GENERALI GROUP

GROUP INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

VERSION 2.0

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1. INTRODUCTION

This document is designed to set out the purposes, principles, structure, roles, responsibilities and the main features of the Company's internal control and risk management system.

The document has been developed in line with all the regulatory and law provisions on internal control and risk management. The aim is to define - in light of the Enterprise Risk Management approach that drives the Company's business and investment decisions – the operational responsibilities, on one side, and the review and control responsibilities, on the other, providing a clear and rational picture of the interaction between the two.

Principles, purposes and main devices of risk management and internal control are outlined in specific Policies the operating divisions are required to follow.

These policies are appropriately spread and applied within the Group, in the respect of the specific features of each Italian and foreign subsidiary, in order to achieve a high degree of consistency and integration among the risk management and control systems implemented by the Group's Companies.

2. THE INTEGRATED APPROACH TO RISKS AND CONTROLS

Reaching integration between risk management and control at firm-wide level has become a top priority for both insurance companies and Supervisory Authorities, even though from different standpoints:

- it is considered the main guarantee of the company's solvency over time and is, accordingly, the main driver in the development of supervisory banking and insurance rules at the EU level (Solvency II Directive);
- it is considered a key factor for the creation of value for all companies' main stakeholders, i.e. shareholders, other capital providers, customers and Supervisory Authorities.

The different views described above (though with different definitions and levels) have a fundamental common ground in the concept of Risk Capital. According to the Supervisory Authorities, the Risk Capital guarantees the Group solvency while for the Company – based on the EBS (Economic Balance Sheet) approach – it is the key metric of performance; any excess of capital should therefore either be available for distribution to the shareholders or be reinvested, when there are opportunities with risk-return profiles in line with the strategic goals.

Generali Group, traditionally considered to have sound business and capital bases, has adopted an approach that preserves and protects this "embedded value" while seeking the maximization of the return on equity. These apparently conflicting objectives are pursued through a management system that aims on one side to mitigate and abate existing risks, on the other side to evaluate investments, products and new plans on the basis of expected returns and the associated risks left after all the risk-containment measures have been implemented.

Thus, the ultimate goal is to keep the identified risks at an acceptable level, with a view at ensuring that there is sufficient capital to cope with any unfavourable events and that the Group's risk-adjusted performance shows an improvement, guaranteeing in particular a safety margin consistent with the Board of Directors' guidelines, which are:

- Efficiency and effectiveness of corporate processes;
- Appropriate risk control;
- Reliability and integrity of financial and management reporting;
- Protection of Company assets;
- Compliance of Company operations with the laws, directives and corporate procedures in force.

This operational architecture of the company is supported by an approach known as Enterprise Risk Management, which is based on a corporate culture built around suitable internal control and risk management systems, with a structure that implies a complex set of instruments, features, organizational solutions, human resources, etc.

ISVAP's Regulation no. 20 of 26 March 2008 – which is the main regulatory reference in this area – allows companies a certain level of freedom in the choice of the way they organize their selves with respect to the matters in question, thanks to a so-called principle-based approach.

Therefore, it is with these goals and constraints that the Group identified an internal control and management system capable of creating value while preserving the corporate value and culture that typically sets it apart from its competitors.

The internal control and risk management system looks at risks and controls as an integrated and synergic whole, identifying interactions and putting them into sharp relief. The system is

based on an accurate identification of the responsibilities of the various players involved and, most of all, on the implementation of suitable and structured safeguard mechanisms in order to ensure compliance with the strategies set by the Board of Directors in this area.

To obtain a higher level of clearness, in a context marked by the proliferation and the overlapping of control bodies and functions, the Group internal control and risk management system defines the proper role for all the company functions against a dual-level organizational backdrop:

- The first level is the operational one, centred around the Senior Management and enriched by dedicated units focused on specific areas of risk management and controls;
- The second level has a high degree of organizational independence and is tasked with checking the system's performance in terms of controls and risk management.

For internal control and risk management purposes, these organizational levels are structured along three defence lines:

- Operational functions (risk owners);
- Risk management function and compliance function;
- Internal audit function.

The principles and purposes of the Company's internal control and risk management system here described are appropriately disseminated and applied within the Group, even though in respect of the specific policies adopted by each Italian and foreign subsidiary, so as to achieve a high degree of consistency and integration among the risk management and control systems implemented by the Group's Companies.

3. INTERNAL CONTROL AND RISK MANAGEMENT RESPONSIBILITIES

The Company's internal control and risk management system involves the governance bodies and the operating and control structures in a highly integrated platform, while maintaining different and clearly defined responsibility levels, with the objective of ensuring the adequacy of the system as a whole at all times.

The Group's organizational model for risk control and management defines:

- the bodies responsible for monitoring risks and controls, including the governance bodies within the scope of their powers;
- the organizational structures in charge of risk management and control, including all Company's organizational units, at the different levels of responsibility described above.

3.1 Governance bodies responsible for setting policies and monitoring risks and internal control

3.1.1 Board of Directors (Management Board/Supervisory Board)

The Board of Directors ensures that the internal control and risk management system identifies, evaluates and controls the most significant risks both at Company and Group level.

Within the scope of its typical duties and responsibilities, the Board of Directors is ultimately responsible for setting strategies and policies in the area of risk management and internal control and for ensuring their adequacy and sustainability over time, in terms of completeness, functioning and effectiveness, keeping into consideration the Company's size and operational specificity as well as the nature and intensity of corporate risks, also with reference to outsourced company functions.

To this aim, the Board of Directors, within the scope of the strategy-setting and organizational tasks exercises exclusive powers with respect to:

- the periodic definition of the risk-adjusted performance goals, consistent with the level of capital adequacy;
- the approval of risk management policies and strategies and risk tolerance levels;
- the periodic review of the results achieved, also in relation to stress tests and the underlying risk profiles, reported by the Senior Management and the risk management function;
- approval of the Company's organizational structure and its power and responsibility allocation system, ensuring its adequacy over time and paying attention not to concentrate powers in a single individual's hands. Specifically, the Board of Directors is responsible for the definition and development of a favourable internal control environment, based on the following key characteristics:
  - moral integrity and ethical values of all employees;
  - executives' management style;
  - organizational structure;
  - attribution of tasks and responsibilities;
  - human resource management policies;
  - employees' professional skills.
- timely assessment of the ongoing criticalities and implementation of the necessary corrective steps, providing the relevant instructions. In case of urgent conditions, due to

situations that might undermine the Company's solvency and the achievement of its objectives, the corrective steps are ordered by the Senior Management, provided that an appropriate report is submitted to the Board of Directors during the first upcoming meeting.

In addition, the Board of Directors:

- ensures that appropriate decision-making processes are adopted and formalized and that an appropriate segregation of duties is implemented within the organization;
- appoints the Head of the Internal Audit, defining its compensation in keeping with company policies, having heard the opinion of the Audit Committee;
- appoints the Compliance Officer;
- describes in the corporate governance report the essential features of the internal control and risk management system, making an assessment of its overall adequacy on the basis of a specific report prepared by the competent areas.

3.1.2 Audit Committee

To carry out its duties in relation to the risk management and internal control system, the Company has established an Audit Committee - consisting of non-executive, mostly independent directors – which performs research, advisory and recommendation duties. The above Committee's tasks, responsibilities and operating rules are contained in the "Audit Committee Charter", which form an integral part of this document.
Specifically, the Audit Committee works to:

- define risk management and internal control policies, ensuring that they are constantly improved and adapted to changing company operations and external conditions;
- evaluate, with the help of independent units performing control duties, the sustainability of the risk management system adopted by the Company, including the quantitative analysis of the Group's main risks, at least once a year through the so-called stress tests;
- check that the Senior Management implements correctly the internal control and risk management system as instructed;
- obtain information on the most significant risk management and internal control criticalities identified by the different bodies responsible for monitoring and controlling them.

3.1.3 Senior Management

The Senior Management – i.e. the CEO, the General Manager as well as all key executives - has different levels of responsibility for the implementation, maintenance and monitoring of the internal control and risk management system, coherently with the present guidance of the Board of Directors.

Specifically, without prejudice to the specific powers attributed to the CEOs, the Senior Management:

- implements risk management policies for both the Company and the Group, allocating capital to the Italian operating units and to the units in the countries where the Group operates as necessary;
- sets operating limits and their prompt review, monitoring risk exposure and compliance with any limits set;

- defines the details of the Company and Group organizational system, the duties and responsibilities of the organizational structures and the relevant employees and defines decision-making procedures in accordance with the directives of the Board; within this context, it implements the required separation of duties both between individuals and between functions so as to prevent, as much as possible, any conflict of interests;
- oversees the functioning and overall adequacy of the organization of the internal control and risk management system, adapting it to the dynamics of the operating conditions and the legal and regulatory framework and ensuring the existence of documented procedures for the identification of risks;
- ensures the structuring of appropriate reporting, so that the Board is periodically informed about the effectiveness and adequacy of the internal control and risk management system and is promptly informed every time that significant criticalities are found. In particular, it ensures the timely analysis of stress tests, which findings are brought to the attention of the Board, together with the underlying proposals;
- recommends to the Board actions intended to adapt and improve the internal control and risk management system;
- implements the guidelines of the Board on the steps to be taken to correct any criticality found and/or to introduce improvements, on the basis of the received reports.

3.1.4 Risk Committee

Within the context of the Company's governance system there is the Risk Committee, which acts as an advisory body to provide support to the Company's Senior Management:

- in defining the Company's target risk and the related levels of economic capital;
- in monitoring the risk profile on the basis of reports prepared by the Company's risk management unit;
- in setting any corrective strategies.

This Committee includes the CEO, the General Manager, the CFO, the CRO and the Heads of the Company's main areas/operating units. The meetings of the Committee may be attended regularly also by the Chief of Internal Audit and the Chief Compliance Officer.

Depending upon the agenda, these meetings can be attended also by the other control professionals, who provide their inputs regarding the overall risk levels mitigation.
The Risk Committee is an advisory body that meets regularly – usually quarterly – and provides appropriate support in the area of risk management.

3.2 Control and risk management responsibilities at the operating level

Within the first organizational level of the risk management and control, the managers of the operating areas have direct responsibility for the assumption and management of risks (risk owners) and for the implementation of the required control activities. To this aim, such managers provide the Senior Management, also through the Risk Committee, the information necessary to define policies, methods and instruments for the management and control of the relevant risks – both at Group and at Company level – ensuring their implementation and adequacy over time. Moreover, they ensure compliance with the objectives and policies by the operating units falling under their responsibility, take corrective actions within the scope of their autonomy and make specific recommendations or give suggestions to the Senior Management.

Control activities are considered an integral part of every corporate process and fall, first of all, under the responsibility of the Head of the individual organizational unit. According to a principle of "self-assessment" of processes, in terms of risks and controls associated to such processes, the individual organizational units are directly responsible and thus aware that they have to achieve the required effectiveness, efficiency and quality objectives for the risk management and control mechanisms inherent in their own activities.

These risk management and control responsibilities are allocated in accordance with the Company's organizational structure.

Thus, the heads of corporate activities endeavour to achieve not only business objectives but also risk management and internal control objectives.

In order to create appropriate control functions from the very first organizational level, with the task of monitoring constantly certain specific types of risk regarded as paramount for the company solvency and reputation, units and organizational roles are put in place to measure and analyse risks as well as to submit comments and/or recommendations to the Senior Management and to the risk owners in order to manage such risks. They are however not responsible for making direct risk management decisions. For instance, they have risk observing responsibilities: the operations control, to observe and analyse operating performance and compare it with the planned objectives, recording any unusual deviations; or the different inspectorate functions that, within the context of the sale and claim settlement network, perform activities related to the supervision, control and monitoring of certain operating areas or the provision of certain services.

In addition, there are units that provide consulting services to other corporate functions, thus making it possible to improve the pursuit of internal control objectives (tax consultancy, privacy, legal functions, etc.).

All employees comply with the guidelines set out in the Group Internal Control Policy. Such Policy is designed to foster internal control by promoting the understanding of the importance of controls and their implementation in a more effective and efficient manner.

3.2.1 Manager in charge of the preparation of the company's financial reports

Within the first organizational level of the risk management and control system, the Manager in charge of financial reporting, coherently with the provisions of article 154 bis of the Consolidated Law on Financial Intermediation, oversees the "appropriate administrative and accounting procedures in place for preparing the annual separate and consolidated financial statements" and issues an attestation, together with the Chief Executive Officer in charge of the accounting area, certifying the appropriateness and effective application of the administrative and accounting procedures, the compliance of the accounts with IAS/IFRSs, the coherence of the financial statements with the accounting entries and records; he also declares that the accounts provide a true and fair view of the financial conditions, operating performance and cash flows of the Company and the consolidated subsidiaries, and that the report on operations provides a reliable analysis of operating results and the situation of the Company and the Group.

Activities, interactions with other functions, powers and responsibilities of the Manager in charge of financial reporting are outlined in the specific "Rules for the Manager in charge of financial reporting".

3.3 Control and risk management functions

The control activities performed by the operating areas and the line control structures (e.g. operations control, inspectorates, etc.) are enforced by the activities of a second organizational level of the risk management and internal control system, which encompasses

the risk management, the compliance function and the internal audit. Such units are independent from operating structures and have a direct functional reporting line with the Board of Directors. Also the "Solvency II" Directive attributes to these functions– which are already provided for by current rules and regulations – and to the actuary unit a key role in the overall governance system.

3.3.1 Risk management function

The risk management unit oversees the sustainability of the risk management system.

This function supports the Board of Directors and Senior Management in defining risk management strategies and the instruments to monitor and measure risks, providing, through an appropriate reporting system, the elements for an assessment of the performance of the risk management system as a whole.

This function is responsible in particular for the following activities:

- it cooperates on the definition of the risk measurement methodologies and models performing the validation activities of Group Internal Model;
- it cooperates, with the risk owners, on the definition of the operating limits attributed to the operating structures and on the definition, with the first level functions in charge of control, of the procedures for the prompt verification of such limits;
- it validates the information flows, prepared by the various risk owners, necessary to ensure the timely control of risk exposures and the prompt identification of any operational anomaly;
- it guarantees and coordinates the preparation of appropriate reports to the Board of Directors and the Risk Committee on the overall performance of the risk control and management system and its ability, in particular, to react to context and market changes, as well as on the development of risks and any instances in which the operating limits have been exceeded;
- it cooperates on the administration of the stress tests contemplated by the risk management policies and the applicable rules and regulations.

To preserve its independence from the operating units, the risk management function has a functional reporting line with the Board of Directors.

As to the activities, the interaction with other units, the powers and responsibilities of the risk management function, reference is made to the "Risk Management Charter".

3.3.2 Compliance function

The Compliance function is responsible for determining whether the organization and the internal procedures are suited to prevent the risk of judicial or administrative sanctions, loss of assets and damage to reputation, as a result of a violation of laws, rules or measures issued by Supervisory Authorities or self-regulation rules, if available.

Compliance activities are carried out within the scope of the Group Compliance Model, which calls for:

- first level controls, in connection with operating and support processes;
- the Compliance unit – as represented in the organization chart by the Group Compliance Department - which reflects an additional and independent review step within the overall Internal Control and Risk Management System focused on non-compliance risks.

In particular, the Compliance unit is responsible for:

- the constant monitoring of laws and regulations applicable to the company, with the objective to ensure that the company complies with them, and the evaluation of the

organizational and procedural impacts that any newly-enacted laws and regulations might have on company operations;
- the independent evaluation of the compliance of company processes with the laws and regulations and their effectiveness in preventing any non-compliance risk.

The Group has put in place a Group Compliance Policy that sets out the principles and guidelines to carry out compliance activities, contemplating, in connection with the Parent Company's exercise of its direction and coordination activities, a reporting line between the Compliance unit of the Group's Companies and the Parent Company.

The Head of the Compliance unit reports, functionally, directly to the Board of Directors, submitting – also through the Audit Committee and at least once a year – a report on the activities performed, the evaluation methodologies adopted, its findings and any recommendations to remedy any shortcomings, as well as an annual activity plan.

As to the activities, interactions with other units, powers and responsibilities of the Compliance unit, reference is made to the "Compliance function Charter".

3.3.3 Internal audit function

In connection with the control functions performed at the second organizational level of the risk management and control system, the Internal Audit unit is responsible for the independent assessment of the effectiveness and efficiency of the internal control system, thus of the effective functioning of the controls designed to ensure the smooth working of processes.

Full independence of the Internal Audit unit is achieved through a direct reporting line to the Board of Directors.

The Internal Audit unit follows the guidelines contained in the Internal Audit Policy, which sets out specific organizational and operating principles designed to achieve uniformity for these activities throughout the Group.

Internal audit activities take place both through on-site inspections of operating divisions, as defined in an Audit Plan, and through analyses and assessments of the risk and control reports produced by the executives in charge of the areas of activity, ensuring constant access to the information related to risk assessment and the effectiveness of controls.

However, Senior Management can request that audit activities be performed outside of the scope of the Audit Plan in specific company areas.

The specific tasks, purposes, powers, responsibilities and interactions with the other control units by the internal audit units of the various companies are set out in the "Internal Audit Charter" available in each such company. To reflect the highly integrated approach to risks and controls adopted by the Company, the function can perform the activities (or part thereof) to review the administrative and accounting processes attested by the Manager in charge of financial reporting.

Ancillary activities of this function include guidance, coordination and monitoring of the internal audit activities and structures of the Group's Companies.