

Investments

In the table below Group investments are split into the four IAS categories, as reported on balance sheet, as well as by nature into the equity instruments, fixed income instruments, real estate instruments, other investments and cash and similar instruments.

Given their short term investments nature, the reverse repurchase agreements are reclassified within 'cash and similar instruments'. For the same reason repurchase agreements are reclassified in the same item, as well. Derivatives instruments are presented net of derivatives held as financial liabilities, Hedging derivatives are ex-

cluded, as they are presented within hedged item asset classes.

Investments fund units (IFU) are allocated to respective asset classes based on prevailing underlying assets. IFU are therefore allocated within the items equity instruments, fixed income instruments, real estate instruments, other investments and cash and similar instruments.

Comments on specific balance sheet items are presented in the following paragraphs.

Investments

(€ million)	31/12/2016		31/12/2015	
	Total Book value	Impact (%)	Total Book value	Impact (%)
Equity instruments	17,701	4.5%	18,353	4.9%
Available for sale financial assets	15,942	4.0%	15,469	4.1%
Financial assets at fair value through profit or loss	1,758	0.4%	2,884	0.8%
Fixed income instruments	348,729	88.1%	328,454	87.0%
Bonds	317,427	80.2%	297,552	78.8%
Other fixed income instruments	31,302	7.9%	30,903	8.2%
Held to maturity investments	2,168	0.5%	1,984	0.5%
Loans	42,090	10.6%	46,175	12.2%
Available for sale financial assets	294,951	74.5%	271,326	71.8%
Financial assets at fair value through profit or loss	9,520	2.4%	8,970	2.4%
Real estate investments	14,489	3.7%	13,783	3.6%
Other investments	3,735	0.9%	3,338	0.9%
Investments in subsidiaries, associated companies and joint ventures	1,194	0.3%	1,369	0.4%
Derivatives	197	0.0%	-935	-0.2%
Receivables from banks or customers	1,703	0.4%	1,764	0.5%
Other investments	640	0.2%	1,140	0.3%
Cash and similar instruments	11,099	2.8%	13,768	3.6%
Total	395,752	100.0%	377,697	100.0%
Investments back to unit and index-linked policies	78,317		74,966	
Total investments	474,069		452,662	

7 Held to maturity investments

Held to maturity investments

(€ million)	31/12/2016	31/12/2015
Quoted bonds	2,168	1,949
Other held to maturity investments	0	35
Total	2,168	1,984

The Group limits the use of this category only to high quality quoted bonds that Group companies are able to hold till maturity.

Debt securities in this category are almost entirely investment grade.

The fair value of the held to maturity investments amounted to € 2,272 million, entirely represented by quoted bonds.

8 Loans and receivables

Loans and receivables

(€ million)	31/12/2016	31/12/2015
Loans	42,475	46,434
Unquoted bonds	28,850	32,365
Deposits under reinsurance business accepted	782	755
Other loans and receivables	12,843	13,314
Mortgage loans	6,548	6,290
Policy loans	2,458	2,715
Term deposits with credit institutions	1,215	1,899
Other loans	2,622	2,411
Receivables from banks or customers	1,703	1,764
Receivables from banks	223	202
Receivables from customers	1,480	1,562
Total	44,178	48,198

This category accounts for 9.4% of total investments. It mainly consisted of unquoted bonds and mortgage loans, which represent 67.9% and 15.4% of total loans, respectively. Vast majority of the bonds category is represented by fixed income medium-to-long term bond instruments.

The decrease was mainly due to net sales carried out during the year.

The debt securities of this category are almost entirely investment grade and more than 60% of the class boasts a rating greater or equal to A.

Receivables from banks or customers are mainly short-term.

The fair value of total loans amounted to € 49,216 million, of which € 33,198 million related to bonds.

9 Available for sale financial assets

Available for sale financial assets

(€ million)	31/12/2016	31/12/2015
Unquoted equities at cost	43	43
Equities at fair value	9,149	9,540
quoted	6,676	7,009
unquoted	2,473	2,531
Bonds	280,903	258,039
quoted	277,617	254,400
unquoted	3,287	3,639
Investment fund units	20,409	18,563
Other available for sale financial assets	3,429	3,214
Total	313,933	289,399

This category accounted for 66.9% of the total investments. The increase compared 31 December 2015 was attributable to net acquisition in the period, particularly of debt securities.

Available for sale bonds represented 95.2% of total bonds with a rating higher or equal to BBB, class assigned to the Italian government bonds.

As already mentioned, available for sale financial assets are measured at fair value and unrealized gains and losses

on these assets are accounted for in shareholders' equity in an appropriate reserve. The amortized cost of the available for sale financial assets amounted to € 281,043 million.

The table below shows unrealized gains and losses and gains and losses recognized in profit or loss in the reporting period of available for sale financial assets:

Available for sale financial assets - unrealised gains and losses 31/12/2016

(€ million)	Fair value	Unrealized gains / losses	Amortized cost
Unquoted equities at cost	43	0	43
Equities at fair value	9,149	1,335	7,814
Bonds	280,903	29,865	251,038
Investment fund units	20,409	1,053	19,356
Other available for sale financial assets	3,429	637	2,792
Total	313,933	32,891	281,043

Available for sale financial assets - unrealised gains and losses 31/12/2015

(€ million)	Fair value	Unrealized gains / losses	Amortized cost
Unquoted equities at cost	43	0	43
Equities at fair value	9,540	1,230	8,310
Bonds	258,039	27,675	230,364
Investment fund units	18,563	992	17,571
Other available for sale financial assets	3,214	780	2,434
Total	289,399	30,677	258,722

Available for sale financial assets: gains and losses at profit or loss 31/12/2016

(€ million)	Realized gains	Realized losses	Net impairment losses
Equities	541	-194	-457
Bonds	1,286	-156	-379
Investment fund units	232	-68	-192
Other available for sale financial assets	29	-6	-71
Total	2,089	-424	-1,099

Available for sale financial assets: gains and losses at profit or loss 31/12/2015

(€ million)	Realized gains	Realized losses	Net impairment losses
Equities	1,241	-372	-331
Bonds	1,598	-139	-26
Investment fund units	476	-110	-219
Other available for sale financial assets	4	-16	-39
Total	3,319	-637	-614

10 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

(€ million)	Financial assets held for trading		Financial assets designated as at fair value through profit or loss		Total financial assets at fair value through profit or loss	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Equities	6	5	51	180	57	185
Quoted	6	5	14	18	19	23
Unquoted	0	0	37	162	37	162
Bonds	38	23	5,467	5,175	5,505	5,199
Quoted	34	23	4,271	4,171	4,306	4,194
Unquoted	3	0	1,196	1,004	1,199	1,004
Investment fund units	2	3	9,109	11,339	9,111	11,342
Derivatives	1,444	1,630	0	0	1,444	1,630
Hedging derivatives	0	0	367	338	367	338
Investments back to policies where the investment risk is borne by the policyholders and back to pension funds	0	0	78,317	74,966	78,317	74,966
Other financial investments	0	0	314	726	314	726
Total	1,489	1,661	93,625	92,724	95,114	94,385

This category accounted for 20.3% of total investments. In detail, these investments were mainly allocated in the life segment (€ 93,562 million, which accounted for 98.4% of this category) whereas the residual part referred to the non-life segment (€ 1,385 million which accounted for 1.4% of this category) and in the financial segment (€ 167 million, which accounted for 0.2% of this category).

Bond securities in this category belong to classes of rating greater than or equal to BBB.

The increase compared to 31 December 2015 was mainly due to the increase in financial assets where the risk is borne by policyholders.

Assets covering contracts where the financial risk is borne by the policyholders

(€ million)	Policies where the investment risk is borne by the policyholders		Pension funds		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Assets	76,614	73,245	1,703	1,721	78,317	74,966
Total assets	76,614	73,245	1,703	1,721	78,317	74,966
Financial liabilities	16,220	15,673	1,184	1,121	17,404	16,793
Insurance provisions (*)	60,616	57,612	40	26	60,657	57,637
Total liabilities	76,837	73,284	1,224	1,147	78,061	74,431

(*) Insurance provisions are net of amounts ceded to reinsurers from insurance provisions.

11 Land and buildings (investment properties)

The table below shows the main changes in land and buildings (investment properties) in the reporting period, i.e. those held to earn rentals or capital appreciation or both, and their fair value:

Investment properties

(in milioni euro)	31/12/2016	31/12/2015
Gross book value as at 31 December previous year	14,366	14,875
Accumulated depreciation and impairment as at 31 December previous year	-2,254	-2,247
Carrying amount as at 31 December previous year	12,112	12,628
Foreign currency translation effects	-16	112
Acquisition of the period	426	257
Capitalized expenses	57	112
Changes in consolidation scope	261	-3
Reclassifications	163	-28
Sales of the period	-292	-788
Depreciation of the period	-173	-171
Impairment loss of the period	-46	-82
Reversal of impairment of the period	93	73
Carrying amount as at the end of the period	12,584	12,112
Accumulated depreciation and impairment as at the end of the period	2,490	2,254
Gross book value as at the end of the period	15,074	14,366
Fair value	18,522	17,385

12 Cash and cash equivalents

Cash and cash equivalents

(€ million)	31/12/2016	31/12/2015
Cash and cash equivalents	649	211
Cash and balances with central banks	606	41
Cash at bank and short-term securities	6,279	8,792
Total	7,533	9,044

Details on investments

Bonds

Group's exposures to bonds - detailed by rating and maturity - are reported at book value in the following tables:

Bonds: breakdown by rating

(€ million)	Available for sale fin. assets	Financial assets at fair value through profit	Held to maturity investments	Loans	Total
AAA	24,496	419	18	7,370	32,303
AA	63,313	521	359	6,010	70,203
A	51,136	907	696	4,371	57,110
BBB	128,436	2,910	901	9,382	141,629
Non investment grade	12,750	529	186	846	14,311
Not Rated	773	220	7	871	1,871
Total	280,903	5,505	2,168	28,850	317,427

Bonds: breakdown by maturity

(€ million)	Available for sale financial assets	Financial assets at fair value through profit or loss	Held to maturity investments	Loans	Total
Until 1 year	8,279	813	137	3,399	12,628
From 1 to 5 years	52,339	1,308	956	7,378	61,981
From 5 to 10 years	97,989	713	762	6,914	106,378
More than 10 years	120,669	2,654	312	11,022	134,657
Perpetual	1,628	17	0	137	1,782
Total	280,903	5,505	2,168	28,850	317,427

Bond investments totalled € 317,427 million at the end of the period. The portfolio was composed for € 174,364 million by government bonds, while corporate bonds amounted to € 143,063 million.

Group's exposures to government bonds, detailed by country of risk and rating, are reported at book value in the following tables:

Government bonds: breakdown by country

(€ million)	31/12/2016			
	Total book value	Impact (%)	of which home-country	Impact (%)
Government bonds	174,364		107,976	
Italy	66,121	37.9%	59,805	90.4%
France	32,288	18.5%	24,113	74.7%
Germany	4,838	2.8%	3,760	77.7%
Central and Eastern Europe	15,317	8.8%	7,101	46.4%
Rest of Europe	36,490	20.9%	11,334	31.1%
Spain	14,747	8.5%	5,352	36.3%
Austria	5,403	3.1%	1,999	37.0%
Belgium	9,253	5.3%	2,224	24.0%
Others	7,086	4.1%	1,758	24.8%
Rest of world	8,845	5.1%	1,863	21.1%
Supranational	10,465	6.0%		na

The government bonds portfolio amounted to € 174,364 million at the end of the period, with the 59.2% of the portfolio represented by Italian, French and German debt instruments. The exposure to individual sovereign bonds is mainly allocated to their respective countries of operation.

Government bonds: breakdown by rating

(€ million)	31/12/2016		31/12/2015	
	Total book value	Impact (%)	Total book value	Impact (%)
Government bonds	174,364		163,474	
AAA	17,471	10.0%	21,112	12.9%
AA	54,372	31.2%	53,655	32.8%
A	15,651	9.0%	6,964	4.3%
BBB	84,794	48.6%	78,186	47.8%
Non investment grade	2,016	1.2%	3,420	2.1%
Not Rated	60	0.0%	137	0.1%

In terms of exposure to different rating classes, the Class AAA credit rating includes German and US titles and some supranational issuances. Class AA includes French, Belgian and Austrian government bonds while the class BBB mainly includes Italian and Spanish bonds.

Group's exposures to investments in corporate bonds, detailed by sector and rating, are reported at book value in the following tables:

Corporate bonds: breakdown by sector

(€ million)	31/12/2016	
	Total book value	Impact (%)
Corporate bonds	143,063	
Financial	44,256	30.9%
Covered bonds	27,040	18.9%
Asset-backed	1,554	1.1%
Utilities	20,589	14.4%
Industrial	11,588	8.1%
Consumer	12,480	8.7%
Telecommunication services	7,870	5.5%
Energy	6,853	4.8%
Other	10,832	7.6%

Corporate bonds: breakdown by rating

(€ million)	31/12/2016		31/12/2015	
	Total book value	Impact (%)	Total book value	Impact (%)
Corporate bonds	143,063		134,077	
AAA	14,832	10.4%	23,000	17.2%
AA	15,831	11.1%	11,923	8.9%
A	41,459	29.0%	37,850	28.2%
BBB	56,835	39.7%	46,699	34.8%
Non investment grade	12,295	8.6%	13,244	9.9%
Not Rated	1,810	1.3%	1,362	1.0%

The investments in corporate bonds totalled € 143,063 million at the end of the period. The portfolio was composed for 49.1% by non-financial corporate bonds, for 32.0% by financial corporate bonds and for 18.9% by covered bonds.

Equities

Group's exposures to investments in equities, detailed by sector and country of risk, are reported at fair value in the following tables:

Equity investments: breakdown by sector

€ million)	31/12/2016	
	Total fair value	Impact (%)
Equity instruments	17,701	
Financial	3,865	21.8%
Consumer	1,162	6.6%
Utilities	1,334	7.5%
Industrial	883	5.0%
Other	2,004	11.3%
Alternative investments	4,745	26.8%
Asset allocation funds	3,707	20.9%

Direct equity investments: breakdown by country of risk

€ million)	31/12/2016	
	Total fair value	Impact (%)
Direct equity investments	9,249	
Italy	1,541	16.7%
France	2,811	30.4%
Germany	1,291	14.0%
Central and Eastern Europe	94	1.0%
Rest of Europe	2,222	24.0%
Spain	275	3.0%
Austria	159	1.7%
Switzerland	195	2.1%
The Netherlands	478	5.2%
United Kingdom	194	2.1%
Others	922	10.0%
Rest of world	1,290	13.9%

Real estate investments

Group's exposures to direct real estate investments, detailed by country of location, is reported at fair values in the following table:

Direct real estate investments: breakdown by country of location

(€ million)	31/12/2016		31/12/2016	
	Investment properties		Self-used real estates	
	Total fair value	Impact (%)	Total fair value	Impact (%)
Direct Real-estate investments	18,522		3,330	
Italy	5,134	27.7%	1,657	49.8%
France	5,718	30.9%	312	9.4%
Germany	3,047	16.5%	718	21.5%
Central and Eastern Europe	483	2.6%	66	2.0%
Rest of Europe	3,864	20.9%	457	13.7%
Spain	722	3.9%	82	2.5%
Austria	1,465	7.9%	129	3.9%
Switzerland	1,170	6.3%	210	6.3%
Others	507	2.7%	36	1.1%
Rest of world	275	1.5%	120	3.6%

Further information on reclassified financial instruments

As of 1st January 2009 the Group transferred to the loans and receivables category € 14,658 million of corporate bonds, according to the IAS 39 reclassification option.

At 31 December 2016, after sales and pay backs during the years, the stock of these reclassified financial instruments amounted to € 2,819 million.

Details on reclassified financial instruments

(€ million)	Book Value reclassified as at 1 January 2009	Book Value reclassified as at 1 January 2016	Change of the period	Book Value at the end of the period	Fair Value as at the end of the period
Available for sale financial assets	14,028	3,671	883	2,788	3,263
Financial assets at fair value through profit or loss	630	67	36	31	31
Total reclassified investments	14,658	3,738	919	2,819	3,294

As a consequence of the recovery in the value of corporate bonds, the reclassification in loans category of investments previously classified as available for sale financial assets, implied a missing recognition of the revaluation of the related equity reserve of € 475 million (considering both the group share and minorities), € 77.2 million net of policyholders share and deferred taxes for the 2016 year.

Furthermore, the reclassification into loans category of investments previously classified as financial assets at fair value through profit or loss implied a missing recognition of an unrealized gain in the profit or loss for € 0.6 million, which, net of policyholders share and deferred taxes results immaterial.

Assets transferred that do not qualify for derecognition

Generali Group in the context of its business activities enters into securities lending transactions (REPO e Reverse REPO). In general, if the Group retains substantially all risks and rewards of the financial assets underlying these transactions, the Group continues to recognise the underlying assets.

For REPO contracts, the Group continues to recognise in its financial statements the underlying financial asset as the risks and benefits are retained by the Group. The consideration received upon sale is recognised as a liability.

As far as Reverse REPO transactions are concerned, if all the underlying risks and rewards are retained by the counterparty for the entire life of the transaction, the related financial asset is not recognised as an asset in the Group's financial statements. The consideration paid is accounted for within the loans and receivable category.

Finally, the Group is committed in a variety of transactions in which some financial assets are pledged as collateral but they are still recognised in the financial statements because all risks and rewards are retained by the Group.

At 31 December 2016, the Group has retained substantially all risks and rewards arising from the ownership of the transferred assets and there are no transfers of financial assets which have been completely or partially derecognised on which the Group continues to control. In particular, the Group continues to recognise approximately € 8,997 million of financial assets linked to various contracts and which are still recognised. In particular, approximately € 4,332 are subject to securities lending transactions mainly in France, approximately € 1,249 million are subject to repurchase agreements, while approximately € 3,417 million are assets pledged as collateral (please refer to the paragraph Contingent liabilities, commitments, guarantees, pledged assets and collaterals in section Additional Information).

Derivative financial instruments

The Group's exposure to derivative instruments is mainly associated with economic hedging transactions of financial assets or liabilities, in line with strategies aiming at

mitigating financial and currency risks. The total exposure amounts to € -149 million for a corresponding notional amount of € 33,269 million. The notional exposure is presented in absolute amounts, including positions with both positive and negative balances, and it arises for an amount of € 7,126 million from instruments for which a hedge accounting relationship has been formally designated, in accordance with the international accounting standard IAS 39. The remaining notional amount is attributable to derivative instruments for which, notwithstanding their purpose as economic hedging instruments, a formal hedge accounting relationship has not been activated.

Derivative instruments designated for hedge accounting

The exposure in terms of amounts recognised in the financial statements amounts to € -346 million.

- *Fair value hedge*

Fair value hedging relationships mainly relate to macro-hedging strategies implemented in Life portfolios of subsidiaries operating in Central-Eastern Europe, with particular reference to risks arising from fluctuations in interest rates and foreign exchange rates.

- *Cash flow hedge*

The cash flow hedging relationships mainly relate to cross currency swaps hedging subordinated liabilities issued by the Group in British pound and to micro-hedge and re-investment risk reduction operations in the life portfolios.

- *Hedge of net investment in foreign operations*

The Group continued the hedging strategy aimed at neutralising risks arising from foreign exchange fluctuations of its subsidiaries whose functional currency is the Swiss franc.

Other derivative instruments

The recognised amounts in the financial statements for these exposures at 31 December 2016 amounted to € 197 million for a corresponding notional amount of € 26,079 million, which mainly relates to over-the-counter positions. The exposure is mainly associated with

operations relating to interest rates hedges and foreign exchange rates hedges, with particular reference to the US dollar. Furthermore during the year the Group has renewed the macro hedge strategy aimed at protecting the capital from the risk of a significant reduction in share prices.

In general, in order to mitigate the credit risk arising from over-the-counter transactions, the Group collateralises most of them. Furthermore, a list of selected authorised

counterparties is identified for the opening of new derivative transactions.

Below the detail on exposures in derivatives instruments designated as hedge accounting and other derivative instruments.

Details on exposure in derivative instruments

(€ million)	Maturity distribution by nominal amount			Total notional	Positive fair value	Negative fair value	Net fair value
	Within 1 year	Between 1 and 5 years	More than 5 years				
Total equity/index contracts	1,739	529	173	2,441	87	-2	86
Total interest rate contracts	772	5,161	6,540	12,472	1,634	-803	831
Total foreign exchange contracts	16,654	276	1,425	18,356	89	-1,155	-1,065
Total	19,165	5,966	8,138	33,269	1,811	-1,960	-149

Sensitivity analysis to market and credit risks

The Generali Group makes its own analysis of sensitivity to market and credit risks following the logic of Solvency II. For further information and the relevant numerical evidence please refer to the Risk Report in the Management Report.