SOLVENCY AND FINANCIAL CONDITION REPORT 2017

Fortuna Lebens-Versicherungs AG, Vaduz

(hereinafter called LFL)

Index

Index 2
Introduction 5
Glossary & Abbreviations 6
Executive Summary 8
A. Business and Performance 10
A.1. Business 10
A.1.1. General Information 10
A.1.2. Overall performance 11
A.1.3. Other relevant information 11
A.2. Underwriting performance 12
A.2.1. Underwriting performance by Line of Business 12
A.2.2. Underwriting performance by Geographical Area 13
A.3. Investment Performance 14
A.3.1. Investment result 14
A.3.2. Gains and Losses recognized in Equity 15
A.3.3. Investements in Securitisation 15
A.4. Performance of other activities 15
A.5. Any other information 15
Annex A – Public QRTs YE2017 16
B. System of Governance 18
B.1. General information on the system of governance 18
B.1.1. Information on governance 18
B.1.2. Changes in the system of governance 19
B.1.3. Remuneration policy 19
B.1.4. Information on Control Functions 20
B.1.5. Independence and qualifications of the Control Functions 21
B.2. Fit and proper requirements 21
B.2.1. Skills, knowledge and expertise required for Key Functions 21
B.2.2. Process for assessing fitness and properness 21
B.3. Risk management system including the own risk and solvency assessment 22
B.3.1. Risk management system 22
B.3.2. ORSA process 24
B.3.3. Risk embedding in Capital Management process 24
B.4. Internal Control System 25
B.4.1. Descripiton of the Internal Control System 25
B.4.2. Implementation of the Internal Control Function 25
B.5. Internal Audit Function 26
B.5.1. Information on Internal Audit Function 26
B.5.2. Independence, objectivity and qualifications of Internal Audit Function 26
B.6. Actuarial Function 27
B.7. Outsourcing 27
B.7.1. Information on outsourcing policy 27

B.7.2. Outsourcing Arrangements 28
B.8. Any other information 28
C. Risk Profile 29
C.1. Underwriting risk 29
C.1.1. Life Underwriting Risk 29
C.1.2. Non-Life Underwriting Risk 30
C.2. Market risk 31
C.2.1. Risk exposure and assessment 31
C.2.2. Risk management and mitigation 32
C.3. Credit risk 32
C.3.1. Risk exposure and assessment 32
C.3.2. Risk management and mitigation 33
C.4. Liquidity risk 33
C.4.1. Risk exposure and assessment 33
C.4.2. Risk management and mitigation 34
C.4.3. Expected profits included in future premiums 34
C.5. Operational risk 34
C.5.1. Risk exposure and assessment 34
C.5.2. Risk management and mitigation 35
C.6. Other material risk 35
C.7. Any other information 36
D. Valuation for Solvency Purposes 37
D.1. Assets 39
D.1.1. Valuation of assets for Solvency II Balance Sheet 39
D.1.2. Statutory valuation 41
D.1.3. Differences between Solvency II and Statutory Balance Sheet 41
D.2. Technical provisions 45
D.2.1. Life Technical Provisions 45
D.3. Other liabilities 48
D.3.1. Valuation of other liabilites for Solvency II Balance Sheet 48
D.3.2. Statutory valuation 50
D.3.3. Differences between Solvency II and Statutory Balance Sheet 50
D.4. Alternative methods for valuation 55
D.5. Any other information 55
Annex D - Public QRTs YE2017 56
E. Capital Management 60
E.1. Own funds 60
E.1.1. Policies and processes related to own funds management 60
E.1.2. Amount and quality of Eligible own funds 61
E.2. Solvency Capital Requirement and Minimum Capital Requirement 64
E.2.1. SCR and MCR values 64
E.2.2. SCR breakdown 65
E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement 66
E.4. Differences between the standard formula and any internal model used 66

E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement 66
E.6. Any other information 66
Annex E - Public QRTs YE2017 67

Introduction

Fortuna Lebens-Versicherungs AG, Vaduz (hereinafter called LFL) is falling under the scope of Solvency II Directive reporting and is required to predispose its own Solvency and Financial Condition Report (SFCR).

This is in accordance with the Directive 2009/138/EC ('Solvency II Directive) as well as with the Delegated Regulation 2015/35/EC ('Delegated Act') and related Guidelines.

The objective of the Solvency and Financial Condition Report (SFCR) is to increase transparency in the insurance market requiring insurance and reinsurance undertakings to disclose publicly, at least on an annual basis, a report on their solvency and financial condition.

LFL has prepared its Solvency and Financial Condition Report (SFCR) in line with the requirements for public disclosure under the Solvency II regulatory regime and the Generali Group Supervisory Reporting and Public Disclosure Policy, which was issued by the Generali Group and was also adopted by LFL.

Following these requirements this report was approved by Board of Directors of LFL on 03.05.2018.

Reference date of the reporting is 31.12.2017, covering the reporting period between 01.01.2017 and 31.12.2017.

Reporting currency is CHF.

As part of the solvency and financial condition report the following quantitative templates are disclosed:

(a) template S.02.01 of Annex I specifying balance sheet information using the valuation in accordance with Article 75 of Directive 2009/138/EC, following the instructions set out in section S.02.01 of Annex II to this Regulation;

(b) template S.05.01 of Annex I, specifying information on premiums, claims and expenses using the valuation and recognition principles used in the undertaking's financial statements, following the instructions set out in section S.05.01 of Annex II to this Regulation, for each line of business as defined in Annex I of Delegated Regulation (EU) 2015/35;

(c) template S.05.02 of Annex I, specifying information on premiums, claims and expenses by country using the valuation and recognition principles used in the undertaking's financial statements, following the instructions set out in section S.05.02 of Annex II;

(d) template S.12.01 of Annex I, specifying information on the technical provisions relating to life insurance and health insurance pursued on a similar technical basis to that of life insurance ('health SLT') for each line of business as defined in Annex I to Delegated Regulation (EU) 2015/35, following the instructions set out in section S.12.01 of Annex II to this Regulation;

(e) template S.22.01 of Annex I, specifying information on the impact of the long term guarantee and transitional measures, following the instructions set out in section S.22.01 of Annex II of Delegated Regulation (EU) 2015/35;

(f) template S.23.01 of Annex I, specifying information on own funds, including basic own funds and ancillary own funds, following the instructions set out in section S.23.01 of Annex II of Delegated Regulation (EU) 2015/35;

(g) template S.25.01 of Annex I, specifying information on the Solvency Capital Requirement calculated using the standard formula, following the instructions set out in section S.25.01 of Annex II of Delegated Regulation (EU) 2015/35;

(h) template S.28.01 of Annex I, specifying the Minimum Capital Requirement for insurance and reinsurance undertakings engaged in only life or only non-life insurance or reinsurance activity, following the instructions set out in section S.28.01 of Annex II of Delegated Regulation (EU) 2015/35.

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Glossary & Abbreviations

AMSB: Administrative, Management and Supervisory Board; for LFL synonym with BoD

Best estimate liability: The best estimate liability represents the expected present value of future cash-flows related to insurance and reinsurance obligations in force at valuation date. The best estimate liability is calculated on a gross of reinsurance basis, i.e. without any deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles.

Best estimate operating assumptions: The assumptions on all those non-financial factors which can have an impact on future cash-flows, including not only the most common operating factors (i.e. mortality/longevity, disability/morbidity, lapses, expenses), but also those contractual policyholders' options that can be exercised by policyholders at pre-determined conditions (e.g. annuity take-up rates, voluntary premium increases, maturity extensions…).

BoD: Board of Directors

BSCR: Basic Solvency Capital Requirement according to Standard Formula; equals the SCR before adjustments to consider loss absorbing capacity of profit sharing of life insurance contracts and deferred taxes and before aggregation with the capital requirements for operational risks.

Cash and cash equivalents: this asset class includes money in the physical form, cash equivalents, bank deposits and other money deposits.

CMP: Capital Management Policy

Contract boundaries: This is the limit beyond which possible cash flows are excluded from the calculation of technical provisions. It is defined in line with Article 18 of the Delegated Acts, which states that:

“Obligations which relate to insurance or reinsurance cover provided by the undertaking after any of the following dates do not belong to the contract, unless the undertaking can compel the policyholder to pay the premium for those obligations:

a) the future date where the insurance or reinsurance undertaking has a unilateral right to terminate the contract;

b) the future date where the insurance or reinsurance undertaking has a unilateral right to reject premiums payable under the contract;

c) future date where the insurance or reinsurance undertaking has a unilateral right to amend the premiums or the benefits payable under the contract in such a way that the premiums fully reflect the risks.”

Counterparty default risk adjustment: The counterparty default adjustment is the amount of reinsurance recoverables that the Company expects not to be able to recover as a consequence of the possible default of the reinsurance counterparty at any point in time in the future.

EEA: European Economic Area

Fixed income instruments: direct investments in government and corporate bonds, mortgage and loans.

FRR: Financial Reporting Risk

Generali Group: Global Group of Generali at Corporate Level with GHO in Trieste

GS: Generali Switzerland

GHO: Generali Head Office in Trieste

Gross written premiums (GWP): Equal to gross written premiums of direct business and accepted by third parties.

Gross direct premiums (GDP): Equal to gross written premiums of direct business.

Investments back to unit and index-linked policies: includes various types of investments backing insurance liabilities related to unit and index-linked policies

LFL: short name used in the report for the reporting company Fortuna Lebens-Versicherungs AG, Vaduz

Long term guarantee adjustments and transitional measures: This expression refers to the matching adjustment (as set out in article 77b of Solvency II Directive), the volatility adjustment (as set out in article 77d of Solvency II Directive), the transitional measure on the risk-free interest rates (as set out in article 308c of Solvency II Directive) and the transitional measure on technical provisions (as set out in article 308d of Solvency II Directive).

Matching adjustment: it refers to an adjustment applicable on top of the risk free rate curve. The application of such an adjustment is subject to prior supervisory approval and to strict requirements on the related portfolio of assets and liabilities. In particular, this adjustment can be applied for the valuation of matched business, i.e. in case of business where asset cash flows match (in terms of timing and amounts) liability cash flows. The calculation of the adjustment reflects the spread over the risk free rate of the assigned portfolio of assets, after a deduction for default and downgrade.

Minimum Capital Requirement (MCR): The Minimum Capital Requirement corresponds to an amount of eligible basic own funds below which policyholders and beneficiaries are exposed to an unacceptable level of risk were insurance and reinsurance undertakings allowed to continue their operations. It corresponds to the Value-at-Risk of the basic own funds subject to a confidence level of 85% over a one-year period (Solvency II Directive 2009/138/CE, Art. 129).

Net cash inflows: it is an indicator of cash flows generation of the life segment. It is equal to the amount of premiums collected net of benefits paid.

Other investments: includes participations in non-consolidated Group companies, derivative investments and receivables form banks and customers, the latter mainly related to Group banking operations.

Outstanding Claims Reserves: The Outstanding Claims Reserves (or Claims Provisions) are reserves for the outstanding claims, whether reported or not, occurred before the evaluation date whose costs and related expenses have not been completely paid by that date.

Reinsurance recoverables: Reinsurance recoverables represent the amount of best estimate liability expected to be recovered via reinsurance treaties or special purpose reinsurance vehicles and correspond to the expected present value of the future cash flows referring to the in force reinsurance agreements.

Return on investments: it is an indicator of both life segment and property and casualty segment, calculated as the ratio between the result and the average investments calculated based on the balance sheet values.

Risk Adjusted Capital (RAC): The Risk Adjusted Capital is defined as the one-year change in basic own funds calculated at various percentiles (e.g. 1-in-10, 1-in-200). It is derived by reading the points from the full Probability Distribution Forecast (PDF) of the one-year changes in own funds, generated by the Partial Internal Model.

Risk Appetite Framework (RAF): The Risk Appetite Framework sets the overall risk strategy in terms of aggregate level of risk that the company is willing to accept or avoid in order to achieve its business objectives.

Risk margin: The risk margin is the part of technical provisions that should ensure that the overall value of the technical provisions is equivalent to the amount a third party would theoretically require in order to take over and meet the insurance liabilities, taking into account the cost of capital required to support those liabilities over their remaining future lifetime and regarding non-hedgeable risks such as underwriting and operational risks.

Solvency II ratio: defined as the ratio between the Eligible Own Funds and the Group Solvency Capital requirement, both calculated according to the definitions of the SII regime. Own funds are determined net of proposed dividend. The ratio has to be intended as preliminary since the definitive Regulatory Solvency Ratio will be submitted to the supervisory authority in accordance with the timing provided by the Solvency II regulations for the official reporting.

Solvency Capital Requirement (SCR): The Solvency Capital Requirement is determined as the economic capital to be held by insurance and reinsurance undertakings in order to ensure that ruin occurs no more often than once in every 200 cases or, alternatively, that those undertakings will still be in a position, with a probability of at least 99.5%, to meet their obligations to policyholders and beneficiaries over the following 12 months (Solvency II Directive 2009/138/CE, Introduction, c. 64).

Technical provisions: The technical provisions correspond to the algebraic sum of the best estimate liability and risk margin. In case technical provisions are considered on a net of reinsurance basis, the amount of reinsurance recoverables after counterparty default adjustment is deducted from the technical provisions.

Executive Summary

BUSINESS AND PERFORMANCE (SECTION A)

The present report is published in accordance with the Solvency II Regulatory framework and discloses detailed quantitative and qualitative information about the solvency and financial condition of the company for the reporting year 2017.

LFL is a life insurance company based in Vaduz. The company is owned by Generali (Schweiz) Holding and is embedded within the globally acting Generali Group with its Head Office in Trieste, Italy.

LFL stopped its new business production in 2015 and the insurance portfolio has been in run-off ever since. Up to 2015, LFL carried out its business under the principle of “Freedom to provide services”, mainly in EEA countries and in Switzerland. The insurance portfolio is dominated by savings and annuity products, mainly in the unit-linked business.

In 2017, gross premiums written decreased by 5.4 % due to the run-off situation of the portfolio. Nevertheless, LFL was able to retain its strong capital position and to generate net profits in the amount of 7.1 CHF millions (2016: 8.5 CHF millions) thanks to a profitable underwriting performance (5.5 CHF millions) and investment performance (2.6 CHF millions).

SYSTEM OF GOVERNANCE (SECTION B)

LFL relies on a sound risk management system including governance and structured risk management processes. It is the set of rules, procedures and structures that ensure the effective operation of the company and enable it to identify, measure, manage, control, and report the main risks to which it is exposed. To ensure a consistent framework, LFL has adopted the Generali Group Directives on Internal Control and Risk Management System, complemented by Group Risk Policies. The internal control and risk management system is founded on the establishment of three lines of defence:

- Operating Functions (the “risk owners”), which represent the first line of defence and have ultimate responsibility for risks relating to their area of expertise;
- Actuarial, Compliance and Risk Management Functions, which represent the second line of defence;
- Internal Audit, which represents the third line of defence.

RISK PROFILE (SECTION C)

LFL is mostly exposed to financial, life underwriting, credit and operational risks. The nature of these risks and the overall risk profile description are provided in Section C.

LFL measures its risks by means of the Solvency II Standard Formula (SF) for financial, life underwriting risks and credit risks. Operational risks are also measured by means of a Standard Formula, complemented by qualitative risk assessments. The SF provides an adequate representation of the main risks to which LFL is exposed, measuring not only the impact of each risk taken individually but also their combined impact on the LFL’s own funds.

For the other risks not measured by the SF qualitative risk assessments are performed, which showed no material risks for LFL in 2017.

VALUATION FOR SOLVENCY PURPOSES (SECTION D)

Under Solvency II, the balance sheet of the company is valued based on an economic, market-consistent approach as required by the Solvency II regulatory framework. Section D includes a complete overview of the valuation of the Solvency II assets and liabilities, by disclosing qualitative and quantitative information for all differences between SII and statutory valuation.

In particular, assets and liabilities other than technical provisions are recognized in compliance with IFRS standards, where applicable, also taking into account the specific Solvency II requirements for some balance sheet items, where IFRS standards cannot be applied.

Technical Provisions under Solvency II are calculated as the sum of the best estimate of liabilities net of reinsurance plus risk margin and amount to 634 CHF millions at YE2017 (YE2016: 590 CHF millions). The difference between the statutory reserves and Solvency II Life Technical Provisions is due to substantial methodological differences between the two valuation approaches. The evaluation of the SII Life Technical Provisions depends not only on the methods, models, and data used, but also on the assumptions on a number of economic and operational factors whose future realizations might differ from the expectations at the valuation date. The significant methods and assumptions used in this calculation are detailed in chapter D2.

CAPITAL MANAGEMENT (SECTION E)

Capital management activities aim to establish common guiding principles and standards for carrying out management and control procedures of own funds in accordance with the relevant regulatory requirements and legislative frameworks, and in line with the level of risk appetite of LFL.

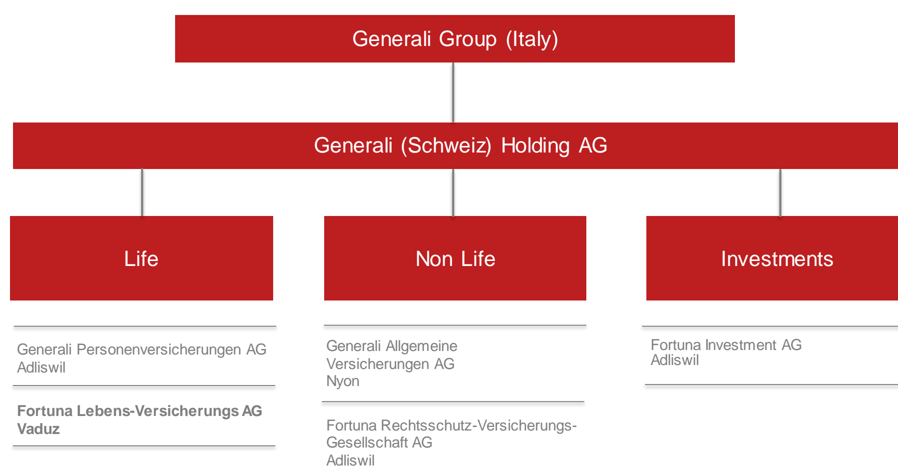
The capital position as of 31.12.2017 is presented in Section E, which provides a detailed overview of the structure of Own Funds, as well as the components related to Solvency Capital Requirements (SCR) . As per YE2017, LFL's eligible Own Funds are all categorized as Tier 1 corresponding to YE2016. The SCR and Minimum Capital Requirement (MCR) coverage are both on a very adequate level. The SCR coverage improved from 193.4 % at YE2016 to 229.0 % at YE2017.

A. Business and Performance

A.1. BUSINESS

A.1.1. GENERAL INFORMATION

Fortuna Lebens-Versicherungs AG (LFL), located in Vaduz, Principality of Liechtenstein, belongs to the Generali Group Switzerland (GGS), through which LFL is part of the globally operating Generali Group with its Head Office (GHO) in Trieste. The shares of LFL are 100% owned by Generali (Schweiz) Holding AG. Generali (Schweiz) Holding AG is a 100% owned subsidiary of Generali Group under the leadership of Assicurazioni Generali S.p.A., located in Trieste, Italy. LFL was founded in 1996 and started its business operation in spring 1997.



LFL is supervised by the Liechtenstein Financial Market Supervisory Authority (FMA)[1], Vaduz, Liechtenstein, and audited by Ernst & Young[2], Zurich, Switzerland.

Responsible for the financial supervision of the Generali Group conglomerate to which LFL belongs is the Italian Supervisory Authority IVASS[3] (Istituto per la Vigilanza sulle Assicurazioni), Rome, Italy.

LFL is a life insurance company in run-off. Until 2015, LFL acted under the principle of “Freedom to provide services” for life insurance within the liberalization of the European insurance-market. LFL carried out its business mainly in EEA countries and in Switzerland and is specialized in unit-linked insurance business and traditional insurance products with profit participation. The product portfolio in both lines of business is mainly dominated by savings products (endowment or capitalization insurance) and annuity products. In unit-linked business, the products were offered with or without guarantees with the possibility for the inclusion of supplementary insurances (premium waiver and disability rider). Insurance contracts are mainly based on CHF or EUR, and to a lower extent on USD, as a contract currency.

In unit-linked insurance business, savings premiums are invested according to the customer’s choice from a set of unit-linked investment plans with different investment strategies.

[1] https://www.fma-li.li/de/fma/kontakt.html
[2] http://www.ey.com/ch/de/home
[3] https://www.ivass.it/consumatori/contact-center/index.html

A.1.2. OVERALL PERFORMANCE

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Profit and Loss Account in TCHF

Local GAAP	YE2017	YE2016	Change in %
Technical Result (Underwriting Performance)	5'503	10'035	-45%
Investment Result (Investment Performance)	2'559	-326	
RESULT BEFORE TAXES	**8'061**	**9'709**	**-17%**
Taxes	**-1'000**	**-1'257**	**-20%**
Total Net Result	**7'062**	**8'452**	**-16%**

Compared to the previous year, the operating result (result before taxes) declined by 17%. This performance mainly reflects the reduction of the technical margins (underwriting performance) on the one hand and the increase of the investment result (investment performance) on the other hand. The underwriting performance and the investment performance are described in the following sections A.2 and A.3.

A.1.3. OTHER RELEVANT INFORMATION

As of July 2014, LFL stopped selling life insurance products in countries outside Switzerland/Liechtenstein and as of March 2015, new business was completely stopped and LFL has been in “Run-Off” since this point of time.

In a strategic review, Generali Switzerland Holding, as the owner of LFL, has assessed various strategic scenarios about the future business options and objectives of the company: Run-Off management, risk-carrier or sale of the company. Generali Switzerland Holding decided to favor the latter option and an invitation for a tendering process will be issued in the first quarter of 2018.

A.2. UNDERWRITING PERFORMANCE

A.2.1. UNDERWRITING PERFORMANCE BY LINE OF BUSINESS

Premiums, claims and expenses by line of business in TCHF

YE 2017	Line of Business for: life insurance obligations		Total YE2017	YE2016	Line of Business for: life insurance obligations		Total YE2016
	Insurance with profit participation	Index-linked and unit-linked insurance			Insurance with profit participation	Index-linked and unit-linked insurance	
Premiums written							
Gross	1'957	55'729	57'686		2'202	58'802	61'005
Reinsurers' share	13	47	60		13	56	69
Net	**1'944**	**55'682**	**57'626**		**2'189**	**58'747**	**60'936**
Premiums earned							
Gross	1'957	55'729	57'686		2'202	58'802	61'005
Reinsurers' share	13	47	60		13	56	69
Net	**1'944**	**55'682**	**57'626**		**2'189**	**58'747**	**60'936**
Claims incurred							
Gross	8'633	48'269	56'901		13'075	61'526	74'601
Reinsurers' share	12	35	47		181	-	181
Net	**8'620**	**48'234**	**56'854**		**12'894**	**61'526**	**74'420**
Changes in other technical provisions*							
Gross	-3'041	-17'747	-20'788		-7'190	21'247	14'057
Reinsurers' share	-	-			107	-	107
Net	**-3'041**	**-17'747**	**-20'788**		**-7'297**	**21'247**	**13'950**
Expenses Incurred	214	4'687	4'901		128	4'115	4'243
Other expenses			**5'578**				**3'472**
Total expenses			**10'478**				**7'715**

* sign convention for changes in other technical provisions: positive sign: decrease in provisions (=income) / negative sign: increase in provisions (=expense)

In terms of Gross Written Premiums (GWP), 97% of the business is underwritten in the unit-linked insurance, 3% in the insurance with profit participation. 56% of the premium income is deriving from capitalization insurance policies, 35% from endowment and 8% from life annuity insurance contracts. The proportion of pure risk insurance policies is around 1% of the total premium income. This product mix remained unchanged in the reporting period compared to the previous year (PY).

The amount of GWP reported in 2017 is 5% below 2016 due to the run-off status of the insurance portfolio.

Claims incurred of 56.9 CHF millions in the reporting period are below PY, due to the minor outflows mainly deriving from the maturities (24 CHF millions in 2017 vs. 37.2 CHF millions in 2016) and from the surrenders paid (28 CHF millions in 2017 vs. 32.5 CHF millions in 2016).

Change in other technical provisions of the index/unit-linked insurance as well as the insurance with profit participation denoted an increase in the reporting year. Growth in the index/unit-linked portfolio is mainly a result of the good performance of the assets under management and in the insurance with profit participation a result of the technical interest and the strengthening of the provisions for interest rate risks. In the previous year, insurance provisions denoted a decrease in the unit linked portfolio, as a consequence of the higher outflows from maturities and surrenders and due to a low performance of the funds in unit-linked business.

Expenses of the reporting period are above previous year, mainly due to higher acquisition costs in the reporting period. This increase does not reflect higher commissions paid but is a consequence of a lower amount of acquisition costs in the previous year due to reversals of commissions. For all other cost categories, expenses in 2017 are in line with PY. ("Expenses Incurred" in the template S.05.01 include acquisition costs, administration expenses, claims management expenses, and investment management expenses.)

Other expenses refer to cancellations of premiums due to lapses, which relate to premiums written in previous years.

The technical margin of the insurance business amounts to 10.0 CHF millions in 2017 (PY 13.7 CHF millions). The technical margin is mainly the profit margin out of premium income, claims incurred and change in technical provisions, and the fees profit margins from investment fund of the unit linked business. The decrease of this margin compared to PY is mainly a result of the decline of the premium income and the strengthening of the insurance provisions.

After deduction of the expenses related to the technical component of the business the Technical Result of the reporting period amounts to 5.5 CHF millions (PY 10.0).

Profit and Loss Account — in TCHF

Local GAAP	YE2017	YE2016	Change in %
Technical Result (Underwriting Performance)	**5'503**	**10'035**	**-45%**
Technical Margin	10'077	13'746	-27%
Expenses	-4'574	-3'711	23%

* Expenses Incurred in the Technical Result include Acquisition Costs, Administration Expenses and Claims Management Expenses. Investment Management Expenses are shown within the Investment Result in section A.3.1.

A.2.2. UNDERWRITING PERFORMANCE BY GEOGRAPHICAL AREA

Premiums, claims and expenses by country — in TCHF

YE 2017	Total Top 5 and home country	Home Country	Top 5 countries (by amount of GWP) - life insurance obligations					Total Top 5 and home country	Home Country	Top 5 countries (by amount of GWP) - life insurance obligations				
	YE 2017	LI	DE	FR	CH	FI	AT	YE 2016	LI	DE	FR	CH	FI	AT
		2017	2017	2017	2017	2017	2017		2016	2016	2016	2016	2016	2016
Premiums written														
Gross	51'769	668	11'696	11'632	11'492	8'992	7'289	54'115	699	13'690	12'525	12'537	6'677	7'987
Reinsurers' share	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	**51'769**	**668**	**11'696**	**11'632**	**11'492**	**8'992**	**7'289**	**54'115**	**699**	**13'690**	**12'525**	**12'537**	**6'677**	**7'987**
Premiums earned														
Gross	51'769	668	11'696	11'632	11'492	8'992	7'289	54'115	699	13'690	12'525	12'537	6'677	7'987
Reinsurers' share	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	**51'769**	**668**	**11'696**	**11'632**	**11'492**	**8'992**	**7'289**	**54'115**	**699**	**13'690**	**12'525**	**12'537**	**6'677**	**7'987**
Claims incurred														
Gross	52'183	763	26'997	3'873	12'994	1'632	5'924	68'223	1'551	39'548	3'552	14'011	2'174	7'387
Reinsurers' share	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	**52'183**	**763**	**26'997**	**3'873**	**12'994**	**1'632**	**5'924**	**68'223**	**1'551**	**39'548**	**3'552**	**14'011**	**2'174**	**7'387**
Changes in technical provisions *														
Gross	-17'565	-519	8'948	-8'461	-9'720	-4'510	-3'304	13'678	956	21'475	-7'567	2'052	-4'186	948
Reinsurers' share	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	**-17'565**	**-519**	**8'948**	**-8'461**	**-9'720**	**-4'510**	**-3'304**	**13'678**	**956**	**21'475**	**-7'567**	**2'052**	**-4'186**	**948**
Expenses Incurred	4'388	55	1'002	961	948	742	679	3'753	46	993	830	833	442	610
Other expenses	5'347							3'070						
Total expenses	**9'734**							**6'823**						

* sign convention for change in other technical provisions: positive sign: decrease in provisions (=income) / negative sign: increase in provisions (=expense)

In terms of Gross Written Premiums (GWP) the top 5 countries are: 20% of the life insurance obligations are deriving from policyholders resident in Germany, each 20% in France and Switzerland, 15% in Finland and 13% in Austria. Within the single countries no significant distinctions of the Business-Mix and underwriting performance are detectable.

Based on the higher average seniority of the insurance portfolio in Germany compared to the other countries (in particularly to France or Finland), the run-off of the portfolio is mainly evident in Germany, where maturities and surrenders paid (11 CHF millions and 14 CHF millions) are significantly higher than in other countries. As a consequence of these outflows, Germany shows a decrease in technical provisions (8.9 CHF millions), while reserves in France and Finland are still increasing due to positive net cash inflows. The amount of claims paid in 2017 was below 2016 nearly in all countries. Also for that reason, change in other technical provision was lower in the reporting period compared to previous year.

A.3. INVESTMENT PERFORMANCE

A.3.1. INVESTMENT RESULT

Profit and Loss per Asset Class in TCHF

Local GAAP in TCHF	YE2017	YE2016	Change in %
Investment Result (Investment Performance)	**2'559**	**-326**	
Investment Result Traditional Business	**2'895**	**401**	**623%**
Investment Result Traditional Business Gross of PH Participation	6'266	3'718	69%
Net Investment Income **Bonds**	5'435	3'345	62%
Net Investment Income **Loans**	78	83	-7%
Net Investment Income **Collective Investments Undertakings**	1'122	942	19%
Net Investment Income **Derivatives**	-52	-134	-61%
Net Investment Income **Cash**	55	16	237%
Investment Management Expenses	-372	-535	-30%
Policyholder Share of Total Investment income Not Linked Business	-3'371	-3'317	2%
Investment Result Unit-Linked Business	**-336**	**-726**	**-54%**
Investment Result Unit-Linked Business Gross of PH Share	28'124	9'734	189%
Policyholder Share of Total Investment income Unit-Linked	-28'461	-10'460	172%

The Investment Result Gross of Policyholder Participation amounts to 6.3 CHF millions in the traditional and to 28.1 CHF millions in the unit-linked business. The investment income of both business lines is in line with the expectation and reflects the improved current market situation in comparison to YE 2016, particularly in the equity market and for the EUR Bond Portfolio.

In the traditional portfolio, the income mainly includes interest income on bonds as well as dividends on equity and debt investment funds. The Investment Income on Loans derives from interest income on policy loans.

The derivative portfolio is composed of a unique swaption, covering the interest rate risk of the UL-asset portfolio. The expenses are composed mainly of the annual write-off amounts (book value = amortized costs).

In the unit-linked portfolio the main impact in the P&L (income and expenses) is due to the market value variation of the funds during the accounting period (unrealized gains and losses). The current income in the unit-linked portfolio is mainly composed of dividends on equity and debt funds.

In the traditional business, the investment result is used for the allocation of the technical interest to the policyholders' liabilities (3.4 CHF millions). In the unit-linked business, the performance of the unit-linked fund portfolio belongs to the policyholder and is allocated to the policyholders' fund accounts (28.5 CHF millions).

Net of policyholder shares and investment management expenses the Investment Performance of the reporting period results in a profit in the amount of 2.6 CHF millions (2016: -0.3 CHF millions).

A.3.2. GAINS AND LOSSES RECOGNIZED IN EQUITY

In the statutory accounts, according to Liechtenstein generally accepted accounting principles (local GAAP), no gains and losses are recognized in equity and no other comprehensive income accounts are recycled within the equity. The equity is only composed of share capital, retained earnings and net earnings of the current year.

A.3.3. INVESTEMENTS IN SECURITISATION

There are no investments in securitization in the LFL investment portfolio.

A.4. PERFORMANCE OF OTHER ACTIVITIES

There are no material income and expenses from any other activities than already reported in sections A.2. and A.3.

LFL does not have any leasing arrangements.

A.5. ANY OTHER INFORMATION

There is no other material information regarding business and performance to be reported for LFL.

Annex A – Public QRTs YE2017

Premiums, claims and expenses by line of business (Template S.05.01)

in TCHF

	Line of Business for: life insurance obligations						Life reinsurance obligations		
	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to	Annuities stemming from non-life insurance contracts and relating to	Health reinsurance	Life reinsurance	Total
Premiums written									
Gross	0	1.957	55.729	0	0	0	0	0	57'686
Reinsurers' share	0	13	47	0	0	0	0	0	60
Net	**0**	**1.944**	**55.682**	**0**	**0**	**0**	**0**	**0**	**57'626**
Premiums earned									
Gross	0	1.957	55.729	0	0	0	0	0	57'686
Reinsurers' share	0	13	47	0	0	0	0	0	60
Net	**0**	**1.944**	**55.682**	**0**	**0**	**0**	**0**	**0**	**57'626**
Claims incurred									
Gross	0	8.633	48.269	0	0	0	0	0	56'901
Reinsurers' share	0	12	35	0	0	0	0	0	47
Net	**0**	**8.620**	**48.234**	**0**	**0**	**0**	**0**	**0**	**56'854**
Changes in other technical provisions									
Gross	0	-3.041	-17.747	0	0	0	0	0	-20'788
Reinsurers' share	0	0	0	0	0	0	0	0	-
Net	**0**	**-3.041**	**-17.747**	**0**	**0**	**0**	**0**	**0**	**-20'788**
Expenses Incurred	0	213	4'687	0	0	0	0	0	4'901
Other expenses	0	0	0	0	0	0	0	0	**5'578**
Total expenses	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**10'478**

Premiums, claims and expenses by country (Template S.05.02) in TCHF

	Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
	LI	DE	FR	CH	FI	AT	
Premium written							
Gross	668	11.696	11.632	11.492	8.992	7.289	51.769
Reinsurers' share	0	0	0	0	0	0	0
Net	**668**	**11.696**	**11.632**	**11.492**	**8.992**	**7.289**	**51.769**
Premium earned							
Gross	668	11.696	11.632	11.492	8.992	7.289	51.769
Reinsurers' share	0	0	0	0	0	0	0
Net	**668**	**11.696**	**11.632**	**11.492**	**8.992**	**7.289**	**51.769**
Claims paid							
Gross	763	26.997	3.873	12.994	1.632	5.924	52.183
Reinsurers' share	0	0	0	0	0	0	0
Net	**763**	**26.997**	**3.873**	**12.994**	**1.632**	**5.924**	**52.183**
Changes in other technical provisions							
Gross	-519	8.948	-8.461	-9.720	-4.510	-3.304	-17.565
Reinsurers' share	0	0	0	0	0	0	0
Net	**-519**	**8.948**	**-8.461**	**-9.720**	**-4.510**	**-3.304**	**-17.565**
Expenses incurred	55	1.002	961	948	742	679	4.388
Other expenses	0	0	0	0	0	0	5.347
Total expenses	**0**	**0**	**0**	**0**	**0**	**0**	**9.734**

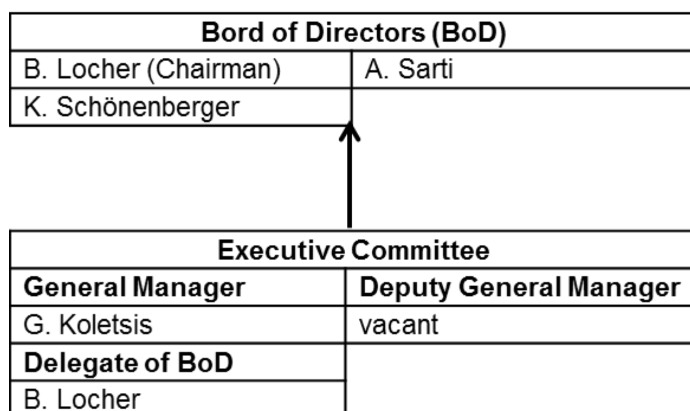
B. System of Governance

B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1. INFORMATION ON GOVERNANCE

The Board of Directors of LFL and the management of Generali Switzerland (GS) have assigned the management of LFL according to Art. 180 of the Liechtenstein Law on Persons and Companies (PGR) and the Organizational Regulations of LFL to the Delegate of the Board of Directors of LFL. The delegate of the BoD takes over the responsibilities for the management and is supported by a dedicated Legal & Compliance source embedded in Legal & Compliance of GS. The Head of Accounting is consulted regularly with regards to specific issues concerning management matters.

From an organizational viewpoint, LFL is part of GS and integrated into the Business Unit Life & Pension of GS. The General Manager reports directly to the Chief Life & Pension Officer. The Chief Life & Pension Officer acts as Delegate of the BoD. The composition of the BoD and the Executive Committee as of 31 December 2017 is shown below:



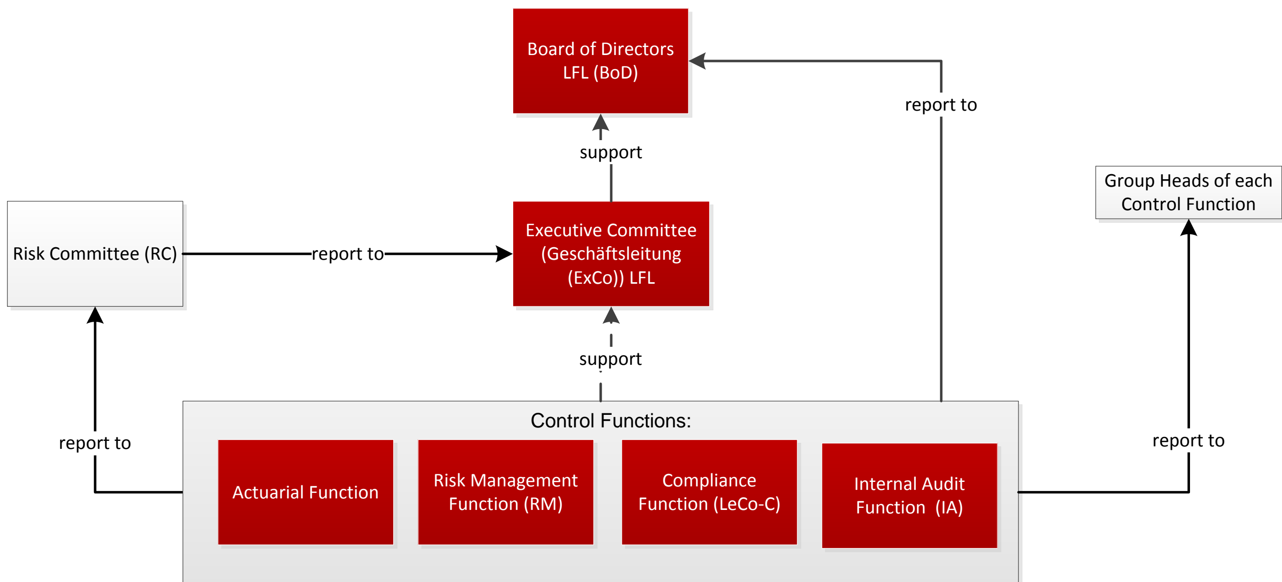
The Risk Governance is aimed at establishing an effective organizational structure based on clear definition of key risk roles and responsibilities and on a set of Policies and Guidelines.

The key risk roles and responsibilities for LFL are defined as follows:

Key Role	Description
Board of Directors (BoD)	The BoD ensures that the Risk Management system identifies, evaluates and controls the most significant company risks. Within the scope of its typical duties and responsibilities, the BoD is ultimately responsible for setting strategies and policies amongst other in the area of Risk Management and Internal Control and ensuring their adequacy and sustainability over time, in terms of completeness, functioning and effectiveness.
Executive Committee (ExCo)	The ExCo has amongst others the responsibility for the implementation, maintenance and monitoring of the Internal Control and Risk Management System.
Risk Owner	The risk identification activity is performed by the Heads of the Operating Units (Risk Owners), who regularly analyze all their own processes carrying relevant risks, in order to identify any events that generate risks and the related control activities. The related Operating Units perform these analyses with the cooperation and under the coordination of the Enterprise Risk Management (ERM).

There were no material transactions during the reporting period with shareholders, with persons who exercise a significant influence on LFL, and with members of the BoD of LFL.

The following organizational chart shows reporting lines for the relevant control functions (Risk Management, Compliance, Internal Audit and Actuarial Function) as of 31 December 2017:



A full description of key roles and responsibilities involved are defined within the “Group Directives on Internal Control and Risk Management” and the “Group Risk Management Policy”.

In section B.1.4 more details are disclosed for the relevant control functions (Risk Management, Compliance, Internal Audit and Actuarial Function) as well as for the BoD and Risk Committee.

In the following table the main policies as of 31 December 2017 relevant for the System of Governance, adopted by LFL and approved by its BoD, can be found:

Policy (adopted version for LFL)
Group Directives on Internal Control And Risk Management System
Group Risk Management Policy
Group Compliance Management System Policy
Group Internal Audit Policy
Group Actuarial Function Policy

B.1.2. CHANGES IN THE SYSTEM OF GOVERNANCE

There were changes in LFL's management in 2017. Mr. Gabriel Zucker resigned as Deputy General Manager as of 12 December 2017. In consideration of the upcoming resignation of Gabriel Zucker, the BoD appointed Mr. Andreas Letsch as the succeeding Deputy General Manager at the meeting on 31 October 2017. The FMA's approval of the appointment of Andreas Letsch was pending as of 31 December 2017 (the approval by FMA was given on February 21, 2018).

B.1.3. REMUNERATION POLICY

The GS Remuneration Committee is formed by a representative of the shareholder together with representatives from GHO. The Committee convenes whenever business requires, but at least once a year.

The GS Remuneration Committee determines the remuneration of the CEO and the members of the Executive Committee and in particular the Head Internal Audit, Chief Risk Officer, Compliance Officer and Head Legal & Compliance.

Remuneration Principles

The Reward Strategy for GS includes the following key elements:

- Ensuring of a clear and relevant objectives setting within a balanced score card framework along the SMART objectives guidelines
- A focus on total compensation (salary, bonus and value of long-term incentives) with variable payout depending on the individual performance
- A total remuneration package which is competitive in relation to comparable organizations in the Swiss Insurance Industry
- Equity and consistency of remuneration in relation to the assigned responsibilities and capabilities demonstrated
- Alignment with corporate strategy and goals defined
- Value merit and performance, in terms of results, behaviors and values
- Clear governance and compliance with the regulatory framework (IVASS 39 Regulation)

Remuneration Philosophy

In managing the remuneration of employees, the following objectives are pursued:

- Providing a competitive total remuneration package in both cash and non-cash components for talent attraction and retention
- Rewarding the people in a fair and consistent way, in line with GHO reward philosophy and the local market practices
- Ensuring internal and external equity for the reward system
- Promoting pay-for-performance culture and differentiate reward based on performance and competences.

B.1.4. INFORMATION ON CONTROL FUNCTIONS

For the organizational chart showing integration and reporting lines for the relevant control functions (Risk Management, Compliance, Internal Audit and Actuarial Function) please refer to section B.1.1.

The Risk Management is put in place through a specific on-going process which involves, with different roles and responsibilities, the BoD, the ExCo and the Operating Units, as illustrated in the “Group Directives on Internal Control and Risk Management System”.

The functions involved in the Risk Management process operate according to the “Three Line of Defense” approach:

1.) Operating Units are the First Line of Defense and have ultimate responsibility for risks concerning their area;
2.) Risk Management function, Actuarial Function and the Compliance function are the Second Line of Defense;
3.) Internal Audit function is the Third Line of Defense.

Control Functions	Description
Risk Management Function (RM)	The Risk Management function is divided into the departments Quantitative Risk Management (QRM) and Enterprise Risk Management (ERM). QRM is in charge for the calculation of the risk capital for Solvency II. ERM is in charge of implementing and over sighting the Risk Management System. In particular RM provides information and suggestions to the Risk Committee and has strong relationship with Heads of the Operating Units. ERM as Internal Control Function supports the Risk Owners in the identification and assessment of risks and key controls.
Compliance Function	The Compliance function as part of the Legal and Compliance Department has amongst others the responsibility for identifying, evaluating and preventing risks related to failure to comply with laws and regulations. The Compliance function supports the management and the employees in observing and complying with the relevant laws, regulations, internal procedures and ethical standards applicable in their area of work or in introducing necessary precautions.
Internal Audit Function	The Internal Audit function has the responsibility to audit and assess as an independent function the effectiveness of the Governance, the Risk Management, the Internal Control System and the business processes using a systematic and goal-oriented audit approach. The Internal Audit function performs audits within the First and Second Line of Defense.
Actuarial Function	The Actuarial function is responsible for the Solvency II technical provisions.

The above mentioned functions are outsourced to Generali Personenversicherungen AG within Generali Switzerland.

The main Committee besides the BoD involved in the Risk Management processes as of 31 December 2017 is described in the following table:

Key Role	Description
Risk Committee (RC of GS)	The Risk Committee acts as an advisory body to provide support to the Executive Committee (ExCo) and Board of Directors (BoD) in defining the target risk and the related levels of economic capital; in monitoring the Risk Profile on the basis of reports prepared by the Risk Management function and in setting any corrective strategies. Amongst others LFL`s risk profile and risk management relevant topics for LFL are presented and discussed.

B.1.5. INDEPENDENCE AND QUALIFICATIONS OF THE CONTROL FUNCTIONS

The independence requirements, responsibilities, duties and authorities of the control functions (Risk Management, Compliance, Internal Audit and Actuarial Function) are defined in respective policies. The respective policies are mentioned in section B.1.1.

As all the control functions are outsourced to GPV (as part of GS), LFL benefits from diversified teams within the independent functions. As in the previous year there are overall 20+ employees with an average of more than 5 years of experience in the control functions in GPV, with several years of experience in Solvency II topics and with the relevant qualifications related to their functions. LFL as part of GS and part of an international insurance group as Generali Group can also benefit from knowledge and support through cross border connected functions.

B.2. FIT AND PROPER REQUIREMENTS

B.2.1. SKILLS, KNOWLEDGE AND EXPERTISE REQUIRED FOR KEY FUNCTIONS

LFL has a Fit & Proper Policy and relevant procedures in place. Policy and procedures are adapted from and aligned with group wide standards provided by GHO and designed to comply with the prerequisites of Solvency II. The Group Fit & Proper Policy was adopted by LFL and approved by the BoD. The administrative body and key managers as well as control functions and personnel performing control over outsourced activities all count as relevant personnel.

Fitness requirements include general and specific qualifications, knowledge, experience and understanding related to the business of LFL, its actuarial and financial analysis and system of governance as well as the regulatory and market environment of LFL. The (collective) qualification, knowledge and experience shall be maintained at an adequate level at all times providing for a sound and prudent management; experience and qualification of the employees may be taken into account.

Knowledge of the market environment requires awareness and understanding of wider relevant business, economic and market environment in which the company operates and awareness of customer's knowledge and needs. Understanding the business of LFL includes in particular an understanding of LFL’s business strategy and model. Furthermore, the ability to interpret LFL’s actuarial and financial information, identify and assess key issues, and take any necessary measures (including appropriate controls) based on this information, is necessary. In addition, an awareness and understanding of risks LFL is facing and the capability to manage them is required, as well as an ability to assess the effectiveness of LFL’s arrangements to deliver sound governance, oversight and controls in business and, if necessary, oversee changes in these areas. Finally, an awareness and understanding of regulatory framework in which LFL operates, in terms of both regulatory requirements and expectations, and the capacity to adapt to changes in the regulatory framework without delay, is required too.

B.2.2. PROCESS FOR ASSESSING FITNESS AND PROPERNESS

LFL’s Fit & Proper Policy requires regular fit & proper checks of relevant personnel. Fitness evaluations and properness checks are either executed by the relevant personnel or by the subject or body in charge of the appointment of the relevant personnel. Fitness evaluation assess whether the relevant personnel’s professional qualification, knowledge and experience are appropriate and adequate to hold all the roles he/she is in charge of. Properness checks assess whether the conduct of the relevant personnel indicates any inadequacy to its current role or function.

B.3. RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

B.3.1. RISK MANAGEMENT SYSTEM

The purpose of the Risk Management system is to ensure that all risks to which LFL is exposed are properly and effectively managed on the basis of the risk strategy defined, following a set of processes and procedures and based on clear governance provisions.

The principles defining the Risk Management system are provided in the Generali Group Risk Management Policy which is the cornerstone of all risk-related policies and guidelines.

The Risk Management Policy covers all risks to which LFL is exposed on a current basis or on forward-looking basis.

Generali Group's Risk Management process is defined on the following phases:

1. Risk identification

The purpose of the Risk identification phase is to ensure that all material risks to which LFL is exposed are properly identified. For that purpose, the Risk Management Function interacts with the main Risk Owners in order to identify the main risks, assess their importance and ensure that adequate measures are taken to mitigate them according to a sound governance process.

Based on Solvency II risk categories and for the purpose of Solvency Capital Requirement (SCR) calculation, risks are categorized according to the following Risk Map. Relevant risk modules for LFL are Market Risks, Credit Risks, Life Insurance Risks, and Operational Risks.

Risk Map

Risks covered by SCR (Standard Formula)					
BSCR (Standard Formula)					Standard Formula
Market Risks	**Counterparty Default Risks**	**Insurance Risks Non-Life**	**Insurance Risks Life**	**Health Risks**	**Operational Risks**
Interest Rate		Premium & Reserve	Mortality		
Equity		Non-Life Lapse	Longevity		
Property		CAT	Morbidity/Disability		
Spread			Life Lapse		
Currency			Expenses		
Concentration			Revision		
			CAT		

LFL has also developed an effective Risk Management system for those risks, which are not included in the SCR calculation, such as Liquidity Risk and Other Risks (so called 'non-quantifiable risks', i.e. Reputational Risk, Contagion Risk and Emerging Risks).

2. Risk measurement

The risks identified during the 1st phase are then measured through their contributions to the SCR, eventually complemented by other modelling techniques deemed appropriate and proportionate to better reflect the risk profile of LFL. Using the same metric for measuring the risks and the SCR ensures that each risk is covered by an adequate amount of Solvency Capital which could absorb the loss incurred if the risk went to materialize.

In compliance with Solvency II regulation, the SCR is calculated based on the EIOPA Standard Formula.

Risks not included in the SCR calculation, such as Liquidity Risk and the Other Risks are evaluated based on other quantitative and qualitative techniques / models.

3. Risk Management and control

As part of Generali Group, LFL operates under a sound Risk Management system in line with the processes and the strategy set by Generali Group. To ensure that the risks are managed according to the risk strategy, LFL follows the governance defined in the Group Risk Appetite Framework (RAF). RAF governance provides a framework for risk management embedding in day-to-day and extraordinary business operations, control mechanisms as well as escalation and reporting processes.

The purpose of the RAF is to set the desired level of risk (in terms of Risk Appetite and Risk Preferences) and limit excessive risk-taking. Tolerance Levels on the basis of capital and liquidity metrics are set accordingly. Should an indicator approach or breach the defined Tolerance Levels, escalation mechanisms are then activated.

4. Risk reporting

Risk monitoring and reporting is a key Risk Management process which allows maintaining Risk Owners, ExCo, BoD and also the Supervisory Authority aware and informed on the risk profile development, risk trends and breaches of Risk Tolerances.

The Own Risk and Solvency Assessment (ORSA) is the main risk reporting process, coordinated by the Risk Management Function. Its purpose is to provide the assessment of risks and of the overall solvency needs on a current and forward-looking basis. The ORSA process ensures ongoing assessment of the solvency position in line with the Strategic Plan and Capital Management Plan, followed by a regular communication of ORSA results to the Supervisory Authority after BoD approval. In case of negative developments of the solvency position / risk profile corresponding measures are proposed by the control functions and discussed with the BoD. More details are provided in section B.3.3.

Risk governance

The above Risk Management process is ensured by the Risk Management Function, which in compliance with Solvency II and the principles set in the Risk Policies, supports the BoD and the ExCo in ensuring the effectiveness of the Risk Management system.

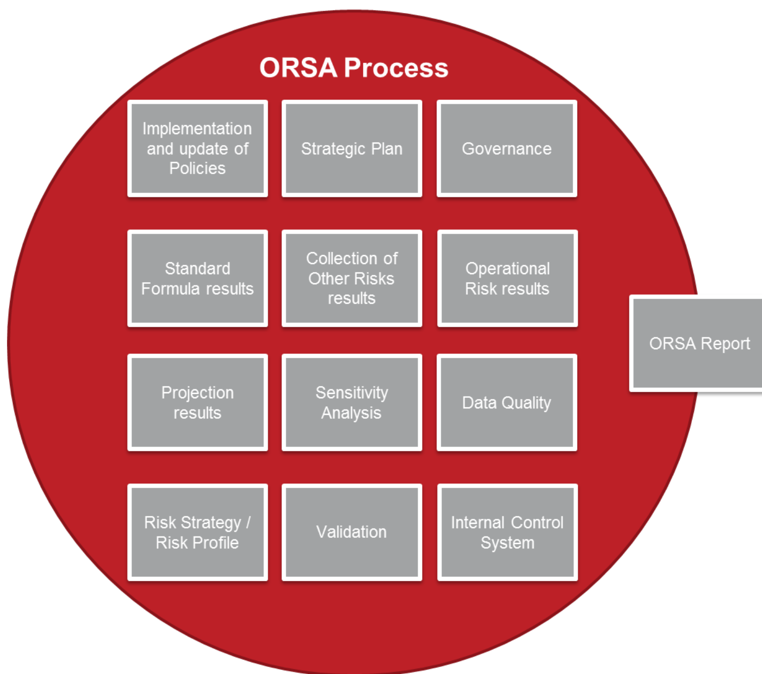
The Risk Management Function is responsible for reporting to the BoD the most significant risks identified and for coordinating the ORSA process. The Risk Management Function has the responsibility to:

- Assist the Administrative, Management or Supervisory Board (AMSB, corresponding to BoD) and other functions in the effective operation of the Risk Management system;
- Monitor the Risk Management system and the implementation of the Risk Management Policy;
- Monitor the general risk profile of LFL and coordinate the risk reporting, including the reporting in case of tolerances breaches;
- Advise BoD and support main business decision-making processes including those related to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments.

For the organizational chart for the relevant control functions including Risk Management, please refer to section B 1.1..

B.3.2. ORSA PROCESS

The ORSA process is a key component of the Risk Management system which aims at assessing the adequacy of the solvency position and the risk profile on a current and forward-looking basis.



The CRO (Chief Risk Officer) is responsible for the preparation of the ORSA Report and is supported by the GHO CRO in terms of methodological support, process definition and reporting templates. The GHO process is cross referenced in all companies' processes and consistent with Strategic Planning process.

The ORSA Report is produced on an annual basis. In addition to the annual ORSA Report, non-regular ORSA Reports are produced when the risk profile has changed significantly. Key deliverables of the ORSA Process are highlighted in the figure.

All results are properly documented in the ORSA Report and discussed within the Risk Committee. After discussion and approval by the BoD, the Report is submitted to the Liechtenstein Supervisory Authority FMA. As a general rule, the information included in the ORSA Report is sufficiently detailed in order to ensure that the relevant results can be used in the decision-making process and in the business planning process.

The results of the local ORSA are also reported to the GHO as an input to the ORSA process of GHO. For this reason, LFL follows the principles set in the Group Risk Management Policy and additional operating procedures. These are issued by GHO to grant consistency of the ORSA process across the companies of GHO

B.3.3. RISK EMBEDDING IN CAPITAL MANAGEMENT PROCESS

The Group Capital Management Policy was adopted by LFL and approved by the BoD.

Capital Management and Risk Management are strongly integrated processes. This integration is deemed essential to ensure alignment between business and risk strategies.

By means of the ORSA process the projection of capital position and the forward-looking risk profile assessment contribute to the Strategic Planning and Capital Management process.

The ORSA Report also leverages on the Capital Management Plan to verify the adequacy, including the quality, of the Eligible Own Funds to cover the overall solvency needs on the basis of the plan assumptions.

B.4. INTERNAL CONTROL SYSTEM

B.4.1. DESCRIPITON OF THE INTERNAL CONTROL SYSTEM

The requirements concerning the Internal Control System are defined in the Group Directives on Internal Control and Risk Management System (see B1.1). The Group Directives on Internal Control and Risk Management System was adopted by LFL and approved by the BoD.

The Internal Control System (ICS) of the legal insurance entities of GS including LFL is based on the COSO[4] framework and consists of:

- Process Components:
  - Entity-wide processes
  - Business processes
- Control Components:
  - Entity Level Controls
  - IT General Controls (ITGC)
  - IT Application Controls (ITAC)
  - Manual Controls
- Operational Risk Components as listed in section C.5.1, including also:
  - Financial Reporting Risk (FRR)
  - IT Risks
  - Compliance Risks
- Reporting: To the BoD / Audit and Risk Committee (if committee is established, not relevant for LFL)
- Documentation in Policies und Guideline
- The documentation of business processes including key controls is risk-oriented and archived in a GRC-IT-Tool provided and maintained by GHO

ERM is part of the Risk Management Function and acts in its role as ICS-coordinator as Internal Control Function. Furthermore, the Compliance Function plays an important role within the Internal Control System.

For business processes shared within GS also covering LFL (like for example accounting processes) and falling under GHO`s FRR scope, the respective key controls are submitted to regular control testing.

The Solvency II regulation requires insurance undertakings to have internal processes and procedures in place to ensure the appropriateness, completeness and accuracy of the data used in Standard Formula and in the calculation of the Technical Provisions.

In order to comply with the Data Quality requirements, LFL implemented an appropriate process for monitoring the Data Quality for the calculation of the Standard Formula SCR and the Technical Provisions, based on the GHO Data Quality Framework.

Concerning further information on Operational Risk please refer to section C.5.

B.4.2. IMPLEMENTATION OF THE INTERNAL CONTROL FUNCTION

The ICS Function is included in the Risk Management Function and supported by the Compliance Function. For the organizational structure and decision making process of these functions, please refer to sections B.1.1 and B.1.4.

[4] Committee of Sponsoring Organizations of the Treadway Commission; https://www.coso.org

B.5. INTERNAL AUDIT FUNCTION

B.5.1. INFORMATION ON INTERNAL AUDIT FUNCTION

The Internal Audit Function is an independent, effective and objective function established by BoD to examine and evaluate the adequacy, functioning, effectiveness and efficiency of the internal control system and all other elements of the system of governance, with a view of improving the efficacy and efficiency of the internal control system, of the organization and of the governance processes.

The Internal Audit function supports the BoD in identifying the strategies and guidelines on internal control and risk management, ensuring they are appropriate and valid over time and provides the BoD with analysis, appraisals, recommendations and information concerning the activities reviewed. The Internal Audit function also carries out assurance and advisory activities for the benefit of the BoD, the ExCo and other departments.

Organizational structure and the decision making processes of the undertaking

The Internal Audit function of the companies of Generali Switzerland (GS) is attached legally to Generali Personenversicherungen AG. The other companies within the GS Group, including LFL, are audited by the same audit function based on outsourcing agreements. This assures that the necessary resources and skills are available to adequately cover all relevant business areas within the businesses.

At the same time, the Internal Audit function of GS forms part of Group Audit of GHO.

Based on this model, the Head of the Internal Audit Function reports to the Audit and Risk Committees (where such committees are established, not relevant for LFL) or BoD of the various companies within GS. In addition, a solid line reporting model is established between the Head of Group Audit, the Heads of Business Unit Audits and the Head of the Internal Audit Function of GS.

This ensures autonomy to act and independence from operational management as well as more effective communication flows. It also covers the methodologies to be used, the organizational structure to be adopted (recruiting, appointment, dismissal, remuneration and budget in agreement with the BoD), the objectives setting and the year-end appraisal, the reporting methods, as well as the proposed audit activities to be included in the Internal Audit Plan to be submitted to the BoD of LFL for approval.

B.5.2. INDEPENDENCE, OBJECTIVITY AND QUALIFICATIONS OF INTERNAL AUDIT FUNCTION

The Internal Audit Function has full, free, unrestricted and timely access to any and all of the organization's records, physical properties, and appropriate personnel to carry out any engagement, with strict accountability for confidentiality and safeguarding records and information. The Head of the Internal Audit Function also has free and unrestricted access to the BoD. All employees are required to assist the Internal Audit Function in fulfilling its roles and responsibilities. Top Managers have the responsibility to promptly inform the Head of the Internal Audit Function of any major potential or actual control failures.

The Internal Audit Function of GS governs itself by adherence to the Institute of Internal Auditors' mandatory guidance including the definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). Given the delicate and important nature of the assurance role carried out within the business, all the personnel of the Internal Audit Function must have specific fit & proper requirements as requested by the Group Fit & Proper Policy.

Resources are aligned with the requirements defined in the yearly planning process. The hiring and dismissals of key auditors throughout the Group is coordinated with the Group Head of Audit. As of 31 December 2017, the audit team comprised seven persons (31 December 2016 six persons), including the Head of Internal Audit.

In particular, the Head of Internal Audit Function is a person, which meets the requirements of the local Regulation Authority's regime and Solvency II Regulation as well as the Generali Group requirements. He/she has solid relevant experience within areas like audit, control, insurance, finance, risk or in the auditing of financial statements.

Also the other personnel belonging to the Internal Audit Function has the necessary skills and a proven track record commensurate with the degree of complexity of the activities to be carried out.

The Internal Audit Function is an independent, effective and objective function to examine and evaluate the adequacy, functioning, effectiveness and efficiency of the ICS and all other elements of the system of governance, with a view of improving the efficacy and efficiency of the ICS, of the organization and of the governance processes.

The activity of Internal Audit remains free from interference by any element in the organization. To this effect, Internal Auditors do not have direct operational responsibility or authority over any of the activities audited.

B.6. ACTUARIAL FUNCTION

The main responsibilities of LFL’s Actuarial Function, as required by the Solvency II principles (article 48 of Directive 2009/138/EC), are the following:

- coordinate the calculation and validate the Solvency II technical provisions;
- inform the Board of Directors of LFL on the reliability and adequacy of the calculation of the Technical Provisions;
- express an opinion on the overall Underwriting Policy;
- express an opinion on the adequacy of the reinsurance arrangements;
- contribute to the effective implementation of the risk-management system.

In line with the organizational model defined by GHO, the Actuarial Function is located under the CFO area to ensure an effective coordination for the calculation of technical provisions. In addition, to preserve the independence in carrying out his activities, the head of Actuarial Function functionally reports to the Board of Directors, to which he has independent and direct access.

In addition to the head of the function, one person is dedicated to the coordination of the activities (methodology, reporting, processes), while another person is specifically dedicated to the independent validation of the technical provisions in Solvency II.

B.7. OUTSOURCING

B.7.1. INFORMATION ON OUTSOURCING POLICY

The Group Outsourcing Policy is intended to set consistent minimum mandatory outsourcing standards at Group level, assign main outsourcing responsibilities and ensure that appropriate controls and governance structures are established within any outsourcing arrangement.

The Policy applies to all Group legal entities, outlining the main principles to be followed when implementing outsourcing.

The Policy introduces a risk-based approach, adopting a proportionality principle to apply requirements according to the risk profile (distinguishing between critical and not critical outsourcing), the materiality of each outsourcing agreement and the extent which Generali Group controls the service providers.

The Policy requires the appointment, for each outsourcing agreement, of a specific business referent. The business referent is responsible for the overall execution of the outsourcing lifecycle, from the risk assessment to the final management of the agreement and subsequent monitoring activities of the Service Level Agreements defined in each contract.

The Group Outsourcing Policy was adopted by LFL and approved by the BoD.

The Executive Committee (ExCo) of LFL approved an adopted version of the GS Outsourcing Policy (“Outsourcing Reglement”), which is based on the Group Outsourcing Policy.

B.7.2. OUTSOURCING ARRANGEMENTS

LFL has made use of the option to delegate the functions listed below within the GS respectively within Generali Group (group of companies which are directly or indirectly affiliates of Assicurazioni Generali S.p.A.). The service providers of the mentioned functions are resident in Switzerland with the exception of the service provider, who is responsible for investment of assets and portfolio management (Investment Function), which is resident in Italy.

Critical Functions:

- Internal Audit (Key Function)
- Finance (incl. Actuarial Function) (Key Function)
- Risk Management (Key Function)
- Legal & Compliance (Key Function)
- Informatics
- Customer Service
- Life & Pension, Product Pricing (Actuarial Service)
- Claims
- Investment (Assets Management Agreement as well as Advisory Agreement)

Other Functions:

- Product management
- Claims special services
- Human Resources
- Logistics
- Sales Partner Support

B.8. ANY OTHER INFORMATION

The ORSA process resulted in no major issues and no action is required. There is no evidence that the System of Governance is not adequate.

C. Risk Profile

C.1. UNDERWRITING RISK

C.1.1. LIFE UNDERWRITING RISK

RISK EXPOSURE AND ASSESSMENT

The portfolio of LFL consists of unit-linked insurance with or without guarantees and traditional life insurance. There are mainly endowment, capitalization and annuity products which can be sold together with premium waiver and disability rider (only for Swiss customers). LFL does not have any health business.

Life Underwriting Risks include Biometric and Operating Risks embedded in the Life insurance policies. Biometric Risks derive from the uncertainty in the assumptions regarding mortality, longevity, health, morbidity and disability rates taken into account in the insurance liability valuations. Operating Risks derive from the uncertainty regarding the amount of expenses and from the adverse exercise by the policyholders of their contractual options. Along with the premium payment, the lapse of the policy is the most significant contractual option held by the policyholders.

The Life Underwriting Risks identified in the Risk Map are:

- Mortality Risk, defined as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the mortality rates, where an increase in the mortality rates leads to an increase in the value of insurance liabilities. Mortality Risk include also Mortality Catastrophe Risk, as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events;
- Longevity Risk that, similarly to Mortality, is defined as the risk resulting from changes in the mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities;
- Disability and Morbidity Risks are defined as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the disability, sickness, morbidity and recovery rates;
- Lapse Risk is linked to the loss or adverse change in liabilities due to a change in the expected exercise rates of policyholder options. The relevant options are all legal or contractual policyholder rights to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover or permit the insurance policy to lapse. This includes also the catastrophic event on lapse;
- Expense Risk, as the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the expenses incurred in servicing insurance or reinsurance contracts;

The main Underwriting Risks in LFL's portfolio are Lapse and Expense Risks. LFL's portfolio has a prevailing component of saving business that is exposed to Lapse Risk and also includes some annuity portfolios, with the presence of Longevity Risk. Finally, Expense Risk is present in all the products in the portfolio. As the portfolio is in run-off there is no significant change of the risk profile during the reporting period.

The approach underlying the Life Underwriting Risk measurement is based on the calculation of the loss for LFL resulting from unexpected changes in biometric/operating assumptions. In particular, the capital requirements for Life Underwriting Risks are calculated on the basis of the difference between the Solvency II (SII) Technical Provisions after the application of a stress to the biometric/operating assumptions and the SII Technical Provisions under best-estimate expected conditions.

The Life Underwriting Risks are measured through a quantitative model aimed at determining the Solvency Capital Requirement (SCR), based on the methodology and parameters defined in the SII Standard Formula approach.

The risk measurement derives from the application of a pre-defined stress to the best estimate biometric/operating assumptions with a probability of occurrence equal to 0.5%.

For Mortality and Longevity Risks, the uncertainty in insured population mortality and its impact on LFL are measured applying permanent and catastrophe stresses to the policyholders' death rates.

For Morbidity and Disability Risks, the uncertainty in insured population sickness or morbidity and its impact on LFL are measured applying permanent or catastrophe stresses to the policyholders' morbidity, disability and recovery rates.

In case of Lapse Risk, risk calibration and loss modelling aims at measuring the uncertainty in policyholder behavior with respect to legal or contractual options that give them the rights to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover

or permit the insurance policy to lapse. Similarly to Biometric Risks, the measurement is done via the application of permanent and catastrophe stresses to these policyholders behavior.

Expense Risk is measured through the application of stresses to the amount of expenses and expense inflation that LFL expects to incur in the future.

For quantitative information about the breakdown of the SCR by risk module, please refer to the table Total SCR split by Risk in the section E.2.2.

No changes in risk measurement occurred over the reporting period.

RISK MANAGEMENT AND MITIGATION

Since LFL is in run-off and does not underwrite any new business anymore, no specific risk management or risk mitigation actions are required related to the pricing, product approval or underwriting processes.

For the existing business, a reinsurance program is in place, covering underwriting death and disability risks of the insurance portfolio by a surplus reinsurance treaty. The reinsurance program is subject to the Life Actuarial Function opinion regarding its risk mitigation efficiency and adequacy in accordance with the GHO Group Actuarial Function Policy and related guidelines.

C.1.2. NON-LIFE UNDERWRITING RISK

Non-Life Underwriting Risk is not applicable for LFL.

C.2. MARKET RISK

C.2.1. RISK EXPOSURE AND ASSESSMENT

As a life insurer, LFL collects premiums from policyholders in exchange of payment promises contingent on pre-determined events.

For the investment of the savings premium of the unit-linked business the customer can choose from unit-linked investment plans which in case of unit-linked with guarantee are defined by LFL. For unit-linked without guarantees LFL holds no Market Risk. For the traditional business LFL invests the collected premiums in a wide variety of financial assets, with the purpose of honoring future promises to policyholders and generating value for its shareholders.

LFL is then exposed to the following Market Risks, that:

- Invested assets do not perform as expected because of falling or volatile market prices;
- Cash of maturing bonds are reinvested at unfavorable market conditions, typically lower interest rates.

Nevertheless, LFL is required by the Solvency II regulation to hold a capital buffer, with the purpose of maintaining a sound solvency position even in the circumstances of adverse market movements. For quantitative information, please refer to section E.2.

For this purpose, LFL manages its traditional investments in a prudent way according to the so-called ‘Prudent Person Principle’, and strives to optimize the return of its assets while minimizing the negative impact of short term market fluctuations on its solvency.

The Market Risks included in the Risk Map are:

- Equity Risk is defined as the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the level of equity market prices, which can lead to financial losses. Exposure to Equity Risk arises from positions that are sensitive to equity prices, e.g. shares that LFL has invested in or embedded derivatives in a Life product that invests parts of the policyholder assets in equity;
- Equity Volatility Risk is defined as the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the volatility of equity markets. Exposure to Equity Volatility Risk arises from asset or liability positions that have embedded equity options;
- Interest Rate Risk is defined as the risk of adverse changes in the market value of the assets or in the value of liabilities due to changes in the level of interest rates in the market. LFL is mostly exposed to downward changes in interest rates as lower interest rates increase the present value of the promises made to policyholders more than the value of the assets backing those promises. As a result it may become increasingly expensive for the Company to maintain its promises thereby also leading to financial losses;
- Concentration Risk is defined as the risk of incurring in significant financial losses because the asset portfolio is concentrated to a small number of counterparties, thus increasing the possibility that a negative event hitting only a small number or even a single counterparty can produce large losses;
- Currency Risk is defined as the possibility of adverse changes in the market value of the assets or the value of liabilities due to changes in exchange rates. Exposure to Currency Risk arises from direct or indirect asset or liability positions that are sensitive to changes in exchange rates;
- Interest Rate Volatility Risk is defined as the risk of adverse changes in the market value of the assets or the value of liabilities due to changes in the level of interest rate implied volatilities. This comes for example from insurance products sold with embedded minimum interest rate guarantees, the market consistent value of which is sensitive to the level of interest rates volatility;
- Property Risk is then defined as the possibility of adverse changes in the market value of the assets or the value of liabilities due to changes in the level of property market prices. Exposure to Property Risk arises from property asset positions.

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

For the evaluation of its Market Risks, LFL makes use of the SII Standard Formula, as ruled by the Solvency II Directive, complemented by additional measurement techniques deemed appropriate and proportionate.

Market Risk concentration is explicitly modelled by the Standard Formula. Based on the results of the model and on the composition of the balance sheet LFL has no Concentration Risk.

Based on this methodology, the breakdown of the SCR originating from Market Risks indicates that Equity Risk and Currency Risk are the most relevant Market Risks for LFL. For quantitative information about the breakdown of the SCR by risk module, please refer to the table *Total SCR split by Risk* in the section E.2.2. The methodology used to evaluate the Market Risks is unchanged, with respect to the previous reporting period.

Market Risk concentration is explicitly modelled by the Standard Formula. Based on the results of the model and on the composition of the balance sheet LFL has no Concentration Risk.

C.2.2. RISK MANAGEMENT AND MITIGATION

The Market Risks borne by LFL are managed in different ways:

- The aim of the Strategic Asset Allocation process is to define the most efficient combination of asset classes which, according to 'Prudent Person Principle' set out in the Solvency II Directive and related relevant implementation measures, maximizes the investment contribution to value creation, taking into account solvency, actuarial and accounting indicators.
- The annual SAA proposal defines target exposure and limits, in term of minimum and maximum exposure allowed, for each relevant asset class.
- In addition to risk tolerance limits set on LFL solvency position defined within the Risk Appetite Framework, the current risk monitoring process of LFL is also integrated by the application of the Generali Group Investment Risk Guidelines (GIRG) provided by GHO.
- The GIRG include general principles, quantitative risk limits (with a strong focus on credit and market concentration), authorization processes and prohibitions.
- LFL uses also swaptions with the aim to mitigate the risk present in the asset or/and liability portfolios.

C.3. CREDIT RISK

C.3.1. RISK EXPOSURE AND ASSESSMENT

As a life insurer, LFL collects premiums from policyholders in exchange of payment promises contingent on pre-determined events.

For the investment of the savings premium of the unit-linked business the customer can choose from unit-linked investment plans which in case of unit-linked with guarantee are defined by LFL. For the traditional business LFL invests the collected premiums in a wide variety of financial assets, with the purpose of honoring future promises to policyholders and generating value for its shareholders.

Some of these financial investments are subject to the following Credit Risks, that:

- Invested assets do not perform as expected because of perceived or actual deterioration of the credit worthiness of the issuer;
- Derivative or reinsurance contracts do not perform as expected because of perceived or actual deterioration of the credit worthiness of the counterparty.

Nevertheless, LFL is required by the Solvency II regulation to hold a capital buffer, with the purpose of maintaining a sound solvency position even in the circumstances of adverse market movements. For quantitative information, please refer to section E.2.

For this purpose, LFL manages its investments in a prudent way according to the so-called 'Prudent Person Principle', and strives to optimize the return of its assets while minimizing the negative impact of short term market fluctuations on its solvency.

The Credit Risks included in the Risk Map are:

- Spread Widening Risk is defined as the risk of adverse changes in the market value of the assets due to changes in the market value of non-defaulted credit assets. The market value of an asset can decrease because of spread widening risk either because the market's assessment of the creditworthiness of the specific obligor decreases, which is typically accompanied by a credit rating downgrade, or because there is a market-wide systemic reduction in the price of credit assets. Under the Standard Formula the Spread Widening Risk is aggregated in the Market Risk module;
- Default Risk is defined as the risk of incurring in losses because of the inability of counterparty to honor its financial obligations. Distinct modelling approaches have been implemented to model default risk in the bond portfolio (referred to as Credit Default Risk) and the default risk arising from the default of counterparties in cash deposits, risk mitigation contracts (including reinsurance), and other type of exposures subject to credit risk (referred to as Counterparty Default Risk).

In order to ensure that the level of Credit Risks deriving from the invested assets are adequate to the business run by LFL and to the obligations taken with the policyholders, the investment activity is performed in a sound and prudent manner in accordance with the 'Prudent Person Principle' set out in Article 132 of Directive 2009/138/EC.

The practical implementation of the 'Prudent Person Principle' is applied independently of the fact that assets are subject to Market Risks, Credit Risks or both, so the same principles and processes described in section C.2.2. apply also to the optimization of the portfolio allocation with respect to Credit Risks.

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

For the evaluation of its Credit Risks, LFL makes use of the SII Standard Formula, as ruled by the Solvency II Directive, complemented by additional measurement techniques deemed appropriate and proportionate.

Based on this methodology, the breakdown of the SCR originating from Credit Risks is shown in the table *Total SCR split by Risk* in the section E.2.2.

The methodology used to evaluate Credit Risks is unchanged with respect to the previous reporting period.

Credit Risk concentration is explicitly modelled by the EIOPA Standard Formula. Based on the results of the model and on the composition of the balance sheet LFL has no material risk concentrations.

C.3.2. RISK MANAGEMENT AND MITIGATION

The Credit Risks borne by LFL are managed in different ways:

- For the unit-linked business the premium is invested in different investment plans which in case of business with guarantee are predefined by LFL. The current risk monitoring process of LFL is also integrated by the application of the Generali Group Investment Risk Guidelines (GIRG) provided by the GHO. The GIRG include general principles, quantitative risk limits (with a strong focus on Credit and Market concentration), authorization processes and prohibitions.
- For policy loans the amounts outstanding, including interest, are either repaid by the customer or the outstanding amount can be fully deducted from the surrender value in case of lapse of the policy or from the benefit payment at the expiry of the policy.

C.4. LIQUIDITY RISK

C.4.1. RISK EXPOSURE AND ASSESSMENT

Liquidity Risk is defined as the uncertainty, emanating from business operations, investment or financing activities, over the ability of the insurer to meet payment obligations in a full and timely manner, in a current or stressed environment. This could include meeting commitments only through a credit market access at unfavourable conditions or through the sale of financial assets incurring in additional costs due to illiquidity of (or difficulties in liquidating) the assets.

LFL is exposed to Liquidity Risk as a result of insurance operating activity due to the potential mismatches between the cash inflows and the cash outflows deriving from the business. Liquidity Risk can additionally stem from investing activity, due to potential liquidity gaps deriving from the management of the LFL's assets portfolio as well as from a potentially insufficient level of liquidity (i.e. capacity of being sold at a fair price in adequate amounts and within a reasonable timeframe) in case of disposal. Finally, LFL can be exposed to liquidity outflows related to issued guarantees, commitments, or regulatory constraints that could impact its capital position.

GHO's Liquidity Risk measurement relies on projecting cash obligations and available cash resources into the future, so as to monitor that available liquid resources are at all times sufficient to cover the cash obligations that will come due in the same period.

GHO has defined a set of medium-term Liquidity Risk Metrics that are used to regularly monitor the liquidity situation of each Group insurance company. All such metrics are forward-looking, i.e. they are calculated at a future date based on projections of cash-flows, assets and liabilities and an estimation of the level of liquidity of the asset portfolio. The ratios are aimed at measuring the ability of LFL to ensure the fulfilment of its regulatory Technical Reserves Coverage Requirement as well as its cash obligations towards customers and other stakeholders.

The metrics are calculated both under the so-called 'base scenario', in which the values of cash-flows, assets and liabilities correspond to those projected according to LFL's Strategic Plan scenario, and under a set of so-called 'stress scenarios', in which the projected cash inflows and outflows, market price of assets and amount of Technical Reserves are recalculated to take into account circumstances that would adversely impact LFL's liquidity.

Liquidity Risk limits have been defined together with GHO in terms of values of the above-mentioned metrics that LFL cannot exceed. The limit framework is designed so as to ensure that LFL holds a ‘buffer’ of liquidity in excess of the amount required to withstand the adverse circumstances depicted in the stress scenarios.

As for the previous year, LFL’s latest liquidity metrics calculated for YE2017 has shown no liquidity gap.

Material Liquidity Risk concentrations could arise from large exposures to individual counterparties or groups. In fact, in case of default or other liquidity issue of a counterparty towards which a significant risk concentration exists, this may negatively affect the value or the liquidity of LFL’s investment portfolio and hence its ability to promptly raise cash by selling the portfolio on the market in case of need. GHO has set investment limits that enable LFL to limit risk concentrations taking into consideration a number of dimensions, including asset class, counterparty, credit rating, and geographic area.

As per YE2017, LFL does not have any external financing corresponding to previous year.

C.4.2. RISK MANAGEMENT AND MITIGATION

In 2017 LFL has managed and mitigated Liquidity Risk in consistency with the framework set in the Group internal regulations. LFL aims at ensuring the capacity to meet its commitments also in case of adverse scenarios, while achieving its profitability objective. To that end, it manages expected cash inflows and outflows so as to maintain a sufficient available cash level to meet the short and medium term needs and by investing in instruments that can be quickly and easily converted into cash with minimum capital losses. LFL considers the prospect liquidity situation in plausible market conditions as well as under stressed scenarios.

LFL has established clear governance for Liquidity Risk measurement, management, mitigation and reporting in consistency with GHO regulations, including the setting of specific limits and escalation process in case of limits breach or other liquidity issues.

Investment limits have been imposed to LFL in order to ensure that the share of illiquid assets is kept within a level that does not impair LFL’s asset liquidity.

C.4.3. EXPECTED PROFITS INCLUDED IN FUTURE PREMIUMS

The Expected Profits Included in Future Premiums (EPIFP) represents the expected present value of future cash-flows which result from the inclusion in Technical Provisions of premiums relating to existing insurance and reinsurance contracts. These are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the Policy.

The amount of EPIFP for the life business written by LFL has been calculated in accordance with article 260(2) of the Delegated Acts and amounts to 38.0 CHF millions at YE2017 compared to 32.8 CHF millions at YE2016 (net of reinsurance).

C.5. OPERATIONAL RISK

C.5.1. RISK EXPOSURE AND ASSESSMENT

Operational Risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Compliance and Financial Reporting Risks fall within this category.

In line with the industry practices, LFL adopted the following classification categories (consistent with GHO`s approach):

- Internal fraud defined as the losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or Company Policy, excluding diversity/discrimination events, which involves at least one internal party;
- External fraud defined as the losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party;
- Employment Practices and Workplace Safety defined as the losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events;
- Clients, Products and Business Practices defined as the losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product;

- Damage to Physical Assets defined as the losses arising from loss or damage to physical assets from natural disaster or other events;
- Business disruption and system failures defined as the losses arising from disruption of business or system failures;
- Execution, Delivery and Process Management defined as the losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

Following best industry practices, the framework for Operational Risk Management includes as main activities the Loss Data Collection (LDC) and the Integrated Risk Assessment.

The LDC is the process of collection of losses suffered as result of the occurrence of Operational Risk event and provides a backward-looking view of the historical losses suffered due to Operational Risk events.

Since 2015, GHO exchanges internal loss data in an anonymized way through the ‘Operational Risk data eXchange Association (ORX)’, a global association of Operational Risk practitioners and with the participation of the main industry players. The aim is to use the data from the peers to learn from their loss experiences, improving the internal controls and anticipating emerging losses.

Risk assessment provides a forward-looking view on the risks and requires an analysis of the risks performed jointly with the Risk Owners and the Compliance Function. The Integrated Risk Assessment provides a high-level evaluation of the forward-looking residual risk exposure of the company.

Main risks

The following Operational Risks have been identified to be the top three:

- Failure to comply with laws/ regulations concerning assets and business data protection
- IT attack with loss or alteration of data
- Failure to comply with laws/ regulations concerning customer data privacy

The above mentioned risks are all addressed with adequate risk mitigation actions (e.g. specific projects).

Overall the operational risk exposure is on a tolerable level within LFL`s Risk Appetite.

For the calculation of the Solvency II capital charge LFL uses the approach of the Solvency II Standard Formula.

Loss Data Collection

The LDC did not put in evidence any new cases during the reporting period.

C.5.2. RISK MANAGEMENT AND MITIGATION

In order to identify, measure, monitor and mitigate the Operational Risk, ERM was given the mandate to coordinate the Operational Risk program. ERM is supported by the Group Risk Management of GHO. The risks related to non-compliance are monitored by the independent Compliance Function. For a description of these control functions, please refer to section B 1.4.

A series of risk-mitigating measures are undertaken within LFL with the aim to further improve our control environment, reducing risk exposure and reaching a better operational efficiency. The major risk-mitigating measures on operational risks for LFL are described in the written risk strategy.

The operational risk situation and the status of the Internal Control System (ICS) are regularly presented and discussed in the Risk Committee by ERM.

C.6. OTHER MATERIAL RISK

As part of the qualitative Risk Management framework, also the following risk categories are considered. The definition of these risks is as follows:

- Strategic Risk referring to external changes and/or internal decisions that may impact the future risk profile of the Company.
- Reputational Risk referring to potential losses arising from deterioration or a negative perception of the Company's reputation among its customers, counterparties, shareholders and Supervisory Authority.

- Contagion Risk deriving from problems within one of the Group's Legal Entities affecting the solvency, economic or financial situation of other Group Entities.
- Emerging Risk referring to the new risks due to internal or external environment changes, leading to an increase in the exposure to risks already included in the Risk Map or that may require defining a new risk category.

The Risk Assessments showed no material risks for LFL in 2017.

C.7. ANY OTHER INFORMATION

To test LFL's solvency position resilience to adverse market conditions or shocks a set of stress test and scenario analyses are performed. These are defined considering unexpected, potentially severe, but plausible events. The outcome, in terms of impact on financial and capital position, prepares LFL to take appropriate management actions if such events occur.

The sensitivity analysis considers simple changes in specific risk drivers (e.g. Interest Rates, equity shock, credit spreads and Interest Rate volatility). Their main purpose is to measure the variability of the Own Funds and Solvency Ratio to variations in specific risk factors. The set chosen aims to provide the assessment of resilience to the most significant risks.

In order to verify the adequacy of solvency capital position to the changing of the market conditions, the following main sensitivity analyses have been performed:

Risk Free Rate: interest rate change	+/-50 bps
Credit spread of corporate bonds on Swap	+50 bps
Equity Price fair value change	+/-25%
Risk Free rate with No Volatility adjustment	
Ultimate Forward rates	-15 bps

The impacts of the above sensitivities on the Solvency Ratio are shown in the following table:

Sensitivities — in Mio. CHF

	Eligible Own Funds	Delta Eligible Own Funds	Delta Eligible Own Funds %	Solvency Capital Requirement	Solvency Ratio
Official value	120.7			52.7	229.0%
Risk Free Rate: interest rate change +50 bps	129.8	9.1	7.5%	52.4	247.5%
Risk Free Rate: interest rate change -50 bps	111.3	-9.4	-7.8%	52.9	210.2%
Credit spread of corporate bonds on Swap +50 bps	124.1	3.4	2.8%	52.6	235.8%
Equity Price fair value change +25%	133.3	12.6	10.5%	56.1	237.7%
Equity Price fair value change -25%	107.7	-13.0	-10.7%	49.4	217.9%
Risk Free rate with No Volatility adjustment	120.1	-0.6	-0.5%	53.1	226.1%
Ultimate Forward rates -15 bps	120.3	-0.4	-0.3%	53.0	227.2%

LFL is not exposed to any material risk concentrations.

The Solvency II Standard Formula is applicable to capture the risk profile for LFL.

D. Valuation for Solvency Purposes

GENERAL SOLVENCY II VALUATION FRAMEWORK

The Solvency II (SII) regulatory framework standardizes valuations and measurements of assets and liabilities for the SII balance sheet, largely referring to and in conformity with IFRS principles adopted by the European Commission in accordance with Regulation (EC) No 1606/2002, and requiring an economic, market-consistent approach as set out in Article 75 of the Directive 2009/138/EC.

The main general principles of this approach, as far as they are relevant for LFL, are described and applied by LFL as follows:

In accordance with the provisions of Article 75 of the Directive 2009/138/EC, a fair value measurement approach is applied, taking into consideration the risks that arise from a particular balance sheet item and using assumptions that knowledgeable market participants would use in valuing the asset or the liability.

In accordance with the provisions of Article 9 of the Delegated Regulation (EU) 2015/35, the international accounting standards (IFRS) are applied as the default accounting framework for the recognition/derecognition and the valuation of the assets and liabilities, unless otherwise clearly stated and required by Arts. 8 & 11 – 16 of the Delegated Regulation (EU) 2015/35 and provided that the valuation approach under the IFRS is consistent with the fair value measurement approach as set out in Article 75 of the Directive 2009/138/EC.

In LFL, IFRS financial statements are regularly prepared, as the company is required to report its financial statements under IFRS for Generali Group reporting purposes. Therefore, for asset and liability classes, where LFL uses a valuation approach under IFRS in line with the principles stated above, the fair value of the IFRS Balance Sheet is also used as the fair value in the SII Balance Sheet. For asset and liability classes, where the relevant IFRS does not include or LFL does not apply a fair value approach under IFRS, and no other specific SII valuation approach is required, the fair value is derived from IFRS values by using assumptions, which are deemed to be consistent with Article 75 of the Directive 2009/138/EC and to be proportionate with respect to the nature, scale and complexity inherent in the business of the undertaking.

Based on the explanations above, the general valuation approaches used in LFL for the different asset/liability classes in the SII Balance Sheet are summarized in the following table:

General valuation approach adopted by LFL per asset/liability class

Source of fair value / valuation approach	Asset/Liability class	Reference
Fair values taken from IFRS financial statements	Financial Investments, Employee Benefits	Paragraph D.1., D.3.
Fair values evaluated according to SII valuation specificities (Delegated Regulation (EU) 2015/35, Arts. 8 & 11 – 16)	Technical Provisions (incl. Reinsurance Recoverables), Contingent Liabilities, Deferred tax assets/liabilities, Deferred acquisition costs	Paragraphs D.1., D.2., D.3.
Fair values derived from IFRS financial statements	all other assets/liabilities	Paragraphs D.1., D.3.

The evaluation of the fair values in each of the three approaches is based on the following general basic principles:

Basic valuation principles

- Individual assets and liabilities are valued separately.
- The valuation of the assets and liabilities is based on a going concern assumption.

Fair value measurement approach

The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between knowledgeable market participants at the measurement date under current market conditions.

For the fair valuation of liabilities no adjustment to take account of the own credit standing of the undertaking is made, in accordance with the provisions of Article 75 of the Directive 2009/138/EC.

According to IFRS 13 *Fair Value Measurement*, the definition of a fair value is based on an 'exit price' notion and uses a 'fair value hierarchy' which results in a market-based, rather than entity-specific measurement.

Fair value hierarchy

On the basis of the fair value hierarchy, the following hierarchy of high level principles is applied, when valuing assets and liabilities other than technical provisions:

- Whenever available, quoted market prices are used in active markets for the same assets or liabilities.
- Where the use of quoted market prices for the same assets or liabilities is not possible, quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences are used.
- If there are no quoted market prices in active markets available, mark-to-model techniques are used.
- Maximum use is made of relevant observable inputs and market inputs, whereas undertaking-specific inputs are reduced to a minimum in order to minimize the use of unobservable inputs.

Following these principles, the highest priority is given to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy categorizes the inputs used in valuation techniques into three levels. If the inputs used to measure fair value are categorized into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgment).

- **Level 1 inputs**
  Level 1 inputs are unadjusted current quoted prices from ordinary transactions in active markets for identical assets or liabilities that can be accessed at the measurement date.

- **Level 2 inputs**
  Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable market inputs.

- **Level 3 inputs**
  Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure the fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs are developed, using the best information available in the circumstances, which also includes the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

Valuation techniques

The fair value measurement is performed by applying the most appropriate valuation technique with respect to the circumstances and available inputs. The most appropriate valuation technique is the one, for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The following valuation techniques are used in accordance with Art. 10.7 of the Delegated Regulation (EU) 2015/35:

- market approach – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business);
- income approach – converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.
- cost approach or current replacement cost approach – reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost);

For further details and explanations regarding the valuation techniques applied for the individual asset or liability classes, please refer to the following paragraphs D.1. *Assets*, D.2. *Technical provisions*, and D.3. *Other liabilities*.

For the SII values of each asset and liability class of the reporting period, please refer to the tables “SII Balance Sheet – Assets” and “SII Balance Sheet – Liabilities” (template S.02.01) in the Annex D at the end of this chapter.

D.1. ASSETS

The following paragraphs aim to describe the value of assets for solvency purposes and for statutory financial statements, the recognition and valuation basis applied as well as the methodology used by LFL for the determination of the SII value.

For their valuation, assets have been aggregated into asset classes which are consistent with the asset classes in the Solvency II Balance Sheet (template S.02.01, → see Annex D), thus ensuring transparency and comparability between the methods used and the amounts recognized.

Compared to the previous year, no changes have been applied to the valuation methodologies for assets or to the aggregation of asset classes, neither for Solvency II nor for Statutory purposes.

D.1.1. VALUATION OF ASSETS FOR SOLVENCY II BALANCE SHEET

In the Solvency II environment, assets are generally measured at fair value in accordance with IFRS principles, applying the framework as described above under the section “General Solvency II Valuation Framework” (→ paragraph D – introduction). As also indicated in the introduction, for some specific items exceptions are required or IFRS valuation methods are excluded. The valuation methods for these specific items are described below in the section “Asset Classes with Solvency II Valuation Specificities”, as far as they are relevant for LFL.

In the following sections, an overall description of the SII valuation method for each class of assets is provided, complementary to the general valuation for solvency purposes (→ paragraph D - introduction).

ASSET CLASSES AT FAIR VALUE

For LFL, all asset classes except for Reinsurance Recoverables, Deferred Acquisition Costs, and Deferred Tax Assets, where specific SII valuations apply, have been measured at fair value as follows:

Financial Assets

A market approach is used for the valuation of all financial assets classes based on their fair value hierarchy and the availability of observable inputs. Financial assets in LFL are mostly classified within level 1 of the fair value hierarchy, as quoted market prices are available. This applies for Bonds, Collective Investment Undertakings, and Assets held for index-linked and unit-linked contracts. Derivatives are “Over the counter derivative financial instruments” and are classified within level 2 of the fair value hierarchy, as the inputs used for the pricing can be corroborated by observable market data for the full contractual term of the asset.

For all financial asset classes the fair values in the SII Balance Sheet are taken from the relevant positions of the IFRS Balance Sheet, where the same measurement principles are applied. Under IFRS, LFL measures its financial assets at fair value, based on the classification of the financial asset at “Available for sale” or at “Fair Value through Profit or Loss”. Since fair values under IFRS are clean fair values (excluding accrued interests), the fair value transferred to the SII Balance Sheet is the sum of the IFRS fair value plus accrued interest for each financial asset class.

Cash

In LFL, this position only includes cash at bank. Therefore, the fair value is deemed to be equal to the IFRS carrying amount due to close duration and maturity.

Policy Loans

Due to the lack of observable market inputs for the fair valuation of policy loans, a cost approach has been used for the determination of the fair value, by approximating and deriving the fair value from the IFRS amortized cost value, taking into consideration the risks for this specific balance sheet item.

Based on the business rules for policy loans in LFL, the risks associated with the policy loans are considered to be negligible for the following reasons: The amount of a policy loan including outstanding interest payments from the policyholder is limited to a certain percentage (50 – 90%, depending on the tariff) of the cash surrender value of the insurance contract. Therefore, the mathematical reserve of the policy acts as full collateral for the policy loan. Amounts outstanding under a policy loan, including interests, are either repaid by the customer or the outstanding amount can be fully deducted from the surrender value in case of a lapse of the policy or from the benefit payment at the expiry of the policy.

Therefore, the fair value of the policy loans is deemed to be equal to the IFRS amortized cost value.

Receivables and any other assets

Due to the lack of observable market inputs for the fair valuation of these asset classes, a cost approach has been used for the determination of the fair value, by approximating and deriving the fair value from the IFRS amortized cost value, taking into consideration the risks for this specific balance sheet item.

Thereby, as a general assumption, the SII fair value is expected to be equal to the IFRS cost value due to close duration and maturity and to the absence of expected interest cash-flows. Furthermore, regarding to the specific types of receivables recognized in the Balance Sheet, the counterparty default risk is estimated to be negligible. For further details please refer to section D.1.3, where specific explanations are given to the different types of receivables (→ Receivables (R0360/R0380).

ASSET CLASSES WITH SOLVENCY II VALUATION SPECIFICITIES

As mentioned above, the Solvency II regulatory framework (Delegated Regulation (EU) 2015/35, Arts. 8 & 11 – 16) requires some exceptions from general Solvency II valuation principles. In particular, these exceptions for assets, as far as they are relevant for LFL, refer to:

- Reinsurance Recoverables (Art. 8 Delegated Regulation (EU) 2015/35)
- Deferred Acquisition Costs (Art. 12 Delegated Regulation (EU) 2015/35)
- Deferred Tax Assets (Art. 15 Delegated Regulation (EU) 2015/35)

For these asset classes, the following valuation principles have been applied in line with Solvency II requirements:

Reinsurance Recoverables

Reinsurance recoverables are technical provisions from ceded reinsurance contracts and are measured according to the same principles that apply to technical provisions. Reinsurance recoverables under SII are adjusted for the expected losses due to the counterparty default risk. The Solvency II valuation of the technical provisions including reinsurance recoverables is disclosed in the following paragraph D.2. *Technical provisions*.

Deferred acquisition costs

In accordance with the provisions of Art. 12 of Delegated Regulation (EU) 2015/35, goodwill and intangible assets, which include deferred acquisition costs, are to be valued at zero, unless the intangible asset can be sold separately and the insurance and reinsurance undertaking can demonstrate that there is a quoted market price for the same or similar assets. Since there is no quoted market price for deferred acquisition costs or any similar assets, the deferred acquisition costs of LFL have been derecognized in SII balance sheet.

Deferred tax assets (DTA)

SII deferred taxes are based on the difference between the SII value of assets and liabilities and the value for tax purposes on an item by item basis, using the expected tax rate to be applied when assets (liabilities) are realized (settled). Valuation is in line with IAS 12 requirements and is additionally considering SII valuation specificities.

According to the SII framework (Art. 15 of Delegated Regulation (EU) 2015/35), deferred taxes emerge from temporary differences with tax values of assets and liabilities, and, when applicable, from tax losses/credits carry-forwards

DTA is recognized on an item by item basis for those balance sheet items, where the change to SII value is a decrease of the value of an asset item, or an increase of the value of a liability item.

In accordance with the SII framework, the recognition of a deferred tax asset (DTA) is subject to a recoverability test: DTA can only be recognized to the extent that it is probable that future taxable profit will be available against which the DTA can be used, taking into account any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits.

The table "*Comparison of SII and Statutory Balance Sheet / Assets"* in section D.1.3. shows an overview of the valuation techniques used for each asset class under the SII valuation framework in comparison to the Statutory accounts valuation and provides qualitative and quantitative information on the differences.

D.1.2. STATUTORY VALUATION

For the statutory account valuation, the generally accepted accounting principles of Liechtenstein (local GAAP) have been applied by using the following valuation techniques per individual class of asset:

Financial Instruments

Under local GAAP, the following valuation techniques are used for the valuation of financial instruments:

- Linear Amortized Cost (LAC) – The premium or discount (the difference between the payment and the repayment amounts) is distributed over the term on a linear basis;
- Market approach / market value – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities;
- Lower of cost or market (LCM) – The lower of the acquisition price or market value is used for valuation.

In the local financial statements of LFL the LAC approach is used for the valuation of the Bonds, and the LCM approach is used for the valuation of the Collective Investment Undertakings and the Derivatives. Assets held for index-linked and unit-linked contracts are valued at market value according to the market approach.

Reinsurance Recoverables

Reinsurance recoverables are valued according to the actuarial specifications for the reinsurance technical provisions without consideration of expected losses due to counterparty default risk.

Deferred acquisition costs

For insurance products, where acquisition costs are not taken into account in the zillmerization of the mathematical provisions, the acquisition costs directly related to the acquisition of new business are deferred and subsequently amortized over a period of five years.

Receivables and any other assets

For receivables and any other assets nominal value is stated in the Statutory Balance Sheet.

The table "*Comparison of SII and Statutory Balance Sheet / Assets"* in section D.1.3. shows an overview of the valuation techniques used for each asset class under the local accounting framework in comparison to the valuation under Solvency II and provides qualitative and quantitative information on the differences. .

D.1.3. DIFFERENCES BETWEEN SOLVENCY II AND STATUTORY BALANCE SHEET

Differences in values between SII and statutory financial statements are generally due to the fact that for specific balance sheet items within the statutory balance sheet valuations different from fair value are used. Please refer to previous sections for a description of the SII valuation (→ paragraph D.1.1.) and the statutory valuation (→ paragraph D.1.2.) approach applied for assets.

The following table shows the main differences for each class of asset between the figures reported in the SII Balance Sheet and those reported in the Statutory Balance Sheet as at 31.12.2017. All differences result from the different valuation principles applied for the SII resp. for the statutory valuation of the assets, as described above. For each class of asset the relevant valuation principles under SII and Statutory Accounts are also indicated in the table and a qualitative explanation for the differences is given after the table.

Comparison of the valuation in Solvency II and Statutory Balance Sheet - Assets

Assets	Ref.	Solvency II (a)		Statutory (b)		Delta (a-b)
TCHF		Solvency II Value YE2017	Solvency II Valuation	Statutory Accouts Value YE2017	Statutory Valuation	Change to SII Value YE2017
Goodwill	R0010	-		-		-
Deferred acquisition costs	R0020	-	derecognition	42	according to tariff	-42
Intangible assets	R0030	-		-		-
Deferred tax assets	R0040	137	Art. 15 Delegated Regulation (EU) 2015/35 (in line with IAS12)	-	n.a.	137
Pension benefit surplus	R0050	-		-		-
Property, plant & equipment held for own use	R0060	-		-		-
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**183'353**		**169'629**		**13'724**
Property (other than for own use)	R0080	-		-		-
Holdings in related undertakings, including participations	R0090	-		-		-
Equities	*R0100*	-		-		-
Equities - listed	R0110	-		-		-
Equities - unlisted	R0120	-		-		-
Bonds	*R0130*	167'011	fair value / market approach	155'535	linear amortized cost	11'476
Government Bonds	R0140	94'142	fair value / market approach	86'395	linear amortized cost	7'747
Corporate Bonds	R0150	71'849	fair value / market approach	68'184	linear amortized cost	3'664
Structured notes	R0160	1'020	fair value / market approach	955	linear amortized cost	65
Collateralised securities	R0170	-		-		-
Collective Investments Undertakings	R0180	13'889	fair value / market approach	13'287	lower of cost or market	602
Derivatives	R0190	2'453	fair value / market approach	807	lower of cost or market	1'647
Deposits other than cash equivalents	R0200	-		-		-
Other investments	R0210	-		-		-
Assets held for index-linked and unit-linked contracts	**R0220**	**553'097**	**fair value / market approach**	**553'097**	**fair value / market approach**	**-**
Loans and mortgages	**R0230**	**2'083**		**2'083**		**-**
Loans on policies	R0240	2'083	fair value / current replacement cost approach	2'083	nominal value	-
Loans and mortgages to individuals	R0250	-		-		-
Other loans and mortgages	R0260	-		-		-
Reinsurance recoverables	**R0270**	**12**		**12**		**-**
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	12		12		-
Health similar to life	R0320	-		-		-
Life excluding health and index-linked and unit-linked	R0330	12	best estimate basis (see chapter D.2.)	12	according to treaty specifications	-
Life index-linked and unit-linked	R0340	-		-		-
Deposits to cedants	R0350	-		-		-
Insurance and intermediaries receivables	R0360	1'202	fair value / cost approach (= IFRS cost value)	1'202	nominal value	-
Reinsurance receivables	R0370	-		-		-
Receivables (trade, not insurance)	R0380	197	fair value / cost approach (= IFRS cost value)	197	nominal value	-
Own shares (held directly)	R0390	-		-		-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	-		-		-
Cash and cash equivalents	R0410	44'478	fair value / cost approach (= IFRS cost value)	44'478	nominal value	-
Any other assets, not elsewhere shown	R0420	886	fair value / cost approach (= IFRS cost value)	886	nominal value	-
Total assets	**R0500**	**785'445**		**771'626**		**13'819**

EXPLANATION OF MAIN DIFFERENCES PER ASSET CLASS:

Deferred Acquisition costs (R0020)

As stated in section D.1.1., Deferred acquisition costs are not recognized as an asset under SII valuation principles. Therefore, the carrying amount under statutory accounting framework is derecognized under Solvency II, resulting in a change of TCHF -42 (2016: TCHF -108).

Deferred Tax Assets (R0040)

For calculating the amount of deferred taxes, any difference between the SII value of assets/liabilities and their related carrying value for tax purposes is considered on an item by item basis. As stated in section D.1.1., DTA is recognized for balance sheet items, where the change to SII value is a decrease of the value of the asset item, or an increase of the value of the liability item, resulting in a future taxable loss.

The differences are subject to a deferred tax rate of 12.5 %, which corresponds to the expected average local tax rate for LFL. The same tax rate is also applied for the calculation of deferred taxes in the IFRS reporting of LFL for Generali Group reporting purposes, in line with IAS 12 requirements. The expected average tax rate is evaluated by an external tax expert on a yearly basis. Compared to the previous year, the applicable tax rate remained unchanged.

The recoverability of the carrying amount has been reviewed at balance sheet date, assuming an expiry date of 7 years. Based on this review and due to low materiality, deferred tax assets have been recognized to the entire amount (TCHF 137; 2016: TCHF 14), since sufficient future taxable profits are expected to be available against which the DTA can be utilized.

No offsetting is made between Deferred Tax Assets and Deferred Tax Liabilities.

DTA are related to the following SII items:

Deferred tax assets related to SII items — in TCHF

Deferred Tax Assets	Change from Statutory to SII Value	DTA	DTA
Tax rate: 12.5 %	YE2017	YE2017	YE2016
DTA on Deferred Acquisition Costs (R0020)	42	5	14
DTA on Contingent Liabilities (R0740)	673	84	-
DTA on Pension Benefit Obligations & Payables (R0760/R0840)	380	48	-
Total gross deferred tax assets	**1'095**	**137**	**14**
Offsetting with deferred tax liabilities	-	-	-
Total deferred tax assets in SII Balance Sheet	**1'095**	**137**	**14**

Compared to the previous year, deferred tax assets slightly increased due to a new contingent liability position under SII and due to the fact that employee benefits are newly recognized in the balance sheet following a change of methodology. For further details, please refer to section D.3.

Investments (other than assets held for index-linked and unit-linked contracts) (R0070)

The change of the SII value compared to the statutory value is due to the different accounting approach. Under SII all financial instruments belonging to this category are measured at fair value, using a market approach, while under statutory accounting a linear amortized cost approach is used for Bonds and a lower cost or market approach is used for Collective Investments Undertakings and Derivatives. As a result, the total change in value for this asset class amounts to TCHF 13’724 (YE2016: TCHF 14’833).

Assets held for index-linked and unit-linked contracts (R0220)

There is no difference between statutory accounts and SII value, since Assets held for index-linked and unit-linked contracts are recognized at fair value by using the same valuation technique under both accounting frameworks.

Policy Loans (R0240)

The change from cost value under statutory accounts to fair value principle under Solvency II does not result in a change of value. For more detail regarding the SII valuation, please refer to the relevant section in paragraph D.1.1.

Reinsurance Recoverables (R0270)

Reinsurance recoverables under Solvency II are adjusted in order to consider expected losses due to the counterparty default risk. No such adjustment is made for statutory accounts. The counterparty default adjustment approximates the expected present value of the losses in the event of default and results in a negligible amount of CHF 15 due to the immateriality of this position.

In 2016, no reinsurance recoverables existed and no amount was to be recognized in the balance sheet.

Receivables (R0360/R0380)

No adjustment is made to the values of receivables, when changing the accounting scheme from nominal value under statutory accounts to fair value measurement under Solvency II.

As stated in paragraph D.1.1, the SII value for receivables is expected to be equal to the nominal value due to close duration and maturity and due to the absence of expected interest cash-flows. The counterparty risk is deemed to be negligible based on the following considerations:

- Insurance and intermediaries receivables (0360) are receivables from outstanding premiums in course of collection, which are completely recoverable according to the General Terms and Conditions of the insurance contract.
- Non insurance receivables (R0380) are intercompany receivables from entities belonging to the Generali Group Switzerland. Therefore, and based on the low materiality of the amount, no credit default adjustment is deemed to be required.

Cash and Cash Equivalents (R0410)

Based on the consideration that this balance sheet item only represents cash at bank, no change to SII value is deemed to be necessary when moving from statutory to SII accounts due to close duration and maturity. Therefore, there is no difference between statutory value and SII value.

Any other assets, not elsewhere shown (R0420)

This residual class of asset items includes prepayments, deferrals and other accrued income. Based on the low materiality and due to the short term nature of these assets as well as the absence of expected interest cash-flows, no adjustment is made when moving from nominal value in statutory accounts to fair value in SII accounts.

D.2. TECHNICAL PROVISIONS

D.2.1. LIFE TECHNICAL PROVISIONS

OVERVIEW OF LIFE TECHNICAL PROVISIONS

The Solvency II Life Technical Provisions at the end of 2017 have been calculated according to articles 77 to 83 of the Directive 2009/138/EC.

The following table shows the amount of Life TP at the end of 2017, split by main components: the best estimate of liabilities, the reinsurance recoverables net of the counterparty default adjustment and the Risk Margin.

SII Life Technical Provisions: split by component		**CHF millions**
	YE2017	**YE2016**
Best estimate of Liabilities - gross of reinsurance	617	568
Risk Margin	18	22
Technical Provisions - gross of reinsurance	**634**	**590**
Reinsurance Recoverables	-0	0
Technical Provisions - net of reinsurance	**634**	**590**

**** positive signs represent a liability*

The best estimate of liabilities corresponds to the average of the present values of expected future cash flows generated from contracts present in the company portfolio, and therefore include both a probabilistic assessment of their occurrence and an appropriate assessment of the time value of money, obtained on the basis of the risk-free interest rates as at 31.12.2017, as observed in the market and officially communicated by EIOPA. This curve (derived, for the main markets, from interbank swap rates) includes both an adjustment to consider the residual default risk of these instruments (the so-called "credit risk adjustment", amounting to -10 bps for Euro and Swiss Franc) and an adjustment to consider the excess return achieved in a risk-free manner by the assets covering the insurance liabilities (the so-called "volatility adjustment", equal to +4 bps in the Euro area and -3 bps for Switzerland).

The method used to derive the best estimate of liabilities is based on a direct approach that involves the projection and discounting of all future expected incoming and outgoing cash flows for the duration of the policyholder’s liabilities, in line with the contractual limits defined by regulations (contract boundaries). In particular, the projections consider all future premiums and all outflows associated with both the occurrence of insured events (e.g. claims and capital payable in case of survival of the insured when the contract expires) and the possible exercise of contractual options (for example surrender options).

Depending on the type of portfolio and risk inherent in them, the expected future cash flows have been assessed in a deterministic scenario (i.e. “Certainty equivalent” scenario) or as the mean value of a set of stochastic scenarios, to allow the calculation of the cost of financial guarantees and contractual options. In the latter case, in the actuarial platforms were also implemented specific assumptions on future management decisions (so-called "management actions", relating for example to future profit sharing).

The best estimate of liabilities of a minor part of the portfolio (relating to a product which bears almost no risk due to it’s not insurance like characteristics) were evaluated using a simplified approach and assumed equal to the IFRS reserves.

As shown in the above table, the best estimate of liabilities gross of reinsurance amounted to 617 CHF millions and entirely refers to direct business.

There exists an intra group reinsurance contract with a reinsurance recoverables amount of 0.01 CHF millions at the end of 2017.

The risk margin represents an allowance to take account of the inevitable uncertainty linked to the volatility of the operating assumptions and inherent in future cash flows. The risk margin is calculated by means of a cost of capital approach which considers the cost associated with the non-hedgeable risks.

The capital requirement needed to cover the non-hedgeable risk was determined using the SII standard formula. The rate used to determine the cost of capital is 6% per annum. The cost of capital of each projection year was discounted at the valuation date using the

term structure of interest rates, without the volatility adjustment. In line with the regulation, the risk margin is calculated net of reinsurance. The future projection of the capital requirement needed to cover the non-hedgeable risks and its allocation by business lines was carried out by means of suitable risk drivers applied to the capital required in respect of each risk included in the calculation of risk margin.

At 31 December 2017, the risk margin associated with LFL life insurance contracts is equal to 18 CHF millions.

In conclusion, the total value of the Solvency II Life Technical Provisions of LFL at 31 December 2017, calculated as the sum of the best estimate of liabilities net of reinsurance and risk margin, amounted to 634 CHF millions (2016: 590 CHF millions).

The following table reports the amount of the Solvency II Life Technical Provisions split by lines of business.

SII Life Technical Provisions: split by Line of Business — **CHF millions**

YE2017	Statutory reserves	IFRS reserves	Solvency II reserves
Life other than index-linked and unit linked	126	133	135
Index-linked and unit-linked	569	571	499
Health	0	0	0
TOTAL Technical provisions (gross of reinsurance)	**696**	**704**	**634**

**** positive signs represent a liability*

LFL Solvency II Life Technical Provisions net of reinsurance mainly consist of direct unit-linked life business with options and guarantees, of direct traditional business and of direct unit-linked business without options and guarantees.

There are no significant changes in assumptions compared to the previous reporting period. Nevertheless there are some minor changes in the best estimate operating assumption factors mortality, morbidity, surrender, and paid up rates. The changes are due to a yearly process of updating the statistics for best estimate operating factor determination. In addition the contractual option paid ups modelling has been improved compared to previous year. As a consequence the technical provisions have increased by about 12 CHF millions.

The new business production has been stopped during 2015 and the portfolio is in run off.

The following table compares the technical provisions reported in the financial statements with the Solvency II Life Technical Provisions at the end of 2017.

Financial Statement - Solvency II — **CHF millions**

YE2017	Statutory reserves	Solvency II reserves	Delta
Gross reserves / Best estimate of liabilities gross	696	617	79
Ceded reserves / Reinsurance Recoverables	0	-0	0
Risk Margin	0	18	-18
Net reserves / Technical provisions	**696**	**634**	**61**

The difference between the statutory reserves and Solvency II Life Technical Provisions is due to substantial methodological differences between the two approaches making the comparison between the two amounts not informative of the adequacy of the current reserving basis. The Solvency II assessment, in fact, considers the future cash flows projected taking account of best estimate assumptions, future profit sharing (financial and technical) and the financial cost of the guarantees, using as the discount rate the current structure of interest rates. The evaluation of the technical liabilities in the statutory balance sheet, instead, uses the assessments of the technical provisions calculated in accordance with local accounting principles and thus generally uses demographic pricing assumptions, discounts the contractual flows at the technical rate defined at the issue of the contract and, in general, does not consider any future financial profit share on unrealized gains / losses in force at the valuation date.

More specifically, the main differences between the two evaluations are attributable to the following items:

Cash flows resulting from premiums, futures expenses and contractual options:

- Premiums: statutory reserves are usually calculated using pure premiums (i.e. loadings are excluded from the calculation); conversely, in Solvency II valuation, all premiums collected are considered;

- Expenses: typically future costs are excluded from the assessment of statutory reserves or, depending on the type of product, they are measured indirectly by means of the provision of loadings collected in the past (management reserves); on the contrary the Solvency II valuation includes the best estimate of the present value of the costs that will be incurred by the company to fulfil all the contractual obligations;
- Contractual options: typically the calculation of statutory reserves does not consider the probability of exercise by the insured of contractual options such surrenders or failure to pay premiums; conversely, these elements are appropriately considered in Solvency II.
- Operating assumptions: the reserves reported in the statutory financial statements are generally valued using conservative operating assumptions (or first order), and the technical reserves of Solvency II are valued using best estimate assumptions (or second order).
- Economic assumptions: the Solvency II technical provisions are valued using the current economic framework both in terms of interest rate curves and market values of backing assets. In practice, this impacts:
  - projected economic returns and, consequently, future policyholder bonuses included in future cash flows;
  - interest rates used for discounting.

  On the contrary, financial statement reserves cash flows typically do not consider future policyholder bonuses and are discounted by means of technical interest rates defined at the inception of the contract.
- Methodology used to evaluate the business with profit sharing and guarantees: for this type of contract, the Solvency II technical reserves are valued using stochastic actuarial platforms that capture a wide spectrum of possible financial scenarios and thus allow an explicit assessment of the cost of options and guarantees held by the insured. In contrast, statutory reserves do not include the assessment of that cost.
- Counterparty Default Adjustment: unlike the statutory valuation, the amount of reinsurance recoverables of Solvency II is adjusted to take into account the probability of default of the counterparty.
- Risk Margin: unlike the statutory reserves, Solvency II includes an explicit assessment of the amount to be held against the non-hedgeable risks.

SOURCES OF UNCERTAINTY

The evaluation of the Solvency II Life Technical Provisions depends not only on the methods, models, and data used, but also on the assumptions on a number of economic and operational factors whose future realizations might differ from the expectations at the valuation date.

The underwriting parameters impact LFL portfolio only slightly. However it has to be noted that this is due to diversification effects and changes in lapse rates for sub portfolios only, could have a higher impact. In particular the most relevant operating factor is the lapse risk which affects the unit-linked business with guarantees. A decrease of 10% in the surrender assumptions increases the best estimate of liabilities by about 2 CHF millions. This can be explained by the high guarantees of older tariffs and the current low interest rates environment.

On the other hand, when analyzing the impact on the best estimate of liabilities resulting from possible changes regarding the economic environment in a sensitivity analysis, as shown in section C.7., it was observed that, the technical provisions are sensitive to interest rates and equity capital value movement. Hence a change in one of these economic assumptions can have a material impact on the technical provisions.

LONG-TERM GUARANTEE MEASURES

The valuation of the best estimate of liabilities has been performed using the volatility adjustment (as referred to in Article 77d of the Directive 2014/51/EU) provided by EIOPA for EURO and CHF currency and equal to 4 bps respectively -3 bps at year end 2017 (YE2016: 13bps respectively 5bps). A change to zero of the volatility adjustment would correspond to an increase of 1 CHF millions in the Life Technical Provisions of LFL. The results of the volatility adjustment set to zero on the technical provisions and on the other financial positions including own funds and MCR/SCR are shown in the table *Impact on long term guarantees measures and traditional* (template S.22.01) in Annex E at the end of section E. Capital Management.

The matching adjustment (as referred to in Article 77b of the Directive 2014/51/EU) has not been applied.

The transitional measure on the risk-free interest rate-term structure (as referred to Article 308c of the Directive 2014/51/EU) and the transitional measure on technical provisions (as referred to in Article 308d of the Directive 2014/51/EU) have not been used.

D.3. OTHER LIABILITIES

The following paragraphs aim to describe the value of liabilities other than technical provisions (other liabilities) for solvency purposes and for statutory financial statements, the recognition and valuation basis applied as well as the methodology used by LFL for the determination of the Solvency II value.

For their valuation, the other liabilities have been aggregated into liability classes which are consistent with the liability classes in the Solvency II Balance Sheet (template S.02.01, → see Annex D), thus ensuring transparency and comparability between the methods used and the amounts recognized.

Compared to the previous year, the following changes have been applied to the valuation methodologies for liabilities for Solvency II purposes:

- **Employee/Pension Benefits**: Employee benefits for Solvency II purposes are newly valued and recognized in accordance with IAS 19 requirements, starting from this reporting period. In the previous year, statutory recognition criteria were also applied for Solvency II purposes. For further details, please refer to section D.3.1. and D.3.3.

Apart from the employee/pension benefits, no further changes have been applied to the valuation methodologies for other liabilities or to the aggregation of liability classes, neither for Solvency II nor for Statutory purposes.

D.3.1. VALUATION OF OTHER LIABILITES FOR SOLVENCY II BALANCE SHEET

In the Solvency II environment, other liabilities are generally measured at fair value in accordance with IFRS principles, applying the framework as described above under the section “General Solvency II Valuation Framework” (→ paragraph D – introduction). As also indicated in the introduction, for some specific items exceptions are required or IFRS valuation methods are excluded. The valuation methods for these specific items are described below in the section “Liability Classes with Solvency II Valuation Specificities”, as far as they are relevant for LFL.

In the following sections, an overall description of the SII valuation method for each class of other liabilities is provided, complementary to the general valuation for solvency purposes (→ paragraph D - introduction).

LIABILITY CLASSES AT FAIR VALUE

For LFL, all liability classes except for Technical Provisions, Contingent liabilities and Deferred tax liabilities, where specific SII valuations apply, have been measured at fair value as follows:

Provisions other than technical provisions

Provisions other than technical provisions for Solvency II purposes are valued in accordance with IAS 37. The valuation under IAS 37 is expected to be a good approximation for the fair value, and the IAS 37 valuation is deemed to be compliant with Solvency II requirements.

Employee/Pension benefit obligations

Pension benefit obligations are valued in accordance with the principles of IAS 19, which are in compliance with the Solvency II requirements. The valuation method adopted is called projected unit credit method and is based on an actuarial approach. The valuation is carried out by an acknowledged external expert.

The amount recognized as a liability represents the net total of the followings:

- the present value of the defined benefit obligation (DBO) at valuation date; minus
- the fair value at the valuation date of plan assets out of which the obligations are to be settled directly.

Furthermore, payables for other long-term employee benefits, such as jubilee benefits, are valued on the expected value of discounted future cash flows, also considering turn-over assumptions, and are recognized as payables in the Solvency II Balance Sheet.

In the previous year, IAS 19 principles have not been applied yet for the valuation and recognition of employee/pension benefits for Solvency II purposes and the new methodology was applied for the first time for the 2017 annual reporting.

Deposits from reinsurers, Payables and any other liability

All other liability classes, such as deposits from reinsurers, payables or other liabilities have been valued by estimating the amount that would rationally be paid to settle the obligation at the end of the reporting period or to transfer it to a third party at that time, also taking into consideration the business rules for the different types of liabilities. According to these considerations and due to close duration and maturity the SII value is expected to be equal to the IFRS nominal value. For further details please refer to section D.3.3, where specific explanations are given to the different types of payables (→ Payables R0820/R0830/R0840).

LIABILITY CLASSES WITH SOLVENCY II VALUATION SPECIFICITIES

As mentioned above, the Solvency II regulatory framework (Delegated Regulation (EU) 2015/35, Arts. 8 & 11 – 16) requires some exceptions from general Solvency II valuation principles. In particular, these exceptions for liabilities, as far as they are relevant for LFL, refer to:

- Technical provisions (Art. 8 Delegated Regulation (EU) 2015/35)
- Contingent Liabilities (Arts. 11 & 14 Delegated Regulation (EU) 2015/35)
- Deferred tax liabilities (Art. 15 Delegated Regulation (EU) 2015/35)

The valuation of technical provisions has already been disclosed in the previous paragraph D.2. *Technical provisions.*

For Contingent liabilities and Deferred tax liabilities, the following valuation principles have been applied in line with Solvency II requirements:

Contingent liabilities

For the definition of contingent liabilities, Solvency II regulation (Art. 11 of the Delegated Regulation (EU) 2015/35) refers to IAS 37 § 10. In particular, contingent liabilities include present obligations, where the “contingency” implies uncertainty about the amounts and timing.

The recognition criteria for contingent liabilities on the Solvency II balance sheet are determined by the definition in IAS 37 for contingent liabilities. However, other than under IFRS, in case that a contingent liability is material and the possibility of an outflow of resources embodying economic benefits is not remote, the contingent liability has to be recognized on the Solvency II balance sheet.

In accordance with the provisions of Art.11 of Delegated Regulation (EU) 2015/35, contingent liabilities are considered material, if information about the current or potential size, or nature of that liability could influence the decision-making or judgment of the intended user of that information.

In the valuation for solvency purposes in accordance with Art. 14 of Delegated Regulation (EU) 2015/35, the contingent liabilities are valued on the expected value of future cash flows that are required to settle the liability over its lifetime. The estimation is based on an expected present value approach (i.e. a probability-weighted average of the present values of the outflows for the possible outcomes).

For each contingent liability, the possible exposure and the likelihood of these outcomes is considered in the determining the value of the contingent liability.

Deferred tax liabilities (DTL)

Deferred taxes recognized as a liability in the balance sheet follow the same assumptions as deferred taxes recognized as an asset. Consequently, the same consideration as provided in D.1. *Assets* have been applied for liabilities purposes.

DTL is recognized on an item by item basis for those balance sheet items, where the change to SII value is an increase of the value of an asset item, or a decrease of the value of the liability item, e.g. a decrease in technical provisions.

Based on its origin, DTL is the recognition of a tax liability due to future taxable profits, whereby DTL is always recognized to the full amount.

The table “*Comparison of SII and Statutory Balance Sheet / Liabilities”* in section D.3.3. shows an overview of the valuation techniques used for each liability class under the SII valuation framework in comparison to the Statutory accounts valuation and provides qualitative and quantitative information on the differences.

D.3.2. STATUTORY VALUATION

For the statutory account valuation, the generally accepted accounting principles of Liechtenstein (local GAAP) have been applied. For all liability classes belonging to *D.3 Other Liabilities,* the carrying amount according to local GAAP is stated in the Statutory Balance Sheet. According to local GAAP, the carrying amount is the nominal amount of the liability.

The table "*Comparison of SII and Statutory Balance Sheet / Liabilities"* in section D.3.3. shows an overview of the valuation techniques used for each asset class under the local accounting framework in comparison to the valuation under Solvency II and provides qualitative and quantitative information on the differences.

D.3.3. DIFFERENCES BETWEEN SOLVENCY II AND STATUTORY BALANCE SHEET

Differences in values between SII and statutory financial statements are mainly due to the fact that for specific balance sheet items within the statutory balance sheet valuations different from fair value are used. Please refer to previous sections for a description of the SII valuation (→ paragraph D.3.1.) and the statutory valuation (→ paragraph D.3.2.) approach applied for liabilities.

The following table shows the main differences for each class of liability between the figures reported in the SII Balance Sheet and those reported in the Statutory Balance Sheet as at 31.12.2017. All differences result from the different valuation principles applied for the SII resp. for the statutory valuation of the liabilities, as described above. For each class of liability the relevant valuation principles under SII and Statutory Accounts are also indicated in the table and a qualitative explanation for the differences is given after the table.

Comparison of the valuation in Solvency II and Statutory Balance Sheet - Liabilities

Liabilities	Ref.	Solvency II (a)		Statutory (b)		Delta (a-b)
in TCHF		Solvency II Value YE2017	Solvency II Valuation	Statutory Accouts Value YE2017	Statutory Valuation	Change to SII Value YE2017
Technical provisions - life (excluding health and index-linked and unit-linked)	**R0650**	**135'124**	**best estimate basis (see chapter D.2.)**	**126'230**	**according to tariff/ first order basis**	**8'894**
Technical provisions calculated as a w hole	R0660	-		-		-
Best estimate	R0670	131'392		-		
Risk margin	R0680	3'732		-		
Technical provisions - index-linked and unit-linked	**R0690**	**499'260**	**best estimate basis (see chapter D.2.)**	**569'484**	**according to tariff/ first order basis**	**-70'224**
Technical provisions calculated as a w hole	R0700	-				
Best estimate	R0710	485'372				
Risk margin	R0720	13'889				
Other technical provisions	R0730	-		-		-
Contingent liabilities	R0740	673	recognized in accordance w ith IAS 37 including SII specific criteria	-	not recognized under local GAAP	673
Provisions other than technical provisions	R0750	3'600	recognized in accordance w ith IAS 37	6'200	nominal amount	-2'600
Pension benefit obligations	R0760	344	recognized in accordance w ith IAS 19	-	not recognized under local GAAP	344
Deposits from reinsurers	R0770	12	IFRS nominal amount	12	nominal amount	-
Deferred tax liabilities	R0780	9'707	Art. 15 Delegated Regulation (EU) 2015/35 (in line w ith IAS12)	-	n.a.	9'707
Derivatives	R0790	-		-		-
Debts ow ed to credit institutions	R0800	-		-		-
Financial liabilities other than debts ow ed to credit institutions	R0810	-		-		-
Insurance & intermediaries payables	R0820	13'914	IFRS nominal amount	13'914	nominal amount	-
Reinsurance payables	R0830	7	IFRS nominal amount	7	nominal amount	-
Payables (trade, not insurance)	R0840	1'803	IAS 19 for other long-term employee benefits IFRS nominal amount for other payables	1'766	nominal amount	36
Subordinated liabilities	**R0850**	-		-		-
Any other liabilities, not elsew here show n	R0880	308	IFRS nominal amount	308	nominal amount	-
Total liabilities	**R0900**	**664'753**		**717'922**		**-53'169**
Excess of assets over liabilities	**R1000**	**120'692**		**53'704**		**66'988**

EXPLANATION OF MAIN DIFFERENCES PER LIABILITY CLASS:

Technical Provisions (R0650/R0690)

The difference between the SII value and the statutory accounts value of the technical provisions (- 61.3 CHF millions for total technical provisions; YE2016: - 45.6 CHF millions) is due to the different valuation principles for technical provisions under SII and under local GAAP. Under local GAAP, the technical provisions are calculated according to the tariff specifications using a first order basis, whereas the SII values of the technical provisions have to be assessed on a best estimate basis, including a risk margin. For a detailed explanation of the SII valuation of the technical provisions and the differences to the statutory valuation, please refer to section D.2. *Technical Provisions*.

Contingent Liabilities (R0740)

As stated in D.3.1, contingent liabilities for SII purposes are valued according to the principles given by IAS 37 and are recognized in the balance sheet, when material.

Following a new assessment, Contingent Liabilities have been recognized in the SII Balance Sheet at YE 2017 due to a possible future risk exposure over the term of policies associated with the business activity in some countries, where LFL acted under the freedom to provide services.

For the valuation of the contingent liabilities, the estimated maximum outflow was considered based on the expected present value of future cash-flows required to settle the contingent liabilities over its lifetime. Future Cash-flows were discounted at risk-free rate. Additionally, the likelihood of these outcomes (probability of occurrence) was considered in order to determine the value to be recognized on the SII Balance Sheet. Following this approach, the overall amount to be recognized in the SII Balance sheet at YE2017 has been calculated at TCHF 673 (YE2016: TCHF 0).

Due to the uncertainty of occurrence (< 50 %) and as no current obligation exists, the contingent liabilities do not qualify as liabilities under statutory criteria, resulting in valuation differences of TCHF 673.

Provisions other than Technical Provisions (R0750)

For SII purposes, provisions other than technical provisions have been valued according to the principles given by IAS 37. IAS 37 is regulating these types of provisions and it is deemed to be compliant with the SII accounting principles.

The statutory values are recognized according to local GAAP principles. Some of these local GAAP provisions do not qualify as provisions under IAS 37 requirements and are therefore derecognized under SII accounts.

The following table shows the details for this position:

Provisions other than technical provisions — in TCHF

Other Provisions	SII Value	Statutory value	SII Value	Statutory value
	YE2017	YE2017	YE2016	YE2016
Provisions for the currency exchange rate risk	-	2'600	-	2'700
Provisions for legal litigation	3'600	3'600	2'500	2'500
TOTAL Other Provisions	**3'600**	**6'200**	**2'500**	**5'200**

Compared to the previous year, the provisions other than technical provisions under Solvency II increased by 1.1 CHF millions (statutory by 1.0 CHF millions) due to a strengthening of the provisions for legal litigation. The provisions for legal litigation are based on the best estimate of outflows for pending legal cases.

Pension Benefit Obligations (R0760)

Pension Benefit Obligations under Solvency II are valued in accordance with IAS 19 principles. Since these obligations are not recognized under statutory valuation, valuation differences of TCHF 344 between SII and statutory accounts occur. IAS 19 valuation results in the following values for YE 2017:

Employee Benefits of LFL are categorized in "Post-employment benefits", which correspond to the position "Pension benefit Obligation" and "Other long-term employee benefits", which are treated as payables. Due to the first time adoption of this valuation approach, following a change in methodology, no comparison with the previous year is available.

Employee Benefits	in TCHF
	YE2017
Post-employment benefits (Pension Benefit Obligation; R0760)	344.3
Other long-term employee benefits (Jubilee Benefits; R0840)	36.5

For the determination of the economic values of the employee benefits, the following actuarial and economic assumptions were applied:

Principal actuarial and economic assumptions

Beginning of Period	**01.01.2017**
End of Period	**31.12.2017**
Discount rate (beginning of period)	0.55%
Discount rate (end of period)	0.60%
Expected return on plan assets (in period)	0.55%
Interest on savings-account	0.60%
Salary increase rate	1.25%
Pension increase rate	0.00%
Lump-sum withdrawal rate	10.00%
Mortality table	BVG 2015 GT
Disability table	BVG 2015
Turnover table	very high
Treatment of contributions from employees	IAS19.93(a)

As stated in section D.3.1., the amount recognized as a liability represents the net total of the followings:

- the present value of the defined benefit obligation (DBO) at valuation date; minus
- the fair value at the valuation date of plan assets out of which the obligations

Pension Benefit Obligation	in TCHF
	YE2017
Defined Benefit Obligation	1'525.7
Plan Assets	1'181.4
Pension Benefit Obligation	**344.3**

The following table shows the details for the defined benefit obligation (DBO):

Movement in the defined benefit obligation (DBO) — in TCHF

	2017
DBO at beginning of period	**1'366.0**
Current service cost	77.6
Interest cost	7.6
Contributions by plan participants	41.9
Actuarial (gain)/loss on demographic assumptions	-
Actuarial (gain)/loss on financial assumptions	-9.0
Experience (gains)/losses	42.7
Exchange rate changes	-
Benefits paid	-1.2
Past service cost and plan settlements	-
Business combinations	-
DBO at end of period	**1'525.7**

The plan assets at YE2017 amount to TCHF 1'181.4. The plan assets are managed by the local independent pension fund foundation and are invested according to the following strategic asset allocation:

Strategic Asset Allocation of Plan Assets

	2017
Cash and cash equivalents	4.0%
Equity instruments	25.0%
Debt instruments	61.5%
Real estate	7.5%
Alternative instruments	2.0%

Source: https://www.vorsorgestiftung.li/de/anlagen/anlagestrategien/konservativ

Deposits from Reinsurers (R0770)

Due to the low materiality no adjustment is made to the value of reinsurance deposits, when changing the accounting scheme from statutory accounts to fair value measurement under Solvency II, since the nominal amount is considered to be a reasonable approximation for the fair value.

Deferred Tax Liabilities (R0780)

For calculating the amount of deferred taxes, any difference between the SII value of assets/liabilities and their related carrying value for tax purposes is considered on an item by item basis. As stated in section D.3., DTL is recognized for balance sheet items, where the change to SII value is an increase of the value of the asset item, or a decrease of the value of the liability item, resulting in a future taxable profit.

The differences are subject to a deferred tax rate of 12.5 %, which corresponds to the expected average local tax rate for LFL. The same tax rate is also applied for the calculation of deferred taxes in the IFRS reporting of LFL for Generali Group purposes, in line with IAS 12 requirements. The expected average tax rate is evaluated by an external tax expert on a yearly basis. Compared to the previous year, the applicable tax rate remained unchanged.

No offsetting is made between Deferred Tax Assets and Deferred Tax Liabilities.

DTL are related to the following SII items:

Deferred tax liabilities related to SII items in TCHF

Deferred Tax Liabilities	Change to SII Value	DTL	DTL
Tax rate: 12.5 %	YE2017	YE2017	YE2016
DTL on Financial Investments (R0070)	13'724	1'716	1'854
DTL on Insurance Provisions (R0650/R0690/R0330)	61'330	7'666	5'704
DTL on Provisions other than technical provisions (R0750)	2'600	325	338
Total gross deferred tax liabilities	**77'654**	**9'707**	**7'896**
Offsetting with deferred tax assets		-	-
Total deferred tax liabilities in SII Balance Sheet	**77'654**	**9'707**	**7'896**

Compared to the previous year, deferred tax liabilities increased due the increase of the valuation differences between Solvency II and Statutory valuation for the Technical Provision. For further details of the valuation of technical provisions, please refer to section D.2. *Technical Provision.*

Insurance & Intermediaries Payables (R0820)

No adjustment is made to the value of Insurance & Intermediaries Payables, when changing the accounting scheme from statutory accounts to fair value measurement under Solvency II, since the nominal amount is considered to be a reasonable approximation for the fair value. Based on the different types of payables within this liability class, different considerations have to be made in order to support this assumption.

The different types of payables within this liability class are shown in the following table, followed by the relevant explanations for the determination of the fair value:

Insurance & Intermediaries payables in TCHF

Insurance & Intermediaries payables	YE2017	YE2016
Premium Deposits	6'441	7'619
Prepaid Premiums	665	667
Payables to Policyholders	5'098	4'296
Payables to Intermediaries	1'710	2'205
Total Insurance & Intermediaries payables	**13'914**	**14'786**

“Premium Deposits” are cash deposit accounts hold by the policyholder in order to pay future premiums for the insurance contract. The deposits are subject to interest payment. According to the contractual agreements of the premium deposit accounts, the amount of prepaid premiums in the deposit cannot exceed the amount of total future outstanding premiums for the policy to be paid-up. The interests to be paid on the premium deposit accounts are based on market interest rates and, according to the business rules, can be adjusted at any time at the discretion of the undertaking. Interest rates are reviewed regularly, at least on a quarterly basis, or whenever deemed necessary. For these reasons, the cash value of the premium deposit account is considered to be a reasonable approximation for the fair value, and no adjustment is made when changing the accounting scheme from nominal value under statutory accounts to fair value measurement under Solvency II.

For all other types of payables no relevant change to SII value is expected when moving from statutory to SII accounts due to close duration and maturity and to the absence of expected interest cash-flows. As a general assumption, the nominal amount is considered to be a reasonable approximation of the fair value and no adjustment is made.

Compared to previous year, the Insurance & Intermediaries payables tend to decrease due to the run-off of the portfolio.

Reinsurance Payables and other payables (R0830, R0840)

Reinsurance payables and most other non-insurance payables, such as tax payables, social security payables, or intercompany current accounts are carried at the original invoiced amount (nominal amount), which is considered to be a reasonable approximation of the fair value due to the short-term nature. Therefore, and due to the absence of interest cash-flows, no adjustment is made when moving from nominal value in statutory accounts to fair value in SII accounts.

Payables for other long-term employee benefits (e.g. jubilee benefits), which are also shown in this position, are valued according to IAS 19 principles (expected discounted cash flows, also considering turn-over assumptions), resulting in a valuation difference of 36 TCHF compared to statutory accounts. For economic assumptions applied, please refer to the explanation given above for the position Pension Benefit Obligations (R0760). As already stated, IAS 19 principle were applied for the first time in the 2017 annual reporting. In the previous reporting period, long-term employee benefits were valued in line with statutory account, i.e. not recognized on the balance sheet, and therefore no valuation difference occurred.

Any other liabilities not elsewhere shown (R0880)

This residual class of liability items mainly includes accruals. Based on the low materiality and due to the short term nature of these liabilities as well as the absence of expected interest cash-flows, no adjustment is made when moving from nominal value in statutory accounts to fair value in SII accounts.

D.4. ALTERNATIVE METHODS FOR VALUATION

SII valuation of all asset and liability classes is in line with the solvency II valuation framework an no alternative methods have been applied.

D.5. ANY OTHER INFORMATION

There is no other material information regarding the valuation of assets and liabilities for solvency purposes to be reported for LFL.

Annex D - Public QRTs YE2017

Balance sheet – Assets (Template S.02.01)

in TCHF

	Solvency II value	Statutory accounts value
Assets		
Deferred acquisition costs	0	42
Intangible assets	0	0
Deferred tax assets	137	0
Pension benefit surplus	0	0
Property, plant & equipment held for own use	0	0
Investments (other than assets held for index-linked and unit-linked contracts)	**183.353**	**169.629**
Property (other than for own use)	0	0
Holdings in related undertakings, including participations	0	0
Equities	*0*	*0*
Equities - listed	0	0
Equities - unlisted	0	0
Bonds	*167.011*	*155.535*
Government Bonds	94.142	86.395
Corporate Bonds	71.849	68.184
Structured notes	1.020	955
Collateralised securities	0	0
Collective Investments Undertakings	13.889	13.287
Derivatives	2.453	807
Deposits other than cash equivalents	0	0
Other investments	0	0
Assets held for index-linked and unit-linked contracts	553.097	553.097
Loans and mortgages	**2.083**	**2.083**
Loans on policies	2.083	2.083
Loans and mortgages to individuals	0	0
Other loans and mortgages	0	0
Reinsurance recoverables from:	**12**	**12**
Non-life and health similar to non-life	0	0
Non-life excluding health	0	0
Health similar to non-life	0	0
Life and health similar to life, excluding health and index-linked and unit-linked	12	12
Health similar to life	0	0
Life excluding health and index-linked and unit-linked	12	12
Life index-linked and unit-linked	0	0
Deposits to cedants	0	0
Insurance and intermediaries receivables	1.202	1.202
Reinsurance receivables	0	0
Receivables (trade, not insurance)	197	197
Own shares (held directly)	0	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	0
Cash and cash equivalents	44.478	44.478
Any other assets, not elsewhere shown	886	886
Total Assets	**785.445**	**771.626**

Balance sheet – Liabilities in TCHF

	Solvency II value	Statutory accounts value
Liabilities		
Technical provisions - non-life		
Technical provisions - non-life (excluding health)		
TP calculated as a whole		
Best estimate		
Risk margin		
Technical provisions - health (similar to non-life)		
TP calculated as a whole		
Best estimate		
Risk margin		
TP - life (excluding index-linked and unit-linked)	**135.124**	**126.230**
Technical provisions - health (similar to life)		
TP calculated as a whole		
Best estimate		
Risk margin		
TP - life (excluding health and index-linked and unit-linked)	**135.124**	**126.230**
TP calculated as a whole		126.230
Best estimate	131.392	
Risk margin	3.732	
TP - index-linked and unit-linked	**499.260**	**569.484**
TP calculated as a whole		569.484
Best estimate	485.372	
Risk margin	13.889	
Contingent liabilities	673	
Provisions other than technical provisions	3.600	6.200
Pension benefit obligations	344	
Deposits from reinsurers	12	12
Deferred tax liabilities	9.707	
Derivatives		
Debts owed to credit institutions		
Financial liabilities other than debts owed to credit institutions		
Insurance & intermediaries payables	13.914	13.914
Reinsurance payables	7	7
Payables (trade, not insurance)	1.803	1.766
Subordinated liabilities		
Subordinated liabilities not in BOF		
Subordinated liabilities in BOF		
Any other liabilities, not elsewhere shown	308	308
Total liabilities	**664.753**	**717.922**
Excess of assets over liabilities	**120.692**	**53.704**

Life Technical Provisions (1/2) (Template S.12.01)

TCHF		Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations
	Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	
Technical provisions calculated as a whole	0	0			0			0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0			0			0
Technical provisions calculated as a sum of BE and RM								
Best Estimate								
Gross Best Estimate	131.392		118.899	366.473		0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	12		0	0		0	0	0
Best estimate minus Recoverables from reinsurance/SPV and Finite Re	**131.380**		**118.899**	**366.473**		**0**	**0**	**0**
Risk Margin	3.732	13.889			0			0
Amount of the transitional on Technical Provisions								
Technical Provisions calculated as a whole	0	0			0			0
Best estimate	0		0	0		0	0	0
Risk margin	0	0			0			0
Technical Provisions - Total	**135.124**	**499.260**			**0**			**0**

Life Technical Provisions (2/2) (Template S.12.01)

TCHF	Accepted reinsurance					
		Insurance with profit participation on Accepted reinsurance (Gross)	Index-linked and unit-linked insurance on Accepted reinsurance (Gross)	Other life insurance on Accepted reinsurance (Gross)	Annuities stemming from non-life accepted insurance contracts and relating to insurance obligation other than health insurance obligations (Gross)	**Total (Life other than health insurance, incl. Unit-Linked)**
Technical provisions calculated as a whole	**0**	0	0	0	0	**0**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**0**	0	0	0	0	**0**
Technical provisions calculated as a sum of BE and RM						
Best Estimate						
Gross Best Estimate	**0**	0	0	0	0	**616.764**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**0**	0	0	0	0	**12**
Best estimate minus Recoverables from reinsurance/SPV and Finite Re	**0**	0	0	0	0	**616.752**
Risk Margin	**0**	0	0	0	0	**17.621**
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	0					**0**
Best estimate	0					**0**
Risk margin	0					**0**
Technical Provisions - Total	**0**					**634.385**

E. Capital Management

E.1. OWN FUNDS

E.1.1. POLICIES AND PROCESSES RELATED TO OWN FUNDS MANAGEMENT

The Group and Local Capital Management Policy define principles for Capital Management activities to which the Assicurazioni Generali S.p.A. and the Group Legal Entities in scope must adhere.

The objective of the Capital Management Policy is to provide the entities in scope with a framework designed to:

- classify and periodically review Own Funds in order to guarantee that Own Funds items meet the requirements of the applicable capital regime both at issuance and subsequently;
- regulate issuance of Own Funds according to the medium-term Capital Management Plan and Strategic Plan also to guarantee that Own Funds are not encumbered, that all actions required or permitted related to the governance of the Own Funds are timely completed, that ancillary Own Funds are timely called, that terms and conditions are clear and unambiguous, including instances in which distributions on an Own Funds item are expected to be deferred or cancelled;
- ensure that any policy or statement in respect of ordinary share dividends is taken into account when analyzing the capital position;
- establish driving principles and common standards to carry out these activities efficiently, in compliance with the relevant regulatory requirements and legislative frameworks at Group and Local level, and in line with the stated risk appetite and strategy of the Generali Group.

The Group Capital Management Policy was approved by the BoD of LFL.

The Capital Management Plan (CMP) represents a part of the overall three-year Strategic Plan and ensures the consistency of the CMP with three-year Strategic Plan assumptions, which include inter alia:

- financial scenarios;
- strategic asset allocation;
- business mix.

The CMP includes a detailed description of the development of Own Funds and Regulatory Solvency Ratio from the latest available actual figures to the last plan year figures.

In case the three year Strategic Plan needs to be revised due to a significant variation of Own Funds or SCR also the CMP has to be updated accordingly.

Local CFOs are responsible to produce local CMP and local CEOs are responsible to submit them to the relevant BoD. Furthermore, local Entities include the CMP in the information package to be delivered to the GHO in the planning process. The main elements of the CMP are reviewed and monitored by the GHO.

If extraordinary operations (i.e. M&A, Own Funds issuance) are foreseen in the plan period, their impact is explicitly included in the Own Funds and Regulatory Solvency Ratio development and further details are included in the relevant documentation. Own Funds issuances are explicitly included in the CMP with a detailed description of the rationale.

The description of the development of Own Funds explicitly includes the issuance, redemption or repayment (earlier or at maturity) of Own Funds items and their impacts on the limits on tiers. Any variation in the valuation of Own Funds items is also indicated, with additional qualitative details in terms of limits on tiers when needed.

The CMP is defined taking into account limits and tolerances set in the Risk Appetite Framework.

In the CMP any transitional measure has to be reported in terms of impact on the solvency position current and at the end of the transitional period (both at Group and Local level), duration and general features including their absorption capacity in times of stress.

Beside the Capital Management Plan, a Capital Management Report is produced once a year providing amongst others, a detailed analysis of the changes to the Own Funds and to the Solvency Ratio between different reporting periods.

E.1.2. AMOUNT AND QUALITY OF ELIGIBLE OWN FUNDS

ELIGIBLE OWN FUNDS TO MEET SCR AND MCR

As per YE2017, LFL's eligible Own Funds are all categorized as Tier 1 – unrestricted and amount to 120.7 CHF millions (YE2016: 101.8 CHF millions) to cover the SCR of 52.7 CHF millions (YE2016: 52.6 CHF millions) and the MCR of 13.2 CHF millions (YE2016: 13.2 CHF millions).

Solvency Ratio – SCR coverage

(CHF millions)	YE2017	YE2016	Change
Eligible Own Funds	120.7	101.8	18.9
Solvency Capital Requirement	52.7	52.6	0.1
SCR Coverage	**229.0%**	**193.4%**	**35.6%**

Solvency Ratio - MCR Coverage

(CHF millions)	YE2017	YE2016	Change
Eligible Own Funds	120.7	101.8	18.9
Minimum Capital Requirement	13.2	13.2	0.0
MCR Coverage	**916.1%**	**773.6%**	**142.4%**

Explanations for significant changes between YE2016 and YE2017 can be found below.

Eligible Own Funds are calculated based on the following components: (For the full tables of the public QRT (template S. 23.01) please refer to the Annex E at the end of this chapter.)

BASIC OWN FUNDS

Own funds

(CHF millions)	Tier 1 YE2017	Tier 1 YE2016	Change
Ordinary share capital (gross of own shares)	10.0	10.0	-
Share premium account related to ordinary share capital	-	-	-
Surplus funds	-	-	-
Preference shares	-	-	-
Share premium account related to preference shares	-	-	-
Reconciliation reserve (see below table)	110.7	91.8	18.9
Subordinated liabilities	-	-	-
An amount equal to the value of net deferred tax assets	-	-	-
Other own fund items approved by the supervisory authority as basic own funds not specified above	-	-	-
Deductions for participations in financial and credit institutions	-	-	-
Total basic own funds after deductions	**120.7**	**101.8**	**18.9**

As at YE2017, total basic own funds amount to 120.7 CHF millions (YE2016: 101.8 CHF millions) including 10.0 CHF millions (YE2016: 10.0 CHF millions) ordinary share capital and 110.7 CHF millions (YE2016: 91.8 CHF millions) reconciliation reserve (see details below). In its own funds, LFL does not hold any financial subordinated liabilities or any other own funds items. There are no items to be deducted from basic own funds.

There has been no issuance or redemption of own funds during 2017.

RECONCILIATION RESERVE AND EPIFP

In the following table, the reconciliation reserve is determined starting from excess of assets over liabilities in the Solvency II Balance Sheet:

Reconciliation reserve

(CHF millions)	YE2017	YE2016	Change
Assets – Liabilities (from Annex D)	120.7	101.8	18.9
Own shares	-	-	-
Foreseeable dividends and distributions	-	-	-
Other basic own fund items	10.0	10.0	-
Restricted own fund items due to ring fencing	-	-	-
Reconciliation Reserve	**110.7**	**91.8**	**18.9**

The only element to be deducted from the Solvency II excess of assets over liabilities for obtaining the reconciliation reserve is the ordinary share capital in the amount of 10.0 CHF millions (YE2016: 10.0 CHF millions). No ordinary dividends are foreseen for 2018. LFL has not distributed any dividends in 2017.

Explanations for significant changes of the reconciliation reserve between YE2016 and YE2017 can be found below.

The quality of Own Funds is expected to be sustainable due to expected profits in future premiums (EPIFP). The EPIFP is a significant component of the excess of assets over liabilities under Solvency II. The following table shows the EPIFP at reporting date.

Expected Profits in Future Premiums (EPIFP)

(CHF millions)	YE2017	YE2016	Change
EPIFP - Life Business	**38.0**	**32.8**	**5.2**

The Eligible Own Funds have increased mainly due to an increase of the CHF – EUR exchange rate and due to a very well performing financial market during 2017.

RESTRICTIONS TO OWN FUNDS

As per YE2017, there is no restriction applicable to LFL's own funds, corresponding to YE2016.

ANCILLARY OWN-FUND

As per YE2017, there are no ancillary own-funds present, corresponding to YE2016.

RECONCILIATION BETWEEN STATUTORY SHAREHOLDER FUNDS AND OWN FUNDS FOR SOLVENCY PURPOSES

Reconciliation between Statutory Equity and Excess of Assets over Liabilities

(CHF millions)	YE2017
Statutory Equity	53.7
Statutory Capital reserves and other reserves	10.0
Of which:	
Share capital	10.0
Capital reserves	1.0
Other equity instruments	-
Reserve for currency translation differences	-
Own shares	-
Statutory Revenue reserves	42.7
Of which	
Revenue reserves	35.6
Reserve for unrealized gains & losses on AFS financial assets	-
Reserve for other unrealized gains and losses through equity	-
Result of the period	7.1
Adjustment on Intangible	0.0
Adjustment on Investment	13.7
Adjustment on Net Technical Provision	61.3
Adjustment on Financial and Subordinated debt	-
Adjustment on Other Items	1.5
Adjustment on Deferred Taxes	-9.6
Excess of Assets over Liabilities	**120.7**

The difference between statutory equity and Excess Assets over Liabilities under Solvency II is mainly explained by the market value adjustments made on investments and technical provisions following the application of Solvency II principles. For details on the differences between Solvency II and statutory valuation, please refer to chapter D.

The Excess of Assets over Liabilities has increased from 101.8 CHF millions at YE2016 to 120.7 CHF millions at YE2017. The changes are mainly due to increased Revenue Reserves by 7.1 CHF millions and the Adjustment on Net Technical Provision, which has increased to 61.3 CHF millions (YE2016: 45.6 CHF millions).

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1. SCR AND MCR VALUES

For the calculation of the Solvency Capital Requirements and the Minimum Capital requirements LFL applies the Standard Formula approach, following the process described in the Directive 2009/138/EC and the Delegated Regulation (EU) 2015/35, as defined by EIOPA.

The main results are summarized as follows: (for the full tables of the public QRTs (templates S. 25.01 and S.28.01) please refer to the Annex E at the end of this chapter):

SCR Value

(CHF millions)	YE2017	YE2016	Change
Solvency Capital Requirement	**52.7**	**52.6**	**0.1**

SCR calculation is based on Standard Formula for YE2017 corresponding to YE2016.

There are no regulatory capital add-ons and no simplified calculations of SCR were used for YE2017 corresponding to YE2016.

As LFL has no non-life or health business no undertaking specific parameters were used for YE2017 corresponding to YE2016.

Explanations for significant changes between YE2016 and YE2017 can be found below.

MCR Value

(CHF millions)	YE2017	YE2016	Change
Minimum Capital Requirement	**13.2**	**13.2**	**0.0**

MCR is calculated based on the following inputs:

Input MCR calculation

(CHF millions)	YE2017	YE2016	Change
BEL - Insurance with profit participation - minimum guarantee component	130.2	123.6	6.6
BEL - Insurance with profit participation - Future Discretionary benefits	1.5	2.8	-1.4
BEL - unit-linked contracts	485.8	441.3	44.5
Capital at Risk	477.4	495.0	-17.6
SCR	52.7	52.6	0.1

The relevant MCR constraint is the MCR floor and as the SCR has not changed significantly compared to the previous year, consequently the MCR remained on the same level.

E.2.2. SCR BREAKDOWN

Total SCR YE2017 split by Risk before and after diversification

(CHF millions)	Before Diversification		After Diversification	
	Total	Impact (%)	Total	Impact (%)
nSCR before Diversification	**95.7**	**100%**		
Market Risks	58.5	61%	44.0	59%
Counterparty Default Risks	3.3	3%	3.2	4%
Life Underwriting Risks	33.9	35%	27.9	37%
Health Underwriting Risks	0.0	0%	0.0	0%
Non-Life Underwriting Risks	0.0	0%	0.0	0%
Intangible	0.0	0%	0.0	0%
Diversification benefit	-36.9		-16.4	
nBSCR after Diversification	**58.8**			
Operational Risk	1.5			
Notional SCR arising from RFF	0.0			
Total SCR before Taxes	**60.2**			
Tax absorption	-7.5			
Total SCR	**52.7**			

Total SCR YE2016 split by Risk before and after diversification

(CHF millions)	Before Diversification		After Diversification	
	Total	Impact (%)	Total	Impact (%)
nSCR before Diversification	**96.1**	**100%**		
Market Risks	52.3	54%	39.1	51%
Counterparty Default Risks	3.3	3%	3.2	4%
Life Underwriting Risks	40.4	42%	33.7	44%
Health Underwriting Risks	0.0	0%	0.0	0%
Non-Life Underwriting Risks	0.0	0%	0.0	0%
Intangible	0.0	0%	0.0	0%
Diversification benefit	-37.3		-17.3	
nBSCR after Diversification	**58.7**			
Operational Risk	1.4			
Notional SCR arising from RFF	0.0			
Total SCR before Taxes	**60.2**			
Tax absorption	-7.5			
Total SCR	**52.6**			

The total SCR is on the same level as for the previous year although the split between Market and Underwriting Risks has changed. Market Risks increase mainly due to higher equity exposure and stress level and an increase in Spread Risk. The reduction in Underwriting Risks is mainly due to a decrease in Lapse Risks.

E.3. USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

LFL does not use the duration-based Equity Risk sub-module in the calculation of the SCR.

E.4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

This section is not applicable for LFL, since only Standard Formula is applied for SCR calculation.

E.5. NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

There is no non-compliance to be reported by LFL for YE2017. MCR and SCR results as well as the coverage ratios by eligible own funds are fully compliant with the Solvency II requirements.

E.6. ANY OTHER INFORMATION

With regard to sensitivity of the Solvency Ratio, stress test and sensitivities for different scenarios have been performed. For a description of methods and assumptions used in this analysis as well as for the results, please refer to section C.7.

There is no other material information regarding the capital management be reported for LFL.

Annex E - Public QRTs YE2017

Impact of long term guarantees measures and transitional (Template S.22.01)

TCHF	Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
Technical provisions	634.385	0	0	675	0
Basic own funds	120.692	0	0	-591	0
Eligible own funds to meet Solvency Capital Requirement	120.692	0	0	-591	0
Solvency Capital Requirement	52.700	0	0	429	0
Eligible own funds to meet Minimum Capital Requirement	120.692	0	0	-591	0
Minimum Capital Requirement	13.175	0	0	107	0

Own funds – Solo (1/3) (Template S.23.01)

TCHF	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
Ordinary share capital (gross of own shares)	10.000	10.000		0	
Share premium account related to ordinary share capital	0	0		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0		0	
Subordinated mutual member accounts	0	0	0	0	0
Surplus funds	0	0			
Preference shares	0		0	0	0
Share premium account related to preference shares	0		0	0	0
Reconciliation reserve	110.692	110.692			
Subordinated liabilities	0		0	0	0
An amount equal to the value of net deferred tax assets	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
Deductions					
Deductions for participations in financial and credit institutions	0	0	0	0	**0**
Total basic own funds after deductions	**120.692**	**120.692**	**0**	**0**	**0**

Own funds – Solo (2/3)

(Template S.23.01)

TCHF	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
Unpaid and uncalled preference shares callable on demand	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
Other ancillary own funds	0			0	0
Total ancillary own funds	**0**			**0**	**0**
Available and eligible own funds					
Total available own funds to meet the SCR	**120.692**	**120.692**	**0**	**0**	**0**
Total available own funds to meet the MCR	**120.692**	**120.692**	**0**	**0**	**0**
Total eligible own funds to meet the SCR	**120.692**	**120.692**	**0**	**0**	**0**
Total eligible own funds to meet the MCR	**120.692**	**120.692**	**0**	**0**	**0**

Own funds – Solo (3/3) (Template S.23.01)

TCHF	Total
SCR	**52.700**
MCR	**13.175**
Ratio of Eligible own funds to SCR	**229,0%**
Ratio of Eligible own funds to MCR	**916,0%**
Reconciliation reserve	**0**
Excess of assets over liabilities	120.692
Own shares (held directly and indirectly)	0
Foreseeable dividends, distributions and charges	0
Other basic own fund items	10.000
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
Reconciliation reserve	**110.692**
Expected profits	**0**
Expected profits included in future premiums (EPIFP) - Life Business	37.968
Expected profits included in future premiums (EPIFP) - Non- life business	0
Total Expected profits included in future premiums (EPIFP)	**37.968**

Solvency Capital Requirement - for undertakings on Standard Formula (Template S.25.01)

TCHF	Net solvency capital requirement	Gross solvency capital requirement
Market risk	43'974	43'974
Counterparty default risk	3'234	3'234
Life underwriting risk	27'916	27'916
Health underwriting risk		
Non-life underwriting risk		
Diversification	-16'357	-16357
Intangible asset risk		
Basic Solvency Capital Requirement	**58'767**	**58'767**

Calculation of Solvency Capital Requirement	
Adjustment due to RFF/MAP nSCR aggregation	
Total capital requirement for operational risk	1'462
Loss-absorbing capacity of technical provisions	
Loss-absorbing capacity of deferred taxes	-7'529
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Solvency capital requirement excluding capital add-on	**52'700**
Capital add-on already set	
Solvency capital requirement	**52'700**

Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	52'700
Total amount of Notional Solvency Capital Requirements for ring fenced funds	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for article 304	
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	4 - No adjustment
Net future discretionary benefits	1'455

MCR Result for life activities (Template S.28.01)

TCHF	Life activities
MCRL Result	8.476

Linear formula component for life insurance and reinsurance obligations (Template S.28.01)

MCR calculation Life	Life activities	
In TCHF	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
Obligations with profit participation - guaranteed benefits	130.188	0
Obligations with profit participation - future discretionary benefits	1.455	0
Index-linked and unit-linked insurance obligations	485.784	0
Other life (re)insurance and health (re)insurance obligations	0	0
Total capital at risk for all life (re)insurance obligations	0	477.430

Overall MCR calculation (Template S.28.01)

In TCHF	
SCR	52.700
MCR cap	23.715
MCR floor	13.175
Combined MCR	13.175
Absolute floor of the MCR	4.296
Minimum Capital Requirement	13.175