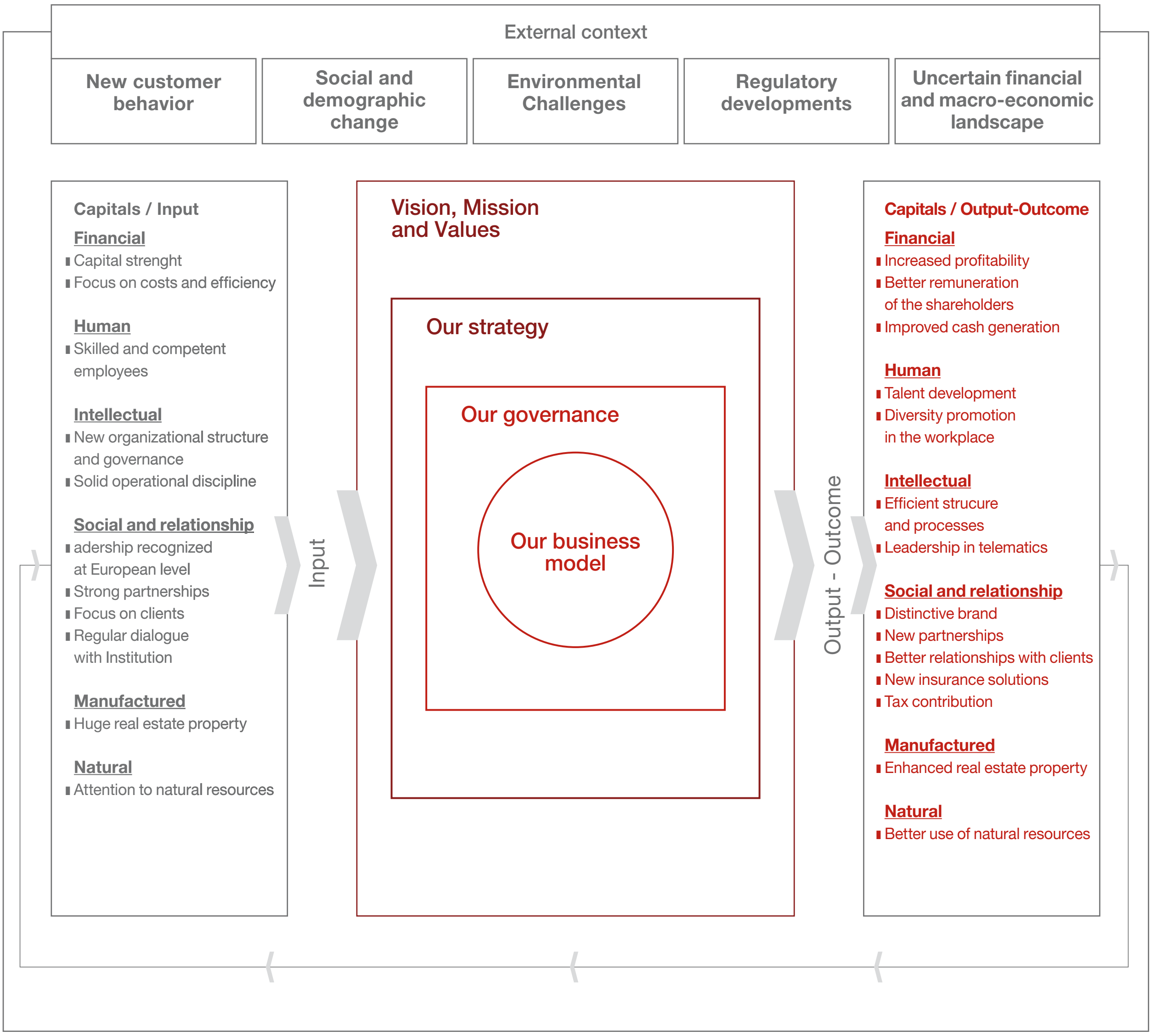
The value creation process

We operate in a complex business that can have a significant impact on our activities and our ability to create value. We are referring, for example, to the consequences of uncertain economic and financial turmoil, technology evolution or the aging global population.
However, we believe that our base is solid enough (capital and input) to become a group that can offer insurance solutions (output) that are easily accessible, and can anticipate and meet customer needs in line with our strategy.
Our activities and output have consequences and internal and external effects (outcome) on the various capital values (financial, human, intellectual, social and relationship, manufactured and natural) used in our daily business.



As for capitals other than the financial one, for more information on other external and internal impacts resulting from our business please refer to the Sustainability Report 2015, Corporate governance and share ownership report 2015 and the 2015 Remuneration Report

External context: risks and opportunities for the Group

Main long-term factors that could significantly affect the business and capacity of the Group to create value

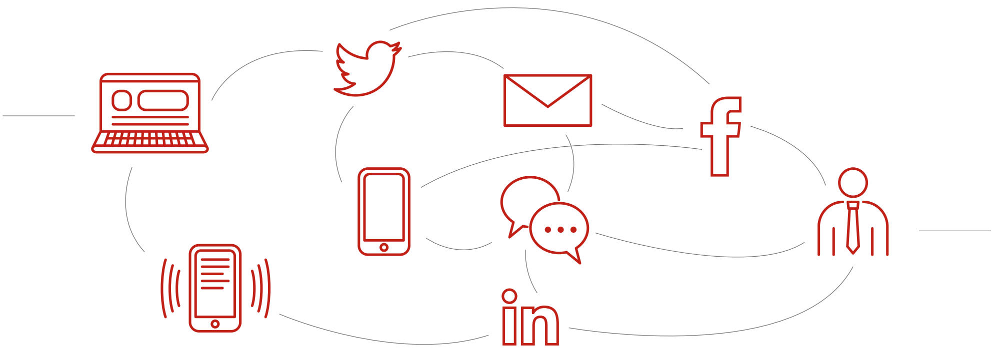
Please see the Risk Report in the Notes to the Consolidated Financial Statements for more information on the risk profile and the specific methods used to assess it

New customer needs

In an economic environment characterized by uncertainty, consumer attitudes toward insurance products and services are changing. These changes have their roots in two global trends: digitalization, which introduced new options for selling and using insurance solutions, and economic uncertainty, which has impacted spending on certain forms of retirement savings and insurance. Today's clients are increasingly attentive to quality of service and more independent in their decision-making thanks to a multitude of information sources available via the internet. They are no longer satisfied with simply consulting an agent and purchasing insurance products; they expect the same kinds of tailored services they find in other industries, as well as solutions that respond to their real life needs.

Traditionally, the customer journey was a direct path from phonebook to agent

Today the customer journey is nonlinear, characterized by multiple touchpoints



Strategic risk
Insurance risk

For further information please refer to Our strategy, page 41 of this report and Generali for innovation, Clients at the heart of our Group and Sales network in the Sustainability Report 2015

We believe that technological development is crucial for providing effective and appealing insurance solutions: we are designing and implementing a digital transformation in our Group entities to provide clients with insurance solutions and assistance whenever and wherever they want, via both traditional channels and mobile channels. Our aim is to become a leading European retail insurer by taking advantage of this digital transformation and by changing the company mind-set to a customer-centric one where insurance solutions and assistance services are provided across web, mobile and traditional channels.

Demographic and social change

Trends in population aging continue to influence contemporary society, driven by a greater life expectancies and falling fertility rates. These trends are only partially offset by migration, which tends to increase the younger strata of the population even though their average income generating power is much lower. Family structures, previously the main backbone of social and economic support, are also evolving, thus increasing the challenges at social level. The implicit risk in these phenomena is the creation of increasingly unbalanced societies, where the higher post-retirement requirements of the older population are no longer properly covered by the public system, and the economic and financial resources produced by the younger categories of the population, or from private savings, have to be directed and valued more carefully. Life insurance plays a fundamental role in monitoring and managing the consequences of a changing society.

Underwriting risk
Emerging risk

We are aware of the growing need for solutions with a high social security content and the increased need to ensure coverage for the higher health care expenses as people age. We are also aware of the lack of knowledge and the reluctance to look for insurance solutions to adequately meet these needs, due to a lack of comprehensive and easily accessible information on products or insufficient awareness of possible future individual or family needs. We are therefore committed to strengthening dialogue with working age people, helping them to accurately assess their capacity for saving and the financial gap between the pension that has accrued by the age of retirement and the projected income and to therefore ensure that future income will be enough to cover the future requirements. It is also important to focus on covering possible immediate requirements, addressing the main risks that could affect the earning capacity of young families and describing adequate risk products. Improved dialogue allows people to be more aware of their needs and allows us to take appropriate actions.
In addition to the traditional insurance solutions, we have developed innovative solutions such as the "living age solutions", insurance products linked to lifestyle developed by General Vitality, the start-up launched in partnership with Discovery in 2014. Particular focus is placed on the development of long-term care products (LTC).

"By 2050, the global percentage of over-60s will nearly double from 2015, jumping from 12% to 22%

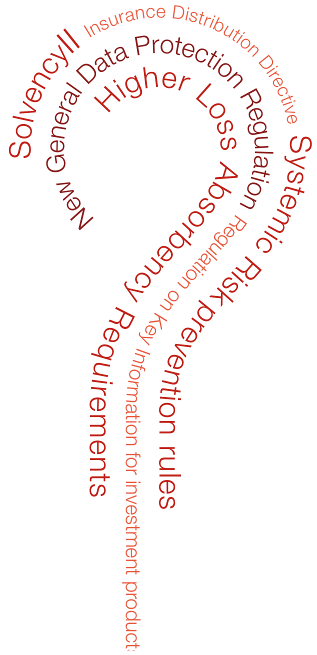
Environmental challenges

The climate is changing, becoming increasingly extreme and unpredictable. This is clearly reflected in the factors that can be used to estimate risk, especially for insurance protection against events that depend on the weather such as floods, drought and storms. The rise in claims tied to weather-related catastrophic events is characterized by higher expected losses and increased volatility, resulting in greater uncertainty in pricing the policies, also due to the higher capital absorption resulting from the events being underwritten. If these changes are not reduced, the prices required from customers to get insurance may get too high, or the risks may even become uninsurable in extreme cases.
In a scenario in which the community has to face and deal properly with climate change, P&C insurance products can play a primary role in strengthening the financial solidity of the social and economic system as a whole.

Underwriting risk
Emerging risks

For more information on this topic please refer to 2015 key facts, page 19 of this document and The environment, towards a low carbon society in the Sustainability Report 2015

We are actively working towards identifying, following and quantifying environmental risks and are therefore committed to investing in research and studies in this area. We constantly monitor the main dangers and territories where we are exposed, using actuarial models to estimate the damage that could result from natural phenomena. We can therefore optimize our underwriting strategies, and link them to targeted reduction of the related risks in order to optimize price policies and guarantee the long-term sustainability of our products.
One of the key ways we have to achieve the aforementioned targets is reinsurance: we manage our protections on a centralized basis in order to take advantage of economies of scale and pricing due to the size of the Group, therefore taking advantage of the business diversification and making the most of our "purchasing power" on the international reinsurance markets.
Our answer to the challenges arising from catastrophic events, included those related to climate change, is to develop innovative products, along with a high level of services in order to meet the potential demand of more and improved protection against catastrophes.
Finally, we are also committed to promoting an adequate regulatory regime to reinforce the strength of the socio-economic system as a whole.



Increased regulatory constraints

Insurance industry regulation is extremely active at national, European and international level. In particular the sector is influenced by the following initiatives: Solvency II, the European project aimed at reforming and harmonizing the prudential supervision of the insurance and reinsurance business, aiming, inter alia, at defining capital requirements in order to reduce insolvency risk; the new European Insurance Distribution Directive (IDD), which will introduce stricter rules on the distribution of insurance products in order to increase consumer protection, improve information transparency and reduce conflicts of interest.
At the end of the negotiations among the European institutions, a political agreement was reached on 15 December 2015 regarding the European legislation regarding the protection of personal data which will become compulsory for all member states in 2018 and will regard all sectors, including insurance. This regulation was needed because of continuous technological developments, especially with respect to the protection and safeguarding of personal data.
Furthermore, it is worth mentioning the Common Framework (ComFrame) Project launched by the International Association of Insurance Supervisors (IAIS) and designed as a set of international supervisory qualitative and quantitative requirements focusing on the effective group-wide supervision of all Internationally Active Insurance Groups (IAIGs).

Operational risk
Strategic risk

As regards the **Solvency II** regime - that has entered into force for all European Insurers since 1st January 2016 - we have implemented the new organizational requirements as well as the formal procedures for the adoption of the Internal Model to measure the capital requirements.
With respect to the **European Insurance Distribution Directive**, our BORA Wind of change in the EU Insurance Distribution Legislation is progressing; this is an important international and cross-functional initiative aimed at sharing knowledge and best practices in the field of product design and distribution strategies.
As regards the new **personal data protection** requirements, we have closely followed the negotiations on this topic over the past year, proactively contributing to the European debate. We will continue to monitor the final phase of the legislative procedure and will engage to fully apply its principles with respect to all our activities.
Data use is also linked to the development of telematics in the insurance area. Together with other stakeholders, we are contributing to the work carried out at EU level which aims to tackle the different aspects related to the use of telematics and intelligent transport systems.
Also Generali will have to comply with the IAIS **ComFrame** requirements and particularly with the International Capital Standard which will be tested during 2016 and effectively applied as from 2019.

For further information please refer to Clients at the heart of our Group and With institutions: sharing and contributing of the Sustainability Report 2015

Uncertain financial and macro-economic landscape

2015 was characterized by modest global growth, uncertainties regarding the possibility of a Grexit, very easy monetary policies and the economic slowdown of emerging economies. In this context, rates on government bonds in advanced countries stayed low and the stock market performance therefore benefited.
Once the risk of a Greek exit from the euro was averted thanks to a last minute agreement, market attention shifted to the fragility of emerging markets. In China, fears of an economy worse than the GPD data suggested were also fuelled by a decision by the authorities to intensify depreciation of the Yuan against the dollar. However fears of a hard landing fell towards the end of the year. Other emerging countries have shown some problems, particularly Brazil, with the currency falling sharply and very poor tax metrics.
These fears about a global economic slowdown and possible crisis in the international markets prompted the Fed to postpone the first rise in the policy rate. However, the US economy has continued to show signs of recovery: the labour market has confirmed its strength, with unemployment rates down to balanced levels, and the revised GDP in the third quarter led to a 2.1% annualized increase, slightly above the potential. The Fed therefore decided to raise the benchmark rate in December.
In the Euro Area, the third quarter GDP stood at +0.3% (compared to the second quarter) due to weak exports. However, business confidence indices point to a recovery in the last three months of the year, both in manufacturing and in services. The overall inflation rate remained well below the ECB's objective. This was largely due to the effect of the drop in oil prices on the prices of manufactured goods and services and the deflationary pressures from emerging countries.

As for the insurance industry, we expect good trends in premiums for the P&C sector in the main countries of the Euro-zone, in line with the, albeit weak, economic recovery. The Life business will continue to be affected by the current low interest rates, in addition to a minimum recovery in disposable income. The position of banks will be crucial, who may have increasingly less interest in pushing insurance products once landing increases.

Financial risk
Credit risk
Strategic risk

We have placed more emphasis on the integration of the processes as to product development, strategic asset allocation, asset liability management and risk management in order to properly manage the challenging macroeconomic and financial situation, and the entry into force of the new Solvency II rules.
The economic capital requirements, Group income targets and yield expectations of policyholders are the main factors influencing the definition of the asset allocation strategy.
The low interest rates are dealt with by ensuring greater diversification in terms of asset class and geographical exposure, and paying more attention to the coherence between assets and liabilities.