Basis of presentation and accounting principles

Basis of presentation

The Generali Group's consolidated financial statements at 31 December 2016 were drawn up in accordance with the IAS/IFRS issued by the IASB and endorsed by the European Union, in accordance with the Regulation (EC) No. 1606 of 19 July 2002 and the Legislative Decree No. 58/1998, as subsequently amended.

The Legislative Decree No. 209/2005 empowered ISVAP to give further instructions for financial statements in compliance with the international accounting standards.

In this yearly report the Generali Group prepared its consolidated financial statements and Notes in conformity with the ISVAP (now IVASS) Regulation No. 7 of 13 July 2007, as subsequently amended, and information of the Consob Communication No. 6064293 of 28 July 2006.

As allowed by the aforementioned Regulation, the Generali Group believed it appropriate to supplement its consolidated financial statements with detailed items and to provide further details in the Notes in order to also meet the IAS/IFRS requirements.

The consolidated financial statements at 31 December 2016 were approved by the Board of Directors on 15 March 2016.

The consolidated financial statements at 31 December 2016 were audited by E&Y S.p.A., the appointed audit firm from 2012 to 2020.

Consolidated financial statements

The set of the consolidated financial statements is made up of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flow, as required by the ISVAP Regulation No. 7 of 13 July 2007, as subsequently amended. The financial statements also include special items that are considered significant for the Group.

The Notes, which are mandatory as minimum content established by ISVAP (now IVASS), are presented in the appendices to the notes to this report.

This yearly report is drawn up in Euro (the functional currency used by the entity that prepared the financial statements) and the amounts are shown in millions, unless otherwise stated, the rounded amounts may not add to the rounded total in all cases.

Consolidation methods

Investments in subsidiaries are consolidated line by line, whereas investments in associated companies and interests in joint ventures are accounted for using the equity method.

The balance sheet items of the financial statements denominated in foreign currencies are translated into Euro based on the exchange rates at the end of the year.

The profit and loss account items are translated based on the average exchange rates of the year. They reasonably approximate the exchange rates at the dates of the transactions.

The exchange rate differences arising from the translation of the statements expressed in foreign currencies are accounted for in equity in an appropriate reserve and recognized in the profit and loss account only at the time of the disposal of the investments.

Exchange rates of the balance sheet

Currency	Exchange rate at the end of the period (€)	
	31/12/2016	31/12/2015
US dollar	1.055	1.086
Swiss franc	1.072	1.087
British pound	0.854	0.738
Argentine peso	16.691	14.062
Czech Koruna	27.021	27.022

Exchange rates of the income statement

Currency	Average exchange rate (€)	
	31/12/2016	31/12/2015
US dollar	1.107	1.110
Swiss franc	1.090	1.068
British pound	0.819	0.726
Argentine peso	16.332	10.267
Czech Koruna	27.034	27.287

Basis of consolidation

The consolidated financial statements of the Group include the financial statements of Assicurazioni Generali SpA and its subsidiaries.

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:
- power over the investee (i.e., existing not merely protective rights that give it the current ability to direct the relevant activities of the investee, that impact meaningfully the returns of the investree);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group reviews periodically and systematically if there was a variation of one or more elements of control, based on the analysis of the facts and the essential circumstances.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

In preparing the consolidated financial statements:

- the financial statements of the Parent Company and its subsidiaries are consolidated line by line through specific "reporting package", which contribute to the consistent application of the Group's accounting policies. For consolidation purposes, if the financial year-end date of a company differs from that of the Parent Company, the former prepares interim financial statements at December 31st of each financial year;
- All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation process (intra-group losses are eliminated, except to the extent that the underlying asset is impaired);
- the carrying amount of the Parent Company's investment in each subsidiary and the Parent Company's portion of equity of each subsidiary are eliminated at the date of acquisition;
- Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The non-controlling interests, together with their share of profit are shown as separate items.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Consequently, no additional goodwill or badwill is recognized.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Investment funds managed by the Group in which the Group holds an interest and that are not managed in the primary interest of the policyholders are consolidated based on the substance of the economic relationship and if whether the conditions of control stated by IFRS 10 are satisfied. On consolidation of an investment fund, a liability is recognized to the extent that the Group is legally obliged to buy back participations held by third parties. Where this is not the case, other participations held by third parties are presented as non-controlling interests in equity.

Business combination and goodwill

Business combinations are acquisitions of assets and liabilities that constitutes a business and are accounted for applying the so-called acquisition method The acquisition cost is measured as the sum of the consideration transferred measured at its acquisition date fair value, including contingent consideration, liabilities assumed towards the previous owners, and the amount of any non-controlling interests. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

If in a business combination achieved in stages, the acquirer's previously held equity interests in the acquire is re-measured at its acquisition date fair value and any resulting gain or loss recognized in profit or loss.

Any contingent consideration to be transferred or received by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

The assets acquired and liabilities assumed in a business combination are initially recognized at fair value at the acquisition date. Goodwill is initially measured at cost being the excess of the aggregate acquisition cost over the net value of the identifiable assets acquired and liabilities assumed is accounted for as goodwill. If the impairment test lead to the result that theacquisition cost is less than the fair value of the assets acquired and liabilities assumed, the difference is recognised in the profit and loss account.

Investments in associates and joint ventures

The investments in associates and joint ventures are consolidated trough the equity method.

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. If an investor holds, directly or indirectly through subsidiaries, 20% or more of the voting power of the investee, it is presumed that the investor has significant influence.

In general, joint arrangements are contractual agreements whereby the Group undertakes with other parties an economic activity that is subject to joint control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control exists when it is contractually agreed to share control of an economic activity, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Generali Group has assessed the nature of its current joint arrangements and determined them to be joint ventures and none are joint operations.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. Investments in associates and joint ventures are accounted for using the equity method and they are initially recognized at cost, which includes goodwill arising on acquisition. Goodwill is not separately tested for impairment. Negative goodwill is recognized in the income statement on the acquisition date. The carrying amount of the investment is subsequently adjusted to recognize changes in the Group's share of the net assets of the associate or joint venture since the acquisition date. The income statements reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. Dividends receivable from associates are recognized as a reduction in the carrying amount of the investment.

At each reporting date, after application of the equity method the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share of losses of an associate' in the income statement. Where the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Upon loss of significant influence over the associate or joint control over the joint venture the Group measures and recognizes and retained investment at its fair value. Any difference between the net proceeds and the fair value of the retained interest and the carrying amount is recognized in the income statement and gains and losses previously recorded directly through OCI are reversed and recorded through the income statement.

Significant judgements in determining control, joint control and significant influence over an entity

Following the guidelines set out in the strategic plan, the Group has recently concluded some transactions that have led to fully control the most part of its subsidiaries. The control is normally ensured by the full ownership of the voting rights, having thus the ability to direct the relevant activities and consequently being exposed to the variability of results arising from those activities.

The Group controls all the companies for which holds more than half of the voting rights. The Group does not control any subsidiary having less than the majority of voting rights and does not control any entity even though it holds more than half of the voting rights, except in two cases in which the Group controls the company owning half of the voting rights, being exposed to the variability of returns that depend on the operating policies that the Group, in substance, has the power to direct .

To a minor extent, the Group holds interests in associates and joint ventures. The agreements under which the Group has joint control of a separate vehicle are qualified as joint ventures where they give rights to the net assets.

In one case, the Group has no significant influence on a subject for which it holds more than 20% of the voting rights as the government structure is such that the Group, in substance, does not have the power to participate in financial and operating policies of the investee.

Regardless of the legal form of the investment, the evaluation of the control is made considering the real power on the investee and the practical ability to influence relevant activities, regardless of the voting rights held by the parent company or its subsidiaries.

In the Annexes to the consolidated financial statements the complete list of subsidiaries, associates and joint ventures included in the consolidated financial statements at 31 December 2016 is presented . Unless otherwise stated, the annex shows the share capital of each consolidated entity and the proportion of ownership interest held by the Group equals the voting rights of the Group.

The qualitative and quantitative disclosures required by IFRS 12 are provided in the paragraph “Information on consolidation perimeter and Group companies” in the Notes.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded by the Group’s entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group’s net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Accounting principles

The accounting standards adopted in preparing the consolidated financial statements, and the contents of the items in the financial statements are presented in this section.

New accounting principles, changes in the accounting rules and in the financial statements

Following the endorsement of the European Union, as from the 1st January 2016 new principles and amendments shall be applied. The most relevant changes for the Group with respect to the consolidated financial statements at 31 December 2015 are described below. In addition, the main documents issued by the International Accounting Standard Board, that could be relevant for the Group, but not yet effective, are described.

New accounting principles, changes in the accounting rules that shall be applied from 1 January 2016

There are no new accounting standards or changes to existing standards effective from 1 January 2016 relevant for the Group. The changes which become applicable are not significant for the Group and are indicated in the corresponding specific section, after the new accounting standards and changes that are not yet effective, below.

New accounting principles and amendments not yet applicable

IFRS 9 – *Financial Instruments*

IFRS 9 replaces IAS 39 "Financial Instruments: Classification and Measurement" and includes a principle-based model for the classification and measurement of financial instruments, an impairment model based on expected losses and an hedge accounting approach more in line with risk management strategies.

Classification and measurement

IFRS 9 introduces an approach to the classification of debt instruments that is based on contractual cash flows characteristics and models through which financial instruments are managed (business model).

In particular, the classification of financial instruments is driven by the business model through which the company manages its investments and the contractual terms of their cash flows.

A financial asset is measured at amortized cost if both of the following conditions are met:

- the asset is held to collect cash flows (business model assessment)
- the contractual cash flows represent only payments of principal and interest (solely payments of principal and interest – SPPI)

Considering to the contractual characteristics, a financial instrument is eligible for measurement at amortized cost if it consists in a basic lending agreement. The entity shall make its own assessment on the single financial instrument to assess if the nature of the contractual cash flows characteristics exclusively consists in payments of principal and interest (SPPI,). If a modification of the time value of the interest results in cash flows that are significantly different than those of a basic lending agreement then the instrument must be classified and measured at fair value through profit or loss.

If the business model (assessed on portfolio basis) has the objective to collect the cash flows from the investments and to sell financial assets and the contractual cash flows characteristics represent only payments of principal and interest, the financial instrument under assessment shall be measured at fair value through other comprehensive income with recycling to profit or loss when the instrument is realized.

As in the current IAS 39 Financial Instruments: classification and measurement the entity has the ability at initial recognition, to designate a financial instrument at fair value through profit or loss if that would eliminate or significantly reduce the accounting mismatch in the measurement of assets or liabilities or recognition of gains and losses related to them.

The equity instruments shall be classified and measured at fair value through profit or loss. The entity has the irrevocable option at initial recognition to present changes in the fair value of the equity instruments that are not held for the purpose of trading at fair value recorded in other comprehensive income, with no recycling in the income statement except dividends .

In other cases, the financial instruments are classified and measured at fair value through profit or loss, which is the residual model.

Impairment

IFRS 9 introduced a new impairment approach for debt instruments measured at amortized cost or fair value recorded in other comprehensive income, which is based on expected losses. In particular, the new standard outlines an approach for the impairment in three stages based on the assessment of credit quality from the date of initial recognition at each balance sheet date:

- Stage 1 includes the financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date (investment grade). For these assets expected losses (ECL) over the next 12 months (12-month expected credit losses - losses expected in view of the possible occurrence of events of default in the next 12 months) are recognized in the profit or loss account. Interest is calculated on the carrying amount (ie without deduction of the loss allowance);
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised in a capital reserve (loss allowance), and in the profit or loss account , but interest revenue is still calculated on the gross carrying amount of the asset. (ie without deduction of the loss allowance);
- Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised in a capital reserve (loss allowance), and in the profit or loss account. Interest revenue is calculated on the net carrying amount (that is, net of credit allowance)

The model also introduces a simplified approach to trade receivables and leases for which it is not necessary to calculate the 12-month expected credit losses but are always recognized the lifetime expected credit losses.

The Group is assessing the impact of the new impairment model introduced by the standard and expects significant operational impacts related to the implementation of the calculation process of the abovementioned expected credit losses. In light of the high creditworthiness of the debt securities, the new model Expected Credit Losses should not result in significant impacts for the Group.

Hedge accounting

IFRS 9 introduces a model substantially reformed for hedge accounting that allows better than in IAS 39 to reflect in financial statements the hedging activities undertaken by risk management.

In particular there is a significant simplification of the effectiveness test. There are no more predetermined thresholds of coverage to achieve effective hedge (ie 80-125% in the current IAS 39),but it is sufficient that:

- there is an economic relationship between the hedging instrument and the hedged item; and
- credit risk should not be the key component of the hedged risk (ie the change in fair value of the hedging relationship must not be dominated by the component of credit risk).

The standard will be effective, in the case of endorsement, from annual periods beginning on or after 1 January 2018. A transitional provision allows continuing to apply IAS 39 for all hedging transactions until completion of the macrohedging project. The principle has been endorsed by the European Union by the EU Regulation 2016/1905

IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendment to IFRS 4)

On 12 September 2016 the IASB published the amendment “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” that introduces modifications that aim to address the concerns of the insurance industry arising from the misalignment of the IFRS 9 effective date and the expected effective date of the upcoming insurance contracts standard.

Both standards, IFRS 9 (with effective date 1 January 2018) and IFRS 17 (with subsequent effective date) are relevant for insurance entities. The amendment. aims to address the concerns of some interested parties, in particular insurers, about the different effective dates of IFRS 9 Financial Instruments and the forthcoming new insurance contracts Standard.

The application of IFRS 9 beginning from 1 January 2018 would have the following critical issues:

- additional volatility to profit or loss arising from the application of SPPI test;
- higher costs caused by a first implementation of IFRS 9 without appropriate international accounting standard fort insurance liabilities and a following revision of the implementation of the standard when IFRS 17 will be applied;
- two significant amendments for the users of financial statements in a short period of time.

The amendment provides for the introduction of two options within IFRS 4:

1. the Overlay approach, that allows the companies that issue insurance contracts to remove from profit or loss the incremental volatility caused by changes in the measurement of financial assets upon application of IFRS 9. An entity that applies this approach shall reclassify in the other comprehensive income the difference between:

a) the amount reported in profit or loss of the financial assets linked to insurance liabilities in the scope of IFRS 4; and

b) the amount that would have been reported in profit or loss by applying IAS 39 “Financial Instruments: Recognition and Measurement”;

2. the Deferral approach, a temporary exemption from applying IFRS 9 that would be available to companies whose predominant activity is the issuance of insurance contracts. Such a deferral would be available until the date on which the new insurance contracts standard comes into force (but not later than 1 January 2021).

The Group considers the Deferral approach as most appropriate to solve the problems resulting from the application of IFRS 9 before the new accounting standard on insurance liabilities. The overlay approach implementation would create incremental costs compared to those of the first implementation of IFRS 9. In particular, the Group has identified as critical the concurrent application of IAS 39 and IFRS 9.

Implementation of the standard

The Group has undertaken a project to assess the accounting, operating and organizational impacts arising from the forthcoming application of IFRS 9 and to define the requirements of the standard in terms of methodology, process, systems and governance. The project aims also to set up an implementation roadmap, considering the interdependency with IFRS 17, the future standard on insurance contracts. The Group expects material impacts regarding classification and measurement of financial instruments resulting in a larger part of financial investments measured at fair value through profit or loss. Concerning the impairment model, the Group expects that the new Expected Credit Losses model could lead to less significant impacts in the Group financial statements.

On the basis of this assessment, the Group started the implementation phase of the standard, in order to ensure the proper and homogeneous application of the new accounting standard. The implementation of the principle takes into account the option to defer the application of the standard to 1 January 2021, which the Group considers appropriate. The Group will apply the temporary exception (in case of approval by the EU), sharing the concerns about accounting mismatch and the temporary volatility in the income statement arising from the application of IFRS 9 before the entry into force of IFRS 17. Therefore, the implementation of the standard aims to ensure compliance with the disclosure requirements resulting from the application of the deferral.

The deferral of the standard is applicable from entities whose activities are predominantly insurance, that is if the percentage of the carrying amount of liabilities linked to insurance on the total carrying amount of entity’s liabilities is higher than 90%, or between 80% and 90%, and non-insurance activities of the company are not significant (predominance ratio). The Group has calculated a predominance ratio higher than 90%.

IFRS 17 – Insurance contracts

On 20 June 2013 the IASB published the exposure draft “Insurance Contracts”. The E.D. proposes a new measurement model for insurance contracts that will replace the current IFRS 4 - Insurance Contracts. The valuation method is structured on a Building Block Approach based on the expected value of future cash flows, weighted by the probability of occurrence, on a risk adjustment and on a margin for the services provided within the contract (“contractual service margin”). A simplified approach (“Premium Allocation Approach”) is permitted if the coverage period of the contract is less than one year, or if the model used for assessment provides a reasonable approximation compared to the building block approach. Between 2014 and 2016 it took place a re-deliberation process of the E.D., as a result of consultation with the industry and the interested stakeholders, that highlighted some areas of operational complexity of the standard. The IASB re-deliberations left unchanged the basics of the model described above, but introduced changes supporting the operational application of the standard, which regarded, in particular, the participating contracts, for which a building block approach variant has been introduced, the level of aggregation for the measurement of insurance contracts and the transitional measures. The publication of the standard is expected in May 2017. The expected effective date is 1 January 2021.

The IASB will constitute a Transitional Resource Group (TRG), a public forum, as the TRGs for IFRS 15 Revenue from contracts with customers, and for the ‘IFRS 9 Financial Instruments in relation to the impairment, which will highlight to the IASB potential implementation issues arising from the application of the new standard by companies, and propose possible actions to address the potential issues identified. The membership of the TRG, which has yet to be defined, will include a variety of stakeholders such as preparers of financial statements, insurance companies, auditors and users of financial statements.

The Group has launched a project in order to assess the requirements of the new standards and the roadmap of the phase of implementation of the standard, taking into account interactions with the implementation of IFRS 9.

The Group expects a very significant impact on financial reporting both in terms of valuation of the technical provisions in the balance sheet and in terms of performance reporting in the income statement and in the notes. Given the extent of the changes introduced by the standard, significant impact is expected in terms of resources, processes and information systems to support the valuation framework.

IFRS 15 – Revenue from contracts with customers

On 28 May 2014 the IASB published IFRS 15 “Revenue from contracts with customers” which concerns the recognition of revenues. The standard replaces IAS 11 “Constructions Contracts” and IAS 18 “Revenue”, and incudes new requirements concerning the measurement and timing of revenue recognition. In particular IFRS 15 defines the following phases:

Step 1: Identifying the contract
Step 2: Identifying performance obligations
Step 3: Determining the transaction price
Step 4: Allocating the transaction price to performance obligations
Step 5 Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognized “point-in-time”, as the control of the asset is passed, or “over time”, during the period. The revenues are recognized “over time” if one of the following criteria is met:

1) the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs;

2) the entity’s performance creates or enhances an asset that the customer controls as the asset is created;

3) the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Insurance contracts are excluded from the scope of the standard; as a result the potential impacts for insurance companies are connected to contracts that include non-insurance services and asset management fees. The expected impacts are not significant for the Group.

The effective date is 1 January 2018.

IFRS 16 – Leases

On 13 January 2016 the IASB published IFRS 16 “Leases”. The new standard introduces new requirements for the recognition, presentation and disclosure of leases in the financial statements

In particular the distinction between operating and finance leases is eliminated concerning the lessee accounting: all leases require the recognition of a right -of – use asset along the lease term, and a lease liability, which represents the obligation to pay the lease payments.

The leases accounting treatment is unchanged for the lessor.

No material impacts are expected for the Group resulting from the application of the new standard requirements, compared to current requirements of IAS 17.

The effective date is 1 January 2019.

Other changes not significant for the Group

Amendments	Effective date	Date of publication
Amendments to IAS 19: Defined Benefit Plans: Employee Contributions	1 July 2014[1]	November 2013
Amendments resulting from Annual Improvements 2010-2012 Cycle	1 July 2014[2]	December 2013
IFRS 14 Regulatory Deferral Account	1 January 2016	January 2014
IFRS 11 Amendments regarding the accounting for acquisition of an interest in a joint operation	1 January 2016	May 2014
IAS 16 and IAS 38 Amendments regarding the clarification of acceptable methods of depreciation and amortization	1 January 2016	May 2014
IFRS 10 Amendments regarding the sale and the contribution of assets between an investor and its associate or joint venture	to be defined	September 2014
IAS 28 Amendments regarding the sale and the contribution of assets between an investor and its associate or joint venture	1 January 2016	September 2014
Amendments resulting from 2014 Annual Improvements 2012-2014 Cycle	1 January 2016	September 2014
IAS 1 Amendments resulting from the disclosure initiative	1 January 2016	December 2014

1 The Regulation (EU) 2015/29 postponed the effective date for the EU countries to annual periods beginning on or after 1 February 2015.

2 The Regulation (EU) 2015/28 postponed the effective date for the EU countries to annual period beginning on or after 1 February 2015..

Balance Sheet – Assets

Intangible assets

In accordance with IAS 38, an intangible asset is recognised if, and only if, it is identifiable and controllable and it is probable that the expected future economic benefits attributable to the asset will flow to the company and the cost of the asset can be measured reliably.

This category includes goodwill and other intangible assets, such as goodwill recognised in the separate financial statements of the consolidated companies, software and purchased insurance portfolio.

Goodwill

Goodwill is the sum of future benefits not separately identifiable in a business combination. At the date of acquisition, the goodwill is equal to the excess between the sum of the consideration transferred, including contingent consideration, liabilities assumed towards the previous owners the fair value of non-controlling interests as well as, in a business combination achieved in stages, the fair value of the acquirer's previously held equity interest in the acquiree and the fair value (present value) of net amount of the separately identifiable assets and liabilities acquired.

After initial recognition, goodwill is measured at cost less any impairment losses and it is no longer amortised. According to IAS 36, goodwill is not subject to amortization. Realized gains and losses on investments in subsidiaries include the related goodwill. Goodwill is tested at least annually in order to identify any impairment losses.

The purpose of the impairment test on goodwill is to identify the existence of any impairment losses on the carrying amount recognised as intangible asset. In this context, cash-generating units to which the goodwill is allocated are identified and tested for impairment. Cash-generating units (CGU) units usually represent the consolidated units within the same primary segment in each country. Any impairment is equal to the difference, if negative, between the carrying amount and the recoverable amount, which is the higher between the fair value of the cash-generating unit and its value in use, i.e. the present value of the future cash flows expected to be derived from the cash-generating units. The fair value of the CGU is determined on the basis of current market quotation or usually adopted valuation techniques (mainly DDM or alternatively embedded value or appraisal value). The Dividend Discount Model is a variant of the Cash flow method. In particular the Dividend Discount Model, in the excess capital methodology, states that the economic value of an entity is equal to the discounted dividends flow calculated considering the minimum capital requirements. Such models are based on projections on budgets/forecasts approved by management or conservative or prudential assumptions covering a maximum period of five years. Cash flow projections for a period longer than five years are extrapolated using estimated among others growth rates. The discount rates reflect the free risk rate, adjusted to take into account specific risks.

Should any previous impairment losses no longer exist, they cannot be reversed.

For further details see paragraph "Information on consolidation perimeter and Group companies" in the Notes.

Other intangible assets

Intangible assets with finite useful life are measured at acquisition or production cost less any accumulated amortisation and impairment losses. The amortisation is based on the useful life and begins when the asset is available for use. Specifically, the purchased software expenses are capitalised on the basis of the cost for purchase and usage. The costs related to their development and maintenance are charged to the profit and loss account of the period in which they are incurred.

Other intangible assets with indefinite useful life are not subject to amortization. They are periodically tested for impairment.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is de-recognised.

Contractual relations with customers - insurance contracts acquired in a business combination or portfolio transfer

In case of acquisition of life and non-life insurance contract portfolios in a business combination or portfolio transfer, the Group recognises an intangible asset, i.e. the value of the acquired contractual relationships (Value Of Business Acquired).

The VOBA is the present value of the pre-tax future profit arising from the contracts in force at the purchase date, taking into account the probability of renewals of the one year contracts in the non-life segment. The related deferred taxes are accounted for as liabilities in the consolidated balance sheet.

The VOBA is amortised over the effective life of the contracts acquired, by using an amortization pattern reflecting the expected future profit recognition. Assumptions used in the development of the VOBA amortization pattern are consistent with the ones applied in its initial measurement. The amortization pattern is reviewed on a yearly basis to assess its reliability and, if applicable, to verify the consistency with the assumptions used in the valuation of the corresponding insurance provisions.

The difference between the fair value of the insurance contracts acquired in a business combination or a portfolio transfer, and the insurance liabilities measured in accordance with the acquirer's accounting policies for the insurance contracts that it issues, is recognised as intangible asset and amortised over the period in which the acquirer recognises the corresponding profits.

The Generali Group applies this accounting treatment to the insurance liabilities assumed in the acquisition of life and non-life insurance portfolios.

The future VOBA recoverable amount is nonetheless tested on yearly basis.

As for as the life and non-life portfolios, the recoverable amount of the value of the in force business acquired is carried out through the liability adequacy test (LAT) of the insurance provisions — mentioned in the paragraph related to life and non-life insurance provisions— taking into account, if any, the deferred acquisition costs recognised in the balance sheet. If any, the impairment losses are recognised in the profit or loss account and cannot be reversed in a subsequent period.

Similar criteria are applied for the initial recognition, the amortization and the impairment test of other contractual relationships arising from customer lists of asset management sector, acquired in a business combination where the acquiree belongs to the financial segment.

Tangible assets

This item comprises land and buildings used for own activities and other tangible assets.

Land and buildings (self-used)

In accordance with IAS 16, this item includes land and buildings used for own activities.

Land and buildings (self-used) are measured applying the cost model set out by IAS 16.

The cost of the self-used property comprises purchase price and any directly attributable expenditure. The depreciation is systematically calculated applying specific economic/technical rates which are determined locally in accordance with the residual value over the useful economic life of each individual component of the property.

Land and buildings (self-used) are measured at cost less any accumulated depreciation and impairment losses. Land and agricultural properties are not depreciated but periodically tested for impairment losses. Costs, which determine an increase in value, in the functionality or in the expected useful life of the asset, are directly charged to the assets to which they refer and depreciated in accordance with the residual value over the assets' useful economic life. Cost of the day-to-day servicing are charged to the profit and loss account.

Finance leases of land and buildings are accounted for in conformity with IAS 17 and require that the overall cost of the leasehold property is recognised as a tangible asset and, as a counter-entry, the present value of the minimum lease payments and the redemption cost of the asset are recognised as a financial liability.

Other tangible assets

Property, plant, equipment, furniture and property inventories are classified in this item as property inventory. They are initially measured at cost and subsequently recognised net of any accumulated depreciation and impairment losses. They are systematically depreciated on the basis of economic/technical rates determined in accordance with their residual value over their useful economic life.

In particular the inventories are measured at the lower of cost (including cost of purchase, cost of conversion and cost incurred the inventories to their present location and condition) and net realizable value, i.e. the estimated selling price in the ordinary course of business less the estimated cost of completion and costs to sell.

An item of property, plant and equipment and any significant part initially recognised is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is de-recognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Reinsurance provisions

The item comprises amounts ceded to reinsurers from insurance provisions that fall under IFRS 4 scope. They are accounted for in accordance with the accounting principles applied to direct insurance contracts.

Investments

Land and Buildings (Investment Properties)

In accordance with IAS 40, this item includes land and buildings held to earn rentals or for capital appreciation or both. Land and buildings for own activities and property inventories are instead classified as tangible assets. Furthermore, assets for which the sale is expected to be completed within one year are classified as non-current assets or disposal groups classified as held for sale.

To measure the value of land and buildings (investment properties), the Generali Group applies the cost model set out by IAS 40, and adopts the depreciation criteria defined by IAS 16. Please refer to the paragraph on land and buildings (self-used) for information about criteria used by the Group and finance leases of land and buildings.

Investments in subsidiaries, associated companies and joint ventures

This item includes investments in subsidiaries and associated companies valued at equity or at cost. Immaterial investments in subsidiaries and associated companies, as well as investments in associated companies and interests in joint ventures valued using the equity method belong to this category.

A list of such investments is shown in attachment to this Consolidated financial statement.

Financial investments – classification and measurement

Financial Instruments included in scope of IAS 39 are classified as follows:

- Held to maturity
- Loans and receivables
- Available for sale financial assets
- Financial assets at fair value through profit or loss

The classification depends on the nature and purpose of holding financial instruments and is determined at initial recognition except for allowed reclassifications in rare circumstances and when the purpose of holding the financial assets changes.

The financial investments are initially recognized at fair value plus, in the case of instruments not measured at fair value through profit or loss, the directly attributable transactions costs.

Non-derivative financial assets with fixed and determinable payments, those that the entity has the intention and the ability to hold to maturity, unquoted and not available for sale are subsequently measured at amortised cost.

Held to maturity financial assets

The category comprises the non-derivative financial assets with fixed or determinable payments and fixed maturity that a company has the positive intention and ability to hold to maturity, other than loans and receivables and those initially designated as at fair value through profit or loss or as available for sale. The intent and ability to hold investments to maturity must be demonstrated when initially acquired and at each reporting date.

In the case of an early disposal (significant and not due to particular events) of said investments, any remaining investments must be reclassified as available for sale.

Held to maturity investments are accounted for at settlement date and measured initially at fair value and subsequently at amortised cost using the effective interest rate method and considering any discounts or premiums obtained at the time of the acquisition which are accounted for over the remaining term to maturity.

Loans and receivables

This category comprises non-derivative financial assets with fixed or determinable payments, not quoted in an active market. It does not include financial assets held for trading and those designated as at fair value through profit or loss or as available for sale upon initial recognition.

In detail, the Generali Group includes in this category some unquoted bonds, mortgage loans, policy loans, term deposits with credit institutions, deposits under reinsurance business accepted, repurchase agreements, receivables from banks or customers accounted for by companies of the financial segment, and the mandatory deposit reserve with the central bank. The Group's trade receivables are instead classified as other receivables in the balance sheet.

Loans and receivables are accounted for at settlement date and measured initially at fair value and subsequently at amortised cost using the effective interest rate method and considering any discounts or premiums obtained at the time of the acquisition which are accounted for over the remaining term to maturity. Short-term receivables are not discounted because the effect of discounting cash flows is immaterial. Gains or losses are recognised in the profit and loss account when the financial assets are de-recognised or impaired as well as through the normal amortization process envisaged by the amortised cost principle.

Available for sale financial assets

Available for sale financial assets are accounted for at the settlement date at the fair value at the related transaction dates, plus the transaction costs directly attributable to the acquisition.

The unrealized gains and losses on available for sale financial assets arising out of subsequent changes in value are recognised in other comprehensive income in a specific reserve until they are sold or impaired. At this time the cumulative gains or losses previously recognised in other comprehensive income are accounted for in the profit and loss account.

This category includes quoted and unquoted equities, investment fund units (IFU) not held for trading, nor designated as financial assets at fair value through profit or loss, and bonds, mainly quoted, designated as available for sale.

Interests on debt financial instruments classified as available for sale are measured using the effective interest rate with impact on profit or loss. Dividends related to equities classified in this category are reported in profit or loss when the shareholder's right to receive payment is established, which usually coincides with the shareholders' resolution.

The Group evaluates whether the ability and intention to sell its Available for sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading, i.e. acquired mainly to be sold in a short term, and financial assets that upon initial recognition are designated as at fair value through profit or loss.

In particular both bonds and equities, mainly quoted, and all derivative assets, held for both trading and hedging purposes, are included in this category.

Financial assets at fair value through profit or loss also take into account investments back to policies where the investment risk is borne by the policyholders and back to pension funds in order to significantly reduce the valuation mismatch between assets and related liabilities.

Structured instruments, whose embedded derivatives cannot be separated from the host contracts, are classified as financial assets at fair value through profit or loss.

The financial assets at fair value through profit or loss are accounted for at settlement date and are measured at fair value. Their unrealized and realized gains and losses at the end of the period are immediately accounted for in the profit and loss account.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification to loans and receivables, Available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Receivables

This item includes receivables arising out of direct insurance and reinsurance operations, and other receivables.

Receivables arising out of direct insurance and reinsurance operations

Receivables on premiums written in course of collection and receivables from intermediates and brokers, co-insurers and reinsurers are included in this item. They are accounted for at their fair value at acquisition date and subsequently at their presumed recoverable amounts.

Other receivables

This item includes all other receivables, which do not have an insurance or tax nature. They are accounted for at fair value at recognition and subsequently at their presumed recoverable amounts

Other assets

Non-current assets or disposal groups classified as held for sale, deferred acquisition costs, tax receivables, deferred tax assets, and other assets are classified in this item.

Non-current assets or disposal groups classified as held for sale

This item comprises non-current assets or disposal groups classified as held for sale under IFRS 5.

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification

They are measured at the lower of their carrying amount and fair value less costs to sell.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount in profit or loss after tax from discontinued operations in the income statement.

Deferred acquisition costs

Concerning deferred acquisition costs, according to requirements of IFRS 4, the Group continued to apply accounting policies prior to the transition to international accounting principles. In this item acquisition costs paid before the subscription of multi-year contracts to amortize within the duration of the contracts are included.

Deferred tax assets

Deferred tax assets are recognized for deductible temporary differences between the carrying amounts of assets and liabilities and the corresponding amounts recognized for tax purposes.

In the presence of tax losses carried forward or unused tax credits, deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the aforementioned tax losses or unused tax credits.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets are measured at the tax rates that are expected to be applied in the year when the asset is realized, based on information available at the reporting date

Deferred tax assets are not recognized in the following cases provided in paragraph 24 of IAS 12:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- x\in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.
- for all deductible temporary differences between the carrying amount of assets or liabilities and their tax base to the extent that it is probable that taxable income will be available, against which the deductible temporary differences can be utilised.

Tax receivables

Receivables related to current income taxes as defined and regulated by IAS 12 are classified in this item. They are accounted for based on the tax laws in force in the countries where the consolidated subsidiaries have their offices.

Current income tax relating to items recognised directly in equity are recognised in equity and not in the income statement.

Other assets

The item mainly includes accrued income and prepayments, specifically accrued interest from bonds. It also comprises deferred commissions for investment management services related to investment contracts.

Deferred fee and commission expenses include acquisition commissions related to investment contracts without DPF fair valued as provided for by IAS 39 as financial liabilities at fair value through profit or loss. Acquisition commissions related to these products are accounted for in accordance with the IAS 18 treatment of the investment management service component. They are recognised along the product life by reference to the stage of completion of the service rendered. Therefore, acquisition commissions are incremental costs recognised as assets, which are amortised throughout the whole policy term on a straight line approach, reasonably assuming that the management service is constantly rendered.

Deferred commissions for investment management services are amortised, after assessing their recoverability in accordance with IAS 36.

Cash and cash equivalents

Cash in hand and equivalent assets, cash and balances with banks payable on demand and with central banks are accounted for in this item at their carrying amounts.

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value are included in this item. Investments are qualified as cash equivalents only when they have a short maturity of 3 months or less from the date of the acquisition.

Balance sheet – Liabilities and equity

Shareholder's equity

Shareholder's equity attributable to the Group

Share capital

Ordinary shares are recognized as share capital and their value equals the nominal value.

Other equity instruments

The item includes preference shares and equity components of compound financial instruments.

Capital reserve

The item includes the share premium account of the Parent Company.

Revenue reserve and other reserves

The item comprises retained earnings or losses adjusted for the effect of changes arising from the first-time application of IAS/IFRS, reserves for share-based payments, equalisation and catastrophe provisions not recognised as insurance provisions according to IFRS 4, legal reserves envisaged by the Italian Civil Code and special laws before the adoption of IAS, as well as reserves from the consolidation process.

Own shares

As provided for by IAS 32, the item includes equity instruments of the Parent company held by the same company or by its consolidated subsidiaries

Reserve for currency translation differences

The item comprises the exchange differences to be recognised in equity in accordance with IAS 21, which derive from accounting for transactions in foreign currencies and from the translation of subsidiaries' financial statements denominated in foreign currencies.

Reserve for unrealised gains and losses on available for sale financial assets

The item includes gains or losses arising from changes in the fair value of available for sale financial assets, as previously described in the corresponding item of financial investments.

The amounts are accounted for net of the related deferred taxes and deferred policyholder liabilities.

Reserve for other unrealised gains and losses through equity

The item includes the cash flow hedging derivatives reserve, the reserve for hedges of net investments in foreign operations. This item includes gains or losses on cash flow hedging instruments and gains or losses on hedging instruments of a net investment in a foreign operation. In addition, this item also includes the profits and losses relating to defined benefit plans and the part of the balance sheet reserves whose the variation is part of the comprehensive income of participations and those relating to non-current assets or disposal groups classified as held for sale.

Result of the period

The item refers to the Group consolidated result of the period. Dividend payments are accounted for after the approval of the shareholders' general meeting.

Shareholder's equity attributable to minority interests

The item comprises equity instruments attributable to minority interests.

It also includes the reserve for unrealized gains and losses on available for sale investments and any other gains or losses recognized directly in equity attributable to minority interests

Provisions

Provisions for risks and charges are provided only when it is deemed necessary to respond to an obligation (legal or implicit) arising from a past event and it is probable that an outflow of resources whose amount can be reliably estimated, as required by IAS 37.

Insurance provisions

This item comprises amounts, gross of ceded reinsurance, of liabilities related to insurance contracts and investment contracts with discretionary participation features

Life insurance policies

In accordance with IFRS 4, policies of the life segment are classified as insurance contracts or investment contracts based on the significance of the underlying insurance risk.

Classification requires the following steps:
- identification of the characteristics of products (option, discretionary participation feature, etc.) and services rendered;
- determination of the level of insurance risk in the contract; and
- application of the international principle.

Insurance contracts and investment contracts with DPF

Premiums, payments and change in the insurance provision related to products whose insurance risk is considered significant (e.g. term insurance, whole life and endowment with annual premiums, life contingent annuities and contracts containing an option to elect at maturity a life contingent annuity at rates granted at inception, long-term health insurance and unit-linked with sum assured in case of death significantly higher than the value of the fund) or investment contracts with discretionary participation feature –DPF – (e.g. policies linked to segregated funds, contracts with additional benefits that are contractually based on the economic result of the company) are accounted for in accordance with previous local GAAP. Gross premiums are recognised as a revenue, net of cancellations of the period, and ceded premiums are recognised as expenses of the period.

Shadow accounting

In order to mitigate the valuation mismatch between financial investments carried at fair value according to IAS 39 and insurance provisions which are accounted for in accordance with previous local GAAP, shadow accounting is applied to insurance contracts and investments contracts with DPF. This accounting practice attributes to the policyholders part of the difference between IAS/IFRS valuation of the basis on which the profit sharing is determined and valuation which is used to determine the profit sharing actually paid. This accounting treatment is included in the deferred policyholder liabilities in the life insurance provisions

The policyholders' share is calculated on the average contractual percentage for the policyholder participation, as the local regulation already foresees the protection of guaranteed obligations through the recognition of additional provisions for interest rate risk if future financial returns based on a proper time horizon are not sufficient to cover the financial guaranties included in the contract.

The accounting item arising from the shadow accounting application is included in the carrying amount of insurance liabilities whose adequacy is tested by the liability adequacy test (LAT) according to IFRS 4 (refer to paragraph Details on insurance and investment contracts), to rectify the IAS/IFRS carrying amount of insurance provisions.

The main accounting effect of the shadow accounting is double fold: on the one hand, the recognition of the policyholders' share of unrealized gains and losses on available for sale financial assets in the deferred policyholders' liabilities; on the other, the insurer's share is recognised in equity. If financial instruments are fair valued through profit or loss or financial investments are impaired, the policyholders' share on the difference between the market value and valuation used to determine the return which the profit sharing is based on (e.g. the carrying amount in segregated fund) is recognised in the profit and loss account. The shadow accounting also allows the recognition of an insurance liability related to unrealized gains on available for sale financial assets linked to contracts with discretionary participation feature, up to the amount of the increase in value of these assets due to the change of market rates

Investment contracts

Investment contracts without DPF and that do not have a significant investment risk, mainly include unit/index-linked policies and pure capitalization contracts. These products are accounted for in accordance with IAS 39 as follows:

- the products are recognised as financial liabilities at fair value or at amortised cost. In detail, linked products classified as investment contracts are fair valued through profit or loss, while pure capitalization policies are generally valued at amortised cost;
- fee and commission income and expenses are recognised in the profit and loss account. Specifically, IAS 39 and IAS 18 require that they are separately identified and classified in the different components of: (i) origination, to be charged in the profit and loss account at the date of the issue of the product; and (ii) investment management service, to be recognised throughout the whole policy term by reference to the stage of completion of the service rendered;
- fee and commission income and incremental costs of pure capitalization contracts without DPF (other than administration costs and other non-incremental costs) are included in the amortised cost measurement;
- the risk component of linked products is unbundled, if possible, and accounted for as insurance contracts

Life insurance provisions

Life insurance provisions are related to insurance contracts and investment contracts with discretionary participation features. These provisions are accounted for based on local GAAP, in compliance with IFRS 4.

Liabilities related to insurance contracts and investment contracts with discretionary participation features are determined analytically for each kind of contract on the basis of appropriate actuarial assumptions. They meet all the existing commitments based on best estimates.

These actuarial assumptions take into consideration the most recent demographic tables of each country where the risk is underwritten, aspects of mortality, morbidity, determination of risk-free rates, expenses and inflation. The tax charge is based on laws in force.

Among life insurance provisions, provisions in addition to mathematical provisions, already envisaged by the local regulations in case of adverse changes in the interest rates or mortality, are classified as provisions for the liability adequacy test.

As previously mentioned, insurance provisions include deferred policyholder liabilities related to contracts with DPF. The recognition of the deferred policyholder liabilities is made in accordance to shadow accounting, as already mentioned in paragraph "Shadow accounting" of section Insurance Provision.

Liability adequacy test (LAT)

In accordance with IFRS 4, in order to verify the adequacy of the reserves a Liability Adequacy Test (LAT) is performed. The aim of the test is to verify if the technical provisions - inclusive of deferred policyholders liabilities - are adequate to cover the current value of future cash flows related to insurance contracts.

The liability adequacy test is performed through the comparison of the IFRS reserves (which include the impact of "shadow accounting"), net of any deferred acquisition costs or intangible assets related to these contracts, with the current value of future cash flows related to insurance contracts.

The abovementioned amount also includes the costs of embedded financial options and guarantees, which are measured with a market-consistent methodology. Technical reserves which are subject to the Liability Adequacy Test also include the interest rate risk provisions as required by local regulations.

The insurance contracts modelling and best estimates assumptions used are consistent with the evaluation process of the insurance provisions in accordance with Solvency II and subject to audit process in compliance with the current regulation.

Each inadequacy is charged to the profit and loss account, initially reducing deferred acquisition costs and value of business acquired, and subsequently accounting for a provision.

Non-life insurance provisions

The local GAAP for each country is applied to non-life insurance provisions, since all the existing policies fall under IFRS 4 scope. In conformity with the international standard, no provisions for future claims are recognised, in line with the derecognition of the equalisation and catastrophe provisions and some additional components of the unearned premiums provisions, carried out on the date of the first-time application.

The provisions for unearned premiums includes the pro-rata temporis provision, which is the amount of gross premiums written allocated to the following financial periods, and the provision for unexpired risks, which provides for claims and expenses in excess of the related unearned premiums.

The provisions for outstanding claims are determined by a prudent assessment of damages, based on objective and prospective considerations of all predictable charges. Provisions are deemed adequate to cover payments of damages and the cost of settlement of claims related to accident occurred during the year but not yet reported.

The non-life insurance provisions meets the requirements of the liability adequacy test according to IFRS 4.

Amounts ceded to reinsurers from insurance provisions are determined in accordance with the criteria applied for the direct insurance and accepted reinsurance.

Financial liabilities

Financial liabilities at fair value through profit or loss and financial liabilities at amortised cost are included in this item.

Financial liabilities at fair value through profit or loss

The item refers to financial liabilities at fair value through profit or loss, as defined and regulated by IAS 39. In detail, it includes the financial liabilities related to investment contracts where the investment risk is borne by the policyholders as well as derivative liabilities.

Other financial liabilities

The item includes financial liabilities within the scope of IAS 39 that are not classified as at fair value through profit or loss and are instead measured at amortised cost.

This item comprises both subordinated liabilities, which, in the case of bankruptcy, are to be repaid only after the claims of all other creditors have been met, and hybrid instruments.

Bond instruments issued are measured at issue price, net of costs directly attributed to the transaction. The difference between the aforesaid price and the reimbursement price is recognised along the duration of the issuance in the profit and loss account using the effective interest rate method.

Furthermore, it includes liabilities to banks or customers, deposits received from reinsurers, bonds issued, other loans and financial liabilities at amortised cost related to investment contracts that do not fall under IFRS 4 scope.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Payables

Payables arising out insurance operations

The item includes payables arising out of insurance and reinsurance operations.

Other payables

This item mainly includes provisions for the Italian ”trattamento di fine rapporto” (employee severance pay). These provisions are accounted for in accordance with IAS 19 (see paragraph Other liabilities)

Other liabilities

The item comprises liabilities not elsewhere accounted for. In detail, it includes liabilities directly associated with non-current assets and disposal groups classified as held for sale, tax payables and deferred tax liabilities and deferred fee and commission income.

Liabilities directly associated with non-current assets and disposal groups classified as held for sale

The item includes liabilities directly associated with non-current assets and disposal groups classified as held for sale, as defined by IFRS 5.

Deferred tax liabilities

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount of assets and liabilities and their tax base, Deferred tax liabilities are measured at the tax rates that are expected to be applied in the year when temporary differences will be taxable, are based on the tax rates and tax laws enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax liabilities are not recognized in the following cases provided for in paragraph 15 of IAS 12:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future..

Tax payables

The item includes payables due to tax authorities for current taxes. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement..

Other liabilities

This item includes provisions for defined benefit plans, such as termination benefit liabilities and other long-term employee benefits (the Italian provision for “trattamento di fine rapporto” is excluded and classified as other payables). In compliance with IAS 19, these provisions are measured according to the project unit credit method. This method implies that the defined benefit liability is influenced by many variables, such as mortality, employee turnover, salary trends, expected inflation, expected rate of return on investments, etc. The liability recognised in the balance sheet represents the net present value of the defined benefit obligation less the fair value of plan assets (if any), adjusted for any actuarial gains and losses and any past service costs not amortised. The rate used to discount future cash flows is determined by reference to market yields on high-quality corporate bonds. The actuarial assumptions are periodically tested to confirm their consistency. The actuarial gains and losses arising from subsequent changes in variables used to make estimates are recognised shall be accounted for in other comprehensive income without any possibility of recycling to profit and loss.

Deferred fee and commission income includes acquisition loadings related to investment contracts without DPF, which are classified as financial liabilities at fair value through profit or loss, according to IAS 39.

Acquisition loadings related to these products are accounted for in accordance with IAS 18 treatment of the investment management service component during the product life. They are recognised by reference to the stage of completion of the service rendered.

Therefore, the acquisition commissions have been reclassified in the balance sheet, as liabilities to be released to the profit and loss account during the life of the product.

Profit and loss account

Income

Earned premiums

The item includes gross earned premiums on insurance contracts and investment contracts with discretionary participation features, net of earned premiums ceded.

Fee and commission income

The item includes fee and commission income for financial services rendered by companies belonging to the financial segment and fee and commission income related to investment contracts.

Net income from financial instruments at fair value through profit or loss

The item comprises realized gains and losses, interests, dividends and unrealized gains and losses on financial assets and liabilities at fair value through profit or loss.

Income from subsidiaries, associated companies and joint ventures

The item comprises income from investments in subsidiaries, associated companies and joint ventures, which are accounted for in the corresponding asset items of the balance sheet.

Income from financial instruments and other investments

The item includes income from financial instruments not at fair value through profit or loss and from land and buildings (investment properties). In detail, it includes mainly interests from financial instruments measured using the effective interest method, other income from investments, including dividends recognised when the right arises, income from properties used by third parties, realized gains from financial assets, financial liabilities and investment properties and reversals of impairment.

Other income

The item includes: revenue arising from sale of goods and rendering of services other than financial services; other insurance income; gains on foreign currency accounted for under IAS 21; realized gains and reversals of impairment on tangible assets and other assets; and any gains recognised on the re-measurement of non-current assets or disposal groups classified as held for sale.

Expenses

Net insurance benefit and claims

The item includes the amounts paid in respect of claims occurring during the period, maturities and surrenders, as well as the amounts of changes in insurance provisions that fall under IFRS 4 scope, net of recoveries and reinsurance. It also comprises changes in the provision for deferred policyholders liabilities with impact on the profit and loss account.

Fee and commission expenses and expenses from financial service activities

The item includes fee and commission expenses for financial services received by companies belonging to the financial segment and fee and commission expenses related to investment contracts.

Expenses from subsidiaries, associated companies and joint ventures

The item includes expenses from investments in subsidiaries, associated companies and joint ventures, which are accounted for in the corresponding asset items of the balance sheet.

Expenses from financial instruments and other instruments

The item comprises expenses from land and buildings (investment properties) and from financial instruments not at fair value through profit or loss. It includes: interest expense; expenses on land and buildings (investment properties), such as general property expenses and maintenance and repair expenses not recognised in the carrying amount of investment properties; realized losses from financial assets, financial liabilities and land and buildings (investment properties); depreciations and impairment of such investments.

Acquisition and administration costs

The item comprises acquisition commissions, other acquisition costs and administration costs related to contracts that fall under IFRS 4 scope. Other acquisition costs and administration costs related to investment contracts without discretionary participation features are also included, as well as overheads and personnel expenses for investment management, and administration expenses of non-insurance companies

Other expenses

The item includes: other insurance expenses; allocation to provisions; losses on foreign currency accounted for under IAS 21; realized losses, impairment and depreciation of tangible assets not elsewhere allocated; and amortization of intangible assets. It also comprises any loss on the re-measurement of non-current assets or disposal groups classified as held for sale, other than discontinued operations.

Capitalization of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds

Income taxes

The item includes income taxes for the period and for previous years, deferred taxes and tax losses carried back.

Comprehensive income

The statement of comprehensive income was introduced by the revised IAS 1 issued in September 2007 by the IASB, approved by the EC Regulation No 1274/2008.

The statement comprises items of income and expenses different from those included in profit or loss, recognised directly in equity other than those changes resulting from transactions with shareholders. In accordance with the ISVAP (now IVASS) Regulation n.7/2007 as subsequently amended, items of income and expenses are net of taxes as well as net of gains and losses on available for sale assets attributable to the policyholders according to the deferred policyholders liabilities calculation.

The transactions with owners and the result of comprehensive income are presented in the statement of changes in equity

Statement of changes in equity

The statement was prepared in accordance with the requirements of the ISVAP (now IVASS). 7 of 13 July 2007 as subsequently amended, and explains all the variations of equity.

Change of the closing balance

This section comprises changes of the closing balance of the previous financial year determined by the correction of errors or changes in accounting policies (IAS 8) and the recognition of gains or losses arising from the first time application of accounting standards (IFRS 1).

Allocation

This section comprises the allocation of the profit or loss of the year, the allocation of the previous year profit or loss into the capital reserves, increases in capital and other reserves (for the issuance of new shares, equity instruments, stock options or derivatives on own shares, for the sale of shares pursuant to IAS 32.33, for the reclassification to equity instruments previously recognized in liabilities and, in the consolidated financial statements, for changes in scope of consolidation), changes within equity reserves (es. allocation of surplus capital, stock option exercise, transfer of revaluation reserves related to tangible and intangible assets to retained earnings in accordance with IAS 38.87 and IAS 16.41 etc.), the changes in gains and losses recognized directly in equity.

Reclassification adjustments to profit or loss

This section comprises gains or losses previously recognized in equity, that are reclassified to the profit or loss according to IFRSs (e.g. following the transfer of a financial asset available for sale).

Transfer

This section comprises the distribution of ordinary or extraordinary dividends, decreases in capital and other reserves (for redemption of shares, equity instruments and distributable reserves, the purchase of own shares, for the reclassification of liabilities previously recognized in equity instruments and, in the consolidated financial statements, for changes in scope of consolidation) and the attribution of profit or loss recognized directly in equity and in other balance sheet items (i.e. gains or losses on cash flow hedging instruments allocated to the carrying amount of hedged instruments).

Changes in ownership interests

This section comprises the effects capita transaction of the subsidiaries, that do not result in the loss of control

Existence

This section comprises the equity components and gains or losses directly recognized in equity at the end of the reporting period.

The statement illustrates all changes net of taxes and gains and losses arising from the valuation of financial assets available for sale, attributable to policyholders and accounted for in the insurance liabilities.

Cash Flows statement

The report, prepared using the indirect method, is drawn up in accordance with the ISVAP (now IVASS) requirements n. 7 of 13 July 2007, as amended by Measure ISVAP (now IVASS) No. 2784 of 8 March 2010, and distinguishing its component items among operating, investing and financing activities.

Other information

Fair value

With effect from 1st January 2013, the Generali Group has implemented IFRS 13 - Fair Value Measurement. This standard provides guidance on fair value measurement and requires disclosures about fair value measurements, including the classification of financial assets and liabilities in fair value hierarchy levels.

With reference to the investments, Generali Group measures financial assets and liabilities at fair value in the financial statements, or discloses the contrary in the notes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). In particular, an orderly transaction takes place in the principal or most advantageous market at the measurement date under current market conditions.

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

(a) in the principal market for the asset or liability; or

(b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value is equal to market price if market information are available (i.e. relative trading levels of identical or similar instruments) into an active market, which is defined as a market where the items traded within the market are homogeneous, willing buyers and sellers can normally be found at any time and prices are available to the public.

If there isn't an active market, a valuation technique should be used which shall maximise the observable inputs. If the fair value cannot be measured reliably, amortised cost is used as the best estimate in determining the fair value.

As for measurement and disclosure, the fair value depends on the unit of account, depending on whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities in accordance with the related IFRS.

However when determining fair value, the valuation should reflect its use if in combination with other assets.

With reference to non-financial assets, fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

For the liabilities, the fair value is represented by the price that would be paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price).

When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.

Fair value hierarchy

Assets and liabilities measured at fair value in the consolidated financial statements are measured and classified in accordance with the fair value hierarchy in IFRS13, which consists of three levels based on the observability of inputs within the corresponding valuation techniques used.

The fair value hierarchy levels are based on the type of inputs used to determine the fair value with the use of adequate valuation techniques, which shall maximize the market observable inputs and limit the use of unobservable inputs:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (i.e. 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; inputs other than quoted prices that are observable for the asset or liability; market-corroborated inputs).
- Level 3: inputs are unobservable inputs for the asset or liability, which reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk (of the model used and of inputs used).

The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability.

A fair value measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised.

If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorised within the level attributable to the input with the lowest level utilized.

Adequate controls have been set up to monitor all measurements including those provided by third parties. If these checks show that the measurement is not considered as market corroborated the instrument must be classified in level 3. In this case, generally the main inputs used in the valuation techniques are volatility, interest rate, yield curves, credit spreads, dividend estimates and foreign exchange rates.

Valuation techniques

Valuation techniques are used when a quoted price is not available or shall be appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Single or multiple valuation techniques valuation technique will be appropriate. If multiple valuation techniques are used to measure fair value, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

Three widely used valuation techniques are:
- market approach: uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities;
- cost approach: reflects the amount that would be required currently to replace the service capacity of an asset; and
- income approach: converts future amounts to a single current (i.e. discounted) amount.

Application to assets and liabilities

- Debt securities

Generally, if available and if the market is defined as active, fair value is equal to the market price.

In the opposite case, the fair value is determined using the market and income approach. Primary inputs to the market approach are quoted prices for identical or comparable assets in active markets where the comparability between security and benchmark defines the fair value level. The income approach in most cases means a discounted cash flow method where either the cash flow or the discount curve is adjusted to reflect credit risk and liquidity risk, using interest rates and yield curves commonly observable at frequent intervals. Depending on the observability of these parameters, the security is classified in level 2 or level 3.

- Equity securities

Generally, if available and if the market is defined as active, fair value is equal to the market price.

In the opposite case, the fair value is determined using the market and income approach. Primary inputs to the market approach are quoted prices for identical or comparable assets in active markets where the comparability between security and benchmark defines the fair value level. The income approach in most cases means a discounted cash flow method estimating the present value of future dividends. Depending on the observability of these parameters, the security is classified in level 2 or level 3.

- Investments fund units

Generally, if available and if the market is defined as active, fair value is equal to the market price.
In the opposite case, the fair value of IFU is mainly determined using net asset values (NAV) provided by the fund's managers provided by the subjects responsible for the NAV calculation. This value is based on the valuation of the underlying assets carried out through the use of the most appropriate approach and inputs, eventually adjusted for illiquidity and consequently hierarchized in accordance with the quality of used inputs. Moreover, depending on how the share value is collected, directly from public providers or through counterparts, the appropriate hierarchy level is assigned. If this NAV equals the price at which the quote can be effectively traded on the market in any moment, the Group considers this value equiparable to the market price.

- Private equity funds and Hedge funds

Generally, if available and if the market is defined as active, fair value is equal to the market price.

In the opposite case, the fair value of private equity funds and hedge funds is generally expressed as the net asset value at the balance sheet date, determined using periodical net asset value and audited financial statements provided by fund administrators. If at the balance sheet date, such information is not available, the latest official net asset value is used. The fair value of these investments is also closely monitored by a team of professionals within the Group.

- Derivatives

Generally, if available and if the market is defined as active, fair value is equal to the market price.

In the opposite case, the fair value of derivatives is determined using internal valuation models or provided by third parties. In particular, the fair value is determined primarily on the basis of income approach using deterministic or stochastic models of discounted cash flows commonly shared and used by the market.

The main input used in the valuation include volatility, interest rates, yield curves, credit spreads, dividend estimates and exchange rates observed at frequent intervals.

With reference to the fair value adjustment for credit and debt risk of derivatives (credit and debt valuation adjustment CVA / DVA), the Group considered this adjustment as not material for the valuation of its positive and negative derivatives, as almost entirely of them is collateralized. Their evaluation does not take into account for these adjustments.

- Financial assets where the investment risk is borne by the policyholders and related to pension funds

Generally, if available and if the market is defined as active, fair value is equal to the market price. On the contrary, valuation methodologies listed above for the different asset classes shall be used.

- Financial liabilities

Generally, if available and if the market is defined as active, fair value is equal to the market price.

The fair value is determined primarily on the basis of the income approach using discounting techniques.

In particular, the fair value of debt instruments issued by the Group are valued using discounted cash flow models based on the current marginal rates of funding of the Group for similar types of loans, with maturities consistent with the maturity of the debt instruments subject to valuation.

The fair value of other liabilities relating to investment contracts is determined using discounted cash flow models that incorporate several factors, including the credit risk embedded derivatives, volatility, servicing costs and redemptions. In general, however, are subject to the same valuation techniques used for financial assets linked policies.

Accounting for derivatives

Derivatives are financial instruments or other contracts with the following characteristics:

- their value changes in response to the change in interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or other pre-defined underlying variables;
- they require no initial net investment or, if necessary, an initial net investment that is smaller than one which would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- hey are settled at a future date. Derivatives are classified as at fair value through profit or loss.

In relation to the issue of some subordinated liabilities, the Group hedged the interest expense rates and GBP/EUR exchange rate, recognised as cash flow hedges and accounted for as hedging instruments.

According to this accounting model the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in an appropriate item of comprehensive income while the ineffective portion of the gains or loss on the hedging instrument is recognized in profit or loss. The amount accumulated in the other components of comprehensive income is reversed to profit and loss account in line with the economic changes of the hedged item.

When the hedging instrument expires or is sold, or the hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instruments, that remains recognized directly in the other components of other comprehensive income from the period when the hedge was effective, remains separately recognized in comprehensive income until the forecast transaction occurs. However, if the forecasted transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that remains recognized directly in the other components of comprehensive income from the period when the hedge was effective is immediately recognized in profit or loss.

With reference to emissions of some subordinated liabilities, the Group has entered into hedging transactions of the interest rates volatility and exchange rate fluctuations GBP/EURO, which for accounting purposes is designated as hedging the volatility of cash flows (cash flow hedge) and accounted adopting the hedge accounting technique.

Further the Group set cash flow hedges on forecast refinancing operations of subordinated liabilities that are accounted for as hedge of a forecast operations, that are highly probable and could affect profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in an appropriate item of comprehensive income. The ineffective portion of the gains or loss on the hedging instrument is recognized in profit or loss. If a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment.

Hedges of a net investment in a foreign operation are accounted for similarly to cash flow hedges: the effective portion of gain or loss on the hedging instrument is recognized among the components of profit or loss, while the part is not effective be recognized in the separate income statement.

Impairment losses on financial assets

As for financial assets, except investments at fair value through profit or loss, IAS 39 is applied whether there is any objective evidence that they are impaired.

Evidence of impairment includes, for example, significant financial difficulties of the issuer, its default or delinquency in interest or principal payments, the probability that the borrower will enter bankruptcy or other financial reorganisation and the disappearance of an active market for that financial asset.

The recognition of impairment follows a complex analysis in order to conclude whether there are conditions to effectively recognize the loss. The level of detail and the detail with which testing is being undertaken varies depending on the relevance of the latent losses of each investment.

A significant or prolonged decline in the fair value of an investment in an equity instrument below its average cost is considered as an objective evidence of impairment.

The threshold of significance is defined at 30%, while the prolonged decline in fair value is defined as a continuous decline in market value below average cost for 12 months.

The prolonged decline in value of bonds and loans are evaluated as a result of specific analysis that involve the single issuances.

If an investment has been impaired in previous periods, further fair value declines are automatically considered prolonged.

If there is objective evidence of impairment the loss is measured as follows:
- on financial assets at amortised cost, as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate;
- on available for sale financial assets, as the difference between the cost and the fair value at the measurement date.

Reversals of impairment are recognized respectively: in the profit or loss in the case of debt instruments, in the equity reserve in the case of equity securities including shares of mutual funds (IFU).

Use of estimates

The preparation of financial statements compliant to IFRS requires the Group to make estimates and assumptions that affect items reported in the consolidations financial balance sheet and income statement and the disclosure of contingent assets and liabilities. The use of estimates mainly refers to as follows:
- insurance provisions for the life and non-life segment;

- financial instruments measured at fair value classified in level 3 of the fair value hierarchy;
- the analysis in order to identify durable impairments on intangible assets (e.g. goodwill) booked in in the balance sheet (impairment test);
- deferred acquisition costs and value of business acquired;
- other provisions
- deferred and anticipated taxes;
- defined benefit plan obligation;
- share-base payments.

Estimates are periodically reviewed and are based on key management's best knowledge of current facts and circumstances. However, due to the complexity and uncertainty affecting the above mentioned items, future events and actions, actual results ultimately may differ from those estimates, possibly significantly.

Further information on the process used to determine assumptions affecting the above mentioned items and the main risk factors are included in the paragraphs on accounting principles and in the risk report.

Share based payments

The stock option plans granted by the Board in past periods configure as share based payments to compensate officers and employees. The fair value of the share options granted is estimated at the grant date and is based on the option pricing model that takes into account, at the grant date, factors such as the exercise price and the life of the options, the current price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares and the risk-free interest rate as well as the specific characteristics of the plan itself. The pricing model is based on a binomial simulation that takes into account the possibility of early exercise of the options. If present, the pricing model estimates separately the option value and the probability that the market conditions are satisfied. Therefore, the abovementioned values determine the fair value of equity instruments granted.

Long term incentive plans, aimed at strengthening the bond between the remuneration of management and expected performance in accordance with the Group strategic plan, as well as the link between remuneration and generation of value in comparison with peers, are also treated as an equity-settled share-based payment.

The fair value of the right to obtain free shares in relation to market condition is assessed at grant date and is based on a model that takes into account factors such as historical volatility of the Generali share price and of the peer group, the correlation between these shares, the dividends expected on the shares, the risk-free interest rate as well as the specific characteristics of the plan itself. The pricing model is based on simulation models generally used for this type of estimation. Other conditions different than market condition are considered external to this valuation. The probability that these conditions are satisfied, combined with the estimated fair value of the right to obtain free shares, defines the overall plan cost.

The cost is charged to the profit and loss account and, as a double-entry, to equity during the vesting period, taking into account, where possible, the probability of satisfaction of the vesting condition related to the rights granted.

The charge or credit to the profit or loss for a period represents the change in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or a non-vesting condition. These are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense to be recognised is the expense had the terms had not been modified, only if the original terms of the award are met.

An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Information of financial and insurance risk

In accordance with IFRS 7 and IFRS 4, the information which enables the users of financial statements to evaluate the Group exposure to financial and insurance risks and how these risks are managed is disclosed in the section “Risk report” in the management report. It provides a description of the principal risks to which the Group is exposed and risk governance.

Further information regarding risk exposures are included in the Notes.