

# Fair Value measurement

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

With reference to the investment, Generali Group measures financial assets and liability at fair value of in the financial statements, or discloses it in the notes.

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

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

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

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

If there isn't an active market, it should be used a valuation technique which however shall maximise the observable inputs.

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

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

The table below illustrates both the carrying amount and the fair value of financial assets and liabilities recognised in the balance sheet at 31 December 2018<sup>1</sup>.

<sup>1</sup> With reference to investments in subsidiaries, associates and joint ventures, the book value, based on the fraction of equity for associates and interests in joint ventures or on cost adjusted for any impairment losses for non-consolidated subsidiaries, was used as a reasonable proxy of their fair value.

## Carrying amount and Fair value

(€ million)	31/12/2018	
	Total carrying amount	Total fair value
Available for sale financial assets	283,773	283,773
Financial assets at fair value through profit or loss	13,711	13,711
Held to maturity investments	2,171	2,202
Loans	30,167	32,498
Land and buildings (investment properties)	13,650	20,631
Own used land and buildings	2,505	3,350
Investments in subsidiaries, associated companies and joint ventures	1,320	1,320
Cash and cash equivalents	6,697	6,697
Investments back to unit and index-linked policies	65,789	65,789
<b>Total investments</b>	<b>419,782</b>	<b>429,970</b>
Financial liabilities at fair value through profit or loss	4,159	4,159
Other liabilities	14,418	15,208
Liabilities to banks or customers	12,995	12,995
<b>Total financial liabilities</b>	<b>31,572</b>	<b>32,363</b>

From the table above, in line with IFRS 13 definitions, the following items, part of below mentioned balance sheet categories, are excluded:

- Loans and receivables: reinsurance deposits provided and term deposits;
- Other financial liabilities: reinsurance deposits received and liabilities arising from investment contracts measured at cost sold by insurance entities.

## 39 Fair value hierarchy

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

The fair value hierarchy levels are based on the type of inputs used to determine the fair value:

- **Level 1 inputs** are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- **Level 2 inputs** other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (i.e. quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are

observable for the asset or liability; market-corroborated inputs).

- **Level 3 inputs** are unobservable inputs for the asset or liability, which reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk (of the model used and of inputs used).

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

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

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

Adequate controls have been set up to monitor all measurements including those provided by third parties. If

these checks show that the measurement is not considered as market corroborated the instrument must be classified in level 3.

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

### Fair Value Hierarchy

31/12/2018	Level 1	Level 2	Level 3	Total
Available for sale financial assets	255,396	20,876	7,501	283,773
Equities	8,550	560	1,270	10,379
Bonds	230,825	17,259	1,231	249,315
Investment funds units	15,491	2,735	4,604	22,830
Other assets available for sale financial	530	323	396	1,249
Financial assets at fair value through profit or loss	72,525	5,349	1,625	79,499
Equities	44	3	40	87
Bonds	2,320	1,041	37	3,398
Investment fund units	7,380	874	203	8,457
Derivatives	41	1,172	48	1,261
Hedging derivatives	0	363	0	363
Investments back to policies where the risk is borne by the policyholders	62,740	1,827	1,221	65,788
Other assets at fair value through profit or loss	0	70	74	144
<b>Total assets at fair value</b>	<b>327,921</b>	<b>26,226</b>	<b>9,126</b>	<b>363,272</b>
Financial liabilities at fair value through profit or loss	2,830	1,244	84	4,159
Financial liabilities related to investments contracts issued by insurance companies	2,823	11	72	2,907
Derivatives	3	652	12	668
Hedging derivatives	0	548	0	548
Other financial liabilities	3	33	0	36
<b>Total liabilities at fair value</b>	<b>2,830</b>	<b>1,244</b>	<b>84</b>	<b>4,159</b>

### Fair Value Hierarchy: comparative period

31/12/2017	Level 1	Level 2	Level 3	Total
Available for sale financial assets	280,744	34,205	5,693	320,641
Equities	7,913	837	1,313	10,063
Bonds	255,330	30,070	893	286,293
Investment funds units	16,925	2,922	358	20,205
Other assets available for sale financial	576	376	3,128	4,080
Financial assets at fair value through profit or loss	85,528	6,844	1,526	93,897
Equities	41	3	43	88
Bonds	3,178	1,473	84	4,735
Investment fund units	10,250	839	205	11,294
Derivatives	18	1,881	11	1,910
Hedging derivatives	0	355	0	355
Investments back to policies where the risk is borne by the policyholders	72,040	2,219	1,113	75,372
Other assets at fair value through profit or loss	0	74	69	144
<b>Total assets at fair value</b>	<b>366,272</b>	<b>41,049</b>	<b>7,218</b>	<b>414,539</b>
Financial liabilities at fair value through profit or loss	6,505	2,371	58	8,935
Financial liabilities related to investments contracts issued by insurance companies	6,501	896	57	7,454
Derivatives	0	866	-0	867
Hedging derivatives	0	576	0	576
Other financial liabilities	3	34	2	38
<b>Total liabilities at fair value</b>	<b>6,505</b>	<b>2,371</b>	<b>58</b>	<b>8,935</b>

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

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

Financial assets and financial liabilities are mainly transferred from level 1 to level 2 when the liquidity and the frequency of transactions are no longer indicative of an

active market. Conversely, for transfers from level 2 to level 1.

The transfers were as follows:

- from level 2 to level 1 € 6,466 million and from level 1 to level 2 € 154 million of bonds, mainly corporate, mainly due to the different availability of information on their value and price
- from level 2 to level 1 € 508 million and from level 1 to level 2 € 239 million of investments back to policies where the risk is borne by the policyholders for the same reasons of the latter point.

## 41 Additional information on level 3

The amount of financial instruments classified in Level 3 represents 2.5% of total financial assets and liabilities at fair value, slightly increasing compared to 31 December 2017 mainly due to change in perimeter.

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

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

### – Unquoted equities

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

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

### – IFU funds, private equity and hedge funds

It includes unquoted IFU funds, private equity and hedge funds, which are classified into available for sale and fair value through profit or loss. Their fair value is substantially provided by the fund administrators on the basis of the net asset value of the fund. The fair value of these investments is closely monitored by a team of professionals inside the Group.

Being the assets described, by their nature, on a straight-line basis sensitive to changes in the value of the underly-

ing assets, the Group considers that, for a given change in the fair value of the underlying of such assets, their value undergoes a similar variation.

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

### – Bonds

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

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

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

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

The following table shows a reconciliation of financial instruments measured at fair value and classified as level 3.

## Rollforward of financial instruments classified as level 3

(€ million)	Carrying amount at the beginning of the period	Purchases and issues	Net transfers in (out of) Level 3	Disposals through sales and settlements
<b>Available for sale assets</b>	<b>5,693</b>	<b>1,350</b>	<b>612</b>	<b>-596</b>
- Equities	1,313	26	-2	-27
- Bonds	893	28	565	-245
- Investment fund units	358	1,296	49	-301
- Other available for sale financial assets	3,128	0	-0	-23
<b>Financial assets at fair value through profit or loss</b>	<b>1,526</b>	<b>269</b>	<b>17</b>	<b>-178</b>
- Equities	43	0	0	-0
- Bonds	84	3	-1	-34
- Investment fund units	205	10	-0	-26
- Derivatives	11	0	37	0
- Hedging derivatives	0	0	0	0
Investments back to policies where the investment risk is borne by the policyholders	1,113	256	-19	-118
Other assets at fair value through profit or loss	69	0	0	0
<b>Total assets at fair value</b>	<b>7,218</b>	<b>1,619</b>	<b>629</b>	<b>-774</b>
<b>Financial liabilities at fair value through profit or loss</b>	<b>58</b>	<b>17</b>	<b>13</b>	<b>-2</b>
- Financial liabilities related to investment contracts issued by insurance companies	57	17	0	0
- Derivatives	0	0	13	0
- Hedging derivatives	0	0	0	0
Other financial liabilities	2	0	0	-2
<b>Total liabilities at fair value</b>	<b>58</b>	<b>17</b>	<b>13</b>	<b>-2</b>

Net unrealised gains and losses recognized in P&L	Net unrealised gains and losses recognized in OCI	Other changes	Carrying amount at the end of the period	Net impairment loss of the period recognised in P&L	Net realised gains of the period recognised in P&L
<b>21</b>	<b>401</b>	<b>20</b>	<b>7,501</b>	<b>-5</b>	<b>-26</b>
0	21	-61	1,270	8	-14
21	-43	12	1,231	-21	-0
0	419	2,783	4,604	0	-4
0	4	-2,714	396	7	-8
<b>19</b>	<b>0</b>	<b>-27</b>	<b>1,625</b>	<b>-2</b>	<b>-0</b>
-0	0	-4	40	0	0
-1	0	-13	37	0	-1
15	0	-1	203	-2	1
0	0	-0	48	0	0
0	0	0	0	0	0
3	0	-13	1,221	0	-0
1	0	3	74	0	0
<b>40</b>	<b>401</b>	<b>-7</b>	<b>9,126</b>	<b>-7</b>	<b>-27</b>
<b>-1</b>	<b>0</b>	<b>-2</b>	<b>83</b>	<b>0</b>	<b>0</b>
-1	0	-2	71	0	0
0	0	0	13	0	0
0	0	0	0	0	0
0	0	0	0	0	0
<b>-1</b>	<b>0</b>	<b>-2</b>	<b>83</b>	<b>0</b>	<b>0</b>

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

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

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

31/12/2018	Level 1	Level 2	Level 3	Total
Held to maturity investments	1,421	781	0	2,202
Loans	2,892	21,452	6,481	30,825
Debt securities	2,889	15,546	86	18,521
Other loans	3	5,907	6,395	12,305
Receivables from banks and customers	0	1,080	593	1,673
Investments in subsidiaries, associated companies and joint ventures	0	0	1,320	1,320
Land and buildings (investment properties)	0	0	20,631	20,631
Own used land and buildings	0	0	3,349	3,349
<b>Total assets</b>	<b>4,313</b>	<b>23,313</b>	<b>32,373</b>	<b>59,999</b>
Other liabilities	11,148	2,576	1,486	15,210
Subordinated liabilities	7,803	0	784	8,587
Senior debt	3,340	129	6	3,475
Other debt	5	2,447	696	3,148
Liabilities to banks and customers	12	7,848	5,135	12,995
<b>Total liabilities</b>	<b>11,160</b>	<b>10,424</b>	<b>6,621</b>	<b>28,205</b>

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

31/12/2017	Level 1	Level 2	Level 3	Total
Held to maturity investments	1,511	808	0	2,319
Loans	3,582	31,347	6,417	41,345
Debt securities	3,567	24,224	51	27,842
Other loans	15	7,122	6,366	13,503
Receivables from banks and customers	0	1,020	541	1,561
Investments in subsidiaries, associated companies and joint ventures	0	0	1,171	1,171
Land and buildings (investment properties)	0	0	19,763	19,763
Own used land and buildings	0	0	3,304	3,304
<b>Total assets</b>	<b>5,093</b>	<b>33,175</b>	<b>31,197</b>	<b>69,464</b>
Other liabilities	12,377	2,756	1,828	16,960
Subordinated liabilities	8,817	24	1,092	9,933
Senior debt	3,553	198	7	3,757
Other debt	7	2,534	729	3,270
Liabilities to banks and customers	15	6,924	5,087	12,027
<b>Total liabilities</b>	<b>12,392</b>	<b>9,680</b>	<b>6,915</b>	<b>28,987</b>



– Held to maturity investments

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

– Loans

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

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

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

– Receivables from banks or customers

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

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

These assets are mainly valued on the basis of inputs of similar assets in active markets or of discounted cash flows of future income and expenses of the rental considered as part of the higher and best use by a market

participant. Based on the analysis of inputs used for valuation, considering the limited cases where the inputs would be observable in active markets, the Group proceeded to classify the whole category at level 3.

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

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

– Investments in subsidiaries, associated companies and joint ventures

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

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

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

The fair value is determined primarily on the basis of the income approach using discounting techniques. In particular, the fair value of debt instruments issued by the Group are valued using discounted cash flow models based on the current marginal rates of the Group financing for similar types of instruments, with maturities consistent with the residual maturity of the debt instruments subject to valuation.

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