events, business and performance, system of governance, risk profile, valuation for solvency purposes and capital management.

## Generali Leven in a nutshell

In the table below the key figures for Generali Leven are shown for 2017 and 2016:

**Table 1 Generali Leven in a nutshell**

| (in € 1,000) | 31 December 2017 | 31 December 2016 |
|---|---|---|
| IFRS Shareholders' Equity | 343,028 | 362,554 |
| | | |
| Solvency II Own Funds | 215,102 | 233,519 |
| | | |
| Eligible Own Funds: | | |
| - for SCR calculation | 215,102 | 221,212 |
| - for MCR calculation | 215,102 | 192,264 |
| | | |
| Solvency ratio | 113% | 115% |
| | | |
| SCR | 189,842 | 192,985 |
| MCR | 47,460 | 48,246 |

## Subsequent events

On 5 February 2018 100% of the shares in Generali Nederland nv were acquired by ASR Nederland NV. As of that date the statutory directors and supervisory directors resigned and were replaced by appointees of ASR, and the name of Generali Nederland nv was altered to ASR Utrecht NV. The articles of association were modified. Various other changes are planned and integration plans are being fleshed out in order to integrate Generali Nederland nv and its subsidiaries into the ASR group of companies. Some of these plans will require approval from the Company's Works Council. Public records, such as the registers of the Chamber of Commerce, have been adjusted to reflect these changes. The governance structure has been adjusted to comply with that of ASR.

Relationships with companies belonging to the Assicurazioni Generali group were ended to the extent possible, although several transitional arrangements have been entered into to limit the disruption caused by the change in ownership.

Every effort has been made to inform customers and business partners of the change in ownership.

High level integration plans, which were shared with regulators as part of the process of gaining approvals for the change of control, are being worked out in further detail and are expected to lead to further changes in 2018 and subsequent years as the activities of Generali Nederland nv and its subsidiaries will be integrated into those of the ASR group of companies.

Following the change in ownership of Generali Nederland nv and in line with the plans submitted to the Dutch regulatory authorities the existing board members all resigned from their functions and were discharged of their responsibilities to Generali Nederland nv. A new Generali Leven Management Board was appointed consisting of the following individuals:

- Mr Jos Baeten CEO
- Mr Chris Figee CFO
- Ms Karin Bergstein, and
- Mr Michel Verwoest

Similarly, a new Generali Nederland Supervisory Board was appointed consisting of:
- Mr Kick van der Pol, Chair
- Ms Annet Aris
- Mr Cor van den Bos, and
- Mr Herman Hintzen

Starting 5 February 2018 the Governance Structure of a.s.r. is also applicable for Generali Leven.

The SFCR of Generali Leven was approved by the new Generali Leven Management Board.

## Business and Performance

For more than 145 years Generali Leven stands for stability, reliability and personal attention towards its customers in the Dutch market. This conviction lies at the heart of incorporating 'discipline, simplicity and focus' to its core business: putting clients right at the heart of the business with simpler, smarter solutions, making its distribution network more effective with a wider range of services, and becoming an even more agile, flexible and innovation-friendly company.

Although the economic crisis of recent years is now past, the Life insurance industry continuous to face challenges. Generali Leven is impacted by various political, economic, social, technological, legal and environmental events of which the long-lasting historic low interest rates are by far the aspect with the highest impact for the insurance industry as well as for Generali Leven. A low interest rates environment implicates increased liabilities for insurers in order to meet the level of guarantees provided in the past to their customers.

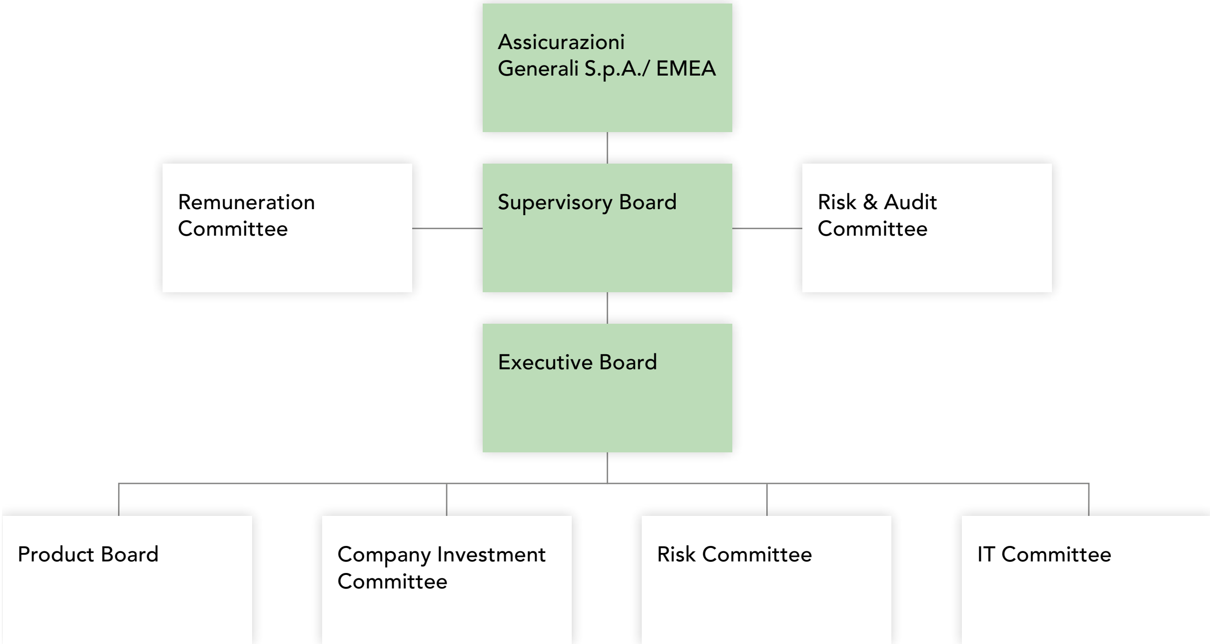
As an answer on these challenges, Generali Leven focusses on the domain of Pension Insurance and Term Life products with newly designed products, where the existing portfolio will be managed in the best possible way. This also gives Generali Leven the opportunity to benefit from the recovering of the housing market, since Term Life products are often sold in combination with mortgages.

The investments strategy of Generali Leven is based on a risk based approach and the Solvency II prudent principle requirements as published by EIOPA. As a consequence Generali Leven currently invests primarily in high quality government and corporate bonds and loans.

## System of Governance

At Generali Leven the corporate governance aims at protecting the stakeholders of the company, the most important of which are the clients, intermediaries, shareholders, the employees (including Executive and Supervisory Boards) and the external regulator. The corporate governance structure of Generali Leven has been set up in line with the Dutch Corporate Governance Code. This code aims (amongst others) to mitigate conflicts of interest and moral hazard. A two-tier board structure is used by Generali Leven to clearly demarcate roles and responsibilities of the Executive Board and the Supervisory Board. Both the Supervisory Board and the Executive Board are supported by various committees. These committees form part of the corporate governance framework of Generali Leven. The figure below shows the simplified governance structure of Generali Nederland that applies to Generali Leven as well.

**Figure 1 Simplified corporate governance structure.**




Generali Leven has a risk management system in line with (local) laws and legislation, Solvency II requirements and Generali Group policies. The risk management process is organised around the three lines of defence structure, in which the business departments are the first line of defence, Risk Management, Operational Risk Management, Compliance and the Actuarial Function the second line and internal audit and the external auditor the third line of defence.

## Risk Profile

Generali Leven applies the Solvency Capital Requirement Standard Formula as prescribed by EIOPA. With the Standard Formula, the regulator intends to reflect the risk profile of most insurance and re-insurance undertakings. It consists of a Basic Solvency Capital Requirement and a surcharge for operational risk. The Basic Solvency Capital Requirement is a risk-based quantitative capital requirement that considers amongst others underwriting, market and counterparty default risk. In addition to the risks included in the standard formula Generali Leven recognises a few other significant risks the company is exposed to, like strategic risk, reputation risk, political risk, contagion risk and emerging risks. Generali Leven manages these risks with the analysis of various scenarios based on future projections of liabilities, results and capital needs. At least on an annual basis Generali Leven performs an Own Risk and Solvency Assessment, which gives insight in the (potential) risks the company is facing. If needed, management actions are taken to keep the level of risk within the risk appetite bandwidth of the company.

## Valuation for Solvency Purposes

Generali Leven adopted the IFRS valuation methods as the basis for the financial statements. To a large extent the IFRS methods used coincide with the Solvency II valuation method used to realise the Solvency II economical balance sheet. Differences exist due to both reclassifications and / or revaluations. Reclassifications have no influence on the amount of the own funds, but are differences in the presentation, such as accrued interest and collateralised securities. The balance sheet items that are valued differently using the Solvency II requirements are deferred taxes, loans, subsidiaries, technical provisions and contingent liabilities.

## Capital Management

One of the Solvency II requirements is to hold sufficient capital to give policyholders and other beneficiaries reasonable assurance that Generali Leven can meet its current and future liabilities. At the end of 2017, based on the standard formula calculations for the SCR for underwriting risk, market risk, credit risk and operational risk, the SCR for Generali Leven is € 191.0 million (31 December 2016: € 193.0 million). Solvency II regulations require that the available capital should at least exceed the SCR. But not all capital can be seen as unrestricted available capital. Therefore the capital is classified into three tiers, of which tier 1 capital is the capital with the highest quality. This means that there is no restriction on this capital and that it can be used freely to cover the Solvency Capital Requirement.

Solvency II regulations limit the amounts of tier 2 and tier 3 own funds that are eligible to cover the SCR and MCR. This restriction was applicable to Generali Leven in 2016, but not any more in 2017.

## Solvency Capital Requirements

**Table 2 Solvency position Generali Leven**

| Capital (in € 1,000) | 2017 YE | 2016 YE |
|---|---|---|
| Available Own Funds | 215,102 | 233,519 |
| Disallowed tier 3 Own Funds | 0 | -12,307 |
| Eligible Own Funds | 215,102 | 221,212 |
| Solvency Capital Requirement | 189,842 | 192,985 |
| Solvency II ratio | 113% | 115% |
| Minimum Capital Requirement | 47,460 | 48,246 |

As listed above the YE 2017 SCR is 189.8 million (31 December 2016 € 193.0 million). The eligible own funds that covered the Solvency Capital Requirement amounts to 215.1 million (31 December 2016 € 221.2 million). The 2017 Solvency II ratio, therefore, is 113% (31 December 2016 115%).

From a legal perspective the Solvency II ratio must be at least 100%. For internal purposes Generali Leven has defined the minimum Solvency II ratio as 110% and the ‘early signal threshold’ Solvency II ratio is defined as 125%. These higher thresholds are designed to give senior management sufficient time to implement and review potential management actions and calculate the potential impact thereof before the national supervisory authority is required to take intervening measures.

Table 2 specifies the eligible own funds, the SCR, the SCR ratio and the MCR.

# A Business and performance

## A.1 Business

The following table shows the performance over 2017 compared with 2016.

**Table 3 Objectives Generali Leven**

| | Total | |
|---|---|---|
| (in € 1,000) | 2017 | 2016 |
| Gross written premium | 96,023 | 103,816 |
| Operating expenses | 23,334 | 23,404 |
| Result | -62,213 | -13,295 |

### Introduction

For more than 145 years Generali Leven stands for stability, reliability and personal attention towards its customers in the Dutch market. Its strategic principles focus first and foremost on serving the interest and needs of the customers and in parallel satisfying employees as well as shareholders and working in accordance with supervisory requirements. A sustainable business model is the long-term outcome of all these activities. In the following chapter, these elements are explained further and business objectives, strategies and priorities for the planning period 2018-2020 of Generali Leven are described in more detail.

Generali Leven is executing an aligned overall strategy based on a) the specific needs and circumstances of the Dutch market like customer characteristics, competition and legislation and b) the shared vision, mission and values of the international Generali Group. The latter is due to the company structure of Generali Nederland which, as a holding of the Dutch insurance operation of Generali Leven, was part of Generali Group throughout all of 2017. This link was already established in 1933 and as of year-end 2017 Generali Group is the ultimate holder of 98.56% share capital of Generali Nederland. Generali Group is a major player in the global insurance industry. Over almost 200 years, it has built a multinational group that is present in more than 60 countries, with 420 companies and nearly 74,000 employees.

Before explaining in detail the vision, mission and values, it is useful to mention that the overall applied conviction of Generali Leven and the Generali Group lies in incorporating 'discipline, simplicity and focus' to its core business: putting clients right at the heart of the business with simpler, smarter solutions, making its distribution network more effective with a wider range of services, and becoming an even more agile, flexible and innovation-friendly company.

With this in mind, the following vision, mission and values build the core of Generali's strategy:

### Vision

The purpose is to actively protect and enhance people's lives
- Actively: Playing a proactive and leading role in improving people's lives through insurance;
- Protect: Dedicated to the heart of insurance - managing and mitigating risks of individuals and institutions;
- Enhance: Generali is also committed to creating value;
- People: Deeply caring about their clients' and their people's future and lives;
- Lives: Ultimately, Generali has an impact on the quality of people's lives: wealth, safety, advice and service are instrumental in improving people's chosen way of life for the long term.

### Mission

The mission is to be the first choice by delivering relevant and accessible insurance solutions
- First choice: Logical and natural action that acknowledges the best offer in the market based on clear advantages and benefits;
- Delivering: Ensuring achievement striving for the highest performance;
- Relevant: Anticipating or fulfilling a real life need or opportunity, tailored to local and personal needs and habits, perceived as valuable;

- Accessible: Simple, first of all, and easy to find, to understand and to use; always available, at a competitive value for money;
- Insurance solutions: Aiming to offer and tailor a bright combination of protection, advice and service.

## Values

*Deliver on the promise*
A long-term contract of mutual trust is tied with its people, clients and stakeholders; all of the work is about improving the lives of clients. Committing with discipline and integrity to bring this promise to life and making an impact within a long lasting relationship.

*Value our people*
Generali values their people, encourages diversity and invests in continuous learning and growth by creating a transparent, cohesive and accessible working environment. Developing people will ensure the company's long term future.

*Live the community*
Generali Leven is proud to belong to a global group with strong, sustainable and long lasting relationships in every market in which they operate. The markets are their homes.

*Be open*
Generali Leven is curious, approachable and with empowered people with open and diverse mind-sets who want to look at things from a different perspective.

## Strategy Generali Leven

Based on the vision, mission and values, Generali Leven established an overall strategy which is based on four pillars:

**Distinguished positioning**
Generali Leven's strategy focuses on the positioning 'Verzekerd van alle aandacht'. By being and acting as the personal insurer it claims its own and distinguished position in a competitive market. Both hard and soft factors are considered when achieving this positioning: Generali Leven utilises hard factors to organise and execute aligned with the positioning. Aspects like managing process design and creating a range of options in products and services enables customers to choose the products and services that best suit their personal needs. Soft factors are enhanced by Generali Leven to behave and interact in a personal way. Personification of service and personal attention given to customers are important examples of these soft factors contributing to the positioning of the personal insurer.

**Well-defined target groups**
Generali Leven focuses on specific target groups. This enables Generali Leven to reach attractive market segments and to adjust products and services to the specific needs of those groups:
- Retail market - top and middle segment;
- Commercial market - Self-employed persons and SMEs up to 50 FTE;
- Commercial market - Corporate Clients.

**Propositions and offers**
Generali Leven has specific offers and propositions for the described target groups:
- Retail market: Term Life;
- Self-employed persons and SME market: (Group) Term Life and Pension DC;
- Corporate Clients: Group Term Life and Pension DC.

**Multi-Channel distribution**
Generali Nederland uses four different distribution channels: Provincial (intermediaries, brokers, consultants), Direct, Co-Insurance and Underwriting Agents. Generali Leven uses the Direct channel (Term Life) and the Provincial channel ((Group) Term Life and Pension DC).
Multi-Channel is an important pillar of the strategy. It is favourable for both customers and Generali Nederland. Customers are enabled to choose their channel of preference. In addition Multi Access gives them the choice how to contact Generali Nederland. Multi-Channel creates a market reach for Generali Nederland that is both broad and varied because of the different characteristics of each channel. This stabilises Generali Nederland's results by diversifying the risks.

The strategy is focused on the core vision of actively protecting and enhancing people's lives. The combined business objectives focus on value creation for the customer and leadership in operating performance. This includes:

- A better connection with customers based on increased customer insights;
- A clear and recognisable positioning, both for customers and distribution partners;
- A better balance in distribution channels;
- Empowered employees which know how to contribute to the strategic goals;
- Using the benefit of being a smaller insurer;
- Solvent and profitable business models for both Generali Schade and Generali Leven; meeting targets, and reducing cost level;
- Working in accordance with regulators' guidelines, amongst others complying with Solvency II standards;
- Agility and efficiency.

## General information

This document describes the Solvency and Financial condition of Generali levensverzekering maatschappij N.V. (Generali Leven); a public limited liability company incorporated under the laws of the Netherlands, that has its registered office in Amsterdam and its principal place of business at Diemerhof 42, 1112 XN in Diemen.

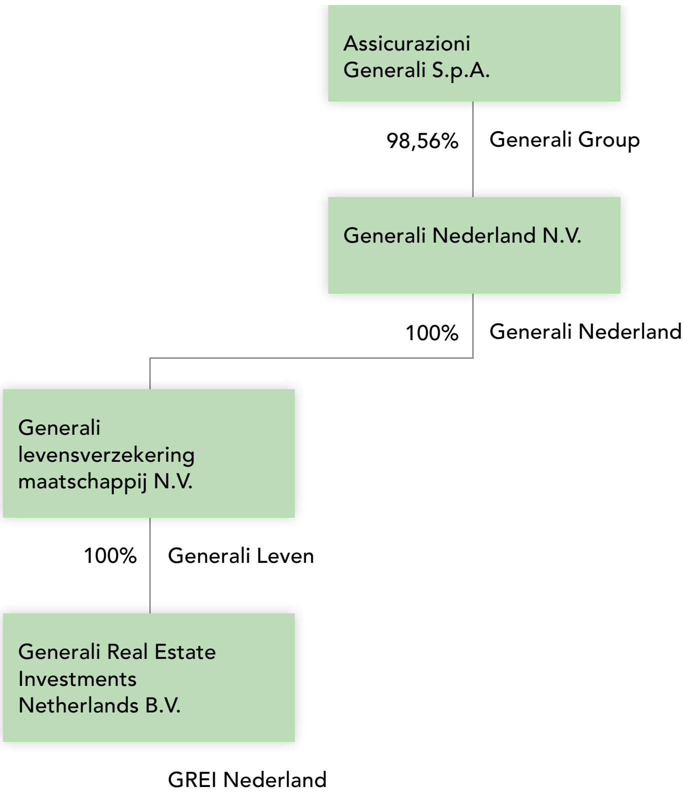
The supervising authority for Generali Leven is:
De Nederlandsche Bank N.V.
Toezicht Verzekeraars
Middelgrote verzekeraars
Address: Postbus 98, 1000 AB in Amsterdam

The external accountant of Generali Leven is:
Ernst & Young Accountants LLP
Address: Cross Towers, Antonio Vivaldistraat 150, 1083 HP in Amsterdam

## Generali Leven's subsidiaries

The Dutch Generali life insurance activities are managed by the legal entity Generali levensverzekering maatschappij N.V. Generali levensverzekering maatschappij N.V. is a 100% subsidiary of Generali Nederland N.V. The international insurance group Assicurazioni Generali S.p.A. (Generali Group) is the ultimate holder of 98.56% (year-end 2017) of the share capital of Generali Nederland N.V. At the end of 2017 Generali levensverzekering maatschappij N.V. holds a 100% subsidiary, Generali Real Estate Investments Netherlands B.V. Figure 3 gives a simplified overview of the group structure of Generali Leven in the Netherlands.

**Figure 2 A simplified group structure**




## Assicurazioni Generali S.p.A.

A public limited liability company incorporated under the laws of Italy, that has its registered office at Piazza Duca degli Abruzzi 2, Trieste 34132 (Italy), and is referred to in this document as Generali Group or Generali Group Head Office (GHO).

## Generali Nederland N.V.

A public limited liability company incorporated under the laws of the Netherlands, that has its registered office in Amsterdam and its principal place of business at Diemerhof 42, 1112 XN Diemen, and is referred to in this document as Generali Nederland. Generali Nederland acts as the Dutch holding company. The holding itself does not hold a license to engage in insurance activities.

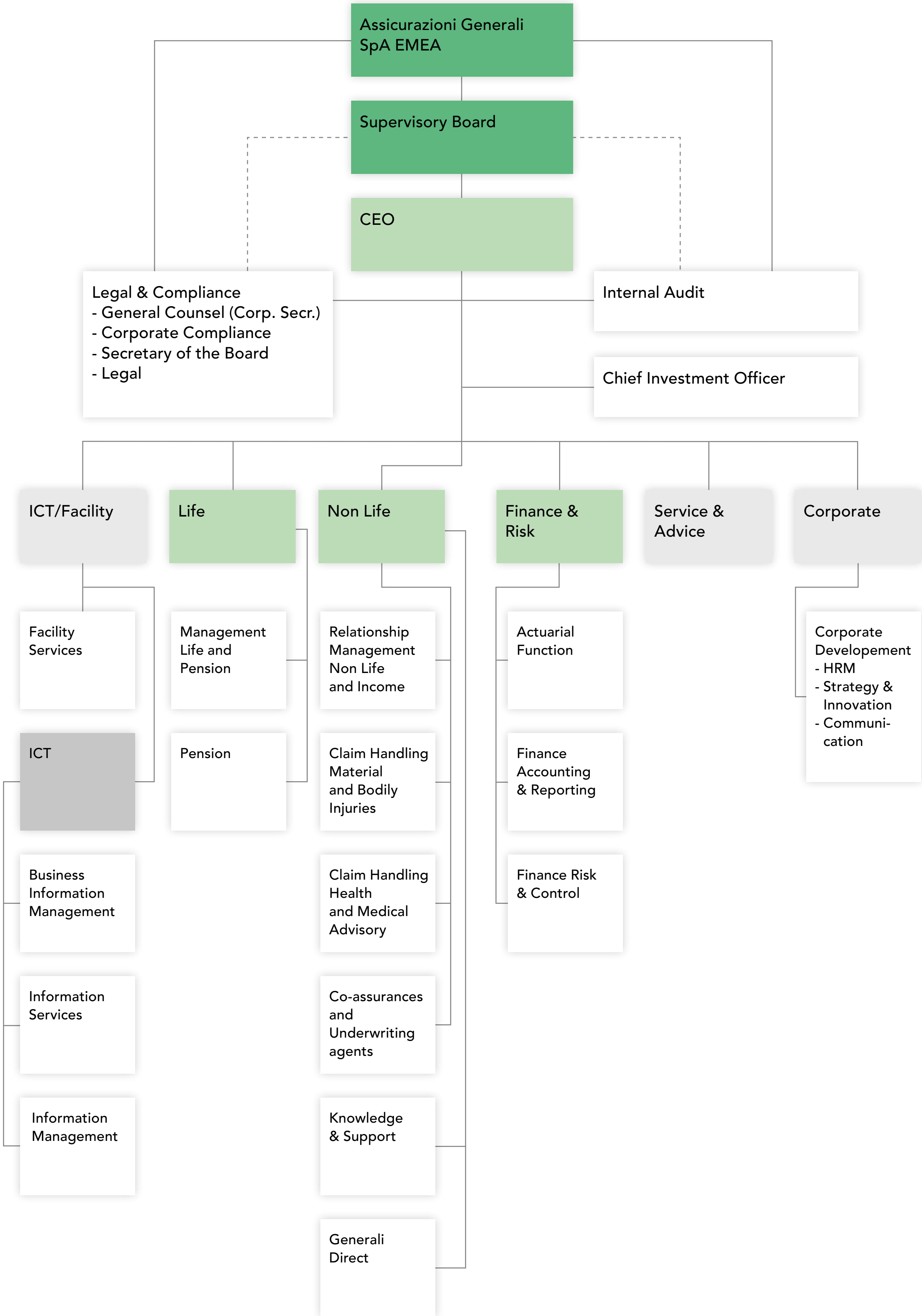
## Generali Real Estate Investments Netherlands B.V.

This is a private limited liability company incorporated under the laws of the Netherlands, that has its registered office in Amsterdam and its principal place of business at Diemerhof 42, 1112 XN Diemen.
Generali Real Estate Investments Netherlands B.V. (GREI NL) was set up on 18 July 2016. All Dutch investment activities of Generali Real Estate Investments (GREI) were transferred to the new entity GREI NL.

## Organisational structure

Figure 3 gives a simplified overview of the organisational structure of Generali in the Netherlands.

**Figure 3 Organisational structure**



Although Generali Leven is an independent legal entity, most of its key functions are organised by Generali Nederland. To secure independence, key functions like Internal audit, Risk Management, Actuarial function and Compliance function have a direct reporting line to the Supervisory Board and the respective group functions of the parent company Generali Group Head Office in Italy.

## Material lines of businesses and material geographical areas

Generali Leven sees its future in the domain of Pension Insurance and Term Life products, turning away from guarantees and tax-driven products. This commercial strategy, focused on the Dutch Life market, is translated in the table below. The first column shows the five Solvency II Lines of Business. In the second column it is mentioned whether the products included in the LOB are products 'open for existing and new customers' or existing products 'not open for new customers'.

**Table 4 Solvency II LOBs applicable to Generali Leven**

Lines of Business applicable to Generali Leven

| Solvency II Line of Business | New / Existing | Commercial Line of Business |
|---|---|---|
| Insurance with profit participations | Not open for new customers | Individual Traditional Pension |
| | | Individual Traditional Saving |
| | | Group Traditional Pension |
| | | Group Traditional Protection |
| | | Group Segregated Deposits |
| Index-Linked and Unit-Linked insurance | Open for existing and new customers | Individual Unit-Linked Pension DC |
| | Not open for new customers | Individual Unit-Linked Saving & Pension |
| Other Life insurance | Open for existing and new customers | Group Traditional Protection |
| | | Individual Traditional Protection |
| | Not open for new customers | Individual Traditional Pension |
| | | Individual Traditional Saving |
| | | Group Traditional Pension |
| | Mixed | Individual Traditional Annuity |
| Accepted Reinsurance | Not open for new customers | Group Traditional - Accepted reinsurance |

The material geographical area of Generali Leven is the Netherlands. There is only one exception: Generali Leven has an accepted reinsurance contract with Generali in Germany.

## Significant events in reporting period with material impact on the organisation

Due to the globalisation the Dutch organisation is impacted by various national and international developments. In this chapter the impact of these developments in 2017 for the business and organisational set up of Generali Leven is described, by using the PESTLE method (Politic, Economic, Social, Technical, Legal and Environmental).

## Political

After a record breaking formation process that took 209 days, a new four-party government was installed. Coalition agreement's key items are: a) skilled workers deserve room, support and appreciation; b) working will be worth it, c) an ambitious climate policy and d) self-consciously international operating. Influence and consequences for insurers are likely to be expected by the reforming of the pension system, labour market measures (sick leave payment), tax revision (mortgages, insurers' losses settlement) and safety measures (traffic, cyber risks).
Most impact for Life insurers generates the reforming of the pension system. The government is convinced that labour market's changes, rising life expectancy, the financial crisis and low interest rates have exposed vulnerabilities of the current pension system. That is why the government wishes to move, together with trade unions and employers' organisations (the 'social partners'), towards a modernised pension system which addresses the vulnerabilities in the current system while maintaining its strengths (compulsory participation, collective implementation, risk sharing and supportive tax rules). Using reports published by the Social and Economic Council (SER) in 2015 and 2016, the government think the following aspects are key in the approach of modernising the pension system:

- The uniform pension premium system will be abolished. A non-age-related premium will be mandatory for all contracts, and pension scheme members will accrue benefits in accordance with the premiums they have paid.
- People will continue to share risks. A pension will remain a lifelong payment; people will not face the risk of having no money left if they live longer than expected.

- The social partners will develop a new pension contract. The SER has already explored the options for a new pension contract involving personal pension capital. This will make it easy for a pension scheme member to see how much they have accrued and allow interest rate sensitivity to fall.
- The SER's reports describe the option of a collective buffer, formed from excess returns, to protect against unforeseen changes in life expectancy and shocks on the financial markets. A buffer of this kind will therefore limit intergenerational differences.

The government's plan is clear – in 2018 it will become clear whether political agreement can be reached in order to develop new laws enabling the execution of modernising the pension system in 2020[1].

Also international monetary politics impact Life insurers and Generali Leven materially. The ECB continued its policy which kept interest rates at an historically low level (see also 'Economic').

## Economic

In the Netherlands the generic economic view is positive. A solid confirmation of that view is made by the Statistics Netherlands' Business Cycle Tracer. This tracer is a tool used to monitor the economic situation and economic developments. It uses thirteen key macro-economic indicators, which - together - provide a coherent macro-economic picture of the state of the Dutch economy. Statistics Netherlands (CBS) reports that in 2017 all indicators (amongst others customer and producer confidence, exports, consumptions, investments and labour market) in the Tracer were performing above the level of their long-term trend . This is assumed to have a positive impact on the insurance industry and on Generali Leven: increased spending might lead to an increasing level of turnover.

In addition, the housing market has definitely recovered from its crisis. In November 2017, prices of owner-occupied houses (excluding new constructions) were on average 8.2 percent higher than in the same month last year. The price rise was the same as in October 2017, when the highest price increase in almost 16 years was recorded. Residential property prices have risen since June 2013, according to the price index of owner-occupied houses. Not only prices of houses are rising: in the fourth quarter in 2017 more than 66,000 houses have been sold which is a quarterly record[3]. The housing market's developments impact Generali Leven in a positive way because Term Life products are often sold in combination with mortgages.

The long-lasting historically low interest rates are by far the economic aspect with the highest impact for the Life insurers as well as for Generali Leven. A low interest rate environment necessitates increasing liabilities for insurers to meet the level of guarantees provided in the past to their customers. Unlike pension funds, Life insurers fully guarantee the obligations and liabilities. Only at the continuation, renewal or end of pension contracts insurers have the possibility to adjust premium levels. As a consequence insurers have fewer instruments for corrective measures to deal with the low interest rate.

Competition in Life insurer's market shows impactful developments. In recent years a number of financials (e.g. insurers, banks) established a Premium Pension Institution (PPI) to arrange standard Pension DC arrangements to increase efficient processing. Additionally, general pension funds (APFs) are expected to enter the pension market and obtain a significant market share[4]. These developments impact Life insurers materially. Especially regarding the fact that Life market is already under pressure: it lost about a third of its premium volume the last years, the five largest insurers grew to a combined market share of more than 83% (2012 – 2016) while the number of Life insurers is not significantly declining[5][6] .

## Social

The demographic trend shows a growing population in the Netherlands: in 2017 the population reached the level of 17.2 million inhabitants. Another trend is the increase of single households compared with couples or family households. Of the total increase of households in 2016 (about 55,000), almost 70% consisted of single households. In 2017 of all households 40% are single households . This trend does not have material impact on Generali and other insurers but it does urge to further optimise products and services offerings for single households.

---

1 Rijksoverheid: Regeerakkoord 2017 'Vertrouwen in de toekomst'

2 CBS: Nieuwsberichten 2017

3 Kadaster: nieuws 2017

4 AON: Pension DC Report 2016 – September 2016

5 Verbond van Verzekeraars: Verzekerd van cijfers – November 2016

6 KPMG: Overview of the Dutch insurance market in 2016 – December 2017

7 CBS: Nieuwsberichten 2017

People are getting older – the latest forecast of Royal Actuarial Association in 2016 confirms it again: the expectation is that women born in 2016 will reach the age of 93 years. For men born in 2016 the expectation is 90.1 years. This expectation has a direct impact on the (possible) liabilities the insurance entities have and the financial reserves the companies need to keep. The estimated impact on the technical reserve is an increase that varies from 0.2% to 0.7%, depending on applied interest rates and the ratio of men and women[8].

### Technological

A number of new technologies might significantly change the insurance industry. Artificial intelligence, wearable devices, robotics, block chain, big data and internet-of-things will contribute to a better connectivity, simplification and personalisation as well as radical cost reduction. However, in general a disruptive impact fails yet to occur in the Netherlands. Most initiatives detected in the Netherlands are in the Non-Life market. In the Life market technological opportunities are mostly used to adjust and improve processes.
However, technology does not only bring opportunities. Technological developments cause an accelerating rise of cyber risks. Due to increasing interconnectivity, globalisation and 'commercialisation' of cybercrime, cyber risks are not only increasing in frequency but also in impact. In the insurance industry increasing cyber risks combined with strict privacy legislation demands a very conscientious data management policy.

### Legal

In 2016 the Solvency II regulation became effective. Complying with the new Solvency II standards required intensive and elaborate implementation projects from insurers which took place the last couple of years. In 2017 insurers started publishing the Solvency and Financial Condition Report (SFCR) and reporting the Regular Supervisory Report (RSR) to De Nederlandsche Bank.

As of 1 January 2018, the standard retirement age in the Income Tax Act is amended from 67 to 68 years in order to align with the General Old Age Act (AOW). Consequently, almost all pension schemes should be amended. In 2017 all preparations were made by Generali Leven in order to adjust the pension schemes in 2018.

### Environmental

Environmental aspects such as climate change had no significant impact on Generali Leven or other life insurers in 2017 other than the urge to continue its corporate social responsibility policy.

## A.2. Underwriting Performance

The 2017 net result shows a decrease compared to 2016. This is mainly due to the impact of the derivatives, which are part of the investment result, showing a negative result of € 9.6 million in 2017 compared to a positive result of € 13.2 million in 2016 and to a write-down of the Deferred taxes with € 37 million.

**Table 5 Net result 2017 vs 2016**

| | Total | | Protection | | Unit-Linked | | Saving & Pension | |
|---|---|---|---|---|---|---|---|---|
| (in € 1,000) | Actual Q4 2017 | Actual Q4 2016 | Actual Q4 2017 | Actual Q4 2016 | Actual Q4 2017 | Actual Q4 2016 | Actual Q4 2017 | Actual Q4 2016 |
| Actuarial result | 23,730 | 35,065 | 7,390 | 17,169 | 6,097 | 1,390 | 10,243 | 16,506 |
| Costs | -23,905 | -26,844 | -6,811 | -7,028 | -10,876 | -12,189 | -6,218 | -7,627 |
| Excedent reinsurance | 2,936 | -3,676 | 3,010 | -1,716 | 52 | 740 | -126 | -2,700 |
| **Net Technical result** | **2,761** | **4,545** | **3,589** | **8,425** | **-4,727** | **-10,059** | **3,899** | **6,179** |
| | | | | | | | | |
| Investment result | -5,716 | 11,309 | | | | | | |
| LAT (including other reinsurance) | -18,486 | -13,448 | | | | | | |
| Other reinsurance (excl. LAT) | 3,027 | -5,414 | | | | | | |
| Other | -4,009 | 843 | | | | | | |
| Taxes | -39,790 | -11,132 | | | | | | |
| | | | | | | | | |
| **Net result - statutory** | **-62,213** | **-13,297** | | | | | | |

1 Koninklijk Actuarieel Genootschap: Levensverwachting blijft stijgen – 13 september 2016

- The actuarial result is lower than last year. The main underlying drivers are unfavourable mortality and disability results. In addition, following the Closed Book strategy and the impact of the competitive landscape, the cost loadings show a planned decrease. Exceeding reinsurance makes up for roughly half of the lower margin.
- The 2017 (normalised) costs are € 2.9 million lower than in 2016. The main difference is related to higher project costs in 2016 and lower personnel costs in 2017 due to the overall decrease in FTE.
- The liability adequacy test (LAT) performed at year-end 2017 resulted in a deficit. Unfortunately, the decreasing trend of interest rate together with the non-parallel shift of the swap curve and lower volatility adjustment caused the LAT deficit (net of shadow loss recognition) to increase.

As the Closed Book is in run-off, the volumes will continue to decrease each year. In view hereof the 2017 Gross Written Premium (GWP) is 8% lower than prior year and the cost loadings are 6% lower than last year. In line with the expectation mentioned in the annual statements of 2016, group contracts such as Pension DC and Protection show a positive premium development. This is mainly driven by new business, but also by lower than expected surrenders within Pension DC.

# A.3. Investment Performance

## Introduction

In this chapter Generali Leven describes the investment performance of the company during the reporting period and in comparison with the previous period. First the performance is linked to the investment strategy and second the actual performance is described.

## Investment strategy

Although Generali Leven is part of the Generali Group, the investment strategy is decided on by the local (Dutch) Executive Board. The strategy of Generali Leven is to take into account aspects like environmental protection and respect for human and employment rights. Generali Leven invests with the Principles for Responsible Investments (PRI), as published by the United Nations, in mind. Furthermore, Generali Leven does not invest in companies (and affiliates) that:

- produce weapons that violate fundamental humanitarian principles through their normal use (cluster bombs, antipersonnel landmines, nuclear arms, etc.);
- are involved in serious or systematic human rights violations;
- are involved in severe environmental damages;
- are implicated in cases of gross corruption;
- sell military equipment and weapons to countries or regimes that are registered on the UN-weapon embargo list as published by the Stockholm International Peace Research Institute (SIPRI).

Generali Leven has a social responsibility. This means that Generali Leven feels responsible for the consequences of its activities. This extends to the company’s investment activities. The company pursues a sustainable investment strategy that has a positive impact on the development of its stakeholders (customers, employees, suppliers), the environment, and the local economy.

## Investments

On 31 December 2017, Generali Leven had invested € 3,542 million (31 December 2016: € 3,611 million). These include € 716 million (31 December 2016: € 689 million) investments for which the policyholders bear the risk. This latter category includes investments for universal life insurance products and so-called ‘separate depot’ insurance products.

**Table 6 Investments in financial assets Generali Leven**

| | Investments | |
|---|---|---|
| Financial assets (in € 1,000) | 31 December 2017 | 31 December 2016 |
| Assets available for sale | 2,158,859 | 2,178,986 |
| Strategic participations | 151,619 | 169,360 |
| Investment property | 0 | 1,700 |
| **Subtotal** | **2,310,478** | **2,350,046** |
| | | |
| Loans and mortgages | 321,621 | 358,712 |
| Deposits with ceding insurers | 144,015 | 147,730 |
| Derivatives | 11,056 | 31,362 |
| Cash and cash equivalents | 19,588 | 33,670 |
| **Total investments at own risk** | **2,806,758** | **2,921,520** |
| | | |
| Investments for which policy holders bear the risk | 716,143 | 689,396 |
| | | |
| **Total investments** | **3,522,901** | **3,610,916** |

The decrease in the total value of investments compared with the previous year is to a large extent the result of the revaluation of bonds. The values of bonds and derivatives decrease when interest rates increase, as happened during most of 2017. Although a substantial amount of cash was invested in bonds, the increase of the bond portfolio was partly offset by the revaluation effects. Also part of the derivative portfolio has been sold and, just like past years, the value of loans and mortgages decreased due to repayments of mortgages loans. Generali Real Estate Investments, the property investment vehicle owned by Generali Leven, is classified as a strategic participation.

The next table provides a more detailed breakdown of these investments by asset class.

**Table 7 Investments by asset class Generali Leven**

| Investments | | Own | On behalf of policy holders | |
|---|---|---|---|---|
| Financial assets (in € 1,000) | 31 December 2017 | 31 December 2016 | 31 December 2017 | 31 December 2016 |
| Bonds | 2,120,350 | 1,969,478 | 299,176 | 308,467 |
| Equities | 152,346 | 170,070 | 227,507 | 216,285 |
| Investment funds | 35,354 | 206,500 | 148,949 | 130,909 |
| Property | 0 | 1,700 | 0 | 0 |
| Loans and mortgages | 321,621 | 358,712 | 0 | 0 |
| Deposits with ceding reinsurers | 144,015 | 147,730 | 0 | 0 |
| Derivatives | 11,056 | 31,362 | 0 | 0 |
| Cash and cash equivalents | 19,588 | 33,670 | 40,023 | 31,601 |
| Other | 2,428 | 2,298 | 488 | 2,134 |
| | | | | |
| **Total** | **2,806,758** | **2,921,520** | **716,143** | **689,396** |

## Investment income

**Table 8 Direct investment income**

| Income (in € 1,000) | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Coupons** | **61,151** | **63,239** |

Generali Leven's income from coupons, excluding income on investments on behalf of policyholders, was € 61 million for 2017 (2016: € 63 million). The ensuing table gives a breakdown of this number.

## Table 9 Coupons

| Income (in € 1,000) | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Bonds | 45,403 | 43,716 |
| Mortgage loans | 8,959 | 11,833 |
| Financing agreements with mortgage lenders | 4,490 | 4,579 |
| Other loans | 301 | 329 |
| Cash, deposits and cash equivalents | 0 | 107 |
| **Coupons received** | **59,153** | **60,564** |
| | | |
| Net payments received from interest rate swaps | 1,998 | 2,675 |
| **Total coupons and other interest income** | **61,151** | **63,239** |

Although bond yields continued to decrease during most of 2017, income from bond coupons increased by € 1.7 million from the preceding year. This was due to a net investment in bonds of € 194.2 million (2016: € 263.6 million). Coupon receipts on mortgage loans decreased by € 2.9 million (2016: € 4.6 million) as a result of the decline in the mortgage loan portfolio. Generali Leven ceased offering mortgage loans in 2009.

There was a decrease in net payments received from interest rate swaps on the preceding year. A receiver swap is an agreement between two parties in which one party pays a semi-annual variable interest rate in exchange for receiving an annual fixed interest rate on the same notional amount. When the semi-annual interest rate increases, the net income from a receiver swap decreases. Also part of the derivative portfolio has been sold.

The investments in fixed income instruments and other financial instruments were also impacted by the fluctuations in the market value of the investments. These fluctuations (both gains and losses) resulted in revaluation of the assets. The revaluations are recognised on the Solvency II balance sheet in the movement of the own funds. The next table presents the revaluations of the financial investments during the reporting year.

## Table 10 Gains and losses Generali Leven

| Gains and losses recognised directly in equity (in € 1,000) | | 31 December 2017 | | 31 December 2016 | | Delta | | |
|---|---|---|---|---|---|---|---|---|
| | | Gains | Losses | Gains | Losses | Gains | Losses | Total |
| 1 | Governments bonds | 202,678 | 0 | 242,446 | 0 | -39,768 | 0 | -39,768 |
| 2 | Corporate bonds | 36,232 | 0 | 38,577 | 0 | -2,345 | 0 | -2,345 |
| 3 | Equity | 19,475 | 230 | 19,476 | 0 | -1 | 230 | -231 |
| 4 | Collective investment undertaking | 0 | 75 | 0 | 0 | 0 | 75 | -75 |
| 5 | Structured notes | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Collateralised securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 | Cash and deposits | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8 | Mortgages and loans | 21,164 | 0 | 28,422 | 0 | -7,258 | 0 | -7,258 |
| 9 | Property | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| - | Other investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| A | Futures | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| B | Call options | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| C | Put options | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| D | Swaps | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| E | Forwards | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| F | Credit derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | |
| **Total gains and losses recognised** | | **279,549** | **305** | **328,921** | **0** | **-49,372** | **305** | **-49,677** |

## A.4. Performance of Other Activities

Generali Leven described the performance of the strategic activities of the company: Underwriting activities and Investment activities. No other activities are performed by Generali Leven.

## A.5. Any other information

Generali Leven does not have other information available related to the business and performance of the activities other than already described in paragraphs A.1 to A.4 of this chapter.

# B System of governance

Starting 5 February 2018 the Governance Structure of a.s.r. is also applicable for Generali Leven.

In this chapter Generali Leven describes the existing corporate governance structure (31 December 2017) and the way risk management is incorporated in the organisation. Next to this a short description of the main (Solvency II related) key functions are included in this chapter.

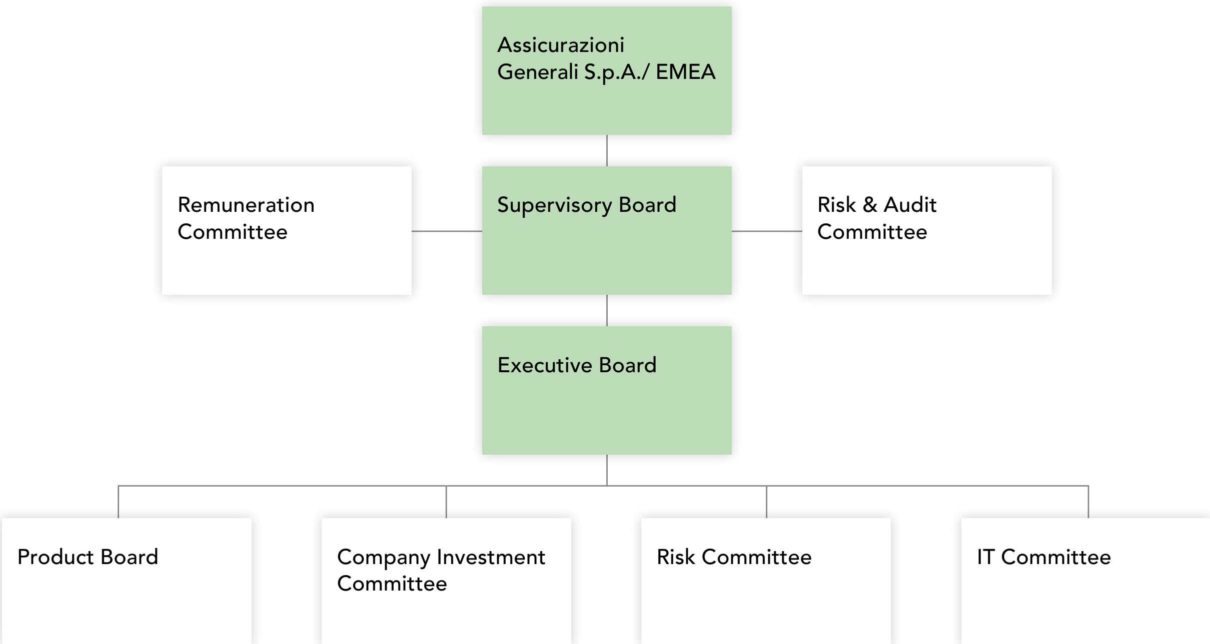
## B.1 General information on the system of governance

At Generali Leven the Corporate governance aims at protecting the stakeholders of the company, the most important of which are the clients, intermediaries, shareholders, the employees (including Executive and Supervisory Boards) and the external regulator.

The corporate governance structure of Generali Leven has been set up in line with the Dutch Corporate Governance Code[9]. This code aims (amongst others) to mitigate conflicts of interest and moral hazard. A two tier board structure is used by Generali Leven to clearly demarcate roles and responsibilities of the Executive Board and the Supervisory Board.

Both the Supervisory Board and the Executive Board are supported by various committees. These committees form part of the corporate governance framework of Generali Leven. The figure below shows the simplified corporate governance structure of Generali Nederland that applies to Generali Leven as well.

**Figure 4 Simplified corporate governance structure**




Below a short description is given of the main roles and responsibilities of the various boards and committees.

### Supervisory Board

The Supervisory Board of Generali Nederland consists of four members of which two were nominated by Generali Group, and two (including the chairman) who are independent of the Generali group. The general meeting decides on the appointment of the supervisory directors. The Supervisory Board of Generali Nederland acts on

9 The Dutch governance code can be found on http://www.mccg.nl/

behalf of Generali Schade and Generali Leven as these companies have received a dispensation from DNB from the requirement to have their own Supervisory Board. The Supervisory Board meets at least four times a year.

### Risk & Audit Committee
The Risk & Audit Committee is a committee of the Supervisory Board, responsible for financial and risk oversight, advising and proposing on decisions to be taken by the Supervisory Board. In line with Dutch legislation, the Risk & Audit Committee is especially involved in issues with respect to compliance, risk management, internal controls, financial reporting, internal audit, external auditors and actuarial topics. The risk and audit committee meets at least four times a year.

### Remuneration Committee
The Remuneration Committee is a committee of the Supervisory Board. It continually monitors the compliance of the remuneration policy with the basic restrained remuneration principles, during its establishment, application and modification. The Supervisory Board also applies these principles in situations in which Generali wishes to issue a variable payment that departs from standard Restrained Remuneration policy.

### Executive Board
Each legal entity has a Management Board comprised of the statutory directors of the company. The Executive Board of Generali Nederland comprises the directors of Generali Nederland NV and its insurance subsidiaries. The Executive Board is responsible for the operations of the group of companies operating in the Netherlands. The ultimate responsibility in respect of each entity remains with the statutory directors.
With respect to corporate governance, the statutory directors are responsible for:

- Defining a corporate strategy aimed at fulfilling the mission of the company;
- Developing an effective corporate governance system;
- Implementing an effective risk management system.

The Executive Board generally meets every week.

#### Risk Committee of the Executive Board
Generali Nederland's Risk Committee convenes every six weeks to discuss compliance, risk management, internal audit, investment and actuarial topics. The Risk Committee consists of Generali Nederland's Executive Board, its General Counsel, its Corporate Compliance Officer, and the heads of the internal audit, risk and actuarial functions.

### Product Board
The Generali Leven Product Board discusses proposed changes to existing products and proposals for the introduction of new products. It consists of the director Pension and Life, the heads of the relevant departments, the technical product manager, the business compliance officer life, a representative of the actuarial function, the business controller life and a representative of the risk function. The Life Product Board assesses the suitability, pricing and profitability of the proposals as well as compliance with legislation, regulations and internal guidelines.

### Company Investment Committee
The Company Investment Committee is an advisory body to the Executive Board. It consists of the CEO, the CFO, the local and EMEA CIO and the Risk Management function. The final investment decisions are taken by the Executive Board. The CIC meets at least four times a year.

### IT Committee
The IT Committee is a periodic board meeting where the Business and Information Plan and change portfolio are discussed. The IT Committee is composed of the members of the Executive Board and the Manager Business Information Management. The IT Director is chairman of this meeting. The Manager Business Information Management reports on the progress and issues on realisation of the Business and Information Plan.

## Three lines of defence approach
Next to the governance structure related the roles and committees of the decision making functions, the governance structure of Generali Leven is organised by having a three lines of defence structure. In this set up the business functions, Compliance and Risk Management functions, the actuarial function and the Internal Audit function have their own responsibility in managing the processes and enhancing the internal control system of the company. This three lines of defence structure is described in detail in paragraph B.3 (Risk Management).

## Key functions

Based on the internal governance structure and the Solvency II requirements, the following key functions are defined:

- Head of Internal Audit;
- Manager Finance Risk & Control;
- Corporate Compliance Officer;
- Actuarial Function.

The next table gives an overview of the main responsibilities per key function and per executive officer:

**Table 11 Roles and responsibilities key functions and per executive officer**

| Key function | Main responsibility |
|---|---|
| Chief Executive Officer (CEO) | The CEO has the final responsibility for setting and executing the strategic goals of Generali. These goals have to be in line with the applicable laws and regulations in place in order to guarantee quality, continuity and profitability of the company. |
| Chief Financial Officer (CFO) | The CFO has a shared responsibility in setting and realising the strategic goals of Generali, with a focus on financial management including risk & control. The CFO ensures the alignment of these areas of interest with the company strategy and the applicable laws and regulations in order to guarantee the continuity of the company as well as meeting the company targets. |
| Chief Investment Officer (CIO) | The CIO coordinates and monitors the Investment Management strategy and activities, supervises the implementation of investment related policies and guidelines, develops Strategic Asset Allocation proposals to be submitted to the CEO and to the Risk Committee for the ultimate approval and coordinates the activities of the Company Investment Committee. |
| Director Pension and Life | The director has a shared responsibility for the design and implementation of the strategic goals of Generali with a focus on life and pension. |
| Head of Internal Audit | The head of internal audit develops the audit plan and ensures the execution of this plan by performing operational and IT audits. The head of internal audit reports to the Supervisory Board and Generali Group Audit. |
| Manager Finance Risk & Control | The manager Finance Risk and Control is responsible for setting the risk profile of Generali and to report on the financial and operational risks the company is exposed to. |
| Corporate Compliance Officer | The corporate compliance officer is responsible for the annual planning with regard to the compliance activities and performs assessments and impact analyses to ensure Generali Leven complies with internal and external regulations and requirements. |
| Actuarial function | The Actuarial Function’s main responsibility is to coordinate, monitor and validate the calculation of the technical provisions included in the Solvency II balance sheet. Furthermore the local Actuarial Function expresses an opinion on the underwriting and reinsurance arrangements of Generali Leven. |

More detailed descriptions of the risk management function, internal audit, legal and compliance and actuarial function are included in separate sections of this chapter.

## Remuneration policy and practices

Based on the statutory regulations of institutions like DNB, Generali has established basic principles for restrained remuneration policy.

The company’s Executive Board has adopted and implemented its own remuneration policy (approved by the Supervisory Board) which is in line with the company’s objectives, and corresponds with the socially acceptable standards for remuneration. The Supervisory Board continually monitors the compliance of the remuneration policy with the basic restrained remuneration principles, during its establishment, application and modification. The Supervisory Board also applies these principles in situations in which Generali wishes to issue a variable payment that departs from standard Restrained Remuneration policy. In its internal supervisory activities, the Supervisory Board takes the long-term interests of all stakeholders into consideration.

### Remuneration policy objectives

The Restrained Remuneration policy at Generali aims to establish a clear and simple remuneration structure that caters for the scope and set-up of Generali, as well as the nature, complexity and scope of its activities.

The remuneration policy helps to promote the medium and long-term interests of the company without encouraging board or staff members to act in their own interests or to take risks incommensurate with the established strategy and risk profile. Nor does the remuneration policy include any incentives that are at odds with Generali's obligation to act in the interests of its customers and other stakeholders, or that are in conflict with Generali's other duty of care obligations. The remuneration policy is in agreement with the principles of effective risk management.
The level and structure of the remuneration itself allow for the recruitment and retention of qualified and expert staff. In setting overall emoluments, the effect on pay ratios throughout the company is taken into consideration.

### The scope of the Restrained Remuneration policy

The Restrained Remuneration policy covers all employees of Generali Nederland. As of 2012, variable remuneration is no longer part of the remuneration packages of these employees.
A separate policy has been drawn up for Executive Board members. Only the remuneration policy for Executive Board members includes a variable component, as dictated by the 'Bonus Scheme' and 'Long-term Incentive Plan' Generali Group. Of course, the variable remuneration policy applicable to the Executive Board must at all times be in agreement with local policy, to the extent that this is based on local laws and legislation.

### Variable remuneration applicable to the Executive Board

Payments of variable remuneration are subject to a clawback if it subsequently transpires that the positive result on which it was based is demonstrably attributable to improper conduct on the part of the staff member concerned. Variable remuneration is paid out partly in cash and partly in financial instruments which change in value in line with the shares of the company. The policy also states that variable remuneration is to be paid in stages. Fifty per cent of variable remuneration is paid upon allocation. The remaining 50% is paid pro rata across a period of three years, assuming a three-year business cycle. Any financial instruments granted may not be redeemed for a period of one year after issue (i.e., a 'lock-up' applies). The three-year business cycle is consistent with the company's strategic plan, and as such is also in line with the Long Term Incentive Plan (LTIP). The allocation and payment of variable remuneration is always subject to assessment or reassessment of the extent to which the applicable conditions have been met. To this end, the matter of assessments and reassessments of the allocation and payment of variable remuneration will be raised annually by the Supervisory Board and the Remuneration Committee. Special conditions apply to the payment of variable remuneration upon termination of employment. Only when the termination is due to death or occupational disability will the variable remuneration be paid directly and in full, without any penalties. In cases of retirement or redundancy, the postponed variable remuneration will remain intact and be determined and paid upon expiry of the phased payment period, with due observation of the retention period (the lock-up) and with the provisions related to reassessment remaining in full force. In cases of voluntary resignation or dismissal for urgent cause, all postponed variable remuneration will be forfeited without the right to compensation. In principle, this will also apply to dismissal by agreement. However, following a recommendation by the Remuneration Committee, the Supervisory Board may decide to honour instances of variable remuneration at its discretion, either wholly or in part. In such cases, retention periods will remain in force, as will any provisions related to reassessment. Variable payments may not exceed 20% of the annual (fixed) salary.

### Incidental limited variable remuneration for outstanding performance or effort

A limited form of variable remuneration will remain available for other, non-board staff members of Generali Nederland on a strictly incidental basis, in cases of outstanding performance or effort that are not reflected in any periodic increase. 'Outstanding' refers to a level of performance that is a part of neither the job description nor the normal departmental activities. In addition to exceptional extreme effort, this may also include one-off ideas or activities that have a substantial positive impact on the company. As soon as there is cause, it will be determined whether the relevant staff are eligible for any such additional remuneration, which is therefore not an individual or acquired right.

### Supplementary pensions

The general pension regulation is applicable for all staff members, including the board of Generali Nederland. There is not supplementary pension plan in place. A compensation for the pension gap (in respect of salaries in excess of € 103,317) is agreed for the specific target group. This compensation is only meant to apply with the agreed individual labour conditions with regard to pension. The agreed pension value was stated in the individual labour agreement.

## Material transactions during reporting period

Generali Nederland employs all the staff working for Generali Leven, including senior management. It provides premises, facility services including IT and HRM services. Generali Nederland allocates to Generali Leven a portion of the expenses it incurs. Employees and management of Generali Nederland are entitled to a staff discount on the product range offered by Generali Leven.

# B.2. Fit and proper requirements

When selecting candidates for the key functions listed in the previous chapter, consideration is given to professional qualifications and experience, next to the skills required to adequately assess and report risks and to communicate with decision makers, and whether the individual can be considered fit and proper in terms of an independent professional judgment. By means of an external assessment Generali verifies these qualifications and personal traits. The Generali Group governance requirements dictate that such appointments are also subject to approval from either regional or head office functions. In addition Generali has a formal screening process in place in order to judge the reliability of the individual candidate. If so required (by national or international regulations) second line key functions are subject to a screening process by an external party and or an integrity screening assessment is performed by the Dutch supervisory authority (DNB).

The profile of the key functions include at least the following characteristics:
- University degree;
- Knowledge of the Generali organisation and or the Dutch insurance market;
- Knowledge of the products Generali Nederland nv offers and or the specific area of interest;
- Very broad knowledge of relevant laws and regulation, including Solvency II.

When an employee enters the service of the company a pre-employment screening takes place. Based on the integrity level of the function, a minimum degree of screening takes place. In case a board member is recruited, the external regulator (DNB) process of screening is applicable.

For existing employees entering a key function due to an internal job change, an integrity check will be performed and if relevant the DNB screening will take place. Every five years all employees are subject to an in-employment check, based on a self-declaration on conduct and a certificate of conduct.

The 'second-tier senior officers integrity screening'[10] is executed for the managers that are in the scope of this regulation. This screening process is also in place for temporary staff.

To keep the necessary skills up to date, every employee has a personal development plan in which all necessary actions and trainings are scheduled. Next to the mandatory trainings to keep diplomas valid, trainings on specific skills and competencies are included in the personal development plan. Additionally the permanent education program is in place for employees, board members, key function holders as well as for members of the Supervisory Board. Next to the above Generali organises and or purchases various internal and external training programmes. Generali has two trainers employed who have a strong focus on trainings on skills and competencies.

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

## Risk management system

Risk management is an integral part of our daily business activities. Generali applies an integrated approach to manage risks, ensuring that our strategic objectives (The personal insurer, customer attention, financial solidity and efficiency of processes) are realised. This integrated approach ensures that value will be created by identifying the right balance between risk and return, while ensuring that obligations towards our stakeholders are met.
Risk management supports Generali in the identification, measurement and management of risks and monitors whether adequate and immediate actions are taken in the event of changes in our risk profile.

10 This part of the 'Openboek Toezicht' of the Dutch Central Bank: Both the bank or insurer and DNB assess the integrity of second-tier senior officers. The institution will first investigate the integrity of managers that might influence their risk profile, and will subsequently send the outcomes of its own integrity assessment and a completed integrity screening form to DNB. Generali Leven will then start up our supplementary integrity screening.

Generali Leven aims to have a risk management system in line with (local) laws and legislation, Solvency II requirements and Generali Group policies. The risk management system is defined as a set of strategies, processes and procedures aimed at identifying, measuring, managing, reporting and monitoring, on a continuous basis, the risks to which Generali is exposed. There are many definitions of 'risk'. Generali Leven defines risk as 'the possibility of a loss of own funds resulting from an adverse event'. The risk management process (as shown in the picture below) allows the ongoing identification, evaluation and management of the risks, taking into account the changes in the nature and size of business, and in the market environment.

**Figure 5 Risk management process**


The five steps of the Risk Management Process are:

- *Risk Identification*
  In this step the risks to which the company is exposed to (taking into consideration the Generali Leven specificities) are identified, classified and evaluated.
- *Risk Measurement*
  In the second step the identified risks are classified, prioritised, quantified (Level of Concern) and potential/ actual events are evaluated and collected.
- *Risk Response*
  In the risk response step the Risk Owners, with help/ advice of the second line of defence identifies and evaluates possible responses to risks, which include avoiding, accepting, reducing, and sharing risks. Than the Risk Owner with his management selects a set of actions to align risks with the entity's risk tolerances and risk appetite.
- *Risk Reporting*
  Periodical report to Executive or Supervisory Board, the Senior Management and the Risk Committee concerning the status and further evolution of the operational risk, mitigation actions, the status of the risk profile and the level of compliance to laws and regulations as well as Group Risk Management Policies and Guidelines and on the Control system adequacy.
- *Risk Monitoring*
  Monitoring of evolution of the risk profile, monitoring the progress of status of the mitigation/ Management actions as well as monitoring of compliance with the principles stated by laws and regulations and Group Policies and Guidelines, as well as monitoring the Control system adequacy.

Generali Leven uses the enterprise risk management framework as published by the Committee of Sponsoring Organisations (COSO) of the Treadway Commission as the basis to manage the risk management process.

The risk management approach is divided in risk assessments at operational, tactical and strategic level.

Operational level risk assessments are performed at department's level in which the processes are assessed to identify the most important operational risks and to assess the implemented controls for mitigating the risks. This is the basis for the Management in Control framework and is part of the company wide internal risk & control framework. By 'department sample testing' the operating effectiveness of the controls is determined. If required, plans are designed to further increase the effectiveness of operational processes. ORM department periodically reviews the quality/ findings of the sample test reports of the departments.

Key risks threatening the achievement of the organisation's/business line's (strategic) objectives are identified in the tactical level risk self-assessment where the risk response will be decided on. Risk responses consist of: mitigating, accepting, sharing or avoiding. Mitigating actions are defined such that they can be implemented within a one year timeframe, depending on the impact of the risk. The tactical risk report and the risk response actions are authorised by management of the departments of the business lines and the Management Board.

These two types of assessments provide input for the Own Risk Solvency Assessment (ORSA) at strategic level.

## Risk Management organisation

The risk management function supports the Executive Board and senior management in granting the effective implementation of the risk management system, as required by law and internal regulation. Within Generali Leven the risk management function consists of: Financial Risk Management (FRM) and Operational Risk Management (ORM). The Risk Management function supports the Executive Board and senior management in the definition of risk management strategies and provides tools for risk identification, monitoring, management and measurement. Risk Management also provides, through an adequate reporting system, the elements for assessing risk exposures and tightness of the end-to-end risk management system. The Risk Management function at all levels has a clearly defined mandate that establishes its role within the overall structure in light of the Internal Control and Risk Management system, where RM function is identified as a second line of defence in the three lines of defence system. The risk management function reports every six weeks to the risk committee of the Executive Board and quarterly to the Risk & Audit committee. Additionally, the risk management function is responsible to cascade and coordinate the roll-out of:

- Risk strategy, appetite and risk tolerances;
- Group Methodologies, policies and risk-related provisions described in the policies;
- Escalate to Group Risk Management and the Executive Board in case of breaches.

The internal risk management and control system within Generali Leven is founded on the establishment of the three lines of defence model (see figure 6).

1. The operational (-and some staff) departments (Risk Owners) represent the first line of defence and they have the ultimate responsibility for managing risks to their area of expertise;
2. The Risk Management function, Corporate Compliance function and the Actuarial function represent the second line of defence;
3. Internal Audit represents the third line of defence.

The second and third line of defence functions are control functions and are considered independent key functions in the system of governance. The independency follows from the intrinsic set up of the functions and their place in the organisation:

- The functions have the responsibility for taking decisions necessary for the proper performance of their duties without interference from others;
- The functions report their results and any concerns and suggestions to the Executive Board and / or Supervisory Board and Generali Group without restrictions.

**Figure 6 Three lines of defence model**

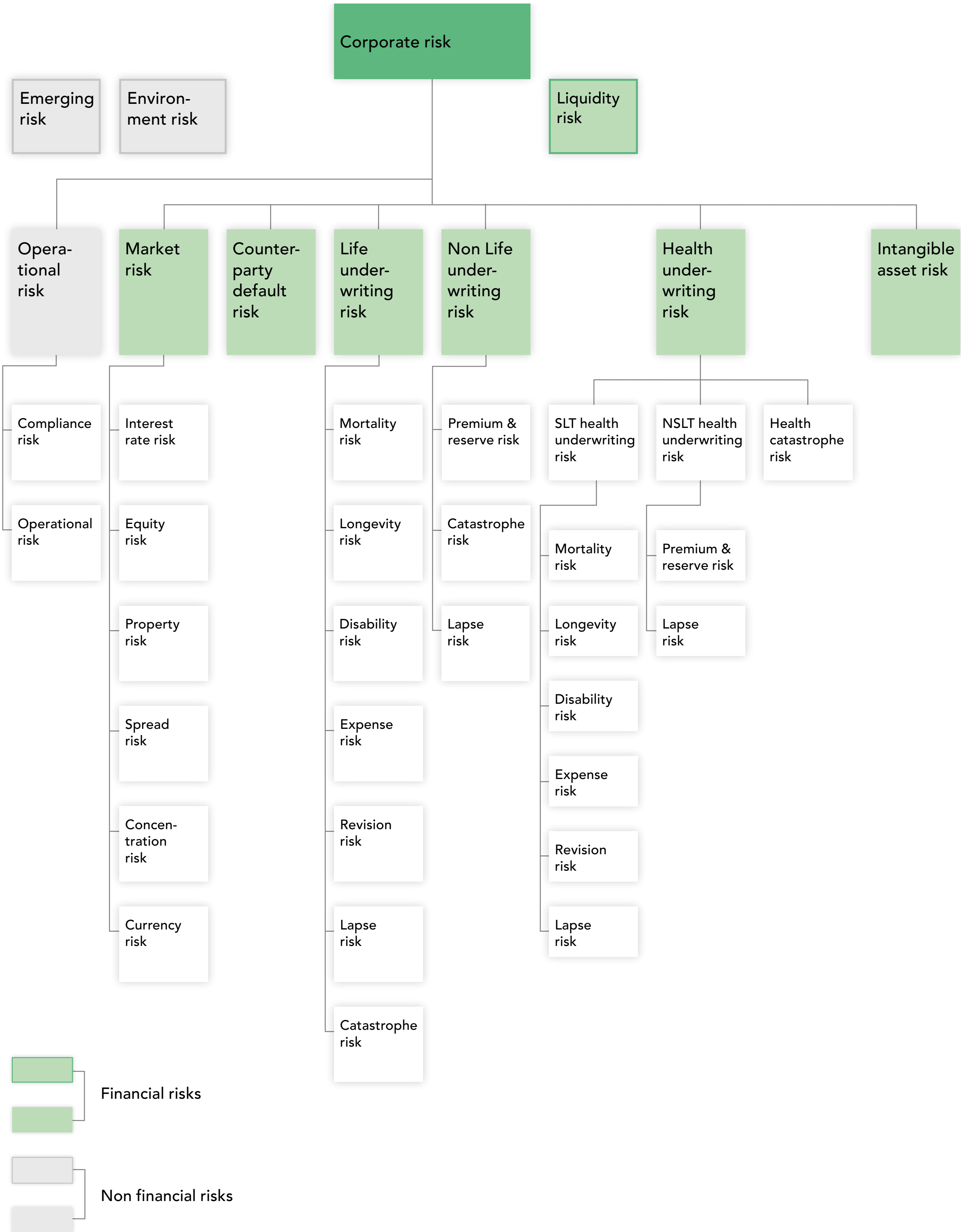
| Three lines of defence | | |
|---|---|---|
| **First line of defence**<br>**Management** | **Second line of defence**<br>**Supporting functions** | **Third line of defence**<br>**Internal Audit function** |
| • Line Management *('primarily responsible')*<br>• Responsible for achieving goals<br>• Gives In Control Statement | • 'Reinforcements' for line management<br>*Combination of support / countervailing power / adviser*<br>• Knowledge & expertise | • Independent Research department / Testing - Checking *('overall view')*<br>• Determine whether the organisation is 'in control' and provide feedback |
| Business Lines/units<br>Supporting departments | Risk (ORM + Financial)<br>Compliance<br>Actuarial Function | Internal Audit<br>External Audit |
| Responsible for good RM | Responsible for the RM infrastructure | Independent research |

The figure gives the main responsibilities of the risk related functions per line of defence. The external auditor is included in the third line of defence.

## Risk Management scope

The next figure presents the risk tree. It identifies the risks to which the company is exposed. It shows the hierarchical structure of the Solvency II Standard Formula model. The model recognises five primary risk categories: operational, market, counterparty, insurance underwriting and intangible asset risk. Generali Leven has added liquidity risk, emerging risk, and environment risk that are not quantified by the Standard Formula model but which are impacting the risk structure of the company. These 'non Standard Formula' risks are described in paragraphs C.4 and C.6.

**Figure 7 Risk tree Solvency II**




To manage the risks that are covered by the Standard Formula, Generali Leven applies the periodic Generali Group Risk Assessment and the Systematic Integrity Risk Analysis (SIRA) on tactical level as mentioned in paragraph Risk management system.

The Generali Group Risk Assessment is a joint cooperation assessment of corporate compliance function together with the risk management function (ORM) and the risk owner. The aim of the assessment is twofold:

- To identify and analyse the operational and compliance risks;
- To assess the effectiveness of control measures.

SIRA aims to proactively and objectively identify, mitigate and prevent risks performed/ executed by Corporate Compliance.

Periodically the operational units critically investigate their processes to identify the risks to which they are exposed, and whether the procedures /measure and controls in place are adequate to mitigate these risks. The output of the risk analysis is used for different purposes:

- It is a control analysis for the management. The organisation is put in action to take appropriate control measures;
- It is the basis for the gap analysis and annual plan prepared by the second and third line control functions.

In chapter C Risk Profile, Generali Leven describes the main risk that have emerged in 2017.

The results of the risk assessments are included in the Risk and Compliance reports. These reports contain information about the operational risks identified and allows management to become aware and discuss the operational risks, so that timely decisions can be taken.

## Own risk and Solvency assessment

In accordance with the Solvency II requirements[11] Generali performed an own risk and solvency assessment (ORSA) in 2017.

The objectives of the assessment were:

- To assess the risk profile the entity faces or could face in the short and/or medium term, within the timeframe determined by its business planning regardless of whether the risks are covered by the Solvency Capital Requirement (SCR) or not;
- To assess the qualitative significance of any deviation between the undertaking specific risk profile and the underlying assumptions within the SCR calculation according to the Standard Formula;
- To assess overall solvency needs, in compliance with regulatory capital requirements and technical provisions at any time, taking into account the business plan and the related time horizon in a forward looking perspective (i.e. 3 years);
- To provide the Executive Board and Supervisory Board with assessment results in order to enable them:
  - To maintain an effective risk management system tailored to the risk profile of Generali and its decision making processes (such as: Planning and Capital Management, Investment Management, Underwriting and Reinsurance management);
  - To enable the integration of the risk strategy into the operating business and into the decision making process.
- To enhance a common risk culture fully embedded within the Generali system of governance;
- To provide additional assessments (non-regular ORSA) in the event of a major change to the risk profile and to the system of governance, which can be either predefined (e.g. a major acquisition or an equity market shock) or subject to management judgment (e.g. the simultaneous occurrence of several independent risks, resulting in a large aggregate loss);
- To produce the ORSA Report highlighting the main results of the performed assessments.

## ORSA process

The ORSA process is an (at least) annual process and relies on the contribution of the existing strategy, risk and solvency management processes to ensure consistency between the assumptions underlying the ORSA and the strategy and expected management actions.

The financial and non-financial risks that may threaten the achievement of strategic objectives are identified. An assessment for both the current and expected solvency position is made to determine the level of risk involved and if this is within the risk appetite of Generali. This is a continuous process throughout the year. The quantity and quality of available own funds is assessed over the whole of the planning period.

### Frequency and triggers

Generali performs an ORSA at least once per year. The strategic planning process is used in the ORSA and vice versa, the ORSA process supports the Strategic Planning process, and contributes to both the definition of the strategic targets for the following three years and the Solvency II reporting needs.

11 Article 45 of Directive 2009/138/CE and the Final report on Public Consultation No 14/017 on Guidelines on ORSA,

In the event of significant changes in the risk profile, Generali performs a so-called 'triggered' ORSA (non-regular ORSA). This change can be the consequence of for example:
- Internal decisions: e.g. major acquisition or divestiture, market entry, shift in investment, pricing or reserving policies, change in the funding structure, change in the system of governance;
- External factors: e.g. financial or real estate crisis, accumulation of catastrophes exceeding the reinsurance protections, failure of a systemic institution.

If a 'trigger' event occurs, further analysis is conducted. If there is a significant change in the risk profile of Generali, a 'triggered', full or partial ORSA is performed to reflect these altered conditions.

## Governance

The basis of the ORSA are the requirements set by EIOPA, which are translated by GHO in the Group Risk Management Policy. Generali Leven translated this policy to incorporate the local organisation of the company and to include the additional requirements set by DNB. The governance around the ORSA is the same as described in paragraph B1 (overall governance structure) and paragraph B3 Risk Management System. The next table provides insight in the responsibilities of the various contributors to the ORSA and more specific on the difference in roles the Executive Board and Supervisory Board have in the ORSA process.

**Table 12 ORSA process main roles and responsibilities**

| Phase | Objective | Ownership | Contributors |
|---|---|---|---|
| ORSA policy approval | • Approve the risk management policy in which the ORSA policy is included.<br>• Active participation in the ORSA proces | Executive Board | CFO<br>Risk Management<br>Compliance<br>Finance |
| Process design / implementation | • Ensure that the ORSA is designed in compliance with:<br>- EIOPA guidelines for ORSA<br>- The ORSA policy<br>• Ensure that the ORSA encompasses all material risks of the entity<br>• Ensure that sufficient resources are dedicated to the ORSA<br>• Ensure planning, facilitating and coordinating of the various contributors | Risk Management | Compliance<br>Finance |
| Process running / output production | • Execute the ORSA in compliance with the ORSA Policy and EIOPA ORSA guideline 5 regarding documentation of the ORSA results<br>• Ensure the link is made with other management processes and coordinate all contributing units<br>• Ensure the consolidation of the various contributions into a single ORSA report, and check their overall consistency<br>• Execute analysis, projections, etc. leveraging as much as possible existing management processes | Risk Management | Finance<br>Technical Insurance Area<br>HR<br>IT |
| Results challenge | • Challenge identified risk and scenario's<br>• Challenge risk mitigation and management actions<br>• Challenge content of the ORSA report | Risk Committee of the Executive Board | CFO<br>Risk Management<br>Risk & Audit Committee |
| Results validation (sign off) | • Challenge the results, methods and assumptions of the ORSA<br>• Challenge the 'content' contributed by the departments involved | CFO | Actuarial Function |
| Process validation | • Verify that the process is compliant with the ORSA policy and has been properly executed | Internal Audit | Internal Audit<br>Risk Management<br>Finance |
| ORSA report approval | • Approve the ORSA report | Executive board<br>Risk & Audit Committee<br>Supervisory Board | CFO |

### Management actions based on results of the ORSA

The results of the ORSA are presented and discussed in the Risk and Audit Committee. The results of the ORSA are taken into account by the Executive Board in defining the strategy of the companies (Solvency and Capital and business), defining the risk appetite and in setting the goals for the future. An example of management action taken based on the ORSA 2016: Generali Leven requested (and received) additional capital from the parent company to ensure the Solvency II ratio fits the required level. Implementing a new IT system, outsourcing of IT infrastructure, a cost reduction program, focus on growth are further examples of management actions taken.

## B.4. Internal control system

In this chapter the internal control system of Generali is described. The main departments involved in the internal control system are operational risk management (ORM) and corporate compliance. Therefore the focus of the description is on these two departments.

### General internal control system

Within Generali Leven senior management is responsible for an effective risk management within its area of interest. To support this, management has described the departmental processes, risks and controls. With the monthly department sample testing, controls and the quality of the output are tested. Through sample testing inaccuracies in the operating effectiveness of the controls can be identified. All findings are analysed, extrapolated to the entire population and corrected. The analysis, actions and results are documented. Furthermore the outcomes of the sample tests are monitored by the second line of defence and reported to the risk committee. If necessary additional actions are defined to improve the control environment. Every six months the results of the department sample tests are reported to the external auditor. The external auditor uses these results in the interim control and the annual financial statement control activities.

In 2017 Generali made an improvement in the internal control system methodology. The ORM team drew up a new internal control approach which was approved in the Risk Committee in the beginning of 2017. This new approach is based on the Group Internal Control Policy and best practises in the industry.
The approach lays down the conditions and principles for setting up a risk and control framework and provide guideline for the First Line Monitoring (FLM). In the course of 2017 the approach and the internal control principles included are implemented by most of the department heads. Two departments have already started with the FLM. The basis of this implementation is:

- Up to date process descriptions;
- Defined management objectives, key processes, key risks and key controls; and
- Establishing a risk and control framework with a good mixture of preventive, detective and automated controls.

The objective of the internal control framework is managing the major risks that threaten the achievement of the strategic and departmental objectives, the reliability of financial reporting and the reporting based on applicable laws and regulations.

Based on risk assessments managers determine which controls reduce the risks to an acceptable level. These key controls are described in the risk and control framework of the departments. The risk and control frameworks are reviewed by the second line of defence, ORM. In this framework, manual or automated preventative and detective controls are incorporated to manage the risks which might threaten Generali Leven's ability to achieve the company's objectives and goals. The effectiveness of these key controls will be tested in line with the FLM guidelines. For management the outcomes of the tests are valuable information and give insight in the level of 'being in control'. It also helps them to improve the control environment and processes.

For the transitional phase, the current monthly department sample testing are carried out until the department can start testing according to the FLM guidelines.

For Generali Leven one important source of prove of the effectiveness of the internal control system is the number and type of complaints Generali Leven receives from its customers. Generali Leven analyses (and publishes) the complaints on annual basis.
The average customer satisfaction over 2017 was 7.0 (2016: 6.6) is also evidence of an effective internal control system.

As described above the ORM and compliance function have an important role in the internal control system. In the next section of this chapter Generali Leven summarises the main tasks and responsibilities of both the ORM and the compliance function.

## The ORM function

Within Generali, the second line risk function falls under the responsibility of the CFO. Within the Team Operational Risk Management (ORM) the operational risks are being monitored and reported to the Risk Committee.
Team ORM is responsible for the organisational infrastructure for a sound Risk Management System.
ORM also acts as a trusted advisor to management on all risk related issues. In this system ORM pays extensive attention to the risk awareness of employees and risk culture, by facilitating risk training workshops, information sessions and awareness workshops.

Further ORM:
- Helps to define risk measurement methods and models;
- Collaborates with the risk owners in defining the operating limits imposed to operational structures, and in defining the operating limits imposed to operational structures and in defining the procedures for the timely verification of those limits in accordance with the first-level control functions;
- Validates the reports produced by the various Risk Owners needed to guarantee the timely control of risk exposure and the immediate identification of anomalies;
- Carries out company risk profile assessments and reports to the Executive Board the main risks identified as significant;
- Guarantees and coordinates the preparation of suitable reports to the Executive Board and to the competent risk committees regarding the general soundness of the risk management and control system, in particular its ability to respond to changes in the company or the market, the development of risks, and breaches of the operating limits imposed;
- Helps to carry out stress tests as required by EIOPA or other regulators and supervisors.

Besides the second line ORM Team, in 2017, Generali Nederland has appointed Risk Champions in the first line of defence. In the summer of 2017 these Risk Champions were trained.

The main responsibilities of the Risk Champion are:
- Providing guidance and support to the manager in managing risks (with support of ORM);
- Keeping the manager and ORM up to date about risk management issues, developments and cases where the management of risks is counteracted;
- Executing controls, sample tests and FLM;
- Updating processes, procedures, risks and controls;
- Organising departmental risk assessments and root cause analyses;
- Assisting in the execution of the Group Scenario Analysis and Group Risk Assessment;
- Reporting operational losses to ORM;
- Facilitating the spread of risk information to all levels;
- Ensuring adherence to the risk management process;
- Monitoring (audit) issues, risks and mitigating actions.

Generali Leven sees operational risk as a daily responsibility. Structural operational risk management activities are embedded within the day to day 'Leven' business activities.

The mission of the Team ORM is:
1. Operational risk as a strong second line sparring partner for the Business, based on sound risk management practices.
2. Strengthen Generali's first line by being a proactive business partner.

Leading to the ultimate goal:
*'A good and professional functioning three lines of defence model within Generali Nederland, which contributes to achieve the objectives within the determined risk appetite'.*

To accomplish this mission, ORM aim to:
- Set operational risk guidelines;
- Stimulate staff awareness of operational risks and awareness of external and internal regulations and guidelines;
- Develop, introduce and implement new R&C framework methodology and First Line Monitoring Guidelines;
- Develop and give risk management training for Management and Risk Champions;
- Support the Risk Champions;
- Review the new Control frameworks and outcomes of the First Line Monitoring and give advice on how to improve;
- Introduce and implement Loss data collection policy and process;
- Share knowledge with Group on the topics: 3LoD IT Risk governance and on R&C framework methodology etc.;
- Comply with Group risk policies (by performing GAP analysis, advising and implementing Group RM policies);
- Improve Risk Report.

## Corporate Compliance function

### Compliance position and structure

**Corporate Compliance**

The CEO of Generali Nederland appoints the Corporate Compliance Officer of Generali Nederland, who also functions as Corporate Compliance Officer for the aforementioned subsidiaries. The Corporate Compliance Officer is the country Compliance Officer as defined in the compliance charter and the first point of contact for compliance matters for the Regulators. The Corporate Compliance Officer is embedded in the second line of defence having an independent position with the possibility to escalate matters to the CEO and Supervisory Board when needed.

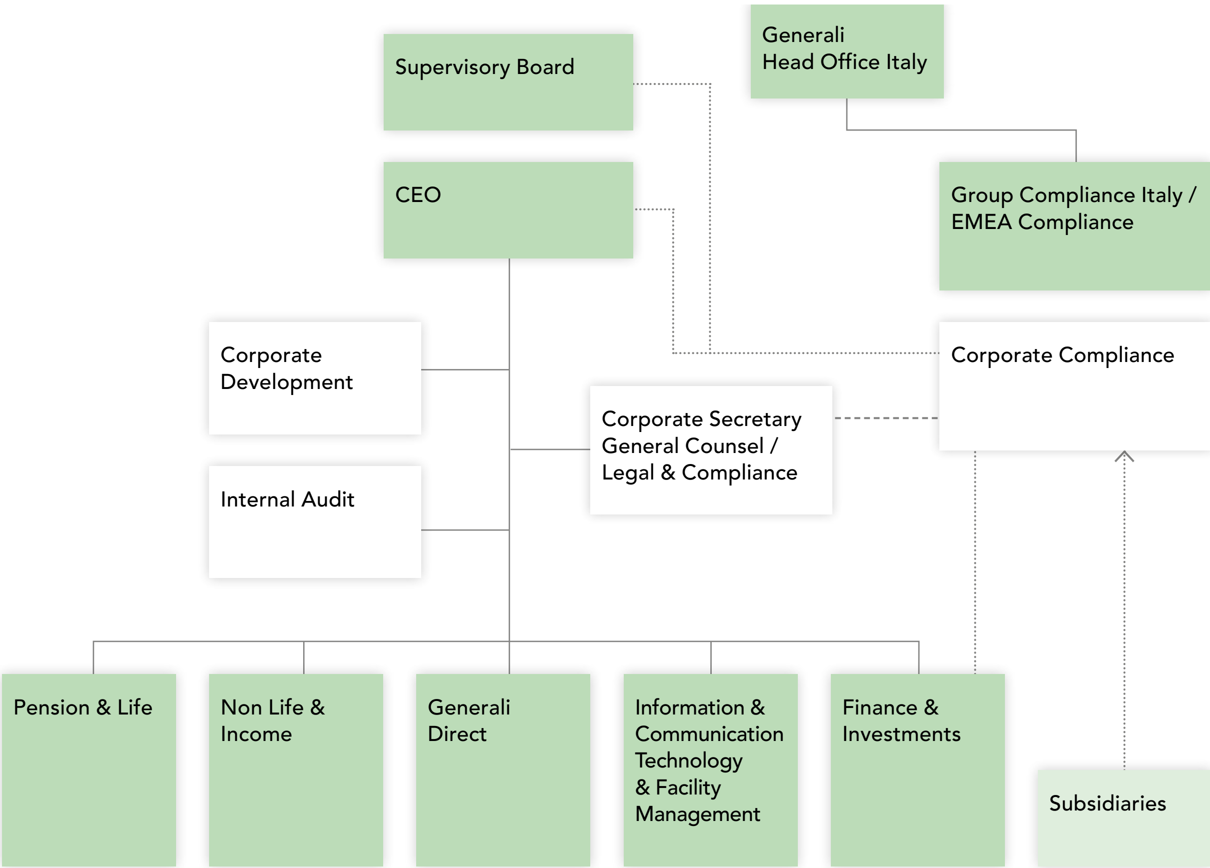
The Corporate Compliance Function is provided with appropriate budget and resources and its team possesses the knowledge, skills and competencies required to carry out their work with proficiency and due professional care. The Corporate Compliance Function has full, free, unrestricted and timely access to any and all of the organisation's records, physical properties, and personnel pertinent to carry out any engagement, with strict accountability for confidentiality and safeguarding records and information. The Corporate Compliance Officer has free and unrestricted access to the Executive Board.

**Business Compliance Officers**

Besides the Corporate Compliance Officer and its team, Generali Nederland has appointed Business Compliance Officers who monitor the company's daily activities and advises on potential compliance risks. One of these Business Compliance Officers is fully dedicated to the Generali Leven entity. The Business Compliance Officers work in different departments throughout the company and therefore have the responsibility to advise, report to and support the Corporate Compliance Function in operating compliance throughout the company.

The Business Compliance Officers are formally first line functions but because of separate reporting lines and responsibilities and liaison with Corporate Compliance they act as independent functions within the first line. The Business Compliance Officers act as sparring partner and have extensive knowledge about the activities in order to signal and address potential compliance risks and to advise and train personnel regarding compliance related topics. Whenever compliance breaches are identified, action plans are defined and monitored to either resolve the breach or explain why it is acceptable that a specific requirement is not adhered to. Figure 8 visualises the compliance organisation.

**Figure 8 Compliance in the organisation.**




## Mission and methodology

We are deeply committed to the preservation of our reputation and integrity by means of compliance with legislation and regulations governing our activities. Compliance is our 'license to operate' and therefore sets a standard for integrity and threating customers, not only in respect to 'the letter of the law' but also in relation to underlying intentions. There are two key principles forming the foundation of what Compliance does and pursue: Ethical behaviour is the primary standard, and in everything, Generali Leven treats its customers fairly and putting the customers interests first.

This is an important part of our strategy and means that Generali Leven has a risk appetite of zero regarding compliance risks. Compliance risk is defined as the risk of legal or regulatory fines, material financial losses or loss to reputation that a company may suffer as a result of not complying with laws or internal or external regulations applicable to its activities. Compliance risks are categorised according to a stakeholders approach. Generali Leven uses the following categories: customer, employee, market and corporate.

## Compliance risk includes:

- The risk of legal or regulatory sanctions: e.g., loss of license or a fine from the regulator;
- The risk of reputational damage;
- The risk of litigation by any interested party;
- The risk of other financial loss.

**Figure 9 Compliance mission**


The mission of the Compliance Function is to show the business that Compliance adds value to our daily activities by improving processes that safeguard the client's interest and to provide insight in relevant requirements, impact of laws and regulations and compliance risks.

Therefore, Compliance aims to:
- Contribute to safeguarding the integrity and reputation of Generali;
- Strengthen Generali's compliance awareness, transparency and responsibility towards stakeholders;
- Support a steady and persistent business operation and build a sustainable competitive advantage by integrating compliance risk management in the daily activities and strategic planning.

This means Generali Leven has a best effort obligation to mitigate compliance risks. Compliance is strictly monitored within Generali Leven and any remedial measures required will be taken. Compliance has the continued attention of Generali Leven and management and other employees of Generali Leven are encouraged to stimulate awareness of compliance issues. In this way Generali Leven expects to assure a proactive approach towards compliance issues. Generali Leven sees Compliance as a daily responsibility for both management and employees. Structural compliance activities are embedded within the risk management cycle.

To accomplish this mission, Generali's compliance policies aim to:
- Set compliance guidelines for Generali's staff;
- Stimulate staff awareness of Generali's obligation to comply with legislation, regulations, external and internal guidelines, to stimulate discussions among staff on the subject of business ethics and to create an environment in which staff members feel obliged to report perceived non-compliance and feel no inhibitions to report perceived non-compliance;
- Bring attention to guidelines and codes of conduct;
- Form input for awareness meetings, dilemma training and e-learning;
- Define a framework for identifying and evaluating compliance issues that Generali may face;
- Define a framework for instituting compliance controls;
- Implement measures to prevent or mitigate compliance risks.

Compliance works based on the Generali Group Compliance Policy. It represent minimum standards of compliance principles, main features of the Compliance Function and provides the guidelines to be followed on a local level. This Policy is implemented in the local compliance charter. The charter is approved by the Executive Board of Generali Nederland and is reviewed at least annually.

Next to the responsibilities of the Corporate Compliance Officer mentioned before, the most important tasks and responsibilities of the Corporate Compliance Function are:
- To identify legislation, regulations and guidelines pertinent to the company and to monitor the compliance of the company to these;
- To develop and manage a legal and compliance framework. This includes informing the business and monitoring implementation of (new and changed) legislation, regulations, external guidelines and internal policies, procedures and guidelines;
- To identify and assess compliance risks associated with the organisation's current and proposed future business activities, including new products, new business relationships and any extension of operations or network on an international level, and to perform Compliance Risk Assessments;
- To manage the report regarding concerns and incorrect conduct which are reported directly or through the whistleblowing channel;
- To report the findings on compliance issues and progress with the annual plan to the Executive Board, the Supervisory Board, Generali Group or if deemed necessary to the external regulator;
- To keep record of recognised compliance issues.

## B.5. Internal audit function

In Generali Leven the internal audit activities are performed, by the Internal Audit department of Generali Nederland, in line with the organisational rules defined in the Audit Policy that is approved by the Risk and Audit Committee of Generali Nederland.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Internal Audit function supports the Risk and Audit Committee in identifying the strategies and guidelines on internal control and risk management, ensuring they are appropriate and valid over time and provides the Risk and Audit Committee with analysis, appraisals, recommendations and information concerning the activities reviewed; it also carries out assurance and advisory activities for the benefit of the Risk and Audit Committee, the Top Management and other departments including performing assurance-audits, performing risk assessments and advisory tasks related to design of control frameworks and processes.

As provided by the Audit Policy, a Solid Line reporting model is established between the Head of Group Audit of Generali Group, the Head of the Business Unit Audit and the Head of the Local Audit Function.

Based on this model, the Head of the Local Audit Function reports to the Risk and Audit Committee and ultimately to the Head of Group Audit, through the Heads of Business Unit Audit. This ensures autonomy to act and independence from operational management as well as more effective communication flows. This covers the methodologies to be used, the organisational structure to be adopted (recruiting, appointment, dismissal, remuneration and budget in agreement with the Risk and Audit Committee), 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 Risk and Audit Committee for approval. The Chairman of the Risk and Audit Committee is responsible for nomination, remuneration and resignation of the Head of the local Audit Function.

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

The Internal Audit Function govern it selves by adherence to The Institute of Internal Auditors' mandatory guidance and 'Reglement Gedragscode Register IT auditors' of NOREA including the Definition of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the professional standards of NOREA. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of auditing and for evaluating the effectiveness of the audit activity's performance.

Given the delicate and important nature of the assurance role carried out within the business, all the personnel of the Internal Audit Function have specific fit and proper requirements as requested by the Group Fit & Proper Policy.

In particular, the Head of the Local Internal Audit Function is a person who meets the requirements of the local Regulation Authority's Regime and Solvency II Regulation as well as the Generali Group requirements. He or she has solid relevant experience within areas like audit, control, insurance, finance, risk or in the auditing of financial statements.
The Head of the Local Internal Audit Function does not assume any responsibility for any other operational function and has an open, constructive and cooperative relationship with regulators, which supports sharing of information relevant to carry out their respective responsibilities.

Also the other personnel belonging to the Local Internal Audit Function have skills and a proven track record commensurate with the degree of complexity of the activities to be carried out. The Internal Audit Function, in any event, include employees identified as having high professional development potential and personnel avoids, 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 remains free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

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

At least annually, the Head of the Local Internal Audit Function proposes to the Risk Committee of Generali Nederland an internal audit plan before being submitted for the approval of the Risk and Audit Committee. The audit plan is developed based on a prioritisation 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. The planning takes into account 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. The Head of the Local Internal Audit Function communicates the impact of resource limitations and significant interim changes to the Risk and Audit Committee. The Head of the Local Internal Audit Function reviews and adjusts the plan on six-monthly basis in response to changes in the organisation's business, risks, operations, programs, systems, controls and findings. Any significant deviation from the approved plan is communicated through the periodic activity reporting process to the Risk Committee of Generali Nederland and the Risk and Audit Committee. Where necessary, the Internal Audit Function may carry out audits that are not included in the Audit Plan.

The Local Internal Audit Function plans and carries out the activities following a consistent methodology drawn up and circulated by the Internal Audit Function of Assicurazioni Generali. The scope of auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives.

Following the conclusion of each engagement, a written audit report is prepared and issued to the auditee and the auditee's hierarchy. The audit 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 the agreed deadlines for the implementation of these corrective actions.

Internal Audit is responsible for monitoring appropriate follow-up on issues raised and agreed actions. The Head of the Local Internal Audit Function, at least on a quarterly basis, provides the Risk and Audit Committee with a report regarding the internal audit activity's performance relative to the audit plan and significant issues during the period and a proposal of an action plan. The Risk and Audit Committee 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 the Local Internal Audit Function will immediately inform the Risk Committee, and Risk and Audit Committee.

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

## B.6. Actuarial function

The Actuarial Function's main responsibility at Generali Nederland follows directly from the Solvency II requirements (Directive 2009/138/CE). The main responsibility is to coordinate, monitor and validate the calculation of local technical provisions. Furthermore, the Actuarial Function expresses an opinion on the underwriting and reinsurance arrangements.

The Actuarial Function is responsible for the coordination, monitoring and reporting to the Executive Board and Supervisory Board in the context of:
- Technical provisions calculation and validation;
- Overall underwriting policy;
- Adequacy of reinsurance arrangements.

As disclosed in the organisational chart the actuarial function reports directly to the CFO. The final opinion and urgent recommendations are reported to the Executive Board. The Supervisory Board is informed in the Risk & Audit committee.

The Executive Board and Supervisory Board:
- Approve the Actuarial Function policy;
- Taking in consideration the opinion of the Head of the Actuarial Function, with the possible remarks made by the Group Actuarial Function, approve the ultimate amount of the technical provisions within the Solvency II balance sheet;
- Empower the Actuarial Function to fulfil its role with the utmost independence.

Group Actuarial Function (Group Head Office) provides the Actuarial Function framework to the Business units. This framework is an integrated set of policies, guidelines, reporting tools, etc. to validate and report all technical liabilities of Generali Group.

The Actuarial Function ensures that different activities are carried out according to Group Guidelines. The Actuarial Function also has to ensure that Generali Leven is compliant with the requirements of the Dutch supervisor (DNB). The main difference is that in the Netherlands Solvency II is reported by legal entity, to Generali Group Solvency II is reported by business line (Life, Non-Life, SLT). There is no difference in methodology and assumptions setting.

In the Group Actuarial Policy three roles are identified to fulfil the Actuarial Function:
1. Sign-off and final opinion;
2. Validation; and
3. Calculation.

In the Dutch organisation the actuarial function contains the opinion and the validation roles. The calculation unit (Actuarial department) is the responsibility of the manager Finance Risk & Control. Within this structure the opinion and validation (both second line of defence) are independent from the calculation unit (first line of defence). This is the preference of both the Executive Board and Supervisory Board.

The opinion and validation (Actuarial Function) and the Solvency II results (Calculation) are reported in one integrated report, the Actuarial Function Report. The sign-off of the technical liabilities and the opinion on underwriting policy and adequacy of reinsurance arrangements are given in the third layer (see the picture on the next page): (also called) the Actuarial Function Report.

According to article 272 of the Delegated Act, at least annually the Actuarial Function is to produce a report to the Executive Board to document all tasks that have been undertaken by the actuarial function and their results, and shall clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied. The third (Actuarial Function Report) and second layer (Validation report) will represent this annual report.

Besides this report a Fair Value Liability Report (for group reporting) and an Actuarial Report (for local reporting) are made by the actuarial department. Parts of those reports are used for the Actuarial Function Report.

The Actuarial Function Report is presented in the following figure:

**Figure 10 Actuarial Function Report**

**Third layer: Sign-off and final opinion**
Owner: Head of Actuarial Function
*final opinion on TP*

**Second layer: Validation**
Owner: Validation Unit
*validation on TP governance & Process, methodology & models, results and data quality*

**First layer: Calculation**
Owner: Calculation Unit
*reporting on TP governance & process, methodology & models, assumptions, results and data quality*


The set-up of this report reflects the different roles that are identified in the actuarial function and the actuarial department. The local actuarial function signs off the results and assesses and validates what has been made by the actuarial department. Note that in Generali Leven the actuarial function and the validation unit are the same. The validation activities are on the complete actuarial process flow: methodological framework, model changes, assumptions changes (operating, economic, expense), results and data quality.
The actuarial department (Calculation Unit) performs all the analyses, tests and computations required and produces the related qualitative and quantitative documentation.

## Independence of Actuarial Function

Independence is a core compliance principle. In the Solvency II framework and according to the internal governance the actuarial function is a key function. To obtain independence of the actuarial function the activities on the opinion and validation (second line of defence) are independent of the calculation activities (first line of defence). The actuarial function reports directly to the CFO. The actuarial department reports to the manager Finance Risk & Control.

The local Actuarial Function has direct access to the Executive Board and via the Risk & Audit Committee to the Supervisory Board. There is a formal escalation path to Executive Board, Supervisory board and Group Actuarial Function.

In order to express an opinion on the underwriting policy and adequate pricing the actuarial function is member of the Product Boards Life and Non-Life and member of the Risk Committee.

# B.7 Outsourcing

GHO provides the local business units policies that are required to be incorporated in the local organisation. The Generali Group Outsourcing Policy is one of these policies. The Policy applies to all Group legal entities, outlining the main principles to be followed when implementing outsourcing. As for the implementation of the Group Outsourcing policy Generali Nederland has made a practical translation of the policy to a risk-based Procurement and Outsourcing Policy which includes the specific Dutch rules and legislations. The implementation led to a standard set of documents to be used for Procurement and Outsourcing activities within Generali. At Generali Leven the policy has been formally adopted by the Executive Board. The Policy provides the principles to be followed on outsourcing initiatives pursuant to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009, and relevant implementing measures.

The Policy describes a risk-based approach, adopting a proportionality principle to apply requirements according to the risk profile, the materiality of each outsourcing agreement and the extent which Generali controls the service providers.

In Generali Leven, for each outsourcing agreement, a specific business referent function is appointed. 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. The Outsourcing lifecycle encompasses the following steps:

- *Risk assessment*: identify the critical and not critical outsourcing initiatives through a structured risk evaluation. Generali Operational Risk Management reviews the risk assessment related to critical outsourcing initiatives;
- *Outsourcer sourcing and due diligence:* assess vendor capability to perform the activities according to Generali standards, internal and external regulations. Generali procurement supports the activities in case of third party service providers;
- Agreement negotiation and management: allocate rights and obligations, provide standard clauses and minimum contents (e.g. privacy and confidentiality) for the written agreement, requiring written SLAs and the implementation of one single company agreement repository. Generali Legal department is responsible for drafting the agreement and negotiating legal clauses. Generali procurement is responsible to maintain the agreement repository at local level;
- *Migration plan:* require the definition of a structured migration plan to minimise transitions risks (e.g. service interruptions). The project team is responsible for the definition of the migration plan;
- *Monitoring and Reporting:* Contract and Service Management is responsible to ensure the implementation of appropriate organisational safeguards to monitor the outsourcer performances and set reporting obligations for critical outsourced activities;
- *Exit strategy:* set up appropriate measures to ensure the continuity of the activities in case of emergency or contract termination. The vendor is responsible to define an Exit plan, if this is included in the written agreement as part of the Agreement negotiation and management step. Contract Management ensures that an Exit Plan is made available by the vendor and is reviewed by the relevant Contract Owner.

For Generali Leven the following critical operational functions are outsourced:

- *Asset management:*
  - Until 2009 Generali Leven offered and administrated mortgages. The active provision of mortgages has been stopped due to economic reasons. As the administration remained, it was investigated that outsourcing the mortgage administration was the economically best option to reduce the cost. The outsourcer does the administration based upon the agreement and agreed mandate given by Generali Leven;
  - The rationale for outsourcing this process is based on scale. Within Generali Nederland. FTE capacity and required knowledge to handle the front-office investment process is limited. The Generali Group organised an initiative to centralise this process. For Generali, the Group initiative offered a good solution to solve the capacity and knowledge issues. Generali Investments Europe handles the investment capital of Generali based on the mandate given by Generali Leven;
- *Application Development, Technical Maintenance and hosting:* Due to the small size of Generali Nederland. doing in-house software development is seen as a risk, as this creates a dependency on key persons and their knowledge. To mitigate this risk application development, technical maintenance of the applications and in some cases also the hosting of the application is outsourced. By following this strategy Generali can focus on the core business activities by using standardised business applications;
- *Infrastructure maintenance and hosting:* The IT strategy of Generali Nederland is to outsource commodity services and to focus on core IT services which have a direct business added value. Infrastructure maintenance and hosting is defined as a commodity service. By outsourcing two main benefits were realised, a quality increase of the services and a shift to a more variable cost model where server capacity can be scaled up and

down based upon the needs of Generali Leven. The outsourcing includes the following operational functions:
- Data centre services;
- Platform services: server, network and storage infrastructure, including maintenance, patching and security;
- Infrastructure services: Identity & access management, Operating system services, Application deployment services, Data protection & recovery services, network services, file services, remote access services, database services, monitoring services and print services.

## B.8 Any other information

All relevant information related to the system of governance and the risk management structure is already described in paragraphs B.1 to B.7 of this document.

# C Risk profile

The purpose of Generali Leven is to actively protect and enhance people's lives. To fulfil this purpose, Generali Leven strives to deliver relevant and accessible life insurance solutions. Generali Leven distinguishes itself by its personal approach in taking care of its customers and paying attention to their needs. Generali Leven offers its customers simple and smart life insurance solutions.

The risk profile of Generali Leven depends on the insurance covers that have been underwritten. Newly underwritten insurance covers will change the risk profile over time. A distinction is made between products that are offered to new clients and that are serviced for existing customers. The company focusses on selling its core products: term life insurance and defined contribution pension solutions.

In this chapter, the risk profile of Generali Leven is discussed on the basis of the Solvency Capital Requirement. The Solvency Capital Requirement is derived from the existing portfolio of life insurance obligations and investments. Such obligations are referred to as 'liabilities.' The Solvency Capital Requirement is described below. In paragraphs C.1 through C.3, respectively life underwriting risk, market risk and counterparty default risk are discussed. In paragraph C.5 operational risk is discussed.

The Solvency Capital Requirement does not cover all types of risk. Liquidity risk and emerging risk are discussed in paragraphs C.4 and C.6. Finally, it is discussed how Generali Leven manages these risks. All the numbers presented in this section include the effect of risk mitigation.

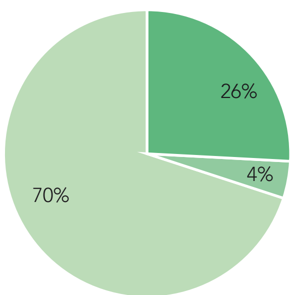
## Solvency Capital Requirement

Insurance undertakings in the European Union must hold economic capital. This economic capital serves as reasonable assurance that payments are made to policyholders and other beneficiaries when they fall due. It should reflect the true risk profile of the insurance undertaking and should ensure, with a probability of at least 99.5%, that the insurer meets its obligations to its policyholders and other beneficiaries over the following 12 months.

The Solvency Capital Requirement determines what economic capital is adequate. Generali Leven applies the Standard Formula to calculate the Solvency Capital Requirement. The intention from the regulator is that the Standard Formula reflects the risk profile of most insurance and re-insurance undertakings. It consists of a Basic Solvency Capital Requirement and a surcharge for operational risk.

At 31 December 2017, the Solvency Capital Requirements for Generali Leven amounted for € 189.8 million (2016: € 193.0 million). This amount consists of a Basic Solvency Capital Requirement of € 176.4 million (2016: € 179.1 million) and a surcharge for operational risk of € 13.4 million (2016: € 13.9 million). The Basic Solvency Requirement is a risk-based quantitative capital requirement that considers underwriting, market and counterparty default risks. Figure 11 shows the contribution of these risks to the diversified Basic Solvency Capital Requirement (BSCR).

**Figure 11 Composition of the Basic Solvency Capital Requirement**




| | |
|---|---|
| SCR Market | 26% |
| SCR Default | 4% |
| SCR Life | 70% |
| SCR Health | 0% |
| SCR Non-life | 0% |
| SCR Intangible | 0% |

The main contributor to the Basic Solvency Capital Requirement is life underwriting risk. It accounts for 70% (31 December 2016 66%) of the Basic Solvency Capital Requirement. Market risk contributes 26% (31 December 2016 28%) to the Basic Solvency Capital Requirement. The remaining 4% (31 December 2016 6%) of the Basic Solvency Capital Requirement derives from counterparty default risk. As Generali Leven is only licensed to sell life insurance products, Generali Leven is not subject to health and non-life underwriting risks. Generali Leven's own funds, the measure for available capital, did not include any intangible assets. Consequently, Generali Leven did not have to hold capital for intangible asset risk.

The sum amount of capital to be held for each type of risk was € 311.1 million. This number, however, reflects a much more severe stress scenario than the worst possible scenario that has a one-in-200-year probability of occurring. The Standard Formula applies an adjustment to account for this. This adjustment becomes bigger as risks are more diversified: i.e., the risks are mutually unrelated. For Generali Leven, the diversification adjustment amounted to € 134.8 million, resulting in the Basic Solvency Capital Requirement of € 176.4 million. After adding a € 13.4 million capital charge for operational risk to this Basic Solvency Capital Requirement the Solvency Capital Requirement becomes € 189.8 million.

In this paragraph a description of Generali's risk profile regarding the following risks is provided:
- Underwriting risk;
- Market risk;
- Credit risk (Counterparty default risk);
- Liquidity risk;
- Operational risk;
- Other material risks.

For each of these risks, a substantiation is provided of the material risks to which Generali Leven is exposed to and of the measures used to mitigate those risks. For all risks mentioned, Generali Nederland performed a self-assessment to determine the applicability of the Standard Formula to its risk profile. In the assessment of appropriateness, the Standard Formula is considered to be a market standard which is used to assess risks based on the assumptions of transparency and a level playing field. It should be noted that the model is built for an average insurer. As it is virtually impossible to define the average insurer, the Standard Formula will have imperfections. Furthermore, over the past few years, the Standard Formula has been subject to changes (for example market risk parameters). Therefore, an implicit comparison is made with Generali Leven's understanding of an average insurer. Generali has no reason to assume that its life insurance portfolio significantly deviates from that of most Dutch insurance undertakings. Therefore, the Standard Formula is deemed appropriate for calculating the Solvency Capital Requirements.

To measure the risk exposures in its portfolio, Generali Leven uses the outcomes of the SCR calculations following the Standard Formula for all risks. Besides analysing the outcomes of the Standard Formula calculations additional risk scenarios are defined as part of the company's ORSA. The outcomes of these stress scenarios are used as an input for determining which risk mitigating techniques should be applied.

## Prudent person principle

To limit the effects of changes in market prices and to make sure that investments are in line with the best interest of Generali's policyholders, Generali Leven invests its assets according to the prudent person principle. In the view of Generali Leven, the prudent person principle is the requirement to invest in a manner to ensure the security, quality, liquidity and profitability of the portfolio as a whole, with the requirement that assets covering technical provisions must be invested in the best interest of policyholders. Generali Leven believes that also sustainability of the company is part of this principle.

Generali Leven operates its investment processes according to the prudent person principle. With the ALM process in place Generali Leven reduces the risk of differences between assets and liabilities that are subject to market yields. At the same time Generali Leven selects assets - strictly within the boundaries of the given risk limits - that are contributing with their yields to the profitability of the portfolio. Besides this, the assets are kept with custodians of appropriate rating and reliability. By applying the prudent person principle as described here, Generali Leven strives to achieve sufficient security, quality and liquidity in its portfolio in order to be able to meet its future obligations.

In the following sections, more information on the risk profile is given and risk mitigating techniques per risk type are described.

# C.1 Underwriting risk

The Standard Formula distinguishes seven life underwriting risks. Three of these risks arise from the nature of the cover that is provided. In the case of mortality risk, a distinction is made in the regulation between long term trends in mortality rates and one-off catastrophic events. In addition, the Standard Formula recognises three types of risk that are of a more general nature (expense, lapse, revision). These arise from administering the policies and from customers' rights to pay up or surrender the insurance policy or to revise the cover of the policy. The life underwriting risks for which the Standard Formula defines Solvency Capital Requirements are:
- mortality risk;
- longevity risk;
- disability and morbidity risk;
- life catastrophe risk;
- expense risk;
- lapse risk;
- revision risk.

Customers can combine the following covers:
- mortality risk;
- longevity risk;
- disability risk;
- morbidity risk.

In this section the nature of these risks in relation to the insurance portfolio of Generali Leven will be discussed. First, the risks are defined as they are recognised by the Standard Formula. Secondly, the capital requirements for these risks will be discussed.

To mitigate these and other risks that the Standard Formula does not categorise as underwriting risk, Generali Leven has entered into re-insurance agreements with Generali Group. Because of the special nature of these agreements, the discussion of the re-insurance treaties is deferred to a separate section.

## Standard Formula life underwriting risks

### Mortality risk

Higher mortality results in an increase in the frequency of claims from term life assurance and life endowment policies. In the case of life endowment policies, Generali Leven has to pay endowments earlier than expected. When mortality cover has been provided against a recurring premium, Generali Leven will also receive fewer premiums than expected.

### Longevity risk

Lower mortality results in:
- an increase in the number of claims from permanent life assurance policies and annuities;
- extended payments of annuities. When longevity cover has been provided against a recurring premium, more premium income will be received.

### Disability and morbidity risk

An increase in disability rates results in an increase in the number of claims from disability covers. An increase in morbidity rates results in extended payments of disability annuities or waivers of recurring premiums for another insurance cover. When disability cover has been provided against a recurring premium, Generali Leven will also receive fewer premiums than expected.

### Catastrophe risk

Catastrophe risk is categorised as an increase in the frequency of claims received that are incidental to an extreme or irregular event. Catastrophe risk only occurs in relation to mortality, and disability and morbidity covers.

### Expense risk

To cover the expenses for servicing insurance policies, the insurance premiums include a mark-up. Normally the insurance premiums are fixed. Hence, misestimating expenses, expense overruns, higher than expected expense inflation and lower than expected volumes of business can cause a shortfall in the expense cover of Generali Leven.

### Lapse risk

Lapse risk is caused by a change in the rate at which policies are surrendered or paid-up. Three types of lapses are concerned:

- decreased lapse: a sustained decrease in the rates at which policies are terminated without value, surrendered or paid-up;
- increased lapse: a sustained increase in the rates at which policies are terminated without value, surrendered or paid-up;
- mass lapse: a one-off mass termination without value, surrender or paying up of policies.

Not all products are subject to the same type of lapse risk. Which type of lapse risk prevails depends on whether the savings in expenses, interest accruals and claims payments outweigh the loss in premiums and investment income.

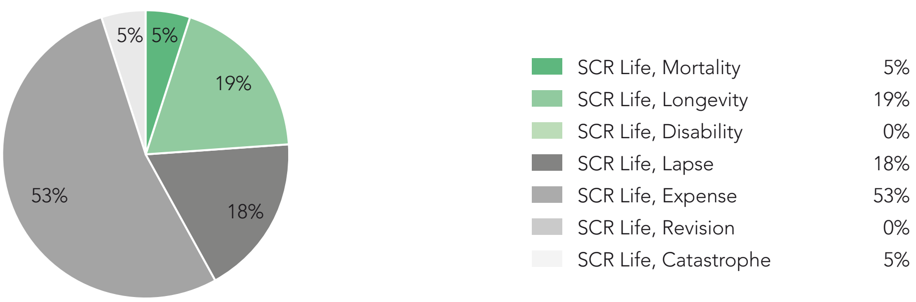
### Revision risk

Generali Leven does not carry any products that are subject to revision risk.

## Composition of the life underwriting risk Solvency Capital Requirement

As mentioned above, the life underwriting risk accounted for 67% (2016: 66%) of the Basic Solvency Capital Requirement, or € 209.4 million (2016: € 212.3 million). After a € 72.4 million (2016: € 82.8 million) adjustment for diversification among the individual life underwriting risks, the Solvency Capital Requirement for life underwriting risk stood at € 137.0 million (2016: € 129.5 million). Figure 12 shows the contribution of aforementioned life underwriting risks to the diversified Solvency Capital Requirement for life underwriting risk (SCRlife).

**Figure 12 Composition of the SCR for life underwriting risk**




The main contributor to the life underwriting Solvency Capital Requirement is life expense risk. Other major contributors to the life underwriting Solvency Capital Requirement are longevity and lapse risks. Caution should be exercised in mapping these Solvency Capital Requirements onto the list of underwriting risks. This is best explained by looking at expense risk.

Expense risk derives both from the level and recurrence of expenses as well as the ability of Generali Leven to cover expenses. The Solvency Capital Requirement for life expense risk only captures changes in the level of expenses. Changes in the recurrence and cover of expenses, mostly, are captured by the Solvency Capital Requirements for longevity and lapse risk.

As described, the lapse risk calculation consists of three lapse scenarios. The Solvency Capital Requirement for lapse risk is based on the scenario that has the severest impact. For Generali Leven the severest of the scenarios is the mass lapse scenario.

The risk of mass lapse arises from the core products of Generali Leven: term life insurance and defined contribution pension solutions. If term life insurance policies are terminated before acquisition costs have been recouped, expected profits may not emerge. If defined contribution pension products are paid-up, service expenses are no longer covered.

# C.2 Market risk

## Introduction

Generali Leven provides its customers insurance cover in return for the payment of a premium. It invests this cash to match incoming and outgoing cash flows and to generate investment returns. The investment return covers the cost of interest[12] on insurance policies and adds to the profitability of the company.

On 31 December 2017, investments, including available cash, amounted to € 3,521million (31 December 2016: € 3,611 million). This amount includes € 661 million (31 December 2016: € 692 million) investments for universal life assurance policies. The beneficiary of a universal life assurance policy participates in investment pools. His insurance savings depend on the value of his participations. The insurer only has limited market exposure through these investments. Figure 12 shows the composition of the remaining € 2,860 million investments portfolio (31 December 2016: € 2,919 million).

**Figure 13 Composition of the investments portfolio**


Generali Leven invested 80% of funds available for investment in bonds, loans and interest rate swaps. This figure is similar to that for 31 December 2016. During 2017, the company sold participations in a money market fund and re-invested the proceeds in government bonds. This resulted in an increase in the share of government bonds in total investments.

The Generali Money Market Fund FCP is a mutual fund managed by the investment unit of Generali Group. The Generali Money Market Fund FCP aims to preserve the value of the capital entrusted to the fund at a time when banks charge interest on deposits. The fund invests in a diversified portfolio of money market instruments. These include bonds and loans that mature within two years and have an average maturity of less than one year.

Other assets include mortgage loans and deposits with other Generali Group companies. Like bonds and loans, the values of these assets depend on interest rates. Generali Leven deposited € 144 million with other insurers as collateral for its share in the insurance policies written by those insurers. They also include cash and cash equivalents, the company's real estate investment unit and a small portfolio of stocks.

Financial markets set the prices for most of the company's investments. Investments carry the risk that market prices change in a manner that adversely affect their values. This section discusses market risks: the risk of an adverse change in the level or volatility of market prices of assets. Volatility tells something about the frequency or magnitude of changes in a market price. The Standard Formula discerns six sources of market risk:

- interest rate risk,
- equity risk;
- property risk;
- spread risk;
- concentration risk; and
- currency risk.

This section discusses Generali Leven's exposures to above risks.

12 Life insurance premiums, typically, include a discount. The discount reflects the ability of the insurer to generate income from investing insurance premiums. The insurer, periodically, adds interest to the technical provision to compensate for the premium discount.

## Solvency capital requirement

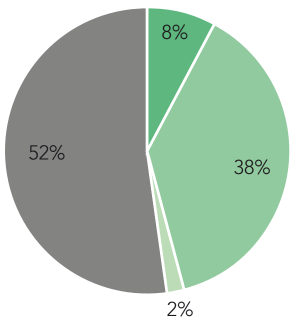
On 31 December 2017, the solvency capital requirement for market risk (SCRmarket) amounted to € 72.4 million (31 December 2016: € 69.1 million). The main driver for the increase is interest rate risk. The solvency capital requirement for interest rate risk (SCR interest) decreased. However, the prevailing direction of change in interest rate movements changed from upward to downward. This makes it more likely to occur when other market risks occurs. Consequently, there was a lower allowance for diversification (Diversification market) between market risks. Because 2017 was a positive year for stock markets, the exposure and stress to type 1 equities increased. This resulted in a higher solvency capital requirement for type 1 equities (SCR type 1 equities). The exposure to type 1 equities decreased because of a revaluation of Generali Real Estate Investments. This resulted in a lower solvency capital requirement for type 2 equities (SCR type 2 equities).

**Table 13 SCR Market risk**

| (in € 1,000) | 31 December 2017 | 31 December 2016 |
|---|---|---|
| SCR interest | 9,638 | 14,443 |
| SCR type 1 equities | 10,484 | 9,068 |
| SCR type 2 equities | 21,575 | 23,535 |
| SCR property | 1,624 | 1,612 |
| SCR spread | 39,845 | 40,090 |
| SCR concentration | 0 | 0 |
| SCR currency | 39 | 48 |
| **SCR MARKET before diversification** | **83,205** | **88,796** |
| | | |
| Diversification equities | -1,815 | -1,680 |
| Diversification market | -9,026 | -18,010 |
| | | |
| **SCR MARKET** | **72,365** | **69,106** |
| Prevailing interest rate risk | DOWNWARD | UPWARD |

Figure 14 shows the contribution of each market risk to the solvency capital requirement for market risk after diversification. The graph shows that spread risk (SCR spread) gives rise to half of the solvency capital requirement for market risk. Equity risk (SCR type 1 equities and SCR type 2 equities) give rise to a further 40% of the solvency capital requirement for market risk.

**Figure 14 Composition of market risk SCR**




| | |
|---|---|
| SCR Interest | 8% |
| SCR Equity | 38% |
| SCR Property | 2% |
| SCR Spread | 52% |
| SCR Concentration | 0% |
| SCR Currency | 0% |

The remainder of this section discusses the solvency capital requirements for individual market risks.

## Sources of market risk

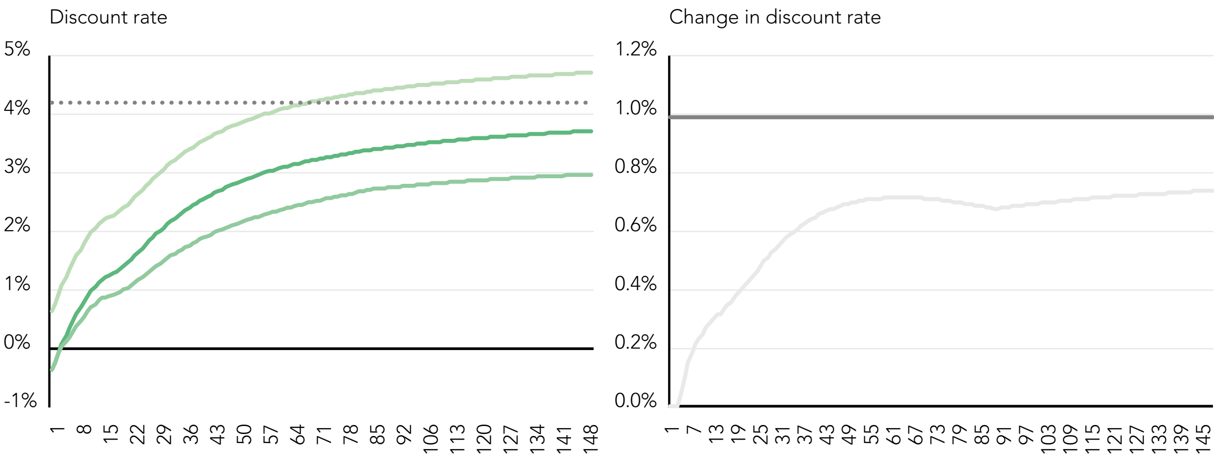
Generali Leven has committed itself to paying its customers the insured amounts in case of death or survival. It receives cash when policyholders pay premiums. It uses cash to make payments on its life assurance policies. It will make these payments over a long period. The company invests the cash it receives to match incoming to outgoing cash flows. It earns interest and dividends on those investments. The company uses these returns on its investments to cover the cost of interest paid on insurance policies and excess interest shares. When it generates more income from its investments than it needs to pay its policyholders, it adds the difference to its equity. A mismatch between incoming and outgoing cash flows exposes the company to interest rate risk.

## Interest rate risk

Interest rate risk arises from changes in the term structure of interest rates, or in the volatility of interest rates. When interest rates decrease, it will become increasingly difficult to cover the future cost of interest. Changes in the volatility of interest rates affect the values minimum return guarantees and excess interest sharing. Both are options embedded in life assurance contracts. When interest rates become more volatile, big changes in interest rates become more probable. This makes it more likely that the policyholders claim higher return guarantees or excess interest shares. Generali Leven mitigates its exposure to interest rate changes by matching the interest rate sensitivity of its investments to that of its insurance liabilities.

Generali Leven invests in fixed income instruments to match incoming cash flows to outgoing cash flows. These fixed income instruments comprise government and corporate bonds, and mortgage and other loans. They increase in value when interest rates decrease. A fixed income instrument's sensitivity to interest rate changes depends on its maturity. The sensitivity increases as the maturity becomes longer. Generali Leven also invests in the Generali Money Market Fund FCP. This fund's investments in bonds expose it to changes in interest rates. The Generali Money Market Fund FCP limited sensitivity to interest rate changes, because it only invests in bonds with a relatively short maturity. To bridge the residual gap between incoming and outgoing cash flows, Generali Leven also entered into long-term interest rate receiver swap agreements. An interest rate receiver swap is an agreement to pay variable interest on a notional amount in exchange for receiving a fixed interest on that amount.

**Figure 15 Extrapolated term structure of risk free interest rates and stresses**




To derive the solvency capital requirement for interest rate risk, we apply a downward and an upward stress to the company's assets and liabilities. The solvency capital requirement is set equal to the higher of the two solvency capital requirements. If both stresses result in a negative solvency capital requirement, the solvency capital requirement is set to zero.

The left hand graph in figure 15 shows the extrapolated term structures of risk-free discount rates for 31 December 2017. It also shows the term structures of risk-free interest rates after applying the upward and downward interest stresses. The right hand graph shows the magnitude of both stresses. The ensuing table shows the company had contemporaneous exposure to both the upward and the downward interest rate stress. This is due to the marked difference in these stresses.

**Table 14 SCR Interest**

| Solvency Capital Requirement (x € 1,000) | 31 December 2017 | 31 December 2016 |
|---|---|---|
| SCR interest, increase | 7,975 | 14,443 |
| SCR interest, decrease | 9,638 | 3,977 |

The interest increase scenario applies an upward stress of 100 base points to all risk-free discount rates. It resulted in a solvency capital requirement for interest rate risk of € 8.0 million (31 December 2016: € 14.4 million). The interest decrease scenario applies a stress that is smaller and not the same for all discount rates. It resulted in a solvency capital requirement for interest rate risk of € 9.6 million (31 December 2016: € 4.0 million).

Generali Leven primarily invests in fixed income instruments to match incoming to outgoing cash flows and mitigate interest rate risk. The preceding table shows that the solvency capital requirements for the upward and downward scenarios are of similar magnitude. This leaves little opportunity to change the exposure to interest rate changes without causing one of the solvency capital requirements to increase.

## Equity risk

Equity risk arises from changes in the level, or in the volatility of market prices of equities. When equity prices decrease, the company's investments in equity will decrease in value. Changes in the level and volatility of stock prices affect the value of minimum return guarantees on its 'separaat depot' product. The minimum return guarantee is an option embedded in this employee benefit product. When stock prices decrease, it becomes more likely that the customer invokes the return guarantee on the product. When stock prices become more volatile, big changes in those prices become more probable. This makes it more likely that the policyholders claim higher return guarantees.

On 31 December 2017, Generali Leven had small stock holdings in two companies. These companies are Stadsherstel Amsterdam and FMO. The former company buys, restores and maintains historic buildings in Amsterdam. The latter company support sustainable private sector growth in developing and emerging markets by investing in businesses, projects and financial institutions. We had one 'separaat depot' contract that remained in force.

The biggest contributor to the company's solvency capital requirement for equity risk was Generali Real Estate Investments Netherlands. After selling most of its real estate holdings, this real estate investment vehicle primarily has invested in cash and the Generali Money Market Fund FCP. The subsidiary's investments comprised € 31 million real estate holdings, € 146 million participations in the Generali Money Market Fund FCP and € 1 million cash. The company did not hold stocks.[13] Such investments have limited exposure to market risks. Article 84(4) of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014, however, qualifies the investment vehicle as an equity investment for the Standard Formula.

To derive the solvency capital requirement for equity risk, we apply proportional stresses to the market values of the company's equity holdings. The ensuing table gives the applicable stresses. We calculate solvency capital requirements for both listed (type 1) and unlisted (type 2) equity holdings. Table 15 presents the solvency capital requirements for each type of equity stress. It also shows the allowance for diversification (Diversification equities) between these stresses.

**Table 15 Equity stresses**

| Equity capital charge | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Basic capital charge | 39.00% | 39.00% |
| Symmetric adjustment | 1.90% | -1.44% |
| Supplement for unlisted (type 2) investments | 10.00% | 10.00% |
| Capital charge for strategic investments | 22.00% | 22.00% |

The total solvency capital requirement for equity risk on 31 December 2017 was € 30,244 million (31 December 2016: € 30,923 million). The positive performance of stock markets during 2017 explains almost the entire rise in this number. It resulted in a higher exposure to equity risk from the 'separaat depot' investments. It also resulted in the increase in the symmetric adjustment of the equity capital charge from -1.44% to 1.90%.

## Property risk

Property risk arises from changes in the level, or in the volatility of market prices for real estate. Generali Leven is part of Generali Nederland. It owns Generali Nederland's premises. Generali Leven also owns Generali Real Estate Investments Netherlands. Generali Real Estate Investments Netherlands is an investment vehicle that invests in real estate either directly or indirectly.

During 2017, Generali Real Estate Investments Netherlands held a share in a real estate limited partnership. It also invested € 9 million in a real estate object. On 31 December 2017, Generali Leven's total direct and indirect property investments amounted to € 42 million, approximately (31 December 2016: € 32 million).

13 The value of real estate investments includes the company's share in a real estate limited partnership.

To derive the solvency capital requirement for property risk, we apply a 25% stress to the market value of the company's real estate assets. We do not apply the stress to the real estate assets of Generali Real Estate Investments Netherlands. We already stressed the market value of Generali Real Estate Investments Netherlands to derive the solvency capital requirement for equity risk. The total solvency capital requirement for equity risk on 31 December 2017 was € 1.6 million (31 December 2016: € 1.6 million).

## Spread risk

Spread risk arises from changes in the level, or in the volatility of credit spreads. The Standard Formula discerns between spread risk and counterparty default risk. Counterparty default risk is the risk that a counterparty cannot fulfil his obligations on time and in full. Whereas spread risk arises from traded and similar fixed income instruments, counterparty default risk arises from other financial claims.

An investor in a fixed income instrument runs the risk that the issuer does not pay coupons or repay principal on time and in full. The credit spread compensates the investor for the risk that the issuer of the instrument cannot fulfil his obligations on time and in full. When an issuer of a fixed income instrument is more likely not to fulfil his obligations, the credit spread on the instrument will increase. It will also increase when investors become more averse to default risk. When the credit spread on a fixed income instrument increases, the value of the instrument decreases.

Credit spread is a premium over the risk-free yield in the yield of a fixed income instrument. However, there is no clear definition of the risk-free yield. In most developed countries, the central government is unlikely to default on its obligations. However, yields on bonds issued by the central governments of those countries differ. Generally, European investors consider German government bonds to be highly secure. Yields on bonds issued by other European governments and corporations, normally, have a positive spread over the yield on German government bonds. Figure 16 shows the composition of Generali Leven's € 1,606 million government bonds portfolio by credit rating.

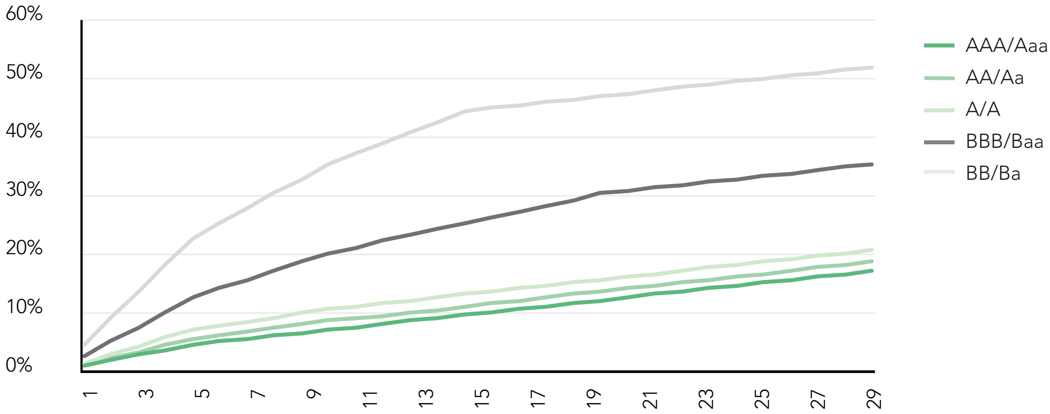
**Figure 16 Government bonds by rating category**


A credit rating agency assesses the ability of an issuer of debt instruments to meet its financial commitments. The agency assigns a credit rating that expresses its opinion on the relative ability of the issuer to fulfil his obligations. The highest credit rating category is AAA (Standard & Poor's and Fitch) or Aaa (Moody's). All government bonds in Generali Leven's portfolio had an investment grade credit rating. Investment grade credit ratings fall into categories BBB (Standard & Poor's and Fitch) or Baa (Moody's) or higher.

Changes in credit spreads affect the values of Generali Leven's investments in bonds and loans. They also affect the value of its participation in the Generali Money Market Fund FCP that invests in bonds. Changes in the level and volatility of credit spreads also affect the value of minimum return guarantees on its 'separaat depot' product.

The Standard Formula does not set a solvency capital requirement for spread risk on debt instruments issued by member states of the European Union. It only sets a solvency capital requirement for spread risk on corporate debt instruments. There also is no solvency capital requirement for spread risk on debt instruments issued by certain international organisations. On 31 December 2017, Generali Leven invested € 49 million in bonds issued by such international organisations.

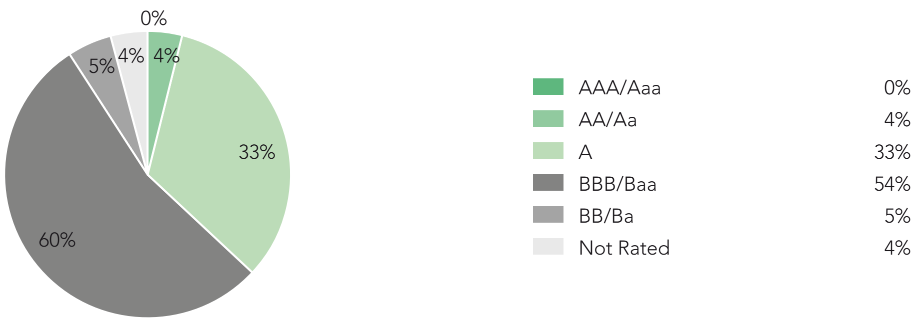
**Figure 17 Spread stress**




The solvency capital requirement for spread risk of a bond depends on its duration and credit rating. The stress increases as the credit rating becomes lower. It also increases as the bond's duration increases. Figure 17 shows the magnitudes of these stresses for corporate bonds.

The solvency capital requirement for spread risk on 31 December 2017 amounted to € 39.8 million (31 December 2016: € 40.1 million). Figure 18 shows the contribution of each credit rating class in this solvency capital requirement. Corporate bonds of the lowest investment grade contribute more than half to the solvency capital requirement for spread risk. They make up 39% of the corporate bonds portfolio of € 561 million.

**Figure 18 Spread risk SCR by rating category**




## Concentration risk

Concentration risk arises from an accumulation of exposures to a single source of risk. It can also arise from a single exposure that has the potential to threaten the financial position of the insurance undertaking. The Standard Formula does not consider debt instruments issued by member states of the European Union and certain international organisations as a source of concentration risk.

Generali Leven did not hold any investment that constituted a concentration risk.

## Currency risk

Currency risk arises from a change in the level, or in the volatility of currency exchange rates. Generali Leven is a Dutch insurer that operates in the Netherlands. Its assets and liabilities are valued in Euro currency.

Universal life insurance products offer customers an opportunity to link the accrual of the insured amount to the return of a pool of the insurer's investments. The Generali FarmacieFonds Europa pool invests in European healthcare stocks. These include stocks traded on exchanges in Switzerland, Denmark, Sweden and the United Kingdom. The value of the pool decreases when the exchange rates of the currencies of those countries to the Euro decrease. Generali Leven indirectly bears some currency risk, because its administrative fee will decrease as well.

The total solvency capital requirement for currency risk on 31 December 2017 was € 0.039 million (31 December 2016: € 0.048 million).

### Risk mitigation

Generali Leven entered into re-insurance agreements with Assicurazioni Generali. Under these agreements, Assicurazioni Generali shares in the results on Generali Leven's life insurance business. These include the results on investments covering the insurance liabilities. The re-insurance agreements, therefore, act as risk mitigating measures for market risk. The ensuing table shows the solvency capital requirements for market risks both before and after re-insurance. The numbers show that the re-insurance agreements with Assicurazioni Generali mitigate 46% of market risk.

**Table 16 SCR Market risk after and before reinsurance**

| Solvency Capital Requirement (x € 1,000) | 31 December 2017 After reinsurance | 31 December 2017 Before reinsurance |
|---|---|---|
| SCR interest | 9,638 | 47,176 |
| SCR type 1 equities | 10,484 | 13,211 |
| SCR type 2 equities | 21,575 | 33,726 |
| SCR property | 1,624 | 2,613 |
| SCR spread | 39,845 | 63,759 |
| SCR concentration | 0 | 0 |
| SCR currency | 39 | 43 |
| **SCR MARKET before diversification** | **83,205** | **160,528** |
| | | |
| Diversification equities | -1,815 | -2,436 |
| Diversification market | -9,026 | -23,523 |
| | | |
| **SCR MARKET** | **72,365** | **134,569** |

Generali Leven also entered into interest rate receiver swap agreements to mitigate interest rate risk. These interest rate swap agreements are not subject to the re-insurance agreements.

# C.3 Credit risk

## Introduction

Credit risk arises from unexpected default, or deterioration in the credit standing of issuers of securities, or the counterparties and debtors of the insurance undertaking. The Standard Formula categorises credit risk arising from investments in securities as spread risk. It categorises unexpected default, or deterioration in the credit standing of debtors and other counterparties as counterparty default risk. Within this category, it discerns between the following types of counterparties:

- type 1: non homogeneous, individually identified counterparties such as banks and re-insurers, and
- type 2: groups of homogeneous counterparties such as intermediaries, policyholder debtors and mortgage borrowers.

### Solvency capital requirement

On 31 December 2017, the solvency capital requirement for counterparty default risk (SCRdefault) amounted to € 17,528 million (31 December 2016: € 18,640 million). The main drivers for the decrease in counterparty default risk were the shrinkage in the mortgage loan portfolio and a decrease in receivables. A higher intercompany exposure partially offset the lower exposure to 'homogeneous' debtors.

**Table 17 SCR Default risk**

| Solvency Capital Requirement (x € 1,000) | 31 December 2017 | 31 December 2016 |
|---|---|---|
| SCR def 1 | 12,878 | 12,441 |
| SCR def 2 | 5,661 | 7,395 |
| **SCR DEFAULT before diversification** | 18,539 | **19,835** |
| | | |
| Diversification default | -1,011 | -1,195 |
| **SCR DEFAULT** | **17,528** | **18,640** |

## Sources of counterparty default risk

### Individually identified counterparties (type 1)

Generali Leven has the following type 1 counterparty exposures:

- re-insurance treaties;
- deposits with ceding insurers;
- intercompany receivables;
- a securities lending agreement with its custodian bank;
- deposits with banks; and
- interest rate swap agreements with banks.

The exposure from re-insurance treaties and interest rate swap agreements arise from both their current value and the risk mitigation they provide.

Where possible, Generali Leven requires its counterparties to post collateral. Collateral mitigates counterparty risk. The Standard Formula applies a stress to collateral before calculating the residual exposure to a counterparty.

Generali Leven re-insured its insurance portfolio with Assicurazioni Generali. Under the re-insurance treaties, Assicurazioni Generali shares 60% of the insurance portfolio. It deposited collateral as assurance for its share in the insurance portfolio. There was no residual exposure to Assicurazioni Generali.

Generali Leven was part of the Generali Group, until ASR Nederland acquired Generali Nederland and its subsidiaries on 5 February 2018. It re-insured a group employee benefits contract of a foreign life insurance company that is part of the Generali Group. Generali Leven posted collateral with the ceding insurer, to secure its obligations. There was no residual exposure to this ceding insurer.

The largest contributor to type 1 counterparty risk was Generali Nederland. On 31 December 2017, Generali Nederland had a current account deficit with Generali Leven of € 24 million (31 December 2017: € 22 million).

Generali Leven entered into a securities lending agreement with its custodian bank. The agreement allows the custodian bank to borrow securities from Generali Leven's custody account. On 31 December 2017, the market value of bonds lent out by Generali Leven amounted to € 271 million. It did not lend out other securities. The securities lending agreement requires that the borrower posts collateral. The collateral must cover the value of the securities it borrowed, after applying a haircut. There was no residual exposure from securities lending activity.

On 31 December 2017, Generali Leven had deposited € 21 million with investment grade banks (31 December 2016: € 35 million). It is economically unviable for banks to post collateral against bank deposits. This would prevent them from lending out the money received from its depositors.

Generali Leven entered into long-term interest rate receiver swap agreements. The value of an interest rate swap agreement represents the present value of future net cash flows. On 31 December 2017, the interest rate swap agreements had a positive value of € 11 million. It is standard practice that parties that enter into an interest rate swap agreement sign a mutual collateral service agreement. The collateral service agreement requires the party for which the value of the interest rate swap agreement is negative posts collateral. Generali Leven had a residual exposure from the risk mitigation provided by the interest rate swap agreements for the downward interest rate stress.

### Groups of homogeneous counterparties (type 2)

Generali Leven has the following type 2 counterparty exposures:

- mortgage loans, and
- insurance and re-insurance receivables.

The ensuing table gives the solvency capital requirements before re-insurance for each type of counterparty.

**Table 18 SCR Default risk, homogeneous counterparty types (type 2)**

| Homogeneous counterparty types | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Mortgage lenders | 7,573 | 9,469 |
| Insurance and re-insurance debtors | 1,527 | 2,332 |

To derive the solvency capital requirement homogeneous counterparty default risk, we apply a stress of 15% to each exposure. The main source for this solvency capital requirement is the residual exposure from mortgage loans. This is the total excess market value of loans that are valued higher than the mortgaged property securing the loan. During 2017, the outstanding amount of mortgage loans decreased from € 231 million to € 201 million. The residual exposure decreased from € 63 million on 31 December 2016 to € 50 million on 31 December 2017. The residual exposure expressed as a percentage of the market value of the mortgage loans portfolio decreased from 25% to 23%.

Generali Leven provides for future losses on mortgage loans. The provision is an average of the historic average annual loss, a six-year moving average annual loss and the modal annual loss. For 31 December 2017, this calculation returned a provision of € 2 million. On 31 December 2017, the accumulated historic loss since 1997 amounted to € 5 million. Considering these numbers, we are confident that the solvency capital requirement is sufficient to cover an annual loss, even under the most adverse circumstances.

### Risk mitigation

As is the case for market risk, Assicurazioni Generali shares in the residual counterparty risk. Because Assicurazioni Generali itself is a type 1 counterparty, it cannot share in the counterparty risk emanating from a default of Generali Group. The ensuing table gives the solvency capital requirement for counterparty default risk before and after re-insurance.

**Table 19 SCR Default risk after and before reinsurance**

| Homogeneous counterparty types | 31 December 2017 After reinsurance | 31 December 2017 Before reinsurance |
|---|---|---|
| SCR def 1 | 12,878 | 11,467 |
| SCR def 2 | 5,661 | 9,101 |
| SCR DEFAULT before diversification | 45,168 | 51,008 |
| Diversification default | -1,011 | -1,310 |
| **SCR DEFAULT** | **44,157** | **49,698** |

The re-insurance agreements with Assicurazioni Generali mitigate 11% of counterparty default risk. For type 1 counterparty risk, the re-insurance agreements actually exacerbate the risk. The reason for this is that we adhere to the Standard Formula. It requires that insurers consider counterparties belonging to a group as a single issuer. The largest type 1 counterparty exposure emanates from intercompany receivables. In this scenario, Assicurazioni Generali cannot compensate Generali Leven for a loss arising from a default of other Generali Group companies.

## C.4 Liquidity risk

### Introduction

An insurer needs liquidities to settle its current financial obligations when they fall due. Liquidities include cash and cash equivalents such as current account deposits. Current financial obligations include:
- payments to creditors, and
- payments to policyholders or beneficiaries.

When the insurer does not have sufficient liquidities to meet its current liabilities in a timely manner, it must convert assets into liquidities. It might only do so at a discount to observed market values. Liquidity risk arises when the insurer cannot realise investments and other assets at or near their market value.

Financial obligations also include the obligation to post collateral as required by collateral servicing agreements. A collateral servicing agreement will list the types of assets that the insurer may post as collateral. Such assets may include certain government bonds.

### Solvency capital requirement

The Standard Formula does not calculate a solvency capital requirement for liquidity risk.

### Sources of liquidity risk

Generali Leven has the following current financial obligations:
- creditors;
- insurance payments to beneficiaries;
- accrued benefit transfers to other insurers or pension providers;
- surrender payments to policyholders; and
- collateral obligations.

Generali Leven can meet its demand for liquidities with
- liquidities;
- premium income,
- income on investments and repayments on fixed income investments;
- incoming transfers from other insurers or pension providers; and
- payments received from debtors.

In the normal course of business, Generali Leven invests excess liquidities to match incoming and outgoing cash flows. It holds current account deposits at banks to meet with short term fluctuations in its demand for cash. It also holds participations in the Generali Money Market Fund FCP. The fund invests in high-quality money market instruments such as short-term debt. There is minimal liquidity risk involved with these assets. Generali Leven can turn its participations in the fund into liquidities within 24 hours. On 31 December 2017, Generali Leven held € 55 million (31 December 2016: € 240 million) in liquidities and near-liquid assets. In May 2017, Generali Leven received € 40 million from Assicurazioni Generali.

**Table 20 Liquid assets**

| Assets (x € 1,000) | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Bank deposits | 19,588 | 33,670 |
| Generali Money Market Fund FCP | 35,354 | 206,500 |
| **Total liquid assets** | **54,942** | **240,170** |

The preceding table shows how the liquidity position of Generali Leven changed during 2017. During 2017, it invested € 205 million in bonds. These investments explain the sharp decline in liquidities during the year. In the normal course of business, the bank deposits are sufficient to cover the operational demand for cash.

A drop in premium income, a catastrophic events or a spike in policy surrenders could result in an unexpected spike in the demand for cash. Not all of these events result in an immediate shortfall in liquidity. Surrender payments and transfers of accrued benefits allow the insurer limited time to sell assets to generate the necessary liquidity.

Excluding universal life insurance, premium income for the full year 2017 amounted to € 61 million. On 31 December 2017, the solvency capital requirement for life catastrophe risk, before re-insurance, was € 26.8 million. These amounts do not give rise for concern, considering that Generali Leven invested € 35 million in the Generali Money Market Fund FCP.

On 31 December 2017, the book value of technical provisions for insurance liabilities amounted to € 1,750 million. This number excludes universal life insurance. A mass surrender, potentially, could lead to a large increase in the demand for liquidities. Generali Leven can meet this demand by divesting its holdings of government bonds. Markets for bonds issued by most the central governments of EMU member states are liquid. They tend to remain so in times of high volatility. Generali Leven considers such bonds that are rated AA (Standard & Poor's, or Fitch) or Aa2 (Moody's) and higher sufficiently liquid to meet a sudden demand for liquidities. On 31 December 2017, it invested € 762 million in such bonds[14]. This amount is sufficient to cover almost 44% of the book value of the company's relevant technical provision.

During 2017, Generali Leven did not have to post collateral other than the aforementioned deposit with a foreign company within Generali Group. It has no obligation to make an additional deposit with that company. Generali Leven entered into collateral service agreements with banks in relation to interest rate swap agreements. On 31 December 2017, an increase in interest swap rates of 100 base points would have resulted in a collateral requirement of € 7 million.

It is the opinion of Generali Leven that it holds sufficient liquid assets to settle its current financial obligations even under severe adverse conditions.

14 These include bonds issued by Germany, the Netherlands, France, Austria and Finland. Not included are strips of such bonds or bonds held in a 'separaat depot' or by universal life investment pools.

### Expected profits in future premiums (EPIFP)
Generali Leven calculates the expected profits in future premiums according to article 260(2) of the Delegated Regulation. The difference is taken between the amount of best estimate liability from the central scenario and the best estimate liability in a scenario where all policyholders cease premium payment regardless of their contractual or legal rights to do so. On 31 December 2017 the EPIFP amounts to € 103.1 million (31 December 2016: € 153.3 million). A revised interpretation of the EPIFP methodology has led to a decrease in EPIFP of € 45.8 million, the remaining decrease of € 4.4 million is due to changes in best estimate assumptions and the yearly portfolio update.

## C.5 Operational risk

Operational risk is the 'risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.' The Solvency Capital Requirement covers operational risk. Within Generali operational risk is divided in compliance risk and operational risk. Examples of operational risks that are covered by SCR Standard Formula are:
- Internal and external fraud;
- Damage to physical assets;
- Process management;
- Outsourcing;
- Financial reporting risk;
- IT and security risk.

### Specific compliance risks
In paragraph B.4 compliance risk is defined as the risk of legal or regulatory fines, material financial losses or loss to reputation that a company may suffer as a result of not complying with laws or internal or external regulations applicable to its activities. Compliance risks include:
- The risk of legal or regulatory sanctions: e.g., loss of license or a fine from the regulator;
- The risk of litigation by any interested party;
- The risk of reputational damage;
- The risk of other financial loss.

### External fraud
External fraud concerns fraud committed by customers, suppliers or third parties and is defined as wrongful or criminal deception intended to result in financial or personal gain for oneself or another.
External fraud is a high risk scenario for Generali Leven. In particular, Generali Leven is exposed to the risk factors Products / Services, Supply Chains and Customers. This risk scenario is particularly high with regards to customers, as there is a possibility for customers to defraud Generali Leven by sending in false claims, payment reversal, exaggeration and concealment of relevant customer information.
With regard to suppliers and third parties, Generali Leven can be exposed to intermediary/underwriting fraud where agents miss-sell or misrepresent Generali Leven products to customers.

### Cybercrime
Cybercrime is defined as criminal activities carried out by means of computers or the Internet. These activities can take the form of fraud, data leaks, ransomware, and system failures as a result of cyber-attacks. Based on the Organisational Overview, Cybercrime is a high risk scenario for Generali Leven. In particular, Generali Leven is exposed to the risk factors Supply Chains, Customers, and Third Parties. Generali Leven is especially vulnerable to cybercrimes regarding loss of customer data, both through the Direct Channel as the Intermediary one. As such, Generali Leven can fall victim to a hack of its customer database and IT environment, as well as experience leaks resulting from agents and intermediaries with whom Generali Leven is doing business.

Next to these Generali Leven assumes the follow risks to be of significant importance as well:
- Privacy risk;
- Data protection risk.

### Risk profile

Regarding operational risk Generali Leven formulated the following risk preference statements:
- Generali Leven acts in compliance with local legislation and with regulations that govern its industry and business. Relates to compliance risks Generali Leven has a zero tolerance approach.
- Generali Leven minimises any exposure to risks that do not lead to increased profitability in the medium term.

Generali Leven's policyholders expect their insurer to offer them relevant and accessible solutions. They will expect Generali Leven to do so in an effective and efficient manner. They also must rely on local legislation and regulations that protect their interests. Generali Leven, therefore, does not expect them to bear the cost of failed internal processes, personnel or systems. Consequently, Generali Leven wants to avoid operational risk.

To assess the operational risk, Generali Leven applies the standard model as prescribed by EIOPA. This leads to a capital requirement of € 13.4 million (31 December 2016: € 13.9 million).

### Managing the risk

Generali introduced the enterprise risk management framework of the Committee of Sponsoring Organisations of the Treadway Commission. This framework builds on its earlier internal control integrated framework. Internal control is a process for assuring achievement of an organisation's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. Internal controls can be either preventive or detective. Effective preventive controls helps Generali Leven to avoid or mitigate operational risk.

Generali Group has drawn up a Directive on Internal Control and Risk Management System. This directive aims at 'ensuring a consistent internal control and risk management system framework for the Group by providing the Group Legal Entities with coherent rules'. Generali Leven builds on Generali Group's directive to implement effective controls. More details related the risk management framework in place and the set-up of the internal control framework can be found in paragraphs B.3 and B.5 of this document.

The main material risk concentrations and sensitivity for Generali Leven is reaching the critical scale and size of our organisation in combination with availability of knowledge and expertise.
That is also the reason that the main highest scored key risks in the Group Risk Assessment are:
- Loss of Key staff;
- Internal control framework.

## C.6 Other material risks

In September 2017, Generali Group announced it would sell Generali Nederland and its subsidiaries to ASR Nederland. The agreement between Generali Group and ASR Nederland was subject to the issuance of a declaration of no objection by the supervisor of the financial markets (DNB) and competition authorities (ACM). On 5 February 2018, Generali Nederland became part of ASR Nederland.

Pending the closure of the deal, Generali Leven ran the risk that potential and existing customers would prefer to insure themselves with other insurers. It also ran the risk that personnel would leave the company.

## C.7 Any other information

The preceding paragraphs contained all relevant information regarding the risk profile of Generali Leven. There is no other information.

# D Valuation for Solvency purposes

## General information

This chapter contains information regarding the valuation of the balance sheet items. For each material asset class the bases, methods and main assumptions used for valuation for solvency purposes are described. Separately for each material class of assets a quantitative and qualitative explanation is given for any material difference between the valuation for solvency purposes and valuation in the financial statements. When accounting principles are equal or when line items are not material, some line items are clustered together.

Valuation of assets is based on fair value measurement as described below. Each material asset class is described in paragraph D.1. Valuation of technical provisions is calculated as the sum of the best estimate and the risk margin. This is described in paragraph D.2. Other liabilities are described in paragraph D.3.

Information for each material line item is based on the balance sheet below. For each line item is described:
- Methods and assumptions for valuation;
- Difference between solvency valuation and valuation in the financial statements.

### D.1 Assets

Generali Leven adopted the IFRS valuation method as adopted by the EU as the basis for the financial statements. To a large extent the IFRS method coincides with the Solvency II valuation method used to realise the Solvency II economic balance sheet. This is in accordance with article 9 of the Delegated Regulation. Article 9 of the Delegated Regulation furthermore states that only valuation methods consistent with article 75 of the Directive are to be used. Solvency II balance sheet items that are adjusted from the IFRS value are described below. These items are consistent with article 75. Differences exist due to reclassifications and / or revaluations.

#### Reclassifications

Reclassifications have no influence on the amount of the own funds, but are mere differences in the presentation. The reclassifications relate to:
1. Deferred taxes: Deferred tax assets and liabilities are shown combined as asset or liability under IFRS, whereas the asset and liability are shown separately under Solvency II.
2. Accrued interest: interest accrual on assets and liabilities is shown separately under IFRS, whereas it is included within the market value of the specific asset or liability under Solvency II.

#### Revaluations

Revaluations are a consequence of differences in valuation principles between IFRS and Solvency II. Revaluations influence the amount of own funds. To arrive at the Solvency II valuation of an asset or liability, EIOPA defined hierarchal valuation levels (article 10 of the Delegated Regulation):
- Level 1: quoted prices (unadjusted) in an active market for the same or similar assets, as defined in articles 10.2 and 10.3;
- Level 2: valuation methods in which all inputs other than quoted prices are based on observable market data (observable inputs), as defined in article 10.6;
- Level 3: valuation methods in which inputs are based on unobservable market data (unobservable inputs), only to be applied when insufficient observable and relevant market data are available to perform a full valuation based on unobservable inputs, as defined in article 10.6.

For Generali Leven the balance sheet items that are valued differently using the Solvency II requirements are:
1. Deferred tax effects: Solvency II valuation is based on the IFRS valuation including the tax component over the valuation differences between Solvency II and IFRS. When there is a net deferred tax asset, the company relies on future fiscal profits that can be offset by fiscal losses carried forward. By carrying forward fiscal losses to future years, the company reduces its taxes on future fiscal profits. The company must assess whether future fiscal profits allow it to fully realise the deferred tax asset. Such an assessment is performed both for IFRS and Solvency II purposes.

2. Investments in subsidiaries: This regards the valuation of Generali Real Estate Investments Netherlands B.V. (GREI NL), which for Solvency II is based on market value and for IFRS is based on net asset value.
3. Mortgages and loans: Solvency II valuation is based on market value, while IFRS valuation is based on amortised cost.
4. Technical provisions and reinsurance recoverables: The value of reinsurance recoverables directly depends on the valuation methodology of the technical provisions. As the technical provisions are valued differently under Solvency II compared to IFRS, this is reflected on the reinsurance recoverables as well. The Technical Provisions are described in paragraph D.2.
5. Financial liabilities: the financial liabilities are valued at fair value for the Solvency II balance sheet and at amortised cost according to IFRS 39.
6. Contingent liabilities: Under Solvency II, contingent liabilities are to be valued on the balance sheet when they are deemed to be material. Generali recognises two types of contingent liabilities. Analysis of the contingent liabilities shows that these are immaterial and are thus valued at zero. For IFRS purposes within the normal course of business Generali Leven can be a party to activities, which risks are not reflected in the financial statements. These contingent liabilities are included in the notes to the balance sheet, unless there is only a minor chance on an outflow of cash, or other valuables.
7. Other assets: reflects the reduction of the IFRS value of the rent free period to nil under Solvency II. According to article 12 of the Delegated Regulation the market value of the rent free period, recognised as other assets under IFRS, should be reduced to zero.

## Reconciliation of the balance sheet from IFRS to Solvency II

Based on the reclassifications and revaluations specified above, the next tables detail the movements per balance sheet item:

**Table 21 Reconciliation IFRS to SII**

| (in € 1,000) Balance sheet | 31 December 2017 IFRS | Reclassifications | Revaluations | 31 December 2017 Solvency II |
|---|---|---|---|---|
| **Assets** | | | | |
| Intangible assets | 0 | | | 0 |
| Deferred tax assets | -243 | 3,924 | -3,681 | 0 |
| Owner-occupied land and buidlings | 10,450 | | | 10,450 |
| Investment property | 0 | | | 0 |
| Participations | 151,619 | | | 151,619 |
| Investments Available for Sale & derivatives | 2,152,836 | 33,034 | | 2,185,870 |
| Investments Unit-Linked | 661,014 | 17 | | 661,031 |
| Other investments | 2,373 | -2,373 | | 0 |
| Collective Investment Undertakings | 35,354 | 2,428 | | 37,782 |
| Loans & mortgages | 300,396 | | 30,132 | 330,528 |
| Reinsurance recoverables | 1,910,604 | | 67,407 | 1,978,011 |
| Deposits to cedants | 144,015 | | | 144,015 |
| Insurance & intermediaries receivables | 17,564 | | | 17,564 |
| Reinsurance receivables | 26,927 | | | 26,927 |
| Receivables (trade, not insurance) | 32,589 | | | 32,589 |
| Cash and cash equivalents | 20,963 | | | 20,963 |
| Other assets (accrued interest) | 33,979 | -33,106 | -190 | 683 |
| **Total assets** | **5,500,440** | **3,924** | **93,668** | **5,598,032** |
| | | | | |
| **Equity** | | | | |
| Paid-up and called capital | 2,269 | | | 2,269 |
| Share premium reserve | 114,539 | | | 114,539 |
| Surplus funds | 226,220 | | | 226,220 |
| Reconciliation reserve | 0 | | -127,926 | -127,926 |
| **Total equity** | **343,028** | **0** | **-127,926** | **215,102** |
| | | | | |
| **Liabilities** | | | | |
| Technical provisions - life | 1,893,593 | | 784,822 | 2,678,415 |
| Technical provisions - index-linked and unit-linked | 665,888 | | 40,856 | 706,744 |
| Other technical provisions | 611,960 | | -611,960 | 0 |
| Provisions for risks and charges | 10 | | | 10 |
| Deposits with reinsurance Quote | 1,773,974 | | 11,029 | 1,785,003 |
| Deferred tax liabilities | 3,924 | 3,924 | -7,848 | 0 |
| Financial liabilities | 137,961 | 23 | 46 | 138,030 |
| Insurance & intermediaries payables | 42,037 | | | 42,037 |
| Reinsurance payables | 1,317 | | | 1,317 |
| Payables (trade, not insurance) | 26,725 | | 4,649 | 31,374 |
| Other liabilities | 23 | -23 | | 0 |
| **Total liabilities** | **5,157,412** | **3,924** | **221,594** | **5,382,930** |
| | | | | |
| **Total equity and liabilities** | **5,500,440** | **3,924** | **93,668** | **5,598,032** |

## Table 22 Reconciliation IFRS to SII, previous year

| (in € 1,000) Balance sheet | 31 December 2016 IFRS | Reclassifications | Revaluations | 31 December 2016 Solvency II |
|---|---|---|---|---|
| **Assets** | | | | |
| Deferred tax assets | 23,879 | 7,481 | 24,546 | 55,906 |
| Owner-occupied land and buildings | 10,400 | | | 10,400 |
| Investment property | 1,700 | | | 1,700 |
| Participations | 150,460 | | 18,900 | 169,360 |
| Investments Available for Sale & derivatives | 2,022,463 | 31,422 | | 2,053,885 |
| Investments Unit-Linked | 635,478 | 272 | | 635,750 |
| Other investments | 2,247 | 52 | | 2,299 |
| Collective Investment Undertakings | 206,500 | | | 206,500 |
| Loans & mortgages | 330,214 | 75 | 28,422 | 358,711 |
| Reinsurance recoverables | 1,939,393 | | 78,813 | 2,018,206 |
| Deposits to cedants | 147,730 | | | 147,730 |
| Insurance & intermediaries receivables | 22,696 | | | 22,696 |
| Reinsurance receivables | 987 | | | 987 |
| Receivables (trade, not insurance) | 40,503 | | | 40,503 |
| Cash and cash equivalents | 34,981 | | | 34,981 |
| Other assets (accrued interest) | 36,031 | -31,821 | -180 | 4,030 |
| **Total assets** | **5,605,662** | **7,481** | **150,501** | **5,763,644** |
| | | | | |
| **Equity** | | | | |
| Paid-up and called capital | 2,269 | | | 2,269 |
| Share premium reserve | 74,539 | | | 74,539 |
| Surplus funds | 285,746 | | | 285,746 |
| Reconciliation reserve | 0 | | -129,035 | -129,035 |
| **Total equity** | **362,554** | **0** | **-129,035** | **233,519** |
| | | | | |
| **Liabilities** | | | | |
| Technical provisions - life | 1,924,599 | | 853,378 | 2,777,977 |
| Technical provisions - index-linked and unit-linked | 639,251 | | 39,184 | 678,435 |
| Other technical provisions | 641,305 | | -641,305 | 0 |
| Deposits with reinsurance Quote | 1,799,535 | | 21,000 | 1,820,535 |
| Deferred tax liabilities | 0 | 7,481 | 7,170 | 14,651 |
| Financial liabilities | 142,871 | 31 | 109 | 143,011 |
| Insurance & intermediaries payables | 44,303 | | | 44,303 |
| Reinsurance payables | 30,415 | | | 30,415 |
| Payables (trade, not insurance) | 20,798 | | | 20,798 |
| Other liabilities | 31 | -31 | | 0 |
| **Total liabilities** | **5,243,108** | **7,481** | **279,536** | **5,530,125** |
| | | | | |
| **Total equity and liabilities** | **5,605,662** | **7,481** | **150,501** | **5,763,644** |

The column 'reclassifications' includes the reclassification of the accrued interest. Under IFRS the accrued interest for both assets and liabilities is separately recognised as 'other assets' and 'other liabilities' for Solvency II reporting the accrued interest is reclassified to the specific assets and liabilities as required by article 9 of the Delegated Regulation as specified in the next table (table 23):

**Table 23 Reclassification of accrued interest Generali Leven**

| IFRS (in € 1,000) | | Solvency II (in € 1,000) | |
|---|---|---|---|
| **Other assets** | -33,106 | Investments (other than assets held for index-linked and unit-linked contracts): | |
| | | - Government bonds | 24,449 |
| | | - Corporate bonds | 7,739 |
| | | - Derivatives | 846 |
| | | - Other investments | 55 |
| | | Assets held for index-linked and unit-linked contracts | 17 |
| | | Loans and mortgages: | |
| | | - Other loans and mortgages | |
| **Total assets** | **-33,106** | **Total assets** | **33,106** |
| | | | |
| Other liabilities | -23 | Financial liabilities | 23 |
| **Total liabilities** | **-23** | **Total liabilities** | **23** |

**Table 24 Reclassification of accrued interest Generali Leven, previous year**

| IFRS (in € 1,000) | | Solvency II (in € 1,000) | |
|---|---|---|---|
| **Other assets** | -31,821 | Investments (other than assets held for index-linked and unit-linked contracts): | |
| | | - Government bonds | 22,006 |
| | | - Corporate bonds | 7,698 |
| | | - Derivatives | 1,719 |
| | | - Other investments | 52 |
| | | Assets held for index-linked and unit-linked contracts | 272 |
| | | Loans and mortgages: | |
| | | - Other loans and mortgages | 75 |
| **Total assets** | **-31,821** | **Total assets** | **31,822** |
| | | | |
| Other liabilities | -31 | Financial liabilities | 31 |
| **Total liabilities** | **-31** | **Total liabilities** | **31** |

Valuation of most financial assets is based on fair value.
In the paragraph below, this valuation methodology is described.
For different line items reference will be made to this method. In this paragraph line items from the simplified balance sheet above are described.

## Determination of fair value and fair value hierarchy

The following is a description of Generali Leven's methods of determining fair value, and a quantification of its exposure to financial instruments measured at fair value.

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Financial instruments measured at fair value on an ongoing basis include investments for own account and investments for the account of policyholders.

Generali Leven uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that Generali Leven can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and

liabilities) using valuation techniques for which all significant inputs are based on observable market data;
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

The best evidence of fair value is the existence of published priced quotations in an active market.

*Valuation techniques*
In the event that the market for a financial instrument is not active or quoted market prices are not available, a valuation technique is used. The judgment as to whether a market is active may include, although not necessarily determinatively, lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. In inactive markets assurance is obtained that the transaction price provides evidence of fair value or is determined that adjustments to transaction prices are necessary to measure the fair value of the instrument. The majority of valuation techniques are based only on observable market data, and therefore the reliability of the fair value measurement is high.

## Description per asset category
The balance sheet reports specify different asset categories. In this section, we describe the valuation of each material asset category.

*Goodwill and Intangible assets*
The intangible assets related to goodwill, pre-paid commissions and other intangible assets are not recognised in the Solvency II framework and are set to nil.

*Deferred tax*
As described earlier any adjustment from IFRS to Solvency II-reporting will lead to a deferred tax effect for Solvency II-reporting. The deferred tax assets are related to changes between IFRS and Solvency II.

The recoverability of the net deferred tax asset was assessed both for IFRS and Solvency II purposes. As a result, the change to the net deferred tax asset was limited to 25%, being the corporate tax rate, of the difference between the IFRS and Solvency II Risk Margins. The resulting adjustment to the deferred tax asset does not have any impact on the solvency ratio, because the limited eligibility of tier 3 capital.

*Property plant, and equipment held for own use*
Generali Leven recognises property at market value, equal to Solvency II measurement.

*Investments – Holdings in related undertakings, including participations*
The required adjustment of the participation of € 18.9 million is due to accounting differences and reflects the revaluation from the equity method under IFRS to market value according to article 9 of the Delegated Regulation under Solvency II.

*Investments - Equity*
Valuation of listed equities is based on the level 1 method of the fair value hierarchy. Unlisted fixed-interest preference shares are valued based on the level 2 method of the fair value hierarchy. The valuation techniques for financial instruments start from present value calculations; derivatives are valued based on forward-pricing and swap models. The observable market data contains yield curves based on company ratings and characteristics of unlisted fixed-interest preference shares. The main non-observable market input for private equity investments is the net asset value of the investment as published by the private equity company (or partner).

*Investments - Bonds*
The valuation of these assets is consistent with the IFRS fair value hierarchy as described above by Determination of fair value and fair value hierarchy.

*Investments - Collective investment undertakings*
The valuation of these assets is consistent with the IFRS fair value hierarchy as described above by Determination of fair value and fair value hierarchy. The valuation of investment funds is based on the level 1 method of the fair value hierarchy.

*Investments - Derivatives*
The valuation of these assets is consistent with the fair value hierarchy as described above by Determination of fair value and fair value hierarchy. The valuation of unlisted interest rate contracts is based on the level 2 method

of the fair value hierarchy. The valuation techniques for financial instruments start from present value calculations; derivatives are valued based on forward-pricing and swap models. The observable market data contains yield curves based on company ratings and characteristics of unlisted fixed-interest preference shares.

*Unit linked investments*
The valuation of these assets is consistent with the IFRS fair value hierarchy described above by Determination of fair value and fair value hierarchy.

*Loans and mortgages*
The valuation of loans is based on the level 2 and level 3 (mortgages) method of the fair value hierarchy. The fair value of the loans is based on the discounted cash flow method. It is obtained by calculating the present value based on expected future cash flows and assuming an interest rate curve used in the market that includes an additional spread based on the risk profile of the counterparty. This asset category includes savings linked mortgages.

The revaluation of € 21.2 million (31 December 2016: € 28.4 million) of the loans and mortgages relates to the adjustment from amortised cost under IFRS to the required market value under Solvency II-reporting.

*Reinsurance recoverables*
The movement in 'reinsurance recoverables' reflects the total change in the technical provision, which is covered under the Quota Share contract with Generali Group.

*Other assets*
These comprise the following asset classes:
- Deposits to cedants;
- Insurance and intermediaries receivables;
- Reinsurance and trade receivables;
- Cash and cash equivalents;
- Other assets.

The revaluation of the other assets reflects the reduction of the IFRS value (market value) of the rent free period to nil under Solvency II (article 12 of the Delegated Regulation).

# D.2 Technical provisions

This section describes the methodology and assumptions for the calculation of the technical provisions as well as the results.

## Methodology

Generali Leven calculates the technical provisions according to article 77 of the Solvency II Directive as a sum of a best estimate liability and a risk margin where the best estimate liability is calculated using the direct approach. Generali Leven does not apply any of the transitional arrangements as defined in article 308 of the Directive.

For the calculations Generali Leven uses an actuarial projection tool. Within this tool insurance cash flows are projected and policies are modelled on a policy by policy basis and aggregated to lines of business. Additional reserves which are not available at policy level are added after aggregation within the actuarial projection tool. No liability grouping has been used.

Within the model, all policies are projected taking into account their contract boundary. In general, group contracts are modelled as active until the renewal date of the contract after which they are either surrendered or remain paid-up. Individual policies are generally modelled for the full duration of the policy.

In the actuarial projection tool the best estimate liability gross of reinsurance is modelled as well as the reinsurance recoverables resulting in a best estimate liability net of reinsurance. For the determination of the recoverables from reinsurance an adjustment for expected losses due to counterparty default is taken into account as well. Generali Leven's reinsurance program consists mainly of two quota share reinsurance contracts with Assicurazioni Generali S.p.A., complemented by the Generali Employee Benefits program and excess of loss reinsurance contracts for death and disability risks.

1 EIOPA-BoS-14/166 EN

The calculation of the risk margin is in line with article 37 of the Delegated Regulation with a simplification in the determination of the projection of the SCR. Possible simplifications are discussed in article 58 of the Delegated Regulation and guidelines 61 and 62 of the Guidelines on the valuation of technical provisions[1]. The first in the hierarchy of simplifications is used: the calculation of future capital requirements for each individual risk is approximated and based on the run-off of selected risk drivers. Moreover, the projection of diversified capital requirements is based on the diversified SCR at the valuation date which is projected using appropriate risk drivers. The annual cost of capital charge is based on a cost of capital percentage of 6% as specified in article 39 of the Delegated Regulation and the interest curve used for both discounting and determining the capital requirements is a swap curve including ultimate forward rate and credit risk adjustment but without volatility adjustment, in line with guideline 2 of the guidelines on the implementation of the long-term guarantee measures issued by EIOPA.

## Best estimate assumptions

Generali Leven uses best estimate assumptions to calculate the technical provisions. The assumptions are the same for the calculation of the best estimate liability and the risk margin with the exception of the interest curve used.

With respect to the interest curve, Generali Leven uses the swap curve including ultimate forward rate, credit risk adjustment and volatility adjustment provided by the European Insurance and Occupational Pensions Authority (EIOPA) for the calculation of the best estimate liability. For the calculation of the risk margin the swap curve including ultimate forward rate and credit risk adjustment but without volatility adjustment is used. Generali Leven does not apply a matching adjustment.

In addition to financial assumptions, biometric assumptions are used for the calculation of the best estimate liability and risk margin. These biometric assumptions concern mortality, disability, surrender and the frequency with which policies are paid-up. Mortality assumptions refer to the rates according to which Generali Leven expects their insured to decease. Depending on the coverage insured, these assumptions influence the expected death claims, the expected annuity payments and expected incoming premiums. Disability assumptions concern the loss ratios with respect to disability premium. Surrender assumptions refer to the rates according to which policies are surrendered. For policies with a surrender value this influences surrender payments. Frequencies for paid-up influence the rate according to which policies cease the premium payments, resulting in a lowering of benefits covered. The biometric assumptions are based on internal data, market data or a combination and are updated on a yearly basis.

Next to the above mentioned assumptions, assumptions related to expenses are used. For maintenance expenses, all expenses including overhead are allocated to the relevant products and divided into fixed and variable expenses. Besides maintenance expenses, Generali Leven acknowledges acquisition expenses, investment expenses, renewal commissions and a total expense ratio specifically for policies where the investment risk is borne by the policyholder. Generali Leven updates the expense assumptions on a yearly basis.

## Technical provision movement

During 2017 there have been no material changes in the adopted methodology but the best estimate assumptions have been updated. Although all assumptions have been updated, the update for longevity has the highest impact.

For longevity the most important change is related to the experience factors. The decreased experience factors lead to both an increase in best estimate liability and an increase in capital requirement for longevity risk leading to an increase in risk margin.

**Table 25 Technical provision movement Generali Leven**

| (in € 1,000) | 31 December 2017 | 31 December 2016 | Difference |
|---|---|---|---|
| Best estimate liability gross of reinsurance | 3,259,911 | 3,318,850 | -58,939 |
| Recoverables from reinsurance | 1,978,011 | 2,018,207 | -40,196 |
| **Best estimate liability net of reinsurance** | **1,281,900** | **1,300,643** | **-18,743** |
| Risk Margin | 125,248 | 137,562 | -12,314 |
| | | | |
| **Technical provision** | **1,407,147** | **1,438,205** | **-31,057** |

During 2017 the technical provision decreased from € 1,438 million to € 1,407 million, as can be seen in Table 25. The decrease is mainly due to changes in best estimate assumptions and the remaining movement is due to the change in economic assumptions, normal development of the insurance portfolio and the addition of new business written in 2017.

## Comparison with statutory reserve

The table below specifies the technical provision, net of reinsurance, for Solvency II as well as the statutory reserves.

**Table 26 Technical provision per Line of Business Generali Leven**

| (in € 1,000)<br>Line of Business | Best estimate | Risk Margin | Technical provision | Statutory reserves |
|---|---|---|---|---|
| Insurance with profit participation | 411,325 | 41,198 | 452,522 | 567,848 |
| Index-linked and unit-linked insurance | 297,253 | 18,525 | 315,778 | 273,682 |
| Other life insurance | 572,832 | 65,137 | 637,969 | 419,215 |
| Accepted reinsurance with profit participation | 490 | 388 | 878 | 91 |
| | | | | |
| **Total** | **1,281,900** | **125,248** | **1,407,147** | **1,260,837** |

Although the statutory reserves are based on IFRS, the same best estimate assumptions as used for the Solvency II technical provision are used for the calculation with the exception of the interest curve. In addition, the following differences apply for the calculation of the risk margin:

- the capital requirements are based on internally calibrated stresses instead of Standard Formula stresses;
- a cost of capital percentage of 4% instead of 6% is used;
- an interest curve with 29 base points volatility adjustment instead of 0 base points volatility adjustment is used for discounting and for determining the capital requirements.

## Impact of volatility adjustment

The use of volatility adjustment to the interest curve influences the best estimate liability, and therefore the technical provision, basic own funds and eligible own funds as well as the Solvency Capital Requirement.

**Table 27 Impact of volatility adjustment Generali Leven**

| (in € 1,000) | with VA | without VA | impact VA |
|---|---|---|---|
| Technical provision | 1,407,147 | 1,414,282 | 7,135 |
| Basic Own Funds | 215,102 | 207,967 | -7,135 |
| Eligible Own Funds to cover the MCR | 215,102 | 207,967 | -7,135 |
| Minimum Capital Requirement | 47,460 | 47,731 | 270 |
| Eligible Own Funds to cover the SCR | 215,102 | 207,967 | -7,135 |
| Solvency Capital Requirement | 189,842 | 190,923 | 1,081 |
| Solvency ratio | 113% | 109% | -4% |

While last year the solvency ratio decreased by 14%, this year the ratio decreases by 4% when the volatility adjustment is not taken into account. This decrease in impact of the volatility adjustment is because the volatility adjustment decreased from 13 base points at the end of 2016 to 4 base points at the end of 2017.

## Level of uncertainty

Due to the fact that the technical provision is calculated with a model using assumptions, there is automatically a level of uncertainty around the amount of technical provision. Uncertainty arising from the model is mitigated through an analysis on the model outcome with the actual results. Uncertainty in the best estimate assumptions is mitigated through sensitivity analyses performed during the assumption setting process. Both analyses are performed on a yearly basis.

# D.3 Other liabilities

## D.3.1 Valuation of other liabilities

*Valuation of other liabilities*

In line with the valuation of assets, the accounting principles for other liabilities used in the Pillar III reports are generally also based on the IFRS as adopted by the EU. Any differences between the methods for IFRS and Solvency II purposes are addressed in detail per liability category. In this paragraph line items from the simplified balance-sheet shown in D.1 are described.

*Deposit with reinsurers*

All revaluations that are related to the Quota Share contract are net recognised as deposits from reinsurers.

*Deferred tax liabilities*

The deferred tax movements are mainly related to revaluation of the loans and mortgages (€ 5.3 million; 31 December: € 7.2 million) from amortised cost under IFRS to market value under Solvency II.

*Financial Liabilities*

The revaluation of financial liabilities reflects the change in valuation method from amortised cost under IFRS to market value under Solvency II.

*Other liabilities*

These comprise the following liability classes:
- Insurance and intermediaries payables;
- Reinsurance & payables trade;
- Other liabilities.

*Provisions*

Provisions are defined as:
- present obligation (legal or constructive) as a result of a past event;
- It is probable (i.e. more likely than not, >50%) that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.
- Solvency II prescribes that all provisions be recognised on the Solvency II balance sheet.

*Contingent liabilities*

Contingent liabilities are defined as:
- a possible (<50%) obligation depending on whether some uncertain future event occurs; or
- a present obligation but payment is not probable or the amount cannot be measured reliably.

Contingent liabilities are not recognised on the IFRS balance sheet.

Solvency II prescribes that all contingent liabilities be recognised on the Solvency II balance sheet. This covers cases where the amount cannot be measured reliably or when the probability is <50%. A regular process is in place to determine the amount of contingent liabilities that should be recognised on the Solvency II balance sheet.

# D.4 Alternative methods for valuation

Generali Leven does not value the assets and liabilities (including TP) different than described in paragraphs D.1, D.2 and D.3 of this document.

# D.5 Any other information

All relevant information regarding the valuation of the assets and liabilities is included in the previous paragraphs of this chapter. Therefore, no other information is included.

# E Capital management

Insurance undertakings must hold sufficient risk capital to give policyholders and other beneficiaries reasonable assurance that payments are made when they fall due. On 1 January 2016, the Solvency II Guidelines of the European Union took effect. These new solvency guidelines define more risk-based capital requirements for insurance undertakings than the Solvency I guidelines. This capital requirement should reflect the true risk profile of the insurance undertaking.

Generali Leven uses the Standard Formula defined in the Solvency II Guidelines for the calculation of the Solvency Capital Requirement. In this chapter, the solvency position is discussed. The capital management policy of Generali Leven is shortly discussed in the introduction. In paragraph E.1, the capital position is discussed. 'Own funds' is used to discern between the Solvency II and other definitions of capital. In paragraph E.2, the solvency of Generali Leven is discussed. This position is expressed as the ratio between the eligible own funds and the Solvency Capital Requirement. This ratio is called the Solvency II ratio.

### Capital Management policy

The principles of Generali Leven for capital management are laid down in the capital and dividend policy. At the core of the capital and dividend policy is the ratio of eligible own funds to the Solvency Capital Requirement. This is known as the Solvency II ratio. Generali Leven wants to hold sufficient eligible own funds to cover 110% of the Solvency Capital Requirement. This is the hard risk tolerance.

Generali Leven has defined an 'early warning threshold'. If the Solvency II ratio drops below this level, measures will be implemented to prevent Generali Leven endings up outside its risk tolerance. Generali Leven has set an early warning threshold for the Solvency II ratio at 125%. Measures that Generali Leven may implement range from lowering its risk profile to applying for a capital endowment from Generali Group.

Generali Leven assesses its solvency position on a quarterly basis. This assessment involves calculation of both the own funds and Solvency Capital Requirement. The outcome of these calculations are discussed by the Executive Board of Generali Nederland. After approval of the Executive Board, the Solvency II figures are submitted to the supervisor DNB. Generali Leven must do so within seven weeks after the end of the quarter.

Finally, the numbers are presented to the Supervisory Board of Generali Nederland. Its Risk and Audit Committee discusses risk and audit subjects such as the solvency position, in preparation for the Supervisory Board's meeting, and advises the Supervisory Board on this matter.

## E.1 Own funds

At 31 December 2017, Generali Leven had € 343.0 million (31 December 2016: € 362.6 million) capital according to its IFRS annual accounts. This capital measure is also known as equity. Under Solvency II, different reporting standards must be applied. Under Solvency II, all assets and liabilities must be valued as if they are traded on free markets. This results in a different capital measure that is known as 'own funds.' Table 28 reconciles the equity based on IFRS to the own funds. The total adjustment is -/-€ 132 million (31 December 2016: -/-€ 129 million).

**Table 28 Own Funds at 31 December 2017 Generali Leven**

| Adjustment (in € 1,000) | 2017 | 2016 |
|---|---|---|
| **Equity (International Financial Reporting Standards)** | **343,028** | **362,554** |
| Other intangible assets | -189 | -180 |
| Generali Real Estate Investments Netherlands B.V. | 0 | 18,900 |
| Loans valued at amortised cost | 30,132 | 28,422 |
| Financial liabilities valued at amount outstanding | -46 | -109 |
| Attributable to deposits received from reinsurers | -11,029 | -21,000 |
| Other liabilities | -4,649 | 0 |
| **Capital after adjustment of investments and financial liabilities** | **357,247** | **388,587** |
| Technical provisions after reinsurance | -146,312 | -172,444 |
| **Own Funds before deferred tax adjustments** | **210,935** | **216,143** |
| Deferred tax adjustment | 4,167 | 17,376 |
| **Available Own Funds** | **215,102** | **233,519** |

The own funds decreased from € 233.5 million at 31 December 2016 to € 215.1 million at 31 December 2017 Table 29 shows that the book loss for 2017 was € 62.2 million (2016: € 13.3 million), Generali Leven received a capital endowment of € 40 million and Reconciliation reserve ended with € 129.0 million.

The differences between IFRS valuation and Solvency II valuation (the Reconciliation reserve) are discussed in chapter D.

**Tabel 29 Movement in Own Funds during 2017 Generali Leven**

| Own Funds (in € 1,000) | Capital 31 December 2017 | Capital 31 December 2016 |
|---|---|---|
| Ordinary share capital | 2,269 | 2,269 |
| Share premium reserve | 74,539 | 44,539 |
| Other reserves | 285,746 | 306,823 |
| **Equity at 1 January** | **362,554** | **353,631** |
| Reconciliation reserve | -129,035 | -76,438 |
| **Own Funds at 1 January** | **233,519** | **277,193** |
| Result for the period | -62,213 | -13,295 |
| Movements in other reserves | 2,687 | -7,782 |
| Capital endowment | 40,000 | 30,000 |
| Movement in the reconciliation reserve | 1,109 | -52,597 |
| | | |
| **Own Funds at 31 December** | **215,102** | **233,519** |

The quality of available own funds is also assessed. For this purpose, available own funds are classified as tier 1, tier 2 or tier 3 own funds. The highest quality own funds is classified as tier 1. The lowest quality own funds are classified as tier 3. Solvency II regulations set restrictions to the amounts of own funds classified as tier 2 or tier 3 that can serve to cover the Solvency Capital Requirement and the Minimum Capital Requirement.

**Subsequent events**

On 5 February 2018 100% of the shares in Generali Nederland nv were acquired by ASR Nederland NV. As of that date the statutory directors and supervisory directors resigned and were replaced by appointees of ASR, and the name of Generali Nederland nv was altered to ASR Utrecht NV. The articles of association were modified. Various other changes are planned and integration plans are being fleshed out in order to integrate Generali Nederland nv and its subsidiaries into the ASR group of companies. Some of these plans will require approval from the Company's Works Council. Public records, such as the registers of the Chamber of Commerce, have been adjusted to reflect these changes. The governance structure has been adjusted to comply with that of ASR.

Relationships with companies belonging to the Assicurazioni Generali group were severed to the extent possible, although several transitional arrangements have been entered into to limit the disruption caused by the change in ownership.

Every effort has been made to inform customers and business partners of the change in ownership.

High level integration plans, which were shared with regulators as part of the process of gaining approvals for the change of control, are being worked out in further detail and are expected to lead to further changes in 2018 and subsequent years as the activities of Generali Nederland nv and its subsidiaries will be integrated into those of the ASR group of companies.

Following the change in ownership of Generali Nederland nv and in line with the plans submitted to the Dutch regulatory authorities the existing board members all resigned from their functions and were discharged of their responsibilities to Generali Nederland nv. A new Generali Leven Management Board was appointed consisting of the following individuals:
- Mr Jos Baeten CEO
- Mr Chris Figee CFO
- Ms Karin Bergstein, and
- Mr Michel Verwoest

Similarly, a new Generali Nederland Supervisory Board was appointed consisting of:
- Mr Kick van der Pol, Chair
- Ms Annet Aris
- Mr Cor van den Bos, and
- Mr Herman Hintzen

## E.2 Solvency Capital Requirement

The Solvency Capital Requirement defines the economic capital required to provide reasonable assurance that insurer makes payments to policyholders and other beneficiaries when they fall due. Table 30 gives the composition of the Solvency Capital Requirement. On 31 December 2017, the Solvency Capital Requirement for Generali Leven was € 189.8 million (31 December 2016: € 193.0 million). There was an increase in the solvency capital requirement for market risks. A decrease in the solvency capital requirements for life underwriting risk and counterparty default risk offset this. The solvency capital requirement for operational risk decreased in line with the shrinking insurance portfolio. Due to its high net deferred tax asset, Generali Leven did not allow for loss absorption of corporate tax.

**Table 30 SCR break-down**

| | 31 December 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| Risk (in € 1,000) | Before diversification | After diversification | Before diversification | After diversification |
| SCR Market | 83,205 | 72,364 | 88,796 | 69,106 |
| SCR Default | 18,539 | 17,528 | 19,835 | 18,640 |
| SCR Life | 209,408 | 137,037 | 212,334 | 141,696 |
| SCR Health | 0 | 0 | 0 | 0 |
| SCR Non-Life | 0 | 0 | 0 | 0 |
| SCR Intangible | 0 | 0 | 0 | 0 |
| **BSCR before diversification** | **311,152** | **226,929** | **320,965** | **229,442** |
| Diversification benefits | | -50,531 | | -50,385 |
| **SCR after diversification** | **311,152** | **176,398** | **320,965** | **179,057** |
| SCR Operational | 13,443 | 13,443 | 13,928 | 13,928 |
| **SCR before tax** | **324,595** | **189,841** | **334,893** | **192,985** |
| Tax absorption | 0 | 0 | 0 | 0 |
| **SCR** | **324,595** | **189,841** | **334,893** | **192,985** |

Before diversification, the solvency capital requirement for market risk decreased to € 83.2 million (31 December 2017) from € 88.8 million (31 December 2016). As table 30 shows, a lower solvency capital requirement for interest rate risk contributed to this decline. Throughout the year 2017, Generali Leven had an exposure to both the upward and downward interest rate stress of the Standard Formula. A decrease in the requirement for the upward stress and an increase in the requirement for the downward stress caused the latter to prevail on 31 December 2017. On 31 December 2016, the upward stress prevailed over the downward stress. This change in the prevailing interest rate stress scenario resulted in less diversification among market risks.

The lower solvency capital requirement for counterparty default risk for 31 December 2017 is the result of shrinkage in the mortgage loans portfolio and a decrease in insurance receivables.

The lower solvency capital requirement for life underwriting risk for 31 December 2017 is the result of a further run-off of the portfolio.

Economic capital serves as a financial buffer against unexpected losses. When the insurer incurs an unexpected loss, its economic capital will decrease. As a result, the insurer temporarily might experience a shortfall in its funds that cover its Solvency Capital Requirement. The European Commission, therefore, also defined a Minimum Capital Requirement insurers must meet at all times.

**Table 31 MCR break-down**

| Minimum Capital Requirement (in € 1,000) | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Best estimate guaranteed benefits with profit participation | 15,237 | 19,470 |
| Best estimate discretionary benefits with profit participation | 0 | 0 |
| Best estimate index-linked and unit-linked insurance | 2,081 | 2,003 |
| Best estimate other insurance | 12,029 | 10,254 |
| Capital at risk | 3,578 | 3,463 |
| **Linear Minimum Capital Requirement** | **32,925** | **35,190** |
| SCR * 25% (floor for Minimum Capital Requirement) | 47,460 | 48,246 |
| SCR * 45% (cap on Minimum Capital Requirement) | 85,429 | 86,843 |
| **Combined Minimum Capital Requirement** | **47,460** | **48,246** |
| Absolute floor (AMCR) | 3,700 | 3,700 |
| **Minimum Capital Requirement (MCR)** | **47,460** | **48,246** |

Table 31 shows the calculation for Generali's Minimum Capital Requirement for 31 December 2017. The Minimum Capital Requirement from its liabilities was € 32.9 million (31 December 2016: € 35.2 million). The run-off of the closed book portfolio caused the decrease in this linear Minimum Capital Requirement. The Minimum Capital Requirement must be at least 25% of the Solvency Capital Requirement, but not more than 45% of the Solvency Capital Requirement. For Generali Leven, this results in a Minimum Capital Requirement of € 47.5 million (31 December 2016: € 48.2 million). The Minimum Capital Requirement must at least equal the legal minimum requirement of € 3.7 million.

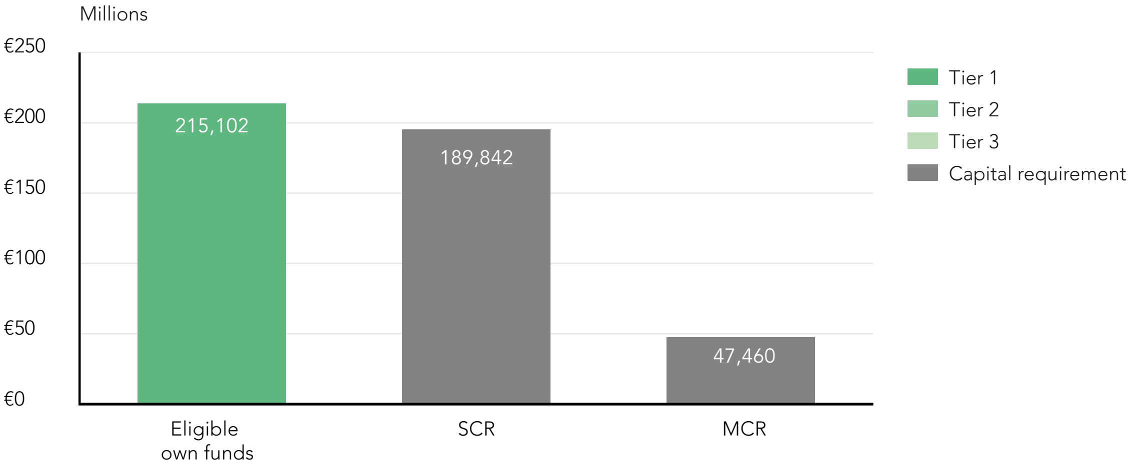
On 31 December 2017, Generali Leven had € 215.1 million (31 December 2016: € 233.5 million) own funds.

**Table 32 Own Funds**

| Capital (x € 1,000) | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Tier 1 | 215,102 | 192,264 |
| Tier 2 | 0 | 0 |
| Tier 3 | 0 | 41,255 |
| **Own Funds** | **215,102** | **233,519** |
| Not eligible tier 2 | 0 | 0 |
| Not eligible tier 3 | 0 | -12,307 |
| **Eligible Own Funds** | **215,102** | **221,212** |

On 31 December 2017, therefore, Generali Leven had sufficient eligible own funds to meet its Solvency Capital Requirement. Its Solvency coverage ratio was 113% (31 December 2016: 115%). Figure 19 shows the eligible own funds on 31 December 2017 in relation to its Solvency Capital Requirement and Minimum Capital Requirement.

#### Figure 19 Eligible own Funds




Only the tier 1 capital was eligible to meet the Minimum Capital Requirement. On 31 December 2017, Generali Leven's Minimum Capital Requirement was € 47.4 million (31 December 2016: € 48.2 million). This requirement was met by its € 215.1 million (31 December 2016: € 192.3 million) tier 1 own funds. The company met this requirement with € 215.1 million (31 December 2016: € 192.3 million) eligible own funds. Generali Leven, therefore, also held sufficient eligible own funds to cover the Minimum Capital Requirement.

Credit spreads compensate investors for the risk that the issuer of a fixed income security defaults on its obligation to pay coupons and repay principal. Changes in the likelihood of a default do not fully explain observed volatility in credit spreads. This causes volatility in the Best Estimate of Liabilities and, consequently, in the financial position of insurers. Insurers can apply a volatility adjustment to their Best Estimate of Liabilities to compensate for this spurious volatility in credit spreads. If Generali Leven would not have applied this volatility adjustment, its Solvency coverage ratio would have been 109%.

Generali Leven calculates its solvency coverage ratio on a quarterly basis. The ensuing table shows that throughout 2017, Generali had sufficient eligible own funds to comply with the Minimum Capital Requirement and Solvency Capital Requirement.

#### Table 33 Solvency Ratio

| (in € 1,000) | 31 December 2017 | 30 September 2017 | 30 June 2017 | 31 maart 2017 | 31 December 2016 |
|---|---|---|---|---|---|
| Eligible Own Funds (SCR) | 215,102 | 286,117 | 273,290 | 210,804 | 221,212 |
| SCR | 189,842 | 188,210 | 190,803 | 188,648 | 192,985 |
| **SCR coverage ratio** | **113%** | **152%** | **143%** | **112%** | **115%** |
| Eligible Own Funds (MCR) | 215,102 | 257,885 | 244,670 | 182,507 | 192,264 |
| MCR | 47,460 | 47,053 | 47,701 | 47,162 | 48,246 |
| **MCR coverage ratio** | **453%** | **548%** | **513%** | **387%** | **399%** |

## E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

For Generali Leven the equity exposure is very limited. Therefore, the duration-based equity risk sub-module is not used in the determining the SCR for equity risk.

## E.4 Differences between the Standard Formula and any internal model used

Generali Leven applies the Standard Formula as provided by EIOPA. Therefore, no documentation on an Internal Model is included.

## E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

During 2017, Generali Leven complied with the Minimum Capital Requirement and Solvency Capital Requirement.

## E.6 Any other information

All relevant information regarding the Own Funds and Solvency Capital Requirement is included in the previous sections, in the same chapter and sections of the SFCR and in the ORSA. Therefore, no other information is included.

Business and performance
System of governance
Risk profile
Valuation for Solvency purposes
Capital management

# Appendix I Public Disclosure Templates

Based on Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council, insurance and reinsurance undertakings are required to publicly disclose as part of their solvency and financial condition report the templates as listed below (the numbers are disclosed in thousands of units):

- Template S.02.01.02, specifying balance sheet information using the valuation in accordance with Article 75 of Directive 2009/138/EC;
- Template S.05.01.02, specifying information on premiums, claims and expenses using the valuation and recognition principles used in the undertaking's financial statements, for each line of business as defined in Annex I of Delegated Regulation (EU) 2015/35;
- Template S.12.01.02, specifying information on the technical provisions relating to life insurance and health insurance pursued on a similar technical basis to that of life insurance ('health SLT') for each line of business as defined in Annex I to Delegated Regulation (EU) 2015/35;
- Template S.22.01.21, specifying information on the impact of the long term guarantee and transitional measures;
- Template S.23.01.01, specifying information on own funds, including basic own funds and ancillary own funds;
- Template S.25.01.21, specifying information on the Solvency Capital Requirement calculated using the Standard Formula;
- Template S.28.01.01, specifying the Minimum Capital Requirement for insurance and reinsurance undertakings engaged in only life or only non-life insurance or reinsurance.

# Balance sheet

S.02.01.02

## Assets

| (in € 1,000) | | Solvency II value |
|---|---|---|
| **Assets** | | C0010 |
| Goodwill | R0010 | |
| Deferred acquisition costs | R0020 | |
| Intangible assets | R0030 | |
| Deferred tax assets | R0040 | 0 |
| Pension benefit surplus | R0050 | |
| Property, plant & equipment held for own use | R0060 | 10,450 |
| **Investments (other than assets held for index-linked and unit-linked funds)** | R0070 | **2,375,271** |
| Property (other than for own use) | R0080 | |
| Participations | R0090 | 151,619 |
| *Equities* | R0100 | *10,432* |
| Equities - listed | R0110 | 9,705 |
| Equities - unlisted | R0120 | 727 |
| *Bonds* | R0130 | *2,164,382* |
| Government Bonds | R0140 | 1,686,125 |
| Corporate Bonds | R0150 | 478,257 |
| Structured notes | R0160 | |
| Collateralised securities | R0170 | |
| Investment funds | R0180 | 35,354 |
| Derivatives | R0190 | 11,056 |
| Deposits other than cash equivalents | R0200 | |
| Other investments | R0210 | 2,428 |
| Assets held for index-linked and unit-linked funds | R0220 | 661,031 |
| **Loans & mortgages** | R0230 | **330,528** |
| Loans & mortgages to individuals | R0240 | 103 |
| Other loans & mortgages | R0250 | 229,422 |
| Loans on policies | R0260 | 101,003 |
| **Reinsurance recoverables from:** | R0270 | **1,978,011** |
| Non-life and health similar to non-life | R0280 | 0 |
| Non-life excluding health | R0290 | |
| Health similar to non-life | R0300 | |
| *Life and health similar to life, excluding health and index-linked and unit-linked* | R0310 | *1,587,045* |
| Health similar to life | R0320 | |
| Life excluding health and index-linked and unit-linked | R0330 | 1,587,045 |
| Life index-linked and unit-linked | R0340 | 390,966 |
| Deposits to cedants | R0350 | 144,015 |
| Insurance & intermediaries receivables | R0360 | 17,564 |
| Reinsurance receivables | R0370 | 26,927 |
| Receivables (trade, not insurance) | R0380 | 32,589 |
| Own shares | R0390 | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | R0400 | |
| Cash and cash equivalents | R0410 | 20,963 |
| Any other assets, not elsewhere shown | R0420 | 683 |
| | | |
| **Total assets** | R0500 | **5,598,032** |

## Liabilities

| (in € 1,000) | | Solvency II value |
|---|---|---|
| **Liabilities** | | |
| **Technical provisions – non-life (Statutory column)** | R0510 | |
| **Technical provisions - non-life (excluding health)** | R0520 | **0** |
| TP calculated as a whole | R0530 | |
| Best Estimate | R0540 | |
| Risk margin | R0550 | |
| **Technical provisions - health (similar to non-life)** | R0560 | **0** |
| TP calculated as a whole | R0570 | |
| Best Estimate | R0580 | |
| Risk margin | R0590 | |
| **Technical provisions - life (excluding index-linked and unit-linked) (Statutory column)** | R0600 | |
| **Technical provisions - health (similar to life)** | R0610 | **0** |
| TP calculated as a whole | R0620 | |
| Best Estimate | R0630 | |
| Risk margin | R0640 | |
| **Technical provisions – life (excluding health and index-linked and unit-linked)** | R0650 | **2,678,415** |
| TP calculated as a whole | R0660 | |
| Best Estimate | R0670 | 2,571,692 |
| Risk margin | R0680 | 106,723 |
| **Technical provisions – index-linked and unit-linked** | R0690 | **706,744** |
| TP calculated as a whole | R0700 | |
| Best Estimate | R0710 | 688,219 |
| Risk margin | R0720 | 18,525 |
| Other technical provisions | R0730 | |
| Contingent liabilities | R0740 | |
| Provisions other than technical provisions | R0750 | 10 |
| Pension benefit obligations | R0760 | |
| Deposits from reinsurers | R0770 | 1,785,003 |
| Deferred tax liabilities | R0780 | 0 |
| Derivatives | R0790 | |
| Debts owed to credit institutions | R0800 | 138,030 |
| Financial liabilities other than debts owed to credit institutions | R0810 | 42,037 |
| Insurance & intermediaries payables | R0820 | 1,317 |
| Reinsurance payables | R0830 | 26,725 |
| Payables (trade, not insurance) | R0840 | |
| **Subordinated liabilities** | R0850 | **0** |
| Subordinated liabilities not in BOF | R0860 | |
| Subordinated liabilities in BOF | R0870 | |
| Any other liabilities, not elsewhere shown | R0880 | 4,649 |
| **Total liabilities** | R0900 | **5,382,930** |
| | | |
| **Excess of assets over liabilities** | R1000 | **215,102** |

## S.05.01.02 Premiums, claims and expenses

| (in € 1,000) | | Line of Business for: life insurance obligation | | | | | | Life reinsurance obligations | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 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 obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life reinsurance | Total |
| | | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0300 |
| **Premiums written** | | | | | | | | | | |
| Gross | R1410 | | 12,818 | 35,460 | 46,891 | | | | 853 | **96,022** |
| Reinsurers' share | R1420 | | 5,244 | 19,274 | 24,681 | | | | 854 | **50,053** |
| **Net** | R1500 | **0** | **7,574** | **16,186** | **22,210** | **0** | **0** | **0** | **-1** | **45,969** |
| **Premiums earned** | | | | | | | | | | |
| Gross | R1510 | | 12,818 | 35,460 | 46,891 | | | | 853 | **96,022** |
| Reinsurers' share | R1520 | | 5,244 | 19,274 | 24,681 | | | | 854 | **50,053** |
| **Net** | R100 | **0** | **7,574** | **16,186** | **22,210** | **0** | **0** | **0** | **-1** | **45,969** |
| **Claims incurred** | | | | | | | | | | |
| Gross | R1610 | | 62,979 | 38,781 | 77,568 | | | | 9,825 | **189,153** |
| Reinsurers' share | R1620 | | 37,812 | 22,496 | 48,841 | | | | 9,745 | **118,894** |
| **Net** | R1700 | **0** | **25,167** | **16,285** | **28,727** | **0** | **0** | **0** | **80** | **70,259** |
| **Changes in other technical provisions** | | | | | | | | | | |
| Gross | R1710 | | -136,880 | 26,413 | 122,698 | | | | -3,831 | **8,400** |
| Reinsurers' share | R1720 | | -90,662 | 16,350 | 71,443 | | | | -3,813 | **-6,682** |
| **Net** | R1800 | **0** | **-46,218** | **10,063** | **51,255** | **0** | **0** | **0** | **-18** | **15,082** |
| **Expenses incurred** | R1900 | | **3,421** | **10,876** | **9,431** | | | | **-394** | **23,334** |
| **Other expenses** | R2500 | | | | | | | | | |
| | | | | | | | | | | |
| **Total expenses** | R2600 | | | | | | | | | **23,334** |

Business and performance | System of governance | Risk profile | Valuation for Solvency purposes | Capital management

## S.12.01.02 Technical Provisions relating to life insurance and health insurance

| | | | Index-linked and unit-linked insurance | | | Other life insurance | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Insurance with profit participation | | Contracts without options and guarantees | Contracts with options and guarantees | | Contracts without options and guarantees | Contracts with options and guarantees | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance contracts | Accepted reinsurance | Total (Life other than health insurance, incl. Unit-Linked) |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0150 |
| **Technical provisions calculated as a whole** | R0010 | | | | | | | | | | **0** |
| Total Recoverables from reinsurance and SPV before the adjustment for expected losses due to counterparty default associated to TP as a whole | R0020 | | | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | |
| **Best Estimate** | | | | | | | | | | | |
| **Gross Best Estimate** | R0030 | 1,070,279 | | | 688,219 | | 182,674 | 1,176,449 | | 142,290 | **3,259,911** |
| Total recoverables from reinsurance and SPV before the adjustment for expected losses due to counterparty default | R0080 | 658,953 | | | 390,967 | | 105,458 | 680,823 | | 141,800 | **1,978,001** |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re | R0090 | **411,326** | | **0** | **297,252** | | **77,216** | **495,626** | | **490** | **1,281,910** |
| **Risk Margin** | R0100 | 41,197 | 18,525 | | | 65,137 | | | | 389 | **125,248** |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | |
| Technical provisions calculated as a whole | R0110 | | | | | | | | | | |
| Best Estimate | R0120 | | | | | | | | | | |
| Risk Margin | R0130 | | | | | | | | | | |
| **Technical provisions - total** | R0200 | **1,111,476** | **706,744** | | | **1,424,260** | | | | **142,679** | **3,385,159** |

## S.22.01.21 Impact of the long term guarantee and transitional measures

| | | 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 |
|---|---|---|---|---|---|---|
| | | C0010 | C0030 | C0050 | C0070 | C0090 |
| Technical provisions | R0010 | 1,407.147 | | | 1,414,282 | |
| Basic Own Funds | R0020 | 215,102 | | | 207,967 | |
| Eligible own funds to meet Solvency Capital Requirement | R0050 | 215,102 | | | 207,967 | |
| Solvency Capital Requirement | R0090 | 189,842 | | | 190,923 | |
| Eligible own funds to meet Minimum Capital Requirement | R0100 | 215,102 | | | 207,967 | |
| Minimum Capital Requirement | R0110 | 47,460 | | | 47,731 | |

## S.23.01.01 Own funds, including basic own funds and ancillary own funds

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | | | | | |
| Ordinary share capital (gross of own shares) | R0010 | 2,269 | 2,269 | | | |
| Share premium account related to ordinary share capital | R0030 | 114,539 | 114,539 | | | |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | R0040 | | | | | |
| Subordinated mutual member accounts | R0050 | | | | | |
| Surplus funds | R0070 | | | | | |
| Preference shares | R0090 | | | | | |
| Share premium account related to preference shares | R0110 | | | | | |
| Reconciliation reserve | R0130 | 98,294 | 98,294 | | | |
| Subordinated liabilities | R0140 | | | | | |
| An amount equal to the value of net deferred tax assets | R0160 | | | | | |
| Other items approved by supervisory authority as basic own funds not specified above | R0180 | | | | | |
| **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** | | | | | | |
| 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 | R0220 | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | R0230 | | | | | |
| **Total basic own funds after adjustments** | R0290 | **215,102** | **215,102** | | | |
| | | | | | | |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | R0300 | | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | R0310 | | | | | |
| Unpaid and uncalled preference shares callable on demand | R0320 | | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | R0330 | | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | R0340 | | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | R0350 | | | | | |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0360 | | | | | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0370 | | | | | |
| Other ancillary own funds | R0390 | | | | | |
| **Total ancillary own funds** | R0400 | | | | | |

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Available and eligible own funds** | | | | | | |
| **Total available own funds to meet the SCR** | R0500 | **215,102** | **215,102** | | | |
| **Total available own funds to meet the MCR** | R0510 | **215,102** | **215,102** | | | |
| **Total eligible own funds to meet the SCR** | R0540 | **215,102** | **215,102** | | | |
| **Total eligible own funds to meet the MCR** | R0550 | **215,102** | **215,102** | | | |
| **SCR** | R0580 | **189,842** | | | | |
| **MCR** | R0600 | **47,460** | | | | |
| **Ratio of Eligible own funds to SCR** | R0620 | **113%** | | | | |
| **Ratio of Eligible own funds to MCR** | R0640 | **453%** | | | | |

| | | |
|---|---|---|
| **Reconciliation reserve** | | |
| Excess of assets over liabilities | R0700 | **215,102** |
| Own shares | R0710 | |
| Forseeable dividends, distributions and charges | R0720 | |
| Other basic own fund items | R0730 | 116,808 |
| Adjustment for restricted own fund items in respect of matching adjustment and ring fenced funds | R0740 | |
| **Reconciliation reserve** | R0760 | **98,294** |
| | | |
| **Expected profits** | | |
| Expected profits included in future premiums (EPIFP) - Life Business | R0770 | 103,109 |
| Expected profits included in future premiums (EPIFP) - Non Life Business | R0780 | |
| | | |
| **Total EPIFP** | R0790 | **103,109** |

Business and performance
System of governance
Risk profile
Valuation for Solvency purposes
Capital management

## S.25.01.21 Solvency Capital Requirement calculated using the Standard Formula

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0080 | C0090 |
| Market Risk | R0010 | -50,531 | | |
| Counterparty default risk | R0020 | 17,528 | | |
| Life underwriting risk | R0030 | 137,037 | | |
| Health underwriting risk | R0040 | 0 | | |
| Non-life underwriting risk | R0050 | 0 | | |
| Diversification | R0060 | -50,531 | | |
| Intangible asset risk | R0070 | 0 | | |
| **Basic Solvency Capital Requirement** | R0100 | **176,398** | | |

| Calculation of Solvency Capital Requirement | | C0100 |
|---|---|---|
| Operational risk | R0130 | 13,443 |
| Loss-absorbing capacity of technical provisions | R0140 | |
| Loss-absorbing capacity of deferred taxes | R0150 | |
| Capital requirement for business operated in acordance with Art. 4 of Directive 2003/41/EC | R0160 | |
| Solvency capital requirement excluding capital add-on | R0200 | 189,842 |
| **Capital add-on already set** | R0120 | |
| Solvency capital requirement | R0220 | **189,842** |
| **Other information** | | |
| Capital requirment for duration-based equity risk sub-module | R0400 | |
| Total amount of Notional Solvency Capital Requirements for remaining part | R0410 | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | |
| Total amount of Notional Solvency Capital Requirements for matching adjustments portfolios | R0430 | |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | |

## S.28.01.01 Linear formula component for life insurance or reinsurance obligations

| MCR calculation Life | | Life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Life activities: Net (of reinsurance/SPV) total capital at risk |
|---|---|---|---|
| | | C0050 | C0060 |
| Obligations with profit participation - guaranteed benefits | R0210 | 411,815 | |
| Obligations with profit participation - future discretionary benefits | R0220 | | |
| Index-linked and unit-linked insurance obligations | R0230 | 297,253 | |
| Other life (re)insurance and health (re)insurance obligations | R0240 | 572,832 | |
| Total capital at risk for all life (re)insurance obligations | R0250 | | 5,111,905 |

| | | Non-life activities | Life activities |
|---|---|---|---|
| | | C0010 | C0040 |
| MCRNL Result | R0010 | | |
| MCRL Result | R0020 | | 32,926 |

| Overall MCR calculation | | C0070 |
|---|---|---|
| Linear MCR | R0300 | **32,926** |
| SCR | R0310 | **189,842** |
| MCR cap | R0320 | **85,429** |
| MCR floor | R0330 | **47,741** |
| Combined MCR | R0340 | **47,460** |
| Absolute floor of the MCR | R0350 | 3,700 |

| | | C0070 |
|---|---|---|
| Minimum Capital Requirement | R0400 | **47,460** |

# Important legal information

Generali Leven's Annual Accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and with Part 9 of Book 2 on the Dutch Civil Code.

In preparing the financial information in this document, the same accounting principles are applied as in the 2017 Generali Leven's Annual Accounts, except as indicated in chapter D 'Valuation for Solvency Purposes' of the 2017 Solvency and Financial Condition Report.

All figures in this document are unaudited. Small differences are possible in the tables due to rounding. Certain of the statements in this document are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation:

1. changes in general economic conditions, in particular economic conditions in Generali Leven's core markets,
2. changes in performance of financial markets, including developing markets,
3. consequences of a potential (partial) breakup of the Eurozone,
4. changes in the availability of, and costs associated with, sources of liquidity as well as conditions in the credit markets generally,
5. the frequency and severity of insured loss events,
6. changes affecting mortality and morbidity levels and trends,
7. changes affecting persistency levels,
8. changes affecting interest rate levels,
9. changes affecting currency exchange rates,
10. changes in investor, customer and policyholder behaviour,
11. changes in general competitive factors,
12. changes in laws and regulations,
13. changes in the policies of governments and/or regulatory authorities,
14. conclusions with regard to accounting assumptions and methodologies,
15. changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards,
16. changes in credit and financial strength ratings,
17. Generali Leven's ability to achieve projected operational synergies and
18. the other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by Generali Leven and/or related to Generali Leven.

Any forward-looking statements made by or on behalf of Generali Leven speak only as of the date they are made, and, Generali Leven assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.

www.generali.nl