Generali Life Assurance Philippines, Inc.

RISK MANAGEMENT LOCAL POLICY

Chief Risk Officer Function

LOCAL POLICY

For internal purposes only

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Document summary

Title	Risk Management Group Policy
GIRS Classification	Group Policy
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Versioning and Ownership

Version	Date of issuance	Document code	Reason for and Extent of Changes	Owner
08	2020-05-20	GP_2020_008	Version 8.0 provides a streamlining of the Policy scope, the sustainability risks definition integration and operational risks measurement section update.	Local Chief Risk Officer
07	2019-01-30	GP_2019_008	Version 7.0 provides minor fine tunings to reflect organizational set-up. Assicurazioni Generali S.p.A. specific provisions are removed and included in a dedicated Assicurazioni Generali S.p.A. Risk Management Policy. Minor fine-tunings are also included as a result of risk definitions alignment with IVASS Reg. 38/2018 as well as to simplify description of already existing processes.	Local Chief Risk Officer
06	2018-01-31	GP_2018_002	Within Version 6.0 the Annex on Volatility Adjustments is moved to the Group Volatility Adjustment Policy. Other fine tunings relate to the (i) policy scope; (ii) the alignment of the reporting section with SII regulatory framework: ORSA and link with Group Supervisory Reporting and Public Disclosure Policy.	Local Chief Risk Officer
05	2016-06-15	GP_2016_008	Version 5.0 provides for a simplification of the RM Policy provisions, minor fine tunings to keep the framework up to date with related external regulation and internal written policies framework. It also includes additional provisions for Internal credit rating	Local Chief Risk Officer
04	2015-08-31	GP_2015_012	Version 4.0 introduces nonmaterial changes required as a result of the Group	Local Chief Risk Officer

			Internal Model pre-application process	
03	2015-07-08	GP_2015_011	Version 3.0 updates the risk assessment methodology for the application of the Internal Model	Local Chief Risk Officer
02	2014-12-05	GP_2014_002	Version 2.0 integrates principles related to ORSA process and related Report production.	Local Chief Risk Officer
01	2014-05-14	N/A		Local Chief Risk Officer

Main related internal regulatory references

Group Directives on the System of Governance;

- Life Underwriting and Reserving Group Policy;
- Group Investment Governance Policy;
- Group Operational Risk Management Policy;
- Liquidity Risk Management Group Policy;
- Group Risk Guidelines;
- Group Investment Risk Guidelines;
- Group Internal Model Governance Policy;
- Group Internal Model Change Policy;
- Group Internal Model Validation Policy;
- Capital Management Group Policy;
- Supervisory Reporting and Public Disclosure Group Policy;
- Group Fit & Proper Policy;
- Volatility Adjustment Group Policy (tbc name under definition);
- Data Quality Group Policy;
- Treasury Group Policy.

Any substituted/abrogated internal regulation

- N/A

Reason for issuing

Regulatory qualification	[X] Yes	[ ] No	Solvency II Directive Delegated Acts EIOPA Guidelines on System of Governance EIOPA Guidelines on Own Risk and Solvency Assessment.

Annexes

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- EBS Methodology
- List of Key Implementing Requirements

EXECUTIVE SUMMARY

The Risk Management Policy (hereinafter the "Policy") outlines the strategies, principles and processes to identify, assess and manage present and forward-looking risks to which Generali Life Assurance Philippines Inc. and its subsidiaries are exposed to.

The Policy aims to:

- define the risk categories to which the company and its subsidiaries in scope are exposed to (paragraph 3.1);
- provide the methodologies to measure and assess these risks (paragraph 3.2) and provide the principles for internal credit rating framework, process and governance (paragraph **Error! Reference source not found.**);
- integrate processes and procedures to be followed to ensure effective risk management on the basis of the strategy, risk appetite and tolerances defined within the Generali Group Risk Appetite Framework[1], in connection with Group Risk Guidelines and other policies providing specific rules for management of single risks or in relation to risk related processes (paragraph 3.3);
- define the principles for supporting the Regional ORSA Report production, which are detailed in the YE2018 ORSA Reporting Guideline[2].

In terms of governance, this Policy:

- provides the organization and tasks of the Risk Management function;
- defines the Risk Management function Governance Model referring to solid line reporting model;
- defines the roles and responsibilities within both the RAF and the ORSA process.

The Policy has been drafted in consistency with the Group Risk Appetite Framework defined and approved by the AG BoD (available in the Strategic Documents Section of We, Generali Portal).

[1] The Risk Appetite Framework defines the overall Group Risk Appetite, Risk Tolerances and the Risk Preferences.
[2] According to Solvency II Directive and EIOPA Guidelines on ORSA, Generali Group performs a Group-wide ORSA process requiring a coordinated approach both at Generali Group and Legal Entities level, as described in the Reporting section below (Paragraph 3.4).

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1 Glossary and definitions

Acronym/Term	Explanation/Definition
AG or **Assicurazioni Generali**	Assicurazioni Generali S.p.A., as Parent Company of the Group
AMSB	Administrative, Management or Supervisory Body of each Legal Entity
BoD/GLAPI BoD	Board of Directors of Generali Life Assurance Philippines, Inc.
CEO/GCEO	Chief Executive Officer/Generali Group Chief Executive Officer
CFO/GCFO	Chief Financial Officer/Generali Group Chief Financial Officer
CIO/GCIO and CEO A&WM	Chief Investment Officer/Generali Group Chief Investment Officer and CEO Asset & Wealth Management
CRO/GCRO	Chief Risk Officer/Generali Group Chief Risk Officer
EBS	Economic Balance Sheet
ECAI	External Credit Assessment Institution
GCRAG	Group Credit Rating Assignment Guidelines
Generali Group or **Group**	Assicurazioni Generali and its Legal Entites in scope
GMC	Generali Group Management Committee
GRC	Generali Group Risk Council
GRM	Risk Management function at Generali Group Level, headed by the GCRO
HO/GHO	Head Office/Generali Group Head Office
IORP	Institutions for Occupational Retirement Provision
Legal Entity	Legal entity belonging to Generali Group, even defined Group Company or Group Entity
Local Risk Management (Local RM)	Risk Management function at local Level (Country or Legal Entity level), headed by the relevant local CRO/Head of Risk Management (i.e. CRO/Head of the Risk Management of the Country or CRO/Head of the Risk Management of the Legal Entity)
MA	Matching Adjustment
MRSA	Main Risk Self-Assessment
Own Funds	Defined in Solvency II Directive, Art. 87, as the sum of basic and ancillary Own Funds represent the ‘capital’ by means of which solvency requirements are to be covered.

Own Risk and Solvency Assessment (ORSA)	The set of processes and procedures employed to identify, assess, monitor, manage and report the risks that the Group is facing and will face in the future, as well as the level of Own Funds required to ensure that the Group's solvency needs are met.
Pass-through Security	A security backed by a package of assets where the security holder receives the cash flows by the underlying assets. This includes securitized transaction as per EU Regulation 2017/2402 of the European Parliament and of the Council of 12 December 2017; as well as pass-through notes without trancing.
Policy	Risk Management Group Policy
RAC	Risk Adjusted Capital
RAF	Group Risk Appetite Framework
RMC	Risk Management Committee
Risk Management (RM)	Risk Management function (as defined by the relevant Regulation) headed by the relevant Chief Risk Officer (CRO)
Risk Owners	Heads of operational areas (or operational departments)
Senior Management	Senior Management is defined within Directives on the System of Governance.
SCR	Solvency Capital Requirement
VA	Volatility Adjustment

2 Introduction

2.1 OBJECTIVES

The Policy establishes the main principles and minimum process requirements to identify, measure, manage, control and report present and forward-looking risks that could arise from the activities performed by company.

This Policy aims at ensuring a sound and effective management of risks throughout the company consistently with the risk appetite defined by the BoD, on the basis of local regulatory framework under Solvency II.

This Policy includes also the principles underlying the ORSA process in combination with the activities in place to implement the Risk Management System.

This policy is a local adoption of the Generali Risk Management Group Policy.

2.2 APPROVAL AND REVIEW

The Policy is approved by the BoD, supported by the RMC, upon proposal of the CRO.

The Policy shall be promptly reviewed, and in any case at least once a year to include developments in legislation, market and/or best practices, Group strategy and organization.

2.3 EFFECTIVE DATE AND IMPLEMENTATION DEADLINE

The Policy is approved by the BoD, supported by the Risk Management Committee, on 27 November 2019, and is effective as of the adoption of the policy.

The implementation Deadline of the Policy is 31st December 2020.

2.4 SCOPE OF APPLICATION

This Policy applies to:

- Controlled Regulated Group Legal Entities;
- Controlled Not Regulated Operative Group Legal Entities.

The Policy does not apply to:

- Investment funds and vehicles, for which the application of this Policy is mandatory for the respective Group management company;
- Not controlled Legal Entities;
- Controlled Not Regulated Residual Group Legal Entities.

Moreover, for Joint Ventures the application of the Policy depends upon the specific provisions set forth within the shareholder agreement.

With reference to the above-mentioned:

- Point 1, All Regulated Group Legal Entities implement the Risk Management Group Policy. Other than Insurance Regulated Group Legal Entities define their local policy applying the local sectoral regulation, taking into account the principle of proportionality and following the proposed framework described in section 5.1;
- Point 2, Significant Operative Group Legal Entities, identified by the GCRO on the basis of the nature of the business and risk profile, have to implement the Risk Management Group Policy adapted in agreement with GCRO following the proposed framework described in section **Error! Reference source not found.**.

All Regulated and Operative Group Legal Entities are also required to implement the Operational Risk Management Group Policy, according to the provisions defined in its scope of application.

2.5 WAIVERS AND DISPENSATIONS

2.5.1 (Re-)insurance Entities

If a conflict exists between the Generali RM Group policy with local laws, regulations or collective labor agreements arises or a proportionality consideration applies, then the company CRO, in agreement with the Regional CRO, shall submit a waiver and/or dispensation request to the Generali Group CRO supporting and explaining the conflict. The Generali Group CRO shall report any significant waivers and/or dispensations to the BoD of AG.

The Generali Group CRO manages and tracks any waiver and/or dispensation request and provides the company CRO through the Regional CRO with the related feedback.

Company/ Regional/ Generali Group Compliance support a due evaluation of waivers, when they result from conflicts arising from laws and regulations falling into their mandate.

A minor adaptation concerns the formal aspects of the Policy or the introduction of further details and shall not conflict with the principles and provisions of the Policy. Minor adaptations are approved at a local level by the Regional CRO and should be communicated to the Generali Group CRO by means of the Regional CRO.

2.5.2 Non (re-)insurance regulated Legal Entities and other significant Entities

Other than (re-)/insurance financial regulated entities have to comply with local sectorial regulatory requirements for what concerns risk management process and procedures. If any Policy provision conflicts with local legislation, the latter prevails.

Unless in conflict with local laws and regulations, the governance requirements on solid lines reporting model have to be kept. Supporting templates for company policies are provided in section 5. The company Risk Management Policy should be submitted to the relevant Regional CRO. Compliance function shall be involved in the transposition process where compliance issues with local laws arise.

The Regional CRO ensures that the proposed local Risk Management Policy is properly evaluated. If appropriate, the Regional CRO submits the company Policy to the Generali Group CRO for review and agreement.

Simplified approaches, as described in section 5, taking into account the Principle of Proportionality (i.e. considering size and risk profile) may be applied, upon evaluation by the Regional CRO and communication to Generali Group CRO.

Non (re-)insurance regulated Legal Entities

Non (re-)insurance regulated Legal Entities propose their own Risk Management Policy to the Regional CRO for his review and agreement, tailoring its provisions to the specific business model and regulatory framework in which they operate.

With specific reference to non (re-)insurance regulated Legal Entities, specific minimum requirements for Policy adaptation are provided in section 5.

Other significant Entities

Other significant Entities propose their own local Risk Management Policy to the Regional CRO for his review and agreement, tailoring its provisions to their business model and risk profile.

The structure of the local Risk Management Policy proposed by the 'Other significant Entities' and the main phases of the risk management process (Identification, Measurement, Management, Reporting) will be defined in agreement with the Regional CRO.

2.6 IMPLEMENTATION, MONITORING AND INFORMATION FLOWS

The Generali Group CRO is responsible for overseeing and supporting the implementation and monitoring of the Generali RM Group Policy across the Group and is supported by Regional CROs.

Company CROs[3] are responsible for guaranteeing a due information flow on the approval and implementation status (please refer to *Annex – List of Key Implementing Requirements*) of the Generali Risk Management Group Policy within the perimeter of responsibility.

Any relevant organizational unit within any entity in scope shall promptly inform its Actuarial, Internal Audit, Risk Management and Compliance function (where applicable) of any facts and/or circumstances connected with this Policy which may be relevant for the performance of their duties.

[3] Or the relevant Local accountable function, in line with the local system of powers.

3 Processes and Procedures

The risk management framework is founded on the following four processes:

1. risk identification;
2. risk measurement;
3. risk management and control;
4. risk reporting (including ORSA[4] Reporting).

The description of each of the processes includes specific reference to the ORSA processes, aimed at performing the forward-looking assessment. Moreover, section 3.4.2 is dedicated to the description of the process for the production of the Asia Regional ORSA Report, including key contents, frequency of production, non-regular ORSA triggers and coordination of Asia Regional ORSA Report submissions.

3.1 RISK IDENTIFICATION

3.1.1 Risk identification process

The company risk identification process aims at guaranteeing that all material risks to which the company and its entities is exposed to are properly identified. For that purpose, the company conducts a Top Risk Workshop (a local adaptation of the Group MRSA process). According to this process, CRO liaise with business functions to ensure:

- the main risks are identified and assessed based on their likelihood of occurrence and severity;
- mitigating actions are identified and properly assigned to different owners.

The Top Risk Workshop, which is a risk identification process matching the maturity and complexity of the Company, is a local adaptation of the Generali Group's MRSA. Similar to the MRSA, the results will be presented in the RMC and reported in the Regional ORSA Report.

The Top Risk Workshop is performed at company level and leverages on the interaction between Generali Group and company Risk function to ensure comprehensive risk identification at both levels.

In terms of scope, this assessment should include:

- all significant risks to which the company and its entities are exposed to whether they are included or not in the calculation of the Solvency Capital Requirement;
- risks that may occur over the horizon of the plan and have the potential of jeopardizing the achievement of the Strategic Plan targets;
- emerging risks, relying on the analysis of dedicated working groups composed by representatives of the main insurance companies in the market. Within the company a coordinated communication flow among a broader network including Risk function and technical areas is also pursued[5];
- risks associated to new products and new markets.

In terms of frequency, the Top risk Workshop is performed regularly at least once a year. In case of changes in the strategy, operations or environment in which the Group operates that could significantly impact the risk profile of the company and its Legal

[4] The ORSA is defined as the set of processes and procedures employed to identify, assess, monitor, manage and report the risks that the company is facing and will face in the future, as well as the level of Own Funds required to ensure that the firm's solvency needs are met.
[5] This relies also on best market practice and experience sharing on market trends and related technological, social, environmental and economic developments, which need to be captured in underwriting processes, and managed in terms of product pricing and mitigation.

Entities, the CRO shall timely report to Group CRO through the Regional CRO.

In terms of responsibility:

- Risk Owners, or so called first line of defense, are responsible for identifying the risks specific to their area of activity. In particular, a preliminary identification of the risks should be carried out before launching new products, new business activities or before expanding into new markets according to the processes defined in the Life Underwriting and Reserving Group Policy and P&C Underwriting and Reserving Group Policy;

- CRO is responsible for coordinating the risk dialogue with Risk Owners to ensure all significant risks are identified respectively at company level;

- CROs finally report the Top Risk Workshop Results as part of the ORSA Process.

3.1.2 Main risk Categories

The definition of risk categories serves the following three purposes:

- raising the awareness of the organization on the risks for each category and hence foster a systematic risk identification and assessment;

- ensuring the use of a common terminology across the company on the risks definition;

- aggregating the risks in homogeneous categories for risk measurement.

A first distinction can be made between the following risks both at Generali Group and company level:

- risks which are quantifiable and included in the Solvency Capital Requirement calculation.

- liquidity risk and Other material risks which are not included in the Solvency Capital Requirement calculation (so called ‘not quantifiable risks’).

This categorization of risks outlined below is tailored to the needs of the Group risk profile assessment and measurement.

Figure 1 – Company Risk Map

Risks covered by Partial Internal Model					**Non-quantifiable risks**
Internal Model				**Standard Formula**	
Financial risks	**Credit risks**	**Insurance risks Non-Life**	**Insurance risks Life**	**Operational risks**	
Interest rate yields	Spread widening	Pricing	Mortality CAT		Liquidity
Interest rate volatility	Credit default	Reserving	Mortality no CAT		Strategic
Equity price	Counterparty default	CAT	Longevity		Reputational
Equity volatility		Non-Life lapse	Morbidity/Disability		Emerging
Property			Life Lapse		Contagion
Currency			Expense		*Intra-group transactions**
Concentration			Going Concern Reserve		*Risk Concentrations**
			Health CAT		*Interdependency risk**
			Health claim		

* Risks to be considered at Generali Group level only.

As a result of the risk identification process the main risk categories of the company are reviewed at least once a year, in order to ensure its adequacy and completeness.

The annual review of both quantifiable and non-quantifiable risks which the company and its legal entities might be exposed to is performed.

It is responsibility of CRO to gather needed inputs from Risk Owners and review the list of the risks included in the Policy prior to its submission for BoD approval.

Should the results of the risk identification process be considered as significantly changing the company risk profile, a non-regular ORSA process may be triggered, according to provisions set out in paragraph 3.4.2.

Risks included in the solvency requirement calculation

These risks are modelled and measured by the Generali Group by means of the Partial Internal Model as defined in section 3.2[6].

Legal Entities not in scope of the Partial Internal Model shall use the above categories for the purpose of their own risk identification process. The definition of this Group Risk Map thus ensures that risks which the Group is exposed to are systematically reviewed at local level for each Legal Entity irrespective of whether the Partial Internal Model is locally used for the Solvency Capital Requirement calculation.

The Group Risk Map is updated when needed and at least once a year. For the purpose of its update, local risk functions may suggest the introduction of additional risk categories, if they deem them relevant to their risk profile assessment[7].

The risks included in the Partial Internal Model are defined as follows:

- financial risk includes risks deriving from unexpected movements in interest rates, equity, property and exchange rates or increasing in interest rate and equity volatility that may have an adverse impact on the economic or financial results. Moreover, it considers losses arising from an excessive concentration in a single counterparty;

- credit risk refers to possible losses arising from the default or failure of third parties to meet their payment obligations (credit default and counterparty default risks), or from the widening of the credit spreads (spread widening risk);

- life & health insurance risk includes biometric and operating risks embedded in Life and Health policies. Biometric risks derive from the uncertainty in the assumptions regarding mortality, longevity, morbidity, disability rates; operating risks derive from the uncertainty of the amount of expenses as well as the adverse exercise of contractual options by policyholders (mainly lapses);

- operational risks including risks of losses arising from inadequate or failed internal processes, personnel and systems or from external events. This definition also includes the compliance risk and the financial reporting risk. Strategic and reputational risks are excluded from this category.

Liquidity risk

Liquidity risk is defined as the uncertainty, emanating from business operations, investment or financing activities, over whether the insurer will have the ability to meet payment obligations in a full and timely manner, in a current or stressed environment, without incurring excessive costs due to forced asset sales or to access to credit market at unfavorable conditions.

Other risks

The above list is complemented by other risks, not included in the solvency requirement calculation (so called '*non-quantifiable risks*') which are however identified to ensure they are properly assessed, managed and reported:

- strategic risk referring to current or forward-looking decline in earnings or business sustainability over time, including the non-capacity to generate adequate return on capital given the risk appetite defined, as a consequence of external

[6] Except for the Operational Risks which are still measured with Standard Formula.
[7] This would then constitute a change in the Partial Internal Model, ruled by the Internal Model Change Policy.

changes and/or internal decisions, inadequate decision making or improper contagion risk management as well as inadequate adaptation to market environment;

- reputational risk referring to potential losses arising from a deterioration or a negative perception of the Legal Entity's or Group's image in respect to its customers (i.e. due to increasing conflicts with policyholders, poor services and inadequate selling and liquidation practices) as well as to its reputation in respect to other counterparties (i.e. shareholders and Supervisory Authority);

- contagion risk deriving from problems within one of the Group's Legal Entities affecting the solvency, economic or financial situation of other Group Entities or the Group as a whole.

On top of these, emerging risks characterized by major uncertainty in terms of future development, are identified. These may derive from internal or external environment changes and trends that may lead to increased exposures to risks already identified or new risks.

In addition to these, sustainability risks are the risks related to the ESG factors[8], that could affect the insurance and reinsurance entities' risk profile, on the investment and liabilities side. In line with the Sustainability Group Policy these are identified covering environmental, social and governance dimension, following the prioritization defined in the Group Materiality Matrix. Risks related to ESG factors typically do not constitute an autonomous risk category, since such risks tend to be linked to the current risk categories identified by the Group Risks Map and, given their long-term nature, to emerging risks.

Finally, at Group level following risks are also considered:

- intragroup transaction risk and risk concentrations, specifically ruled by the Intragroup Transactions Group Policy and the Risk Concentrations Management Group Policy – Investment Exposures and Risk Concentrations Management Group Policy – Reinsurance and Underwriting Exposures;

- interdependency between risks stemming from conducting business through different entities and in different jurisdictions.

3.2 RISK MEASUREMENT

This section provides risk measurement methodologies (both qualitative and quantitative) to be applied consistently within the Company.

Common risk measurement methodologies (both qualitative and quantitative) are applied in order to provide an integrated measurement of its risks.

For assessing risks identified in the Risk Map, a quantitative approach is implemented. The CRO shall liaise with other competent functions for the definition of the methodologies for evaluating other risks.

The company shall refer to specific local regulation, complemented by additional measurement techniques deemed appropriate and proportionate. Company shall also provide Standard Formula calculation with the purpose of Generali Group SCR calculation.

The Company manages its capital in accordance with the mandates of the Insurance Commission being its regulator. Under the requirements of the IC and the Insurance Code, the Company should meet the minimum levels set for the following capital requirements: Minimum Statutory Net Worth and Paid-up Capital, and RBC. The Company regularly monitors its compliance with these capital requirements. Further, government bonds amounting to at least 25% of the Minimum Paid-up Capital are free from liens and encumbrances, and deposited under the IC, in accordance with Section 203 of the Code.

IC CL No. 2016-68 (instituted RBC 2) was issued to supersede IC CL No. 2015-30. This circular provides solvency requirements

[8] An ESG factor is defined as any Environmental, Social and Governance (ESG) aspect that can have an impact on the achievement of the Group's strategic goals and on its own system of governance or that the Group can influence with its activities or choices. Reputational risks arising from ESG factors related transactions are ruled in the Reputational Risk Group Guideline.

based on accepted solvency frameworks, requires insurance companies to at all times shall hold the RBC requirement determined in accordance with the rules and guidelines set forth by the circular plus any additional supervisory adjustments that may be required by the IC, and requires the satisfaction of the minimum statutory ratio.

Under the Circular, risk-based capita ratio shall be calculated using the formula below. It is equal to the Total Available Capital (TAC) divided by the RBC Requirement. The RBC requirement which is the Total Required Capital (TRC), shall determined using Credit risk capital charge, insurance risk capital charge and those included in the Circular.

$$\text{Risk Based Capital Ratio} = \frac{\text{Total Available Capital}}{\text{RBC Requirement}}$$

The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the trend test set by the Insurance Commission.

3.2.1 Operational risks

For Generali Group Solvency calculations, The capital charge for the operational risk is calculated using a factor based approach linked to premium, reserves and costs related to unit linked policies (or other ad-hoc metrics for non-insurance Group Entities) on the basis of the EIOPA Standard Formula.

In addition, on the basis of the provisions set out in the Operational Risk Management Policy, a quali-quantitative risk assessment[9] is performed, consisting of a risk analysis process aimed at identifying the level of exposure to operational risks.

3.2.2 Stress test and Scenario analysis

Risk measurement of single risks, defined in the above section, is complemented by Stress test and Scenario analysis[10].

The purpose is to assess the vulnerabilities of the company under unexpected and potentially severe, but plausible, events. The outcome, in terms of impact on financial and capital position, should prepare the company to take appropriate management actions if such events were to materialize[11]. As a general rule, Scenario analysis and Stress testing are expected to complement risk profile assessment, by focusing management's attention on forward-looking scenarios and by increasing their understanding of potential vulnerabilities. As part of the stress test and scenario analyses also sensitivity analyses have to be carried out, to assess the company capital position vulnerability to defined risk factors.

The process to be carried out in a similar way at company level is detailed within the ORSA Reporting Guideline. The results of the scenario analyses are integrated within the Regional ORSA Report, as specified in section 3.4 of this Policy (Reporting).

As part of ORSA process, Stress test and Scenario analyses results are provided in annual Regional ORSA Reports, and/or in case of significant changes to risk profile in ad-hoc ORSA Reports.

Stress test and scenario analysis will be carried out based on requirements from the local regulator, the Company/Group management or Generali Group RM function on a needed basis.

Additional analyses (e.g. stress tests, reverse stress tests etc.) may be conducted on own initiative or upon Supervisory Authority requests.

[10] The need for regular and robust stress tests and scenario analysis is driven both by its inherent advantages for the business as well as regulatory requirements.
[11] Stress tests and scenario analysis are used to assess the company's ability to maintain minimum specified levels of capital and liquidity in exceptional but plausible events and ensure consideration of the financial impact of plausible events in the decision-making process and the effectiveness of management actions under stressed conditions

3.3 RISK MANAGEMENT AND CONTROL

The RAF supports the effective selection of risks by establishing the risks that the Company wishes to acquire, avoid, retain or remove, along with the measures in place to orient Group activities consistently, the monitoring and escalation procedures.

Specific prescriptions for managing the different risk categories are provided in the respective policies and in the related guidelines to which this document refers (see Figure 3).

Figure 3 – Generali Policies

Risk category	Related Risk Type Policies
Financial risks	Group Investment Governance Policy
Credit risks	
Underwriting risks	Life Underwriting and Reserving Group Policy (incl. also New Segment and New Product Policy) P&C Underwriting and Reserving Group Policy (incl. also New Segment and New Product Policy)
Operational risks	Group Operational Risk Management Policy Group Compliance Management System Policy and the "Dirigente Preposto" Internal Control System Policy
Liquidity risks	Liquidity Risk Management Group Policy Treasury Group Policy
Intra-Group transaction	Group Policy on Intragroup Transactions
Sustainability Risk	Sustainability Group Policy
Risk Concentrations	Group Risk Concentrations Management Policy – Investment Exposures Group Risk Concentrations Management Policy – Reinsurance and Underwriting Exposures
Other	Policy on Valuation of Assets and Liabilities other than Technical Provisions Group Capital Management Policy Supervisory Reporting & Public Disclosure Group Policy Group Fit & Proper Policy Data Quality Group Policy Group Volatility Adjustment Policy Group Outsourcing Policy Group Business Continuity Management Policy Group Internal Model Governance Policy Group Internal Model Change Policy Group Internal Model Validation Policy

Moreover, this Policy is part of a broader set of Internal control and Risk Management Policies including:

- Generali Group Directives on the System of Governance;
- Compliance Management System Group Policy
- Internal Audit Group Policy;
- Actuarial Function Group Policy.

The following paragraphs provide an overview of the key components of the Risk Appetite Framework:

- the principles outlying the RAF and the related governance are provided within this Policy;
- the risk strategy, appetite and tolerances are updated on yearly basis and therefore provided in the RAF[12], which remains more dynamic and subject to yearly revision.

[12] The Risk Appetite Framework ("RAF") is updated and approved by the BoD of Assicurazioni Generali S.p.A. on the basis of the Group Own Risk Self-Assessment

3.3.1 Risk Appetite Framework

The Company follows the Generali Group RAF.

Within the RAF the following elements are provided:

- risk appetite statement: an indication of the aggregate level of risk that Generali Group is willing to accept or avoid in order to achieve its business objectives (see section 2 of the Group RAF);

- risk preferences: more specific indications that guide the Group in the selection of individual risks (see section 3 of the Group RAF);

- risk metrics: the indicators used to translate the risk appetite statement and the risk preferences into quantitative and measurable risk tolerances embedded into the operating processes to steer activities consistently (see section 4 of the Group RAF);

- risk appetite, tolerances and target levels: quantitative measures of Generali Group's desired and admitted levels of risk (see section 5 of the Group RAF);

- The Company's Hard and Soft Risk Tolerance limits on solvency are defined as follows:

    Hard Tolerance: **100%**

    Soft Tolerance: **120%**

- risk monitoring and escalation: processes to be triggered in case tolerance levels are breached (see section 6 of the Group RAF);

- integration into business processes: specific measures taken to embed the Group Risk Appetite and Tolerance levels into the main processes and decisions to steer the business consistently (see section 7 of the Group RAF);

- roles and responsibilities: accountability for managing the different aspect of the RAF (see section 8 of the Group RAF).

Moreover, for what concerns management of the Generali Group under stressed conditions, reference is made to the Recovery Plan of Generali Group. This plan outlines which actions could be undertaken to restore financial strength and viability if the Group comes under severe stress. The plan also describes roles and responsibilities in case of activation, as well as a description of the operational aspects related to its execution.

3.4 REPORTING

3.4.1 Documentation and Reporting procedures

The Risk Management function is responsible for the overall risk profile monitoring and reporting to the BoD, and the Senior Management, as defined in the regulatory framework and in the Generali Group Directives on the System of Governance. The risk reporting is coordinated at Company level in order to grant a common reporting framework and shall take into consideration additional local specific reporting requirements.

Internal risk reporting to the BoD and the Senior Management includes for example:

- Data for compiling the Regional ORSA reporting based on the provisions set in section 3.4.2. of this Policy;

- risk profile development, stress test results (if any) and other reporting to BoD and Senior Management in line with regulatory requirements and internal policies (i.e. RAF, reporting on risk concentration, SAA limits, etc.).

("Group ORSA") results, once a year. According to the regulatory framework, on the basis of the ORSA results, the BoD defines the guiding principles of the Group Risk Appetite Framework, with the objective of granting capital adequacy on a forward-looking perspective.

Risk Management function also contributes, for the risk-related sections, to the risk reporting in relation to:

- the Risk Management system and Risk profile as part of the annual Financial statement (i.e. Risk Report) and other public reports (i.e. Corporate Governance Report);
- the Solvency and Financial Condition Report ("SFCR") and publicly available Quantitative Reporting templates ("QRTs"), following the governance framework defined in the Group Supervisory Reporting and Public Disclosure Policy;
- the Regular Supervisory Report ("RSR") and related non-publicly available QRTs, following the governance framework defined in the Group Supervisory Reporting and Public Disclosure Policy;
- other reporting to the competent Supervisory Authority (for what concerns the reporting required on the overall internal control system, risk concentrations and other reports upon applicable regulatory framework).

3.4.2 Regional ORSA Report

Key contents of the ORSA Report[13]

The Regional ORSA Report shall appropriately evidence and document the results and outcomes of the risk assessment process.

The information included in the Regional ORSA Report shall be sufficiently detailed to ensure that the relevant results can be used in the decision-making process and in the business planning process.

Within the ORSA Report, main contents include:

- an Executive summary, including the CRO assessment of Group risk profile and solvency position;
- a reference to the Risk governance and management;
- the business strategy update with a focus on ORSA embedding into strategy update and planning process;
- the risk strategy update;
- the risk profile assessment for the Company most significant risks, complemented by:
- results of the Top Risk Workshop and other emerging risks;

These contents are developed in accordance to applicable regulatory requirements.

Frequency for the production of the Regional ORSA Report

The Regional ORSA Report provides the overall risk profile assessment and is prepared annually, taking into consideration the year-end financial data of the previous year, on the basis of the timeline set by the Regulator. The Report is submitted to the Supervisory Authority within the regulatory timeframe.

Triggers for Deep Dive in Areas with Significant Changes in Risk Profile

A deep dive analysis is produced when the company risk profile has changed significantly.

It is responsibility of the CRO to identify when a deep dive analysis should be conducted. To this end, any proposal raised by the Risk Owners is to be considered and, after consultation with the CFO, timely information shall be given to the CEO. The CEO is supported by the Risk Management Committee in these evaluations.

[13] ORSA reporting requirements apply specifically to insurance entities.

CRO/Heads of Risk will promptly notify Regional RM of the development of any deep dive analysis, in order to allow Regional RM to evaluate any potential implications at Generali Group level.

The deep dive is to be prepared for example immediately after the occurrence of the following triggers:

- significant changes in the risk profile as a consequence of changed assumptions underlying the SCR;
- relevant breaches of (regulatory) solvency ratio over the business planning period (for example in case no action plan is already part of Regional ORSA);
- significant changes in the risk profile consequent to failed remedial actions within an appropriate timeframe (for example in case of breaches of hard tolerances);
- significant changes to the structure, amount and quality of Own Funds, which might compromise the compliance with regulatory solvency requirements;
- significant changes in business model, business strategy, products and lines of business, emerging risks, investment strategy, reinsurance strategy, portfolio rebalancing and any other relevant change to key business processes that are material to both the Company and Generali Group's risk taking activity;
- significant changes in the legal environment, such as new regulations impacting the marketing of insurance products, pensions, taxation, court awards, changes in claims environment, etc.;
- significant changes on the Company solvency position;
- significant changes in ORSA governance which could threaten the adequate management of core risk management processes.

The above triggers are subject to fine tunings to reflect regulatory expectations and good market practice in this space.

Recovery triggers and early warning indicators defined within the Company Recovery Plan may be used as a tool to define the need to perform a deep dive

Coordination of Regional ORSA Report submission

The Regional CRO is responsible for the coordination of the companies within the Asia region in terms of methodological support, process definition and reporting templates, ensuring at the same time region wide process is cross referenced in Legal Entities processes and consistent with Generali Group strategic planning process.

The role performed by RM is key in order to ensure that the process for developing the Regional ORSA Report is fully understood at all levels and applied consistently by all relevant Legal Entities. Supporting reporting templates (e.g. reporting structures and other reporting templates with the purpose of quantitative data collection[14]) are provided by Regional RM to this end.

The company is responsible in providing the results of their risk assessments to Regional RM according to the principles indicated in this Policy and further detailed in the Generali Group ORSA Reporting Guidelines. Any exemptions need to be discussed in advance with the Generali Group CRO.

When submitting Regional ORSA Reports to Generali Group RM, company CRO/Head of Risk ensure with their sign-off, the reliability of the data and their consistency with the data provided to Regional Office for subsequent aggregation. At the same time Company CRO/Head of Risk shall require the same confirmation of the data included in the Regional ORSA Report provided by other Accountable functions (mainly Finance and Actuarial).

[14] The request for additional quantitative data collections enters into force starting from YE17 ORSA Reporting.

4 System of Governance

The system of governance describes, in coherence with the Generali Group Directives on the System of Governance approved by the Generali Group BoD, the roles and responsibilities attributed to the different functions in performing the tasks prescribed by the Policy, along with the organizational model of the Risk Management function at Company level.

In particular, this section details the provisions defining the Risk Management function role in the Company Directives on the System of Governance in terms of:

- roles and responsibilities attributed to the different functions in performing the tasks prescribed by the Policy in relation to RAF and ORSA Process;
- the governance and organizational model of the Risk Management function;
- solid lines reporting model between Generali Group CRO and Regional CRO and between each Regional CRO/Head of Risk and the Company CRO.

4.1 ROLES AND RESPONSIBILITIES

Assicurazioni Generali, as Parent Company of the Group, sets up an adequate risk management system at Generali Group level.

The Company risk management system must be adequate for carrying out effective control over the overall strategic decisions and the balanced management of the company. For these purposes, the Generali Group RAF and a Regional ORSA Report must be adopted, as detailed below.

However, the responsibility of the GLAPI BoD for the governance and its risk management system shall not be affected. In particular, each BoD:

- is ultimately responsible of the risk management system for the company and ensures that it is always complete, functional and effective;
- ensures that the risk management system allows the identification, assessment (also on a forward-looking basis) and control of all risks.

The BoD, supported by RMC, establishes the RAF at least annually on the basis of the following process. With regard to the risk management system, the CRO coordinates, supported by CFO, the collection of all the information necessary to define the RAF and proposes it to the CEO.

The RAF includes the risk appetite statement, the risk preferences and risk tolerances aiming at granting an adequate capital position. It is discussed within the Risk Management Committee and, upon proposal of the CEO, is submitted for approval to the BoD, assisted by RMC. The BoD ensures, with the support of the CEO and CRO, that the RAF is consistent with the Company strategy and strategic planning and integrates it in the risk policies. The Senior Management is then held accountable to implement the RAF according to the risk policies.

The RAF is established taking into consideration, among others, the results of the assessments included in the Regional ORSA Report. The CRO, supported mainly by the CFO, supports Regional Office in producing the Regional ORSA Report on an annual basis and in case of significant changes to the risk profile,.

BoD shall approve the RAF and the results of the current and forward-looking assessment included in the Regional ORSA Report, taking into consideration the Generali Group RAF, the Generali Group directions and the nature, size and complexity of the relevant business (proportionality principle). The same approval process described above applies, *mutatis mutandis*[15]. The BoD role in the overall escalation process and related roles and responsibilities are provided in section 6.2 and 8 of the Risk Appetite Framework.

[15] Specifically, Legal Entities ensure the same level of discussion at Senior Management level by means of Risk Committees or other similar committees addressing on regular basis risk related topics.

With particular regard to the governance at Group level, the following applies in relation to the Group ORSA and Group RAF process.

The CEO is responsible for implementing the risk strategy and for managing the business within the boundaries set by the RAF and by the risk policies and guidelines. For the execution of this duty, the CEO is supported by t his/her other reports. Upon proposal of the CRO, and with the support of Senior Management for the areas of his/her competencies, the CEO submits the risk appetite to the BoD for approval. The CEO, in the decision-making process, takes into consideration the risk assessment results included in the Regional ORSA Report. The CEO communicates the RAF and more generally the risk culture to internal stakeholders.

The Risk Management Committee (RMC) advices the CEO for decisions concerning the risk appetite and target level of risks, and for the assessment of financial operations with material impact on the balance sheet and capital management decisions in the perspective of the risk appetite and preferences. The Risk Management Committee reviews the proposal for the RAF update.

The CRO is responsible for setting up and running an appropriate risk management system, including:

- designing and implementing the risk governance model that's aligned to Generali Group framework;
- supporting the definition and implementation of risk policies and risk-related guidelines and technical measures;
- the overall GCRA Framework and for the credit rating assignment with the support of Investment, Asset & Wealth Management Risk;
- proposing specific risk tolerances to make sure that business is run within the risk appetite; in particular, the CRO proposes to CEO as part of Investment Risk Guidelines and Liquidity Risk Limit Monitoring Guideline investment and liquidity operative risk limits;
- reviewing the operative risk limit defined by the relevant Risk Owners regarding the management of underwriting risks in accordance with RAF;
- monitoring risk concentrations limits on the basis of the Risk Concentrations Management Policy - Investment Exposures and Risk Concentrations Management Policy – Reinsurance and Underwriting Exposures;
- monitoring SAA limits and reporting to the BoD (where appropriate);
- provides prior risk evaluations for investment transactions, M&A operations and Generali intra-group transactions according to policies and delegated powers[16];
- coordinating the risk dialogue among Risk Owners in order to ensure a consistent approach in the risk identification;
- ensuring adequate monitoring, reporting and escalation of risks and of limits breaches to the BoD, CEO and Senior Management,
- support the submission of the Regional ORSA Report, and informing on the most significant risks within the agreed framework, on an annual and ad-hoc basis (i.e. in case of significant changes to the risk profile);

CRO participates to the following management committees:

- Claims Committee
- Risk and Audit Committee
- Executive Committee

The CFO coordinates the strategic planning and capital management process and, in this respect, significantly contributes to the

[16] Reference is made to Regulation of the Board of Directors of the Administrative bodies of Assicurazioni Generali S.p.A.

execution of the Company risk strategy[17]. In addition to the duties mentioned above, the CFO is responsible for:

- defining the methodology for calculating Own Funds;
- calculating and monitoring the Solvency Ratio and Own Funds, both in a current and forward-looking perspective, consistently with the projected risk adjusted capital provided by the Risk Management function, as well as for managing them within the defined limits (e.g. allocating Available Capital and Economic Capital);
- informing the CEO and CRO on any material changes to the structure and amount of Own Funds that could have an impact on the overall solvency needs over the business planning period;
- supporting the CRO in the development of the Risk Appetite Framework including the Risk Tolerances.

Compliance, upon request, advises on compliance-related issues concerning risk management process; identifies and assesses the compliance risk, keeping into consideration the reputational-related impacts.

Risk Owners are responsible to comply with the principles outlined in this Policy and particularly to contribute to its implementation by:

- ensuring that any major change in the internal or external environment is identified in terms of its impact on their individual risks;
- developing control activities for the mitigation of their specific risks which are adequate and operate effectively;
- supporting the CRO in the identification and qualitative assessment of the main risks/scenarios as part of the Top Risk Workshop process.

4.2 RISK MANAGEMENT FUNCTION ORGANIZATION

The Risk Management function supports the BoD and the Senior Management in granting the effective implementation of the risk management system, as required by law and internal regulation. The function supports the BoD 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 defense in the three lines of defense system.

Risk Management function has full access, in accordance with local laws and regulations, to all information, systems and documentation related to activities within the risk management scope and they may attend relevant BoD and Committee meetings (i.e. Risk Committee, Internal Control Committee meetings) to raise risk related matters, whenever appropriate. Information and documents accessed shall be handled in a prudent and confidential manner.

The Risk Management function is defined on the basis of the following governance model, in line with Generali Group Directives on the System of Governance:

- Group Risk Management function, headed by GCRO;
- Regional Risk Management function, headed by the Regional CRO/Head of Risk or equivalent;
- Company Risk Management headed by the Company CRO/Head of Risk Management (i.e. CRO/Head of Risk Management of the Country or CRO/Head of Risk Management).

ORSA results and other risk related topics are to be discussed within Risk committees or other similar Senior Management

[17] CFO is also supported by CRO to incorporate the Risk Appetite Framework into the strategic planning process, including also mergers and acquisitions. CRO also collaborates with the CFO in proposing remedial actions when a Company tolerance is breached.

committee, as defined within Generali Group Directives on the System of Governance.

Main outcomes of these discussions are to be provided to the Regional CRO by means of Company CRO.

4.2.1 Company Risk Management

Risk Management is in charge of performing risk management activities at Company level. Subject to the applicable laws and regulations, the local Risk Management takes the leadership and responsibility for all risk management activities of the relevant perimeter and is in charge to apply Generali Group policies, guidelines and technical measures at Company level, ensuring risks are managed accordingly. Specifically, Risk Management is responsible to:

- monitor risks in line with risk related policies, guidelines, technical measures, consistency with the defined risk strategy and risk limits;
- run the Risk function, embedding risk related Generali Group policies, guidelines and technical measures;
- participate and bring risk view into business processes, in accordance to the relevant processes and guidelines;
- monitor risk process and adherence to risk limits;
- report risk results and risk related reports to Regional Risk Management and relevant Governance bodies;
- escalate to Regional Risk Management and relevant Governance bodies in case of breaches.

4.3 FIT & PROPER AND TRAINING REQUIREMENTS

CROs and their highest-level personnel shall meet the fitness, independence and proper requirements set forth by the Fit & Proper Group Policy.

Specific fitness, independence and proper requirements for CROs and their highest-level personnel are defined. In particular, at Group, BU and Legal Entity level, they shall have the necessary qualifications, knowledge, experience and professional and personal skills to enable them to carry out their duties effectively. They shall have a solid relevant experience in insurance (or financial) industry, in risk management practices and risk related regulations.

For the purpose of ensuring compliance with the applicable laws and regulations in force from time to time at local level, Group Legal Entities may select additional personnel belonging to CRO Functions that shall possess the above requirements. The identification of such additional personnel should be performed in accordance with the Fit & Proper Group Policy.

The abovementioned requirements must be maintained at an appropriate and adequate level at all times.

The evaluation of the abovementioned requirements should be performed on the basis of the procedure and according to the modalities indicated in the Fit & Proper Group Policy.

GLAPI shall arrange professional training/education sessions, as necessary, so that CRO Function personnel playing a significant role in the risk management system are able to meet the changing and/or increasing requirements set forth by the applicable legislation in relation to their particular responsibilities. For the purpose of use test requirements Group Legal Entities within Partial Internal Model scope also develop training programs to assure the adequate understanding of the model.

4.4 SOLID LINE REPORTING MODEL

The CRO reports to the CEO and also to the BoD.

A solid line reporting model is established between the GCRO and Regional CRO and between Regional CRO and company CRO.

In line with the Group governance model and in compliance with the local regulatory frameworks:

- GLAPI CRO shall directly report to the GCRO and to the relevant AMSB where present, and also report to the respective GLAPI CEO/Country Manager so that he/she can ensure that the BU CRO Function is provided with the proper means and organization to perform its duties;

- Local CRO/Head of Risk shall directly report to the BU CRO, and to the relevant Local AMSB, and also to the Local CEO so that he/she can ensure that the Local CRO Function is provided with the proper means and organization to perform its duties.

All decisions related to GCRO first reporting lines at Local level shall be agreed between GCRO and Local relevant bodies.

With respect and in line to Local HR processes, Local policies and regulatory requirements, the solid line reporting model is declined as follows:

- sourcing: hiring and firing of BU CROs are upon the GCRO in agreement with the BU CEO/Country Manager and subject to the approval of the Local AMSB where present;

- performance evaluation: goals setting, and goals appraisal of BU CROs are performed by the GCRO in agreement with the BU CEO/ Country Manager and subject to the approval of the Local AMSB where present;

- remuneration: hiring package, base salary review and short-term incentives (baseline and payout) of BU CROs are upon the GCRO in agreement with the BU CEO/Country Manager and subject to the approval of the Local AMSB where present. Remuneration shall be in line with remuneration policy of the employing Legal Entity, defined consistently with the relevant Group Policy, and shall account for Local market specificities;

- budget and headcount planning: budget and personnel assigned to the BU CROs are upon the GCRO in agreement with the BU CEO/Country Manager and subject to the approval of the Local AMSB where present.

Following a cascading principle, the above processes shall apply to Local CRO/Head of Risk. Specifically, key decisions shall be agreed between Local CRO, Legal Entities CEO and other Legal Entity relevant bodies.

5 Specific minimum requirements for non (re-)insurance regulated Entities

Non (re-)insurance regulated Entities define their own Policy on the basis of the local sectorial regulatory requirements and propose the request for adaptation on the basis of the process defined in section 3.

The main phases of the risk management process (Identification, Measurement, Management and Reporting) and governance are to be customized at local level according to the specific business segment for the non (re-)insurance regulated Entities.

To this end, in addition to the sectorial risk management framework, following recommendations are provided.

5.1.1 Risk identification for non (re-)insurance regulated Entities

Non-insurance regulated Entities are required to identify and categorize their own risks in compliance with their local sectorial regulation and on the basis of their own business model.

5.1.2 Risk measurement for non (re-)insurance regulated Entities

Non-insurance regulated Entities are required to measure their own risk profile, on the basis of the local sectorial regulation and any additional internal methodology aiming at better capturing the Entity risk profile.

5.1.3 Risk management for non (re-)insurance regulated Entities

Non-insurance regulated Entities are required to manage their own risks on the basis of the local sectorial regulation and risk appetite, taking into consideration Group strategy and related implementation.

Risk tolerances on Solvency Ratio taking into account the specificities of the local solvency regime must be proposed by these Entities and are notified to GCRO and GCFO for advice before being approved locally, as defined within the Group RAF (see paragraph “Tolerance levels for insurance Entities outside the European Union and other regulated financial Entities”).

Breaches of defined tolerances shall be timely communicated to the BU CRO and by means of this, to GCRO for Group calculation purposes, following the process defined within the Escalation process (section 6.2 of the Group Risk Appetite Framework).

5.1.4 Risk Reporting for non (re-)insurance regulated Entities

Non-insurance regulated Entities should ensure that their risk reporting is compliant with all local/sectorial regulatory requirements and should provide evidence of it to their BU CRO, and by means of this to the GCRO.

All governance provisions related specifically to ORSA Process do not apply to non-insurance Entities, although GRM may require local CRO/Head of Risk Management to contribute to the Group process by means of local sectorial regulatory reporting or by replying to specific Group requirements.

5.1.5 Risk Governance for non-insurance regulated Entities

Non-insurance regulated Entities ensure all principles defined in the Group Policy section are applied, adaptation based on local sectorial regulation shall be notified in advance to GCRO, after they have been validated by local Compliance Officer.

All governance provisions related to ORSA Process do not apply to non-insurance Entities, although GRM may require local CRO/Head of Risk Management to contribute to the Group process by means of local sectorial regulatory reporting or by replying to specific Group requirements.

Annex – Group Internal EBS Methodology

The general idea of this approach is summarized briefly as follows and it is composed by 3 different steps:

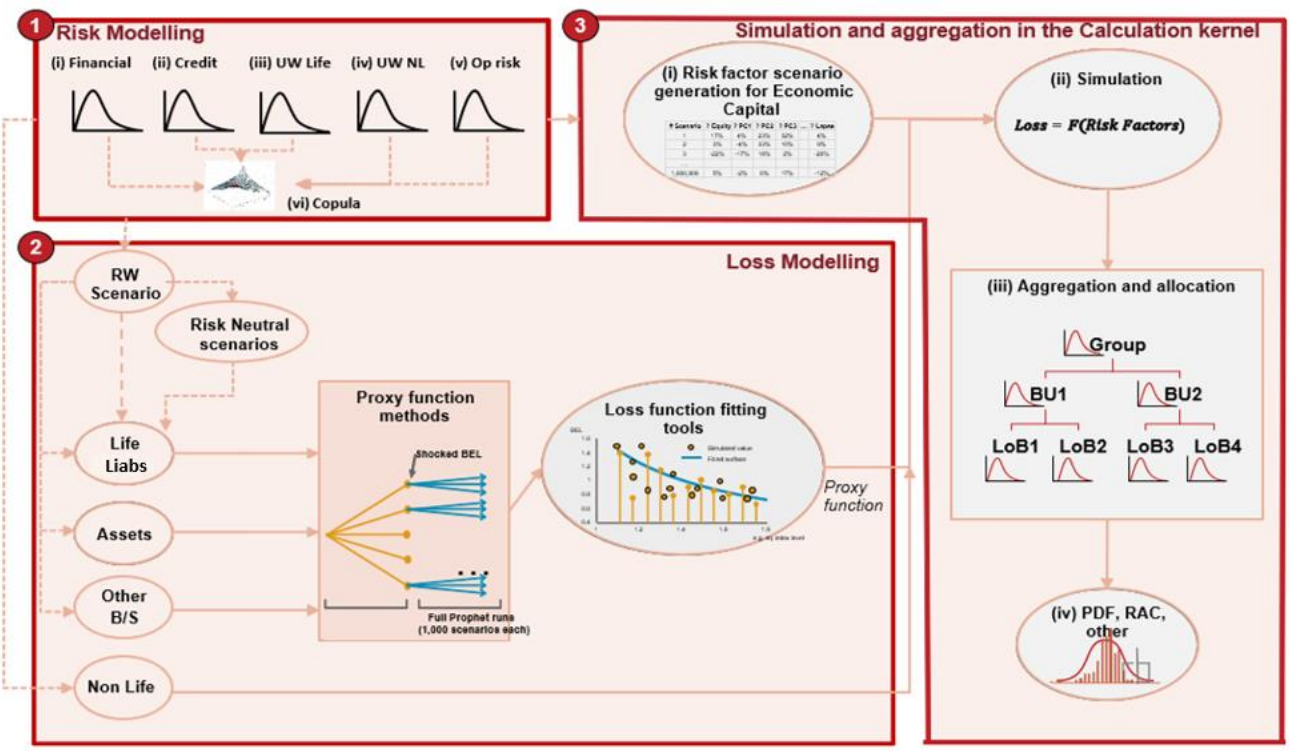
Step 1. Risk Modelling: identify all material quantifiable risks to which Generali is exposed, and determine which of these risks will be within the scope of Generali's PIM. For all risks in scope, calibrate the full joint probability distribution describing movements in those risks over a 1-year period.

Step 2. Loss Modelling: for all businesses lines of Entities within the scope of the PIM calculate a "proxy" function that describes the value of the stressed balance sheet item as a function of all modelled risk factors.

Step 3. Simulation and aggregation in the Calculation Kernel: apply the proxy functions to the risk distribution defined in step 1 to produce a stochastic realization of the full probability distribution forecast (i.e. the PDF) of modelled losses. The 99.5th percentile of this PDF provides the capital requirement for the Entities in scope of the Internal Model.

This structure is illustrated in the Figure below, and explained further in the text which follows.

Figure 4 – End to end data flow and calculation process of the Group PIM



Below, a summary of each of the three components are provided with references for more detailed descriptions.

Step 1. Risk Modelling

The Risk modelling process leads to a set of risk factor distributions and a set of correlations describing the dependencies between all risk factors covered in the Group PIM. An overview of the structure of the end-to-end risk calibration process is provided below.

The calibration process starts with a review of Generali's Group risk map to identify the risks that have to be captured in the model. The Risk functions of Group and the different Entities monitor the emerging and the emerged risks they face on a regular basis. This serves as a basis for identifying the material quantifiable risks that should be included in the model.

After having identified the risks that are included in the PIM, Generali determines the risk modelling methodology for the individual risks. For all risks, Generali defines an appropriate risk modelling and calibration approach. For risks modelled through an analytical distribution this entails defining appropriate risk factors. For the risks modelled through an empirical distribution this entails defining a methodology for simulating risk factor outcomes in a way that captures the material characteristics of a given risk type.

Following this, Generali Group calibrates the risk factor and empirical distributions above. The goal is to find stochastic distributions that describe well the behaviour of the given risk factor or loss type across all possible outcomes. The calibration of the Financial, Spread widening risk and Counterparty default risk factor distributions is led by Group based on an analysis of historic data and expert judgement. The calibration of the remaining (more business specific) risk factor distributions is led by the local businesses. Life underwriting risk factor distributions are calibrated based on a mixture of historic analysis and expert judgement. Non-Life underwriting risk factor distributions are calibrated using Generali's Non-Life valuation models. Operational risk loss distributions are calibrated with the input deriving from Scenario Analysis. The parameterization of these models flows from Generali's base case valuation methodology.

In addition to the above, Generali Group also estimates pairwise correlations between all risk factors that are captured in the Group PIM. The aim is to determine a correlation matrix that delivers realistic simulation results when inputted in a copula with marginal distributions equal to the single risk factor distributions calibrated in the previous step.

The goal is to review the most material risk factor distributions as well as the most material correlations at least once a year and to make adjustments if required. In addition, Generali could update selected distributions or correlation parameters in case of material changes to its business and risk profile, in line with Group Internal Model Change Policy.

Step 2. Modelling of Balance Sheet Items through Loss modelling

In this step "proxy" functions that describe the behavior of the value of each balance sheet item as a function of the risk factors identified in step 1 are defined. This calculation follows different approaches depending on the balance sheet item, e.g. (i) for Life liabilities a Least Square Monte Carlo approach is used, while (ii) for Non-Life liabilities and (iii) for market value of Assets a mix of curve fitting and empirical loss distributions is used.

Proxy functions describe the sensitivity of the value of each balance sheet item to changes in the risk factors that are captured in the Group PIM. The functions are fitted at Line-of-Business (LOB) level (e.g. Life savings, Life protection, Non-Life Motor) to facilitate granular modelling of the business that captures the business and risk profile and that supports the intended use of the Group PIM. This allows stressing LOB balance sheets, simulating LOB level Solvency II losses, calculating LOB level full loss distributions (PDFs) and inferring LOB level capital figures from that. PDFs at regulated Entity, sub-group and Group level are then determined by aggregating granular LOB figures according to Solvency II balance sheet aggregation rules in step 3 of the PIM calculation process.

Proxy functions for the invested assets are fitted centrally by Group using a centralized asset revaluation methodology. This ensures consistent modelling of all asset classes across Group in the Group PIM and it avoids the problem that the same security is modelled differently across LOBs.

Proxy functions for all other balance sheet items are fitted locally. This allows leveraging on local expertise for liabilities and other balance sheet specificities which are managed locally.

Step 3. Simulation and Aggregation in the Calculation kernel

These calculations are performed in the Calculation Kernel or CK (centralized calculation platform). The calculation process is done in 3 steps:

1. CK starts by simulating a large number of scenarios of correlated realizations of the risk factor distributions, using the dependency structure implied by the chosen copula and the calibrated correlation matrix;

2. The simulated risk factors are then put through the proxy functions fitted in step 2 to determine simulated values of the balance sheet items;

3. Following this, the CK calculates and aggregates losses in line with Generali's organizational structure, allowing for ownership percentages and currency changes where necessary, for internal and external re-insurance arrangements, and for tax relief on incurred losses where this relief is recoverable against the opening deferred tax liability results in a

set of full loss distributions (i.e. PDFs) by Line of Business, Entity, sub-group and Group from which the kernel can also infer the SCR and other capital metrics for the risks covered in the PIM.

The approach of calculating the SCR based on losses modelled scenario-by-scenario has many advantages over the simple variance-covariance approach employed in Generali's previous model – the EBS 1.0 model. First of all, it avoids any reliance on the assumptions inherent in the variance covariance approach. Secondly, it enables the calculation of the full loss distribution and hence the SCR at any percentile, for any node of the modelled hierarchy, allowing for more precision and for compliance with the Solvency II requirement to be able to calculate the full loss distribution for all regulated Entities that are in scope of the Internal Model. Furthermore, we can attribute the calculated diversification benefit back across the business, split by Entity, risk, balance item or various other splits. The attribution of diversification benefit back to the different nodes of the PIM hierarchy will be needed for Generali's risk appetite framework. It also allows the Group PIM to link the SCR with the real world scenarios which generated the loss. This is the basis for further functionalities, such as roll forward, stress and scenario testing, sensitivities and critical scenarios.