Basis of presentation and accounting principles

Basis of presentation

This document is the consolidated financial statements of Generali Group, registered under number 026 of the Insurance Groups Register, whose Parent Company is Assicurazioni Generali SpA, a company established in Trieste in 1831 with a share capital of € 1.565.165.364 fully paid up.

The registered office of the Group and the Parent Company is established in Trieste, Piazza Duca degli Abruzzi, 2 and is registered under the number 1,00003 of the register of insurance and reinsurance companies.

The Generali Group's consolidated financial statements at 31 December 2018 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.

For more information on discontinued operations and their accounting treatment, please refer to the paragraph *Non-current assets or disposal group classified as held for sale* in the section *Information on consolidation area and Group companies*.

The consolidated financial statements at 31 December 2018 were approved by the Board of Directors on 13 March 2019.

The consolidated financial statements at 31 December 2018 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 (€)	
	31/12/2018	31/12/2017
US dollar	1.143	1.201
Swiss franc	1.127	1.170
British pound	0.898	0.888
Argentine peso	43.051	22.605
Czech Koruna	25.737	25.529

Exchange rates of the income statement

Currency	Average exchange rate (€)	
	31/12/2018	31/12/2017
US dollar	1.181	1.137
Swiss franc	1.155	1.111
British pound	0.885	0.876
Argentine peso*	32.934	18.738
Czech Koruna	25.647	26.328

(*) in accordance with IAS 29, the items of profit or loss has been restated at the exchage rate at the end of the period.

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 investee);
- 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 31 December 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

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 2017 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).

IAS 29 “Financial Reporting in Hyperinflationary Economies” application on the Argentine companies

At December 31, 2018, the conditions for the application of the IAS 29 “Financial Reporting in Hyperinflationary Economies” to the financial statement values of the Argentine companies of the Caja de Seguros SA Group, Europ Assistance Argentina SA, Caja de Ahorro y Seguro SA, Retire SA in particular the cumulative rate of inflation over the last 3 years has exceeded 100%.

Specifically, the financial statements items of the above mentioned Argentine companies have been restated, applying the Argentine Consumer Price Index, which reflects the change of general purchasing power. In particular, the following items have been restated at the unit current at the end of the reporting period:

- non monetary assets and liabilities;
- all items of comprehensive income, applying the change of the general price index from the date when income and expenses were initially registered in the financial statements;
- the items of income statement has been restated at the closing rate;
- restatement in the first period of application of the standard of the components of owners’ equity, except retained earnings and any revaluation surplus, applying the Consumer Price Index index from the dates the components were contributed. . Restated retained earnings are derived from the restatement of assets and liabilities;
- restatement at the end of the period of the components of owner’s equity, applying the Consumer Price Index index at the beginning of the period.

The effects of reassessment until 31 December 2017 are included in the opening balance of shareholder’s equity. The impacts at consolidated level are not material and do not require the presentation of statements of Argentine companies.

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 2018 new principles and amendments shall be applied. The most relevant changes for the Group with respect to the consolidated financial statements at 31 December 2017 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 2018

There are no new accounting standards or changes to existing standards effective from 1 January 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.

IFRS 15 – Revenue from contracts with customers

IFRS 15 “Revenue form contracts with customers”, which treats revenue recognition, is effective from 1 January 2018 and replaces IAS 11 “Construction Contracts” and IAS 18 “Revenue”, and includes new requirements concerning the measurement and timing of revenue recognition

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 management fees.

In particular IFRS 15 defines the following steps:
- Step 1: Identifying contracts
- 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.

An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The transfer of control of the asset is the key element of the revenue recognition, which may be point-in-time or over time.

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 creates an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

The Generali Group is a predominantly insurance group. The revenues arising from this business are defined by IFRS 4 “Insurance contracts”; the other revenues arising from the sale of goods and services different from financial and insurance services, and arising from asset management are defined and disciplined by IFRS 15. These revenues are included in the income statement item “Other revenues”. In particular, within Generali Group, entities specialized in in banking, asset management and other residual businesses included in the segment “Holding and other activities” operates.

Revenues from contracts with customers for Generali Group are mainly financial and real estate asset manager, investment and pension funds commissions, as well as service and assistance. These revenues are not multi-annual and recognized on accrual basis during the financial year, and included in the item “Commission Income” (note 27). In some cases, in particular in case of asset and pension fund management, the revenues are linked to managed amounts or to the performance of the assets. Despite this, significant judgements in estimate and measurement of revenues has been rarely needed, i.e. for the definition of transfer price, timing etc.

Within the Group, there are also other entities which operates in different activities, with an absolutely residual impact on revenues and income. The revenues arising from these activities are included in the item “Other income” and further detailed in note 31.

The asset/liabilities arising from contracts with customers are not significant, in particular due to the above illustrated business.

In the recognition of the impact on the revenues already accounted for in the past period, the Group applied the simplified retrospective approach, which requires the recognition of the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings.

The Group assessed the economic and accounting effects of the standard and there are not significant impacts on the economic and financial position.

The standard is effective from annual period that started at 1 January 2018.

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.

The Group is assessing the impacts of the new classification model. For further information see the following paragraph ‘Implementation of the standard. Overall, the Group expects to have limited impacts on the classification and measurement of instruments, in particular as regards the application of the SPPI test requirements-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.

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. (i.e. 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 (i.e. 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”, endorsed by EU Regulation 2017/1988 on 3 November 2017, that introduces the possibility to defer the application of IFRS 9 for predominantly insurers. The amendment aims to address the concerns of the insurance industry arising from the misalignment of effective dates of the new financial instruments standard and IFRS 17, the international standard on insurance contracts with effective date of 1 January 2021.

Both IFRS 9 and IFRS 17 are relevant for insurance entities. The amendment aims to address the concerns of insurance sector arising from the different effective dates of IFRS 9 and IFRS 17.

The Generali Group decided to apply the deferral approach, appropriate in addressing the issues arising from the application of IFRS 9 before the new insurance contracts standard.

The adoption of the overlay approach – the alternative provided by the amendment, which allows the simultaneous application of IAS 39 and IFRS 9, would have in effect implied incremental costs due to reconciliation and alignment, compared to costs arising from the first application of IFRS 9.

The quantitative criteria for the application of the deferral and the disclosures required to the entities that postpone the application of IFRS 9 are included in the section "Disclosures about the temporary exemption from IFRS 9".

Standard implementation

The implementation of IFRS 9 aims to by the Group aims to ensure the correct and consistent application of the new accounting standard in conjunction with the entry into force of IFRS 17, the future standard on insurance contracts. The Group expects impacts that may be material with reference to the classification and measurement of financial instruments and consisting of a larger part of the portfolio of financial investments measured at fair value through profit or loss. With reference to impairment, the Group assessed that the Expected Credit Losses model should lead to less relevant impacts on the financial statements considering the high creditworthiness of the Group debt portfolio.

IFRS 17 – Insurance contracts

On 18 May 2017 the IASB published IFRS 17 "Insurance Contracts", which substitutes the current IFRS 4 – Insurance Contracts. The new standard. proposes a new measurement model for insurance contracts , 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. The variable fee approach (VFA) was also introduced, an alternative model to the Building Block Approach which applies in particular to profit-sharing contracts, for which the scope of application is very significant for the Group in consideration of the current portfolio mix. The standard, compared to what initially stated and thanks to the ongoing IASB amendment process, will be effective on 1 January 2022 and, substantially, will allow to extend the implementation period of 12 months more.

In the second half of 2017 the IASB set up the Transition Resource Group (TRG) for IFRS 17 "Insurance Contracts", a public forum, similar in form to those for IFRS 15 Revenue from contracts with customers, and for IFRS 9 Financial Instruments relating to impairment, which has the purpose of discussing the implementation issues that emerged and supporting the board in defining what actions may be taken to address such critical issues.

Taking into account some concerns raised by stakeholders regarding several requirements of IFRS 17, the IASB started a process to consider potential amendments to the current formulation of the standard based on specific requirements which aim to protect the integrity of the information provided, avoiding the introduction of further criticalities as well as the interruption of the implementation processes in progress. Within this process the IASB has tentatively decided to defer the date of first application to the 1 January 2022 and, coherently, to align the date of application of IFRS 9 for entities which opted for the postponed application of IFRS 9. The Group is monitoring the IASB re-deliberation process, continuing the implementation plan of the standard.

The Group expects a radical change in the financial statements disclosure both in terms of insurance liabilities evaluation, presentation of economic performance and notes. Considering the extraordinary magnitude of the new requirements introduced by the standard, very significant impacts also in terms of resources, processes and information systems supporting the evaluation framework are expected.

Due to the very significant impacts on financial information and operating model of the companies, the Group started a *finance transformation* program at global level. The program involves different functions at central and local level and aims to implement IFRS 9 and IFRS 17 consistently at Group level.

IFRS 16 – Leases

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

In particular, the distinction between operating and financial leases is eliminated for what concerns the lessee accounting: all leases require the recognition of a lease asset, which represents the right-of-use of the leased asset for the lease term, and a lease liability, which represents the obligation to pay rent payments. The accounting treatment of leases is unchanged for the lessor.

During 2018 the Group performed an impact assessment on the application of IFRS 16, with particular focus on Group Companies acting as lessees.

The Group does not estimate material impacts on shareholders' equity deriving from the application of the requirements of the new standard compared to the current rules of IAS 17. However, an increase of assets and liabilities is expected, deriving from the new accounting of operating leases for lessees. Moreover, expenses for operating lease payments will be split into two components: depreciation of right of use assets and interest expenses on lease liabilities. The final impact of the application of new IFRS 16 at first time adoption will be linked to the scope of lease contracts as at 1 January 2019 (in particular those with remaining lease term of more than 12 months), and market conditions which will impact the determination of discount rates for the calculation of lease liabilities and consequently right of use assets at initial recognition.

On first time adoption of the standard, the Group will adopt the simplified retrospective approach, choosing on a lease-by-lease basis to measure the right of use asset at an amount equal to the lease liability (eventually adjusted by any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application). The cumulative effect of initial application of the principle, even if estimated by the Group as almost nil, will be accounted for as an adjustment of the opening balance of retained earnings.

In applying IFRS 16, the Group will adopt the simplified accounting treatment for short-term leases and low-value leases which allows lessees not to recognise any amount of assets and liabilities in the financial statements, but only to recognise expenses for lease payments.

In the course of the ordinary business, the Group companies normally enter into leasing agreements as lessees. Mentioned agreements are mainly related to use of real estates used for business, company cars and office furniture and equipment. In some cases Group companies acts also as lessor, mainly related to real estates rental through operating lease.

As at 31 December 2018, the Group undiscounted future minimum lease payments under operating leases for Group lessees amounted to around € 750 mln. The Group expects increase of assets and liabilities due to new leasing accounting rules in range of approximately this amount.

The new standard will be effective starting from financial years starting from 1 January 2019.

Other not significant changes for the Group

Amendment	EU Effective date	Date of publication
Amendments to IFRS 2: Classification and Measurement of Share-based Payments Transactions	1 January 2018	December 2016
Amendments to IAS 40: Transfers of Investment Property	1 January 2018	December 2016
Annual Improvements to IFRS 2014-2016	1 January 2018	December 2016
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	December 2016
IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017)	1 January 2019	October 2018
Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017)	1 Janaury 2019	March 2018

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 Market Value Balance Sheet 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
- 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.