Fair value Measurement

IFRS 13 - Fair Value Measurement provides guidance on fair value measurement and requires disclosures about fair value measurements, including the classification of financial assets and liabilities in the levels of fair value hierarchy.

With reference to the investment, Generali Group measures financial assets and liability at fair value of in the financial statements, or discloses it 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, it should be used a valuation technique which however shall maximise the observable inputs.

If the fair value cannot be measured reliably, amortized cost is used as the best estimate in determining the fair value.

As for measurement and disclosure, the fair value depends on its 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.

The table below illustrates both the carrying amount and the fair value of financial assets and liabilities recognised in the balance sheet at 31 December 2016[4].

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With reference to investments in subsidiaries, associates and joint ventures, the book value, based on the fraction of equity for associates and interests in joint ventures or on cost adjusted for any impairment losses for non-consolidated subsidiaries, was used as a reasonable proxy of their fair value.

Carrying amount and Fair value

(€ million)	31/12/2016	
	Total carrying amount	Total fair value
Available for sale financial assets	313,933	313,933
Financial assets at fair value through profit or loss	16,797	16,797
Held to maturity investments	2,168	2,272
Loans	42,181	47,212
Land and buildings (investment properties)	12,584	18,522
Own used land and buildings	2,810	3,330
Investments in subsidiaries, associated companies and joint ventures	1,194	1,194
Cash and cash equivalents	7,533	7,533
Investments back to unit and index-linked policies	78,317	78,317
Total investments	**477,518**	**489,111**
Financial liabilities at fair value through profit or loss	19,484	19,484
Other liabilities	14,639	15,960
Liabilities to banks or customers	11,272	11,277
Total financial liabilities	**45,396**	**46,721**

From the table above, in line with IFRS 13 definitions, the following items, part of below mentioned balance sheet categories, are excluded:
- Loans and receivables: reinsurance deposits provided and term deposits;
- Other financial liabilities: reinsurance deposits received and liabilities arising from investment contracts measured at cost sold by insurance entities.

40 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:
- 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.

The table shows the classification of financial assets and liabilities measured at fair value among the levels of fair value hierarchy as defined by IFRS13.

Fair Value Hierarchy

31/12/2016	Level 1	Level 2	Level 3	Total
Available for sale financial assets	272,311	34,745	6,877	313,933
Equities	6,790	691	1,711	9,192
Bonds	247,655	31,243	2,006	280,903
Investment funds units	17,247	2,453	709	20,409
Other assets available for sale financial	620	359	2,450	3,429
Financial assets at fair value through profit or loss	79,707	13,599	1,807	95,114
Equities	19	4	34	57
Bonds	3,741	1,640	124	5,505
Investment fund units	8,427	395	289	9,111
Derivatives	12	1,429	3	1,444
Hedging derivatives	0	367	0	367
Investments back to policies where the risk is borne by the policyholders	67,508	9,528	1,280	78,317
Other assets at fair value through profit or loss	0	236	77	314
Total assets at fair value	**352,019**	**48,345**	**8,684**	**409,047**
Financial liabilities at fair value through profit or loss	16,546	2,882	56	19,484
Financial liabilities related to investments contracts issued by insurance companies	16,538	906	46	17,491
Derivatives	5	1,240	1	1,246
Hedging derivatives	0	706	7	713
Other financial liabilities	2	30	2	33
Total liabilities at fair value	**16,546**	**2,882**	**56**	**19,484**

Fair Value Hierarchy: comparative period

31/12/2015	Level 1	Level 2	Level 3	Total
Available for sale financial assets	252,186	31,067	6,146	289,399
Equities	7,108	749	1,726	9,583
Bonds	228,303	28,108	1,628	258,039
Investment funds units	16,147	1,967	449	18,563
Other assets available for sale financial	629	242	2,343	3,214
Financial assets at fair value through profit or loss	77,559	14,759	2,067	94,385
Equities	182	1	1	185
Bonds	3,592	1,442	164	5,199
Investment fund units	10,630	299	413	11,342
Derivatives	6	1,625	0	1,630
Hedging derivatives	0	338	0	338
Investments back to policies where the risk is borne by the policyholders	63,149	10,370	1,447	74,966
Other assets at fair value through profit or loss	0	684	42	726
Total assets at fair value	**329,745**	**45,826**	**8,213**	**383,785**
Financial liabilities at fair value through profit or loss	15,687	4,222	173	20,082
Financial liabilities related to investments contracts issued by insurance companies	15,684	1,090	147	16,921
Derivatives	2	2,564	0	2,566
Hedging derivatives	0	543	25	568
Other financial liabilities	1	26	2	28
Total liabilities at fair value	**15,687**	**4,222**	**173**	**20,082**

41 Transfers of financial instruments measured at fair value between Level 1 and Level 2

Generally transfers between levels are attributable to changes in market activities and observability of the inputs used in valuation techniques to determine the fair value of certain instruments.

Financial assets and financial liabilities are mainly transferred from level 1 to level 2 when the liquidity and the frequency of transactions are no longer indicative of an active market. Conversely, for transfers from level 2 to level 1.

The transfers were as follows:

- from level 2 to level 1 € 2,235 and from level 1 to level 2 € 1,683 million of corporate and government bonds, mainly due to changed availability of marker observable inputs;
- from level 2 to level 1 € 120 million and from level 1 to level 2 € 295 million of investment fund units and other investments classified as available for sale, mainly due to changed availability of quoted prices and changed liquidity of mentioned assets.
- from level 2 to level 1 € 292 and from level 1 to level 2 € 105 of investments where the risk is borne by policy-holders for the same reason as in point above.

42 Additional information on level 3

The amount of financial instruments classified in Level 3 represents 2.1% of total financial assets and liabilities at fair value, stable compared to 31 December 2015.

Generally, the main inputs used in valuation techniques are volatility, interest rates, yield curves, credit spreads, dividend estimates and exchange rates.

The more significant assets classified within Level 3 are the following:

- Unquoted equities

It includes unquoted equity securities, mainly classified into available for sale. Their fair value is determined using the valuation methods described above or based on the net asset value of the company. These contracts are valued individually using appropriate input depending on the security and therefore neither a sensitivity analysis nor an aggregate of unobservable inputs used would be indicative of the valuation.

In addition, for certain securities the amortized cost is considered to be a reasonable proxy for fair value, and does not therefore apply a sensitivity analysis.

- IFU funds, private equity and hedge funds

It includes unquoted IFU funds, private equity and hedge funds, which are classified into available for sale and fair value through profit or loss. Their fair value is substantially provided by the fund administrators on the basis of the net asset value of the fund.

The fair value of these investments is closely monitored by a team of professionals inside the Group.

Being the asses described, by their nature, on a straight-line basis sensitive to changes in the value of the underlying assets, the Group considers that, for a given change in the fair value of the underlying of such assets, their value undergoes a similar variation.

For more details on the nature of Group funds please refer to the section Investments in the Notes

- Bonds

Are corporate bonds, classified into available for sale and fair value through profit or loss. Their fair value is mainly determined based on the market or income approach. In terms of sensitivity analysis any changes in the inputs used in the valuation do not cause a significant impact on the fair value at the Group level considering the lack of materiality of these securities classified in level 3.

Moreover, given the analyses described above, the Group has decided to classify all the *asset-backed securities* items in Level 3 considering that their evaluation is generally not corroborated by market inputs. For what regards prices provided by providers or counterparties, bonds for which it is not possible to replicate the price using market inputs have been classified in Level 3. Therefore, given the lack of information concerning the inputs used for the determination of the price, the Group is not able to perform a sensitivity analysis on this bonds.

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

Their fair value is determined using the valuation methods and observations on sensitivity analysis and input described above.

In addition to the analyses described above, the Group has decided to classify all asset-backed securities in Level 3 since their evaluation is not generally supported by market inputs. Regarding prices from providers or counterparties have been classified in Level 3 all those titles for which you cannot replicate the price through market inputs.

The following table shows a reconciliation of financial instruments measured at fair value and classified as level 3. In particular, as mentioned above, the transfers highlighted with reference to Level 3 are attributable to a more precise allocation among levels due to a better analysis of the inputs used in the valuation primarily of unquoted equities.

It should be mentioned that the split of “Other changes” for each available for sale asset class contains relevant amounts deriving from some reclassifications between categories, incurred in the first semester of the year, and from changes in the consolidation perimeter.
For what regards financial assets where the investment risk is borne by the policyholders and related to pension funds the relevant amounts of “Other changes” can be explained by the movements of specific assets within the class, for example cash and credits.

In should also be mentioned that, in addition to physiological movements in “Net transfers in (out of) Level 3”, the Group has transferred €510 million of corporate securities from Level 1 to Level 3, because it is considered that market prices are not representative of their fair value.

Rollforward of financial instruments classified as level 3

(€ million)	Carrying amount at the beginning of the period	Purchases and issues	Net transfers in (out of) Level 3	Disposals through sales and settlements
Available for sale assets	**6,146**	**1,225**	**190**	**-579**
- Equities	1,726	159	3	-159
- Bonds	1,628	42	460	-114
- Investment fund units	449	83	-69	-137
- Other available for sale financial assets	2,343	941	-204	-169
Financial assets at fair value through profit or loss	**2,067**	**288**	**-67**	**-148**
- Equities	1	0	0	0
- Bonds	164	21	-20	-32
- Investment fund units	413	45	-32	-2
- Derivatives	0	0	0	0
- Hedging derivatives	0	0	0	0
Investments back to policies where the investment risk is borne by the policyholders	1,447	167	-15	-73
Other assets at fair value through profit or loss	42	55	0	-41
Total assets at fair value	**8,213**	**1,513**	**123**	**-728**
Financial liabilities at fair value through profit or loss	**173**	**8**	**-107**	**0**
- Financial liabilities related to investment contracts issued by insurance companies	147	8	-107	0
- Derivatives	0	0	0	0
- Hedging derivatives	25	0	0	0
Other financial liabilities	2	0	0	0
Total liabilities at fair value	**173**	**8**	**-107**	**0**

Net unrealised gains and losses recognized in P&L	Net unrealised gains and losses recognized in OCI	Other changes	Carrying amount at the end of the period	Net impairment loss of the period recognised in P&L	Net realised gains of the period recognised in P&L
0	**-53**	**-52**	**6,877**	**189**	**-3**
0	61	-78	1,711	60	14
0	2	-12	2,006	10	-19
0	-75	458	709	100	-7
0	-41	-419	2,450	18	9
-58	**0**	**-274**	**1,807**	**-**	**-6**
0	0	33	34	-	0
-5	0	-3	124	-	0
-64	0	-71	289	-	0
3	0	0	3	-	-5
0	0	0	0	-	0
8	0	-254	1,280	-	-8
0	0	22	77	-	7
-58	**-53**	**-326**	**8,684**	**-**	**-9**
-16	**0**	**-2**	**56**	**-**	**-1**
1	0	-3	46	-	0
0	0	1	1	-	-1
-17	0	0	7	-	0
0	0	0	2	-	0
-16	**0**	**-2**	**56**	**-**	**-1**

43 Information on fair value hierarchy of assets and liabilities not measured at fair value

The table here below provides information on the fair value hierarchy for the main investment classes and financial liabilities.

In comparison to the previous period some impacts due to methodological changes regarding the attribution of Fair value hierarchy levels can be observed, mainly related to repurchase arrangements, classified as *Other debt,* which are considered as Level 2.

Fair Value Hierarchy of assets and liabilities not measured at fair value

31/12/2016	Level 1	Level 2	Level 3	Total
Held to maturity investments	1,324	948	0	2,272
Loans	4,452	33,794	7,263	45,509
Debt securities	4,443	28,636	120	33,198
Other loans	9	5,158	7,143	12,311
Receivables from banks and customers	0	993	710	1,703
Investments in subsidiaries, associated companies and joint ventures	0	0	1,194	1,194
Land and buildings (investment properties)	0	0	18,522	18,522
Own used land and buildings	0	0	3,321	3,321
Total assets	**5,776**	**35,735**	**31,010**	**72,521**
Other liabilities	12,286	1,510	2,164	15,960
Subordinated liabilities	8,697	25	1,111	9,834
Senior debt	3,581	262	48	3,892
Other debt	8	1,222	1,004	2,235
Liabilities to banks and customers	10	6,267	5,000	11,277
Total liabilities	**12,297**	**7,777**	**7,164**	**27,237**

Fair Value Hierarchy of assets and liabilities not measured at fair value

31/12/2015	Level 1	Level 2	Level 3	Total
Held to maturity investments	949	1,151	40	2,140
Loans	5,425	36,777	6,850	49,052
Debt securities	5,392	31,384	116	36,892
Other loans	32	5,393	6,734	12,160
Receivables from banks and customers	1	1,057	724	1,783
Investments in subsidiaries, associated companies and joint ventures	0	0	1,369	1,369
Land and buildings (investment properties)	0	0	17,385	17,385
Own used land and buildings	0	0	3,286	3,286
Total assets	**6,375**	**38,985**	**29,654**	**75,015**
Other liabilities	13,626	548	2,516	16,690
Subordinated liabilities	9,307	23	1,136	10,465
Senior debt	3,558	13	345	3,916
Other debt	762	512	1,035	2,309
Liabilities to banks and customers	0	3,880	5,327	9,206
Total liabilities	**13,626**	**4,427**	**7,842**	**25,896**

- Held to maturity investments

The category includes primarily bonds, which valuation is above described. If the fair value cannot be reliably determined, the amortized cost is used as the best estimate for the determination of fair value..

- Loans

The category includes bonds, which valuation is described above, mortgages and other loans .

In particular, mortgages and other loans are valued on the basis of future payments of principal and interest discounted at the interest rates for similar investments by incorporating the expected future losses or alternatively discounting (with risk-free rate) to the probable future cash flows considering market or entity- specific data (ie probability of default). These assets are classified as level 2 or 3 depending on whether or not the inputs are corroborated by market data.

If the fair value cannot be reliably determined, the amortized cost is used as the best estimate for the determination of fair value.

- Receivables from banks or customers

Considering their nature, the amortized cost is generally considered a good approximation of fair value and therefore classified within level 3. If appropriate, they are valued at market value, considering observable inputs, and therefore classified within level 2.

- Land and buildings (investment and self-used properties)

These assets are mainly valuated on the basis of inputs of similar assets in active markets or of discounted cash flows of future income and expenses of the rental considered as part of the higher and best use by a market participant. Based on the analysis of inputs used for valuation, considering the limited cases where the inputs would be observable in active markets, the Group proceeded to classify the whole category at level 3.

In particular, the valuation takes into consideration not only the discounted net future income but also the peculiarities of the properties such as intended use and location as well as the entity of the vacancy rate.

The fair value of land and buildings (investment properties) is mainly based on external appraisals based on methods described above.

- Investments in subsidiaries, associated companies and joint ventures

The carrying amount, based on the share of equity for associates and interests in joint ventures or on cost adjusted for eventual impairment losses for non-consolidated subsidiaries, is used as a reasonable estimate of the related fair value and, therefore, these investments are classified in level 3.

- Subordinated debts, loans and bonds and liabilities to banks and customers

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 the Group financing for similar types of instruments, with maturities consistent with the residual maturity of the debt instruments subject to valuation.

If measured at amortized cost as an approximation of fair value, they are classified in Level 3.