

GENERALI - 2011 LIFE EMBEDDED VALUE

Supplementary Information



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ASSICURAZIONI GENERALI

2011 LIFE EMBEDDED VALUE

SUPPLEMENTARY INFORMATION

1. INTRODUCTION

Assicurazioni Generali S.p.A. (Generali) reports the profits from its life, pension and health insurance business in its published financial statements according to IFRS reporting bases. An alternative method of reporting the value and determining the performance of life, pension and health insurance business is to use Embedded Value accounting. This method is used by a number of European insurance groups to provide supplementary information to that shown in their published accounts.

Embedded Value (EV) is an actuarially determined estimate of the value of a company from a shareholder's perspective, excluding any value attributable to future new business.

Since year-end 2005 EV valuation, Generali has been compliant with the CFO Forum's European Embedded Value (EEV) Principles and, starting from year-end 2007 EV valuation, has adopted a "bottom-up" market consistent approach for the vast majority of its business, with allowances for the time value of financial options and guarantees, for the frictional cost of required capital and for the cost of non hedgeable risks.

In June 2008, the CFO Forum published the Market Consistent Embedded Value (MCEV) Principles[®], which were subsequently amended (in October 2009) to reflect the possibility to include a liquidity premium in the reference rate.

During 2011, on account of the extreme financial market environment and with specific reference to the sovereign debt crisis in the Euro area, further discussions have been carried out within the industry, under the wider Solvency II framework, on the definition of the reference rates. In line with the industry position and with the CFO Forum statement in December 2011, Generali believes that including an allowance for the sovereign debt market conditions in the reference rates (such as the counter-cyclical premium) would allow a more appropriate and less volatile representation of the value of insurance companies in the current financial market environment.

Nevertheless, waiting for further and more specific guidance on such anti-cyclical mechanisms and for the sake of continuity and ease of comparison with its peers, for the year-end 2011 valuation Generali has decided to show the impact of including a counter-cyclical premium (specifically, the government spread premium) in the definition of the reference rates as an additional information only, reported in the sensitivity analysis.

Consequently, Generali's market consistent methodology for the year-end 2011 valuation (as set out in Annex A and Section 7 of the Supplementary Information) is unchanged from previous year and is based on the following main assumptions:

- reference rates definition: reference rates are based on swap rates in all main countries, with the addition of liquidity premia, where appropriate;
- reference rates extrapolation at long durations: Generali has applied the same approach adopted within the QIS5 exercise for the definition of the entry-point into the extrapolated part of the curve, its ultimate long term forward rate and the extrapolation technique;
- liquidity premium quantification: in line with emerging market practice, the liquidity premium is calibrated using the standard QIS5 proxy-formula, which makes use of external financial indices;
- liquidity premium application to products: the amount of liquidity premium to be added to swap rates is determined with regard to liabilities, i.e. products are grouped into three main QIS5 "buckets" (entitled to have access to 100%, 75% and 50% of the full liquidity premium respectively) according to the level of predictability of the relative insurance cash flows.

In April 2011, on account of the concurrent developments of insurance reporting under Solvency II and IFRS, the mandatory reporting under the MCEV Principles has been further deferred by the CFO Forum. In view of this deferral and taking into account also the ongoing industry discussion on the definition of the risk free reference rates within the MCEV Principles, Generali has decided to continue to formally report under the EEV Principles and has engaged Towers Watson to provide an external opinion on the methodology, assumptions and results under this basis (as described in Annex C).

The members of the board of directors of Assicurazioni Generali S.p.A. acknowledge their responsibility for the preparation of the Supplementary Information in accordance with the EEV Principles. The directors confirm that the Embedded Value as at 31 December 2010 and 31 December 2011, and the Embedded Value earnings including the value added by new business in 2011, have been determined using methodology and assumptions that are compliant with EEV Principles. The EV disclosure should not be considered as a substitute for Generali's primary financial statements.

With reference to the covered business, this Supplementary Information document provides the EV market consistent results as at 31 December 2011, together with details of the methodology and the assumptions used.

2. COVERED BUSINESS

The Life EV results cover all the Group's direct and indirect life and pension business, as well as long-term health business written in Germany and Austria (which has characteristics closely related to life insurance business). For the purpose of determining the Life net asset value, the perimeter includes all the operating life, health and pension companies, considered net of any held participations in Group companies included in the IFRS financial and non-life segments, with the exception of those companies that offer services directly supporting the covered business. In particular, therefore, asset gathering companies, other financial companies and holding companies have not been included in the perimeter.

In addition to the values emerging in the life, health and pension companies, value is also attributed to the stream of profits that are expected to be generated in Head Office and in holding companies with respect to direct life insurance and intra-group life reinsurance, and to the stream of profits generated in the Group's asset management companies, which are directly associated with life insurance business. All related expenses are taken into account on a look-through basis. Values include inwards reinsurance written, and are net of the impact of reinsurance ceded out of the Group.

No value is attributed in respect of future new business. The EV refers to contracts in force at the valuation date. Automatic premium increases, characterised by reliable acceptance ratios, are included in the projection of the future cash flows according to historical experience. Correspondingly, new business refers only to new contracts written in the year and excludes other automatic premium increases relating to prior years' business.

Generali's "bottom-up" market consistent methodology covers 99% of life, health and pension business of the Group in terms of technical reserves. The residual business is valued using a traditional deterministic valuation approach as described in Annex B1.

All the values shown in this disclosure are in Euro millions, after tax and after year-end minorities. The approach to consolidation adopted in the Life EV produces results that are comparable with the consolidated primary financial statements.

3. DEFINITIONS

Embedded Value (EV) is an actuarially determined estimate of the value of a company, excluding any value attributable to future new business. With reference to the covered business, and to the relevant consolidation perimeter (i.e. the operating life, health and pension companies of the Group), the EV is equal to the sum of the Adjusted Net Asset Value and the Value In-Force.

Adjusted Net Asset Value (ANAV) corresponds to the consolidated market value of the assets backing the shareholders' funds, net of taxes and policyholder interests on any unrealised capital gains and losses, after the elimination of goodwill and DAC, net of other adjustments required to maintain consistency with the valuation of the in-force business, and before the payment of dividends from profits of the year.

Value In-Force (VIF) is the present value of the projected stream of after tax industrial profits that are expected to be generated by the covered business in force at the valuation date, after allowance for:

- the cost of financial guarantees and options granted to policyholders;
- the frictional costs of holding the required capital;
- the cost of non hedgeable risks.

Embedded Value Earnings correspond to the difference between the closing and the opening EV, excluding adjustments to opening EV and capital movements.

Normalised Embedded Value Earnings correspond to Embedded Value Earnings, net of economic variances and extraordinary expenses.

New Business Value (NBV) is the present value, at the point of sale, of the projected stream of after tax industrial profits expected to be generated by the covered new business written in the year, taking into account the actual acquisition costs incurred in the year of sale, after allowance for:

- the cost of financial guarantees and options granted to policyholders;
- the frictional costs of setting up and holding the required capital;
- the cost of non hedgeable risks.

Annual Premium Equivalent (APE) is defined as new business annualised regular premiums plus 10% of single premiums.

Present Value of New Business Premiums (PVNBP) is defined as the present value of the future new business premiums, calculated using year-end assumptions for lapses and other exits and discounted to point of sale using the reference rates.

Internal Rate of Return (IRR) is defined as the rate that makes equal to zero the present value of new business distributable profits (therefore allowing for new business first year strain and required capital absorption) calculated using "real-world" best estimate assumptions (see Annex B1).

Payback Period is the period of time (in years, from issue date) required to recover the cost of the initial investment in new business (i.e. new business first year strain and required capital absorption) calculated by means of a deterministic projection of distributable profits based on "real-world" best estimate assumptions (see Annex B1).

Implied Discount Rate (IDR) is the discount rate that, when applied to a deterministic projection of future distributable profits based on "real-world" best estimate assumptions (see Annex B1), produces the same value as that arising from the market consistent valuation.

4. RESULTS

4.1. OVERVIEW OF 2011 RESULTS

The following table shows the main results of the life, health and pension perimeter, in terms of EV and NBV.

Main results at 31 December 2011 and 2010 (€ mln)			
	2011	2010	
EV	19,372	23,927	
EV earnings	-4,408	-1,024	
Return on EV	-18.1%	-4.2%	
Normalised return on EV	11.7%	9.8%	
	2011	2010	Change
NBV	976	1,050	-7.1%
APE	4,787	5,333	-10.2%
Profitability on APE	20.4%	19.7%	+0.7 pts
IRR	12.6%	13.9%	-1.3 pts

From year-end 2010 to year-end 2011 EV moves from 23,927mln to 19,372mln.

Total EV earnings (-4,408mln, corresponding to -18.1% overall return on EV) comprise solid operating EV earnings (2,815mln, leading to 11.7% normalised return on EV), offset by negative economic variances (-7,224mln).

The poor economic variances refer almost entirely to the VIF, and are mainly due to the extraordinary widening of the spreads between government bonds and swap rates in many European Countries where the Group operates, combined with higher corporate bond spreads, lower swap interest rates, poor equity market performance and higher equity and interest rate volatilities.

In particular, the disruptions on government bond spreads have a significant impact on the valuation of VIF which, according to the current methodology based on swap rates, does not benefit on the liability side from the higher returns offered by government bonds, but on the contrary is depressed on the asset side by the lower value of existing government bonds.

Had the government spreads remained at the same level as at the end of 2010, the VIF at the end of 2011 would have been 5.2bln higher.

The 2011 NBV, thanks to its improved product mix and rigorous pricing, reports a positive margin on APE (20.4%, up 0.7pts from 2010) and a solid 12.6% internal rate of return.

4.2. MOVEMENT OF EMBEDDED VALUE

The following table shows the movement of the EV and its components (VIF and ANAV) from the end of 2010 to the end of 2011, together with the movement of ANAV components (required capital and free surplus). Expected results are calculated using best estimate assumptions (see Annex B1).

Movement of Embedded Value (€ mln)					
	EV	VIF	ANAV	Required Capital	Free Surplus
Value at 31/12/2010	23,927	12,951	10,976	8,667	2,309
Change in perimeter	-177	-136	-40	-21	-20
Exchange rate fluctuation	-17	-14	-4	-3	0
Model change	609	379	230	114	115
Adjusted Value at 31/12/2010	24,341	13,180	11,162	8,758	2,404
New business value	976	1,962	-987	760	-1,746
Expected existing business contribution	1,580	1,488	92	-	92
Transfers from VIF and req. cap. to free surplus	0	-2,060	2,060	-629	2,689
Operating experience variance	-144	-101	-44	164	-208
Change in operating assumptions	404	404	-	-	-
Operating EV earnings	2,815	1,694	1,121	295	826
Economic variances	-7,224	-6,641	-583	1,936	-2,519
Total EV earnings	-4,408	-4,947	538	2,231	-1,693
Capital movement	-561	-	-561	-	-561
Value at 31/12/2011	19,372	8,233	11,138	10,989	150
	Total	Normalised			
EV earnings	-4,408	2,858			
Return on EV	-18.1%	11.7%			

Value at 31/12/2010: the starting point of the movement, represented by the official value at 31/12/2010.

Change in perimeter: the impact due to the difference between the Group companies' interest in the covered business or the covered business itself at the end of 2010 and 2011. The impact on EV (-177mln) mainly reflects the sale of Generali's participation in Afore Banorte, in Mexico.

Exchange rate fluctuation: the impact due to the difference between the exchange rates at the end of 2010 and 2011. The impact on EV is negligible (-17mln), mainly as a consequence of the weakening of Euro against Swiss Franc and US Dollar, offset by its strengthening against Israeli Shekel and most currencies in Central and Eastern Europe.

Model change: the impact of enhancements of projection actuarial models to better capture the characteristics of the business or changes in legislation. Such enhancements have an overall impact of +379mln on VIF (mainly referring to Belgium, Germany and the Netherlands), of +230mln on ANAV (adjustments to previous year reporting, mainly in France, Switzerland and UK), and of +114mln on required capital (mainly in Germany).

Adjusted value at 31/12/2010: the adjusted starting point of the movement, basis for the calculation of the return on EV.

New business value: impact of the new business written in 2011. The impact on EV (+976mln) represents the new business value at point of sale (based on year-end assumptions). The impact on free surplus (-1,746mln) represents the total new business strain, which is the combined effect of the negative contribution to profit in the year of sale (-987mln impact on ANAV) and the negative contribution to free surplus (-760mln), as a consequence of the additional capital required by the new business, net of eligible items that can be used to support capital requirements.

Expected existing business contribution: the impact on VIF (+1,488mln) reflects the effect of rolling forward the beginning of year VIF at the 2010 implied discount rate (see Annex B2),

inclusive of the effect of rolling forward the relevant required capital. The amount in the columns dedicated to free surplus and ANAV (+92mln) refers to the expected after tax return on free surplus.

Transfers from VIF and required capital to free surplus: the negative impact on VIF (-2,060mln) represents the release of the 2011 after tax result, as expected at the end of 2010 from the value in-force, inclusive of the expected return on the assets backing the required capital. The impact on required capital (-629mln) represents the expected required capital release from the in-force business, which is shown net of the variation of eligible items that can be used to support the required capital. Such amounts are released from the in-force and the required capital into the free surplus (+2,689mln), with no impact on the EV.

Operating experience variance: impact of actual versus expected 2011 experience for operational items such as mortality, persistency, profit sharing levels¹ and expenses.

The negative impact on EV (-144mln) comprises the experienced impact of profit sharing levels (-57mln, mainly in Germany), extraordinary expenses (-43mln, mainly in France and Germany), surrenders (-6mln) and other operating factors (such as renewals and reinsurance, amounting to -79mln and emerging mainly in Italy and Spain), partially offset by positive experience related to mortality (+30mln, especially in UK, US and Israel) and ordinary expenses (+11mln, mainly coming from France and Switzerland).

The impact on required capital, which combines experience variance and change in assumptions, is +164mln.

Change in operating assumptions: impact of changes in future assumptions for operational items such as mortality, persistency, profit sharing levels¹ and expenses.

The positive impact on VIF (+404mln) is driven by favourable changes in assumptions regarding mortality (+250mln, coming from US, Switzerland and UK), expenses (+139mln, most of them in France and Switzerland), profit sharing levels (+21mln, in Switzerland) and long-term shareholders' quota in Germany (+30mln), only partially offset by unfavourable changes in assumptions concerning surrenders (-6mln) and other operating factors (-30mln).

Operating EV earnings are equal to the sum of the new business value, the expected existing business contribution, the transfers from VIF and required capital to free surplus, the operating experience variance and the change in operating assumptions. Operating EV earnings amount to +2,815mln.

Economic variances: impact of actual versus expected 2011 experience and changes in future assumptions for economic items such as yield curves, implied volatilities, investment returns and taxes.

The negative impact on EV (-7,224mln) is the sum of a negative experience variance on ANAV (-583mln) and a significant negative variance on VIF (-6,641mln), which can be split into the following components:

- -2.3bln impact of lower interest rates (assuming that government and corporate bond rates have followed the movement of swap rates, i.e. maintaining their spread against swap unaltered);
- -2.3bln impact of actual widening of government and corporate spreads against swap rates, net of the impact of the liquidity premium;
- -1.3bln impact of poor equity market performance;
- -0.7bln impact of higher interest rates and equity volatilities.

Negative economic variances on EV, whose value (in central and stressed conditions) is the basis of the internal risk capital model, also cause an increase of required capital (+1,936mln).

Total EV earnings are equal to the sum of operating EV earnings and economic variances, and amount to -4,408mln. The corresponding return on EV (obtained dividing the EV earnings by the adjusted opening EV) is equal to -18.1%.

¹ Impacts of changes to profit sharing rates, when direct consequence of modifications of economic assumptions, are classified as economic variances.

Capital movement: dividends paid in 2011 out of the consolidation perimeter by the covered companies (-1,126mln), net of movements (+565mln in aggregate) corresponding to dividends received from Group companies, capital injections and changes in covered companies' interest in other Group companies and other consolidation differences.

Generali also defines the **normalised EV earnings** as the operating EV earnings excluding the impact of the extraordinary expenses included in the operating variance (-43mln). According to this definition, normalised EV earnings amount to 2,858mln, with a 11.7% return on adjusted opening EV (up 1.9 percentage points from 9.8% in 2010).

4.3. VALUE IN-FORCE

The table below reports the breakdown of VIF for 2011 and 2010 into its components:

Breakdown of Value in-force as at 31 December 2011 and 2010 (€ mln)			
	2011	2010	Change
PVFP before Time Value of FG&O	14,502	18,233	-20.5%
Time Value of FG&O	-3,311	-2,611	26.8%
PVFP after Time Value of FG&O	11,191	15,622	-28.4%
Cost of capital	-1,402	-1,211	15.8%
Cost of NHR	-1,556	-1,461	6.5%
Value in-force	8,233	12,951	-36.4%

Compared with 2010, the decrease (-20.5%) in the present value of future profits (PVFP) before Time Value of FG&O is mainly explained by the impact of the extraordinary widening of government spreads in many European countries where the Group operates. In the projection of future investment returns, indeed, companies investing in such government bonds are penalised not only by the adoption of swap interest rates (which treats the government bond excess return as credit risk, and therefore eliminates it), but also by the unrealised loss which emerges at valuation date on those existing bonds (as a consequence of the disruption of the sovereign bonds' market) and is spread across the future projection horizon.

The Time Value of FG&O shows an increase (+26.8%), on account of the combined effect of lower projected investment returns and higher interest rates and equity volatilities. As a result, the PVFP after Time Value of FG&O decreases by 28.4%.

After the allowance for the cost of required capital (+15.8%, mainly driven by the increase in the required capital) and for the cost of non hedgeable risks (+6.5%), the VIF decreases by 36.4% to 8,233mln.

The following table shows the expected run-off pattern of VIF emergence across future projection years, grouping discounted distributable profits into 5 year buckets. In particular, the table reports the contribution of each time-bucket's profits to the total VIF at year-end 2011. The calculation has been performed considering distributable profits (i.e. including the release of required capital) generated by the value in-force and calculated according to a deterministic projection based on "real-world" best estimate assumptions (see Annex B1).

Contribution of future years to VIF as at 31 December 2011		
	Percentage of VIF	Cumulated distribution
Years 1-5	41%	41%
Years 6-10	29%	70%
Years 11-15	16%	86%
Years 16-20	8%	94%
Years 21-25	4%	98%
Years 26-30	2%	99%
Years 31-onwards	1%	100%

4.4. NEW BUSINESS VALUE

The table below shows the development of NBV from 2010 to 2011, together with the usual main profitability indicators.

New Business Value 2011 and 2010 (€ mln)			
	2011	2010	Change
NBV	976	1,050	-7.1%
Annual premiums	3,094	3,052	1.4%
Single premiums	16,933	22,810	-25.8%
APE	4,787	5,333	-10.2%
Profitability on APE	20.4%	19.7%	+0.7 pts
PVNB	43,197	48,014	-10.0%
Profitability on PVNB	2.3%	2.2%	+0.1 pts
IRR	12.6%	13.9%	-1.3 pts
Payback period (yrs)	7.4	6.5	+0.8 yrs

On a like for like basis (neutralising the impacts of changes in perimeter and exchange rate fluctuations), APE decreases at an aggregate level by 9.0%, with the positive performance of annual premiums (+2.7%) offset by the drop of single premiums (-24.8%) compared to the high production of 2010. The weight of more profitable annual premiums on total APE moves from 57.2% to 64.6%.

The effects of the financial crisis have affected APE of both the unit-linked (-16.9%) and the traditional saving (-8.6%) business, whilst the protection business reports a positive development (+2.7%).

The variations of APE from 2010 to 2011 are also affected by the extraordinary production of unit-linked business registered in the first quarter of 2010, relative to policies written in Ireland in the context of the Italian tax amnesty. Net of such extraordinary production, APE decreases by 7.6%.

New business profitability shows an increase both in terms of margin on APE (from 19.7% to 20.4%) and in terms of margin on PVNB (from 2.2% to 2.3%), thanks to the more favourable mix of volumes/products and the rigorous pricing.

As a consequence, NBV decreases from 1,050mln to 976mln (-5.6% on a like for like basis), as reported in the following table.

Movement of New Business Value (€ mln) and NBM (%)		
	NBV	NBM
New business value 2010	1,050	19.7%
Change in perimeter	-14	-0.1%
Exchange rate fluctuation	-3	0.0%
Products mix/volume	-86	0.2%
Profitability	28	0.6%
New business value 2011	976	20.4%

The 2011 new business strain (i.e. the investment made by the shareholder into the new business in the first year) amounts to -1,746mln, corresponding to the sum of the negative contribution to profit in the year of sale (-987mln) and the capital absorbed by the new business (-760mln).

The year-on-year increased weight on new business premiums of the industrial profit (from 3.8% to 4.9%) is mainly due to the increased weight of annual premiums, which compared to single premiums are more profitable but pay higher commissions to the distribution network.

The year-on-year increased weight on new business premiums of the capital absorbed by new business (from 2.8% to 3.8%) derives from the significant increase of the required capital at portfolio level (mainly due to the extreme 2011 market conditions), which is attributed on a pro-quota basis to the new production of the year.

Such overall increase in the new business strain (from 6.6% to 8.7% of new business premiums) is the primary reason of the deterioration of both the internal rate of return implicit in the new

business sold during 2011 (from 13.9% in 2010 to 12.6%) and the payback period (from 6.5 years in 2010 to 7.4 years), calculated in a “real-world” best estimate scenario (with investment returns based on actual local government bond returns - see Annex B1).

Finally, the following table shows the breakdown of NBV into its components:

Breakdown of New Business Value 2011 and 2010 (€ mln)			
	2011	2010	Change
PVFP before Time Value of FG&O	1,698	1,738	-2.3%
Time Value of FG&O	-449	-432	3.8%
PVFP after Time Value of FG&O	1,249	1,306	-4.3%
Cost of capital	-109	-103	5.9%
Cost of NHR	-164	-152	7.7%
New Business Value	976	1,050	-7.1%

4.5. RECONCILIATION OF ANAV TO IFRS EQUITY

With reference to the covered business, the following table shows the reconciliation of ANAV to the IFRS Equity in respect of the Life EV consolidation perimeter (see Annex A1).

ANAV reconciliation to IFRS equity (€ mln)		
	2011	2010
IFRS equity	11,107	12,488
Mark to market of Assets	3,386	3,875
Goodwill	-633	-292
DAC, VoBA and other adjustments	-2,652	-2,596
Mark to market of debt and Employee Benefits Plans	-87	-52
Unrealised gains included in VIF	17	-2,447
ANAV	11,138	10,976

2011 ANAV reported in the table refers to the value at 31 December 2011, before the distribution of dividends in 2012 on 2011 profits. The corresponding definition also applies to 2010 ANAV.

Debts included in the perimeter of the covered business (mainly in France and Switzerland) amount in aggregate to 444mln (434mln in 2010). Such debts are held by other Group companies outside the perimeter, and are valued consistently with the spread implicit in the pricing of the debt at issue.

4.6. DISTRIBUTABLE PROFITS GENERATION

Distributable profits are defined as the sum of the profit released by the business and the release of the required capital set aside to support the business.

The following table (extract from the EV movement table in Section 4.2) shows the generation of distributable profits during 2011, stemming from the new business written during the year and the portfolio already in force at the beginning of 2011. The table reports both the expected amount of 2011 distributable profit (calculated at the beginning of the year using “real-world” best estimate assumptions – see Annex B1) and its actual realisation, strongly impacted by the financial crisis both in terms of profit and required capital release.

Generation of distributable profit during 2011 (€ mln)			
	Profit	Req. Capital release	Distributable Profit
New business contribution	-987	-760	-1,746
Expected existing business contribution	2,151	629	2,781
Total expected distributable profit	1,165	-130	1,034
Operating variance on existing business	-44	-164	-208
Economic variance on existing business	-583	-1,936	-2,519
Total actual distributable profit	538	-2,231	-1,693

The following tables show the expected future emergence of undiscounted distributable profits stemming from the portfolio in force at year-end 2011 (i.e. excluding future new business) and from the new business written in 2011, again estimated using “real-world” best estimate assumptions.

VIF - expected undiscounted distributable profits (€ mln)

	Undiscounted distr.profits
Years 1-5	11,843
Years 6-10	9,615
Years 11-15	7,580
Years 16-20	6,118
Years 21-25	4,561
Years 26-30	3,574
Years 31-onwards	5,427

NBV - expected undiscounted distributable profits (€ mln)

	Undiscounted distr.profits
Year 0	-1,746
Years 1-5	1,362
Years 6-10	1,046
Years 11-15	811
Years 16-20	776
Years 21-25	604
Years 26-30	533
Years 31-onwards	838

5. RESULTS BY GEOGRAPHIC AREA

5.1. OVERVIEW OF RESULTS BY GEOGRAPHIC AREA

The following table shows the development of NBV, APE and new business profitability in the main geographic areas (represented by Italy, Germany, France, Central and Eastern Europe, Rest of Europe and Rest of World).

Breakdown of New Business Value results by geographic area (€ mln)									
	NBV			APE			Profitability on APE		
	2011	2010	change	2011	2010	change	2011	2010	change
Italy	374	326	14.7%	1,715	1,766	-2.9%	21.8%	18.4%	+3.3 pts
Germany	166	173	-3.9%	908	976	-7.0%	18.3%	17.7%	+0.6 pts
France	128	146	-12.4%	939	1,172	-19.8%	13.7%	12.5%	+1.2 pts
Central Eastern Europe	52	56	-5.5%	147	172	-14.5%	35.8%	32.3%	+3.4 pts
Rest of Europe	134	197	-32.1%	657	792	-17.1%	20.4%	24.9%	-4.5 pts
Rest of World	121	153	-20.4%	421	455	-7.4%	28.8%	33.5%	-4.7 pts
Total	976	1,050	-7.1%	4,787	5,333	-10.2%	20.4%	19.7%	+0.7 pts

On a like for like basis, APE decrease (-9.0% at Group level) affects substantially France (-19.8%, driven by the -28.5% drop of single premiums) and the Rest of Europe (-17.4%, with a -35.7% decrease of single premiums). The slowdown in Central and Eastern Europe (-8.9%) is mainly due to the new pension rules strongly penalising the production in Poland (excluding such aspect, CEE would report a 0.4% increase of APE), whilst the decrease in Germany (-7.0%) is the result of stable production in the life segment (-3.6%) and the drop of the health business (-25.1%). In Italy the slight reduction of APE (-2.9%) is mainly driven by the drop of single premiums (-20.0%), particularly evident in the fourth quarter of the year. The increase of APE in the Rest of World (+7.0%, after neutralising the exit of Afore Banorte) mainly comes from Israel and Mexico.

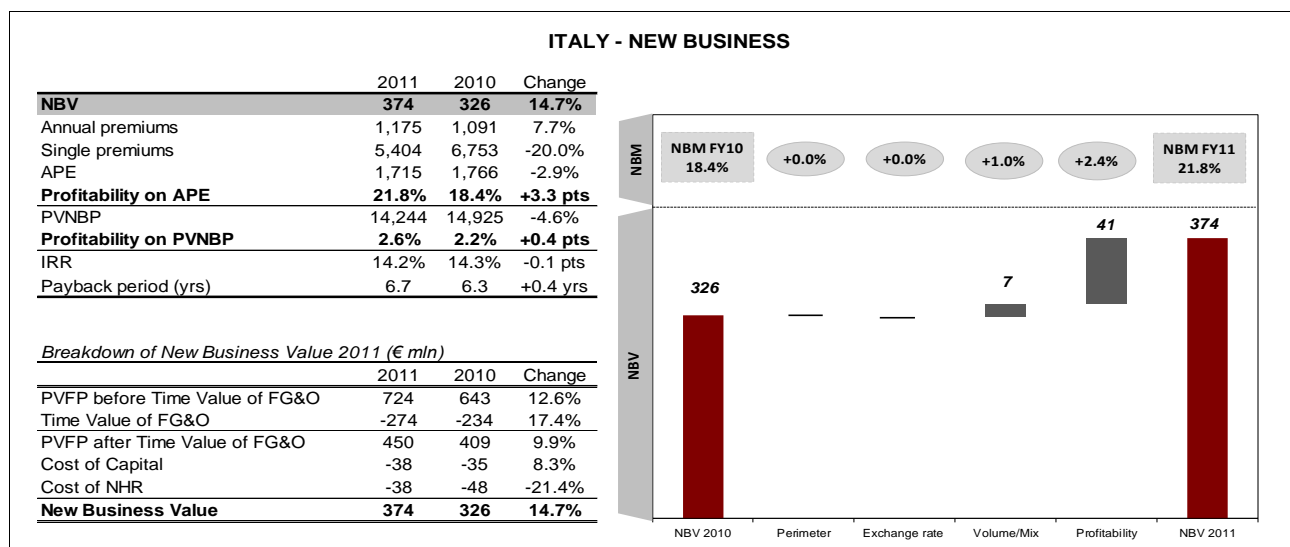
As already mentioned, new business margin on APE increases at Group level by 0.7 percentage points to 20.4%, with improved profitability in all main areas but the Rest of Europe (mainly as a consequence of the drop in Spain and Switzerland) and the Rest of World (mainly as a consequence of the drop in Israel).

The table below illustrates the development of EV (and its components) and the return on EV in the main areas.

Breakdown of Embedded Value results by geographic area (€ mln)										
	Return on EV	EV			ANAV			VIF		
		2011	2010	Change	2011	2010	Change	2011	2010	Change
Italy	-50.6%	3,729	7,877	-52.7%	4,517	4,589	-1.6%	-789	3,287	-124.0%
Germany	-8.2%	3,743	4,106	-8.8%	1,103	1,116	-1.2%	2,641	2,990	-11.7%
France	-2.8%	3,828	4,045	-5.4%	2,616	2,592	0.9%	1,212	1,453	-16.6%
Central Eastern Europe	4.7%	1,002	1,098	-8.7%	178	252	-29.4%	823	845	-2.6%
Rest of Europe	-4.3%	4,177	3,963	5.4%	1,809	1,561	16.0%	2,367	2,403	-1.5%
Rest of World	5.2%	2,893	2,838	1.9%	914	865	5.7%	1,978	1,973	0.3%
Total	-18.1%	19,372	23,927	-19.0%	11,138	10,976	1.5%	8,233	12,951	-36.4%

The returns on EV in Europe suffer the poor economic framework and the sovereign debt crisis in particular, with Italy being hit more on account of its exposure to Italian government bonds.

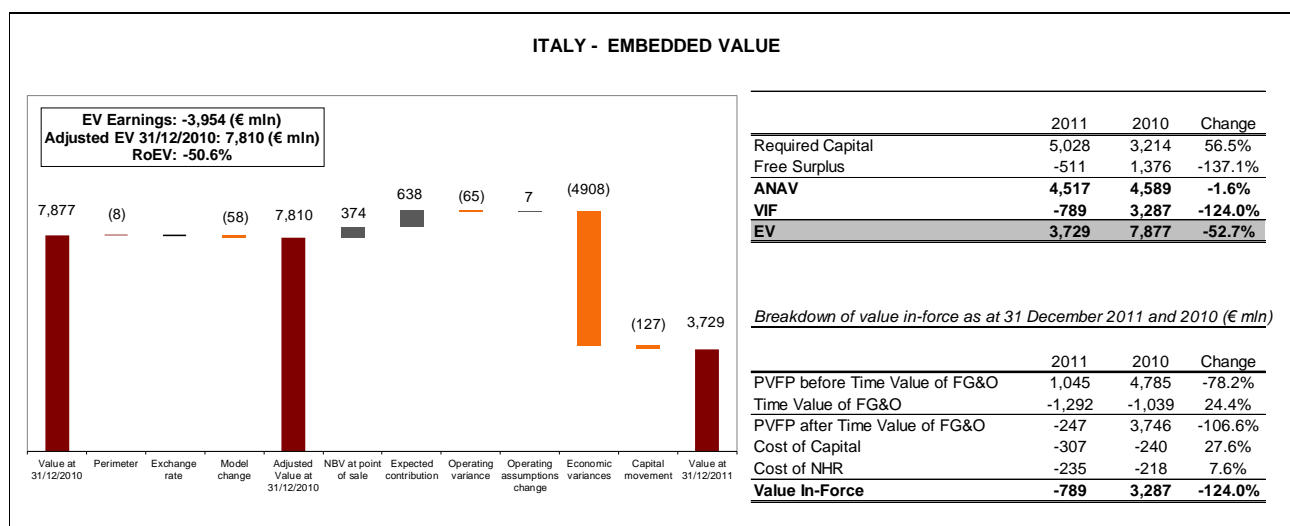
5.2. ITALY



APE decreases by 2.9% to 1,715mln, mainly on account of the drop of single premiums (-20.0% compared to previous year exceptional levels), only partly offset by the positive development of annual premiums (+7.7%).

The increase in new business profitability (with margins on APE moving from 18.4% to 21.8%) is the consequence of the improved product mix (the weight of annual premiums on total APE increases from 61.8% in 2010 to 68.5% in 2011) and the recovery of single premium margins thanks to the lower guarantees offered to policyholders by the new products, partly offset by the unfavourable year-end financial environment.

The total new business strain amounts to -722mln, corresponding to the sum of the negative contribution to profit in the year of sale (-461mln) and the capital absorbed by the new business (-261mln). The internal rate of return implicit in the new business sold in 2011 is equal to 14.2%, and the expected payback period is equal to 6.7 years.



The EV earnings are negative for -3,954mln and the corresponding return on EV is equal to -50.6%. Excluding the economic variances (-4,908mln), the normalised return on EV is equal to 12.2%.

Model changes included in the opening adjustment to EV (and therefore excluded from the calculation of EV earnings) amount to -58mln, and mainly refer to refinements of actuarial models used for the projections.

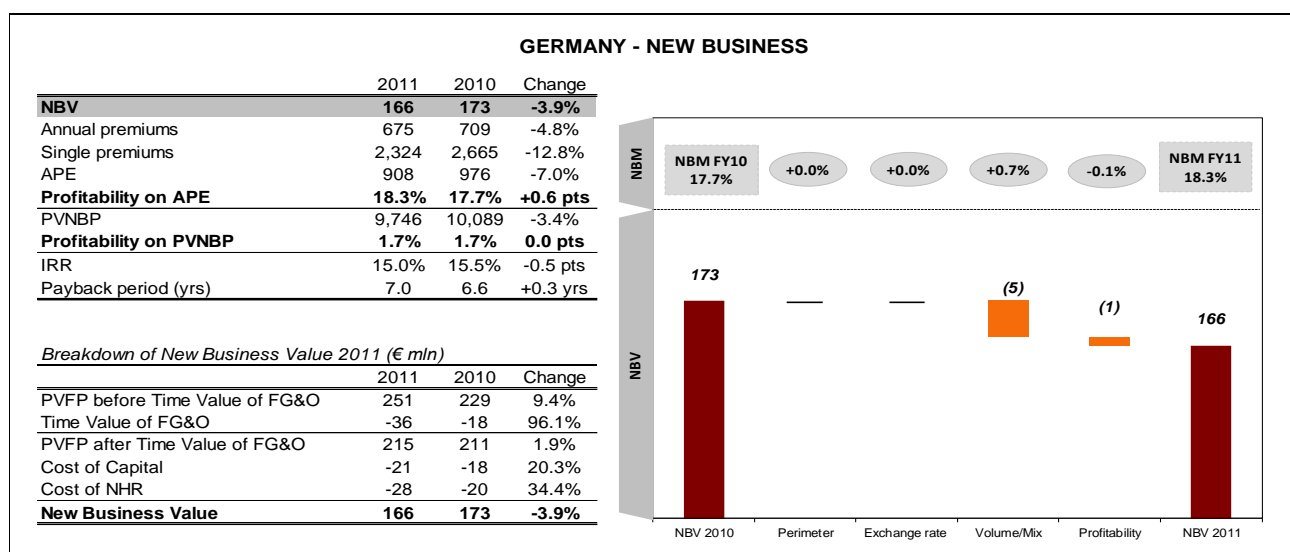
The negative operating variance (-65mln) is due to the negative experience on surrenders and renewals, only partly offset by a slightly positive (+3mln) variance on expenses. The impact of changes in operating assumptions is negligible (+7mln).

The negative economic variances (-4,908mln) reflect the huge effects on VIF (-4.6bln economic variance) of the financial crisis, and in particular of the extraordinary widening of the Italian government bond spreads. Under the current valuation framework, in fact, such extreme widening of government spreads is totally captured in terms of lower value of assets, and largely ignored in terms of value of liabilities (discounted using the swap curve, adjusted with the liquidity premium smoothing the impact of the widening of corporate bond spreads only). At year-end, the widening of government bond spreads has an impact of -4.2bln on the VIF in Italy, driving its drop to a negative sign. In turn, the negative VIF is also the main reason of the substantial increase of the required capital within the risk capital internal model.

The impact on VIF of the use of possible anti-cyclical measures (such as the government spread premium) suggested by the insurance industry to have a better representation of the economic value in times of financial turmoil is reported as additional sensitivity analysis in Section 6 of this Supplementary Information.

The capital movement (-127mln) refers to dividends paid in 2011 out of the consolidation perimeter by the covered business (-518mln) and to capital injections and changes in covered companies' interest in other Group companies (+390mln).

5.3. GERMANY

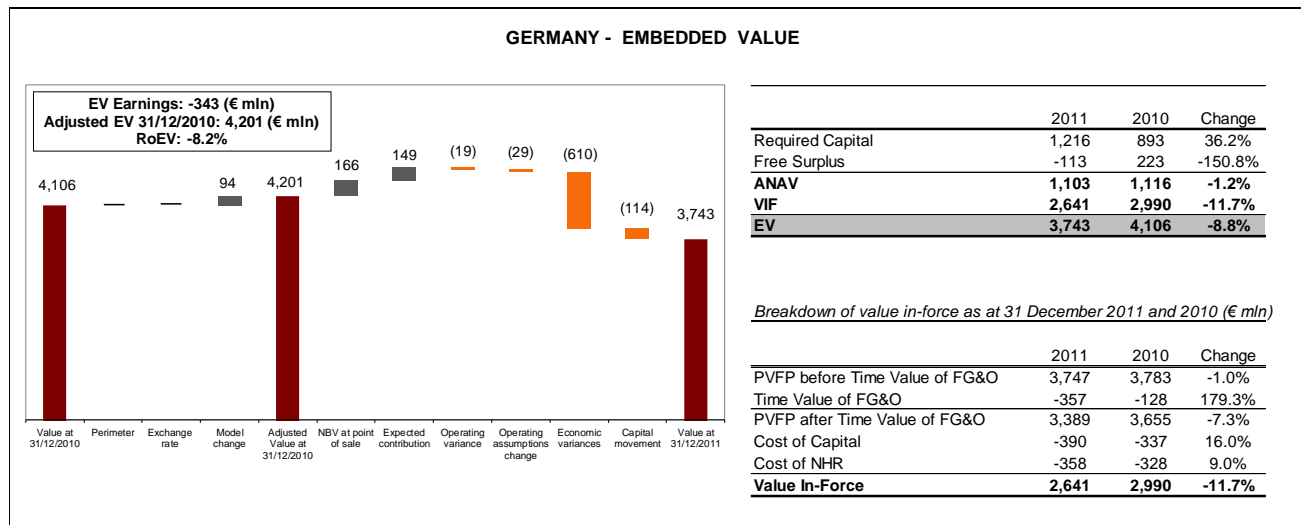


APE reports a decrease of 7.0%, which is the combined effect of the reduction in health business (-25.1%) following a further tightening of pricing conditions for the sake of profitability, and the slight decline in the life business (-3.6%), where the drop of single premiums (-12.8%) is only marginally compensated by the stable annual premiums (+0.8%).

The new business profitability, notwithstanding the negative impact from financial markets (with lower interest rates and higher volatilities), improves by 0.6 percentage points in terms of margin on APE (from 17.7% in 2010 to 18.3% in 2011). The improvement is mainly due to the more favourable product mix: despite the slowdown of health production (annual premium protection business), indeed, the overall weights on APE of profitable annual premiums and protection business increase from 72.7% to 74.4%, and from 29.0% to 29.2% respectively.

As a consequence of lower volumes and higher profitability, the NBV is substantially stable at 166mln.

Despite the significant share of annual premiums, the use of Zillmerised reserves produces, compared to other countries, a smaller negative contribution from new business to profit in the year of sale, which amounts to -38mIn. Considering also the capital absorbed by the new business (-75mIn), the total new business strain amounts to -113mIn. The internal rate of return implicit in the new business sold in 2011 is equal to 15.0%, and the payback period is equal to 7.0 years.



The EV earnings amount to -343mIn, and the return on EV is equal to -8.2%. Excluding the economic variances (-610mIn) and the extraordinary expenses (-14mIn), the normalised return on EV is equal to 6.7%.

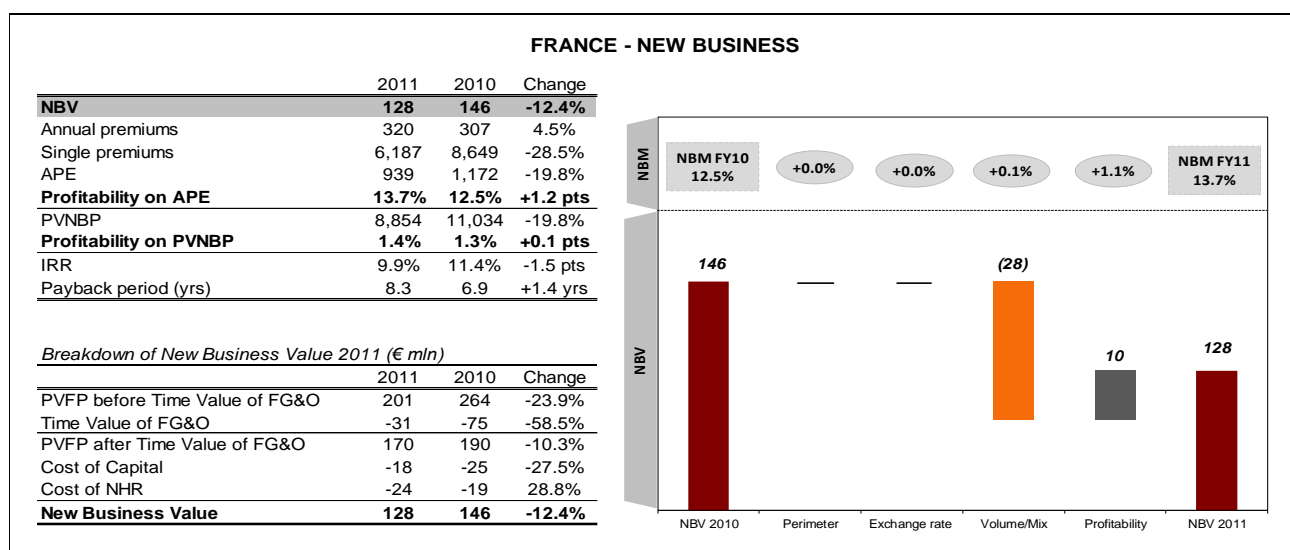
Model changes included in the opening adjustment to EV (and therefore excluded from the calculation of EV earnings) refer to actuarial model refinements and amount to 94mIn.

The slightly negative operating variance (-19mIn) derives from a negative experience on profit sharing levels (-57mIn), extraordinary expenses (-14mIn) and other operating factors (-10mIn), only partly offset by the positive experience on surrenders (+63mIn). The negative change in operating assumptions (-29mIn) mainly reflects higher projected expenses (-59mIn) and higher long-term shareholders' quota assumptions (+30mIn).

The economic variance and change in assumptions is negative for -610mIn, mainly on account of the lower interest rate levels and higher volatilities.

The capital movement (-114mIn) refers to dividends paid in 2011 out of the consolidation perimeter by the covered business (-98mIn) and to changes in covered companies' interest in other Group companies (-17mIn).

5.4. FRANCE

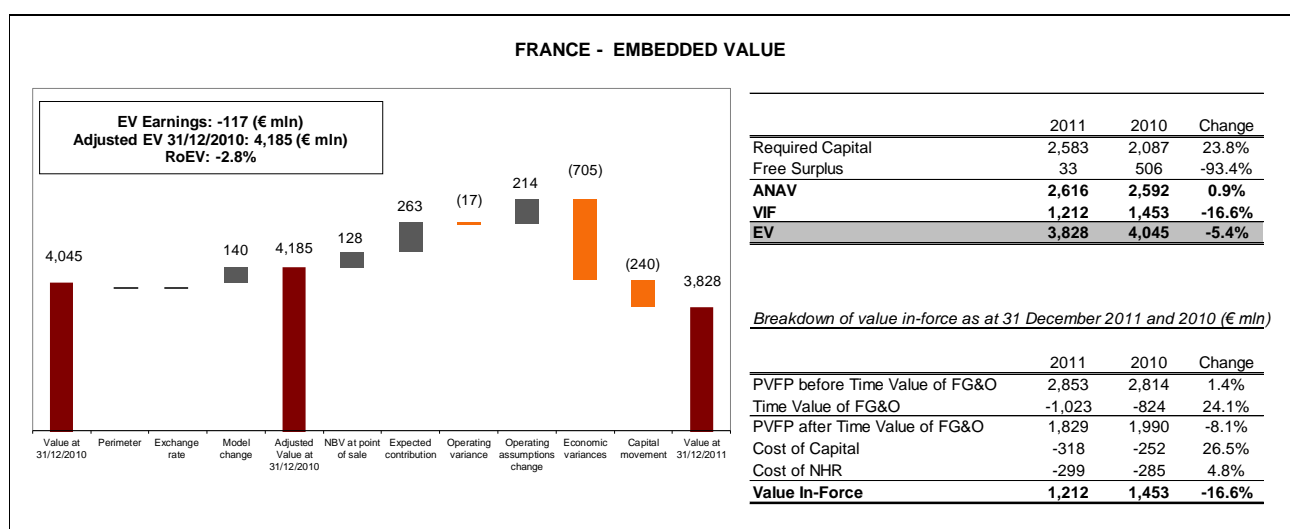


APE reports a drop of 19.8%, on account of the strong reduction of single premiums (-28.5%) affecting both traditional and unit-linked business as a consequence of the financial crisis. Annual premiums, on the contrary, report a positive development (+4.5%), especially in the protection segment.

The new business profitability, despite the unfavourable year-end financial environment, benefits from the more favourable product mix (the drop of profitable unit-linked business is offset by the increased weight on total APE of annual premiums, moving from 26.2% to 34.1%, and of protection business, moving from 15.1% to 19.9%), and from the significant contribution of new pension products.

As a consequence of the improved new business margin on APE (from 12.5% in 2010 to 13.7% in 2011), the overall decrease of NBV is limited to 12.4%.

The total new business strain amounts to -387mln, corresponding to the sum of the negative contribution to profit in the year of sale (-152mln) and the capital absorbed by the new business (-235mln). The increased strain of the new business in 2011, due to the impact of negative financial markets, is the main reason of the deterioration of the internal rate of return (down to 9.9% in 2011 from 11.4% in 2010) and of the expected payback period (up to 8.3 years in 2011 from 6.9 years in 2010).



The EV earnings are negative for -117mln and the return on EV is equal to -2.8%. Excluding the economic variances (-705mln), and the extraordinary expenses (-24mln), the normalised return on EV is equal to 14.6%.

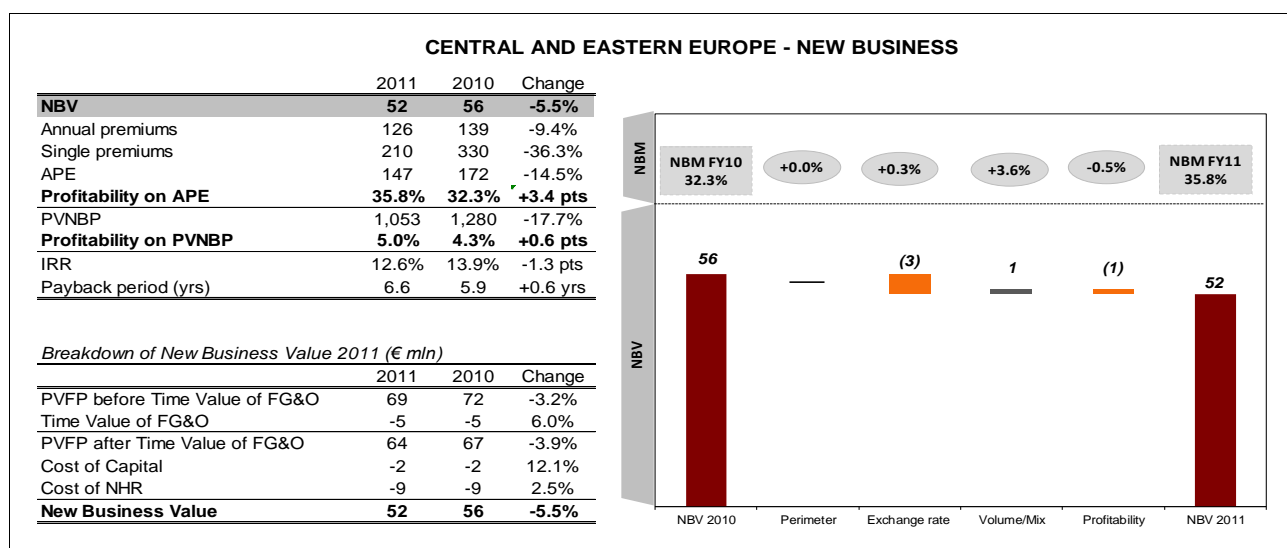
Model changes included in the opening adjustment to EV (and therefore excluded from the calculation of EV earnings) refer to a correction of year-end 2010 ANAV, to better capture the impact of the 2010 changes in the fiscal treatment of the "réserve de capitalisation".

The operating variance is negative for -17mln, as a result of the negative experience on extraordinary expenses (-24mln), mortality (-16mln) and surrenders (-15mln), partly offset by positive variance on ordinary expenses (+32mln) and profit sharing mechanisms (+6mln). The change in operating assumptions (+214mln) mainly comes from more favourable assumptions concerning expenses.

The economic variances are negative for -705mln, and mainly affect the VIF in view of the combined effect of sovereign debt crisis, lower interest rates, poor equity market performance and higher volatilities.

The capital movement (-240mln) refers to dividends paid in 2011 out of the consolidation perimeter by the covered business (-102mln) and to capital injections and changes in covered companies' interest in other Group companies (-138mln).

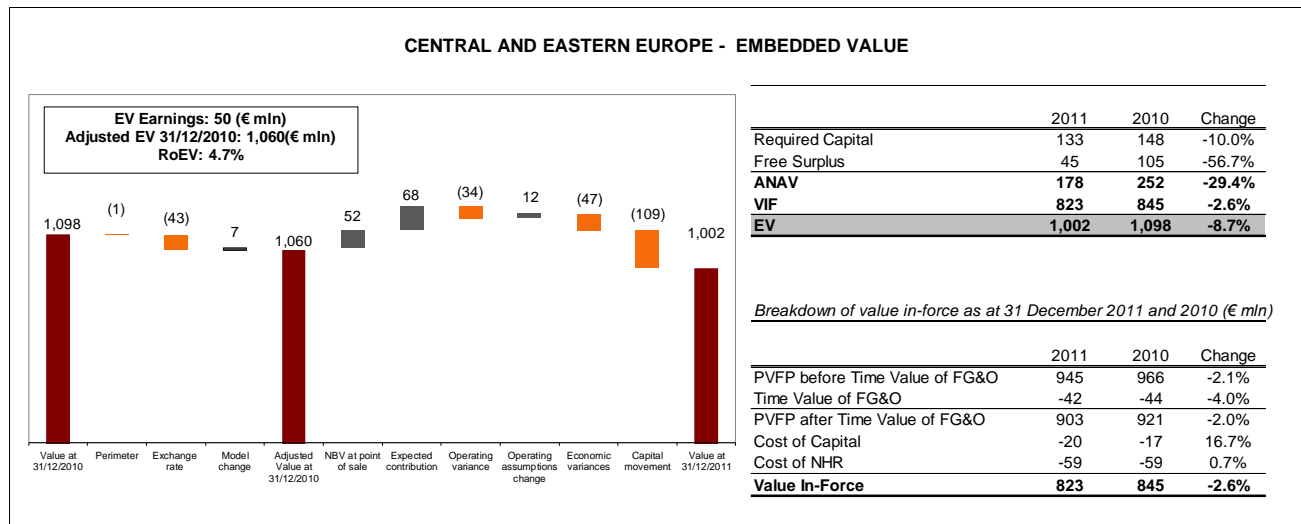
5.5. CENTRAL AND EASTERN EUROPE



On a like for like basis, APE reports a reduction of 8.9%, as the combined effect of the drop of single premiums (-30.5%) and the slowdown of annual premiums (-3.8%). This result is strongly affected by the regulatory changes affecting the contributions to pension funds in Poland: neutralising such impact, APE would be stable (+0.4%) and annual premium would report an increase of 6.0%.

The new business profitability improves by 3.4 percentage points (in terms of margins on APE, from 32.3% in 2010 to 35.8% in 2011) mainly thanks to the more favourable product mix (higher weight on total APE of more profitable annual premiums, from 80.8% to 85.7%), only partly offset by the negative impact on margins deriving from generally lower interest rates.

The total new business strain amounts to -112mln, corresponding to the sum of the negative contribution to profit in the year of sale (-101mln) and the capital absorbed by the new business (-11mln). The increased product strain (mainly on account of the higher weight of annual premiums) leads to a worsening of the internal rate of return implicit in the new business (from 13.9% in 2010 to 12.6% in 2011) and of the expected payback period (from 5.9 years in 2010 to 6.6 years in 2011).



The EV earnings amount to 50mln and the return on EV is equal to 4.7%. Excluding the economic variances (-47mln), the normalised return on EV is equal to 9.2%.

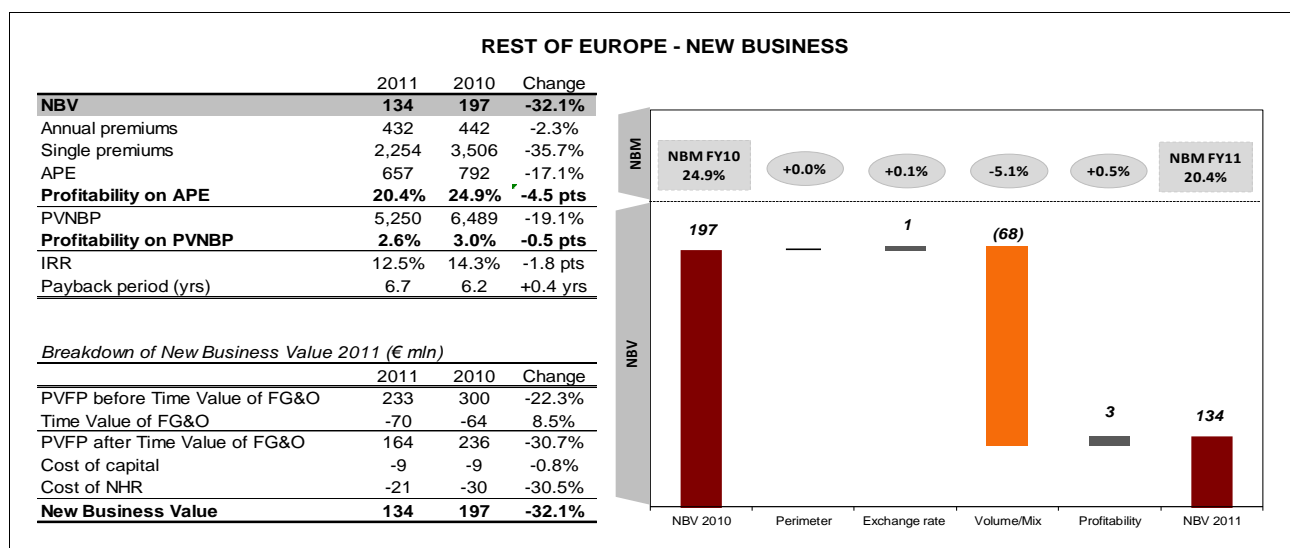
Opening adjustments to EV (excluded from the calculation of EV earnings) include the negative impact (-43mln) of exchange rate fluctuations (mainly on account of the strengthening of Euro against Czech Koruna, Hungarian Forint and Polish Zloty) and the positive impact (+7mln) deriving from the adoption of market consistent methodology in Hungary.

The negative operating experience variance (-34mln) is due to lower than expected premium income (-25mln) caused by the regulatory changes in the Polish pension system, to surrenders (-8mln) and to changes in reinsurance structure (-6mln), partially offset by positive experience on mortality (+5mln). The change in operating assumptions (+12mln) is the balance of the positive impact of updated mortality (+7mln) and expenses assumptions (+15mln) and the negative impact deriving from revised surrender assumptions (-13mln).

The economic variance is negative (-47mln), mainly on account of a generally lower interest rate environment and poor equity market performance.

The capital movement (-109mln) refers to the dividends paid in 2011 out of the consolidation perimeter by the covered business (-149mln) and to capital injections and changes in covered companies' interest in other Group companies (41mln).

5.6. REST OF EUROPE

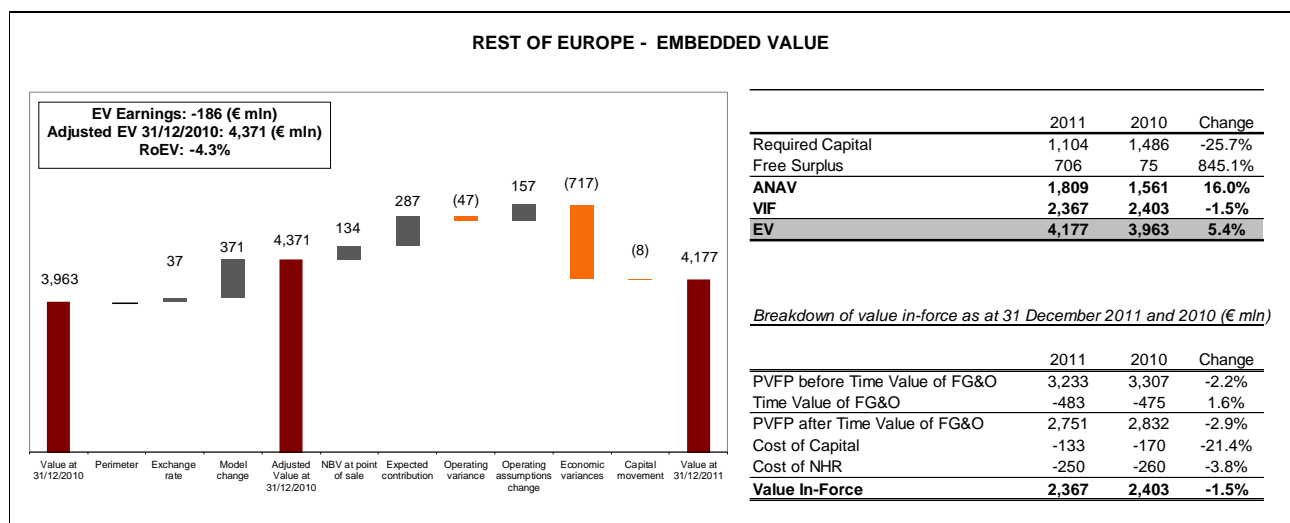


On a like for like basis (neutralising the impacts of the minor exchange rate fluctuations affecting the Swiss Franc and the British Pound), the APE decreases by 17.4%, on account of the slight reduction of annual premiums (-2.9%) and the significant drop of single premiums (-35.7%), particularly evident in Belgium (-61.6%), UK (-43.0%) and Ireland (-61.9%). The latter result is affected by the comparison with the strong production related to the Italian tax-amnesty registered in the first quarter of 2010: neutralising such effect, the drop of single premium in the whole Rest of Europe region would reduce to -16.9%.

The reduction of the new business profitability in terms of margins on APE (from 24.9% to 20.4% in 2011) is mainly due to the increased weight on APE of the traditional saving business, which (especially in Austria, Spain and Switzerland) suffers the current low interest rates and high volatility environment. On the other hand, protection business improves significantly its profitability and determines the recovery of new business margin after the effect of volume/mix of APE.

The combined effect of lower APE and reduced profitability leads to the overall decrease (-32.5% on a like for like basis) of the NBV.

The total new business strain adds up to -237mln, corresponding to the sum of the negative contribution to profit in the year of sale (-157mln) and the capital absorbed by the new business (-81mln). The internal rate of return implicit in the new business sold in 2011 is 12.5%, and the expected payback period is 6.7 years.



EV earnings amount to -186mln and the corresponding return on EV is equal to -4.3%. Excluding the economic variances (-717mln) and the extraordinary expenses (-3mln), the normalised return on EV is equal to 12.2%.

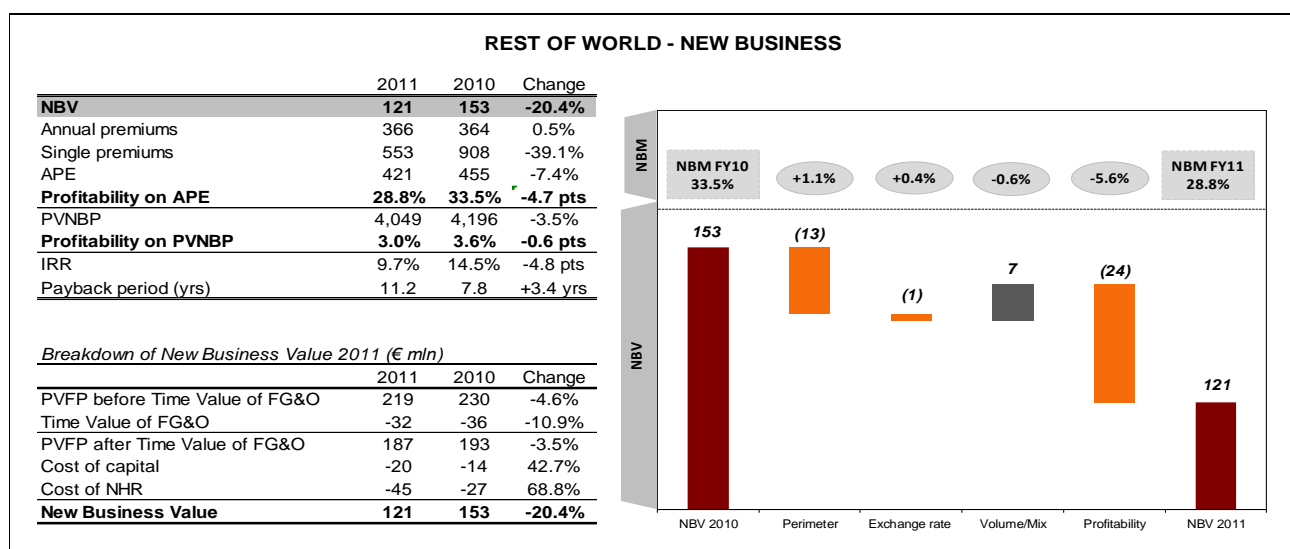
Model changes included in the opening adjustment to EV (and therefore excluded from the calculation of EV earnings) amount to +371mln, and mainly refer to actuarial model refinements in Belgium, Switzerland and the Netherlands. In particular, the model changes in Belgium (amounting to +224mln) mostly refer to a more appropriate modelling of management actions regarding the discretionary profit sharing payments.

The negative operating variance (-47mln) is mainly explained by negative surrender experience in the Netherlands and UK, partially offset by positive mortality experience in UK and expense experience in Switzerland. The operating changes in assumptions contribute to the EV earnings for +157mln, mostly thanks to the positive impact deriving from the update of expense, mortality and profit sharing assumptions in Switzerland and from the new mortality assumptions in UK.

The negative economic variances (-717mln) are mainly due to the extraordinary widening of the spread between government bond and swap rates in Spain and Belgium and to the lower swap interest rates, combined with higher volatilities, in Switzerland.

The capital movement (-8mln) is the sum of the dividends paid in 2011 out of the consolidation perimeter by the covered business (-201mln) and of the capital injections and changes in covered companies' interest in other Group companies (+193mln).

5.7. REST OF WORLD

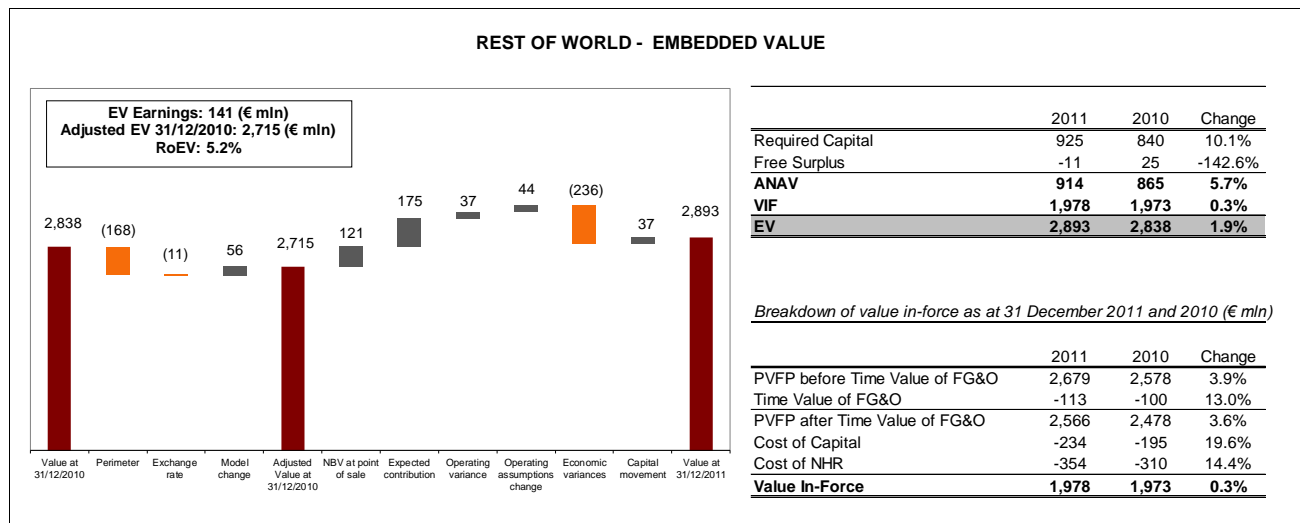


On a like for like basis (neutralising the impacts of changes in perimeter following the disposal of the participations in Afore Banorte in Mexico and minor exchange rate fluctuations), APE increases by 7.0%, thanks to the important contribution of Mexico (+27.3%) and Israel (+15.9%). The production in US remains stable (+1.9%), while the decrease reported in Far East (-17.6%) mainly derives from an extraordinary single premium written in China in 2010, which also explains the slowdown of the traditional saving business (-9.4%) in the whole Rest of World area. Both unit-linked business (+13.1%) and protection business (+11.1%) report positive developments. In particular, the weight of protection business on total APE increases from 27.5% to 33.1%.

New business profitability, despite the reduction mainly due to lower margins in Israel, remains high at 28.8%. Overall, protection business contributes to 78.5% of the total NBV of the Rest of World area.

The total new business strain amounts to -176mln, corresponding to the sum of the negative contribution to profit in the year of sale (-78mln) and the capital required by the new business (-98mln). The deterioration of the internal rate of return (down to 9.7%, from 14.5% in 2010) and of

the expected payback period (up to 11.2 years, from 7.8 years in 2010) is mainly due to the higher capital absorbed for underwriting risks in Israel and to the high start-up costs in India.



The EV earnings are positive for 141mln and the corresponding return on EV is equal to 5.2%. Excluding the economic variances (-236mln) and the extraordinary expenses (-2mln), the normalised return on EV is equal to 13.9%.

Opening adjustments to EV (excluded from the calculation of EV earnings) include the impact of the disposal of the Group's participation in Afore Banorte in Mexico (-168mln), minor exchange rate fluctuations (-11mln) and the positive impact (+56mln) of model changes, mainly referring to refinements of projection models.

The impact of the operating experience variance (+37mln) is the combined result of the positive experience for mortality and surrender (mainly in US), partly offset by the negative experience on expenses in Israel and Mexico. The change in operating assumptions (+44mln) is mainly due to updated assumptions on mortality in US.

The overall impact of economic variances is negative (-236mln), mainly due to the poor equity market performance in Israel, only partly compensated by the positive impact on the US protection business of lower interest rates.

The capital movements (+37mln) are the sum of the dividends paid in 2011 out of the consolidation perimeter by the covered business (-59mln), and the capital injections and changes in covered companies' interest in other Group companies (+96mln).

6. SENSITIVITY ANALYSIS

The following tables show the sensitivities of the EV and of the NBV to changes in key assumptions using the parameters indicated by the CFO Forum.

- **Yield curve +1%:** sensitivity to an upward shift of 100 basis points in the underlying reference rates, accompanied by an upward shift of 100 basis points in all other dependent economic assumptions. Liquidity premia added to swap rates until the extrapolation “entry-point” remain the same as in the central scenario.²
- **Yield curve -1%:** sensitivity to a downward parallel shift of 100 basis points in the underlying reference rates, accompanied by a downward shift of 100 basis points in all other dependent economic assumptions. Liquidity premia added to swap rates until the extrapolation “entry-point” remain the same as in the central scenario.²
- **Equity Value +10%:** sensitivity to a 10% market value increase at valuation date for equity investments.
- **Equity Value -10%:** sensitivity to a 10% market value reduction at valuation date for equity investments.
- **Property Value -10%:** sensitivity to a 10% market value reduction at valuation date for property investments.
- **Equity Implied Volatilities +25%:** sensitivity to a 25% increase of the equity implied volatility across all maturities, resulting in a change of the time value of financial options and guarantees.
- **Swaption Implied Volatilities +25%:** sensitivity to a 25% increase of the swaption implied volatility across all option maturities and swap tenors, resulting in a change of the time value of financial options and guarantees.
- **Reference rates without liquidity premium:** sensitivity to the adoption of swap rates without any liquidity premium as reference rates.
- **Reference rates with liquidity premium +10bps:** sensitivity to a 10bps additive increase in the full liquidity premium on top of swap rates, to be then applied to different products according to the bucketing approach described in Section 7.1.1.
- **Maintenance expenses -10%:** sensitivity to a 10% decrease of maintenance expenses.
- **Lapse Rate -10%:** sensitivity to a 10% decrease of lapse rates (multiplicative, i.e. 90% of best estimate lapse rates).
- **Lapse Rate +10%:** sensitivity to a 10% increase of lapse rates (multiplicative, i.e. 110% of best estimate lapse rates).
- **Mortality/morbidity for risk business -5%:** sensitivity to a 5% decrease of mortality/morbidity (multiplicative, i.e. 95% of best estimate mortality/morbidity rates), including the effect of possible related re-pricing, for all product lines subject to mortality risk, i.e. where the present value of future profits decreases when the mortality rates increase (e.g. term assurance, whole life, annuity during the accumulation period).
- **Mortality for annuity business -5%:** sensitivity to a 5% decrease of mortality (multiplicative, i.e. 95% of best estimate mortality rates) for business subject to longevity risk, i.e. where the present value of future profits decreases when the mortality rates decrease (e.g. annuities in payment).
- **Required capital equal to minimum regulatory solvency requirement:** sensitivity to a modification of the required capital, which is set equal to the level of the local regulatory minimum capital requirement.

Each sensitivity test is performed in isolation, i.e. all other assumptions remain unchanged except where they are directly impacted by the changed assumptions.

² As the ultimate forward rate used in this sensitivity remains the same as in the central scenario, the shift is parallel only up to the extrapolation entry-point.

EV sensitivity analysis							
	Total	Italy	Germany	France	CEE	RoE	RoW
Base EV (€ mln)	19,372	3,729	3,743	3,828	1,002	4,177	2,893
Yield Curve +1%	12.2%	15.2%	12.9%	17.7%	-0.8%	14.0%	2.0%
Yield Curve -1%	-17.2%	-18.1%	-15.5%	-28.6%	0.8%	-22.5%	-1.9%
Equity Value +10%	4.8%	10.7%	1.0%	6.2%	1.7%	3.6%	3.0%
Equity Value -10%	-4.8%	-10.9%	-0.6%	-6.7%	-1.7%	-3.5%	-2.5%
Property Value -10%	-2.8%	-4.1%	-1.2%	-5.5%	-0.2%	-2.8%	-0.7%
Equity Implied Volatilities +25%	-1.2%	-2.1%	-1.4%	-1.3%	-0.6%	-1.0%	0.0%
Swaption Implied Volatilities +25%	-3.8%	-5.9%	-6.2%	-5.4%	-0.2%	-1.9%	0.0%
Reference rates without liquidity premium	-35.1%	-76.1%	-34.4%	-43.7%	0.0%	-25.2%	1.9%
Reference rates with liquidity premium +10bps	2.7%	6.2%	2.1%	3.2%	0.0%	2.3%	-0.3%
Maint. Expenses -10%	3.3%	4.5%	1.1%	4.6%	2.6%	3.3%	3.2%
Lapse rate -10%	3.4%	4.9%	3.8%	3.7%	3.9%	1.0%	4.0%
Lapse rate +10%	-2.9%	-4.5%	-3.8%	-2.5%	-3.5%	-0.8%	-3.2%
Mortality/Morbidity for Risk Business -5%	3.2%	1.0%	1.2%	2.3%	1.0%	2.0%	12.5%
Mortality for Annuity Business -5%	-1.4%	-0.1%	-0.7%	-3.0%	0.0%	-1.4%	-1.8%
Minimum Regulatory Capital	3.7%	2.5%	8.5%	1.5%	1.2%	2.2%	5.0%

NBV sensitivity analysis							
	Total	Italy	Germany	France	CEE	RoE	RoW
Base NBV (€ mln)	976	374	166	128	52	134	121
Yield Curve +1%	8.0%	5.4%	5.1%	21.3%	-9.1%	32.6%	-13.9%
Yield Curve -1%	-23.9%	-27.9%	-4.6%	-57.3%	9.9%	-51.7%	13.5%
Equity Value +10%	2.4%	3.4%	1.4%	3.3%	1.1%	2.0%	0.3%
Equity Value -10%	-2.5%	-3.2%	-1.1%	-4.8%	-1.1%	-2.1%	-0.4%
Property Value -10%	-3.5%	-6.5%	-1.2%	-1.9%	0.0%	-3.5%	-0.3%
Equity Implied Volatilities +25%	-4.9%	-8.6%	-2.2%	-3.1%	-1.4%	-5.4%	0.0%
Swaption Implied Volatilities +25%	-8.8%	-13.1%	-7.5%	-5.8%	-1.0%	-12.1%	0.0%
Reference rates without liquidity premium	-38.8%	-65.9%	-16.4%	-40.8%	0.0%	-43.4%	4.2%
Reference rates with liquidity premium +10bps	2.6%	4.4%	1.7%	1.9%	0.0%	3.5%	-0.6%
Maint. Expenses -10%	7.5%	7.4%	1.8%	10.0%	9.7%	9.4%	9.6%
Lapse rate -10%	11.2%	8.3%	13.8%	7.0%	19.7%	9.9%	18.7%
Lapse rate +10%	-9.9%	-6.6%	-12.5%	-7.1%	-18.2%	-9.2%	-17.0%
Mortality/Morbidity for Risk Business -5%	8.3%	5.2%	2.2%	9.0%	5.3%	6.0%	29.1%
Mortality for Annuity Business -5%	-1.3%	-0.3%	-0.5%	-3.5%	0.0%	-2.7%	-2.3%
Minimum Regulatory Capital	5.6%	3.3%	11.5%	2.5%	2.4%	4.5%	10.8%

The impact of the sensitivity to a 1% increase in the yield curve is generally positive, with different magnitudes on account of different weights of businesses with prevalent financial profits proportionally shared with policyholders (which benefit from an increase of interest rates) and businesses with prevalent fixed components of profits ("fee-based" financial margins or technical margins) which are penalised by the corresponding increase in the discount factors.

The impact of the sensitivity to a 1% decrease in the yield curve is generally greater than the corresponding opposite variation due to the presence of financial guarantees and options, which are more likely to bite when interest rates are lower and create asymmetries in shareholders' results.

Compared to 2010, 2011 sensitivities to +/-1% variation of the yield curve report larger percentage impacts on EV, as a consequence of the extremely negative year-end financial conditions which determine the projection of very low investment returns, and hence make the EV more volatile and sensitive to variations of economic assumptions.

To reduce the artificial volatility in asset valuation (and hence in EV) induced by the enlargement of the spread of government bonds, the industry has proposed the adoption of an anti-cyclical mechanism (government spread premium, GSP) to be included in the risk-free curve adopted for the evaluation of the liabilities.

In particular, the GSP is defined as the difference at ten-year duration between the yields on the "AAA & others" curve provided by European Central Bank and the swap curve, where the curve

"AAA & others" represents a weighted average of government bond issues in the Euro area, with the exception of bonds that exceed specific maximum thresholds in terms of return and volatility.

At the end of 2011 this difference amounted to 177bps: the impact on VIF of the adoption of this spread (which replaces the liquidity premium in the Euro area, and is added without buckets to swap rates until the extrapolation entry-point) is represented in the following table.

VIF Sensitivity to Government Spread Premium (€ mln)			
	Base	with GSP	Change
Italy	-789	1,398	2,187
Germany	2,641	3,610	969
France	1,212	2,503	1,291
Central Eastern Europe	823	823	0
Rest of Europe	2,367	2,894	526
Rest of World	1,978	1,978	0
Total	8,233	13,207	4,974

7. ASSUMPTIONS

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

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

7.1. ECONOMIC ASSUMPTIONS

7.1.1 Financial Assumptions

Generali has adopted a market consistent methodology based on a risk-neutral approach for the vast majority of its business (see Annex B for the methodology and assumptions used for minor companies). The calibration of the risk neutral stochastic scenarios reflects observable market data as at the valuation date. Stochastic scenarios are generated centrally by an application tool provided by Barrie & Hibbert Ltd, a leading financial risk consultancy. A set of 1,000 scenarios is used in the stochastic models. To reduce Monte-Carlo error, antithetic variables are used.

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

- the reference rates;
- the liquidity premium;
- the implied volatilities for each asset class;
- the correlations between different asset classes.

Reference rates (before application of liquidity premium)

The reference rates are based on swap rates in all countries, with the exception of Czech Republic and Israel, where the local swap curve is not considered a robust basis for producing reference rates and the government bond rates have been used.

In line with the year-end 2010 EV valuation and with emerging market practice, reference rates have been directly taken from market data up to a certain duration, beyond which the market is not deemed to be fully deep and liquid: beyond this point (the extrapolation "entry-point"), reference rates have been extrapolated using currency-specific assumptions on the ultimate long-term forward rate ("UFR-yield"), the year when such ultimate rate is reached ("UFR-year"), and the extrapolation method.

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

Reference rates before liquidity premium at 31 December 2011 - definition

	Base	Entry-point	Extrapolation		Method
			UFR-yield	UFR-year	
EUR	swap	30 yrs	4.20%	120 yrs	Smith-Wilson
CHF	swap	15 yrs	3.20%	120 yrs	Smith-Wilson
USD	swap	30 yrs	4.20%	120 yrs	Smith-Wilson
GBP	swap	30 yrs	4.20%	120 yrs	Smith-Wilson
CZK	govt	15 yrs	4.20%	120 yrs	Smith-Wilson
ILS*	govt	n/m	n/m	n/m	n/m

* Rates published by the local Ministry of Finance

According to the assumptions illustrated above, the par reference rates (before liquidity premium) used in the valuation as at 31 December 2011 are shown in the following tables for the main currencies, together with comparative figures as at 31 December 2010.

Par reference rates at 31 December 2011 - before application of liquidity premium

	1 year	2 year	5 year	10 year	20 year	30 year
EUR (swap)	1.42%	1.31%	1.72%	2.40%	2.67%	2.60%
CHF (swap)	0.03%	0.10%	0.56%	1.25%	1.61%	1.89%
USD (swap)	0.68%	0.71%	1.21%	2.02%	2.50%	2.59%
GBP (swap)	1.09%	1.30%	1.60%	2.27%	2.88%	3.01%
CZK (govt)	1.20%	1.80%	2.83%	3.59%	4.24%	4.34%
ILS*	0.91%	0.75%	1.18%	2.17%	2.69%	2.86%

* Rates published by the local Ministry of Finance and expressed in real terms

Par reference rates at 31 December 2010 - before application of liquidity premium

	1 year	2 year	5 year	10 year	20 year	30 year
EUR (swap)	1.33%	1.57%	2.49%	3.30%	3.70%	3.52%
CHF (swap)	0.18%	0.51%	1.39%	2.16%	2.44%	2.57%
USD (swap)	0.44%	0.79%	2.18%	3.37%	3.99%	4.10%
GBP (swap)	0.88%	1.51%	2.65%	3.57%	4.00%	3.95%
CZK (govt)	1.62%	2.14%	3.14%	3.88%	4.44%	4.69%
ILS*	-0.14%	0.19%	1.20%	2.16%	2.78%	2.98%

* Rates published by the local Ministry of Finance and expressed in real terms

Liquidity premium

In the year-end 2011 EV valuation (as in the year-end 2010 EV valuation), for certain currencies Generali has included in the definition of its reference rates a liquidity premium over swap rates.

In line with emerging market practice, the full amount of liquidity premium has been derived using the proxy-formula adopted in the QIS5 exercise, i.e. maximum (0; 50% * (corporate spread over swap – 40bps)), where the corporate spread over swap is measured with reference to external financial data. During 2011, Generali has refined the approach used for the quantification of the corporate spread over swap, which is now taken from Markit (a leading firm specialised in the provision of financial data) using the so called “direct approach” (i.e. direct estimate of the spread between corporate bonds and swaps, by means of the “Annual Iboxx Spread to Libor Curve”).

In the following table the full liquidity premium used in the valuations as at year-end 2011 and 2010 is shown for the main currencies.

Liquidity Premium - Proxy formula

	100% bucket	
	2011	2010
EUR	118 bps	36 bps
CHF	25 bps	8 bps
USD	102 bps	56 bps
GBP	135 bps	79 bps

The liquidity premium is applied to the swap forward rates as a flat increase across the term structure up to the year from which the swap curve is extrapolated (for extrapolation “entry-point”, see above section).

As for the application of the liquidity premium to products, in the year-end 2011 valuation Generali has followed the same QIS5-like approach as adopted in the previous year EV valuation. According to this approach, liabilities are grouped into three main “buckets” which reflect their different nature in terms of predictability, and therefore they are characterized by different

percentages of the full liquidity premium (as defined by the proxy-formula described above) they can have access to:

- 100% liquidity premium bucket: single premium annuities in payment;
- 75% liquidity premium bucket: participating business, unit-linked business with guarantees;
- 50% liquidity premium bucket: remaining products (e.g. unit-linked business without guarantees, non participating risk business).

Implied volatilities

To model fixed income stochastic scenarios, an extended two-factor Black-Karasinski model is used for the nominal yield curve and a two-factor Vasicek model for the real yield curve. Fixed income volatilities are taken from implied volatilities of at the money swaptions.

To model equity and property, a range of equity indices is considered, and a log excess return above short rate model is used to generate returns from fixed income dynamics of the economy. A time-varying volatility model is adopted for modelling the equity index. Equity volatilities are taken from implied volatilities of at the money forward equity index quoted options. Concerning property, a constant volatility model is used, with volatilities taken mainly from historic returns also reflecting other available data sources.

Swaption implied volatility and equity option implied volatility used for year-end 2011 EV valuation have been based on the following market data as at 31 December 2011. Comparative 31 December 2010 data are also provided for the sake of comparison.

Valuation at 31 December 2011

	<i>Swaption implied volatilities</i>					<i>Equity option implied volatilities</i>				
	1 year	2 year	5 year	10 year	20 year	1 year	2 year	5 year	7 year	10 year
EUR	39.7%	35.7%	29.1%	27.3%	38.2%	29.3%	28.0%	27.5%	27.7%	27.9%
CHF	53.3%	47.3%	39.5%	45.3%	n/a	19.7%	20.3%	21.8%	22.0%	22.1%
CZK	43.8%	39.5%	29.6%	26.8%	n/a	29.6%	28.3%	27.8%	28.0%	28.2%

Valuation at 31 December 2010

	<i>Swaption implied volatilities</i>					<i>Equity option implied volatilities</i>				
	1 year	2 year	5 year	10 year	20 year	1 year	2 year	5 year	7 year	10 year
EUR	25.3%	23.0%	19.1%	17.6%	24.7%	25.0%	25.6%	26.4%	26.9%	27.3%
CHF	30.0%	27.8%	26.2%	31.0%	24.6%	17.8%	19.1%	20.0%	20.4%	21.0%
CZK	25.2%	23.4%	20.3%	18.6%	15.2%	25.1%	25.7%	26.5%	27.0%	27.4%

The swaption volatilities illustrated above refer to volatilities implied in options on 10-year swap at the money; where market data were not available, model output has been used. The equity indices used in the calibration are the Eurostoxx-50 for the EUR economy and the SMI for the CHF economy. Since no data were available for the CZK economy, the relevant implied volatilities were derived by appropriately adjusting the Eurostoxx-50 implied volatilities to reflect the different historic volatilities in the two equity markets. No implied volatilities are shown for USD and ILS, since related business is modelled using a certainty equivalent approach (see Annex A2).

Correlations

Correlations between asset returns, being not directly observable metrics, are inferred using analysis of historical data, expert opinions and expectations implied by market prices. For each considered economy, the excess return correlation target between 10-year bond and equity is 13% (16% in 2010).

7.1.2. Other Economic Assumptions

The assumptions for future taxation are based on the prevailing local tax rates as at the respective valuation dates. Where applicable, account has been taken of the beneficial tax treatment of income on certain asset classes backing both technical reserves and required capital, including tax credits or exemptions on dividend income, tax credits on investment returns and tax exemptions on certain qualifying participations. In Italy, allowance has also been made for loss of interest that is associated to the taxes payable in advance on reserves according to DL. 168/2004 and subsequent amendments. In consolidating the results, no allowance is made for the impacts of any taxation effected on dividends or other distributions either at source or on remittance.

The following table shows the ordinary average taxation rates at 31 December 2011 and 2010.

Taxation as at 31 December 2011 and 2010		
	2011	2010
Italy	34.5%	31.9%
Germany	32.0%	32.0%
France	34.4%	34.4%
Central Eastern Europe	17.3%	17.3%
Rest of Europe	21.8%	21.7%
Rest of World	34.5%	31.5%

All the values have been calculated using local currencies, converted to EUR using year-end exchange rates. The following table shows the assumed year-end exchange rates (foreign currency against 1 EUR) for selected currencies.

Exchange rates as at 31 December 2011 and 2010		
	2011	2010
USD United States Dollar	1.30	1.34
GBP United Kingdom Pound	0.84	0.86
CHF Switzerland Franc	1.21	1.25
CZK Czech Republic Koruny	25.50	25.09
HUF Hungary Forint	314.77	278.35
PLN Poland Zloty	4.46	3.96
ILS Israel New Shekel	4.96	4.75
CNY China Yuan Renminbi	8.17	8.84
MXN Mexican Peso	18.12	16.55

Inflation rates have been derived from the market implied inflation rate in the scenarios' calibration process described above. The average inflation rates used for the year-end 2011 EV valuation are: 2.10% for EUR, 0.45% for CHF, 2.85% for CZK and 2.30% for USD.

The average asset mix (at market values) of assets backing technical reserves of traditional products is shown in the following table with reference to 2011 and 2010.

Asset Mix (Bond - Equity - Property - Other Assets) as at 31/12/2011 and 31/12/2010						
	Italy	Germany	France	CEE	RoE	RoW
31 December 2011	87-7-4-2	92-3-4-2	85-9-6-0	94-5-0-1	81-3-8-7	90-4-1-5
31 December 2010	85-8-4-4	88-6-4-2	84-11-5-1	89-10-0-1	79-4-8-9	77-9-2-12

7.2. OPERATING ASSUMPTIONS

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

Regarding the expenses, full allowance has been made for all expenses within the life, health and pension business in the Group, with the exclusion of 43mln of non-recurrent expenses (after tax) treated as extraordinary expenses. The value of new business at point of sale is shown after the deduction of all acquisition costs. Maintenance expenses, generally expressed as per-policy amounts, are assumed to increase at the inflation rate while no allowance for productivity gains is considered.

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

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

Annex A: METHODOLOGY

Generali has adopted the European Embedded Value (EEV) Principles published in May 2004 by the CFO Forum, using a “bottom-up” market consistent stochastic approach.

In line with the EEV Principles, the Embedded Value is defined as the sum of the Adjusted Net Asset Value and the Value In-Force.

A1. ADJUSTED NET ASSET VALUE

With reference to the consolidation perimeter of the covered business, the Adjusted Net Asset Value (ANAV) corresponds to the consolidated market value of the assets backing the shareholders' funds, net of taxes and policyholder interests on unrealised capital gains and losses, and net of other adjustments required to maintain consistency with the methodology underlying Value In Force. In particular ANAV is derived from corresponding IFRS shareholder's equity, adjusted to reflect the after tax impact of the following main items:

- adjustment to fair value of any assets not considered on a fair value basis under IFRS, in particular property and loans;
- elimination of the value included in the IFRS Equity for Goodwill;
- elimination of the value included in the IFRS Equity for DAC, Value of Business Acquired and other items (mainly other intangibles);
- adjustment to fair value of Financial Debt included in the perimeter of the covered business and addition of actuarial gains/losses on Employee Benefit Plans not included under IFRS;
- elimination of any unrealised gain/loss included in the IFRS shareholder's equity or related to the adjustment to fair value of the assets not considered on a market value basis under IFRS, which are already captured in the VIF.

For Italian companies writing revaluable business, ANAV already includes the impact of the recovery of unrealised losses, compared to their segregated fund value, on assets backing policyholders' liabilities which, according to Italian local GAAP rules, are accounted as a loss in the net asset value as they occur, and are then recovered as a future profit as soon as such unrealised loss is realised or the underlying asset recovers its value. As a consequence, the full impact of the difference between market values and segregated fund values of these assets is reflected in the VIF.

ANAV can be broken down into required capital and free surplus.

Required capital

Required capital represents the market value of assets that are needed to support the covered business in addition to those required to back technical reserves and other policyholder liabilities, taking into account both local regulatory solvency requirements and internal objectives.

Generali defines the level of required capital for each business unit as the greatest between the local regulatory minimum capital requirement and the risk capital arising from the Group's Economic Balance Sheet methodology. It is presented net of the impact of relevant eligible items that can be used to support capital requirements with no associated cost to shareholders.

The local regulatory minimum capital requirement is defined with reference to EU minimum solvency margin for companies operating in Europe (and equivalent minimum local requirements for other geographic areas) net of the benefit of related items that can be used to support capital requirements without any associated costs to the shareholders (e.g. DAC and subordinated loans where allowed by local regulations, free policyholder funds in Germany and Austria, unrealised gains on assets backing technical reserves in Belgium).

The internal risk capital is defined as the capital necessary to absorb the maximum economic loss (i.e. the reduction of available capital) over one year, at a specified confidence level consistent with the Group risk appetite, considering both the hedgeable and non hedgeable risks to which the business is exposed, net of appropriate eligible items with no associated cost to shareholders.

Free surplus

Free surplus represents the market value of assets allocated to the Life perimeter that are not required to support the covered business at the valuation date and is defined as the excess of ANAV over the required capital.

A2. VALUE IN-FORCE

The Value In-Force is defined as the present value of the projected stream of after tax industrial profits that are expected to be generated by the covered business in force at the valuation date, assuming assets at local statutory book values (segregated fund values for Italian revaluable business) equal to the technical reserves, net of the cost of financial guarantees and options granted to policyholders, the frictional costs of holding required capital and the cost of non hedgeable risks. Calculations are performed at local company level, based on local statutory reserving regulations.

For participating business, the profit sharing and the allocation of profits between shareholders and policyholders have been based on local company practice, taking account of regulatory constraints. For the German and Austrian companies, the treatment of the free profit sharing fund ("free RfB") makes use of the "attribution" approach, whereby "free RfB" is assumed to be managed as a fixed proportion of reserves. Essentially, the whole "free RfB" is allocated to policyholders and shareholders benefit from their share of the uplift to the investment return on reserves. This method explicitly recognizes the mutuality between generations, and is applied equally to in-force and new business. No additional value is ascribed to the release of "free RfB" over time, over and above the explicitly projected shareholders' share.

VIF can be broken down into the components illustrated below.

Present Value of Future Profits before Time Value of Financial Guarantees and Options

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

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

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

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

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

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

Closed formula solutions are used for a minor part of the business where guarantees can be easily separated from the underlying liabilities, provided that there are no policyholder or management actions.

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

Frictional costs of required capital

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

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

Frictional costs are calculated by projecting the future levels of required capital over the lifetime of the business. Where the required capital is based on the internal risk capital, the projection is performed using appropriate risk drivers (i.e. different risk drivers are used to determine the run off pattern of the risk capital related to the different risks), such as capital at risk, local reserves, expenses and premiums.

Cost of non hedgeable risks (Cost of NHR)

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

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

The cost of non hedgeable risks is calculated using a "cost of capital" approach aligned with the Solvency II framework and it is derived from the internal risk capital model. More specifically, the component of risk capital necessary to meet non hedgeable risks only is identified at valuation date, consistently with a 99.5% confidence level over one year time horizon, at each individual company level. No allowance for diversification is made at Group level. The non hedgeable risks considered are mortality, longevity, morbidity, lapse, expense, health, operational and, where material, financial non hedgeable risk. The capital to meet non hedgeable risks is then projected across all subsequent projection years with appropriate drivers. The annual charge applied is equal to 4%, less tax at the local ordinary taxation level.

A3. NEW BUSINESS VALUE

New business refers only to new contracts written in the year and excludes other automatic premium increases relating to prior years' business.

Generali's market consistent methodology adopted to calculate VIF is also applied to the calculation of the NBV. Therefore, NBV is determined as the present value, at the point of sale (i.e. taking account of the first year new business strain, calculated using actual current year assumptions), of the projected stream of after tax industrial profits that are expected to be generated by the covered new business written in the year, net of the cost of financial guarantees and options granted to policyholders, the frictional costs of setting up and holding required capital and the cost of non hedgeable risks.

New business profits are based on year-end operating and economic assumptions. From 2011, new business value is calculated using new money investment returns.

Annex B: “REAL-WORLD” PROJECTIONS AND IMPLIED DISCOUNT RATES

B1. “REAL-WORLD” BEST ESTIMATE PROJECTIONS

The market consistent methodology has been adopted by larger companies operating in main territories. The remaining companies, which represent 1% in terms of technical reserves, still calculate a traditional “real-world” embedded value³, where VIF and NBV are computed as the present value of future profits determined according to a single best estimate projection and using a discount rate equal to the assumed equity return.

The structure of the economic assumptions used in “real-world” projections is unchanged in respect of prior years and it is based on country-specific benchmark rates set equal to the 10-year par yield of local government bonds. The returns of the other asset classes are then set by adding pre-determined risk premia to the country-specific benchmark rates. The discount rates used to calculate the present values include a margin to reflect the risk that the assumptions chosen to project the future profits may not be borne out in practice and are set equal to the assumed equity return. The assumptions used are summarised in the following tables with reference to 31 December 2010 and 2011.

Best-estimate economic assumptions as at 31 December 2011

	Italy	Germany	France	CEE	RoE	RoW
10 y Government Bond	6.79%	1.82%	3.14%	4.36%	2.97%	2.37%
Equity Total Return	4.72%	4.72%	4.72%	6.41%	4.37%	7.07%
Property Total Return	2.97%	2.97%	2.97%	5.82%	2.31%	5.97%

Best-estimate economic assumptions as at 31 December 2010

	Italy	Germany	France	CEE	RoE	RoW
10 y Government Bond	4.82%	2.98%	3.35%	4.37%	3.50%	4.86%
Equity Total Return	5.88%	5.88%	5.88%	6.33%	5.58%	7.29%
Property Total Return	4.13%	4.13%	4.13%	5.30%	3.37%	5.61%

The above illustrated “real-world” best estimate assumptions are also used by companies performing market consistent valuations, to derive:

- the best estimate expected results and the unwinding rate (implied discount rate, see Section B2) within the analysis of movement;
- the internal rate of return and payback period of the new business.

B2. IMPLIED DISCOUNT RATES

Generali’s market consistent approach provides a direct calculation of VIF and NBV, and does not require the calculation of traditional deterministic risk discount rates. However, even under this valuation framework, it is possible to derive implied discount rates (IDRs), defined as the discount rates that, when used in a traditional EV model, produce the same value as that arising from the market consistent valuation.

In contrast to a traditional EV valuation, IDRs are outputs of the valuation rather than assumptions for the EV model. Changing the assumptions used to project future profits in the best estimate scenario can have an impact on the resulting IDR, but the value (VIF/NBV) would remain unchanged.

The calculation of IDRs requires a deterministic projection of future profits in a “real-world” best estimate scenario, exactly as in the traditional deterministic EV framework. The set of deterministic “real-world” best estimate assumptions used for the calculation of IDRs is the same as that used by companies calculating a traditional deterministic EV, using Generali’s definition of required capital.

³ Within this Supplementary Information the results for companies calculating a traditional deterministic EV have been presented in the same format used for companies applying Generali’s market consistent methodology, using an approximation to separate the various components of value.

IDRs enable comparison with the traditional EV valuation and represent a meaningful measure of the risk profile of the business, as reflected in the market consistent value, providing an estimation of what return might be expected if actual future investment returns were consistent with the best estimate assumptions. According to Generali's approach, IDRs are not only a useful measure of the risks embedded in the business, but they are also the basis used for the unwinding in the movement analysis.

The tables below report the IDRs for the main geographic areas, broken down into the two following components: the "risk-free" rate, which reflects the yield on local government bonds (in the local currency) based on the average duration of profits, and the risk premium, which neutralises the "real-world" best estimate assumptions and allows for the cost of financial guarantees, including dynamic policyholder behaviour, and for the cost of non hedgeable risks.

Breakdown of Embedded Value IDR per geographical areas as at 31 December 2011 and 2010

	VIF - IDR 2011			VIF - IDR 2010		
	Risk Free	Risk Premium	IDR	Risk Free	Risk Premium	IDR
Italy	6.87%	14.11%	20.99%	4.72%	4.31%	9.03%
Germany	2.11%	1.45%	3.55%	3.26%	0.79%	4.05%
France	3.34%	4.05%	7.39%	3.46%	3.43%	6.89%
Central Eastern Europe	4.76%	2.11%	6.87%	4.79%	1.96%	6.75%
Rest of Europe	1.77%	5.35%	7.12%	3.24%	5.54%	8.78%
Rest of World	4.49%	1.65%	6.14%	4.89%	1.16%	6.04%
Total	3.66%	5.35%	9.01%	3.86%	3.13%	6.99%

Breakdown of New Business Value IDR per geographical areas 2011 and 2010

	NBV - IDR 2011			NBV - IDR 2010		
	Risk Free	Risk Premium	IDR	Risk Free	Risk Premium	IDR
Italy	6.76%	1.18%	7.93%	4.76%	3.37%	8.13%
Germany	2.18%	2.13%	4.31%	3.28%	1.04%	4.32%
France	3.40%	2.16%	5.56%	3.47%	2.27%	5.74%
Central Eastern Europe	4.92%	1.20%	6.13%	5.14%	1.29%	6.43%
Rest of Europe	2.86%	2.52%	5.38%	3.51%	2.22%	5.73%
Rest of World	4.13%	1.37%	5.51%	4.80%	1.50%	6.30%
Total	4.61%	1.76%	6.37%	4.06%	2.49%	6.55%

The following tables provide the sensitivity for VIF and NBV to an increase of 100bps of IDR in the "real-world" best estimate projections.

VIF and NBV Sensitivity to +100bps in IDR as at 31 December 2011

	VIF			NBV		
	IDR	IDR +1%	Change	IDR	IDR +1%	Change
Italy	-789	-946	19.9%	374	289	-22.6%
Germany	2,641	2,111	-20.1%	166	129	-22.1%
France	1,212	882	-27.2%	128	91	-29.2%
Central Eastern Europe	823	763	-7.4%	52	40	-23.3%
Rest of Europe	2,367	2,095	-11.5%	134	103	-22.8%
Rest of World	1,978	1,638	-17.2%	121	84	-30.9%
Total	8,233	6,543	-20.5%	976	737	-24.5%

Annex C: TOWERS WATSON OPINION

Towers Watson has been engaged by Generali to review certain aspects of Generali's market consistent embedded value calculations, in particular the methodology used, the derivation of the assumptions and the calculation of results. The scope of Towers Watson's review covered the Generali Group's life embedded value as at 31 December 2011 and the value added by new life business in 2011, calculated according to the EEV Principles, together with the analysis of movement of the life embedded value during 2011 and the results of the sensitivity analyses.

Towers Watson has concluded that the methodology and assumptions used to calculate the life embedded value as at 31 December 2011 and the value of new life business in 2011 comply with the EEV Principles and Guidance as published by the CFO Forum, and in particular that:

- The methodology makes allowance for the aggregate risks in the covered business through the methodology set out in Annex A and Section 7 of the Supplementary Information. The methodology includes a stochastic allowance for the time value of financial options and guarantees, and deductions to allow for the frictional cost of required capital and the cost of non-hedgeable risks.
- The operating assumptions have been set with appropriate regard to past, current and expected future experience.
- The economic assumptions used are internally consistent and consistent with observable reliable market data.
- For participating business, the assumed bonus rates, and the allocation of profit between policyholders and shareholders, are consistent with the other projection assumptions, current company practice and local market practice.

Towers Watson has reviewed the results of the calculations of the life embedded value as at 31 December 2011, the value added by new business in 2011, the analysis of movement of the embedded value during 2011 and the 2011 sensitivity tests, and consider that these results have been prepared materially in accordance with the methodology and assumptions set out in the Supplementary Information paper. Towers Watson has not, however, undertaken detailed checks of the models, processes and calculations involved.

In arriving at these conclusions, Towers Watson has relied on data and information made available by Assicurazioni Generali S.p.A. and its subsidiaries.

This opinion is made solely to Assicurazioni Generali S.p.A. in accordance with the terms of Towers Watson's engagement letter. To the fullest extent permitted by applicable law, Towers Watson does not accept or assume any responsibility, duty of care, or liability to anyone other than Assicurazioni Generali S.p.A. for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.

Disclaimer

To the extent that this paper includes prognoses or expectations or forward-looking statements, these statements may involve known and unknown risk and uncertainties. The actual results and developments may, therefore, differ materially from the stated prognoses or expectations. Besides other reasons not specified here, deviations may be the result of changes in the overall economy or the competitive situation, especially in core activities and core markets. Deviations may also result from lapse ratios, mortality and morbidity rates or tendencies. The development of financial markets and foreign currency exchange rates as well as amendments of national and international law, particularly in respect of tax rules, may have an influence. The company is under no obligation to update the statements made in this paper.

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